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Diaspora Financing for Development and Peacebuilding: Lessons from Sub-Saharan Africa

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Remittances as a Solution for Development and Fragility Challenges

Development, peace, and security are inextricably linked. Today, Sub-Saharan African (SSA) countries are increasingly exploring innovative ways to finance development, as the usual sources (domestic revenue, debt, foreign direct investment, and official development assistance) are proving inadequate in the face of SSA's massive development needs. For example, infrastructure alone requires between USD$130 and USD$170 billion a year continent-wide, yet resources available through normal development finance channels fall short by more than half of the required amount.[1]

With over 40 million African migrants living and working outside their countries of origin,[2] the capital from this cohort presents a potentially reliable source of development finance. Remittances to Sub-Saharan Africa rose from USD$4.8 billion in 2000 to USD$31.7 billion in 2010 and increased further to USD$48 billion in 2019. Critically, remittances to families can constitute a major peacebuilding and conflict resolution tool. They keep afloat 120 million people on the continent by enhancing their economic means, providing a social safety net, and reducing poverty. More importantly, some studies find that such remittances possibly diminish the incentive of members of recipient households to participate in armed rebellion, crime, and violence.[3] For fragile

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post-conflict countries, in particular, remittances are a powerful force for building local resilience and contributing to lasting peace.[4] Since international investors perceive fragile countries as risky, investments from remittances from the diaspora served a critical stabilizing purpose in countries such as the Democratic Republic of the Congo, Liberia, and Sierra Leone. Amidst Somalia's anarchy, diaspora support has proven vital in sustaining families and maintaining peace in places like Puntland and Somaliland.[5] Thus, diaspora capital is widely recognized as a sine qua non for peace and rebuilding in many SSA countries.[6] However, the negative potential of such capital to finance terrorism and prolong conflicts has also been noted and is worthy of attention. Still, emphasis on the positive (and more dominant) track record of remittances, and their for financing development, rather than war, in Africa is needed now more than ever.

This paper draws key lessons from the experiences of several SSA countries in their efforts to leverage remittances (beyond personal remittances) for development. It addresses the following questions: 1) To what extent has the diaspora been prioritized by SSA governments as a source for development financing? 2) What have been SSA's key successes, failures, and lessons in engaging the diaspora for development finance?

Africa's Efforts at Engaging her Diaspora

Engaging the diaspora has been a long-held objective of the African Union (AU), as established in its Agenda 2063, which seeks "dynamic and mutually beneficial links with her Diaspora." To this end, the AU has launched several initiatives, including designating the diaspora as Africa's "sixth region;" allocating seats in its Economic, Social and Cultural Council (ECOSOCC) to civil society organizations (CSOs) from the diaspora; establishing the Directorate of the Citizens and Diaspora Organizations (CIDO); and, hosting the Global Diaspora Summit in 2012.

Individual member countries of the AU have been even more robust in their diaspora engagement during the past decade, with countries such as Cape Verde, Ethiopia, Ghana, Liberia, Nigeria, Rwanda, and Sierra Leone generating the most attention. These countries are formulating strategies and policies to boost the inflow of diaspora capital, information, and technology, while also creating governance and institutional infrastructure such as ministerial portfolios and dedicated diaspora units.

Challenges in Leveraging Remittances for Development

Despite Africa's efforts to engage its diaspora, generally, follow-through has been lacking. Many SSA countries are yet to mainstream diaspora issues into their overall development strategies and policies. Also, the weak state governance structure, corruption, lack of transparency, and state fragility prevalent in many SSA countries severely dampen the diaspora's interest. Additionally, while more than two-thirds of African migrants are within the continent (i.e., intra-Africa migration), governments' engagement strategies and policies have mostly focused on the diaspora living in more advanced economies outside the continent. Finally, empirical research suggests that most SSA embassies lack sufficient capabilities and capacities to engage diaspora members effectively to capitalize on the financial opportunities in their home countries.[7]

As for the AU, its diaspora initiatives have had limited success in bolstering support among those diaspora members who do not have familial or other ties to specific countries on the continent. Also, the 2019 termination of the appointment of the AU Permanent Representative to the United States (a major destination country for SSA emigres) and ensuing distancing of the AU from the various diaspora engagement initiatives initiated during her tenure sent mixed signals to the diaspora and eroded some of the recent gains made by the AU on this front.[8]

Beyond Personal Remittances: Selected Diaspora Development Financing Instruments

As Africa addresses the challenges to leveraging remittances, it is also looking beyond personal remittances to other channels for attracting diaspora-funded development financing. One such path is to tap diaspora savings, which are substantial. It is estimated that as of 2014, SSA's global diaspora had accumulated USD$30.5 billion in savings.[9] Specifically, by 2019 the diaspora communities originating from Ethiopia, Ghana, Kenya, Somalia, Zimbabwe, Nigeria, and the Democratic Republic of the Congo were estimated to each have in excess of USD$1 billion in savings.[10] This illustrates the magnitude to which diaspora capital is a potential resource for development financing in SSA countries.

In light of this, SSA countries have rolled out the following vehicles to attract greater inflows of diaspora capital.

Diaspora Bonds (DBs)

Diaspora bonds (government bonds targeted at a country's emigrants) have been widely touted as a development financing tool. Yet, there exists a massive gap between the general rhetoric and reality about DBs in SSA.[11] While Ethiopia (2008 and 2011), Kenya (2011), Ghana (2007), and Nigeria (2013 and 2017) have issued DBs in the past, only the latter has been successful. Ethiopia, for example, had to refund USD$6.5 million to U.S. residents of Ethiopian descent who participated in its second DB offering after the country failed to register the DBs with the U.S. Securities and Exchange Commission.[12]

Another reason for the gap between the potential and actual use of DBs is the perceived political risk, perceived currency and foreign exchange risk, corruption, the structure of the bonds (in terms of rate, target market, denomination, etc.), lack of confidence in the state's ability to guarantee the investment, and issues with marketing the DBs.[13] That notwithstanding, the experience of Nigeria, as well as non-African countries such as India and Israel, provide good lessons for successfully floating DBs. Nigeria's success could be attributed to: 1) its feat in navigating the complex regulatory processes in targeted countries; 2) the structure of the bond as a retail instrument denominated in U.S. dollars[14] and its link to infrastructure development; 3) investor confidence gained from floating its Eurobond earlier that same year; 4) investor confidence in the new Buhari Administration, which came into office with an aggressive anti-corruption campaign through its whistle-blowing policy and delivered some early successes on this front;[15] and 5) the establishment of the Nigerians in Diaspora Commission (NIDCOM), which played a critical role in rallying the country's diaspora to support government initiatives.

National Development Funds

National Development Funds (NDFs) are established by governments to mobilize and manage voluntary contributions from the diaspora for development activities. Examples from SSA include Rwanda's Agaciro Development Fund, the Ethiopian Diaspora Trust Fund (EDTF), Liberia's Diaspora Social Investment Fund, Zambia's First Investment Fund, and Kenya's Diaspora Unit Trust Funds Schemes. One of the more successful NDFs is the EDTF. The EDTF was launched in 2018, mobilized USD$2.3million in contributions in its first six months, and by January 2020 had raised USD$5.8 million from Ethiopian diaspora in 93 countries.[16] The EDTF's early success was attributed to: 1) better diaspora confidence in the new political administration that took office in 2018;[17] 2) the fact that donations are committed to projects only and not used to fund administrative overhead; and 3) provision of updates on contributions and project implementation status on EDTF's website.

Collective Remittances

Collective remittances are voluntary contributions from the diaspora mobilized through networks and organizations to finance specific development projects or humanitarian relief in their home countries. They are often spearheaded by Hometown Associations (HTAs), alumni associations, religious organizations, professional associations, charitable organizations, development NGOs, and supporters of political parties. Since these groups thrive on trust in the judicious use of their funds, they are the most common direct diaspora development financing vehicle in SSA.[18]

Crowdfunding and Private Investment Funds

Crowdfunding platforms leverage technology to mobilize contributions from individuals online in order to finance business ventures and causes. Such contributions can be made as rewards, donations, loans that have to be repaid with interest, or equity crowdfunding (which provides investors the opportunity to own a stake in the venture). A wide variety of technological and social media platforms provide a trusted route for the SSA diaspora to directly support various causes or businesses on the continent. As of 2015, there were 57 crowdfunding platforms headquartered and operating in Africa, with over 4,939 crowd-funding campaigns that raised a combined USD$32.3 million. Despite the huge potential of crowdfunding, however, the lack of regulations, lack of access to financial payment systems, as well as high internet costs, threaten its growth and impact in SSA.

Private sector actors are also harnessing diaspora capital by creating private investment funds for social and developmental causes. Examples include Home Strings, which mobilized about USD$25 million in investment commitments across 13 SSA countries, and Remit Fund, a non-profit start-up that pools contributions to its African Diaspora Investment Fund (ADIF) and invests in "social impact businesses" aligned with the United Nation's Sustainable Development Goals. Even in a turbulent security environment such as that present in Somalia, Somalia's AgriFood Fund, initiated by the International Fund for Agricultural Development (IFAD), has leveraged nearly USD$2.3 million in total capital, unlocked USD$993,000 in diaspora funds, financed 14 Somali companies, and created over 435 jobs in Somalia since its launch in 2013.[19]

Diaspora Direct Investment (DDI)

Many SSA countries are eager to attract foreign direct investment (FDI) from their diaspora, whom African governments perceive as potential "pioneer investors." Diaspora Direct Investments (DDI) are direct investments in diaspora-managed or diaspora-owned companies.[20] Investment promotion agencies in countries such as Ethiopia, Ghana, the Gambia, Kenya, Nigeria, and Rwanda are striving to improve contact with their respective diasporas in order to create investment opportunities for origin-country firms. As part of their broader FDI programs, these investment promotion agencies have scaled-up the provision of information on investment opportunities to their diasporas. Mauritius, for example, has put in place one-stop facilities in their embassies and consulates to facilitate stronger coordination with the diaspora on investment issues. Ethiopia's overseas employment proclamation (2016) has allowed the diaspora to invest in sectors previously reserved exclusively for locals, receive tax incentives, and be exempted from the minimum investment capital threshold required of non-diaspora foreign investors. The Senegalese government has made available grants, co-financing, and loan guarantees aimed at stimulating DDI. One major challenge with DDI in Africa, however, has been complaints about non-diaspora foreign investors being offered more favorable policies and incentives than emigres seeking to invest at home.

Lessons for African Governments

1. Good governance; transparency; sound social; environmental and economic policies; and efficient public service delivery play a crucial role in attracting diaspora finance: Poor governance, unstable macroeconomic policy, mismanagement of public funds, lack of respect for the rule of law, and civil strife make diaspora investors skeptical about channeling funds into SSA countries. Corruption and lack of trust in public delivery systems rank highest of these hurdles. Diaspora concerns are further exacerbated by the poor interface between SSA embassies/consulates and their diaspora. Sound leadership, good governance, and effective public service delivery—besides being cornerstones to development—boost the contributions of diasporas to development.[21]

2. A well-articulated diaspora strategy is crucial: Diaspora strategies are key to defining the relationship between the diaspora and their home countries. To have the desired effect, it is imperative that SSA countries: 1) adopt a long-term strategic approach to diaspora engagement; 2) embrace the often-neglected diaspora within the African continent, who comprise more than two-thirds of international SSA migrants; 3) align diaspora and domestic investment policies and incorporate them into national development strategies; and 4) be mindful of incentivizing the diaspora community, as too often SSA governments see the diaspora merely as a source of "free" money, and overlook the importance of presenting the community with opportunities to invest in low-risk, high-return projects.

3. In-depth knowledge about the diaspora, and pro-active engagement with it, is critical for success: A crucial first step for SSA governments is to build a comprehensive diaspora profile that captures the size, income, and destinations of a country's diaspora. This is imperative for formulating effective policies and designing the right financing instruments. Currently, most of this information is not readily available, so countries need to start investing in data collection. Having well-organized diaspora communities makes this easier, as does having a congenial relationship between the government and its diaspora. Countries need to cultivate lasting relationships with their diaspora and increasingly recognize diaspora aspirations, efforts, and concerns.

4. Diaspora members are more inclined to support their hometown, region, or alma mater than state-led initiatives:[22] Given the general lack of public trust in African governments, the diaspora seems to favor development financing efforts that are not state-led. To boost collective remittances, it is important for SSA governments to prioritize initiatives that forge lasting ties between the diaspora and their countries of origin. Platforms that create direct linkages between the diaspora and microdevelopment projects, social enterprises, and businesses in their home countries are particularly appealing in this regard. There is, therefore, a lot of potential for the nascent but fast-growing crowdfunding platforms in SSA countries, as well as for development funds with limited state control. Public sector partnerships with these private platforms could yield optimal benefits regarding diaspora investment.

5. Linking proceeds from diaspora funds and bonds to specific development projects helps to improve their marketability:[23] Diaspora investors are motivated not only by profits and returns, but also by the desire to have a positive impact on their home countries. Thus, linking the proceeds of diaspora bonds (DBs) to specific projects makes investment more appealing to the diaspora.

6. Learning from past mistakes is essential when rolling out diaspora bonds: Past mistakes by SSA countries issuing diaspora bonds include lack of effective engagement with diaspora communities, failure to register bonds with appropriate authorities in target jurisdictions, and denominating bonds in unstable currencies.[24] Drawing from these experiences was crucial to Nigeria's success in issuing DBs simultaneously in the U.S. and UK—the two largest Nigerian diaspora communities. This success came about only after Nigeria spent nearly four years planning, consulting with the diaspora, and obtaining technical assistance from development finance institutions.

7. Lack of effective engagement with African diaspora who do not identify with a specific country but rather with Africa as a whole represents a missed opportunitys: The AU and the continent's various regional economic communities have a critical role in engaging this community. There are about 169 million people in the diaspora with various ties to the continent spread across North America, Latin America, and the Caribbean. More can be done to harness the talents, expertise, and resources of this cohort of the African diaspora to bolster Africa's economic transformation. Countries need to better understand and engage with the entirety of this global diaspora in order to maximize its contribution to Africa's development.

For a set of policy options and recommendations related to the role of the African diaspora in development financing and economic growth, see the accompanying Africa Program Policy Brief No. 23 by Richmond Commodore.

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