GeoJournal (2013) 78:495–505
DOI 10.1007/s10708-012-9447-9

Leveraging the diaspora for development: lessons from Ethiopia

Elizabeth Chacko · Peter H. Gebre

Published online: 17 February 2012

Abstract This paper uses investment data for the period 1994–2008 and information from in-depth interviews with key informants in Ethiopian government agencies and 15 entrepreneurs who returned to Ethiopia to start business ventures, to assess the success of the Ethiopian government in attracting diaspora investment. The study found that diaspora investment was highly concentrated geographically and sectorally. Among the significant issues facing diasporan investors were access to land, access to finance, lack of reliable information, poor contract enforcement and frequent changes in government policies and sectoral priorities. The authors recommend the development of frameworks for the enforcement of laws and standards to make investing in Ethiopia more attractive. They also propose that the government consider the long-term sustainability of policies before they are implemented, foster diversification and the better use of the country's natural resource clusters, and establish policies that facilitate the circulation of knowledge and skills through input from expatriate professionals and experts.

E. Chacko (✉)
The George Washington University, Washington, DC, USA
e-mail: echacko@gwu.edu

P. H. Gebre
All American Small Business Exporters' Association, Washington, DC, USA
e-mail: peterhagosgebre@gmail.com

Keywords Development · Ethiopia · Investments by diaspora · Ethiopian immigrants

Introduction

In the past two decades, many African countries have tried to attract diaspora investment with varied success. Among such countries is Ethiopia, the second most populous nation in the continent, with a growing diaspora in North America, the Middle East and Europe. The Ethiopian diaspora living permanently or semi-permanently abroad, as well as Ethiopian nationals who are participants in temporary labor migration streams regularly transfer money to their home country as remittances. About US $1.2 billion was remitted to Ethiopia during the 2007–2008 financial year. However, diaspora investments, which are viewed as more sustainable forms of income generation, job creation and development in the home country, have garnered considerable interest.

This paper examines the success of government policies and incentives in attracting diaspora investment and participation in development in Ethiopia within the larger context of the existing business environment. For the purposes of this paper, diasporas are defined as "ethnic minority groups of migrant origins residing and acting in host countries but maintaining strong sentimental and material links with their countries of origin—their homelands" (Sheffer 1986). Development, another ambiguous term, is used here to mean an improvement in the standard of living in a country through increased opportunities for its citizens (Sen 1999).

Ethiopia is one of the poorest and least developed countries in the world. In 2008 it had a low per capita Gross National Income of US $280, and a predominantly (84%) rural population that relied heavily on agriculture and pastoralism. Despite its agricultural base, the country has long suffered from food deficits. Between 2006 and 2008, approximately 44% of its population experienced chronic undernourishment (FAO 2011). Ethiopia is one of the most aid-dependent countries in the world, receiving well over $2 billion in foreign assistance every year (Human Rights Watch 2010).

In this paper, the authors assess the contributions of the Ethiopian diaspora to economic development in the home country and the economic sectors and geographic areas in which they invested. For our analysis we use diaspora investment data for the period 1994–2008 obtained from the Ethiopian Investment Agency, an Ethiopian government agency that facilitates and monitors investment from abroad. The authors also conducted in-depth interviews with (a) key informants in relevant Ethiopian government agencies and (b) a sample of 15 entrepreneurs (13 men and two women) who returned to Ethiopia during this period to start business ventures. These business men and women were drawn from Amhara, Tigrinya and Oromo ethnic groups; except for one Muslim, the rest reported their religion as Christianity. During the face-to-face interviews with the entrepreneurs, their motivations and experiences in returning to the home country and setting up businesses there as well as the challenges faced by them were investigated. These quantitative and qualitative data were used to evaluate the success and sustainability of government initiatives in creating an enabling environment for diaspora investors in Ethiopia and their impact on development.

The role of the diaspora in development

Several factors affect the ability of diasporas to make contributions towards home country development. These include the characteristics of the emigrants themselves, the conditions under which they left the country, their earning capacity in the host country, their willingness and ability to repatriate resources and their relationship with their country of origin. Country governments, which may have much to gain by tapping into the resources of the diaspora are key players in facilitating or hindering the use of emigrant skills, capital and know-how to aid development (Gamlen 2006; Portes 2006; Skeldon 2008; Zoomers et al. 2008).

Migrants and diasporas contribute to financial flows to their home countries through private money transfers (remittances) to family members (Orozco 2005; Ratha 2005), through direct investment and portfolio investment and by establishing venture capital funds to purchase equity in home country businesses (Gillespie and Andriasova 2008). Members of the diaspora also establish new ventures, setting up manufacturing units to produce goods for local consumption and export, and operating service facilities such as health care centers, schools, restaurants, hotels, internet cafes, and retail stores. Additionally, diasporans act as intermediaries for domestic firms in the home country and serve as bridges for the diffusion of technology and production expertise and exchange of information and ideas between the country of origin and the country of settlement (Brinkerhoff 2006, 2008).

Country governments of Kenya, Nigeria, Ghana and Uganda have played a critical role in aiding diaspora investment in these countries (Adepoju 2008). Policies towards diaspora involvement can vary from strongly supportive to controlling and restrictive. A government may be supportive in theory but offer no concrete assistance through subsidies or by lowering barriers to investment or it may support investments only in select priority areas. A restrictive or controlling state may place additional barriers to diaspora participation in the home country (Sidel 2007). However, most country governments woo diasporans by cultivating a sense of connectedness and making them feel a part of the national enterprise. One strategy is to offer diasporans a special legal status that gives them most of the rights and privileges of citizens of the country. This approach is used particularly if dual citizenship is not possible. Incentives offered to potential diasporan entrepreneurs and investors include tax breaks, lowering barriers to the import of capital goods necessary for establishing industrial units and firms and supplying nationals abroad with information and assistance in setting up their businesses.

According to Portes (2006), for the diaspora to be engaged in sustained development, migrations should be cyclical/circular whereby low-skill migrants return to their countries of origin with money saved for investment, and migrant professionals engage in transnational activities that contribute to home country's development. A caveat is that especially among professionals, for cyclical migration and associated development to occur, the home country should have adequate infrastructure and opportunities that allow the skills and resources of the émigrés to be put to good use. However, the complex relationships states have with their diasporas and the overlapping or conflicting policies that they often adopt toward potential diasporan investors can further complicate the diaspora-development nexus.

Background and characteristics of the Ethiopian diaspora

The circumstances that led to the diaspora leaving their home country (better opportunities, war, natural disaster, discrimination), the characteristics of the people who left (elite, educated, poor, skilled/unskilled), and the countries to which they immigrated and their relative success there greatly affect the potential of immigrants' contribution to home country development. Until the late 1970s, the Ethiopian diaspora was negligible in numbers and global spread. However, political and social turmoil starting in the mid-1970s prompted outmigration. The Marxist revolution of 1974 resulted in the overthrow of the monarchy under Emperor Haile Selassie and the installation of the military and communist regime of the Derg. The turbulence and instability that ensued set into motion large scale emigration from Ethiopia to other countries in Africa and the rest of the world. Before this watershed year, few Ethiopians lived outside their country of birth. Most Ethiopian expatriates were students and diplomats who invariably returned to the home country after their sojourn abroad. For example, between 1953 and 1968 some 2,500 Ethiopians received military training in the United States, but returned home. But in the aftermath of the "Red Terror" of the 1970s, many Ethiopians, including approximately 5,000 Ethiopian students, diplomats, tourists and businessmen residing in the United States decided to stay on in their host countries (Getahun 2007).

Another important push factor which drove tens of thousands of Ethiopians to the neighboring countries of Kenya, Sudan, Djibouti, and further abroad was the drought and famine of the 1980s. By the mid-1980s there were sizable Ethiopian immigrant populations in North America, Europe, and the Middle East. Even after the fall of the Derg regime in 1987, emigration of Ethiopians continued, in part due to family reunification programs, special policies such as the issuing of Diversity Visas by the United States to persons from countries that were not traditionally represented in immigrant streams; and labor migration, the last primarily to countries of the Middle East (Getahun 2007).

The Ethiopian diaspora continues to grow globally. According to the Global Immigrant Database nearly 285,000 persons born in Ethiopia live in other countries. The largest numbers in the developed world are in North America (87,552) and Europe (41,561). The United States tops the list with 73,066, followed by Canada (14,486), Sweden (11,281); Germany (9,542), the UK (8,122) and the Netherlands (7,592). Other countries of note include Israel (58,900) and Saudi Arabia with 21,992 (University of Sussex 2007). However, these data should be viewed with caution; most Ethiopian communities residing abroad maintain that there is significant undercounting of the number of foreign-born Ethiopians in other countries. Due to ongoing outmigration that has picked up since the 1980s, the bulk of the Ethiopian population in the United States (and other developed countries) is comprised of fairly recent arrivals. For example, according to the U.S. Census, 45% of Ethiopians in the United States entered the country after 2000, 33% between 1990 and 2000, and only 22% entered before 1990 (U.S. Census, ACS 2008–2010).

Much has been written about the "brain drain" of highly qualified and skilled individuals from Ethiopia to countries of the developed world. El-Khawas (2004) noted that there are more Ethiopian doctors in Europe and North American than in Ethiopia, while Getahun (2002) estimated that at least 1,200 Ethiopian medical doctors resided and practiced in the United States. That in the United States Ethiopians tend to be a well-educated cohort is borne out by the fact that 3.2% of this population had some college education and 16.1% had a Bachelor's degree. The sector that employs most of the group is educational services, health care services and social assistance (21%), followed by retail, with 15.6% (U.S. Census, ACS 2008–2010).

Ethiopia's economic performance in recent years

Agriculture is the mainstay of the Ethiopian economy, accounting for 46% of the gross domestic product (GDP) in 2007. Agricultural commodities account for more than 80% of Ethiopia's exports, but the sector is dominated by subsistence farming which is characterized by antiquated farming technologies and low productivity. Industry accounts for only 13% of the GDP and foreign direct investment flow is low even by Sub-Saharan African standards. In 2007, Ethiopia's net foreign direct investment flow was US $364 million (World Bank 2008b).

Ethiopia's ambitious goals of building its physical and social infrastructure helped spur uninterrupted economic growth between 2000 and 2008, a period that had a yearly average GDP growth rate of 7.5%. This period also saw a major expansion in access to public services, while agriculture grew at an average of more than 11% per year. The government has been investing heavily in roads, telecommunication, power, water supply, low cost housing, and agricultural extension services to address infrastructural constraints and to accelerate supply side response in the real estate sector. The road network of the country almost doubled in the 1997–2007 decade. Ethiopia is also building several hydropower dams which have the potential to generate surplus power and make the country a net exporter of electric power to neighboring countries like Kenya, Sudan, and Djibouti (World Bank 2009).

Ethiopia has also been investing in education from primary to the tertiary levels to overcome the challenges of skill shortages. The Ethiopian government has, for instance, greatly expanded the number of technical and vocational training institutions (TVETs) in the country. The priority sectors for TVETs are agriculture, health and teacher training. TVETs in agriculture are geared towards supporting the development of new farming enterprises and crops such as nurseries, horticulture, spices, fruits, vegetables, and cotton. The institutions also provide training in a variety of non-agricultural fields such as textile and garment production, bakery, hotels and catering, electronics, electricity, auto mechanics, secretarial services and construction. The number of TVET institutions providing non-agricultural training increased more than ten times between 1997 and 2005, while the number of students trained in them rose from 3,000 to 106,000 over this period (OECD 2008). According to the World Bank (2009) Ethiopia may be entering a new phase of more rapid economic growth, while simultaneously experiencing a 'service delivery take-off.' If this take-off proves to be more than a short-term anomaly, Ethiopia's economic position could improve greatly.

Part of Ethiopia's economic growth over the past decade is the result of policy reform measures to unleash the private sector, to liberalize product and factor markets, to privatize state-owned enterprises; and to develop institutions that are essential for the smooth functioning of markets. In response to these policies, domestic and foreign capital flows (particularly from China, India and Turkey) to Ethiopia have increased tremendously. Between 2004 and 2008, for instance, more than 800 Chinese investors were issued investment licenses involving approximately US $1 billion capital (World Bank 2008a). Ethiopia's improved investment climate, coupled with incentives, appears to have helped it attract both foreign investment in general and diaspora investment in particular. In the next section we will examine the policies and efforts of the Ethiopian government to foster investment by the country's diaspora.

Ethiopian government's policies for diaspora participation

The permanent departure of a country's most educated and best trained population and of its young working-age people is traditionally characterized as a critical loss. However, the outflow of human capital need not be entirely negative provided the skills, finances and know-how of diasporans can be used for development of the home country through the transfer of knowledge and capital for investments and programs there (Portes 2006). The inclusion of its fairly large and relatively well-off diaspora in Ethiopia's development enterprise was an obvious strategy for a country that needed to marshal external resources to rebuild its economy after decades of civil war and a series of droughts and famines. Since the mid-1990s, the Ethiopian government has devised policies and provided various incentives to attract foreign direct investment and involve its diaspora in economic development.

Diaspora outreach policies

The creation of a General Directorate in charge of Ethiopian Expatriate Affairs under the Ministry of Foreign Affairs in January, 2002, endorsed the desire of the government to seek the active involvement of the diaspora in socio-economic development activities in the home country. The Directorate was to coordinate and facilitate diaspora engagement and help build a positive image of Ethiopia abroad. It also served as a liaison between different ministries and members of the diaspora. Additionally, a Diaspora Coordinating Office was created in the Ministry of Capacity Building.

The Ethiopian government enacted a law in 2002 to permit Ethiopians in the diaspora with foreign citizenship to be treated as nationals, by offering a "Person of Ethiopian Origin" identification card (locally known as the Yellow Card) for foreign nationals of Ethiopian origin. The purpose of the new designation was to strengthen Ethiopian nationals' ties to their home country and also to facilitate their contributions to economic development by lifting existing legal restrictions and providing avenues for investment. According to data obtained from the Ethiopian Ministry of Foreign Affairs in 2011, from 2002 until mid-July 2011, 10,990 such diaspora identification cards were issued, of which 4,882 (44%) were to U.S citizens. The "Yellow Card" entitled the cardholder to most of the rights and privileges of an Ethiopian citizen such as entry into Ethiopia without a visa, the right to own residential property and the right to live and work in the country without additional permits. However, the Yellow Card holders do not have the same political rights as citizens. They may not vote or be elected to political office, or be employed in National Defense, Security, or Foreign Affairs (Federal Negarit Gazeta 2002).

Investment incentives

Holders of the Yellow Card are also accorded the same benefits and rights as domestic investors. In 2004, the National Bank of Ethiopia issued a directive to allow Yellow Card holders to open foreign currency bank accounts of up to US $5,000 in Ethiopia, raising the limit to US $50,000 in 2006. These diasporans were also allowed to engage in investment ventures of less than US $100,000, a threshold that is lower than the minimum capital investment required of other foreigners.

Additional investment incentives for foreign investors, though not limited to the diaspora, include income tax exemption from 2 to 7 years; 100% duty exemption on importation of machinery and equipment for investment projects; and 100% customs exemption on spare parts whose value does not exceed 15% of total value of capital goods imported (Federal Negarit Gazeta 2003). These policies encouraged many in the diaspora to invest in small businesses in Ethiopia. Many investments at this level included cafes, restaurants, retail shops, and transport services in big cities and towns that were otherwise restricted to Ethiopian nationals living in the country.

Provision of land

Historically, land was held by only a small percentage of the Ethiopian population, being largely under the control of the monarchy, nobles and elites and the country's large churches and monasteries. In the mid-1970s the Derg regime nationalized rural land, thereby eliminating private titles. Until the regime's collapse, agricultural land was held by peasant associations that were controlled by the government (Crummey, 2000). The current government has continued to enshrine state ownership of land. The 1994 Constitution of Ethiopia asserts that there is no private ownership of land in the country, although leasing is permitted. Therefore, it is not surprising that access to land was another key factor that shaped the direction and volume of diaspora investment in Ethiopia. In the late 1990s, the Ethiopian Government began offering land to its diaspora for residential purposes. Ethiopian embassies were involved in outreach to the disapora and encouraged Ethiopian expatriates to form housing associations in groups of 12–32 members to receive free land in the home country.

Responding to this initiative, Yellow Card holders leased land parcels varying in size from 150 to 500 square meters at very low rates for the construction of residences in the capital of Addis Ababa and in other major towns. The overwhelming response to this initiative led to the sky rocketing of the demand for land. Given the scarcity of urban land (particularly in Addis Ababa), the government was forced to reconsider its policy. Meanwhile, in 2008, the City of Addis Ababa officially suspended allocation of residential land for the diaspora.

Local governments administer land in Ethiopia, and each region is required to have its own land administration system. Investment projects that are eligible for negotiated land acquisition are those with a minimum investment capital of 50 million Birr (about US $5.5 million). Project types that fall under this category included schools, hospitals and Star hotels. Land was also made available through fixed lease price for investment projects in designated sectors promoted by the government such as agroprocessing. Allocations of less than 5,000 square meters of land could be secured directly from the Addis Ababa Investment Office, but requests for land over 5,000 square meters in area were handled by the Investment Board.

Diaspora investment in Ethiopia

Between 1994 and 2008, a total of 1,804 Ethiopians living abroad were issued investment licenses by the Ethiopian Investment Agency. Of these, 37% were residents/citizens of the United States, 17% were from Canada and the remainder originated from the rest of the world. Main investment target areas included construction machinery lease and real estate development, food processing and manufacturing, agricultural production, hospitality services, schools, health services, and information technology. Most investments tended to be small family-owned businesses, a reflection of the limited capital investments of the diaspora.

The share of diaspora investment relative to domestic private investment and foreign direct investment is low. Based on data from the Ethiopian Investment Agency, for the country as a whole, diaspora investment has only averaged 3% of total investments, while in Addis Ababa, where most diaspora investment tends to be concentrated, it has accounted for about 10% of total investments. Diaspora investment rose after 2001, when the main financial incentives were put in place by the Ethiopian government. However, since then, it has evidenced substantial fluctuations.

General elections were held in Ethiopia on May 15, 2005 and more recently in May 23, 2010. Although the 2005 elections had a large voter turnout and is considered the first genuinely competitive multiparty election in the country's history, it was also flawed and controversial. The ruling party, the Ethiopian People's Revolutionary Democratic Front (EPRDF) which retained control of the government was accused of vote rigging and intimidation. The elections were followed by violence stemming from contestation of election results and many protestors and rioters died in the aftermath (Harbeson, 2005). Amnesty International (2006) and the U.S. State Department (2006) called attention to human rights abuses by EPRDF against members of opposition parties, journalists and NGO workers, particularly in the post-2005 election period.

In the first 6 months after the 2005 elections, diaspora investment dropped by half, reflecting at least in part the sensitivity of the diaspora to domestic politics and the perceived lack of stability. During 2006–2007, the year of the Ethiopian Millennium, the Ethiopian government pushed for greater diaspora involvement in several sectors as part of the celebrations, resulting in a dramatic upsurge in investments, although this was followed by an equally striking decline the following year (Table 1). Investments have continued to drop since 2008 in response to the economic downturn in the United States and Europe, where most diaspora investors live. In 2009 the government passed an "anti-NGO" law that attempted to repress civil society organizations (CSOs) and also allows it to shut down CSOs at will (Nega and Milofsky 2011). This too could be viewed by potential diasporan investors as a negative factor, indicative of a government that is overly controlling.

Sectoral distribution of diaspora investments

During the period 1994–2008, diaspora investment was overwhelmingly concentrated in construction machinery leases and real estate development (68%), while the manufacturing sector was a distant second, accounting for 12% of capital invested (Table 2). Investments in the real estate sector were largely driven by the government's policy to provide returnees with urban land at nominal rates. Approximately 2.7 million square meters of land was sold to developers at a negotiated price that was often below fair

Table 1 Capital investments of approved projects by source (in million US$)

Fiscal year (September to Augest)	Domestic investment	Diaspora investment	Foreign investment	Total
1999/2000	828	68	200	1,096
2000/2001	682	76	351	1,109
2001/2002	716	139	173	1,028
2002/2003	1,091	115	393	1,599
2003/2004	1,413	161	836	2,410
2004/2005	2,262	82	1,781	4,125
2005/2006	4,813	213	2,298	7,324
2006/2007	5,302	809	5,339	11,450
2007/2008	8,424	103	9,979	18,505
Cumulative	25,530	1,768	21,348	48,646

Source: Ethiopian Investment Agency, Addis Ababa

The amount of capital was converted from Birr to US$ by using National Bank of Ethiopia's yearly average marginal exchange rate of Birr to US$. The amount of capital is based on EIA's stated amount of each investment license issued. It does not reflect the actual flow of capital

Table 2 Investments by the diaspora in major sectors (1994–2008)

Sector	Capital invested in million US$	% of capital invested	Total projects	% of total projects
Real estate-related activities	1,268	68	1,059	59
Manufacturing	226	12	326	18
Hotels and restaurants	80	4	93	5
Construction	61	3	76	4
Health/social work	48	3	70	4
Education	45	2	64	4
Agriculture	44	2	62	3

Source: Ethiopian Investment Agency, Addis Ababa. (Amount of capital computed using weighted average marginal exchange rate of Birr to US$ from 1998/1999 to 2007/2008)

value market price, while some 400 real estate developers were licensed in Addis Ababa alone. During this same time period, 78% of Ethiopian diaspora investors from the United States received licenses for leasing construction machinery; an activity related to the rise in real estate ventures and associated construction. The government provided easy access to finance for construction machinery, initially requiring 30% as equity and allowing 70% of the capital to be on loan. This practice has now been stopped. As the government's policy of providing land at below market price proved to be unsustainable, it too was discontinued. Hence, the sectors in which diaspora investment takes place is likely to change.

Regional distribution of diaspora investments

The ruling EPRDF has divided Ethiopia into nine administrative regions (*kililoch*) based on major ethnic group and in addition has two chartered cities (Addis Ababa and Dire Dawa). This strategy has fostered greater ethnic nationalism and divisiveness (Clapham 2006) and perceptions that there is considerable variation in diaspora investment by region. The urban orientation of most of the Ethiopian diaspora is reflected in cities being their preferred areas of settlement in host countries. Cities, which offer more opportunities than rural areas are also the favored locales for investment within Ethiopia.

Addis Ababa, the capital, was the favorite investment destination, accounting for more than 90% of all diaspora investments in the country. The bulk of investments (70%) here were in real estate and construction, followed by manufacturing (18%). Greater perceived economic opportunities and security in the city and the relative ease of conducting business were incentives for investing in the capital city. Moreover, the diaspora had greater familiarity with the capital, its institutions and networks, most having lived, studied or worked in it. The government of Ethiopia has been aggressively promoting the opportunities and government incentives for those who would like to invest in their country of origin through its embassies and trips by high-level government officials' trips to countries with large diaspora populations. The first annual Ethiopian Diaspora Business Conference was held on September 19, 2007 in Addis Ababa to explore investment opportunities and incentives for the diaspora. At this, and succeeding annual Diaspora Business Conferences (held in Washington, DC in the United States in 2008, 2009, 2010 and 2011), the allure of an expanding economy, rising exports and high returns on investments in some sectors were used to encourage the diaspora to avail of investment opportunities and also partner with local producers to import Ethiopian products to their countries of residence.

Outside of Addis Ababa, diaspora investment tends to be concentrated in the regions of Amhara, Oromia, Tigray, Dire Diwa, and the Southern Nations, Nationalities, and People's Region (SNNPR), particularly in or near urban areas. In both the Amhara and Oromia regions, agriculture at 51 and 41%, respectively was by far the biggest area of investment followed by real estate (20 and 26%). In Amhara, hotels (14%) were the third largest sector of investment while in Oromia manufacturing with 21% ranked third. In the northern region of Tigray, real estate held sway with a third of all diaspora investments. The chartered city of Dire Diwa was the only area where most investments (40%) were in manufacturing. In SNNPR, one of the country's most rural units, hotels accounted for nearly a third of all investments.

Motivations and challenges

The business investments made by Ethiopians in the diaspora in their home country are driven by a complex mix of opportunities, motivations and intentions that include a desire to establish viable businesses that could be managed by transnational or returning entrepreneurs, the availability of special incentives for diasporan investors to start businesses in Ethiopia and a desire to help their home country and home communities through investments of human and financial capital as well as transfers of skills and know how.

The experiences of diaspora investors interviewed by the authors suggest that although their understanding of and familiarity with intrinsic factors such as the home country's business cultures assists diaspora investors, extrinsic factors such as the business environment and government policies play a critical role in determining the success or failure of an enterprise. While noting progress made, the World Bank's 2008 report on Ethiopia's investment climate revealed major policy and administrative impediments to business growth and competitiveness. Several of the entrepreneurs we interviewed also identified obstacles to establishing and operating businesses in Ethiopia that negatively impacted the viability and productivity of their firms. Conversely, the diaspora community too can pose challenges as well as opportunities for homeland development.

Bureaucratic red tape

Among the challenges recognized by diasporan entrepreneurs were a tangle of rules and regulations, an inordinate amount of paperwork, and associated delays. In the words of a diasporan entrepreneur from our sample, who had returned to Ethiopia after studying and working in the United States for several years, "One of the challenges I see is the lack of a sense of urgency among the regulatory and service delivery agencies. I think people fail to understand the value of time. When you are in line to get various licenses and permits, the people working in these offices seem to think that getting those permits or licenses are the only tasks you have to accomplish. You see a lot of duplication of efforts and unnecessary controls. More than ten people here handle what one person could accomplish in the United States. Such processes can be very frustrating".

Local business cultures

The entrepreneurs interviewed underscored the time intensive nature of conducting business in Ethiopia and the need to factor in additional time, particularly if engaged in an export business. According to a returnee who runs a garment manufacturing unit, "Whereas in the USA you would expect to be direct in your approach, here in Ethiopia you have to be careful in your approach. When you ask your suppliers, for instance, if they can deliver a service or product, they would easily say yes but when you ask them for a specific delivery day they would say, "I will finish it soon". If you manage to make them commit to a specific date then when that day comes they would give all kinds of lousy reasons as to why they could not do it. The developed market customers, they require you to give them a delivery time. If you cannot deliver on the specified date then you are out of business. Of course being born in Ethiopia has helped me to understand these things relatively quickly and avoid mistakes or adjust to the reality on the ground". The importance of being part of a strong and well connected local network that included government officials, various service providers and other firms was also recognized by diasporan entrepreneurs.

Access to finance

Lack of ease of access to capital and the necessity of relying on finances garnered through familial and personal networks was another difficulty observed by our interviewees. A diasporan entrepreneur who wished to establish a manufacturing unit in Ethiopia discovered that in order to borrow money from the Development Bank of Ethiopia (the only government agency that finances long-term investments); he had to have 30% equity in cash. This necessitated yet another loan from a private commercial bank whose terms and conditions put the entrepreneur and his partner at a competitive disadvantage. Access to finance is also constrained by the limited types of assets that banks are willing to take as collateral.

Access to land

Despite the government's stated desire to make land available to investors in general and diaspora investors in particular, access to land has remained to be one of major bottlenecks to diaspora investment performance. Many of those interviewed expressed their frustration about the lack of clarity in the regulations with regard to leasing land and the time taken to acquire land to start their projects even when approved. Some investors had to change their project ideas and others had to abandon their plans altogether. Diasporan investors we spoke with noted that it was difficult to get access to land for commercial farms in areas with irrigation and cheap labor and that leasing land from farmers and enforcing the lease was problematic. Although access to land particularly when the government was offering land at very low rates was supposed to be easy, investors often complained about the difficulty of obtaining land particularly in and around Addis Ababa. This problem has been exacerbated with the discontinuation of the government's policy of providing land to investors at or below fair market price.

Contract enforcement/management

A World Bank study (2008a) found that contract non-compliance was a major hurdle in conducting business in Ethiopia. About 45% of firms in Ethiopia (especially smaller ones) entered into oral contracts, and in the absence of effective contract enforcement, entrepreneurs had to invest significant time in building and maintaining relationships in order to conduct business. A case in point from among our interviewees is a diasporan entrepreneur, who returned to Ethiopia in 1998. He subleased about 40 acres of land owned by 40 farmers in Meki (south of Addis Ababa), for a commercial farm. Managing the 40 farmers was a major problem as individual farmers kept raising rents arbitrarily and it was difficult to obtain contract enforcement support from the concerned government agencies. After 3 years, this businessman gave up on his farm and turned to other business opportunities. He noted that fellow entrepreneurs in the area had faced similar problems.

Policy predictability and political sensitivity

The political environment in the home country can play a big role especially if the diaspora has strong political allegiances to certain groups or parties. U.S.-based Ethiopians are not only the largest Ethiopian diaspora group, they also are the ones who invest the most in the home country, and also tend to be the most politically active and influential. This means that political developments at home and shifts in who is in power can easily influence diaspora investment flow to Ethiopia, making diaspora investment more volatile and hence less reliable than overall foreign direct investment. Human Rights Watch (2010) has reported that access to funds and opportunities in Ethiopia are subject to partisan politicization. The knotty relationship between the Ethiopian government and the diaspora also raises the question of how the government can attract diaspora investment knowing that this engagement could pose a challenge to its political system.

Conclusions

It is clear that the Ethiopian diaspora has strong connections with its homeland and is keen to engage in business ventures and to contribute to the development of the home country. However, in order to tap into the resources of the diaspora, creating and fostering an environment that is conducive to investment in general is critical. Among the significant problems facing diasporan investors are access to land, access to finance, and contract enforcement. These problems are compounded by the paucity of reliable information on how to establish businesses in the country, and exacerbated by frequent changes in government policies and sectoral priorities.

The development of legal and institutional frameworks for the enforcement of contract laws, property rights, standards and regulations and procedures for smooth business operations will make investing in Ethiopia more attractive. Providing reliable and timely information to investors is an additional factor to make the country attractive for business ventures. In fact, there may be no need to provide special incentives to encourage diaspora investments. Environments that foster all investments can be equally effective in spurring economic growth and development.

However, the government needs also to consider the long-term sustainability of policies (such as those related to access to land and capital) before they are implemented. It should also address issues of diversification both in terms of sectors and regions by fostering better use of the country's natural resource clusters and encouraging investment outside Addis Ababa. This would also encourage more broad-based development. Recognizing that most diasporans will not return permanently, it would also be judicious for the government to put in place policies that facilitate and promote the circulation of diaspora investors and entrepreneurs and of knowledge and skills through input from expatriate professionals and experts. Finally, although economic progress is being made in Ethiopia, our case study of diaspora investment indicate that growth does not guarantee that benefits emanating from it will be equitably distributed spatially, sectorally or to the most disadvantaged members of Ethiopian society.

References

Adepoju, A. (2008). Perspectives on international migration and national development in sub-Saharan Africa. In A. Adepoju, T. van Naerssen, & A. Zoomers (Eds.), *International migration and national development: An introduction to policies in sub-Saharan Africa. Viewpoints and policy initiatives in the countries of origin* (pp. 21–48). Leiden, The Netherlands: Brill.

Amnesty International. (2006). *Ethiopia: Prisoners of conscience on trial for treason: Opposition party leaders, human rights defenders and journalists*. AI Index: AFR 25/013/2006.

Brinkerhoff, J. M. (2006). Diasporas, skills transfer and remittances: Evolving perception and potential. In C. Wescott & J. Brinkerhoff (Eds.), *Converting migration drains into gains: Harnessing the resources of overseas professionals* (pp. 1–32). Washington, DC: Asian Development Bank.

Brinkerhoff, J. (Ed.). (2008). *Diasporas and development: Exploring the potential*. New York: Lynne Reinner.

Clapham, C. (2006). Ethiopian development: The politics of emulation. *Commonwealth & Comparative Politics, 44*(1), 108–118.

Crummey, D. (2000). *Land and Society in the Christian Kingdom of Ethiopia: From the thirteenth to the twentieth century*. Urbana and Chicago: University of Illinois Press.

El-Khawas, M. A. (2004). Brain drain: Putting Africa between a rock and a hard place. *Mediterranean Quarterly, 15*(4), 37–56.

FAO (Food and Agriculture Organization). (2011). CountrySTAT Ethiopia. http://213.55.92.108/countrystat/index.asp?ctry=ETH&lang=&cont=pages&page=indicators. Last accessed on July 26, 2011.

Federal Negarit Gazeta. (2002). *The Federal Democratic Republic of Ethiopia, Proclamation No. 270*.

Federal Negarit Gazeta. (2003). *The Federal Democratic Republic of Ethiopia, Proclamation No. 84*.

Gamlen, A. (2006). *Diaspora engagement policies: What are they and what kinds of states use them?* WP-06-32, Oxford, UK: Center on Migration, Policy and Society.

Getahun, S. A. (2002). Brain drain and its effect on Ethiopia's institutions of higher learning, 1970s–1990s. *African Issues, 30*(1), 52–56.

Getahun, S. A. (2007). *History of Ethiopian immigrants and refugees in America, 1900–2000: Patterns of migration, survival, and adjustment*. New York: LFB Scholarly Publishing LLC.

Gillespie, K., & Andriasova, A. (2008). Diaspora support for SMEs in Armenia: Examining paradigms of social entrepreneurship. In J. Brinkerhoff (Ed.), *Diasporas and international development: Exploring the potential*. Boulder, CO: Lynne Rienner Publishers, Inc.

Harbeson, J. W. (2005). Ethiopia's extended transition. *Journal of Democracy, 16*(4), 144–158.

Human Rights Watch. (2010). *Development without freedom: How aids underwrites repression in Ethiopia*. New York City. http://www.hrw.org/sites/default/files/reports/ethiopia1010webwcover.pdf. Accessed 18 Dec 2011.

Nega, B., & Milofsky, C. (2011). Ethiopia's anti-NGO law and its consequences for economic development. *Community Development Journal, 46*(2), ii33–ii48.

OECD, African Development Bank. (2008). *African economic outlook 2007/2008*. http://www.oecd.org/dataoecd/13/35/40577702.pdf. Accessed on September 7, 2009.

Orozco, M. (2005). *International financial flows and worker remittances: Issues and lessons*. Washington, DC: Inter-American Dialogue.

Portes, A. (2006). *Migration and development: A conceptual review of the evidence*. CMD Working paper #06-07.

Ratha, D. (2005). Workers' remittances: An important and stable source of external development finance. In S. M. Maimbo & D. Ratha (Eds.), *Remittances: Development impact and future prospects* (pp. 19–51). Washington, DC: World Bank.

Sen, A. (1999). *Development as freedom*. New York: Alfred A Knopf.

Sheffer, G. (1986). A new field of study: Modern diasporas in international politics. In G. Sheffer (Ed.), *Modern diasporas in international politics* (pp. 1–15). London: Croom Helm.

Sidel, M. (2007). Focusing on the state: Government responses to diaspora giving and implications for equity. In B. J. Merz, L. C. Chen, & P. E. Geithner (Eds.), *Diasporas and development* (pp. 25–54). Cambridge, MA: Global Equity Initiative, Harvard University.

Skeldon, R. (2008). International migration as a tool in development policy: A passing phase? *Population and Development Review, 34*(1), 1–18.

The World Bank. (2008a). *International development association country assistance strategy for the Federal Democratic Republic Of Ethiopia*, April 2, 2008. Report no. 43051-ET. Washington, DC: The World Bank.

The World Bank. (2008b). *World development report 2009: Reshaping economic geography*. Washington, DC: The World Bank.

The World Bank. (2009). *Ethiopia: Toward the competitive* Frontier. Report no. 48472-ET.

University of Sussex. (2007). *Global migrant origin database*. Development Research Center on Migration, Globalisation and Poverty. http://www.migrationdrc.org/research/typesofmigration/global_migrant_origin_database.html. Accessed on August 10, 2009.

U.S. Census Bureau. (2008–2010). American Community Survey 3-year estimates. http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_10_3YR_S0201&prodType=table. Accessed 15 Jan 2012.

U.S. Census Bureau. (1999). Working Paper No. 29. Table 3. Region and Country or Area of Birth of the Foreign-Born Population: 1960-1990. http://www.census.gov/population/www/documentation/twps0029/tab03.html. Accessed 26 July 2011.

U.S. Department of State. (2006). Ethiopia: Bureau of Democracy, human rights and labor. http://www.state.gov/g/drl/rls/hrrpt/2005/61569.htm. Accessed on July 20, 2011.

Zoomers, A., Adepoju, A., & van Naerssen, T. (2008). International migration and national development: An introduction to policies in sub-Saharan Africa. In A. Adepoju, T. van Naerssen, & A. Zoomers (Eds.), *International migration and national development: An introduction to policies in sub-Saharan Africa. Viewpoints and policy initiatives in the countries of origin* (pp. 1–20). Leiden, The Netherlands: Brill.