

Direct diaspora investment is not FDI — and treating it as such is a policy mistake

DDI Thinkpiece

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For years, governments and development partners have chased foreign direct investment (FDI) as a cornerstone of growth. More recently, diaspora engagement has gained traction — but too often through the narrow lenses of remittances, philanthropy, or symbolic outreach. What remains underdeveloped is direct diaspora investment (DDI): diaspora individuals or collectives investing capital directly into firms and projects in their countries of origin.

The problem is not a lack of interest from diasporas. It is that DDI is systematically misunderstood, mis-measured, and mis-governed — frequently treated as a smaller, softer version of FDI. It is not. And that distinction matters, particularly in a world where South–South migration forms a major part of global mobility, and where countries of origin are undergoing profound structural transformation.

DDI is fundamentally different from FDI

FDI is driven by scale, risk-adjusted returns, and exit certainty. It flows where macro fundamentals align: market size, export access, infrastructure, regulatory predictability, and enforceable contracts. Multinational investors can choose among dozens of locations and can afford to wait.

DDI operates on a different logic.

Diaspora investors combine financial motives with relational capital: knowledge of local markets, language, informal institutions, family ties, and identity. They often invest smaller ticket sizes, earlier in the firm life cycle, and in sectors that FDI rarely reaches – SMEs, services, urban infrastructure, education, health, logistics, and supplier linkages around larger projects. They are more patient than FDI, but not indifferent to risk. What they require is trust and functionality, not promotional incentives.

This distinction is not semantic. When governments replicate FDI promotion tools – tax holidays, investment roadshows, special economic zones – and aim them at diasporas, they miss the real binding constraints. DDI is less constrained by headline incentives than by micro-level frictions: onboarding, documentation, banking access, foreign exchange rules, governance safeguards, due diligence costs, and credible dispute resolution.

A new opportunity set in countries of origin

This matters because the opportunity landscape in many countries of origin has shifted dramatically.¹

Domestic markets are expanding. Education levels are rising. Expectations around health, housing, digital services, mobility, and quality of life are changing. Consumption-driven growth is becoming as important as exports. At the same time, global demand for critical minerals and energy transition inputs has drawn new waves of large-scale FDI – often enclave in nature.

DDI sits precisely at the intersection of these trends.

Diaspora investors are well positioned to²:

- finance local supply chains around large FDI and extractive projects.
- invest in domestic service sectors tied to urbanisation and middle-class growth.
- support productivity upgrading of local firms through equipment, standards, and certification.
- anchor city-level infrastructure and service delivery where relational trust matters.

The development payoff of critical minerals, for example, will not come automatically from FDI alone. Spillovers depend on whether local firms can enter value chains, whether skills are developed, and whether revenues circulate domestically. DDI can play a catalytic role here – but only if public policy deliberately enables it.

¹[Perspectives on Global Development 2019](https://www.oecd.org/en/publications/2018/11/perspectives-on-global-development-2019_g1g98eca.html)

https://www.oecd.org/en/publications/2018/11/perspectives-on-global-development-2019_g1g98eca.html

²[Attracting and retaining talent in Colombia: Towards a global future](https://www.mideq.org/en/inequalities/inequalities-resources/attracting-and-retaining-talent-in-colombia-towards-a-global-future/)

<https://www.mideq.org/en/inequalities/inequalities-resources/attracting-and-retaining-talent-in-colombia-towards-a-global-future/>

The role of public policy in countries of origin

Governments should not “pick winners,” but they do need to build an enabling architecture that makes diaspora investment routine rather than heroic.

Four functions matter.

- 1** First, definition and measurement. Most countries still fail to distinguish DDI from remittances and from FDI in their statistics. This is not a technical footnote. What is not measured is not governed. Without a clear definition, policymakers cannot assess scale, sectors, survival rates, or development impacts.
- 2** Second, rules for small and minority investors. DDI often involves minority stakes, partnerships, and informal governance structures. Weak shareholder protections, opaque related-party transactions, and unreliable enforcement are powerful deterrents. Simple, enforceable frameworks matter more than sophisticated laws that are never applied.
- 3** Third, intermediation and pipelines. Diaspora capital does not fail for lack of goodwill; it fails for lack of investable projects. Governments can support project preparation facilities, SME audit readiness, and transparent “dealbooks” that publish opportunities with real information – not political showcases.
- 4** Fourth, smart use of public finance. Blended finance should de-risk viable investments, not subsidise unviable ones. Matching schemes tied to performance, first-loss tranches, and co-investment vehicles – professionally managed and insulated from patronage – can crowd in diaspora capital at scale.

The state’s role is not to invest for the diaspora, but to reduce friction, increase credibility, and improve deal quality.

Mediators matter — the ‘boring middle’ of DDI

DDI almost always requires intermediaries. The bottleneck is not capital supply, but credible matching, due diligence, and governance.

Many mediators include diaspora investment platforms, chambers of commerce with verification capacity, domestic development banks with strong governance, private fund managers pooling small tickets, and regulated fintechs facilitating compliant flows. Municipal governments are often critical for urban projects, where trust is spatial and local.

Policy attention tends to focus on high-visibility announcements. What actually unlocks DDI is investment in the boring middle: escrow mechanisms, standard contracts, arbitration options, monitoring, and reporting. This is where many diaspora initiatives quietly fail — and where modest public support can have outsized impact.

South–South diasporas: the missing centre of gravity

Most diaspora investment narratives implicitly assume North–South flows. This is increasingly disconnected from reality.

Many international migrants live in low- and middle-income countries, and much migration today is South–South. So is much diaspora investment. Regional diasporas invest in neighbouring countries, in familiar regulatory environments, and in sectors tightly linked to trade, transport, and services.

South–South DDI often involves:

- smaller but more frequent investments.
- shorter information gaps.
- stronger cultural and business familiarity.
- regional value chains rather than global ones.

Yet policy frameworks rarely reflect this³. Investment promotion agencies still target “the diaspora” in OECD capitals, while neglecting regional hubs. Development finance instruments are often poorly adapted to smaller ticket sizes and regional currencies. Data systems overlook these flows almost entirely.

This is a missed opportunity. South–South diasporas are not second-best substitutes for Northern investors. They are strategic actors in regional development, resilience, and economic diversification.

³ [Unlocking human mobility's development potential within the Global South.](https://www.mideq.org/fr/decentring-knowledge/decentring-knowledge-resources/unlocking-human-mobilitys-development-potential-within-the-global-south/)

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The role of destination countries and development agencies

Countries where diasporas live – including their development agencies – have an underused role to play.

1 Regulatory facilitation

Clear tax treatment, consumer protection, and compliant cross-border retail investment products matter. Scandals and fraud in diaspora schemes poison trust far beyond individual losses.

2 Risk-sharing

Development agencies are well placed to provide first-loss capital, guarantees, and technical assistance to diaspora-focused funds and platforms, crowding in private capital rather than substituting for it.

3 Market building

Supporting standards for diaspora investment vehicles – transparency, reporting, impact metrics – reduces information asymmetries and builds confidence over time.

4 Networks to markets

Diasporas do not only bring capital; they bring access. Linking origin-country firms to destination markets, procurement systems, and professional networks can multiply the impact of investment.

From symbolism to systems

DDI is not a silver bullet. It will not replace FDI, nor should it. But it occupies a distinct and underutilised space in development finance – one that aligns closely with the realities of South–South mobility, domestic market growth, and the political economy of trust.

The policy lesson is straightforward: stop treating diaspora investment as a softer version of FDI or a cousin of remittances. It requires its own metrics, instruments, intermediaries, and governance logic.

If governments and development partners move from symbolic engagement to system-building – lowering transaction costs, strengthening trust infrastructure, and recognising the central role of South–South diasporas – DDI can become not an exception, but a normal part of development finance.

And that, ultimately, is the point.



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Dr. Jason Gagnon is an economist specialising in migration, skills and development. He has more than 20 years of experience working at the intersection of policy, research and international cooperation, including with the OECD and the UN system. His work focuses on diaspora engagement, remittances, labour mobility, and the role of migration in development planning. He has led and authored numerous policy reports and research outputs, and regularly supports governments and international partners through advisory and analytical work. He is currently collaborating with The Diaspora Institute on advancing evidence and practical tools for diaspora direct investment.

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