



THE LEAST DEVELOPED COUNTRIES REPORT 2012

Harnessing Remittances and Diaspora Knowledge to Build Productive Capacities

CHAPTER 5

TOWARDS A POLICY AGENDA FOR LDCs: AN INTEGRATED APPROACH TO MIGRATION, REMITTANCES AND MOBILIZATION OF DIASPORA KNOWLEDGE



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A. Diasporas and capacity-building

1. INTRODUCTION

This Report examines the impact on LDCs of past and current migration that has created diasporas in different parts of the world, and the potential for utilizing these diasporas for development of the home country. It is evident that migration and its varied consequences have become increasingly significant for developing countries in general and LDCs in particular, and these trends are likely to continue in the medium term.

In this Report, various forms of migration have been considered, with a more specific focus on high-skilled migrants. It has been seen that while concerns about brain drain and other costs associated with the migration of skilled personnel are still valid in LDCs, there is also potential for both residents and governments of home countries to utilize the presence of skilled, high-earning diasporas in other parts of the world. It is useful for analytical purposes to distinguish between three sets of resources, capabilities and assets associated with diasporas and their contributions to home countries. They are:

- 1) Diasporas as sources of capacity-building;
- 2) Diasporas as sources of knowledge and learning; and
- 3) Diasporas as sources of development finance

Each of these features could contribute to the development of home countries in different ways, depending on the context, the economic processes at work within the country, and of course the overall policy framework as well as the specific policies applied in different sectors and areas. These aspects of the relationship between cross-border migration and diasporas' links with their countries of origin, along with some specific policies that could be utilized to enhance the relationship in a mutually beneficial way, are outlined in the table 19 and considered in more detail below.

2. CREATING THE POLICY FRAMEWORK

a) *The need for information*

To start with, governments in LDCs need to be aware of the actual extent and pattern of cross-border migration, the location, spread and nature of diaspora activities and the extent and pattern of remittances. On these issues, the current state of knowledge in most LDCs is relatively poor. Therefore, one part of the issue to be addressed is statistical in nature. There is hardly any official apparatus to report on and monitor many of the facets of migration and its results, and what does exist is mainly concerned with remittances. Yet this is to be expected, given that central banks normally monitor and register the flows of remittances coming in through formal channels. Central banks are natural stakeholders in this process since the inflow of remittances alleviates a country's balance of payments constraints. For other aspects of migration, however, there are no natural stakeholders in the government administration, or at best they are dispersed and only loosely connected. Consequently, data on these phenomena are sparse and incomplete, and sometimes do not exist at all. This is especially true of data on the geographic location of diasporas; the costs of remitting; the extent of brain drain; and the current professional and educational status of emigrants.

Migration and its varied consequences have become increasingly significant for developing countries in general and LDCs in particular.

While concerns about brain drain are still valid in LDCs, there is also potential to utilize the presence of skilled, high-earning diasporas in other parts of the world.

Table 19. Key objectives and possible activities of a diaspora strategy for LDCs

Key objectives	Possible activities	Rationale
Making diaspora mobilization and engagement a priority in the development agenda of the home countries	Creating a ministry-level institution to link diaspora issues with national development agenda, identifying goals and policies and coordinating inclusion of all stakeholders	Given the cross-cutting nature of migration, remittances and diaspora engagement, a highest representation in government institutions is necessary
Improving the knowledge of the location, size, and characteristics of the diaspora	Improving data collection, compiling of inventories of diaspora skills and experience, and the like	Policies cannot be based on anecdotal evidence and wrong assumptions
Contacting and engaging diaspora organizations abroad	Organizing high profile events, appointing diaspora members as spoke persons on diaspora issues, partnering with host countries when possible	Engagement of diaspora has to be a continuous process built on trust and thus needs to be nurtured
Defining the role of embassies and consulates with a goal of supporting and mobilizing the diasporas living abroad	Strengthening the role of diplomatic representation in topics that are of special importance to diaspora (legal counseling in host countries, information on options for investment, return, and the like)	Diplomatic representation should promote a quid pro quo relationship with the diaspora members and stand ready to help them in the host country and inform them of options in the home country
Encouraging circular migration, return migration and providing return facilitation services	Recruiting highly skilled diaspora members for temporary return in key government and/or academia positions, providing material and non-material incentives for return migration	Circular migration and temporary return would increase the chances of permanent collaboration of locals with diaspora members; incentives might entice some diaspora members to return for good
Defining and establishing the main mechanisms of diaspora engagement	Depending on the policy goals, activities such as financial assistance, tax incentives, strengthening of cultural and national identity, etc. could be considered	Mechanisms of diaspora engagement would depend on policy goals, the structure of diaspora and the resources the Government has to meet these goals
Extending and upholding citizenship rights	Engaging diaspora will be easier if its members are granted voting rights, dual citizenship, etc.	Having a dual citizenship might strengthen the identification with the home country and could result in stronger engagement
Defining financial vehicles and legal frameworks for attracting specific diaspora resources	Providing incentives for savings, investment, skills, knowledge and technology transfers	Depending on the type of diaspora resources that is targeted, a proper mix of incentives would be needed
Creating a favourable economic environment for attracting diaspora resources	Taking any measures that help to create a favourable economic environment in general	The likelihood of diaspora engagement is higher if the economic environment in the home country is favourable
Facilitating short-term and tourist home visits by the diaspora	Simplifying visa procedures for diaspora members, organizing specific, heritage-tourism programmes, etc.	Diaspora members could provide an impetus for the local tourist industry and also play a key role in converting the country into a new tourist destination
Establishing links of diasporas and diaspora business networks with the private sector of the home country and the national strategy of development	Organizing business events to promote the country's investment opportunities, creating a one-stop shop for investment information, matching local business leaders with diaspora counterparts	Promote links between diaspora and local businesses to make sure that national development goals are supported by the engagement of diaspora resources; use diaspora knowledge networks to enhance national industrial policy
Encouraging philanthropy to support the homeland	Engaging high-profile individuals (artists, sport stars, or wealthy businesspeople) to serve as "goodwill ambassadors" and promote philanthropy in diaspora; when possible, providing matching funds, especially for investment in public goods	Philanthropic activities of diaspora members could substantially improve local conditions, especially in terms of public goods provision

Source: UNCTAD secretariat, based on literature review and Agunias and Newland (2012).

It may be argued that the costs of collecting such information and monitoring the activities of emigrants can be disproportionately large for LDC governments that are cash-strapped and have many other competing uses for their resources. However, with creative policies to engage diasporas and to increase and direct the flow of inward remittances, the benefits to LDCs of such data collection and monitoring are likely to significantly outweigh the costs. The establishment of a migrant remittance observatory for LDCs in Benin is a positive first step,¹ but should be complemented by concrete national measures in other LDCs.

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b) Policy coherence for diaspora engagement

Policies on migration, remittances and diaspora engagement should be formulated as an integral part of national development strategies, not in isolation. This is partly because different forms of migration — internal migration, emigration, immigration, and return migration — are all interlinked, and various macroeconomic and sectoral policies affect each of these. Agricultural and rural development policies influence rural–urban migration patterns. Trade policies affect domestic employment creation (or the lack thereof) and thus influence emigration trends. Monetary and exchange rate policies affect both remittance costs and sending channels. Educational policies influence brain drain processes, and so on. This being so, a piecemeal approach is inappropriate. Not only must migration policies be coherently included in a development strategy, but other policies need to take migration issues into account. This is complicated by the tendency of different ministries and agencies of government to work in a compartmentalized fashion that fails to take other factors and outcomes into consideration.

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A further consideration when formulating a development strategy is the presence of multiple stakeholders. When designing policies, it is necessary to bear in mind that there are at least four sets of stakeholders driving the processes related to remittances, diasporas and migration: migrants themselves; migrants' families in the home country; the government in the home country; and the government in the host country. Interests and priorities may vary across groups of stakeholders and even within them (as in the case of migrants from different locations or income groups). For all these reasons, a pragmatic yet holistic and coherent approach to policymaking is required.

Clearly, governments of LDCs cannot control either the pull factors in developed countries or the decisions of their neighbours that sometimes result in flows of refugees or other migrants. In both cases, however, a development strategy should incorporate such considerations. For example, it might be possible to reach bilateral agreements with certain vitally important developed countries to try to regulate migration flows and encourage circular migration. In the case of developing countries, regional cooperation can play a key role, especially since a great deal of international migration from LDCs is from nearby countries.

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In effect, an agency, ideally at ministerial level, is required to deal with the cross-cutting nature of these issues; ensure policy coherence and consistency across the board; and coordinate potential actors around a set of identified priorities. Some LDCs have already established ministries that are dedicated exclusively to the issues of migration, remittances and diasporas. For example, the Government of Bangladesh, responding to demands by expatriate Bangladeshis, created a Ministry of Expatriates' Welfare and Overseas Employment (MoEWOE) in 2001, two years before India and the Philippines. Its prime function is the creation, promotion and regulation of employment overseas. One important motive for promoting employment abroad is to ensure a steady flow of remittances. However, the Ministry's functions have been expanding, so it now also deals with the creation of an investment-friendly economic policy package for diaspora members. Some other LDCs, like Haiti and Senegal, have also established ministerial positions for dealing exclusively with diaspora issues, while in others, these issues are dealt with by ministries with hybrid functions. Thus, Ministries of Foreign Affairs often have the additional function of dealing with diaspora issues (for example in Benin, Comoros, Ethiopia), while in other cases this role is played by a Ministry of Regional Integration, as in the cases of Mali, Niger and Somalia. However, most other LDCs do not give these issues adequate institutional importance and deal with them at subministerial level (Agunias and Newland, 2012).

While the specific mix of policies and concrete measures for diaspora engagement will vary for each country, the overall direction should be to provide an enabling environment for development of productive capacities. Like both domestic residents and other foreign residents, diaspora members are more likely to be interested in investing and participating in an economy that has some dynamism, where rules and norms are clearly laid out and followed as much as possible and key institutions can be trusted. The importance of clear, transparent and fair rules and legal infrastructure cannot be overemphasized.

As noted in chapter 4, the issue of trust is crucial. In terms of public policy, one possible way to build trust is to start with small commitments and gradually scale up. If these smaller projects are successful, trust and experience will accumulate on both sides. This approach may be advantageous in cases where previous experiences with mobilization of diaspora resources were unsatisfactory. Further, while it is true that diaspora members are not motivated exclusively by commercial interests, their engagement will fail if they are only expected to contribute and receive nothing in return. For example, the policy approach of the Ethiopian Government recognizes that partnerships should be built with the diaspora in such a way as to benefit both parties and include building capacity, extending rights and extracting obligations (Kuschminder and Siegel, 2011) in mutually beneficial commercial and professional engagement at various levels.

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3. DIASPORAS AS ENTREPRENEURS

Very little research has been done on how diaspora entrepreneurs contribute to economic development in LDCs. In some middle-income countries, entrepreneurial diasporas have been instrumental in developing the productive capacities of their home countries. For example, migrant entrepreneurs have played an important role in building knowledge-based industries in India, China, Taiwan Province of China, Israel and Ireland in the last two decades or so. One lesson from these experiences is that entrepreneurs abroad can play an important role in helping to develop firms at home and also serve as a two-way link for market knowledge, connections and technology transfer across countries. This has been tried successfully in South America, on a regional basis, through the MERCOSUR Entrepreneurial Portal.

In LDCs, this process may perhaps hold less promise in the short run because of their more limited base of human capital and venture capital to develop high-tech industries at home. Nevertheless, their entrepreneurial diasporas operating in light industry can help develop similar industries at home through contacts, know-how and other valuable inputs and capabilities developed in the host countries. They can also contribute to the upgrading of managerial and innovating capabilities at home.

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In general, there are at least two conditions that determine migrants' success in establishing thriving firms upon their return. The first is whether they return with more advanced knowledge and skills than before. As discussed in chapter 4, the longer they stay as migrants in foreign countries and the more entrepreneurial experience they accumulate, the more likely this will be. The second condition is the existence of a favourable policy framework in their home country. Return migrants would probably need suitable financial support to start a new firm, even if they have accumulated some savings. At the very least, they would have to be able to get a credit from the financial sector under normal conditions. However, given the reluctance of financial institutions to extend credit to SMEs, a national development bank with special lines of credit for return migrants might be necessary. In addition, return migrants might have accumulated some but perhaps not all of the requisite skills for successful entrepreneurial activity.

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In that case, they would need technical assistance to upgrade their managerial, technical, financial, or other skills required for successful management of small and medium-sized enterprises (SMEs). Governments could provide this type of technical assistance and/or education. One option could be to support these entrepreneurs by lowering tariffs on imports of machinery and equipment and raw materials to help them get their businesses off the ground.

Initially, the public policy focus in LDCs would most likely be on small, family firms that create jobs. Later, however, policymakers would have to shift their focus to medium-sized companies that are more likely to boost economic development by moving up the value chain and that have a stronger technology-upgrading potential. The policies then would have to identify strategic sectors for the national economy and provide incentives for entrepreneurial diaspora members to invest in these sectors.

Governments could also provide incentives to migrants to return to the home country once they retire by signing double-taxation avoidance treaties with the main host countries where the majority of their migrants work. Jamaica, for example, has signed double taxation avoidance treaties with all of its major trading partners and also the main destination countries of its migrants (the United Kingdom, the United States, Canada, etc.). The economic rationale is the following: given the income differences, retiring in the home country provides retirees with much greater purchasing power than retiring in the host country. However, if they have to pay taxes on their pensions twice (in both home and host country), this advantage mainly disappears. Thus, double taxation avoidance agreements should, among other things, contain a provision that pensions and other similar remuneration paid in consideration of past employment to a migrant by the host country be taxable only in the country in which a migrant decides to retire. The benefits of higher consumption would then accrue to the home country to the extent that migrants decide to retire there instead of retiring in the host country.

4. DIASPORAS AS TRADE FACILITATORS

A distinct niche for LDCs could initially be to seek an advantage in the so-called “nostalgia trade”. Each migrant in the United States spends almost \$1,000 per year on nostalgia products, and the total volume may top \$20 billion annually.

A positive empirical correlation has been found between the degree of international trade in source and destination countries and the size of the migrant community in both nations.² The dominance of language, culture and knowledge of costumer and supplier markets are all factors that help to develop trade relations among nations, and diaspora communities can be especially well placed to perform this role.

As noted in chapter 4, a distinct niche for LDCs could initially be to seek an advantage in the so-called “nostalgia trade”. Orozco (2008) finds that there is a very high participation of migrants in the United States in markets for home-country goods. On average each migrant spends almost \$1,000 per year on nostalgia products, and the total volume may top \$20 billion annually. A first step for many LDCs could be to try to tap the consumption potential of its own diaspora by exporting goods that are emblematic of the country but are difficult to find in host countries. The potential for policy intervention in nostalgia trade is wide since it is a multistep process that involves producers, home-country distributors, host-country importers, wholesalers and retailers (Newland and Taylor, 2010). Policies in LDCs could be designed to help producers become and stay competitive by upgrading their products and adapting them to changes in final markets, and to enlist diaspora members to help with branding and marketing in the host country. Education and training of producers is crucial if they are to become competitive in foreign markets.

Governments should also identify hurdles which local firms encounter in foreign markets and help them overcome them. Typically, local firms are too small to research market conditions abroad. Given the more stringent phytosanitary and other requirements in developed countries, small producers generally cannot meet them without first incurring significant costs for finding the appropriate information and financial resources to invest in technology. Moreover, they lack capabilities to market their products. To capture the lucrative niche markets in developed countries, LDC governments have to make sure that local firms receive support throughout the commercial chain, up to and including the retail phase. Diaspora members could be crucial in providing support for these policies, and could provide strategic guidance throughout the process.

For countries such as South Africa, diaspora-owned companies were partly responsible for the worldwide diffusion and adoption of products such as rooibos tea and South African wine. These companies also imported products from South Africa for sale first to diaspora members, but later to a broader public as well. South African crafts have also benefited from contacts between local producers and the diaspora. Policies to connect diaspora members to local business in the home country could include initiatives such as providing diaspora organizations with information on local producers and their conditions, organizing business events or matching local entrepreneurs with their diaspora counterparts.

Another example, that of the Oromo refugees from Ethiopia in the United Kingdom developing the Oromo Coffee Company (OCC), mentioned in chapter 4, shows that LDC diasporas are succeeding in not only catering to the nostalgic tastes of their countrymen, but also in moving beyond the narrow focus on the consumption potential of diaspora members. In effect, by exporting organic coffee, OCC has succeeded in expanding the appeal of its products to a wider set of consumers. Given that one of the main problems of small producers in penetrating foreign markets is their inability to provide larger quantities of goods, policies in LDCs could encourage producers to organize into clusters. That would allow them to share information and knowledge; upgrade their production processes; improve access to more modern technologies; and penetrate the broader markets of host countries beyond the relatively reduced niches for nostalgia goods.

Finally, the examples of China and India in particular show that diasporas can be instrumental in increasing exports to new markets. In order to do something similar, however, LDCs would first have to substantially strengthen their productive capacities to produce competitive goods and services for exports, and would have to engage much more actively with their own diasporas.

Diaspora members could be a special target group for a strategy of tourist development of the home country as they are more likely to visit the country, even in the absence of a full-fledged tourist infrastructure. Besides utilizing diasporas' motivations to visit countries of origin, governments could also generate other motives related to culture, business, sport, religious, well-being and other activities that also have a strong impact on the development of tourism. These visits could also precipitate interest in so-called "nostalgia" goods, and increase their consumption in the host country.

The following two examples demonstrate how other countries have used specific means of boosting diaspora tourism. One example is the "Homecoming Scotland 2009" project, a series of events with the specific goal of attracting people of Scottish origin to visit their "ancestral homeland". The year 2009 was chosen for a symbolic reason: it was the 250th anniversary of the birth of

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Robert Burns, the national poet of Scotland. The programme consisted of more than 300 events that motivated thousands of people of Scottish ancestry to visit Scotland. The timing of the project could not have been better: the boost to tourism and the economy was a welcome support, as it coincided with the worst global economic crisis since the Great Depression.

The other example shows that sport can connect diaspora members with their home country. The Croatian World Games are an Olympic-style competition in twelve different sports with participation of young Croats from Croatia and from Croatian diaspora communities. The event is organized by the Croatian Olympic Committee and the Croatian World Congress, an umbrella organization of different diaspora communities, and supported by the Government. Besides economic benefits for the home country, its significance is in the outreach to younger members of the Croatian diaspora born abroad who would normally tend to lose their ties with the country of origin of their parents or grandparents. Both examples illustrate a more general point about policies to engage diasporas: it takes some creativity and knowledge to devise policies that will attract diaspora members as tourists.

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B. Diasporas, knowledge and learning

As indicated in chapter 4, the number of workers with university-level education who emigrated from LDCs reached 1.3 million in 2000 — an increase of 58 per cent over 1990. The latest figures are not yet available, but given recent trends, the total number is estimated to be much higher today. The greatest increase was in emigration to developed countries, in particular the United States, which hosts one-fourth of all LDC high-skilled emigrants. From a home country policy perspective, two points are worth noting: first, brain drain from LDCs is most likely to continue in the foreseeable future, due to strong push and pull forces mentioned in chapter 4 of this Report. This will increase the size of highly skilled professionals in diasporas. Second, in most cases, living and working abroad allows nationals to continue to accumulate and upgrade their knowledge, skills and experience.

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Home countries can draw on these overseas pools of skills and human resources so that they share knowledge and transfer technology with domestic agents, thereby contributing to national development. As noted above, the burden of devising and implementing development strategies and programmes should not fall solely on diasporas (Skeldon, 2008), although the establishment of diaspora knowledge networks makes the transfer of knowledge to home countries easier. This of course requires the active involvement of home country governments and the formulation of well-targeted policies for diaspora engagement.

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LDC governments are starting to realize the potential of their diasporas as sources of knowledge and technology. Home countries have taken the initial steps of devising and implementing policies to mobilize diaspora knowledge for domestic development. In many cases, however, the incipient diaspora policies of LDCs have been designed by government officials without consulting diaspora members. Consequently, the professional priorities, time and financial constraints, willingness of emigrants to engage, and the desired forms of participation have not been taken into account. These design and implementation shortcomings limit policy effectiveness.

Ideally, the planning and design of policies and instruments for diaspora engagement should be made by national home country governments in

consultation with diaspora members and their associations. This requires home countries to have a good knowledge of their diasporas and to establish a dialogue with them. Such consultations are also likely to ensure engagement and commitment by diaspora members from the start, as well as coherence between diaspora action and national government priorities and programmes.

Dialogue results in a better acquaintance with diasporas in terms of their geographical location, skills profile, professional activities, areas of expertise and experience. It also allows drawing a clear picture of the way in which a diaspora is willing to engage with the home country for the purpose of knowledge sharing and transfer. The policies, mechanisms and instruments devised and implemented by national policymakers need to be differentiated by diaspora segment (e.g. scientists, professionals, entrepreneurs, low-skilled workers, peasants, artists, etc.) and their forms of engagement. These forms can be “virtual return” (i.e. interaction at a distance), temporary return (through participation in development programmes and projects, training activities, advisory missions, etc.) or definitive return. Each of these forms of diaspora engagement requires different financing mechanisms and institutional support.

In many cases, policies and programmes will involve just home country agents and diaspora members and associations. Often, however, it will be advisable to involve more stakeholders in the planning and execution of diaspora knowledge transfer programmes and policies. These include host country governments and other key agents (e.g. businesses, research centres, government institutions and universities), international organizations, and international donors. Such joint action avoids the problems of dispersion and lack of coherence of programmes and actions discussed in chapter 4 of this Report.

Coordinating and leveraging the actions, programmes and resources of different stakeholders will allow LDCs to establish dynamic diaspora knowledge networks (DKNs) and to reap the benefits from the ensuing flows of knowledge and technology transfer to the home country.

1. DIASPORA KNOWLEDGE NETWORKS (DKNs)

DKNs consist of groups of highly skilled expatriate professionals who are interested in maintaining contacts and helping to develop their countries of origin. Thus, DKNs do not refer to all the members of the diaspora, but only to those groups of individuals who are interested in sharing and transferring their knowledge, experience and know-how back home. In order to become agents of change and learning, however, DKNs need to become “search networks”,³ which consist of individuals and institutions who and which link and connect the most effective segments of relevant institutions in order to discover what a country is good at producing (Kuznetsov and Sabel, 2006). As knowledge is neither costless nor easily transferrable, for this to occur, proactive policy is required that incorporates this potentially key function of a diaspora into the government’s strategic developmental framework.⁴

DKNs are understood as subsets of international knowledge networks that “govern the transfer of various types of knowledge, such as intellectual property, know-how, software code, or databases, between dependent parties, across the economy” (OECD, 2011b:1).⁵ As such, they include a platform for knowledge flows and interaction between diaspora and the local actors in home countries. These flows may incorporate various forms of learning and knowledge creation, such as research and development (R&D), intellectual property, technology licensing, know-how, joint ventures and alliances, technology sharing and best practices. Consequently, DKNs represent a subset of global knowledge

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DKNs represent a subset of global knowledge networks, with vast economic potential that remains untapped in most LDCs.

DKNs should not be perceived as a panacea or a substitute for local efforts to build endogenous productive capabilities; rather, their role is that of an additional actor in the story of growth based on domestic productive capacities.

A proactive diaspora policy is essential to ensure that DKNs, which are in essence private voluntary networks, gain the trust and confidence needed to remain engaged and ensure that their activities exert a positive impact.

LDCs should learn from countries that have benefited most from DKNs by designing their diaspora strategy as an integral part of industrial policy and the broader national development strategy.

networks, with vast economic potential that remains untapped in most LDCs. For example, as explained in Box 9 of chapter 4 of this Report, the decoding of the jute genome in Bangladesh with the direct involvement of the Bangladeshi diaspora was a very significant innovation, with enormous economic potential and scientific impact. This innovation was produced as a result of knowledge sharing between national and international knowledge providers. It serves as an excellent example of the success of DKNs in LDCs at the current time and the potential of DKNs for building the productive base of LDC economies.

The full economic impact of DKNs is believed to be greatly underestimated, since the methodology for impact assessment remains to be elaborated. For example, how does one measure the impact of research networks on policy development? Obviously, knowledge generation and transfer, and the synergies involved in innovation and productivity increases, have been central to economic growth in developed countries and can be extremely significant in developing countries.

DKNs are generally characterized by the absence of formal governance arrangements, which can have its advantages and disadvantages. They can imply the emergence of non-state actors, thereby potentially generating pressures for democratic structures with greater roles for civil society. Conversely, they can contribute to the further entrenchment of existing inequalities and asymmetries in economies and societies. They should not be perceived as a panacea or a substitute for local efforts to build endogenous productive capabilities; rather, their role is that of an additional actor in the story of growth based on domestic productive capacities.

In this section, it will be argued that there is ample evidence from numerous case studies to show that DKNs have played a critical role in the technological upgrading, industrial development and building of productive capacities of source countries (Meyer and Wattiaux, 2006). However, such transfer of knowledge and learning does not happen automatically but requires an organized and coordinated diaspora network and a home-country national development strategy backed by industrial policy and active government engagement in diaspora affairs. A proactive diaspora policy is essential to ensure that DKNs, which are in essence private voluntary networks, gain the trust and confidence needed to remain engaged and ensure that their activities exert a positive impact.⁶ As latecomers to industrial development and given their recent experience with deindustrialization,⁷ LDCs need to formulate innovative industrial policies that are compatible with their current conditions and requirements as well as the rapidly evolving global context. Some LDCs have already designed industrial policies with a view to accelerating economic diversification and structural change. This Report will argue that in formulating their industrial policies, LDCs should learn from countries that have benefited most from DKNs by designing their diaspora strategy as an integral part of industrial policy and the broader national development strategy. This has already taken place in Asia, less so in Africa.

2. DIASPORA NETWORKS AS SOURCES OF KNOWLEDGE AND LEARNING

DKNs have been effectively deployed as agents of change in both developed and developing countries. There are successful cases of diaspora networks such as those formed by Indian, Chinese, Korean, Taiwanese, Vietnamese, Turkish and Bangladeshi emigrants, to name but a few. These demonstrate the opportunities associated with the institutionalization of private voluntary networks in promoting horizontal inter-firm networks that enable the transfer of skills and knowledge. The cases of Taiwan Province of China, India, Republic of

Korea and China illustrate, for example, how public policies by developmental states can mitigate the losses of “brain drain”. In these countries, government policies were not focused on the return of the members of the diaspora; rather, they highlighted the importance of integration into international networks that would link the professionals overseas with those in the source country (Kapur, 2001). The massive boom of the Indian sector supplying services of information and communication technologies (ICTs) is a good example of how decentralized knowledge transfer arrangements can play a critical role in the emerging model of industrial policy. In this respect, therefore, DKNs represent a new feature in the recent evolution of industrial policy.

There are many reasons for promoting networks, not least of which is knowledge diffusion. It is widely acknowledged that DKNs can lead to knowledge spillovers and greater collective efficiency (Barré et al., 2003; Brinkerhoff, 2006; Chaparro et al., 2004; Kapur and McHale, 2005). One of the key reasons to promote such networks is because they not only help to channel remittances and imply higher savings and income, but also boost collective efficiency. DKNs can supply new technologies and inform government and other residents of the latest technological developments and those appropriate for domestic industrial needs. They can assist in matching the needs of local productive sectors with specific foreign direct investment (FDI) required for upgrading local skills and capacities.

As awareness grows of knowledge’s essential role in the development process, hundreds of new DKNs were created throughout the 1990s and 2000s in countries as diverse as Argentina, Mexico, Haiti, Panama, the Philippines, Chile, China, Colombia, India and South Africa. While not all networks have been equally successful, the large Chinese and Indian search networks demonstrate how they can effectively facilitate the transfer of knowledge and technology to the home countries.⁸ Moreover, from these experiences, it would appear that horizontal interventions at the network level can enhance market efficiency and lead to higher productivity and upgrading at the firm level (Kaplinsky, 2005). In effect, the significance of the diaspora network to industrial policy is that it makes the shift from hierarchy to search networks an essential component of industrial policy. DKNs help to link up those who want to learn with those that are already learning. Indeed, this shift from hierarchy to horizontal networks has a profound impact on the global supply chains and consequently on new industrial strategies, where “learning to learn” becomes an essential objective of the industrial policy.

What is different about networks from other forms of market coordination? First, within networks, firms relate to each other not through arm’s-length market transactions but through long-term, special relationships that are historically determined. Empirical evidence shows that market-based, hierarchical coordination carries much higher costs than network-based coordination, especially when physical proximity is involved, resulting in agglomeration economies. Second, the pooling of skills and resources, even by competing firms, can lead to higher productivity and increased innovation. Third, DKNs can internalize the negative externalities and encourage knowledge sharing within networks.

As noted by Kuznetsov and Sabel (2006), a proliferation of professional associations of diaspora members illustrates this transition to different types of search networks that facilitate trial-and-error experimentation and learning what a country is good at producing. The authors underscore the role of open migration chains and diaspora networks (expatriate networks) in transmitting information about new opportunities and types of skills required in the home and host countries and in advancing the collective interests of diasporas.

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DKNs help to link up those who want to learn with those that are already learning.

“Open migration regimes” best accommodate DKNs, as they can also transfer “tacit” knowledge and experience to home countries.

UNCTAD has repeatedly argued that progressive transformation in economic structure is a prerequisite for LDCs to achieve accelerated and sustained economic growth and poverty reduction.

There is an urgent need for LDCs to espouse innovative industrial policies instead of imitating industrial policy practices in other countries.

LDCs needed to adopt catalytic development policies that are not primarily aimed at market development but rather diversification of their productive structures at the sectoral and enterprise levels.

They also cite the creation of the venture capital industry in Taiwan Province of China and other diaspora-led initiatives to promote productive development in the home country as practical examples of diaspora-induced productive development. According to Kuznetsov and Sabel (2006), “open migration regimes” best accommodate DKNs, as they can also transfer “tacit” knowledge and experience to home countries, largely based on the success cases of the knowledge-intensive sectors, such as information technology (IT) services and biotech sectors in India, Republic of Korea, Taiwan Province of China, and more recently in China.

The profit motive is an implicit incentive which induces knowledge transfer within networks and encourages information sharing and collaboration not only across firms but within firms and across other entities that make up the production system. While many of these networks are essentially private and voluntary initiatives based on altruism or philanthropy, several well-known DKNs have been institutionalized and become effective agents of change and transmission of knowledge, including through student mentoring, policy advice, technical assistance and other channels of tacit as well as embodied technology transfer. There are several such examples, such as the Chilean “Primera” business innovation organizations and SENSEA, the South African Network of Skills Abroad.

3. THE POTENTIAL ROLE OF DKNs IN LDCs’ INDUSTRIAL DEVELOPMENT

In recent years, UNCTAD has repeatedly argued that progressive transformation in economic structure is a prerequisite for LDCs to achieve accelerated and sustained economic growth and poverty reduction. The policies and strategies required for structural transformation will involve, inter alia: (a) the development of a new industrial policy based on a strategic approach which reflects the specific needs and conditions of LDCs; (b) a catalytic developmental State to compensate for the incipient and weak private sector in LDCs; (c) measures to encourage private investment in productive activities and public investment in basic infrastructure, including the development of skills and support institutions; and (d) the promotion of domestic technological learning and innovation and improvements in productivity in both the agricultural and manufacturing sectors.

UNCTAD (2011a) argued that there is an urgent need for LDCs to espouse innovative industrial policies instead of imitating industrial policy practices in other countries. The Report articulated why the hierarchical industrial policies adopted in many of the emerging economies (for example, the East Asian model of industrial policy) are not likely to be the most appropriate ones for the LDCs, owing to the dearth of conditions and institutions required for these approaches to function. The internal conditions, which allowed other more successful developing countries to harness market forces for development, simply do not exist in most LDCs. These conditions include close alliances between the State and the private sector, including financial institutions, expansionary macroeconomic policies, and a high degree of strategic integration with the global economy, relatively high levels of education of the population, developmental elites, and a high level of the institutional development of the State itself. Instead, it was argued that the LDCs needed to adopt catalytic development policies that are not primarily aimed at market development but rather diversification of their productive structures at the sectoral and enterprise levels.

In the wake of the recent global financial and economic crisis, which has exerted a negative impact on the economic performance of LDCs, a renewed

interest in industrial policy has emerged, as indicated in the final outcome of the UNCTAD XIII Conference. The Doha Mandate stresses that:

“Industrial policies play an important role in establishing dynamic and sustainable development in many countries. These need to be complemented with other policies in relevant areas if they are to have their full and intended effect. This includes economic diversification, improving international competitiveness and realizing more sustainable and inclusive outcomes.”

This Report reinforces the case for a new industrial policy in LDCs, arguing further that such a policy should reflect the role of DKNs because they carry a potentially transformative impact on knowledge accumulation, especially in accelerating technological change and foreign direct investment.⁹ At a minimum, DKNs can partly offset the huge knowledge gap created by the shortage of skills and knowledge in LDCs. For example, underdevelopment of local SME sectors, along with development financing gaps, has been identified as a major weakness in the industrial structures of most LDCs. These gaps are viewed as major stumbling blocks to LDCs’ efforts to foster technological learning and upgrading and build their productive capacities (UNCTAD, 2007). In principle, DKNs can act as bridging institutions for the LDCs, as they are more familiar with the best practices acquired abroad in more advanced countries while possessing sensitivity and knowledge of their own developmental needs and weaknesses. Moreover, even though physically apart, through the intense use of ICTs, DKNs could assist the State in linking local firms up with foreign ones in order to address specific bottlenecks and shortages. DKNs, if organized, could play a key intermediary role in linking local research capacity and local systems of production diffusion with global knowledge and production systems.

However, the mere existence of DKNs does not necessarily imply a beneficial impact on economic development, as much depends on complementary policy initiatives and practices towards diasporas, which can be seen as sources of financial flows and opportunities for technology transfer and political support. As shown in box 12, there are a number of developing countries, including some LDCs, primarily in Asia, that have already deployed DKNs effectively in their efforts to industrialize and develop. Governments in LDCs would be well advised to take a closer look at certain of these success cases, as some of them provide useful lessons on how to organize and tap into DKNs.

Unfortunately, to date, there is very little empirical information on measurable impacts of DKNs, particularly in African LDCs. This lacuna calls for further research, especially detailed case studies, as the macro indicators do not necessarily tell the whole story, owing to the high degree of informality. Informal channels of transmission and transfer of remittances and knowledge dominate all other channels, making formal analysis very daunting.

This Report recognizes the new opportunities for LDCs arising from collaboration with DKNs (table 20). However, it does so in full awareness that the fundamental patterns of underdevelopment, which have become deeply entrenched in the LDCs’ economies, will not change automatically or without strong and active engagement by policymakers themselves. The Report proposes that as LDCs formulate new industrial policies, their governments need to bear in mind that DKNs, if coordinated through networks, can help catalyse and facilitate the process of structural transformation in LDCs. Failure to recognize this fact may mean that DKNs will remain untapped resources and missed opportunities.

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Box 12. International best practices

The empirical literature shows that there is a variety of experiences with diaspora engagement strategies, policies and actions. Two very interesting cases are Ireland and Scotland. These are high-income countries with significant diasporas abroad and with diaspora-oriented strategies supported at the highest political level. The size of the Irish diaspora can be very large depending on the definition used.¹ Scotland and Ireland in the 2000s, acknowledging the potential of their diasporas and mindful of the attractiveness of home country conditions, started a process of developing national diaspora strategies led by the First Minister (Scotland) and the presidency (Ireland). The two diaspora strategies are broadly similar but not exactly the same. Ireland has followed a sort of “light touch” diaspora strategy, network-based -- rather than heavy top-down (and bureaucratic). Scotland, in turn, followed a more State-active strategy but without adopting a dirigiste approach of weighty statist intervention. The Irish diaspora strategy is multidimensional in scope and built around economic, social, cultural and affinity networks. Business and economic considerations are certainly important but are not the only overriding concern. The main Irish networks and initiatives comprise the Irish Abroad Unit, established in 2004, which comes under the Department of Foreign Affairs and has a mandate to coordinate the Emigrant Support Programme reoriented to centralizing previous support programmes for the diaspora such as the Emigrant Advice Network, Enterprise Ireland, Culture Ireland, Emigrants News online and Ireland Funds. Most of these efforts were initially geared to the Irish communities residing in the United Kingdom and the United States but later were extended to Irish communities in Australia, Canada, Argentina, South Africa, Zimbabwe, the Netherlands, France and, most recently, China.

Diaspora strategies vary across nations. Unlike Ireland and Scotland, several countries have created a principal and single government institution (a government minister or full government department) that coordinates diaspora strategy around such issues as the legal status and voting rights of diaspora members, the welfare and labour rights of diaspora members in their new locations, remittances and philanthropy, cultural and social links to the diaspora, and the development of business relationships with the diaspora. In this more centralized model of diaspora strategy, we find the case of India (Ministry of Overseas Indian Affairs), Armenia (Ministry of Diaspora) and Jamaica (Diaspora and Consular Affairs Department in the Ministry of Foreign Affairs and Foreign Trade), and Lithuania (Department of National Minorities and Lithuanians Living Abroad).

In Chile, DICOEX — the Directorate for Chileans Abroad, a State agency — was established in 2000.² In turn, a business network called Chile Global stands out as an active network geared to attracting successful Chilean entrepreneurs located mainly in advanced economies. A new programme, Start-Up Chile, directed to nationals of any country in the world, was recently set up by the industrial promotion agency CORFO to attract foreign technological and innovative entrepreneurs to do business and create new ventures in Chile, taking advantage of the favourable business climate and overall macro stability. This is an interesting programme that provides grants of \$40,000 to prospective foreign entrepreneurs seeking to go to Chile to develop a productive venture. In addition, the inflow of foreign entrepreneurs is facilitated by a system of (one-year) working visas granted in one week’s time. In Chile, the network Fundación Chile has played a major role in building not only Chilean but also regional and technological capacities. Fundación Chile has served as a bridging institution for enhancing technological capacities in local firms, combined with foreign knowledge. It illustrates the benefits of institutionalized networks supporting technological development in the whole region.

Some developing countries have established formal channels for counseling their diaspora on a variety of issues: Jamaica has formed the Jamaican Diaspora Advisory Board, while India has created the Prime Minister’s Global Advisory Council of Overseas Indians. Two high-skilled, entrepreneurial networks are the Mexican Talent Network and the TiE organization in India. Kuznetsov (2011) makes a distinction between “sophisticated” and “emerging” diasporas facing a variety of country conditions in which countries such as China, Republic of Korea, Taiwan Province of China, Ireland and Scotland belong to a first group of “sophisticated diaspora/favourable country conditions”, while Chile, Hungary, Slovenia, Croatia, Malaysia and Thailand belong to a second group of “emerging diaspora/favourable country conditions. LDC efforts to attract diasporas (see below) may be classified as “emerging diasporas”. National country conditions, in turn, may vary across countries, although today we can say that progress in terms of having some kind of diaspora policy is greater than in the past.

From this perspective, a variety of diaspora initiatives have been developed in Africa in recent years, showing that African middle-income countries and sub-Saharan African LDCs are also participating in this global trend of engaging national diasporas for development. Examples include the Council of the Moroccan Community Abroad, the Ethiopian Expatriate Affairs of the Ministry of Foreign Affairs and the Diaspora Coordinating Office in the Ministry of Capacity-building, the National Diaspora Council of Kenya, the Senegalese Diaspora Foundation, and the Diaspora Desk in the President’s Office in Zambia.³

High-income nations such Norway, Finland, Sweden, France (Assemblée des Français de l’étranger) and Switzerland (Organisation des Suisses de l’étranger) have recently established expatriate parliaments. Italy also has a parliamentary representation system for nationals residing abroad.

New Zealand and Australia have been active in trying to build broad global networks of talented and professional people living overseas. They are more broadly designed than simple business networks. KEA, in New Zealand, has 25,000 subscribers in over 174 countries and 14 international chapters in eight countries. It works to connect the estimated 750,000 New Zealand-born people living overseas with home, and specifically seeks to connect to talented New Zealanders in order to share knowledge, contacts and opportunities. Australia’s Advance initiative, in turn, is headquartered in New York; it has over 12,000 members in 63 countries and has chapters in 14 countries. Advance activates and engages overseas Australians to use their expertise, contacts, and positions of influence for Australia. It creates industry-specific networks; partners with tourist agencies in promoting tourism to Australia; and facilitates return migration.

One of the best examples of what a government can do through its industrial policy to attract diaspora to build productive capacities and to maximize the developmental impact of a diaspora is to be found in China. The Chinese diaspora, estimated at

Box 12 (contd.)

anywhere between 35 to 50 million people, has exerted a major impact on the growth of the Chinese economy. However, this did not happen automatically but in response to policy measures taken by the Government. Since the late 1980s, the Chinese Government has undertaken major efforts to combine sentiment and incentives to attract investment from the diaspora. The Chinese strategy was a combination of efforts by entrepreneurial local officials and Chinese diaspora investors to promote a pro-investment policy toward the diaspora. Substantial increases of FDI into China (estimated at as much as 80 per cent of the total) largely originate from the Chinese diaspora. Their efforts have helped to make China one of the world's leading manufacturing centres. It is true that the growth was also driven by significant public investment, especially in infrastructure. The particular institutional conditions of China also encourage the phenomenon known as round-tripping whereby domestic resources were transferred to the Chinese diaspora to enter the country again as diaspora investment. While no precise claims can be made, estimates suggest that a significant part of Chinese diaspora investment has been of this type, aided by the fact that the Chinese Government made investment a major focus of its relationship with the diaspora. Such investment was important, not just for the financial resources it provided but probably more so for the technical skills, external contacts, organizational approaches and other "soft" aspects of production with which it was associated.

The Chinese Government has also actively solicited highly skilled professionals to return to China permanently or for a few years, with incentives such as relatively higher pay than local counterparts; better working conditions such as laboratories and research assistants; and provision of research grants. In many technological areas, diaspora members are also actively encouraged to mentor younger skilled people who are still in China, as well as visit and nurture their previous institutions, which has been an important part of the strategy of encouraging innovation and technological upgrading.

As a vital element of its diaspora policy, India granted generous incentives to diaspora investors who actively promoted and supported the Indian software sector in the late 1990s. Indian-born entrepreneurs and those of Indian descent, particularly from the United States, accumulated significant financial capital and acquired human capital and business networks that enabled them to play a salient role in foreign direct investment and technology transfer.

Indian overseas migrants have also contributed through investment, transfer of skills and technology, and through networking. For instance, returnee Indian doctors from the United Kingdom and United States, along with Indian diaspora associations in the medical profession, have helped to set up world-class corporate hospitals and extremely specialized health-care establishments in India. They have also assisting in procuring the latest equipment and technology and in providing specialized skills and expertise accumulated overseas. Professionals in other areas such as software and engineering services have helped provided venture capital for start-up companies in India. They have also supported the development of their sectors by bringing in projects; facilitating the outsourcing of services to Indian companies; providing contacts to overseas clients; and facilitating further inward and outward movement of service providers.

Following the exodus of approximately 90,000 Taiwanese in the second half of the 20th century, the Government of Taiwan Province of China focused its attention on the acquisition of skills, technology transfer and "brain gain" through an emphasis on networking and return migration. It has designed numerous initiatives on order to maximize the development impact of its diaspora. Some of these public policy initiatives include:

- Establishing a database that tracks skilled emigrants and matches job opportunities in Taiwan Province of China;
- Coordinating efforts to convince emigrants to return home by providing them with competitive salaries, improved working conditions and financial subsidies;
- Setting up networks with its Taiwanese counterparts, officials and foreign investors;
- Sponsoring national development conferences and bringing Taiwanese back home to participate in the formation of multinational networks, geared to building Taiwanese business and technological advantages;
- Setting up the Hsinchu Science and Industrial Park and diaspora incubator firms; and strongly encouraging investment in R&D and innovation.

The novelty of the approach was that the Taiwanese Government did not treat its diaspora only as a source of investment, but as a source of human capital and technology transfer which could support the development of endogenous knowledge-based industries. The example of Taiwan Province of China offers many valuable lessons for LDCs, especially in regard to the variety of intellectual property they may be invited to consider. And while traditional infant industry protection is theoretically justified in the presence of Marshallian externalities, and may indeed be welfare-enhancing (Rosenthal and Strange, 2004), policy plurality should nonetheless not be abandoned.

The diaspora played a critical role in the technological development of the Republic of Korea. Kuznetsov (2008), notes that in the late 1990s, when chaebols (large family-owned business conglomerates) like Samsung were unable to obtain critical United States technologies through licensing, the Korean diaspora of the United States intervened and succeeded in obtaining these critical technologies. In this way, the networks proved not only critical in identifying binding constraints but also designed the way to obtain a transfer of the necessary knowledge. It obtained critical technical knowledge abroad and demonstrated how trust and cooperation can outperform competition.

¹ The population of the Irish Republic was 4.4 million in 2009 and over 70 million people worldwide claimed Irish descent; 3.2 million Irish are citizens (passport holders) and 800,000 Irish born citizens lived overseas (Ancien et al., 2009a, 2009b, 2009c). In turn, millions in the world also claim Scottish descent, and nearly 900,000 people born in Scotland live abroad (including the UK).

² DICOEX has been complemented by the Inter-ministry Committee for Chileans Abroad and ProChile (export promotion) and ChileGlobal; as well as BIONEXA; PymeGlobal; ChileTodos; and EuroChile.

³ See Ratha et al. (2011), Annex chapter 4.

Table 20. Selected examples of DKNs in LDCs and regional groupings

Geographical Zone/County	Name of network	Website address
Africa		
Africa	International Society of African Scientists (ISAS)	http://www.dca.net/isas
Africa	African Community International (The African Center)	http://www.africancommunity.net/
Africa	International African Students Association (IASA)	http://www.iasaonline.org
Africa	African Distance Learning Association	http://www.physics.ncat.edu/~michael/adla/
Africa	Africa In the Netherlands	http://www.africaserver.nl/africadirectory/
Cameroon	Cameroon Society of Engineers (CSE), USA	http://www1.stpt.usf.edu/njoh/cse/cseusa.htm
Ethiopia	Federation Ethiopian Organizations for the Spread of Knowledge (FEOSK)	http://www.physics.ncat.edu/~michael/vses/genet/ees/
Ethiopia	Society of Ethiopians Established in the Diaspora	http://www.ethioseed.org/
Ethiopia	Ethiopian Professionals Association Network (EPAN)	http://www.ethiotrans.com/epan/
Ethiopia	Ethiopian Professors	http://www.angelfire.com/de/EthiopianProfessors/index.html
Ethiopia	Ethiopian Students Association International	http://www.esai.org/
Ethiopia	Ethiopian Distance Learning Association	http://www.physics.ncat.edu/~michael/edla/
Ethiopia	Ethiopian Chemical Society in North America	http://www.ourworld.cs.com/ecsna/index.htm?f=fs
Ethiopia	Ethiopian North American Health Professionals Association	http://www.enahpa.org/
Ethiopia	Addis Ababa University Alumni Association	http://www.aau.ed.et/alumni/president.php
Ethiopia	Ethiopian Economic Policy Research Institute (EEA/EEPRI)	http://www.eeacon.org/news.htm
Ethiopia	Ethiopian Scientific Society (ESS)	http://www.his.com/~ess/
Ethiopia	Gesellschaft zur Förderung der Medizin, Ingenieur und Naturwissenschaften in Äthiopien	http://www.emenssg.de/
Ethiopia	Ethiopian Diaspora Association (EDA)	ababum@yahoo.com
Malawi	Malawi Knowledge Network, The Malawi Polytechnic	http://www.maknet.org.mw
Mali	Malinet, the Malian World Network	http://callisto.si.usherb.ca/~malinet/
Mali	Malilink Discussion Forum	http://www.malilink.net/
Sudan	Sudan-American Foundation for Education, Inc.	http://www.sudan.com/safe/
Togo	Communauté Togolaise au Canada (CTC)	http://www.diaistode.org/ctc/index.html
Asia		
Asia	Asian American Manufacturers Association (AAAMA)	http://www.aamasv.com/
Asia	Asia-Silicon Valley Connection (ASVC)	http://www.asvc.org/
<i>Asia: Middle East</i>		
Arab States	Islamic Medical Association of North America	http://www.imana.org/
Arab States	National Arab American Medical Association (NAAMA)	http://www.naama.com/
Arab States	Association of Muslim Scientists and Engineers (AMSE)	http://www.amse.net/
Arab States	Union Arabischer Mediziner in Europa e.V. (Arabmed)	http://www.arabmed.de/
<i>Asia: South</i>		
Bangladesh	EB2000:Expatriate Bangladeshi 2000	http://www.eb2000.org/
Bangladesh	TechBangla for transferring to and developing indigenous technology and products in Bangladesh	http://www.techbangla.org/
Bangladesh	Bangladesh Environment Network	http://www.ben-center.org/
Bangladesh	Bangladesh Medical Association, North America	http://www.bmana.com
Bangladesh	American Association of Bangladeshi Engineers and Architects, NY-NJ-CT, Inc. (AABEA Tristate, Inc.)	
Bangladesh	Bangladeshi-American Foundation, Inc. (BAFI)	http://www.bafi.org/
Bangladesh	Association for Economic and Development Studies on Bangladesh (AEDSB)	http://www.aedsb.org/index.htm
Bangladesh	Alochona	http://www.alochona.org/
Bangladesh	North American Bangladeshi Islamic Community (NABIC)	http://www.nabic.org/
Bangladesh	North American Bangladeshi Statistics Association	mail to: mali@gw.bsu.edu
Bangladesh	Bangladesh Chemical and Biological Society of North America (BCBSNA)	mail to: kamal.das@netl.doe.gov
Nepal	Network of Nepalese Professionals	http://www.netnp.org/index.html
Nepal	Association of Nepal in America	http://www.anaonline.org/index.php
Nepal	Nepalese Entrepreneurs Group (NEG)	
Nepal	Nepal United States Educational Network	http://www.nusf.homestead.com
Nepal	America Nepal Medical Foundation	http://www.anmf.net/
Nepal	Empower Nepal Foundation	http://www.empowernepal.hypermart.net/
Nepal	Sajha Career Network	http://www.sajha.com/sajha/html/network.cfm
Nepal	Society of Ex-Budhanilkantha Students	http://www.sebsonline.org/
Central America and Caribbean		
Haiti	Association of Haitian Physicians Abroad (AMHE)	http://www.amhe.org/

Source: UNCTAD, based on Meyer and Wattiaux (2006).

C. Diasporas as sources of development finance

1. THE ROLE OF REMITTANCES

One of the more obvious effects of external migration for the home country is in terms of increased inflows of remittances. Although remittances are private flows, they can play a positive role in not only easing balance of payments gaps, but also fostering the development of home countries. However, this role is obviously conditional on government policies that enhance their developmental impact. It is important to remember that remittances cannot lead development.

As noted in chapter 3, in many countries, remittances have grown remarkably and amount to a significant proportion of national income and export revenues. These relatively more stable inflows may prevent balance of payments crises; allow trade deficits to be financed; and even generate current account surpluses in many recipient countries. In addition to the microeconomic benefits for the recipient families, the macroeconomic advantages of remittance incomes are beyond question. They provide an important (and often the largest) source of foreign exchange; they can lead to increases in investment and therefore output; they tend to be more stable over economic cycles in both home and host economies; they may offset the losses involved in terms of brain drain and tax revenue; and they are often associated with an increase in the marginal propensity to save (Ratha, 2003).

However, as noted in chapter 3, the mobilization of remittances for productive purposes requires policy and institutional improvements, aimed at reinforcing both the “investment channel” and the impact of remittances on financial deepening. To ensure that this is indeed the case, more active government policies are required which would encourage certain types of expenditure. In general, a significant proportion of remittance income — especially for relatively less well-off families — tends to be used directly for consumption. This is not necessarily bad, since improved consumption patterns are desirable per se given prevailing relatively low standards of living. In some countries, it has been found that this high and relatively stable source of income has become an important source for eliminating hunger and reducing poverty in communities which have experienced substantial short-term migration.

Earlier studies for some LDCs suggest that remittance incomes can work to diversify economic activities even independently of government policies. For example, a survey in Bangladesh (IOM-UNDP, 2002) found that expatriate workers tend to spend 30 per cent of their income on personal consumption abroad, send 45 per cent back and save the rest (around 25 per cent). Of the amount remitted to families back home, 36 per cent was used for consumption, including spending on food, education and health care; 20 per cent was used for investing in land or other property; and 14 per cent was used for improving housing arrangements, including additions/renovations on existing property. It was also found that with a relatively prolonged and constant inward flow of remittances, families tended to move away from wage employment to self-employment and from sole reliance on cultivation to various non-farm activities.

Policies to channel remittances into domestic financial sector have substantially evolved in the last couple of decades. In the past, rules governing remittances were part of the larger goal of tightly controlling the flow of foreign exchange. One of the earliest efforts was a policy adopted by the Government of Lesotho for its migrants working in South Africa. In 1974, it passed the Deferred Pay Act establishing the legal terms and conditions of a compulsory remittance system for mineworkers. A portion of miners’ wages (initially between

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Formal mechanisms of remitting are preferable to informal ones. They can stabilize the balance of payments; enhance the developmental impact of remittances; enable the monitoring of monetary and exchange rate consequences of such flows; improve countries' external creditworthiness; help to prevent fraud and money laundering; and encourage financial deepening of the economy.

The costs of remitting to LDCs are among the highest in the world, so one of the urgent issues which governments should address is how to bring the cost of remitting down.

In some cases, the high cost of sending remittances reflects institutional and regulatory barriers in the home country, which can be adjusted to reduce such costs.

60 to 90 per cent) was compulsorily deferred and paid into a special account at the Lesotho National Development Bank. Miners received some interest on their deposits. The funds could only be withdrawn in Lesotho by the miners themselves at the end of a contract. The compulsory deferred pay (CDP) system ensured that the bulk of migrants' earnings returned to Lesotho as remittances. While it had the effect of directing remittances to formal channels, it also represented a restriction on migrants' freedom to remit as they saw fit. The Deferred Pay Act has been amended several times to reflect changes in the composition of migrants from predominantly young, single males to a mixed group, with a growing number of women migrating to South Africa. Currently, miners defer 30 per cent of their gross earnings for 10 months of every 12-month contract (Crush and Dodson, 2010). This alteration of the rules has also been part of a broader drive to liberalize the flow of foreign exchange.

Since then, the policy tide has turned away from the strict control of remittances, so LDC governments nowadays rarely impose restrictions on remitting. Now, the overall direction of policy is to try to make formal channels of remitting more attractive than informal channels and to reduce the cost of remitting. As discussed in chapter 3, formal mechanisms of remitting are preferable to informal ones. They can stabilize the balance of payments; enhance the developmental impact of remittances; enable the monitoring of monetary and exchange rate consequences of such flows; improve countries' external creditworthiness; help to prevent fraud and money laundering; and encourage financial deepening of the economy. For individual recipients, they allow for more reliable service as well as access to other financial services. By contrast, informal channels create distortions in a country's exchange rate and reduce the other benefits of remittances.

Policies designed to increase the use of formal channels have to address the factors that make informal networks attractive, such as high costs of remitting; unavailability of services, especially in rural areas; and unreliability. It was noted in chapter 3 that the costs of remitting to LDCs are among the highest in the world, so one of the urgent issues which governments should address is how to bring the cost of remitting down. There are various measures to be taken on both the sending and receiving ends of the process.

In many sending countries, a key prerequisite is the regularization of the status of migrants and their eligibility to open bank accounts, which would enable them to utilize the host country's financial services for transferring remittances. A larger volume of remittances would be an incentive for other players from the financial sector in both sending and receiving countries to enter the market, so that competition would drive the cost of remitting down. While policymakers in LDCs cannot influence the financial policies and regulatory frameworks of sending countries, it may be worthwhile to pursue bilateral agreements to regulate this and other issues with some of the major sending countries.

In some cases, the high cost of sending remittances reflects institutional and regulatory barriers in the home country, which can be adjusted to reduce such costs. In Ethiopia, for example, in 2004 the National Bank of Ethiopia (NBE) allowed Ethiopians abroad and foreign nationals of Ethiopian origin to open foreign currency accounts in any of the authorized commercial banks in the country. The result was an elimination of the exchange rate risk for diaspora members, and indirectly an increase in the attractiveness of formal channels of remitting. In 2006, the NBE issued a directive regulating the activities and rates charged by international remittance service providers. The aim was to improve service delivery in Ethiopia; increase the cost-effectiveness of remittance transfers; and make the service faster, more accessible and more reliable. Finally, the NBE's exchange rate policy, which has recently been geared

towards eliminating the gap between the official exchange rate and the parallel (black market) exchange rate, has also enticed senders to remit through official channels.

Further, the formal remittance channels for most LDCs are currently controlled by a small number of such service providers. The practice of “exclusive agreements”, which are mostly to be found in African LDCs, stifles competition by preventing competitors from entering the market. Such concentration is then associated with high fees and a lack of branches next to potential customers. Many poorer migrants and their families are forced to rely to a large extent on less secure informal channels, and many of the rural poor end up being excluded from financial services altogether. Allowing greater competition would reduce the monopolistic rents that current market leaders enjoy (Mundaca, 2009; Orozco, 2007; Sander, 2003).

There are several strategies available for increasing such competition. For example, it is possible to tap the wide range of financial institutions specialized in catering for the rural poor, with track records in reducing their financial exclusion. Regulations on money transfers and supervision of financial institutions could be revised to allow microfinance institutions and post offices to increase their participation in the remittance market (Maimbo and Ratha, 2005; Orozco and Fedewa, 2006). This would encourage greater use of formal rather than informal remittance channels; reduce costs of remitting and ensure greater access for the poor, especially in underserved remote and rural areas; increase banking breadth and depth; and allow for better surveillance of transferred amounts. Yet promoting competition raises regulatory issues, primarily the need to ensure the reliability and integrity of the transfer systems and to avoid the system being abused (e.g. for money laundering), which is why only regulated financial service entities are usually permitted to provide remittance services. Policymakers face a challenge in striking the right balance between promoting competition in this market and maintaining supportive regulation.

A central policy conclusion is, thus, to open up the remittance market, particularly by encouraging the participation of regulated finance institutions targeting the poor. Possible measures could include the following:

- Directly increasing the range of financial actors involved, especially in rural areas, by changing regulations to allow the participation of especially microfinance institutions, savings and loans cooperatives, credit unions, and post offices;
- Promoting partnerships among banks and microfinance institutions;
- Strengthening post office involvement by improving their Internet connectivity, increasing their technical capabilities and cash resources, and promoting a wider selection of savings products;
- Improving telecommunications infrastructure;
- Harmonizing banking and telecommunications regulations to enable banks to participate in mobile remittances;
- Actively promoting competition through specialized remittances trade fairs;
- Discouraging exclusivity agreements between all market participants, in particular, banks and money transfer companies.

All of these policies must obviously be part of prudential and careful regulatory regimes that recognize the country’s degree of financial development and the need to avoid the instabilities and fragilities that may arise from financial market failures.¹⁰

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The use of new technologies, particularly Internet-based and mobile telephony-driven methods of transmitting funds, can be exploited to a greater extent. Mobile phones as a delivery channel have untapped potential, especially in the more remote areas where banking branches are not present.

These conventional measures could be accompanied by other, more innovative approaches in some LDCs. It may be worth having a public sector institution compete with private sector providers of remittance services. The example of Mexico and the United States is interesting in that respect. As part of the Partnership for Prosperity action plan between Mexico and the United States, the central banks of both countries (Banco de México and the U.S. Federal Reserve) established a payment system in 2003 that offers a reliable, low-cost formal transfer channel, initially as a way of sending government pension payments to recipients in Mexico. In 2004, a “Directo a México” programme was established to make financial transactions between the two countries available to any individual with a bank account in Mexico, creating a cost-effective alternative to other payment channels. Moreover, the beneficiaries are able, from 2010, to cash their payments in post offices in Mexico. The benefits of this programme are transparency for the participants, transactions guaranteed by the highest monetary authorities, reliability, speed and low cost.

In LDCs, something similar could be done by establishing a public corporation or using existing institutions like public, development, or central banks. Such an institution would provide the same service as the private sector but would charge a lower cost for remitting. Since there is less pressure on public corporations to make a profit, the fee could be substantially lower. The corporation would only need to recuperate the operational cost through fees, which could be much lower than the cost currently charged by remittance service providers in most LDCs. Instead of opening up its own branches, the public corporation could team up with the postal service. Working with post offices could help to reach customers in remote areas where there are no branches of private financial institutions, given its geographic spread.

The use of new technologies, particularly Internet-based and mobile telephony-driven methods of transmitting funds, can be exploited to a greater extent. Mobile phones as a delivery channel have untapped potential, especially in the more remote areas where banking branches are not present. Since brick-and-mortar branches are costly, especially when there is no critical mass of clients, central banks should encourage “branchless banking” via the use of modern technologies, which would expand the outreach of financial institutions to hard-to-reach areas and reduce operating costs of financial institutions. The growing application of new technologies and their potential role in Africa in serving as money transfer channels are analysed in detail in chapter 3.

The feasibility of such innovations, especially in places like rural Africa, will be influenced to a large extent by the availability of supportive infrastructure, in particular telecommunications infrastructure, and sociocultural factors like widespread illiteracy in rural areas, which may detract from the use of the new technology.

At present, there is little evidence of significant penetration of the market of remittance service providers (RSPs) by mobile money services in LDCs, and mobile money RSPs still face significant operational, infrastructural and regulatory constraints to market entry. CGAP (2010; 2012) recommends a careful cost-benefit analysis of any technological innovation as well as an assessment of an institution’s information systems prior to commitment. The feasibility of such innovations, especially in places like rural Africa, will be influenced to a large extent by the availability of supportive infrastructure, in particular telecommunications infrastructure, and sociocultural factors like widespread illiteracy in rural areas, which may detract from the use of the new technology. This highlights the importance of complementary policies promoting both financial deepening and the development of infrastructure and productive capacities in LDCs.

Despite the constraints, as noted in chapter 3, several global money transfer companies have been promoting the use of mobile phones in rural areas to facilitate access to remittances. According to CGAP (2012), mobile money has achieved the broadest success in sub-Saharan Africa, with 16 per cent of adults having used a mobile phone to pay bills or send or receive money in the last 12 months. Despite the potential, however, this mechanism poses supervisory challenges, and is bound to have an impact on remittance costs and efficiency for the recipients.

Nevertheless, there are important caveats. Since regulators in LDCs are at the forefront of developments in the area of mobile money, they have few countries to turn to for policy options and lessons learned. This compounds the challenge of effectively regulating the activity and protecting consumers without stifling innovation. In addition, the previously distinct regulatory sectors of telecommunications and finance will now have to interact more closely, addressing new issues like security, consumer protection, money laundering, etc. Addressing these issues will be a challenge for regulators, central banks and policymakers in general.

The development of new products within the formal financial sector can be another means of improving service delivery for remittance transfers (Buencamino and Gorbunov, 2002; Shaw, 2007; Omer, 2003). For example, through groups such as *Sénégal Conseils*, an association in Lyon, Senegalese migrants in France can remit funds to Senegal both in cash and in the form of goods. Those remitters who are unable to cover the entire cost of goods immediately are allowed to pay in instalments over six months, incurring interest charges. Similarly, in Egypt several exchange companies offer door-to-door delivery of money, following the example of Philippine banks that successfully introduced and implemented the service to compete with unofficial market operators (Dieng, 2002; Russell, 1986, 1990; Shaw, 2007).

Since the cost of remitting is the highest within Africa (see chapter 3), there is scope for regional initiatives to bring such costs down, for example through coordination of measures as a result of formal regional integration initiatives or through the good offices of the regional development bank (the African Development Bank- AfDB). This regionally driven process led by the AfDB should be linked to the international goal of reducing remittance costs known as the “5 x 5” initiative discussed in chapter 3.

While policies to increase the ease of remitting money and reduce the costs involved are clearly necessary and desirable, they need to be part of a broader macroeconomic framework that would enhance the developmental role of such remittance transfers. Accordingly, central banks need to monitor the impact of remittances on exchange rates and tailor exchange rate and monetary policies to compensate for possible undesirable consequences, including through open market operations when necessary. More generally, a consistent set of trade, industrial and macroeconomic policies that sustainably foster growth and economic diversification will obviously be crucial in ensuring that remittance flows also contribute to the process of development rather than simply enhancing consumption in recipient families.

On the microeconomic level, governments could enhance the developmental impact of remittances by offering migrants additional incentives. For example, future remittances could be used as collateral to guarantee small business loans in sub-Saharan African countries. The experience of Banco Salvadoreño in El Salvador provides a model, whereby the bank offers remittance recipients the opportunity to borrow up to 80 per cent of their last six months’ remittance flows and provides them with debit cards. Another policy could be to allow migrants to open foreign currency accounts in the home country, providing them with insurance against the exchange rate risk. Given exchange rate expectations in the home country, commercial banks could feasibly accept such foreign currency deposits as collateral for loans at preferential terms (lower rates or longer maturities). Once again, it is worth noting that when the domestic context is favourable for development (also because of appropriate public policies in education and health care, macroeconomic stability, supportive industrial policy, investment in infrastructure that removes bottlenecks, and the like), remittances allow households to save or to invest in their future income (education, health care, small businesses and so on) rather than simply in ensuring survival.

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2. DIASPORA SAVINGS AND INVESTMENT

In addition to the savings transferred by the diaspora, households that receive remittances in the home country can also generate extra savings.

LDCs typically have higher domestic interest rates because of the increased risk perception in these economies, part of which is usually currency risk. Reducing or eliminating this particular risk could make saving in the financial instruments of LDCs more attractive.

Issuing diaspora bonds could provide LDCs with an important source of long-term financing. Diaspora bonds are debt instruments issued by a sovereign country to raise funds by placing them among its diaspora population.

The relevant concern is whether the cost of capital acquired through diaspora bonds is lower than the cost of capital raised in international capital markets. For many LDCs, however, this issue is irrelevant because they have little or no access to international capital markets.

Out-migration can be associated with higher levels of savings and investment over time in a country. In addition to the savings transferred by the diaspora, households that receive remittances in the home country can also generate extra savings. The savings potential of diasporas needs an outlet or vehicle to be invested. It is useful to make a distinction between portfolio investment and diaspora direct investment (DDI) (Terrazas, 2010; Newland and Tanaka, 2010). Portfolio investment comprises a variety of financial instruments, such as deposits, bonds and mutual funds. Another, non-exclusive possibility would be for diaspora members to invest directly in the home economy. This could take various forms, such as a capital contribution to family business, acquisition of existing firms, a greenfield investment, or other forms of DDI.

In terms of portfolio investment, LDCs typically have higher domestic interest rates because of the increased risk perception in these economies, part of which is usually currency risk. Reducing or eliminating this particular risk could make saving in the financial instruments of LDCs more attractive. For example, if financial institutions in the home country were to offer bank deposits or other financial assets denominated in foreign currency, this could be an attractive option for members of the diaspora. This would combine a return on saving higher than in the case in developed countries with a risk that is lower than in the case of saving instruments in the local currency of a typical LDC. The Central Bank of Turkey, for instance, offers foreign-currency-denominated fixed-term deposit accounts and “Super FX” accounts that are similar to certificates of deposit, to Turkish passport holders living abroad. Interested policymakers should bear in mind the limitations of this strategy; while it transfers the currency risks to the central banks of the countries concerned, it may not actually result in a net increase in foreign exchange inflows, but simply transfer resources from non-interest-bearing remittances to foreign exchange-denominated interest-bearing investments.

Issuing diaspora bonds (see also box 13) could provide LDCs with an important source of long-term financing. Diaspora bonds are debt instruments issued by a sovereign country to raise funds by placing them among its diaspora population. Ideally, the conditions for issuing diaspora bonds would be a sizeable and wealthy diaspora; a strong and transparent legal system for contract enforcement; absence of civil strife; earmarking of proceeds for specific projects to help marketability; and although not a prerequisite, the presence of national banks in the destination countries could facilitate the marketing of bonds (Ketkar and Ratha, 2010). The relevant concern is whether the cost of capital acquired through diaspora bonds is lower than the cost of capital raised in international capital markets. For many LDCs, however, this issue is irrelevant because they have little or no access to international capital markets. In such cases, diaspora bonds are attractive options because they can increase the pool of development financing sources. It may be argued that patriotic motives for investing in diaspora bonds make these instruments less procyclical than other external capital flows, and could thereby allow governments to issue them not only in good times but also in bad (e.g. natural disasters or external economic shocks).

If sub-Saharan countries were to issue diaspora bonds, they could face non-trivial costs of marketing and retailing that could offset the benefits of the lower interest rates paid to bond holders. However, it has been estimated that there is potential for such bonds to raise between \$5 to 10 billion annually, which is not a small amount (Ratha et al., 2008). One idea worth exploring could be regional issuance of diaspora bonds by a group of countries supported by a regional development bank. Such an initiative would help make up for the lack of concentration of migrants from individual countries in any single developed country.

Box 13. Diaspora investment

Some countries have been exceptionally successful in attracting diaspora investment. For example, the Chinese diaspora provided 80 per cent of total foreign direct investment (FDI) in China between 1979 and 1995, and the Indian diaspora is estimated to have invested \$2.6 billion out of \$10 billion of FDI between 1991 and 2001 (see references in Riddle et al., 2011). Both India and China have established special export processing zones and have given diaspora investors priority for establishing operations in these zones. They have created specific incentives for businesses owned and operated by diaspora members, such as tax breaks and access to free or cheap land, to convince them to invest in the home country. Where appropriate, LDC governments could consider such measures for attracting investment from their diaspora members.

Israel has issued diaspora bonds since 1951, keeping the Jewish diaspora community interested in this asset class by offering a menu of options in terms of maturities and interest rates. The Indian Government has used this instrument only occasionally, when having difficulty accessing international capital markets (e.g. after the nuclear tests of 1998). While bond prices have been close to market values of non-Indian bonds, a premium may have been paid given that access to other sources of international finance was limited at the moment of issuance of the diaspora bonds. Institutionally, the Government of Israel established the Development Corporation for Israel to issue diaspora bonds, while India relied on the Government-owned State Bank of India.

Ethiopia is one of the few LDCs that have introduced diaspora bonds to complement domestic resource mobilization for financing major development projects. The Government of Ethiopia is implementing a five-year (2011-2015) Growth and Transformation Plan (GTP). The GTP envisages intensifying the GDP growth rate and maintaining the country's recent record as one of the ten fastest-growing economies in the world. As part of this plan, the Government has embarked on substantial expansion of social services and investment in physical infrastructure, in particular the construction of road and railways and hydropower supply. One of the mega flagship projects launched in April 2011 is the construction of the Ethiopian Renaissance Dam on the Blue Nile. When completed, the dam will generate 5250 MW of electricity to supply Ethiopian consumers as well as consumers in some neighbouring countries. The project is estimated to cost \$4.8 billion and the bulk of the financing will be mobilized from Ethiopians — both within the country and among the diaspora. For this purpose, the Government has introduced the Ethiopian Grand Renaissance Dam Bond, which includes specific features aimed at the Ethiopian diaspora.

In addition to these strategies for boosting investment by diasporas, there are new modalities for using remittances to enable greater domestic investment through securitization or collateralization of these flows. Since these have recently been receiving a great deal of attention, it is worth considering the advantages and risks associated with such mechanisms.

Since remittance flows have proved relatively stable over the medium to longer term, it has been argued that these future flow receivables can be used as collateral for securitization or long-term loans. For some LDCs, this could even represent the only possible access to international capital markets, thereby increasing funds available for development, and could become a stepping stone to establishing international creditworthiness. Ratha et al. (2008) have constructed a hierarchy of future flow receivables for potential securitization by developing countries, based on information from credit rating agencies. Remittances are among the top of the list of future flows, with only heavy crude oil receivables considered lower risk. Further, there is now considerable experience with securitizing future flow receivables, following the Mexican experience with oil since 1987. However, the amounts involved still represent a small percentage of total debt.

In addition, there are several areas of concern which LDC governments must consider before engaging in such a process. A typical example of a future flow remittance securitization involves a bank in a recipient country establishing an offshore special purpose vehicle, to which future remittance receivables are pledged. This special vehicle issues bonds, which are then placed in the international capital markets. Correspondent banks and/or remittances transfer companies are instructed to channel remittances to an offshore account managed by a trustee. The trustee makes principal and interest payments to bondholders and remits excess funds to the recipient bank. This bank has thereby funded itself on the international capital markets at presumably lower costs than on the domestic market or if it had attempted to access unsecured credit internationally. These funds can then be used to finance consumption and investment in the recipient country. Sovereign risk for creditors or holders of the asset are minimized since the remittances do not enter the recipient country, and potential instability in remittance flows is to be covered by over-collateralization, at ratios varying from 5:1 to 10:1.

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Another interesting financial innovation, and one which probably offers more potential than securitization for LDCs, is the use of remittances as collaterals for arranging long-term syndicated loans. Conditions for arranging remittance-backed loans are less stringent than those required for securitization, and may have greater potential for many LDCs.

The African Export-Import Bank has experience in arranging remittance-based future-flow syndicated loans.

Given that LDCs have only limited access to development finance, these strategies can form part of an approach of building up local institutions and the legal framework for financial deepening as well as establishing an international track record on sovereign risk.

Other initiatives include the idea of promoting “community remittances” to improve infrastructure and the provision of basic amenities in migrants’ local areas of origin. One prominent example is Mexico’s Programa Tres por Uno .

It can be seen that this could be an expensive route for LDCs, and is truly justified when there is no possible alternative means of accessing international capital markets. Even to benefit from such a possibility, countries would typically have to have credit ratings of B or above, receive a minimum of \$500 million per year in remittances and allow a few banks to handle the majority of the remittance flows. Few LDCs, other than Bangladesh, can meet these stringent criteria, and introducing such instruments in other LDCs would involve fairly extensive financial deregulation without the requisite institutional support for monitoring and supervision. Given these constraints, as well as the global concerns with securitization that have emerged in the wake of the United States subprime crisis and the financial crisis in the eurozone, it is not clear that the benefits of such measures clearly outweigh the costs and potential risks of financial fragility.

Another interesting financial innovation, and one which probably offers more potential than securitization for LDCs, is the use of remittances as collaterals for arranging long-term syndicated loans. Conditions for arranging remittance-backed loans are less stringent than those required for securitization, and may have greater potential for many LDCs. Sovereign risk can be mitigated by remittances, and development banks can offer credit enhancement instruments. The African Export-Import Bank has experience in arranging remittance-based future-flow syndicated loans. Indeed, in 2001 it launched its Financial Future-Flow Pre-Financing Programme to expand the use of remittances and other future flows as collateral to leverage external financing at lower costs and longer maturities. It has led various future-remittance-flow collateral-backed loans in Ghana, Nigeria and Ethiopia in recent years (AFREXIMBANK, 2005). The Bank has received awards for such activities, since they have enhanced the access of Africa counterparties to reasonably priced external trade and project financing from the markets using remittances by Africans in diaspora as collateral and the main source of repayment.

Given that LDCs have only limited access to development finance, these strategies can form part of an approach of building up local institutions and the legal framework for financial deepening as well as establishing an international track record on sovereign risk. This could eventually facilitate greater access to international capital markets for LDCs.

Moreover, similarly to current flow of remittances, from a macroeconomic perspective, the additional funds received either through a process of securitizing remittances or a remittances-backed syndicated loan could imply additional pressure on the exchange rate, and hence on the country’s competitiveness. Monetary authorities should always keep this in mind in order to fine-tune policies designed to take this potential effect into account, although (given the likely small magnitudes involved) it is unlikely that such an effect would have significant repercussions. However, the risks of financial pyramiding and entanglement that can come from such financial deepening without adequate regulation and supervision are more serious, and should be duly considered by LDC policymakers.

Other initiatives include the idea of promoting “community remittances” to improve infrastructure and the provision of basic amenities in migrants’ local areas of origin (box 14). One prominent example is Mexico’s *Programa Tres por Uno* (box 15), which has sought to coordinate the activities of the diaspora, local communities and governments at national and local level through a system of matching funds for remittances directed to such uses. Despite some drawbacks, *Programa Tres por Uno* offers an interesting model for encouraging and maximizing the developmental impact of collective remittances on migrants’ communities of origin. Yet the administrative, fiscal and regulatory requirements are high, and could be challenging for some LDCs.

Box 14. A proposal to combine efforts of diasporas, governments and donor countries

Given that the fiscal requirements of Programa Tres por Uno could be quite high and make it inoperable in a typical LDC context, a proposal to include the international community and LDC governments could be designed to similar effect. The international community could help LDCs develop faster and harness the potential of remittances for development by adopting an international support measure that would provide matching funds through ODA. LDC governments would show their commitment to the provision of public goods by matching the collective remittances in equal proportions. The three-stakeholder programme would thus include the diaspora, the LDC government and the international community with equal contributions.

This would function as follows. The money from collective remittances earmarked for investment in local infrastructure (potable water, sewage, roads, electrification, etc.) or educational and health facilities (schools and hospitals) would be matched by ODA. This would double the impact of remittances on local development conditions, and would provide incentives for hometown associations to finance even more development projects. The LDC government would provide matching funds equal to the amount of collective remittances, but in local currency. Thus, the final result would be to triple the original amount sent through collective remittances.

UNCTAD (2010a) argues that a “matching fund” approach to aid flows could be a useful element of reforms to strengthen government capacities for greater domestic resource mobilization. Such additional matching funds would constitute an incentive to recipient governments to raise more revenues. The current proposal to match collective remittances would by the same token constitute an incentive for governments to strengthen domestic resource mobilization.

An additional ODA fund would be needed for this purpose. It would have to provide disbursements over and above the existing commitments of development partners. Given that activities related to the Millennium Development Goals (MDGs) are scheduled to end in 2015, this proposal could be a way for the international community to continue supporting LDCs in their quest for economic and social development. It would not only provide a means of continuing in some form MDG-related activities of the international community, but would also involve substantial private-sector financing (remittances) of these activities. It would constitute an international public–private partnership for development.

Box 15. Harnessing “community remittances” for local infrastructure development in Mexico

Mexico’s “Programa Tres por Uno” is an interesting public policy initiative which attempts to harness and prioritize efforts by the organized diaspora community. The basic idea is that migrants send the so-called “community remittances” to places they came from for investment in local public goods like roads, schools, hospitals, potable water, sewage, electric grid or other public spaces and objects (monuments, churches, community centres, sports facilities, etc.). The Programa has been designed to maximize the impact of migrant organizations’ commitment to their communities of origin through a system of matching public funds. It has attracted considerable attention for its attempt to integrate joint investments between migrant organizations and the three levels of government (federal, state and municipality) to finance basic infrastructure (public goods) in the communities of origin of migrants through matching funds to the migrant organizations’ contributions. Other governments and/or migrant communities already implementing or considering variants of Tres por Uno include El Salvador, the Philippines, Peru, Colombia and Ecuador.

García Zamora (2007) argues the Programa has evolved from a first phase of “clubs” financing “superfluous” works such as church repairs, soccer fields, parks, etc., to a second phase of organized processes enhancing transnational communal cohesion to include more ambitious projects of basic infrastructure: water, electricity, drainage, streets and roads. In its third phase, the Programa’s investments cover social infrastructure: schools, clinics, computing centres, scholarships programmes both in Mexico and the United States, environmental projects, and homes for the elderly. Currently, some of the better organized federations of migrant organizations, such as those from Michoacán and Zacatecas, are attempting to move into productive investments aiming at generating income and employment in their communities.

It should be noted that Tres por Uno has been challenging in terms of administrative capacity even in Mexico, as it requires the coordination of four actors at three different levels of government and a civil organization abroad to bear fruit in jointly financed projects. Regarding the regulatory set-up, García Zamora (2007) suggests the need to avoid overregulation and avoid the exclusion of migrants that are not formally organized in clubs and federations.

Another line of critique of Tres por Uno is its lack of focalization on the poorest communities. The programme is based on self-selection of projects and municipalities by migrants’ organizations. This does not correlate with the

Box 15 (contd.)

poorest municipalities, as migration has a non-linear relationship with poverty. Consequently, poorer municipalities would tend to receive less matching funds or none at all.

By nature, *Tres por Uno* is a meso-level public policy and is not designed to meet macro considerations. Its self-selection bias, in a context of a macro-poverty reduction strategy, should be taken into account to ensure geographical equity in the allocation of public funds. In this sense, a macro programme aimed at geographical equity encompassing meso interventions of matching grants should take into consideration such steps as: (i) earmarking funds for the poorest municipalities; (ii) capping the maximum per capita income for beneficiary municipalities of *Tres por Uno*; and (iii) making the public matching funds proportional to poverty levels in the municipality.

Creating capable and efficient institutions that can provide public goods in sufficient quantity and of highest quality remain one of the paramount developmental objectives of LDCs. In the meantime, however, programmes that combine collective remittances and matching funds could accelerate the provision of public goods. Upgrading much of the existing infrastructure and implementing new infrastructure projects to provide more and better quality services such as potable water, electricity, communications and transport are top development priorities for most LDCs.

Given the scale of the needs for infrastructure development in the LDCs, efforts should also be made to increase private sector participation in the provision of infrastructure. Programmes that combine collective remittances and matching funds could accelerate the provision of public goods.

It could be argued that encouraging LDC governments to tap into voluntary contributions from their diaspora population for financing public goods involves some degree of transferring government responsibilities to private citizens. In theory, governments tax their citizens to provide for the provision of public goods. The fact remains, however, that many LDC governments are unable to provide adequate public goods, either partially or in extreme cases at all, which means that some basic needs of the population would remain unsatisfied for the foreseeable future. Given the scale of the needs for infrastructure development in the LDCs, UNCTAD (2006) argued that efforts should also be made to increase private sector participation in the provision of infrastructure. Programmes that combine collective remittances and matching funds could accelerate the provision of public goods.

Box 16. WTO General Agreement on Trade in Services (GATS) — Mode 4

The WTO General Agreement on Trade in Services (GATS) is the binding multilateral trade agreement to address, *inter alia*, the movement of persons engaged in the supply of services with temporary stays in the host country (the so-called Mode 4). The definition of Mode 4 is narrower than migration as the latter also includes movement of persons not supplying services. Mode 4, in turn, considers the supply of a service by a service supplier of one Member, through the presence of natural persons of a Member in the territory of any other Member.

The GATS has no standard definition of what qualifies as “temporary” movement, so the proposals go from three months to five years. Although there are several controversies, including the scope of commitments under GATS on Mode 4, it is important that LDC policymakers consider the potential policy implications of GATS Mode 4, as migration is often a critical livelihood strategy for parts of their population. The contribution of Mode 4 to development could potentially be significant, as global labour migrants represent an important channel for transfer of knowledge, skills, ideas, and technology.

The current round of the services trade negotiations under GATS was launched in January 2000. LDCs have made several requests for Mode 4 which have yet to be satisfied. They have identified market access for Mode 4 in the low- and semi-skilled categories as the most important element for the group in the negotiations. LDCs have also suggested widening the scope of Mode 4 and streamlining the process of verification and recognition of competence, skills and qualifications. Thus, provisions of services through Mode 4, broader labour movement covering all skill categories, as well as facilitated recognition of qualification, would be important for LDCs.

However, the degree to which Mode 4 commitments can be improved to incorporate requests made by LDCs depends on LDC trading partners. Given the current situation of negotiations in general and the employment situation in many developed countries in particular, the prospects for adoption of a commitment that would include most of these requests are not very likely.

To bridge this gap, the Eighth WTO Ministerial Conference adopted in December 2011 a decision whereby “members may provide preferential treatment to services and service suppliers of least-developed countries” for 15 years.¹ While this has the potential to open up new opportunities for LDC service suppliers, including Mode 4, its implementation depends crucially on the willingness of other Members to provide preferential treatment to LDCs. The challenge which remains is to effectively secure preferential market access opportunities for service providers from all LDCs in a predictable, sustained and general manner.

¹ “Preferential treatment to services and service suppliers of Least-developed countries”, World Trade Organization, Eighth Ministerial Conference, 15–17 December, 2011, Geneva.

D. Harnessing diaspora knowledge to build productive capacities in LDCs: An international support measure

The challenge. LDCs have an abundant low-skilled labour force but scarce high-skilled professionals. At 1:42, the ratio of high-skilled (i.e. with tertiary level education) to low-skilled workers in LDCs is staggeringly low, compared with 1:16 in other developing countries and 1:4 in developed economies. As a result, the lack of skilled personnel, especially in the fields of science, engineering, medical research, education, health-care services, agriculture, accounting, administration and other related areas, which are critical for building productive capacities and knowledge-based industries, is a major constraint for LDCs. Brain drain through the emigration of highly skilled professionals from LDCs has further intensified this problem. As shown in this Report, LDCs are disproportionately affected by brain drain. The evidence presented in chapter 4 suggests that:

- By 2000, more than 1.3 million high-skilled LDC nationals lived and worked abroad. Current estimates put this figure at more than 2 million;
- Six LDCs have more high-skilled nationals living abroad than at home. Another 24 LDCs have more than one-fifth of their high-skilled workers in the diaspora;
- The brain drain rate in the LDCs is 18.4 per cent, much higher than in other developing countries (10 per cent) and in developed countries (4.1 per cent);
- At these high levels of brain drain, the adverse effects on LDCs outweigh potential benefits from remittances;
- Brain drain is worst in certain sectors such as health, education and activities relating to science, technology and innovation (STI). These are critical skills that make up the backbone of a country's technological and knowledge base. Constraints in these skills and knowledge usually have a negative ripple effect on the rest of the economy;
- Brain drain is becoming even more of a concern for LDCs, given that these countries are now facing the dual challenge of promoting structural transformation through industrialization while adopting technologies and production processes that are sustainable and environmentally sound;
- Investing in replenishing the human resources lost to brain drain has a very high opportunity cost for LDCs. Paradoxically, it often results in further brain drain. LDCs are generally resource-poor economies in terms of capital (physical, financial and human), knowledge and technological capabilities, and therefore lack the means to offset loss of human resources by accumulating other types of resources.

Efforts to date. The adverse effects of brain drain on home countries, in particular poor economies that are least endowed with high-skilled professionals, are widely recognized. In the last four decades, several initiatives have been launched, at both multilateral and host country level, aimed at facilitating knowledge transfer and knowledge sharing between the diaspora and home countries. Examples include the Transfer of Knowledge Through Expatriate Nationals (TOKTEN) programme managed by the United Nations Development Programme (UNDP); and Migration for Development in Africa (MIDA) and Temporary Return of Qualified Nationals (TRQN) initiated by the International Organization for Migration (IOM). However, as explained in this Report, these programmes have had a limited impact due to inadequate resources and lack of effective coordination. Many of the bilateral initiatives, for example, the "Co-development" programmes adopted by some European countries, are aimed

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In the last four decades, several initiatives have been launched, aimed at facilitating knowledge transfer and knowledge sharing between the diaspora and home countries.

The impact of these programmes on reversing the brain drain processes by transferring knowledge and skills to the home country has been limited.

at diaspora members who are encouraged to return to their home country permanently and/or to invest in their home country. Often, they are provided with financial assistance to enable them to start a business in an area of their choice. The evidence shows that in most cases, the ensuing investment projects are carried out in traditional sectors and/or are small-scale. Moreover, the returnees who are assisted through these initiatives are typically low-skilled. Consequently, although these programmes are useful in facilitating diaspora members who wish to return back home or to invest in their home country, their impact on reversing the brain drain processes by transferring knowledge and skills to the home country has been limited.

Existing multilateral initiatives are aimed at developing countries in general, rather than specifically targeting LDCs. In view of the latter's special status — owing largely to their structurally weak economies — and in line with the principles of international support measures for LDCs, this Report proposes the introduction of a new international support measure aimed at offsetting the adverse impact of brain drain by facilitating investment in diaspora knowledge transfer. The main objectives of the new measure or scheme would be twofold: (a) enabling home countries to benefit from the knowledge and experience accumulated by diasporas, which could be tapped through diaspora knowledge networks; and (b) facilitating diasporas' access to part of the capital needed to start investment projects in knowledge-based productive activities.

This Report proposes the introduction of a new international support measure aimed at offsetting the adverse impact of brain drain.

The scheme. The proposed scheme — “Investing in Diaspora Knowledge Transfer” (IDKT) — is a financial instrument in support of knowledge and learning targeting the diasporas. It could be operated by regional development banks, more specifically the African Development Bank (AfDB), the Asian Development Bank (ADB) and the Inter-American Development Bank (IDB), working closely with national development banks or a special diaspora support window in the central bank of home countries. The rationale for relying on regional development banks to manage LDC-targeted investment initiatives is analysed in UNCTAD (2011a: 114–117). Some advantages are the facts that regional development banks have a proven track record in screening and monitoring national investment projects; they work closely with home governments and could therefore assist diaspora investors in aligning projects with national development priorities; the established credibility of regional development banks would generate confidence and trust in diasporas; and regional banks are already involved in financing knowledge-based regional investment projects that could benefit from links with diaspora knowledge networks. The involvement of home-based diaspora associations and the specific government department responsible for diaspora engagement in this scheme is critical. The latter could also help monitor whether the proposed investment projects are in line with current national development objectives, and whether or not the proposed diaspora investments through the proposed scheme are compatible with activities that enhance home countries' productive and innovative capacities. Therefore, the scheme is not aimed at all diaspora members but only those with the knowledge, skills and technical know-how needed to broaden the knowledge, innovative and productive base of home countries.

The scheme is aimed at diaspora members with the knowledge, skills and technical know-how needed to broaden the knowledge, innovative and productive base of home countries.

As a result, the scheme would target diaspora members who:

- a) Have expertise in a specific field with high knowledge content which is amenable to enterprise development and could contribute to building productive capacities; and
- b) Are willing to invest in this field in the home country and share knowledge.

Investments in productive activities in general, and in knowledge and innovation capability-building in particular, often carry risks. The proposed scheme is designed to reduce such risks by giving diaspora members who meet the above conditions access to a certain proportion of the capital (e.g. half) required to initiate the investment. The finance would be made available at

preferential interest rates. Therefore, what is being proposed is not a grant system but a sort of diaspora venture-capital initiative to help motivate and lead highly skilled diaspora members to engage in home country development. Diaspora knowledge networks, as well as business associations and academic networks, would serve as important search mechanisms for mobilizing diasporas.

In principle, the scheme would encourage investment in middle-to-high level technology industries (e.g. machinery, information and communication technologies, biotech, precision instruments), and skill-intensive activities (e.g. engineering, consultancy, software). These are the types of knowledge-based activities that are currently less prominent or even totally absent in LDCs. Consequently, the scheme would ensure that the investment projects proposed are innovative in the sense that they should contribute to the creation of activities that are new to the home countries (or underdeveloped there), although they may not be new to the rest of the world.

In order to strengthen the knowledge-sharing aspect of the investment projects initiated through the new scheme and to spread their benefits to domestic agents through linkages, joint ventures with local firms would be encouraged. In this way, the scheme would serve as a catalyst for knowledge diffusion and sharing. For their part, domestic partners would contribute their knowledge of local business conditions and their domestic business networks.

Financing. Multiple sources of financing may be required to raise adequate funds to launch the scheme. As shown in this Report, skilled emigrants from LDCs live mainly in developed countries. The funds needed to launch the scheme could be raised from developed countries and other countries in a position to contribute to such funds, and from international and regional financial institutions. The details of the function of the scheme would require further work and a full-fledged feasibility study, including the scale of financing needed, how these funds would be made available to potential skilled diaspora members, how the potential bankable projects would be assessed, who should screen investment projects and according to which criteria, etc. From the evidence presented in this Report, it is clear that there is a need for a special scheme to motivate skilled LDC diaspora members to help build the knowledge base and innovative capabilities of home countries.

The role of home countries. Home countries should provide a supportive environment favourable to knowledge diffusion and to innovative investment, at different levels. At the macro level, home countries should define clearly the national development priorities, strengthen the State's capacity to formulate and implement policies, and develop essential infrastructure, including adequate energy supply capacity (UNCTAD, 2009: 57–90).

At the meso level, a series of industrial policy instruments could be put in place to favour innovation, technological upgrading and knowledge diffusion in the productive sphere. This may include preferential treatment reflected in incentives or targeted supports, a plethora of fiscal and investment incentives, as well as trade policy tools (tariffs and non-tariff barriers), subsidies, grants or loans, fiscal and investment incentives. Even in the absence of a formally articulated industrial policy, home country governments could adopt some of these instruments. Also at the meso level, different economic agents could be involved in the scheme, such as national chambers of commerce, sectoral business associations and relevant ministries (e.g. industry, technology).

At the micro level, home country governments and agencies could adopt some of the following actions and instruments:

- Identifying potential domestic business partners for investment projects stemming from the diaspora and encouraging both sides to form joint ventures or enter into other forms of partnership;

What is being proposed is a sort of diaspora venture-capital initiative to help motivate and lead highly skilled diaspora members to engage in home country development.

The scheme would encourage investment in middle-to-high level technology industries and skill-intensive activities.

Multiple sources of financing may be required to raise adequate funds to launch the scheme.

Home countries should provide a supportive environment favourable to knowledge diffusion and to innovative investment.

Home countries can identify potential domestic business partners and develop other elements of the national innovation system.

- Developing other elements of the national innovation system (e.g. research centres, laboratories, technical schools) which could potentially establish links with diaspora investment projects;
- Establishing industrial parks with favourable physical, business and knowledge infrastructure and legal frameworks, possibly including include business incubators;
- Promoting conferences which facilitate the interaction between diaspora members and domestic businesses;
- Easing conditions of movement of diaspora members between home and host countries;
- Establishing communication channels between diaspora members (including potential entrepreneurs) and the national government.

E. Conclusions and key policy recommendations

LDCs with a critical mass of migrants need to strengthen their policy framework in order to better harness the development impact of remittances and engage diasporas as agents of development and structural transformation.

1. OVERALL STRATEGIES WITH REGARD TO DIASPORAS

- LDCs with a critical mass of migrants need to strengthen their policy framework in order to better harness the development impact of remittances and engage diasporas as agents of development and structural transformation. In doing so, it is important to note that policies on migration, remittances and diaspora engagement should not be formulated in isolation, but as integral parts of national development strategies.
- The responsibility for formulating and implementing the diaspora policy framework in home countries should lie at the highest level of Government, ideally at ministerial level. Moreover, while the specific mix of policies and concrete measures for diaspora engagement will vary between countries, the overall direction should be to provide an enabling environment for enhancing diasporas' contributions to the development of productive capacities.
- Building "trust" between diasporas and home governments is central for sustaining the engagement and contributions of diasporas. While it is true that diaspora members are not motivated exclusively by commercial interests, their engagement will fail if they are only expected to contribute and receive nothing in return. Policies aimed at diasporas should bear this crucial point in mind.

Building "trust" between diasporas and home governments is central for sustaining the engagement and contributions of diasporas.

2. HARNESSING REMITTANCES TO BUILD PRODUCTIVE CAPACITIES

- It is critical that LDCs make formal channels of remitting more attractive through targeted policies, incentive measures and institutional improvements aimed at reducing the cost of remittances sent through formal remittance service providers. Opening the remittance market to competition would help to lower significantly the cost of remitting. Possible policy initiatives in this area could include the following:
 - » Directly increasing the range of financial actors involved in the remittance market, especially in the rural areas, by reforming the regulatory framework in order to enable a wider participation of RSPs, particularly of microfinance institutions, savings and loans cooperatives, credit unions and post offices;
 - » Promoting partnerships among banks, microfinance institutions and other financial intermediaries;
 - » Strengthening post office involvement by improving their Internet connectivity, increasing their technical capabilities and cash resources, and promoting a wider selection of savings products;

It is critical that LDCs make formal channels of remitting more attractive.

- » Improving telecommunications infrastructure;
 - » Harmonizing banking and telecommunications regulations in order to enable banks to participate in mobile remittances;
 - » Discouraging exclusivity agreements between all market participants, in particular, banks and money transfer companies.
 - » Where necessary, intensifying the market competition by allowing a public sector institution to compete with private sector providers of remittance services.
- Since, as shown in this Report, the cost of remitting is highest in Africa, the scope of bringing down the rate through regional initiatives, including with the involvement of the African Development Bank (AfDB), should be explored.
 - At the microeconomic level, governments could enhance the developmental impact of remittances by providing additional incentives to migrants. For example, migrants may be encouraged to open a foreign currency account in the home country; an option to use foreign-currency deposits as collateral to get loans at preferential terms could be provided; incentives to migrants to return to the home country once they retire could be provided by signing double-taxation avoidance treaties with the main host countries where the majority of its migrants work; the creation of education and housing accounts at home for migrants and their families, and a higher rate of return on these deposits than on ordinary saving accounts would provide an incentive to save more out of remittances and for purposes that would help ensure productive use of remittances. The appropriate mix of measures would have to be decided by the competent authorities.
 - Home governments should explore, where appropriate, the option of using diaspora bonds to mobilize additional external finance for development projects with high prospective social returns (for example, infrastructure development or trade facilitation projects).
 - Whilst being wary of the risks of excessive indebtedness, remittances future-flows could be used as collateral for securitization or long-term syndicated loans, thanks to their relative stability compared with other receivables. In addition, the institutional and regulatory strengthening required for the securitization process could represent a stepping stone to establish or improve the international creditworthiness of the recipient country.
 - With the assistance of the international community, LDCs could strengthen the provision of public goods by combining collective remittances and matching funds.

Governments could enhance the developmental impact of remittances by providing additional incentives to migrants.

Home governments should explore the option of using diaspora bonds to mobilize additional external finance for development projects.

LDCs could strengthen the provision of public goods by combining collective remittances and matching funds.

3. HARNESSING DIASPORA KNOWLEDGE TO BUILD PRODUCTIVE CAPACITIES

- Home countries should assess the market potential for the so-called “nostalgic trade”. Policies in LDCs could be designed to sustain the competitiveness of producers of nostalgic goods, by upgrading their products and processes and to engage diaspora members to help with branding and marketing in the host country. Education and training of producers is crucial if they are to become competitive in foreign markets.
- Improve income, working conditions and career prospects in some key sectors, especially in the national health and education systems, universities and research centres, including with the assistance of donors, so as to reduce the intensity of brain drain.
- Strengthen coordination across the array of different stakeholders who engage in activities and programmes targeting the diaspora: home and host country governments, diaspora associations, NGOs, international organizations, private foundations, etc.

Strengthen coordination across the array of different stakeholders who engage in activities and programmes targeting the diaspora.

Home country governments could assist diasporas to create diaspora knowledge networks and leverage resources.

The international community could consider establishing an international support measure to harness diaspora knowledge to build productive capacities in LDCs.

- Promote an industrial policy framework that enhances the role of DKNs, and taps their potential to reinforce the processes of learning, technology transfer, and structural transformation in the LDC economies.
- Policy actions and incentive measures that home country governments could implement to engage diasporas and facilitate the transfer of knowledge and technical know-how would include:
 - » Monitoring and building reliable database on the diaspora, its skills and professional profile, earnings, aspirations and expectations vis-à-vis the home country in terms of knowledge transfer, investment, business networks, and return (temporary or permanent);
 - » Assisting diasporas to create diaspora knowledge networks and leverage resources (e.g. through umbrella organizations, joint activities with other stakeholders) from host countries for productive capacity-building in home countries;
 - » Involving the diaspora from the start in planning and designing national development strategies and programmes, so as to ensure the convergence of government and diaspora priorities;
 - » Promoting diaspora FDI through road shows, investment promotion strategies targeted at diasporas;
 - » Facilitating the assimilation of returnees and diaspora investment through agricultural and industrial extension services, incentives to encourage enterprise development, investment promotion policies and instruments geared specifically to diaspora financing and technical advice.
- The international community could consider establishing an international support measure to harness diaspora knowledge to build productive capacities in LDCs through the proposed IDKT scheme.

Notes

- 1 The creation of the Migrant Remittances Observatory in Benin is one of the recommendations of the Ministerial Declaration adopted at the Ministerial Conference of the Least Developed Countries on Migrants' Remittances held in Cotonou, 9-10 February 2006.
- 2 See World Bank (2011a).
- 3 "Search networks allow us to find and collaborate with those who are already learning what we need to know." (Kuznetov and Sabel, 2006, p. 1)
- 4 See UNCTAD (2007) and discussion in Hausman and Rodrik (2003).
- 5 The objectives of DKNs are multifold: (1) to disseminate knowledge; through Self Discovery Networks, (2) to build alternative communication infrastructure for communication via websites, blogs, reports, papers, etc.; and (3) to attract more media attention and consequently higher funding than individual entities can.
- 6 It is possible that diaspora activities may not always result in positive effects. They are by definition elitist, exclusive and non transparent, often not accountable to anyone and may become subject to internal disputes (Meyer and Wattiaux, 2006). As Kapur (2001) argues, DKNs can also transfer fads and fashions as well as inappropriate technologies to home countries.
- 7 Since the 2000s, 27 LDCs have experienced some degree of deindustrialization, reflected in the declining share of value added in the manufacturing sector (UNCTAD, 2010a).
- 8 Indeed, the behaviour and impact of DKNs has been studied and positively evaluated by a number of scholars of industrial policy in recent years (Saxenian, 2006, Kuznetsov and Sabel, 2006; Lamoureaux et al., 2003; Kuznetsov and Torres, 2006; Kuznetsov, 2008; Iskander and Lowe, 2011).
- 9 Interest in industrial policy in developing countries has re-emerged following the disappointing economic performance prescribed by the Washington Consensus. (Altenburg et al., 2008; Altenburg, 2011; Hausmann and Rodrik, 2003; Rosendahl 2010; Wade 2010).
- 10 See table 8 in chapter 3 for "regulatory challenges facing international remittance service providers (RSPs) in LDCs".