Strategic, Business and Operational Framework for an African Diaspora Finance Corporation:

African Union Legacy Project on Diaspora Investment, Innovative Finance and Social Enterprise in Africa

(ABRIDGED VERSION)

(For references and citations, please refer to the full report)

African Union

Strategic, Business and Operational Framework for an African Diaspora Finance Corporation:

African Union Legacy Project on Diaspora Investment, Innovative Finance and Social Enterprise in Africa

Report by Professor Gibril Faal

On behalf of the African Union Commission (AUC) and the German Agency for International Development (GIZ)

GK Partners (May 2019), London & Addis Ababa

Strategic, Business and Operational Framework for an African Diaspora Finance Corporation:

African Union Legacy Project on Diaspora Investment, Innovative Finance and Social Enterprise in Africa

(ABRIDGED VERSION)

Table of Contents

Table of Figures

Introduction and Key Recommendations

In 2012 at the Global African Diaspora Summit (GADS) in South Africa, the African Union Heads of State and Government agreed to the creation of a diaspora investment fund, as a legacy project. In September 2018, the African Union Commission (AUC) and the German Agency for International Development (GIZ) commissioned GK Partners (GKP) *'to establish the design and implementation framework for the African Diaspora Investment Fund in accordance with the Action Plan of the Global African Diaspora Summit'*. This 'Strategic, Business and Operational Framework for an African Diaspora Finance Corporation' is the result of the consultancy assignment. The document is produced to facilitate methodical implementation of ADFC as an AU legacy project. It is presented to serve as a reference document of relevant facts and figures, and as a manual for practical programme implementation.

Research and Consultation Methodology

The research methodology involved extensive review and analysis of corporate, financial, legal, institutional and academic literature. Case study analysis covered 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 over 60 practitioners, policymakers and potential diaspora investors.

The people consulted included Commissioners, directors and officials of the African Union, directors of Afreximbank, and officials from the African Development Bank, UN Economic Commission for Africa,
World Bank and the International Monetary Fund (IMF). Participation in forums such as the Global Forum on Migration and Development (GFMD) in Marrakech and the Intra-Africa Trade Fair (IATF) in Cairo in December 2018 enabled consultations with

development and investment policymakers and practitioners from government, multilateral, diaspora, media, Money Transfer and other organisations.

Observations and Findings

The great potential of using diaspora investments to finance development in Africa has been argued by diverse studies and advocated by the World Bank, IMF, African Development Bank, diaspora organisations and a wide range of other reputable institutions. However, there are hardly any structured diaspora mutual funds, and 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 2017 Nigeria Diaspora Bond was fully subscribed. There is a big gap between the potentiality, declared enthusiasm and general rhetoric about diaspora finance, and the actual reality in the marketplace.

This finding necessitated greater contextual inquiry and analysis. During the review and consultations, it was noticeable that many of those with deep knowledge of the complexities of financial investments often lacked understanding of the multifaceted nature of African diasporas and their engagement in development. On the other hand, the experts, activists and even entrepreneurs working on diasporadevelopment did not seem to have a thorough understanding of investment concepts and practices. For an African diaspora investment venture to succeed, that knowledge gap needs to be addressed. This is why the first three chapters of this document are devoted to contextual facts, figures and analytical observations about African diaspora-development, and the status of the different types of structured investments in Africa.

The research and analysis also indicates that, based on conservative estimates, the volume of annual African migrant savings is USD33.7 Billion (i.e. USD1,980 average savings x 17 million African migrants living outside the continent). This does not include the millions of multigenerational African diasporans. If 1% of annual African migrant savings of USD33.7 Billion is invested in Africa, this will mean inflow of USD337m. Furthermore, if investments of USD1,000 is attracted from 1% of the 40 million Atlantic African diaspora in North America, annual inflows will be another USD400m. Amongst other things, these facts demonstrate the viability of a structured and regulated African diaspora investment business.

Case study analysis of the innovative finance mechanism called ‘UnitAid’ indicated that in the 10 years 2006 to 2016, it raised USD2.67 Billion from USD1 Solidarity Levy on airline tickets, and received additional project grants of USD100m. Inflows from the participating countries were: France (USD1.6 Billion); United Kingdom (USD607m); Norway (USD183m); Brazil (USD90.3m); Spain (USD81.6m); Republic of South Korea (USD51m); Chile (USD33.5m); Others (USD20.8m). Incorporating innovative finance in an African diaspora investment venture will reinforce its feasibility and sustainability.

The ADFC business model is based on: attracting USD200m investment in its first Diaspora Mutual
Fund and Diaspora Bond from African migrants, multigenerational diasporans, and impact and ethical ‘friends of Africa’ investors; raising USD50m in the first year through the innovative finance mechanism of Remittance Match Funding (RMF) from 2-3

participating OECD countries; reinvesting in ADFC social enterprise development; building ADFC organisational reserves; disbursing surpluses to a grant-making and development co-financing RemitAid™ Development Trust (RDT). Given that there are no commercial shareholders, there will be minimal or no distribution of profits/surpluses.

Key Recommendations and Action Points on Business Implementation

To translate the African Union commitment for a legacy project on diaspora investment into practical reality, 10 key recommendations and action points are summarised as follows:

I. Investment Strategy: The African Union support and facilitate the implementation of a diaspora investment and innovative finance strategy based on the creation, marketing, issuance and management of regulated Diaspora Bonds, Mutual Funds and Endowment Trust Funds, through a continental African Diaspora Finance Corporation (ADFC).

II. Vision and Mission: The vision of ADFC is to realise*: 'Innovative and optimal usage of African diaspora resources for inclusive development in Africa and within the diaspora'*. The mission of ADFC is to: *'Mobilise direct and indirect diaspora funds for structured investment in socially responsible and impactful ventures and schemes'*.

III. Core Products: The three core start-up financial products and services of ADFC are: Issuance and Management of Diaspora Bonds; Management of Diaspora Mutual Funds; Management of Diaspora Endowment Trust Fund *(the Endowment Fund to be created through the innovative finance mechanism of Remittance Match Funding)*.

IV. Production System: To design, structure, package, market and manage the three start-up core products and services, ADFC shall set up and activate a production and operational process that involve the main stages of: Product Design and Packaging; Prospectus and Marketing Plan; Collection of Investment Funds; Management of Investment Portfolio; Management of Return on Investment; and Management of Grant-Making Fund.

V. Organisational Structure: The elements of the ADFC structure are: ADFC Partners; Board of
Directors (Board); International Advisory Council (IAC); Office of the Director General (OD); Investment Management Directorate (IMD); and Departmental Directors, Staff and Consultants.
The main departments of IMD are: Product Design, Marketing and Compliance (PDMC); Investment Management, Transactions and Operations (IMTO); Asset and Value Management and Income Generation (AVMIG); and Administration, Finance and Organisational Development (AFOD).

VI. Institutional Partnership: ADFC shall seek technical, mentorship, start-up, collaboration and development support from relevant African and global

development institutions, with view to enhance feasibility, complementarity, synergy and sustainability.

VII. Treaty-Based Legal Structure: ADFC shall be structured as a multilateral financial institution through a treaty signed by ten (10) sovereign African countries, and ratified by six (6) of those treaty signatories. In addition to the ADFC Treaty, there shall be an ADFC Charter which incorporates best practices of development-oriented financial institutions and social enterprises, and Headquarters Agreement, which confers diplomatic immunities and privileges upon ADFC.

VIII. AUC Membership of ADFC Board: The African Union Commission (AUC) shall be allocated an ex-officio seat on the Board of Directors of ADFC, to maintain strong formal linkages, entrench the importance of ADFC as a continental institution, and reflect the fact that ADFC is an AU legacy project.

IX. ADFC Partners: The ADFC Partners are the foundational members of ADFC, and the Annual General Meeting of the ADFC Partners shall be the highest decision-making organ. It shall elect the Board of Directors and delegate authority to it. The ADFC Partners comprise: ADFC Treaty Signatory African countries (possibly represented by Ministers of Finance); Non-African countries participating in Remittance Match Funding (possibly represented by Directors General); African diaspora-development organisations with significant projects in Africa (possibly represented by Executive Directors); Money Transfer Operators participating in Remittance Match Funding (possibly represented by Chief Executives); African Union Commission (possibly represented by Commissioner for Economic Affairs); African Development Bank (possibly represented by Executive Director).

X. Start-Up Actions: Organisational and operational start-up shall be in two stages. The actions linked to Stage 1 (2019-2021) include: briefings and facilitation of AU Executive Council Decision; appointment of programme implementation leader; organising of ADFC introductory events; initiation of institutional partnerships; setting up of interim ADFC Office; initiation of institutional fundraising. Actions linked to Stage 2 (2021-2022) include: Treaty signature and formal ADFC launch: recruitment of specialist and support staff; setting up of official headquarters; initiation of targeted stakeholder engagement; finalisation of business action documentations; launch of first set of ADFC products.

On behalf of GK Partners, we express our sincere thanks to all the people who provided information, thoughts and feedback as part of the consultations. Special thanks to the teams at the AU Citizens and Diaspora Directorate (CIDO) and GIZ for their feedback and support throughout the consultancy. We look forward to further cooperation and the actualisation of the African Diaspora Finance Corporation.

Prof. Gibril Faal FRSA, OBE, JP
GK Partners, London, May 2019

1. Context of Diaspora Investment in Africa

Article 3(q) of the Protocol on Amendments to the Constitutive Act of the African Union (February 2003): ***"invite and encourage the full participation of the African Diaspora as an important part of our continent, in the building of the African Union"***. This amendment was adopted in line with discussions of the diaspora as the 'Sixth Region of African'.

At the Seventh Session of the Executive Council in Sirte, Libya (28 June to 2 July 2005), the African Union adopted the formal definition of the African diaspora, stating that: ***"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"***.

Understanding of the different categories of African diaspora remains relevant for practical reasons. It enables policymakers and practitioners to devise and implement appropriate policies, strategies and programmes for effective and optimal diaspora engagement, investment and development, as anticipated in the AU definition of African diaspora.

Type of African Diaspora	Type of Diaspora Memory	Period of Migratory Wave	Main Location Around the World
Primordial Diaspora	Genetic Memory	Circa 100,000 BCE	All of humankind across the world
Prehistoric Diaspora	Anthropological Memory	Circa 50,000 BCE	Australasia, Melanesia, Andaman Islands, etc.
Oriental Diaspora	Historical Memory	8th to 18th Century	Arabia, Levant, Indian Subcontinent, Far East
Atlantic Diaspora	Ancestral Memory	16th to 19th Century	Brazil, North America, Caribbean, Latin America
Post-War Diaspora	Parental & Natal Memory	1945 to 1990	Former European colonial countries, North America
Post-Cold War Diaspora	Natal & Parental Memory	1990 to Present	Western Europe, North America
Cosmopolitan Diaspora	National Memory	1970s to Present	African professional and expatriate families in major cities across the world

New Classification of the African Diaspora (Faal, 2006)

Economic Crises and African Migration

The economies of post-colonial Africa faced their first major transnational challenge with the oil crisis of 1973-74, triggered by the OPEC oil price hikes. The impact undermined the optimism of independence and the aspiration of Africa emerging as an industrialised and developed continent. It led to significant internal rural-urban drifts,

and migration to neighbouring countries, which further weakened rural and agricultural economies, and intensified pressures on urban infrastructure and services. Remittances to rural areas and from neighbouring countries emerged as routine transactions, to finance basic family needs and general consumption. Post Office Money Orders were the main formal method used, and informal remittances were mainly through inter-town drivers and couriers. After the oil crisis of the 1970s, a number of other pull and push factors increased emigration from Africa. By the time of the 1979-80 oil crisis caused by lower output and higher prices arising from the Iranian revolution and the Iran-Iraq war, many African countries faced worsened economic conditions. To a great extent, the situation was exacerbated by the Structural Adjustment Programmes (SAP) imposed by the World Bank and the International Monetary Fund (IMF). Irrespective of the merits and demerits of SAP, the negative impacts included higher levels of unemployment and increased migration and brain-drain.

The Post-Cold War Diaspora and Diaspora Finance

Economic factors contributed to the change in the profile of the contemporary African diaspora resident outside the continent. African students, highly skilled professionals, diplomats and international civil servants were joined in the diaspora by large numbers of low and semi-skilled, young and irregular migrants, making up the current Post-Cold War and Cosmopolitan diaspora. The economic conditions of the 1990s contributed to the intensification of the new patterns of migration from Africa that emerged in the early 1980s. Furthermore, the 1990s saw two major developments relevant to the understanding of diaspora investments in Africa: firstly, the emergence of the 'Post-Cold War African Diaspora', and secondly, the conceptualisation of diaspora-development.

The Post-Cold War African Diaspora comprises people born in Africa or those with one or both parents born in Africa. They have strong natal or parental memory and practical links with Africa. Unlike African migrants of the 1960s and 1970s, these Post-Cold War migrants do not necessarily see themselves as people who are likely to 'return home' imminently; they have developed a sense of trans-nationality. Together with their family and children resident abroad, they perceive themselves as a diaspora, with dual or multiple obligations, challenges and opportunities pertaining to the country of residence, as well as the African country of origin and heritage. Financial remittances became a major form of engagement with family, community and country in Africa. Remittances reinforce the conception and perception of diaspora identity. This new diaspora category is a core stakeholder in any continental diaspora investment and finance programme or scheme. They already have an active financial relationship with Africa through remittances. They are aware of their role in African development, and alert to advances in policies and practices aimed at optimising diaspora finances and enhancing diaspora-development impact.

Creation of a Diaspora Investment Institution in Africa

On 25 May 2012 in Johannesburg, South Africa, the Declaration of the Global African Diaspora Summit (GADS) agreed by Heads of State and Government of the African Union stated that:

> ***"We further agree to adopt five legacy projects as a way of giving practical meaning to the Diaspora programme and in order to facilitate the post-Summit implementation programme.....Encourage the civil society in the Diaspora and in Africa to support, advocate and mobilize resources for the development of Africa and its Diaspora.....Use financial instruments focusing on investments to facilitate the mobilization of capital that would strengthen links between Africa and the Diaspora..... Explore the possibility of creating a Development Fund and/or African Diaspora Investment Fund to address development challenges confronting Africans in the continent and the Diaspora"***.

One of the five GADS legacy projects is the creation of an 'African Diaspora Investment Fund'. In
September 2018, the German Agency for International Development (GIZ) and the African Union Commission (AUC) commissioned GK Partners (GKP) 'to establish the design and implementation framework for the African Diaspora Investment Fund in accordance with the Action Plan of the Global African Diaspora Summit'. The consultancy resulted in the production of this report on 'Strategic, Business and Operational Framework for an African Diaspora Finance Corporation: African Union Legacy Project on Diaspora Investment, Innovative Finance and Social Enterprise in Africa'.

2. Structured Diaspora Investment in Africa

Diaspora investment is classified into four main types, namely: Development Investment: Diaspora Philanthropy (DP); Socio-Economic Investment: Diaspora Remittances (DR); Economic and Business Investment: Diaspora Direct Investment (DDI); and Regulated Financial Investment: Diaspora Portfolio Investment (DPI).

Diaspora Philanthropy as Development Investment

Diaspora philanthropy is an important form of financial contribution to development; however, it does not fit the strict definition of financial investment in that profit or financial return is neither expected nor received by the migrant contributors. It is a form of development investment in that recipients gain short and long term socio-economic benefit and advancement. The main forms of diaspora philanthropy are:

- **Direct Donations** to local civil society, religious, social and community appeals and schemes

- **Collective Remittances** channelled through Home Town, Community and Alumni Associations
  (HCA) and diaspora networks, charities, trusts, foundations and humanitarian organisations

- **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.

Diaspora Remittances as Socio-Economic Investment

Remittance inflow to Africa is the single most important evidence of diaspora investment in Africa. In addition to formal channels, migrants and the diaspora still use unregistered and informal channels to send money to Africa, and they also send remittances in kind. The non-formal remittance methods include the following:

- **Unregistered money transfer businesses** and agencies

- **Cash carried by couriers**, self, friends and family travelling to country of origin or heritage

- **In-kind remittances** through freight and transfer of consumer goods, business equipment and physical assets

- **'Hawala' and 'Hundi' System**; Sender makes cash payment to broker in the diaspora; broker instructs other broker to pay cash to remittance beneficiary in the recipient country

- **'Pay and Provide' System**; Sender pays for goods and services in the diaspora for a contact or entrepreneur; the contact or entrepreneur pays cash to the remittance beneficiary in the recipient country

- **Provide and Pay' System**; Contact or entrepreneur provides goods and services delivered as inkind remittances in recipient country; the sender makes cash payment to contact or entrepreneur in the diaspora.

According to the World Bank, **in 2018, formal remittances to Africa totalled USD86 Billion**. Of this, 70% was received by Egypt, Nigeria and Morocco. For five countries, formal remittances alone account for over 10% of GDP, namely: Comoros (19.1%); The Gambia (15.3%); Lesotho (14.7%); Cape Verde (12.3%); and Liberia (12.0%). Remittance transaction cost for Africa is 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 originating from South Africa, as high as 18%. 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"***.

Formal remittances, which keep growing, are higher than Official Development Assistance (ODA), Foreign Direct Investment (FDI) or Foreign Portfolio Investment (FPI) to Africa. World Bank and other experts claim that unrecorded informal remittances are as high, if not higher than formal transfers. **Taking into account funds sent through formal and informal channels, and in-kind remittances, it is**

estimated that annual total remittances to Africa can be as high as USD200 Billion.

Diaspora Direct Investment as Economic and Business Investment

Diaspora Direct Investment (DDI) relates to direct investments whereby the investor has origins or heritage in the foreign country of investment, irrespective of their nationality. The notion of heritagebased African DDI is practically useful because millions of African diasporans are unable to definitely pinpoint their origins to a particular country in Africa. As such, their investment in any African country qualifies as DDI. This approach is reinforced by the fact that the African Union recognises the global African diaspora as the sixth region of Africa.

Similar to FDI, DDI is external development finance invested in businesses in the receiving country. However, DDI in general has distinguishing features including the following:

- Investors are **individuals and business entities** of diaspora origin or heritage
- Business entities may be **diaspora-owned or led** by diaspora directors and managers
- Investments tend to **fund expansion** of diaspora-based businesses and **Greenfield ventures**
- Investments tend to **fund technology**, professional and **skill-based consultancies** and enterprises
- Investments tend to fund **real estate, heritage, tourism and export sector** businesses
- Investments tend to fund **services and light industry**, rather than manufacturing or heavy industry
- Investments **include collective remittances** used for diverse ventures and projects
- Investments are channelled to **self-employed friends and family, and small businesses**
- Investments are channelled to **sole traders, partnerships** and incorporated businesses
- Investments are channelled to cooperatives, and **social and community enterprises**

- Investments **include in-kind input** such as technical skills and plant, machinery and equipment.

Annual measures of global financial and investment flows undertaken by World Bank, IMF and others cover FDI but not DDI. In the circumstances of non-availability of structured annual data on DDI inflow to Africa, it is recommended that in the future, global investment data should assess a number of factors, including: Informal DDI; In-Kind DDI; DDI through Investment Clubs and Networks; DDI through Angel and Personal Financing; and Real Estate DDI.

Several African countries have schemes, backed by policy and legislation, that provide DDI incentives and tax breaks comparable to those available for FDI. For 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. Countries like Morocco and Senegal provide grants, co-finance and loan guarantees to diaspora investors.

In addition to state-led DDI incentives, there are a number of occasional and programmatic diaspora cofinancing schemes operating from Europe and North America. These include:

- **Diaspora Programme Support (DiPS)** social enterprise grants of up USD75,000 (Denmark)

- **African Diaspora Marketplace (ADM)** business plan competition prizes of up to USD70,000 (USA)

- **AFFORD Diaspora Finance** social enterprise co-finance of USD38,000 (United Kingdom)

- **PRA/OSIM** enterprise and project co-finance of up to about USD34,000 (France)

- **Entrepreneurship by Diaspora for Development (ED4D)** technical support (Netherlands).

3. Portfolio Investment in Africa

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. As such, to assess the status and viability of DPI in Africa (in the form Diaspora Bonds and Mutual Funds), a number of direct and indirect indicators and factors need to be analysed, including the state of stock exchanges and bond markets in Africa, and African participation in international capital markets. DPI has distinctive features, but it is a subset of FPI, and belongs squarely within the capital market constraints of FPI.

Capital Markets in Africa

Of the 55 Member States of the African Union, about 30 of them have Stock Exchanges, with BRVM serving 8 countries (7 West African Francophone countries, plus Guinea Bissau). Despite 55% of African countries being served by a Stock Exchange (SE), only a few countries have active and high value capital markets.

In 2018, the African SEs raised USD8.3 Billion in equity, through 17 Initial Public Offerings (IPOs), raising USD2.2 Billion, and 77 Further Offerings (FOs), which raised a further USD6.1 Billion. **In the five years 2014-18, a total of USD55.4 Billion equity was raised**, being USD10.7 Billion through 130 IPOs, and USD44.7 Billion through 413 FOs. This indicates that the SEs have capacity to raise over USD10 Billion a year in equity trading. **The AfDB/AFMI/Bloomberg African Bond Index market capitalisation was USD180 Billion as at January 2018**.

The value of **total outstanding African Bonds and Bills in 2017 was USD413 Billion**, but 80% of the total relates to issuances by only 5 countries, namely: South Africa, Egypt, Morocco, Nigeria and Kenya. Only 8 country markets have capitalisation of USD10 Billion and above, 19 are capitalised below USD1
Billion. The debt bonds issued in the African Bond market tend to mature on a short term basis. **In 2017, USD245 Billion Bonds and Bills were issued in Africa**. Of this: USD196 billion (80%) matured in less than 1 year; USD19 Billion (8%) matured in 1 to 5 years; USD12 Billion (5%) matured in 5 to 10 years; and USD18 Billion (7%) matured in 10+ years. This indicates that **conventional and traditional Treasury Bills, which tend to have short maturity times, still dominate the African Bond market**.

Review and analysis of Sovereign Bonds in the past 15 years has shown that it has become a standard investment instrument used repeatedly by a handful of African governments. For example, in October 2007, Ghana became the first Highly Indebted Poor Country (HIPC) to issue an International Bond. It was for USD750m, for 10 years. Ghana has since become a prolific issuer, with Eurobond issuances in 2013, 2014, 2015, 2016 and 2018. In 2018, four African countries issued 11 Eurobonds, raising a total of USD25.8 Billion.

FPI inflows to Africa are raised through African or international capital markets. In comparison to other parts of the world, FPI in Africa is at a rudimentary stage. **In the 5 years 2013-2017, the total global FPI flow was USD3.9 Trillion, yet inflows to the whole of Africa during that time was USD71.7 Billion, being 1.8% of global FPI flows**. FPI flows are concentrated in a small number of countries in Africa, South Africa being the biggest recipient, followed by others such as Nigeria, Angola and Egypt.

Diaspora Portfolio Investment and Diaspora Bonds in Africa

Given the rudimentary stage at which FPI is in Africa, it is not surprising that DPI exist at minimal trace levels. Unlike FDI which can occur at informal levels, FPI is heavily regulated, such that informality is almost impossible by definition. Diaspora resources may indeed be going to FPI, but there are no general records tracking diaspora contributions to FPI funds.

It has not been possible to find any credible case study of a regulated diaspora mutual fund or similar products, run and subscribed by the diaspora, investing in debt and equity portfolio investment products in Africa. There is evidence that a range of different groups, organisations and institutions are discussing, designing or developing DPI products, but there are hardly any products trading in the regulated African and international capital markets.

In practice, DPI to Africa occurs at a relatively low level, through: remittance savings deposited in portfolio products; diaspora investment clubs investing in Treasury Bills; and specialist Diaspora Investment Accounts run by African banks.

The great potential of using diaspora bonds to finance development in Africa has been argued by diverse studies and advocated by the World Bank, IMF, African Development Bank, diaspora organisations and a wide range of other reputable institutions. However, 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 2017 Nigeria Diaspora Bond was fully subscribed**. There is a big gap between the potentiality, declared enthusiasm and general rhetoric about diaspora bonds, and the actual reality in the marketplace.

Four African Diaspora Bonds

Ghana Jubilee Bond:	In 2007, the Government of Ghana issued a Golden Jubilee Savings Bond. The local currency Bond was for GHC50m (Ghana Cedis), with interest rate of 15%. It was available to Ghanaian citizens only, although the marketing particularly targeted the non-resident Ghanaian diaspora. The nationality restriction excluded Ghanaian diaspora who were not Ghanaian citizens. Of the target of GHC50m, the Bond subscription was only GHC20m (40%). Of the GHC20m raised, GHC18.73m (94%) was raised from local sales and GHC1.10m (6%) was from the Ghanaian diaspora in UK, Canada and USA.

Ethiopia Diaspora Bond:	In 2008, the state-owned Ethiopia Electric Power company (EEPCO) issued the Millennium Corporate Bond, to finance the Millennium Dam. The dollar denominated Bond was for USD4.8 Billion, with interest rate of 4% to 5%, minimum subscription of USD500, and maturing in 5 years. It was available to Ethiopians only, although the marketing particularly targeted the Ethiopian diaspora. In 2011, the Government of Ethiopia renamed the project as the Great Ethiopian Renaissance Dam (GERD), and the Renaissance Dam Bond was issued as replacement of the 2008 Bond. It was available to Ethiopians and non-Ethiopians alike. The maturity period was 5 to 10 years, with minimum subscription set at USD50. The Bond was denominated in Dollars, Euros, Pound Sterling and Ethiopian Birr, with a floating interest rate. Interest rates were based on maturity date and LIBOR: 5 year maturity earned LIBOR+1.25%; 6-7 year maturity earned LIBOR+1.50%; and 8-10 year maturity earned LIBOR+2%. On 8 June 2016, the US Securities and Exchange Commission (SEC) announced that Ethiopia had agreed to pay about USD6.5m as settlement for breaching SEC rules. USD5.8m was raised from 3,100 US-based subscribers between 2011 and 2014.
Kenya Infrastructure Bond:	In 2011, Central Bank of Kenya issued a local currency 12-year Infrastructure Bond of KES20 Billion (Kenyan Schillings, about USD200m), at 12% interest, with minimum subscription of about KES100,000 (USD1,000). Unlike previous Infrastructure Bonds, this one was restricted to Kenyan nationals only, with a specific diaspora component. Individual subscriptions were also limited to KES20m. Bond subscription was KES14 Billion, being 70% of the target.
Nigeria Diaspora Bond:	In 2017, the Federal Republic of Nigeria became the first African country to issue a Diaspora Bond, structured as an International Bond (Global Bond); jointly listed in the capital markets in the UK and USA, regulated by the Financial Conduct Authority (FCA) and the Securities and Exchange Commission (SEC); and packaged as a retail instrument and marketed through wealth managers and private banks. The Bond was denominated in US Dollars, for USD300m. The minimum subscription was USD2,000, after which it was traded in multiples of USD1,000. The Diaspora Bond was offered at a fixed interest rate of 5.625%, maturing after 5 years. Initial Bond orders were at 190%, and at the close of the auction, the subscription to the first Nigerian Diaspora Bond was 130%, making it a success.

4. ADFC Investment Strategy

In seeking to transform the African Union Global African Diaspora Summit (GADS) Declaration for a legacy project on diaspora investment into practical reality; and based on consultations, reviews, assessments and analysis of the context, evolution, current

status, trends, challenges and opportunities in African diaspora finance, it is recommended that:

> ***'The African Union support and facilitate the implementation of a diaspora investment and innovative finance strategy based on the creation, marketing, issuance and management of regulated Diaspora Bonds, Mutual Funds and Endowment Trust Funds, through a continental African Diaspora Finance Corporation (ADFC)'***.

The key elements of the investment strategy are summarised as: **filling a gap** in diaspora finance; **Regulatory and institutional capacity** and development; linkages to **continental initiatives**; adopting a **social enterprise** business model; activating **Remittance Match Funding (RMF)** as an Innovative Finance mechanism. ADFC surpluses (after fees and legitimate expenses) shall be disbursed to a grant-making and development co-financing entity, namely RemitAid™ Development Trust (RDT).

For the purpose of business simplicity, operational feasibility, and commercial viability, it is recommended that an AU-backed ADFC should focus on the delivery of a core diaspora investment programme comprising a small number of product classes, namely Bonds, Mutual and Endowment/Trust Funds. **The DPI products go beyond remittances, and target diaspora savings and Innovative Finance contributions**. The key elements of the investment strategy help define the framework for business implementation and operations, covering the essential topics of products, services, operational systems, processes, structures, governance, compliance and management.

The proposed ADFC is not an opportunistic corporate venture; it is **a continental social enterprise which will use business and market mechanisms to pursue public benefit and African development**. As such, it lends itself to practical Diaspora Public Private Partnership (DPPP), Blended Finance and cross-sectoral collaboration with diverse strategic, institutional and operational partners. Together with policy advocacy partners, ADFC can be a 'development activist' investor and market marker, working to reduce market failure and sectoral dysfunction. **ADFC shall work with a wide range of relevant African institutions, international development partners, multigenerational Diaspora, and Friends of Africa**.

Since the 2012 adoption of the AU GADS Declaration, **a number of global multilateral policy frameworks have come into force, all reinforcing, amongst other things, the importance of migrant and diaspora resources and investment in development**. These include the: Global Compact on Safe Orderly and Regular Migration (GCM); Africa-Europe Joint Valletta Action Plan
(JVAP); Agenda 2030 on Sustainable Development Goals (SDGs); Addis Ababa Action Agenda on
Financing for Development (AAAA); AU Agenda 2063; the International Decade for People of African Descent. Furthermore, the fourth UN Financing for Development Forum (April 2019) reinforces the urgent need for innovative and diaspora investment.

The African Union has formal strategic partnership and cooperation agreements with different parts of the world. **The partnerships are relevant to ADFC's mobilisation of innovative finance through the Diaspora Endowment Fund, which requires**

participating countries to provide Remittance Match Funding (RMF). The AU partnerships cover all the OECD countries, and countries with high numbers of African migrants and diasporans.

5. ADFC Purpose, Products and Services

The vision of the African Diaspora Finance Corporation (ADFC) is to realise:

> ***'Innovative and optimal usage of African diaspora resources for inclusive development in Africa and within the diaspora'***.

The mission of the African Diaspora Finance Corporation (ADFC) is to:

> ***'Mobilise direct and indirect diaspora funds for structured investment in socially responsible and impactful ventures and schemes'***.

ADFC shall design, structure, market, manage and deliver core services, rooted in the overwhelming and credible evidence and analyses of how global diasporas expand and enhance their contributions to the development of countries of origin and heritage. The three start-up products are:

- **Diaspora Bonds:** To ensure global compliance, client confidence and structural risk mitigation, the Diaspora Bonds shall be dollar-denominated, 5-7 year Global Bonds, registered in the UK and USA. They can be Corporate Bonds, backed or guaranteed by ADFC or development partner resources, and/or Sovereign-backed Bonds in partnership with individual or group of African countries. The investment-development nexus shall be maintained by using Bond funds to finance specific, identifiable projects and ventures, and screening against 'vulture funds' and unethical investors.

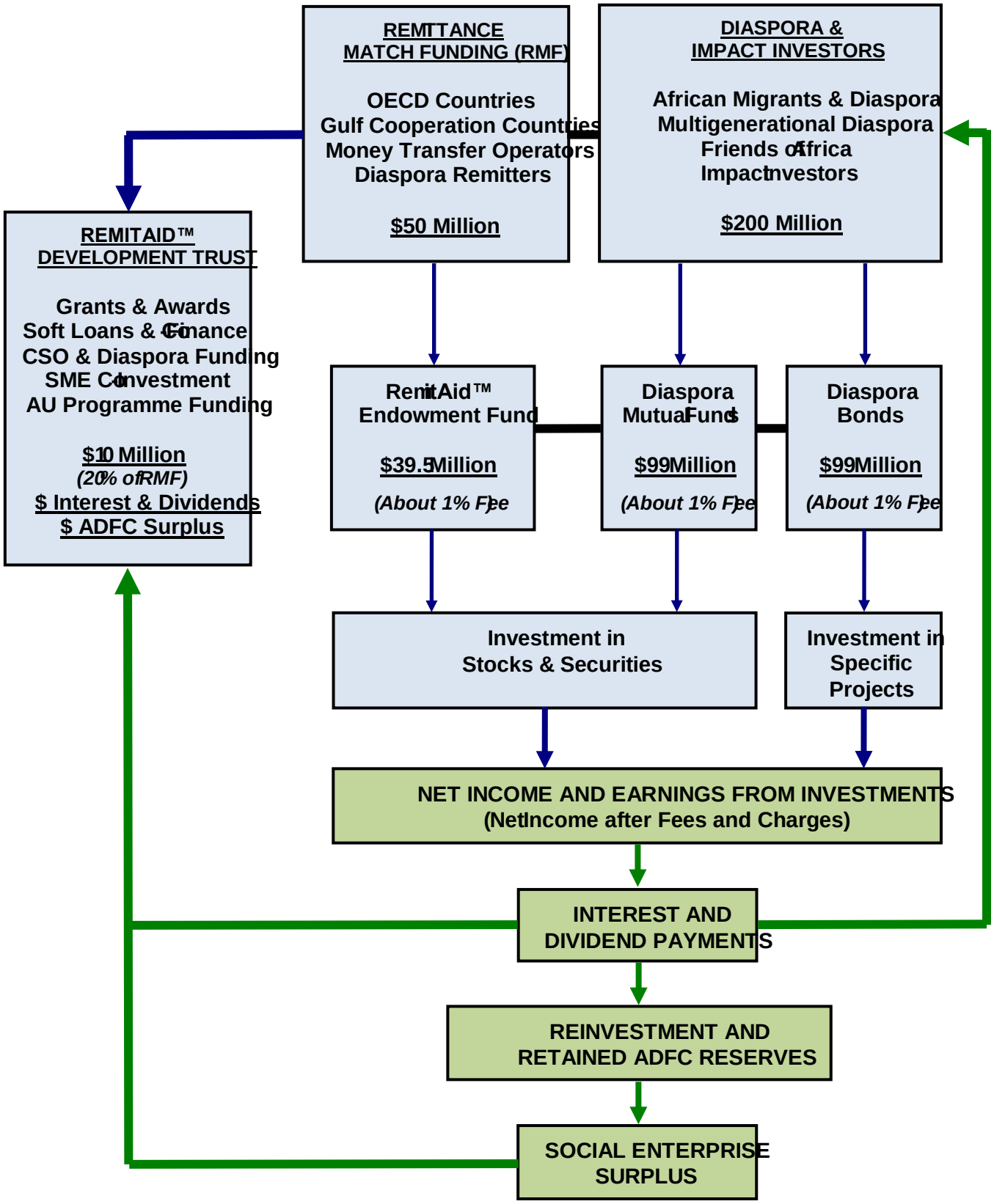
- **Diaspora Mutual Funds:** Given that the Diaspora Mutual Fund subsector of DPI is virtually nonexistent in Africa, ADFC as a foundational actor can orient the market towards equity investments, as opposed to focussing on debt-based investments. This shall be consistent with the policy of maximising public benefit, and the practice of responsible development. Equity inflows are more likely to stimulate enabling actions such as enhanced entrepreneurial support, human resource development, management and productivity augmentation.

- **Diaspora Endowment Fund:** Start-up capital is needed to set up ADFC as an African Union (AU) legacy project, whilst the creation of an Innovative Finance initiative based on Remittance Match Funding (RMF) is long overdue. This situation creates a unique opportunity to link the two schemes, to capitalise on the synergies and optimise the potential for diaspora contributions to the funding of sustainable development in Africa. Innovative Finance relates to the mobilisation, governance and distribution of new, creative and non-traditional mechanisms and schemes, involving public-private partnerships and market-based financial transactions, to create new predictable, efficient, regular and stable sources and flows of development finance to developing countries, that are additional and complementary to conventional forms of development finance. The ADFC Diaspora

Endowment Fund shall be based on Remittance Match Funding (RMF) as a form of Innovative Finance.

At the time of issuance, detailed terms and conditions are set out for each product. Proceeds from the financial products will be invested in ventures and projects in Africa that have high socio-economic and developmental impacts.

Illustration of ADFC Start-Up Products and Services



6. Operational and Management Framework

The products and services to be delivered shall be based on 'Service Delivery Outline (SDO)' templates, used as operational tools. **It is essential that there is clarity and**

transparency about what the services are, and what they are not. By knowing what the key service aims and components are, it becomes easier for managers and staff to use these factors as 'service specifications' – against which to assess the success of service delivery and implementation.

To design, structure, package, market and manage the three start-up core products and services, ADFC shall set up and activate a production and operational process that involve the main stages of:

- Product Design and Packaging
- Prospectus and Marketing Plan
- Collection of Investment Funds
- Management of Investment Portfolio
- Management of Return on Investment Management of Grant-Making Fund.

The proposed ADFC organisational and implementation structure is designed so as to optimise service delivery, and simplify planning, guidance, facilitation, management, oversight and accountability. The elements of the ADFC structure are:

- ADFC Partners
- Board of Directors **(Board)**
- International Advisory Council **(IAC)**
- Office of the Director General **(ODG)**
- Investment Management Directorate **(IMD)**
- Departmental Directors, Staff and Consultants.

The ADFC Partners are the foundational members of ADFC. The Annual General Meeting of the ADFC Partners shall be the highest decision-making organ. It shall elect the Board of Directors and delegate authority to it. The main departments of IMD are: Product Design, Marketing and Compliance (PDMC); Investment Management, Transactions and Operations (IMTO); Asset and Value Management and Income Generation (AVMIG); Administration, Finance and Organisational Development (AFOD).

ADFC shall recruit skilled professional personnel from different disciplines to develop and deliver the products and services, and manage the organisation at strategic, tactical and operational levels. To complement the human resources, **ADFC have identified the types of physical, technical and financial resources it requires to deliver and improve services**, and discharge all contractual, regulatory and accountability obligations and requirements.

Consultations were undertaken with a wide range of African diaspora investment and finance experts and practitioners about the possible legal structure of ADFC. The common views and analytical observations were that the structure should:

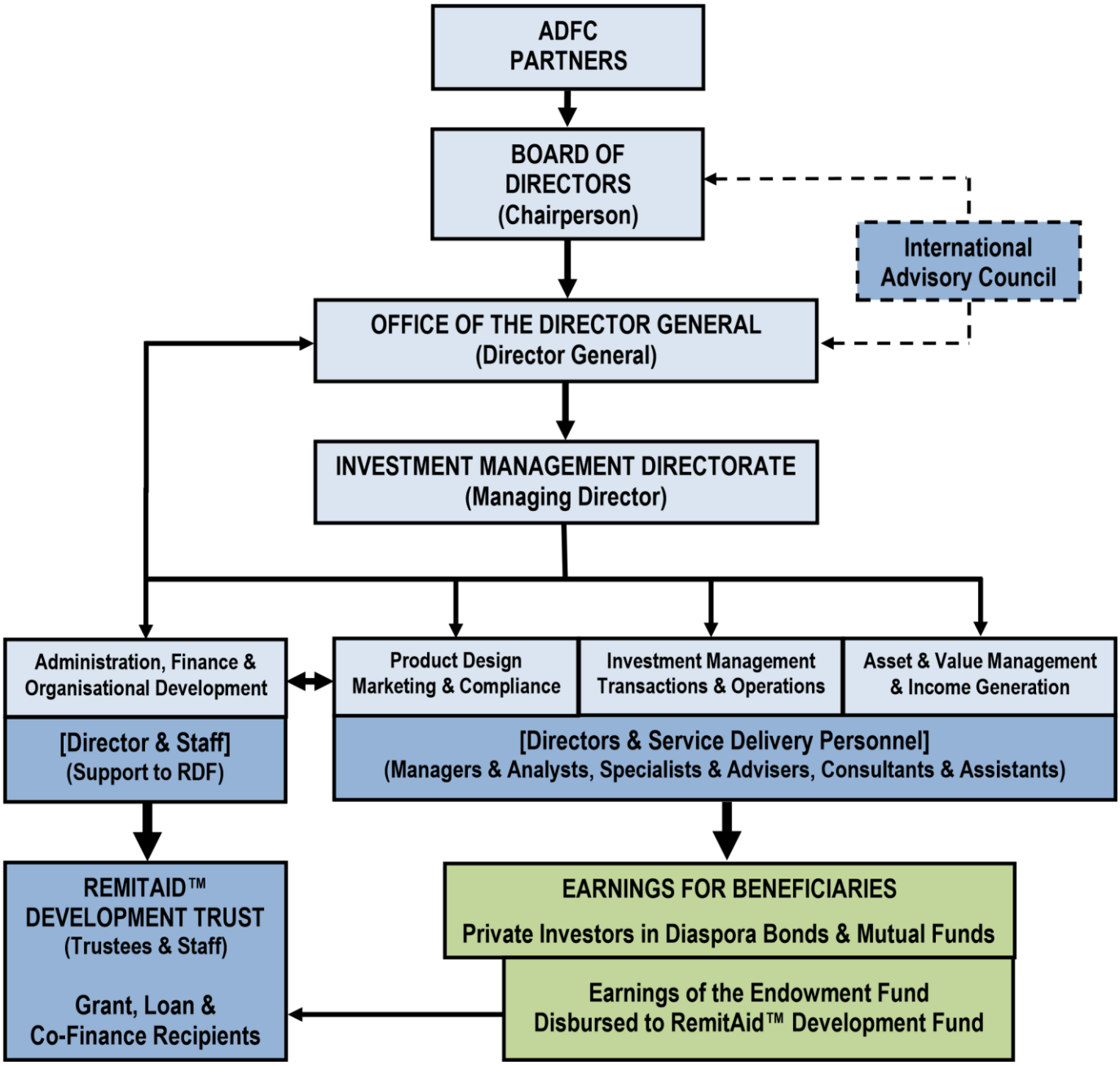
- Facilitate optimum **operational effectiveness** and efficiency
- **Be free from** bureaucratic constraints and **political influence**
- **Be flexible** to capitalise on opportunities as and when they arise

- **Be a social enterprise** or mutual model with minimal or no commercial shareholding.

Extensive research and analysis was undertaken, including case study assessments of three successful African financial institutions, namely Ecobank, Afreximbank and Africa Finance Corporation. Based on the findings, it is recommended that:

> ***ADFC be structured as a multilateral financial institution through a treaty signed by ten (10) sovereign African countries, and ratified by six (6) of those treaty signatories. In addition to the ADFC Treaty, it is further recommended that ADFC be governed by a Charter which incorporates best practices of development-oriented financial institutions and social enterprises, and a Headquarters Agreement, which confers diplomatic immunities and privileges to ADFC*****.*** It is further recommended that: ***The African Union Commission (AUC) be allocated an ex-officio seat on the Board of Directors of ADFC, to maintain strong formal linkages, entrench the importance of ADFC as a continental institution, and reflect the fact that ADFC is an AU legacy project***.

ADFC Organogram



7. Feasibility and Viability Assessment

These feasibility and viability factors reflect the potential internal ADFC organisational strengths as well as the external strategic and partnership opportunities. The evidence of ADFC viability is based on a multitude of business facts and analytical factors. The main risk factors have also been identified, with comprehensive mitigation action points formulated.

The ADFC proposition and innovation is based on thorough research and analysis, grounded on tried, tested and successful standard products, structures and systems. The building blocks for a vibrant African Diaspora Portfolio Investment (DPI) sector in Africa have been put in place in the past 15 years. For Diaspora Bonds, the oversubscribed Nigerian Bond of 2017 demonstrates that the **lessons have been learnt on how to raise substantial sums at competitive rates, in compliance with international capital market regulations**. For Mutual Funds, a viable market exists in Africa through the different Stock Exchanges, investment bank

products, and a growing continental Bond market, supported by African Financial Markets Initiative (AFMI). Interest rates in North America and Europe have been very low for a decade. This means that return on savings within the diaspora are very low**. ADFC Mutual Funds will offer better financial returns to investors**.

According to UNCTAD, USD210 Billion is the annual shortfall in financing needed to meet the Sustainable Development Goals (SDGs) in Africa. The African Development Bank estimates that annual investment need is between USD130 to USD170 Billion, with an annual financing gap of USD68 to USD108 Billion. **Investment from the African diaspora and friends of Africa are needed**.

A conservative estimate of African first generation **migrants living outside Africa is 17 million**. The World Bank estimated that the population of the **global African diaspora in 2008 was 170 million**, comprising: 39 million in North America; 113 million in Latin America; 14 million in the Caribbean; and 4 million in Europe. Using conservative estimates, the average annual savings of African migrants is calculated as USD1,980, and the volume of **annual African migrant savings is: USD33.7 Billion**.

In 2008, the World Bank estimated that African Diaspora Bonds can raise USD5-10 Billion per year. **If ADFC attracts investment of 1% of annual African migrant savings of USD33.7 Billion, this will mean inflow of USD337m to Diaspora Bonds and Mutual Funds** every year. Furthermore, **if ADFC can raise USD1,000 from 1% of the 40 million African diaspora in North America, annual inflows will be another USD400m**.

Organisations and agencies that support development in Africa and other developing countries benefit from diverse tax and financial incentives schemes in OECD, GCC and other countries. These include the: Gift Aid tax relief available to charities that receive donations from UK taxpayers; UK schemes such as the Social Investment Tax Relief (SITR), the Venture Capital Trust (VCT) and the Seed Enterprise Investment Scheme (SEIS); USA tax deductions for donations to qualifying 170(c) organisations. Remittances make substantive and substantial contributions to the SDGs, yet they do not benefit from tax and financial incentives. **Remittance Match Funding (RMF) through ADFC Endowment Fund provides fair and reasonable incentives to migrants and diaspora, comparable to tax reliefs, rebates and exemptions enjoyed by other development actors**.

Case study analysis indicates that Innovative Finance mechanisms such as 'UnitAid' are viable. In its first 10 years (2006/16), **UnitAid raised USD2.67 Billion from USD1 Solidarity Levy on airline tickets**, and received additional project grants of USD100m. Inflows from the participating countries were: France (USD1.6 Billion); United Kingdom (USD607m); Norway (USD183m); Brazil (USD90.3m); Spain (USD81.6m); South Korea (USD51m); Chile (USD33.5m); Others (USD20.8m).

8. ADFC Start-Up Programme

The 'Organisational and Operational Start-Up' programme sets out a methodical schedule to create and launch the African Diaspora Finance Corporation and start delivering its products and services. The programme reflects the practicality,

purposefulness and effectiveness consistent with the commercial urgency and ambition required in the world of multinational finance.

The main goals of the start-up programme:

- **Mobilise partners, people and resources** for practical and full implementation
- Organise critically important **stakeholder events to introduce ADFC** to the development world
- Initiate consultations and **negotiations for Remittance Match Funding**
- **Set-up** legal, governance, organisational and management **structures and systems**
- **Finalise investment product** packaging, business and market planning, and regulatory compliance
- **Formal launch** and full scale business operations.

The start-up programme shall be in two stages.

Actions linked to set-up and resource mobilisation (Stage 1: 2019-2021) include:

- Stakeholder briefings and **formal decision of the AU Executive Council** to validate the setting up of the African Diaspora Finance Corporation (ADFC)
- **Appointment of consultant as implementation leader** to undertake required influencing, advocacy and organisational development work
- Organise **technical and high level events** (including UN General Assembly side event) to introduce ADFC to the development world
- Create technical working relationships with institutional partners, on **initial negotiations for Remittance Match Funding (RMF)**, and ADFC Treaty and Charter
- Set up **interim ADFC office and assemble core team** of consultants and associates to undertake the required work on business and organisational development;
- **Direct negotiation** with development agencies and OECD and GCC countries for start-up Remittance Match Funding (RMF), and use funds for due diligence on ADFC structures, headquarters, products and services.

Actions linked to institutional, business and product launch (Stage 2: 2021-2022) include:

- **Conclude negotiations of ADFC Treaty, Charter and Headquarters Agreement**, and facilitate signature and ratification of legal and governance instruments

- Facilitate **election of the Board of Directors, recruit Managing Director** and full complement of staff and co-opt International Advisory Council Members

- **Set-up the headquarters office, acquire vehicles and other physical resources** needed, and appoint providers of logistical, utility and technical services

- Undertake **targeted engagement with strategic, technical and operational stakeholders**, and launch relational and cause-related marketing

- **Finalise** ADFC Service Delivery Outline (SDO) templates, business plans and action points, finalise list of specific **capital market opportunities** for ADFC Mutual Fund investments, and finalise pipeline of **investment-ready projects** for Diaspora Bond investment

- Complete the structuring of the initial portfolio of UK and USA compliant financial products, launch targeted marketing exercises, and **formally launch first set of ADFC DPI products**.

Strategic, Business and Operational Framework for an African Diaspora Finance Corporation: African Union Legacy Project on Diaspora Investment, Innovative Finance and Social Enterprise in Africa

(ABRIDGED VERSION)

(For references and citations, please refer to the full report)

GK Partners, London & Addis Ababa (2019)