



## Unlocking Diaspora Finance – A Case for Diaspora Bonds & Match Funds

### Diaspora Bonds - Context and Opportunity

**Increasing Remittance Flows** There has been growing research and analysis on the potential of utilising the large-scale transfer of funds from the diaspora to their respective homelands. Globally there are an estimated 258 million international migrants (including refugees) who collectively are expected to make \$485 billion in remittance flows to Low and Middle Income Countries (LMICs) in 2018, an increase of 4.1 percent from 2017<sup>1</sup>. With rising remittance flows and the growing and maturing investment opportunities in the global south, the conditions for structuring informal investment along remittance corridors provides a next generation opportunity for development finance.

**Diaspora Investment** - Diaspora Direct Investment can play an important role in inward investment and economic development for LMICs countries. A report published by the Inter-American Development Bank reported on the frontier and catalytic nature of diaspora investment characterised by the perception of "first movers" into a country due to potential advantages they have in terms of knowing the culture and having social networks in the home country<sup>2</sup>. Alongside the higher risk appetites the report highlighted the value addition that can come with diaspora finance in terms of extended professional networks and application of technology and skills. However, more resources are needed to

support diaspora investors with robust and well managed investment products and strategies.

**Match Funding** – AFFORD has previously conducted research in the area of match funding initiatives to enhance diaspora contributions to their home countries and advocated new methods of unlocking diaspora and migrant remittance into structured investment. Through its Diaspora Finance Initiative (DFI) new investment propositions have been tailored to engage diaspora and migrants in enterprise development and job creation at a highly impactful level<sup>3</sup>. Within this practice AFFORD can see new opportunities in using similar leveraged finance to grow the diaspora investment offer further through the co-investment Diaspora Bond offer below.

Within the African context, there have been a number of pioneering remittance backed investment models such as African Export-Import Bank Afreximbank who served as lead arranger for a Ghanaian transaction to borrow \$40 million backed by Western Union remittance receivables.

At present the development of competitive diaspora investment products is small in comparison to the 140 million addressable market of Africans living outside the continent saving \$53 billion in their destination countries every year. It has been reported that remittance inflows to Africa have quadrupled in the 20 years since 1990, reaching

<sup>1</sup> <https://www.knomad.org/sites/default/files/2018-04/Migration%20and%20Development%20Brief%2029.pdf>  
<sup>2</sup> <https://publications.iadb.org/bitstream/handle/11319/1444/Diaspora%2520Direct%2520Investment%2520Policy%2520Options%2520for%2520Development.pdf?sequence=1>

<sup>3</sup> <http://www.afford-diasporafinance.org/about-dfi/>

nearly \$40 billion (2.6% of GDP) in 2010<sup>4</sup>. It is within the context of this growing trend that the opportunity to mobilise the African diaspora as a significant force for inward investment in the continent exists.

#### **Government recognition of Diaspora Investment**

– **Nigerian Context:** Nigerians in the Diaspora have been contributing money in billions and other resources directed home to assist the drive towards economic development. However, most remittances are characterized as having emotional rather than investment drivers and the challenge remains to enable the structuring of economic support to both social and financial support at both macro and micro levels. To fully support and recognise the value of diaspora investment the government assented to Nigerians in Diaspora Commission Establishment Bill 2017 legitimate budget item to address Diaspora issues with seriousness and engagement of Nigerians in diaspora in the policies, projects and participation in the development of Nigeria. It is interesting to see the focus on financial and non-financial resource transfer in the terms of the bill:

The sample of the objectives of the Nigerian Diaspora Commission Bill are:

- (a) provide a direct link for Nigerians in Diaspora to participate in the development of the nation;
- (b) explore the huge reservoir of skills, knowledge and experiences of Nigerians who live abroad for national development;
- (c) explore most attractive and cost-efficient means for capital inflow or remittances, investments, transfer of technology etc. by Nigerians in Diaspora.<sup>5</sup>

It is no wonder that the government are focussed on the value of the Nigerian diaspora as they contribute over \$22 billion in remittances alone in 2017<sup>6</sup>.

The Nigerian example above sits within a broad context of the growing movement of governments formally recognizing the value of diaspora investors. AFFORD has previously surveyed a number of African nations through the lens of Diaspora Investment and saw West African nations such as Benin, Côte d'Ivoire, The Gambia, Cameroon, Togo incorporating diaspora finance into their national economic plans<sup>7</sup>. More recently AFFORD has consulted with the Rwandan Government on Diaspora finance initiatives which has also resulted in the design and development of the Rwanda Diaspora Bond outlined below.

**Remittances Exceeds ODA** - There is growing evidence that the investment landscape is changing from ODA and FDI to new investment products and services directed towards blended, impact and alternative investments. A report from UNDP observed that traditional role of ODA and FDI is in need of modification. in terms of futureproofing the purpose of aid and commercial investment to solve social and economic problems through bottom up wealth creation. The challenge to formal investment opportunities along remittance corridors is becoming more a reality albeit an underserved one. To conform recognition of this, a recent UNDP research paper noted that "remittances exceed by three times the sum spent on ODA and rivals total FDI in developing countries"<sup>8</sup>.

<sup>4</sup>[https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Economic\\_Brief\\_-\\_Diaspora\\_Bonds\\_Some\\_Lessons\\_for\\_African\\_Countries.pdf](https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Economic_Brief_-_Diaspora_Bonds_Some_Lessons_for_African_Countries.pdf)

<sup>5</sup> <https://nass.gov.ng/document/download/156>

<sup>6</sup><http://www.worldbank.org/en/news/press-release/2018/04/23/record-high-remittances-to-low-and-middle-income-countries-in-2017>

<sup>7</sup> Wolff, V, Opoku-Owusu, S, Bloem, D - Diaspora Engagement on Country Entrepreneurship and Investment - Policy Trends and Notable Practices in the Rabat Process region. International Centre for Migration Policy Development.

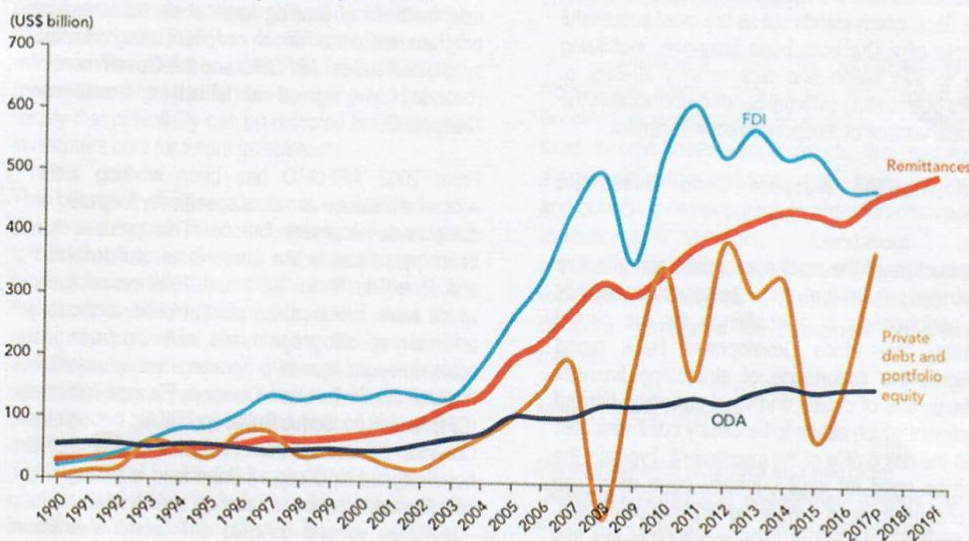
<sup>8</sup><http://www.undp.org/content/dam/sdfinance/doc/remittances>

The diaspora has tremendous potential to contribute in broader and deeper ways to economic and social transformation in their home countries. The opportunity to equip migrants and diasporas with new innovative offers to invest their surplus for the development of their homelands is presenting itself as an attractive capital market opportunity. In many respects, direct diaspora investment presents itself as having a more mature risk appetite and is perceived as being less prone to capital flight when investment conditions are not ideal. Additionally, when structuring financial products along remittance corridors, social development discount pricing is tolerated and as such can offer below traditional market returns.

The challenge and the opportunity from development finance organisations is centred on designing new alternative investment products that mobilising new forms of capital from the diasporas.

**Skills Investment through Diaspora Direct Investment** – Research by the Inter-American Development Bank on Diaspora Direct Investment reported on the outsized benefits of using diaspora networks and skills. The report emphasised the better use of international remittances alongside converting brain drain into ‘Brain Gain’ through improved facilitation of skills of migrants and matching strategies to connect the diaspora with investment and job opportunities<sup>9</sup>.

**FIGURE 1.1** Remittance flows to low- and middle-income countries are larger than official development assistance and more stable than private capital flows, 1990–2019



<sup>9</sup>[https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Economic\\_Brief\\_-\\_Diaspora\\_Bonds\\_Some\\_Lessons\\_for\\_African\\_Countries.pdf](https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Economic_Brief_-_Diaspora_Bonds_Some_Lessons_for_African_Countries.pdf)

Project-oriented Diaspora bonds have a good prospect of success as the outcome is tangible to bondholders and progress (use of proceeds) is verifiable even at a distance. However, it would require the disclosure of underlying feasibility studies to show economic viability and assurance of project revenues as it is this, rather than government guarantees which is likely to motivate African Diaspora investors versus local ones. The costs associated with such disclosures and transparency is behind the choice of India, for example, not to opt for US Securities and Exchange Commission registration of their Diaspora bonds.

**Diaspora Bonds** – Against these global contemporary trends there are historical foundations of developing structured investment products along remittance corridors. Examples such as the State of Israel Bond which stands out as the most successful example of a Diaspora bond issuance, mobilizing close to \$25 billion and representing 20-35% of Israel's outstanding external debt<sup>10</sup> demonstrates the potential volume of diaspora direct investment.

#### Developing the Diaspora Bond Investment Market

The structure of the most appropriate and effective investment product that offers the necessary security and performance is a challenge for the capital markets. The Africa Development Bank report highlights the importance of structuring financial products, use of capital and local currency-backed investment which needs to be clearly communicated within the risk profile of the investment. Typically the domestic need for local currency bond issue can present itself as a barrier to international (non-diaspora) investors. The AfDB report highlights that Diaspora Bond issue in local currency may be more

acceptable to diaspora investors as retained assets and investment pools in home countries can be viable wealth creation strategies especially for assets such as home construction.<sup>11</sup>

#### Diaspora Remittance Investment Solution - RemitPlus Rwanda Diaspora Bond (RRDB)

**Problem Statement** - Rwanda faces an acute housing crisis. Rapid urbanisation (currently at 17.2% of population) and population growth drive a strong demand for new built housing units. In a recent report on the opportunity for affordable house construction in Rwanda's capital city Kigali the housing demand is urgent and acute with new home construction at around 1,000 units per year where demand stands at around 31,000 units every year<sup>12</sup>. AFFORD has identified the opportunity to establish new methods of funding large scale infrastructure programmes in the African continent using diaspora syndicated bonds. AFFORD and the Government of Rwanda have agreed to launch a RemitPlus™ Diaspora Bond.

From 2003 AFFORD has been working within African remittance corridors specifically focussed on diaspora-development finance. This process has been crystallised in the frameworks of RemitAid™ and RemitPlus™ in 2003 and 2009 respectively, which have informed the current policy orthodoxy and many specific programmes, including the largest scale diaspora finance programme yet launched in the UK, the £2.9 million Diaspora Finance Initiative (DFI) funded by Comic Relief and UKAid through the Common Ground Initiative. From this work AFFORD has designed its Diaspora Bond fund in partnership with Rwandan public and private stakeholders.

<sup>10</sup>[https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Economic\\_Brief\\_-\\_Diaspora\\_Bonds\\_Some\\_Lessons\\_for\\_African\\_Countries.pdf](https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Economic_Brief_-_Diaspora_Bonds_Some_Lessons_for_African_Countries.pdf)

<sup>11</sup>[https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Economic\\_Brief\\_-\\_](https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Economic_Brief_-_)

[Diaspora Bonds Some Lessons for African Countries.pdf](#)

<sup>12</sup> <http://www.newtimes.co.rw/section/read/39137>



AFFORD has pioneered innovative alternative finance thinking and undertaken global advocacy and policy formulation in the past two decades, in the field of migration, diaspora and enterprise development. AFFORD's thinking and ideas – through partnerships with other Civil Society Organisations (CSOs) and processes such as GFMD - have influenced and been adopted by the African Union, European Union, United Nations, World Bank etc. AFFORD has analysed emergent policy developments; and more importantly devised and piloted schemes to illustrate the transformative benefits of enabling diaspora finance policies.

AFFORD has designed an investment model with the aim of developing a blended finance fund to reduce the cost of capital by using philanthropic funding for technical assistance and potential provision of security that operates alongside the debt structures that RRDB has identified in the capital markets. The preferred option will be for RRDB to manage the guarantee fund as an ever green finance facility that potentially can be recycled back into the investment pool for future investments.

The design of the Bond is structured to accommodate both retail and institutional investors to best mobilise the diaspora and unlock enterprise funding from wholesale impact investors. As such the diaspora offers smaller subscription rates (for retail investors) whilst also meeting the investment appetites of small cap and mid cap impact funds operating larger ticket sizes. Moreover, this initiative promotes the growth of blended finance structures and the need for scalable enterprises that cross the 'missing middle ( underfunding for SMEs in frontier markets) to meet the typical ticket sizes of mid-sized investment funds. The blended finance sector is emerging as a progressive approach to frontier capital and this project has been designed as another proof of concept of the competitive use of social investment that blends development finance (grants) with investment capital.

## **Recommendations**

### **1 Further investment and resourcing into mapping the diaspora investment market**

– Better research on the opportunities and concerns from specific diaspora groups will enable improved investment opportunities.

### **2 Further development of blended finance for diaspora co-investment**

– Capacity building is needed for development organisations to prime new frontier markets and structure robust investment instruments and service. AFFORD proposes financial and legal technical assistance powered by philanthropy is developed as scalable and disruptive investment models to stimulate the impact investment opportunity.

### **3 Crowding into the diaspora retail investment opportunity**

– We recommend the accelerated development of scalable portfolios of fixed income investment products that mobilizes diaspora investors and large scale funds for social and economic development. In order to achieve this Institutional investors, foundations and philanthropists must work collaboratively to fund the expansion of tailored investment products for diaspora remittance led investment into frontier markets.

## **Match Funds (Grants)**

### **Partnering with diaspora and migrants**

Diaspora and migrants' engagement already has an extensive amount of inter-organizational and international collaborations, with funding and implementing partnerships and programmes, influenced by international conferences and forums such as the Global Forum for Migration and Development (GFMD). In several countries, networks of diaspora and migrant members have played an active role in establishing and recognizing the critical role diaspora and migrants play in

addressing development challenges.<sup>13</sup> Even more important is leveraging these partnerships for economic development through diaspora and migrant entrepreneurship and investment.<sup>14</sup>

Match funding, crowdfunding, co-financing and public-private partnerships between diaspora, migrants and governments, donors and development finance institutions, will in turn encourage diaspora and migrants to contribute more towards structured economic development. From AFFORD's experience, different types of blended finance are even likely to increase diaspora investment even further as the commitment and desire for returns (and success) are enhanced.

#### **Match-funding for job creation through AFFORD Diaspora Finance (ADF)**

The ADF model utilises an 80-20 match funding scheme to disburse finance to diaspora entrepreneurs working in Africa. Since 2015, this model has leveraged at least £200,000 through diaspora entrepreneurs for structured investments, thereby increasing AFFORD's investment into Africa to at least £1,000,000 and creating 500<sup>15</sup> jobs over this period. This match fund scheme is also supported by a Business Development Support (BDS) Network (currently made up of 4 BDS Institutions in Africa and AFFORD), ensuring end to end support for diaspora entrepreneurs.

#### **Recommendations**

**1 Development of blended finance that is tailored for diaspora entrepreneurs and other small and medium-sized enterprises (SMEs) in Africa** – While the current ADF model of matching grants has enhanced resources invested into Africa, the know-how and expertise of diaspora

entrepreneurs working in Africa, could be further enhanced with increased commitment and accountability through blended finance.

**2 Diaspora investors, not entrepreneurs** – A lack of structured diaspora investment products, also means that there is a lack of knowledge and understanding of transnational investment into African SMEs. Alongside the development of investment products such as bonds, and the creation of supply chains through enterprise development, it is imperative that training on investment is provided to help identify diaspora investors (even diaspora angel investors).

<sup>13</sup> Diaspora and migrants Partnerships: The African Diaspora and migrants Marketplace. The India Investment Initiative.

<sup>14</sup> Frontier Partnerships: African Philanthropy Forum, Devex Impact, Business Call to Action, The Global Innovation Exchange is an online marketplace for

innovations, funding, insights, resources, and conversations.

<sup>15</sup> Approximately 800 jobs created through all of AFFORD's enterprise and employment initiatives in the last 6 years.



**Side Event:  
Unlocking diaspora finance: a case study**

**6 December, 2018  
14:00 – 15:30**

Join panellists to discuss alternative investment models for diaspora matched investment, including diaspora bonds, and developing ideas on diaspora finance initiatives that leverage diaspora resources for development and job creation.

**Invited panellists: Government of Rwanda;  
UKAid/DfID; SDC; AFFORD UK; Global Native  
Zimbabwe; ADEPT**