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CASE STUDY September 2016

ASSESSING THE IMPACT OF DIASPORA INVESTMENTS IN TUNISIA

ABSTRACT

Governments, international organizations and researchers increasingly highlight foreign direct investment (FDI) by migrants and diaspora actors as a critical element of the migration and development nexus. Diaspora investments are seen as a vital source of capital, of which positive development effects are expected. As little is known about their actual effects, UNDP, in collaboration with IOM and the Government of Tunisia, conducted a representative survey that assesses the impacts of investments by diaspora actors on key economic indicators in Tunisia.

Based on a descriptive and comparative analysis of administrative data on diaspora investments in the industrial, service and agriculture sectors, as well as a survey of 400 diaspora-owned and other foreign-owned companies, the study provides valuable insights into the nature and impacts of diaspora investments. Surveying diaspora as well as other foreign investors as a comparison group, it advances our understanding of how diaspora investments differ from other foreign direct investments.

The findings show that while diaspora investments in Tunisia flow into less-developed and rural regions that see very little non-diaspora investments, the overall impact on employment and wages is less than for non-diaspora FDI. The study also reveals that diaspora investors are often not aware of investment incentives. Furthermore, they are faced with the same or more challenges as other foreign investors. This has important implications for outreach efforts by government investment promotion agencies and follow-up activities.

Key recommendations include:

Diversify communication with diaspora investors in a variety of countries.

Intensify the dissemination of information on existing benefits, including through cooperation with regional and local authorities.

Tailor strategies to the specific needs of different profiles of diaspora investors.

Rethink overall strategy for the incentive system: As the study reveals that diaspora investments are not more beneficial than other foreign investments and as diaspora investors are less motivated by existing benefits, governments have two alternative ways of dealing with such investors:

- Expand benefits offered to diaspora investors.
- Integrate the benefits offered to diaspora investors into general incentive measures

Improve the quality of data sources: The Tunisian investment promotion agencies APII and APIA have developed data collection systems that—while not yet perfect— can be considered best practices. To further improve the collection of data and knowledge about the impacts, the study contains several concrete recommendations.

Diaspora investment increasingly important for governments

As many migrants have become successful entrepreneurs in their countries of residence, it is increasingly recognized that they can play an important role in sending or facilitating flows of foreign direct investment (FDI) into their countries of origin. FDI by migrants and diaspora actors may indeed increase capital and technology in the source countries, create employment, add to foreign exchange earnings, and contribute to economic growth and poverty reduction.

Because of the assumed benefits, governments in many parts of the developing world display a strong interest in encouraging investments from their emigrant populations. Currently, at least 46 countries have created special policy measures to encourage or facilitate investment by their diasporas, (United Nations 2013).



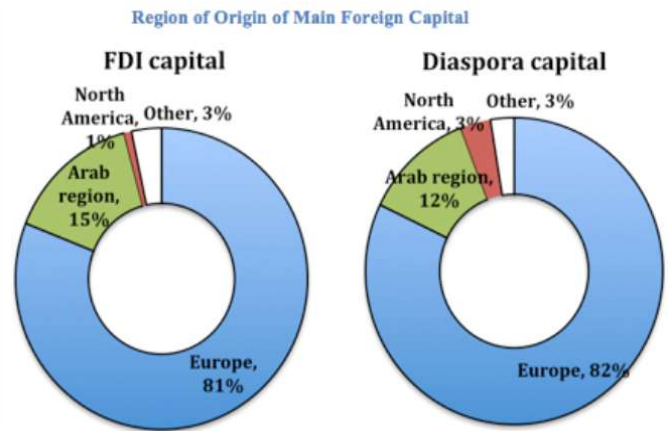
While research suggests that FDI by migrants and diaspora actors may increase capital and technology, create employment, add to foreign exchange earnings, and contribute to economic growth and poverty reduction in the source countries there is little to no systematic evidence on the actual impact of such capital flows.

Key Hypotheses

Based on the hypothesis provided by previous research, comparing diaspora-owned with non-diaspora foreign-owned firms, we would have expected that diaspora investments:

- lead to superior effects on employment and development when compared with other foreign investments;
- lead to more job creation, higher salaries, more opportunities for professional development;
- build more local partnerships;
- have a stronger role in facilitating other capital sources; and
- experience fewer difficulties in investing and doing business in Tunisia.

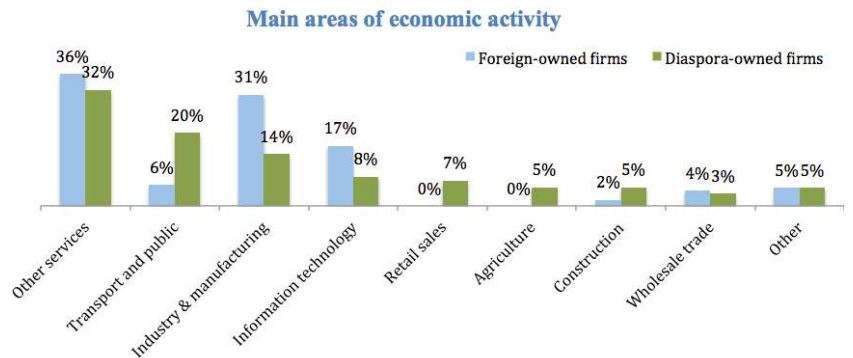
Diaspora investments are seen as an untapped source of capital and particular development effects are expected. Researchers offers three explanations for why diaspora investment may have a better impact on development in localities of origin than other forms of foreign capital. The first explanation is based on the comparative advantages of diaspora entrepreneurs, who are supposed to be better informed, can make better use of social networks to decrease risk and generally engage more effectively in investment activities. Second, it is postulated that diaspora investments could be channeled more into underdeveloped sectors of the economy, which may reduce crowding out of domestic resources. Lastly, several scholars argue that diaspora investments may be characterized by superior qualities than other forms of investments, because diaspora investors are not only interested in financial returns but also in non-financial motives, which makes their investments more stable and benign, with particularly positive effects for employment and technology spillovers.



FDI enterprise survey

To study the impact and conditions of diaspora investments, UNDP, in cooperation with IOM and researchers at Columbia University and the University of Tunisia, conducted a study that is based on a survey of almost 400 diaspora-owned and other foreign-owned companies in Tunisia. The data collected in face-to-face interviews with 274 diaspora-owned and 121 other foreign-owned firms in Tunisia provide unique insights into the composition of the involved flows, the investors, as well as into key characteristics of the companies that received these investments.

Given the database Tunisia's Agency for the Promotion of Industry and Innovation (APII) maintains, the survey was able to draw a randomized sample of both firms that received diaspora and non-diaspora FDI. In addition, the survey sampled companies associated with the El Ghazala Technology Park, a special activity zone that manages ITC companies in the park itself, as well as in the Technopark of Manouba and in the virtual cyberpark. A particular feature is the systematic comparison between diaspora-owned and other foreign-owned companies that allows a rigorous analysis of the differences between different investor profiles.



Seventy-eight per cent of firms located at the technology park and 58 per cent of firms sampled on the basis of the APII dataset chose to respond to the survey. We used STATA13 to do Ordinary-Least-Square and Tobit regressions.



Key Results

The results of the survey show that while diaspora companies have positive effects and impacts, when we compare them on these dimensions with other foreign-owned companies the effects are generally the opposite of what we would expect. Importantly, if we control for key factors, especially firm size, few of these effects remain statistically significant. An effect that remains significant is that foreign-investment enterprises create more jobs over time, including for women.

Compared with other foreign-owned firms, diaspora-owned firms:

- experience more difficulties in investment in the country;
- create less employment over time;
- do not consider that they pay higher salaries than other firms in their sectors;
- do not have more local partnerships;
- receive fewer government benefits and concessions (even though there are special concessions in place for diaspora investors).

This suggests that foreign-owned and diaspora-owned companies in Tunisia are not statistically different. Firm size, in particular, but also other factors seem to be better predictors of certain outcomes and in the end, the impact on the economy. Based on UNIDO's Africa Investment Survey, also Boly and others (2014) conclude in their comparative analysis of the export behavior of domestic, diaspora, and foreign investors in sub-Saharan countries that diaspora investors are more prone to export-oriented activities than domestic investors but they are not substantially different from to multi-national enterprises.

On the other hand, the data show that diaspora-investment enterprises create more employment in rural and under-served areas and may thus have important effects that go beyond the direct comparison of created jobs. They also have an above-average employment rate of women.

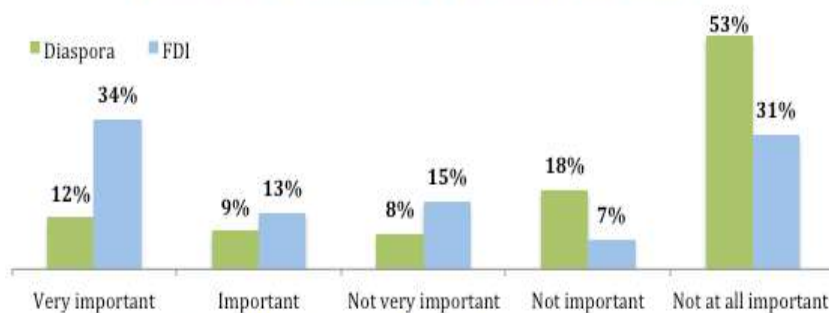
This does not mean that attention to diaspora investments is misguided. In fact, there are good reasons to believe that diaspora investments provide additional capital, technology, norms, and networks that are critical for economic and human development. The survey results on the motivation to invest and the (lesser) importance of investment initiatives may suggest the possibility that diaspora investments are indeed the low-hanging fruit for a country in the effort to obtain foreign direct investment.

Key Lessons for Governments to Deal with Diaspora Investments

Diversify communication: There is a strong correlation between the origin of investment flows and patterns and Tunisians' migration trajectories, especially regarding host countries France, Italy and the Germany but also Libya and Saudi Arabia. On the one hand, the government may consider further developing targeted communication with diaspora investors in these areas. On the other hand, communicating with potential diaspora investors outside the main destination countries could diversify the funds invested and lead to access to additional capital and knowledge.

Intensify the dissemination of information: The study shows that firms belonging to the diaspora receive fewer tax exemptions and other benefits than other firms with foreign investments. In this regard, it may be effective to intensify the dissemination of information by involving regional and local authorities that are closer to investments on-site and that have a vested interest in mobilizing these investors and the sustainability of their investments.

Importance of governmental investment incentives



Source: Survey on Diaspora and Foreign Investments in Tunisia.

Note: n= 381. Firms were asked to assess the importance of the government's investment incentives for their decision to establish or expand operations in Tunisia on a 5-point Likert scale.

Share of firms that received government benefits during previous 3 years



Diversify targeting strategies: Tailor-made strategies are needed to identify different profiles of diaspora investor, including first generation emigrants, second generation migrants, returning migrants, entrepreneurs, financial investors etc. For this reason, it is important to design a nuanced targeting strategy based on the investor profile of different segments of the diaspora.

Establish a support strategy and monitoring tailored to the needs of investors: It is essential to establish a strategy of offering support to diaspora investors that is more suited to their needs. The study shows that both groups of companies –foreign-owned and diaspora-owned—experience similar barriers to investment. Administrative hurdles are considered a major problem, followed by infrastructure, the security situation and the existing legislation. However, firms owned by the diaspora experience greater difficulty in the investment process in Tunisia than do other foreign companies. For this reason it is important to recognize that these companies need more structured support. The study further revealed an almost complete absence of financial support for diaspora investors and access to banks and the local financial market.

Rethink overall strategy for the incentive system: The study shows that Tunisian diaspora investments do not have more beneficial effects on the creation of employment, wages paid, local partnerships and other indicators examined in this study than those of other foreign investors. On the other hand, the diaspora investors are less motivated by specific benefits. These findings suggest two alternative recommendations:

- *Expanding benefits offered to diaspora investors:* As the benefits currently offered to Tunisian diaspora investors do not attract targeted investments, the Government of Tunisia could expand existing benefits and provide more incentive measures. This could include an incentive policy of positive discrimination in favor of diaspora investments in rural areas and a clear integration of the effort to attract of diaspora investment into regional development policy including that of rural areas.
- *Integrating the benefits to Tunisians living abroad in the general incentives measures:* On the other hand, the Government of Tunisia might reconsider the benefits offered to foreign investors and incorporate special measures granted to Tunisians living abroad in general measures for all foreign investors.

Improve the quality of data sources and monitoring and evaluation: The survey was conducted using firm-level data from APII as a sampling frame. The Tunisian investment promotion agencies APII and APIA have developed data collection systems that—while not yet perfect— can be considered best practices. To further improve the collection of data and knowledge about the impacts, the study recommends:

- Conduct regular analysis based on the available data;
- Set up information systems on diaspora investments that enable meaningful analysis. Data on investments from the diaspora and their impacts should seek information on age and sex and other socio-demographic characteristics, as well as the generational aspects of diaspora investors.
- Data on diaspora investments should not be limited to planned investment projects and proposed and approved licenses. Instead, the authorities should put in place procedures that assess project implementation, including subsequent plans to invest and reinvest earnings.
- Data collection systems should be comparable for diaspora and non-diaspora foreign direct investment to enable governments to assess differences in patterns and impacts.

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Cover Photo: *Young worker in Tunisia (Photo: UNDP Tunisia).*

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