



THE WORLD BANK

# DIASPORA *for* DEVELOPMENT *in* AFRICA

Sonia Plaza and Dilip Ratha, Editors

# di-as-po-ra

*noun* \dī-□as-p(ə-)rə, dē-\

**the movement, migration, or scattering of a people away from an established or ancestral homeland**



## **African Union Definition of Diaspora:**

*"consisting of people of African citizenship and nationality and who are willing to contribute to the development of the continent and the building of the African Union"*

# Key Messages

1. Diaspora contributions are more than remittances.
2. There are significant untapped economic benefits.
3. Governments need to do more.

# Contributions of the diaspora

1. Trade

2. Investments

Direct Investment

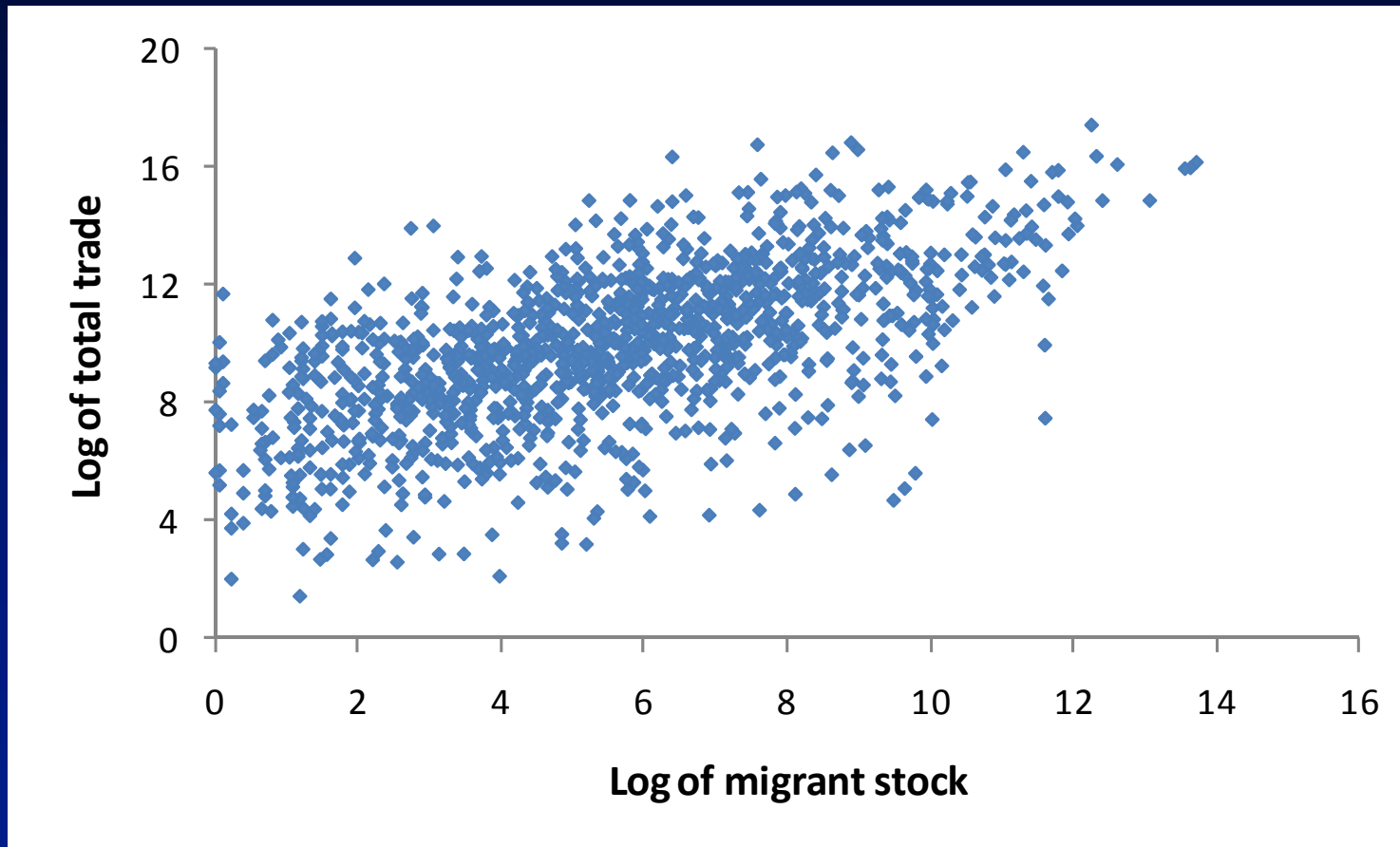
Investments by households

Investments in capital markets

3. Philanthropy and Collective Remittances

4. Transfer of Technology and Skills

# Migration and Trade Go Hand in Hand: African and OECD Countries



Bilateral trade (2007) and migrant population (2010) between OECD and Africa  
Each dot represents a migrant corridor (Kenya-UK, Morocco-France, etc.)

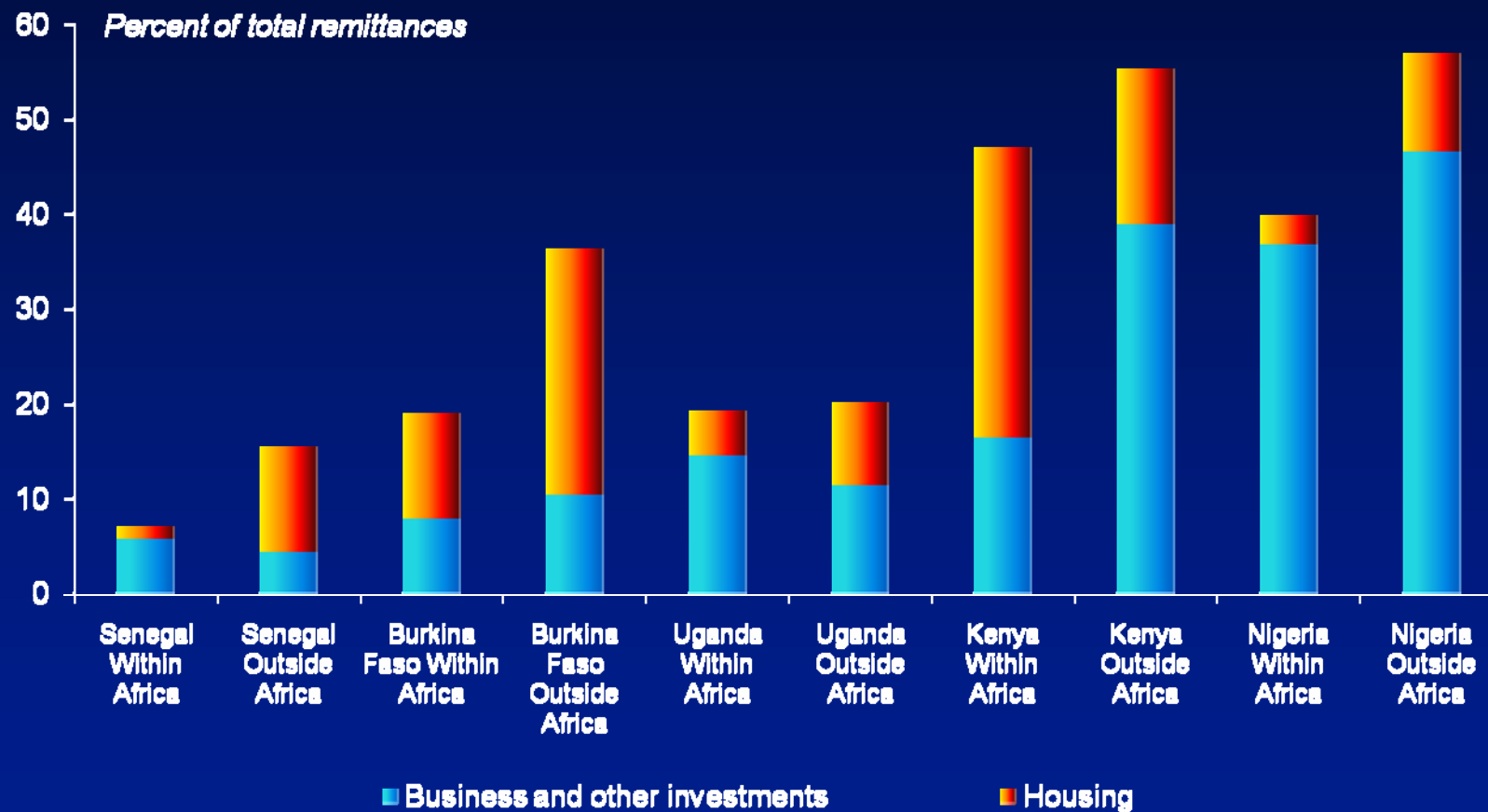
# Role of Diaspora

- Overcome inadequate information about international trading opportunities:
  - Providing market information
  - Supplying matching and referral services to their members
- Migrants facilitate host and source country bilateral trade and investment
- Diaspora can be an important source as well as facilitator of:
  - Research and innovation
  - Technology transfer
  - Skills development

# INVESTMENTS



# Investments in business and housing



## C. Diaspora Investment

- Diaspora resources are determined by the net wealth of members.
- Types
  - Diaspora bonds (India, Israel, Ethiopia, Nepal)
  - Diaspora funds (Armenia)
- Several countries show that diasporas do invest (e.g., China, Ethiopia, India, Israel, Ireland)

# Rationale for issuers

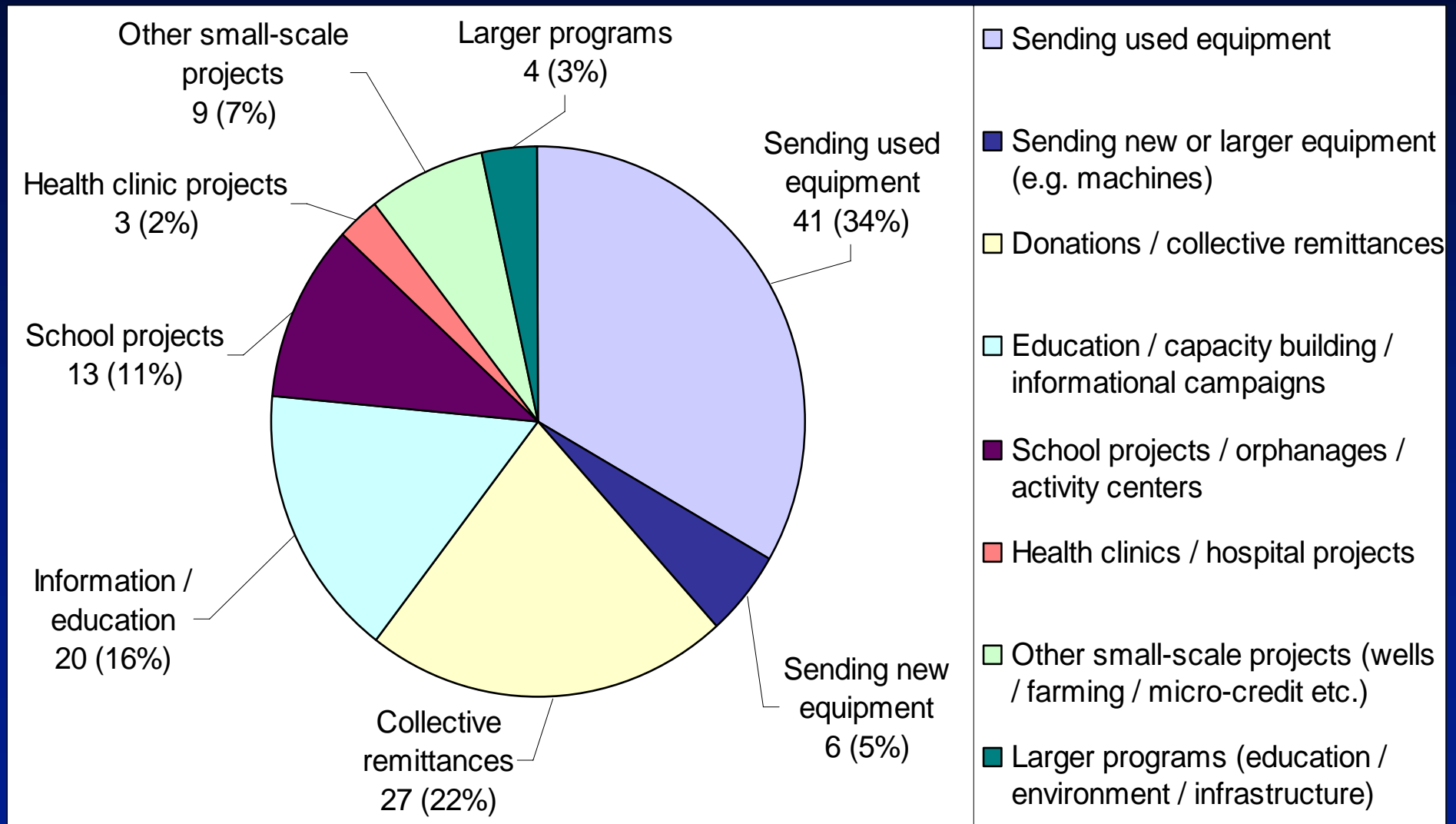
- Patriotic discount - a 5% interest rate may attract diaspora investments even in high-risk countries
- Diaspora members more loyal investors than average institutional investor in times of distress
- SEC registration poses a challenge
- Mitigation of political risks and design of attractive projects is key to the success of d-bonds

# The wealth of the diaspora can be mobilized through diaspora bonds

	Diaspora size (millions)	Estimated savings (\$ billions, 2009)
<b><u>North Africa</u></b>	<b><u>8.7</u></b>	<b><u>22.3</u></b>
Algeria	1.2	4.2
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Remittances can also be used as collateral to raise bond-financing for development projects

# Philanthropic Activities by the African diaspora associations: Denmark case study



# Transfer of Technology and Skills

1. Licensing agreements
2. Direct investment in local firms
3. Knowledge spillovers (managerial positions)
4. Networks of scientists and professionals
5. Virtual return, extended visits or electronic communications

# Using the Diaspora to Supplement Local Capacity

- Global exchange of knowledge
- Networks provide:
  - A critical mass of professional peer review not available at the national level
  - An effective mechanism for keeping in touch with the frontier of knowledge
  - A cost effective means for specialized training and skills formation
    - Mentoring, internships, etc

# ChileGlobal





# China: How to foster innovation?

## Research collaborations

- Provide scientific input, key techniques, reagents to facilitate research projects, etc;
- Help establishing research institute, centers, & laboratories that meet the US standards;
- Joint laboratories with joint grants;
- Joint biotech companies and joint fund raising activities

# The diaspora is more willing to take risks in its own country but...

They will need:

1. Conducive business environment
2. Sound and transparent financial sector
3. Rapid and efficient court systems
4. Safe working environment

# Government policies to maximize the benefits of the diaspora

- **Policies in sending countries**
  - Dual/Multiple citizenship/Voting rights
  - Conducive business environment/trade/tec
  - Measures to quantify their diaspora
  - Develop financial instruments to tap to the diaspora
  - Portability of pension funds
  - Management of Migration
- **Policies in receiving countries**
  - Acceptance of dual citizenship
  - Agreement with other countries (social security portability, labor, taxation)
  - Protection of immigrants

# Policy recommendations for governments

- Data
  - Improve data collection on diaspora
- Improving diaspora outreach
  - Embassies/foreign service departments need to provide more investment, trade, skills & technology transfer services, as well as more staff training in these areas
  - Better coordination among different departments within the embassies and governments
- Stimulating Investment
  - Innovative ways of developing financing instruments, harnessing diaspora resources, etc

# Boosting the development impact of migration: selected policies

Objective	Measure
Mobilizing the diaspora	<ul style="list-style-type: none"> <li>Dual citizenship</li> <li>Virtual/temporary programs</li> <li>Government invitations</li> </ul>
Stimulating ties with overseas communities	<ul style="list-style-type: none"> <li>Diaspora bonds</li> <li>Foreign currency accounts (Bangladesh)</li> <li>Premium interest rate accounts</li> <li>Investment packages to overseas (China)</li> <li>Establishing special office (Mexico)</li> <li>Linking cooperatives/banks with banks in developed countries</li> <li>Increasing domestic bank presence in transferring remittances</li> <li>Savings mobilization: social security/housing/ microfinance programs</li> </ul>
Stimulating investment	<ul style="list-style-type: none"> <li>Outreach through MFI infrastructure</li> <li>Outreach through migrant's service bureaus</li> <li>Tax breaks on imported capital goods</li> <li>SME schemes (financial, infrastructure or innovative)</li> <li>Training programs</li> </ul>
Outreach to migrant collectives/ Hometown associations (HTAs)	<ul style="list-style-type: none"> <li>Matched funding</li> <li>Public-private ventures</li> <li>Competitive bidding for development projects</li> </ul>
Improving attractiveness of receiving countries to diaspora	<ul style="list-style-type: none"> <li>Research funding and monetary incentives (Ireland)</li> <li>Attractive salary packages, multiple-entry visas</li> <li>Enabling migrants to spend on their relatives' behalf</li> </ul>

# Key Messages

1. Diaspora contributions are more than remittances.
2. There are significant untapped economic benefits.
3. Governments need to do more.

*splaza@worldbank.org*





Complete report, data and other resources at:

[www.worldbank.org/migration](http://www.worldbank.org/migration)



# Stylized Facts

## Within Africa:

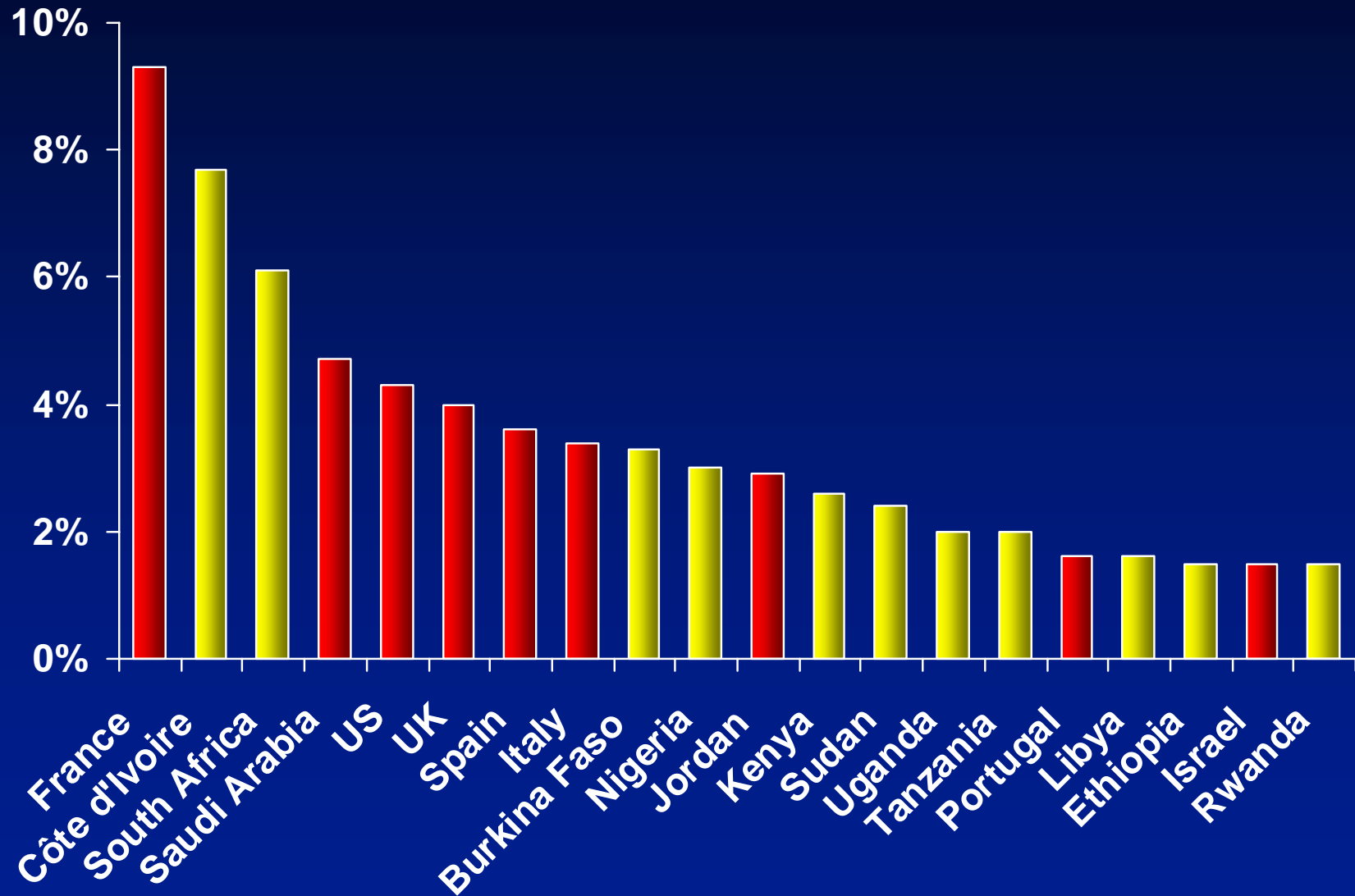
- High concentration in: Côte d'Ivoire, South Africa, Kenya
- Ties with their home countries (remittances, collective remittances, nostalgic trade, tourism and services)
- Diaspora Associations (cultural, political, burial associations, savings and credit groups)

## Outside Africa:

- New destinations: Spain, Italy, UEA, Qatar
- Dispersed for larger countries (Nigeria, South Africa)
- Ties with their home countries (remittances, collective remittances, nostalgic trade, tourism and services)
- Both diasporas contribute to their home countries
- Difficult to measure contributions for charitable purposes

# Largest destinations of African migrants include both high income and African countries

Percent of total



# Outline

1. Mapping of the African diaspora
2. Benefits of engaging with the diaspora :
  - A. Support for poverty alleviation & philanthropy
  - B. Support for trade, technology and knowledge transfer
  - C. Investment
  - D. Potential for Return
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# Types of Direct Contributions

- Type of Support
  - Noncommercial financial
  - Commercial financial
- Examples
  - Collective remittance to community groups (HTA)
  - Investment (in IT in India)

## A. Philanthropic Activities

- Initiatives are now beyond the scope of remittances
- Type of activities
  - Charities
  - Education (training, computers, teachers)
  - Health (sending medicines, equipment)
  - Relief activities

## **B. Support for trade, technology and knowledge transfer**

- Foreign emigrants: significant source of demand for home country's exports
- A source and facilitator of research and innovation
- Due to their cultural and linguistic abilities, they are better able to adapt, establish connections and reduce asymmetric information

# China: How to foster innovation?

## Research collaboration:

- Provide scientific input, key techniques, reagents to facilitate research projects, etc;
- Help establishing research institute, centers, & laboratories that meet the US standards;
- Joint laboratories with joint grants;
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# The Latin Scientific Diaspora

- Not interested in “moving back” to their countries of origin
- Most countries have failed in attracting them back
- Not well organized
- Interested in helping their country of origin and/or other Latin countries
- LatIPnet has created own network of diaspora individuals
- Scientists, directors, professionals, investors, lawyers

## C. Diaspora Investment

- Diaspora resources are determined by the net wealth of members.
- Types
  - Diaspora bonds (India, Israel, Ethiopia, Nepal)
  - Diaspora funds (Liberia is considering it)
- Several countries show that diasporas do invest (e.g., China, Ethiopia, India, Israel, Ireland)

## D. Potential for Return

- Governments can not enforce people to return home permanently
- But they can facilitate short visits or virtual returns
- Some countries have been successful in promoting return
  - incentive packages, positions suitable according to their expertise, house rent allowance, transport facilities, etc).
  - but each country is different.

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# Supporting the diaspora – Role of embassies

1. Providing dual citizenship/voting rights
2. Limiting the Costs of Migration
3. Reducing Asymmetric Information
4. Mobilizing the diaspora

# Challenges

- No government has complete mapping of diaspora
- Little involvement with investment, trade & technology transfer, few embassy staff dedicated to this
- Little coordination at the embassy/consular level when dealing with diaspora

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## Key messages

- Diaspora can be a source of wealth and ideas
- Diaspora can contribute to private sector development through investments, business contacts, trade opportunities, technology, and skills transfer
- Capacity for managing migration is weak in Africa – it needs to be strengthened
- Migration should not be viewed as substitute for development at home but integral to globalization



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# Diaspora bonds

- Through retailing at denominations ranging from \$100-\$10,000, issuers can tap into wealth of migrants
- Migrants more loyal than average investors in times of distress. Might be interested in financing infrastructure, housing, health and education projects
- Diaspora bonds would offer higher interest rate than the rate diaspora savers earn from bank deposits where they reside
- Preliminary estimates suggest Sub-Saharan African countries can potentially raise \$5-10 billion per year from diaspora bonds

# Diaspora Bonds (contd.)

- Bonds issued by a country to its own diaspora
- Examples: Israel Independence Issue, Resurgent India Bond
- Potential for Africa? Examples:

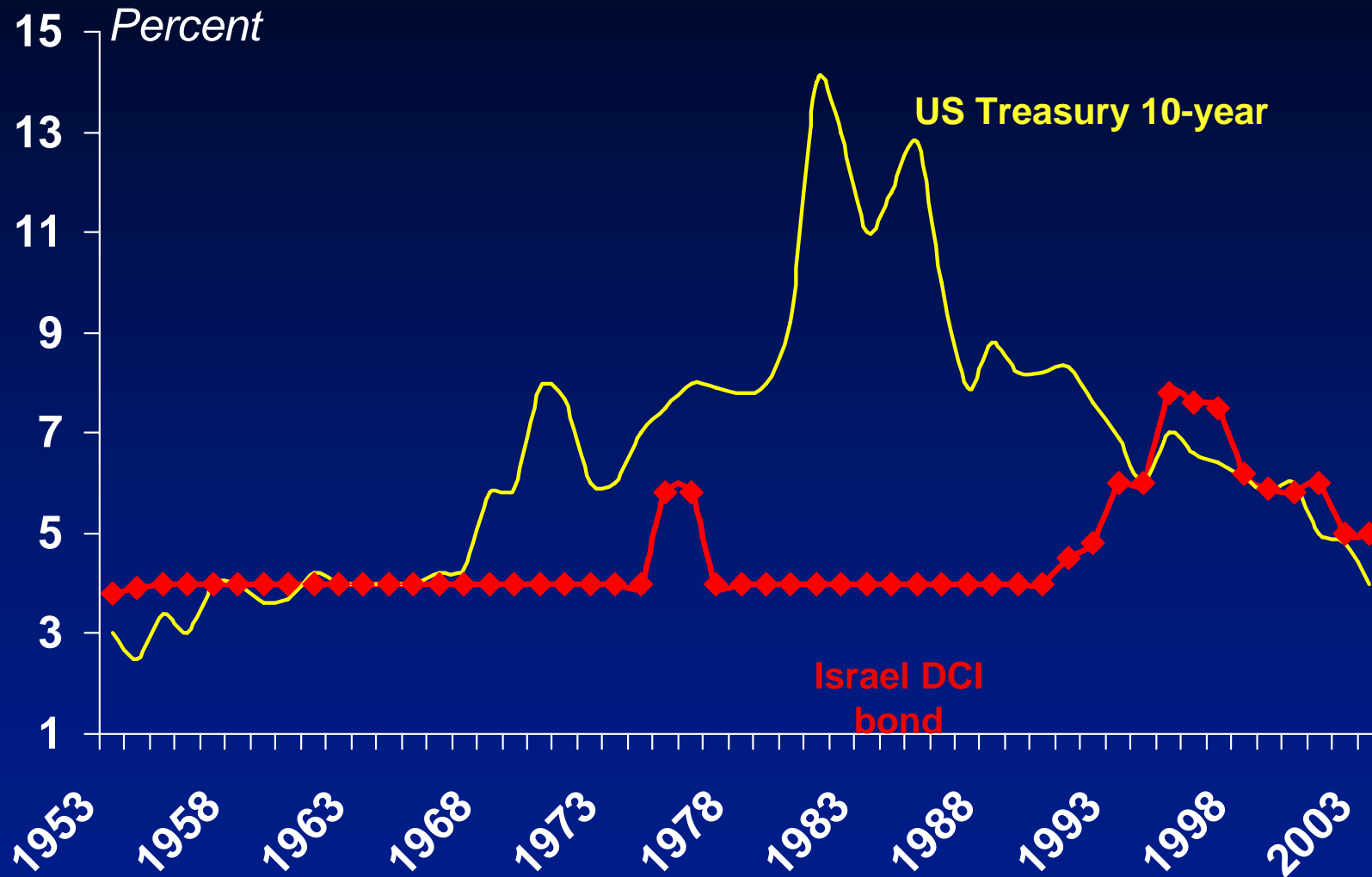
## Ethiopia: Millennium Corporate Bonds

- Purpose: to raise funds for the Ethiopian Electric Power Corporation

## Zimbabwe

- Purpose: to finance the reconstruction program
- African Export-Import Bank will guarantee the raising of the bond

# Discount on Israel diaspora bonds



**Israel and India have raised nearly \$40 billion via diaspora bonds**

# African diaspora is concentrated in Africa

Country	Emigrant stock, thousands[1]	Top destination	Migrants in top destination, thousands [2]	Concentration [2] as % of [1]
Burkina Faso	1,576	Côte d'Ivoire	1,311	83%
Lesotho	428	South Africa	351	82%
Algeria	1,211	France	914	75%
Cote d'Ivoire	1,171	Burkina Faso	843	72%
Uganda	758	Kenya	531	70%
Zimbabwe	1,253	South Africa	859	69%
Eritrea	941	Sudan	458	49%
Tunisia	652	France	302	46%
Angola	533	Portugal	246	46%
Benin	532	Nigeria	239	45%
Mali	1,013	Côte d'Ivoire	441	44%
Liberia	432	Guinea	189	44%
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Egypt	3,739	Saudi Arabia	1,006	27%
South Africa	878	UK	226	26%
Nigeria	1,000	USA	211	21%

# Some examples:

## Mexico - Hometown Communities

- Organized groups collect remittances from their members to finance community investments in their native towns
- Vehicle for diffusion of information about investments opportunities in Mexico
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# Kenya Embassy in UK

- Ministry of Foreign Affairs has set up a special department for diaspora & jobs
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# How is India dealing with these issues?

- The embassy in the destination country plays a key role:
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# African diaspora (definitions)

- **Definition African Union:** "consisting of people of African citizenship and nationality and who are willing to contribute to the development of the continent and the building of the African Union"
- **For this report, includes:**
  - skilled and unskilled
  - located inside and outside Africa
  - people born in other countries
- Not possible to have a complete map of diaspora

**Where is the African Diaspora?**

# Stylized Facts

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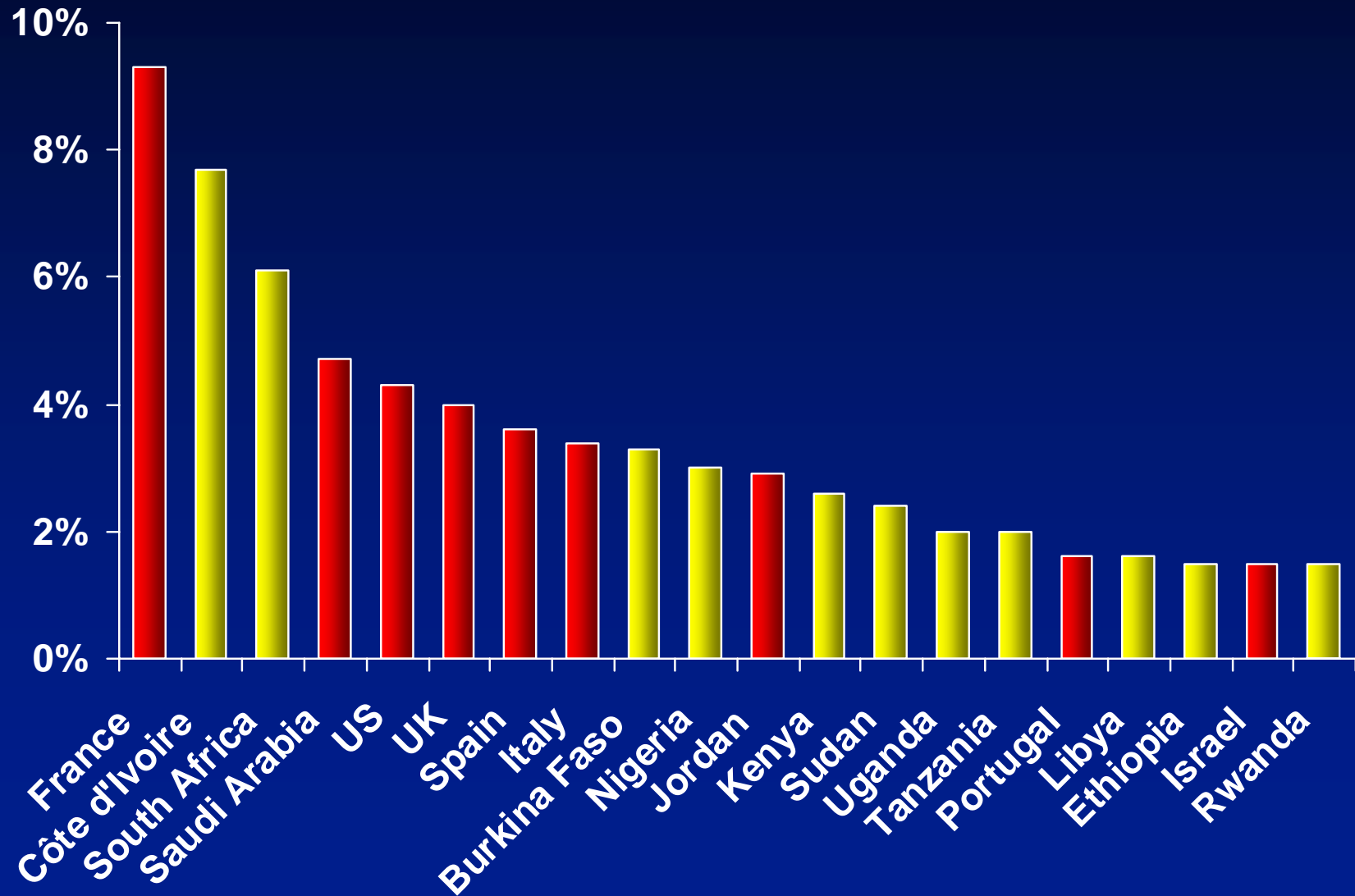
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# Benefits of engaging with the African diaspora

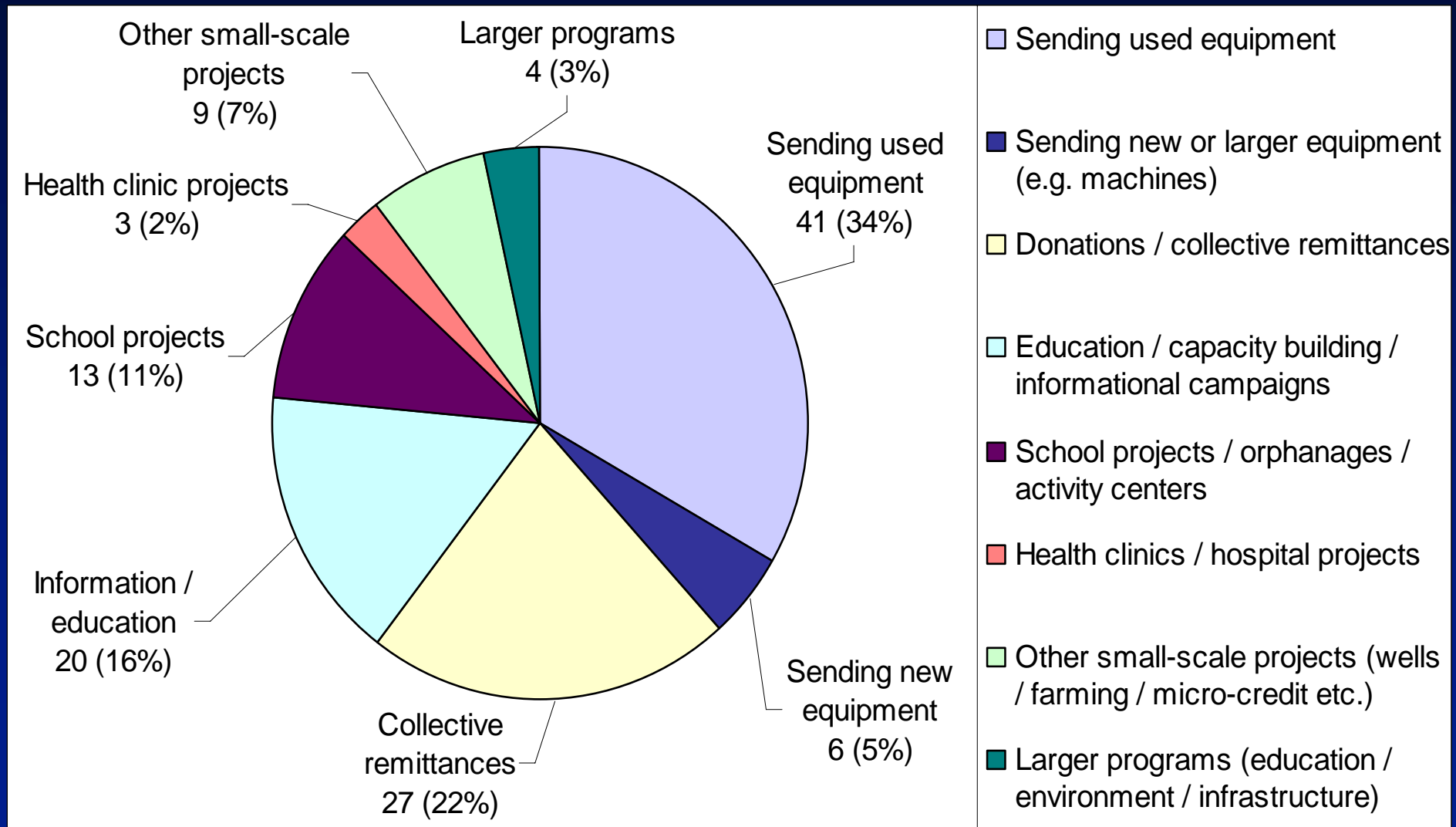
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## A. Philanthropic Activities

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- Type of activities
  - Charities
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# Philanthropic Activities by the African diaspora associations: Denmark case study



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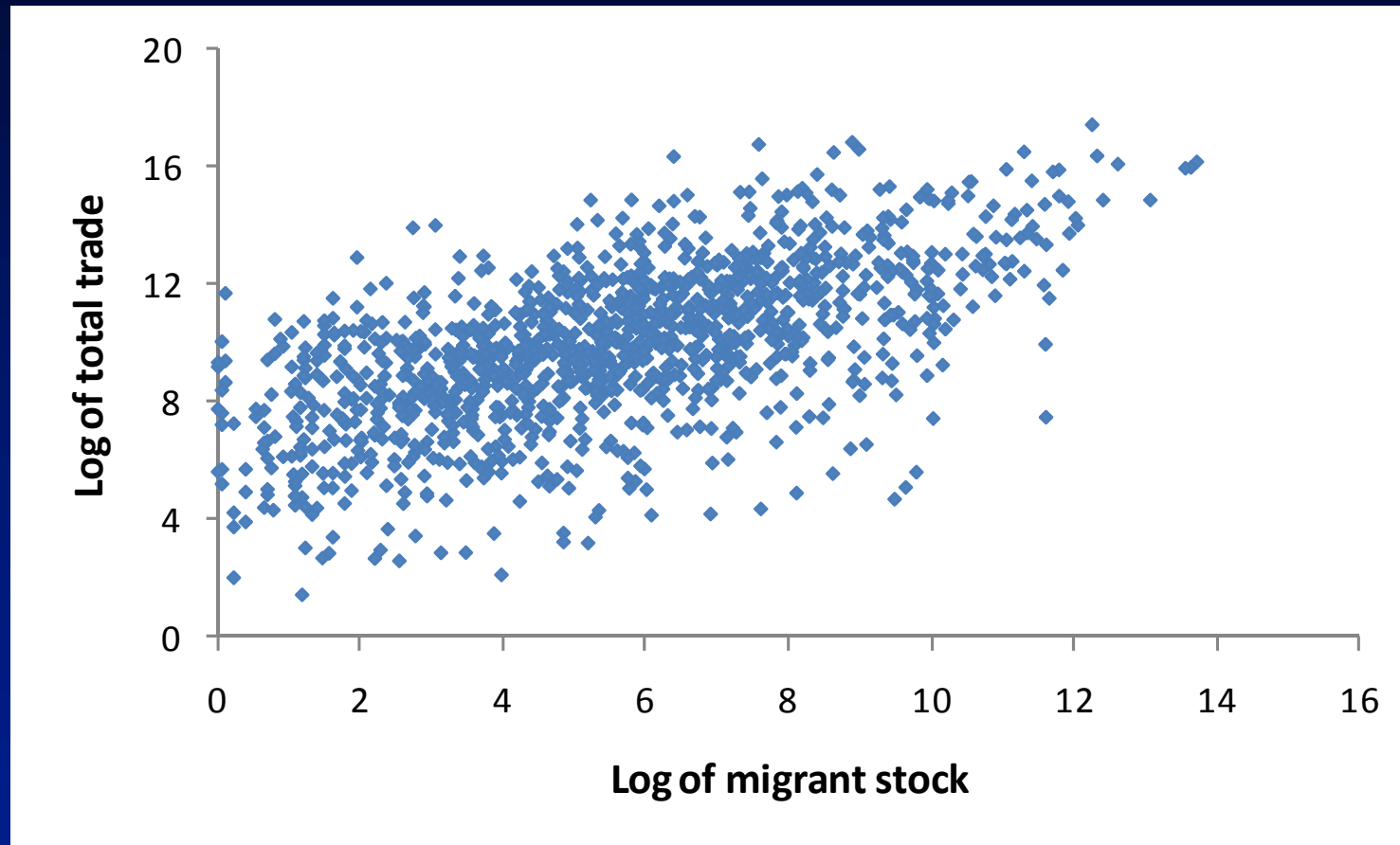
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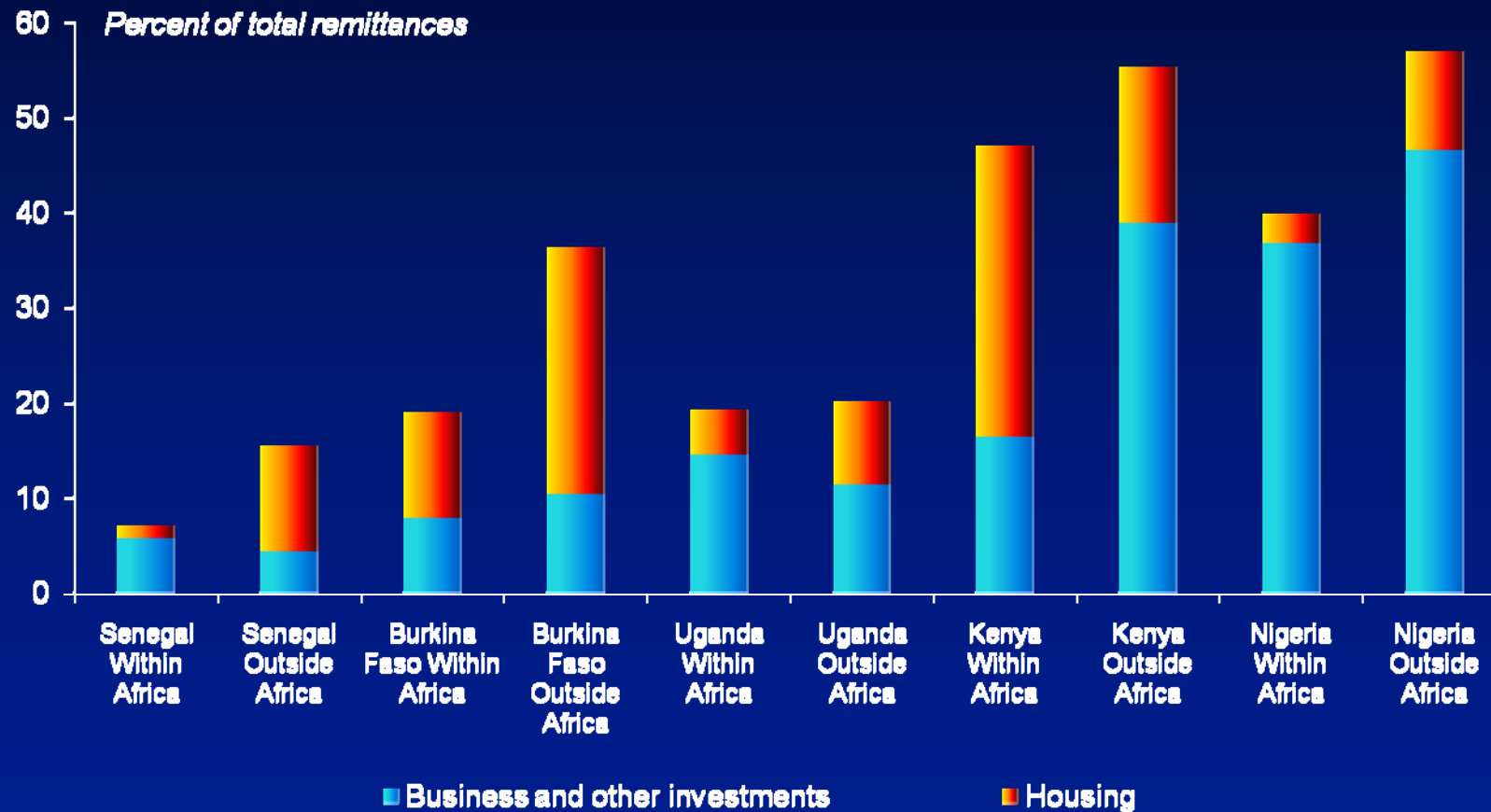
# Technology and knowledge transfers

- Licensing agreements between diaspora owned or managed firms
- Direct investment in local firms as a joint venture
- Knowledge spillovers (managerial positions)
- Networks of scientists and professionals
- Virtual return, extended visits or electronic communications
- Return to permanent employment

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# Investments in business and housing funded by remittance from within and outside Africa





# ChileGlobal

An active international network of Chilean business owners and high level executives and those with an affinity for Chile who are interested in contributing and sharing the success of the Chilean economy.



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# Examples of LatAmPetu Companies



## The Problem:

- Boom of tequila industry in Mexico triggered overgrowth of agave plants
- Agave grown outside “Designation of Origin” zones by the tequila industry could not be sold
- Price of agave plummeted
- Hundreds of agave farmers went bankrupt while their agave plants went to waste. Losses in billions of dollars.

## The Solution:

Production of new, valuable, and global products (other than tequila) from agave (e.g. natural sweeteners and food additives)

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# Virtual return

- Virtual participation distance teaching, e-learning , joint research projects, peer reviewer
- Remote resource mobilization (donation of books, sending computer, providing medical equipment)
- Examples of facilitating conditions for returnees to the Universities (flexibility in appointments, recognition of degrees, etc)
- Information and identification of short-term return assignments
- Access and acquisition of bandwidth for education and research purposes.

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- **Policies in receiving countries**
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# Supporting the diaspora – Role of embassies

1. Providing dual citizenship/voting rights
2. Limiting the Costs of Migration
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# Kenya Embassy in UK

- Ministry of Foreign Affairs has set up a special department for diaspora & jobs
- Engaging the diaspora for economic activities and placing the diaspora in jobs
- Organized events: Investment Forum, Housing investment (2007-2008), visits of the Ministry

# How is India dealing with these issues?

- The embassy in the destination country plays a key role:
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# Challenges

- No government has complete mapping of diaspora; data mainly based on those who register with embassy
- Little involvement with investment, trade & technology transfer, few embassy staff dedicated to this: At most, facilitate forums, or provide matching
- Little coordination at the embassy/consular level when dealing with diaspora

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# The wealth of the diaspora can be mobilized through diaspora bonds

	Diaspora size (millions)	Estimated savings (\$ billions, 2009)
<b><u>North Africa</u></b>	<b><u>8.7</u></b>	<b><u>22.3</u></b>
Algeria	1.2	4.2
Egypt	3.7	6.0
Morocco	3.0	9.6
<b><u>Sub-Saharan Africa</u></b>	<b><u>21.8</u></b>	<b><u>30.4</u></b>
Ethiopia	0.6	1.9
Ghana	0.8	2.0
Kenya	0.5	1.8
Nigeria	1.0	3.5
Senegal	0.6	0.9
South Africa	0.9	3.8
Zimbabwe	1.3	1.6

Remittances can also be used as collateral to raise bond-financing for development projects

# Diaspora bonds

- Through retailing at denominations ranging from \$100-\$10,000, issuers can tap into wealth of migrants
- Migrants more loyal than average investors in times of distress. Might be interested in financing infrastructure, housing, health and education projects
- Diaspora bonds would offer higher interest rate than the rate diaspora savers earn from bank deposits where they reside
- Preliminary estimates suggest Sub-Saharan African countries can potentially raise \$5-10 billion per year from diaspora bonds

# Diaspora Bonds (contd.)

- Bonds issued by a country to its own diaspora
- Examples: Israel Independence Issue, Resurgent India Bond
- Potential for Africa? Examples:

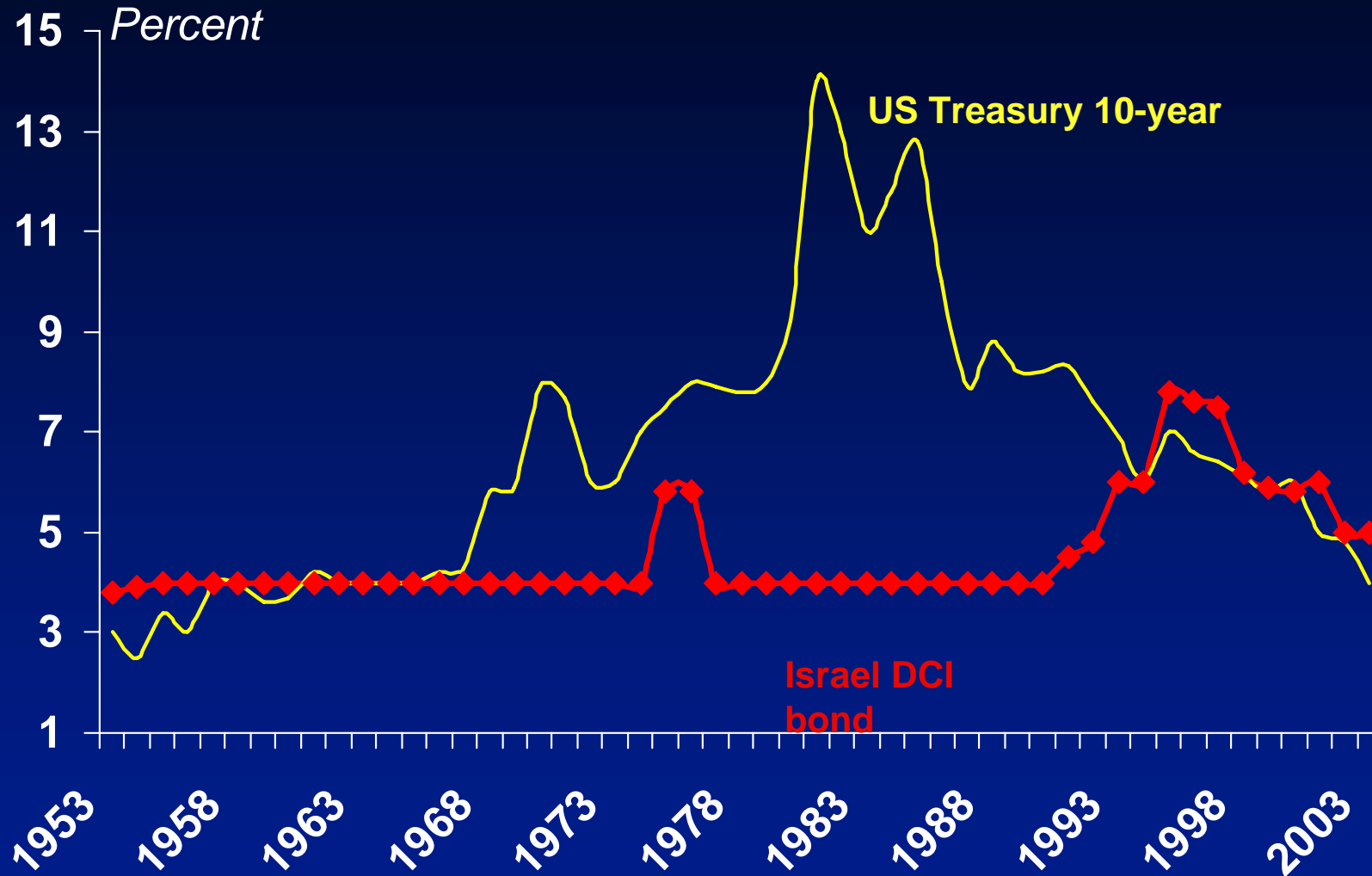
## Ethiopia: Millennium Corporate Bonds

- Purpose: to raise funds for the Ethiopian Electric Power Corporation

## Zimbabwe

- Purpose: to finance the reconstruction program
- African Export-Import Bank will guarantee the raising of the bond

# Discount on Israel diaspora bonds



**Israel and India have raised nearly \$40 billion via diaspora bonds**