Harnessing Diasporas

Africa can tap some of its millions of emigrants to help development efforts

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Passengers board an airplane in Nairobi, Kenya.

AFRICA'S diaspora has often been a source of hand-wringing. More than 30 million people have officially emigrated from north and sub-Saharan Africa. Unrecorded migrants, children, and grandchildren boost the number sharply, although there are no good estimates.

Members of this population (see box) send more than $40 billion a year to residents of their home or ancestral lands. But their skills, knowledge, and entrepreneurial capabilities are lost to their home countries—not to mention the tens of billions of dollars they do not send home but save outside Africa each year. Persuading these emigrants and their offspring to return is generally a vain hope. Although many, perhaps even most, view their homeland warmly, they left for a reason.

But perceptions are changing. The diaspora has a number of good aspects beyond remittances and experts are beginning to believe that even the loss of skilled workers has an upside. Most important, perhaps, members of the African diaspora are playing a role in helping their homelands develop, and African countries have begun efforts to tap the skills and resources of emigrants and their offspring.

How big?

Estimating the size of a diaspora is complicated. Where a person was born, when he or she emigrated, and how he or she self-identifies are part of the equation. For example, estimates of U.S.-based diasporas are constructed using the "place of birth for the foreign-born population" available from the U.S. census. Many countries classify children of immigrants based on the ethnicity of the parent, which results in higher estimates of the stock of immigrants than classification based on place of birth. Temporary migrants, and second- and higher-generation migrants, may be considered as part of a diaspora, but are usually not captured in migration statistics. Even when data are good, estimating the size of a diaspora is difficult. It is more difficult for the African diaspora because data are often incomplete.

Using a narrow but convenient definition of diaspora as "foreign-born population," the total diaspora from African nations was 30.6 million in 2010 (World Bank, 2011). About half left for another country in Africa. Europe was the primary destination for the rest (see chart).

More than 90 percent of migrants from north Africa go to countries outside the region, especially to Western Europe. But almost two-thirds of migrants from sub-Saharan Africa leave for other countries in the region. Most of those remain

What are diasporas?

A diaspora can be defined as a group of persons who have migrated and their descendents who maintain a connection to their homeland. The U.S. State Department defines diasporas as migrant groups that share the following features: dispersion, whether voluntary or involuntary, across sociocultural boundaries and at least one political border; a collective memory and myth about the homeland; a commitment to keeping the homeland alive through symbolic and direct action; the presence of the issue of return, although not necessarily a commitment to do so; and a consciousness and associated identity, expressed in diaspora community media, the creation of diaspora associations or organizations, and online participation.

The African Union defines its diaspora as "consisting of people of African origin living outside the continent, irrespective of their citizenship and nationality and who are willing to contribute to the development of the continent and the building of the African Union."

within the subregion (for example, west Africans remain primarily within west Africa).

Benefiting from the diasporas

Most research on the contributions of diasporas to development in origin countries focuses on highly educated migrants living in Europe and the United States. But both low- and high-skilled diaspora members—whether outside or inside Africa—make contributions to their homelands. These contributions include remittances, trade and investment, and transfer of skills and technology.

Remittances: African migrants sent at least $40 billion in remittances to African countries in 2010. The true size of remittance flows, including unrecorded flows, is believed to be significantly larger. Remittances are the most tangible link between migration and development. Remittances are a large source of funding in many African countries: in Lesotho, they are close to 30 percent of GDP; in Cape Verde, Senegal, and Togo, more than 10 percent of GDP. In Egypt, remittances are larger than the revenue from the Suez Canal, and in Morocco they exceed tourism revenue.

Remittances tend to be relatively stable, and may behave countercyclically—because relatives and friends often send more when the recipient country is in an economic downturn or experiences a disaster (Mohapatra, Joseph, and Ratha, 2009). In sub-Saharan Africa, remittances have been more stable than foreign direct investment, private debt, and equity flows. Nevertheless, even small fluctuations in remittance inflows can pose macroeconomic challenges to recipient countries, especially those with large inflows.

Remittances play an important role in reducing the incidence and severity of poverty. They help households diversify their sources of income while providing a much needed source of savings and capital for investment. Remittances are also associated with increased household investments in education, entrepreneurship, and health—all of which have a high social return in most circumstances. That said, the evidence of the impact of remittances on economic growth is mixed.

Many migrants transfer funds to households in origin countries for investment purposes. Data from household surveys show that African households receiving international remittances from the developed countries in the Organization for Economic Cooperation and Development (OECD) have been making such productive investments as buying agricultural equipment, building a house or a business, purchasing land, and improving a farm. Among the countries surveyed were Burkina Faso, Kenya, Nigeria, Senegal, and Uganda. Households receiving transfers from other African countries also invest in business activities and housing, although to a lesser extent than those receiving remittances from OECD countries.

Even though remittances provide a lifeline to the poor in many African countries, sending money to Africa remains costly (see "Lowering the Cost of Sending Money Home," *F&D*, June 2011). Indeed the average fee for remittances to Africa is more than 10 percent of the principal, the highest among the developing regions. Fees for intraregional remittances within Africa tend to be even higher because currencies are often not convertible or foreign exchange commissions are exorbitant.

Trade and investment flows: Migrants have a preference for their native country's goods and services, thus supporting "nostalgic trade" in ethnic products. More important, migrants facilitate bilateral trade and investment flows between their country of residence and their home country by matching producers of consumer goods in one country with appropriate distributors in the other country, and assemblers with the right component suppliers. Sharing the same language or a similar cultural background eases communication and facilitates understanding of transport documents, procedures, and regulations.

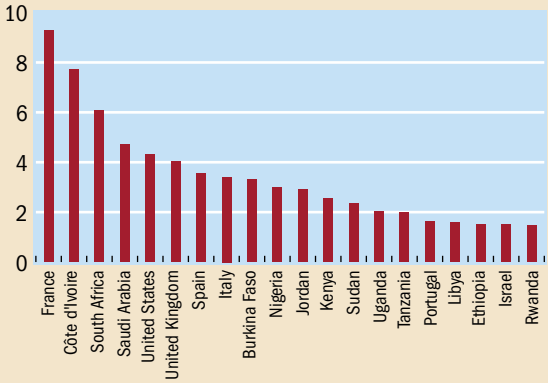
Some governmental agencies and private firms in African countries are tapping their diasporas to provide market information about the countries in which emigrants now live. Activities include the establishment of diaspora trade councils and participation in trade missions and business networks. The Ethiopian, Kenyan, and Ugandan embassies in London and Washington support business and trade forums to attract diaspora investors and to match suppliers with exporters.

Diaspora members can act as catalysts for the development of capital markets in their countries of origin by diversifying the investor base, by introducing new financial products, and by providing reliable sources of funding. Members of the diasporas can increase investment flows between sending and receiving countries because they possess important information that can help identify investment opportunities and facilitate compliance with regulatory requirements. Moreover, these emigrants may be more willing than other investors to take on risks in their origin country because they are better able to evaluate investment opportunities and possess contacts to facilitate the investment process. Potential

Leaving the homeland

Many African emigrants went to Europe or the United States in 2010, but a large number left home for other African countries.

(destination of migrants, percent of total)



Source: World Bank (2011).

investors can improve their profitability by tapping the expertise of diaspora members.

Ethiopia, Ghana, Kenya, Nigeria, and Rwanda, among others, are looking to tap into their diasporas for investments in their homeland. Governments and the private sector both have supported business forums to attract diaspora investors. African investment promotion agencies in Ethiopia, Ghana, Nigeria, and Uganda, for example, are providing information and linkage opportunities to investors, including those from the diaspora community. Some private firms and African diaspora associations also provide information on investment opportunities and sourcing in their homeland countries and facilitate contacts between traders in destination and origin countries.

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Diaspora bonds: Worldwide, African diaspora members save an estimated $53 billion annually. If one in every 10 members of the diaspora could be persuaded to invest $1,000 in his or her country of origin, Africa could raise $3 billion a year for development financing.

Mobilization of diaspora funds is possible through the issuance of a diaspora bond, a retail saving instrument marketed to diaspora members. A developing country government (or a reputable private corporation in a developing country) can tap into the wealth of relatively poor (but financially aware) migrants by selling such bonds in small denominations (from $100 to $1,000). The bonds could be sold in larger denominations to wealthier migrants, diaspora groups, and institutional investors.

The money raised through diaspora issuances could be used to finance projects that interest overseas migrants—such as housing, schools, hospitals, and infrastructure projects that have a concrete benefit to their families or the community back home. Diaspora bonds can tap into the emotional ties—the desire to give back—of the diaspora and potentially help lower the cost of financing for development projects back home. Because the diaspora savings are held mostly as cash under the mattress or in low-yielding bank accounts in the countries of destination, offering an annual interest rate of 4 or 5 percent on diaspora bonds could be attractive.

Diaspora investors can be a more stable source of funds than other foreign investors because their familiarity with the home country often gives them a lower perception of risk. In particular, diaspora members generally are less concerned with devaluation risk because they are more likely to have a use for local currency.

Ethiopia has issued bonds to its diaspora, and others—including Kenya, Nigeria, Rwanda, and Zimbabwe—are in the process of doing so. Other African countries with a large diaspora that could consider diaspora bonds include Egypt, Liberia, Morocco, Senegal, Tunisia, Uganda, and Zambia. In many of these countries, however, high political risks, weak legal systems, absence of global banking networks, and limited financial expertise constrain the potential for diaspora bonds. For example, Ethiopia's diaspora bond issued in 2009 did not attract diaspora investors, allegedly because of a high perception of political risk. Partial guarantees by multilateral development banks could enhance the creditworthiness of many diaspora bonds. Surveys of diaspora groups' income and investment characteristics and political risk perception would help with the pricing and marketing of diaspora bonds. Embassies and consulates overseas can play a major role in marketing such bonds.

Still, there are some dangers to the origin countries. Large foreign currency inflows after a bond issuance, and potential outflows when the bond matures, require careful macroeconomic management, especially of the exchange rate. Even if the bond is issued in local currency, countries must pay attention to exchange rate management and prudential debt management.

Skill and technology transfer: Diasporas may also provide origin-country firms access to technology and skills through professional associations (for example, the Ghanaian Doctors and Dentists Association in the United Kingdom), temporary assignments of skilled expatriates in origin countries, distance teaching, and the return (mainly for a short period) of emigrants with enhanced skills.

In recent years there has been a shift in thinking. Instead of viewing the emigration of skilled people as a loss, many economists and policymakers view it as an opportunity to get trade and investment projects and new knowledge. Moreover migration raises the domestic skill level because the hope of getting a well-paying job with good working conditions abroad encourages citizens to enroll in professional schools.

The skills of the diasporas can be tapped by establishing knowledge exchange networks. Some initiatives include mentor-sponsor programs in certain sectors or industries, joint research projects, peer reviewer mechanisms, virtual return (through distance teaching and e-learning), and short-term visits and assignments. To increase the benefits of these activities, countries will have to survey the human resources available in their diasporas, create active networks, and develop specific activities and programs. For example, there are some small pilot initiatives that invite diaspora members to teach courses in African universities.

Mobilizing diaspora resources

Countries inside and outside Africa are beginning to implement policies to boost flows of financial resources, skills, and technology from the diasporas. Many countries are reorienting their embassies abroad to engage with the diaspora community.

A few African countries have established *government agencies to encourage diasporas to invest, assist local communities, and provide policy advice.* Such agencies are also involved in

the collection of data on diasporas, provision of information and counseling, consular services, and, at times, facilitation of the migrants' participation in social security, housing, and insurance programs at home. Government initiatives have taken various forms—from the creation of dedicated ministries to deal with migrant communities to the addition of specific functions to existing ministries such as foreign affairs, interior, finance, trade, social affairs, ministry, and youth. In addition, some governments have set up councils or decentralized institutions that deal with migrant community issues, with varying degrees of success.

Government institutions abroad, especially embassies and consulates, can play a key role in reaching out to the diaspora. A recent survey of African embassies in France, the United Arab Emirates, the United Kingdom, and the United States (conducted as a part of the World Bank's Africa Migration Project) found that several have little information on the number of diaspora members, that coordination between the embassies and government ministries needs to improve, and that there is an urgent need for training embassy staff on how to work with diaspora members.

Encouraging the growth of private sector networks may be an effective way of establishing links to the diaspora. Investments in modern communications technology can facilitate such links. Some governments have eased restrictions on foreign land ownership to attract investments from diasporas; indeed, offering small discounts on land purchases can strengthen ties with second- and third-generation diaspora members.

Allowing *dual citizenship* can encourage greater diaspora participation in their origin countries by facilitating travel, avoiding the constraints foreigners face on some transactions (for example, temporary work or land ownership), and providing access to public services and social benefits. More broadly, dual citizenship can help maintain emotional ties with the origin country, thus encouraging continued contact and investment. Despite these benefits, only 21 of Africa's 54 countries allow dual citizenship. Interviews with diaspora groups and individuals showed that granting *voting rights* to the diaspora is an important means of encouraging greater engagement with origin countries.

As with other potential investors and trading partners, migrants seeking to invest in or trade with African countries are often constrained by the poor business environment in those nations. Excessive red tape, customs delays, bad infrastructure, corruption, lack of macroeconomic stability, trade barriers, lack of legal security, and mistrust in government institutions affect migrants' decisions to invest in their home countries and to return. Harnessing diaspora contributions to trade, investment, and technology requires a *favorable business environment*, a sound and transparent financial sector, rapid and efficient court systems, and a safe working environment.

The United States and several high-income countries in Europe are working with developing-country diaspora groups not only to further their foreign policy objectives, but to promote the development of origin countries. Some destination countries in Europe have tried to encourage the return of skilled migrants, but the experience so far has been largely disappointing because of the limited number of migrants affected, resentment over the preferential treatment of returnees, and concerns that funds are devoted to attracting workers who would have returned anyway. For example, the United Nations Development Program supported three-week to three-month development assignments for expatriates, at much lower costs than would have been incurred were professional consultants hired. However, the program's transfer of technology was disappointing because contacts with expatriates were not sustained or diaspora members stayed only a relatively short time.

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Destination countries get in the act too. Some—such as Canada, France, and the Netherlands—are funding development projects promoted by diaspora groups or are helping build the capacity of diaspora organizations. Diaspora groups are also urging many destination countries to provide matching funds (as in Mexico's 3-for-1 programs targeted at hometown associations in the United States) or tax breaks for charitable contributions to and investments in origin countries.

Inadequate data and understanding of the diasporas impair efforts to increase the contributions they can make to origin countries. Changing that should be a high priority for the global community interested in harnessing diaspora resources. ■

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