

**ROLE OF DIASPORA INVESTMENTS FOR THE COMMUNITY DEVELOPMENT**

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*Cultivating and facilitating diaspora homeland investment has become a significant concern of many national governments and multilateral organizations. Diaspora policy becomes important as a means to strengthen migrants' affinity to the country of origin and encourage contributions to economic and social development. In this article we will analyze what determinants motivate diaspora to invest in their homeland for the community development to be able to elaborate adequate policies to involve all migrants working abroad in the country's development, as well as their return home combined with business investment and knowledge transfer. In the final, there will be elaborated appropriate recommendations to describe what behavioral mechanisms can be exploited by policy-makers to increase the effectiveness of interventions for stimulation of diaspora investments for the community development.*

**Keywords:** *Diaspora, homeland investment, remittances, migrants, economic growth, bank sector.*

*Cultivarea și facilitarea investițiilor în localitățile de baștină a diasporei au devenit o preocupare semnificativă pentru multe guverne și organizațiile străine. Politica de stat în domeniul diasporei este foarte importantă, deoarece poate constitui un instrument eficient de intensificare a afinității migranților cu patria-mamă și de încurajare a contribuțiilor la dezvoltarea economică și socială. În acest articol vor fi analizate criteriile determinante de motivare a deciziei de a investi în localitățile de baștină de către diaspora, ce vor fi utile în procesul de elaborare a politicilor adecvate care vizează diaspora și migranții întorși acasă. În final, vor fi elaborate recomandări pentru a descrie ce mecanisme comportamentale pot fi exploatate de factorii de decizie pentru a spori eficiența intervențiilor în procesul de stimulare a investițiilor venite din diaspora pentru dezvoltarea comunității.*

**Cuvinte-cheie:** *Diaspora, investițiile în localitățile de baștină, remitențe, migranți, creștere economică, sector bancar.*

**JEL Classification: J62, O15**

**Introduction**

Cultivating and facilitating diaspora homeland investment has become a significant concern of many national governments and multilateral organizations [6]. A recent World Bank study of US foreign direct investment abroad finds empirical evidence to support the proposition that diasporas' ethnic networks affect foreign direct investment by promoting information flows across international borders and serve as contract-enforcement mechanisms [4]. At the same time little is known about why diaspora members invest in their homelands or why investment intensity varies among diaspora communities. The first systematic work on this topic was undertaken by Aharoni in his study of Jewish investment in Israel [1]. This research confirmed that American Jews invested sizeable amounts of money in Israel even though they considered it a high-risk venture. Aharoni suggested the investment process was significantly influenced by strong psychological ties that diaspora members maintained with their homeland and not simply by the opportunity to profit.

The Indian diaspora is estimated to have invested \$2.6 billion out of \$10 billion of FDI in India between 1991 and 2001 [7]. Between 1998 and 2004, diaspora investment accounted for 25 percent of total foreign direct investment flows into Armenia [2].

The current global estimate is that there were around 244 million international migrants in the world in 2015, which equates to 3.3 per cent of the global population corridors [3]. The increase in international

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migrants has been evident over time – both numerically and proportionally – and at a greater rate than had been anticipated by some. Many countries in the east of Europe, such as the Russian Federation, Ukraine, Poland and Romania have some of the largest emigrant populations within the region [3]. The migration of people from countries in the former USSR - Ukraine, Kazakhstan, Uzbekistan, Azerbaijan and Belarus accounted for the top four European migrant corridors [3]. After the Russian Federation and Ukraine, the United Kingdom had the third largest European emigrant population (4.9 million). Many of these lived outside the continent, in Australia and the United States of America. Portugal and Ireland, two countries that have long histories of emigration, also had high shares of populations abroad in comparison with their population sizes.

In countries of origin, migrants and their communities are experiencing increasing connectivity in a multitude of ways, including in the form of social contact, remittance flows and the migrants' return to their country of origin, such as for significant holidays and events. The impacts can be many and varied, depending on the circumstances of the origin country (economic, social and political) as well as the situations of the migrants themselves [3].

#### **Determinants of Diaspora investments in homeland**

While diaspora members are a vital subset of foreign investors, we know relatively little about what motivates diaspora members to invest in their homelands. Empirical evidence shows that diaspora members each possess specific motivational profiles that contribute to their investment decisions. Some diaspora members are interested in investing in their homeland because they expect a financial return; others are driven by the possibility of social recognition from within their diaspora communities and organizations. The international finance literature traditionally assumes that investment decisions are predicated on financial return expectations. However, empirical research in economic psychology has found that some individuals invest in socially responsible funds whose primary objective is not profit maximization. Authors contributing to this research stream have typically explained this phenomenon by assuming the investor is motivated by psychological concerns, such as altruism or personal moral convictions.

The investment interest of other diaspora members may be motivated by the potential emotional satisfaction they will receive when investing in their homelands. These categories represent distinct types of returns, but it is possible for an individual investor to be simultaneously motivated by more than one type of return. For example, a new diaspora member may be interested in homeland investment because it makes him feel good (emotional), it further facilitates his integration into the diaspora community (social), and he has confidence that money can be made by the venture. The emotional satisfaction return underlying altruism has also been identified as a key motivator for volunteerism. Some diaspora members may be altruistic and motivated by the emotional returns they receive from investing in the homeland. These assumed non-financial motivations to investment have yet to be fully conceptualized and empirically measured in the literature.

Theory grounded in social psychology provides the foundation for our contention that social recognition is another key driver of diaspora investment intentions.

Throughout history, many Moldovans have been forced to enter the diaspora, voluntarily or in need, for political, economic or social, spiritual or religious reasons. In the last years, the Moldovan diaspora has expanded visibly, on the list of those who left entering Moldovans from different social categories. The massive migration of Moldovans (there is no exact statistic that would reflect the number of those who left the country, frequently counting a million people) has caused the Moldovan diaspora to grow substantially, both in the west and in the east.

As the number of Moldovans leaving the country to work abroad increased, a significant growth was noted for the amount of transfers made by these individuals from abroad, widely influencing the main macroeconomic indicators.

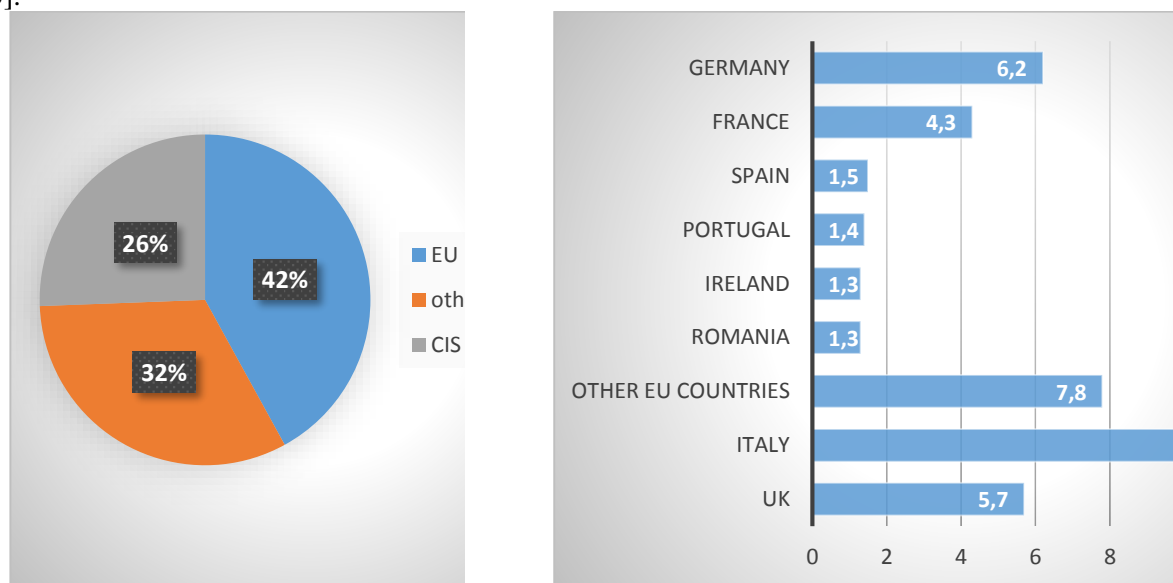
#### **Remittances flows in national economy: evolution and contribution to economic development**

According to data offered by the National Bank of Moldova, the volume of foreign transfers from Moldovan citizens working abroad amounted to 1266,84 million US dollars in 2018, representing 20-25% of GDP [5].

The value of transfers exceeds 5-6 times the value of foreign investment, 2-4 times the value of external assistance. The Republic of Moldova's GDP growth over the previous years is mainly attributed to the revenues earned from the remittances of Moldovan migrants working abroad. Remittances represent an important source for the population of the Republic of Moldova to escape poverty. The Household Budget

Survey (HBS) data reveals a considerable share of Moldovan households receiving remittances during the reference period. Over 25 per cent of the total number of households benefited from remittances in 2015, as compared with 24.5 per cent in 2010.

Over 50% of money transfers come from Russia, Israel and Italy. In the distribution by state of money transfers in favor of individuals, Russia continues to be the main partner of the Republic of Moldova with a volume of transfers of \$ 23,4 million out of total transfers, holding a share of 24,4%, although this is with 7,5 p.p. less than last year (see figure 1). This is followed by transfers from Israel with a volume of \$ 17,4 million, with a share of 18,1%, transfers from Italy having a share of 12,5% (\$ 12 million), USA 9% (\$ 8,6 million), Germany 6,2% (\$ 5,9 million), Great Britain 5,7% (\$ 5,4 million), France 4,3% (\$ 4,1 million), Spain 1,5% (\$ 1,4 million), Portugal 1,4% (\$ 1,30 million), Ireland 1,3% (\$ 1,28 million), Romania – 1,3% (\$ 1,23 million), Czech Republic 1% (\$ 1,01 million), Poland 1% (\$ 0,96 million), Turkey 0,9% (\$ 0,90 million), from other 11 states, 4% (\$ 11,04 million). In the foreign exchange structure of transfers from abroad in favor of individuals, transfers in euro predominated 51,2%, increasing by 6,8 p.p., followed by transfers in US dollars 43%, decreasing by 5,1 p.p. and transfers in Russian rubles 5,8%, decreasing by 7,1 p.p. [5].



**Fig. 1. Money transfers from abroad in favor of natural persons carried out by banks of the Republic of Moldova (by geographical origin in December 2018, in %)**

Source: National Institute for Economic Research. Moldovan Economic Trends 2019. Available at [https://ince.md/uploads/files/1556016417\\_met\\_32\\_ro\\_site.pdf](https://ince.md/uploads/files/1556016417_met_32_ro_site.pdf)

A higher share of households benefiting from remittances was registered in rural areas than in urban areas, 28.5 per cent and 20.5 per cent, respectively, in 2015. Statistics reveals that the majority of migrants (81.3%) sent money to their families. Significant differences in the volume of remittances received are observed between urban and rural households. In rural areas, the share of remittances of the total household disposable income is very significant, exceeding 59.7 per cent in 2015, with a difference of 7.7 percentage points than the share in urban areas. Among urban households receiving remittances, the share is nevertheless important, accounting for almost half of the disposable income over the last three years.

Generally, remittance entries had a beneficial impact on the evolution of the economy of the Republic of Moldova. During the last years, the transfers of Moldovan citizens, working abroad, were one of the main drivers of economic growth in the country.

Also, the transfers of the migrants together with the governmental ones contributed to the lifting of a part of the population from poverty, especially during 2000-2004, thus relieving the government from the burden of social provision. Supporting the disposable incomes of households, remittances strongly fueled private consumption for goods and services. Most of the remittances are used for current and sustainable consumption, the purchase of the building, but it is also saved, using the banking system. Only a very modest part, up to 10%, is invested in the entrepreneurship activity of returning migrants themselves.

At the same time, the inflows of remittances create a powerful transmission channel on the sectors of the national economy – the real and banking sectors, through the following relations:

- First, the inflows of remittances exert an impact on the domestic banking system, due to the increase of the depositary resources, which allows the formation of new credit sources for the real sector;
- Secondly, the supply of domestic consumption contributes to the increase of the demand for imported and domestic products, which increases the production activity in the economy and the increase of the commercial activities of export and import, resulting in the increase of the performances in the real sector of the economy.

Thus, contrary to the general conception, the inflows of remittances have contributed significantly to the growth of investments, although indirectly, through the financial sector. Deposits of individuals increased rapidly, offering additional financial support to the banking system. The construction sector, in turn, has responded rapidly to the increase in demand for residential real estate through the galloping increase in prices and the realization of new construction projects.

There is a dependence between the banking and real sectors in the Republic of Moldova through the transmission channel of financial-currency flows from one sector to another. Remittances can indirectly promote entrepreneurship, if these amounts are deposited in banks, on deposit accounts and, thus, lending to the real sector of the economy. In this case, however, the costs of attracting the borrowed capital are increased by paying the interest.

The increase of the remittances' share, destined to the investment activity, implies certain concerns:

- 1) The remittance entries in the economy appear in small amounts, divided into rates over different periods of time: usually, these amounts are intended for internal consumption by the recipient families;

- 2) The potential investors, holders of such amounts, which are necessary to start a business, in the most frequent cases, are abroad, and the substantial investment of the economies, accumulated abroad, will be possible only after the return of a large number of emigrants in father. The possibility of returning migrants to the country, increasingly, is reduced, due to several factors: legalization of emigrants to the foreign country, unwillingness to return home, taking families by themselves.

An economic growth model, based on remittances, must ensure the following condition: *to ensure the sustainability of economic growth, migrant transfers must not only contribute to increasing final consumption, but also to promote investment and employment opportunities in the economic system.*

#### **Role of Moldovan Diaspora for the regional economic development and Diaspora engagement policies in Republic Moldova**

Currently, the diaspora of the Republic of Moldova is structured in approximately 250 associations in over 30 countries, including in various initiative and professional excellence groups. The most numerous associations are registered in Italy, Romania, Ukraine, Russia, Portugal, France, USA and Canada. Far from their homeland, Moldovans feel the need to create organizations aimed at bringing together and uniting the Moldovan diaspora, strengthening its spiritual and economic potential, contributing to the effective integration of its members into society. The typology of diaspora associations is complex and diverse, depending on the legal status, activity management model and field of activity.

The public associations set up by Moldovans abroad aim at a better organization of the diaspora from a structural point of view, in order to be able to support at a new qualitative level the integration of newcomers, but also of the elder members. In the area of these concerns there is also the strengthening of the relations between the members of the community, through mutual help, by initiating various activities, maintaining spiritual ties with the homeland. Proper representation of Moldovans in relations with governmental and nongovernmental bodies in the countries of residence or in the Republic of Moldova is also of great importance. The diaspora plays an important role in promoting a favorable image of Moldova abroad. In this context, the effort to institutionalize the Moldovan diaspora, which has an important potential capable of significantly contributing to the consolidation of bilateral relations in multiple fields, of finding ways to support their country of origin with all the experience gained abroad, is particularly important.

The integrating factor for all the structures of the diaspora is the national and civic belonging, which requires consolidation and capitalization on 3 dimensions:

- 1) volunteering: the potential of civic and volunteer contribution of the members of the diaspora can be involved in activities and stipulated in programs dedicated to them in the Republic of Moldova;

- 2) advocacy and public diplomacy: the proactive communities and groups of excellence of the diaspora can facilitate the promotion of the image of the Republic of Moldova and initiate bilateral dialogues

in the economic, investment, cultural and academic fields;

3) charity: the members of the diaspora have a strong emotional and cultural connection with the socially vulnerable people of the Republic of Moldova.

In the north of the country there is a village – Corjeuti, which is known by huge contributions of the villagers working abroad in the development of local community. About 10000 people live in the village. Corjeuti is famous due to the promotion of citizens of the French style of the locality. This phenomenon is explained by the fact that many of the villagers go to work in France in order to materialize their dreams at home (More than 3000 Corjeuts work in Paris and its surroundings). Here even the cuisine has Parisian specific, not to mention the homes and cars of locals. And the monument most proud of the locals is the Eiffel Tower in the courtyard of a village restaurant, it looks exactly like the one in the center of Paris.

The main occupation of the Corjeuts is agriculture: most of agricultural households have over 630 tractors and over 300 heavy vehicles, which are purchased by personal contributions resulted from remittances. One of the largest agrarian companies is "Arman-Plant", specializing in growing vegetables: potatoes, onions, carrots, cabbage, red beet, etc. The company was founded in 1995 with a staff of more than 50 workers. Several industrial enterprises for processing agricultural products also operate in Corjeuti. The company "Servest-Agro" SRL produces canned vegetables and fruit: tomato broth, dried tomatoes, pickled cucumbers, and some of the production is exported to Russia and the European Union. SA "Combifuraj" specializes in the production of wheat flour, sunflower oil, sale of feed and animal feed additives. SRL "Muncel Agro" deals with the cultivation of corn, wheat, potatoes, spares, apples, production of flour, pasta and offers processing and preparation of agricultural land.

In comparison to other regions, where the natives are not connected to the soul, the Corjeuts want to return back to their village, that's why they invest in infrastructure to "bring Europe in their native home". The most common investments were done in water and sanitation, roads, schools, kindergartens, cultural houses. This is the unique case in Moldova, where investment decisions are done on altruistic reasons and investor is motivated by psychological concerns.

The example of Corjeuti demonstrates that diaspora is active in the Republic of Moldova, although not in all the regions, and contributes to the development of regions.

It is important to determine what are the psychological determinants of the Corjeuts working abroad who invested in the village development, in order to better understand the diaspora investment process and determine what behavioral mechanisms can be exploited by policy-makers to increase the effectiveness of interventions aimed at the increase of diaspora investments for the community development. Analysis of this phenomenon by state authorities will help the state authorities to develop appropriate policies to:

- Stimulate the development of rural and urban localities by attracting human and financial capital from the diaspora;
- Reanimate the connection between the citizens left and the localities through the implementation of the local development programs and projects, together with the diaspora;
- Channel the remittances, beyond consumption, towards the social-economic development of rural areas in the country;
- Increase the participation and involvement of the Diaspora in social and economic development and development at local level.

During the last 10 years, the Government of the Republic of Moldova has elaborated and implemented a series of reforms in the field of migration, in order to maximize the positive impact of migration on the development of the country, but also to diminish its negative impact.

A great contribution to the promotion of programs to stimulate remittances' channeling into the real economy is made by the Organization for the Development of Small and Medium Sized Enterprises in Moldova. One of the best known program is the "PARE 1 + 1" program, through which the state contributes a Leu to each Leu invested by migrants.

In the seven years since the program was launched Moldovans returned to the country have invested in the economy over 300 million lei, creating around 2500 jobs, according to data from the Ministry of Economy.

In another program, "Migration and local development", diaspora representatives donated over one hundred thousand dollars to support local initiatives in their native villages, such as rebuilding a road or repairing a portion of the aqueduct.

Starting with 2014, the major national programs focused on capitalizing on the opportunities for

migration development (eg: projects related to the Mobility Partnership Republic of Moldova-European Union, the project "Integration of migration in development strategies" and the Remittance Attraction Program in the economy). Various governmental and international agencies have analyzed many of the actions taken on migration and development. Meanwhile, the Republic of Moldova continues to play an active role internationally in the field of diaspora, migration and development (eg: Global Forum on Migration and Development / UN Post-2015 Development Agenda).

By the Government Decision no. 200 from 26<sup>th</sup> February 2016 the National Strategy “Diaspora-2025” was approved, which describes the current situation and offers the necessary support and practical interventions from the Government for the involvement and participation of the Diaspora, collaboration and partnership with it and is a means by which the strategic risks and the costs of the high levels of migration are transformed into an opportunity for consolidated national development.

The specific objectives and actions of this Strategy are:

1) Elaboration and development of the strategic and operational framework of the Diaspora, migration and development field.

2) Ensuring the rights of the Diaspora and building trust.

3) Mobilization, capitalization and recognition of the human potential of the Diaspora.

4) Direct and indirect involvement of the Diaspora in the sustainable economic development of the Republic of Moldova.

The strategy also contains the Action Plan for 2016-2018, which derives directly from the medium-term objectives and priorities, taking into account the available budgetary resources and the support of the development partners.

The stages of implementing the National Strategy “Diaspora-2025” are:

➤ The first stage (2016-2018) aims at developing, consolidating and implementing the institutional policy framework, strengthening the capacities of Diaspora associations and piloting new programs for the Diaspora.

➤ The second stage (2019-2021) involves expanding the options for involving the Diaspora in the development of the country, but also creating a mutually beneficial framework between the Diaspora, the Government and the civil society in the Republic of Moldova.

➤ The third phase (2022-2025) will include the finalization and stabilization of the policy framework on the Diaspora, migration and development field, launching joint economic and human development initiatives, as well as the large-scale implementation of the programs developed and tested in the first two stages.

The interventions needed to integrate migration into national development must focus on promoting, consolidating and extending different forms of diaspora contributions.

### **Conclusions**

Efficient tools to include migrants in the field of work should be offering incentives to initiate SMEs and reliable partnership schemes between the Government and the migrant, such as: A. Stimulating reforms regarding the creation of new jobs in the country, including, through the establishment of SMEs with the participation of migrants;

B. Attracting migrants in agricultural activity and in rural areas, by offering tax incentives and credit benefits;

C. Formation of partnerships between migrants and the Government through the joint funds for setting up the SME, as well as offering incentives or rewards as a result of hiring a certain number of employees within the newly created enterprises.

A particular role in the process of directing remittance inflows into the real sector of the economy lies with commercial banks and the opportunities they offer to migrants in attracting remittances to deposit accounts. Funds, attracted from migrants, can subsequently be used as sources for lending to the national economy. Also, the amount deposited on the commercial bank's account can serve as pledge for the credit contract by the migrant family to start a new business within the country.

There must be a continuous collaboration between the banking sector and the Government to encourage the entrepreneurial spirit of Diaspora, because the investment projects, proposed by the Government, which aim to enlist the migrants in the social-economic activity of the country, cannot always be considered reliable, in the view of the commercial banks. In addition, banks, according to the proposed investment schemes, will have to offer favorable rates for migrants and thus the volume of interest income

will be reduced. Also, launching new businesses involves a high degree of risk, which banks cannot accept. For this reason, we consider that the role of the state is to protect the migrant by offering guarantees in the process of creditation. Priority should be given to investment projects related to community development or creation of new labor places.

Policies should also be harmonized to reduce remittance transfer costs in order to optimize benefits of remittances to migrant families and increase integration of remittance transfers into the formal system to increase opportunities for sustaining economic and social projects.

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