

**DIASPORA DIRECT INVESTMENTS: THE CHALLENGES OF THE AFRICAN
DIASPORA**

DOĞRUDAN DIASPORA YATIRIMLAR: AFRİKA DIASPORASININ ZORLUKLARI

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ABSTRACT

Diaspora investments have had tremendous impacts in the development of countries like India or China during the last three decades while other developing countries have embarked on a rush of debt to international lenders like the International Monetary Fund (IMF) or to the hunt for foreign direct investment (FDI), often seen as a real catalyst for the economies of the recipient countries.

Yet the task remains difficult: for various reasons, governments often make choices that are not suited to their growth ambitions but simply to the strategic interests of investors. On the other hand, there has been strong growth in private remittances to African countries in recent years. According to the figures of the world bank, Sub-Saharan Africa received not less than US\$33 billion during the year 2016. This draws particular attention to the strength that this African diaspora can have for their countries of origin.

Based on the world bank's data on remittances to the continent between 2000 and 2016, this article analyses the financial capacities and challenges of the African diaspora, which, through funds sent to the continent, can significantly impact local economies by multiplying investments in the key sectors.

Key words: Investment; Diaspora; foreign direct investment; diaspora direct investment

ÖZET

Diaspora yatırımları son 30 yılda Hindistan veya Çin gibi ülkelerin kalkınmasında çok büyük etkiye sahipken, diğer gelişmekte olan ülkeler Uluslararası Para Fonu gibi uluslararası borç verenlere veya doğrudan yabancı yatırım avına borç atarak başladılar. çoğu zaman alıcı ülkelerin ekonomileri için gerçek bir katalizör olarak görülür.

Ancak, bu görev hala zor. Çeşitli nedenlerden dolayı, hükümetler genellikle büyüme hedeflerine uygun olmayan, ancak yatırımcıların stratejik çıkarlarına uygun seçimler yapıyorlar. Öte yandan, son yıllarda Afrika ülkelerine özel işçi dövizlerinde güçlü bir büyüme gerçekleşmiştir. Dünya bankasının rakamlarına göre, Sahra Altı Afrika, 2016 yılında 33 milyar ABD Doları'ndan az olmamakla birlikte, bu Afrika diasporasının kendi menşe ülkeleri için sahip olabileceği güce özellikle dikkat çekiyor.

Dünya bankasının 2000 ve 2016 arasındaki kıtadaki para transferleri hakkındaki verilerine dayanarak, bu makale Afrika diasporasının mali kapasitelerini ve zorluklarını inceliyor; bu da, kıtaya gönderilen fonlarla, kilit sektörlerdeki yatırımları çoğaltarak yerel ekonomileri önemli ölçüde etkileyebilir.

Anahtar Kelimeler: Yatırım; Diaspora; Doğrudan yabancı yatırım; Doğrudan diaspora yatırım

1. INTRODUCTION

The term diaspora is a term that has long been used to refer to the Jewish people forced into exile and dispersed throughout the world and formed into community before being later extended to any people who left their homeland for various reasons and living in another country called host country. Diaspora direct investments (DDI) therefore refer to the entrepreneurial actions of immigrants in a country (equity investments in existing companies, business creation, etc.) or the use made of their transfers and having economic benefits for their countries of origin. DDI also include direct investment introduced and motivated by members of a given diaspora (Rodriguez-Montemayor, 2012). The term "reverse migration" is often used to refer to the return of migrants themselves or their capitals to their home countries.

Unlike foreign direct investment, which is almost always motivated by profit by investors, diaspora investments are also perceived as an act of patriotism or national solidarity because they are motivated by the desire to participate in the development of the country concerned on a precise plan (medical, academic, technological, etc.).

While FDIs are often criticized for their susceptibility to disinvestment in times of crisis or other disadvantageous economic circumstances, DDIs are encouraged for the emotional dimension they represent and their sustainability over time, to the point that more and more thinkers and economists consider them as a potential substitute if not a competitor to volatile FDI.

This analysis is based on the world bank's data on remittances to the continent mainly between 2000 and 2016, and takes a look at the financial capacities and challenges of the African diaspora which, through remittances to the continent, can significantly impact local economies by multiplying investments in the key sectors.

2. IMPACTS AND IMPORTANCE OF FDI IN AFRICA

One of the major difficulties of African economies remains the financing of public infrastructures or other major projects in strategic sectors such as health, water, energy or agriculture. To alleviate this problem, and like other developing countries, African countries have embarked on a rush of debt to international lenders or to the hunt for foreign direct investment (FDI), which is often seen as a real catalyst for the economy of the beneficiary countries (Ngouhouo, 2008).

One of the highlights of the frantic quest for foreign direct investment by African countries is the infatuation of the latter for every meeting with major economic powers such as China, France, the United States or even more recently India. The outcome of these meetings is often an opportunity to sign large contracts and other memoranda of agreements announced with great fanfare in the media, highlighting the progress and strengthening of economic and diplomatic relations between the parties. The question of the impact of FDI is particularly acute when one considers the development of the continent in view of the many FDI that has benefited since independence.

From 1995 to 2007, for example, foreign direct investment into Africa has grown steadily, as shown by the United Nations Conference on Trade and Development (UNCTAD) report (2008) (Adams, Can foreign direct investment (FDI) help to promote growth in Africa?, 2009). The effects of these investments are often very obvious when it comes to poorer countries (GOHOU & SOUMARE, 2012) because they boost in some way the economy of the beneficiary countries and provide concrete answers, in particular to the question of employment and thus contribute to the reduction of precariousness. Considering the fact that a large part of the workers in Africa are employed in the informal sector (UN-Habitat, 2018), the arrival of FDI is a good thing for the beneficiary countries as in addition to creating better conditions for the highly skilled employees, this allows governments to double debit taxes (both on employees and businesses) to finance the construction of infrastructures and the development of public services.

However, it is not obvious to decide at first glance on the positive or negative impact of FDI because it depends first and foremost on the overall strategies of beneficiary states and techniques for evaluating the effects of FDI (GOHOU & SOUMARE, 2012). This justifies the disparity of views on this issue when one considers the truth that foreign investors seek profit first and not the development of the host countries of these investments (Adams, Foreign Direct investment, domestic investment, and economic growth in Sub-Saharan Africa, 2009). This particular point is one of the perverse effects of FDI because investors' interests are purely economic than anything else.

Several factors cause failure in FDI attraction efforts on the continent. These factors include political instability and corruption in some governments. The example of the Central African Republic is the most expressive in Central Africa region as to the difficulty of landing reliable and long-term IDEs because of political instability (French Embassy in Cameroon, 2014). The country, however, is rich in many mineral wealth but the political environment creates hostility for the emergence of a business environment that can encourage the sustainable installation of foreign companies in the territory.

Another example is Gabon, where mismanagement and corruption has made it difficult to attract FDI due to a lack of credibility from potential investors.

2.1. MAJOR potential benefits of DDI

It should be emphasized that the departure of populations to a host country is a huge loss for the country of origin, especially when it comes to well-educated populations. In this case, we are talking about a brain drain and the related costs are often just as enormous (especially the training costs); this is especially the case of migrations from Africa. These departures, however, represent a plus for host countries because they receive potentially skilled labour which they have not spent money for.

However, the diaspora's investment can be evaluated in other ways, notably through the advantages they represent, especially in the case of return migration. Countries of origin can thus benefit from their diasporas on the following aspects:

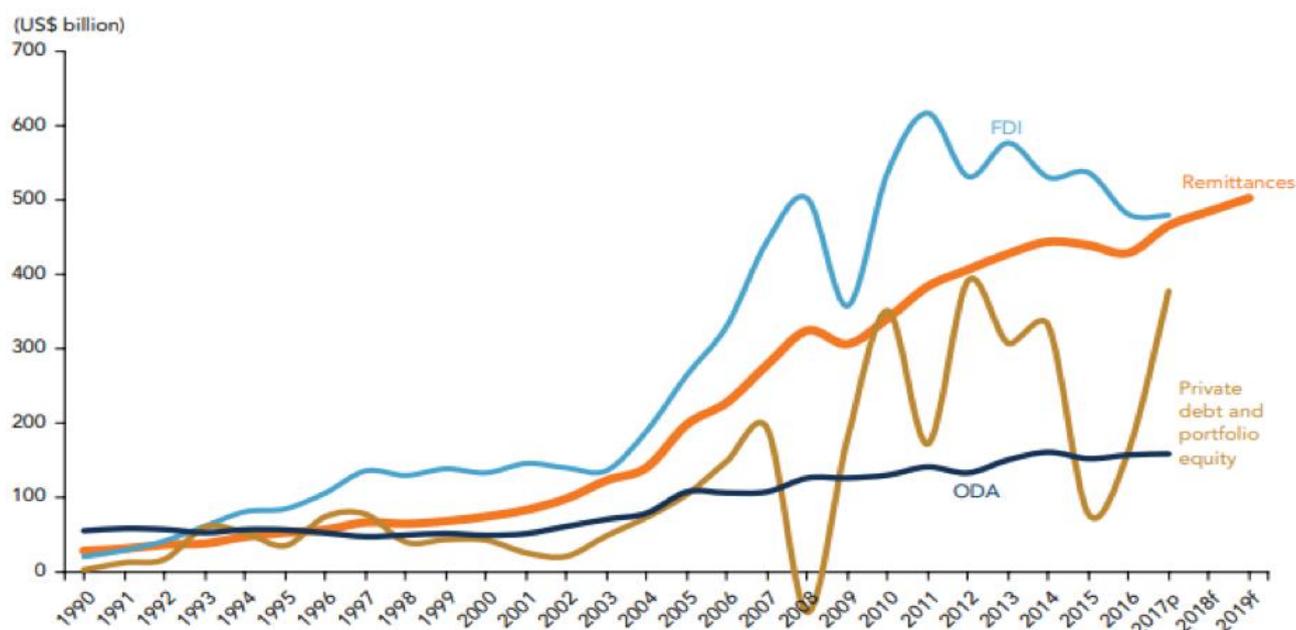
- ✓ **Technology transfer:** this is especially true for members of the diaspora with good work experience abroad. Knowing well the difficulties of their countries, they bring with them modern technologies, best entrepreneurial practices to boost the competition of local companies. Unlike foreign direct investment where investors do not always show willingness to share knowledge and good practices with local workers, investors from the diaspora are more inclined to popularize technologies and experiences because they do not necessarily focus on profit first but on the performance and development of the business environment locally (Rodriguez-Montemayor, 2012)
- ✓ **Brain Gain:** There is brain gain when a talented and experienced diaspora returns to their home country and brings knowledge, capital, and opportunities to access international markets. And the repercussions of this knowledge migration can be considerable when returning migrants succeed in reintegrating into their home environment.
- ✓ **Stable financial investments:** investors from the diaspora are less sensitive to political risks and difficult economic conditions. Their emotional and cultural attachment and market knowledge make them resilient entrepreneurs who survive and adapt to difficult economic times. The link to the country will therefore allow the capital contributed by the diaspora to remain in the territory while a disinvestment can follow in the case of FDI.
- ✓ **FDI attraction:** Diaspora networks are a plus for the attraction of international investments in that by the good knowledge of the business environment of their countries of origin they can better guide investors and target the growth sectors. High-level diasporas can be used to improve the business environment and thus boost the economic diplomacy of their countries with foreign countries. The most prominent examples in economic diplomacy are China and Israel, which have contributed enormously to the attraction of FDI by creating joint ventures and promoting exports for local businesses (Debass & Ardovino, 2009).

3. REMITTANCES FROM THE DIASPORA: A POSSIBLE SOURCE OF FUNDING FOR DEVELOPMENT

Numerous studies have found that remittances directly benefit the welfare of those receiving the money. In poorer regions and countries, such payments can often buffer the vagaries of poverty or instability by covering basic necessities such as food, school fees, rent and health care (Hairsine, 2018).

Diaspora remittances in recent years have largely outpaced foreign direct investment and by far the official development assistance (ODA) provided by international financial institutions and other private organizations, with India as the largest recipient (Ratha, 2015).

Figure 1: Remittances flows to developing countries from 1990 to 2019



Sources: World Bank staff estimates; World Development Indicators.

Even if they have not reached the size of the Indian achievements yet (new Silicon Valley), many examples of diaspora contribution to the development of their countries can be observed in Africa:

- ✓ **The hostel business sector in Ethiopia:** The hospitality sector is currently enjoying great success in Ethiopia, thanks in particular to the investments of its diaspora, who have long been in exile in the United States and elsewhere in the world. After dressing the wounds linked to the various political upheavals and especially the conflict with Eritrea which was the main reason for their exodus in the years 1998-2000, the Ethiopian diaspora returns more and more to the country with important capital and participate brilliantly economic recovery in a strategic sector such as tourism, with modern hotels to the status of major Western cities.
- ✓ **The construction of basic infrastructure in Senegal:** The Senegalese diaspora is one of the most dynamic in West Africa, with its networks of associations mobilizing the actions of residents and non-residents for the construction of infrastructures and support to local communities. One of the most telling examples in the case of Senegal is that of the association TAD (for Thilogne association development) which, for the construction of schools and dispensaries, does not hesitate to include the nationals of this village living abroad. It has developed a deployment strategy of being present in the countries that gather the largest number of nationals of the village (France, Gabon, Italy, USA) to keep them informed of all the projects and other common actions to be carried out and also to counter the evolutions of previous and ongoing actions. This way of doing things allows for a more fluid communication and a more committed involvement of the members of the diaspora. Thus, for the construction of the high school of their native village, the Senegalese diaspora from Thilogne contributed 30% of the total estimated amount to 222 million CFA francs (nearly 340,000 euros) (Thilogne association developpement, 2014).

4. FINANCIAL CAPACITIES OF THE AFRICAN DIASPORA: FROM LEAKAGE TO BRAIN GAIN

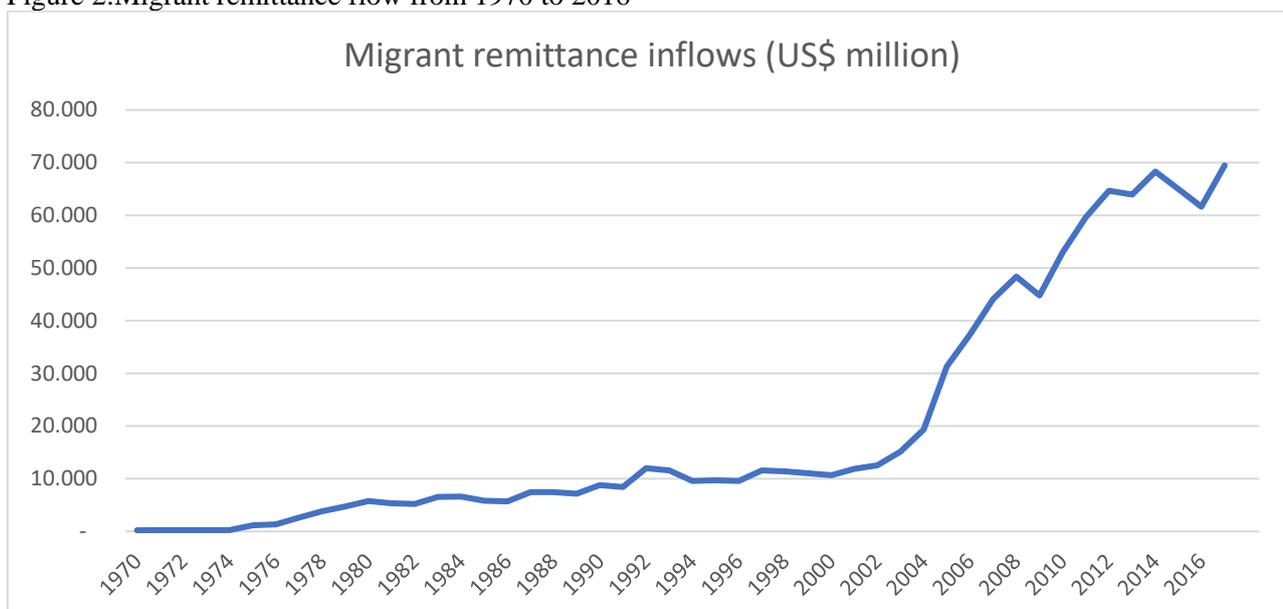
With nearly 20,000 professionals leaving the country every year (Shinn, 2002), the African diaspora is one of the largest in the 21st century and is gaining momentum with the diversity of profile of both legal and clandestine ones that increase migration flows to Western countries where the numbers are enormous. In his speech to health professionals living in North America in November 2002, Professor David Shinn pointed out that there were more than 2,000

Nigerian doctors working in American hospitals and 10,000 academicians officiating in the United States alone (Shinn, 2002). The communities and professions of immigrants of African descent in developed countries are as rich as they are varied. But the figures are even more telling in the continent where this migration remains the largest (Daum & Dougnon, 2009) with for example the intra-regional mobility rate estimated at 65.6% in sub-Saharan Africa in 2013 (Wolff & Opoku-Owusu, 2017).

By their presence and their professional activities in the host countries, the African diaspora is now more than ever a significant lever on which the countries of origin can rely to boost their development if they are included both in the attracting FDI but also in development projects. In this sense, it must be seen as a vast network capable of providing support in terms of social capital for its ability to facilitate the strengthening of links of various kinds between the public and private institutions of the host countries and the countries of the world. origin, of human capital through the intellectual circulation but also of financial capital by the magnitude of the amounts of money transfers to their country of origin (Debass & Ardovino, 2009).

Indeed, if we consider, as shown above, the fact that money transfers from the diaspora have exceeded for several years the amounts allocated to low-income and middle-income countries by international organizations in the framework of official development assistance (ODA), we can realize the financial potential that this represents for the development of these countries.

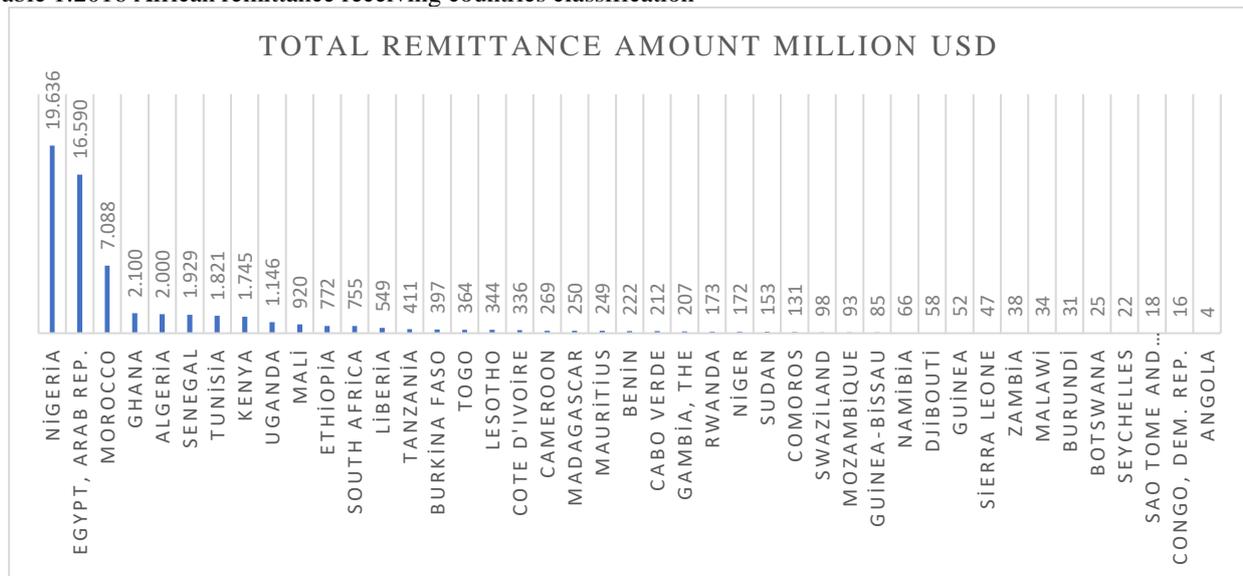
Figure 2: Migrant remittance flow from 1970 to 2016



source: author from world bank data on remittance inflows

The steady increase of migrant remittance flows since the 70s that we can see in the exhibit above shows that Africa has always had enormous resources that could have been used to serve as development funding at some extent but they have been untapped to date. From that perspective there is evidence that money transfers from African diaspora could have made wider impact if any policy or strategy from the continent's states had seen its potential very quickly.

Table 1:2016 African remittance receiving countries classification



Source: author from the 2018 world bank data on remittance flows

For the only year of 2016 61,629 billion USD were sent to African migrants back home and Nigeria is the country that received the highest amount of transfers of the continent with USD19,636 billion sent by Egyptian diaspora.

Yet difficulties remain in the back stage of remittances process. The challenges and difficulties of the African diaspora have to be analysed both in host and home countries. Of course, what gives a migrant any potential power as investor is a financial resource that allows him to undertake any action, which is not easy to find especially non-qualified migrants. And that is not even the biggest challenge. The biggest problem is the high transfer fees that migrants pay to sent money back home. The high charges associated with remittance transfer to Africa have long been recognised as a constraint on development (Watkins & Quattri, 2014). This reduces the received amount and of course weakens the impact expected. It costs more to send money to Africa – the world's poorest region – than anywhere else in the world. This means expensive fees eat up a chunk of cash that could otherwise help the receiving families. The rate is even higher for money transfers when it comes to sending money within Africa (Ratha, 2015).

5. POLICIES FOR ATTRACTING DIASPORA INTEREST

For higher commitment and interest from African diaspora members in the home countries' affairs lots of things remain to be undertaken by local governments as it was the case for other countries like Thailand or many others to attract and catch diaspora investments. Some countries on the continent have come to the evidence that diaspora are to be included in the development process of the home land and now set policies to attract their engagement at any point of view but especially in the economic actions such as investments and joint ventures. That is particularly the case of Senegal where the governmental agency in charge of promoting investment has opened a specific desk dedicated to diaspora so that they too have access to opportunities offered to foreign investors (APIX senegal, 2016).

Actions are also being conducted by diaspora members themselves as a sign that they are not just waiting for opportunities to be dished up to them by governments or other related agency. Business creation and diaspora investment are often hailed as driving forces of economic development and positive evolution. As an example, African diaspora mainly from France have created an investment fund to support and present investment opportunities in Africa but also to create an effective network composed of policymakers, thinkers, public influencers, and many willing members. This has the advantage of creating a favourable atmosphere for trust and market intelligence able to promote DDI and attract FDI as well.

6. CONCLUSION

The dynamism of the African diaspora in its desire to participate in the development of the continent is no longer to be demonstrated, even if the efforts made in this direction seem still weak. Despite the difficulties related to remittances in particular on the continent, Africa still has a strong development potential based on the gradual inclusion of its more and increasing diaspora within the continent and out of the continent.

The major challenge of this diaspora is to coordinate their actions even more and to direct their investments in the most promising sectors, in order to regulate the dependency of their countries of origin towards FDI and to minimize the effects of these in times of crisis or other difficult economic situation. As previously noted, diaspora direct investments promise greater stability in local jobs and more sustained economic, social and technological development, and creates a more informed and attractive business environment for foreign investment as well as for the development of local businesses through exports to foreign markets.

We have also pointed out the fact that not only diaspora themselves but especially public policymakers in home countries should arrange better conditions for diaspora reintegration by multiplying the creation of the frameworks favourable to diaspora engagement and commitment.

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