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Mobilizing Diaspora Entrepreneurship for Development

By Kathleen Newland
Hiroyuki Tanaka

DIASPORAS & DEVELOPMENT POLICY PROJECT

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Kathleen Newland and Hiroyuki Tanaka
Migration Policy Institute

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List of Acronyms

ADM	African Diaspora Marketplace
BOI	Board of Investment
BiD	Business in Development
CONACYT	National Council on Science and Technology
DDI	diaspora direct investment
PMIE	Economic Initiatives and Migration Program
EM	Enterprise Mauritius
ECX	Ethiopia Commodity Exchange
GDP	gross domestic product
GEM	Global Entrepreneurship Monitor
HTAs	Hometown Associations
IT	information technology
IOM	International Organization for Migration
KIN	Korean IT Network
GAME	Micro Enterprise Support Group
MIDA	Migration for Development in Africa
MSI	Millennium Science Initiatives
MFA	Multi-Fiber Agreement
NCCA	National Competitiveness Council of Armenia
OAU	Organization of the African Unity
OECD	Organization for Economic Cooperation and Development
pS-Eau	Programme Solidarité Eau (Water Solidarity Program)
QUEST	Qualified Somali Technical Support Program
R&D	research and development
SMEs	small and medium enterprises
SEHDA	Small Enterprises and Handicrafts Development Agency
SEON	Social Economical Entrepreneurship in the Netherlands
SEEDA	Supporting Entrepreneurs and Enterprise Development in Africa
TANCon	The Africa Network Conference
TEP	The Africa Network Empowerment Program
TechBA	Technology Business Accelerators
TAN	The African Network
TiE	The Indus Entrepreneurs
UNCTD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VSO	voluntary services overseas



Executive Summary

Diaspora entrepreneurs are uniquely positioned to recognize opportunities in their countries of origin, to exploit such opportunities as “first movers,” and to contribute to job creation and economic growth. But many developing countries have had only limited success in attracting diaspora direct investors and entrepreneurs to their countries of origin or ancestry.

Recent research suggests that diaspora entrepreneurship can contribute to development by creating businesses and jobs, stimulating innovation, creating social capital across borders, and channeling political and financial capital toward their countries of origin.

However, not all forms of entrepreneurship contribute equally to economic development. “Necessity entrepreneurs” —who create their own small businesses because they cannot find other work — have a minimal effect on economic development. At best, they support themselves and help to reduce overt unemployment. “Opportunity entrepreneurs,” on the other hand, are much more likely to have a positive impact on economic development as they recognize and take advantage of market openings.

Government programs should not target just the extremes of the business spectrum — micro-enterprise and large, high-value-added enterprises — but also include small and medium-size companies, which are often the most prolific job creators.

Countries with higher levels of diaspora entrepreneurship tend to have promising prospects for economic growth, as well as proactive diaspora engagement policies, good governance, positive socio-cultural perceptions of entrepreneurship, a critical mass of human and social capital, and accessible to financial institutions and pools of capital. Governments can modify such opportunity structures to make them more appealing to and supportive of diaspora entrepreneurs.

Organizations and initiatives that help support and promote diaspora entrepreneurship can be divided into five main categories. These categories roughly translate into five levels of commitment to diaspora entrepreneurship. From the most passive to the most active, they are networking organizations, mentoring organizations, training organizations, investment organizations, and venture capital/partnership organizations. Policy responses to the challenges facing diaspora entrepreneurs include the following options:

1. Encourage access to capital, especially for small-scale entrepreneurs, through loans, competitions, and risk-sharing mechanisms for investors.
2. Provide high-quality education and vocational training to develop the skills in business, science, technology, engineering, and mathematics to individuals interested in pursuing opportunities in knowledge-based industries.
3. Consider lowering tariffs on imported raw materials and equipment into the country of origin to help diaspora entrepreneurs begin transnational businesses.
4. Establish mechanisms that encourage regular consultations with diaspora professionals.
5. Make it very clear that diaspora entrepreneurs are welcome in their countries of origin.
6. Adopt policies that make it easy for diaspora business owners or investors to come and go between their country of origin and their country of settlement.

Like all entrepreneurs, diaspora entrepreneurs succeed by identifying and exploiting opportunities. While ingenuity and persistence remain key to success, governments, donor agencies, multilateral institutions, diaspora organizations, and other civil society groups can help diaspora entrepreneurs understand markets in their countries of origin, find the resources they need to fund their ventures, and clear the obstacles that arise on their path toward realizing their goals.



Introduction

Development practitioners and policymakers are beginning to examine the role of diaspora entrepreneurs in gearing investments toward their home countries, thereby creating jobs, spurring innovation, and fostering networks. Compared with remittances or diaspora bonds, entrepreneurial investments give diaspora members more direct control over the use of their funds.¹ Given their ties to their countries of origin, diaspora members are often more willing than nondiaspora investors to risk starting or engaging in business activities in high-risk or emerging markets.² Moreover, their knowledge of the local political, economic, and cultural environment, as well as their personal connections and linguistic abilities, may give members of diasporas a “first mover” advantage over others when investing in or starting businesses in their countries of origin.³

Despite the advantages of attracting diaspora direct investors and entrepreneurs to their countries, many developing countries have experienced only limited success in actually doing so. Countries at war or those experiencing internal conflict and social upheaval remain unattractive to all but the most intrepid diaspora private investors and business people.⁴ But even when societies are at peace, governments may still require aspiring entrepreneurs to follow complex procedures and clear many administrative hurdles to register and operate businesses. Complicated tax laws, limited access to local financing, and corruption are all conditions that can deter individuals from pursuing economic activities in a given country and persuade them to look for opportunities elsewhere.

This study seeks to identify the nature of diaspora entrepreneurship and suggest ways that the United States Agency for International Development (USAID) and other donors can constructively promote its developmental impact. The report draws from the academic and policy literature — including, importantly, research presented at the World Bank Conference on Diaspora and Development held in Washington, DC, on July 14, 2009 — as well as interviews with experts in the field. The study first outlines why entrepreneurship, in particular among diasporas, is important for development and how governments can support it. It then identifies the major patterns of diaspora entrepreneurship, offering examples of initiatives that have encouraged and supported migrants to engage in entrepreneurial activities.⁵ Next, the report outlines some policy approaches that are likely to enhance diaspora entrepreneurship, suggesting how countries can construct environments that are conducive to investment and sustainable business growth. Finally, it notes the constraints on engaging diaspora entrepreneurs or those who seek to become entrepreneurs, including the potential for perverse or unintended consequences.

- 1 The inability to control and oversee the development projects that they help finance can be a source of frustration for those who would like to play a more active role and engage themselves directly in the development of their countries of origin. However, as some experts note, many diaspora members do not actively or consciously seek to contribute to the development of their home countries. Instead, their everyday actions such as remitting money to family members only happen to contribute to economic development.
- 2 Kate Gillespie, Liesl Riddle, Edward Sayre, and David Sturges, “Diaspora Interest in Homeland Investment,” *Journal of International Business Studies* 30, no. 3 (1999): 623–35; Ravi Ramamurti, “Developing Countries and MNEs: Extending and Enriching the Research Agenda,” *Journal of International Business Studies* 35, no. 4 (2004): 277–85.
- 3 David Leblang, “Another Link in the Chain: Migrant Networks and International Investment,” Presentation at the World Bank Conference on Diaspora and Development in Washington, DC, July 14, 2009, <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/Leblang.pdf>; Yevgeny Kuznetsov and Charles Sabel, “International Migration of Talent, Diaspora Networks, and Development: Overview of Main Issues,” in *Diaspora Networks and the International Migration of Skills: How Countries Can Draw on Their Talent Abroad*, ed. Yevgeny Kuznetsov (Washington, DC: World Bank, 2006).
- 4 Stephen C. Lubkemann, “Remittance Relief and Not-Just-for-Profit Entrepreneurship: The Case of Liberia,” in *Diasporas and Development: Exploring the Potential*, ed. Jennifer M. Brinkerhoff (Boulder, CO: Lynne Rienner Publishers, Inc., 2008).
- 5 Many of the activities in these areas are not initiated by governments. Rather, they spring from the private or voluntary sectors, which offer a useful record of experience for those seeking ways to promote diaspora engagement through government programs or public-private partnerships.



I. Why Focus on Diaspora Entrepreneurship?

Since at least the 1970s, researchers have studied entrepreneurship among immigrants in their countries of destination. Studies have emphasized immigrants' contributions to local economies through the small and medium enterprises (SMEs) that they establish and run, their role in creating and expanding niche markets in immigrant communities, and their ability to offer jobs to natives and other immigrants.⁶

Recent research shows that entrepreneurship among immigrants living in the world's advanced economies is on the rise, and that the bulk of immigrant entrepreneurs in more than ten advanced economies of the world work in the retail, wholesale, restaurant, and catering businesses.⁷ Numerous studies have tried to assess the economic impact of both high- and low-skilled immigrants in their countries of destination. One study of Chinese and Indian entrepreneurs in Silicon Valley, for example, shows that companies founded by immigrants employed 45,000 workers and generated \$52 billion in revenue in 2006.⁸

Even though very little research has been completed on how diaspora entrepreneurs contribute to the economic development of their countries of origin, through what is sometimes called diaspora direct investment (DDI),⁹ there is reason to believe that diaspora entrepreneurship has the potential to contribute to development in four ways:

1. Diaspora entrepreneurship fosters business development, job creation, and innovation.

Substantial investment by members of the diaspora, if successful, creates jobs both directly and indirectly and spurs competition; both effects may lead to further innovation, businesses, and jobs.

2. DDI creates economic, social, and political capital through global networks. One of the characteristics of poor countries is their relative isolation from global flows of trade, capital, and knowledge. Diaspora members have a comparative advantage in their ability to connect with a wide range of potential partners and supporters in both their countries of origin and their countries of destination. These connections may create opportunities for investment, trade, and outsourcing; foster strategic partnerships; and tap into sources of political and financial capital that can facilitate the transfer of knowledge and technology from developed to developing countries.¹⁰ Diaspora entrepreneurs may also leverage their access to relatively cheap labor and, in some cases, large talent pools in their countries of origin into a comparative advantage in manufacturing or knowledge-process outsourcing (such as information systems integration and insurance underwriting).¹¹ All of these

6 See, for example: Roger Waldinger, Howard Aldrich, and Robin Ward, *Ethnic Entrepreneurs: Immigrant Business in Industrial Societies* (New York, NY: Sage Publications, 1990); Roger Waldinger, *Through the Eye of the Needle: Immigrants and Enterprise in New York's Garment Trades* (New York, NY: New York Univ. Press, 1986); Robert Kloosterman and Jan Rath, eds., *Immigrant Entrepreneurs: Venturing Abroad in the Age of Globalization* (Oxford, United Kingdom and New York, NY: Berg, 2003); Robert Watson, Kevin Keasey, and Mae Baker, "Small Firm Financial Contracting and Immigrant Entrepreneurship," in *Immigrant Businesses: The Economic, Political and Social Environment*, ed. Jan Rath (Basingstoke, United Kingdom and New York, NY: Macmillan and St. Martin's, 2000).

7 These findings apply to the United States, Canada, Australia, South Africa, the United Kingdom, the Netherlands, Italy, France, Belgium, Austria, and Germany. See Kloosterman and Rath, *Immigrant Entrepreneurs*.

8 Vivek Wadhwa, AnnaLee Saxenian, Richard Freeman, Gary Gereffi, and Alex Salkever, *America's Loss is the World's Gain: America's New Immigrant Entrepreneurs, Part IV* (Kansas City, MO: Kauffman Foundation, March 2009).

9 United States Agency for International Development (USAID), *Global Diaspora Networks Alliance Framework* (Washington, DC: USAID, 2008); USAID, *Diaspora Networks Alliance: Leveraging Migrant Resources for Effective Development* (Washington, DC: USAID, 2008).

10 Given the important role that diaspora and immigrant networks play in fostering entrepreneurship and helping people find employment, this comparative advantage is arguably the most important point on which policymakers should focus to help foster diaspora entrepreneurship.

11 Abhishek Pandey, Alok Aggarwal, Richard Devane, and Yevgeny Kuznetsov, *India's Transformation to Knowledge-based Economy — Evolving Role of the Indian Diaspora* (Gurgaon, India: Evalueserve, 2004), <http://info.worldbank.org/etools/docs/library/152386/abhishek.pdf>.



actions can help developing economies grow.

3. *Diaspora entrepreneurship taps into social capital through cultural and linguistic understanding.* Many diaspora members have advantages over other entrepreneurs investing in countries of diaspora origin, such as their understanding of cultural and social norms, distinct business cultures, and local languages. Such familiarity can help develop trust and thereby open up opportunities closed or unknown to other investors or entrepreneurs.¹²

4. *Entrepreneurship and economic development are positively linked.* According to research comparing entrepreneurship in more than 40 countries, higher levels of entrepreneurship are positively correlated with higher levels of economic development.¹³ While it is difficult to pinpoint the causality in this virtuous cycle — do high levels of entrepreneurship spur economic growth, or do high levels of economic growth encourage entrepreneurship? — the association is strong.

Not all forms of entrepreneurship contribute equally to economic development. Recent research shows the importance of distinguishing between “necessity entrepreneurs” and “opportunity entrepreneurs,” as the two groups have very different effects on development. (Joseph Schumpeter, among others, has defined necessity entrepreneurs as those who are simply self-employed and opportunity entrepreneurs as those who “reform or revolutionize the pattern of production.”)¹⁴

A greater number of necessity entrepreneurs may not correlate with higher levels of economic growth. In fact, an abundance of necessity entrepreneurs may suggest the exact opposite — that individuals are setting up their own businesses or working for themselves because they cannot find opportunities in the labor market.

Unskilled immigrants or returnees who establish their own businesses, mainly out of necessity, have different networking opportunities and approaches to starting businesses than high-skilled immigrants with business experience abroad — in Silicon Valley or the City of London, for example.¹⁵ Those running businesses that require little education and low start-up costs usually work in sectors that are oversaturated with competitors and have razor-thin profit margins, thus making social capital extremely important for survival. While self-employment can create value for entrepreneurs and any employees they might have, research shows that necessity entrepreneurship has no effect on economic development.¹⁶ At best, it reduces overt unemployment and enables people to support themselves.

Opportunity entrepreneurs are much more likely to have a positive impact on economic development.¹⁷ Skilled individuals who specialize in high-demand and rapidly growing sectors of the knowledge-based economy can create huge economic opportunities and profits for businesses and their countries. Even those with little education but strong business acumen may perceive and take advantage of market openings. The roles of diasporas in developing knowledge-based sectors in China, India, Ireland, and Israel are now well known.¹⁸ They have provided venture capital and connections to trade networks, facilitated technology and knowledge transfers, and pioneered development of robust special economic

12 Gillespie et al., “Diaspora Interest in Homeland Investment.”

13 Zoltán J. Ács, “How is Entrepreneurship Good for Economic Growth?” *Innovations* (Winter 2006): 96–107, www.mitpressjournals.org/doi/pdf/10.1162/itgg.2006.1.1.97?cookieSet=1.

14 Joseph Alois Schumpeter, *Capitalism, Socialism and Democracy*, 4th edition (London, United Kingdom: Unwin, 1974), 132.

15 Kloosterman and Rath, *Immigrant Entrepreneurs*.

16 Zoltán J. Ács and Attila Varga, “Agglomeration, Entrepreneurship and Technological Change,” *Small Business Economics* 24, no. 3 (2005): 323–34; Leora Klapper and Juan Manuel Quesada Delgado, *Understanding Entrepreneurship: Influences and Consequences of Business Creation* (Washington, DC: World Bank, 2007); Zoltán J. Ács and Laszlo Szerb, “Entrepreneurship, Economic Growth, and Public Policy,” *Small Business and Economics* 28, nos. 2–3 (2007): 109–22; Zoltán J. Ács, David B. Audretsch, and Robert J. Strom, eds., *Entrepreneurship, Growth, and Public Policy* (Cambridge, United Kingdom: Cambridge Univ. Press, 2009).

17 Ibid.

18 AnnaLee Saxenian, *The New Argonauts: Regional Advantage in a Global Economy* (Cambridge, MA: Harvard Univ. Press, 2006).



zones in their countries of origin.

The Global Entrepreneurship Monitor (GEM) is an academic research consortium that tracks, evaluates, and compares the level of entrepreneurial activity in 54 developed and developing countries and analyzes how it relates to national economic growth. It finds that countries with a high opportunity-to-necessity entrepreneurship ratio tend to have higher levels of income, exports as a share of GDP, licensing receipts, R&D expenditures, and spending on education compared to those with a low ratio.¹⁹ Moreover, GEM finds that necessity entrepreneurship plays a relatively small role in innovation-driven economies. Nonetheless, most governments in developing countries continue to promote necessity entrepreneurship rather than opportunity entrepreneurship.

Given these research findings, this paper focuses on how organizations and individuals can promote high-value-added opportunity entrepreneurship among diasporas (while not forgetting that some necessity entrepreneurs may transition into this category if they can overcome the constraints on their businesses). While job creation and employment are important economic indicators, they offer limited value if they are concentrated in already oversaturated markets in largely informal sectors of the “bazaar” economy.²⁰ One of the major downsides of informal firms is that many of the owners or entrepreneurs of these firms operate on a small scale, do not pay taxes, and cannot obtain formal bank credit, as they lack a formally registered property to use as collateral. Such obstacles then lead them to seek credit elsewhere, such as from friends or family — or from money lenders who charge extremely high interest rates.²¹

While encouraging diaspora members to reproduce familiar businesses such as taxi companies, beauty salons, or corner shops may create jobs in the short run, it is not the best strategy for long-term economic growth. Policymakers would be better advised to shift their focus from encouraging job creation in these low-value-added sectors to helping entrepreneurs identify and exploit opportunities that will boost economic development. Once public and private leaders identify such opportunities, they should facilitate investment by diaspora members and help fill the gaps in education, mentoring, training, and funding that constrain entrepreneurs’ ability to invest in these strategic sectors. The government, however, should limit its role to defining and implementing policies and regulations that are likely to spur investment, entrepreneurship, and new businesses in accordance with its national development strategy; it should not extend its reach into telling private businesses what to do and what not to do.

For Mauritius, the end of the Multi-Fiber Agreement (MFA) — a preferential trade agreement with the United States and the European Union on textiles and clothing — in 2005 led to increased exposure to global competition in the textile industry, which had been a bedrock of the Mauritian economy. Growing unemployment and a weakening global economy pushed the government to rethink how it could put Mauritius back on a sustainable growth path. In 2005, the government created a ten-year Economic Reform Programme; in 2007, it passed the Business Facilitation Act that laid out steps for development of an environment conducive to the creation of SMEs. In addition, it restructured several of its government agencies, including the Small Enterprises and Handicrafts Development

19 GEM uses harmonized definitions and standards to compare entrepreneurship levels across developed and developing countries. Researchers have emphasized the difficulty in comparing entrepreneurship across countries. International comparisons are difficult because different countries adopt different definitions of entrepreneurship (some define entrepreneurs as all self-employed individuals while others define them as those who register businesses). Moreover, national data on employment vary from country to country, making comparisons difficult, and some countries collect data on immigrants, while others do not (Global Entrepreneurship Monitor, home page, www.gemconsortium.org).

20 Mohammad A. Qadeer, *Urban Development in the Third World: Internal Dynamics of Lahore, Pakistan* (New York, NY: Praeger, 1983).

21 William J. Baumol, Robert E. Litan, and Carl J. Schramm, *Good Capitalism, Bad Capitalism and the Economics of Growth and Prosperity* (New Haven, CT: Yale Univ. Press, 2007).



Agency (SEHDA), the Board of Investment (BOI), and Enterprise Mauritius (EM). As a result of such restructuring, the government has attracted more foreign direct investment, increasing its volume from 2.8 billion rupees in 2005 to 11.4 billion rupees in 2008, and the number of registered SMEs from 75,000 in 2002 to 92,000 in 2007.²² In addition to economic restructuring, since the 1990s Mauritius has made building competitive and knowledge-driven information technology (IT), financial services, and medical industries a national objective. Relying on its diaspora members and their networks has become one of the major strategies in this endeavor.²³

The Indian diaspora has contributed significantly to India's economic development, most notably that of its IT industry. In the late 1980s, many Indian engineers working in the United States reached top management positions in US IT companies. Some of these business leaders mentored Indian programmers and invited them to enhance the quality and performance standards of their companies' outsourced operations in India — a move that, in turn, helped upgrade these programmers' skills.²⁴ As more Indian diaspora members in the United States became entrepreneurs, venture capitalists, and top executives in US companies, they began playing a much more active role in promoting and supporting the growth of India's IT industry. In 1992, a group of successful Indians, many of them engineers living in the San Francisco Bay Area, founded The Indus Entrepreneurs (TiE) with the intent to support and mentor promising Indian entrepreneurs in Silicon Valley. The organization now offers these and other networking opportunities to 11,000 members and 2,500 charter members in 53 chapters in 12 countries.²⁵ In addition, it has lobbied the Indian government to reform regulations to promote the venture capital industry.²⁶ Finally, as the United States faced the "Y2K" scare in the late 1990s, Indian-origin executives at major US corporations influenced their companies to outsource work to India.²⁷ Partly as a result, some Indians in the United States returned to India to supervise outsourced projects and investments and to train Indian professionals in meeting US standards. In sum, the positive contributions of the Indian diaspora have helped build India's reputation as a go-to place for US and European companies seeking to outsource high-quality work at all skill levels; as a source of exported goods and services, including R&D; and as a promising destination for investment.²⁸

While experts debate the extent to which the Indian diaspora was central to the growth of the IT industry in India, people of Indian origin, particularly in the United States, have undoubtedly played a key role in its development. As the case of the Indian diaspora illustrates, policies that encourage diaspora entrepreneurship can be a useful component of a country's national development strategy. As people around the world become increasingly mobile and interconnected due to declining travel costs and the widespread use of new information and communication technologies, the nexus of globalization, migration, transnationalism, and entrepreneurship promises to be a potent driver of economic development.²⁹

22 Joyker Nayeck, "Circular Migration — The Case for Mauritius," Presentation at the International Conference on Diaspora for Development, World Bank, Washington, DC, July 14, 2009, <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/Nayeck.pdf>.

23 United Nations Conference on Trade and Development (UNCTAD), *Investment Policy Review: Mauritius* (New York and Geneva: UNCTAD, 2001), www.gov.mu/portal/sites/ncb/mac/nlibrary/efiles/dig4.pdf.

24 Devesh Kapur, "Diasporas and Technology Transfer," *Journal of Human Development* 2, no. 2 (2001): 265–86, [www2.ssc.upenn.edu/about/Diasporas and Technology Transfer.pdf](http://www2.ssc.upenn.edu/about/Diasporas%20and%20Technology%20Transfer.pdf).

25 The Indus Entrepreneurs (TiE), "Overview," www.tie.org/chapterHome/about_tie/OverView200706189912181967/viewInnerPagePT.

26 Devesh Kapur, "The Causes and Consequences of India's IT Boom," *India Review* 1, no. 2 (2002): 91–110.

27 Steve Hamm, *Bangalore Tiger: How Indian Tech Upstart Wipro is Rewriting the Rules of Global Competition* (New York, NY: McGraw-Hill, 2007).

28 Kapur, "Diasporas and Technology Transfer"; Hamm, *Bangalore Tiger*.

29 Linda G. Basch, Nina Glick-Schiller, and Cristina Szanton Blanc, *Nations Unbound: Transnational Projects, Postcolonial Predicaments, and De-territorialized Nation-States* (Amsterdam, The Netherlands: Gordon and Breach, 1994); Peggy Levitt, "Transnational Migration: Taking Stock and Future Directions," *Global Networks* 1, no. 3 (2001): 195–261; Peggy Levitt, *The Transnational Villagers* (Berkeley, CA: Univ. of California Press, 2001).



II. What Spurs Entrepreneurship? The Opportunity Structure

If governments want to encourage entrepreneurship among diaspora populations, they first need to know what spurs entrepreneurship in general so that they can support members of the diaspora to pursue and realize their entrepreneurial ambitions. Research shows that in addition to personal goals and traits, a combination of economic, political, financial, and sociocultural factors also influences an individual's decision to become an entrepreneur. The personal attributes of an entrepreneur — such as risk-taking and optimism — may be inherent, but the opportunity structure is susceptible to policy intervention. Several factors that foster entrepreneurship are discussed below.

A strong economy. First, individuals are more likely to start a business in a country with robust economic growth, a high level of formal sector participation, a high-quality and business-friendly legal and regulatory environment, and relatively easy access to finance.³⁰ Economic growth, in turn, is positively correlated with new business registrations and entry rates.³¹ According to the World Bank's World Development Indicators, the time required to start a business has a strong negative correlation with a nation's overall income level — a trend that has been observed since 2003.³² For example, in 2008 it took 13 days on average to start a business in high-income member countries of the Organization for Economic Cooperation and Development (OECD), 20 days in other high-income countries, 43 days in middle-income countries, and 47 days in low-income countries.³³ This suggests that low- and middle-income countries should try to reform regulatory frameworks in ways that would make it easier and quicker for diaspora members to register businesses, acquire business licenses, and protect property rights.³⁴

However, government failures can also open opportunities for entrepreneurs, such as the water sellers who bring in tank trucks to poor neighborhoods not supplied by public water services and the cell-phone sellers who profit from Somalia's ruined communications infrastructure. (Similarly, Somalia's *hawala* system, organized by diaspora entrepreneurs, substitutes for conventional banking and money-transfer systems.)

Diaspora engagement policies. Governments can and should tap into the wealth, knowledge, and skills of their diaspora members to foster the establishment and growth of businesses, training centers, and educational institutions. Relevant policies might include offering tax breaks to diaspora entrepreneurs and investors along with special legal status, lowering import barriers, and providing information about business regulations and laws. For example, when Dominica tried to set up a tertiary educational institution, the Dominica State College, it turned to members of its diaspora who had served in management positions in US universities to help develop the curriculum, structure the college, and launch the institution. Those diaspora members who were involved in establishing the college offered their services free of charge.³⁵ In another example, the Ethiopian Investment Agency wooed Ethiopians

30 Leora Klapper, Raphael Amit, Mauro F. Guillén, and Juan Manuel Quesada, *Entrepreneurship and Firm Formation across Countries* (Washington, DC: World Bank, August 2007), <http://knowledge.wharton.upenn.edu/papers/1345.pdf>.

31 Ibid.

32 2003 is the first year for which data from the World Development Indicators are available for the number of days required to start a business.

33 World Bank Group, "Quick Query Selected from World Development Indicators," *World Development Indicators* (Washington, DC: World Bank, 2009).

34 William J. Baumol, Robert E. Litan, and Carl J. Schramm, *Good Capitalism, Bad Capitalism and The Economics of Growth and Prosperity* (New Haven, CT: Yale Univ. Press, 2007).

35 Thomson Fontaine, "Tracing the Diaspora's Involvement in the Development of a Nation: The Case of Dominica," Paper prepared for the George Washington University's Research Workshop and Edited Book Project on The Role of Diasporas in Developing the Homeland, 2006, www.thedominican.net/articles/diasporaPaper.pdf.



living abroad, mostly in the United States, to invest in Ethiopia by giving them special privileges; however, when economic conditions pushed the government to discontinue this practice, diaspora investment in the homeland declined.³⁶ These experiences indicate that diaspora engagement policies can have positive effects but are not likely to be sustained unless underlying conditions are right.

Special privileges for diaspora investors and entrepreneurs must be carefully designed not to distort the market for capital by directing it toward less-productive uses. By the same token, domestically based entrepreneurs should not be put at a disadvantage. That said, special incentives to attract diaspora direct investment are appropriate to level the playing field, since investing from abroad often carries extraordinary financial and administrative costs. Thus India established a “one-stop shop” for diaspora investment in India shortly after a report commissioned by the government showed that overwhelming red tape and obscure regulations were major obstacles faced by potential diaspora investors.³⁷

Good governance. Investors favor countries, regardless of their level of economic development, with better governance; that is, countries with relatively little corruption and with well-functioning public institutions. There is evidence that good governance is positively correlated with high rates of business entry: countries with good governance have higher business registrations and entries than those with poor governance.³⁸ The United Nations Development Programme (UNDP) has implemented several programs, including the UNDP Qualified Somali Technical Support Program (QUEST) and the Transfer of Knowledge Through Expatriate Nationals (TOKTEN) program, that seek to improve governance and the functioning of public institutions (among other goals) by sponsoring temporary returns of qualified diaspora members. In general, there are positive correlations among good governance, entrepreneurship, and economic growth. Diaspora entrepreneurs are likely to respond to the same conditions as other potential investors.

Access to financial capital. Access to financial capital is particularly important for individuals seeking to pursue entrepreneurial activities, whether large or small, skill-based or unskilled. The micro-credit and micro-savings revolution has opened a path to entrepreneurs who operate on a very small scale, at least initially. The clients for these tiny loans are necessity entrepreneurs who typically contribute little to the growth of their countries, but some may be able to expand their businesses as loans enable them to take advantage of new opportunities. Even if on a small scale, they do contribute to poverty reduction. A number of micro-finance schemes are funded by diaspora organizations.³⁹

At the other end of the spectrum, diaspora investors may underwrite the creation of new industries and the growth of established sectors. As noted above, the role of the Indian diaspora in providing venture capital to Indian entrepreneurs in the United States and start-ups in India has been important in expanding IT and business-process outsourcing industries. It has also created positive spillover effects such as helping the Indian venture capital industry grow.

36 Elizabeth Chaco and Marie Price, *The Role of the Diaspora in Development: The Case of Ethiopia and Bolivian Immigrants in the USA* (Washington, DC: George Washington Univ., 2009), <http://iussp2009.princeton.edu/download.aspx?submissionId=92786>.

37 Kathleen Newland with Erin Patrick, “Beyond Remittances: The Role of Diasporas in Poverty Reduction in their countries of Origin,” Scoping Study for the Department for International Development, United Kingdom, July 2004, www.migrationpolicy.org/pubs/Beyond_Remittances_0704.pdf.

38 See the Doing Business Project, www.doingbusiness.org, for government indices. Strong positive correlation between business entry rates and good governance (voice and accountability; political stability; government effectiveness, regulatory quality, rule of law and control of corruption) even after controlling for GDP per capita.

39 Development Marketplace for African Diaspora in Europe, “The Development Marketplace for African Diaspora in Europe: Promoting Diaspora Investment Projects and Innovative Entrepreneurial Activities in Africa,” 2009, www.dmade.org/admin/db/docs/D-MADE_CompetitionGuidelinesweb.pdf.



Favorable sociocultural perceptions of entrepreneurship. Cultural perceptions of entrepreneurs and entrepreneurship can affect the decision to become an entrepreneur.⁴⁰ Some societies, such as that of the United States, attach high value to individual initiative and reward successful entrepreneurs with social status as well as wealth. These cultural predilections are conducive to entrepreneurship. Other cultures favor group action and attach guilt or shame to individuals whose ventures fail, a viewpoint that is common among many countries in East Asia. As a result, aspiring entrepreneurs may be discouraged from pursuing risky business ventures; indeed, research shows that despite the high value placed on innovation in East Asia, relatively few people actually pursue entrepreneurial activities.⁴¹ The very success of the Japanese and Korean models of industrial growth, resting on close cooperation between the central government and large industrial conglomerates, has been blamed for choking off entrepreneurship. Diaspora members, on the other hand, often lead lives that transcend a single culture, and as such may develop different perceptions of entrepreneurship than those dominant in the country of their origin or ancestry. Bridging differences and introducing new business ideas and attitudes are some of the valuable contributions diaspora members are well positioned to make. Several countries, from India to Nigeria, have started to hold high-profile events that celebrate the accomplishments and contributions of diaspora entrepreneurs. China has made attracting diaspora entrepreneurs a pillar of its “One Thousand Talents” Initiative, an element of its high-profile National Medium- and Long-Term Talent Development Plan. According to Dr. Wang Huiyao, the plan “aims to import top brains and groom local talent to produce a new generation of political leaders, scientists, engineers, technology professionals, entrepreneurs, educators, agricultural experts and social workers,” bringing China’s talent pool up from 114 million skilled people in 2010 to 180 million by 2020.⁴²

A critical mass of human and social capital. Individuals with high levels of human capital tend to be more entrepreneurial than those without. However, knowledge and education alone do not spur entrepreneurship. Individuals working in economic clusters or areas saturated with like-minded and experienced professionals in specific sectors have access to valuable social capital, including networks and knowledge transfers, which facilitates joint ventures and partnerships among current and former colleagues.⁴³ Encouraging “hot spots” of technological and educational institutions is one way that governments can create conditions conducive to entrepreneurship, and several — such as those of China, Taiwan, South Korea, Mauritius, Chile, and India — have taken this step and encouraged diaspora members to take part in them.⁴⁴ Research suggests that highly skilled individuals make their decisions on where to migrate based on a variety of factors, including:

- The presence of other talented professionals — and the subsequent opportunities to create synergistic work environments and virtuous circles of innovation and success
- Capital infrastructure (such as advanced science and engineering colleges and state-of-the-art research labs) that promote professional growth and offer a dynamic and transformative environment
- The promise of good returns on one’s own human-capital investments.⁴⁵

40 Thomas M. Begley and Wee-Liang Tan, “The Socio-Cultural Environment for Entrepreneurship: Comparison between East Asian and Anglo-Saxon Countries,” *Journal of International Business Studies* 32, no. 3 (2001): 537–53.

41 Ibid.

42 Tracy Quek, “China’s Not-so-little talent blueprint,” *Straits Times*, Sept. 26, 2010, <http://wanderingchina.wordpress.com/2010/09/26/chinas-not-so-little-talent-blueprint-straits-times/>. Dr. Wang is one of the authors of the plan, and is director of the Centre for China and Globalization in Beijing, as well as vice chairman of the Western Returned Scholars Association in China.

43 Henning Madsen, Helle Neergaard, and John P. Ulhøi, “Factors Influencing the Establishment of Knowledge Intensive Ventures,” *International Journal of Entrepreneurial Behavior & Research* 14, no. 2 (2008): 70–84.

44 AnnaLee Saxenian, “International Mobility of Engineers and the Rise of Entrepreneurship in the Periphery,” Research Paper No. 142, United Nations Univ., Tokyo, Japan, 2006, www.wider.unu.edu/publications/working-papers/research-papers/2006/en_GB/rp2006-142/_files/78091822234994961/default/rp2006-142.pdf; Wadhwa et al., “America’s Loss Is the World’s Gain.”

45 Demetrios G. Papademetriou, Will Somerville, and Hiroyuki Tanaka, “Talent in the 21st Century,” in *Talent, Competitiveness*



Lifestyle plays a part in migration decisions as well, especially for diaspora entrepreneurs who return to their countries of origin, many with their families, after having become accustomed to the amenities of life in the West. Thus, the government of Taiwan constructed Western-style housing and upgraded neighborhood schools in the vicinity of the Hinschu Industrial Park in order to attract returning migrants and diaspora members.⁴⁶ Amenities such as good transportation infrastructure and recreational facilities may make a difference, as does the enforcement of environmental protection regulations.

III. Five Levels of Commitment to Diaspora Entrepreneurship

Over the past decade, a number of governments and other organizations have established programs to encourage emigrants and their descendants to invest in their home countries. Initiatives range from those that are privately run and funded to those that are government-led or lodged in multilateral organizations, but most involve some sort of public-private partnership. These organizations play multiple roles and offer a variety of services to encourage and support entrepreneurship among members of diaspora groups. While some initiatives are nationality based, others are open to all individuals with an interest in contributing to the development of a particular country.

Below, we briefly profile 16 organizations and initiatives that promote diaspora entrepreneurship to further economic development in countries of origin. While each has unique programs, ways of working, and sources of funding, each also offers one or more of the following kinds of support to entrepreneurs in the country of origin:

- Networking
- Mentoring
- Training⁴⁷
- Investment
- Venture capital and partnerships

Organizations that focus on networking tend to be more passive in their support for diaspora entrepreneurship, while involvement becomes progressively more intense through mentoring, investment, venture capital, and strategic partnerships. Many of the organizations profiled below are hybrids and promote activities in several of the above categories. For example, some organizations run competitions for aspiring diaspora entrepreneurs, combining mentoring, training, investment (through cash prizes for the winners), and partnership functions. All of these variables play an important role in supporting diaspora entrepreneurship. This study categorizes the organizations according to their main function; where an organization combines two or more in roughly equal proportions, we include the organization in the most active category.

A. Networking Organizations

Networking organizations are those that promote diaspora entrepreneurship by offering opportunities for diaspora and local business leaders and professionals to meet one another and discuss potential

and Migration, eds. Bertelsmann Stiftung and Migration Policy Institute (Guetersloh: Bertelsmann Stiftung, 2009).

46 Newland with Patrick, “Beyond Remittances.”

47 Training may be offered in such areas as market research, financial literacy, and access to financial capital.



business and investment opportunities in the homeland. Some networking organizations, such as the Mexican Talent Network and The African Network (TAN) offer forums for networking in person. Others, such as the Business in Development (BiD) Network, offer virtual networking opportunities between entrepreneurs and financiers via the Internet. Some networking organizations are involved in public-private partnerships to facilitate meetings between locals and members of the diaspora, while others promote networking among diaspora business leaders to foster business partnerships and opportunities in countries of diaspora origin.

1. Mexican Talent Network

The government of Mexico is trying to leverage the resources of its highly qualified diaspora members to develop a knowledge-driven economy. In 2005, the Secretariat of Foreign Relations founded the Mexican Talent Network, in partnership with the Institute of Mexicans Abroad and the National Council on Science and Technology (CONACYT) and with the financial support of the United States-Mexico Foundation for Science.⁴⁸ The Mexican Talent Network aims to promote ties between Mexico and its highly qualified professionals living abroad, to support high-value-added projects in the areas of business development and education for global innovation, and to promote Mexico's image as a favorable business destination for global investors. Among its many projects, the Mexican Talent Network is working to establish internship programs for undergraduate students, professors, and researchers in companies suggested by network members; to create a program that enables network members to provide expertise in the use of plastics in automotive and aerospace industries; and to develop a strategy for raising the visibility of Mexican companies that could provide outsourcing services.

2. The African Network

The African Network (TAN) is a US-based nonprofit organization, founded in Silicon Valley in 2004 and modeled on TiE. Its mission is to alleviate poverty through entrepreneurship and job creation — by empowering people of African descent to sustain themselves through entrepreneurship. The organization has two main programs in addition to its monthly networking dinners: TAN Conference (TANCon) and TAN Empowerment (TEP). TANCon is a biannual forum held in Africa and the United States where current and aspiring entrepreneurs, venture capitalists, investors, business leaders, community leaders, and policymakers can network to discuss business opportunities. TEP has a special focus on mobilizing diaspora resources to support and develop low-income, needy, and underserved communities in Africa.⁴⁹

3. The Business in Development (BiD) Network

The BiD Network offers migrant and nonmigrant entrepreneurs assistance in developing business plans and raising funds for entrepreneurial ventures in 12 developing countries (Argentina, Bolivia, Colombia, Ecuador, Mexico, Peru, Jordan, Kenya, Uganda, Rwanda, Tanzania, and the Philippines). The BiD Network allows entrepreneurs seeking start-up money to post their business plan on the network's Web site, where thousands of investors and experts will have the opportunity to view their plans and contact those with promising projects.⁵⁰ Approximately 70 percent of the business plans submitted to the BiD Network are for start-up companies, and 27 percent were submitted by female entrepreneurs.⁵¹

48 The name in Spanish is *la Red de Talentos Mexicanos*.

49 The African Network, "What is The Africa Network?" www.theafricannetwork.org.

50 For examples of businesses that have successfully been matched with investors via the BiD Network, see BiD Network, "SMEs Matched via BiD Network," www.bidnetwork.org/page/121645.

51 BiD Network, "BiD Network Results," www.bidnetwork.org/page/92869/en.



But it is a fairly passive mechanism, and the matches that come to fruition are a small proportion of the applications. As of August 2009, the BiD Network had 27,144 members and had received 9,520 applications, 1,651 business plans, and 149 BiD-grade plans; it had brought about 51 matches between entrepreneurs and financiers.

4. South African Diaspora Network

The South African Diaspora Network, created as a pilot project by the University of Cape Town's Centre for Innovation & Entrepreneurship (with the support of the World Bank Development Marketplace) in 2001, attempted to help South Africans in South Africa and those living overseas connect with one another for business-related purposes. The network targeted South African businesspeople living in South Africa who sought assistance, guidance, and support in expanding their businesses to overseas markets. Those offering advice and guidance from overseas included approximately 40 well-established business leaders living in the greater London area who were connected with the South African Business Club in London and the University of Cape Town Graduate School of Business Alumni Association. The network suspended operation in 2003 due to lack of funding and support staff.

5. The Korean IT Network (KIN)⁵²

Korean engineers and businessmen in Silicon Valley noted that diaspora networks formed by Indian and Chinese contemporaries helped their members get ahead, and formed KIN in 2001. The organization has had strong backing from the Korean government: 100 percent financing for the first three years and 50 percent for the next three. It organizes annual conferences, with sponsorship from large Korean companies, Korean-owned companies in Silicon Valley, and the government. Despite this support, KIN has not established the kind of internal dynamism that led other diaspora networks to become indispensable to entrepreneurs in the home country and abroad. It has been criticized for focusing on "show-up" events that satisfy government sponsors but do little to advance the interests of members. Unlike its newer rival organization, the K Group, it has been unable to help its members find jobs and start companies in a systematic way.

B. Mentoring Organizations

Mentoring organizations are more actively involved in supporting entrepreneurship among diaspora members than pure networking organizations, in that they try to match aspiring entrepreneurs or business owners seeking to expand their operations abroad with seasoned diaspora experts and business leaders. Some mentors offer one-off services such as assistance in conducting market research or a feasibility study, while others provide internships or even job opportunities in their corporations. While mentorship definitely helps diaspora entrepreneurs gain business knowledge, it often falls short of providing hands-on training or funds to actually launch a business in the country of origin.

1. GlobalScot

GlobalScot is Scotland's diaspora-based framework for promoting economic development. In 2001, Scottish Enterprise (Scotland's main economic, enterprise, innovation, and investment agency, largely funded by the Scottish government) launched GlobalScot as an international network of Scottish business leaders and those interested in supporting the development of the Scottish economy.⁵³

⁵² The material for this profile was drawn from Jeong Hyop Lee and AnnaLee Saxenian, "Do We Need a Double-Edged Sword?: Triggering Networking of Silicon Valley Korean Diaspora and Their Contribution to Home Country Institution Transformation," Paper presented at the International Conference on Diaspora for Development, World Bank, Washington, DC, July 13–14, 2009.

⁵³ GlobalScot, *GlobalScot: Building International Business Networks for Scotland* (Glasgow, Scotland: Scottish Enterprise, 2009),



GlobalScot's mission is to market Scotland as an attractive place for investors through its members. Since its creation, GlobalScot has helped generate more than GBP £30 million in gross value added to Scotland.⁵⁴ GlobalScot encourages its 850 members (or "GlobalScots"), all of whom hold senior positions within their respective organizations, to serve on one another's boards and to encourage and educate students about the various business opportunities in Scottish and global firms.⁵⁵ GlobalScots have helped entrepreneurs identify business opportunities abroad, and offered advice on how to enter markets, negotiate business deals, make strategic business plans, and expand business networks. In their role as mentors to Scottish students, GlobalScots have served as mentors and invited speakers in schools and universities, offered guidance on developing skills that are in demand, and provided internship placements and employment opportunities.

2. Armenia 2020

Armenia 2020 is an organization that engages the Armenian diaspora to identify a variety of development scenarios for the Republic of Armenia until 2020. Through its discussions and forums, it seeks to feed advice into the policymaking process for Armenia's development process. A number of the organization's board members sit on the National Competitiveness Council of Armenia (NCCA), which assists the prime minister in setting policies to attract vital investments to Armenia. In partnership with the Harvard Alumni Club of Armenia among others, Armenia 2020 organized the first Armenian National Business Contest that sought applications from Armenian entrepreneurs to present their business plans to international business leaders. The winners of the contest were given the opportunity to present their business plans at the annual International Business Plan Competition held by the Entrepreneurs Club of Harvard Business School.⁵⁶

3. The Indus Entrepreneurs (TiE)

TiE is a nonprofit organization formed in 1992 by a group of Silicon Valley entrepreneurs with roots in the Indian subcontinent. TiE does not present itself as a diaspora organization and its membership is open to anyone, although its board, staff, and chapter presidents are all of South Asian origin. Of its 54 chapters in 13 countries, 25 are in the United States and 22 in India. TiE's membership has been growing, on average, at the rate of 20 percent per year (although general membership dipped slightly during the recession), making it perhaps the largest entrepreneurial organization in the world. TiE does acknowledge a particular interest in promoting entrepreneurship in the Indus region (comprising India and Pakistan), although its broader goal is to "democratize entrepreneurship" globally. The organization's singular focus on entrepreneurship incorporates special programs focused on women entrepreneurs, young entrepreneurs, start-up ventures, specific industry groups, and more. In partnership with Microsoft Corporation, TiE is implementing a program that provides young start-up companies with free access to Microsoft software and technical support along with TiE's networking, mentoring, and educational services. TiE's roots are in the information and communications technology industry, but it is branching out into clean energy, agricultural technology, and life sciences using a characteristic model: a group of its senior members from each industry are being asked to mentor at least five entrepreneurial ventures in that industry.

C. Training Organizations

www.globalscot.com/web/FILES/GlobalScot_Brochure_2009.pdf; Scottish Enterprise, "What We Do," www.scottish-enterprise.com/about-us/se-whatwedo.aspx; Mairi MacRae with Martin Wight, "A Model Diaspora Network: The Origin and Evolution of GlobalScot," in *Diaspora Networks and the International Migration of Skills: How Countries Can Draw on Their Talent Abroad*, ed. Yevgeny Kutznetsov (Washington, DC: World Bank, 2006).

54 Scottish Enterprise, "GlobalScot," Press Release, October 15, 2009.

55 Ibid.

56 Armenia 2020, "News," Press Releases, October 23 and July 31, 2007.



Training organizations help aspiring diaspora entrepreneurs acquire the knowledge and skills to set up and run a successful business. These training programs (sometimes combined with provision of start-up business services such as help in developing a business plan, incorporating, and registering a business) range from transferring knowledge from diaspora experts to country-of-origin entrepreneurs to offering lessons on business management to providing guidance on how to find financing to start a business. Some organizations, such as pS-Eau, *the Programme Solidarité Eau*, offer training tailored to the entrepreneur's country of origin. These groups operate on the principle that training and educating future entrepreneurs promotes the success and sustainability of their ventures.

1. Ethiopia Commodity Exchange⁵⁷

The Ethiopia Commodity Exchange (ECX) is a cooperative initiative between the Ethiopian government and the Ethiopian diaspora, which has received \$1 million in support from USAID. It allows farmers to access real-time information about national and international agricultural products and sell their products on a commodity exchange. Eleni Gabre-Mahdin, an American-educated Ethiopian economist, created the exchange to address Ethiopia's malnutrition and other food-related problems, including the inefficient and obscure nature of Ethiopian agricultural trade, which has traditionally been based on trust between known buyers and sellers. The exchange gives buyers and sellers an improved framework for transactions, offering warehousing, a reliable payment system, real-time market information, and quality control. In addition, Gabre-Mahdin, now chief executive of the exchange, is working with Yohannes Assefa, an Ethiopian American trade lawyer, to transmit the business and technology know-how of Ethiopians living abroad to local employees of the exchange. Ethiopian Americans who possess the appropriate skills are offered three-year job contracts at the exchange to transfer their skills to at least one local resident. Since its inception in April 2008, the ECX has granted 461 coffee suppliers membership on the exchange.⁵⁸

2. IntEnt

IntEnt, based in the Netherlands, was created in the 1996 by Social-Economical Entrepreneurship in the Netherlands (SEON),⁵⁹ FACET BV,⁶⁰ and Triodos Bank⁶¹ at the request of the former Dutch minister of international development, J. P. Pronk. Its purpose is to stimulate entrepreneurship among immigrants. The organization offers fee-based support to entrepreneurs seeking assistance in developing their business plans to promote development in Morocco, Turkey, Surinam, Ghana, Ethiopia, Afghanistan, and the Antilles.⁶² Its services include providing information about entrepreneurship; orientation sessions and training courses; counseling; advisory services; market information; referral and mediation; assistance during and after starting a business in the program countries; networking; management training; online services; and supplementary financing. These services help entrepreneurs to overcome credit limitations and high interest rates at local banks; time-consuming and complicated bureaucracy; unfamiliarity with local procedures and markets; lack of updated statistics on markets; unstable

57 Phillip Kurata, "Ethiopia Launches Commodity Exchange to Develop Agriculture," *America.gov*, October 31, 2008, www.america.gov/st/econ-english/2008/October/20081031174240cpataruk0.134823.html; Phillip Kurata, "African Migrants Invest in Their Home Countries," *America.gov*, November 9, 2009, www.america.gov/st/develop-english/2009/November/20091106173018cpataruk0.2806055.html.

58 ECX (Ethiopia Commodity Exchange), "About Us," www.ecx.com.et/CompanyProfile.aspx#AU.

59 SEON offers advice to small and middle-size companies, group training, and personal advice for entrepreneurs who wish to start their own company in the Netherlands.

60 FACET BV is an organization that gives advice on developing micro and small businesses in developing and transitional economies in Central and Eastern Europe.

61 Triodos Bank is an independent Dutch bank that has branches in 30 developing countries and helps IntEnt manage the IntEnt Guarantee Fund.

62 IntEnt is currently exploring the possibility of extending its programs to some of the countries in the Great Lakes region in East Africa.



political, economic, and security environments; and cultural differences. Between 1998 and the end of 2007, IntEnt helped launch 236 businesses, finished 194 business plans, trained 1,176 participants, and admitted 1,693 clients. Together, these businesses created sustainable investment worth more than 14.5 million euros and almost 990 jobs. The average IntEnt entrepreneur invested 62,000 euros.

3. Economic Initiatives and Migration Program

The Economic Initiatives and Migration Program (PMIE)⁶³ was created by the nonprofit organization *Programme Solidarité Eau* (pS-EAU) in 2001 to help African immigrants in France implement economic projects in France and their countries of origin. The program receives financial support from the French ministries of Foreign Affairs and Labor, Employment and Social Cohesion, as well as from the European Commission and the Catholic Committee against Hunger and for Development.⁶⁴ In 1996, pS-Eau began coordinating the Micro Enterprise Support Group (GAME),⁶⁵ a network of development organizations, migrant associations, and public authorities that supports business projects initiated by immigrants residing in France. GAME offers immigrants guidance on how to implement a business project in their countries of origin, how to invest in or otherwise support a project initiated by a business partner living in Africa, and how to begin a project in France. Today, the network consists of 27 support organizations in four French regions and ten countries in Africa and the Indian Ocean that annually offer support to approximately 1,000 African entrepreneurs. To date, immigrants have initiated projects in a wide range of sectors⁶⁶ in 16 African countries.

D. Investment Organizations

Investment organizations provide initial start-up funds or subsequent capital infusions, usually in the form of pooled private and public funds or matching grants, to diaspora entrepreneurs with creative business ideas that will likely spur development in their countries of origin. Some investment organizations take a hands-off approach to the money they offer entrepreneurs, while others are more involved in overseeing how their money is spent at various stages of project implementation. While these organizations may not always provide business training, they do provide the critical resources that enable aspiring diaspora entrepreneurs to realize their business plans.

I. African Diaspora Marketplace

The African Diaspora Marketplace (ADM) was a competition held in 2009, sponsored by USAID and Western Union, in which US-based members of the African diaspora — either US citizens or legal permanent residents — presented business plans for SMEs that would contribute to economic development in Sub-Saharan Africa.⁶⁷ Applicants were required to have a partner organization in

63 The acronym is derived from its French name, *Programme Migrations et Initiatives Economiques* (PMIE).

64 *Programme Migration et Initiatives Economiques*, “The Economic Initiatives and Migration Programme,” www.pseau.org/outils/ouvrages/pmie_presentation_ve.pdf.

65 The French name is *Groupe d'Appui à la Micro Entreprise* (GAME).

66 These sectors include market garden production, poultry farming and fishing, construction, arts and crafts, agrofood processing, commerce (retail, wholesale, import/export), IT (cyber cafés, maintenance and sale of hardware), tourism, driving schools, printing, and other services.

67 The ADM defines *diaspora member* according to the African Union’s definition of *diaspora*: “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.” The competition adopts the International Finance Corporation’s definition of small and medium enterprises, namely that a company must satisfy at least two of the following three criteria: (1) have between ten and 300 employees; (2) possess assets ranging from \$100,000 to \$15 million; and (3) have a total annual sales figure ranging from \$100,000 to \$15 million. Business projects must occur in one of the following 19 Sub-Saharan countries: Angola, Burundi, Ethiopia, Ghana, Kenya, Liberia, Malawi, Mali, Mozambique, Namibia, Nigeria, Rwanda, Senegal, Sierra Leone, South Africa, Sudan, Tanzania, Uganda, and Zambia — countries in which USAID has a local presence and can provide technical assistance to entrepreneurs.



Africa to help them execute their projects, and to own at least 25 percent of the proposed company. The goal of the ADM was to spur job creation, generate income, and produce goods and services, preferably in designated sectors,⁶⁸ by offering matching grants to African-diaspora member living in the United States. Judges were drawn from business; nongovernmental organizations; and diaspora, development, and academic groups. They evaluated applications based on the quality of the business idea, its proposed management plan, its sustainability, its results orientation, and its ability to capitalize on diaspora resources. In mid-January 2010, ADM announced the 14 winners, who were awarded matching grants of up to US\$100,000 to help fund businesses in seven countries.⁶⁹ (Winners were required to match these grants through financial or in-kind contributions.) The initiatives included a business that would increase production of school, hospital, and agricultural supplies in Ethiopia and a franchise business that would offer health care to populations living in rural areas in Ghana. Upon receipt of the grant, winners were allowed 18 months to fully execute their business plans.

2. 1x1 Program, Mexico

In January 2009, the federal government of Mexico initiated an investment program called 1x1, which matches individual migrants' investment funds for business projects with government money. A migrant fills out a simple application for a matching loan of up to 300,000 Mexican pesos (approximately US\$25,000). The applicant must attach a copy of his or her consular identification card (*matricula consular*) to confirm his or her identity as a migrant (the card cannot be obtained in Mexico). The loan is repayable within three years and carries no interest. The unique feature of the 1x1 program is that repayment is not made in cash to the government but rather in the form of a contribution to a social investment through the remittance-based Tres por Uno (3x1) program, in which contributions from Mexican hometown associations (HTAs) abroad are matched by federal, state, and local governments in Mexico. The migrant invests the amount of the loan in a social project approved by his or her HTA (such as rebuilding a school or equipping it with computers), and the amount of the repayment is matched by federal, state, and municipal governments.⁷⁰ Thus, the 1x1 program supports both individual business investment by small entrepreneurs and collective community investment.

E. Venture Capital and Partnership Organizations

Venture capital and partnership organizations provide more than just the funds to launch a business. They usually are heavily involved in business projects that they believe will be profitable, often taking part in management in the early stages of an investment. Often they form strategic alliances with other venture capitalists, business leaders, engineers, and other professionals. For these organizations, the number of strategic partnerships or projects supported by venture capital usually matters less than the quality of the proposed investment, the high potential for return on investment, and the impact that such partnerships and investments are likely to have on economic growth in strategic sectors. For others, such as the Migration for Development in Africa (MIDA) projects in Italy, strategic partnerships are also about fostering trust and long-term relationships among key public and private institutions in countries of origin and destination.

68 Designated sectors included agribusiness, handicrafts, textiles, tourism, environmental services (such as waste management), construction and infrastructure, logistics and transportation, manufacturing and assembly, fisheries, livestock, and information and communication technologies (ICTs). But applications in other sectors were also accepted.

69 ADM (African Diaspora Marketplace), "U.S.-Based African Diaspora Entrepreneurs to Spur Job Growth in Their Native Countries with Innovative Business Plans," press release, January 13, 2010, www.diasporamarketplace.org/sites/default/files/African_Diaspora_Marketplace_Winners_Release_1-13-10_0.pdf.

70 Efrain Jimenez, projects coordinator, Zacatecan Federation of Clubs in Southern California, posted January 26, 2010 to the m4d listserve (m4d@groups.dev-nets.org) hosted by the EC-UN Joint Migration and Development Initiative.



1. Fundación Chile

Fundación Chile is a small public-private foundation that seeks to leverage the Chilean diaspora to bring Chile into the knowledge-based economy. The foundation helps entrepreneurs launch technically innovative agribusinesses in Chile by including them in professional networks and offering financial support from its venture capital fund. It has helped create 76 companies with more than 50 domestic and international partners (the partners include private corporations, universities, and institutes of technology), and currently has a share in 23 of them.⁷¹ One of Fundación Chile's flagship programs is ChileGlobal, an organization that designs and finances business projects through its network of about 80 influential Chileans living in the United States, Canada, Europe, and Chile. 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. ChileGlobal introduces innovations in both the production and services sectors, boosts human capital to augment productivity,⁷² attracts innovative businesses to Chile, and promotes technology and knowledge transfers to and from Chile.⁷³

2. Migration for Development in Africa (MIDA)

The International Organization for Migration's (IOM) MIDA program, launched in 2001, seeks to build capacity in African countries by working with the African diaspora to transfer technical skills and resources to their countries of origin. MIDA uses four major channels to connect diaspora professionals with their countries of origin: (1) virtual or communications-based IT systems; (2) sequenced or repeat visits; (3) investment; and (4) permanent return.⁷⁴ Working with the diaspora in Italy and with funding from the Italian government, MIDA Italy has made entrepreneurship a major focus of its program, with the aim of creating jobs and bringing positive social and economic change to countries of origin.⁷⁵ MIDA Italy selected five SME projects in Ghana (out of a total of 26 applications) and seven SME projects in Senegal (out of a total of 56 applications) to support in 2006 and 2007. All of the projects were designed to set up SMEs and promote partnerships among Italian, Ghanaian, and Senegalese communities in a way that would benefit Ghana and Senegal. The selected SMEs focused on agriculture (cultivation and processing), woodwork, reforestation, and tourism. Forty entrepreneurs received training from specialized institutions in Ghana and Senegal on business creation and management, as well as access to credit.⁷⁶

3. The African Foundation for Development (AFFORD)

The African Foundation for Development (AFFORD), which was founded in 1994 by Africans living in the United Kingdom, helps the African diaspora in the United Kingdom create wealth and jobs in Africa. Its main program, Supporting Entrepreneurs and Enterprise Development in Africa (SEEDA), uses the skills, knowledge, and wealth of the African diaspora to support SMEs in Africa. Its efforts thus far have

71 Fundación Chile, "I'm an Investor: Invest in Your Dreams," <http://ww2.fundacionchile.cl/portal/web/guest/inversionista>.

72 ChileGlobal, "¿Quiénes Somos?" (Who Are We?), www.chileglobal.org/quienes-somos/.

73 Yevgeny Kuznetsov, "Por que ChileGlobal? Red de Talentos en el Exterior para Desarrollo Tecnológico de Chile," Presentation at the first meeting of ChileGlobal in San Francisco, June 10, 2005, <http://info.worldbank.org/etools/docs/library/201209/ChileDiaspora.pdf>.

74 IOM (International Organization for Migration), "Migration for Development in Africa (MIDA)," www.iom.int/jahia/Jahia/mida-africa/.

75 MIDA (Migration for Development in Africa), "The MIDA Italy Experience," presentation given at the Conference on International Migration and Development: Continuing the Dialogue Legal and Policy Perspectives, New York, January 2008, www.un.int/iom/MIDA%20Rome.pdf; Ndioro Ndiaye, "The MIDA Experience and Beyond," presentation given at the World Bank Conference on Diaspora and Development, Washington, DC, July 13, 2009, <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/Ndiaye.pdf>.

76 MIDA can make a maximum contribution of up to 30 percent of the total proposed budget.

focused on entrepreneurship in the Democratic Republic of the Congo, Ghana, Nigeria, Sierra Leone, and Uganda. With the support of the United Kingdom Voluntary Services Overseas (VSO) Diaspora Volunteering Initiative, SEEDA has organized five missions to Africa. As of July 2009, 70 diaspora members had contributed time and money worth GBP £200,000, offering 800 businesses in Sierra Leone and Ghana services ranging from business planning and marketing to help with bookkeeping and opening bank accounts. SEEDA has also contributed to the creation of two new business development centers in Sierra Leone that provide business advice and advocate for a better business environment in the country.

IV. Major Observations

Organizations that support diaspora entrepreneurship take on multiple roles, sometimes creating networking opportunities among business leaders and at other times forming strategic institutional partnerships to foster long-term economic growth in knowledge-intensive sectors.

The five types of involvement listed above — networking, mentoring, training, investment, and venture capital and partnerships — describe ascending levels of commitment to the entrepreneurial project (see Figure 1). While a combination of all five levels of engagement is likely to foster entrepreneurship, for a variety of reasons — including availability of resources and time, and the different actors involved at each level — the more passive forms of support (toward the base of the pyramid) are likely to proliferate and dissipate more quickly than the more active forms of support near the peak.

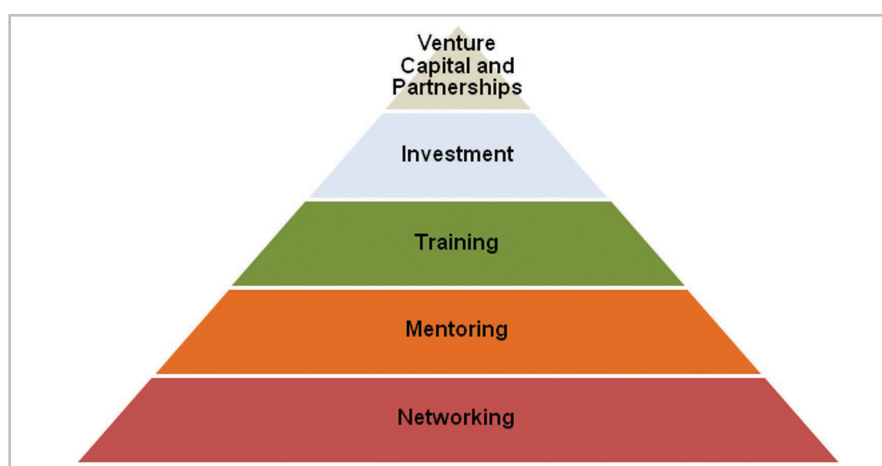


Figure 1. Levels of Commitment to Diaspora Entrepreneurship
Source: Authors' rendering

Differences among Organizations

The 16 organizations profiled above provide a wide range of services to aspiring diaspora entrepreneurs. While all of them share the goal of promoting diaspora entrepreneurship to further economic development in countries of diaspora origin, they differ on many fronts, including, but not limited to, the following:

- **Different targets.** Some organizations focus on developing the national economy, while others focus on developing the entrepreneurial skills of individual diaspora members.
- **Different levels of selectivity for membership.** Some organizations restrict their membership to professionals or to members of a specific diaspora, while others are open to individuals of all



nationalities and skill levels. GlobalScot and ChileGlobal, for example, have cultivated an aura of exclusivity, making membership a desirable status indicator, while other institutions welcome all aspiring entrepreneurs.

- **Focus on different economic sectors.** Some organizations focus on building knowledge-intensive and high-value economic sectors, such as biotechnology, that are driven by new technologies and innovation, while others maintain a more neutral approach toward the economic sectors in which diaspora members wish to start their businesses. Likewise, some organizations emphasize the growth of trade between countries of origin and destination through SMEs in areas such as textiles, handicrafts, or agriculture, while others support specific subsets of potential business creators, such as micro entrepreneurs or women entrepreneurs.
- **Different types of services offered.** Some organizations offer financial or business services, while others provide networking or mentoring opportunities for diaspora members. Some offer their services free of charge, while others impose fees.
- **Different geographic focus.** Some organizations foster diaspora entrepreneurship primarily for the benefit of one country or even a single town, municipality, or province, while others offer services to entrepreneurs from an entire region or continent.

Box 1. Another View of Diasporas as Agents of Entrepreneurship⁷⁷

Yevgeny Kuznetsov of the World Bank Institute outlines six models of how professional diaspora networks serve as catalysts for entrepreneurship:

1. **Top executives model:** Members of the diaspora who are top executives of firms abroad use their managerial experience and technical know-how to persuade their respective companies to invest in or outsource knowledge-intensive operations to their countries of origin
2. **Mentoring/venture capital model:** Diaspora members who are managers or owners of firms whose parent companies are in their countries of destination work with start-ups in their countries of origin to help them develop and finance commercially viable projects.
3. **Diaspora members as investors model:** Diaspora members use their knowledge of their home countries to mitigate risks in making investments back home. Personal and professional networks between diaspora members and business partners in their countries of origin help reduce transaction costs to start up new businesses.
4. **Setting new strategic direction/identifying new opportunities model:** Diaspora members are able to identify niche markets back home based on their professional experiences abroad in business consulting and other sectors and capitalize on business opportunities by turning them into actual business projects.
5. **Return of talent model:** Governments implement policies that encourage members of the diaspora to return to their countries of origin to contribute to economic development.
6. **Basic outsourcing model:** Successful diaspora members who own companies abroad create opportunities to outsource activities such as R&D or programming in their countries of origin.

Kuznetsov's concept of a network goes far beyond the relatively passive concept described in this paper's model of levels of engagement. In fact, it incorporates most kinds of systematic interactions of diaspora members, from networking to investment and partnerships.

⁷⁷ This section is based on Kuznetsov, "Por que ChileGlobal?"



V. Policy Options and Conclusions

The *New Oxford English Dictionary* defines an entrepreneur as “a person who organizes and operates a business, taking on greater than normal risks in order to do so.” The word derives from a French verb *entreprendre*, meaning “to undertake.” An entrepreneur undertakes new ventures, and if successful he or she creates wealth and jobs. It is little wonder that development practitioners are interested in trying to harness this tremendous force for economic growth and dynamism. Diaspora entrepreneurs are uniquely well equipped to recognize opportunities in their countries of origin. They have an advantage over other entrepreneurs in exploiting such opportunities as “first movers.” In many cases, they are especially motivated to contribute to job creation and economic growth in their native lands. They have a foot in each of two worlds.

Diaspora entrepreneurs have caught the attention of policymakers who recognize that most poor countries suffer from a deficit of entrepreneurship, and that this is both a cause and a consequence of their poverty. The dilemma for governments is that their role in promoting entrepreneurship is circumscribed. Their most important tasks — establishing the rule of law, ensuring access to quality education and other public services, creating and maintaining infrastructure, regulating excesses, providing a safety net when the market fails, and so forth — promote entrepreneurship indirectly, and they can take additional steps to ease the way for the entrepreneurially inclined. The following policy options are directed at this work of facilitation.

Don't neglect small and medium-size enterprises. Programs that aim to support the efforts of diaspora entrepreneurs to create wealth and jobs in their homelands often focus on the ends of the business spectrum: micro enterprises and high-value-added, knowledge-intensive industries. But small and medium-size companies should not be neglected, as they are often the most prolific job creators and are closely attached to local demand. In addition, they are least able to overcome bureaucratic impediments to business creation, corruption, and gaps in market information.

Foster the transformation of “necessity entrepreneurs” into “opportunity entrepreneurs.” As we have seen, necessity entrepreneurs normally contribute little to economic growth, although they do contribute to poverty reduction. In many cases, however, the constraints on necessity entrepreneurs are not intrinsic to them or their businesses; rather, they result from an economic environment unfriendly to small businesses and a dearth of external resources to help owners of such businesses improve their skills, raise adequate capital, and connect them with the larger market. Programs that aim to promote diaspora entrepreneurship should be alert to small-scale businesses with potential to grow. For example, one immigrant who returned to Mexico from the United States⁷⁸ built a small fruit-processing factory and found that his products were in demand. He managed to get his products accepted by the local Walmart — a breakthrough for a small entrepreneur. However, Walmart's just-in-time stocking procedure meant that he was responsible for replacing his products as they sold, almost jar by jar. Since the Walmart was two hours' drive from his factory, the transportation costs were uneconomical and he could not maintain the retail link. This is the kind of problem that a cooperative effort among small producers might have been able to resolve, with support and advice from other companies, government programs, or public-private partnerships. The diaspora entrepreneur in question here was fortunately able to seize another opportunity: bottling water from a spring on his property for the local hotel trade, whose clients preferred to drink a natural, local product. In trying to build his customer base for one set of products, he discovered a market for another.

78 Salvatore Chaves, interview with Kathleen Newland facilitated by Rolando Garcia Zamora, Zacatecas, March 2009.



Create and/or support diaspora business forums. This was among the recommendations of a 2008 seminar, “Engaging African Diaspora in Europe as Strategic Agents for Development in Africa,” convened by the African Diaspora Policy Centre in the Netherlands.⁷⁹ Some activities of this nature have already been implemented at the national level. For example, the Ministry of Foreign Affairs of the Democratic Republic of Congo convened the first “Congoese Diaspora Investment Forum” in August 2009, in collaboration with the Centre for Migrants and Congoese Abroad and other partners. Its purpose was threefold: to assess the support of the diaspora for development efforts in the Democratic Republic of Congo (DRC), to analyze the difficulties that diaspora members have when they do try to invest in the DRC, and to develop proposals to overcome the difficulties and promote investment. The forum gave members of the diaspora an opportunity to share their experiences of obstacles to entrepreneurship and their ideas for solutions to them.⁸⁰ Such opportunities for communication among stakeholders — in this case, other diaspora members and government officials — may open the door to greater cooperation. Donors may consider supporting diaspora meetings, helping to ensure that they are designed to reach the right set of participants and have practical follow-up mechanisms.

Consider innovative programs, such as matching grants, to help capitalize new ventures or expand existing ones. Access to capital is one of the persistent problems for entrepreneurs, especially those who operate on a small scale. Many financial institutions are not accustomed to dealing with small loans that lack conventional collateral. A recent survey on return migration and small enterprise development in Algeria, Morocco, and Tunisia found that access to finance ranked first among the problems faced by returning migrant investors.⁸¹ A number of programs, such as Mexico’s 1x1 program and the ADM, profiled above, offer matching grants to small-scale entrepreneurs. In addition, the government of Norway in 2008 initiated a matching grant program for Pakistani residents of Norway who wished to invest in Pakistan, and Western Union has provided small grants to diaspora investors in Mexico.

Preserve the role of competition in allocating capital. One concern about a grant-based model of support for small-scale entrepreneurship is that no market mechanism is necessarily built in to direct capital to its most productive use. Some grant programs, such as USAID’s ADM, use a contest in lieu of the market mechanism, an effective way (assuming expert judges) to reinject competition into the allocation of resources. Competitions also help to overcome another obstacle for SMEs: the difficulty of making their ventures known to partners who might be able to help them grow.

Establish risk-sharing mechanisms. Programs to support entrepreneurs should consider establishing risk-sharing mechanisms, mimicking the operations of commercial venture-capital firms. If an investment proves profitable, the program’s share of the rewards could be invested in a fund that would make additional investments possible. Unlike loan programs (which may also be valuable), the investment fund model does not create a liability for the entrepreneur, which may allow more latitude for risk-taking. Loan insurance programs and credit guarantees are additional means of reducing the risk of investing in a new business.

Insist on rigorous evaluation of programs to encourage diaspora entrepreneurship. Programs funded by nonprofit organizations or governments need to make the same effort to rigorously evaluate their own progress that private investors make when their own money is at stake. Real-time evaluations of ongoing programs are essential to making course corrections, and retrospective

79 African Diaspora Policy Centre, “Engaging African Diaspora in Europe as Strategic Agents for Development in Africa,” Seminar Report, Brussels, June 25–26, 2008, www.diaspora-centre.org/Migration_Development/Expert_Meetings/Enhancing_Dialogue_between_A/Engaging_African_Diaspora_in.

80 Posting by the Centre for Migrants and Congoese Abroad on m4d listserv, July 14, 2009.

81 Flore Gubert and Christophe J. Nordman, 2009, “Return Migration and Small Enterprise Development in the Maghreb,” Presentation at the World Bank Conference on Diaspora for Development, Washington, DC, July 14, 2009, http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/Gubert_Nordman.pdf.



evaluations are key to designing effective future programs for the future, and avoiding the repetition of mistakes made in the past. The scarcity of capital makes it important to spend money productively and to avoid creating “moral hazard” on the part of entrepreneurs who do not have a business plan robust enough to survive without subsidy. (It also points to the importance of making information, mentoring, and training available to small-scale entrepreneurs so they can use their limited financial capital effectively to become self-sufficient or, better yet, profitable.)

Incorporate diaspora entrepreneurs in the planning of high-tech nodes of industrial development.

Many of the hot spots of global innovation are areas where universities, research laboratories, and high-tech industries are gathered together to create a critical mass of talent, skills, and investors. Government-backed R&D and world-class research facilities and universities will attract diaspora entrepreneurs to invest in their home countries.⁸² But diaspora entrepreneurs can also contribute to planning and populating these technology parks or special industrial zones, advising governments on the skill sets needed to attract venture capital and setting up businesses tied to global markets and networks. They may also play a direct role by locating businesses in the zones of innovation, mentoring local entrepreneurs, and training knowledge workers.⁸³ Millennium Science Initiatives (MSI) in Chile and Latvia offer models for engaging diaspora members in efforts to channel incremental government R&D resources into centers of excellence.⁸⁴ Perhaps even more important, diaspora entrepreneurs can help foster a culture of entrepreneurship in countries where it is not a traditional approach to business. Traditions of rote learning, exam-driven, or seniority-based systems of advancement, extreme deference to superiors, nepotism as a normal practice, avoidance of risk-taking, and other such cultural traits stifle entrepreneurship. The presence, example, and visible success of diaspora entrepreneurs may encourage local business people and professionals to shed these practices. High-tech industrial parks in emerging economies often strive to attract high-achieving diaspora members with the intention of creating a “culture within a culture” that is more conducive to entrepreneurship.⁸⁵

Regular consultations with diaspora professionals can help governments to identify strategic economic areas and attract diaspora resources to them. India, for instance, has identified health-care-related export services and medical tourism as important business opportunities, attracting customers looking for alternatives to the high prices charged in such countries as the United Kingdom, Canada, and the United States. India seeks to leverage its medical workforce to meet the global demand for health-care-related services and sees the diaspora as an important ally in this effort.

Use special incentives for diaspora entrepreneurship with caution. Governments commonly offer financial, social, and political incentives for diaspora members to create or invest in businesses in the country of origin. These include tax breaks or tax credits for businesses in strategic economic areas; ready access to policymakers; and reduction of bureaucratic and administrative red tape associated

82 Baumol, Litan, and Schramm, *Good Capitalism, Bad Capitalism*.

83 Mendoza Emprende 2008 in Argentina is a good example of how diaspora members offer to develop entrepreneurial skills among youth. See Agustina S. Paglayan and Mariano Lafuente, “Reversing the Brain Drain: The Role of the Argentine Diaspora in Building the Entrepreneurial Skills of Argentine Youth,” presentation at the World Bank Conference on Diaspora and Development, Washington, DC, July 14, 2009, http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/Paglayan_Lafuente.pdf; Agustina S. Paglayan and Mariano Lafuente, *Mendoza Emprende: Enhancing Youth Entrepreneurship in Argentina by Leveraging Its Diaspora* (Washington, DC: World Bank, 2008), <http://siteresources.worldbank.org/INTARGENTINA/Resources/MendozaEmprendeDisseminationReport.pdf>.

84 The World Bank provided a \$5 million loan and the Chilean government provided an additional \$10 million to support Chile’s MSI project. The MSI will fund three institutes (at \$1 million per year for five years) and ten centers of excellence (at \$300,000 per year for three years). See Alfred Watkins and Natalia Agapitova, “Creating a 21st-Century National Innovation System for a 21st-Century Latvian Economy,” Policy Research Working Paper 3457, World Bank, Washington, DC, 2004, www-wds.worldbank.org/servlet/WDSContentServer/WDS/IB/2004/12/07/000012009_20041207121312/Rendered/PDF/WPS3457.pdf.

85 The authors are indebted to Dr. Hiuyao Wang, director-general of the Centre for China and Globalization, for stimulating this line of thought.



with establishing and operating a business. Removing obstacles to diaspora investment is highly desirable, but some special privileges invite misuse. Ethiopia used to permit diaspora members to bring in a car for personal use tax-free, which led to a thriving import and resale business, open exclusively to expatriates, that evaded high customs and excise taxes on automobiles. China's favorable tax treatment of diaspora direct investment for a time led to the "round-tripping" of capital as Chinese investors sent their money to Hong Kong or Macau so that it could be brought back to China under the favorable provisions supposedly reserved for expatriates.

Roll out the welcome mat for diaspora entrepreneurs. A simple and perhaps obvious (but not necessarily easy) step that governments can take is to establish beyond a doubt that diaspora entrepreneurs are welcome in their countries of origin. Entrenched business interests may not welcome outsiders, even of a common origin, especially if they threaten to shake up established practices — such as the cozy relationships between government ministries and industrial conglomerates in East Asia or the oligarchies that dominate many other developing economies. A number of governments are not only reaching out to diaspora entrepreneurs but publicly celebrating their accomplishments and welcoming them as important economic actors.

Facilitate circular migration for diaspora entrepreneurs. An important step in promoting diaspora entrepreneurship is to make it easy for diaspora business owners or investors to travel between their country of origin and their country of settlement. Multiple reentry permits, long-term visas, and dual citizenship are all tools that enable transnational entrepreneurs to actively supervise their investments. Other market opening measures, such as reducing tariffs on imported raw materials and equipment into the country of origin, may also be essential to a transnational business.

Conclusion

Encouraging members of the diaspora to pursue entrepreneurial ventures seems a matter of common sense as an element of development policy. But it is, in some settings, controversial — especially in countries where state intervention in business is strong. State-run enterprises may see diaspora entrepreneurs as threats, and local businesses may resent incentives given to the diaspora if the same measures are not available to nondiaspora ventures. A more fundamental concern is over-reliance on diaspora entrepreneurship as a panacea for sluggish job creation and economic growth, especially in the context of return migration. Not all members of the diaspora or returning emigrants have the capabilities to become successful entrepreneurs. Many small businesses fail, wiping out savings and hope in the process.

Interventions to promote entrepreneurship must walk a fine line between opening opportunity and distorting markets. Development will not benefit from the creation of firms too weak to survive in a competitive environment; if enough businesses are created that survive only with external support, they may become a strong enough lobby to demand subsidies and exclude more competitive businesses.

As might be expected, research confirms that potential diaspora entrepreneurs are discouraged from investing or starting businesses if their home countries are wracked by violence (political or criminal); lack transparent local information on investment risks; exhibit a historically poor business environment; and lack infrastructure and amenities such as reliable water and electricity supplies, decent schools, and transportation links.⁸⁶ Peace, stability, and the construction of basic infrastructure

86 Hassan Sheikh and Sally Healy, *Somalia's Missing Million: The Somali Diaspora and Its Role in Development* (New York, NY: United Nations Development Programme, 2009), www.so.undp.org/index.php/View-document-details/70-Forging-Partnerships-with-the-Somali-Diaspora.html



are prerequisites for substantial diaspora investment, as they are for so many other development processes.

Diaspora entrepreneurs, like all entrepreneurs, succeed by identifying opportunities and moving to take advantage of them. Members of a diaspora have both advantages and disadvantages in pursuing opportunities in their countries of origin. They are more likely than people without ties to the country to understand the opportunity structure and to have connections and “cultural capital” that facilitate their undertakings. They also bring knowledge and understanding acquired outside the country that may help them to see possibilities that are not apparent to people who have never lived elsewhere. On the other hand, diaspora entrepreneurs often encounter entrenched attitudes, resentment from nonmigrants, and administrative barriers in bringing money, materials, and equipment from abroad. However, the most abundant resources of the entrepreneur are ingenuity and persistence. Governments, multilateral institutions, diaspora organizations, and other civil society groups can help diaspora entrepreneurs to tap the resources they need and clear obstacles to realizing their ventures — or at the very least, they can get out of the way.



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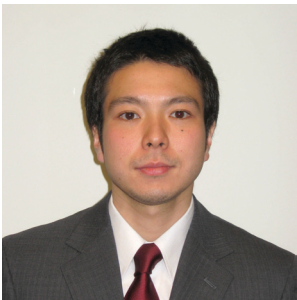
About the Authors



Kathleen Newland is Co-Founder of the Migration Policy Institute and directs MPI's programs on Migrants, Migration, and Development and Refugee Protection. Her work focuses on the relationship between migration and development, governance of international migration, and refugee protection. Previously, at the Carnegie Endowment for International Peace, she was a Senior Associate and then Co-Director of the International Migration Policy Program (1994-2001). She sits on the Board of the International Rescue Committee and is a Chair *Emerita* of the Women's Commission for Refugee Women and Children. She is also on the Boards of the Foundation for the Hague Process on Migrants and Refugees and Kids in Need of Defense (KIND).

Prior to joining the Migration Program at the Carnegie Endowment in 1994, Ms. Newland worked as an independent consultant for such clients as the UN High Commissioner for Refugees (UNHCR), the World Bank, and the office of the Secretary-General of the United Nations. From 1988-1992, Ms. Newland was on the faculty of the London School of Economics. During that time, she also co-founded (with Lord David Owen) and directed Humanitas, an educational trust dedicated to increasing awareness of international humanitarian issues. From 1982 to 1988, she worked at the United Nations University in Tokyo, Japan. She began her career at Worldwatch Institute in 1974.

Ms. Newland is a graduate of Harvard University and the Woodrow Wilson School at Princeton University. She did additional graduate work at the London School of Economics.



Hiroyuki Tanaka is a student at Tsinghua University and former Associate Policy Analyst at the Migration Policy Institute, where he worked between 2006 and 2010, specializing in transatlantic migration and global mobility security issues. He has published numerous book chapters, reports, and articles including: *Transatlantic Information Sharing: At a Crossroads* (2010), *Hybrid Immigrant-Selection Systems: The Next Generation of Economic Migration Schemes* (2009), and *North Korea: Understanding Migration to and from a Closed Country* (2008).

Mr. Tanaka interned as a Guggenheim Intern and Oscar S. Straus Fellow at the Vera Institute of Justice, where he researched language access programs around the world and immigrant-police relations in the United States. As an undergraduate fellow of the Policy Research Institute for the Region, he organized events that addressed key policy issues affecting disadvantaged youth in the New York-New Jersey-Pennsylvania region. He also served as American Society of French Legion of Honor Fellow at the Presidential Cabinet of the French Senate, where he helped organized Tremplin Entreprises, France's premier venture capital conference.

Mr. Tanaka holds a BA with honors from Princeton University, where he majored in the Woodrow Wilson School of Public and International Affairs and earned certificates in European Politics and Society and French. He also studied at the Institut d'Etudes Politiques in Paris as a member of a task force on immigration policy in Europe.

The Migration Policy Institute is a nonprofit, nonpartisan think tank dedicated to the study of the movement of people worldwide. MPI provides analysis, development, and evaluation of migration and refugee policies at the local, national, and international levels. It aims to meet the rising demand for pragmatic and thoughtful responses to the challenges and opportunities that large-scale migration, whether voluntary or forced, presents to communities and institutions in an increasingly integrated world.

www.migrationpolicy.org

1400 16th Street NW
Suite 300
Washington, DC 20036

Tel: 001 202-266-1940
Fax: 001 202-266-1900