1. Introduction

This paper was written as a background paper to the International Policy Debate on Remittances, Entrepreneurship and Development that took place on 29 May 2013 in Maastricht, the Netherlands as part of the Dutch Ministry of Foreign Affairs funded IS Academy on Migration and Development. The aim of this International Policy Debate is to bring together policy makers, practitioners and academics to discuss the past and future of research and policies that address remittances, entrepreneurship and development in a globalizing world.

Recently, the concept of migrant entrepreneurship has gained more attention, both in academic and policy circles. The main reason for this focus on migrant entrepreneurs is because they are increasingly considered a development potential for migrant-sending countries. The promotion of entrepreneurship more generally has therefore become an important part of economic policy in many developing countries as it is often associated with positive developmental impacts. Migrant entrepreneurship, or entrepreneurship financed by international remittances can create jobs and wealth, further innovation and, as a consequence, introduces welfare effects into the society (Beck et al., 2005).

In this paper we look specifically at four ways, or mechanisms, through which migration-related entrepreneurial activities can influence development in migrant-sending countries: 1) international remittances, 2) transnational entrepreneurship of migrants residing abroad, 3) diaspora business investments, and 4) entrepreneurship of return migrants. First, international remittances are often sent to origin countries to be invested in business by receiving households. Second, migrants residing abroad are also known to start transnational businesses, or businesses in their home countries while residing abroad. Third, diasporas are increasingly involved in sending collective remittances, which are in some cases also directed to business investments.
Migrant entrepreneurs are considered to be particularly well positioned to run successful businesses based on their knowledge of both the home and host countries. Although migrants may face additional obstacles in coordinating their businesses because of, for example, inter-cultural differences such as language barriers or inter-cultural differences in terms of business climates and work ethics, they also often have access to additional sources of support, training and financing. Migrants often increase their educational level and/or gain new skills, earn more money, have better access to credits, and extend their social networks while living abroad.

Migrant entrepreneurship is highly linked to the international flow of money and goods, also called remittances. Remittances have been increasingly associated with development in remittance-receiving countries for the past decades. Remittances have increased substantially over the past decade, having reached US $529 billion in 2012 compared to US $132 billion in 2000, according to the World Bank. Remittances are an important source of income for many developing countries and can be a particularly important source of income for poverty alleviation for many households around the world.

The research field of migrant entrepreneurship and remittances linked to entrepreneurship is still relatively young and there are many gaps in the literature that this paper and policy debate endeavour to contribute to. Several questions remain to be explored on the topic of migrant entrepreneurship, and especially the linkages with development. First, what are the theoretical linkages between remittances, entrepreneurship and development? Is migrant entrepreneurship likely to contribute to development in migrant-sending countries, and if so, to what extent? Second, what are the mechanisms through which migrant entrepreneurship can contribute to development, and what policy measures can be designed to enhance the development impact of migrant entrepreneurship? In light of these questions, the aim of this paper is to: 1) create an overview of the current evidence regarding migrant entrepreneurship and the link with remittances; 2) identify the gaps in the literature; and 3) mark directions for future research.

The rest of this paper is structured as follows. Section 2 will describe the mechanisms through which migrant remittances are connected to entrepreneurship and business investments in migrants’ home countries. A distinction will be made between international remittances and business investments in home countries, transnational entrepreneurship of migrants residing abroad, diaspora investments or collective remittances, and entrepreneurial activities of return migrants. Section 3 will deal specifically with the current evidence regarding the development impacts of these types of migration-related entrepreneurial activities. Section 4 will explore the gaps in the literature in more detail, providing guidelines for future research. Finally, section 5 will contain some concluding remarks.

“Migration and remittances offer a vital lifeline for millions of people and can play a major role in an economy’s take-off. They enable people to partake in the global labor market and create resources that can be leveraged for development and growth.”

Kaushik Basu, the World Bank’s Chief Economist and Senior Vice President for Development Economics
2. Migration, Remittances and Entrepreneurship

For a migrant entrepreneur, as well as any other entrepreneur, starting a business, either upon return or from a distance, requires money, social capital as well as human capital in the form of competencies, skills and knowledge. Access to credit is commonly mentioned as the biggest hurdle for potential entrepreneurs in developing countries. One strategy that has been employed to overcome this constraint has been found to be migration. Research has shown that temporary migration is a way for people to overcome financial barriers and to accumulate the financial capital needed for their business venture (Dustmann & Kirchkamp, 2002; McCormick & Wahba, 2001; Mesnard, 2004). However, financial capital is not the only resource needed to establish a business. Human and social capital are also important types of capital that are essential for successful entrepreneurs. Human capital describes natural characteristics like intelligence, looks and health as well as skills and abilities acquired through education and work experience. Social capital contains an individual’s relationships with other people and the network on which one can rely. It is considered to provide the basis for the financial and human capital to be utilized, as an entrepreneur has more opportunities when he/she knows more people and is therefore able to identify those choices that will be most productive and successful (Burt, 2000).

Migrants often accumulate financial resources while abroad and may then send or bring this money home to spend or invest. Furthermore, they may acquire additional skills that may contribute to the domestic economy through the transfer of such expertise, for example when establishing a business (Cassarino, 2004). Migrants in many cases also have increased access to social capital in the form of business contacts, or other social relations with people outside the country of origin (Klagge et al., 2007). Specifically in the sector of small and medium sized businesses return migrants can therefore potentially help the development of the domestic market (OECD, 2008).

In this light, the following sections describe four different ways that migration and remittances are connected to entrepreneurship and business investments in the migrants’ home countries, namely through 1) international remittances, 2) transnational entrepreneurship of migrants residing abroad, 3) diaspora business investments, and 4) entrepreneurship of return migrants. The linkages between remittances, entrepreneurship and development for these four different mechanisms will be described in detail below.

2.1 Remittances and Business Investments

Migrant remittances that are sent across international borders play an important role in the linkage between migration and entrepreneurship. A distinction can be made between monetary and social remittances. The former generally refers to money and goods, whereas social remittances include “ideas, behaviors, identities, and social capital that flow from receiving- to sending-country communities” (Levitt, 1998, p. 927). Both forms of remittances can facilitate entrepreneurship in the home country. Money or goods that are sent from ‘host’ to ‘home’ countries can be used either for consumption or investments by receiving households or individuals.

The use of remittances for productive investments is well documented in remittances literature (e.g., Mohapatra et. al, 2011). Especially in poorer countries where financial access is low, remittances can alleviate the credit constraints of households, making it possible for them to invest in agricultural innovations, small businesses, or large assets such as land and housing (Lucas and Stark, 1985).
Woodruff & Zenteno (2007) find that households that receive remittances show higher levels of investment in microenterprises and also have higher profits. Yang (2008) estimates the responses of Filipino households to economic shocks in the destination country of migrated household members. He shows that a positive shock leads to increased levels of investment in entrepreneurship in origin households.

Social remittances can be transferred to the origin country through modern communication methods such as telephone, internet, and mail, through migrants’ temporary return visits to their origin country, or through permanent return. Like monetary remittances, social remittances can influence migrant entrepreneurship in the origin country in various ways. Migrants transfer their know-how and skills to family members or friends living in the origin country through long-distance communication. These skills and knowledge can be utilized by individuals or households in the home country to set up a business, whether or not with the additional help of monetary remittances. Whereas the linkages between monetary remittances and home country entrepreneurship have received considerable academic attention, the research field on social remittances is still rather limited, especially with regards to migrant entrepreneurship. Generally, social remittances are difficult to measure and the estimation of their effects on migrant entrepreneurship requires long-term research perspectives.

2.2 Transnational Entrepreneurs

Migrants may also operate businesses in their home country while residing abroad. This type of migrant entrepreneurship is often referred to as transnational entrepreneurship. Transnational entrepreneurs by definition are “entrepreneurs that migrate from one country to another, concurrently maintaining business-related linkages with their former country of origin and currently adopted countries and communities.” (Drori et al., 2009). They travel frequently between the home and host country and depend on that link to maintain their business. The decreasing costs of communication, travel and information exchange have made it easier for entrepreneurs to utilize their resources for such transnational activities. As this phenomenon is observed more frequently, there is also an increasing amount of research being done on transnational entrepreneurship.

In the case of transnational entrepreneurship (i.e. migrants operating a business in their home country while abroad), migrants use the knowledge they acquired, such as in the form of education or work experience, in the country of migration for their entrepreneurial activities in the origin country. Transnational entrepreneurs have access to information from different geographical localities, which places them in a unique situation that allows them to utilize this information for the benefit of their transnational entrepreneurial activities (Drori et al., 2009; Portes et al., 2002). The funds that migrants transfer to finance their businesses abroad can be officially classified as remittances. There is however little empirical evidence on these types of transfers and their effects on (business) development in migrant-sending areas.

Some home country governments have introduced measures to make business investments in their country more attractive for foreigners or own country nationals living abroad. Such measures are for example tax exemptions and reduced tariffs on imported machinery and materials needed for the business. The Ethiopian government for example started to offer Ethiopian migrants abroad a special legal status in the form of the Yellow Card (Ethiopian Origin Identity Card) and consider them domestic investors. Domestic investors have particular possibilities...
and incentives for business investment that do not apply to foreign nationals. Examples are exemptions from customs duties on imports and a temporary elimination of income taxes. As a result, around 10 per cent of investments in Ethiopia are by members of the diaspora in the last decade (Kuschminder, 2010).

2.3 FDI and Diaspora Investments in Businesses

Migrants may also engage in and encourage trading and investment activities with the home country, generating an important inflow of Foreign Direct Investment (FDI) for origin countries. Recent research has shown a relationship between the flows of FDI between countries and the size of the diaspora of the one country in the other (Docquier & Lodigiani, 2010; Gao, 2003; Javorcik et al., 2011; Kugler & Rapoport, 2007; Leblang, 2010). This can be explained by the fact that, on the one hand, migrants have a demand for products from their home country and that they, on the other hand, have a preference for directing investments to that same country. Migrants in the destination country can share their knowledge about the demands and tastes of consumers in the country of origin as well as the work ethic, potential labour supply and business practices with potential investors (Kugler & Rapoport, 2007). Sharing such knowledge decreases the costs for potential investors and may therefore lead to increased cross-border investments (Leblang, 2010; Javorcik et al., 2011).

While remittances are often sent individually, many migrant destination countries host large and active diaspora organizations through which migrants have the opportunity to contribute financially to their home country by pooling resources. These pooled resources, also known as collective remittances, are usually sent for a specific purpose such as community projects (Mohamoud, 2006). Collective remittances, a concept introduced in the 1990s, are therefore defined as “money raised by a group that is used to benefit a group or community with which it is affiliated” (Goldring, 2004, p. 808). Migrant organizations in Mexico, for example, have been reported to be active fundraisers among their diaspora members to send collective remittances (Goldring, 2004). While often such investments address infrastructure development or community projects, they may also be directed to business investment projects.

The advantages of sending collective remittances are that resources are pooled, meaning that larger sums of money can be targeted towards certain projects, and that these resources can be transferred to the home country simultaneously, thereby reducing transaction costs. In addition, collective remittances are intended to benefit whole communities, instead of receiving individuals or households only. The side-effects of these pooled financial transactions are related to cooperation among migrants in home countries, thus strengthening social ties through collective action (Goldring, 2004).

The capital inflow from the diaspora has been increasingly recognized by origin country governments as a tool to boost development. Many local governments are therefore currently exploring their diaspora potential to attract foreign investment in an attempt to develop their business climate, and set up policies to harness this potential (see, e.g., Newland and Patrick, 2004).

In migrant host countries, governments are also increasingly contributing to migrant organizations’ initiatives to fund development projects in home countries. As Goldring states: “collective remittances operating in conjunction with government matching grants have become a model of how groups in civil society can invest in infrastructure and productive projects, in this way promoting development and market integration, even if this requires some state support.”
Despite the fact that collective remittances are considered to comprise only a small proportion of total remittance flows across the globe, they present opportunities for host country governments to complement existing development initiatives from the diaspora.

Collective remittances are believed to contribute to a favourable context for development, for example by providing infrastructure, such as roads but also better healthcare, improved sanitation and education (Goldring, 2004). These contextual improvements may provide the basis for development. Whereas the flows and effects of individual remittances are well documented in the literature the research field on collective remittances is however still relatively underdeveloped. Further research is therefore needed to investigate opportunities for collective remittances and their efficiency, especially vis-a-vis individual remittances, in contributing to development in migrant sending countries.

2.4 Return Migrant Entrepreneurs

Living and working abroad provides migrants with chances to increase their financial, human and social capital. Returning labour migrants have been found to have a high propensity to become self-employed entrepreneurs once back in their home countries. The decision to become an entrepreneur is modelled as an individual occupational choice in the economic literature. In a cost-benefit framework a person will become an entrepreneur if the expected benefits outweigh the costs of being self-employed in comparison to wage employment (Fonseca et al., 2001). A wide variety of factors have been found to influence this decision (Parker, 2004). The influence of migration experience on the probability of becoming an entrepreneur has been studied in a limited number of cases (Black & Castaldo, 2009; Dustmann & Kirchkamp, 2002; Ilahi, 1999; McCormick & Wahba, 2001; Mesnard, 2004; Piracha & Vadean, 2010).

There is also evidence, even if limited, that return migrants are more likely to be self-employed than non-migrants. Kilic et al. (2009) show this for Albanian return migrants, Wahba and Zenou (2012) for Egypt and Démurger and Xu (2011) for rural return migrants in China. While this may be due to the fact that it is the more entrepreneurial part of the population that migrates in the first place, there is evidence that the migration experience does have a positive impact on the likelihood of business investments due to the possible increases in financial, human and social capital.

After their migration, migrants often bring money home upon return, which may be used for business investments in the origin country among other things. While in the country of migration migrants may have collected or saved money or goods in the anticipation of setting up a business upon return. McCormick and Wahba (2001) for example found that especially for illiterate return migrants to Egypt, savings acquired while abroad positively affected their probability of engaging in business activities, while for literate migrants the acquisition of skills was found to be more important. Especially higher-skilled migrants tend to bring more capital to their origin country upon return (Ammassami, 2004). Similarly, Dustman and Kirchkamp (2002) showed that a large proportion of Turkish return migrants from Germany used the savings and other capital obtained during migration to start entrepreneurial activities in their origin country.

In addition, migrants may use the knowledge they acquired abroad to set up a business in their home country when they return permanently. Ammassari (2004) for example found that return migrants to Ghana and Côte d’Ivoire brought back substantial human capital to their origin country, which they had
acquired through education and work-related experiences abroad.

This human capital was subsequently transferred to other society members, positively impacting development in both countries. Similarly, Black and Castaldo (2009) showed that work experience obtained abroad positively impacted return migrant entrepreneurship in Ghana and Côte d’Ivoire. According to Drori et al. (2009), “The human, social, and technological capital that [...] returning entrepreneurs (REs) bring back with them can enable the ventures they start to gain advantages that businesses created by wholly domestic entrepreneurs cannot achieve” (p. 1005).

3. Impacts on Home Country Development

While all of the ways described above are possible channels for diaspora members to contribute to development in the home country through business investments, it has to be acknowledged that not all business ventures actually impact home country development. Here it is important to make the distinction between necessity and opportunity entrepreneurs. While necessity entrepreneurs engage in entrepreneurial activity because it is the best or only option available to them, opportunity entrepreneurs are the ones with potential for economic growth, because they seize unique opportunities in the market (Reynolds et al., 2001). Underlying this distinction is the fact that not all forms of entrepreneurship are good for society. Destructive entrepreneurship occurs if the wrong incentive structure is in place and people utilize resources for their personal benefit at the cost of economic development for the society as a whole (Baumol, 1990). Therefore, if migrants only set up businesses out of desperation as an option of last resort, it might not be beneficial to the country’s economic growth.

Opportunity entrepreneurs among the diaspora can therefore be seen as (potential) contributors to the development of markets in the home county, which is likely to spur economic development and growth by creation of businesses and jobs, bringing financial capital and innovations to the country. The monetary and social remittances that are utilized for origin country entrepreneurship may also have important spillover effects for other households or individuals in remittance-receiving communities, thus boosting development. Social remittances in the form of entrepreneurial expertise, know-how and skills may diffuse in areas of entrepreneurial activity. Drori et al. (2009) argue that returning entrepreneurs provide an important contribution to the entrepreneurial sector in the origin country, especially in developing countries. Returning entrepreneurs may bring back skills, know-how, expertise and social capital that might not be present in the origin country, thus stimulating the business sector through knowledge transfers and broadening business networks.

As with broader society, only a small percentage of migrants can be described as entrepreneurial actors. Entrepreneurial behaviour, motivations, and characteristics very much depend on the individual and are also affected by their socioeconomic environment. Despite the high entrepreneurial potential across diasporas, it is important to keep in mind that not all diaspora members are potential entrepreneurs. The development impacts of businesses set up by remittance-receiving households, transnational entrepreneurship, return migrant entrepreneurship and diaspora investments are also highly dependent on characteristics of the origin country. Remittances and savings are more likely to be used for business investments in countries that already have better economic opportunities and infrastructures (Ratha & Mohapatra, 2007).
Amuedo-Dorantes and Pozo (2006) for example found that investment opportunities in the origin country stimulated remittance inflows in the Dominican Republic. In many cases poor business climates in the origin countries also hamper the transnational efforts of migrant entrepreneurs to set up a business in their home country (see, e.g., Mohapatra et al., 2011; Page and Plaza, 2006). Rules and regulations, bureaucracy, or corruption all impact the ease with which businesses can be set up. In addition, high transaction costs for financial transfers and underdeveloped financial systems limit the flow of capital to origin countries to set up or sustain a business. These factors also provide disincentives for potential return migrant entrepreneurs to migrate to their origin country to start a business. Policies that specifically target diaspora members to invest in businesses in their home countries are an important tool to alleviate these financial constraints for migrant entrepreneurship. As mentioned above, examples include tax breaks and reduced tariffs on imported machinery and materials needed for the business.

4. Gaps in the Literature and Points for Discussion

The relationship between migration, entrepreneurship and development is a complex one with many possible channels of impact for development. While some of them have been researched better than others, there is still a need for further research on all of the linkages described above.

First, whereas the linkages between monetary remittances and home country entrepreneurship have received considerable academic attention, the research field on social remittances is still rather limited, especially with regards to migrant entrepreneurship. Generally, social remittances are difficult to measure and the estimation of their effects on migrant entrepreneurship requires long-term research perspectives. Second, there is little empirical research on the funds that migrants transfer to finance their businesses abroad, the effectiveness of these transnational businesses and their impacts on development. Third, the research field on the flows and impacts of collective remittances is still relatively underdeveloped when compared to the literature on individual remittances. Fourth, little is known about the success of return migrant entrepreneurs. There is evidence for the existence of a relationship between return migration and entrepreneurship, but most research argues that return migrants are more likely to establish a business than non-migrants. However the questions that remain are: What makes them successful? Are they more successful than local entrepreneurs? What kind of support is useful for them? And what is their impact on the development of the home country? These kinds of questions are to be addressed by sound empirical research that is able to analyse the long-term effectiveness and success of migrant entrepreneurs.

Many gaps remain, especially with regards to the development effects of migrant entrepreneurship. There is for example little information on the spillover effects of migrant entrepreneurship such as increased consumption, market development or knowledge sharing. These spillover effects are difficult to measure because of the complexity of the entrepreneurship process. The development impacts of all four channels linked to migrant entrepreneurship are therefore still widely unknown.

The previous sections have shown that there is much to be learnt about the relationships and impacts of migration, entrepreneurship and development. Nonetheless, programmes and policy measures addressing the linkages have been implemented in various contexts. Little is however known about the
actual impacts of such initiatives and policy measures. It is therefore of interest to discuss some of these initiatives with the following questions in mind:
- What are new initiatives in remittances, entrepreneurship and development?
- What can we learn from these initiatives?
- What are the effects of these initiatives?
- What is the way forward in the area of remittances, entrepreneurship and development?

Policy makers are becoming more and more aware of the potential within diasporas in terms of entrepreneurship. However, policy initiatives in this specific area are still limited. It is therefore important to gain an overview of the policies that are in place. Points for discussion are therefore:
- How can we strengthen the development effects of remittances and entrepreneurship?
- What are examples of successful policies?
- What are the effects of these policies?
These questions call for monitoring and evaluation of policies and programmes that are implemented to promote migrant entrepreneurship in migrant-sending countries.

5. Conclusion

This paper provided an overview of the state-of-the-art of the research field on migration, remittances, entrepreneurship, and development, as a preparation for the International Policy Debate on Remittances, Entrepreneurship and Development, hosted by Maastricht Graduate School of Governance and Maastricht School of Management on 29 May 2013. Migrant entrepreneurship has been increasingly linked to development in migrant-sending countries over the past years, helping to create jobs and stimulate economies at a local level.

International remittances and migrant savings have often been used as financing for such business.

The channels through which migrant entrepreneurship may occur and impact development were discussed in detail. In this paper a distinction was made between four types of migration-related entrepreneurial activities in migrant-sending countries: 1) international remittances, 2) transnational entrepreneurship of migrants residing abroad, 3) diaspora business investments, and 4) entrepreneurship of return migrants. Both home and host country governments are currently exploring ways to facilitate these types of entrepreneurial activities in order to stimulate development in migrant-sending areas.

However, this paper has shown that the research field on migrant entrepreneurship is still relatively young and that many aspects of the relationship between migrant entrepreneurship and development remain to be explored. First, there is a lack of knowledge on migrant entrepreneurship in general, and the factors that determine their success.

Second, the effects of remittances, and social remittances and collective remittances in particular, on the effectiveness of migrant entrepreneurship in home countries need further exploration. Third, policy measures that are designed to enhance and sustain migration-related entrepreneurial activities need to be analysed in terms of their effectiveness.

Fourth, the long-term development effects of migration-related entrepreneurial activities for migrant-sending countries remain to be explored. In light of these gaps in the literature the aim of the International Policy Debate on Remittances, Entrepreneurship and Development is to bring together academics and policy makers working in the area of migration, entrepreneurship and development to discuss new initiatives, the potential of these
these initiatives and map the way forward in enhancing the potential positive effects of migration-related entrepreneurial activities in migrant-sending countries.

The conclusion of this paper is that more research is still needed in this field. Research with a focus on long-term perspectives and preferably comparative perspectives analysing the effects in different contexts would be most useful at this point in time. There has been very little research on the impact of policies in this area, which would be extremely useful in going forward with policy options for development in many countries. Migrant entrepreneurship (often financed by remittances and migrant savings) can be a key tool for aiding growth and development in developing and emerging countries. For this reason, it is extremely important for us to better understand this phenomenon.
References


References


