



Diaspora Direct Investment Policy Options for Development

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ABSTRACT

In today's globalized world, goods and capital are flowing as never before. The movement of people across borders has also enlarged significantly. About 215 million people live away from their home country and many members of such Diasporas are prospering abroad and are eager to extend such success by investing in their homeland. In this paper we explore the impacts of Diaspora Direct Investment (DDI) on international development, i.e. we look at how direct investments from foreign companies connected to Diaspora members (i.e. diaspora-owned firms or firms with diaspora members in the top management) boost productive activities in the home country of such people. One of the main advantages of DDI is that it is more stable than other types of FDI, particularly during unfavorable economic conditions, because of the emotional connections of diaspora members to their country of origin. Moreover, such companies engaging in DDI are often seen as the "first movers" into a country due to potential advantages they have in terms of knowing the culture and having social networks in the home country. This may act as a catalyst for further investment from other companies by providing market and operational information about the homeland to potential investors. We focus particularly on the experience of Latin America and analyze policy options to design comprehensive diaspora strategies that maximize investments, institutional development and the flow of talent and ideas. Such strategies, which would ideally involve Diaspora members in their formulation, can give Diaspora entrepreneurs support in terms of networking, mentoring and training (e.g. business incubators). Nonetheless, a more mature stage of diaspora engagement would be achieved with the development of venture capital funds as well as other sources of financing (e.g. matching funds). The smart utilization of digital technologies for connecting Diasporas empowers all such policy options.

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Key words: Diaspora Direct Investment, Migration, International Economics, Foreign Direct Investment

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1. INTRODUCTION

In today's globalized world, goods, capital, people, and ideas are flowing as never before. In this inter-connected scenario, we often hear that Foreign Direct Investment (FDI) is key for economic growth, particularly in emerging countries. Foreign individuals and companies invest money in productive activities that foster development. But what are the implications if those making investments from abroad are actually nationals of, or otherwise related to, the country receiving the investments? About 215 million people live away from their home country,¹ and an important share of people in these diasporas are prospering abroad. In this paper we explore the role of Diaspora Direct Investment (DDI) in international development and analyze policy options to design comprehensive diaspora strategies that take full advantage of this phenomenon.

Institutions such as the U.S. Agency for International Development (USAID) have already explored stories of success in different regions and continents. It is sufficiently demonstrated that DDI can boost economic activity and, although our focus in this report is on how DDI can boost economic development in Latin America, we analyze various examples internationally in order to draw policy conclusions.

In Section 2, we define what DDI means and briefly discuss the role it can play in Latin America and other regions. In Section 3, we look at how DDI can generate positive impacts for the firms themselves and for the homeland economies. We make the distinction between FDI, DDI, and international remittances. In Section 4, we discuss potential barriers for the successful completion of DDI and present some of the programs that have been implemented internationally in order to enable such flows of investment. In Section 5, we discuss policy options.

¹ As mentioned by Aikins and White (2011), this figure has doubled in the last twenty-five years and represents 3 percent of the world's population. If migration continues to grow at the same pace as over the past twenty years, some analysts predict there could be 405 million international migrants by 2050.

2. WHAT IS DIASPORA DIRECT INVESTMENT?

The International Organization for Migration provides a broad definition of diasporas as “members of ethnic and national communities, who have left, but maintain links with, their homelands. The term ‘diasporas’ conveys the idea of transnational populations, living in one place, while still maintaining relations with their homelands, being both ‘here’ and ‘there.’”² Diaspora members regard themselves as being of the same ethno-national origin and often permanently reside as minorities in a host country (USAID 2009).

Diasporas usually involve sociopolitical formations created as a result of either voluntary or forced migration. Nevertheless, the concept of diaspora covers multiple realities that differ from country to country: people settled in a host country on a permanent basis, labor migrants based abroad for a period of time, dual citizens, ethnic diasporas, citizens of the host country, or second-generation groups. Therefore, diaspora members in a given country are not necessarily migrants.

The norms of reciprocity and trustworthiness that characterize groups of people, such as those belonging to diasporas, create a type of social capital (i.e., networks and contacts) that may be as crucial as financial capital for economic development. Social capital combines with human capital (skills and knowledge) in the formation of durable social relations that fill transnational social spaces.³

Diaspora Direct Investment (DDI) refers to direct investments from companies connected to diasporas in productive activities in the home country of such diasporas.⁴ Diaspora members can foster those investments in two ways: (i) those who are top executives of firms abroad and use their managerial experience and technical know-how to persuade their respective companies to invest in their countries of origin; (ii) those 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. In other words, diasporas

²Chander (2001) defines diasporas as “that part of a people, dispersed in one or more countries other than its homeland, that maintains a feeling of transnational community among a people and its homeland.”

³ The created communities and social networks link together the host country and the country of origin.

⁴This definition does not include migrants that return to their home society to establish businesses. Massey and Parrado (1998) show that international migration fosters business formation in the case of Mexico.

drive part of FDI, particularly investments that rely on a transnational social network made up of migrants and migrant mechanisms operating between host and home countries.

DDI is a part of a larger transnational superstructure contributing to the integration of societies into the global economy via an interconnectedness of donations, small and large investments, trade, tourism, and unilateral transfers (Orozco 2004). Countries with mature diaspora networks also seek to encourage domestic companies to expand abroad through the diasporas.⁵

Therefore, DDI plays an important role in development for some countries. The Indian diaspora is estimated to have invested USD 2.6 billion out of USD 10 billion of FDI in India between 1991 and 2001 (Wei and Balasubramanyam 2006) and, as we discuss below, it has played a key role in the development of the service industry in the subcontinent. Armenia is often cited as an example of the potential of DDI: between 1998 and 2004, diaspora investment accounted for 25 percent of total FDI flows (Riddle, Hrivnak, and Nielsen 2010). A boost in investments through DDI becomes an alternative for countries that are lacking sufficient investments through “traditional” FDI. This is the case in Africa, where FDI has been steadily declining due to a combination of cultural barriers and inappropriate policies (USAID 2009).

Latin America is one region that has sent a large number of migrants abroad and has the potential for significant economic growth through DDI. For years, research has suggested that diasporas are prepared to invest in capital ventures in their home countries in Latin America (Massey and Parrado 1998). Mexico, which is the largest exporter of migrant workers in the region and one of the largest in the world, often serves as an example of diaspora networks and returning workers who have learned skills and earned the necessary capital for enterprise creation at home. Nevertheless, in Central American countries, where emigration represent a higher fraction of their labor force and the remittances they send back

⁵The Technology Business Acceleration program (TechBA) in Mexico, for instance, is a business development organization working with Mexican start-ups and well-positioned companies on their international business strategies. Another example is the program Trade for Export Made by Argentinians, carried out by the Asociación Mutual de Empleo y Gestión Solidarios (Mutual GESOL), and supported by Hispanics in Philanthropy (HIP), whose objective is to facilitate and raise the volume of exported goods produced by over 600 entrepreneurs in Buenos Aires by connecting them to relevant members of the Argentina diaspora who could help incubate their products.

home account for a striking percentage of national income, the potential for DDI is particularly high.⁶

⁶In Honduras, for instance, individuals living overseas represent around 3.7 percent of the total population. But regarding the remittances these people send back to Honduras, the tendency has been an increase from less than 2 percent of GDP in 1990 to 21 percent in 2007. In Nicaragua, international remittances have also been increasing since the mid-1990s, reaching annual flows of more than 10 percent of GDP. These figures are extremely high when compared against the average of international remittances of 2.5 percent of GDP in the entire developing world (Garcia and Rodriguez-Montemayor, 2009).

3. WHY IS DDI EXPECTED TO BE GOOD FOR ECONOMIES?

Diasporas have often been linked to the *institutional development* of their homeland (i.e., encouraging a more competitive regulatory environment and pushing for reforms in areas as diverse as public finance, education, innovation, health care, and infrastructure provision) and are often identified as a potential *source of talent and skills* (Kuznetsov 2010).⁷ These two factors are important enablers of economic growth. We focus on an additional factor: how diasporas drive *investments* in the homeland and the specific economic impacts of this.

The relationship between diaspora networks and international trade has been explored extensively in economics (e.g., Gould 1994; Mundra 2005). Authors such as Javorcik et al. (2011) and Ruey-Jer, Tan, and Sinkovics (2011) have also tested the impact of ethnic ties and migrant networks on firms' decisions on where to invest. However, there is ambiguity as to whether these flows are attributable to diaspora-owned firms, companies employing members of the diaspora, or other factors entirely (Leblang 2010).⁸

Diasporas also drive international remittances, and there is research about their impacts on entrepreneurship in home countries. Amuedo-Dorantes and Pozo (2006) find that remittances are attracted by the presence of investment opportunities back home, which translates into higher household ownership of businesses. Vaaler (2011) finds that remittances are linked to new business start-up rates. Therefore, migrants are increasingly important for financing new businesses in their home countries.⁹

DDI differs from international remittances in that the latter involves people sending money to family members in the country of origin ("home" country), and although family members may then invest such remittances in productive activities (and not only "consume" that money), DDI focus exclusively on companies' direct investments. DDI is also presumably economically superior to remittances in that a larger pool of potential investments (outside of the limits of the family) ensures more efficiency in the use of resources.

⁷Furthermore, diasporas may also have impacts on home countries as a source of "soft power"; i.e., diaspora members sometimes have a say about economic and political matters in the home country.

⁸This uncertainty remains because the existing empirical literature examines aggregate cross-national flows of FDI, which do not allow researchers to distinguish directly between flows of diaspora and non-diaspora investment. To identify the causal mechanism linking migrant populations to flows of investment, it is necessary to differentiate the behavior of diaspora-owned firms from that of other foreign firms.

⁹Woodruff and Zenteno (2007) show this in the case of Mexico.

Table 1 explains some of the economic benefits of DDI. Some of these benefits are similar to those brought by traditional FDI. Diaspora investments have the potential to bring to emerging markets knowledge and skills, superior technology, and improved business practices, in addition to financial capital.¹⁰ Positive externalities—spillover effects—take place when local firms observe and imitate practices of foreign investors.¹¹

Table 1. The Potential Benefits of DDI

Type of Benefit	Description
Brain Gain	When educated workers leave a country, that country faces a brain “drain” because it is losing skills relevant for its economy. In general, such countries invested in the education of those emigrants. This problem is particularly big in Africa. A brain “gain” occurs when talented migrants return to their home countries and bring knowledge, capital, and access to advanced markets in developed countries. Moreover, they can give advice to domestic entrepreneurs.
Technology Transfer	DDI is expected to bring better business practices and technology to suppliers and distributors (particularly because diasporas know better the technological needs of the home country). Unlike FDI, in which foreign entrepreneurs may be unwilling to share their technology with local workers (Javorcik and Spatareanu 2005), DDI may be less subject to this because diaspora investors may be less profit-driven (Nielsen and Riddle 2009; in the TRstudy of remittances, altruism is one of the important drivers). This is a hypothesis that has to be analyzed empirically.
Stable Financial Investments	Diaspora investors are less averse to political risk and economic shocks than other foreign investors. They are not only driven by altruism but also by other non-pecuniary reasons such as cultural affinities and market knowledge (Nielsen and Riddle 2009). They are more likely to invest and less likely to pull out in the face of risk (Gillespie et al. 1999). This is a hypothesis that has to be analyzed empirically for LAC.
DDI Attracting FDI	Diaspora investors and entrepreneurs can play a critical role in attracting non-resident FDI by setting up joint ventures and promoting export for domestic companies.

Note: This table contains information extracted from USAID (2009), in addition to the sources mentioned in the table text.

¹⁰If diaspora members someday return to their home country (either in a process of circular migration or in a definite return), they may bring back further foreign knowledge and capital (Mayr and Peri, 2008). It has to be said, though, that diaspora members do not have to return home to play a significant role in the economy.

¹¹Foreign multinational companies do benefit from these investments because they create more efficient supply chains, lower costs, and increased profitability. However, there is still debate regarding whether FDI really enhances economic development in emerging markets.

Why is DDI potentially superior to FDI? First, DDI may be more stable than other types of FDI, particularly during unfavorable economic conditions, because of the emotional connections of diaspora members to their country of origin. Diaspora members seem more inclined to invest in their homeland, and authors such as Gillespie et al. (1999) explore concepts of ethnic advantage, altruism, homeland orientation, and perceptions of business impediments in order to explain such an interest.

Moreover, diaspora-owned firms or firms managed by diaspora members are often seen as the “first movers” into a country, which may act as a catalyst for further investment from other companies by providing market and operational information about the homeland to potential investors and brokering relationships with buyers, suppliers, partners, government officials, and lending institutions in the homeland (Riddle, Brinkerhoff, and Nielsen 2008).

These firms are ideal first movers and facilitators of capital acquisition and investment because they benefit from a specific informational advantage: common cultural background, including familiarity with the language (Leblang 2010) and information about regulations and procedures.

Diaspora-related foreign firms also benefit from established social links between the diaspora and local entrepreneurs in the home country, which help them reduce transaction costs of new entry and building new partnerships.¹² There is plenty of literature in the area of management that shows the link between social networks and firm performance.¹³ Diaspora social networks in the homeland are also good enablers of trust and contract enforcement (Javorcik et al. 2006).

Beyond direct investments, diaspora members can also support investments of other companies (local or foreign) in the home country by enabling ancillary services such as selecting the right firms for business partnerships, mentoring entrepreneurs, hiring executives, formulating strategies, etc. One prominent example is India. Members of the Indian diaspora in the United States, many of them working in Silicon Valley, played a key role in developing the IT industry in India by providing knowledge and also managerial and specialized labor.

¹²In a recent working paper, Graham (2011) argues that diasporans have important social network-based advantages over non-diaspora-owned firms, and that these competitive advantages explain the relationship between diaspora populations and investment flows.

¹³Some examples include Nahapiet and Ghoshal (1998), Lester and Cannella (2006), and Wills-Johnson (2008).

Diasporas are a national asset for the homeland because their companies invest there and also because they help other companies invest, which undoubtedly is a strategic and valuable asset in today's globalized world.

4. DIASPORA ENGAGEMENT STRATEGIES AND DDI PROGRAMS

Diaspora engagement strategies extend across a range of social, cultural, political, educational, and financial dimensions. Boyle, Kitchin, and Ancien (2009) define a diaspora strategy as “an explicit and systematic policy initiative or series of policy initiatives aimed at developing and managing relationships between homelands and diasporic populations.” Countries tend to pursue similar initiatives, with much in common in terms of philosophy and approach, but there is no ‘one size fits all’ diaspora strategy (which is to be expected because countries are different and the history of their diasporas is different).

Figure 1. DDI Programs are Part of Diaspora Engagement Strategies



Diaspora engagement strategies often set objectives in different dimensions: how to better use international remittances, how to facilitate access to the skills of migrants (including repatriation programs), and how to create networks (see Figure 1). There is, in particular, important literature about diaspora networks and skills (see Box 1). Several countries are implementing programs to have access to such skills. In Taiwan, for instance, the government established a database to track skilled migrants and matched them with job opportunities to encourage them to return.

We focus particularly on policies and programs that seek to promote productive investments from abroad that are linked to diaspora members. Such programs are aimed at overcoming a series of barriers that may limit the expansion of DDI and other productive activities linked to diasporas.

Box 1. Diaspora Networks and Skills

International migration and the creation of diasporas often affect the composition of skills in the receiving countries, affecting their labor markets. Sometimes the impact is positive; sometimes it is negative. For instance, Borjas (1996) suggested that the increasing importance of Mexican immigration in the United States is partly responsible for the deterioration in relative skills observed in the aggregate immigrant population.

In terms of the home country, there is also a debate regarding whether the emigration of workers is actually good or bad for the domestic economy. In terms of talent, in particular, there are fears of a brain drain, i.e., losing the most skilled people. Although Borjas (1987), followed by an important body of work, first proposed that in Latin America there would be negative selection of immigrants (i.e., those with the greatest incentive to migrate will be individuals with below-average skill levels in their home countries), he and other researchers (e.g., Chiquiar and Hanson, 2005) years later confirmed that immigrants from countries like Mexico appear to be relatively higher-skilled individuals.

Nevertheless, more recent literature reveals that the emigration of workers actually improves the availability of skills in the home country. The brain-drain literature demonstrates that skilled migration can boost the average level of schooling in developing countries (Docquier et al., 2008), since once people have higher prospects of emigrating one day, they seek to acquire higher skills. Return migration of skilled people is another channel of brain gain (Mayr and Peri, 2008). However, the usual policy focus—encouraging the return of talent to the home country—is often not realistic nor necessary (Kuznetsov, 2010): members of skilled diasporas can just as effectively engage in joint continuous projects with the home country without permanently relocating to it (a phenomenon called “brain circulation”). The concept of brain circulation is replacing the traditional concepts of brain drain versus brain gain because of the growing mobility of human talent across international boundaries (Tung, 2008).

Governments and expatriate groups have tried to form mutually beneficial transnational communities in countries with sizable diasporas. Many of these networks build on the experience of the United Nations Development Programme’s Expatriate Nationals Program, which facilitates the transfer of knowledge. The South African Network of Skills Abroad has identified some forty such networks, such as the Arab Scientists and Technologists Abroad, the Network of Colombian Researchers Abroad, the Iranian Scientific Information Network, the Global Korean Network, the Philippines Brain Gain Network, the Polish Scientists Abroad Group, the Association of Thai Professionals in North America and Canada, and the Tunisian Scientific Consortium (Kuznetsov, 2006).

Barriers to Effective DDI

A great part of the academic literature on transnational diaspora entrepreneurship has examined the phenomenon post hoc, exploring the social characteristics and business activities of diasporans who have undertaken successful transnational enterprises. For instance, Gigante Express, the largest remittance transfer agency in Central America, was built by a migrant who returned home from the United States and leveraged the necessary skills and education (and was also familiar with the local wages and economic conditions). Less attention has been paid to identifying specific obstacles that impede the successful development of projects initiated by diasporas (Riddle, Hrivnak, and Nielsen 2010).

Diaspora transnational entrepreneurs face multiple institutional challenges if their country of origin is a developing country. Table 2 shows some barriers, both in the country of residence and in the country of origin, which may limit the expansion of DDI. Riddle, Hrivnak, and Nielsen (2010) discuss these barriers in more detail. For instance, in the country of residence, diasporans often face obstacles to full labor-market incorporation due to discrimination and other structural impediments. In the country of origin, given they are usually emerging markets, labor markets are often characterized by high levels of unemployment and/or underemployment. Similar limitations are present in the educational system: low incorporation in the country of residence and bad quality in the country of origin. This limits the access that DDI have to human capital, which may discourage these investments. There are also barriers in terms of access to finance and also in terms of access to information.

Table 2. Barriers to DDI

	Country of Residence (COR) (usually a developed market)	Country of Origin (COO) (usually an emerging market)
Labor Market	Obstacles to full labor-market incorporation for diasporas	High levels of unemployment and/or underemployment
Educational System	Barriers that complicate the entry of diaspora members into educational institutions	Scarce high-quality educational institutions

Risk Capital Provider	Informality of entrepreneurs' financial assets (e.g., foreign assets) and drains on wealth creation (e.g., remittances sent to COO) make diaspora members less attractive to financial institutions for giving loans.	Inefficient local credit markets limit debt financing for SMEs. Low loan attractiveness
Information	Asymmetric knowledge of institutions that collect information on producers and consumers in COO	Few institutions that provide information about producers, consumers, and regulatory environments.

Note: some of the items included in this table were obtained from Riddle, Hrvnak, and Nielsen (2010).

Given such barriers, policy intervention is usually desirable. However, national and local governments in the countries of origin usually do not have the resources to directly finance all DDI programs.¹⁴ For instance, numbers presented by IOM (2010) for Mexico show that from the total budget of the Ministry of Foreign Affairs, approximately 6 percent (USD 24 million) was spent on services provided to Mexicans abroad. Part of this money funded the Institute for Mexicans Abroad (IME)—the key agency driving Mexico's diaspora agenda, consular activities, and other related programs. However, at approximately USD 2.8 million, IME's budget for 2009 was the smallest portion of the Ministry of Foreign Affairs' total budget for services to Mexicans abroad. Therefore, governments can support DDI and the engagement of diasporas in other forms through innovative DDI programs that involve private companies and other partners.

Policies and Programs in Latin America and the Caribbean (LAC) That Foster Diaspora Investment

National governments, multilateral organizations, and private companies have established programs, either country-specific or regional, to encourage emigrants and their descendants to invest in their home countries. The majority of these programs involve public-private partnership. Table 3 summarizes some important programs in Latin America for fostering investment from diasporas, either in the form of direct investment or in the form of international remittances used for productive activities. This allows us to identify some *key success factors*.

¹⁴ For measuring the “adequate” level of spending, one may consider the percentage of the country’s population that lives abroad or the level of international remittances as percentage of GDP.

The first is the engagement of high achievers. There is the premise that DDI programs should aim to engage key diaspora members, instead of trying to achieve high mass mobilization (Aikins and White, 2011). Although the latter is indeed essential for overall awareness of a country and its culture, the high-achievers model focuses on “champions” by targeting those who can influence corporate investment and decision-making processes. Chile Global, for instance, engages high achievers for mentoring start-ups in Chile. The Padrino program in Mexico, by contrast, seeks to engage them by directly investing in local community projects.

A second success factor is access to finance. For instance, Fund El Cucayo in Ecuador helps cover the seed capital with a viable business plan or funds for expansion of a proven profitable business. In other countries, funds come in the form of matching contributions, such as the program 3x1 in Mexico, because the objective is to encourage diaspora members to invest in productive activities via an incentive scheme.

A third factor has to do with knowledge and sharing of best practices. El Salvador, for instance, has conducted courses on diaspora-homeland partnerships, based on practical models from Israel’s and other countries’ experiences. Grants from Fund El Cucayo, which enable access to finance, also enable knowledge, because they are usually accompanied by technical assistance.

Table 3. Programs/Policies in LAC That Can Be Used to Promote DDI

Country	Program/Policy	Main Lessons
Chile	Fundación Chile	This public-private foundation 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.
Chile	Chile Global—network of high achievers of Chilean origin	Created in 2005, it is part of Fundación Chile and designs and finances business projects through its network of about one hundred influential Chileans living in the United States, Canada, and Europe. Its mission is to promote and facilitate the development of key economic clusters in Chile (particularly start-ups) by reinforcing their links with Chileans residing abroad who are working to introduce innovative technologies to Chile and can offer mentorship. The fund is also developing an early-stage venture capital (VC) industry, similar to an experience that took place in Taiwan. ¹⁵
Chile	Interministerial Committee for Chilean Communities Abroad	This committee's objective is to formulate public policies on the diaspora. The committee is composed of twelve public institutions.
Ecuador	Fund El Cucayo	It helps entrepreneurial Ecuadorian migrants start or expand an individual business or a corporation. Awards cover 25–50 percent of the needed seed capital with a viable business plan or funds for expansion of a proven profitable business in amounts ranging from USD 500 to USD 50,000 maximum, depending on the type of enterprise. In addition to a capital grant, awardees obtain technical assistance, training and mentoring, and linkages to public banks to access credit.
El Salvador	Social Investment Fund	The fund's objective is to funnel diaspora remittances toward local development projects.
El Salvador	Courses for learning best practices	El Salvador invited the Center for International Migration and Integration (an organization founded by the American Jewish Joint Distribution Committee) to conduct a course on diaspora-homeland partnerships. The course drew upon practical models from Israel's and other countries' experiences.

¹⁵ The development of the VC industry in Taiwan is remarkable. New laws for VC industry and institutions such as Seed Fund provided matching capital contributions to private VC funds. Two American-style venture funds, H&Q Asia Pacific and Walden International Investment Group, were also created in the mid-1980s. They were managed by U.S.-educated Chinese living overseas who received invitations to relocate to Taiwan. Once the first venture funds proved successful, domestic banks and large companies created their own VC funds. Once those started to pay off, even conservative family groups decided to invest in VC funds and information technology businesses (Kuztnentsov, 2010).

El Salvador	Vice-ministry of Foreign Affairs	<p>It is charged with acting as a liaison to the diaspora, building a relationship with it and understanding its needs. The office identified community leaders and created a directory of organizations.</p>
Guatemala	Vice-ministry of Migration and Human Rights	<p>It is charged with acting as a liaison to the diaspora, building a relationship with it and understanding its needs.</p>
Mexico	Diaspora Councils—Institute of Mexicans Abroad (IME)	<p>It is charged with acting as a liaison to the diaspora, building a relationship with it and understanding its needs. IME has collaborated with an advisory and consultative body—the Consultative Council of IME (CCIME). The 2006–2008 CCIME had one hundred of its members elected by the Mexican communities served by each of the consulates in Canada and the United States; fifteen members were appointed based on merit and career.</p>
Mexico	Mexican Talent Network (Red de Talentos Mexicanos)	<p>Founded in 2005 by the Secretariat of Foreign Relations in partnership with the IME and the National Council on Science and Technology (CONACYT) and with the financial support of the United States–Mexico Foundation for Science. It 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.</p>
Mexico	Padrino Program	<p>It is geared toward successful Mexican-American businesspeople, who are encouraged to invest in one or more of the over 1,000 projects identified by the Presidential Office for Mexicans Abroad in consultation with the local communities.</p>
Mexico	Matching Funds—3x1 Program for international remittances	<p>Program whereby different levels of government allocate a dollar or more for every dollar invested by migrant organizations in their communities. Contributions from Mexican hometown associations (HTAs) abroad are matched by federal and local governments in Mexico. It has been replicated in other Latin American countries.</p>
Mexico	1x1 Program	<p>Created in January 2009, it matches individual migrants’ investment funds for business projects with government money (up to USD 25,000). 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 3x1 program. Thus, the 1x1 program supports both individual business investment by small entrepreneurs and collective community investment.</p>
Mexico	Western Union 4+1 program	<p>Western Union augments the support for productive projects generated by Sedesol’s 3x1 program by adding a fourth contribution (up to a limit of USD 25,000) to the three matching contributions offered by municipal, state, and federal governments in Mexico to the collective investment made by a Mexican HTA to a productive project.</p>
Several countries	Hometown Associations	<p>Membership is usually comprised of migrants in the United States from a specific community or region in the origin country. Among the Central American diaspora, local community development projects have spread through the activism of HTAs in Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama, and Belize. HTAs also play an important role in Mexico.</p>

At the end of the table we mention the role of hometown associations (HTAs). Although they tend to concentrate on health, education, infrastructure, or disaster relief, they can be used to promote DDI. Many HTAs and development agencies have expressed interest in targeting some of these funds, commonly referred to as “collective remittances,” not only for social development initiatives, but also for investments to build or strengthen community enterprises that can generate employment and asset-building opportunities in migrants’ hometowns (HIP 2011). However, as Orozco and Garcia-Zanello (2009) note, HTAs have many limits in terms of human capital, organizational structure, and communication links with the hometown that limit their effectiveness as diaspora investors.

Are these programs doing enough to maximize the benefits of DDI? Newland and Tanaka (2010) identify five types of support that programs can give to entrepreneurs in the country of origin:

- Networking (virtual or in-person networks)
- Mentoring (match aspiring entrepreneurs with diaspora experts)
- Training
- Investment funds
- Venture capital and partnerships (funds + management)

Programs 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.

The Mexican Talent Network is an example of a means for local business leaders and professionals to meet one another and discuss potential business and investment opportunities in the homeland. However, more passive forms of support are likely to proliferate and dissipate more quickly than the more active forms of support. The Fund El Cucayo, in Ecuador, is an example of a diversified approach, offering services of mentoring, training, and access to capital.

A more mature stage of diaspora engagement would be achieved with the development of a venture capital fund, but only a few of the programs listed above, such as Fundación Chile, are paying attention to the development of venture capital markets. Nor are programs considering mobilizing microfinance or other resources for investment. A number of microfinance schemes

are funded by diaspora organizations in other regions; that is the case in Africa with the creation of the Development Marketplace for African Diaspora in Europe. Matching grants are in place in some countries, but they usually focus on international remittances (e.g., x1 in Mexico or Programa Unidos por la Solidaridad in El Salvador) and are not yet ubiquitous in the region.

Other relevant policies to attract foreign investment are not being considered by the existing programs in Latin America. These 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. Policies can also aim at facilitating the operations of private capital funds that seek to foster diaspora investments. One example of such a fund is the Central Valley Fund, which manages more than USD 120 million for investments of diaspora-owned companies in Mexico.¹⁶

Another drawback of the current policy agenda in Latin America is that the current institutions (such as government agencies) are not involving diaspora members in the design of DDI-enabling programs. Although the maturity of institutions in countries of origin definitely facilitates per se the success of DDI programs, a good design of the DDI strategy with aligned interests is more important, particularly if it assures continuity of performance with the change of administrations (Kuznetsov 2010). Diaspora members can help facilitate the flows of investments in three ways: by defining the home country value proposition, by increasing the knowledge base of the governmental agencies, and by providing insights into market dynamics, the competitive landscape, local laws, and differences in regulatory frameworks.

¹⁶ More information at <http://eleconomista.com.mx/corto-plazo/2012/06/14/central-valley-fund-ii-apoyara-empresas-mexicanas>.

5. WHAT IS NEXT?

Policy Options

1. National Investment Promotion Agencies (IPAs)

A recent University of Oxford study showed that one dollar spent on investment promotion increases FDI inflows by 189 dollars, and that 78 dollars spent on investment promotion creates an additional job by a foreign affiliate (Harding and Javorcik 2011).

National Investment Promotion Agencies (IPAs), which are relatively recent public institutions, have now started to identify and leverage key partnerships in the NGO sector in order to effectively target, cultivate, and facilitate diaspora homeland investment. It has been shown that IPAs' spending is positively associated with FDI (Morisset and Andrews-Johnson 2004). However, little is known about best practices in DDI marketing (Riddle, Brinkerhoff, and Nielsen 2008).

The partnerships with diaspora organizations and other nongovernmental intermediaries serve to increase the depth and breadth of IPAs' DDI marketing (Riddle, Brinkerhoff, and Nielsen 2008). Riddle and Marano (2007) identified differences between typical IPA activities and diaspora-marketing activities. The motivations of diaspora investors and their need for knowledge and networks are different from other investors. IPAs traditionally market themselves to clients who lack local market and operational knowledge or personal relationships in their countries, which is not necessarily the case with diaspora members. IPAs must therefore adapt their traditional business-to-business marketing efforts for the specific needs of diverse diaspora communities.

Beyond direct investment, diasporas can support IPAs' objectives in a variety of ways, such as facilitating linkages and establishing trust. Diaspora investors often play "catalytic roles in creating home-grown multinational enterprises (MNEs)" (Ramamurti 2004).

One example of IPA-diaspora partnership takes place in the Dominican Republic through the Export and Investment Center (known by its Spanish acronym, CEI-RD). Riddle, Brinkerhoff, and Nielsen (2008) compare this experience to partnerships in other countries. Cooperation between CEI-RD and diaspora NGOs in the United States has been characterized as a series of informal meetings and social gatherings. When high-level officials from CEI-RD

make visits to the United States, they regularly call on the headquarters of various Dominican diaspora companies. Moreover, diaspora organizations are always invited to play a key role in investment-promotion fairs the CEI-RD sponsors in the United States. The informal diaspora social contacts cultivated during these meetings have served as useful sources of information for CEI-RD beyond their diaspora-marketing efforts. Diaspora members working within large multinational companies and that are targeted by CEI-RD for investment-promotion activities have provided CEI-RD with insights about contacts within their companies, thus helping increase the success rate of these sales calls.

2. Business Incubators

Riddle, Hrvnak, and Nielsen (2010) explore how business incubators contribute to the economic development of emerging markets by organizing their programs to bridge the institutional divides that transnational diaspora entrepreneurs face when establishing their multiterritorial ventures in these markets.

They define business incubators as “institutions that help entrepreneurs overcome the financial, human, and social capital impediments that they face during the ‘hatching’ phase of business creation, thereby overcoming market failures that create a ‘liability of newness’ for nascent firms.”

Some of these incubators may provide services exclusively to transnational diasporan entrepreneurs. Such services may include the facilitation of information through promotion and publicity, appraisal of entrepreneurial capacity and potential for success, formulation of business plans, market research, finding sources of financing, and counseling by a local business advisor during the start-up phase and the first months of operation.

3. Development of Clusters

Clusters of universities, research laboratories, and high-tech industries create a critical mass of talent, skills, and investors. Research has found that clusters enable a region to develop faster compared to dispersed economic activity, based mainly on a local concentration of competing and cooperating firms and sophisticated domestic demand (Sonderegger and Täube 2010).

Diaspora entrepreneurs could contribute to planning and populating these technology parks or special industrial zones by advising governments on the skill sets needed to attract

venture capital and setting up businesses tied to global markets and networks. They may also mentor local entrepreneurs and train knowledge workers.

The creation of clusters in India is a notable example. By the beginning of the new millennium, many venture capital companies in the United States required their start-up companies to have a back end in India in order to save on R&D costs. More than 300 start-ups had some form of back end in India and front end in the United States (Pandey et al. 2004). Sonderegger and Täube (2010) analyze the complementary role of non-local linkages, in particular diasporas, in the evolution of the Bangalore IT cluster. While the cluster's early emergence was predominantly a local (and domestic) phenomenon, non-local (foreign) ties did play a role in the growth phases of the cluster. Large parts of Bangalore's IT cluster have already progressed toward an expansion stage, in which diaspora networks facilitate investments by enabling ancillary services such as selecting the right firms for business partnerships, mentoring entrepreneurs, etc.). Return migration (mainly of people that had migrated into the United States) provided a much-needed source of managerial and specialized labor.

4. Diaspora Database and Meetings with High Achievers

Regular and relevant meetings in the home and host countries are essential to keep diaspora members informed, engaged, and active, but these meetings must target the right people. Many diaspora initiatives have failed because they did not identify the highly motivated individuals who were willing to stick with the initiative for a long time (Kuznetsov and Sabel 2006).

The example of India, particularly with Bangalore's experience as the Silicon Valley of Asia, is salient.¹⁷ The Indus Entrepreneur (TiE) and the Silicon Valley Professionals Association (SIPA) provided opportunities for *networking* and *information sharing* as well as role models and *sources of finance* for entrepreneurs (USAID 2009).

In Ireland, the Irish Leadership Technology Group (ITLG) in Silicon Valley has 1,500 members and organizes business visits, innovation award ceremonies, and leadership seminars. It is supported by an advocacy group of executives and professional advisors from both the public and private sector.

¹⁷The Indian diaspora utilize intellectual capital and knowledge-based industries to creating more value added.

There are some examples of this in the LAC region. In Chile, an intentionally small group of diaspora high achievers are invited to join an elite diaspora program, Chile Global, which currently has about one hundred members and is housed in Fundación Chile. One of the objectives is to facilitate the follow-up and implementation of ideas and investment projects of the diaspora members.

Engagement of key people is also important for the successful functioning of programs. In Mexico, for instance, the 3x1 program had the active involvement of many stakeholders, especially of the State and of hometown associations (HTAs) abroad. During the program's early phase in the 1980s, the Department of Planning's program director went on numerous trips to the United States to contact individual migrants from the same town or village who had settled in a given city. The local official organized migrants into HTAs and supported their efforts to raise money for projects whose proposals and budgets had been prepared by the State beforehand. The State also organized and funded at least seventeen visits for municipal presidents to campaign in American cities where their migrants worked and lived (IOM 2010). HTAs in the United States are involved in the identification, implementation, and monitoring of projects. Today, engagement of key individuals is more likely to take place over the Internet than in in-person meetings around the world.

5. Venture Capital Development

Different institutions have identified the need to develop the venture capital market for the expansion of DDI. Newland and Tanaka (2010) suggest that 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, the investment fund model does not create a liability for the entrepreneur, which may allow more latitude for productive risk-taking.

The development of the VC industry in Taiwan (established by key members of the Taiwanese government and leading overseas engineers in Silicon Valley) is one of the most remarkable examples of venture capital development that involved diasporas. Countries like Israel have also created viable venture capital industries. Yozma is a government initiative in 1993 offering attractive tax incentives to foreign venture-capital investments.

The development of venture capital markets could take advantage of some of the other measures discussed herein, such as the use of new technologies. For instance, African countries are very active in promoting venture capital from diasporas through social networks. VC4Africa is a fast-growing social network for investors and entrepreneurs dedicated to building businesses in Africa, currently with over 10,000 members. It facilitates active forum discussions and events focused on business in Africa, and it has also facilitated the creation of dozens of incubators. In 2011, it launched its new matchmaking platform: VC4Africa.biz. It currently has sixty-six ventures from nineteen African countries open for funding.

6. Matching Funds

This approach intends to provide room for bottom-up creativity and initiative, while ensuring the sharing of best practice between decentralized and bottom-up projects and experiments. A contest pioneered in Mexico in 2009 provided matching funds to domestic research and development organizations interested in articulating and running a project with diaspora members that advance their own missions and objectives. Eligibility criteria were clear and the matching funds could support institutionalized diaspora initiatives for a certain period of time.

There are many forms in which matching funds could be granted. In the African Diaspora Marketplace (ADM), a competition held in 2009 for obtaining matching grants (sponsored by USAID and Western Union), U.S.-based members of the African diaspora presented business plans for SMEs that would contribute to economic development in Sub-Saharan Africa. Applicants were required to have a partner organization in Africa to help them execute their projects, and to own at least 25 percent of the proposed company.

Having contests is an effective way to not only bring competition into the allocation of resources, but also overcome another obstacle for SMEs: the difficulty of making their ventures known to partners who might be able to help them grow. The Caribbean Idea Marketplace (CIM) is a business competition platform that aims to foster collaboration between local and global Caribbean diaspora entrepreneurs to develop and expand innovative projects that will generate employment and economic growth.¹⁸

¹⁸ The USD 40 million program is jointly funded by the Inter-American Development Bank (IDB), the Canadian International Development Agency (CIDA), and the United Kingdom Department of International Development (DFID).

Digital Technologies as Facilitators of Diaspora Engagement

We present this section separately because emerging technologies are cross-cutting mechanisms that can potentially enable greater success for any of the policy options discussed above. Web 2.0 technologies (i.e., “social media”), such as blogs, forums (online communities), and social-networking platforms, are playing an increasingly important role in enabling the emergent digital diaspora in countries around the world.

Online social networks allow for the collection of as much information as possible to decide the right time, project, setting, and person to ask to become an ambassador within the diaspora. They also allow for the exchange of knowledge and best practices and allow international peers and collaborators to connect to create global innovation networks.

Interactions with diasporas and high achievers can take place online without multiple international trips, which is good from a cost-benefit perspective. In Jamaica, a global electronic portal that includes vast numbers of diaspora members and diaspora-related organizations (e.g., Jamaica DiasporaConnect) enables individuals and groups to connect with the homeland and with each other.

In Ireland, rendezvous353.com is a social network for business where people share information about emerging investment opportunities. Some other projects are more active in attracting investments. ConnectIreland.com, for instance, harnesses the power of people’s global connections in order to attract companies that are expanding internationally to locate in the country. Participants register online and talk to their contacts in order to identify a suitable company. Once they log the company name and its website, ConnectIreland assesses the company and rewards the participant if that company starts operations in Ireland.

We already discussed that African countries are very active in promoting venture capital from diasporas through social networks. In another example of the power of technology, the Business-in-Development (BiD) virtual network offers migrant and nonmigrant entrepreneurs assistance in developing business plans and raising funds for entrepreneurial ventures in twelve 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 website, where thousands of investors and experts will have the opportunity to view the business plans and contact those with

promising projects. Around 70 percent of the business plans submitted to the BiD Network are for start-up companies (Newland and Tanaka 2010).

Online communities and blogs can also be used to “market” the country: in the case of Latin America, migrants can provide U.S. investors with a signal of the work ethic, labor quality, and business culture in the home country, which could potentially lead to more investments.

New technologies also have the potential to serve as a mechanism to establish trust between two strangers through their networks and referrals. Such trust is the main enabler of new financial mechanisms such as peer-to-peer (P2P) lending platforms, where people lend money and obtain credits online without the participation of an intermediary financial institution or a formal credit bureau. P2P lending platforms are already engaging diasporas in some countries,¹⁹ and it seems a very promising way of encouraging investments from people who do not have easy access to finance.

Summary of Best Practices

Based on the discussion above about the key success factors of existing DDI programs in Latin America and the potential policy options, below we summarize a series of best practices:

- Involve private companies and other partners to engage diasporas
- Engage diaspora members in the design of DDI-enabling programs
- Ensure continuity of programs with the change of administrations
- Learn from the diaspora experience of other countries
- Embrace new technologies, particularly digital technologies that facilitate the creation of social networks
- Engage high achievers by targeting those who can influence corporate investment and decision-making processes

¹⁹ In India, the crowd-sourcing platform Milaap sources small loans from investors abroad. The platform has raised up to USD 260,000 using the online capital sourcing model.

- Implement DDI programs that have more active support for attracting investments (i.e., development of venture capital and partnerships)
- Explore different sources of finance: venture capital funds, diaspora-oriented private capital funds, microfinance, peer-to-peer lending platforms
- Create the right incentives by organizing contests of investment projects and granting matching grants to the most viable ones
- Involve IPAs for attracting DDI with campaigns tailored to diaspora needs
- Encourage the development of business incubators and clusters; policy makers need to identify cluster life-cycle phases and encourage the adaptation of firms' location incentives accordingly
- Encourage domestic companies to expand abroad through the diasporas

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