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Diaspora finance for development: from remittances to investment

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Abstract

This report examines different forms of diaspora finance around the world. Diaspora finance involves remittances, understood as inter-personal financial transfers between migrants and their countries of origin, and diaspora investment, defined as asset-producing financial instruments through which diasporas (migrants and their descendants) can invest in organisations in their country of origin. There is an extensive body of research and data on remittances sent by migrants, the annual flows of which are now larger in aggregate than either official development assistance (ODA) or foreign direct investment (FDI). But much less is known about diaspora investment, or about how remittances and diaspora investment can be effectively channelled to support development. We identify over 300 diaspora finance initiatives through a systematic review of over 500 research, policy and grey literature documents. The study highlights the broad diversity of diaspora finance mechanisms around the world, while also drawing attention to the lack of systematic international data on diaspora investment flows and to the severe shortage of quality evidence on the development outcomes of different diaspora finance initiatives.

Key messages

It is widely accepted that migrants can make an important positive impact on development in their countries of origin, in particular through sending remittances. For many Low and Middle income countries, remittance inflows are larger than both Official Development Assistance (ODA) and Foreign Direct Investment (FDI). The Sustainable Development Goals and the Global Compact for Safe, Orderly and Regular Migration both underline their contribution and call for more to be done to facilitate remittance flows and to increase their development impact.

And yet the focus on migrants' remittances only tells part of the story. A range of other financial mechanisms, defined as diaspora investment, also facilitate financial transfers from migrants and descendants of migrants to their countries of origin or heritage. As we show in this report, looking beyond remittances to these other mechanisms reveals that the potential contribution of migrants and diasporas to development could be greater than considered so far.

Diaspora finance is an umbrella term which includes remittances on one hand and diaspora investment on the other. Both remittances and diaspora investments can have beneficial development impacts. As a result, they are distinguished not by whether or not they are 'productive' but by the financial mechanisms which underpin them. Whereas remittances are interpersonal cross-border financial transfers between migrants and their families and civil society organisations in countries of origin, diaspora investments involve financial asset transactions which transfer financial resources from diasporas to private and public sector organisations and agencies.

The study shows how forms of diaspora finance are widespread and varied. It is based on a novel dataset recording the available evidence on diaspora finance mechanisms around the world. This was developed following an extensive search and review of over 500 research, policy and grey literature documents in Arabic, English, French, German, Russian, Spanish and Mandarin. We identify over 300 individual initiatives which mobilise investments from diasporas, involving 54 sending countries and 93 receiving countries. They range from transfers of relatively small sums for local development projects to multi-billion dollar funds for major infrastructure works or improving a country's balance of payments.

These initiatives can be classified according to the financial mechanisms used and the type of financial asset involved, which are in turn based on distinct configurations of suppliers, intermediaries and beneficiaries of funds. Specifically, the study finds 46 remittance-based initiatives, 44 equity-based initiatives, 29 initiatives based on loans and 27 forms of bonds. 99 initiatives were also identified which were knowledge-based, such as mentoring, developing financial literacy, building and sharing skills or promoting investment opportunities. Although not themselves involving financial transfers, these initiatives contribute significantly to investments in origin countries.

The mechanisms identified cover a range of development impacts in the receiving country, as evidenced through their different objectives. These include enterprise development, business knowledge and information, economic inclusion and inequality reduction for individuals in the country of origin, investment in infrastructure, and macro-economic stability.

However, despite the global reach and significant international interest in mobilising diaspora investment for development, there is a serious lack of detailed evidence analysing its impact. Unlike remittances, there is no systematically collected data on diaspora investments, nor standard indicators of individual mechanisms and outcomes.

This study contributes to broadening the evidence-base on diaspora finance. But there is more that can be done. National and international statistical offices and agencies can explore opportunities for more systematic data collection on different financial flows from migrants and diasporas. Countries of origin can facilitate diaspora investments, by increasing their policy focus on diasporas as a source of finance (as many countries have

already done), for example by building networks and platforms for knowledge-sharing and promotion of investment opportunities among diasporas, or by increasing the scale of investments through match-funding. Countries of residence, especially high-income countries, can support these efforts by engaging with the diasporas amongst their own populations.

The European Commission in particular already funds a range of initiatives which aim to leverage remittances for development and foster investments from migrants and diasporas. Expanding these could go hand-in-hand with efforts to build the available evidence base through data collection and evaluation, in order to better inform future policy and practice.

Moreover, this study should be considered a starting point for future studies to build on and to facilitate reflections on how more systematic knowledge of diaspora finance mechanisms can be developed over time.

1 Introduction

Around the world, an estimated 272 million people have emigrated from their country of origin.¹ Many more are descendants of migrants, making up extensive diasporas whose members have a sense of belonging and connections with their, or their family's, country of origin or heritage. As has been widely recognised, migrants and diasporas can make a significant contribution to the development of their countries of origin, such as through sending remittances (IFAD 2019; Newland and Tanaka 2010; Plaza and Ratha 2011). In the current global context, they can provide vital resources for the response to and recovery from the global COVID-19 pandemic (Kalantaryan and McMahon 2020). And yet remittances are only one example of a much broader range of financial mechanisms which enable migrants and diasporas to invest in their countries of origin, but about which relatively little is known (Gelb 2016).

International initiatives have repeatedly underlined the potential for migrants and diasporas to impact positively on development in their countries of origin, in particular through their remittances. The United Nations has stated that leveraging remittances for development is vital for achieving the Sustainable Development Goals (SDGs), and included remittances under SDG 10, Reducing inequality within and among countries. Remittances are also included under Objective 20 of The Global Compact for Safe, Orderly and Regular Migration (GCM) which seeks to enable 'migrants and diasporas to fully contribute to sustainable development in all countries.' Leveraging remittances for development has also been an aim of the European Union (EU) for several years. The European Commission's 'Communication on Integrating migration issues in the European Union's relations with Third Countries' from 2002 (COM/2002/0703 final) and 'Communication on Migration and Development: Some concrete orientations' from 2005 (COM/2005/0390 final) both mentioned the important developmental potential of remittances in migrant's countries of origin and highlighted a need for policy action on the topic. More recently, the EU has also supported the Financing Facility for Remittances (FFR) of the International Fund for Agricultural Development (IFAD) which aims to lower the costs of remittances and maximise their impact on development, and has funded a range of programmes aiming to enable funds from migrants and diasporas to contribute to development.²

However, in this report we highlight the development potential of a range of other forms of 'diaspora finance' which exist alongside remittances. Diaspora finance is an umbrella term which includes remittances on one hand and diaspora investment on the other. Whereas the former are interpersonal, international financial transfers between migrants and their families and civil society organisations in countries of origin, the latter are asset-transferring mechanisms which channel financial resources from diasporas to private and public sector organisations and agencies. Overall, we identify over 300 diaspora finance mechanisms around the world, which are implemented by a variety of configurations of different actors and assets. These can mobilise large financial inflows (as with many diaspora bonds) or direct smaller sums to specifically-targeted initiatives (such as direct investments in micro, small or medium-sized enterprises or social investment projects in the towns and villages of origin of diaspora members). Yet, we propose viewing this study as a starting point to build on. Although the contribution of remittances to development has been widely documented elsewhere, detailed insights into how diaspora investments work, where and how are relatively limited. International data on remittances is now being more systematically collated and published by international organisations (e.g. World Bank, 2016), but this is not the case for diaspora investments. Indeed, it is difficult to measure their scale or to distinguish many diaspora investment flows from other financial

¹ United Nations database, POP/DB/MIG/Stock/Rev.2019

² Such as the InclusionFI project which enables diasporas to invest in micro-, small and medium-sized enterprises, the 'African Postal Financial Services Initiative which supports and enables African post offices to provide financial services in Benin, Ghana, Madagascar and Senegal and the Maximizing the Impact of Global Remittances in Rural Areas (MIGRRA) programme which focuses on lowering remittance costs on the Kenya-Uganda corridor (the latter two both led by the International Fund for Agricultural Development, IFAD)

flows (Faal 2019). For this report, we map the global diaspora finance context and provide an initial repository of evidence which can be added to over time. Our findings are gathered through a systematic review of over 500 research publications, policy documents, programme evaluations, news articles and other forms of 'grey' literature in seven languages, which has fed into the production of a novel dataset on diaspora finance mechanisms around the world. We have been as comprehensive as possible, but are aware that there is likely much still to find. With this in mind, we are open to receiving updates and contributions from individuals and organisations with information to add, with the intention of expanding and opening the dataset for future research and policymaking.

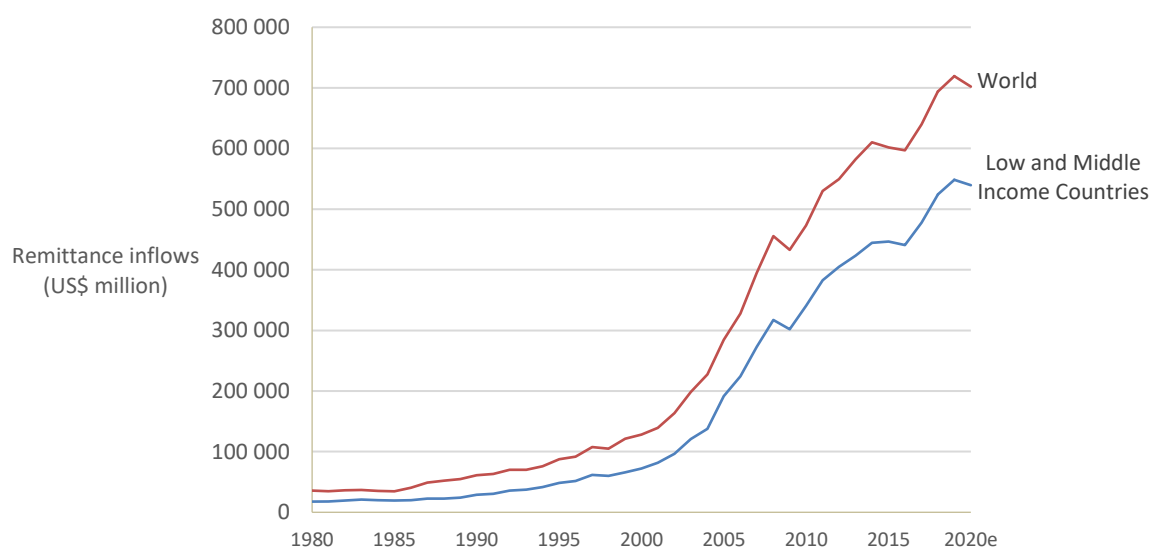
The report is structured around the following main sections; (1) we trace the evolution of global remittance flows before conceptualising the distinction between consumption and productive uses, and between remittances and diaspora investment (both of which are components of diaspora finance); (2) we classify diaspora finance initiatives according to the different financial mechanisms which they are underpinned by; (3) we review the evidence from around the world, highlighting the limitations of the available evidence base and drawing on case studies to shine light on the functioning of different investment mechanisms. The report ends with a set of conclusions and implications for research and policymaking.

2 Background

Available data highlights the great potential contribution of funds from migrants and diasporas to sustainable development. Global flows of remittances have consistently and significantly increased over recent decades. In 2000, global remittance inflows to receiving countries were valued at USD\$125 billion (see Figure 1). But in 2019, this figure had risen by 470 per cent to USD719 billion. In 2020, it dropped by only about 2.4 per cent to an estimated USD702 billion, notwithstanding the global COVID-19 pandemic and associated economic crisis (World Bank/KNOMAD 2021, see Figure 1). Remittances will also remain a major source of income for countries and households around the world during and after the pandemic. This will especially be the case in low and middle-income countries (LMICs), which receive three-quarters (76 per cent) of the global total of remittance inflows. Furthermore, (formal) remittances to LMICs surpassed Official Development Assistance (ODA) in 1995 and their growth since has far outstripped it. In 2019, remittances to LMICS also reached the level of Foreign Direct Investment (FDI) inflows (Figure 2).

However, it should be noted that the available data reflect only formally-recorded remittances; the overall scale of all international remittances is likely to be considerably larger. A large quantity of international remittances, estimated by some to be 'at least 50 percent larger than recorded flows' (Ratha 2017) are sent through 'informal' channels, which are not recorded in the Balance of Payments statistics used to report remittance flows. Even if a proportion of the increase in the scale of formal remittance flows over recent decades reflects a shift from informal to formal channels as these have become more widespread and accessible, the significance of global remittances as a large and remarkably resilient source of funds for LMICs is clear.

Figure 1. Remittance inflows absolute figures 1980-2020

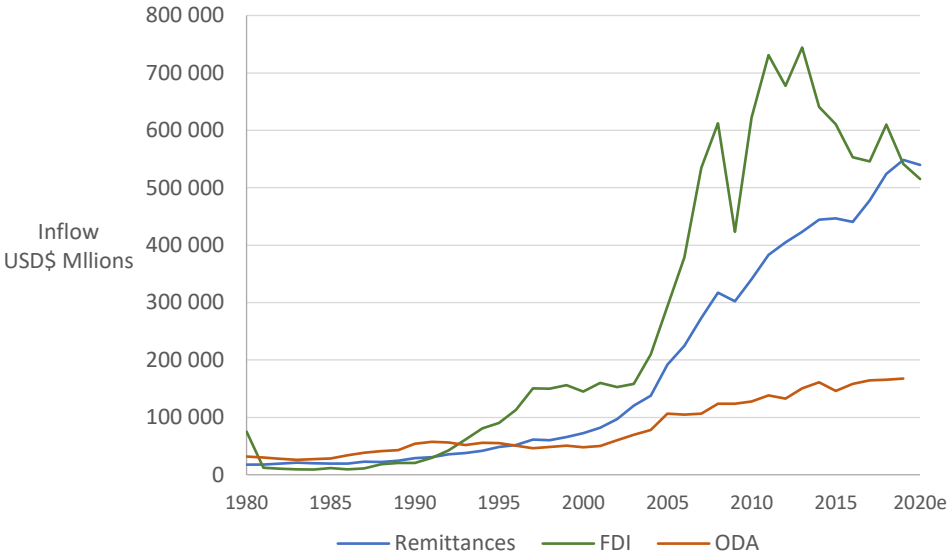


Source: World Bank/KNOMAD 2021

Elaboration: JRC

Note: All numbers are in current (nominal) USD (\$). The figure for 2020 is estimated, based on World Bank/KNOMAD calculations. Data from May 2021

Figure 2. Remittance, FDI and ODA inflows to Low and Middle Income Countries 1980-2020



Source: International Monetary Fund (FDI, ODA) and World Bank/KNOMAD 2021 (Remittances)

Elaboration: JRC

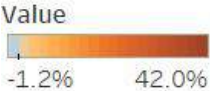
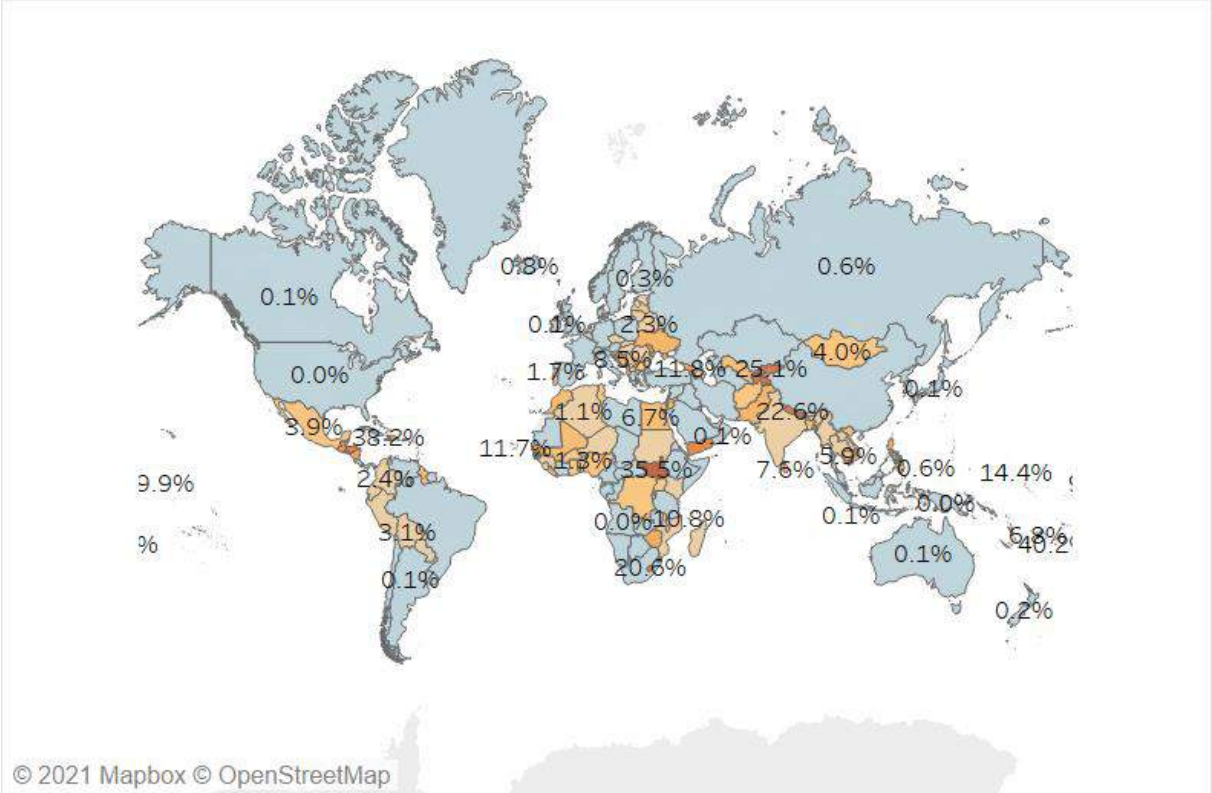
Note: The figures for 2020 are estimated, based on World Bank/KNOMAD calculations

Given their scale and growth, there has recently been increasing attention placed on leveraging remittances for development. This focus on development impact has led to efforts to ensure that migrants and diasporas make ‘productive investments’ in their countries of origin which generate future output and value (Asquith and Opoku-Owusu 2021; Chikezie 2011; Galetto 2006; Nielsen and Riddle 2007; Rodriguez-Montemayor 2012). But this risks over-simplification: a common assumption has been that remittances are used by recipients primarily for consumption expenditure which, it is further assumed, is ‘less productive’ for growth and economic development than investment expenditure. But from the perspective of a household receiving remittances, the consumption-productive investment distinction is blurred, for four reasons. First, households do invest, in housing and to some extent in ‘household enterprises’, especially in agriculture and the informal sector (Plaza et al 2011). Household enterprise investment may contribute to growth through local multipliers and may also impact on prices of assets (land or housing) in local areas. Second, some goods and services, education most obviously, are classified as consumption for national accounting purposes but in practice are an investment for the household because they create an asset yielding a potential future return (de Haas 2005). Third, money is fungible: in many households or even communities, using remittances for consumption might free up other resources (money or non-monetary resources such as labour time) for investment. Finally, a remittance may itself be the yield from a past investment or risk management strategy: poor families in low income countries will often send a family member to an urban area or abroad, with the migrant’s remittances used to smooth consumption or enable investment for family members still *in situ* (De Haas 2010; Galetto, 2006).

Furthermore, even when used for consumption, remittances generate multiplier effects (Maimbo and Ratha 2005) and are productive in the aggregate through their impact on macroeconomic stability as a source of foreign exchange. According to World Bank estimates, remittances represent over 10 per cent of GDP in 29 countries (see Map 1). In six countries they are worth over one quarter of annual GDP, specifically Tonga (37.7 per cent), Somalia (35.3 per cent), Lebanon (32.9 per cent), South Sudan (29.5 per cent), the Kyrgyz Republic (29.4 per cent) and Tajikistan (27.3 per cent) (World Bank/KNOMAD 2021). This helps to relax the foreign exchange constraint faced by many small economies where domestic production is dependent on imports, or domestic fixed investment reliant

on imported capital goods and machinery. Larger forex resources allow more imports for a given level of exports, boosting short-run economic growth (or limiting growth decrease). Aggregate remittance flows are also important from a macro-economic perspective because they are more stable than other financial inflows such as FDI, and are often counter-cyclical (i.e. they rise when the economic situation in the country of origin is difficult, as migrants increase support to families at home)³ (see Neagu and Schiff, 2009, 2014; Jadhav and Singh, 2006; and De et al, 2016).

Map 1. Remittance inflows as per cent of GDP in 2019



Source: World Bank/KNOMAD 20

Elaboration: JRC

In sum, the distinction between remittances and ‘productive investments’ is an unhelpful one. Yet there is much to be gained by close examination of diaspora finance flowing into investment in developing countries, understood as the expansion of productive capacities. Faal suggests, for example, that a structured approach to diaspora investment programmes in Africa could attract investment of 1 per cent of annual African migrant savings of USD33.7 billion, resulting in an inflow of USD337 million to Diaspora Bonds and Mutual Funds on the continent (2019). Wei and Balasubramanyam (2006) estimate that USD2.6 billion of the total USD10 billion of FDI invested in India between 1991 and 2001 originated in the diaspora (2006). Similarly, in a case study of the Caribbean, Lee has argued that business investments by the diaspora have a greater impact on development than sending remittances (2013).

In this report we focus on both remittances and diaspora investment as different forms of diaspora finance, with the distinction between them based not on the perceived productiveness of the financial flow but on the different types of mechanisms underpinning

³ The evidence on stability relative to ODA is more limited.

each. We start by developing a definition of diaspora investment, by contrasting it with the definition of (formal) remittances used by multilateral organisations.

Box 1. Diasporas

The diaspora includes the descendants of migrants over more than one generation, that is, all people living (on a temporary or permanent basis) outside the country of their birth or ancestry, who maintain 'affective' (emotional, religious, ethnic or national) and/or economic ties with their birth/ancestral country, or who could be encouraged to develop such ties. As a result, a diaspora can potentially be significantly larger than the population of people who have themselves emigrated from a given country.

The difference in size between emigrant populations and the wider diasporas of which they are part warrants further discussion. For example, in the US, four and a half million people are classified as German immigrants, themselves born in Germany or with at least one parent born in Germany, but an estimated 48 million people are of German descent, and may consider themselves part of a 'German diaspora'. Similarly, there are one million Irish first or second generation immigrants, but 35 million people of Irish descent in the US, and perhaps double this number in the global Irish diaspora. Similarly, there are estimated to be ten million emigrants from India identified by the Indian government as non-resident Indians, but an even larger number (12 million) have been identified as 'persons of Indian origin', understood as later generation descendants of migrants who also are part of the Indian diaspora.

Diaspora investors may be more likely to invest into their country of origin than into other locations, and they may also be more likely to invest into their country of origin than would other foreign investors who lack diaspora links. This is due to two main reasons. The first is that some diaspora members' 'emotional or affective ties may induce them to apply a 'patriotic discount' to investments in their country of origin, that is, to accept lower returns and/or higher risk than they would for other investments (Gillespie et al, 1999; Nielsen and Riddle, 2007; Agunias and Newland, 2012a, b). The second is that diaspora members (may) have information or network advantages (or equivalently, lower transaction costs) when investing into their country of origin. These advantages can result from greater cultural familiarity and higher levels of trust, from greater knowledge about business opportunities or potential obstacles in the business environment, and from access to business networks such as potential customers and suppliers or to government policymakers (Brinkerhoff, 2017; Graham, 2011, 2019).

There is a growing empirical literature on the impact of migration on investment and trade flows from country of destination to country of origin. Javorcik et al (2006), Leblang (2009), Nijkamp et al (2011) and Kugler et al (2018) show that the presence of an immigrant community, especially skilled immigrants, in a country of residence raises the likelihood of investment flows to the country of origin by reducing informational asymmetries, though they do not claim strong empirical support for the view that diaspora members are themselves playing a direct role in driving these flows. Similar arguments are made about trade (see citations in Plaza and Ratha, 2011) and about outsourcing (Ghani et al., 2013).

In sum, whereas foreign investors are generally to face a 'liability of foreignness' (a competitive disadvantage due to lack of familiarity with the business environment they have entered), this may be significantly moderated by a firm's diaspora stakeholders. Some research suggests that diaspora involvement in foreign investment may contribute to positive employment and technology spillovers (Gillespie et al. 1999; Javorcik et al. 2011; Naujoks 2017; Riddle and Nielsen 2011). It is important to distinguish amongst asset types, however, as the information and network requirements of each may vary, with direct investments requiring greater knowledge than indirect or portfolio investments, for example (Leblang, 2010).

It is also true that under some circumstances both of these factors may *discourage* investment: the patriotic discount may become a diaspora premium if diaspora members are hostile to the political order in their country of origin, while their access to more and better information may lead potential diaspora investors to conclude that the investment risk in their country of origin is too high.

The World Bank collates statistics on remittances defined as the sum of international personal transfers, compensation of employees and capital transfers between households (Global Migration Group 2017, World Bank, no date; World Bank/KNOMAD 2017).⁴ These data draw on balance of payments statistics compiled by national government agencies and reported to the International Monetary Fund (IMF). The IMF classifies remittances as *transfers*, meaning a one-way transaction where “the provision of a good, service, financial asset, or other non-produced asset [involves...] no corresponding return of an item of economic value.” (IMF, 2009a: 207). The Manual formally defines ‘personal remittance’ from the perspective of the recipient economy “*household* income from foreign economies arising mainly from the temporary or permanent movement of people to those economies” (IMF, 2009: 272: emphasis added). A related IMF Manual focussing directly on remittances (IMF 2009b) defines personal remittances to include *all* transfers between resident households and non-resident households.⁵ These definitions clearly distinguish between households and non-household economic agents (government and public agencies, and business enterprises).⁶ Implicit in the definition as a one-way transaction between households is that there is a direct or *interpersonal* connection between the sending and receiving households.⁷

However, available data on remittances only touches upon a part of the financial transfers from migrants and diasporas to their countries of origin. Diaspora investment is a distinct form of financial transaction from remittances and as such should be specifically considered in its own terms. Three main features distinguish it from remittances:

- i. Diaspora investment is sent (or caused to be sent) by members of a diaspora, that is, people living outside the receiving country who maintain affective ties to that country, but who have not necessarily themselves emigrated from the receiving country;
- ii. Diaspora investment can be received by business enterprises, government organisations or non-government organisations – that is, by economic units *other than households* in the receiving country;
- iii. Diaspora investment is a *two-way exchange*, involving the provision of a return on the investment with corresponding value from the recipient(s) to the sender(s), whereas remittances are a one-way *transfer*.⁸

Elaborating on Part (i) of the definition reflects how the diaspora is a much wider but less well-defined group than migrants understood as people who have themselves moved from their country of origin. Membership of a diaspora community necessarily involves voluntary and subjective self-identification and is often informal. This presents benefits, in terms of the potentially broad range of people who feel an allegiance to the diaspora community, but also poses challenges to marketing, measuring the scale, and evaluating the impact of diaspora finance (see Box 1). In contrast to the relatively straightforward identification and measuring of remittances, or at least those sent through formal channels, diaspora finance may often be difficult to distinguish from other capital flows.

Part (ii) of the definition implies that *interpersonal links are not essential* for diaspora investments, though they may nonetheless be reflected in transactions. Rather, diaspora investments can be made between organisations and institutions with a diaspora and country of origin connection. Business enterprises include both incorporated and

⁴ The data used here are World Bank staff calculations based on data from IMF Balance of Payments Statistics database and data releases from central banks, national statistical agencies, and World Bank country desks. For more information, see: World Bank/KNOMAD (2017)

⁵ The term ‘household’ also refers to ‘individuals’ on either side of the transaction.

⁶ The BOP Manual distinguishes between households and incorporated non-profit institutions, while the UN’s System of National Accounts includes unincorporated community organisations in the ‘household’ category.

⁷ ‘Personal remittances’ also includes compensation of employees working temporarily outside the receiving country, where the payer and payee are not the temporary migrant.

⁸ The IMF’s latest BoP Manual (BPM6) indicates that remittances, like other transfers (including ODA) are reported on the current account of the BoP, while diaspora finances (which take many forms) will be reported in the financial account.

unincorporated enterprises, with the latter including partnerships and sole proprietorships, as well as informal sector enterprises and household enterprises, with this latter group potentially leading to possible ambiguity in the distinction between remittances and diaspora finance in some cases.

Part (iii) of the definition clarifies the distinction between remittances and diaspora investment. A diaspora investment is a two-way exchange: in return for the funds received as part of the financial transaction, the user of funds (the beneficiary in the country of origin) will usually provide the source of funds (the diaspora investor) with an *asset* (usually a financial instrument) which yields a future return to the source on its investment. In contrast to remittances, the supplier of funds and the beneficiary of funds in diaspora investments have distinct legal identities and exchange property rights. And while remittances as one-way transfers do not in general result in balance sheet changes for either the sender or the recipient,⁹ the exchange of a financial instrument in diaspora finance implies balance sheet changes for both transacting parties: the source of funds (lender) acquires an asset while the liabilities of the user of funds (borrower) increase equivalently. Table 1 summarises the formal differences between remittances and diaspora finance.

Table 1: Remittances vs diaspora investments

Feature of transaction	Remittances	Diaspora investments
Monetary value flows	One-way	Two-way
Sender	Migrants	Diaspora = migrants + later generations
Recipient	Households	Non-households = firms, government, NGOs
Sender/recipient links	<i>Must</i> be direct and interpersonal = one-to-one	<i>Usually</i> (but not always) indirect and impersonal = many-to-one, many-to-many, one-to-many
Sender/recipient legal identities (property ownership title)	Often overlap with no clear distinction	Distinct

⁹ Remittances affect only the income statement of both parties.

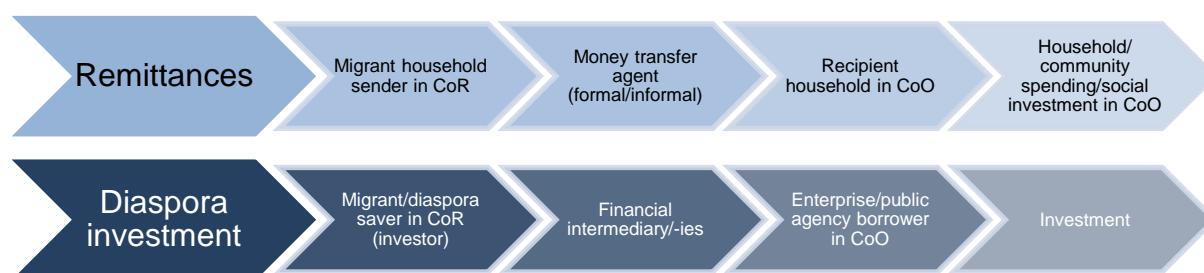
3 A framework to classify diaspora finance

In this chapter we set out a conceptual framework for understanding forms of diaspora finance and a methodological framework for mapping them around the world. Current debates on diaspora finance are limited by inconsistent conceptual approaches and a diverse and disparate evidence-base. For example, Faal has lamented in his study for the African Union that ‘experts, activists and even entrepreneurs working on diaspora development did not seem to have a thorough understanding of investment concepts and practices’ (2019). Furthermore, in contrast to data on remittances and other international financial flows such as FDI, there is no publicly available international data source on diaspora investment. In light of this, our approach to mapping diaspora finance relies on recording and synthesising information on the financial mechanisms that they use, rather than focusing on the value of the financial flows.

3.1 Classifying diaspora finance

The discussion in the previous chapter suggests that the starting point for a framework to organise the very large number of diverse mechanisms channelling diaspora finance, understood as both remittances and diaspora investment, into development is the fundamental differences between the mechanisms used for each, as illustrated in Figure 3.

Figure 3. Diaspora finance mechanisms



The next step is to recognise that the different mechanisms reflect different impacts of the respective transactions on the balance sheets and income statements¹⁰ of the senders (suppliers of funds) and the recipients (users of funds). As already noted, remittances are a one-way transfer, reducing the sender’s disposable income and increasing that of the recipient. These changes are reflected on the (notional) income statements of both sender and recipient, but not on their (notional) balance sheets.¹¹

In contrast, diaspora investment is financed from the sender’s savings and, because the transaction involves a financial instrument, impacts on the balance sheets of both sender (source of funds) and recipient (user of funds). The transaction adds to the stock of wealth on the liability side of the source’s balance sheet, with a counterpart addition to their financial assets which will yield a future return. On the recipient’s side, remittances impact their income but not their balance sheet. But a diaspora investment transaction will lead to an increase in liabilities on the recipient’s balance sheet (in the form of the financial instrument sold) while their assets will increase by the cash received. The impact on both parties’ balance sheets is independent of any direct interpersonal link which may exist between them.

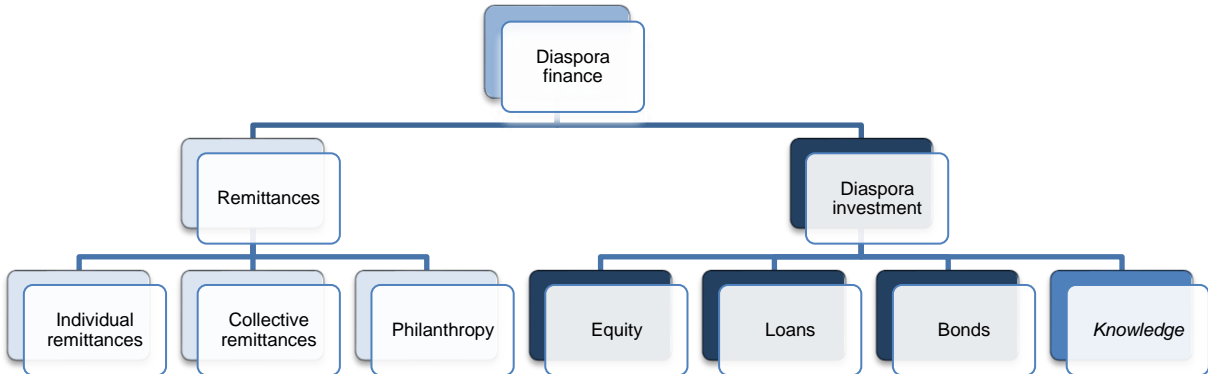
¹⁰ These may of course be notional rather than actual but could be constructed for even the smallest enterprise or poorest household.

¹¹ An exception to this may occur if remittances are financed out of existing wealth (past savings) in which case they will have a negative effect on the sender’s balance sheet.

Diaspora investment also tends to be facilitated by financial intermediaries, who pool funds from suppliers, providing them with a financial instrument in exchange. Intermediation economises on transaction costs between lenders and borrowers (information collection and borrower risk assessment), and enlarges the potential scale and scope of financing relative to transactions resting on direct links between borrower and lender. Though some diaspora investment does rest on direct links between suppliers and users of funds, much of it involves financial instruments created by financial intermediaries to raise funds from specific classes of savers: individuals, households and businesses in diaspora communities who wish to hold part of their wealth as assets based in their countries of origin. Much diaspora investment involves cross-border intermediation, involving more than one national regulatory framework.¹²

In light of these considerations, we focus on the mechanisms which underpin investments, understood as the specific combination of suppliers of funds, financial intermediary, asset type and beneficiaries/recipients of funds. Remittance mechanisms and diaspora investment mechanisms should be clearly distinguished: the former rest on distinctions amongst senders and recipients, and the latter on distinctions amongst financial instruments (asset types), though we have added 'Knowledge' here as well. This is illustrated in Figure 4 and discussed in more detail below.

Figure 4. Types of diaspora finance mechanism



3.1.1 Remittances

We divide remittances into three types, according to the nature of the sender and the recipient and their respective objectives in relation to the transaction:

a. Individual remittances: This refers to the 'standard' remittance, from a single migrant household in country of residence to a single household in country of origin. The two households most commonly have family ties. The mechanism most commonly used is a money transfer agent. This agent may be a formal financial institution operating in regulated financial markets in both country of residence and country of origin, or informal mechanisms outside formal regulation. The most common informal mechanism is one or other variant of *hawala*, which draws on south Asian Islamic traditions (Gayle et al. 2013; Jamal 2015). *Hawala* is based entirely on trust amongst brokers in a network, enabling the right to a sum of money to be transferred from original supplier to ultimate recipient across the network. Obligations are enforced not by legal contracts but through mutual obligations and reputational risk. There are differences of view as to whether *hawala* is an efficient and competitive mechanism relative to formal money transfer companies: transfers may be quicker and lower cost to the transferring agent, since both overheads and

¹² Intermediation of diaspora investment is also more challenging than many other forms of international finance because the sources of funds are delimited to a group whose membership is not always easily identifiable.

administrative and regulatory requirements are low, but many users face monopoly pricing as well as fraud risk. Since the originating payment by the supplier and final payment to the recipient usually involve physical cash transactions, it was expected that the COVID-19 pandemic would lead to a shift away from informal remittances to formal processes, in particular to digital forms of money transfer (Kalantaryan and McMahon 2020).

Remittances can also be 'in kind'. This includes sending of food, clothing etc. by migrants to their families, which is common where the country of residence and country of origin are close neighbours. It also includes the purchase of services by migrants in the country of residence which their families can access in the country of origin.

b. Collective remittances: When diaspora communities collate their funds in the country of residence and then send these to their country of origin we can speak of collective remittances. In some cases individual diaspora members contribute to a hometown association or similar organisation in the country of residence which collects funds for a specific purpose, such as a social infrastructure project in education, health or social care facility in their hometown. In other cases, diaspora members make regular contributions to a common pool of funds in the country of residence without having designated a specific project *a priori*. In some cases, such as the 3x1 (*tres por uno*) Programme in Mexico or the Pare 1+1 scheme in Moldova, the funds sent by the diaspora are matched by another funder in the country of origin (see Box 5 below). Although they do not imply a financial return, contributing to collective remittances is often valuable for individuals' membership of, and status within, country of residence and country of origin networks which can provide important financial and social resources for their stay or in the case of return migration (Rosales 2020).

c. Philanthropy: Diaspora members often make individual donations to specific projects or programmes in their country of residence with the expectation that these will bring about some form of social good. This includes both small contributions to development or humanitarian projects as well as large donations from wealthy diaspora members.

3.1.2 Diaspora investment

In general, we distinguish between three types of financial instrument used for diaspora investment: equities, loans and bonds. These differ, based on (i) the priority of the claim on the borrower's income, which is linked to the level of the return from each type of instrument, and (ii) the degree of tradability of the instrument in financial markets. Loans are not tradable but have a prior claim on the borrower's income, bonds are fixed-term debts paying the lender a fixed interest rate, tradable on a bond market and with a secondary claim on borrowers' income, while equities (ownership shares in a private enterprise) are also tradable on a stock market but have only a residual claim on the borrower's income (profits). These characteristics are reflected in the risk/return trade-off for each asset type.

The specific forms of financial intermediation involved in issuing and distributing the instrument depend on these characteristics as well as its size and duration, which will affect the transaction costs required for its assessment by prospective buyers of the debt instrument (lenders). Within each of the three types of financial instrument, we can identify distinct mechanisms used for diaspora investment. We elaborate these below, and also briefly consider mechanisms through which diaspora members are involved in investment into their country of origin transferring knowledge and skill to their country of origin, although the transaction does not strictly fit the definition of diaspora investment provided above.

3.1.2.1 Equity

The IMF distinguishes, within foreign equity investments, between foreign direct investment and foreign portfolio investment depending on whether the investor has control, or a significant degree of influence, over the management of an enterprise in another economy, with 10 per cent of the shareholding being the commonly-used threshold

for influence. We adapt that approach here, while also recognising that equity investments take different forms depending on the motivations and needs of both source and user of the investment funds.

3.1.2.1.i. Diaspora direct investment (DDI): This refers to external finance which is directly invested in a business when the investor has origins or heritage in the country of investment. It consists of two distinct investment mechanisms which should be considered separately:

a. Transnational corporate investment: A parent firm owned by diaspora members and incorporated in their country of destination (or a third country) establishing an affiliated enterprise (a branch, subsidiary or associated enterprise in which it owns more than 10 percent of the shares) in the owner's (or owners') country of origin. Decision-making power is taken to rest significantly with the diaspora owners, and is exercised from the country of destination. No distinction is made with regard to the size of the affiliated enterprise, so that the DDI category could range from medium or large incorporated formal enterprises in the country of origin to small semi-formal businesses such as a village general store, farm or local passenger transport business (taxis) established, owned and financed by a migrant and managed by their family members.

b. Private equity and venture capital funds: A hybrid form of diaspora direct investment. The fund operators are usually diaspora members who mobilise equity finance from their diaspora to invest in businesses in the country (or countries) of origin. Some initiatives expand their funding sources to non-diasporas; some initiatives have a regional focus, rather than a single country; some extend beyond equity to include public or private sector bonds. As with 'standard' private equity and venture capital financing, these initiatives are also likely to be involved to some extent directly in the management of the enterprises in which they invest, possibly in a mentorship role. The African Network, for example, aims to nurture these connections at multiple levels (Newland et al 2010; Newland 2010; The African Network 2009).

3.1.2.1.ii. Diaspora portfolio investment (DPI): Investment in the country of origin of the diaspora in which the investor holds a small proportion of the equity and does not directly influence the activities of the beneficiary enterprise. This involves two different mechanisms:

a. Individual shares: Purchases of traded shares in individual businesses in the country of origin by individual diaspora members. They offer institutional and retail investors in the diaspora opportunities to engage with firms operating in their country of origin. In the case of shares, the investors do not play an active role in the firms in which they buy equity. In the case of the retail investors, they tend to have small sums to invest. This mechanism is evidently only available when the equities are traded on the market, either listed on stock exchanges or 'over the counter'. As a result, this mechanism is more common in countries with highly developed financial markets, and less commonly found in LMICs.

b. Diaspora mutual funds: This is a form of portfolio investment in which professionally managed pools of funds invest in diversified portfolios of listed equities (and often bonds as well). Retail investors in the funds assess the fund manager's performance, rather than each individual firm issuing equity. As a result, their risk and their search and monitoring costs are reduced. The retail market focus means that marketing and sales effort are central to the funds' business model. For a diaspora mutual fund to mobilise sufficient resources for viability, two conditions must be fulfilled: first, the country of origin's equity market needs to be broad, with many listed companies, and liquid; and second, the diaspora needs to be large and have a relatively high level of wealth. Thus, diaspora mutual funds are more likely to succeed if they are focused on regions rather than single countries.

3.1.2.2 Loans

3.1.2.2.i. Diaspora bank accounts: Bank deposits held by diaspora members in banks in their country of origin are a simple and low cost mechanism for both depositor and deposit-taking institution. It can attract relatively large foreign currency inflows into the

country of origin, as illustrated by India's range of accounts for non-residents (see Chapter 4.4, below). But there are also risks for country of origin, including the use of accounts for financial laundering, and the potential for sudden capital outflows if the exchange rate is expected to depreciate. Country of origin authorities may offer diaspora members incentives to attract funds, including a choice of foreign or local currency deposits, lowered tax on interest, or the use of local deposits as loan collateral in the country of origin.

3.1.2.2.ii. Remittance-linked housing loans: These schemes enable migrants to borrow in their country of origin while working abroad, most commonly for housing-related investments (construction or incremental improvements). Initiatives such as Mi Casa Con Remesas in Colombia or Mi Vivienda in Peru are examples of how these loans can bring funds into the country of origin whilst providing access to credit for migrant families who would otherwise struggle to access it (ICMPD 2020; Saenz 2007). By linking repayment to remittances, the mechanism can extend housing credit to non-creditworthy family members who have remained at home, or enable migrant workers to plan for their return and retirement.

3.1.2.2.iii. Diaspora platforms for loans to country of origin enterprises: These are 'impact investment'-type schemes which use the 'patriotic discount' approach. They raise funds in the form of small loans from retail investors, mainly diaspora members (but not necessarily exclusively so). The schemes on-lend funds, usually at below-market (or zero) interest rates, to enterprises in the country of origin, generally social entrepreneurs or very small enterprises.

3.1.2.2.iv. Equipment leasing: This refers to the provision of physical capital equipment to businesses in their country of origin by diaspora and other investors. For example, the Ovamba platform receives requests from African small and medium-sized enterprises (SMEs) for machinery and equipment, and uses investors' funds (raised inter alia via diaspora finance marketing platforms) to purchase and lease the equipment and ship it to the SME user, with leasing payments used to service the funders. This reduces risk for both the diaspora lender and the African SME borrower.

3.1.2.2.v. Pooled remittances as collateral: One important example of 'making remittances more productive' is the Microfinance International Corporation (MIC), set up in the US in 2003 (World Bank 2010). Its partnership with remittance transaction operators which have a significant market share of the large and stable flows of remittances from the US to various Central American countries, provides the MIC with a capital base in the form of pooled remittances in transmission from sender to recipient, a process which can take up to 36 hours. This enables the MIC to leverage loans from the US capital market for on-lending to wholesale microfinance providers in the remitters' countries of origin, which include El Salvador, Guatemala and Bolivia.

3.1.2.3 Bonds

3.1.2.3.i. Diaspora bonds (issued by governments, public utilities or corporates): Diaspora bonds are seen as potentially favourable borrowing instruments when a patriotic discount is expected to be applied by potential purchasers. They have a mixed record of success: Israel and India are probably the most successful and have raised large amounts with a significant 'patriotic discount' (see Chapter 4.5). Bond issue and management involves issuing costs and technical financial expertise, which are often in scarce supply in low income countries, but may be available in the diaspora. Regulatory requirements in many target markets (countries with diasporas) may restrict the scope of issuable securities.

3.1.2.3.ii. Remittance securitisation: Securitisation bundles together the title to future remittance flows, leveraging the expectation that these flows will be stable in aggregate. It then uses these expectations to raise capital. This approach has been extensively used by banks in Latin America to raise finance, as well as in Turkey and Central Asia (Agunias et al., 2012).

Box 2. Diaspora investment online platforms

Diaspora finance mechanisms are increasingly intermediated by a diverse range of platforms which can manage forms of equity, facilitate access to loans and/or buy and sell bonds. A platform is an initiative which brings together funds from multiple suppliers and use these to provide capital to beneficiaries.

In these cases the investor does not need to be involved with, or necessarily knowledgeable about, the end beneficiary. Many platforms are based online, enabling them to be present in multiple countries at relatively low cost. The platform may be marketed mainly to diasporas (often several from a region, such as sub-Saharan Africa), but non-members of diasporas may also be amongst the suppliers of finance.

3.1.3 Knowledge-based mechanisms relevant to diaspora investment

In Figure 4, above, we included 'Knowledge' as a fourth diaspora investment category together with equities, loans and bonds. But unlike the other three, knowledge transactions do not necessarily involve a financial exchange. Rather, it refers to the exchange of information, skills and human capital. These flows of knowledge support investors to know how to invest and to decide where to place their funds. They also support beneficiaries to access and make use of funds.

Knowledge flows are interlinked with many of the other financial mechanisms outlined in this report. The most evident is in relation to equity investments: for example, mentoring support, entrepreneur and business skills development, and business information are important features of several diaspora investment venture capital and private equity mechanisms (see 3.1.2.1.i.a above). In some mechanisms, the direct knowledge flows enabling country of origin firms to benefit from the human capital accumulated by the diaspora may have more long-term significant than the finance provided.

Diasporas also provide knowledge and skills to their country of origin together with finance, through three other channels. These are defined below. None of them are specific diaspora investments, in strict terms, but their inclusion here is justified by their prevalence in diaspora contexts and connections with investment mechanisms.

3.1.3.i. Diaspora skills and knowledge networks: These are formal networks (often starting as simple databases with members' contact details) which have been set up to optimise the flow of technical and/or business information from diasporas to their country of origin. They are modelled on formal scientific networks, and often set up by (or with the support of) the diaspora agency in the country of origin government. They enable structured knowledge exchanges such as mentorships, short-term visits between countries of origin and of residence, or market matching activities. Much of their benefit can be derived from online interaction. They systematise and thus scale up processes which may have been happening on an ad hoc informal basis, often motivated by a desire to transform what has been seen as a 'brain drain' into a 'brain gain' or 'brain bank'.

3.1.3.ii. Skills and human capital exchanges: These are activities which are aimed at capitalising on the expertise, experience, skills and networks of diaspora members for businesses and communities in the country of origin. It can refer to sector-specific knowledge which diaspora members share, or a broader understanding of the opportunities, challenges and expectations which shape the investment and business context of the countries of origin and of residence and can enable others to either invest. These exchanges are often closely tied to enabling financial investments to be made. They can increase investors' awareness and understanding of opportunities, or they can support potential beneficiaries to be better prepared to attract and manage investments.

3.1.3.iii Returning diaspora entrepreneurs: This involves the permanent return to their country of origin from the country of destination by diaspora members who start their

own business in their country of origin. Returning diaspora entrepreneurs may bring resources (finance, skills, business capabilities and networks) which they acquired in their (now-former) country of destination back to their country of origin, using these to establish and run a business in the latter. The Ukrainian government, for example, has incentivised return of diaspora members through its Programme of Settlement of Foreign Ukrainians Returning to Ukraine in this way (IOM 2005). There are a range of possible interactions between DDI and returning entrepreneurs: a returnee's business may have ongoing ownership or other business links with the (former) country of destination; a DDI business may be established by an investor planning a future return to their country of origin; or migrant entrepreneurs may circulate between country of origin and country of destination.

3.1.3.iv. Diaspora FDI promotion: As argued above, a multinational firm may be more likely to invest in a particular country if ownership or management has significant representation from the latter's diaspora (Graham, 2011, 2019). This may significantly moderate the 'liability of foreignness' faced by all foreign investors, as diaspora stakeholders are more likely to have access to crucial business information and networks and may even be available to relocate back to their country of origin to lead a new subsidiary. This process is categorised by some authors as DDI (Newland and Tanaka, 2010; Rodriguez-Montemayor, 2012), but may be more appropriately labelled as 'diaspora FDI promotion', since the finance is not necessarily sourced from the diaspora itself. Beyond individual firms and their owners or employees, diaspora organisations have been established to promote investment into the country of origin, either from a specific country of residence (usually the US) or more broadly.

3.2 Our methodology

Due to the unavailability of statistics on diaspora finance flows aside from remittances, we adopt a methodological approach which seeks to gather, organise and make sense of evidence on individual diaspora finance *mechanisms* in as comprehensive and systematic a way as possible. Our aim is to (a) map the different initiatives around the world that channel remittances and diaspora finance into development; (b) describe how the different mechanisms work in different contexts; and (c) discern the extent to which they have an impact in terms of outcomes. Systematically gathering, organising and synthesising the available evidence provides an opportunity to search for trends (which actions are associated with which outcomes) and models (the configurations of practical activities that make mechanisms work). However, a more detailed understanding of the potential scale and impact of diaspora finance will need significant advances to be made in terms of the availability of data on different mechanisms and investments and the available evidence from studies and evaluations.

We have gathered an extensive repository of evidence in the form of secondary literature. Whereas research papers with clearly defined concepts, data sources and analysis methodologies have tended to focus on only a small selection of initiatives, we draw from a broader body of information containing not only research articles but also project reports, policy documents, press releases, newspaper articles, websites of governments, international organisations, non-governmental organisations, diaspora organisations and diaspora investment projects and even advertising and promotional material. To extract the necessary information from such a varied body of literature in as consistent a way as possible, we take cues from systematic review methodology and adapt it to accommodate the specificities of our study.¹³ In our case, this has involved developing a structured data collection protocol (see Table 2) and data synthesis approach. The result is a novel dataset of diaspora finance mechanisms which identifies their names and locations (sending country/-ies of residence and receiving country/-ies of origin), the assets involved in the

¹³ Systematic reviews can be defined as studies which 'seek to collate evidence that fits pre-specified eligibility criteria in order to answer a specific research question. They aim to minimize bias by using explicit, systematic methods' (Chandler et al 2021, see also Mallett 2012). Within systematic review approaches, we draw in particular from the realist perspective. This is an interpretative and theory-led review which seeks to identify and explain how and why interventions work, rather than simply measuring outcomes (Pawson 2006).

financial transfer, who the funds are sent from (*suppliers of finance*) and sent to (*beneficiaries of finance*), which *financial intermediaries* facilitate the transfer, and what development objectives and outcomes the transfer achieves. Doing so enables us to assess the quality of the available evidence, map the global distribution of diaspora finance initiatives, observe the mechanisms that underpin them and compare across different approaches and contexts.

Table 2. Data collection, review and synthesis protocol

Review stage	Purpose	Description
Preparation	Define the criteria for inclusion in or exclusion from the study	The criteria include: <ul style="list-style-type: none"> • Include a general thematic discussion of the relationship between diasporas, remittances and development • Mention a specific diaspora investment programme or finance transfer channel • Examine the attributes and/or outcomes of a specific diaspora investment programme or finance transfer channel
Search	Ensure collection of material is as comprehensive as possible	Desk-based search for documents in Arabic, English, French, German, Mandarin, Russian and Spanish. Including, but not limited to, scholarly and research articles, project and thematic reports ('grey literature'), policy documents, news articles and press releases, organisation websites, promotional material, and others. <p>Gathered through:</p> <ul style="list-style-type: none"> • General search on internet search engines, Google scholar, the Scopus research repository • Targeted search through publications of international organisations, national governments, research centres, non-government organisations, civil society organisations • Snowballing search for publications within the references of the available literature • Request for contributions from relevant international organisations and researchers
Selection	Determine which evidence to include in the study	Assess the relevance of the material gathered according to the extent that they meet the selection criteria and contain sufficient evidence
Evidence appraisal	Evaluation of strengths and weaknesses of the evidence	Categorisation of available evidence as follows: <ol style="list-style-type: none"> 1. Anecdotal evidence: a briefly mentioned programme, with no references, data or methodology 2. Descriptive evidence: mention of a programme's activities and outputs using programme-specific data 3. Impact evidence: assessment of the programme's activities and outcomes using official statistics and/or a specific and justified data collection and analysis methodology
Data synthesis	Organise evidence to show where and how programmes work	Production of a dataset on diaspora finance mechanisms containing the following: <ul style="list-style-type: none"> • General information: data on when and where different initiatives operate • Evidence information: summary of the quality of the available evidence about each, based on the evidence appraisal

		<ul style="list-style-type: none"> • Programme information: data on the assets and mechanisms produced and the suppliers, intermediaries and beneficiaries of each • Impact: data on the objectives, outputs and outcomes of each programme or channel
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In total, our repository contained 508 documents which met the original selection criteria. 436 of them contained relevant information on specific remittance and diaspora investment mechanisms, whereas 72 referred to general processes and concepts. Mechanisms were entered into the dataset when they contained at least one country of residence of the diaspora sending the funds, a country of origin that they were sending the funds to, a clearly distinguishable asset, and at least two of the supplier, intermediary and/or beneficiary. Single initiatives which involved the production of more than one clearly distinguishable asset were recorded as separate entries.

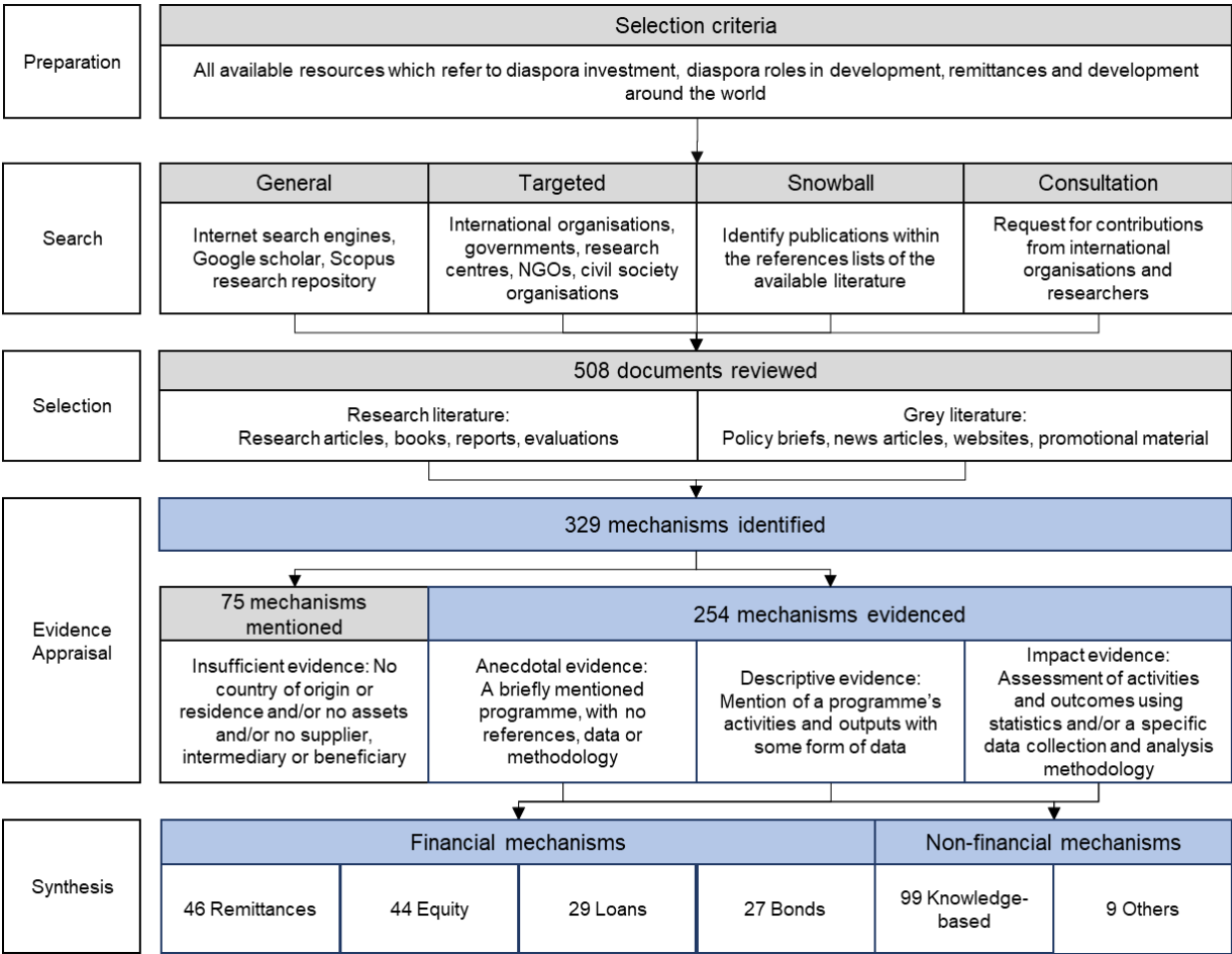
In the following chapter we give a more detailed overview of the dataset and the different mechanisms that we have identified.

4 Mapping diaspora finance

In this chapter we map diaspora finance initiatives around the world, based on the evidence produced through our search and review. In doing so, we describe which mechanisms we found evidence for, where they operate and how. We also search for trends and explanations of why some outcomes happen in some places and not others, although our ability to do so systematically is severely limited by the lack of detail in much of the available evidence. In particular there is limited documented detail as to how the programmes work, the return they yield to investors or their impact on beneficiaries

Overall, we have been able to identify 329 different diaspora finance initiatives around the world (Figure 5). This means that we have been able to find references to each of these in the documents in our repository. However, of these 329 initiatives we were only able to find evidence of where they were based, what asset they produced and of the suppliers, intermediaries and/or beneficiaries for 254. We have based the analysis below on this dataset of 254 initiatives, due to the available evidence on the remaining 75 being too thin to enable us to reliably determine where they operate or what diaspora finance mechanism they employ. In the remainder of this chapter we describe the global distribution of the diaspora finance initiatives and their main characteristics, before examining the different mechanisms individually. To do this, we will use a combination of the entries from our dataset and case studies to offer more detailed contextual information.

Figure 5. Composition of the empirical data

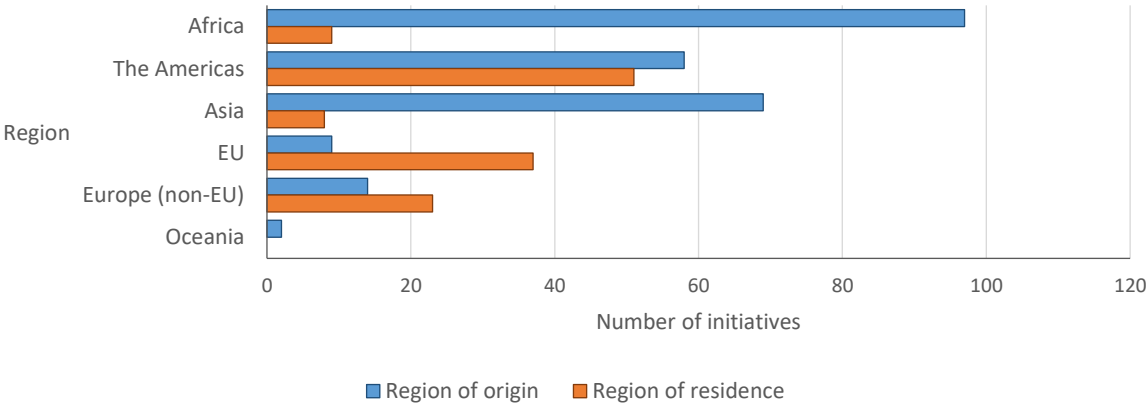


Elaboration: JRC

4.1 The global context

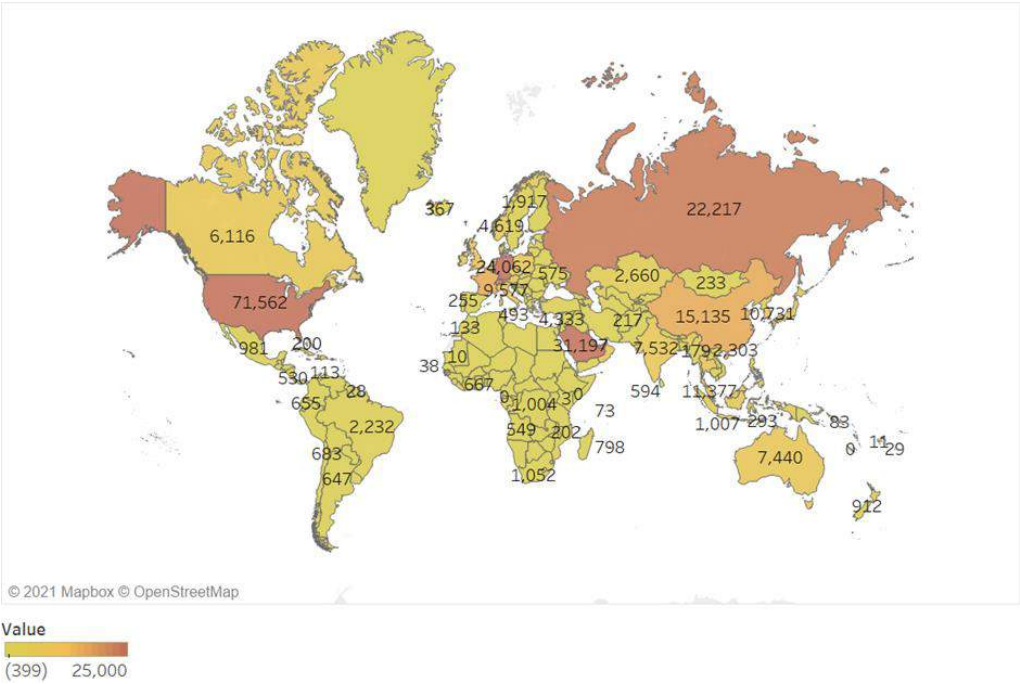
In this section, we focus on diaspora finance mechanisms which are distinct from the formal and informal money transfer mechanisms commonly used to send *individual remittances* between family members which are located in almost every country. We find that there are examples of diaspora finance being mobilised for development purposes on every continent of the world, involving 54 sending countries and 93 receiving countries. However, these mobilising mechanisms are unevenly distributed. The region at the receiving end of the most diaspora finance mechanisms is Africa (97 initiatives), followed by Asia (69) and the Americas (58, all except one in South and Central America and the Caribbean) (see Figure 6). The region with the most diaspora finance sending mechanisms is the Americas (51 initiatives, nearly all based in North America), followed by the EU (37). This pattern highlights the importance of the USA and the EU as sources of funds in the form of remittances and diaspora investments (see Map 2). Lacking, however, is information on diaspora finance mechanisms from other major source countries of global remittance flows, including Saudi Arabia, Russia and China.

Figure 6. Distribution of initiatives in world regions



Source and elaboration: JRC

Map 2. Remittance outflows in 2019 (last year for which complete data is available) (USD millions)



Source: World Bank/KNOMAD, Elaboration: JRC

Individual initiatives are unevenly distributed from one country to another (see Maps 3 and 4). The countries which are at the receiving end of the most diaspora finance mechanisms are India (20 initiatives), Ghana (17), Mexico (16), Kenya (15), Ethiopia (12) and the Philippines (11). Over half (60 per cent) of the initiatives of the African diaspora are located in only five countries, specifically Kenya, Ghana, Ethiopia, Morocco (10 initiatives and Senegal (9). In the Americas, over half (55 per cent) of the initiatives send funds to only three countries, specifically Mexico, Peru (8) and El Salvador (8). In Asia almost half (45 per cent) of the region’s diaspora finance mechanisms target only two countries, specifically India and the Philippines. It is also notable that there are few initiatives enabling people to send investments *from* African or Asian or non-EU European countries.

For the vast majority of identified initiatives, the sending countries belong to high income (78%) or upper middle income (10%) countries. On the receiving end initiatives targeting countries from upper middle (36%) and low middle (46%) income groups prevail. Only 16 percent of initiatives report resources directed toward low income countries. These figures resemble migration patterns over last decades; the majority of international migration has been directed at high income countries reaching 74 percent of all global migration flows by 2015. Moreover, whereas most people moving to high income countries in mid 60s had originated in other high income countries by 2015 this had changed, with movements from middle income countries being more common (representing 42.3% of the total) (Migali et al 2018). This suggests a significant gap in opportunities for South-South diaspora finance, despite the increasing scale of South-South migration flows (De Lombaerde et al 2014; Gagnon and Khoudour-Castéras 2012).

Map 3. Sending countries of diaspora finance



Elaboration: JRC

Map 4. Receiving countries of diaspora finance

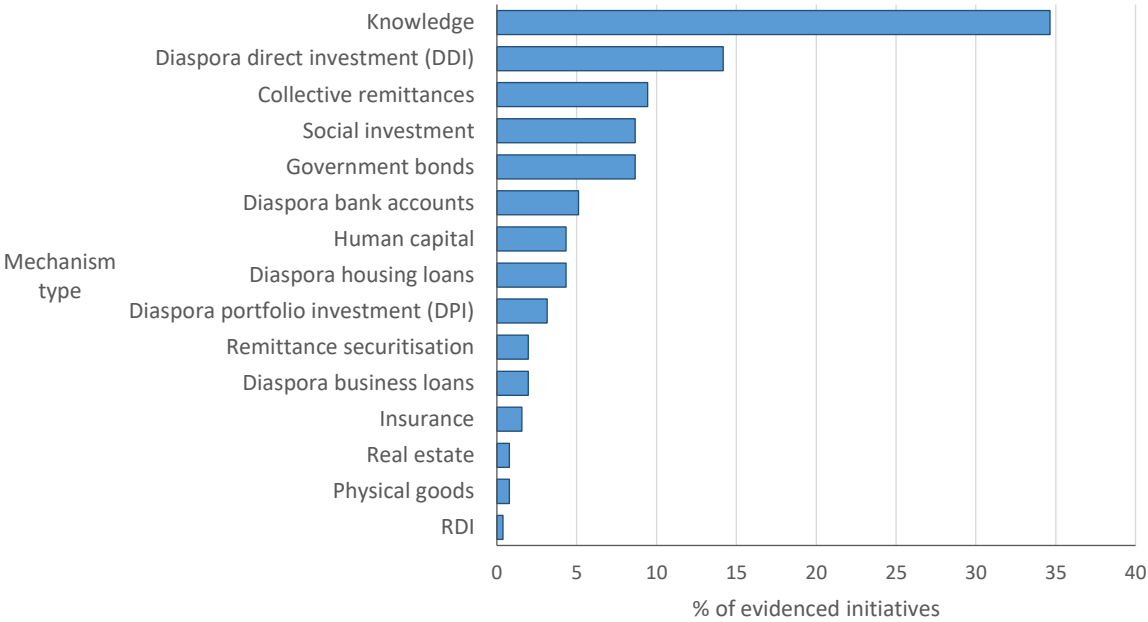


Elaboration: JRC

Our review also found that a range of mechanisms are used to underpin diaspora finance initiatives in different contexts. No single approach predominates, although some are more common than others (see Figure 7). The largest group of mechanisms was that focused on knowledge exchange. As mentioned above, although they do not involve financial transfers these programmes do nevertheless aim to impact on business and investment in the country of origin. Some of these are initiated by the diaspora themselves, such as the support to young people and to business leaders in Ireland provided by the Irish Technology Leadership Group of entrepreneurs in Silicon Valley in the form of mentoring, competitions and networking opportunities (ITLG 2017). Others are promoted by the country of origin, such as the Kosovo Global Diaspora Business Union which seeks to enable investors to understand the opportunities, challenges and expectations which shape the investment and business context there (Burani 2016). Knowledge-based initiatives can also be associated with financial transfers as well. For example, the Ghanaian ‘Beyond the Return’ campaign and events were part of a ten-year plan to encourage sustained dialogue with diasporas and use that to drive inbound investment (ICMPD 2020). Alternatively, El Cucayo fund in Ecuador awarded grants to business projects which were accompanied by technical assistance, training and mentoring, to better their chances of accessing further credit from public banks (Rodriguez-Montemayor, 2012). The fact that these are so widespread suggests that they require fewer resources to establish than the other mechanisms and are more accessible to a wider range of organisations and countries.

From the remaining examples that we could identify, remittance-based mechanisms were the most widespread (46 initiatives), with a range of collective remittance initiatives (24) and social investments (22 initiatives). The next most common were those with equity-based mechanisms (44 initiatives). In particular, those involving DDI were more common than those involving DPI (36 and 8 initiatives, respectively). Loans and Bonds were both less common (respectively 29 and 27 initiatives each) and the more disparate group of ‘Other’ mechanisms included a few cases of insurance schemes, real estate or buying and/or leasing of physical goods (altogether 9 initiatives).

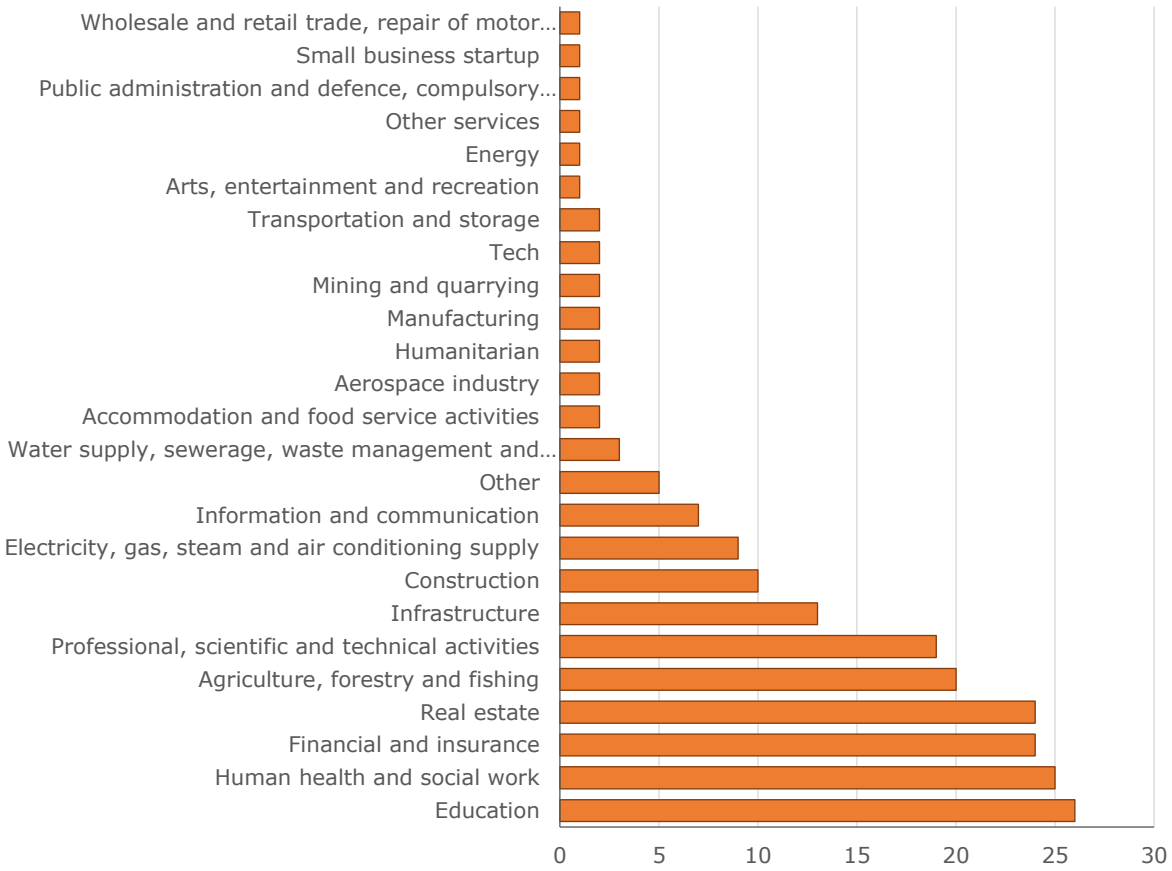
Figure 7. Mechanisms of diaspora finance



Source and elaboration: JRC

Our data highlights how diasporas can be mobilised to contribute to development in a range of different ways and on a variety of issues. This is evidenced by the diversity among the sectors which the diaspora finance mechanisms are engaged in (see Figure 8). To examine sectors, we classified initiatives according to the NACE Statistical Classification of Economic Activities in the European Community. We also added humanitarian activities, infrastructure and 'tech' to the list as these were described in the available evidence but did not fit into a sector from the NACE list. Unfortunately, there was no available evidence of the sector for 139 of the 254 initiatives. For those remaining, the most common sectors which we could identify were education (26), followed by health and social work (25 initiatives), real estate and the financial and insurance sector (24 each). Moreover, there are variations in different regions. In Africa the sectors which the most finance mechanisms were engaged in were health and social work and agriculture, in the Americas it was real estate and education and in Asia it was finance and insurance, and education. In the other regions the number of evidenced initiatives is too few to note any pattern in their distribution across sectors. Nevertheless, it should also be noted that a greater number of initiatives does not necessarily equate to a larger scale of investment due to the variation in the sums that different mechanisms and different diasporas are able to mobilise.

Figure 8. Sectors invested in through diaspora finance



Source and elaboration: JRC

Diaspora finance mechanisms can also be channelled into reaching a range of different objectives. They can benefit macro-economic objectives such as impacting on a country’s foreign exchange reserves or sovereign credit rating, or micro-economic ones such as the skills, employment or income level of individuals. Others seek to impact on the presence of networks and institutions which facilitate transfers of financial and social capital. We were able to clearly delineate the objectives of 136 (54%) of the initiatives from our dataset and summarise them under six general categories (see Table 3). Several initiatives had more than one objective. The most common objective was to improve economic productivity in the country of origin (46 per cent of initiatives with identifiable objectives), including by making funds and/or knowledge available to initiatives to prepare individuals to enter into business, to support new organisations and start-ups, to expand existing enterprises or to impact on capital markets where businesses face constraints. The next most common objectives, each applying to approximately one-fifth of the initiatives from our dataset, sought to (a) develop platforms which would increase knowledge exchanges and networks between diasporas and their countries of origin (21 per cent); (b) to increase the economic inclusion of individuals in the country of origin (21 per cent); or (c) to impact on inequality through promoting social, political and economic development (19 per cent). A further 11 per cent of the initiatives sought to invest in infrastructure, and 8 per cent aimed to impact on the macro-economic situation of the country of origin, which could in turn lead to an improved rating from international agencies or access to cheaper credit on international markets.

Table 3. Identifiable objectives of diaspora finance mechanisms

Objective	Outcome	Examples	Percentage of initiatives
Enterprise development	Increase access of CoO enterprises to finance	African Diaspora Marketplace (ADM) WIDU.africa Ovamba	46
Knowledge exchange platforms	Increase exchanges between the diaspora and their CoO via the creation of a platform or network	Kosovo Global Diaspora Business Union Irish Technology Leadership Group	21
Economic inclusion	Promote economic inclusion of beneficiaries (e.g. employment, skills, financial literacy)	Liberian Diaspora Social Investment Fund Sociedad Hipotecaria Federal	21
Inequality reduction	Increase funding for projects which promote social, political and economic development (e.g. in health, education, public space)	Linkapil Philippines RemitAid (AFFORD-UK) Mexico 3x1 programme	19
Public investment including infrastructure development	Increase financial support for infrastructure projects (e.g. constructing roads or expanding digital access)	Ethiopia Renaissance Dam bond Nigeria Diaspora Bond	11
Macro-economic stability	Improve a country's Balance of Payments and/or access to credit	India Millennium Development Bond Remittance securitisation Brazil	8

Note: The figures refer to the per cent of the cases for which programme objectives could be clearly delineated. The total equals more than 100 per cent due to some programmes having more than one identifiable objective.

In the following section we examine the different programmes in more detail according to the asset that they produce and the mechanism that they use to do so. Where possible, we also highlight their impact and draw on insights from case studies to unpack how they work in different contexts.

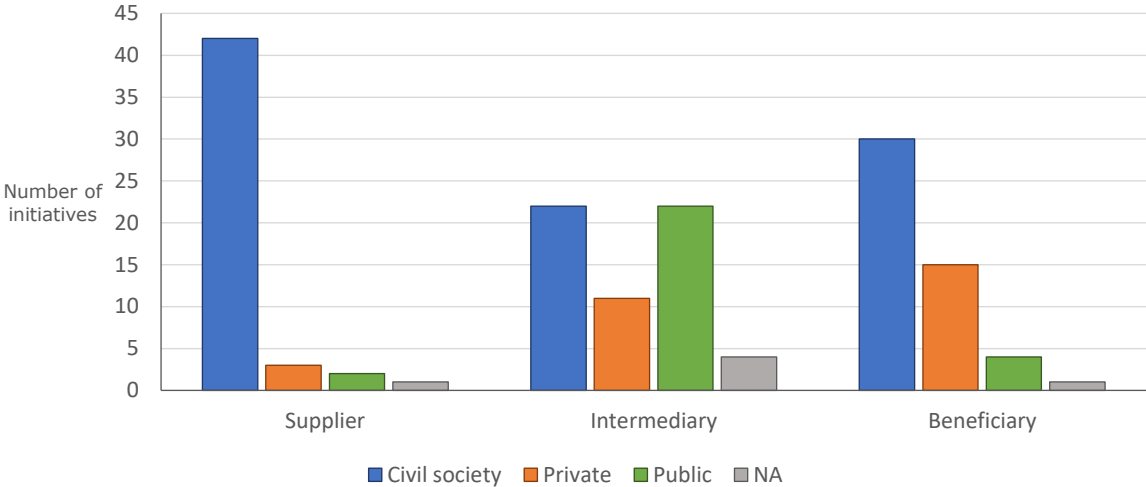
4.2 Remittance-based mechanisms

As noted above, remittance-based diaspora finance mechanisms are distinct from the other forms of investment that we have so far examined. Moreover, they are relatively widespread. Our dataset contains evidence of 46 remittance-based initiatives around the world. 18 of them send funds to countries in Africa, 15 to the Americas, 8 to Asia, three to non-EU Europe. In two cases the country of origin of the diaspora is not available.

As can be seen in Figure 9, the main suppliers of funds for remittance-based mechanisms are in civil society, specifically individuals and households of diaspora members. However, a varied range of intermediaries facilitate remittance-based mechanisms, including actors from civil society (especially diaspora organisations in the country of residence) and the public sector (mainly in the country of origin of the diaspora). The primary beneficiary of

remittance-based mechanisms is civil society, usually community associations in countries of origin which receive funds in order to fund local development projects.

Figure 9. Suppliers, intermediaries and beneficiaries of remittance-based diaspora finance



Source and elaboration: JRC

24 of the remittance-based mechanisms can be understood as collective remittances. These involve the pooling of funds by the diaspora, prior to them being collectively transferred to the country of origin. The suppliers of funds are always individuals and households in the diaspora’s country of residence, and commonly the intermediary would be a diaspora organisation (or ‘hometown association’) which would act as a bridge between those individual suppliers and the local community which receives the investment. This approach has been employed by diasporas for many years and is driven not only by a philanthropic ideal of supporting one’s country or town of origin, but also by forging and maintaining personal ties with the local community there and with the diaspora community in the place of residence. Both of the communities in the country of residence and the country of origin can provide social and economic resources for staying, migrating or returning. Moreover, models of collective remittance investment often involve a wider range of actors than the diaspora alone, as seen by the number of initiatives which also involve public sector organisations (see Figure 9). In these cases, the governments of countries of origin seek to maximise the impact of the funds for infrastructure and other development projects by adding a matching contribution. The paradigmatic case of this model is the 3x1 programme in Mexico (see Box 3).

Box 3. Mexico and Moldova: similar model, different outcomes

Since the 1970s, Hometown Associations (HTA) have been organised by Mexicans in the USA. Collective remittances caught local government attention in the 1990s, leading to the creation of Uno por Uno in Zacatecas in 1992. In this programme municipal governments matched the funds sent by collective remittances in order to finance projects in the region (Cordova 2009; Hazan Béjar 2011). In 2001, the National Ministry of Social Development incorporated this approach into the President's National Development Plan as the 3x1 programme, with three levels of government (local, state, and federal) matching every \$1 sent by collective remittances.

The 3x1 program financed more than 6,000 projects involving over 1,000 HTAs up to 2010, mobilising an average of \$15 million dollars per annum (a tiny percentage of Mexican remittances at about \$24 billion per annum). An evaluation of the 3x1 programme found that 31 per cent of the funded works concerned street and communications infrastructure, 20 per cent water and health infrastructure, 20 per cent energy infrastructure, 17 per cent building and 13 per cent public spaces. The per capita investment through the 3x1 Program was found by another study to have had a positive impact on employment and labour force participation in Mexican municipalities (Ahumada Lobo y Asociados 2009) and Duquette-Rury (2014) found that it had significantly and positively affected household access to sanitation, water, and drainage in participating rural villages.

In January 2009, the Mexican federal government started a 1x1 programme linked to 3x1. Under 1x1, the government provides matching loans to individual migrants undertaking diaspora direct investments (DDI). A migrant provides a business plan to apply for a matching three-year interest-free loan of up to 300,000 Mexican pesos (approximately US\$25,000), together with evidence of their migrant status. Loan repayments are not made to the government but in the form of contributions to HTA-approved 3x1 projects. Thus business loans are recycled into social projects and matched again.

A similar programme to that seen in Mexico was the PARE 1+1 initiative in Moldova, which was established by the Moldovan government in 2010 to 'increase the volume of remittances invested in the Moldovan economy by \$8.5 million' and 'to create up to 2,000 new businesses and 6,000 new jobs, 70 per cent of which would be in rural areas.'. It was implemented by the non-profit Organisation for Development of Small and Middle Enterprises (ODIMM) in cooperation with the Moldovan Ministry of Economy and saw the Moldovan government match the amount invested by diaspora organisations up to a maximum of MDL 200,000. Approximately 1 100 people were trained via the programme and over 500 businesses received the government-matched grants, but it stopped operating in 2015.

Despite following a similar model, important differences distinguish the 3x1 programme from PARE 1+1 and may have contributed to their different outcomes. Whereas PARE 1+1 was a new initiative which was established by the government, the 3x1 programme emerged from a long history of collective remitting among the Mexican diaspora. An evaluation of PARE 1+1 also showed that more technical support was needed for beneficiaries to scale their businesses and that specific knowledge on the respective industry, marketing, and how to get access to other financial means was lacking. In contrast, the 3x1 programme included technical support from Mexico's Social Development Ministry (Cordova 2009). Indeed, its main contribution is said to have been its capacity to create strong links between communities of origin and communities of destination, enabling an exchange of information among migrants and the three levels of government (Garcia Zamora 2005).

These programme help to maintain social and cultural connections and solidarity between diasporas and their hometowns, and support local economic development processes across a wide range of communities. Their benefits go beyond their narrowly financial value (Newland 2012). Yet they have been criticised. Channelling remittances through diaspora organisations can ensure community needs are prioritised but could also be a 'diversion of scarce budgetary resources to projects favoured by non-resident nationals' (Maimbo and Ratha 2005). They tend to focus on small scale projects, as fundraising from HTA member migrants is inevitably limited. They should be seen as complementing rather than replacing.

22 of the remittance-based mechanisms can be understood as forms of philanthropy, which provide individuals in the diaspora with the opportunity to make a donation to specific development projects in the country of origin. As with collective remittances, the supplier of funds is always the individual or household in the diaspora but the beneficiary is nearly always a civil society organisation, such as a diaspora organisation, community association or non-governmental organisation. These investments and the programmes they fund tend to be smaller in scale than collective remittances, and they less frequently contain a match funding aspect to them. For example, Addis Hiwot is an Ethiopian diaspora organisation in Germany which receives donations to support around ten families with more than forty children in Addis Ababa with monthly financial support and lessons outside school for the children (Schlenzka 2009). Similarly, the Waounde citizens group of Senegalese emigrants in Germany has used individual donations to fund infrastructure projects in their village of origin, including construction of a school (1996), toilet facilities (1996), and a well (1997), and renovation of the school in 1998 (Faye 2007). An example of a larger organisation which mobilises social investments is Linkapil, which has been the main conduit for development support for the Commission on Filipinos Overseas (CFO) since 1989. It facilitates the transfer of donations from Filipinos overseas to support what it defines as 'small-scale, high-impact projects' that address the country's social and economic development needs, based on strong knowledge of the local context on the ground and flexibility to accept donations in cash (e.g. to finance scholarships), in kind (e.g. medical materials or schoolbooks) or in the form of direct assistance (e.g. medical missions) (Commission on Filipinos Overseas 2015; Licuanan et al 2012).

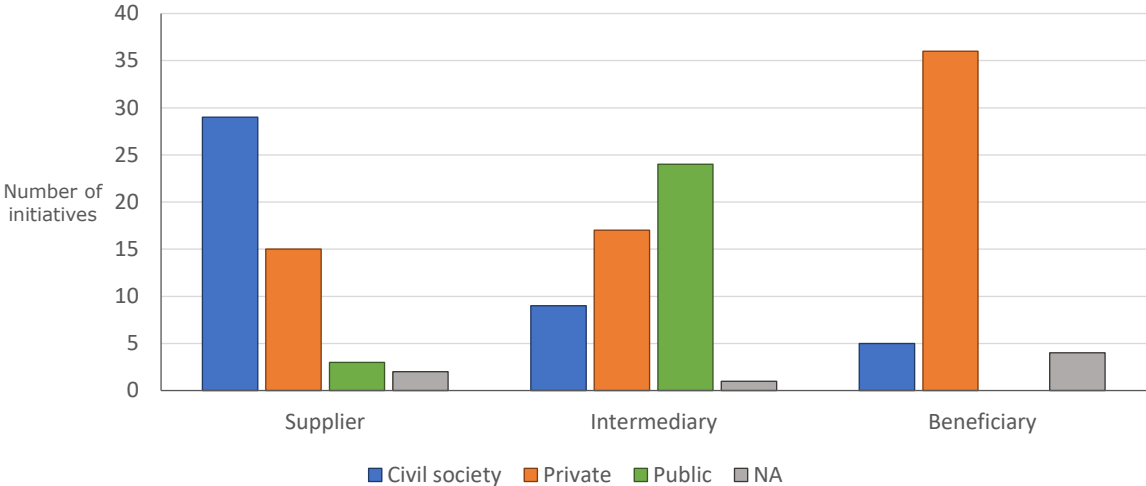
4.3 Equity-based mechanisms

The second most widespread group of mechanisms that we have been able to evidence are those which provide beneficiaries with financial support in exchange for equity in their businesses. Over one-third (35 per cent) of the equity-based initiatives invested in African countries, another third (33 per cent) in the Americas and one-fifth (21 per cent) in Asia. Of the 44 initiatives which are equity-based, 36 can be defined as diaspora direct investment (DDI) for a specific business or project. These include 25 transnational corporate investment initiatives and ten which mobilise private equity or venture capital. The remaining eight equity-based initiatives can be described as diaspora portfolio investments (DPI) or mutual funds, neither of which imply significant influence in the management of the beneficiary business.

As can be seen in Figure 10, equity-based mechanisms channel funds into private sector development in the country receiving the investment. Funds are supplied principally by civil society (especially individuals and households) and the private sector (mainly described in the available evidence as 'entrepreneurs' or 'investors') in the diaspora and received by businesses in the country of origin.¹⁴ Governments have shown great interest in equity-based diaspora investments, with the public sector being the principal intermediary from the schemes we have been able to evidence.

¹⁴ It should be noted that the documentary evidence that has been gathered for this study is at times vague when it describes the source of these funds.

Figure 10. Suppliers, intermediaries and beneficiaries of equity-based diaspora finance



Source and elaboration: JRC

Intermediaries are vital for DDI and DPI investments as a bridge connecting investors and beneficiaries who may be very far from one another. A lack of knowledge about a particular sector or organisation, the context it operates in and the outlook for the future can also be an important barrier to direct investments in a given business. DDI initiatives are intermediaries matching suppliers and beneficiaries of funds separated by distance and information barriers. DDI mechanisms often provide knowledge and support to recipients through mentoring and networking schemes alongside their provision of financial investment. National governments in both the sending and receiving countries can play an important role as intermediaries, as evidenced by WIDU.africa in Germany (see Box 4), and Fundación Chile, in Chile (see Box 5).

Box 4. WIDU

Matched funds programmes can be varied and innovative. As remittance flows to Africa grew, the German government created WIDU.africa to ensure they were channelled into investments. The programme is geared towards developing small businesses in Africa, and requires 25 per cent of the funding requested by an entrepreneur or small businesses in Africa to come from within the diaspora. Another 25 per cent comes from the entrepreneur themselves and the government of Germany provides the remaining 50 per cent. Support ranges from €500 to €5 000. The use of the funds is monitored by the German government: beneficiaries have to show proof of purchase and payments.

The programme was piloted in November 2019 to countries with large diasporas in Germany (Cameroon and Ghana) and extended to others in October 2020 (Kenya, Togo, Ethiopia and Morocco). WIDU.africa relies on existing African diaspora platforms in Germany to spread the word and boost usage.

Box 5. Fundación Chile and the Chile Global programme.

Fundación Chile was created in 1976 as a small public-private foundation seeking to leverage the Chilean diaspora to bring Chile into the knowledge-based economy (Newland and Tanaka 2010). It provides help to entrepreneurs to launch technically innovative businesses in Chile in the form of access to professional networks and venture capital, as well as mentorship, graduate placement, and entrepreneurial support programmes (Pollack in Sharma et al 2011). Fundación Chile is linked with other entrepreneurship and venture capital institutions in Chile and the rest of Latin America.

One of Fundación Chile's flagship programs is Chile Global, the Talent Network for Innovation. Its mission is 'to promote and facilitate the development of key economic clusters in Chile by reinforcing their links with Chileans (and some non-Chileans) residing abroad who are working to introduce innovative technologies to Chile' (Saxenian 2002). On one hand, the programme supports businesses in the agricultural sector with knowledge from international professional networks. On the other hand, it also provides access to financial support from its own venture capital fund, Chile Global Angels (www.chileglobalangels.cl), an 'angel investment' network of around 25 members, including Chile-based, Chilean diaspora members and non-Chileans, launched in 2009. Members each make two or three investments per year of up to USD0.5 million in new Chilean start-ups. The network is a matching service, rather than a financial intermediary, and fills the gap between 'seed' capital and venture capital.

Reports in 2013 stated that Fundación Chile had helped set up 76 companies and retained a part ownership in 23, including leading biotechnology and information technology start-ups (Newland and Plaza 2013).

The prevalence of equity-based mechanisms suggests that there is extensive demand for this form of finance in LMICs. Two-thirds of those (65 per cent) with clear objectives aimed to increase economic productivity. Several initiatives also sought to impact on economic inclusion, such as the African Diaspora Finance Corporation (ADFC) which mobilises direct and indirect diaspora funds for structured investment in what it calls 'socially responsible and impactful ventures and schemes' (Faal 2019; Opoku-Owusu et al. 2016).

Furthermore, recent developments in financial technology and digital connectivity have created an opportunity for an increase in the range of intermediary services through online platforms which provide equity finance or enable trade in existing equities by connecting providers of funds in one country and users of funds in another. Ovamba¹⁵ is one example of this innovation. The initiative began operating in Cameroon in 2013, completed a beta phase in 2017 and has now expanded to other countries. It is based around an online platform which offers a short-term funding solution for African SMEs in the trade and commodities sectors who are unable to front the cost of trade or inventory purchase. The platform functions as a marketplace, where multiple potential investors and beneficiaries can be brought together. It highlights the benefits of financial technology for diaspora investment, by being able to process a large number of transactions among investors and beneficiaries in a range of locations. Ovamba have reported over 1,600 transactions on their platform, representing \$150 million in deal flow through which SMEs in local communities in Africa have been able to receive investments from as far afield as the UK, USA and Japan.

4.4 Loan-based mechanisms

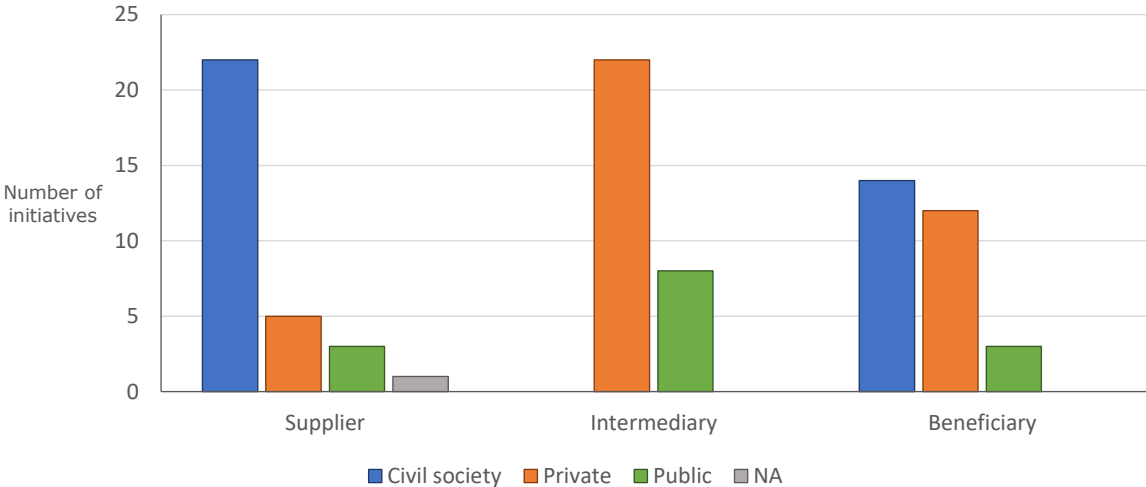
In our dataset we find evidence of 29 loan-based mechanisms, with the most common recipient countries in Asia (12 initiatives), followed by Africa (8) and the Americas (6). These involve distinct types of initiatives. On the one hand, loans involve funds being supplied from the diaspora to beneficiaries in the country of origin with the expectation of having it returned in future, such as when transferring funds into special diaspora bank accounts. On the other, hand, there are loans which involve transfers from country of origin institutions to diaspora members in order to enable them to spend in the country of origin economy, such as to purchase a house or machinery for a business. Whereas the former

¹⁵ <https://www.ovamba.com/>

provide a beneficial injection of credit to the national accounts of the receiving country, the latter enable individuals and their families to access which may otherwise have been denied them.

Figure 11 shows that in the majority of the loan-based mechanisms that we have identified, funds are supplied by civil society (in particular individuals and households), for the benefit of civil society (individuals and households which gain access to credit) and the private sector (especially housing markets which receive an injection of funds as diaspora members gain credit) in the country of origin. Moreover, the intermediaries which enable these mechanisms to function are primarily private entities (especially commercial banks which provide accounts and related services to diaspora members) and, to a lesser degree, the public sector (central banks and other public sector bodies, such as development banks and public utility providers).

Figure 11. Suppliers, intermediaries and beneficiaries of loan-based diaspora finance



Source and elaboration: JRC

The differences in suppliers, intermediaries and beneficiaries reflect differences in the type of loan being made. The most common are diaspora bank accounts (13 cases), in particular the broad range of deposit and savings accounts that have been established for non-resident Indians. In these cases, Indian nationals who reside outside the country are able to make payments directly into a bank account with the State Bank of India. The bank is able to attract and manage funds through a global infrastructure, with a reported 190 foreign offices in 35 countries. Some accounts qualify for interest which is exempt from Indian income tax (so remitting directly to the account is more favourable than receiving remittances directly by someone in India who then keeps them in cash or places them in a local account), whereas others are taxed on the interest accrued. The accounts may be leveraged to access other services, such as insurance, or further capital or loans, or can be saved to provide for those planning to return to India. In some cases, withdrawals can be made in India in rupees, so they can also be used as a normal checking account by people in India who have access.

The other initiatives are business loans (5 cases) and housing loans (11 cases). The former are made possible by an intermediary pooling contributions from the diaspora and lending them to micro-business ventures or SMEs such as in the case of Babyloan Mali (Song, 2014; Mohamed, 2021). The latter are supplied by national or private banks to members of the diaspora who wish to buy a house in their country of origin and will use their remittances to pay it off, such as Mi casa con remesas in Colombia (ICMPD, 2020), Mi Vivienda in Peru (Saenz, 2007) or Construmex in Mexico, which has served 8,000 families and enables monthly payments to be made at Mexican consular offices and one of 800 other access points in money transfer offices (Saenz, 2007). The house itself provides the collateral for the loan. In Mexico, it was estimated in 2005 that 5% of the \$16.6 billion

remittance flows per annum were used for land or housing investment, that is, around \$830 million per annum. The Sociedad Hipotecaria Federal (a publicly-owned wholesale housing finance institution created in 2001) began a transnational loan scheme with support from the InterAmerican Development Bank. The Pag-ibig Overseas Programme is a savings programme in the Philippines run by the Housing and Urban Development Co-ordination Council. Though a domestic market-focussed entity, it offers overseas Filipino workers the chance to take out a home loan in the Philippines after making contributions to the fund for two years. Repayments are made via remittances. There appears to be no external subsidy to the programme (Agunias and Newland, 2012c)

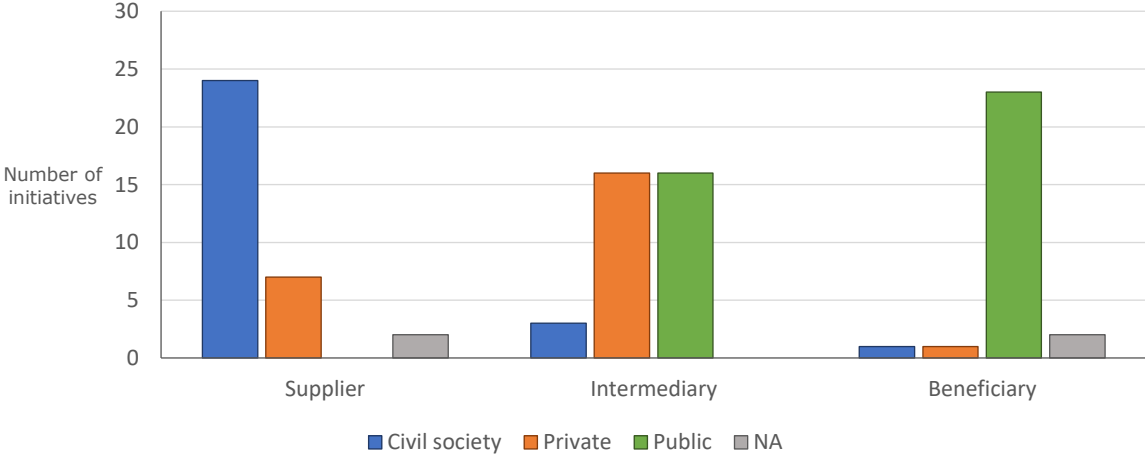
4.5 Bonds

Our dataset contains evidence of 27 different bond mechanisms, 22 of which refer to government bonds and 5 of which are forms of remittance securitisation. The region with the most diaspora bond mechanisms was Africa (12 initiatives), with examples being established in Ethiopia, Ghana, Kenya, Nigeria and Rwanda. The other regions with diaspora bond schemes are Asia (10), the Americas (6).

Bonds can usually be sold to a range of potential buyers, who can include not only individuals investing their savings but also central banks, insurance and pension funds and market-making intermediaries which can leverage significantly larger sums of finance than individual households. Yet in this respect diaspora bonds stand apart from other commercial or government bonds because they are marketed primarily to individual diaspora members. These diaspora members may be entrepreneurs or 'investors', as the available documents often call them, but in many cases they will also be individuals and households seeking to invest their savings.

As can be seen in Figure 12, civil society (especially individuals and households) are the main suppliers of funds in the mechanisms that we have identified. The principal beneficiaries of bonds is the public sector, specifically the central bank, central government or government body which issued them. These beneficiaries use the funds to pay for infrastructure projects (as in the case of the bonds issued by Ethiopia and Nigeria) and/or as a source of sovereign finance to supplement tax and other revenues and to positively impact on the Balance of Payments and international credit rating (as the Indian government has done). to the extent the funds raised are invested in infrastructure and other development projects or used for provision of public services, citizens may be secondary beneficiaries. The main intermediaries which market the bonds and manage their sale are in some cases public sector organisations (mainly central or publicly-owned banks) and in others private sector organisations (mainly commercial banks or investment platforms).

Figure 12. Suppliers, intermediaries and beneficiaries of bond-based diaspora finance



Source and elaboration: JRC

Government bonds aimed at diaspora investors (Diaspora bonds) are not a new financial instrument. There is evidence of governments issuing bonds to their diasporas as far back as the early 1940s, when Japanese and Chinese diaspora groups in the USA marketed patriotic bonds for their respective countries of origin (Chander 2001). Israel issued its first diaspora bond in 1951, but would not be followed by other countries until the 1990s and 2000s. India has issued three bonds (the India Development Bonds (IDBs) in 1991, Resurgent India Bonds (RIBs) in 1998, and India Millennium Deposits (IMDs) in 2000). Ghana issues a Golden Jubilee Savings Bond in 2007 and Ethiopia has issued two diaspora bonds in 2008 (the EEPKO Millennium Corporate Bonds) and 2011 (the Renaissance Dam Bonds). Kenya began issuing diaspora bonds in 2014 after offering infrastructure bonds since 2009 (Rustomjee 2018). In 2017 the Nigerian government also issued a bond for the diaspora.

Diaspora bonds have frequently proved to be a way of mobilising very large financial inflows in a relatively short period of time. India's IDBs raised a reported USD2 billion between 1992 and 1993, followed by the RIBs which raised USD4.2 billion and the IMDs which raised a reported USD5.5 billion. The Nigerian government's bond was over-subscribed by 130 percent and raised USD300 million. But not all attempts have been successful. Ghana's Golden Jubilee Savings Bond raised only GHC20 million of a target of GHC50 million for development projects across the country, for example. .

The success of diaspora bonds in some countries does not mean that they are an appropriate tool for all governments. Funds for diaspora bonds are supplied by individuals in the diaspora with the expectation that they will be able to recoup their original investment plus interest over a specified duration. Their success depends on whether the relevant diaspora is large enough and has sufficient wealth. Important constraints on bond issues by LMICs in particular include the significant issue fees payable (usually to investment banks), and the level of technical financial expertise required for both issue and management of bonds (Akkoyonlu and Stern 2018).

4.6 Knowledge-based mechanisms

As already noted above, knowledge flows are a significant element of many equity-based mechanisms in which the exchange of financial assets is central, such as the ChileGlobal programme (Box 4) or the Irish Technology Leadership Group (ITLG), which provide venture capital together with mentorship and market matching information. On a smaller scale, one can mention the Liberian Diaspora Social Investment Fund which provided SME entrepreneurs in Liberia both finance through equity investments and formal provision of business skills (such as accounting and marketing).

However, in this section we focus on the three types of knowledge-based mechanisms mentioned in 3.1.3 above, in which knowledge flow or knowledge exchange is the exclusive or primary focus of the mechanism, recognising that knowledge flows are an ancillary element in many of the equity-based mechanisms. Our dataset contains evidence of 99 different knowledge-based mechanisms. The region with the most knowledge-based mechanisms was Africa (38 initiatives), with the most examples being established in Ghana (9), followed by Morocco (7). The other regions with knowledge-based schemes are Asia (25), the Americas (15), the EU and non-EU Europe (each 9) and Oceania (2).

While skills and knowledge exchange have happened informally for a very long time, the emergence and growth of the internet during the 1990s enabled these networks to become more formalised and active with the aspiration to facilitate frequent and extensive knowledge transfers, both remotely and through short-term visits (Meyer and Wattiaux, 2006). However, to be sustainable, these networks requires ongoing infusions of financial and human resources to maintain the information database up to date. This in turn depends on institutions in the country of origin committed to the project, as underlined by examples of faltering networks in the Argentinian, Colombian and South African diasporas (Kuznetsov, 2006). Support for country-of-origin institutions from a major country (or

region) of residence, such as the European Union Global Diaspora Facility (EUDiF) platform, could provide greater stability.¹⁶

Returning diaspora entrepreneurs may be an important channel for transferring knowledge and business skills from the diaspora to a country's SME sector, particularly for LMICs. However, it may be very difficult to identify and evaluate the scale and impact of this mechanism, as once the diaspora entrepreneur has moved 'home' to their country of origin it may be hard to distinguish their activities from enterprises started by people who have always remained in the country of origin.¹⁷ Country of residence have also promoted return entrepreneurship under the label of 'codevelopment'.¹⁸ Two factors seem to improve the prospects for these schemes: firstly, if migrants have accumulated skills, capital and networks while in the country of residence, especially if they were self-employed or employers there. Secondly, if there is a conducive enabling environment for SMEs in the country of origin especially policy and other support mechanisms in place for returnees hoping to start up businesses. For example, the Senegalese government's *Retours Vers l'Agriculture* ('return to agriculture') programme provides tax exemptions to new business ventures in Senegal, enabling the diaspora to help modernise agriculture (Panizzon, 2008).

Diasporas also act as investment promotion agents, such as in the case of the diffusion of information technology (IT) manufacturing and services globally since the 1990s. In India, for example the operations of 71 of 75 foreign investors in Bangalore's software technology park were at one point headed by returned Indians (Kapur, 2001, p 398, citing Ghemawat, 2000). An important organisation in this story was TIE (The IndUS Entrepreneur), a venture capital and knowledge exchange network started in 1992 (shortly after India's economic crisis of 1991 in which diaspora portfolio financial flows played a significant rescue role) to promote start-ups in both India and the US (Newland and Tanaka, 2010). TIE continues to operate, growing to more than 13000 members in 61 local chapters mainly in the US and India. A similar story can be told about the diaspora influence in the emergence of IT hardware manufacture, first in Taiwan and then in China (Saxenian, 2005; 2006). Furthermore, diaspora members can also promote FDI into their country of origin beyond their own country-of-residence employers. For example, ConnectIreland is a privately-owned agency set up to crowd-source inward FDI promotion within the Irish diaspora.¹⁹ It mobilises potential investment promoters who are paid by the Irish government for each job created in Ireland.

¹⁶ www.diasporafordevelopment.eu

¹⁷ Furthermore, if they bring in finance from their (former) country of residence to set up their business, the inflow may be accounted for in the country of origin's balance of payments as a current transfer similar to 'regular' remittances, while any assets purchased by the business in the country of origin will not be considered foreign investment.

¹⁸ See the chapters by Panizzon; Ndiaye et al, and Gubert and Nordman, all in Plaza and Ratha 2011.

¹⁹ www.connectireland.com

5 Conclusions and implications

This study contributes to better understanding some of the ways that migrants and diasporas can drive development in their countries of origin. In particular, it has examined diaspora finance, an umbrella term which includes not only remittances but also diaspora investments, building a novel dataset of individual diaspora finance mechanisms based on an extensive review of global evidence. Doing so has provided the basis for mapping diaspora finance initiatives globally, unpacking how they work in different contexts and, where possible, the impact that they have had. We achieve this by defining a framework for classifying a wide variety of diaspora finance mechanisms, based on different combinations of supplier, beneficiary, asset (remittance, equity, loans, bonds or knowledge) and intermediary to the transaction.

Based on our analysis, we find the following conclusions, which in turn lead to the subsequent implications for future policymaking and research.

5.1 Conclusions

Our analysis highlights the breadth of ways that migrants and diasporas can invest in their countries of origin. In total we identify over 300 different diaspora finance mechanisms involving 54 sending countries and 93 receiving countries. Mechanisms in the data set include diaspora bonds which have brought billions of dollars into a few countries (such as India or Israel) with large, long-established diasporas in high-income countries of residence. But there are also enterprise development schemes which provide competitive grants to small enterprises in the diaspora's country of origin and matching grants to social projects set up using collective remittances from migrants who originated in the same locality or hometown. Many diaspora finance transactions include flows of knowledge in addition to the finance itself, and platforms where the primary exchange is skills or information provided by diaspora members to enterprises or individuals in their country or origin. Others involved remittance-based mechanisms (46 initiatives) or produced equity (44), loans (29) or bonds (27).

Diaspora investments are not an alternative to remittances. Rather, they exist alongside and complement one another, distinguished not by their 'productiveness' but by differences in the mechanisms that underpin them. Remittances are one-way money transfers between migrants and recipients who are usually households or local organisations with whom they have an interpersonal link in the migrants' country of origin. Diaspora investments on the other hand are two-way transactions involving the exchange of financial instruments between members of a multi-generational diaspora and users of funds who are usually enterprises or governments in their country of origin and with whom the investor does not have a personal connection.

We know that remittances are highly significant for international development and are now larger for many LMICs than either ODA or FDI inflows. But including diaspora finance could mean that the financial contribution to development processes by migrants and diasporas is even greater still. The mechanisms identified in this report address a range of forms of development impact, from enterprise development and knowledge exchange platforms for investors and enterprises, to economic inclusion and inequality reduction for individuals in the country of origin, and investment in infrastructure and macro-economic stability of the receiving country.

This study also highlights, however, serious gaps in the available evidence on diaspora investment. Although invaluable progress has been made on the collation of national aggregate values for remittance inflows and outflows (e.g. KNOMAD 2021; World Bank 2016), there is no systematic collection and classification of data on other forms of diaspora finance, on either (a) the scale of the financial transfers which mechanisms have mobilised or (b) the development impact and outcomes resulting from the use of transferred funds, such as the creation of employment opportunities. Detailed data or impact analysis is available only in a small range of cases, while information on the financial and other returns on their investments for the senders of funds in diasporas was even less common.

5.2 Implications

The main frameworks and debates in international development can be broadened to better foster and leverage different forms of diaspora finance. Whilst the inclusion of remittances in the SDGs and the Global Compact for Migration is a positive recognition of the contribution of migrants and diasporas to development, it only tells part of the story. Diaspora investments are missing. But remittances and diaspora investments can be included alongside one another, clearly defined and distinguished by their different mechanisms and characteristics.

Better data on and impact evaluation of diaspora finance is sorely needed. National and international statistical offices and agencies can play a vital role by exploring opportunities for more systematic data collection and organisation. This poses complex definitional and data collection challenges, but the same is true for other international financial flows. Some assets may be easily identifiable as diaspora investment, but for others, it may be less clear. As a result there is a need to develop the methodologies which will facilitate identification and measurement of diaspora investment flows. And in addition to more systematic data on diaspora finance flows, more research and analysis is needed on their impact on development in countries of origin, and on the financial returns and other benefits they yield for diaspora investors.

Countries of origin can facilitate investments from their diaspora by building institutions and networks which enable knowledge-sharing and an increased awareness of investment opportunities. These can draw on existing networks of embassies and consulates, or involve the creation of specific diaspora-focused institutions and agencies which build networks with diaspora-led organisations. Investment promotion agencies (IPAs) can be encouraged to focus on the diaspora as a key market, if they do not already do so. Financial regulatory agencies in origin countries also need to be equipped with relevant capabilities to address risk associated with diaspora investment mechanisms.

Countries of residence can also support diasporas to invest in their countries of origin in a range of ways, including building networks and platforms bringing together suppliers and potential beneficiaries of funds in the two countries and increasing the scale of investments through match-funding. Doing so requires an understanding of the scale and composition of a given diaspora and their relationship with their country of origin. And the approach adopted depends on the development strategy of the country of residence and the needs of the country of origin.

Setting up diaspora investment mechanisms often requires new financial product development and elaboration of existing financial regulatory frameworks in countries of origin where financial systems are not well developed. Countries of residence and multilateral organisations can provide technical support and capacity building for these essential processes.

Finally, the study highlights an important opportunity for the European Commission to build on and expand its current initiatives on leveraging remittances for development and fostering diaspora investments. Particularly, match-funding schemes involving migrant and diaspora entrepreneurs, and incorporating knowledge exchange and training components into ODA seem promising avenues for SMEs. Doing so should go hand-in-hand with efforts to build the available evidence base through data collection and impact evaluations, in order to better inform future policy and practice.

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