

Toward Effective Diaspora Engagement: A Policy Taxonomy for Maximizing Transnational Contributions

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Abstract: This study develops a comprehensive taxonomy for analyzing diaspora engagement policies by reviewing the existing literature. It highlights the importance of policy strategies, institutions, and financial mechanisms to channel diaspora resources toward national development. Findings suggest that countries must establish dedicated institutions, grant legal status, and provide financial mechanisms to engage the diaspora effectively. The proposed taxonomy offers a new framework for policymakers to analyze and improve diaspora policies.

Keywords: diaspora, diaspora engagement policies, remittances, taxonomy, national development

1. Introduction

International remittances are one - way transactions without a corresponding economic value return to the sender, based on the interpersonal connection between the sender and recipient (Gelb S. &, 2018). Due to globalization, the number of migrants, and consequently, the volume of remittances, is increasing.

In 2023, remittance flows to low - and middle - income countries increased by 3.8%, reaching \$860.3 billion US dollars. For the last 15 years, India has received the largest volume of remittances globally. While remittance flows to China have declined since 2019, remittances to Mexico have increased sharply since 2021 (World Bank Group, 2023) (Figure 5.1).

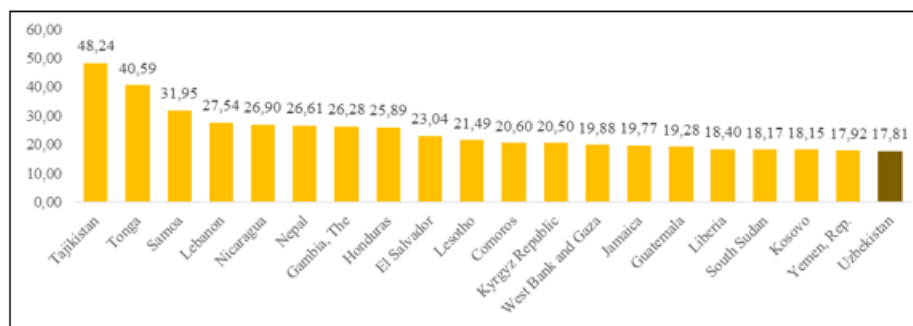


Figure 5.1: Share of inward remittances on GDP (World Bank-KNOMAD, 2024).

Remittances are vital for supporting remote regions across the country. They reduce poverty by increasing household income and purchasing power (Deonanan, 2020; Fonta, 2015; Isaeva M. , 2024). However, remittances alone cannot drive economic development. They often lead to financial dollarization (Isaeva M. , 2024) higher spending, inflation, price increases in the property market, disparities between remittance recipients and non - recipients, and a culture of over - dependency and reliance on funds from abroad (Mishra, 2016). If remittances are not channeled into investments, the brain drain effect can undermine the benefits of this income source (Fang, 2023).

Migration is an old phenomenon and a prerequisite for remittances and the formation of diasporas (Constant, 2016). A major limitation of existing research is the lack of comparative analysis of different countries' diaspora policies. Scholars often focus on individual policy components without providing a holistic view. Additionally, the taxonomies for comparing diaspora policies do not account for the digital approaches implemented in recent years. This study aims to fill these gaps and contribute to the academic literature in three ways. This study develops a new taxonomy of policy

components, which policymakers can use to analyze a wide range of public policy elements.

The rest of the paper is organized as follows: Section 2 provides a review of the relevant literature and introduces the definitions of components of diaspora engagement policies. Section 3 examines the use cases of each element of diaspora engagement policies and presents developed taxonomy. Section 4 presents a conclusion.

2. Literature Review

The term diaspora refers to individuals, communities, and populations living outside of their country of origin. This term includes permanent and temporary migrants, their children, and subsequent generations (Wickramasekara P. T., 2018). Diaspora finance refers to resources obtained by firms, government agencies, or non - governmental organizations through bilateral transactions or exchanges where the recipient returns an item of corresponding value to the sender (Gelb S. &, 2018).

Diaspora engagement policies are defined as a national strategy aimed at reaching out to the diaspora and utilizing

their resources for the economic development of their countries of origin (Butsch, 2020). These policies range from protecting migrants to strengthening the sense of national identity among their decedents and promoting remittances and investments through their linkages (Vezzoli, 2010). The development and implementation of diaspora engagement policies demonstrate how governments, policymakers, and citizens think beyond national borders to create non-territorial forms of organization (Jovan Filipovic, 2012). These policies consist of strategies that help migrants secure their status in foreign states and contribute to the welfare of their homeland (Chen, 2021).

Diaspora engagement policies have both international and internal elements. They are an integral part of the development strategies in many countries, contributing to technological progress and industrial transformation (Lim, 2018). Policymakers recognize the diversity within the diaspora in terms of ethnicity, community of origin, gender, migration status, skill profiles, and generations to develop specific strategies for each group (Wickramasekara P. T., 2018; Mencutek, 2018). These policies should mutually benefit diaspora members and their ancestral homelands (Stojkov, 2023; Constant, 2016). Understanding the diaspora engagement policies of other countries and learning from their experiences is crucial for developing effective strategies. While early police studies focused on the financial potential of the diaspora, particularly in the form of remittances (Baser, 2022; Goldring, 2004; Devkota, 2016; Fonta, 2015; Kakhkharov, 2020), recent research has shifted towards social remittances, such as knowledge, skills, innovation, business ideas (Gamlen, 2014; Di Iasio, 2022; Fackler, 2020). A review of the interdisciplinary literature reveals various objectives for these policies. In Lithuania and Jamaica, such policies focus on supporting the population abroad and encouraging return migration. Chile, Australia, and New Zealand are working on creating diaspora business networks that can support their homeland. Ireland, India, and Scotland have more pluralistic approaches, encompassing overseas support, remittances, charity, and business connections (Ancien, 2009).

3. Components of Diaspora Policies

Legal components of diaspora policies require regulation changes to guarantee the diaspora's legal status. The legal status may involve special membership, dual citizenship, or offering economic or honorary privileges to diaspora members (Constant, 2016). While recognizing the diaspora and guaranteeing their rights is essential, dual citizenship rights are not critical for effective diaspora engagement (Wickramasekara P. , 2017).

Establishing a government institution responsible for diaspora affairs is another critical step for institutionalizing diaspora engagement efforts and building trust. While in 1970, fewer than ten countries around the world had diaspora institutions, by 2014, 110 of the 193 UN member states had at least one, and 47 had more than one diaspora institution (Gamlen, 2014; Wackenhut, 2022). Governments institutionalize their relations with their diaspora at the level of ministries, subordinate ministries, departments, and interdepartmental committees within the executive branch. Countries like

Mexico, China, and the Philippines have many diaspora institutions at almost every level of government (Jovan Filipovic, 2012). Diaspora members often prefer to contribute to their region or locality of origin, where they are familiar with the context and may still have some family ties (Agunias, 2009). Consequently, local diaspora institutions can develop programs tailored to the local community's needs. Diaspora members also find it easier to monitor their investments through these institutions. The accountability of local officials increases the likelihood of the program's success (Wickramasekara P. , 2017).

Financial institutions play a crucial role in enabling diaspora financing. They should offer products and services that cater to the specific needs of the diaspora, such as preferential tax treatment for investments, faster approval of business licenses, preferential access to land and housing, university admission or scholarships for diaspora children, and even places in cemeteries (Agunias D. R., 2009). This tailored approach is essential, as noted by (Warnecke - Berger, 2022), (Warnecke - Berger, 2022) who highlights that more than 50% of 254 diaspora engagement projects include at least one financial product designed for the diaspora.

Developing financial mechanisms for diaspora investments reflects the economic interests of home countries and creates opportunities to enhance the capabilities of financial institutions. Diaspora finance has several approaches, including philanthropic contributions, remittances, and diaspora investments. Philanthropic contributions are voluntary transfers of resources for the benefit of the home country. They can be individual or collective, though their magnitude is difficult to estimate (Goldring, 2004).

The Ireland Funds is one of the oldest philanthropic initiatives. It was founded in 1963 as The American Irish Foundation. It raises money from the Irish diaspora through social and networking events and by seeking funds from wealthy donors. Today, the fund operates in 11 countries and more than 30 cities. It is one of the key organizations of the Irish diaspora. Since 1976, it has collected and distributed more than \$300 million US dollars (Ancien, 2009).

Informational and cultural elements of diaspora policies include language, history, culture courses, and short-term visit programs. These initiatives aim to reduce information barriers for diaspora descendants, enabling them to gather and process information about their homeland. In addition, short-term visiting programs help develop local tourism (Lim, 2018; Mencutek, 2018). Organizing investment and business forums, conferences, and exhibitions provides investment information to potential diaspora investors and helps to overcome information asymmetry and investment barriers (Park, 2021). Newsletters, portals, websites, and social networks serve as infrastructure that connects the diaspora with their homelands and supports the instant flow of information (Ancien, 2009).

Remittances represent the most tangible benefit of migration (Gelb S. K.-F., 2021). In developing countries, remittances are critical in reducing poverty and improving consumption patterns, education, health, and housing. Financial institutions can use remittances as an entry ticket to bring previously

unbanked people and households into the financial system (Kakhkharov J. &, 2020) or redirect the flow of remittances to new financial products such as deposits and diaspora bonds (Fromentin, 2017; Mehta, 2021).

Collective or group remittances, sent by diaspora communities to hometown associations, fund social projects such as water or electricity supply (Warnecke-Berger, 2022). However, collective remittances appear after the emergence of larger migrant communities (Butsch, 2020).

Diaspora bonds are debt securities issued by government or government agencies and sold in small denominations to their diaspora (UNCDF, 2021). Diaspora bonds are a key instrument for redirecting remittances towards long - term investments (Akkoyunlu, 2018). At the same time, they are financial tools to attract foreign currency at a lower cost than borrowing from institutional investors (Jovan Filipovic, 2012). Diaspora tend to have in - depth knowledge about their country's economic conditions. They can make investment decisions even without the country's credit ratings or may accept lower interest rates out of patriotism (Ozaki, 2016).

The Diaspora bonds of Israel represent a success story of diaspora integration into development. Since 1951, Israel has raised more than 35 billion US dollars through diaspora bonds (Lainer-Vos, 2022). India raised approximately 11 billion US dollars in 1991, 2000, and 2003, and Nigeria raised \$300 million US dollars in 2017 by issuing diaspora bonds (Olanrewaju, 2020). However, not all cases have succeeded. Ethiopia, Nepal, and Kenya have issued diaspora bonds but have failed to raise the expected amount. In Nepal, bonds were denominated in local currency; the interest rate was too low and exposed to foreign exchange risk. In Kenya, the bonds were denominated in Kenyan shillings and were not registered in the UK or US, where many Kenyans live, and could not be traded in those countries (World Bank Group, 2023). Before the advent of digital technologies and the Internet, the distribution cost of diaspora bonds was high. However, this cost has fallen significantly after introducing

digital bonds and the widespread adoption of online payment systems, making transactions easier.

Many countries also introduced savings programs to attract foreign currency deposits from non - resident citizens. Non - resident deposits are generally repatriable, earn high interest rates, and are tax - exempt. Such deposits often represent short - term liabilities rather than long - term investments (World Bank Group, 2023).

Diaspora investments, like other investments, are primarily driven by profit - maximizing. Relying solely on patriotism to attract diaspora investments is insufficient. Strengthening the rule of law, reducing corruption, and improving governance are necessary to create a favorable business climate (Stojkov, 2023). Without credible reforms, diaspora funds may be wasted due to mismanagement and corruption (UNCDF, 2021).

4. Taxonomy of components of diaspora policies

When it comes to the components of diaspora policies, (Vezzoli, 2010) categorizes four specific elements, each playing a crucial role in the diaspora engagement landscape. These include facilitating remittance transfers and investments, promoting SMEs in origin countries, and encouraging the transfer of technologies, knowledge, and skills. (Ancien, 2009) further identifies ten different aspects of these policies, while (Gamlen A., 2018) divides them into two groups: one focusing on state interests and the other fulfilling the state obligations. (UNCDF, 2021) identifies twenty - three mechanisms for diaspora finance. (Park, 2021) highlights three main elements of diaspora policies: legal, informational, and psychological, each of which carries significant weight in the diaspora engagement discourse.

After reviewing the literature, we have developed a new taxonomy to classify the components of diaspora engagement policies (Table 5.1).

Table 1: A new taxonomy of components of diaspora engagement policies

Legal	Institutional	Financial	Informational and cultural
Introducing the definition of diaspora	Establishing dedicated research units to study the diaspora	Facilitating safer, cheaper, and more convenient remittance services	Launching scholarships and internship programs, conducting cultural and language courses
Granting the rights (status) of diaspora	Founding government institution responsible for diaspora policies and affairs	Developing diaspora banking products and services	Creating, promoting, and supporting diaspora social and business knowledge networks
Providing incentives for the diaspora	Setting up a chain of non - profit institutions to promote culture, history, and language	Fostering business partnerships and venture capital investment	Organizing conferences, meetings, and forums
Recognizing dual citizenship	Creating special brain incubators, think tanks, and industrial zones	Launching financing mechanisms based on philanthropic contributions	Setting up a public holiday for "Diasporas Day"
Encouraging return migration	Providing consular and embassy services	Issuing and promoting diaspora bonds	Establishing honors and awards for the diaspora

Our taxonomy identifies four key aspects of diaspora engagement policies: legal, institutional, financial, and informational/ cultural. Each aspect contains several components. Legal approaches involve changes in regulation and legislation. Institutional strategies describe the organizations that should be established. Financial

mechanisms focus on enabling diaspora financing. Informational and cultural aspects encompass events, projects, and programs that foster engagement with the diaspora.

5. Conclusion

Diaspora affairs are complex, involving both economic and political aspects, reflecting the diversity of diaspora communities. This study attempts to address key questions within this context. We aim to determine which policies should be adopted to harness the full potential of the diaspora and ensure optimal outcomes. To answer we explore how countries have engaged their respective diasporas in the interest of national development. Specifically, the study assesses four main components of diaspora policies: legal, institutional, financial, and cultural. We use findings and interpretations from a literature review to design a new taxonomy.

The findings suggest that home countries must establish dedicated government institutions responsible for developing and implementing diaspora policies to benefit from diaspora knowledge, innovation, and finance. They should also grant legal status and privileges to diaspora members and provide a financial mechanism for diaspora investment. Lastly, cultural and informational approaches should be introduced to decrease information asymmetry and build trust with the diaspora.

This study provides valuable insights for policymakers aiming to maximize diaspora contributions and offers a taxonomy that can be adapted for continuous improvement of diaspora engagement policies worldwide.

While this study presents a modest effort to analyze diaspora policies, it may have missed some valuable research from other sources. Additionally, the literature review approach is qualitative, which may limit the generalization of the results and advocate for caution in interpretation. Through our analysis, we have advanced a systematic literature review and comparative analysis that can be easily replicated in the future for continuous updates.

Diaspora evolves over time, with some expanding while others disappear as collective identities weaken. For instance, China's diaspora policies have helped maintain collective ethnic identity, allowing the Chinese diaspora to grow, while Japan's diaspora has declined as their ties to the homeland have weakened (Choi, 2003). A comparison of Japan's and China's diasporas shows the importance of diaspora policies. Without diaspora engagement policies, overseas ethnic groups cannot maintain ties to their original homelands and consequently disappear.

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