Chapter

Diaspora Investment to Help Achieve the SDGs in Africa: Prospects and Trends

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Abstract

Governments and the private sector have traditionally viewed the diaspora as both ongoing providers of financial capital at the micro level, and, as consumers. While recognition of the diaspora's role in 'doing development' has grown, and the diaspora are increasingly seen as important development stakeholders, they are still not viewed as significant social investors by governments, the private sector, or indeed the diaspora themselves. This represents a missed opportunity for harnessing and seeking to scale up diaspora investments for socio-economic growth, especially given the gap in financing available to deliver the Sustainable Development Goals (SDGs). This chapter offers an overview of diaspora investment types and forms, dividing these into four main types, namely: diaspora philanthropy, diaspora remittances, diaspora direct investment (DDI), and diaspora Portfolio Investment (DPI). It argues that governments, financial institutions, the private sector, and the diaspora themselves should view diaspora investments as part of the development financing mix, especially as part of 'blended finance' packages.

Keywords: diaspora investment, development finance, Sustainable Development Goals (SDGs), affordable housing in Africa

1. Introduction

This chapter examines trends in diaspora investment, and in particular how such investments can drive socio-economic growth and development in countries of origin, as well as in countries of transit and destination. It argues that the African diaspora, in addition to being recognised as the source of significant resource flows to countries of origin or heritage through remittances, should also be seen—and be encouraged to see themselves—as significant social investors in African development in their own right. This in turn creates potential opportunities for governments, financial institutions, and the private sector to harness and scale up these investments for economic growth, especially in Africa's emerging and frontier markets, by developing and deploying a combination of policy frameworks and investment vehicles targeting diaspora investors.

This is even more critical in supporting the implementation of the SDGs on the continent. The projected shortfall in development financing needed to achieve the Sustainable Development Goals globally, is estimated at around $30 bn USD per annum. This means that innovative approaches to development financing are required more now than ever before. The Addis Ababa Action Agenda on financing the SDGs, agreed in 2015, is explicit that governments, civil society, and the private sector will all have to contribute more resources to achieve these goals.

At the same time, developing countries are seeking to raise investment finance to meet growing infrastructure, energy, and other needs in national development planning. The challenges to doing so in frontier and emerging economies are all the greater given current market and investment trends. There is a lot of innovation in diaspora interventions with potential for significant results. This chapter argues that more focus on diaspora investors and diaspora investment could yield significant results for Africa's emerging markets and for helping achieve the SDGs.

2. Methodology

The research methodology involved extensive review and analysis of corporate, financial, legal, institutional, and academic literature. This included African financial institutions, innovative finance schemes, and social enterprise structures. Research consultation questions were used to guide face-to-face and telephone interviews and discussions with practitioners, policymakers, and potential diaspora investors in Europe and Africa. The review was also informed by internal AFFORD reports and data, drawing on its experience of delivering diaspora enterprise and finance initiatives in Africa over the last decade.

People consulted included officials of the African Union and the World Bank. Participation in forums such as the Global Forum on Migration and Development (GFMD) in Marrakech in December 2018 enabled consultations with development and investment policymakers and practitioners from government, multilateral, diaspora, media, money transfer, and other organisations.

3. Defining diaspora investors and investments

A range of definitions have been proposed for the term diaspora, and for what constitutes diaspora investment. Definitions of diaspora can vary and may also be contested by some groups. However, for the purposes of this chapter, the African Union (AU) definition is used whereby:

> *'the African Diaspora consists of peoples of African origin living outside the continent, irrespective of their citizenship and nationality and who are willing to contribute to the development of the continent and the building of the African Union' [1]*

According to Plaza and Ratha, the size of the African diaspora totalled over 30.6 million in 2011 [2]. However, this number is a significant underestimate as it only counts the total foreign-born population and therefore excludes second-, third-, and subsequent-generation migrants who in many cases maintain ties to their country of origin and/or heritage. It also excludes the millions from the historic Atlantic Diaspora, which the AU includes in its definition of the diaspora and as part of its concept of a sixth region.

As Oviatt and McDougall argue, due to the sentimental attachment to their countries of origin, diaspora transnationalism initiates investments; connects home and host countries in political, economic, and social issues; creates jobs; and provides business, technical, and technological information about host countries to their country of origin [3]. Moreover, such investments need not be necessarily for financial return but also for socio-economic improvement and feelings of duty and obligation to their country of origin [2].

Diaspora investors are more likely to invest in their country of origin than non-diaspora investors as they are privy to a more sophisticated understanding of the governance and business in-country, and may therefore have a differing understanding of risk from other investors. Plaza and Ratha characterise this as diaspora investors taking advantage of information asymmetries, and suggest this is an area where diaspora investments should be encouraged so as to take advantage of their comparative advantage in this regard [2].

4. Types of diaspora investments

Faal [4] provides a detailed breakdown of diaspora investment types and forms, dividing these into four main types, namely: diaspora philanthropy, diaspora remittances, diaspora direct investment (DDI), and Diaspora Portfolio Investment (DPI), mirroring the established distinctions between FDI and FPI [4]. Although the former of these, diaspora philanthropy, is an important form of financial contribution to development, it falls out of the scope of this chapter as it does not fit the strict definition of financial investment in that no profit or financial return is expected or received by the diaspora or migrants or who make such contributions [5, 6].[1] There are some rare exceptions to this though, such as Rwanda's Agaciro Fund [5], which has relied on philanthropic donations from the diaspora, and is being developed as a sovereign wealth fund with a strong investment element.

4.1 Diaspora remittances

Diaspora remittances have been the subject of numerous studies at the macro and micro levels, and there is strong evidence that remittances are a major engine for development in Africa. According to the World Bank in 2019, formal remittances to Africa reached $86 bn USD [7]. Of this, 70% was received by Egypt, Nigeria, and Morocco. In the case of Nigeria, the amount remitted in 2018 ($22 bn USD) was larger than the entire federal budget that year ($18 bn USD). For five countries, formal remittances alone account for over 10% of GDP, namely, Comoros, The Gambia, Lesotho, Cape Verde, and Liberia. In addition to formal channels, migrants and the diaspora still use unregistered and informal channels to send money to Africa. They also send in-kind remittances. If funds sent through formal, informal, and in-kind remittances are taken into account, it is estimated that annual remittances to Africa can be as high as $200 bn USD [8].[2]

The World Bank notes that remittance transaction costs for Africa are the highest in the world at 9% as compared to the global average cost of 7%. Remittance costs within Africa are particularly high, the highest costs being transactions

[1] Faal ([4], pp. 22–37) notes that he main forms of diaspora philanthropy are: Direct donations to civil society, religious, social and community appeals and schemes; Collective remittances channelled through Home Town, Community and Alumni Associations (HCA) and diaspora networks; and national Trust Funds such as the Rwanda Agaciro Development Fund (ADF) set up in 2012, which had an asset value of about USD43m in 2016, and the Ethiopia Diaspora Trust Fund (EDTF) which was set up in August 2018 and had raised about USD4m from 20,000 people in 70 countries by April 2019.

[2] The Lead Economist on Migration and Remittances at the World Bank, Dilip Ratha [8], has stated that "unrecorded flows through informal channels are believed to be at least 50% larger than recorded flows." The SSRC reported that informal remittances are estimated to vary from 35% to 250% of formal flows [9].

originating from South Africa, as high as 18%. The two cheapest intra-African remittance corridors were about 3.5%, these being Senegal-Mali and Cote D'Ivoire-Mali. The cheapest international corridors were about 4%, being France-Cameroon and France-Comoros. It should be noted that SDG Target 10.7 (10.C) states: 'By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent'. [10]

Formal remittances to Africa, which keep growing, are higher than all other forms of non-trade financial flows, as shown in **Table 1** below:

Inflows to Africa ($ Billion USD)	2011	2012	2013	2014	2015
Migrant and diaspora remittances	59.6	64.3	63.7	67.2	64.8
Foreign direct investment (FDI)	49.8	49.4	53.1	56.0	51.3
Official development assistance	51.6	51.8	56.8	54.3	51.0
Foreign portfolio investment (FPI)	21.6	34.3	23.0	21.3	15.7

Source: UNCTAD [11].

Table 1.
Financial inflows to Africa in 2011–2015.

The World Bank has identified a number of factors that increase the propensity for remittance receivers to invest:

- 'Remittance flows are viewed by the household as transitory rather than permanent and thus should be saved (and invested) rather than spent.
- The sender conditions the remittance on it being spent for particular purposes, which are more likely to involve investment than current consumption. Examples include education or the purchase of new farm machinery.
- The remittance is targeted (or "tagged") to household members more likely to use the funds for investment purposes (women rather than men).
- Households practice a form of mental accounting with their overall budget, with remittances being disproportionately put in accounts set aside for investment purposes'.
- Remittances also have the effect of increasing the likelihood of entrepreneurial enterprises for middle-income households [2].

4.2 Diaspora Direct Investment (DDI)

This relates to direct investments whereby the investor has origins or heritage in the foreign country of investment, irrespective of their nationality. The notion of heritage-based African DDI is practically useful because millions of African diasporans are unable to definitely pinpoint their origins to a particular country in Africa. However, unlike FDI flows, which are officially monitored by a range of multilateral institutions, there is a dearth of reliable data on formal DDI flows to Africa, and it is recommended that annual surveys should aim to gather data on levels of DDI to inform investment trends and also policy-making in this area.

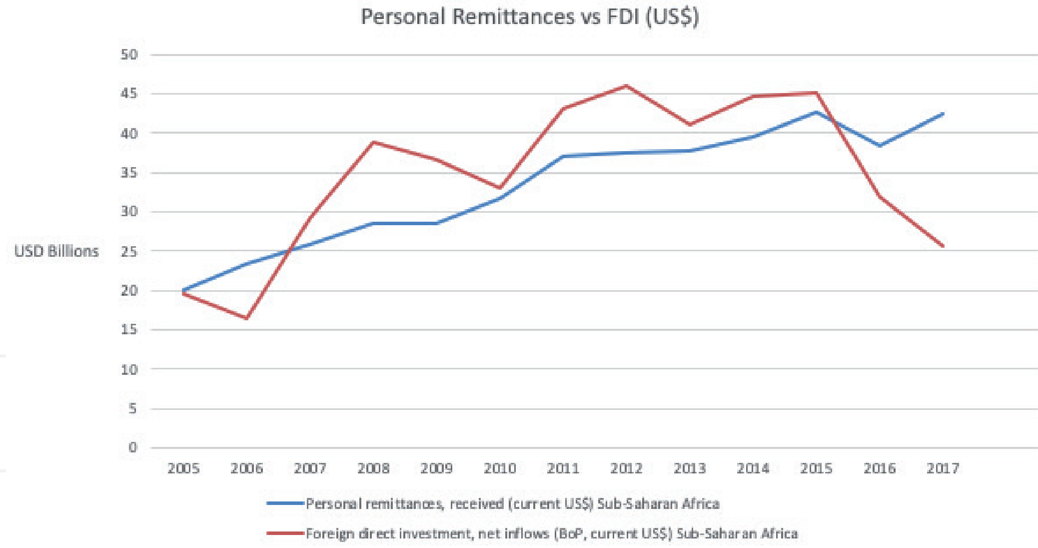

Figure 1.
Remittances vs. FDI. Source: World Bank [12].

The relationship between DDI and diaspora remittances is a complex one, in part due to the fact that DDI (like remittances) includes both formal and informal channels. There is significant evidence that remittances are counter-cyclical, inasmuch as remittance flows tend to increase in times of crisis or conflict, when non-diaspora investors may be looking to exit difficult markets. Certainly, remittances tend to be far less volatile than other inflows such as FDI as **Figure 1** demonstrates.

As the African Development Bank [13] notes, 'remittances, over the years, were observed to be more stable than other capital inflows. Moreover, both Newland and Patrick (2004) and Africa Development Bank (2012) underscore that household remittances, if significant and supported by appropriate policies and enabling conducive environment, can generate multiplier effects, which may provide the basis for more sustainable poverty reduction'. [14] It is not yet clear however if diaspora investments beyond remittances display the same tendencies, and there is a need for further research and data on this subject.

Informal DDI, like informal remittances, include investments to unincorporated businesses. In Africa, the informal sector forms a significant percentage of the economy, providing up to 65% of all jobs, and it is estimated that investments in the informal sector make up a significant component of diaspora investment activity, often investing in family MSMEs [15]. Moreover, a proportion of remittances are used for formal and informal investments, typically in the MSME and property sectors. According to the World Bank, 20% of all monies remitted are used for such investment purposes; IFAD [16] uses a higher figure, noting that up to 30% of remittances are used for investment purposes, typically in the informal sector [17]. Faal [4] also notes that DDI is 'a vital and significant source of capital in the sector of the self-employed, sole traders, partnerships, unregistered trade agents, occasional and accidental entrepreneurs. Similar to remittances, individual DDIs may be small, but the aggregate is likely to be very high'. [4].[3]

Another form of DDI that should be considered is in-kind DDI. While FDI may be used to procure key assets such as machinery or business equipment, DDI is more likely to include in-kind provision both of physical assets and also technical and management skills and experience. Indeed, as Ardovino and Debass argue,

[3] Ref. [4], p. 30.

DDI provides a package that can include both capital investment and technological development ('brain gain') [18]. In addition, DDI can operate as a business catalyst in countries of residence and/or transit, and helps facilitate bilateral trade and development links [18].

Diaspora members already make great use of collective remittances such as those generated by hometown and alumni associations, both for philanthropy, and also for small-scale impact investments in the African social economy; some of this activity therefore extends beyond the philanthropic into definitions of DDI. Moreover, the diaspora pool funds through diaspora investment clubs and business angel networks, which are used to make direct investments in diverse businesses, as well as investments in regulated financial products [19].[4] However, the data on the value of DDI from different sources are often lacking and there is scope for multilateral institutions monitoring DDI and FDI to improve measurement of this sort of activity.

4.3 Diaspora real estate as DDI

Acquisition and development of real estate is often the biggest investment that individuals in the diaspora make in their countries of origin or heritage. Diaspora investors may seek to acquire real estate for multiple reasons, ranging from retirement accommodation, use by extended family to rental of residential or commercial units, longer term leasing or outright sale. Furthermore, the diaspora can use such assets as leverage and guarantee for local bank loans to invest in other real estate ventures and in other businesses. However, access to credit for property and real estate can be limited, both in countries of residence and in particular in countries of origin and/or heritage, and there is a potential untapped market for greater provision of mortgages in several African countries [20].[5]

While there is a debate over the extent to which diaspora real estate can be considered DDI, centring on how such investments are productive, it is clear that much (if not most) of such activity can be classed as such. Indeed, the World Bank has previously undertaken household surveys to estimate the value of remittances spent on real estate that can inform methodologies for assessing levels of real estate DDI in Africa [17].

4.4 Diaspora portfolio investments (DPIs)

FDI is typically contrasted with Foreign Portfolio Investments (FPIs), defined as 'cross border transactions and positions involving debt or equity securities, other than those included in direct investment or reserve assets'. [21] Securities are negotiable and tradable financial instruments representing an ownership position in an asset, be it company stocks and shares, corporate or sovereign bonds or debenture, derivative contracts, or other forms of shareholding or debt.

In comparison to other parts of the world, FPI in Africa is small and relatively underdeveloped. In 2017, the value of global FPI assets was 60 tn $USD [19]. There are no directly comparable data for Africa, but the value of outstanding African

[4] See inter alia. African Diaspora Network's African Diaspora Symposium https://www.adis2019.com/; Diaspora Investment Club https://diasporainvestmentclub.com/investing-2/investing-in-africa/; Club Efficience https://club-efficience.com/en/efficience-africa-fund-en/; African Business Angel Network https://abanangels.org/the-aban-network/; AFFORD Business Club https://afford-uk.org/what-we-do/projects/abc-2/

[5] Ref. [4], p. 30.

Eurobonds in the same period was USD92 Billion [20]. This indicates that African FPI assets are a fraction of a percent of global assets.

Similarly, diaspora investors also invest in what may be termed 'Diaspora Portfolio Investment' (DPI). Terrazas defines DPI as: 'Investments made in the country of origin by a diasporan or groups of diasporans, including (1) the purchase of sovereign bonds issued by the country of origin government, (2) the purchase of equity in companies in the country of origin, (3) investments made in fixed-income or other securities that lend money to firms exclusively in the country of origin, (4) stock purchases in the country of origin, and (5) investments made in mutual funds comprised of firms in the country of origin' [22].

Unlike direct investment, ownership of securities does not generally lead to involvement in the management of the enterprise, venture, or asset. It is a form of passive investment, which is one of the reasons why the sector is regulated by public authorities to, among other things, protect investors. In this respect portfolio investment products may be more suitable and less risky for diaspora investors.

In the specific case of the African diaspora, DPI also includes portfolio investments made by multigenerational diaspora investors in their country of heritage (rather than just country of birth or parental origin), irrespective of their current nationality. African DPI thus includes investments by African Americans, Afro-Brazilians and other members of the historic Atlantic Diaspora who may not even be able to pinpoint their origins to a particular country in Africa. Diaspora bonds and Diaspora Mutual Funds are therefore important emergent DPI products targeting diaspora investment appetites.

Neither the World Bank, nor IMF or any other global or regional Multilateral Financial Institution measure and monitor Diaspora Portfolio Investment (DPI) in a structured, standardised, and regular manner. A better understanding of this could provide an opportunity for governments, private sector, and the diaspora to support SDG financing gaps by maximising the contributions and benefits of DPI for social investment purposes.

5. Examples of DDI and DPI programmes

5.1 DDI programmes

Several African countries have schemes backed by policy and legislation that offer DDI incentives and tax breaks comparable to those available for FDI. Some countries provide grants, co-finance, and loan guarantees to diaspora investors. For some countries like Gambia and Ghana, the incentive programme is managed by the national inward investment promotion agency and is a variant of the FDI programme [23].[6] Typically, such schemes tend to set a lower threshold of cash investment requirement for diaspora investors to access to incentives.

Some countries set up additional specialist diaspora co-finance and Diaspora Development Funds to stimulate DDI. For Morocco, the 'MDM Invest' programme enables Moroccans Living Abroad to access a grant of up to 5 Million Dirham (over $500,000 USD) or 10% of costs, for projects implemented in Morocco [24]. For Senegal, the 'FAISE' programme provides low-interest, 5-year loans of up to 15 Million CFA (over $25,000 USD), with repayment holidays, for diaspora projects

[6] See, inter alia, Gambia: http://giepa.gm/Investment%20and%20Export%20Incentives%20and%20Support%20to%20MSMEs; Ghana: https://www.gipcghana.com/invest-in-ghana/why-ghana/tax-regime-and-incentives.html.

[25]. Other countries have made it easy for the diaspora to access domestic investment incentives such as loan guarantee schemes.

In addition to state-led DDI incentives, there are a number of diaspora co-financing programmes operating from Europe and North America. These include: 'Diaspora Programme Support' social enterprise grants of $75,000 USD (Denmark); 'African Diaspora Marketplace' business plan competition prizes of USD70,000 (USA); 'AFFORD Business Centre (ABC)' social enterprise co-finance of $38,000 uSD; 'PRA/OSIM' enterprise and project co-finance of $34,000 USD (France); 'Entrepreneurship by Diaspora for Development' technical support (Netherlands); 'MeetAfrica' providing technical assistance for the establishment of diaspora enterprises in Africa (France and Germany) [26].[7] A structured DDI measurement methodology therefore needs to map and monitor output from the various diaspora incentive schemes across Africa.

5.2 DPI programmes: diaspora bonds and mutual funds

Diaspora bonds are perhaps the best-known example of DPI programmes. Israel bonds have been issued since 1951, raising approximately $40bn USD by 2015 to finance a range of infrastructure, security and strategic developments [27]. India issued the $1.6 bn USD Indian Development Bonds (IDB) in 1991 to address balance of payments crisis; the $4.2 bn USD Resurgent India Bonds (RIB) in 1998 in response to economic sanctions imposed after nuclear testing; and the $5.5bn USD India Millennium Deposits (IMD) in 2000 to capitalise on this new source of development finance [23].

African countries have successful experience of launching bonds, as examples across the continent demonstrate, but such bonds have typically been open to all investors, including foreign individuals and institutions. Despite the great potential of diaspora bonds in African markets, only four African countries have ever issued bonds packaged and targeted specifically for the African diaspora. Of the diaspora bonds issued by Ghana, Ethiopia, Kenya, and Nigeria, only the 2014 Bank of Kenya Infrastructure Bond and the 2017 Nigeria Diaspora Bond were fully subscribed [28, 29]. Nevertheless, there is an increasing appetite to develop investment products that can tap into diaspora investments and savings. AFFORD is currently developing a pilot commercial bond in partnership with the e Rwandan Ministry of Finance and Economic Planning that is aimed at financing affordable housing for key workers in Kigali.

Diaspora mutual funds are a distinct form of DPI where investors are exclusively diaspora and friends of the diaspora. These are structured to meet the interests and needs of the diaspora and marketing activities are targeted at existing and new diaspora investors. Continental banks such as Ecobank and national and regional banks like KCB offer mutual fund products to their clients who hold distinctive diaspora bank accounts [30]. As with diaspora bonds, however, there are limited bespoke Diaspora mutual funds available in the African financial marketplace. The literature makes reference to schemes such as the Liberian Diaspora Social Investment Fund, Zambia First Investment Fund, and Rwanda Diaspora mutual fund (RDMF), but these have yet to take off at scale [26].

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[7] See, inter alia: Denmark: https://drc.ngo/media/1893463/new-infographics_4-parts-in-one-file.pdf; USA: http://diaspora.globalinnovationexchange.org/organizations/african-diaspora-marketplace; United Kingdom: http://www.afford-diasporafinance.org/; France: https://www.forim.net/contenu/praosim-0; Netherlands: https://www.connectingdiaspora.org/ed4d/call-for-business-ideas/; France & Germany: https://www.campusfrance.org/en/MEETAfrica-creation-entreprises

6. Harnessing diaspora investment trends

The range of sectors and trends of African diaspora investors are broad, even if a lot of their investment activity is channelled through the informal and MSME sectors through family networks. Nevertheless the impact of this activity extends beyond this to fund expansion of diaspora-based businesses and greenfield ventures; technology, professional and skill-based consultancies and enterprise, and real estate, heritage, tourism, and export sector businesses [4]. Diaspora investments tend to fund services and light industry, rather than manufacturing and heavy industry, and can include in-kind input such as technical skills and plant, machinery, and equipment. Collective remittances are used for diverse ventures and projects, and are channelled to cooperatives, and social and community enterprises.

A range of barriers to diaspora investment have been identified by surveys such as those conducted by UNCTAD [11] and Commonwealth Foundation [31]. These include: a lack of knowledge of the country of investment (particularly among 2nd and 3rd generation migrants); fears of corruption, perceived political instability; fears of bureaucracy; a lack of partners in the country of origin.

Due to such factors, diaspora investment patterns often appear to be conservative (albeit far from risk averse) and mostly channelled via DDI to the informal and MSME sectors through extended family and social networks, rather than towards structured DPI products. However, remittances are an inefficient way of investing capital—the transfer costs to sub-Saharan Africa alone are on average 8.9–9.4% and the return on investment can be low.

The challenge for financial institutions, policymakers, and the private sector alike is to develop DPI products (and suitable policy and business environments) that are sufficiently attractive to encourage diaspora investors to shift away from remittances. This represents a large potential market for suitable DPI products, with a suitable range of entry points and risk profiles for different diaspora investor profiles. Trust in the institutions issuing such products is key to this, as is understanding the size, location, environment, and investor appetites of the diaspora communities concerned [32].

7. Conclusion

In this we chapter we have shown how the diaspora continues to act as an important stakeholder in economic growth and development in countries of origin and/or transit, both through remittances but also investment in family businesses and property. Moreover, such financial contributions are mostly channelled to the informal and MSME sectors, which in Africa are the motor of economic growth and, critically, job creation.

The scale and extent of diaspora investments in countries of origin and/or heritage is vast, far outstripping bilateral ODA and indeed FDI in many African countries. Diaspora communities therefore represent increasingly important economic (as well as political) constituencies for governments in countries of origin. As noted above, diaspora investments can help countries overcome the development financing gap and raise additional investment finance to meet growing infrastructure, energy, and other needs in national development planning

Governments and the private sector have traditionally viewed the diaspora as both ongoing providers of financial capital at the micro level, and, as consumers. While recognition of the diaspora's role in 'doing development' has grown, and the diaspora are increasingly seen as important development stakeholders, they are still not viewed as significant social investors by governments, the private sector, or indeed the diaspora themselves. This represents a missed opportunity for harnessing and seeking to scale up diaspora investments for socio-economic growth.

This chapter argues that governments, financial institutions, the private sector, and the diaspora should view diaspora investments as part of the development financing mix, especially as part of 'blended finance' packages.

There are a number of ways in which this might be achieved. Firstly, financial institutions and the private sector could continue to develop and market innovative financial products, especially via the use of online platforms, business incubators and accelerators, targeting the diaspora as social investors; examples include diaspora bonds.

Secondly, they could also facilitate the establishing of bank accounts, foreign currency deposit accounts, fixed-term super FX accounts, or allow diaspora the option of holding funds in either foreign currency or domestic currency with greater benefits for domestic currency.

Governments and multilateral financial institutions can develop programmes to encourage diaspora investments, in particular as part of blended finance packages, but also including the use of online platforms, business incubators and accelerators, targeting the diaspora as social investors. For such programmes to be effective, they should also include elements of match funding for diaspora investors who are exploring DDI as part of their businesses.

Remittance transfer costs to Africa remain high, and there is global consensus (as evinced by SDG target 10.c to reduce transfer fees to 3% or less) that governments, multilateral financial institutions, and the private sector should intensify efforts to reduce remittance transfer costs, to meet this SDG target. This action would return millions to senders and recipients, which can be targeted to investment purposes.

There is also a need for governments and multilateral financial institutions to develop methodologies for better monitoring of DDI and DPI flows, including publication of a DDI index. AFFORD is currently developing a more granular methodology of the 2nd edition of an African DDI Index to track diaspora investment trends in the continent and this series will be developed and extended over 2020.

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Conflict of interest

The authors declare no conflict of interest.

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