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

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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

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i. Abbreviations

AAAA	Addis Ababa Action Agenda on Financing for Development
ACB	African Central Bank
ADF	AFFORD Diaspora Finance
ADFC	African Diaspora Finance Corporation
ADIF	African Diaspora Investment Fund
AFC	Africa Finance Corporation
AFD	Agence Française de Développement
AfDB	African Development Bank
AFFORD	African Foundation for Development
AFMI	African Financial Markets Initiative
AIB	African Investment Bank
AIR	African Institute for Remittances
AMF	African Monetary Fund
AU	African Union
AUC	African Union Commission
BDS	Business Development Support
BRVM	Bourse Régionale des Valeurs Mobilières
CIDO	Citizens and Diaspora Directorate (of the African Union Commission)
CRC	Collective Remittance Contributions
DDI	Diaspora Direct Investment
DFID	Department for International Development
DP	Diaspora Philanthropy
DPI	Diaspora Portfolio Investment
DPPP	Diaspora Public Private Partnership
DRC	Danish Refugee Council
FCA	Financial Conduct Authority
FDI	Foreign Direct Investment
FORIM	Forum des Organisations de Solidarité Internationale issues des Migrations
FPI	Foreign Portfolio Investment
GADS	Global African Diaspora Summit
GCC	Gulf Cooperation Council
GCM	Global Compact for Safe, Orderly and Regular Migration
GDP	Gross Domestic Product
GKP	GK Partners (Business and development consultancy)
GIZ	Gesellschaft für Internationale Zusammenarbeit
IMF	International Monetary Fund
IPO	Initial Public Offering
KfW	Kreditanstalt für Wiederaufbau (German Development Bank)
MFWA	Making Finance Work for Africa
MTO	Money Transfer Operators
MSMEs	Micro, Small and Medium-Sized Enterprises
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
PPP	Public Private Partnership
PRC	Permanent Representatives Committee (African Union)
RMF	Remittance Match Funding
SAP	Structural Adjustment Programme
SE	Stock Exchange
SEC	Securities and Exchange Commission
SDGs	Sustainable Development Goals
SME	Small and Medium-Sized Enterprises
SSA	Sub Saharan Africa
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
UNDP	United Nations Development Programme
UNHLD	United Nations High Level Dialogue
WB	World Bank

ii. 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 diaspora-development 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

Research Consultation Briefing Notes: Outline Framework for the Creation of the African Diaspora Investment Fund (ADIF) as an African Union Legacy Project

- **Context of ADIF as an AU Legacy Project:** On 25 May 2012 in South Africa, the African Union adopted the 'Declaration of the Global African Diaspora Summit', agreeing to implement five legacy projects including the African Diaspora Investment Fund (ADIF) and the African Institute for Remittances, as a way of giving practical meaning to the AU's Diaspora programme, and bringing to life the 2005 AU decision to recognise the diaspora as the sixth region of Africa.

- **ADIF as an African Continental Fund:** Remittances are the most visible form of financial linkage between the diaspora and Africa. However, the purpose of the African Diaspora Investment Fund (ADIF) is to facilitate the use of financial resources and instruments beyond remittances, to expand and enhance mobilisation of diaspora capital, to address development challenges confronting Africans in the continent and the Diaspora. The AU commitment to see the creation of ADIF as a continental fund is incorporated within Agenda 2063, reflected in the 2015 'Agenda 2063 First Ten-Year Implementation Plan 2014-2023' and included in the recommendations of the 2017 'Agenda 2063 Financing, Domestic Resource Mobilization and Partnership Strategy'.

- **ADIF Integration within African Investment Ecology:** Africa already has continental and regional financial institutions such as the African Development Bank, investing in the diverse sectors and priorities of sustainable development. The African Union is also committed to creating other investment institutions and funds such as the African Investment Bank (AIB) and the African Integration Fund (AIF). Diaspora organisations, commercial banks and AU member states have also developed their own initiatives and various schemes to facilitate diversified diaspora investment. The current 2018 consultations for the creation of ADIF emphasise the importance for ADIF to fit within the existing and emerging African investment ecology: filling gaps, linking up with relevant schemes, adding value, complementing and supplementing, whilst avoiding unnecessary duplication. ADIF needs to be integrated and linked internally with the different AU institutions and schemes, and connected with the relevant external strategic and operational partners.

- **Proposed Purpose and Activities of ADIF:** *ADIF shall facilitate partnership-based structured, regulated, continent-wide mobilisation of direct and indirect diaspora resources that are currently not channelled into Africa, or into regenerative development activities*. The core regulated operations of ADIF shall be: attract and collect funds from the African diaspora and other investors within relevant national and international regulatory frameworks; professionally manage and invest such funds; create development outputs and outcomes linked to SDGs, Agenda 2063 and other agreed continental and national priorities; generate income ethically, to run all operations, refund investors, pay interest, dividend or other returns at pre-agreed rates; and hold reinvestment surpluses for organisational development and programme investment.

- **How to Structure ADIF:** ADIF shall raise funds from: diaspora savings held outside Africa; second, multigenerational and historic diaspora who are not active remitters; diaspora-run investment and philanthropic clubs and funds; friends of the diaspora; match-funding and co-investments from development partners. Through partnerships, ADIF can assist member states, especially smaller countries to structure, issue and manage specialist investment vehicles such as diaspora bonds, in a manner that capitalises on its continental and global reach, and its ability to raise funds from mutigenerational diasporas and friends of the diaspora. ADIF's managed funds can be invested in under-funded, high impact, innovative, remediation and catalytic priorities and sectors, including existing and planned AU programmes such as women, youth, diaspora, creative, cultural and sporting enterprises. ADIF can be an independent organisation promoted and supported by the African Union, or an autonomous specialised agency of the AU.

For comments and further information, please contact:
Ms Eiman Kheir (AU CIDO) OR Prof. Gibril Faal (Consultant)

Table I: Research Consultation Briefing Notes (October 2018)

African Diaspora Investment Fund (ADIF)
Research Consultation Questions

Name of Respondent:	
Occupation / Institution:	
Email / Tel:	

1. **Sources of Resource Mobilisation:** ADIF proposes to raise funds from: diaspora savings held outside Africa; second, multigenerational and historic diaspora who are not active remitters; diaspora-run investment and philanthropic clubs and funds; friends of the diaspora; match-funding and co-investments from development partners.

- What is your opinion about this resource mobilisation strategy?
- What other sources of diaspora investment are missed out?
- Are there particular opportunities and challenges about sources of investment that need to be highlighted?

2. **Regulated Investment Platform:** Through partnerships, ADIF can assist member states, especially smaller countries, to structure, issue and manage specialist investment vehicles such as diaspora bonds in a manner that capitalises on its continental and global reach, and its ability to raise funds from mutigenerational diasporas and friends of the diaspora.

- What is your opinion about this practical investment facilitation approach?
- What other investment facilitation operations should ADIF consider undertaking?
- Are there particular opportunities and challenges about investment platforms that need to be highlighted?

3. **Investments Made in Africa:** ADIF's managed funds can be invested in under-funded, high impact, innovative, remediation and catalytic priorities and sectors, including existing and planned AU programmes such as women, youth, diaspora, creative, cultural and sporting enterprises.

- What is your opinion about the proposed recipients of ADIF investment?
- What other ventures should ADIF consider investing in?
- Are there particular opportunities and challenges about investment recipients that need to be highlighted?

4. **ADIF Organisational Structure:** ADIF can be an independent organisation promoted and supported by the African Union, or an autonomous specialised agency of the AU.

- What is your opinion about the ADIF being independent or being part of the African Union?
- What other possible organisational structural frameworks should be considered for ADIF?
- Are there particular opportunities and challenges about ADIF structure that need to be highlighted?

5. **Other Opinions:** Please share other opinions, observations and comments about the ADIF proposal:

Table II: Research Consultation Questions (October 2018)

iii. Executive Summary

The first chapter gives a historical background of the emergence of the African diaspora, and its role in African economic development and investment. On 25 May 2012 in Johannesburg, South Africa, the Global African Diaspora Summit (GADS) Declaration by Heads of State and Government of the African Union agreed to the creation of an 'African 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'. 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'.

Types of Diaspora Investment

The second chapter classifies diaspora investment into four main types, namely: Diaspora Philanthropy, Diaspora Remittances, Diaspora Direct Investment (DDI), and Diaspora Portfolio Investment (DPI). Diaspora philanthropy is an important form of financial contribution to development. However, it does not fit the strict definition of financial investment in that no profit or financial return is expected or received by the migrants who make the contributions. The 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.

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. According to the World Bank, in 2018, formal remittances to Africa reached 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, The Gambia, Lesotho, Cape Verde and Liberia. Taking into account funds sent through formal, informal and in-kind remittances, it is estimated that annual remittances to Africa can be as high as USD200 Billion.

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 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. DDI has specific distinguishing features as identified in the report. Multilateral institutions monitor FDI flows, but not DDI. In the circumstances of non-availability of structured annual data on DDI, a number of analytical observations and recommendations have been made, covering: informal, in-kind and real estate DDI, and DDI through investment clubs, angel and personal financing.

Several African countries have schemes backed by policy and legislation that provide DDI incentives and tax breaks comparable to those available for FDI. Some countries provide grants, co-finance and loan guarantees to diaspora investors. In addition to state-led DDI incentives, there are a number of programmatic diaspora co-financing schemes operating from Europe and North America. These include: 'Diaspora Programme Support' social enterprise grants of USD75,000 (Denmark); 'African Diaspora Marketplace' business plan competition prizes of USD70,000 (USA); 'AFFORD Diaspora Finance' social enterprise co-finance of USD38,000; 'PRA/OSIM' enterprise and project co-finance of USD34,000 (France); 'Entrepreneurship by Diaspora for Development' technical support (Netherlands).

Capital Markets in Africa

The third chapter examines the Portfolio Investment market in Africa. Of the 55 Member States of the African Union, about 30 have Stock Exchanges (SEs). In 2018, the African SEs raised USD8.3 Billion. In the five years 2014-18, a total of USD55.4 Billion equity was raised. The market capitalisation of the AfDB/AFMI/Bloomberg African Bond Index was USD180 Billion as at January 2018. The value of total outstanding African Bonds and Bills in 2017 was USD413 Billion, but 80% relates to issuances by only 5 countries, namely: South Africa, Egypt, Morocco, Nigeria and Kenya. 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 the African Bond market is still dominated by conventional and traditional Treasury Bills, which tend to have short maturity times.

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. 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. Foreign Portfolio Investment (FPI) inflows to Africa are raised through African and 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, total global FPI was USD3.9 Trillion, yet inflow to Africa was only USD71.7 Billion, being 1.8% of global flows.

African Diaspora Bonds

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 is hardly any structured diaspora mutual funds, and only four African countries have ever issued bonds packaged and targeted specifically for the African diaspora. There is a big gap between the potentiality, declared enthusiasm and general rhetoric about diaspora finance, and the actual reality in the marketplace.

In 2007, Ghana issued a Golden Jubilee Savings Bond. Of the target of GHC50m (Ghana Cedis), subscription was only GHC20m (40%). Of the GHC20m raised, GHC18.73m (94%) was from local sales and GHC1.10m (6%) was from the Ghanaian diaspora in UK, Canada and USA. In 2008, Ethiopia issued the USD4.8 Billion Millennium Corporate Bond Dam, replaced in 2011 by Renaissance Dam Bond for the same value. In 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. In 2011, Kenya issued a KES20 Billion Infrastructure Bond (Kenyan Schillings), subscription was KES14 Billion, being 70% of the target.

In 2017, 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, and packaged as a retail instrument. The Bond was denominated in US Dollars, for USD300m (increased from USD100m). 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 orders were at 190%, and at the close of the auction, it was oversubscribed at 130%.

ADFC Investment Strategy

The fourth chapter focuses on the investment strategy for ADFC, and the rationale for the proposed portfolio of Diaspora Portfolio Investment (DPI) products. It also analyses the existing strategic partnerships for African development, and global policy frameworks which support the proposed DPI activities of ADFC. In seeking to transform the 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 is not an opportunistic corporate venture; it is designed as a continental social enterprise which will use business and market mechanisms to pursue public benefit and African development. It lends itself to practical Diaspora Public Private Partnership (DPPP), blended finance and cross-sectoral collaboration with diverse strategic, institutional and operational partners. Since the 2012 adoption of the GADS Declaration, a number of policy frameworks have come into force, reinforcing the importance of migrant and diaspora resources and investment in development. These include the 2018 Global Compact on Safe Orderly and Regular Migration (GCM), the 2015 Joint Valletta Action Plan (JVAP) and the Addis Ababa Action Agenda on Financing for Development (AAAA).

ADFC Products and Services

The fifth chapter presents the vision, mission and the three start-up products of ADFC. 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.

Given that the Diaspora Mutual Fund subsector of DPI is virtually non-existent in Africa, ADFC as a foundational actor can orient the market towards equity investments, as opposed to focussing on debt-based investments. Equity inflows are more likely to stimulate enabling actions such as enhanced entrepreneurial support, human resource development, management and productivity augmentation.

Start-up capital is needed to set up the 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, having been first proposed in 2006 (prior to the global economic crisis of 2008). This situation creates a unique opportunity to link the two schemes, to enhance viability and sustainability. The ADFC Diaspora Endowment Fund shall be based on RMF as an innovative finance mechanism.

Service Delivery Processes and Organisational Structure

The sixth chapter describes the operational systems and processes, and the legal, management and organisational structure of ADFC. To design, structure, package, market and manage products, services and activities, ADFC shall set up a production and operational process system involving: 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. This is designed to optimise service delivery, and simplify planning, guidance, facilitation, management, oversight and accountability.

The main organs of the ADFC organisational structure are: ADFC Partners; Board of Directors; International Advisory Council; Office of the Director General; Investment Management Directorate; and Departmental Directors, Staff and Consultants. The ADFC Partners are the foundational members, 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.

To determine the most suitable legal structure for ADFC, extensive research, consultations and analysis was undertaken, including case study assessments of three successful African financial institutions, namely Ecobank, Afreximbank and Africa Finance Corporation, and an AU Specialized Agency, namely African Risk Capacity Agency (ARC). 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.

Feasibility and Viability Assessment

The seventh chapter assesses organisational feasibility and viability. The ADFC proposition and innovation is based on tried, tested and successful products, customised to African diaspora-development needs, wants and opportunities. The building blocks for a vibrant African DPI sector are already in place as demonstrated by the success of financial institutions featured in case studies.

According to UNCTAD, the annual financing shortfall for SDGs in Africa is estimated to be up to USD210 Billion. African Development Bank estimates that annual investment need is between USD130 to USD170 Billion, with an annual financing gap ranging from USD68 to USD108 Billion. Need for investment from the African diaspora and 'friends of Africa' in the diaspora is overwhelming.

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 (i.e. USD1,980 x 17 million migrants).

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 Atlantic 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: Gift Aid tax relief available to charities that receive donations from a UK taxpayer; enterprise incentive 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 'Section 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 exemption schemes enjoyed by other development actors.

Case study analysis of an 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).

ADFC Start-Up Programme

The eighth and final chapter sets out a methodical 'Organisational and Operational Start-Up' programme to create and launch the African Diaspora Finance Corporation (ADFC) 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 are to: 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.

1. Context for Enhancing Diaspora Investment in Africa

The First Session of the African Union Assembly of Heads of State and Government was held in Durban, South Africa on 9 July 2002. On 3 February 2003, the First Extra-Ordinary Session was convened in Addis Ababa, Ethiopia, amongst other things, to adopt the Protocol on Amendments to the Constitutive Act. Article 3 introduced three new goals as Objectives of the African Union (AU), covering: women in decision-making; common policies on trade, defence and foreign relations; and diaspora participation in African development.

Article 3(q) of the Protocol: *"invite and encourage the full participation of the African Diaspora as an important part of our continent, in the building of the African Union"*[1]. This amendment was adopted in line with discussions of the diaspora as the 'Sixth Region of African', led by Senegal and other countries. There was reiteration of the overwhelming evidence of the ever growing interest, capacity and practical engagement of the African diaspora in different aspects of the continent's socio-economic development and regeneration.

1.1 Diaspora Defined as Contributors to African Development

At the Third Extra-Ordinary Session of the Executive Council held in Sun City, South Africa on 21-25 May 2003, the AU endorsed the 'The development of the Diaspora Initiative within the framework of the AU', championed by the Chairperson of the AU Commission. An important element of the Diaspora Initiative was the definition of the African diaspora. Consequently, a technical workshop of experts from the continent and the Diaspora was held in Port of Spain, Trinidad and Tobago on 2-4 June 2004. The definition that emerged from that meeting was presented to the Permanent Representatives Committee (PRC) in preparation for the Sixth Ordinary Session of the Executive Council held in Abuja, Nigeria, on 27-28 January 2005. The PRC rejected the proposed definition of the diaspora, indicating that it did not include the modern or recent Diaspora, or specify explicit commitment to African causes and development. These objections and the subsequent changes to the definition are relevant to African diaspora investment, as they emphasise the importance of actual development contributions.

As decided by the Sixth Ordinary Session of the Executive Council of the AU (27-28 January 2005), a meeting of experts from Member States was convened to review and modify the rejected definition of the African diaspora. The meeting was held in Addis Ababa, Ethiopia on 11-12 April 2005 and an amended definition was endorsed by consensus. 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"***.[2]

[1] Official AU proceedings reports: https://au.int/sites/default/files/treaties/7785-treaty-0025_-_protocol_on_the_amendments_to_the_constitutive_act_of_the_african_union_e.pdf - Accessed 31 January 2019

[2] Official AU Executive Council decision: https://au.int/sites/default/files/decisions/9629-council_en_28_june_2_july_2005_council_executive_council_seventh_ordinary_session.pdf - Accessed 31 January 2019

1.2 Linking Diaspora Definition to Engagement and Investments in Africa

Prior to the adoption of the AU definition of the diaspora in 2005, the proposed definition that emerged from the AU meeting held in Trinidad and Tobago on 2-4 June 2004 referred to *"dispersal of peoples whose ancestors, within historical memory, originally came from Africa..."*[3]. This reflected existing academic work and historical analyses of the African diaspora, its changing nature, and methodologies for its classification[4, 5, 6]. Although the final AU definition used the generalised description 'African diaspora', deeper 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 adopted AU definition of African diaspora. This customised and differentiated approach is already reflected in the work of the Citizens and Diaspora Directorate (CIDO) of the AU, which has sections that deal with the different African diasporas across the world.

After the adoption of the definition of the diaspora, the AU, together with partners, convened the Second Conference of African Intellectuals and the Diaspora (CIAD II), in Brazil on 12-14 July 2006, on 'The Diaspora and the African Renaissance'[7]. One paper under the theme of 'Mutual Knowledge Between Africa and the Diaspora: Identity and Cooperation'[8] was on 'New Classification of the African Diaspora'[9].

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

Table III: New Classification of the African Diaspora (Faal, 2006)

[3] Adisa, Jimni (2017), The African Union Perspective on the Diaspora, in Africa and its Global Diaspora: The Policy and Politics of Emigration, in *Jack Mangala (Ed), Africa and its Gobal Diaspora: The Policy and Politics of emigration*, London, Palgrave Macmillan

[4] Palmer, Colin (2000), 'Defining and Studying the Modern African Diaspora', *Journal of Negro History*, Vol. 85, No. 1-2, pp. 27-32

[5] Akyeampong, Emmanuel (2000), Africans in the Diaspora: The Diaspora and Africa, *African Affairs*, Vol. 99, No. 395, pp. 183-215

[6] Zeleza, Paul (2005), Rewriting the African Diaspora: Beyond the Black Atlantic, *African Affairs*, Vol. 104, No. 414, pp. 35-68

[7] The AU made an Executive Committee decision about CIAD II in January 2006 as part of the Africa-Diaspora process, and the AU Chairman prepared a formal report to the Permanent Representatives' Committee in January 2007, noting that CIAD II *"brought together about 700 intellectuals and political leaders [including Heads of States, Nobel Laureates and eminent intellectuals] from Africa and the Diaspora to...revive, situate and harness the contributions of African intellectuals and the Diaspora as a vehicle for innovative ideas, development and social transformation"*. CIAD II is referred to in the Declaration of the 2012 Global African Diaspora Summit which agreed the creation of a Diaspora Investment Fund as a legacy project.
https://au.int/sites/default/files/decisions/9639-ex_cl_dec_236_-_277_viii_e.pdf - Accessed 15 April 2019
http://archives.au.int/bitstream/handle/123456789/4181/EX%20CL%20307%20%28X%29%20_E.PDF?sequence=1&isAllowed=y

[8] See CIAD II programme, Salvador da Bahia, Brazil https://unesdoc.unesco.org/ark:/48223/pf0000146986 - Accessed 31 January 2019

[9] Faal, Gibril (2006), A New Definition and Classification of the African Diaspora, London, GK Partners
See updated version at: http://gambiandiaspora.net/wp-content/uploads/2018/04/MSDG-BP-3-Defining-the-African-Diaspora-Sep-2017.pdf

The African diaspora classification presented in 2006 provided a *"framework that links African migratory history, African diasporas and contemporary socio-economic development of nation-states"*, and postulated that *"the stronger the diaspora memory, the stronger the inherent drive to contribute to development in origin and heritage countries"* and recommended action points including the following:

- *Prioritise diaspora engagement with those who have national, natal and parental memory*
- *Refresh memories and positive notions of nationhood and heritage for multi-generational diasporas*
- *Make it easy for diasporas to maintain and/or acquire multiple nationalities and citizenships*
- *Create practical mechanisms and packages to facilitate the aggregation of individual diaspora contributions*
- *Extract investment capital from ongoing consumptive diaspora contributions*
- *Create enduring and sustainable legacies from current financial and non-financial contributions*[10].

The classification and recommended action points provide a conceptual underpinning and strategic framework to optimise development mobilisation, and maximise actual investment inflows. Diaspora finance and investment schemes need to target multiple generations, including the Atlantic, Post-War and Post-Cold War diasporas, whilst addressing the specific needs, wants, circumstances and expectations of each of these categories.

[10] ibid

1.3 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 included balance of payment deficits, incomplete development projects, increased indebtedness, and derailed national development plans.[11] These 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[12, 13]. 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 pull and push factors increased emigration from Africa. The pull factors included demand for low-skilled and mid-level workers, and accommodative visa, work permit and status regularisation schemes. The push factors included declining macro-economic conditions in Africa, drought and desertification. 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 with worsened economic conditions. Per capita output in key sectors such as agriculture and industry fell, production declined, and capacity for local regenerative investment was wiped out. Inflation and budget deficits were high, and many governments could not maintain expenditure for basic social services such as health and education. To a great extent, the situation was exacerbated by the Structural Adjustment Programmes (SAP) imposed by the World Bank and the International Monetary Fund. These led to advocacy and action on debt write-offs in the late 1990s up to the mid 2000s. Irrespective of the merits and demerits of SAP, the negative impacts included, amongst other things: degradation and depletion of basic public services; public sector retrenchments and higher levels of unemployment; privatisation of public enterprises and deepening of income inequality; heavy indebtedness and capital flight through debt servicing; increased migration and brain drain[14,15,16].

Economic factors contributed to the change in profile of the contemporary African diaspora resident outside the continent[17]. Bad governance and political and civil conflict increased migrant flows and stock from all socio-economic backgrounds. 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[18].

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[11] Johnson, Willard and Wilson, Ernest (1982), The Oil Crises and African Economies: Oil Wave on a Tidal Flood of Industrial Price Inflation, *Black Africa: A Generation after Independence*, Vol. 111, No. 2, pp. 211-241

[12] Oucho, John (2001), Employment and Migration Perspectives in Africa, in *Virchow D., von Braun J. (eds) Villages in the Future*: *Global Dialogue EXPO 2000*, Berlin, Springer

[13] Adepoju, Aderanti (Ed.) (2010), International migration within, to and from Africa in a globalised world, Sub-Saharan Publishers, Accra

[14] Mills, Cadman Atta (1989), Structural Adjustment in Sub-Saharan Africa, Seminar Report No.18, Economic Development Institute, Washington DC, World Bank http://documents.worldbank.org/curated/en/570911468768036645/pdf/multi-page.pdf

[15] Heidhues, Franz and Obare, Gideon (2011), Lessons from Structural Adjustment Programmes and their Effects in Africa, *Quarterly Journal of International Agriculture* 50 (2011), No. 1, pp. 55-64 https://ageconsearch.umn.edu/bitstream/155490/2/4_Heidhues.pdf

[16] Mkandawire, Thandika and Soludo, Charles (1998), Our Continent, Our Future: African Perspectives on Structural Adjustment, New Jersey, CODESRIA, IDRC, and Africa World Press

[17] de Haas, Hein (2008), The Myth of Invasion: The inconvenient realities of African migration to Europe, *Third World Quarterly*, Vol 29, Issue 7, pp. 1305-1322

1.4 The Post-Cold War Diaspora as Core Stakeholders in Diaspora Finance

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. The category includes groups from diverse socio-economic backgrounds, such as highly skilled professionals, low-skill workers, refugees and asylum seekers and irregular migrants[19]. 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[20]. 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[21, 22, 23].

Unlike 1960s/70s migrants, some of whom received funds from Africa for education and other support[24], for the Post-Cold War diaspora, financial remittances to Africa have become a major form of engagement with family, community and country in Africa. Remittances reinforce the conception and perception of diaspora identity. This was intensified by policies on migration, diaspora and development[25]. 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. Pioneering organisations like AFFORD, set up in 1994, succeeded in mobilising migrants and the diaspora, influencing international policies, and facilitating practical schemes to proactively enhance the role of the diaspora in Africa's development[26]. This success helped create a distinctive diaspora-development sensitivity and social movement, encouraging purposeful pursuit of development outcomes and impact in Africa, through varied forms of economic, social and policy engagements.

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18 African Union (2018), The Revised Migration Policy Framework for Africa and Plan of Action 2018-2027, Addis Ababa, African Union https://au.int/sites/default/files/newsevents/workingdocuments/32718-wd-english_revised_au_migration_policy_framework_for_africa.pdf

19 Koser, Khalid (Ed.) (2003), New African Diasporas, London, Routledge

20 2005 article on 'Afropolitans' by writer Taiye Selasi and overview on new African diaspora http://thelip.robertsharp.co.uk/?p=76 http://www.oxfordbibliographies.com/view/document/obo-9780190280024/obo-9780190280024-0044.xml - Accessed 15 April 2019

21 Okpewho, Isidore and Nzegwu, Nkiru (Eds.) (2009) The New African Diaspora, Bloomington, Indiana University Press

22 Zeleza, Paul (2010), African Diasporas: Toward a Global History, *African Studies Review*, Volume 53, Issue 1, pp. 1-19

23 Cohen, Robin (2008), Global Diasporas: An Introduction, Second Edition, New York, Routledge

24 In the 1960/70s, many Africans studying abroad received funds from Africa through government scholarships and family sponsorships.

25 From the 1990s, African governments started to develop policies to engage with their diasporas, and they also created programmes to enhance diaspora contributions to development. In 1994, for the first time within the global policy frameworks, the UN Conference on Population and Development in Cairo made a formal and substantive linkage between international migration and development https://www.un.org/popin/icpd/conference/offeng/poa.html - Accessed 15 April 2019

26 Chikezie, Chukwu-Emeka (2011), Reinforcing the Contributions of the African Diasporas to Development, in *Plaza, Sonia and Ratha, Dilip (Eds.) Diaspora for Development in Africa*, Washington DC, World Bank http://documents.worldbank.org/curated/en/389011468191676942/pdf/616380PUB0Dias1351B0Extop0ID0182580.pdf

1.5 Commitment to Create a Diaspora Investment Institution in Africa

The commitment of the African Union to facilitate enhanced forms of diaspora participation in African development is as old as the institution itself. The 2003 Protocol on Amendments to the Constitutive Act called for the full participation of the diaspora in continental affairs and the building of AU, and the 2005 definition of African diaspora linked identity to willingness to contribute to African and AU development. Financial investment is one of many tangible ways through which diaspora contributions can be channelled for the development of the continent and its citizens, at home and abroad. The AU has recognised this and is committed to implementing a legacy project on African diaspora investment.

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"*.**[27]

One of the five GADS legacy projects is the creation of an 'African Diaspora Investment Fund'. As part of the implementation process, this commitment necessarily widens beyond a single fund, to incorporate the diverse and feasible opportunities of diaspora investment and finance. The AU commitment to see the creation of a continental diaspora finance facility and institution is incorporated within the AU's Agenda 2063. Under Goal 20 (namely, 'Africa takes full responsibility for financing her development') of the 'Agenda 2063 First Ten-Year Implementation Plan 2014-2023', it was anticipated that the Diaspora Investment Fund (DIF) would be fully conceptualised by 2015, and developed and launched by 2018[28]. Implementation of a DIF is also included as 'action points' under 'diaspora engagement' in 'The Revised Migration Policy Framework for Africa and Plan of Action 2018-2027'[29].

Although the ADIF conceptualisation and launch target dates were missed, 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 involved consultations and interviews with stakeholders and experts, and extensive research and analyses. New business and economic intelligence was gathered, leading to the identification of specific strategic and investment opportunities. In February 2019, GKP proposed that the AU diaspora investment legacy project be translated into a practical and sustainable investment, business and social enterprise venture through the creation of an African Diaspora Finance Corporation (ADFC). The proposal is backed up by an ADFC business implementation framework, as presented in subsequent chapters in this document.

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[27] GADS Declaration, including sections on 'Mobilization of Support' under 'Political Cooperation' and 'Mobilization of Capital' under 'Economic Cooperation': https://au.int/sites/default/files/documents/30970-doc-global_diaspora_summit_declaration-e.pdf

[28] Page 94: https://au.int/sites/default/files/documents/33126-doc-ten_year_implementation_book.pdf - Accessed 31 January 2019

[29] African Union (2018), The Revised Migration Policy Framework for Africa and Plan of Action 2018-2027, Addis Ababa, African Union https://au.int/sites/default/files/newsevents/workingdocuments/32718-wd-english_revised_au_migration_policy_framework_for_africa.pdf

1.6 Urgency for Practical Action

As recalled in the Declaration of the Global African Diaspora Summit (25 May 2012), there have been many declarations, decisions, meetings and summits in the seven years between the adoption of the definition of the African diaspora in 2005 and GADS in 2012, with little progress made in facilitating diaspora participation in the organs of the AU[30]. In over six years since GADS, only one of the five proposed legacy projects is fully operational, namely the African Institute for Remittances (AIR). It should be noted that AIR as a project actually started five years before GADS in 2007[31], and an African Diaspora Investment Fund (ADIF) was also formally proposed by the World Bank prior to GADS[32]. This highlights the fact that implementation of all the 'new' legacy projects have suffered delays. Apart from the innate virtue of fulfilling the obligations of the Declaration, the practical and effective implementation of legacy project is important for a number of other economic, financial and policy reasons as summarised below:

- **Missed Development Opportunities:** The legacy project aims 'to mobilise capital to address development challenges confronting Africans in the continent and the Diaspora'. As such, every month that passes without the diaspora investment scheme in operation, is a loss opportunity, depriving tangible development benefits to diverse citizens, including disadvantaged and socially excluded groups.

- **Consistent Diaspora Commitment:** In the six years since the commitment to create a Diaspora Investment Fund was made without it being implemented, the African diaspora has increased its remittances to Africa by USD25 Billion, from USD61 Billion (2012)[33] to USD86 Billion (2018)[34, 35]. The consistent commitment and contribution of the diaspora need to be complemented and enhanced through timely and appropriate institutional action.

- **Imperative for Implementation:** To run a successful diaspora investment venture as a commercial of social enterprise, the slow pace of progress of the past six years needs to change. The AU Agenda 2063 offers a continental development framework, complemented by a preponderance of reiterated commitments and declarations on diaspora investment. Consequently, there is urgency for advancement from deliberations, to embarkation on purposeful and practical implementation actions, to deliver development benefits to diverse direct and indirect stakeholders.

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[30] The GADS Declaration recalled and noted over 10 relevant AU deliberations: https://au.int/sites/default/files/documents/30970-doc-global_diaspora_summit_declaration-e.pdf - Accessed 15 April 2019

[31] AIR project chronology; the author of this report reviewed the AIR grant application to the EU in 2007; contract was signed in Dec 2009 http://www.worldbank.org/content/dam/Worldbank/document/Africa/african-institute-for-remittances-september-2013-brochure.pdf - Accessed 15 April 2019

[32] World Bank (2012) Frequently Asked Questions: African Diaspora, Washington DC, World Bank https://siteresources.worldbank.org/INTDIASPORA/Resources/AFR_Diaspora_FAQ.pdf - Accessed 15 April 2019

[33] World Bank (2012), Migration and Development Brief 19: Migration and Remittances, Washington DC, World Bank https://www.knomad.org/sites/default/files/2017-08/MigrationDevelopmentBrief19.pdf

[34] World Bank (2019), Migration and Development Brief 31: Migration and Remittances, Washington DC, World Bank https://www.knomad.org/sites/default/files/2019-04/Migrationanddevelopmentbrief31.pdf

[35] The data in the World Bank Remittance Briefs are presented for Sub Saharan Africa (SSA) and Middle East and North Africa (MENA). The remittance data for AU countries classified under MENA (Algeria, Djibouti, Egypt, Libya, Morocco and Tunisia) are added to the SSA remittance data to get the total for Africa. For 2012: $30 Bn (NA) + $31 Bn (SSA) = $61 Bn; For 2018: $40 Bn (NA) + $46 Bn (SSA) = $86 Bn. See source for individual country remittance data provided by the World Bank: http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data - Accessed 15 April 2019

2. Definition and Status of Structured Diaspora Investment in Africa

In general terms, a financial investment is *"a monetary asset purchased with the idea that the asset will provide income in the future or will later be sold at a higher price for profit"*[36]. In the transboundary and international context relevant to diaspora finance, investment is defined by the international arbitration systems and tribunals which settle investment and contractual disputes. The two most relevant frameworks are the United Nations Commission on International Trade Law (UNCITRAL) and the International Center for the Settlement of Investment Disputes (ICSID). Despite divergent expert opinions, for both UNCITRAL and ICSID arbitrations, the definition of investment centres on the extended *Salini Test*[37], which requires that an investment satisfy six key elements[38, 39], namely:

- Investor to make a contribution in money or other assets;
- Money or asset outlay to be for a certain duration of time;
- Operation made in order to develop an economic activity in the recipient country;
- Activity to be undertaken to involve an element of risk;
- Money or asset deployed in accordance with the laws of the recipient country;
- Activity to be *bona fide*, not phoney or spurious.

2.1 Classification and Contextual Observations about Diaspora Investment

The diaspora contributes to African development through varied and diverse socio-economic and financial interventions. Evidently, not all types of diaspora finance fit within the general and tribunal-based definitions of financial investment. Aspects of diaspora finance, such as philanthropy and collective remittances expand and enhance socio-economic development, but the diaspora 'investors' do not necessarily expect financial returns. This chapter classifies diaspora investment into four main types, as follows:

- Development Investment: Diaspora Philanthropy (DP)
- Socio-Economic Investment: Diaspora Remittances (DR)
- Economic and Business Investment: Diaspora Direct Investment (DDI)
- Regulated Financial Investment: Diaspora Portfolio Investment (DPI).

Explanation, status summary and analyses of DP, DR and DDI are given below. The subsequent chapter is devoted to assessing the status and viability of DPI, which is the least understood type of diaspora investment, and the focus of the African Union's 2012 legacy project.

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[36] Definition by Investopedia: https://www.investopedia.com/terms/i/investment.asp - Accessed 1 April 2019

[37] Halonen, Laura (2011), Bridging the Gap in the Notion of 'Investment' between ICSID and UNCITRAL Arbitrations: Note on an Award Rendered under the Bilateral Investment Treaty between Switzerland and Uzbekistan (Romak SA v Uzbekistan), *ASA Bulletin* Vol. 29, No. 2, 2011, pp. 312-326
https://www.lalive.law/wp-content/uploads/2017/07/Romak_note_as_published.pdf

[38] Grabowski, Alex (2014), The Definition of Investment under the ICSID Convention: A Defense of Salini, *Chicago Journal of International Law*, Vol. 15: No. 1, pp. 287-309
https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=1058&context=cjil

[39] Malik, Mahnaz (2009), Definition of Investment in International Investment Agreements, Best Practice Series, Bulletin 1, Winnipeg, International Institute for Sustainable Development (ISSD)
https://www.iisd.org/pdf/2009/best_practices_bulletin_1.pdf

The review of African diaspora investments is informed by extensive consultative research, literature and online review, critical analysis of key publications on the topic[40, 41], and discussions with key experts, practitioners and stakeholders[42]. Three key underlying observations are highlighted below.

I. **Classification of Investments:** There is a clear difference between expert discourse of diaspora finance and general popular discussions. Apart from remittances, diaspora finance and investments are often discussed in generalities without distinctive technical categorisation. As such, there is often a conflation of the different types of diaspora investments, thereby impairing analytical comparisons and observations. With diaspora finance and investment being high on the international development agenda, it has attracted immense interest and extensive commentary. However, the level of technical knowledge and understanding seem to be relatively low, even amongst development professionals. Consequently, this report has proposed a simple working classification of diaspora investment as set out above, serving as a working and contextual framework.

II. **More Plans than Actions:** There are far more plans, proposals and aspirations than actual operational diaspora investment schemes. Online searches provide extensive results on conferences, seminars and workshops on diaspora investments and proposals for new schemes. These proposals and aspirations are set out by diaspora organisations and entrepreneurs, as well as African governments and multilateral institutions. In some instances, governments and organisations have discussed and promoted specific schemes for many years without the proposal turning into operational reality. The 'investment stories' are repeated in reputable publications, and referenced at high level global platforms. This creates and deepens the perception of the existence of a multitude of schemes, whereas the actual reality is that the number of operational investment schemes is relatively small.

III. **Re-Branding of ADIF to ADFC:** One of the legacy projects that arose from the 2012 AU Global African Diaspora Summit (GADS) was the called: 'African Diaspora Investment Fund (ADIF)', which is a generic descriptive name. 'ADIF' as programme title has the advantage of simplicity, but one major disadvantage is that it can also be used by others, as is the case already[43]. Furthermore, for this proposed commercial institution to be successful it would have to issue different Bonds and manage multiple Funds, each given specific names and titles. As such, 'ADIF' as a name with the singular word 'Fund' is limiting as the programme would comprise not one but multiple Funds. It is therefore proposed that the AU legacy project be re-branded as the African Diaspora Finance Corporation (ADFC). This name is more encompassing for a venture that will deal in diverse and multiple investment products and services. The name also reflects the entrepreneurial and corporate nature of the venture.

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40 The research included review of the seminal publication: Plaza, Sonia and Ratha, Dilip (Eds.) (2011), Diaspora for Development in Africa, Washington DC, World Bank
http://documents.worldbank.org/curated/en/389011468191676942/pdf/616380PUB0Dias1351B0Extop0ID0182580.pdf

41 Hack-Polay, Dieu and Siwale, Juliana (Eds.) (2018), African Diaspora Direct Investment: Establishing the Economic and Socio-Cultural Rationale, London, Palgrave Macmillan

42 Experts and practitioners consulted include: Commissioners and directors of the African Union Commission; Directors at Afreximbank; Officials at the World Bank, African Development Bank and UN Economic Commission for Africa; Diaspora-development practitioners in USA and UK; journalists with background in diaspora finance; and independent experts in diaspora finance and investments.

43 In December 2018 an organisation called RemitFund launched what it called the "world's first African Diaspora Investment Fund' without any reference to the 2012 AU ADIF legacy project.
https://digestafrica.com/remitfund-african-diaspora-investment-fund/#.XHjAUPZ2vlU - Accessed 1 April 2019

2.2 Diaspora Philanthropy as Development Investment

Diaspora philanthropy is an important form of financial contribution to development; however, it does not fit the definition of financial investment in that profit or financial return is neither expected nor received by the migrants who make the contributions[44]. It is a form of development investment in that recipients gain short and long term socio-economic benefit and advancement. Diaspora philanthropy is also relevant in the discussion of investments because the donors are also potential investors in financial investment products that target the diaspora. As donors who provide finances without any profit or returns, they are also likely to be social impact investors. The key characteristics of diaspora philanthropists as investors are that they: provide 'Patient Capital' (waiting longer period of time for their returns); accept 'Patriotic Discounts' (financial returns below market rates, in expectation that national development is advanced); make 'Impact Investments' (apply their resources to ventures that are positively sustainable, ethical and socially beneficial).

The main forms of diaspora philanthropy are set out below.

- **Direct Donations:** Direct donations are made to community members who are not relatives or friends, and contributions to local civil society, religious, social and community appeals and schemes. In recent years, crowd-funding websites such as 'justgiving', 'globalgiving' and 'gofundme' have been used by diaspora development practitioners and activists for philanthropic fundraising.

- **Collective Remittances:** Indirect collective remittances are channelled through Home Town, Community and Alumni Associations (HCA) and diaspora networks, charities, trusts, foundations and humanitarian organisations. Institutions such as the World Bank[45] and Overseas Development Institute (ODI)[46] have confirmed that direct household remittances increase resilience pre and post disasters. Similarly, the Diaspora Emergency Action and Coordination (DEMAC) project which studied the role of diaspora humanitarian action in Syria, Somalia and Ebola-afflicted Sierra Leone, indicates that philanthropic collective remittances and other diaspora resources and skills contribute significantly to relief, coping mechanisms and community resilience in recipient countries[47].

- **National Trust Funds:** Some countries have set up national trust funds, and charitable appeals. In 2012, the Rwanda Agaciro Development Fund (ADF) was launched as a sovereign fund based on diaspora, foreign and local donations. In 2016, its asset value was about RWF39 Billion (USD43m)[48]. In August 2018, the Ethiopia Diaspora Trust Fund (EDTF) was set up to fund high impact development projects. By April 2019, 20,000 people in 70 countries had contributed about USD4m[49], through an online crowd-funding platform and bank deposits.

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[44] Newland, Kathleen, Terrazas, Aaron and Munster, Roberto (2010), Diaspora Philanthropy: Private Giving and Public Policy, Washington DC, Migration Policy Institute
file:///C:/Users/user/AppData/Local/Packages/Microsoft.MicrosoftEdge_8wekyb3d8bbwe/TempState/Downloads/diasporas-philanthropy%20(1).pdf

[45] Mohapatra, Sanket, Joseph, George and Ratha, Dilip (2009), Remittances and Natural Disasters: Ex-post Response and Contribution to Ex-ante Preparedness, Washington DC, World Bank

[46] Bragg, Catherine et al (2018), Remittances as aid following major sudden-onset natural disasters, *Disasters*, Vol. 42 No 1, pp. 3-18

[47] DEMAC is run by a consortium comprising ECHO, Danish Refugee Council (DRC), African Foundation for Development (AFFORD) and Berghof Foundation. See website: http://www.demac.org/sharing-knowledge/demac-publications - Accessed 1 April 2019

[48] The 2016 Agaciro Development Fund (AGDF) Financial Report lumps together contributions from the diaspora, Friends of the Rwanda, local donors, and earnings from invested funds: http://agaciro.rw/fileadmin/user_upload/scan0042.pdf - Accessed 1 April 2019

[49] See the EDTF website: https://www.ethiopiatrustfund.org/about-us/#Mission - Accessed 15 April 2019

2.3 Diaspora Remittances as Socio-Economic Investment

Of all the different types of diaspora investment, remittances are the most studied, yet there are still aspects of it that are not well understood. For many African countries, data on informal flows, in-kind remittances, and usage of remittances for informal businesses or formal portfolio investments are scarce. Studies on remittance usage in particular sectors exist, but a full picture is yet to be painted[50, 51].

2.3.1 Formal, Informal and In-Kind Remittances to Africa

Remittance inflow to Africa is the single most important evidence of diaspora investment in Africa. The World Bank estimated that in 2018, the diaspora sent USD86 Billion to Africa through formal channels such as Money Transfer Operators (MTOs), Banks, Non Bank Financial Institutions and Mobile Money. In addition to financial institutions, migrants and the diaspora still use unregistered and informal channels to send money to Africa, and send remittances in kind. The non-formal remittance methods include the following:

- Unregistered money transfer businesses and agencies[52]
- Cash carried by couriers, self, friends and family travelling to country of origin or heritage
- In-kind remittances via freight/transfer of consumer goods, business equipment and physical assets
- 'Hawala' and 'Hundi'[53] System: Sender makes cash payment to broker in the diaspora; broker instructs other broker to pay cash to remittance beneficiary in the recipient country
- 'Provide and Refund' System[54]: 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
- 'Pay and Provide' System: Sender makes cash payment to contact or entrepreneur in the diaspora; the contact or entrepreneur provides goods and services to the in-kind remittance beneficiary in the recipient country.

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[50] Ogbuagu, Buster C.(2013), Remittances and in-kind products as agency for community development and anti-poverty sustainability: Making a case for Diasporic Nigerians, *International Journal of Development and Sustainability*, Vol. 2 No. 3 pp. 1828-1857 https://isdsnet.com/ijds-v2n3-13.pdf

[51] Plaza, Sonia, Navarrete, Mario and Ratha, Dilip (2011), Migration and Remittances Household Surveys in Sub Saharan Africa: Methodological Aspects and Main Findings, Washington DC, World Bank and African Development Bank http://pubdocs.worldbank.org/en/866251444753456291/Plaza-Navarrete-Ratha-MethodologicalPaper.pdf

[52] The author of this report differentiates between unregistered and informal remittances. There are unregistered Money Transfer Operators which use bank accounts, deposit and receipt documentations, mobile phone alerts and other formal processes, which are not registered with state authorities or regulators. Some of these are illegal operations, whilst others are in a legal grey area. Informal remittances on the other hand include transfers through friends and other ad hoc, unstructured or indirect transfers. It is not clear whether ATM withdrawals and debit and credit card payments in country of origin/heritage by the diaspora is always included in formal remittance flows. (Remittances through cash in envelopes using the postal system has almost died out)

[53] Hawala (referred to as Hundi in India) is an Arabic word meaning 'transfer' and it is an ancient mechanism for international money transfer and trade facilitation, without the actual immediate movement of funds. Customers or principals use brokers in sending countries, who through network of other Hawala brokers facilitate cash payments. Format of settlement and actual balance settlements are agreed amongst brokers. The system is based on trust. Hawala is still widely used in Asia, Middle East and East Africa, especially when formal banking services are weak, time consuming or expensive. See:
WB and IMF (2003) Informal Funds Transfer Systems: An Analysis of the Informal Hawala System, Washington DC, World Bank and International Monetary Fund http://documents.worldbank.org/curated/en/410351468765856277/pdf/multi0page.pdf

[54] The author documents in this report the 'Provide and Refund' and 'Provide and Pay' remittance systems which are not well studied or described in the academic or practitioner literature.

2.3.2 Remittance Flows to Africa

According to the World Bank, in 2018, formal remittances to Africa totalled USD86 Billion[55, 56]. Of this, 70%, i.e. USD60.6 Billion was received by only three countries, namely Egypt (USD28.9 Billion, being 11.6% of GDP), Nigeria (USD24.3 Billion, being 6.1% of GDP) and Morocco (USD7.4 Billion, being 6.2% of GDP). In terms of volume of remittance receipts, the gap between these three countries and the rest of Africa is huge, with the fourth largest recipient being Ghana at USD3.8 Billion (7.3% of GDP). The five highest remittance recipients after Ghana were: Kenya at USD2.7 Billion (3.0% of GDP); Tunisia at USD2.0 Billion (4.9% of GDP); Senegal at USD2.2 Billion (9.1% of GDP); Algeria at USD1.9 Billion (1.0% of GDP); and Zimbabwe at USD1.9 Billion (9.6% of GDP). For five African countries, formal remittances alone account for over 10% of GDP. They are Comoros (19.1%); The Gambia (15.3%); Lesotho (14.7%); Cape Verde (12.3%); and Liberia (12.0%).

The World Bank confirmed that 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%. The two cheapest intra-African remittance corridors were about 3.5%, 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"*[57].

Experts claim that unrecorded informal remittances are as high, if not higher than formal transfers[58]. Taking into account funds sent through formal and informal channels, and in-kind remittances, it is estimated that total annual remittances to Africa can be as high as USD200 Billion. Formal remittances, which keep growing, are higher than all other forms of non-trade financial flows, as shown below[59].

Inflows to Africa (USD Billion)	2011	2012	2013	2014	2015
Migrant & 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

Table IV: Financial Inflows to Africa 2011-15 (UNCTAD, 2018)

[55] World Bank (2019), Migration and Development Brief 31: Migration and Remittances, Washington DC, World Bank
https://www.knomad.org/sites/default/files/2019-04/Migrationanddevelopmentbrief31.pdf

[56] The data in the World Bank Remittance Briefs are presented for Sub Saharan Africa (SSA) and Middle East and North Africa (MENA). The 2018 remittance data for AU countries classified under MENA are as follows: Algeria $1.9 Bn; Djibouti $63 Million; Egypt $28.9 Bn; Libya (no data); Morocco $7.4 Bn; and Tunisia $2 Bn (totalling $40 Bn). The 2018 remittance total for SSA was $46 Bn.
See source for individual country remittance data provided by the World Bank:
http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data - Accessed 15 April 2019

[57] https://www.un.org/sustainabledevelopment/inequality/ - Accessed 15 April 2019

[58] The Lead Economist on Migration and Remittances at the World Bank, Dilip Ratha, stated that "unrecorded flows through informal channels are believed to be at least 50 percent larger than recorded flows."
See: https://www.imf.org/external/pubs/ft/fandd/basics/remitt.htm - Accessed 15 April 2019

SSRC reported that informal remittances are estimated to vary from 35% to 250% of formal flows.
SSRC (2009), Topic 4: Formal vs. Informal Remittances, New York, Social Science Research Council
https://www.ssrc.org/publications/view/4297524A-B74F-DE11-AFAC-001CC477EC70/

[59] AfDB (2017), African Economic Outlook 2017: Entrepreneurship and Industrialisation, Abidjan, Paris and New York, African Development Bank (AfDB), Organisation for Economic Co-operation and Development (OECD), United Nations Development Programme (UNDP) http://www.undp.org/content/dam/rba/docs/Reports/African_Economic_Outlook_2017_EN.pdf - See pages 44-45

2.3.3 Remittances, Socio-Economics and Development

The bulk of the private remittances sent to family and friends and for philanthropic purposes is spent on housing, food, education, health, and for social and community relations and support. They are consumptive in nature in that they are generally spent as they are received, on goods and services that do not generate income or economic assets. The percentage of remittances spent on real estate, SME and other business ventures can be described as being part of the Diaspora Direct Investment (DDI) sector; and remittances used as savings can be seem as potential Diaspora Portfolio Investment (DPI) – as discussed below. A good part of remittance savings is eventually spent on consumptive and non-regenerative activities and small scale direct investments. However, apart from the inflow of foreign exchange, remittance flows circulate in the local and national economy of recipient countries, creating an economic multiplier effect, which is beneficial to the social economy[60].

Remittances are now globally recognised as a form of development and socio-economic diaspora investment, of cardinal importance to Africa and other developing economies. This was not always the case; recognition came after years of research, analyses and advocacy by non-mainstream and pioneering diaspora organisations such as AFFORD. In 2006, the World Bank Global Economic Prospects (GEP) report was devoted to 'Economic Implications of Remittances and Migration'[61]. This became a seminal publication, leading to governments and multilateral institutions giving due regard and attention to this form of diaspora-development investment and finance. Initiatives and innovations to improve remittances as a form of socio-economic development finance have accelerated since the mid 2000s.

In 2009, the RemitPlus™ project was launched as a practical proof of concept and pilot operation, to develop diaspora finance through 'Enhanced Remittances' and 'Beyond Remittances', using the UK-Sierra Leone corridor as a case study. The project was implemented in the context of the first UN High Level Dialogue of Migration and International Development (UNHLD) of 2006, the World Bank GEP report, and the aftermath of the world economic crisis of 2008. For 'Enhanced Remittances', the project ran activities on financial literacy for remittance senders, and business training for recipients; launched an online remittance platform; facilitated for a Micro Finance Institution to become a remittance paying-out agent in rural and urban areas; linked remittances to bank accounts; used remittance history of receipts for credit rating and financial profiling. Commercial players (e.g. WorldRemit and Azimo) have taken up and developed the elements of remittance enhancement addressed by the pilot project. The RemitPlus™ activities relating to 'Beyond Remittances' focussed on accessing savings (which are not remitted) and harnessing other diaspora resources (e.g. borrowing) to DDI and DPI[62].

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[60] Remittance recipients have increased capacity to spend moneys on local goods and services. This spending has a positive economic effect on the economic capacity not only of the providers, but also their employees and suppliers. These indirect economic beneficiaries then spend on other local goods and services thus creating a multiplier and trickle effect.

[61] World Bank (2006), Global Economic Prospects: Economic Implications of Remittances and Migration, Washington DC, World Bank http://pubdocs.worldbank.org/en/346121443469727614/Global-Economic-Prospects-2006-Economic-implications-of-remittances-and-migration.pdf

[62] The RemitPlus™ project was implemented by AFFORD in 2009-11.
AFFORD (2012), RemitPlus™ Project Report, London, African Foundation for Development (AFFORD) https://afford-uk.org/wp-content/uploads/2019/02/RemitPlus-Report-2012-Update.pdf

2.4 Diaspora Direct Investment as Economic and Business Investment

Paragraph 6.8 of the 'Balance of Payments and International Investment Position Manual (Sixth Edition BPM6)', published by the International Monetary Fund (IMF) defines 'Direct Investment' as *"a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy"*[63]. This is generally referred to as Foreign Direct Investment (FDI). Direct investment relationships arise when the investor owns equity that entitles them to 10% or more of the voting power. An investor is deemed to have significant degree of influence if their voting power is between 10% and 50%. If an investor has voting power of 50% or more, they are deemed to have control of the enterprise.

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 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. 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.

2.4.1 Nature of DDI in Africa

Institutions like IMF, World Bank and UNCTAD monitor annual global flows of external finance received by countries across the world. Four of these forms of development finance are: Official Development Assistance (ODA), Foreign Direct Investment (FDI), Portfolio Investments (equity and debt) and Remittances. FDI are investment funds used as capital to invest directly in business and productive ventures. FDI funds are generally received by larger corporations (private, public or Public Private Partnerships), through Mergers, Acquisitions and Greenfield ventures. Similar to FDI, Diaspora Direct Investment (DDI) is external development finance invested in businesses in the receiving country. However, DDI in general has distinguishing features including the following[64, 65, 66]:

- 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 and heavy industry
- Investments include collective remittances used for diverse ventures and projects
- Investments are channelled predominantly to self-employed friends and family, and MSMEs
- Investments are channelled to unregistered 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.

[63] https://www.imf.org/external/pubs/ft/bop/2007/pdf/chap6.pdf - Accessed 15 April 2019

[64] Elo, Maria and Riddle, Liesl (Eds) (2015), Diaspora Business, Oxford, Interdisciplinary Press

[65] Ojo, Sanya *et al* (2013), African diaspora entrepreneurs: Navigating entrepreneurial spaces in 'home' and 'host' countries, *International Journal of Entrepreneurship and Innovation,* 14(4), pp. 289–299

[66] Rodriguez-Montemayor, Eduardo (2012), Diaspora Direct Investment: Policy Options for Development, Washington DC, Inter American Development Bank

2.4.2 Snapshot of FDI Inflows to Africa

The annual measures of global external finance and investment flows cover FDI but not DDI. However, even with relatively high receipts by South Africa and North African countries, as a continent, Africa receives a small percentage of FDI. FDI to Africa accounted for less than 3% of GDP, smaller than remittances and ODA[67]. Based on UNCTAD figures adjusted in January 2019, FDI inflows to Africa for the 5 years 2014-18 was about 3% of global flows[68].

Year	FDI in USD Global	FDI in USD Africa	% of Global FDI Inflow to Africa
2018	1,188 Billion	40 Billion	3.37%
2017	1,470 Billion	38 Billion	2.59%
2016	1,868 Billion	53 Billion	2.84%
2015	1,921 Billion	57 Billion	2.97%
2014	1,324 Billion	71 Billion	5.36%
5-Year Total	**7,771 Billion**	**259 Billion**	**3.33%**

Table V: Foreign Direct Investment to Africa (UNCTAD, 2018; UNCTAD, 2019)

This low level of inflow is consistent with historic FDI trends in Africa over the past few decades. Furthermore, FDI is not distributed evenly, they tend to go to a small number of relatively industrialised, oil producing and mineral rich countries such as South Africa, Egypt, Nigeria, Angola[69].

FDI flows are also channelled through a range of Private Equity (PE), Venture Capital (VC) and impact investment funds. In 2018, PE and VC funds agreed 186 business deals in Africa valued at USD3.5 Billion. In the 5 years 2014-18, a total of 836 deals were agreed, valued at USD21.6 Billion[70]. Africa is also witnessing a steady increase in the number of impact investment funds. The growth is stimulated by Blended Finance, Public Private Partnerships, and other collaborations for sustainable development[71, 72].

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67 IMF and UNCTAD investment data as presented by the World Bank - Accessed 15 April 2019
https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?end=2017&locations=ZG&name_desc=false&start=1970&view=chart

68 UNCTAD World Investment Reports and Trends Monitor:

UNCTAD (2019), Investment Trends Monitor: Issue 31, Geneva, United Nations Conference on Trade and Development
https://unctad.org/en/PublicationsLibrary/diaeiainf2019d1_en.pdf?user=46

UNCTAD (2018), World Investment Report 2018: Investment and New Industrial Policies, Geneva, UNCTAD (page 15)
https://unctad.org/en/PublicationsLibrary/wir2018_en.pdf

UNCTAD (2017), World Investment Report 2018: Investment and the Digital Economy, Geneva, UNCTAD (page 4)
https://unctad.org/en/PublicationsLibrary/wir2017_en.pdf

69 Ketkar, Suhas and Ratha, Dilip (2009), Innovative Financing for Development, Washington DC, World Bank
http://pubdocs.worldbank.org/en/335011444766662755/e-book-Innovative-Financing-for-Development.pdf

70 AVCA (2019), 2018 Annual African Private Equity Data Tracker, London, African Private Equity and Venture Capital Association (AVCA)

71 UNDP (2016), Impact Investment in Africa: Trends, Constraints and Opportunities, New York, United Nations Development Programme
https://www.undp.org/content/dam/undp/library/corporate/Partnerships/Private%20Sector/Impact%20Investment%20in%20Africa/Impact%20Investment%20in%20Africa_Trends,%20Constraints%20and%20Opportunities.pdf - Accessed 15 April 2019

72 IFC (2019), Creating Impact: The Promise of Impact Investing, Washington DC, International Finance Corporation
https://www.ifc.org/wps/wcm/connect/66e30dce-0cdd-4490-93e4-d5f895c5e3fc/The-Promise-of-Impact-Investing.pdf?MOD=AJPERES
- Accessed 15 April 2019

2.4.3 Analytical Observations about Measurement of DDI

Given the non-availability of structured annual data on DDI inflow to Africa, a number of analytical observations and recommendations are made below.

I. Informal DDI

DDI has characteristics similar to remittances in that some of it is formal, being investments in registered and incorporated businesses, whilst a significant percentage is informal, being investments to unincorporated businesses. In Africa, the informal sector forms a significant percentage of the economy, providing up to 65% of all jobs[73]. Annual surveys and other studies and data-gathering exercises on the informal sector need to include estimates of DDI contribution to job creation. This is important as 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, the individual DDIs may be small, but the aggregate is likely to be very high.

II. In-Kind DDI

FDI funds are used, amongst other things to procure plant, machinery and business equipment, fittings, furniture and other assets. With DDI, physical assets are often provided in kind. As skilled professionals, the diaspora also provide in-kind managerial and technical input when they operate as entrepreneurs or work with business associates in Africa. Given that procuring technical, managerial and expert input is factored into FDI flows, diaspora in-kind technical input should be recognised as a part of DDI inflows. Methodologies for DDI measurement would need to feature and monetise these in-kind direct investments. It has been argued that DDI not only provides capital investment, but as a package it offers Brain-Gain and technological development, whilst serving as business catalyst in countries of residence, and facilitator for bilateral trade and development cooperation[74].

III. DDI through Investment Clubs and Networks

It should be noted that some of the collective remittances generated by hometown and alumni associations are used not for philanthropy, but as small scale impact investments in the African social economy. Beyond that, the diaspora create pooled funds through diaspora investment clubs and business angel networks, with the specific purpose of making direct investments in diverse businesses, as well as investments in regulated financial products. Data on the value of this source of DDI is often absent. It would be possible for multilateral agencies to work with these investment clubs and networks[75] to begin to gather aggregate annual data of investment club inflows to Africa.

[73] Medina, Leandro, Jonelis, Andrew and Cangul, Mehmet (2017), The Informal Economy in Sub-Saharan Africa: Size and Determinants, IMF Working Paper WP/17/156, Washington DC, International Monetary Fund file:///C:/Users/user/AppData/Local/Packages/Microsoft.MicrosoftEdge_8wekyb3d8bbwe/TempState/Downloads/wp17156%20(1).pdf

[74] Ardovino, Michael and Debass, Thomas (2009), Diaspora Direct Investment (DDI): The Untapped Resource for Development, Washington DC, United States Agency for International Development (USAID) file:///C:/Users/user/AppData/Local/Packages/Microsoft.MicrosoftEdge_8wekyb3d8bbwe/TempState/Downloads/ArdovinoDDIpaper%20(1).pdf

[75] Continent-wide and regional diaspora investment networks include: 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/; FORIM PRA/OSIM https://www.forim.net/contenu/praosim-0
- Accessed 15 April 2019

IV. DDI through Angel and Personal Financing

There is a tendency for friends and family, and specialist diaspora business angels to invest in ventures in countries of origin, through known and trusted diaspora entrepreneurs. It is also known that the absence of transboundary financing instruments makes it difficult for the diaspora to raise business loans in countries of residence, for ventures in countries of origin or heritage, especially for SME investment. As such, the diaspora raise personal or other forms of domestic loans for use as DDI. DDI measurement methodology need to include means of identifying angel and joint venture investors, as well as quantifying the re-direction of domestic loans into business investment in Africa.

V. Real Estate 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. DDI measurement should explore the extent to which these investments are active commercial ventures or passive domestic acquisitions. There is evidence indicating that the diaspora invests in real estate in country of origin and heritage for the following broad purposes:

- First, provide housing for parents and extended family (fully occupied; generating no rental income)
- Second, acquire housing for self and nuclear family resident abroad (partly occupied during holiday visits; generating no rental income)
- Third, develop future residence for self and nuclear family (fully or partly occupied for several years by rent paying tenants)
- Fourth, develop residential and commercial units for short term rental, longer term leasing or outright sale (generating income).

For the purposes of investment measurement, the fourth category falls squarely under DDI. The third category is important as DDI for several reasons. Many diaspora investors find themselves occupying their houses less and less due to easy accessibility to relatively cheap package holidays which include hotel accommodation. Sometimes the diaspora investor and their family prefer to stay in a location more central and desirable than where their property is. They also try to avoid disruption of existing tenancy agreements. Furthermore, the diaspora uses the asset as leverage and guarantee for local bank loans to invest in other real estate ventures and in other businesses.

The rise in online booking apps such as AirBnB means that the investment and income generating component of the second category real estate DDI is growing. It should also be noted that even for the first category, diaspora investors tend to build or invest in mixed-unit real estate. Residential housing is often complemented with rental units on the same location. Sometimes commercial units such as shops, offices and storage facilities are build on same plot where the house is constructed.

The World Bank has previously undertaken household surveys to estimate the value of remittances spent on real estate[76]. This can inform methodology for assessing real estate DDI in Africa.

[76] Plaza, Sonia, Navarrete, Mario and Ratha, Dilip (2011), Migration and Remittances Household Surveys in Sub Saharan Africa: Methodological Aspects and Main Findings, Washington DC, World Bank and African Development Bank, http://pubdocs.worldbank.org/en/866251444753456291/Plaza-Navarrete-Ratha-MethodologicalPaper.pdf

VI. DDI Incentives

Several African countries have schemes, backed by policy and legislation, that provide DDI incentives and tax breaks comparable to those available for FDI. 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[77, 78]. These countries tend to set a lower threshold of cash investment requirement for the diaspora, to trigger access to the 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 USD500,000) or 10% of costs, for projects implemented in Morocco[79]. For Senegal, the 'FAISE' programme provides low-interest, 5-year loans of up to 15 Million CFA (over USD25,000), with repayment holidays, for diaspora projects[80]. Other countries have made it easy for the diaspora to access domestic investment incentives such as loan guarantee schemes. A structured DDI measurement methodology would need to map and monitor output from the various diaspora incentive schemes across Africa.

VII. DDI Programmes

In addition to collective and individual DDI ventures as discussed above, there are a number of occasional and programmatic diaspora co-financing schemes operating from Europe and North America. These tend to involve diaspora organisations working together with partners to stimulate and/or enhance investments to particular countries or sectors. Examples include:

- 'Diaspora Programme Support (DiPS)' grants of up about USD75,000 for projects including income-generating social enterprises in Somalia, run by Danish Refugee Council (DRC)[81]

- 'African Diaspora Marketplace (ADM)' business plan competition prizes of up to USD70,000, run by USAID[82]

- 'AFFORD Diaspora Finance (ADF)' social enterprise co-finance of USD38,000, co-funded by UK Department for International Development and Comic Relief charitable trust[83]

- 'PRA/OSIM' diaspora enterprise and project co-finance of up to about USD34,000, managed by FORIM and financed by the French Agency for Development (AFD)[84]

- 'Entrepreneurship by Diaspora for Development (ED4D)' support programme for Ghanaian and Ethiopian diaspora in the Netherlands, run by IOM and the Netherlands Senior Experts (PUM)[85].

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77 Gambia: http://giepa.gm/Investment%20and%20Export%20Incentives%20and%20Support%20to%20MSMEs
78 Ghana: https://www.gipcghana.com/invest-in-ghana/why-ghana/tax-regime-and-incentives.html
79 Morocco: http://www.ccg.ma/en/votre-projet/mdm-invest
80 Senegal: http://faise.sn/
81 Denmark: https://drc.ngo/media/1893463/new-infographics_4-parts-in-one-file.pdf
82 USA: http://diaspora.globalinnovationexchange.org/organizations/african-diaspora-marketplace
83 United Kingdom: http://www.afford-diasporafinance.org/ (Also see case study on ADF below)
84 France: https://www.forim.net/contenu/praosim-0
85 Netherlands: https://www.connectingdiaspora.org/ed4d/call-for-business-ideas/
- Accessed 15 April 2019

Review of the diaspora finance sector shows that the sub-sectors of conferences, seminars, workshops and studies on the merits, options, opportunities and innovations of diaspora investment are very vibrant. Topics of discussion range from standard DDI propositions to exploratory themes on crypto-currencies and complex forms of future flow and diaspora remittance securitisation. There is a major gap between the aspirations of the sector and the actual actions and operations. Case studies are given below of a proposed mega DDI scheme, and an actual SME DDI co-finance programme.

VIII. Social Impact Questions for DDI Measurement

For Africa, FDI funds traditionally tend to go to the extractive industries, and in recent years to the lucrative infrastructure and telecom sectors. Despite periods of high economic performance and high returns, Africa's share of FDI remains miniscule. This 'FDI Paradox' is partly caused by low levels of infrastructure, institutional and human capital[86]. The 'FDI Paradox' is reinforced by unfavourable and negative perceptions about risk in Africa.

DDI measurement methodology should include social impact assessments and comparisons with FDI. Assessment questions should include:

- In comparison with FDI, to what extent is DDI countercyclical, what is the value of DDI funds channelled into under-invested sectors?
- To what extent does DDI create viable and decent jobs in the local economy and generate national and regional multiplier effect?
- To what extent are DDI profits reinvested locally, held in reserves locally or repatriated abroad?

Measurement methodology needs to also monitor the collective remittances used for socially responsible businesses, social enterprises, cooperatives and regenerative ventures, as well as investments in community amenities and facilities.

2.4.4 Case Studies of Structured DDI

DDI to Africa operates as discussed above, characterised by the absence of comprehensive data. However, there is no shortage of plans and proposals to expand and enhance DDI and other forms of diaspora finance. There are far more planned and prospective schemes, than actual structured DDI ventures. This indicates that institutional support is needed to help implement new schemes and expand existing ones. Examples of two DDI schemes from the United States and the United Kingdom are presented below.

[86] Odusola, Ayodele (2018), Foreign Direct Investment Paradox in Africa, *Africa Renewal Online (Dec 2018 – Feb 2019)*, UN, New York https://www.un.org/africarenewal/web-features/addressing-foreign-direct-investment-paradox-africa

I. Proposed US-Africa Diaspora Development Fund (Wakanda One Village Project): Mutual Fund in the USA for Specific Projects in Africa

Origins & Promotion:	The Fund was conceived by the African Union Ambassador to the USA in Washington, who is part of the African diaspora in the US and an accomplished medical practitioner and entrepreneur.
Summary Description:	The proposed Fund will be set up in the USA, in partnership with African-American banks and financial institutions. Diaspora investors shall contribute through flexible subscriptions which can be as low as $10 per month. The pooled funds shall be invested in ambitious, innovative, iconic and sustainable 'New Tech Integrated Villages' in Africa, with teaching hospital, technical university, pharmaceutical manufacturing, complemented by hotels, shopping centres and road infrastructure for self-drive cars, light railway, and other world class amenities. The Wakanda One villages shall attract professional staff, residents, visitors from the Atlantic and new African diaspora, as well as others from across the world. The project shall be linked to the launch of an African Global Diaspora Bank, expected to raise USD5 Billion investment capital, with USD2 Billion required for the first two Villages in Zimbabwe and Zambia[87]. This is an example of a proposed mega DDI project.
Main Investors:	African Diaspora in the USA, including African-Americans
Project Locations:	Zimbabwe and Zambia (First set of Wakanda One villages)
Implementation Timeline:	Concept, consultations, feasibility studies and partnerships (2018-19) Negotiations, legal, regulatory and operational implementation (2020-21)
Possible Links to African Portfolio Investment:	As a collective investment fund in the diaspora, Wakanda can be an investor in Diaspora Bonds and Mutual Funds; As an asset developer and programme operator in Africa, investment institutions in Africa can be investors in the asset-based Wakanda projects in Africa, especially to part-fund replication and expansion to other countries.

Table VI: Case Study: Wakanda One Village Project

[87] Personal discussion by the author of this report with H.E. Amb. Dr. Arikana Chihombori-Quao and news reports in December 2018 https://face2faceafrica.com/article/aus-plan-of-building-a-real-wakanda-for-the-african-diaspora-gets-a-jumpstart
- Accessed 31 January 2019

II. Operational UK-Based AFFORD Diaspora Finance (ADF): Co-Finance for Diaspora Enterprises in Africa

Origins & Promotion:	ADF was developed in 2013, after the seminal Diaspora Impact Funding conference of 2012. AFFORD is a pioneer in diaspora-development policy and practice, set up in the UK in 1994, operating as a registered charity and company limited by guarantee, with a portfolio of projects in the UK and Africa, and policy advocacy and development work globally.
Summary Description:	ADF was set up in the UK, in partnership with Comic Relief, Department for International Development (DFID), Pharo Foundation and Noel Buxton Trust. ADF is a co-finance/matching fund scheme with financial contributions from AFFORD's partners. Business development and project management training and mentoring is provided by the AFFORD Business Club (ABC) to diaspora entrepreneurs and investors planning projects in Africa. The trainees and others participate in an open public Diaspora Business Plan Competition (DBPC), for high impact, job-creating socially responsible businesses and social enterprises operating in Africa. Winners receive co-finance of 50% to 80% of their capital requirement from ADF in the form of grants, loans or equity, to a maximum of £30,000 (about USD38,000). Co-finance recipients continue to receive business support for 3-5 years from ABC in the UK and from AFFORD's BDS partners in Africa, including: Empretec Zimbabwe, Private Sector Federation Rwanda, AFFORD Sierra Leone, and Enterprise Development Centre Nigeria. From its pilot project in 2013-15 to 2018-19, AFFORD has delivered 5 rounds of ADF co-finance, investing in 40 diaspora-led ventures in 10 African countries. The total ADF cash investment is about $1 Million[88]. This is an example of an operational SME DDI project.
Main Investors:	Government and Institutional Development Agencies Charitable Trusts and Private Foundations Corporations and Diaspora Organisations and Donors *(New funders are sought for each round of co-financing)*
Project Locations:	Cameroon; Ethiopia; Ghana; Kenya; Nigeria; Sierra Leone; Somalia; Uganda; Zambia, Zimbabwe
Implementation Timeline:	ADF1 (2013-14); ADF2 (2014-15); ADF3 (2015) ADF4 (2016); ADF5 (2017); ADF6 (2018); ADF6 (2019)
Possible Links to African Portfolio Investment:	As a DDI co-finance fund in the diaspora, ADF can be a recipient of general partnership co-finance from investment institutions in Africa; African Mutual Funds can also be investors in AFFORD's specific asset-based ventures.

Table VII: Case Study: AFFORD Diaspora Finance (ADF)

(DPI, the fourth type of diaspora investment, which is the main focus of the African Union's legacy project on diaspora investment, is discussed in a separate standalone chapter below).

[88] http://www.afford-diasporafinance.org/ https://afford-uk.org/what-we-do/enterprise-and-employment/ - Accessed 31 January 2019

3. Status and Market Conditions of Portfolio Investment in Africa

Paragraph 6.54 of the 'Balance of Payments and International Investment Position Manual (Sixth Edition BPM6)', published by the International Monetary Fund (IMF) defines 'Portfolio Investment' as *"cross border transactions and positions involving debt or equity securities, other than those included in direct investment or reserve assets"*[89]. This is generally referred to as Foreign Portfolio Investment (FPI). 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. Unlike direct investment which gives rise to significant influence or control of the enterprise, 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, amongst other things, protect investors. Reserve assets as mentioned in the IMF definition are currency, commodities and other easily transferable financial capital held by governments and monetary authorities. 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, it is important to note the contextual observations about DPI set out below.

I. **Definition of DPI:** A widely accepted definition of DPI is: *"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"*[90]. However, DPI includes portfolio investments made by multigenerational diasporans in their country of heritage (rather than just country of natal or parental origin), irrespective of their current nationality. African DPI includes investments by African Americans, Afro-Brazilians and other members of the Atlantic Diaspora[91] who may not even be able to pinpoint their origins to a particular country in Africa. Specifically-designed Diaspora Bonds and Diaspora Mutual Funds are important emergent DPI products.

II. **FPI Data for DPI Analysis:** 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. Capital market regulations that govern the structuring, marketing and management of bonds, equities, funds and other financial products are essential, if portfolio investment sector is to exist and thrive. This chapter assesses the state of stock exchanges and bond markets in Africa, whist also discussing 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.

[89] https://www.imf.org/external/pubs/ft/bop/2007/pdf/chap6.pdf

[90] Terrazas, Aaron (2010), Diaspora Investment in Developing and Emerging Country Capital Markets: Patterns and Prospects, Washington DC, Migration Policy Institute file:///C:/Users/user/AppData/Local/Packages/Microsoft.MicrosoftEdge_8wekyb3d8bbwe/TempState/Downloads/diasporas-markets_1023%20(2).pdf

[91] Faal, Gibril (2006), A New Definition and Classification of the African Diaspora, London, GK Partners
See updated version at: http://gambiandiaspora.net/wp-content/uploads/2018/04/MSDG-BP-3-Defining-the-African-Diaspora-Sep-2017.pdf

3.1 Snapshot of Capital Markets in Africa

The most structured, formal and regulated form of international development finance is Foreign Portfolio Investment (FPI). This relates to investment in stocks and shares, bonds and securities, primarily through intermediated mutual funds and investment management entities. The equity and debt financial products are managed through corporate and investment banking services, regulated investment brokers, and other accredited financial and investment institutions operating under capital markets and other comparable statutory frameworks. 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.

Most of the Stock Exchanges comprise small number of listed companies (sometimes with listings in more than one country), and comparatively low levels of trading, as summarised below[92, 93, 94, 95].

Higher Range Stock Exchanges in Africa	Middle Range Stock Exchanges in Africa	Lower Range Stock Exchanges in Africa
South Africa 388 Listings; Founded 1887	Botswana 44 Listings; Founded 1989	Angola 13 Listings; Founded 2016
Egypt 265 Listings; Founded 1883	Namibia 40 Listings; Founded 1992	Eswatini (Swaziland) 10 Listings; Founded 1990
Nigeria 223 Listings; Founded 1960	Cote D'Ivoire (BRVM) 39 Listings; Founded 1998	Rwanda 8 Listings; Founded 2008
Mauritius 170 Listings; Founded 1988	Ghana 37 Listings; Founded 1990	Mozambique 7 Listings; Founded 1999
Morocco 81 Listings; Founded 1929	Tanzania 25 Listings; Founded 1998	Libya 7 Listings; Founded 2007
Kenya 64 Listings; Founded 1954	Zambia 24 Listings; Founded 1994	Algeria 5 Listings; Founded 1997
Zimbabwe 64 Listings; Founded 1948	Seychelles 21 Listings; Founded 2012	Lesotho 5 Listings; Founded 2016
Tunisia 56 Listings; Founded 1969	Uganda 17 Listings; Founded 1997	Cape Verde 4 Listings; Founded 2005
Sudan 54 Listings; Founded 1994	Malawi 14 Listings; Founded 1995	

Table VIII: Stock Exchanges in Africa

[92] See Wikipedia list: https://en.wikipedia.org/wiki/List_of_African_stock_exchanges - Accessed 31 January 2019

[93] Information from the African Stock Exchange Association (ASEA) and review of websites of different Stock Exchanges http://african-exchanges.org/en/membership#contentCarousel/members - Accessed 31 January 2019

[94] Daily market information from selected African Stock Exchanges by African Markets website https://www.african-markets.com/en/tools/performance - Accessed 31 January 2019

[95] Article by the Economist Magazine on 1 December 2016 - Accessed 31 January 2019 https://www.economist.com/finance-and-economics/2016/12/01/africas-stock-exchanges-meet-but-size-holds-them-back

The African Financial Markets Initiative (AFMI) provides an annual ranking of Bond Markets in Africa, and its latest edition is summarised below[96].

Country	Bond Market Ranking 2017	Bond Market Ranking 2016
South Africa	1	1
Botswana	2	4
Egypt	3	3
Namibia	4	5
Mauritius	5	7
Nigeria	6	2
Kenya	7	8
Morocco	8	6
Ghana	9	9
Seychelles	10	11

Table IX: Top 10 Bond Markets in Africa (AFMI, 2018)

3.2 Analytical Observations about Capital Markets in Africa

Key observations about the status and trends of capital markets in Africa are highlighted below.

I. **Listed Companies:** There are other small SEs e.g. Cameroon (2001) and Somalia (2015) each having two listings. Zambia has an agricultural SE (2007), Uganda has an alternative market (2013), and South Africa has a secondary market (2017), with 20 listings. The number of listed companies is not by itself an indicator of the value of the SE, but it is an indicator of the sophistication and activities of the stocks and securities markets. Amongst other things, steady flow of new investment (especially non-cyclical diaspora funds) will stimulate more listings of new enterprises and ventures seeking funds.

II. **Financial Hubs:** In addition to company stocks, the SEs trade in bonds and other securities and debts. Apart from the leading SEs such as South Africa, Nigeria, Egypt and Morocco, new on-shore and off-shore financial hubs have emerged in Africa, namely Mauritius, Namibia and Seychelles. These SEs list a number of foreign companies that are capitalising on investment incentives. The SEs are part of the institutional infrastructure needed to expand and enhance FPI and DPI.

[96] AFMI (2018), African Bond Market Development Index: 2017 Annual Country Rankings and Scores Report, Abidjan, African Financial Markets Initiative (AFMI)

In addition to the Bond Market rankings, a general country ranking is given, with scores based on several criteria, namely: economic, governance and issuance factors; bond market infrastructure; domestic investor base; and diversity of institutional and economic participants. In 2017, the top 10 general country rankings were exactly the same as the Bond Markets rankings.

https://www.africanbondmarkets.org/fileadmin/uploads/afdb/pdf/Publications/ABMDI_Report_2017.pdf - Accessed 1 April 2019

III. **Stock Market Trading:** 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[97].

IV. **African Bonds Market:** In 2008, the African Development Bank (AfDB) launched the African Financial Markets Initiative (AFMI), and in December 2014, it launched the AfDB/AFMI/Bloomberg African Bond Index. The index comprises 212 local currency sovereign debts of 8 countries, namely Botswana, Egypt, Ghana, Kenya, Namibia, Nigeria, South Africa and Zambia, with market capitalisation of USD180 Billion as at January 2018[98,99]. A structured bond market is also essential for the expansion and enhancement of FPI and DPI.

V. **Bond Market Capitalisation:** Value of outstanding African Bonds and Bills in 2017 was USD413 Billion, 70% being Bonds and 30% being Bills and other debts. The outstanding value rose by 13% from 2016, but 80% of the total relate to issuances by only 5 countries, namely: South Africa, Egypt, Morocco, Nigeria and Kenya (in descending order of market capitalisation). Only 8 country markets have capitalisation of USD10 Billion and above, 19 are capitalised below USD1 Billion[100].

VI. **Short-Term Bond Issuances:** 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[101]. This indicates that conventional and traditional Treasury Bills, which tend to have short maturity times, still dominate the African Bond market. By contrast, international bonds tend to have longer maturity time scales from 3 to 30 years. This is the case with the Eurobonds issued by African countries in recent years. As regards maturity terms, Diaspora Bonds are more akin to Eurobonds than national Treasury Bills.

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[97] PwC (2019), Africa Capital Markets Watch 2018, Johannesburg, PwC https://www.pwc.co.za/en/assets/pdf/africa-capital-markets-watch-2018.pdf - Accessed 1 April 2019

[98] Technical commentary: https://www.africanbondmarkets.org/en/african-domestic-bond-fund/about-the-african-domestic-bond-fund/african-bond-index/ - Accessed 31 January 2019

[99] Organisation's website: https://bondfund.africanbondmarkets.org/en/the-index/ - Accessed 15 April 2019

[100] News commentary: http://www.africancapitalmarketsnews.com/3869/african-bond-markets-statistics/ - Accessed 31 January 2019

[101] Ibid

3.3 Issuance of African Sovereign Bonds in International Capital Markets

Beyond capital markets in Africa, countries such as South Africa and Egypt have a long history of using the international money markets to raise funds for national development programmes. 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[102, 103, 104]. For nearly a decade after debt write-offs and restructuring of the mid 1990s, no Sub Saharan African (SSA) governments issued private debt instruments in the international capital markets. This changed in October 2006 when Seychelles successfully issued a USD200m Eurobond, and since then the sector has grown steadily as summarised below[105, 106, 107]. This is relevant to DPI because Diaspora Bonds issued within the diaspora (rather than within African countries) fall under international capital market regulations. In fact, the successful 2017 Nigerian Diaspora Bond was issued as an international bond, regulated in the UK and USA[108].

I. **SSA Entry in Eurobond Market:** In October 2007, Ghana became the first Highly Indebted Poor Country (HIPC) to issue an International Bond. It was for USD750m, for 10 years. The interest was 8.5% and it was oversubscribed over 4 times, with bids of USD3.2 Billion. Ghana has since become a prolific issuer, with Eurobond issuances in 2013, 2014, 2015, 2016 and 2018. In the same year, Republic of Congo also issued a USD480m Bond, at 3.5% as part of its debt restructuring. In the same year, Seychelles issued a second small Bond of USD30m, and Gabon raised USD1 Billion to restructure its existing external private debt. South Africa continued to be active in the international bond market.

II. **Issuance During Global Financial Crisis:** In 2009, Senegal became the only SSA country to issue a bond during the financial crisis. A 5-year Eurobond was issued, raising USD200m, at 9.473%. In 2010, Cote D'Ivoire issued SSA's biggest ever Bond, raising USD2.3 Billion at 5.75%, to restructure its external private debt. (The previous highest was the 2007 Gabon Bond of USD1 Billion). In 2010 Seychelles issued a third Bond of USD167m at 5%.

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102 A wide range of primary and secondary sources on African Sovereign Bonds were reviewed including those referenced here.
IMF (2018), Regional Economic Outlook: Sub-Saharan Africa – Capital Flows and the Future of Work, IMF, Washington DC.
file:///C:/Users/user/AppData/Local/Packages/Microsoft.MicrosoftEdge_8wekyb3d8bbwe/TempState/Downloads/sreo1018background%20(1).pdf - Accessed 31 January 2019

103 News commentary: http://www.africancapitalmarketsnews.com/3970/africas-eurobond-outlook-2019/ - Accessed 31 January 2019

104 Bond data compiled by private advisory company:
https://cytonnreport.com/research/sub-saharan-africa-ssa-eurobonds-cytonn-weekly-032019 - Accessed 31 January 2019

105 Olabisi, Michael and Stein, Howard (2015), Sovereign Bond Issues: Do African Countries Pay More to Borrow?, *Journal of African Trade 2–2015*, pp. 87-109
https://www.researchgate.net/publication/284232886_Sovereign_bond_issues_Do_African_countries_pay_more_to_borrow

106 http://blogs.worldbank.org/opendata/sub-saharan-africa-s-sovereign-bond-issuance-boom
107 https://cytonnreport.com/research/sub-saharan-africa-ssa-eurobonds-cytonn-weekly-032019
108 https://www.rns-pdf.londonstockexchange.com/rns/6590I_-2017-6-20.pdf?_ga=2.2443632.1542841299.1506814147-1372087311.1498165371
- Accessed 31 January 2019

III. **New Entrants in the Market:** In 2011 Nigeria and Namibia issued their first Eurobonds. In 2012, Zambia issued its first Eurobond for USD750m, at 5.375%, with phenomenal bidding of USD12 Billion, meaning 16 times oversubscription. Angola also made a USD1 Billion issuance in 2012. In 2013, Mozambique, Tanzania and Rwanda issued their first Eurobonds, and in 2014 Ethiopia made its debut with a USD1 Billion issuance at 6.25%.

IV. **North African Consolidation:** Egypt became the first African country to issue a Eurobond in 2019, The USD4 Billion, builds on its 2018 USD9 Billion, and previous outstanding portfolio at USD10 Billion 2018[109]. Morocco's most recent issuance was in 2014 for USD1 Billion, but government has announced that new Eurobonds of MAD 11 Billion (over USD1 Billion) will be issued in 2019 and 2020[110]. In 2018, Tunisia issued a USD0.5 Billion Eurobond, bringing its outstanding balance at over USD7 Billion[111].

V. **Value of Current Sovereign Bonds:** In 2018, four African countries issued 11 Eurobonds, raising a total of USD25.8 Billion. The Bonds were on average oversubscribed by 4.5 times. Kenya issued 10- and 30- year Bonds in February. Nigeria issued 12- and 20- year Bonds in February, and 7-, 12- and 30- year Bonds in November. Senegal issued 10- and 30- year Bonds in March. Ghana issued 11- and 31- year Bonds in May 2018. The average interest rate was 7.6%, the highest was Nigeria's 30-year Bond at 9.2% and the lowest was Senegal's 10-year Bond at 4.8%. At the end of the year, 20 Eurobonds, valued at USD92 Billion were outstanding. Of this, over 50% related to issuances by South Africa (USD19 Billion), Egypt (USD19 Billion) and Nigeria (USD11 Billion)[112].

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109 https://thebusinesstelegraph.com/2019/01/23/african-eurobonds-what-to-look-for-in-2019/
110 https://www.moroccoworldnews.com/2019/03/268476/morocc-to-issue-2-international-bonds-of-mad-11-billion-each/
111 http://cbonds.com/countries/Tunisia-bond
- Accessed 1 April 2019

112 News commentary: https://thebusinesstelegraph.com/2019/01/23/african-eurobonds-what-to-look-for-in-2019/ - Accessed 1 April 2019

3.4 Snapshot of Foreign Portfolio Investment in Africa

FPI inflows to Africa are raised through African or international capital markets as discussed above. In comparison to other parts of the world, FPI in Africa is minuscule and relatively underdeveloped. In 2017, the value of global FPI assets was USD60 Trillion[113]. There is no directly comparable data for Africa, but the value of outstanding African Eurobonds was USD92 Billion[114]. This indicates that African FPI assets are a fraction of a percentage point of the global assets.

Year	FPI Inflows in USD Global	FPI Inflow in USD Africa	% of Global FPI Flows to Africa
2017	1,195 Billion	5.2 Billion	0.44%
2016	154 Billion	6.5 Billion	4.22%
2015	645 Billion	15.7 Billion	2.43%
2014	1,114 Billion	21.3 Billion	1.91%
2013	806 Billion	23.0 Billion	2.85%
5-Year Total	**3,914 Billion**	**71.7 Billion**	**1.83%**

Table X: Global and African Foreign Portfolio Investment Flows (Data from AfDB, 2017; IMF, 2019)

Key observations about FPI in Africa are summarised below.

I. **FPI Flows to Africa:** Although the key institutional infrastructure such as SEs and capital market regulations is in place, from the perspective of global flows, FPI is at a rudimentary stage in Africa. In the 5 years 2013-2017, the total global FPI flow was USD3.9 Trillion[115], yet total inflow to the whole of Africa during that time was only USD71.7 Billion[116], being 1.8% of global FPI flows.

II. **FPI in Relation to All Inflows:** The African Development Bank (AfDB) monitors four sources of external financial flows to Africa, namely Official Development Assistance (ODA), Remittances, FDI and FPI. Of a total of USD180 Billion inflow to Africa in 2017, only USD5.2 Billion, i.e. 2.8% was FPI. In the past decade, the highest FPI flow was in 2012 at USD34.3 Billion, being 17% of the total external inflow of USD200 Billion[117].

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[113] IMF Coordinated Portfolio Investment Survey (CPIS):
http://data.imf.org/?sk=B981B4E3-4E58-467E-9B90-9DE0C3367363 - Accessed 31 January 2019

[114] News commentary: https://thebusinesstelegraph.com/2019/01/23/african-eurobonds-what-to-look-for-in-2019/ - Accessed 1 April 2019

[115] IMF Balance of Payments data, and World Bank International Debt statistics:
https://data.worldbank.org/indicator/BX.PEF.TOTL.CD.WD - Accessed 1 April 2019

[116] AfDB (2017), African Economic Outlook 2017: Entrepreneurship and Industrialisation, Abidjan, Paris and New York, African Development Bank (AfDB), Organisation for Economic Co-operation and Development (OECD), United Nations Development Programme (UNDP) http://www.undp.org/content/dam/rba/docs/Reports/African_Economic_Outlook_2017_EN.pdf - See pages 44-45

[117] ibid: In 2017, external financial inflows to Africa were: ODA $50.9 Bn (28%); Remittances $66.2 Bn (37%); FDI $57.5 (32%); FPI $5.2 (3%); Total $179.8 Bn. In 2012, external financial inflows to Africa were: ODA $51.8 Bn (26%); Remittances $64.3 Bn (32%); FDI $49.4 (25%); FPI $34.3 (17%); Total $199.8 Bn.

III. **Distribution of FPI:** FPI flows are concentrated in a small number of countries in Africa, with South Africa being the biggest recipient, followed by others such as Nigeria, Angola and Egypt. When political, economic and other market sensitive challenges arise in one or two of these countries, the entire continental sector is adversely affected. This factor partly explains the significant decline in FPI flows to Africa from 2012 to 2017.

IV. **Sustainable FPI Growth:** The African FPI sector can stagnate at its current stage or take off on an upward trajectory depending on policies and actions implemented. Most governments, multilateral and development agencies agree that far more capital needs to flow into diverse African countries for varied public and private ventures. However, there is also a growing concern about the risks of creating unsustainable national debt burdens. FPI and DPI through equity-based investments in stocks and shares offer the option for non-debt fundraising.

3.5 Characteristics and Status of Diaspora Portfolio Investment 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 a 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. It appears that in December 2018, an organisation called RemitFund registered an investment instrument in Belgium, called 'African Diaspora Investment Fund (ADIF), but it is not yet operational[118]. The Wakanda One Project and African Global Diaspora Bank idea are private proposals by the AU's ambassador to USA. They are at planning, pre-registration and pre-technical design stage[119]. AFFORD's first project-based Rwanda Diaspora Bond is currently at the prospectus preparation stage. The AFFORD Bond is linked to a housing scheme for key workers, developed after 5 years of consultations, negotiations and collaborative technical work with the Government of Rwanda, UNDP and leading UK-based law firm Latham & Watkins[120]. There is anecdotal 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 one or more of the formats set out below.

I. **Converted Remittances:** It is known that a percentage of remittances to family and friends in Africa are used for savings, either for the recipient or on behalf of the sender. Some remittance savings are deposited in financial portfolio products such as mutual funds, offered by the retail banks. However, this form of indirect DPI is not tracked or analysed as a matter of routine, thus estimates of the volume are not available.

II. **Diaspora Investment Clubs:** There are a number of *ad hoc* and standing diaspora investment clubs that collect funds from members and subscribers occasionally or on a monthly basis. The pooled funds are usually used for Diaspora Direct Investments (DDIs) in countries of origin or heritage. Occasionally, the funds are used to invest in the stock market and/or purchase government Treasury Bills and other bonds and securities traded in national capital markets. These Diaspora Investment Club portfolio investments are very small in comparison to remittances to Africa and diaspora savings in countries of residence.

III. **Diaspora Investment Accounts:** In recent years, African banks have developed Diaspora banking units and departments. They started by providing online current accounts and time-locked savings accounts, but have evolved by offering their portfolio investment products directly to diaspora clients. This is a format that has good prospects of attracting significant DPI.

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[118] https://www.crunchbase.com/fund/remitfund-raised-the-african-diaspora-investment-fund--ADFC---062ef397
https://www.myremitfund.org/press-centre - Accessed 31 January 2019

[119] https://face2faceafrica.com/article/aus-plan-of-building-a-real-wakanda-for-the-african-diaspora-gets-a-jumpstart
- Accessed 31 January 2019

[120] https://afford-uk.org/what-we-do/enterprise-and-employment/bonds/ - Accessed 31 January 2019

IV. **Real Estate Part Share:** One form of diaspora equity investment is to acquire shares in real estate companies that own and manage property portfolios from which they generate rental income. This is deemed attractive to the diaspora because share owning can also mean having free or discounted access to rental accommodation for few weeks per annum. Having reviewed companies listed on the African Stock Exchanges, it is not evident how many of these companies are listed and regulated under capital markets rules. However, commercial banks are beginning to offer Diaspora Mortgages.

V. **Diaspora Mutual Funds:** A Diaspora Mutual Fund is a distinct form of DPI in that investors are exclusively diaspora and friends of the diaspora. They 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[121] and national and regional banks like KCB[122] offer Mutual Fund products to their clients who hold distinctive diaspora bank accounts. However, there are hardly any 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)[123], but none of these have taken off, even though the RDMF was approved by the Rwanda National Bank in 2009[124].

VI. **Diaspora Bonds:** A Diaspora Bond is a distinct form of DPI as it targets the diaspora. They are regulated under financial and capital market laws, and are purchased by the African diaspora. However, despite the extensive literature on the potential and desirability of diaspora bonds, only very few of these have ever been issued by African governments (see below). It is also the case that sale of diaspora bonds is not limited to the African diaspora, and it is difficult to ascertain how much of funds raised through Diaspora Bonds are attributable to diaspora individuals and entities.

VII. **Diaspora Bonds as International Bonds:** Diaspora Bonds can be issued and regulated either nationally within an African country, or internationally, mainly in Europe or North America. Nationally issued Diaspora Bonds reflect the interests and requirements of the diaspora, but they take the standard form of government or corporate bonds. Most African countries regularly issue national Treasury Bills and Bonds through the Central Banks, irrespective of how active the capital market is. Internationally issued Diaspora Bonds take the form of sovereign or corporate Eurobonds, Global Bonds or other international capital market products. A growing number of African countries have succeeded in issuing Eurobonds, which is important for the future of DPI. The successful 2017 Nigerian Diaspora Bond was issued as a Global Bond.

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121 https://ecobank.com/ng/personal-banking/everyday-banking/savings-accounts/diaspora - Accessed 1 April 2019

122 KCB is formerly the Kenya Commercial Bank: https://ke.kcbgroup.com/diaspora/ - Accessed 1 April 2019

123 World Bank (2011), Leveraging Migration for Africa: Remittances, Skills and Investments, Washington DC, World Bank https://siteresources.worldbank.org/EXTDECPROSPECTS/Resources/476882-1157133580628/AfricaStudyEntireBook.pdf

124 Announcement by Rwanda National Bank: https://www.newtimes.co.rw/section/read/14617 - Accessed 1 April 2019

3.6 The Piloting and Success of Diaspora Bonds

Israel Bonds have been issued since 1951, and by 2015, they have raised about US$40 Billion[125], financing a range of infrastructure, security and strategic developments[126]. India issued the USD1.6 Billion Indian Development Bonds (IDB) in 1991 to address balance of payments crisis; the USD4.2 Billion Resurgent India Bonds (RIB) in 1998 to react to economic sanctions imposed after nuclear testing; and the USD5.5 Billion India Millennium Deposits (IMD) in 2000 to capitalise on this new source of development finance[127]. In January 2019, Pakistan issued a USD1 Billion Diaspora Bond, named Pakistan Banao Certificates (PDC), to address fiscal and trade deficits[128].

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[129, 130]. 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[131, 132, 133].

In 2011, Homestrings (now called Movement Capital) which was a diaspora investment platform, participated in the marketing of the Kenya Infrastructure Bond (see below) and the Senegal Eurobond. This may have given the impression that Senegal had issued a Diaspora Bond when it did not. With the flurry of African Eurobonds from 2013 onwards, commentators may have created the perception that Diaspora Bonds were being issued. This perception was reinforced by the fact that countries like Rwanda which had expressed interest and taken steps to issue Diaspora Bonds, went on to issue general sovereign Eurobonds[134].

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125 Organisation's website: https://israelbonds.com/About-Us/DCI-Israel-Bonds.aspx - Accessed 31 January 2019

126 The author of this report conducted a study tour to Israel in 2012. He visited projects funded by Israel Bonds and interviewed the then and previous Presidents/CEOs of the Development Cooperation of Israel (DCI) which manages Israel Bonds.

127 Ketkar, Suhas and Ratha, Dilip (2010), Diaspora Bonds: Tapping the Diaspora during Difficult Times, *Journal of International Commerce, Economics and Policy*, Vol. 1, No. 2 pp. 251–263 http://www.dilipratha.com/index_files/DiasporaBonds-JICEP.pdf

128 State Bank of Pakistan made a formal announcement on 31 January 2019. The Pakistan Banao Certificate was launched by the Prime Minister of Pakistan, and is marketed through a dedicated website: https://www.pakistanbanaocertificates.gov.pk/index
https://www.sbp.org.pk/dmmd/2019/C2.htm
https://www.ft.com/content/30927720-2568-11e9-8ce6-5db4543da632 - Accessed 1 April 2019

129 AfDB (2012), Diaspora Bonds: Some Lessons for African Countries, Africa Economic Brief 3 (13), Abidjan, African Development Bank https://pdfs.semanticscholar.org/6bc3/c1f9a90208131e5ef362baecb349743b900d.pdf

130 World Bank (2013), A Billion Dollar Idea: Leveraging Migration for Financing Development, Washington DC, World Bank http://blogs.worldbank.org/peoplemove/files/special_topic.pdf

131 Ketkar, Suhas and Ratha, Dilip (Ed.) (2009), Innovative Financing for Development, Washington DC, World Bank http://pubdocs.worldbank.org/en/335011444766662755/e-book-Innovative-Financing-for-Development.pdf

132 Commonwealth Secretariat (2016), Action to Expand the Economic Impact of Diaspora Finance, London, Commonwealth Secretariat http://thecommonwealth.org/sites/default/files/inline/FMM16O3%20-%20SOM_Diaspora.pdf

133 Rustomjee, Cyrus (2018), Issues and Challenges in Mobilizing African Diaspora Investment, Policy Brief No. 130, Waterloo, Centre for International Governance Innovation https://www.cigionline.org/sites/default/files/documents/PB%20no.130.pdf

134 The work on a project-based Diaspora Bond for Rwanda was based on findings that emerged from AFFORD's RemitPlus™ project (2009-11). It benefited from extensive consultations and analyses supported in the UK by the Department for International Development (DFID) and Comic Relief through the Common Ground Initiative 2011-14. The author of this report led consultations and market research with the diaspora. He also led discussions with Rwandan Ministers of Finance and Trade, High Commissioner to the UK, Governor of National Bank of Rwanda and senior officials of government and state owned enterprises, starting from 2012.

3.6.1 Ghana Jubilee Bond (2007)

As long ago as 1996, Afreximbank issued a USD40m medium term loan to a development bank in Ghana, backed by future Western Union remittance receivables. This innovation which linked Future Flow Pre-Finance to remittances, as a form of diaspora finance took place a decade before the emphasis was put on Diaspora Bonds. It is interesting that it was also in Ghana that innovative Diaspora Bond financing was first tried in Africa[135].

Ghana attained independence from the United Kingdom in 1957 under a pan-Africanist political ideology, influenced by thinkers and activists from the African Atlantic diaspora. In 2007, as part of the commemoration of 50 years of independence, 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[136]. Nationality restriction excluded Ghanaian diasporans who were not Ghanaian citizens. It also excluded the African American diaspora, who had strong affinity with Ghana. The proceeds of the Bond were to fund specific infrastructure projects across the country.

The bond was to be on sale from 10 December 2007 to 5 March 2008, through commercial banks, rural and community banks, savings and loans companies, stockbrokers, credit union associations, life insurance companies and Ghana Post Offices[137]. In February 2008, it was announced that 'Strategic African Securities Finance Group' as advisers to the Government of Ghana, were leading the launch of the Bond in Europe and North America, with events in London, Cologne and Amsterdam[138]. A Bank of Ghana notice (see below), indicated that the sale period was re-set to the timeline of 27 December 2007 to 11 July 2008. In August 2008, The Ghana News Agency announced that of the target of GHC50m, the Bond subscription was only GHC20m (40%), and so the Bond was unsuccessful[139]. Of the GHC20m raised, GHC18.73m (94%) was from local sales and GHC1.10m (6%) was from the Ghanaian diaspora in UK, Canada and USA. In the same year (2007), Ghana raised USD750m through a Eurobond, and has since successfully issued multiple international Sovereign Bonds, raising billions of dollars in total. The latest Eurobonds in 2 tranches (10 and 30 years), raised USD2 Billion in 2018[140].

Interestingly, on 17 May 2013, the Bank of Ghana (BoG) published a notice stating that *"the maturity dates for Government of Ghana 5-Year Golden Jubilee Savings Bonds issued to Resident and Non-Resident Ghanaians between 27th December 2007 and 11th July 2008, commenced 25th December 2012 and will end on 10th July 2013"*[141]. It has not been possible to confirm with BoG whether the notice was just for legal administration, or whether the GHC20m raised was kept despite the Bond failing to meet its target of GHC50m.

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[135] Ketkar, Suhas and Ratha, Dilip (Ed.) (2009), Innovative Financing for Development, Washington DC, World Bank http://pubdocs.worldbank.org/en/335011444766662755/e-book-Innovative-Financing-for-Development.pdf

[136] Rustomjee, Cyrus (2018), Issues and Challenges in Mobilizing African Diaspora Investment, Policy Brief No. 130, Waterloo, Centre for International Governance Innovation https://www.cigionline.org/sites/default/files/documents/PB%20no.130.pdf

[137] News report: https://www.modernghana.com/news/149343/50-million-golden-jubilee-bond-launched.html
[138] News report: https://allafrica.com/stories/200802041186.html
[139] News report: https://www.ghanaweb.com/GhanaHomePage/business/Jubilee-Bond-offer-fails-to-meet-target-148418#
- Accessed 1 April 2019

[140] Ghana Ministry of Finance announcement: - Accessed 1 April 2019
https://www.mofep.gov.gh/press-release/2018-05-14/ghana-raises-US%242.0-billion-in-eurobonds-with-the-lowest-interest-rate-ever

[141] Redemption notice issued by the Bank of Ghana: - Accessed 1 April 2019
https://bog.gov.gh/privatecontent/Public_Notices/Redemption%20of%20golden%20jubilee%20bond%20-%20may%202013.pdf

3.6.2 Ethiopia Millennium Bond (2008) and Renaissance Dam Bond (2011)

In 2008, the state-owned Ethiopia Electric Power company (EEPCO) issued the Millennium Corporate Bond, to finance a specific project, namely the building of 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[142].

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%[143, 144].

GERD (also known as Hedasė Dam) is a megaproject which, upon completion will be the biggest dam in Africa, generating over 6,000 megawatts of electricity. It will enable Ethiopia to export excess electricity, eventually becoming Africa's largest electricity exporter, potentially earning USD1 Billion annually[145]. Construction of GERD started in 2011, and the originally slated completion date of 2017 was missed, amidst financial and engineering challenges. It is now scheduled to be fully operational in 2022. The USD4.8 Billion was to be raised from both diaspora and domestic sources. However, there are reports that China and Italy have provided some of the financing[146].

On 8 June 2016, the US Securities and Exchange Commission (SEC) announced that EEPCO (which is owned by the Ethiopian government) had agreed to pay about USD6.5m as settlement for breaching SEC rules by unlawfully selling an unregistered bond in the USA. SEC disclosed that USD5.8m was raised from 3,100 US-based subscribers between 2011 and 2014[147]. This represents an average of USD1,870 per subscriber in the USA. According to the GERD Council, by March 2016, the Bond had raised a total of USD425m, about 10% of the USD4.8 Billion target (from all sources). Of the total raised, USD33.7m (8%) was from the diaspora, broken down as follows: Middle East USD13.3m; USA & Canada USD6.9m; Africa USD6.5m; Europe USD6.1m; and Asia USD0.9m[148]. The issuance was not successful.

[142] Rustomjee, Cyrus (2018), Issues and Challenges in Mobilizing African Diaspora Investment, Policy Brief No. 130, Waterloo, Centre for International Governance Innovation https://www.cigionline.org/sites/default/files/documents/PB%20no.130.pdf

[143] Ibid

[144] The Bond was on a flexible interest rate based on the London Interbank Offered Rate (LIBOR) is a global interest rate benchmark, used for interbank lending, calculated and published daily. The Ethiopian Renaissance Dam Bond added a premium on top of LIBOR from 1.25% to 2.00% depending on terms chosen by subscriber.

[145] Analysis by the Institute of Electrical and Electronic Engineers (IEEE), published on the website of their Spectrum Magazine:
Kumagai, Jean (2016), The controversial dam is nearly done, but will drought and lack of grid infrastructure lessen its impact?, IEEE https://spectrum.ieee.org/energy/policy/the-grand-ethiopian-renaissance-dam-gets-set-to-open - Accessed 1 April 2019

[146] NEPAD (2015) Grand Ethiopia Renaissance Dam, Midrand, Johannesburg, New Partnership for African Development https://www.nepad.org/project/grand-ethiopian-renaissance-dam - Accessed 1 April 2019

[147] Press Release by US Securities and Exchange Commission (SEC):
https://www.sec.gov/news/pressrelease/2016-113.html - Accessed 31 January 2019

[148] Makonnen, Tesfaye (2016), The Imperative of Stepping-up Ethiopian Diaspora's Contribution to Hedasė Dam (GERD), Online, Aiga Forum http://aigaforum.com/article2016/GERD-and-Diaspora-041516.pdf - Accessed 1 April 2019

3.6.3 Kenya Infrastructure Bond (2011)

Kenya has a history of successful issuance of local Infrastructure Bonds, having issued at least 6 such Bonds between 2009 and 2011. These Bonds were open to all investors, including foreign individuals and institutions operating in Kenya. 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 the previous bonds, this one was restricted to Kenyan nationals only, with a specific diaspora component. Individual subscriptions were also limited to KES20m. The proceeds were to be used to fund roads, energy and water infrastructure projects. Bond subscription was KES14 Billion, being 70% of the target[149, 150]. The issuance was unsuccessful.

After 2011, Kenya successfully issued other local currency Bonds, not designated as Diaspora Bonds. They were marketed to local residents, the diaspora and all other investors. The success continued with the first Eurobond issuance (in 2 tranches of 5 and 10 years) for USD2.6 Billion in 2014, and a 2018 issuance of USD2 Billion, in 2 tranches of 10 and 30 years[151].

In 2017, Kenya took another pioneering step by launching M-Akiba as the world's first ever mobile phone-based Bond. Over 300,000 people registered on the platform, but only about 6,000 people (2%) subscribed to the Bond, raising USD2.4m (24%) of the USD10m target. Despite the low take up, indicators were positive enough for the Kenyan government to re-launch M-Akiba in February 2019, The re-launch increased the Bond subscription to 79%, and the number of people registered on the platform rose to 450,000[152, 153].

[149] Rustomjee, Cyrus (2018), Issues and Challenges in Mobilizing African Diaspora Investment, Policy Brief No. 130, Waterloo, Centre for International Governance Innovation https://www.cigionline.org/sites/default/files/documents/PB%20no.130.pdf

[150] Central Bank of Kenya (2011), Prospectus for Government of Kenya Infrastructure Bond with Kenyan Diaspora Component: Issue No. IFB 1/2011/12, Nairobi, Central Bank of Kenya
https://www.centralbank.go.ke/images/docs/BondProspectus/2011/sep_10_2011_ifb.pdf

[151] News report: Accessed 1 April 2019
https://www.businessdailyafrica.com/markets/capital/Kenya-says-fresh--2bn-Eurobond-oversubscribed-seven-times/4259442-4315350-14pr01l/index.html

[152] Analytical feature based on FSD Kenya research on M-Akiba:
https://fsdkenya.org/blog/the-story-of-m-akiba-selling-kenyan-treasury-bonds-via-mobile/ - Accessed 1 April 2019

[153] News report: https://kenyanwallstreet.com/m-akiba-2-attracts-79-per-cent-subscription/ - Accessed 1 April 2019

3.6.4 Nigeria Diaspora Bond (2017)

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 Diaspora Bond Prospectus was launched with the SEC on the 19 June 2017, and deposited at the London Stock Exchange on the 20 June 2017. The International Joint Lead Managers were Bank of America Merrill Lynch and Standard Bank of South Africa, and the Nigerian Joint Lead Managers were First Bank of Nigeria and United Bank of Africa[154].

The Prospectus set out all the information required for clients to make informed decisions, and to meet regulatory requirements. The Bond was denominated in US Dollars, for USD300m (i.e. Public Offering Price of USD300m). The Underwriting Discount was charged at 0.8%, being USD2.4m, meaning that the 'Proceeds Before Expenses to the Issuer' was 99.2%, being USD297.6m. 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 on 27 June 2022. Interest payments are made to bondholders twice a year, on 27 June and 27 December each year, starting on 27 December 2017. The Bond is not redeemable prior to the maturity date. Subscription was open to Nigerians and non-Nigerians, as well as private and institutional investors. The issuance was a success, but information on the profile of the different investors is not readily available. Initial Bond orders were at 190%, and at the close of the auction, the subscription to the first Nigerian Diaspora Bond was 130%. The Bond was later listed on the NSE on 21 December 2017[155].

The 2011-12 Borrowing Plan of the Nigerian government's Debt Management Office (DMO) included a proposal for issuance of a Diaspora Bond for USD100m. On 28 August 2013, the DMO published Terms of Reference seeking technical advisers (by 10 March 2014) for the issuance of the USD100m Diaspora Bond[156, 157]. In January 2014, the Nigerian President Goodluck Jonathan wrote to the Senate requesting that the Diaspora Bond amount be tripled, from USD100m to USD300m due to interest arising from the diaspora since the announcement of Bond proposal in 2013. Nigeria undertook four years of consultations and engagement with the Nigerian diaspora and foreign regulators through road shows in the diaspora, and coordination with embassies, missions and diaspora organisation, led by the Senior Special Adviser to the President on Foreign Affairs and Diaspora[158].

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[154] Nigerian Diaspora Bond Prospectus, launched at the London Stock Exchange and Securities and Exchange Commission:
https://www.rns-pdf.londonstockexchange.com/rns/6590I_-2017-6-20.pdf?_ga=2.2443632.1542841299.1506814147-1372087311.1498165371
https://www.sec.gov/Archives/edgar/data/1627521/000119312517207957/d334746d424b4.htm - Accessed 31 January 2019

[155] Announcements by Nigerian in Diaspora Commission (NIDCOM) and the Nigeria Stock Exchange: - Accessed 1 April 2019
http://diaspora.gov.ng/nigeria-raises-300-million-from-first-diaspora-bond/
http://www.nse.com.ng/mediacenter/pressreleases/Pages/DMO-lists-Diaspora-Bonds-and-Eurobonds-on-NSE.aspx

[156] Article by Economist intelligence Unit: - Accessed 1 April 2019
http://www.eiu.com/industry/article/1640920948/nigeria-abuja-seeks-advisers-for-us100m-diaspora-bond/2013-09-03

[157] Terms of Reference published by the Nigerian Debt Management Office: - Accessed 1 April 2019
http://www.bpp.gov.ng/wp-content/uploads/2019/01/DMO-RFP-FOR-DIASPORA-BOND.pdf

[158] Bloomberg news report; Nigerian Embassy and Chatham House consultation notices: - Accessed 1 April 2019
https://www.bloomberg.com/news/articles/2014-01-22/nigerian-president-wants-diaspora-bond-tripled-to-300-million
http://nigeria-consulate-atl.org/the-federal-republic-of-nigeria-diaspora-bond/
https://www.chathamhouse.org/sites/default/files/events/160516partnership-in-practice-meeting-summary.pdf

4. Investment Strategy for the African Diaspora Finance Corporation

On 25 May 2012 in Johannesburg, South Africa, at the Global African Diaspora Summit (GADS), Heads of State and Government of the African Union agreed to undertake a legacy project: "*.....as a way of giving practical meaning to the Diaspora programme....[and].....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"*.[159]

In seeking to transform the 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 follows:

I. **Filling a Gap in Diaspora Finance:** Portfolio Investment, which incorporates Bonds and Mutual Funds is the least developed form of diaspora investment in Africa, representing a gap and niche in the diaspora finance market that can be filled, thereby harnessing new forms of diaspora resources for inclusive and sustainable African development.

II. **Regulatory and Institutional Capacity:** Diaspora Bonds and Mutual Funds are highly regulated financial products requiring the development of new continental institutional capacity in Africa, through the creation of a world class diaspora finance corporation, which is compliant with national, continental and international financial and investment regulations, as well as global and continental frameworks for responsible business. ADFC surpluses (after fees and legitimate expenses) shall be disbursed to a grant-making and development co-financing entity, namely RemitAid™ Development Trust (RDT).

III. **Linkages to Continental Initiatives:** Funds raised through regulated financial products issued by an institutionalised African Diaspora Finance Corporation (ADFC) can be used to invest in a wide range of prioritised national, continental, public, private and collaborative infrastructure, social economy and development initiatives, ventures, programmes and projects.

IV. **Social Enterprise Business Model:** A multilateral ADFC set up in pursuit of an AU commitment to an enduring legacy project can be structured as a social enterprise, thereby using efficacious and responsible business and commercial tools and techniques to generate and reinvest profits and surpluses for enhanced African and diaspora development. As a social enterprise, ADFC can also receive grants and other non-commercial sources of income, to undertake complementary activities such as research and development, technical assistance and cooperation, and Business Development Support.

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[159] See the GADS Declaration, especially sections on 'Mobilization of Support' under 'Political Cooperation' and 'Mobilization of Capital' under 'Economic Cooperation': https://au.int/sites/default/files/documents/30970-doc-global_diaspora_summit_declaration-e.pdf

V. **Remittance Match Funding:** The African Union has a unique convening and influencing power, not only in Africa, but globally through its strategic partnerships with different regions of the world. This offers synergistic opportunity for ADFC to become a multilateral social enterprise which activates Remittance Match Funding (RMF) as an innovative finance mechanism, and manages schemes such as Endowment and Trust Funds for philanthropic and legacy programmes, with support from partners across the world.

4.1 Rationale for DPI through Diaspora Bonds, Mutual and Endowment Funds

Foreign Portfolio Investment (FPI) comprises many types of securities and financial products and instruments. Naturally, these can be customised to the needs, wants, and expectations of diaspora investors, to create a multitude of Diaspora Portfolio Investment (DPI) products. The Financial Conduct Authority Handbook provides a long list of tradable securities, including: shares, debentures, government bonds, loan stocks and warrants, certificates and options, units, pension schemes, emission allowances[160].

For the purpose of business simplicity, operational feasibility, and commercial viability, it is recommended that an AU-backed African Diaspora Finance Corporation (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 key elements of the investment strategy as set out above help define the framework for business implementation and operations, covering the essential topics of products, services, operational systems, processes, structures, governance, compliance and management (discussed in chapters below). The logic, rationale and justification for the investment strategy is summarised below.

I. Focus on Diaspora Savings and Innovative Finance

The analyses and planning of how to translate the AU legacy programme on diaspora finance into reality references and recognises the importance of remittances to the African financial landscape. However, the business model needed to implement the investment strategy is not based on accessing existing remittances; rather it focuses on attracting diaspora savings and innovative finance into the African economy. This enables ADFC, amongst other things, to:

- Facilitate access to non-remittance diaspora financial resources for African development
- Activate under-used investment instruments to expand access to diaspora resources
- Initiate innovative finance mechanisms to access Remittance Match Funding
- Attract new flows of diaspora savings into the African social economy
- Attract new flows of government and corporate co-finance in African development
- Access the resources of multigenerational diaspora non-remitters
- Access the resources of non-diaspora friends of the diaspora
- Create sustainable long term diaspora-development funding through endowments.

[160] https://www.handbook.fca.org.uk/handbook/glossary/G1061.html - Accessed 15 April 2019

II. Beyond Remittances and the Foundations of DPI

The 2009 RemitPlus™ practical proof of concept project and operations were informed by analysis and propositions on diaspora finance and investment from policymakers, academics, practitioners and experts from diverse agencies and institutions across the world. The RemitPlus™ report was presented in 2011, focussing amongst other things, on actions 'Beyond Remittances'. Its recommendations for the development of African diaspora finance included the creation of: Diaspora Bank Accounts; Diaspora Mutual Funds; Diaspora SME Development Funds; and Diaspora Bonds[161]. These types of products are the primary basis of DPI[162]. The recommendations of the report were incorporated in the consultations and proceedings of the second UNHLD in 2013[163]. Many commercial banks in Africa have taken the initiative and have created Diaspora Bank Accounts, providing current account, savings and investment services. Structured, formal, regulated and market-based Diaspora Mutual Funds and Diaspora Bonds are still underdeveloped, creating an opportunity for ADFC to fill a gap in the financial market at a continental level.

III. Bonds and Funds as Effective Market Products

In 2018, Making Finance Work for Africa (MFWA), an organisation supported and hosted by the African Development Bank (AfDB), commissioned a study on *'A Systematic Approach to Supporting Diaspora Investment in Africa'*. The study reviewed 47 diaspora investment initiatives across the world, including 17 in Africa. Out of the 47 initiatives, 19 different types of investment vehicles/instruments were used. Of the 19 investment vehicles, only 5 were used more than once, namely: Diaspora Bond (used 12 times); Investment/Mutual Fund (used 6 times); Crowd Funding (used 3 times); Community Investment Note (used twice); and Online 'Peer to Peer' (P2P) Platforms (used twice)[164]. This finding corroborates previous RemitPlus™ findings which indicate that DPI needs to focus on Mutual Funds and Diaspora Bonds, to effectively access the huge untapped sources of diaspora development finance. Introduction of a wide range of products creates undue complexity and confusion in a market that essentially thrives on Bonds and Mutual Funds. A small number of other specialist securities and products can be introduced as future offerings, as and when profitable market demand is established.

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[161] The proposal for the RemitPlus™ project was developed in 2008 based on practical ideas discussed and developed through global policy processes including the 2006 UN High Level Dialogue on Migration and International Migration. The proof of concept pilot project was implemented by AFFORD in 2009-11, with activities concentrated on the United Kingdom-Sierra Leone diaspora finance corridor. AFFORD (2012), RemitPlus™ Project Report, London, AFFORD

https://afford-uk.org/wp-content/uploads/2019/02/RemitPlus-Report-2012-Update.pdf

[162] Terrazas, Aaron (2010), Diaspora Investment in Developing and Emerging Country Capital Markets: Patterns and Prospects, Washington DC, Migration Policy Institute
file:///C:/Users/user/AppData/Local/Packages/Microsoft.MicrosoftEdge_8wekyb3d8bbwe/TempState/Downloads/diasporas-markets_1023%20(2).pdf

[163] http://hldcivilsociety.org/wp-content/uploads/2013/12/HLD-2013-Matrix-of-multi-stakeholder-convergence.pdf
- Accessed 31 January 2019

[164] DMA Global (2018), A Systematic Approach to Supporting Diaspora Investment in Africa: A Final Summary Report (Unpublished Report), Abidjan, DMA Global and African Development Bank

The 19 investment vehicles used in the 47 investment schemes assessed by DMA Global in 2018 were: Mutual Funds; Investment Fund; Treasury Bills and Bonds; Savings Bonds; Social Development Bonds; Diaspora Bonds; Collective Investment; SACCO Schemes; Crowd-Funding; Online P2P Platforms; Diaspora Direct Investment; Community Investment Note; Debt Certificates; Certificate of Deposit; Risk Capital Fund; Tax Incentivised Development Fund; Marketing/Seed Funding; Inward Investment Body; Apex Institution for Financing.

4.2 Strategic Partnerships for African Diaspora Investment and Development

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. ADFC development and operations shall be pursued within the context of international development policy and practice, incorporating points and objectives identified below.

I. Public Policy Collaboration

African financial markets face multiple challenges such as the paradox of low FDI inflow despite high economic growth[165], negative risk perceptions, low liquidity, trading stagnation and stunted growth. The logjam of challenges can be released through purposeful public policy intervention in line with global frameworks such as the Addis Ababa Action Agenda (AAAA) on Financing for Development and other international development agreements. Together with policy advocacy partners, ADFC can be a 'development activist' investor and market marker, working to reduce market failure and sectoral dysfunction.

II. African and Development Institutions

With the AU declaring the diaspora as the Sixth Region of Africa, ADFC activities can also align with the AU's planned continental financial institutions such as the African Monetary Union, the African Investment Bank (AIB), the African Monetary Fund (AMF) and the African Central Bank (ACB). At an operational level, ADFC can collaborate with various ongoing and planned AU business and development, cooperative, social enterprise and other continental development programmes and projects. As the original promoter of ADFC, the AU can use its convening power and influence to facilitate strategic and technical cooperation with diverse institutions, in line with the AU Pan African Investment Code[166]. Amongst others, cooperation will include institutions such as:

- **Relevant African Institutions** including: the African Development Bank (AfDB); Afreximbank; African Finance Corporation; Africa50; African Institute for Remittances (AIR); African Private Equity and Venture Capital Association (AVCA); Program Infrastructure Development for Africa (PIDA); New Partnership for Africa's Development (NEPAD); African Union Foundation; African Union Peace Fund; Regional Economic Commissions (RECs); UN Economic Commission for Africa (UNECA).

- **International development partners** including: the World Bank; International Finance Corporation; International Monetary Fund; European Investment Bank (EIB); German Agency for International Development (GIZ); UK Department for International Development (DFID); French Agency for Development (AFD); Swedish International Development Agency (SIDA); US Agency for International Development (USAID); Canadian International Development Agency (CIDA); UAE Foreign Aid; UN Financing for Sustainable Development Office; Innovative Finance Foundation.

[165] Odusola, Ayodele (2018), Foreign Direct Investment Paradox in Africa, *Africa Renewal Online*, Dec 2018 – Feb 2019, UN, New York https://www.un.org/africarenewal/web-features/addressing-foreign-direct-investment-paradox-africa

[166] African Union (2016), Draft Pan-African Investment Code, Addis Ababa, African Union https://au.int/sites/default/files/documents/32844-doc-draft_pan-african_investment_code_december_2016_en.pdf

III. Multigenerational Diaspora and Friends of Africa

Countries like Israel, China, India and Lebanon have been able to raise billions of dollars through Bonds that almost exclusively target their diaspora. This is in line with the specific history and profile of those diasporas, and the strength of diaspora links to country of origin and heritage. ADFC shall be purposeful in engaging not only with the 17 million African migrants[167], but the estimated 150+ million[168] multigenerational diasporans, who are nationals of countries in Europe, the Americas, Middle East and Asia. Furthermore, ADFC shall market its investment products to 'friends of Africa', 'friends of the African diaspora' as well as ethical and responsible investors. This reflects the fact that portfolio investment in Africa is underdeveloped, and that need for development finance for Africa is huge.

IV. Embedding Countercyclical Flows

One of the key characteristics of remittances which makes it a sustainable form of development finance is that it is countercyclical in nature; generally, inflows are maintained and increased (except for occasional dips), irrespective of whether the macroeconomic indicators are worsening or improving. This derives from the personal, family, community, cultural and patriotic affinities that characterise diaspora psychology and sociology. ADFC shall work with partners to seek to embed and entrench countercyclical investment flows in the emergent DPI market in Africa.

[167] http://www.un.org/en/development/desa/population/migration/data/estimates2/estimatesgraphs.shtml?0g0
- Accessed 31 January 2019

[168] https://www.worldatlas.com/articles/where-is-the-african-diaspora.html - Accessed 31 January 2019

4.3 Global Policy and Cooperation Frameworks

Since the 2012 adoption of the AU Global African Diaspora Summit 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 December 2018 Global Compact on Safe Orderly and Regular Migration (GCM); the November 2015 Africa-Europe Joint Valletta Action Plan (JVAP); the September 2015 UN Agenda 2030 on Sustainable Development Goals (SDGs); the July 2015 Addis Ababa Action Agenda on Financing for Development (AAAA); the January 2015 African Union Agenda 2063; the November 2014 International Decade for People of African Descent. Furthermore, the fourth UN Financing for Development Forum (April 2019) reinforces the urgent need for innovative finance and diaspora investment.

I. Global Compact on Safe Orderly and Regular Migration

The Global Compact on Safe Orderly and Regular Migration (GCM) is the first global migration governance framework, adopted by the United Nations. It recognises the importance of facilitating augmentation of migrant and diaspora resources, and is explicit calling for supporting diaspora investment and match funding[169].

GCM Objective 16 (f) on 'Empower migrants and societies to realize full inclusion and social cohesion', states: *"Establish.....programmes at the local level to facilitate migrant participation in the receiving society by involving migrants, community members, diaspora organizations, migrant associations, and local authorities in.....development of business ties that improve integration outcomes and foster mutual respect"*.

GCM Objective 19 (e) on 'Create conditions for migrants and diasporas to fully contribute to sustainable development in all countries', states:

> *"Develop targeted support programmes and financial products that facilitate migrant and diaspora investments and entrepreneurship, including by providing administrative and legal support in business creation, granting seed capital-matching, establish diaspora bonds and diaspora development funds, investment funds, and organize dedicated trade fairs"*.

GCM Objective 20 (g) on 'Promote faster, safer and cheaper transfer of remittances and foster financial inclusion of migrants', states:

> *"Develop programmes and instruments to promote investments from remittance senders in local development and entrepreneurship in countries of origin, such as through matching grant mechanisms, municipal bonds and partnerships with hometown associations, in order to enhance the transformative potential of remittances beyond the individual households of migrant workers at skills levels"*.

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[169] The author of this report was one of the global leaders that delivered statements on 'International Action and Cooperation: The Way Ahead' at the 19 September 2016 UN General Assembly Summit for Refugees and Migrants, which set in motion the process for the Global Compact for Migration (GCM). He served as the UN's 'Overarching Expert' during the GCM consultation stage and provided technical support during the negotiation and drafting stages.

GCM Final Draft (2018): https://refugeesmigrants.un.org/sites/default/files/180711_final_draft_0.pdf - Accessed 31 January 2019

II. Africa-Europe Joint Valletta Action Plan

The Joint Valletta Action Plan (JVAP) went beyond the Sustainable Development Goal (SDG) commitment of 'reducing remittance transaction costs to less than 3% by 2030'. It set a new target for significant reduction of the cost of remittances in selected EU-Africa corridors by 2020 (ten years before the SDG target), stating that Europe and Africa will: 'identify corridors for remittances transfers where the partners commit to substantially reduce the costs by 2020, from Europe to Africa and within Africa'. Furthermore, JVAP included a new commitment to:

> *"Develop country specific actions aiming at enhancing the development impact of migrant diasporas, [and] development diaspora investment models aimed at leveraging migrant savings for local business development and as a means of boosting local economic development"*[170].

III. Agenda 2030 on Sustainable Development Goals

The Sustainable Development Goals (SDGs) of Agenda 2030 has a target that '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'. SDG Target 10.7, under 'Reduce Inequalities', includes commitment to:

> *"Implement the principle of special and differential treatment for developing countries, in particular least developed countries...Encourage official development assistance and financial flows, including foreign direct investment, to States where the need is greatest, in particular least developed countries, African countries..."*[171]

IV. Addis Ababa Action Agenda on Financing for Development

Paragraph 62 of Agenda 2030 (Means of Implementation and Global Partnerships) states that: "*This Agenda, including the Sustainable Development Goals, can be met within the framework of a revitalized Global Partnership for Sustainable Development, supported by the concrete policies and actions outlined in the Addis Ababa Action Agenda, which is an integral part of the 2030 Agenda for Sustainable Development"*[172].

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[170] The author of this report provided technical assistance to the African Union Commission during the 2015 Europe-Africa Valletta Summit which led to the JVAP. He supported the AU Commissioner for Social Affairs, liaising with the EU teams, and provided draft text for the JVAP, including section on remittances and transboundary investment. See Section 1.2 of JVAP on 'Development benefits of migration': https://www.consilium.europa.eu/media/21839/action_plan_en.pdf - Accessed 1 April 2019

[171] The author was involved in the post-2015/Agenda 2030 consultations and negotiations, working with developed and developing countries, international and diaspora organisations, especially on migration, diaspora, development, investment and cooperation. In November 2015, he gave evidence to the first SDG parliamentary inquiry by the UK House of Commons on 'Business and the SDGs'.

United Nations (2015), Transforming Our World: The 2030 Agenda for Sustainable Development - A/RES/70/1, New York, United Nations https://sustainabledevelopment.un.org/content/documents/21252030%20Agenda%20for%20Sustainable%20Development%20web.pdf

[172] ibid

Paragraph 40 of the Addis Ababa Action Agenda on Financing for Development (AAAA) states: *"We recognize the positive contribution of migrants for inclusive growth and sustainable development in countries of origin, and transit and destination countries. We will work to ensure that adequate and affordable financial services are available to migrants and their families in both home and host countries"*. Paragraph 111 states that: *"We recognize that international migration is a multidimensional reality of major relevance for the development of origin, transit and destination countries that must be addressed in a coherent, comprehensive and balanced manner"*.

AAAA Paragraph 35 states: *"Private business activity, investment and innovation are major drivers of productivity, inclusive economic growth and job creation.....We call on all businesses to apply their creativity and innovation to solving sustainable development challenges....Private international capital flows....along with a stable international financial system, are vital complements to national development efforts. Nonetheless, we note that there are investment gaps in key sectors for sustainable development. Foreign direct investment is concentrated in a few sectors in many developing countries and often bypasses countries most in need, and international capital flows are often short-term oriented"*[173].

The last point under the section on 'Private Finance' of the 'Declaration from the Addis Ababa Civil Society Forum on Financing for Development' states: *"Migrants and the diaspora are active partners in development through their transboundary entrepreneurship, skills transfer, and innovative finance. We note that for some corridors the cost of remittances is already less than 3%. We urge Member states to reflect the ambition expected of FFD by committing to facilitate the reduction of remittance transaction costs to a target of 1% by 2025, and to fund transboundary and diaspora investment schemes"*[174].

V. African Union Agenda 2063

The very first line of the African Union's 'Agenda 2063: The Africa We Want' (popular version, September 2015), recognises the role of the diaspora in African development, stating that:

> *"We, the people of Africa and her Diaspora, united in diversity, young and old, men and women, girls and boys from all walks of life, deeply conscious of history, express our deep appreciation to all generations of Pan-Africanists.....We rededicate ourselves to the enduring Pan African vision of "an integrated, prosperous and peaceful Africa, driven by its own citizens and representing a dynamic force in the international arena."* Paragraph 20 commits to: *"Have dynamic and mutually beneficial links with her Diaspora"* and Paragraph 67 declares: *"A call to action to all Africans and people of African descent, to take personal responsibility for the destiny of the continent and as the primary agents of change and transformation"*.[175]

[173] UN (2015) Addis Ababa Action Agenda of the Third International Conference on Financing for Development, New York, United Nations https://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf

The author of this report was involved in the final AAAA negotiations in July 2015, providing technical briefings on remittances and transboundary investment to OECD and African Finance Ministers and Heads of Delegation. He provided the wording on diaspora investment for the FFD Civil Society Declaration.

[174] FFD CSO Declaration: https://csoforffd.files.wordpress.com/2015/07/addis-ababa-cso-ffd-forum-declaration-12-july-2015.pdf (Page 6) - Accessed 31 January 2019

[175] African Union (2015), Agenda 2063: The Africa We Want (Popular Version), Addis Ababa, African Union: https://au.int/sites/default/files/documents/36204-doc-agenda2063_popular_version_en.pdf

VI. International Decade for People of African Descent

Remittance Match Funding as a mechanism for innovative finance for a Diaspora Endowment Fund partly depends on institutional support for African diaspora participation in development processes. Paragraph 19 of the 'Programme of Activities for the Implementation of the International Decade for People of African Descent' states that:

> *"Consistent with the Declaration on the Right to Development, States should adopt measures aimed at guaranteeing active, free and meaningful participation by all individuals, including people of African descent, in development and decision-making related thereto and in the fair distribution of benefits resulting therefrom"*[176].

VII. Fourth UN Forum on Financing for Development

On 15-18 April 2019, the UN Economic and Social Council (ECOSOC) hosted the fourth Financing for Development Forum. The draft conclusions and recommendations highlighted the current state of underfunding for development. This reinforces the urgent need for innovative and diaspora investment. The ECOSOC stated that:

> *"Investments that are critical to achieving the Sustainable Development Goals remain underfunded. Systemic risks are increasing, including capital flow volatility and rising risks of debt distress, and parts of the multilateral system are under strain. Most people live in countries in which inequality has increased, and environmental degradation continues apace. With this trajectory, we will not be able to meet the aspirations of the 2030 Agenda for Sustainable Development, and many will be left behind. We recognize that in this difficult context may lie the opportunity to reshape both national and international financial systems in line with sustainable development. We are determined to take advantage of this opportunity through collective action at the global level to advance financing for development"*[177].

VIII. African Union Partnership Agreements

The African Union has formal strategic partnership and cooperation agreements with different parts of the world. This is relevant to ADFC's mobilisation of innovative finance through the Diaspora Endowment Fund, which requires participating countries to provide Remittance Match Funding. The AU partnerships cover all the OECD countries, and countries with high numbers of African migrants and diasporans.

These AU strategic partnerships include: Africa-Arab (from 1977); Africa-Japan (1993); Africa-European Union (2000); Africa-China (2000); Africa-South Korea (2006); Africa-South America (2006); Africa-India (2008); Africa-Turkey (2008); Africa-United States (2010); and Africa-Australia (2010)[178].

[176] UN Resolution (2014): https://www.un.org/en/events/africandescentdecade/pdf/A.RES.69.16_IDPAD.pdf - Accessed 1 April 2019

[177] UN ECOSOC document (2019): https://undocs.org/E/FFDF/2019/L.1 - Accessed 15 April 2019

[178] AUC website: https://au.int/en/continent-and-country-partnerships - Accessed 15 April 2019

5. ADFC Purpose, Products and Services

African Diaspora Finance Corporation (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. Since the African Union proclaimed a legacy project on diaspora investment in 2012, global and African continental policies and agreements have reiterated and emphasised the importance and urgency of developing the African diaspora finance and investment sector.

5.1 Proposed ADFC Vision, Mission, Approach and Services

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

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

III. Approach: ADFC shall undertake its work through:

- Resource mobilisation from the global multigenerational African diaspora
- Resource mobilisation from development partners through innovative finance
- Operations undertaken on a continent-wide basis to foster African integration
- Investment in profitable, regulated and structured ventures and schemes
- Investment in intermediary continental and diaspora ventures and schemes
- Strategic and operational partnership with global financial and development institutions
- Research, technical cooperation, co-financing and other development projects and programmes.

IV. Rationale for the ADFC Approach: The rationale for the approach is summarised below:

- **Diaspora and the Framework of AU Agenda 2063:** Africa remains the poorest continent on earth despite its enormous wealth of natural and human resources. The negative effect of underdevelopment is felt by Africans on the continent and in the diaspora. As set out in the African Union's Agenda 2063, the transformation of the continent is a self-help pan-African task involving all its peoples and all its friends across the world.

- **Implementation of Multilateral Agreements:** In the past 15 years, global institutions and African governments have come to recognise the immense and qualitative financial contribution of the diaspora to development. In the era of the implementation of the AAAA, SDGs and GCM, it is imperative that the application and impact of diaspora finance and resources is enhanced using innovative policies and practical schemes already studied, recommended and approved through multilateral agreements.

- **Practical Result-Oriented Solution:** ADFC's proposed portfolio of products and services, its practical and result-oriented focus, and its global and continental strategic partnerships provide a timely, feasible and sustainable solution to the urgent challenges and missed opportunities of African diaspora finance.

V. Characteristics of ADFC's Offering

- Standard financial products, packaged and marketed to the African diaspora
- Specialist products and services designed and marketed to the African diaspora
- Financial products and services packaged for banks and other financial institutions
- Endowment products and services for donor institutions and philanthropic organisations
- Products and services offered publicly and accessible to the general public
- Products and services offered privately through regulated brokers and intermediaries
- Products and services regulated under UK, USA and other statutory and regulatory jurisdictions
- Products that attract high numbers of investors and high volumes of investment
- Pool of funds used for forward-investments in African development and infrastructure schemes
- Endowment/Trust income used for grants and social enterprise co-finance.

VI. ADFC Portfolio of Products and Services:

The core start-up portfolio of ADFC products, services and activities are as follows:

A. Issuance and Management of Diaspora Bonds (Diaspora Bonds)
B. Management of Diaspora Mutual Funds (Mutual Funds)
C. Management of Diaspora Endowment Trust Fund (Endowment Fund)
(Endowment Fund created through innovative finance mechanism of Remittance Match Funding)

- **Core Product Review:** The portfolio of core start-up products and services will be reviewed after 3 years of operations to assess whether new products and services are to be added to the portfolio.

- **Supplementary Activities:** In addition to the core products and services, ADFC will undertake supplementary activities in the form of research, technical cooperation, co-financing and other development projects and programmes, in collaboration with bond and endowment partners, development investors and donors.

- **Surplus Disbursement:** After reinvestments for ADFC's organisational and business development, net surpluses from ADFC Diaspora Bonds and Mutual Funds shall be used to increase the asset of the Diaspora Endowment Fund, and co-finance the proposed grant-making RemitAid™ Development Trust.

5.2 Diaspora Bonds: Customised Global Bonds for Responsible Investment

Based on lessons learnt about Sovereign and Diaspora Bonds, understanding of regulated capital markets, especially in the UK and USA, and understanding of financial needs, wants and expectations of the African diaspora and friends of the diaspora, the proposed ADFC Diaspora Bonds shall harness diaspora resources to optimise responsible investment in Africa, as summarised below.

I. **Global Bond Standard**: To ensure global compliance, client confidence and structural risk mitigation, the ADFC Diaspora Bonds shall be dollar-denominated, 5-7 year Global Bonds, registered in the UK and USA, open to most investors, with standard terms and conditions, supplemented by unique diaspora features. They shall be socially responsible instruments, with best of class features on: statutory and regulatory compliance; marketing, client relations and customer service; payment management and investor protection. The ADFC Diaspora Bonds may take the form of Corporate Bonds, backed or guaranteed by ADFC or development partner resources. ADFC shall also be able to issue Sovereign-backed Bonds in partnership with individual or group of African countries.

II. **Diaspora Customisation:** The Diaspora Bonds shall be best of class Eurobond/Global Bond, augmented with complementary and supplementary features that capitalise on diaspora-development potentialities. The customisation shall include: structuring and packaging to result in competitive interest rates, reflecting 'patriotic and development' discounts; non-conventional, regulation-compliant, bespoke relational marketing that consults, engages and wins the confidence of the diverse multigenerational African diaspora; stimulating the diaspora to invest in regional and continental projects, beyond their specific countries of origin and heritage.

III. **Development Impact:** In addition to the financial returns, the ADFC Diaspora Bonds shall offer investors the chance to contribute to programmes, ventures and projects in Africa that have high socio-economic and developmental impacts. The investment-development nexus shall be demonstrated through embedded features including: using Bond funds to finance specific, identifiable projects and ventures; screening against 'vulture funds' and unethical investors; transparent traceability reporting through online dashboards and other methods, giving updates and evidence of progress and impact; maintenance of pipeline of investment-ready projects which may be financed by future ADFC Bond issuances.

5.2.1 Issuance and Management of Diaspora Bonds

The proposed ADFC Diaspora Bond service shall have the following features:

I. **Project-Based Bonds:** Diaspora Bonds designed as project-based bonds, whereby the investment funds raised are used to finance specific development, social enterprise and community facilities and amenities, giving priority to stand-alone, physical and tangible projects, and high impact, innovative, remediation and catalytic programmes and ventures that reflect the development interests of the diaspora.

II. **Portfolio of Projects:** Funds generated from Diaspora Bonds to be used to finance portfolio of small/medium scale projects, programmes and ventures, budgeted at USD10m to USD25m.

III. **Partnership Packaging:** Diaspora Bonds and portfolio of projects to be packaged by ADFC in partnership with African countries, diaspora social entrepreneurs, African continental institutions and organisations, and other development and multilateral partners.

IV. **Financial Backing:** Diaspora Bonds to be financially underwritten, guaranteed or endorsed by relevant African governments, regional or continental financial and development institutions, and/or other international development agencies and institutions; in the future, having built suitable reserves, ADFC shall also provide appropriate financial guarantees where required.

V. **Integrated Management:** Diaspora Bonds to be designed, packaged, marketed and managed by ADFC, with appropriate regulatory compliance in relevant jurisdictions globally, and through Special Purpose Vehicles (SPVs) and appropriate professional and operational partnerships.

VI. **Diaspora and Foreign Investors:** Diaspora Bonds to be marketed primarily to the African diaspora (outside Africa), friends of the diaspora and appropriate development oriented institutions, to increase inward ethical investment into Africa.

VII. **Bond Marketing Platform:** ADFC to promote and market other suitable diaspora, social impact, development, sovereign and corporate bonds issued by diverse governments, corporations, diaspora and African development institutions.

VIII. **Main Terms and Conditions:** Diaspora Bonds issuance to be regulated by relevant jurisdictions in Africa, Europe and North America, with terms and conditions set out in approved prospectuses. ADFC’s first Diaspora Bond issuance to be set at USD100m; minimum individual investments of USD1,000 denominated in US Dollars; proceeds to fund portfolio of small and medium scale projects, programmes and ventures; investment sums to be redeemed at the exit date; interest rates to be fixed (not floating) at time of issuance, pegged at about 5% to 7%, being rates set by successful and oversubscribed African bonds; interest to be paid twice a year to investors; investment exit period of 5 years.

5.2.2 Investment of Moneys Raised from Diaspora Bonds

ADFC Diaspora Bond proceeds, i.e. investor funds raised, shall be invested in diverse profitable projects, programmes, ventures and schemes which have some of the following features:

- Physical and property-based assets such as community infrastructure, facilities and amenities
- High impact development outcomes such as job creation, health, education and welfare provision
- Services that support SMEs and industries, such as rental of plant, machinery and equipment
- Catalytic services that stimulate economic activities such as agricultural processing and marketing
- Innovations for environmental remediation, economic regeneration and sectoral development
- Existing and planned diaspora-led social and commercial enterprises
- Existing and planned AU and REC programmes such as women and youth enterprises
- Continental and diaspora science, technology, creative, cultural and sporting enterprises.

5.3 Mutual Funds: Promotion of Equity Investments over Debt Securities

Given that the Diaspora Mutual Fund subsector of DPI is virtually non-existent, 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. The key points on this strategic orientation are summarised below.

I. **Growth in Global Equity Investments:** In 2017, global FPI was USD59.7 Trillion, and for the first time ever, equity FPI (at USD30 Trillion) was greater than debt FPI (at USD29.7 Trillion)[179]. Investment policies and practical incentives should focus on promoting more equity Portfolio Investments, as opposed to promoting debt-based securities, or leaving it to the dictates of debt-oriented market forces.

II. **Minimisation of Debt Burden:** A mix of debt and equity is an integral feature of FPI, however, unsustainable debt burden in Africa will have negative impacts on the economy, society and development prospects. Unsustainable debt in Africa, be it by governments or corporations, needs to be avoided, especially in this nascent area of diaspora finance for Africa.

III. **Enhanced Enterprise and Management:** There are positive economic development reasons to justify promoting equity FPI. Equity inflows are more likely to stimulate foundational and enabling actions such as enhanced entrepreneurial support, human resource development, management advancement, and productivity augmentation. These result in improved outputs, impacts and profits, for the benefit of diverse direct and indirect stakeholders. The ownership responsibilities and dependence on net profits which come with equity stakes provide a catalyst for sustainable business practice.

[179] IMF Coordinated Portfolio Investment Survey (CPIS):
http://data.imf.org/?sk=B981B4E3-4E58-467E-9B90-9DE0C3367363 - Accessed 31 January 2019

5.3.1 Management of Diaspora Mutual Funds

The proposed ADFC Diaspora Mutual Fund shall have the following features:

I. **Pool of Diaspora Resources:** Mobilisation of investment funds through monthly, quarterly or occasional account subscriptions/deposits by recent and settled African migrants, first and multigenerational diaspora, and friends of the diaspora; the small individual investments are pooled together into open-ended or time-bound funds to be invested in Africa in a portfolio of financial products and securities with different risk profiles, such as treasury bills, sovereign, municipal and non-ADFC Diaspora Bonds, short-term debts, stocks and shares.

II. **Professionally Managed Funds:** Individual investors' own shares in the ADFC Mutual Funds which are protected by regulations in the relevant jurisdictions, and are managed by ADFC's professional Fund Managers to diversify the portfolio of investments made by the Mutual Funds, reduce risk exposure, and maximise returns for the benefit of the individual investors.

III. **Differentiated Investment Offering:** The African diaspora include people with varied financial and economic profiles, thus ADFC Mutual Funds will offer different types of investment opportunities across Africa, reflecting the investors' financial objectives, risk appetite, development orientation and other factors.

IV. **Main Terms and Conditions:** Mutual Funds issuance shall be regulated by relevant jurisdictions in Africa, Europe and North America, with terms and conditions set out in approved prospectuses; up to 4 ADFC Mutual Funds to be launched, targeting different diaspora investors; size of collective Mutual Funds to be set at the time of launch with a possible total target of USD100m; minimum individual investments of USD100 denominated in US Dollars; ADFC Mutual Funds to be highly liquid, allowing individual shares to be redeemable within maximum of 14 days, in accordance with relevant regulations; basis for calculation of variable investment income (earnings) and fees to be set out in approved prospectuses, with earnings deriving mainly from dividend on securities, net capital gains on holdings, and Net asset Value (NAV) of portfolio.

5.3.2 Investment of Moneys Raised from Diaspora Mutual Funds

ADFC Mutual Fund proceeds, i.e. investor funds raised, shall be invested in diverse interest yielding securities such as:

- Low risk government treasury bills and other regulated Money Market Funds in Africa
- Sovereign, municipal and government-backed project bonds
- Non-ADFC Diaspora Bond and other social impact and development bonds
- Corporate bonds and other regulated short-term debt
- Corporate stocks and shares and Index-Linked Funds
- Venture Capital and other Growth Funds and Income Funds
- SME and other sector and industry specific funds
- Retirement and Lifecycle Funds which provide lump sums at specific target dates.

5.4 Endowment Funds: Innovative Finance for Social Enterprise

Start-up capital is needed to set up the ADFC as an African Union (AU) legacy project, whilst the creation of an innovative finance initiative based on Remittance Match Funding is long overdue[180]. 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.

I. Definition of Innovative Finance: 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. Innovative finance schemes may involve micro-contributions, micro-taxes, micro-levies, match-funding, charges, guarantees, bonds, revenue pooling, trust funds and insurance schemes, set up though public-private partnerships and market-based financial transactions, involving new and diverse partners, and often focussed on specific developmental themes, mitigating market failure, scaling up result-oriented solutions, and stimulating catalytic interventions[181].

II. Diaspora Endowment Fund as Innovative Finance: The concept and practice of innovative finance for development arose at the beginning of the twenty-first century as new ideas were explored to finance the ambitious provisions of the Millennium Development Goals. Multi-year reports of the UN Secretary General in 2004, 2005, 2006, 2008 and 2009 referenced the need and importance of innovative finance. Private sector consultants like McKinsey and multi-stakeholder networks like the Leading Group on Innovative Financing of Development, recognised new approaches in remittance optimisation as part of the innovative finance landscape[182, 183, 184].

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180 RemitAid™ as a form of innovative finance based on Community Tax Relief (CTR) and Remittance Match Funding was first developed in 2003.

181 The definition presented here is a synthesis of different definitions given by the United Nations, World Bank, Organisation for Economic Co-operation and Development (OECD), and the Leading Group on Innovative Financing for Development (LGIFD).

Girishankar, Navin (2009), Innovating Development Finance: From Financing Sources to Financial Solutions, Washington DC, World Bank http://documents.worldbank.org/curated/en/796631468340177673/pdf/WPS5111.pdf

World Bank (2010), Innovative Finance for Development Solutions: Initiatives of the World Bank Group, Washington DC, World Bank http://siteresources.worldbank.org/CFPEXT/Resources/IF-for-Development-Solutions.pdf

Benn, Julia and Mirabile, Mariana (2014), Innovating to Finance Development, in *Development Cooperation Report: Mobilising Resources for Sustainable Development*, Paris, Organisation for Economic Co-operation and Development (OECD) https://read.oecd-ilibrary.org/development/development-co-operation-report-2014_dcr-2014-en#page179

182 Note from LGIFD: http://www.leadinggroup.org/article194.html - Accessed 1 April 2019

183 UNDP (2012), Innovative Financing for Development: A New Model for Development Finance? New York, United Nations Development Programme (UNDP) https://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Development%20Cooperation%20and%20Finance/InnovativeFinancing_Web%20ver.pdf

184 Bensoussan, Eytan, Ruparell, Radha and Taliento, Lynn (2010), Innovative Development Financing: How can more resources be applied toward development in the world's poorest countries? London, McKinsey & Company https://www.mckinsey.com/industries/social-sector/our-insights/innovative-development-financing

III. **Innovative and Blended Finance:** The 2015 Addis Ababa Action Agenda (AAAA) on Financing for Development (FFD) provided an updated global policy agreement for the promotion of Innovative and Blended Finance, both being appropriate frameworks for the development of the proposed Diaspora Endowment Fund, based on Remittance Match Funding (RMF)[185].

IV. **Reactivate and Implement RemitAid™:** Remittance Tax Relief and Remittance Match Funding as mechanisms for innovative finance were developed as part of the RemitAid™ scheme, initiated in 2003. RemitAid™ was endorsed at conferences linked to the first United Nations High Level Dialogue on International Migration and Development (UNHLD) including the 'First Ministerial Conference of Least Developed Countries on Migrants' Remittances' (February 2006, Cotonou, Benin) and 'Workshop on Migration, Development and Poverty Reduction' (August 2006, Dakar, Senegal), with formal Ministerial and delegate resolution to: *"Recognize that remittances, as a form of funding contributing to development, should attract tax incentives similar to those available for aid and foreign direct investments, and urge host countries to introduce remittance tax relief for development"*[186]. RemitAid™ was given the highest consideration in the UK[187], and was launched at the inaugural European Development Days (EDD) in November 2006 in Brussels[188]. The programme was shelved after the global financial crisis of 2008. Reactivation and appropriate and opportune in the context of the 2018 implementation actions of the African Union legacy project on diaspora investment, and the 2018 adoption of the UN Global Compact for Migration, which specifically call for *"programmes and financial products that facilitate migrant and diaspora investments.....granting seed capital-matching.....diaspora bonds and diaspora development funds, investment funds.....matching grant mechanisms, municipal bonds and partnerships with hometown associations, in order to enhance the transformative potential of remittances beyond the individual households of migrant workers....."*[189]. The scheme was originally designed to apply to all Least Developed Countries (LDCs) in the world, but is being re-purposed to apply specifically to Africa. (Review after 3 years of practical implementation may lead to replication to other LDCs).

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[185] The UN Addis Ababa Action Agenda (AAAA) is a global framework for financing sustainable development, recognised within Agenda 2030 of the Sustainable Development Goals. The author of this report was involved in the negotiations and final adoption in July 2015. Paragraphs 48 and 69 cover Blended Finance and Innovative Finance respectively.
https://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf - Accessed 31 January 2019

[186] IOM (2007), Migration, Development and Poverty Reduction: Report on the Workshop on Migration, Development and Poverty Reduction 2006, Geneva, International Organization for Migration (IOM) and African Capacity Building Foundation (ACBF) pp. 16-17 and 52-54 https://publications.iom.int/system/files/pdf/migration_dev_pvrtyreduction.pdf

[187] 2005 news briefing about RemitAid™, linked to UK hosting of G8 Summit and AFFORD's hosting of Nobel Laureate Professor Wangari Maathai who became a supporter of the RemitAid™ scheme.
https://www.pambazuka.org/pan-africanism/afford-calls-remittances-africans-be-g8-summit-agenda - Accessed 1 April 2019

[188] European Union (2007) European Development Days: 2006 Proceedings Report, Brussels, European Union pp. 111-117
https://eudevdays.eu/sites/default/files/documents/EDD2006-proceedings-final.pdf

[189] GCM Final Draft (2018): https://refugeesmigrants.un.org/sites/default/files/180711_final_draft_0.pdf - Accessed 31 January 2019

V. **Endowment Fund as Anchor for ADFC Social Enterprise:** Beyond its fundamental innovative and development importance, the Diaspora Endowment Fund serves as an enabler and anchor for the creation of ADFC as an exemplar continental social enterprise. OECD defines social enterprise as *"private activity conducted in the public interest, organised with an entrepreneurial strategy, but whose main purpose is not the maximisation of profit but the attainment of certain economic and social goals, and which has the capacity for bringing innovative solutions to the problems of social exclusion and unemployment"*[190]. Social enterprise start-ups usually require capital input from government, public and philanthropic sources, and this is particularly so in Africa, as the institutional and capacity challenges are high[191]. Contributions from donors participating in the Diaspora Endowment Fund can be used to set up structures and systems, and hire professional staff, to develop, launch and manage the Diaspora Bonds, Mutual and Endowment Funds. ADFC managing a multi-million dollar Endowment Fund also enhances the credibility and leverage potential of ADFC as a continental start-up social enterprise.

[190] OECD (1999), Social Enterprises, Paris, Organisation for Economic Co-operation and Development

[191] OECD (2013), Policy Brief on Social Entrepreneurship: Entrepreneurial Activities in Europe, Paris, OECD & European Union https://www.oecd.org/cfe/leed/Social%20entrepreneurship%20policy%20brief%20EN_FINAL.pdf

World Bank (2017), Emerging Social Enterprise Ecosystems in East and Southern African Countries, Washington DC, World Bank http://endeva.org/wp-content/uploads/2017/08/wb_africa-se-ecosystem_may8.pdf

5.4.1 Management of Diaspora Endowment Fund

The proposed ADFC Diaspora Endowment Fund shall have the following features:

I. **Remittance Match Funding as Innovative Finance:** Within the context of the Global Compact for Migration (GCM), the Addis Ababa Action Agenda on Finance for Development (AAAA), the UN Agenda 2030 on Sustainable Development Goals (SDGs), and the AU Agenda 2063, ADFC shall reactivate and implement an updated and simplified RemitAid™ scheme, focussed on Remittance Match Funding (RMF). This involves participating donor countries providing match-funding for the Diaspora Endowment Fund. The contribution is calculated as a percentage of remittances sent to Africa from the participating country, using comparable tax relief and incentive schemes as reference points[192].

II. **Legacy Diaspora Endowment Fund:** ADFC shall undertake and conclude consultations and negotiations with governments of Organisation for Economic Co-operation and Development (OECD) and Gulf Cooperation Council (GCC) and other non-African countries to provide Remittance Match Funding (RMF), at agreed percentage rates, on funds remitted by migrants and the diaspora to African countries from these OECD, GCC and other countries, to finance the ADFC Endowment Fund, which creates a positive and lasting financial and development legacy, arising from the productive contributions of migrants and diaspora. (The contribution can be in the form of Community Remittance Tax Relief (CRTR) or any other appropriate mechanism). The pre-launch target is to generate USD50m per annum, from 2-3 participating countries. It is expected that both the contributions per country and the number of contributing countries will increase over time.

III. **Supplementary Contributions to Endowment Fund:** ADFC shall undertake and conclude consultations and negotiations with Money Transfer Operators (MTOs) for these businesses to provide Remittance Match Funding (RMF), at agreed percentage rates on funds remitted through their platforms by migrants and the diaspora to African countries from non-African countries; and for MTOs to build in options on their payment systems and platforms for remitters to make Collective Remittance Contributions (CRC) to the ADFC Endowment Fund, at nominal sums or rates for every transaction.

IV. **Stakeholder Cooperation and Partnership:** The Diaspora Endowment Fund is rooted in UN framework for innovative finance for development and the nexus between diaspora and development. ADFC, supported by the African Union Commission shall collaborate with governments, Money Transfer Operators and relevant financial and development institutions globally and in Africa.

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[192] Faal, Gibril (2012) Introduction to RemitAid™: Remittance Match Funding and Remittance Tax Relief, London, African Foundation for Development (AFFORD)
http://gkpartners.co.uk/GK_Partners_RemitAid_Introduction.pdf

Initial 2006 RemitAid™ Briefing:
https://www.qmul.ac.uk/geog/media/geography/docs/research/citycentre/remit_aid.pdf - Accessed 31 January 2019

V. **Collection and Pooling of Funds:** ADFC ('RemitAid™ Claims Unit') shall work with partners to ascertain the volume of remittance inflows to Africa, and to use such verified data to make quarterly requests for disbursement of agreed Remittance Match Funding (RMF) to ADFC from OECD, GCC and other participating countries; and to liaise with MTOs for weekly disbursements to ADFC, and quarterly audits. The audits shall be on the flows of Remittance Match Funding (RMF) from MTOs, and Collective Remittance Contributions (CRC) from remitters using the MTO platforms.

VI. **Management of Endowment Fund:** ADFC shall work with partners to receive, pool and manage: the RMF from participating countries; the RMF from MTOs; and the CRC from remitter. Of the RMF and CRC collected, 80% of the funds will be invested in a portfolio of ethical schemes including low risk, high yield and other appropriate schemes in Africa and globally, thereby generating a regular income and creating an ever growing long-term financial asset.

VII. **Disbursement of Grants:** ADFC shall have an affiliated 'Grants Unit' (RemitAid™ Development Trust [RDT]) which will receive and manage grant funds, being: 20% of RMF from participating countries; 100% of RMF from MTOs; 100% of CRC from remitters; and 100% of income earned through endowment investments. (In the future, a percentage of investment income may be re-invested in the Endowment Fund). The RemitAid™ Development Trust shall disburse grants, soft loans and other development co-finance awards for structural, productive, regenerative, enterprise, community and other diaspora activities, to advance development in Africa, enhance diaspora contributions to development, and prevent, minimise and mitigate the negative side effects linked to migration. Grants and co-finance shall be based on transparent, open and objective criteria.

5.4.2 Application of Moneys Generated through the Endowment Fund

Eighty percent of Remittance Match funding (RMF) from participating countries shall be channelled into the Diaspora Endowment Fund. The funds shall be invested in a balanced portfolio of diverse securities and schemes in Africa and globally, including the following:

- Low risk government treasury bills and other regulated Money Market Funds
- Sovereign, municipal, corporate and project bonds
- Corporate bonds and other regulated short-term debt
- Corporate stocks and shares and Index-Linked Funds
- Hedge Funds, Private Equity, Venture Capital and other Growth Funds.

Twenty percent of RMF from participating countries; 100% of RMF from MTOs; 100% of Collective Remittance Contributions (CRC) from remitters; and 100% of annual earnings from Endowment Fund investments shall be disbursed into RemitAid™ Development Trust (RDT). The RDT funds shall be used to make grants, soft loans, patient investment and other development co-financing to support continental and diaspora activities including:

- Schemes that prevent and mitigate the negative effects of irregular and dysfunctional migration
- Diaspora and civil society groups that enhance the capacity and welfare of the African diaspora
- Job creation and poverty reduction schemes, especially for disadvantaged and vulnerable groups
- Regenerative activities in localities with high economic, social and environmental risk factors
- Cooperative, community and social enterprises in sectors of market failure and underinvestment
- Support to young, elderly, infirm and vulnerable Africans on the continent and in the diaspora
- Other activities that support the personal development of diaspora and continental Africans
- Part of the activities and development of the AU, including the Citizens and Diaspora Directorate.

5.5 ADFC Supplementary and Technical Services

In addition to the three core start-up financial products and services, ADFC shall provide supplementary services, funded through technical cooperation grants from donors and development institutions. These supplementary activities shall include:

- Research, development and innovations in diaspora-development
- Market, sectoral, investment and strategic reviews and analyses
- Project development and investment-readiness support
- Analyses and improvement of development policy and practice
- Advocacy, awareness raising and promotion of diaspora finance
- Bespoke technical cooperation and assistance.

5.6 Illustration of ADFC Start-Up Products and Services

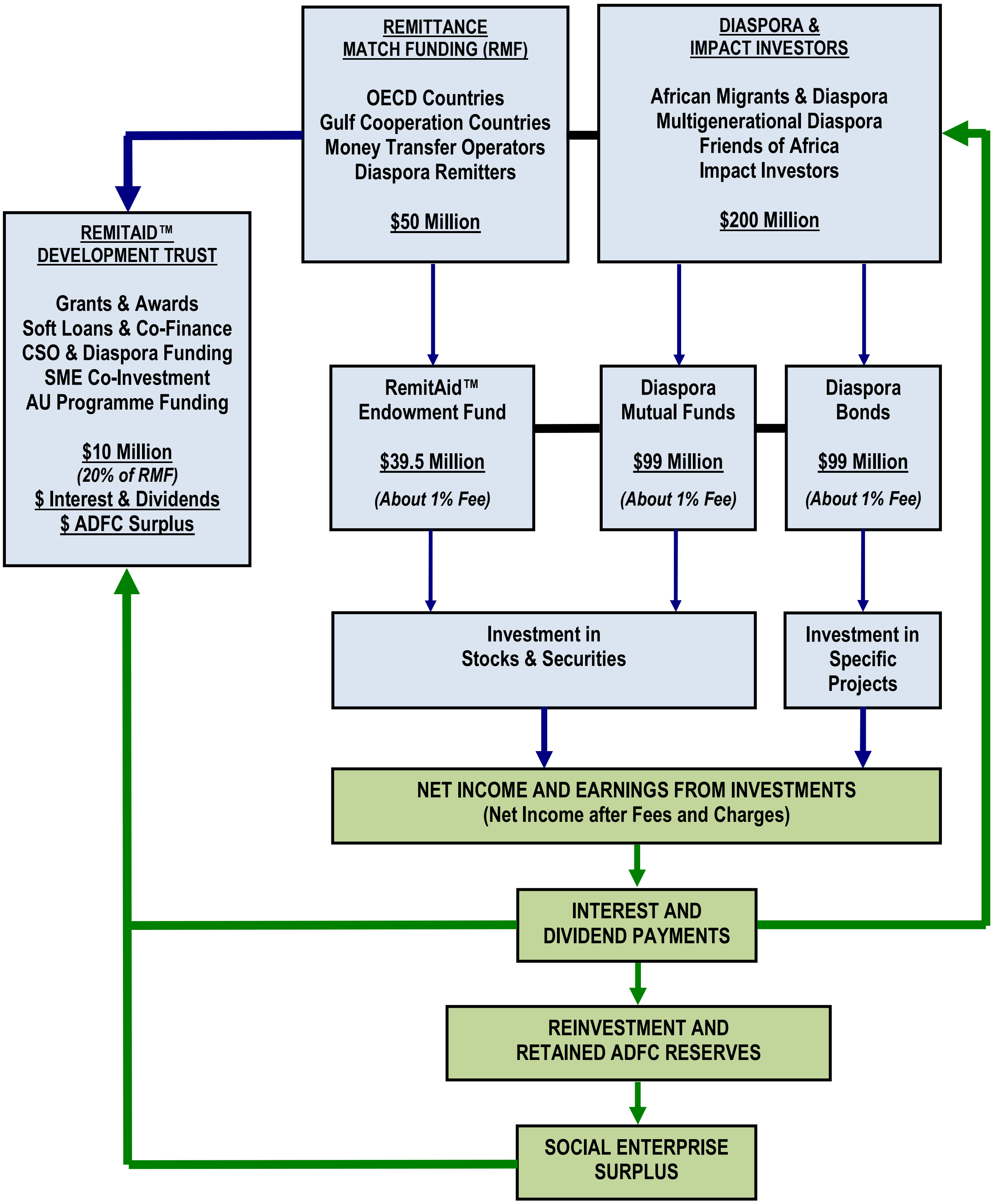

Table XI: Illustration of ADFC Start-Up Products and Services

6. Operational and Management Framework

To implement the African Union legacy project on diaspora investment, the legal, management and operational structure of the African Diaspora Finance Corporation (ADFC) shall set up. This shall involve the organisational systems and structure to implement and deliver the portfolio of ADFC products and services, whilst having capacity to discharge operational, management, regulatory and governance requirements. The integrated structure will cover all implementation needs, from production, delivery, customer care, review, monitoring, evaluation, governance, accountability, learning and continuous improvement and development.

6.1 Operational Process Tool: Service Delivery Outlines

The services to be delivered shall be based on 'Service Delivery Outline (SDO)' templates. The SDOs are active, living operational documents, to be used to ensure competent and effective delivery and implementation. The SDOs as a tool cover the following main points for each service:

- **Why:** Specific aims of the service, the required outcomes and impact of the service
- **What:** Brief description of the service, with quantitative and qualitative output targets
- **Who:** Users, beneficiaries, consumers, customers and other relevant stakeholders and partners
- **Where:** Locations where the service will be delivered, including online, face-to-face or other interfaces, single or multiple countries, specific cities and sites
- **When:** Dates when delivery to different beneficiaries will occur, highlighting frequency of delivery, interventions and interfaces with beneficiaries
- **How:** Method, means and/or system of service delivery, including key stages of the delivery process, internal and external human resources needed, and physical and other resources needed to deliver the service
- **What Next:** Options for progression of the service users and beneficiaries, including options for enhancement and expansion of the service.

The services delivered constitute the core of the organisation. It is through these services that the desired positive changes (impacts) are to be achieved. As such, it is essential that there is clarity and transparency about what the services are, and what they are not. This approach also serves to ensure operational effectiveness. 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.

6.2 ADFC Service Production and Delivery Process

To design, structure, package, market and manage the three start-up ADFC core services of Diaspora Bonds, Mutual Funds and Endowment Fund, ADFC shall set up and activate a production and operational process that involve the main stages set out below. The stages are based on standard processes for globally traded financial products.

I. **Product Design and Packaging:** ADFC shall undertake quantitative and qualitative research and analyses, and structure and package the ADFC financial products in consultation with strategic partners such as the African Development Bank, Afreximbbank, World Bank, International Monetary Fund, European Investment Bank. The products and services shall comply with regulatory requirements and industry best practice standards. The relevant legal and regulatory jurisdictions will include the United States Securities and Exchange Commission (SEC) and the United Kingdom Financial Conduct Authority (FCA). These two regulatory regimes have 'financial passporting' elements that allow for the marketing of financial products in most countries of the OECD and GCC, where the African diaspora reside. The oversubscribed 2017 Nigeria Diaspora Bond was registered with the SEC and FCA. ADFC shall also comply with corporate and financial regulations of the African country in which it is based.

II. **Prospectus and Marketing Plan:** ADFC shall produce approved prospectuses and marketing plans and materials in compliance with relevant regulations. The marketing activities will include the use of institutional and intermediary institutions such as banks, as well as online, smart phone and social media channels. ADFC shall also use appropriate network marketing methods through appropriate business, community and diaspora groups, similar to the techniques used effectively by Israel Bonds[193].

III. **Collection of Investment Funds:** ADFC shall set up general trust and other types of bank accounts to collect and receive investment funds from the African diaspora and impact investors, and other partner funders. The bank accounts and investment collection mechanisms will be compliant with Know Your Customer (KYC), Anti-Money Laundering (AML) and Countering Financing of Terrorism Investment (CFT) and other relevant legislation and regulations.

IV. **Management of Investment Portfolio:** ADFC shall manage the investment funds received through activities including: investment in diverse income earning and socially responsible regulated securities, stocks and other financial products, schemes and ventures; diligently track, monitor, oversee and manage investment portfolio with professionalism, skill and attention; ensure that capital investment is safe, and that income is generated whilst capital gains and Net Asset Value (NAV) appreciates; use fees charged to investors and income generated from investments to run the operations of ADFC diligently in compliance with regulations and best practice, and meet capital, income and contractual obligations owed to investors; manage surpluses through reinvestment, research and technical analyses, portfolio and organisational development, and augmentation of financial reserves.

[193] Israel Bonds are marketed through private meetings organised by community networkers, and social and industry influencers. They are also promoted as gifts for Bar Mitzvahs, birthdays and anniversaries.

V. **Management of Return on Investment:** ADFC shall professionally and diligently manage payments of interest, dividend or other forms of returns to investors in a timely manner. ADFC shall also manage capital refunds, reinvestments, end of contract settlements and customer relations, as well as disbursements to the RemitAid™ Development Trust.

VI. **Management of Grant-Making Fund:** ADFC shall set up the governance and operational framework for the grant-making RemitAid™ Development Trust. The activities will include recruitment and operational support of an independent Advisory Board which will oversee, amongst other things: the setting up of grant and co-financing eligibility, priorities and terms and conditions; calls for proposals, and assessment of applications; award of funding, and monitoring of performance and compliance of beneficiaries; programme monitoring, evaluation and improvement.

6.3 Outline ADFC Organisational Structure

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 structure and inter-linkages are set out below.

I. ADFC Partners
II. Board of Directors (Board)
III. International Advisory Council (IAC)
IV. Office of the Director General (ODG)
V. Investment Management Directorate (IMD)
VI. Departmental Directors, Staff and Consultants.

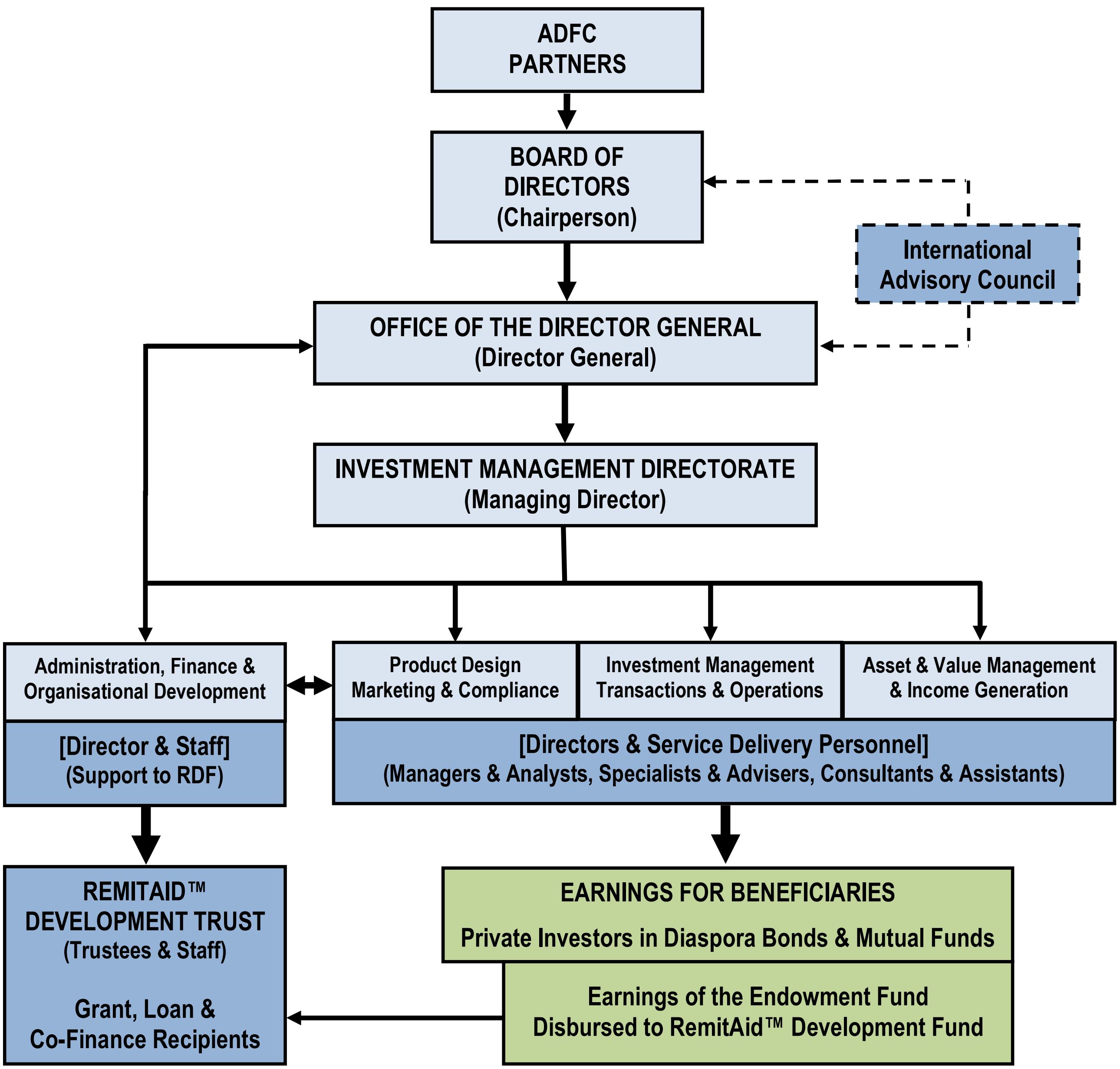

Table XII: ADFC Organogram

6.4 Summary of Human Resource Requirements

ADFC requires skilled professional personnel from different disciplines to develop and deliver the products and services, and manage the organisation at strategic, tactical and operational levels. The personnel shall serve in the different units of the ADFC organisational structure as set out above.

I. ADFC Partners

The ADFC Partners are the foundational members of ADFC. The Annual General Meeting of the ADFC Partners shall be the highest decision-making organ of ADFC. It shall elect the Board of Directors and delegate authority to it. The ADFC Partners shall comprise the following:

- 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)*.

To bring the ADFC Treaty into force, it shall require signatures by Ten (10) African countries and ratification by Six (6) Partners.

II. Board of Directors

The Board of Directors (Board) shall comprise 7-11 members, appointed for a period of 3 years, renewable for a further 3 years as appropriate. Board members shall include representatives of the different types of Agreement Partners, and a nominee of the ADFC host country. The general criteria for Board nominees include: relevant knowledge, skills, expertise and experience on investment, diaspora-development and finance; and corporate governance and board level experience.

The Director General shall be a member of the Board. Other stakeholders and partners may be invited as observers at meetings, as and when required. Meetings shall be held quarterly, with administrative support provided by the Office of the Director General. The Board shall be chaired by an independent professional with extensive relevant expertise, experience and influence.

The main duties of the Board are summarised as follows:

- Ensure statutory, contractual, project and programme compliance (oversight)
- Provide ideas linking the views and aspirations of the diaspora to the activities of ADFC (insight)
- Provide strategic direction in line with realities of the international finance sector (foresight)
- Provide guidance linking needs, wants and expectations to suitable services and activities
- Provide advice and support to activate opportunities, prevent problems, and mitigate challenges
- Set up statutory and other directional and corporate governance committees
- Act as promoter, influencer and 'ambassador' of ADFC.

III. International Advisory Council

The role of the International Advisory Council (IAC) is purely advisory and supportive in nature with no legal authority or governance responsibilities. The Director General in consultation with the Board appoints individuals to the IAC, using approved Terms of Reference (ToR). The role is voluntary in nature with no remuneration. ADFC shall be responsible for reasonable expenses and honoraria in order to facilitate IAC members to provide advice and support.

The IAC shall be established and maintained in order to create opportunities:

- For ADFC to gain easy and ready access to semi-formal advice, guidance and support from diverse professionals, experts and specialists
- To engage African, diaspora and international professionals, experts and specialists in the general activities of ADFC in a flexible and semi-formal manner
- For individual professionals with exemplary expertise to participate in the strategic direction of ADFC independently, rather than as Board members or consultants.

IAC members shall, through mutual agreement, undertake the following main activities as and when required:

- Provide project, programme and specialist guidance and advice to the Board of Directors and Office of the Director General
- Serve on ad hoc and other management and operational panels such as selection, interview and review panels relating to procurement of services, recruitment of staff, monitoring, evaluation and quality management of ADFC activities;
- Provide discrete and one-off technical, practical and operational support to ADFC staff as appropriate
- Act as promoter, influencer and 'ambassador' of ADFC amongst professional, thematic and other networks, sectors and audiences
- Undertake other ad hoc and one-off advisory and support roles and activities as deemed appropriate by the Director General.

The IAC shall comprise 5-9 members, appointed for a maximum period of 3 years, renewable for a further 3 years as appropriate. In addition to the core requirement of relevant experience, skills and knowledge, the pool of IAC members may reflect regional, women and youth representation. The IAC shall meet at least once a year, and can be invited to attend meetings as observers, as and when required.

IV. Office of the Director General

ADFC shall be led by a Director General (DG) to be appointed for a period of 5 years, renewable for a further 5 years as appropriate. The DG shall be appointed based on, amongst other things: extensive knowledge, skills, expertise and experience in international and diaspora development and finance; commitment to service delivery approach to development; commitment to the vision and mission of ADFC; extensive global networks; advocacy, influencing and resource mobilisation expertise. The DG will lead the Senior Management Team comprising the DG, Managing Director and Departmental Directors. The ODG will be supported by a small management and administrative team.

The main duties of the DG are summarised as follows:

- Overall responsibility for implementing ADFC strategy and Board direction
- Overall responsibility for fundraising and resource mobilisation and leverage
- Overall responsibility for risk and opportunity management
- Organisational leadership, development, performance and accountability
- Oversight and development of the RemitAid™ Development Trust
- Networking, partnership building, external representation and international policy advocacy
- Intellectual leadership on the policy and practice of diaspora investment and finance
- Maintenance and enhancement of ADFC credibility, reputation and sustainability.

V. Investment Management Directorate

The ADFC Investment Management Directorate (IMD) shall be led by a Managing Director (MD) to be appointed on an ongoing contract, subject to annual and 3-yearly reviews. The MD shall be appointed based, amongst other things on: extensive knowledge, skills, expertise and experience in international investment management; understanding and experience of diaspora development, finance and investment; commitment to socially responsible investment; track record in fund management and running successful and high yield investment portfolios; commitment to the vision and mission of ADFC; credibility and good standing in the world of international investment. The MD will lead a professional team of departmental Directors.

The main duties of the IMD under the leadership of the MD are summarised as follows:

- Responsibility for the technical, management, and operational functions of ADFC
- Preparation and implementation of investment and income generation proposals and plans
- Preparation of prospectuses and business plans in compliance with regulations
- Analyses and guidance on dividend policy and rates of interest payable to investors
- Design, development and delivery of investment services to clients and customers
- Preparation of budgets, management accounts, quarterly and annual activity and financial reports
- Recruitment, selection and supervision of qualified staff, consultants and advisers
- Performance management and improvement, and capacity and impact enhancement
- Tactical and general management of the activities of ADFC.

VI. Departmental Directors, Staff and Consultants

ADFC's Investment Management Directorate shall initially comprise four main Departments, namely:

- 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].

These Departments shall be led by Directors, who shall be highly skilled and experienced sectoral experts, with track records of impressive practical results and successful programme delivery. The Departmental Directors will manage teams of professional technical, specialist, middle management and operational and support staff, supplemented by consultants and advisers working on short term contracts as and when required. The Directors and their teams will be responsible for the day-to-day delivery and operations of all ADFC services.

The main duties of the Departments under the headship of the Directors are summarised as follows:

- Management of investment, programme and operational systems and processes
- Day-to-day product marketing, sales and service delivery, and contract management
- Investment and fund management, financial planning and budget management
- Day-to-day compliance, analytical, technical, operational and administrative functions
- Preparation of monthly operational and programme management action plans
- Monitor constancy and consistency of the quality and impact of services and activities
- Ongoing modifications and implementation of corrective and improvement measures
- Publication of quarterly and annual activity, performance and compliance reports
- Publication of quarterly operational, activity and financial reports
- Staff capacity and professional development, and staff welfare.

To launch ADFC, a Founding Director General may be appointed on an interim or 3-year basis, after consultations amongst the main promoters, funders and stakeholders, and supported by an interim Board of Directors. To supplement this document, an ADFC implementation plan shall be produced, which will have a full complement of staff and a fully justified budget.

6.5 Summary of Physical and Other Resources

To design, develop, produce, deliver and improve services and discharge all contractual, regulatory and accountability obligations and requirements, ADFC requires a set of physical and other resources, to complement its human resources. In addition to ADFC's human resources as identified above, the physical and other resources are summarised below.

I. Physical Resources: The physical resources include:

- Headquarter office space in Africa
- Meeting, seminar, print/storage rooms, and office furniture and fittings
- Motor vehicles, generators and office equipment and accessories
- Computing, IT, telephony and audio-visual equipment
- Regulation-compliant investment trading and management IT platforms
- Online, smart phone apps, and Fintech infrastructure
- Supply of printing, stationery and office consumables.

An inventory of furniture and equipment shall be maintained, even when these physical resources are depreciated 100% (i.e. written-off in the annual accounts). Where the resources are depreciated below 100%, they are recorded as fixed assets in the Balance Sheet of the annual audited accounts.

II. Technical Resources: The technical resources include:

- Management, communication and operational tools in the form of: website, email, social media and teleconferencing platforms.

- Approvals, licenses and certifications for compliance and best of class standards in delivering financial and investment services in relevant jurisdictions; and compliant product marketing and promotional materials and resources.

- Organisational policies and resources such as: staff handbook; purchase and procurement handbook; finance, banking, payments and audit procedures; office operational manual; Service Delivery Outlines (SDOs) and processes; templates, guides and forms; and monitoring, evaluation and learning toolkits.

These resources shall be created to meet legal and regulatory standards, whilst aspiring to sectoral best practice and operational excellence. They are to be reviewed and updated regularly and used as part of the induction of staff (and consultants, where appropriate).

III. Financial Resources: The financial resources include:

- Programme development funds for consultations, implementation planning and due diligence
- Start-up funds for the initial human, physical and technical resources
- Operational funds, cash flow and organisational reserves
- Guarantee funds to underwrite initial Diaspora Bonds
- Remittance Match Funding (RMF) to be invested in the Endowment Fund.

6.6 Analysis of Options for ADFC Legal and Institutional Structure

Between November 2018 and January 2019, consultations were undertaken with a wide range of African diaspora investment and finance experts and practitioners about the possible legal structure of African Diaspora Finance Cooperation (ADFC). The consultations included semi-structured survey and discussions with senior officials and Commissioners of the African Union, investment managers, bankers, diaspora investors and independent analysts and consultants. The common views and analytical observations were that the legal structure for ADFC should have the following features:

- Facilitation of optimum operational effectiveness and efficiency
- Freedom from bureaucratic constraints and political influence
- Flexibility to capitalise on opportunities as and when they arise
- Social enterprise or mutual model with minimal or no commercial shareholding.

The stakeholder consultations were complemented by extensive research, which narrowed down the relevant legal and institutional structures to two broad options, namely Specialised Agencies of the African Union, and legal formats used to structure a sample of successful African continental financial institutions. In depth case study analysis were undertaken as summarised below.

6.6.1 Analytical Review of Specialized Agencies of the African Union

The main relevant analytical observations about the Specialised Agencies of the African Union as legal and analytical structures are summarised below.

I. **Definition of Specialized Agency:** A specialized agency of the African Union is defined as *"an independent body established by Member States of the Union outside the managerial and budgetary rules and regulations as well as control of the African Union or the Commission to carry out a specific or specialized but related function of the mandate of the African Union.....[they are].....autonomous.....has own legal personality.....separate budget independent of the AU budget.....own managerial independence.....own structure.....own Staff Rules and Regulations.....own Financial Rules and regulations"*[194].

II. **Autonomy and Political Influence:** AU specialized agencies can be set up directly by the African Union through an Assembly decision, or by any 15 of the 55 AU Member States, subject to subsequent approval of the Assembly. Although they are autonomous, political influence can still be exerted indirectly. The status depends entirely on the decision of Member States and the approval of the Assembly, which can be influenced by the vicissitudes of regional, continental and global politics. Actual and perceived independence is of cardinal importance in trust building amongst the diverse global African diaspora, as well as the international financial markets. As such AU Special Agency status is not the ideal structure for ADFC[195].

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[194] 'Concept Note on Specialized Institutions and agencies of the African Union':
https://au.int/sites/default/files/newsevents/conceptnotes/14601-cn-olc_conecpt_note_specialized_agencies_and_institutions.pdf

[195] Senior AUC officials at Commissioner level have expressed to the author of this report the importance of actual and perceived independence of ADFC, to ensure for maximum effectiveness and ultimate success.

III. **Types of Specialized Agencies:** Of the 34 specialized agencies reviewed, most can be categorised as: research, education, technical assistance and capacity development organisations; and continental professional, sector and industry bodies[196]. African Risk Capital Agency (ARC) seems to be the only specialized agency involved in financial services using market and industry mechanisms (as proposed by ADFC). The African Capacity Building Foundation (ACBF) seems to be the only specialized agency involved in major grant-maker and programme funding (as proposed through the RemitAid™ Development Trust). However, ACBF receives its grant funds mainly from donors, rather than from endowment management or trading (as proposed by ADFC).

IV. **ARC as an Insurance Institution:** ARC was set up by a Treaty Agreement in 2012 *'to improve their capacities to better plan, prepare and respond to Extreme Weather Events and Natural Disasters'*. It has over 30 members, but by 2017, the Treaty was still not ratified. The Governing Board comprises eight highly accomplished professionals acting in a personal capacity, all are elected to office, 5 by the Members, 2 by the African Union and the person elected to the job of Director General by the Board is an ex-officio, non-voting member of the Board. The highest decision-making body is the Conference of Parties (COP). The turnover of ARC Agency in 2017 was about USD14m[197, 198]. None of the AU specialized agencies has a profile similar to the proposed ADFC, as a financial and investment social enterprise with an annual cash inflow of over USD250m.

V. **Affiliated Social Enterprise:** The entity with a degree of similarity to ADFC (in that it provides financial products and services) is the ARC Insurance Company Limited. However, this mutual sovereign insurance scheme is a social enterprise, not a specialized agency of the AU. It is a mutual limited liability company, affiliate of ARC Agency, registered in Bermuda in 2014. It received capital injection of over USD150m from development agencies including DFID (UK) and KfW and BMZ (Germany). Between 2015 and 2018, it paid USD32.8m to 5 countries that suffered droughts. Those countries paid a total premium of USD14.1m. ARC Insurance is managed as a social enterprise, with the Chief Executive Officer and Board appointed through open recruitment exercise[199]. This indicates that a social enterprise which receives donor financial support, and is linked to the African Union, whilst not being a Specialized Agency can be a suitable structure for ADFC. One of the benefits of AU linkage is that it gives strategic endorsement and continental legitimacy. The groundings of this benefit already exist for ADFC in that the venture is formally an AU legacy project. It is important for the AU endorsement of ADFC as a priority, groundbreaking legacy project to be formally renewed and restated as part of the ADFC implementation process.

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[196] AUC website: https://au.int/en/specialised-agencies-institutions - Accessed 31 January 2019

[197] Agreement for the Establishment of the African Risk Capacity (ARC) Agency, Pretoria, 13 November 2012
https://www.africanriskcapacity.org/wp-content/uploads/2016/11/AUDecisiontoEstablishARCSA-1.pdf

[198] 'Report of the Sixth Session of the Conference of the Parties of the African Risk Capacity (ARC) Agency'
14-15 March 2018 Nouakchott, Mauritania
http://www.africanriskcapacity.org/wp-content/uploads/2018/06/COP6_FINAL-REPORT_EN_20180507.pdf

[199] ARC Website info on capital, impact and structure:
https://www.africanriskcapacity.org/arcltd/ https://www.africanriskcapacity.org/impact/
https://www.africanriskcapacity.org/about/who-is-arc/management/# - Accessed 31 January 2019

VI. ACBF as a Grant Maker: ACBF was set up as an 'autonomous not-profit agency' by Constitution in 1991. Membership comprises over 30 African countries, in addition to the international development agency members. The members choose the Board of Directors, which in turn appoints an Executive Board. ACBF became an AU specialized agency in 2017, after 26 years of existence, having established its own stability, credibility and track record. Since 1991, ACBF had expended USD700m in 45 countries, an average of USD27m annually. In 2016, the total income of this non-trading Foundation was about USD22m, of which about USD17m (75%) was grants and about USD2.4m (10%) was direct member contributions. The grant-making element of ACDF is relevant to ADFC's proposal for RemitAid™ Development Trust, but this is of marginal importance as ADFC shall be primarily an institution actively trading and managing financial products.

6.6.2 Analytical Review of Successful African Financial Institutions

The consultations with key informants were complemented with extensive review and analysis of corporate and legal documents of African organisations and institutions with structures that may be relevant to the proposed ADFC. In addition to reviewing Specialized Agencies of the African Union, a detailed assessment of three continental African organisations was undertaken[200]. The assessment and analysis focussed on Ecobank, African Export-Import Bank (Afreximbank) and the Africa Finance Corporation (AFC) for a number of reasons. Like the proposed ADFC, these institutions:

- Emerged to address existing financial challenges and opportunities
- Developed and deliver investment and financial products and services
- Undertake services and activities relevant to the flow and potentialities of diaspora finance.

Furthermore, Ecobank, Afreximbank and AFC are:

- Governed and managed effectively on internationally accepted standards
- Commercially and financially successful across several products and markets
- Operating with high levels of investments, transactions and profitability
- Exemplary African institutions that started as African-led development initiatives.

[200] The documents reviewed and assessed included: Constitutive Instruments such as Establishment Agreements, Charters, Headquarters Agreements, Annual Reports and Audited Accounts, Investor Relations Publications, and Corporate Websites.
https://www.ecobank.com/group https://afreximbank.com/investor-centre/
https://www.africafc.org/Country-Investor-Relations/Investing-in-AFC.aspx

6.6.2.1 Case Study of Ecobank

I. Ecobank Purpose and Origins

The vision of Ecobank is '*to build a world-class pan-African bank and contribute to the economic development and financial integration of Africa'* and the mission is '*to provide all of our customers with convenient and reliable financial products and services'*. It provides diverse financial services through Consumer Banking, Commercial Banking and Corporate and Investment Banking. Ecobank is one of the leading providers of remittance services in Africa, whilst offering specialist Diaspora Current Accounts. It operates in 36 Sub-Saharan African countries, as a pan-African institution that bridges the Francophone-Anglophone divide[201].

In the 1970s/80s, banking in West Africa was dominated by foreign and state-owned banks. The private sector saw this as a major limiting factor for regional trade and economic development and integration. This propelled the Federation of West African Chambers of Commerce and Industry to initiate a project to create a private, regional banking institution. In 1984, Ecopromotions S.A. was incorporated and used as a vehicle to raise funds for feasibility studies and promotion of the envisaged regional bank. This led to the setting up of Ecobank Transnational Incorporated (ETI) which is the holding company for the Ecobank Group[202, 203].

II. Ecobank Legal Structure, Shareholding and Growth

ETI was incorporated on 3 October 1985 as a as a 'Société Anonyme' (equivalent to a public limited liability company) in the Republic of Togo. The authorised share capital was USD100m, and the initial paid up capital was USD32 million. The largest shareholder was the development finance arm of the Regional Economic Commission, i.e. the ECOWAS Fund for Cooperation, Compensation and Development (ECOWAS Fund). Over 1,500 individuals and institutions from West African countries also bought shares, achieving the goal of creating a private sector led regional bank.

On 5 October 1985, ETI also signed a Headquarters Agreement with the government of Togo which granted the status, rights and privileges of an international organisation, facilitating effective operations of a regional, non-resident financial institution. Between 1986 and 1988, ETI received technical assistance from Citibank, laying the ground for operations and regional growth[204].

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[201] Ecobank Annual Report 2017: https://ecobank.com/upload/publication/201803280354538286G3B564AQE/20180425034438836V.pdf

[202] Website of Federation of West African Chambers of Commerce: https://fewacci.com/background.html - Accessed 31 January 2019

[203] Ecobank website: https://ecobank.com/group/about-us/history - Accessed 31 January 2019

[204] 2008 Prospectus for Ecobank Transnational Incorporated (ETI) Rights Issue and Offer for Subscription http://www.annualreportsghana.com/Home/Documents/Circulars/Companies/Ecobank-Transnational-Inc--(Rights-Offer-and-Fresh.aspx

ETI started operations with its first subsidiary in Togo in March 1988. In 1989 it started operations in Cote D'Ivoire and Nigeria, and in 1990 it opened subsidiaries in Ghana and Benin. That initial expansion into important West African Francophone and Anglophone markets was a central part of the vision and strategy for regional economic integration. It was in 1994 that net operating profit crossed the USD5m mark, and in 1995 dividends were paid out for the first time. In 1998, ETI received investment from the Saudi Arabian investor Kingdom Holdings. In 2006, ETI listed on the Nigerian and Ghanaian Stock Exchanges and the regional stock exchange for Francophone West Africa (BRVM), based in Cote D'Ivoire, serving 8 countries[205].

From a 1985 share capital of USD100m, in 2017, the shareholders equity was USD2.17 Billion, and the major shareholders were: Nedbank (South Africa) 21.2%; Qatar National Bank (Qatar) 20.1%; International Finance Corporation (Direct investment and managed funds) 14.1%; Public Investment Corporation (For Government Employees Pension Fund, South Africa) 13.5%; Social Security and National Insurance Trust (SSNIT, Ghana) 3.9%; Others 27.2%. The total assets in 2017 were USD22.4 Billion[206].

III. Ecobank Governance and Direction

The main governance documents of Ecobank are the Articles of Association, Corporate Governance Charter and the Headquarters Agreement. Ultimate corporate power belongs to the shareholders, who elect the Board of Directors and delegate authority to the Board. The Board delegates the day-to-day operations of the Group to the Executive Management, as defined in the various charters and terms of reference. The Articles of Association limits the size of the Board to 15 members, comprising: 7 or 8 nominees of shareholders with major holdings; 1 representative from the ECOWAS Bank for Investment and Development (EBID); 1 or 2 Executive Directors, including the Group CEO; and 5 independent directors, including directors selected from the geographical areas in which the bank operates. The Chair of the Board is an independent Director[207].

[205] Ecobank website: https://ecobank.com/group/about-us/history - Accessed 31 January 2019

[206] Ecobank Annual Report 2017: https://ecobank.com/upload/publication/201803280354538286G3B564AQE/20180425034438836V.pdf - Accessed 31 January 2019

[207] ibid

6.6.2.2 Case Study of Afreximbank

I. Afreximbank Purpose and Origins

The vision of African Export-Import Bank (Afreximbank) is *'to be the Trade Finance Bank for Africa'* and its mission is *'to stimulate a consistent expansion, diversification and development of African trade while operating as a first class, profit-oriented, socially responsible financial institution and a centre of excellence in African trade matters'*. It provides trade-related financial services including Lines of Credit, Syndications, and Direct Project Finance[208]. Afreximbank is one of the pioneers of Future Flow Pre-Financing in Africa. It has issued loans of over USD250m to African financial institutions, backed by securitised future inflows of remittances[209].

Like ADFC, the existence of Afreximbank was a result of a bold move by African promoters to use financial products and services to deal with a mix of economic and financial challenges and opportunities – facilitated by the African Development Bank (AfDB). At the June 1987 AfDB Annual General Meeting of the Board of Governors (BOG) in Cairo, Egypt, a resolution was passed requesting AfDB to undertake feasibility studies for financial facilities to promote intra-African and external trade. (The BOG is highest decision-making organ of the AfDB, comprising mainly African Finance Ministers and Central Bank Governors. At that 1987 meeting, another major decision was made to increase AfDB's own authorised capital by 200%)[210].

The feasibility study was launched in 1987 but was not completed until 1992. That study formed the basis for the formation of Afreximbank. With the leadership and technical support of the AfDB, the 'Agreement for the Establishment of the African Export-Import Bank (Afreximbank)' was signed and adopted on 8 May 1993 in Abidjan, Cote D'Ivoire. The Agreement required 10 signatures and 7 ratifications/approvals by Participating States and international organisations for it to come into force. Afreximbank was formally established at the first General Meeting of Shareholders on 27 October 1993 in Abuja, Nigeria. The meeting also adopted the Afreximbank Charter which governs its corporate structure and operations, and agreed that Cairo, Egypt will be the headquarters. The Headquarters Agreement was signed with the Government of Egypt on 31 August 1994. At the end of the first financial period (30 September 1994 to 31 December 1995), 29 countries and organisations had signed the Agreement and 16 had ratified[211].

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[208] Afreximbank 2017 Annual Report: https://s3-eu-west-1.amazonaws.com/demo2.opus.ee/afrexim/ANNUAL-REPORT-2017.pdf

[209] Ketkar, Suhas and Ratha, Dilip (Ed,) (2009), Innovative Financing for Development, Washington DC, World Bank http://pubdocs.worldbank.org/en/335011444766662755/e-book-Innovative-Financing-for-Development.pdf

[210] African Development Bank website: https://www.afdb.org/en/about-us/corporate-information/history/ - Accessed 31 January 2019

[211] First Annual Report of Afreximbank (1994-95):
Afreximbank (1996), Africa Export-Import Bank Annual Report and Statement of Accounts 1994/1995, Cairo, Afreximbank

II. Afreximbank Legal Status, Shareholding and Growth

Afreximbank is a multilateral organisation, established by an international treaty, "to facilitate, promote and expand intra-African and extra-African trade". It is governed by the 'Establishment Agreement', a Charter, and Headquarters Agreement. As a multilateral international institution, it has full juridical personality. In the jurisdictions of the Participating States, Afreximbank enjoys the status, immunities, exemptions, privileges, facilities and concessions generally afforded to international organisations. It also benefits from tax and customs duty exemption on its property, assets, income, operations and transactions[212].

The shareholders are the members of Afreximbank, and there are four types of shareholders, namely: African governments, central banks, African regional and sub-regional institutions (Class A); African private investors and financial institutions (Class B); Non-African financial institutions, export credit agencies and private investors (Class C); Any person or legal entity (Class D). Class A, B and C shareholders were defined in the Establishment Agreement in 1993. At the Extraordinary General Meeting in December 2012 in Harare, Zimbabwe, Afreximbank shareholders agreed to increase the authorised share capital of the Bank from USD750m to USD5 Billion, being 500,000 shares at USD10,000 each. The new Class D type of shareholder was also created[213].

In 1995, out of the authorised capital of USD750m, total paid up capital was USD137m (18%). In 2017, of the authorised capital of USD5 Billion, total paid up share capital was USD2.12 Billion (42%). There were 146 shareholders: 45 African public sector institutions (Class A) held 58% of the issued shares; 86 African private sector investors (Class B) held 25%; 14 Non-African financial institutions (Class C) held 11%. There was one private entity investor (Class D), namely SDM Securities Limited (Mauritius), which held 6% of total issued shares. Total assets have increased from USD144m in 1995 to USD11.9 Billion in 2017[214].

III. Afreximbank Governance and Direction

The highest decision-making organ of Afreximbank is the General Meeting of the Shareholders, which elects the Board of Directors. The Board comprises 10 members: 4 Directors representing Class A shareholders (including one Director designated by the African Development Bank); 4 Directors representing Class B shareholders; 2 Directors representing Class C shareholders. The Board maintains a number of committees to facilitate appropriate corporate governance. The Chief Executive Officer is titled as President and serves concurrently as the Chair of the Board, appointed by the General Meeting upon the recommendation of the Board of Directors, for a term of five years, renewable once for a further five years.

The President and Chair may recommend to the Board the appointment of a Senior Executive Vice-President, and one or more Executive Vice-Presidents. The President, Vice-Presidents, Departmental Directors and Senior Managers make up the Management Team. The roles of Executive Secretary and Internal Auditor are also statutory positions. The President, directly or through delegation appoints management, professional and support staff.

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[212] Afreximbank 'Establishment Agreement', Charter and Headquarters Agreement - Accessed 31 January 2019 https://s3-eu-west-1.amazonaws.com/demo2.opus.ee/afrexim/Agreement-for-the-Establishment-of-Afreximbank-and-the-Charter.pdf

[213] Afreximbank 2012 Annual Report: https://s3-eu-west-1.amazonaws.com/demo2.opus.ee/afrexim/Annual-Report-2012.pdf (Page 74)

[214] Afreximbank 2017 Annual Report: https://s3-eu-west-1.amazonaws.com/demo2.opus.ee/afrexim/ANNUAL-REPORT-2017.pdf - Accessed 31 January 2019

6.6.2.3 Case Study of Africa Finance Corporation (AFC)

I. AFC Purpose and Origins

The vision of the Africa Finance Corporation (AFC) is to: '*be the leading African institution in infrastructure financing on the continent'* and the mission is: '*foster economic growth and industrial development of African countries, while delivering a competitive return on investment to our shareholders*'. AFC services in infrastructure project development are in: debt, equity, treasury, advisory, and syndication and trade finance. The sector specialisms are: power, transport infrastructure, heavy industry, natural resources and telecoms[215]. In December 2006, KPMG produced an Information Memorandum for the Central Bank of Nigeria (CBN), regarding the creation of AFC[216]. This led to CBN setting up AFC in 2007 as a structure for Public Private Partnerships. Investments of USD204m were made in 2008. The first set of audited accounts was for a fourteen month period from 1 November 2007 to 31 December 2008, signed off by the auditors in August 2009[217].

II. AFC Legal Structure, Shareholding and Growth

AFC is a multilateral organisation, established by an international treaty of African sovereign states, and governed by the Agreement to Establish the Africa Finance Corporation (AFC Treaty), a Charter, and Headquarters Agreement, dated 28 May 2007. In September 2010, the Nigerian government ratified the AFC Constitutive Instruments and conferred diplomatic status to the organisation[218].

For AFC, it is possible to be a Member, without being a shareholder. African countries can become AFC Members by signing and ratifying the AFC Treaty and the Charter. Members are also given 'Preferred Creditor Status', allowing them access to technical assistance on project development, and lower cost of debt for infrastructure projects. At the end of 2008, there were six African countries as Members, represented by Central Banks, Sovereign Wealth Funds and State Pension Funds. By 2018, this had grown to 17, with further applications at different stages of the membership progress[219].

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[215] AFC (2018) AFC: An Introduction - Realising the Vision: A Decade of Delivery, Abuja, Africa Finance Corporation https://www.africafc.org/Publications/Publications-Documents/AN-INTRO-TO-AFC-SEPTEMBER-2018.aspx
The AFC website has different wording for the AFC mission, stating: "T*o address Africa's infrastructure development needs while seeking a competitive return on capital for its shareholders"*.

[216] KPMG (2006) Africa Finance Corporation: Information Memorandum (for Central Bank of Nigeria), Abuja, KPMG Professional Services https://www.cbn.gov.ng/out/Publications/reports/GOV/2007/rpt12-3-07C.pdf

[217] First AFC Annual Report and Accounts (2008): https://www.africafc.org/Publications/Publications-Documents/ANNUAL-REPORT-2008.aspx - Accessed 31 January 2019

[218] AFC 2010 Annual Report and Accounts: https://www.africafc.org/Publications/Publications-Documents/AFC-ANNUAL-REPORT-2010-ECOPY.aspx - Accessed 31 January 2019

[219] AFC 2017 Annual Report and Financial Statements: https://www.africafc.org/Publications/Publications-Documents/2017-ANNUAL-REPORT-FINAL2.aspx - Accessed 31 January 2019

AFC has only one class of Ordinary Shareholder with same rights and entitlement to dividend, pro rata to holdings. As of 31 December 2008, the authorised share capital was USD2 Billion, of which USD1.1 Billion was called up, issued and fully paid. There were 38 shareholders, with African commercial banks (mainly Nigerian) holding about 46%, the government of Nigeria holding 43%, and few individuals and corporations holding 11%. Nigeria is the largest shareholder, holding 42% of the shares, through the Central Bank of Nigeria. By 2017, share capital and holding composition had not changed much, but total assets had increased from USD1.09 Billion to USD4.16 Billion.

III. AFC Governance and Direction

All AFC Treaty members are entitled to attend the Annual General Meeting, but only the shareholders with holding of 50 million shares or more are entitled to a seat at the Board of Directors. The Board has ultimate responsibility for policy formulation, strategy and decision making, with specific authority delegated to Board Committees and the Executive Management. The Board comprises the Chair, President and Chief Executive Officer, three senior executives, and 10 Non-Executive Directors (NED), including independent NEDs. The Executive Management, led by the President and CEO is responsible for day-to-day operations.

After the May 2007 signature of the AFC Constitutive Instruments, the Governor of the Central Bank of Nigeria served as Chair of the Board. From 2006 to 2008, there was some concern about the close ties between the Nigerian state as a major shareholder of AFC and wealthy bankers and industrialists who were investors in AFC[220]. The 2008 Chairman's Statement acknowledged this concern, stating that "*the corporation was subjected to intense public scrutiny and inquiry over its legal status, ties to the host government, and internal operations; yet emerged with a strong team and viable pipeline of projects"*. In 2009, a new CEO/President was appointed, and a private sector investment practitioner was also appointed as Chairman. Financial performance and corporate governance have advanced immensely in the past decade, with AFC operating successfully in global markets[221][222].

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[220] Sahara Reporters new item: - Accessed 1 april 2019
http://saharareporters.com/2006/01/14/uba-15-million-finehow-charles-soludo-laundered-cbnafc-funds-through-uba-new-york-branch

[221] First AFC Annual Report and Accounts (2008):
https://www.africafc.org/Publications/Publications-Documents/ANNUAL-REPORT-2008.aspx - Accessed 31 January 2019

[222] AFC 2017 Annual Report:
https://www.africafc.org/Publications/Publications-Documents/2017-ANNUAL-REPORT-FINAL2.aspx - Accessed 31 January 2019

6.6.3 Main Findings and Recommendation on ADFC Structure

The main findings and recommendations regarding the legal and institutional structure of the proposed African Diaspora Finance Corporation (ADFC) are set out below.

I. **Treaty-Based Multilateral Institution:** Many of the successful development oriented continental and global financial institutions are structured using the tried and tested mechanism of treaty-based instruments to create multilateral institutions (international organisations). This is the case with Afeximbank and Africa Finance Corporation. ***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***.

II. **Linkage to the African Union:** Specialized Agencies of the African Union (AU) are autonomous entities, but may be subject to indirect political influence and undue national and regional pressures. They may also be perceived as not being totally independent, or free from bureaucratic constraints. As such, the structure has not been used by organisations and institutions involved in commercial and social enterprise activities. ***It is 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***.

III. **Mechanism for Incorporation:** It is standard practice for organisations and institutions involved in commercial, social enterprise, charitable and philanthropic activities to incorporate so as to create a legal entity distinct and separate from its members and/or owners, for the purposes of limiting liability and facilitating operational efficacy. Some institutions incorporate through registration as not-for-profit organisation, foundation or trust, private company, or public corporations, before adopting other institutional structures such as being a Specialised Agency of the AU, or an International Organisation. ***It is recommended that ADFC should use a single mechanism of the ADFC Treaty to become a corporate legal entity, and to entrench a social enterprise business model, whereby shareholding in ADFC is nominal, and profits and surpluses are principally reinvested and disbursed to grant-making RemitAid™ Development Trust (RDT), rather than being distributed to shareholders***.

IV. **Technical and Start-Up Support:** ECOWAS, Citibank, African Development Bank, and Central Bank of Nigeria had played critical roles to the start-up and success of Ecobank, Afreximbank and Africa Finance Corporation. They provided technical and financial support, and acted as champions and mentors for these start-ups. DFID, KfW and BMZ have also provided seed capital to start the ARC mutual sovereign insurance company. ***It is recommended that ADFC seek technical, mentorship, start-up, collaboration and development support from relevant African and global development institutions, with view to enhance viability, complementarity, synergy and sustainability***.

7. Feasibility and Viability Assessment

The main feasibility and viability questions are: is it practically possible to set up an African Diaspora Finance Corporation (ADFC) which designs, packages, markets and manages regulated Bonds, Mutual and Endowment Funds?; 'is it is worthwhile from a development and commercial perspective, to deliver the portfolio of ADFC products and services? The evidence of ADFC viability is presented in the facts and analytical observations summarised below.

7.1 Structural and Market Feasibility and Viability

The feasibility and viability of ADFC as a treaty-based multilateral institution, with a social enterprise business model, delivering Diaspora Portfolio Investment (DPI) and innovative finance products and services is based on diverse determinants, including the practical factors set out below. These feasibility and viability factors reflect the potential internal ADFC organisational strengths as well as the external strategic and partnership opportunities.

I. **Modification of Standard Products and Formats:** The ADFC proposition is based on well researched and analysed innovation, grounded on tried, tested and successful standard products, structures and systems. The ADFC Diaspora Bonds, Diaspora Mutual Funds and Endowment Fund are based on standard Portfolio Investments and innovative finance, modified to capitalise on diaspora and migration related resources. The legal structure, operational system and qualified staff needed for a successful ADFC already exist in the mainstream finance and development sectors. The resources, effort and actions needed to mobilise the factors of production and activate ADFC operations are well researched, analysed and documented.

II. **DPI Market Architecture in Africa:** The comprehensive review and analysis undertaken shows that the building blocks for a vibrant African DPI sector have been put in place in the past 15 years. For the DPI subsector of 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 the DPI subsector of Mutual Funds, a viable market exists in Africa through the different Stock Exchanges, investment bank products, and a growing continental Bond market, supported by the African Development Bank (AfDB) through the African Financial Markets Initiative (AFMI).

III. **Need for Investment in Africa:** The need for new sources of funds for infrastructure and general development in Africa is overwhelming. According to UNCTAD, the annual shortfall in available financing to meet the Sustainable Development Goals (SDGs) is estimated to be up to USD210 Billion[223]. AfDB estimates that annual investment need is between USD130 to USD170 Billion, with an annual financing gap in ranging from USD68 to USD108 Billion[224].

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[223] United Nations (2016), Economic Development in Africa Report: Debt Dynamics and Development Finance in Africa, Geneva and New York, United Nations https://unctad.org/en/PublicationsLibrary/aldcafrica2016_en.pdf

[224] AfDB (2018), African Economic Outlook 2018, Abidjan, African Development Bank https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/African_Economic_Outlook_2018_-_EN.pdf

IV. **Transnational and Inclusive Marketing:** The dual development needs for a continent-wide investment scheme and an inclusive African diaspora resource mobilisation scheme have presented themselves as a market opportunity. ADFC is taking up the opportunity, thereby filling a gap in the African and international development finance market and sector. The principles of trans-nationality and inclusiveness means that ADFC will market its Diaspora Bonds not only to first generation diaspora, but to multigenerational diaspora as well as non-diaspora friends of Africa, including ethical funds and multilateral bodies. The proceeds will also be spent on eligible and viable projects across the 55 countries of the African Union.

V. **Diaspora Population as Client Base:** In 2017, of the total number of African migrants of 36.3 million, 16.9 million were outside Africa, whilst 19.4 million lived in other African countries[225]. These numbers are an underestimation of the African diaspora as they exclude many long term migrants who have become citizens in their country of residence, as well as second and multigenerational diaspora. As such, 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[226].

VI. **Volume of Diaspora Savings:** The World Bank preliminary estimate in 2011 was that annual savings by the African diaspora in countries of residence was USD52.7 Billion (including Africans migrants within African). USD30.4 Billion was attributable to 21.8 million diaspora from Sub-Saharan Africa, and USD22.3 Billion was savings by 8.7 million North African diaspora. The estimate of diaspora savings is limited to 'those born in a country but presently living outside the country'[227]. It does not include the 100s of billions of dollars held by the multigenerational and historic African diaspora in the Americas and Europe. Using the World Bank figures, it is calculated that the average annual savings of Sub Saharan African migrants is: USD1,395; and average annual savings of North African migrants is USD2,560. This estimate does not reflect the 2019 higher income of migrants, particularly those in North America and Europe. Using these conservative estimates, ***the average annual savings of African migrants is calculated as USD1,980, and the annual volume of African migrant savings is: USD33.7 Billion*** (i.e. USD1,980 x 17 million migrants).

[225] UNDESA Population Division migration data:
http://www.un.org/en/development/desa/population/migration/data/estimates2/estimatesgraphs.shtml?0g0 - Accessed 31 January 2019

[226] World Bank (2012) Frequently Asked Questions: African Diaspora, Washington DC, World Bank
https://siteresources.worldbank.org/INTDIASPORA/Resources/AFR_Diaspora_FAQ.pdf

[227] Ratha, Dilip and Mohapatra, Sanket (2011), Migration and Development Brief 14, Washington DC, World Bank
http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1288990760745/MigrationAndDevelopmentBrief14_DiasporaSavings.pdf - Accessed 31 January 2019

VII. **Access to Diaspora and Impact Investors:** ***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***. Since 2015, AFC has successfully issued oversubscribed Corporate Bonds in the international capital markets, raising over USD5 Billion[228]. The marketing and business challenge of reaching these migrant, diaspora and ethical impact investors is an integral part of the strategic and operational work of ADFC. Standard and customised internet and mobile-based fund management platforms enable financial institutions to manage millions of customer accounts as a matter of routine. Furthermore, credit-rating, profiling and other data companies are able to facilitate targeted marketing and engagement with specific categories of potential clients. As a matter of routine operations, the ADFC marketing team will pursue these investors diligently and professionally, in compliance with regulations and ethical standards. In 2008, it was estimated that African Diaspora Bonds can raise USD5-10 Billion per year[229]. However the gap between diaspora intention to invest and actual investment is big[230], thus the need for appropriate investment vehicles as proposed by ADFC.

VIII. **Comparable Development Incentives:** 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[231]; enterprise incentive schemes such as the Social Investment Tax Relief (SITR), the Venture Capital Trust (VCT) and the Seed Enterprise Investment Scheme (SEIS)[232]; USA tax deductions for donations to qualifying 170(c) organisations[233] . These schemes are in line with policies to encourage and enhance activities that deliver on the Sustainable Development Goals (SDGs) and other human development indices. Migrant and diaspora 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[234].

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[228] AFC website: https://www.africafc.org/Country-Investor-Relations/Funding-Programs.aspx - Accessed 1 April 2019

[229] Ratha, Dilip Mohapatra, Sanket and Plaza, Sonia (2008), Beyond Aid: New Sources and Innovative Mechanisms for Financing Development in Sub-Saharan Africa, Policy Research Working Paper 4609, Washington DC, World Bank file:///C:/Users/user/AppData/Local/Packages/Microsoft.MicrosoftEdge_8wekyb3d8bbwe/TempState/Downloads/SSRN-id1149112%20(1).pdf - Accessed 1 April 2019

[230] Commonwealth Secretariat (2016), Action to Expand the Economic Impact of Diaspora Finance: Discussion Note, Commonwealth Senior Finance Officials, London, Commonwealth Secretariat http://thecommonwealth.org/sites/default/files/inline/FMM16O3%20-%20SOM_Diaspora.pdf

[231] UK Government website: https://www.gov.uk/donating-to-charity/gift-aid
[232] UK Government website: https://www.gov.uk/topic/business-tax/investment-schemes
[233] US Government website: https://www.irs.gov/charities-non-profits/charitable-organizations/charitable-contribution-deductions - Accessed 1 April 2019

[234] As part of the ADFC 'start-up programme', ADFC will work with OECD and other partners to analyse all relevant and comparable tax relief and other development and investment incentive schemes.

IX. **Trade and Non-Trade Income Flows:** ADFC proposes to start with a USD100m Diaspora Bond, USD100m Mutual Fund and USD50m Endowment Fund (of which USD10m goes direct to the RemitAid™ Development Trust grant fund). This will create a pool of USD240m under ADFC management. If the Management Fee is initially set at 1%, this will contribute USD2.4m towards turnover. Additional transaction fees and commissions may be chargeable. A major trading income will be interest and dividends from ADFC forward investments. This is calculated as gross income, less tax, fees and payments to investors in the form of Diaspora Bond interest and Mutual Fund commitments. As part of the ADFC 'start-up programme', full Service Delivery Outlines (SDO), business plan and comprehensive budgets will be produced. ADFC may also receive technical and financial start-up support, as well as ongoing non-trade. The existence of a substantial Diaspora Endowment Fund from Remittance Match Funding (RMF) under ADFC management will bolster the marketing of the Diaspora Bonds and Diaspora Mutual Funds.

X. **Surplus Policy:** 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.

XI. **Financial Return Policy:** Given that investors are not shareholders in the ADFC legal entity itself, it is more appropriate for ADFC to adopt a broader 'Financial Return Policy', rather than a 'Dividend Policy'. Criteria and basis for calculating returns to investors shall be set out clearly in the relevant prospectuses for each product, in compliance with regulations. Returns on Diaspora Bond investments shall be through interest payments, based on fixed or floating rates. These are paid from income and surpluses earned by ADFC through its investment of Bond Funds in infrastructure and developments projects and ventures in Africa. Returns on Mutual and Endowment Funds shall be through share of earnings from ADFC forward investments in shares and securities. These earnings shall mainly be in the form of dividend on shares and securities, net capital gains on holdings, and Net Asset Value (NAV) of portfolio. ADFC shall ensure that returns are competitive in comparison to complementary products in the international marketplace, even when it is clear that diaspora, impact and ethical investors are prepared to accept 'patriotic and development discounts'. Instead of reducing rates of financial return, ADFC shall use 'patriotic and development goodwill' to encourage investor loyalty, reinvestment and expansion of holdings; and to offer the opportunity and mechanisms for investors to make philanthropic contributions to the RemitAid™ Development Trust (RDT).

XII. **ADFC Ready for Launch:** The unique offering of ADFC means that it does not have any direct competitors. Diaspora Bonds and Mutual Fund products are not on general offer in Africa, despite immense interest. Structured Remittance Match Funding as innovative finance is not currently available. The time and circumstances are opportune for ADFC to launch as a transformative diaspora and continental venture. Detailed market information and due diligence analysis shall be undertaken for each ADFC product launch, but the emergent DPI and innovative finance market is ready for an ambitious and socially responsible continental leader, in line with the commitments of the AU for ADFC to be a legacy project.

7.2 Viability of the Social Enterprise Model: Outline Profiles

Two of the most successful social enterprises in the world are Tata Group and Mondragon Corporation. Africa does not have the equivalent of these social enterprises. ADFC can become not only a pioneer and leader in diaspora and innovative finance, but also an exemplar in social enterprise and responsible business.

Outline profiles of Tata Group and Mondragon Corporation are given below.

I. **Profile of Tata Group:** The Indian multinational conglomerate Tata Group was founded in 1868. It operates in over 100 countries across the world, employing over 702,000 people, and is structured as a social enterprise. It is a market leader in many aspects of commerce and industry, yet 66% of its equity share capital (held by Tata Sons holding company) belongs to a set of five charitable and philanthropic trusts, which support education, health and livelihoods. The Tata trusts originate from 1892. The businesses are commercially best of class, and profits generated are used for human development. In 2017/18, the consolidated revenue of Tata Group was USD110.7 Billion, and the combined market capitalisation was USD145.3 Billion[235]. In 2016/17, the philanthropic trusts that own two-thirds of the Tata Group of companies, had combined income of USD460m, funds and reserves of USD850m, and they disbursed grants of USD98m[236].

II. **Profile of Mondragon:** Mondragon Corporation is a Spanish multinational conglomerate founded in 1956. It operates as a cooperative, with all profits going to social projects, reinvestment and reward to staff who are co-owners in the worker cooperatives. Mondragon's businesses are in finance, industry, retail and education. In 2017, it operated 98 cooperatives and 146 subsidiaries in 97 countries, employing 80,800 people. Its income was 11.9 Billion Euros (about USD16 Billion)[237].

[235] Tata Trusts website: https://www.tata.com/business/tata-sons
[236] Tata Trusts 2016-17 Annual Report https://www.tatatrusts.org/upload/pdf/tata-trusts-srtt-consolidated-16-17.pdf
[237] Mondragon 2016-17 Report https://www.mondragon-corporation.com/en/about-us/economic-and-financial-indicators/annual-report/
- Accessed 31 January 2019

7.3 Rationale and Viability of the ADFC Diaspora Bonds

The feasibility and viability observations indicate why the ADFC Diaspora Bonds are practically possible, and would be developmentally impactful, and financially profitable.

I. Lessons from Diaspora Bond Issuances: The key lessons learnt from the earlier failures of Diaspora Bonds in Africa have been incorporated in the structuring of ADFC and its portfolio of products. The main lessons include: to not restrict Bond sales to citizens, but make them available to the diaspora and friends of Africa, irrespective of nationality; issuing Bonds in international currency through international Capital Market mechanisms; not limiting levels of investment per individual; and marketing Bonds through regulated financial institutions and licensed intermediaries. Diaspora Bonds consultations in 2011-12 indicated that the diaspora had a perception that African governments default on their debts, and are likely to convert Bond proceeds to illicit uses due to corruption. It was also felt that it is inappropriate and ineffective for government officials and diplomats who are not accredited financial professionals to be the main marketers of Diaspora Bonds[238]. Regarding the Ethiopian Diaspora Bond, it was observed that one of the factors that caused its failure was that the anti-government organisations in the diaspora mounted coordinated opposition to the scheme[239]. These findings form part of the rationale for an independent professional financial institution in the form of ADFC.

II. Investment Project Opportunities: Information on African Sovereign Bond issuance has shown their viability and attractiveness in the international capital markets. This is also the case with infrastructure and project-based Corporate Bonds. Operation within international Capital Market rules mitigates many of the underlying risks and negative perceptions associated with Africa. One of the key drivers for the appeal of the African Bonds is the financial viability of the projects being funded. Due to the need for infrastructure and related development, the business and investment opportunities in Africa are overwhelming, as demonstrated by authoritative assessments of economic and development outlooks for Africa[240, 241, 242, 243].

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[238] The author of this report led Diaspora Bond consultations and market research with the diaspora in the UK, under the Common Ground Initiative (2011-14), supported by the Department for International Development (DFID) and Comic Relief.

[239] Beyene B. M. (2017) The Grand Ethiopian Renaissance Dam and the Ethiopian Diaspora, Online, Aiga Forum http://aigaforum.com/articles/GERD-and-the-Ethiopian-Diaspora.pdf - Accessed 1 April 2019

[240] AfDB (2017), African Economic Outlook 2017: Entrepreneurship and Industrialisation, Abidjan, African Development Bank (AfDB), Organisation for Economic Co-operation and Development (OECD), United Nations Development Programme (UNDP) http://www.undp.org/content/dam/rba/docs/Reports/African_Economic_Outlook_2017_EN.pdf

[241] AfDB (2019), African Economic Outlook 2019, Abidjan, African Development Bank https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/2019AEO/AEO_2019-EN.pdf

[242] World Bank (2019), Global Economic Prospects: Darkening Skies, Washington DC, World Bank file:///C:/Users/user/AppData/Local/Packages/Microsoft.MicrosoftEdge_8wekyb3d8bbwe/TempState/Downloads/9781464813863%20(1).pdf

[243] African Union *et al* (2018), Africa Sustainable Development Report: Towards a transformed and resilient continent, Addis Ababa, African Union, UN Economic Commission for Africa, African Development Bank and United Nations Development Programme file:///C:/Users/user/AppData/Local/Packages/Microsoft.MicrosoftEdge_8wekyb3d8bbwe/TempState/Downloads/undp-rba-asdr-2018_en%20(1).pdf

III. **Prudent Investment Target:** USD100m is set as a prudent initial investment target based on empirical evidence of success and failure of relevant bonds in Africa. The Ethiopian diaspora bonds were to finance hydroelectricity projects costing about USD5 Billion. The feasibility of raising billions of dollars through African diaspora bonds is questionable. On the other hand, Nigeria increased its Diaspora Bond investment target from USD100m to USD300m, and the issuance in 2017 was oversubscribed at 130%. This indicates that a target of USD100m for an African continental Diaspora Bond (including Nigerian diaspora investors) is reasonable and prudent. As part of the packaging and due diligence for the first ADFC Diaspora Bond issuance, the target will be reviewed to ensure that ADFC capitalises optimally to prevalent market conditions. ADFC will also ensure that it has adequate line-up and pipeline of investment-ready projects, in case it is able to generate more than USD100m in the first issuance.

IV. **Complementary Partner Support:** Issuance of sovereign and corporate bonds requires roles from banks, law firms and other legal and advisory organisations. Diaspora Bonds as a form of international development finance require development partners such as donors and Development Finance Institutions (DFIs) to provide financial guarantees and other forms of financial and organisational development support. In designing a unique Diaspora Bond, ADFC shall bring in diaspora organisations and networks, and development institutions as partners. This facilitates an integrated, complementary and synergistic framework to optimise buy-in and the socio-economic impact of the ADFC Diaspora Bonds.

V. **Transparent Project Specific Investment:** The fact that proceeds of the ADFC Diaspora Bond do not go to national treasury funds or other general purpose funds is of particular importance to diaspora investors. The project-based specificity enables investors to identify and pinpoint where their funds go and what direct developmental outcomes they contribute to, increasing their satisfaction, pride and commitment to development investment in Africa. This is particularly relevant as many of the investors will be funding projects in countries from which they did not originate. The simplicity, transparency and traceability help strengthen diaspora confidence in ADFC, given that distrust, suspicion and scepticism about African institutions is widespread. The project-based approach also enables ADFC to provide significant technical assistance (in investment-readiness planning) to diverse projects and programmes, some of which may access funding through other non-ADFC sources.

VI. **Focus on Productivity and Impact:** Through efficiency and high levels of productivity, the development outcomes and impacts of ADFC Diaspora Bond investments will be expanded and enhanced. The complementary stakeholder partnerships and support, the regulated financial infrastructure, the technical and project development expertise and all other tangible and technical assets will be used optimally to enhance outputs, outcomes and impacts. In practice, this would mean using the ADFC platform to market other relevant bonds, provide supplementary technical and financial services, and assist investment projects to optimise their performance and results.

VII. Corporate Bond Issuances: The bulk of the development projects in Africa involve the private sector as principals or as parties in Public Private Partnerships (PPP). Special Purpose Vehicles (SPV) and other legal structures are used as and when appropriate to structure contracts. African private financial institutions routinely issue successful short tenor Corporate Bonds[244]. In April 2017, Africa Finance Corporation became the second African company to issue a Corporate Eurobond for a period longer than 5 years. The AFC Eurobond was for USD500m, for 7 years, at 4%. It was oversubscribed by almost 5 times, attracting USD2.4 Billion bids, from 231 investors. As with the success of the Nigerian Diaspora Bond, AFC undertook an extensive pre-launch marketing and engagement road-show to the UK, USA and other capital market hubs[245]. It raised USD5 Billion through Corporate Bonds since 2015[246]. ADFC shall seek to follow access this investment market to complement diaspora investors.

VIII. Snapshot of AFC Performance: Given the immense need for infrastructure and development funds, ADFC can to an extent mirror the growth trajectory of AFC. Its net income in 2008 was USD4.4m. In 2009 it made its first debt investment in Ghana, by 2011 it had investments of USD775m, and by 2015 it had projects in 22 countries and a combined debt and equity investment portfolio of USD3.2 Billion. In 2017, the net profit was USD100m[247].

[244] INSEAD (2012), African High Yield Corporate Bond Market, Paris, INSEAD
https://www.insead.edu/sites/default/files/assets/dept/centres/gpei/docs/insead-student-african-corporate-bond-market-oct-2012.pdf

[245] Standard Bank corporate news item: - Accessed 1 April 2019
https://corporateandinvestment.standardbank.com/CIB/Latest-News/Standard-Bank-leads-on-2016-Eurobond-issuance-in-Africa

[246] AFC website: https://www.africafc.org/Country-Investor-Relations/Funding-Programs.aspx - Accessed 31 January 2019

[247] AFC 2017 Annual Report and Financial Statements:
https://www.africafc.org/Publications/Publications-Documents/2017-ANNUAL-REPORT-FINAL2.aspx - Accessed 31 January 2019

7.4 Rationale and Viability of the ADFC Diaspora Mutual Funds

The feasibility and viability observations indicate why the ADFC Mutual Funds are practically possible, and would be developmentally impactful, and financially profitable.

I. **Online and Mobile Accounts:** Through sending remittances, migrants and the diaspora are accustomed to making regular small financial transfers to Africa. Subscription to ADFC's Mutual Funds will mirror this financial behaviour as diaspora investors can make regular small investments, through user-friendly online and mobile platforms. The diaspora are also accustomed to making transfers through these Fintech mechanisms. Even the most traditional Money Transfer Operators (MTOs) use online platforms and mobile apps, and it is typical for migrants and the diaspora to have online and app-based accounts with multiple MTOs.

II. **International Regulations and Standards:** ADFC will register with international capital market regulators and comply with financial marketing rules. This will give confidence to diaspora investors, knowing that ADFC is regulated by authorities in the UK, USA and other international jurisdictions. One of the international standards for Mutual Funds is that investments are flexible, with investors being able to withdraw their funds at short notice, usually within 7 to 28 days. This flexibility makes the Mutual Funds similar to bank Savings Accounts, with which the diaspora is familiar. The international standards provide marketing advantages to ADFC.

III. **Better Financial Returns:** Interest rates in North America and Europe have been very low for the past decade. This means that return on savings within the diaspora are very low. ADFC Mutual Funds will offer better financial returns to investors. Given that ADFC shall denominate its investments in US dollars and other international currencies, the major problem of depreciation of African currencies is not a relevant concern for ADFC investors. The attractive financial returns also mean that ADFC can access a significant number of non-diaspora 'Friends of Africa' investors. Amongst other securities, the Diaspora Mutual Funds will invest in a range of government Bonds and Treasury Bills issued in local currencies.

IV. **Access to Finance for Migrants:** There are millions of African migrants and diasporans who are effectively excluded from accessing financial services in their countries of residence. The financial exclusion may be due to low income status, temporary, itinerant and precarious employment, irregular or unsettled immigration status or other factors that makes it impossible, undesirable or unsafe to access financial services. ADFC Mutual Funds with low investment levels of USD100, easy entry and exit, easy access through Fintech, online and mobile apps, will enable financially excluded African diaspora to access and participate in ethical development funds in Africa.

V. **Productive Diaspora Engagement:** The ADFC Mutual Funds provide different types of flexible and easy-access investment services. This enables African diasporans who are risk averse to take initial steps towards productive economic and financial engagement in Africa. Mutual Fund investors will include high, mid and low income diasporans, including professionals and retirees. Successful investment in ADFC Mutual Funds is likely to lead to repeat and expanded investment, and engagement in different aspects of African development, across the continent.

VI. **Profitable Capital and Development Markets:** Apart from specialist international financial institutions, continental African financial institutions have been investing successfully and profitably in the African infrastructure and development market. Private and public-private institutions like Ecobank and Afreximbank have been returning healthy profits from their diverse investments in Africa. This demonstrates that the obvious development need in Africa is also a genuine business demand, with commercial benefits and profitability margins.

VII. **Growth of Comparable Financial Institutions:** In the past decade, Ecobank has grown to become the largest banking network in Africa, operating in 36 African countries, with licensed operations and representative offices in Beijing (China), Luanda (Angola), Paris (France) Johannesburg (South Africa), Dubai (United Arab Emirates), and London (United Kingdom). In 2017, its offering included consumer, commercial, corporate and investment banking services to about 14 million customers, ranging from individuals, SMEs, corporations, financial institutions, international organisations and governments. It had 927 branches and offices, 2,665 ATMs and comprehensive online and mobile banking services. It has about 16,000 staff. Since operations started in 1994, Afreximbank has grown, with country offices in Abidjan (Cote D'Ivoire), Nairobi (Kenya), Abuja (Nigeria) and Harare (Zimbabwe), and it operates in 37 African countries.

VIII. **Snapshot of Ecobank Performance:** In 2017, Ecobank provided loans of USD9.4 Billion, and its highest ever loan book was USD12.3 Billion in 2014. The revenue generated was USD1.83 Billion, of which the profit was USD229m. 2014 saw the highest ever turnover of USD2.28 Billion, with a profit of USD520m. The Return on Average Shareholder Equity was 11.6%, the highest being 16.5% in 2014. The value of Ecobank assets in 2017 was USD22.43 Billion[248].

IX. **Snapshot of Afreximbank Performance:** At the end of the first financial period (30 September 1994 to 31 December 1995), Afreximbank made loans of USD141m to African clients in the form of short term import-export credits. The revenue generated was USD12.1m, of which the profit was USD6m. The value of assets was USD143.9m. In 2017, Afreximbank provided lending and financing facilities of USD11.91 Billion, with Lines of Credit, Syndications, and Direct Project Finance being the most used instruments. The revenue generated was USD372.13m, of which the profit was USD220.9m. The Return on Average Shareholder Equity was 11.76%, and the value of Afreximbank assets was USD14 Billion. Dividend paid to shareholders in 2017 was USD57.53m[249].

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[248] Ecobank Annual Report 2014 and 2017: - Accessed 31 January 2019
2014 Report: https://ecobank.com/upload/publication/20160607015116375F6KRSS7YPK/201506180747401989953EexagDPBd.pdf
2017 Report: https://ecobank.com/upload/publication/201803280354538286G3B564AQE/20180425034438836V.pdf

[249] First Annual Report of Afreximbank (1994-95):
Afreximbank (1996), Africa Export-Import Bank Annual Report and Statement of Accounts 1994/1995, Cairo, Afreximbank
Afreximbank 2017 Annual Report: https://s3-eu-west-1.amazonaws.com/demo2.opus.ee/afrexim/ANNUAL-REPORT-2017.pdf

7.5 Rationale and Viability of ADFC Diaspora Endowment Fund

The feasibility and viability of the ADFC Diaspora Endowment Fund is based on diverse determinants, including the practical factors set out below.

I. **Planned Diaspora Finance Initiative:** ADFC is well placed to pick up, consolidate, conclude and implement the analytical and advocacy work on creating an Endowment Fund from current migrant and diaspora remittances (RemitAid™), as initiated by African diaspora experts 15 years ago[250, 251]. Recent continental and multilateral agreements such as AU Agenda 2063 (2014), Addis Ababa Action Agenda for Financing for Development (2015) and the Global Compact for Migration (2018) provide the optimum opportunity to implement this transformative initiative in international development and diaspora finance.

II. **Simple Operational Framework:** The operational framework for the ADFC Endowment Fund facilitates simple, transparent and low cost collection and management of Remittance Match Funding (RMF) and contributions linked to diaspora remittances. MTOs already generate, file and maintain remittance flow data for anti-money laundering (AML) and other regulatory purposes. The World Bank also collates similar data for analysis and publication. Unlike other tax incentives schemes, for the ADFC Endowment Fund, the match funding does not go to the individual remitters, instead they are pooled together in the Endowment Fund. Under the scheme there is no direct financial gain for the individual migrant and diaspora remitters, instead, they are optional philanthropic contributors themselves. This eliminates motive, means and opportunity for fraudulent scams such as ‘round tripping’ and multiple rebate claims, associated with some types of tax incentives[252].

III. **Sustainable Development Finance:** The moneys pooled together create an enduring financial asset in the form of an Endowment Fund. This Fund will exist as a lasting testament and sustainable financial legacy of the role of the diaspora in development – even when current patterns of migration change. The endowment capital, which increases annually through new match funding, is invested in ethical portfolios similar to existing endowment funds of charities, foundations and trusts. In time, the investment will yield substantial annual income, even when annual remittances and match funding decrease. Part of the match funding and annual investment income shall be used to provide grants, soft loans and development co-financing through RemitAid™ Development Trust, as a capacity-building fund that supplements and complements current development funds operating within Africa and the diaspora. For governments seeking viable and effective partnership to support diaspora and the SDGs, the ADFC Endowment Fund is a practical solution.

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[250] Faal, Gibril (2007), Mitigating the Structural Imperfections and Negative Impacts of Remittances, in *Migration und Entwicklung: Chancen.Gemeinsam.Nutzen Tagungsdokumentation, Blaue Reihe*, Nr. 103, Berlin, United Nations Association of Germany (Deutsche Gesellschaft für die Vereinten Nationen), pp. 57-65 http://edoc.vifapol.de/opus/volltexte/2009/1279/pdf/Blaue_Reihe_103.pdf

[251] Faal, Gibril (2007), Diaspora Engagement in Public-Private Partnerships for African Socio-Economic Development: The RemitAid™ Case Study, in *Migration, Development and Poverty Reduction: Report on the Workshop on Migration, Development and Poverty Reduction 2006*, Geneva, International Organization for Migration (IOM) and African Capacity Building Foundation (ACBF) pp. 52-54 https://publications.iom.int/system/files/pdf/migration_dev_pvrtyreduction.pdf

[252] OECD (2009), Report on Abuse of Charities for Money Laundering and Tax Evasion, Paris, Organisation for Economic Co-operation and Development and Centre for Tax Policy and Administration https://www.oecd.org/ctp/exchange-of-tax-information/42232037.pdf

IV. **Specific Development Outcomes:** The ADFC Endowment Fund with the grant-making RemitAid™ Development Trust shall deliver a range of specific results and outcomes that enhance the role and impact of diaspora contributions to African development. These benefits include, amongst other things:

- Increase in economically productive and regenerative uses of remittances
- Increase in the volume of remittances used for explicit developmental purposes
- Increase in the use of formal channels for remittance flows to Africa
- Stimulate expansion of SME investment and business development support in Africa
- Stimulate expansion of structured and managed financial and investment products
- Stimulate expansion of collective remittances for community projects
- Promote diaspora and migrant engagement in public private partnerships
- Promote diaspora and migrant integration in countries of residence
- Create parity between remitters and other tax incentive beneficiaries
- Formalise recognition of diaspora and migrant contribution to international development.

7.6 Viability of Innovative Finance: UnitAid Case Study

The RemitAid™ scheme was developed in 2003 as a form of innovative finance for international development, based on Community Remittance Tax Relief (CRTR) and Remittance Match Funding (RMF). It was endorsed by Finance Ministers of Least Development Countries in 2006, shelved after the 2008 global economic crises, and updated in 2012 in the lead to post-2015 global development consultations. When RemitAid™ was first launched in Europe at the first European Development Days (EDD) in 2006, another innovative finance programme, named UnitAid, was launched at the same event. UnitAid's innovative finance proposition is that participating countries charge a Solidarity Levy of USD1 on selected air tickets.

UnitAid's mission is to *"contribute to scale up access to treatment for HIV/AIDS, malaria and tuberculosis for the people in developing countries by leveraging price reductions of quality drugs and diagnostics, which currently are unaffordable for most developing countries, and to accelerate the pace at which they are made available"*. It awards grants to innovative and impactful public health programmes and projects. UnitAid is governed by a Constitution, which established the Executive Board as the decision making body, headed by a chair. It has a Secretariat headed by an Executive Director, responsible for programme implementation, management and day-to-day operations. The Constitution is supplemented by Board Operating Procedures and Secretariat Bye-Laws. UnitAid is hosted by the World Health Organization (WHO) in Geneva, Switzerland. The Executive Board comprises 12 members, including the five founding Member States (Brazil, Chile, France, Norway and the United Kingdom), and one representative of African countries, nominated by the African Union[253, 254].

In the 10 years 2006 to 2016, UnitAid raised USD2.67 Billion, and received additional grants of USD100m from the Bill and Melinda Gates Foundation. Inflows through the Solidarity Levy were as follows: 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). The other participating countries are: Cameroon, Democratic Republic of Congo, Guinea, Luxembourg, Madagascar, Mali, Mauritius and Niger. UnitAid has awarded grants of USD2.5 Billion. In 2017, the UnitAid grants portfolio comprised 47 grant awards, worth USD1 Billion.[255]

For UnitAid, inflows from Innovative Financing mechanism of the air ticket Solidarity Levy are generally disbursed as grants. For ADFC, the RemitAid™ Innovative Financing mechanism of Remittance Match Funding (RMF) shall be partly disbursed in grants (for immediate and urgent African and diaspora development needs and opportunities), and partly invested through the RemitAid™ Endowment Fund (to generate income for future grant disbursements).

[253] UnitAid website: https://unitaid.org/about-us/#en
[254] UnitAid Constitution: https://unitaid.org/assets/UNITAID-Constitution-revised-version-15-June-2018.pdf
[255] UnitAid 2016-17 Annual Report: https://unitaid.org/assets/Annual-report2016-17.pdf
- Accessed 31 January 2019

7.7 Risk Assessment and Mitigation

The risk factors presented here are derived from the main internal weaknesses and external threats faced by the proposed African Diaspora Finance Corporation (ADFC). The assessment below concentrates on risks with overall rating of medium and high (the low risk factors being excluded). The assessment also uses a 'prudential' approach of overestimating risks, threats and liabilities, whilst underestimating opportunities, options and assets.

<table>
<tr><th>Main Risk Factors</th><th>Likelihood</th><th>Severity</th><th>Overall Risk Rating</th></tr>
<tr><td>1. Reluctance of African countries to sign and ratify the ADFC Treaty.</td><td>Low</td><td>High</td><td>Medium</td></tr>
<tr><td colspan="4">Main Risk Mitigation Action Points:</td></tr>
<tr><td colspan="4">Formal AU endorsement through Decision by the AU Executive Council; ADFC promotion and championship by the AUC Commissioners and other continental influencers; Prepare draft of ADFC Treaty and use as basis for preliminary consultations; Identify, consult and engage with African countries that already champion diaspora issues.</td></tr>
<tr><td colspan="4"></td></tr>
<tr><th>Main Risk Factors</th><th>Likelihood</th><th>Severity</th><th>Overall Risk Rating</th></tr>
<tr><td>2. Reluctance of African country to sign Headquarters Agreement.</td><td>Low</td><td>High</td><td>Medium</td></tr>
<tr><td colspan="4">Main Risk Mitigation Action Points:</td></tr>
<tr><td colspan="4">Analyse and identify a short list of ideal country hosts for ADFC; Use formal ADFC endorsement of AU Executive Council to identify and engage champions in the potential host countries; Prepare draft of ADFC Headquarters Agreement for informal consultations and preliminary negotiations.</td></tr>
<tr><td colspan="4"></td></tr>
<tr><th>Main Risk Factors</th><th>Likelihood</th><th>Severity</th><th>Overall Risk Rating</th></tr>
<tr><td>3. Concerns in the development sector about the viability and sustainability of Diaspora Finance.</td><td>Medium</td><td>Medium</td><td>Medium</td></tr>
<tr><td colspan="4">Main Risk Mitigation Action Points:</td></tr>
<tr><td colspan="4">Undertake cross sectoral stakeholder analysis to identify key institutions, organisations, individuals and influencers; Undertake profiling of actual and potential supporters, opponents and cynics; Undertake direct engagement and consultations with key players in all sections of the sector; Seek formal and informal endorsements from diverse institutions; Build sectoral alliances and partnerships with reputable and influential national, international, NGO, academic and other institutions and networks; Create formal linkages and collaboration with the UN Financing for Development Office; Produce and publish user-friendly audio-visual and printed briefings on ADFC and Diaspora Finance.</td></tr>
<tr><td colspan="4"></td></tr>
<tr><th>Main Risk Factors</th><th>Likelihood</th><th>Severity</th><th>Overall Risk Rating</th></tr>
<tr><td>4. Low levels of public understanding of Diaspora Finance and Diaspora Portfolio Investment (DPI) products.</td><td>Medium</td><td>Medium</td><td>Medium</td></tr>
<tr><td colspan="4">Main Risk Mitigation Action Points:</td></tr>
<tr><td colspan="4">Undertake analysis to define sectors of the global diaspora and investor population to be targeted for ADFC engagement; Analyse the market and socio-psychological profile of potential ADFC clients including migrants, multigenerational diaspora, impact investors and ethical savers; Commission and publish professional audio-visual social media materials on DPI; Recruit and deploy reputable social media influencers such as diaspora footballers and musicians who are effective in reaching migrant, diaspora, impact funding, ethical finance and other populations relevant to ADFC and DPI; Link DPI awareness-raising to product marketing, e.g. through attaching appealing ADFC branding to social media materials, and by facilitating pre-launch registrations and expressions of interest.</td></tr>
</table>

Main Risk Factors	Likelihood	Severity	Overall Risk Rating
5. Absence of funding for ADFC start-up, product and organisational development.	Medium	High	**Medium /High**
Main Risk Mitigation Action Points:			
Cooperate with current and past funders of diaspora-development work to build on and progress the current work on ADFC; Produce comprehensive budget for the ‘ADFC organisational and operational start-up’ programme; Use the ‘start-up programme and budget’ to undertake fundraising exercise, with current funders; Request current funders and supporters to act as champions and brokers for further fundraising; Organise side event at the UN High Level Dialogue on Financing for Sustainable Development (UNHLD) on 26 September 2019 at the UN General Assembly; Use the UNHLD and ADFC side event to formally present ADFC to the development sector, and demonstrate its relevance to global policy frameworks and existing AU strategic partnerships; Use UNHLD and ADFC side event to formally launch consultations on signing up to Remittance Match funding (RMF) and funding of the ‘ADFC start-up programme’; Use UNHLD and ADFC side event to demonstrate high level ADFC engagement and support from donor countries, African and global institutions; Use UNHLD and ADFC side event or similar event to build confidence and give momentum to ADFC fundraising and programme implementation.			
Main Risk Factors	**Likelihood**	**Severity**	**Overall Risk Rating**
6. Delay in the inauguration of ADFC and the practical actualisation of the organisation.	Medium	Medium	**Medium**
Main Risk Mitigation Action Points:			
Use this ‘ADFC Strategic, Business and Operational Framework’ to start the ADFC implementation and actualisation process; Use the proposed ADFC side event at the UNHLD in September 2019 as short term milestone; Undertake internal, external and stakeholder briefings, consultations and meetings; Use the preparation and organising of the proposed side event to build momentum for ADFC implementation; Design, prepare and present preliminary corporate identity for ADFC, including name registration, logo, corporate colours and fonts; Design and launch initial ADFC website; Actualise the ‘start-up programme’ as incorporated in this ‘ADFC Framework’ document.			
Main Risk Factors	**Likelihood**	**Severity**	**Overall Risk Rating**
7. Reluctance of European, North American and Middle Eastern countries to agree to Remittance Match Funding (RMF).	Medium	High	**Medium /High**
Main Risk Mitigation Action Points:			
Identify 3-4 countries as RMF champions, from a short-list including: Canada, France, Germany, Italy, Netherlands, Saudi Arabia, Sweden, Switzerland, United Arab Emirates and United Kingdom; Review and analyse their current international development funding strategy, their investment and charitable incentive schemes, and remittance outflows to Africa; Demonstrate the direct relevance of RMF to national policies, strategies and priorities; Demonstrate and quantify how their RMF will act as leverage for sustainability through the Diaspora Endowment Fund investments and the development of profitable DPI products; Demonstrate how their pioneering support acts as catalyst for innovative finance and encourages other countries to subscribe to RMF; Demonstrate AU commitment through formal Decision of the Executive Council; Demonstrate support from African Development Bank (AfDB) e.g. through Letter of Endorsement and/or technical support with drafting and finalisation of ADFC Treaty, Charter and Headquarters Agreement; Demonstrate continental and institutional support through Letters of Endorsement and/or technical support from bodies such as RECs, World Bank, UNCTAD, IOM, UNCTAD, OECD, IOM; Seek ADFC presence and prominence in relevant and reputable global, industry and sectoral forums, networks and conferences.			

Main Risk Factors	Likelihood	Severity	Overall Risk Rating
8. Reluctance of Money Transfer Operators to agree to Remittance Match Funding (RMF).	Medium	Medium	**Medium**
Main Risk Mitigation Action Points:			
Identify 1-2 MTOs as RMF champions, from a short-list including: Moneygram, Ria, Small World, UAE Exchange, Western Union, WorldRemit and Xpress Money; Review and analyse their current Corporate Social Responsibility (CSR) policies; Demonstrate the direct relevance of RMF to their CSR; Demonstrate and quantify how their RMF will act as leverage for sustainability through the Diaspora Endowment Fund investments and the development of profitable DPI products; Demonstrate how creating options on their platforms for Collective Remittance Contributions (CRC) for remitters will create additional funds for the Diaspora Endowment Fund; Demonstrate how their pioneering support acts as catalyst for innovative finance and encourages other companies to subscribe to RMF and CRC; Demonstrate formal support from the AU, OECD countries and global institutional support; Demonstrate how MTO support will be recognised and publicised by ADFC.			
Main Risk Factors	**Likelihood**	**Severity**	**Overall Risk Rating**
9. Low levels of Collective Remittance Contributions (CRC) by the African diaspora.	Medium	Low	**Medium /Low**
Main Risk Mitigation Action Points:			
Brand CRC as RemitAid™ with distinctive logo appropriate for social media and mobile platforms; Negotiate with participating MTOs for CRC/ RemitAid™ option to be featured prominently on MTO payment platforms; Design and implement mechanism for recognising and publicising the size and impact of CRC; Undertake targeted social media campaigns to promote CRC; Feature CRC in general ADFC promotions that target migrant and diaspora audiences; Link CRC to individual countries by showing amounts raised by remitters to each African country; Design and run special CRC campaigns linked to national, independence day and religious festivals, and responses to humanitarian disasters in Africa; Design and run appropriate and friendly competitions and challenges amongst remitters to different African countries.			
Main Risk Factors	**Likelihood**	**Severity**	**Overall Risk Rating**
10. Low levels of subscription to the Diaspora Bonds and Diaspora Mutual Funds.	Medium	High	**Medium /High**
Main Risk Mitigation Action Points:			
Undertake detailed market study to map and generate initial database of ADFC's different categories of clients; Work with credit-rating, data and profile companies to generate detailed market intelligence and investment behaviour profiles of ADFC client groups including first generation migrants, multigenerational diaspora, non-diaspora impact investors and ethical savers; Undertake bespoke marketing and sales studies addressing the factors that determine actual investment by potential investors from ADFC's target client groups; Create world class online and mobile app for ADFC products, incorporating kite marks of international regulatory authorities; Package ADFC products for family saving and 'gift vouchers' to promote diaspora savings and responsible investment in Africa; Undertake ongoing social media advertising and promotional campaigns; Run structured programme of relational and cause-related social marketing indicating both financial returns and development impact of ADFC products; Run targeted marketing through diaspora hubs such as MTOs, travel agencies, embassies, and national sports teams; Run community-based marketing and road-shows with Hometown, Community and Alumni associations, social and cultural clubs; Run partnership and referral marketing through banks, financial advisers, brokers and industry events; Run endorsement-based campaigns through partnership with reputable high profile influencers such as respected public figures, and prominent African and diaspora sports stars and artistes.			

8. Outline for Organisational and Operational Start-Up

On the strength of the 'Information Memorandum' of December 2006, the government of Nigeria formalised the setting up of the Africa Finance Corporation (AFC) in May 2007 and started operations over three years before AFC Headquarters Agreement was ratified in September 2010. AFC made its first equity investment of USD37m in 2008, making it one of the largest shareholders in the MainOne Cable Company which had a share capital of USD120m. The project was for an undersea fibre optic cable system linking the West Coast of Africa to Europe and global networks. The network was 7,000km long, from Nigeria to Portugal, with branches at Ghana, Cote D'Ivoire, Morocco and Canary Islands, co-financed with debt of USD120m from the African Development Bank and a consortium of Nigerian banks[256].

The practicality, purposefulness and effectiveness of the AFC start-up demonstrate the sort of commercial urgency and ambition required in the world of multinational finance. On the strength of this 'Strategic, Business and Operational Framework', it is recommended that the African Union Commission, together with its partners, support the implementation of the start-up action plan without delay or interval, in order to bring the vision and aspirations of African diaspora finance into reality. 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: Set-up and resource mobilisation (2019-2021); Institutional, business and product launch (2021-22). To guide the start-up process, a number of analytical observations and recommendations are given below.

8.1 Rebranding as African Diaspora Finance Corporation (ADFC)

The African Union aspiration for a legacy project on diaspora investment necessarily goes beyond the creation of an 'investment fund'. An organisation pursuing such a legacy shall design, set up and manage many 'funds' over time. In this 'Business Framework' document, it is recommended that start-up should concentrate on 3 major products, namely: RemitAid™ Endowment Fund, Diaspora Bonds and Diaspora Mutual Funds. Over time, many time-limited Funds and Bonds will be created, as a matter of routine business. For clarity and to prevent confusion in the future, the word 'Fund' should not be part of the organisation's name. Furthermore, there is a record of 'African Diaspora Investment Fund (ADIF)' registered in Belgium in December 2018.

It is further recommended that the name 'African Diaspora Finance Corporation (ADFC)' be registered as a matter of urgency as part of the start-up action points. The name is descriptive enough to indicate the general purpose of the organisation. By including the word 'Corporation' in the name, the commercial orientation is also advertised.

[256] Industry news report:
https://subtelforum.com/16afc-leads-the-financing-of-a-pan-african-submarine-cable-system/ - Accessed 31 January 2019

8.2 ADFC Business Model and Start-Up Capital Needs

African Diaspora Finance Corporation (ADFC) offers a unique opportunity for Africa to institute a pre-eminent diaspora finance, investment and innovative finance corporation, operating on socially responsible principles to harness the untapped diaspora resources. Promoted by the African Union, ADFC can become a major continental social enterprise with a flexible business model.

For African financial institutions such as Ecobank, Afreximbank and Africa Finance Corporation, these businesses needed substantial start-up capital, and may continue to need capital injections from time to time. This necessitates equity investment and dividend payments. For ADFC, the situation is favourably different.

The start-up and organisational development requirements shall cost few million dollars, rather than 10s of millions, which can be funded by development partners in the form of one-off grants and technical assistance. Most importantly, the business model anticipates major cash inflow in the form of Remittance Match Funding (RMF) from the OECD, GCC and other partner countries, as well as smaller RMF from Money Transfer Operators, and philanthropic Collective Remittance Contributions (CRC) from individual remitters. This form of innovative finance shall be a substantial capital base.

Furthermore, the cash inflow from RMF shall continue and grow in time as more countries participate in the programme. Like other investment management institutions, ADFC shall charge fees and earn income through successful management of different funds. These surpluses shall be re-invested for organisational and business development, and to build reserves. The ADFC business model allows for it to continue receiving project and developments grants, technical assistance and supplementary consultancy fees.

Incorporating the RemitAid™ innovative finance mechanism of Remittance Match Funding (RMF) has substantive and substantial merits by itself. As an endowment and grant fund, RemitAid™ creates a lasting financial and development legacy from the phenomenon of historic and modern day migration and remittances. Its substantial funds shall be managed professionally by ADFC, making the institution operate viably and profitably without capital injection from equity shareholders, thus making ADFC an important African social enterprise.

As a social enterprise, ADFC shall operate with world class operational and management effectiveness and efficiency, with adherence to the highest standards of business ethics and practice. Profits/surpluses are not distributed to shareholders, they are re-invested in the business, and disbursed to RemitAid™ Development Trust (RDT) which will make grant and co-finance awards to impactful continental and diaspora development programmes, projects and schemes.

8.3 Host Country and Headquarters Considerations

In addition to the provisions of an Establishment Agreement (ADFC Treaty), a separate Headquarters Agreement is needed. Afreximbank and Africa Finance Corporation benefit from concessions, tax exemptions and diplomatic privileges, offered by their statutory headquarter countries, namely Egypt and Nigeria. ADFC requires similar Headquarters Agreement with an African host country. ADFC shall invest and run operations in many African countries and may open country offices as and when required, to complement the headquarters.

The suitable host would need to have well developed capital markets, to complement an investment friendly regulatory framework, which would be accommodating to an ambitious start-up like ADFC. Apart from the countries with well established Stock Exchanges, other African countries have created investment hubs, including Mauritius, Namibia and Seychelles. The African Financial Markets Initiative (AFMI) which runs the African Bonds Market is hosted in Cote D'Ivoire. These countries may be part of a short-list to be assessed further in the start-up phase. Other factors to consider include travel accessibility, availability and cost of business facilities and services such as energy, telephony and high speed internet, and general cost of living.

A vibrant international financial business can operate effectively and efficiently through the legal structure of a Treaty-based multilateral organisation, constituted by sovereign countries and other entities, with tax and diplomatic privileges available in the host country and in all other countries that have signed and ratified the Treaty. This is the case with Afreximbank and with the Africa Finance Corporation (AFC). As part of the 'start-up programme' ADFC shall coordinate the signature of the Constitutive Instruments, namely:

- Treaty for the Establishment of the African Diaspora Finance Corporation *(ADFC Treaty)*
- Charter of the African Diaspora Finance Corporation *(ADFC Charter)*
- Headquarters Agreement Between ADFC and Selected Country *(ADFC Headquarters Agreement)*.

(To bring the ADFC Treaty into force, it shall require signatures by Ten (10) Partners and ratification by Six (6) Partners).

8.4 Start-Up Stage One (2019-21): Set-Up and Resource Mobilisation

Amongst other things, the Start-Up Stage One activities shall include the following:

I. **Briefings and AU Decision:** Formal briefing of the specialists, directors, Commissioners and Chairperson of the AUC, and the directors of relevant strategic partners and donors; Set-up schedule for AUC and partner updates and consultative briefings; Stakeholder validation of the report on 'Strategic, Business and Operational Framework for an African Diaspora Finance Corporation'; Formal decision by the AU Executive Council for the creation of ADFC through implementation of the 'ADFC Business Framework' document.

II. **Implementation Leader:** Appointment of consultant to lead the implementation of the ADFC start-up programme, undertaking practical work on international influencing, advocacy, programme promotion, and organisational development; Appointment of consultant as 'Special Adviser/Representative of the AU Chairperson on Innovative and Diaspora Finance' to facilitate high level consultations and influencing, as required by the ADFC start-up exercise.

III. **ADFC Introductory Events:** Organise technical and high level events to introduce ADFC to continental, diaspora and international partners; Organise side event at the UN High Level Dialogue on Financing for Sustainable Development (UNHLD) on 26 September 2019 at the UN General Assembly, to formally present ADFC to the development sector, launch consultations on signing up to Remittance Match Funding (RMF), and funding of ADFC start-up programme; Demonstrate high level support from the AU, donor countries, African and global institutions.

IV. **Institutional Partnerships:** Create practical and effective technical working relationships with strategic partners, including the African Development Bank (AfDB), and seek technical assistance or secondments from these partner institutions to ADFC; Enlist small number of strategic and programme champions such as AU Member States, development agencies from OECD and GCC countries, and global MTOs, to complement AU/AfDB in supporting influencing and initial negotiations for RMF, legal structuring and organisational development; Agree Memoranda of Understanding with other African development finance institutions, to collaborate and complement each other in the effort to finance African development; Consultations and negotiations of the draft ADFC Treaty, Charter and Headquarters Agreement.

V. **Interim ADFC Office:** Set up interim ADFC office, possibly hosted by African Development Bank or Office of the AU Chairperson or OECD champion country; Assemble core team of consultants and associates to undertake the required work on business and organisational development, consultations and networking, positioning, influencing and negotiations (referring to the 'Risk Mitigation Action Points' in this document).

VI. **Institutional Fundraising:** Direct consultations and negotiations with international development agencies and Member States of OECD and GCC countries for start-up RemitAid™ Remittance Match Funding (RMF), to use as capital for due diligence on ADFC structures, headquarters, products and services, and for setting up RemitAid™ Development Trust (RDT) as a grant and co-financing charitable trust.

8.5 Start-Up Stage Two (2021-22): Institutional, Business and Product Launch

Amongst other things, the Start-Up Stage Two activities shall include the following:

I. **Treaty Signature and Launch:** Conclude negotiations of ADFC Treaty and Charter that reflects social enterprise ethos, and Headquarters Agreement; Facilitate signature and ratification of legal and governance instruments; Launch ADFC as a Treaty-based multilateral diaspora finance social enterprise; Facilitate election of the Board of Directors of ADFC in accordance with the Treaty and Charter; Formally launch ADFC through appropriate and targeted institutional and multimedia awareness-raising and promotion, to enhance brand recognition and strategic positioning within the international finance, development, diaspora, responsible business and social enterprise sectors.

II. **Complement of Personnel:** Use the Interim Office personnel and external specialist recruitment agency to undertake a recruitment and selection exercise for Managing Director and full complement of staff for the ADFC Directorate; Recruit, select and appoint other technical experts as secondees from partner organisations or external consultants, and undertake appropriate induction and deployment; Recruit, select and induct International Advisory Council Members, according to the Charter and relevant Terms of Reference.

III. **Headquarters Set-Up:** Set-up the physical headquarters office with suitable fittings, equipment and furniture, and acquire vehicles and all other relevant physical resources needed; Appoint service providers and agencies to provide all the required logistical, utility and technical resources need for an effective and efficient running of ADFC.

IV. **Targeted Stakeholder Engagement:** Undertake targeted engagement with appropriate messaging for the diverse ADFC strategic, technical and operational stakeholders, including Remittance Match Funding partners, regulators, financial product retailers and brokers, diaspora individuals and organisations; Launch programme of relational and cause-related engagement, partnership and marketing of ADFC and its ethical investment products (referring to the 'Risk Mitigation Action Points' in this document).

V. **Business Action Documentations:** Research, analyse and finalise ADFC Service Delivery Outlines (SDOs), business plans and action points, covering initial portfolio of products and related processes; Negotiate and agree Remittance Match Funding with new set of countries and MTOs, ensuring cash inflow for expansion of RemitAid™ Development Trust (RDT), and start-up of the Diaspora Endowment Fund; Finalise list of specific capital market opportunities for investment of ADFC Mutual Funds; Work with business partners to finalise pipeline of investment-ready projects for investment of funds from ADFC Diaspora Bonds.

VI. **Launch First Set of Products:** Complete the structuring of the initial portfolio of ADFC financial products, in compliance with laws and regulations in international jurisdictions including USA and the UK; Launch programme of targeted marketing exercises; Formally launch first set of ADFC DPI products, and initiate investment relations management.

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