Leveraging Diaspora Capital for Development in Sub-Saharan Africa

By Richmond Commodore, Southern Voices Network for Peacebuilding Scholar

July 2020

Development, peace, and security are inextricably linked. Today, Sub-Saharan Africa (SSA) finds itself at a development crossroads, with potential negative impacts on security and peace: indebtedness is rising across the continent while at the same time development assistance is falling. In real terms, Official Development Assistance (ODA) in 2018 fell 3 percent from 2017,[1] meanwhile, more than 40 percent of African countries are at risk of debt distress.[2] Compounding the challenge is the fact that international capital markets remain an unfavorable option for development financing for many developing countries. Moreover, efforts to mobilize domestic resources for development in the region have yielded limited success. Faced with these narrowing options, SSA countries are increasingly exploring innovative development financing sources.

One such source is the African diaspora.[3] In 2019, over 40 million Africans lived and worked outside their countries of origin and regularly remitted money back home.[4] Remittances to Sub-Saharan Africa rose from USD$4.8 billion in 2000 to USD$31.7 billion in 2010 and increased further to USD$48 billion in 2019. These funds help to sustain 120 million recipients across the African continent.[5] They also help reduce poverty and, more importantly, improve the living conditions of receiving households whose members might otherwise be drawn to participate in rebellion, crime, and violence in conflict-prone countries.[6] For these fragile countries, remittances are a powerful force for building local resilience and contributing to lasting peace.[7]

However, attempts to leverage remittances for development have proved daunting to many SSA governments. This is because for most SSA countries, remittances are overwhelmingly private, and end up with households—making it onerous for governments to influence their use. Beyond personal remittances, there are other avenues through which SSA countries could receive precious hard currency from the diaspora. It is estimated that as of 2014, SSA's global diaspora accumulated USD$30.5 billion in savings annually,[8] and that by 2019 the diaspora from each of the countries of Ethiopia, Ghana, Kenya, Somalia, Zimbabwe, Nigeria, and the Democratic Republic of the Congo had in excess of USD$1 billion in savings. Many SSA governments are exploring how they might leverage this large reserve of diaspora capital to boost national development.[9]

The Southern Voices Network for Peacebuilding (SVNP) is a continent-wide network of African policy, research and academic organizations that works with the Wilson Center's Africa Program to bring African knowledge and perspectives to U.S., African, and international policy on peacebuilding in Africa. Established in 2011 and supported by the generous financial support of the Carnegie Corporation of New York, the project provides avenues for African researchers and practitioners to engage with, inform, and exchange analyses and perspectives with U.S., African, and international policymakers in order to develop the most appropriate, cohesive, and inclusive policy frameworks and approaches to achieving sustainable peace in Africa.

This publication was made possible by a grant from the Carnegie Corporation of New York. The statements made and views expressed in this paper are solely the responsibility of the author and do not represent the views of the Wilson Center or the Carnegie Corporation of New York.

For more information please visit https://www.wilsoncenter.org/the-southern-voices-network-for-peacebuilding

Initiatives for Leveraging Diaspora Capital for Development

The African Union's Agenda 2063 seeks "dynamic and mutually beneficial links with her Diaspora." To this end, the African Union (AU): designated the African diaspora as Africa's "sixth region"; established a Directorate of the Citizens and Diaspora Organizations (CIDO); and, hosted the Global Diaspora Summit (2012) at which AU Heads of State and Government committed to five diaspora legacy projects. AU member states are also increasingly prioritizing engagement with the diaspora. While some are creating ministerial portfolios for the diaspora, others are establishing dedicated diaspora units while formulating policies and programs to boost the inflow of diaspora capital. In addition to spurring personal remittances, some SSA countries have rolled out various vehicles to spawn the inflow of diaspora capital: 1) diaspora bonds, which are government bonds targeted at a country's emigrants living in other countries; 2) national development funds, which mobilize and manage voluntary contributions from the diaspora for development activities and are administered by a board of trustees; 3) collective remittances, which are gathered from ethno-national diaspora groups involved in development initiatives in their home localities; 4) crowdfunding platforms, which leverage technology to mobilize small amounts of capital from a vast network of individuals; and (5) diaspora direct investments (DDI), which are direct investments from companies connected to diasporas.

Generally, however, beyond personal remittances, SSA countries have gained little traction in harnessing diaspora capital because of: 1) poor state governance structures; 2) corruption; 3) lack of government follow-through on key decisions about diaspora engagement and poor continuity in government diaspora agendas from one administration to the next; 4) incoherence resulting from limited and fragmented diaspora policies that have weak links to major domestic policies; 5) poor marketing of diaspora initiatives; and, 6) weak government ties with diasporas. Moreover, the AU's agenda for boosting diaspora links has been hampered by the 2019 termination of the appointment of the AU Permanent Representative to the United States—an important destination country for SSA migrants. In addition, the ensuing distancing of the AU from various diaspora engagement initiatives rolled out during her tenure sent mixed signals to the diaspora and has eroded some of the AU's recent gains in this area.[10]

Policy Options and Recommendations

1. Policy Options and Recommendations for African Governments

a. **Curb corruption to spur diaspora development finance:** Most government-led diaspora financing initiatives have been unsuccessful because the diaspora has had concerns about how proceeds from these initiatives would be spent. To incentivize the diaspora to directly support government-led development financing initiatives, it is crucial that SSA governments scale-up efforts to tackle corruption, including instituting punitive measures against corrupt government officials. Transparency in the use of public funds—which was crucial for the initial success of Ethiopia's Development Trust Fund, for example—is also key to getting the diaspora to the table.

b. **Repair and reinforce relations with the diaspora:** First, SSA governments should work to improve public service interface with the diaspora in order to build trust and ultimately attract diaspora investments. It is vital that SSA embassies and consulates provide service to overseas citizens that are on par with or better than the public service delivery that emigres have grown accustomed to in their countries of residence. By doing so, SSA governments would be on track toward building mutually beneficial relationships with their diaspora. Secondly, SSA countries should formulate diaspora strategies and policies that strengthen the relationship between the diaspora and their countries of origin. It is imperative that these strategies and policies adopt a long-term approach to engaging the diaspora as development partners seeking to invest in their home economies rather than simply as altruistic development financers. Finally, SSA governments need to better coordinate the rather scattered diaspora groups that run various development projects in their home localities. The lack of coordination with and among these groups makes their approach to development fragmented and duplicative, with limited opportunities for learning and replicating good practices. An institutional arrangement for engaging and coordinating these diaspora groups will be crucial for leveraging their collective development potential.

c. Start with specific and marketable development projects: Diaspora investors, in addition to seeking financial returns, are also interested in the development impact of investing in their home countries. Thus, SSA countries should endeavor to link diaspora development financing efforts to clearly defined, viable, high-impact projects. This will require SSA governments to better identify, prioritize, and develop a pipeline of viable and bankable projects—which has long been a challenge for project financing in Sub-Saharan Africa.

For an in-depth analysis on the role of the African diaspora in development financing and economic growth, see the accompanying Africa Program Research Paper No. 29 by Richmond Commodore.

Richmond Commodore was a Southern Voices Network for Peacebuilding (SVNP) Scholar during the spring 2020 term. He is a Research and Policy Analyst for the African Center for Economic Transformation (ACET), a member organization of the Southern Voices Network for Peacebuilding (SVNP) in Ghana.

---

1. "World Development Indicators," World Bank, last modified May 29, 2020, https://datacatalog.worldbank.org/dataset/world-development-indicators.

2. Jill Ward and Matthew Miller, "IMF's New Boss Voices Concern About Rising African Debt Levels," Bloomberg, November 19, 2019, https://www.bloomberg.com/news/articles/2019-11-19/imf-s-georgieva-voices-concern-about-rising-african-debt-levels.

3. Ibid, 1.

4. International Organization for Migration, "World Migration Report 2020," 2019, https://publications.iom.int/system/files/pdf/wmr_2020.pdf.

5. African Institute for Remittances, "Lowering Costs of Remittance Transfers Within Africa," 2017, https://www.uneca.org/sites/default/files/uploaded-documents/CoM/com2017/side-events/Lowering-Costs-Remittance/17-cn_lowering_the_cost_of_remittance_transfer_in_africa.pdf.

6. Michael Batu, "Can Remittances Buy Peace?" University of Windsor Department of Economics, no. 1610 (2016), http://web2.uwindsor.ca/economics/RePEc/wis/pdf/1610.pdf.

   Steve Brito, Ana Corbacho, and Rene Osorio Rivas, "Remittances and the Impact on Crime in Mexico," *Inter-American Development Bank*, no. 514 (2014), https://publications.iadb.org/publications/english/document/Remittances-and-the-Impact-on-Crime-in-

Mexico.pdf.

7. Margaret Lombe, "The African Diaspora and Remittances: Problematizing the Discourse," B*oston University Center for Finance, Law & Policy*, no. 001 (2015), https://www.bu.edu/africa/files/2016/11/Boston-University-Report-African-Diaspora-and-Remittances.pdf.

8. Sonia Plaza and Dilip Ratha, ed. Diasporas for Development in Africa, ed., (Washington, D.C.: World Bank, 2011), https://ideas.repec.org/b/wbk/wbpubs/2295.html.

9. Dilip Ratha, "Diaspora Bonds: Building A Bridge Between Nations," *Global Affairs Canad*a, 2019.

10. African Union Commission, "Communiqué of The African Union Commission Regarding the Continued Misleading Campaign of The AU Former Permanent Representative to the United States of America," November 15, 2019, https://au.int/en/pressreleases/20191115/communique-african-union-commission-regarding-continued-misleading-campaign.

The Africa Program

The Africa Program works to address the most critical issues facing Africa and U.S.-Africa relations, build mutually beneficial U.S.–Africa relations, and enhance knowledge and understanding about Africa in the United States.

The Program achieves its mission through in-depth research and analyses, including our blog Africa Up Close, public discussion, working groups, and briefings that bring together policymakers, practitioners, and subject matter experts to analyze and offer practical options for tackling key challenges in Africa and in U.S.-Africa relations.

The Africa Program focuses on four core issues:

i. Good governance and leadership

ii. Conflict prevention, peacebuilding, and security

iii. Trade, investment, and sustainable development

iv. Africa's evolving role in the global arena

The Program maintains a cross-cutting focus on the roles of women, youth, and technology, which are critical to Africa's future: to supporting good governance, to securing peace, to mitigating poverty, and to assuring sustainable development.

SVNP Policy Brief and Research Paper Series

For the full series of SVNP Policy Briefs and Research Papers, please see our website at https://www.wilsoncenter.org/the-southern-voices-network-for-peacebuilding

One Woodrow Wilson Plaza
1300 Pennsylvania Avenue, N.W.
Washington, DC 20004-3027

www.wilsoncenter.org/africa
africa@wilsoncenter.org
facebook.com/africaprogram
@AfricaUpClose
202.691.4118