Diaspora-led investments into domestic economies: the case of sub-saharan Africa

Policy recommendations and initiatives for diaspora-led investments into the SSA region

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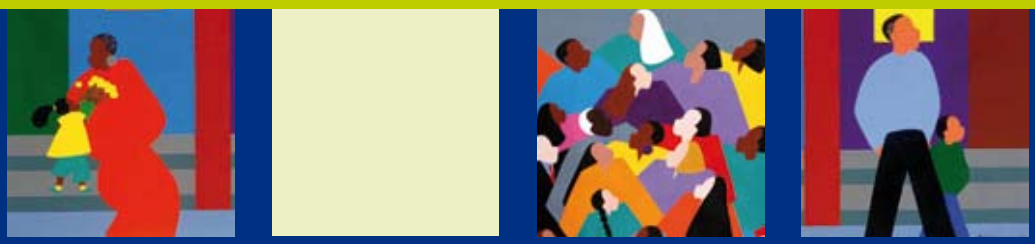

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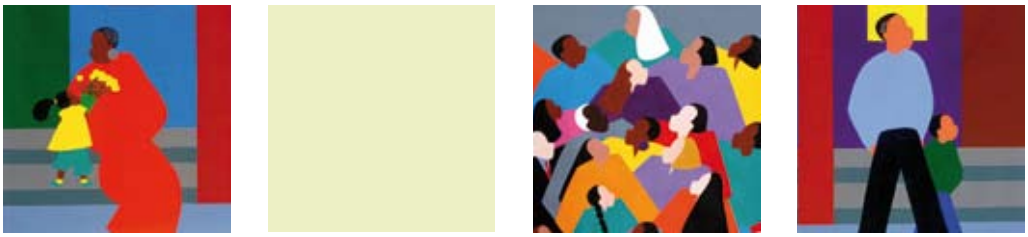

Study to Explore Mechanisms to Facilitate the Contribution of the African Diaspora to the Domestic Economies.

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Prepared by:
Vincent E. Okele
Jose Garcia Madrano
Alexandre Cordahi

A project implemented by ECO3, Paris. France

Design: www.mazygraphic.be

For her vibrant celebrations of family, community, and the cultures of the world, Synthia SAINT JAMES has won numerous international awards, prestigious commissions, and an audience that continues to grow, as she celebrates her 40th anniversary as a professional artist.

You'll find her artwork of over 60 book covers (including books by Terry McMillan, Alice Walker and Iyanla Vanzant), in seventeen children's books (three of which she wrote), on the first Kwanzaa stamp commissioned by the U.S. Postal Service, in architectural designs for public places, and in artwork commissioned by organizations, corporations, and individual collectors. She is also a popular keynote speaker.

All the pictures published on this report have been painted by Synthia SAINT JAMES, and BizClim would like to thank her for her great contribution to the publication of this report. You can find the creative world of Synthia SAINT JAMES at www.synthiasaintjames.com

Table of contents

TABLE OF CONTENTS	**4**
LIST OF ACRONYMS	**6**
DEFINITIONS	**7**
METHODOLOGICAL NOTE	**7**
Executive Summary	**8**
1. Introduction	**10**
2. Overview of diaspora inward flow	**14**
2.1. The SSA migrant stock in the world	15
2.2. Characterising diaspora inward flows into the SSA region	16
2.2.1. Volume of remittances (R)	16
2.2.2. Remittances as a share of GDP (R/GDP)	16
2.2.3. Remittances as a share of FDI (R/FDI)	16
2.2.4. FDI as a share of GDP (FDI/GDP)	17
2.2.5. FDI Performance Index	17
2.2.6. Gross Capital Formation as a share of GDP (GCF/GDP)	18
2.2.7. Target of diaspora inflow	18
2.3. Scoring of countries based on quantitative data	19
2.4. Cases of non-African diaspora funding	20
2.4.1. Introduction	20
2.4.2. Country profiles	21
2.4.3. Conclusion	25
3. Hurdles and obstacles to diaspora-led investments	**26**
3.1. Introduction	27
3.2. Countries overview	27
3.2.1. CAPE VERDE	27
3.2.2. GHANA	29
3.2.3. NIGERIA	31
3.2.4. MALI	33
3.2.5. SENEGAL	35
3.2.6. KENYA	37
3.2.7. CAMEROON	40
3.3. Conclusion	40
3.3.1. Obstacles and hurdles to increasing the volume of remittances received through formal channels	40
3.3.2. Obstacles and hurdles to channelling remittances into productive investments	40
3.3.3. Obstacles and hurdles to attracting diaspora private sector investments	41

4. Policy options and initiatives for fostering diaspora-led investments **42**

4.1. Introduction 43

4.2. At Origin country level 43

4.2.1. Strategic and Institutional links with the diaspora 43

4.2.2. Legal and regulatory framework 44

4.2.3. Incentives and mechanisms for fostering diaspora-led investments 45

4.3. At the Host Country level 46

4.3.1. Strategic relationship with the diaspora 46

4.3.2. Policy recommendations 47

4.3.3. Incentives and Mechanisms 47

4.4. At the level of Multilateral Institutions 47

4.4.1. Strategic links with the diaspora 47

4.4.2. Incentives and Mechanisms to fostering diaspora-led investments 75

4.5. At the level of the Diaspora Community 48

5. The African Diaspora Investment Facility **50**

5.1. Goal and Objectives 51

5.2. Information and technical assistance (ITA) 51

5.2.1. Activities 51

5.2.2. Implementation 51

5.3. Diaspora Investment Fund (DiaFundTM) 51

6. Conclusion **54**

Annex 1: Comparative review of institutional, regulatory framework and obstacles to diaspora inflow **56**

Annex 2: Legal framework underlying diaspora investment **58**

Annex 3: Principle 3 of the General principles for international remittance services **62**

Bibliography **64**

LIST OF ACRONYMS

AfDB	African Development Bank
CCI	Chamber of Commerce and Industry
FDI	Foreign Direct Investment
GCF	Gross Capital Formation
GDP	Gross Domestic Product
HTA	Home Town Association
IDC	Instituto das Comunidades
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
MFI	Micro Finance Institutions
MDG	Millennium Development Goal
MTO	Money Transfer Operator
ODA	Overseas Development Assistance
OECD	Organisation for Economic Cooperation and Development
SME	Small and Medium-size Enterprises
TRIM	Trade Related Investment Measure
SSA	Sub Sahara Africa
UNCTAD	United Nations Conference on Trade and Development

DEFINITIONS

Diaspora inflow
The term diaspora inflow is used in this report to refer to the monetary transfers made by members of the diaspora (also referred to as **migrants**) to their origin countries either as private transfers or as funds invested, deposited or donated. This thus covers a wider scope than (workers') remittances (see below) as it includes private sector equity and portfolio investments made by migrants.

Workers' remittances
Remittances are monies sent from one individual or household to another. International remittances are those sent by migrant workers who left their home country. Domestic remittances are those sent by migrant workers who left their home village or town to work elsewhere in their home country (e.g. rural-urban migration; sometimes also referred to as national remittances). Typically remittances are in cash rather than goods. Imports or goods purchased on location are, however, also common.

Remittances are typically sent to family members in origin countries to assist them in meeting with family-oriented financial requirements – sustenance, school fess, funerals, home maintenance, etc.. – It is estimated that only a tiny fraction of remittances are channelled into community and private sector investments (see below).

Formal Transfer Systems
Formal money transfers are offered primarily by banks with account-to-account transfers such as through SWIFT and by money transfer operators, such as Western Union or MoneyGram, and their agents.

Informal Transfer Systems
A range of informal systems exists which include the migrants carrying money themselves or sending it with relatives or friends. There are also a number of informal services, typically operating as a side business to an import-export operation, retail shop, or currency dealership. Most of them operate on the basis of no or very little paper or electronic documentation. The transaction is communicated by phone, fax, or email to the counterpart who will be paying out. The details vary, such as whether there is a password or form of identification or not.

Diaspora Investments
As with other Foreign Direct Investment (FDI) investors, members of the diaspora community make equity and portfolio investments designed to yield returns for personal gain. However, they also invest in community projects that contribute to the development of their origin communities – schools, community centres, etc.., without the expectation of personal financial gains from the initiative. This category of investments will be referred to in this report as **community sector investments** as opposed to the former generally referred to as **private sector investments**.

Another category of note is **diaspora-led investment** – where a member of the diaspora community is involved in attracting FDI into a given country without actually committing private funds into the venture.

Productive investment - Income and employment-generating activities such as buying land or tools, starting a business and other activities with multiplier effects.

METHODOLOGICAL NOTE

Estimating diaspora inflow
Although it is widely acknowledged that the global flow of remittances is increasing, a reliable estimate of the country-to-country flows, and consequently of the global value of remittances, remains elusive.

First, the legal definition of a migrant varies across countries with some basing it on place of birth while others use nationality as a basis for defining the term. It is thus difficult to obtain homogeneous and accurate data on which to base the analysis and the comparisons among countries.

Secondly, officially reported statistics on remittances seriously underestimate total flows. Informal channels are estimated to account for almost 48 percent worldwide, with this percentage reaching up to 73 percent in SSA countries *(Page and Plaza, 2005)*.
But even for those transfers made through formal channels and recorded, there are incompatibilities and inconsistencies among the available data sets that impede data disaggregation, comparative analysis and in-depth research.

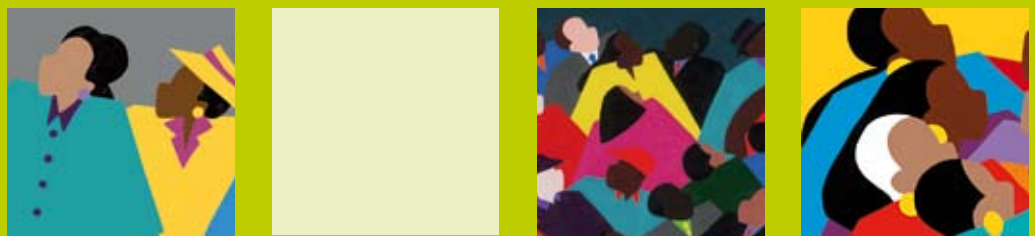
However, the major thrust of this study is less on providing the accurate data on the volume of inflow but rather on identifying the major trends in and challenges to African diaspora investment and on formulating recommendations to meeting these challenges at various levels. Thus, all analysis and comparative review provided in this report is based on official published data.

Geographical scope of analysis
The African diaspora migrant stock in the Organisation for Economic Cooperation and Development (OECD) countries in general is highly educated and thus have a higher earning and savings potential as compared to those residing and working in other regions. These migrants are thus more likely to be engaged in private sector investment initiatives in their home economies.

In terms of relevance to this study, it is obvious that the level of migrant stock in developed economies of Europe, North America and Canada correlates favourably with the level of inward flows, and by extension, the level of private sector investments.

As such, SSA countries selected for further review are those that rank within the top 20 on the basis of their emigrant stock in these regions.

Executive Summary



Despite recent improvements in economic prospects with an economy growing at an average of approximately 6% annually over the last few years, the SSA region lags behind other developing regions such as Asia and Latin America in attracting private capital flows. Countries of the region are thus interested in looking into other sources of capital inflow and especially with regard to inflow from their diaspora.

Firstly, these countries could direct the received inflow into the income generating and employment creating sectors of the economy. Additionally, despite the current low level of portfolio private investments by the SSA region's diaspora, there is a potential for this to grow in the near future as this group continues to consolidate its position within the corporate and financial sectors of host countries in developed economies. Finally, the diaspora could play a critical role in fostering bilateral and multilateral investments into the economies of their origin countries.

However, these countries attract less volume of financial inflow from their diaspora, channels a smaller portion of this flow into income generating and employment creating sectors of the economy and attract an insignificant portion of portfolio equity investments from its diaspora.

One of the principal reasons for the region's poor record in attracting substantial remittances through formal channels lies in the fact that compared to other regions, the *cost of transferring money officially into the region remains very high*. This is essentially due to the absence of competition in the transfer market in the region with one money transfer operator controlling the market in most of the countries reviewed. Furthermore, regulatory restrictions in some countries impede entry into this market by non-banking financial institutions with extensive geographical reach and proximity to recipients.

The obstacles to channelling the received remittances into the productive sectors of the economy relate to the *inappropriate legal and regulatory framework* of the remittances transfer market in most countries of the region and the *inefficient domestic financial system* that does not foster greater access to finance to recipients.

Finally, in addition to the well documented unfavourable enabling environment to foreign direct investment into the region (inefficient infrastructure, rigid bureaucracy, corruption, etc..), a number of challenges to attracting diaspora-specific private sector investments were identified. These include (a) *the countries' weak institutional link with their diaspora* (b) *the diaspora investors' lack of access to finance in both host and origin countries* and (c) *absence of information on investment opportunities in the region.*

To address these issues, there is a need for new policies and initiatives at the level of four key stakeholders to diaspora-led inflow: origin country governments, host country governments, multilateral institutions and the diaspora community itself. There is also the need for an instrument at the regional level that would enable and sustain African diaspora-led investments into the region.

At the **origin country level**, public authorities should adopt policy measures that would enable their diaspora to remain emotionally attached to the home country and to become economically attracted to it. Such measures relate to the strategic and institutional links that the country should maintain with the diaspora as well as the legal and regulatory framework that needs to be put in place. On the link with the diaspora, African governments should show commitment at the highest level to integrate diaspora funding with a range of interconnected national and economic sector strategies. Such commitment should be shown by the establisment of a viable and effective institution dedicated to engaging the diaspora or, in the absence of this, the appointment of a "champion" for the cause of increased diaspora participation in the domestic economy. With regard to the legal and regulatory framework, governments should consider granting dual citizenship rights to their diaspora and adopt regulatory measures that a) would lead to more competition in the remittances transfer market b) do not erect artificial barriers to diaspora investment c) would allow for the creation of innovative financial investment vehicles that specifically target the diaspora investor and d) provide for exceptions in the application of certain regulations whenever the principle of equal treatment results in a clear disadvantage for the diaspora investor. Initiatives at the origin country level to channelling remittances through the formal channels would include a) proposing financial incentives to encourage diaspora use of domestic banking services and savings, and b) improving the financial literacy of remittances recipients. And finally, to encourage diaspora investments, governments should a) establish specific incentives (tax, concessional rates, etc..), b) consider providing business advisory services and c) make use of Micro Finance Institutions to directly support diaspora-led investments.

Host country governments should also develop strategic links with both the diaspora community in their country and the government authorities of origin countries. Formally constituted groupings of diaspora organisations, including Home Town Associations (HTAs), should be strengthened and supported as they embark on community sector level investment projects. They should be able to work with their counterparts in the SSA region on technical, regulatory and oversight matters to ensure transparency in the remittances

transfer market. Some of the initiatives to be considered include a) establishing technical and financial assistance programs to provide support to diaspora entrepreneurs b) including the diaspora community in origin country-specific economic initiatives c) providing the diaspora community with opportunities to interact economically with their origin countries.

At the **multilateral institutions level**, diaspora-led investment should be considered with more consistent strategies, policies and legislations. This should be based on the close relationship that exists between international migration, investment and development as well as other key policy areas such as trade and aid. Some of the key initiatives proposed to foster further diaspora-led *community sector investments* include a) linking up with and supporting diaspora groups' initiatives and b) allowing these groups to participate in development projects funded by the institution. With respect to diaspora-led *private sector investments*, a) initiatives and schemes to concretely support the diaspora first-time investor (such as the World Bank D-MADE program) b) adapt existing initiatives to the diaspora investor (the IFC small investment program guarantee program) c) provide international support to initiatives designed to leverage remittances for contribution to the origin economies.

Finally, the **diaspora community** should build its capacity for effective participation in decision-making at all private and public sector levels in both origin and host countries. At the origin country level, the diaspora community should engage with the authorities to promote good governance and improve the business climate. At the host country level, they should a) be actively engaged with host country business promotion institutions b) foster trading links with origin country and c) make contributions that will foster a positive image of Africa in host countries.

The **African Diaspora Investment Facility** (ADIF) proposed in this report is designed to assist existing and potential diaspora investors with adequate instruments at three levels of a business venture cycle: genesis, start-up and sustainability. At each point in the cycle, there is the need to provide assistance in the form of information, capacity building, and funding. The *Information and Technical Assistance* (ITA) component of the facility will provide an integrated set of services to diaspora-connected business initiatives. The funding component (*DiaFund)* is a proposed €200 million fund, designed to increase the amount and diversity of capital funding available to help the diaspora early-stage and growth companies to grow, prosper and mature in the SSA region. The fund will invest in a) venture capital funds committed to equity investments in diaspora-connected businesses located within the SSA region and b) national-based diaspora investment funds (such as the Nigerian Diaspora Investment Fund, the proposed Kenya Diaspora Investment Fund and potentially others). The fund will not make direct investments in individual enterprises.

1 Introduction

Private Capital flows to the Sub-Saharan Africa region

Over the last few years, the African economy has been growing at an average of approximately 6.5% annually[1]. According to an International Monetary Fund report (IMF 2007), total gross private flows to Sub-Saharan Africa (SSA) amounted to approximately US$ 45 billion in 2006; up from US$ 9 billion in 2000. This represents a significant increase, reflecting improved domestic fundamentals in these countries as well as the favourable global economic environment during the period.

Additionally capital inflows into the region are generally not evenly distributed, with Nigeria and South Africa accounting for about two-thirds of total inflow. Foreign Direct Investment (FDI) inflows continue to be directed mainly to the extractive industries with an estimated 70 percent of this flow to the region going to oil exporters Angola, Equatorial Guinea, and Nigeria in 2006. South Africa is the recipient of by far the most private portfolio flows, accounting for almost half of total gross private capital flows to the region. The country accounted for almost all of the $15.1 billion flow of portfolio equity to the region in 2006[2].

An interesting recent development is the rise, admittedly from a very low base, in portfolio flows to a small group of countries. This is the case for Cameroon, Ghana, Uganda, and Zambia which are attracting such flows on the basis of their improved risk ratings and higher yields. There is also evidence of foreign investments in bond and equity markets in Botswana, Kenya, Malawi, and Nigeria. Although these flows are still generally small, both absolutely and in relation to GDP, they have become important in a number of countries. This is the case for Malawi and Cameroon where this flow accounted for 2 and 3 percent of GDP, respectively.
There is also a growing regional perspective to portfolio investments as shown by the launch in August 2008 of the biggest cross-border public stock offering in Africa. The offering was launched simultaneously on three African stock exchanges at Abidjan, Accra and Lagos, by the African banking group Ecobank Transnational Incorporated (ETI)[3]. Amounting to $ 2.5 billion, the offer consists of 3.76 billion shares offered to current shareholders.

Despite these recent improvements, the region still lags behind other developing regions such as Asia and Latin America in attracting private capital flows. Countries of the region are thus interested in looking into other sources of capital inflow and especially with regards to inflow from their diaspora.

Rising importance of diaspora-initiated inflow

Diaspora inflow into the domestic economies essentially takes the form of private cash transfers to families (remittances), portfolio equity investment in the corporate sector and portfolio investments in the financial market.

Remittances constitute by far, the bulk of inflow from the diaspora into the SSA region. However, there is evidence of a small base of portfolio investments from this group as well as perceived role that the diaspora could play in enhancing and enabling FDI into their origin domestic economies.

Thus, not only does the diaspora community have the potential to invest in its own right, it also has the knowledge, expertise and experience that could be deployed in enabling private sector investment in the origin. Different models of intervention are possible.

- **Cross-border investor networks:** diaspora members invest in their origin countries solely or in partnerships.
- **Mentoring/Venture capital networks:** Foreign start-up firms established by managers and owners of diaspora origin work with start up firms in their origin countries to develop and finance commercially viable projects.
- **Outsourcing networks:**
  Diaspora business owners outsource some of their operations to firms in their origin countries.
  Diaspora executives working for multinationals abroad influence investment decisions to outsource operations to firms in their origin countries.
- **Brain circulation networks:** diaspora members' skills are mobilized to provide managerial and knowledge expertise to firms and R&D laboratories in their origin countries.
- **Fostering bilateral trade:** diaspora involved in trading with home country and in enhancing the reputation of home country investment climate in the host country.[4]

Unlike other foreign investors, the diaspora investor may have other considerations that do not fit easily with generally accepted FDI rationale. Firstly, they may be more likely to invest in economies that others would consider high-risk, simply because they have better knowledge and relationship opportunities that other investors lack. Secondly, they can combine this knowledge with the skills, knowledge, and networks they have cultivated abroad, yielding important synergistic advantages. Third, they may invest for altruistic reasons – for "love of home country", with the expectation that their investment will have a positive impact on families left behind in home countries.

1 With the onset of the financial crisis, it is estimated that this will drop to 5% in 2008, falling further to 4.9% in 2009. (AfDB)
2 Up from US$ 4.2 billion in 2000
3 Established in 1985 in Lome (Togo), Ecobank operates in 25 African countries, employing 10 000 people in more than 500 branches.
4 Thus it has been shown that as the population of Chinese origin in a country grows, the greater the trade between the country in question and China (Rauch and Trindade, 2002:116) and according to Head and Reiss (1998), a 10 percent increase in the stock of permanent immigration from a typical country is associated with a 1 percent increase in Canadian exports to that country and a 3 percent increase in imports fro that country.

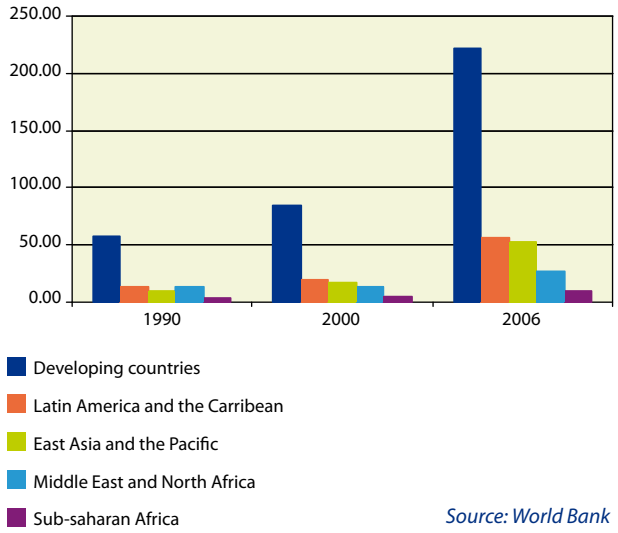
The SSA region attracts a relatively low volume of remittances through the formal channels

Officially recorded remittances flows to developing countries have grown steadily in recent years, reaching an estimated $240 billion in 2007, and are now larger than FDI and equity inflow in many countries, especially in small, low-income countries.

The volume of remittances flows into SSA has also grown significantly in the last few years. According to the World Bank, official recorded remittances flows[5] into the region almost tripled between 2000 and 2006, growing from US$ 3.2 billion to US$ 10.3 billon. *(Migration & Remittances Factbook 2008)*.

However, the latter represents less than 5% of total remittances into developing countries during the year. In 2005, the top three recipients—China, India, and Mexico—accounted for more than one-third of the remittances to developing countries. Among the top 25 recipients, only one (Nigeria) was in Africa, but three South Asian countries were on the list (Bangladesh, India, and Pakistan).

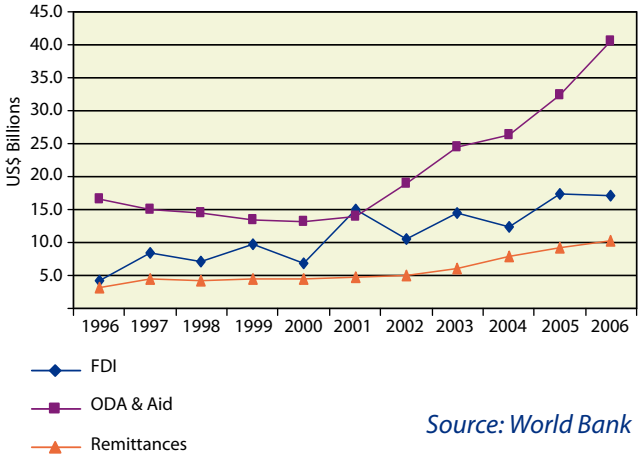
Figure 1: Recorded remittances into developing countries



Source: World Bank

Furthermore, unlike other regions where the growth has outpaced that of private capital flows and official development assistance (ODA), the SSA region is still saddled with a high level of ODA (figure 2). In 2006, ODA was more than two-and-a-half times the size of private flows received by the SSA region excluding South Africa.

Figure 2: Recorded remittances vs Private Capital Flows (Sub-saharan Africa)



Source: World Bank

The SSA region channels less remittance inflow into private sector investment

Not only does the region attract less remittance inflow than any other region, it also has a limited capacity to channel received remittances into private sector investment.

A number of surveys on the use of received remittances in the SSA region reported that on the average, less than 10 percent of this flow is channelled to the income and employment generating sectors of their economy[6]. Although remittances entail cross-border flows of relatively modest sums of money, they enable low-income households to access formal financial services, starting, most likely, with savings products[7]. The growing interest of microfinance institutions in this segment of the market raises the possibility of remittances serving as collateral for small business start-up capital for individuals previously excluded from the formal sector.

In recent years, financial institutions in the region are increasingly showing interest in remittances. In Ghana and Nigeria, banks are offering new financial products designed to attract such inflow, a first step in channelling it into private sector investment. In 2007, the Togolese financial institution, Atlantic Financial Group, opened a branch of the Banque Atlantique in Paris[8]. From its base in Ivory Coast, this bank has extended its network to the neighboring countries of Togo, Mali, Senegal, Benin, Burkina Faso and Niger. The bank is actively courting the Europe-based diaspora of West African region origin.

5 As indicated in the methodological note to this report, this amount is widely underestimated. It is estimated that more than 50 percent of remittances into the region go through unofficial channels. Page and Plaza (2006) puts this figure at 73 percent. On such basis, remittances to Sub-Saharan Africa through formal and informal channels would be more than $30 billion annually.

6 A recent study conducted by the African Development Bank on migrants from four countries (Morocco, Mali, Senegal, Comoros) residing in France reported that this percentage varied from a low 5 % in Senegal to a high 18% for Mali, with approximately 32 percent going into real estate investments in the four countries (AfDB 2007).

7 There is no evidence to suggest that informally transferred remittances are applied any differently to development objectives than formal remittances (Pieke et al, 2005)

8 In partnership with Compagnie de Banques Internationales de Paris, subsidiary of CBAO

In spite of such progress, there is still a persistent developmental gap in the region's banking and other financial institutions when compared to dynamic regions of the developing world. This weakness is an obstacle to effectively mobilising remittances into the productive sectors of the economy.

In the absence of reliable data, it is fair to assume that the region is also lagging behind other regions in its ability to attract private capital investments from its diaspora, including its returning migrants.

Except for Celtel[9], there are very few large scale investments by the African diaspora in the continent as compared to India and China which boasts of a myriad of extremely large and profitable ventures by their diaspora in domestic economies. Thus, the role played by the Indian diaspora in the growth of the Indian information technology sector is now well documented *(Kapur and McHale 2005, Pandey et al. 2006)*. It is also estimated that nearly half of the $41 billion in FDI that China received in 2000 may have originated from its diaspora abroad (Wei 2004).

9 A mobile phone operator in Africa, founded by Mo Ibrahim, a Sudanese- born British mobile communications entrepreneur.

2 Overview of diaspora inward flows

2.1. The SSA migrant stock in the world

According to World Bank, the total SSA migrant stock worldwide is estimated at approximately 16 million with significant differences across the countries of the region[10]. Approximately 3 million of the SSA emigrant community (8% of the total) live and work in the advanced economies of Europe, Canada and North America. It is estimated that Europe hosts more than half of this population, with the United States and Canada accounting for approximately 1 million and 282,000, respectively.

The United Kingdom and France are estimated to host almost half of the SSA migrant stock in Europe (Table 1). Other countries with a sizeable SSA population include Italy, Germany and Portugal.

Table 1: SSA immigrants in Europe, by country of residence

Country of residence	Population	Share of SSA migrant stock in Europe (%)
United Kingdom	461,358	26.6
France	443,684	25.6
Italy	211,283	12.2
Germany	151,973	8.8
Portugal	123,703	7.1
Belgium	65,520	3.8
Spain	64,464	3.7
Norway	37,618	2.2
Denmark	30,177	1.7
Ireland	30,044	1.7
…	….	…
Total	1,735,198	

Source: National Statistical offices. Data from 2004, 2005 and 2006

Table 2: SSA immigrants in Europe, by country of residence

Country	Pop. 2006 (Million)	Total emigrant stock, 2005	Stock of emigrants as % of population (%)	Migrant stock in Europe, 2006	Migrant Stock in North America	5 Main countries of residence
Cape Verde	0.52	181,193	35.8	81,304		Portugal, France, Italy, Spain, Luxembourg
Mauritius	1	119,424	9.6	56,555		France, UK, Italy, Switzerland, Belgium
Mali	14	1,213,042	9.0	49,390		France, Spain, Italy, Belgium, Switzerland
Guinea-Bissau	2	116,124	7.3	31,919		Portugal, France, Spain, Italy, Austria
Zimbabwe	13	761,226	5.9	74.642		UK, Ireland, France, Switzerland, Denmark
Somalia	8	441,417	5.4.	125,798		UK, Norway, Denmark, Sweden, Italy
Ghana	23	906,968	4.1	116,858	65,572	UK, Italy, Germany, France, Netherlands
Senegal	12	463,403	4.0	130,727		France, Italy, Spain, Switzerland, Belgium
Gambia, The	2	56,762	3.7	21,234		Spain, UK, France, Sweden, Norway
Togo	6	222,008	3.6	30,779		France, Germany, Belgium, Italy, Switzerland
Angola	16	522,964	3.3	55,442		Portugal, France, Italy, Switzerland, Belgium
South Africa	47	713,104	1.5	122,882	63,000	UK, Germany, Netherlands, France, Portugal
Cameroon	17	231,169	1.4	64,186		France, Germany, Italy, Belgium, Switzerland
Kenya	35	427,324	1.2	23,483		UK, Switzerland, Italy, France, Norway
Congo, Dem. Rep.	59	571,625	1.0	74,789		France, Belgium, Germany, Switzerland, Ireland
Ivory Coast	18	151,755	0.8	53,497		France, Italy, Belgium, Switzerland, Spain
Madagascar	19	151,364	0.8	32,371		France, Italy, Switzerland, Belgium, Norway
Nigeria	145	836,832	0.6	147,497	134,940	UK, Italy, Ireland, Germany, Spain
Ethiopia	73	445,926	0.6	36,537	69,530	Germany, Italy, France, UK, Norway
….	…	….	….	….	….	
Total		15,900,000		1,740,000	1,000,000	

Source: National Statistics offices, 2004-2006, World Bank

10 Again, this is a gross underestimation. Thus for example, some estimates put the Nigerian emigrant stock at more than 5 million. (USAID,2007)

2.2. Characterising diaspora inward flows into the SSA region

Table 3 below presents the recorded official diaspora inward flows[11] into 19 countries of the SSA region with a significant diaspora population in Europe and North America. It also shows a number of related statistical indicators that allow for characterising this flow.

2.2.1. Volume of remittances (R)

Countries with strong growth in the last half-decade include Togo and Cameroon where inflow have grown four- and eight-fold, respectively. Guinea-Bissau's growth rate of 1300% is quite spectacular albeit from a relatively inexistent base in 2000.

As expected, Nigeria with the largest stock of emigrants is the leading recipient country in the region with over US$3 billion received in 2006, more than doubling from the 2000 figures. Also, the average value of transfer to this country is double that of the second best performer, Kenya.

2.2.2. Remittances as a share of GDP (R/GDP)

R/GDP measures the relative share of remittances within a country's economy.
Comparing the magnitude of remittances to the value of goods and services produced during a year in a sample of countries also provides a comparative indication, which allows the identification of the relevance of the linkage and commitment of the diaspora to their country of origin, as well as the relative impact of remittances, with respect to the size of the economy.

The resulting ratios for countries in our sample range from a high 12,5% for The Gambia to a low of 0,2% for Madagascar. It is worth noting that the ratio for South Africa, a rather large and relatively more developed country, is quite low at 0.3% as well. This is to be expected given the size of the economy.

2.2.3. Remittances as a share of FDI (R/FDI)

The R/FDI ratio reflects the relative share of remittances in a countries foreign direct investment.

Table 3: Statistical overview of diaspora inflow into the SSA region

	Pop. 2006 (Million) (1)	Stock of emigrants, 2005 (milliions) (1)	Stock of emigrants as % of pop. (%) (1)	Workers' remittances, compensation of employees (US$ billion) (1) (R)				GDP, 2006 (US$ billion) (2)	GDP per capita, 2006 (US$) (4)	Remitt. as % of GDP, 2006 (2) (R/GDP)
				2000	2005	2006	2007e			
Nigeria	145	0.84	0.60	1.39	3.33	3.33	3.33	115.30	795.17	2.9%
Kenya	35	0.43	1.20	0.54	0.81	1.13	1.30	22.80	651.43	5.3%
Angola	16	0.52	3.30	…	..	0.97	..	45.20	2,825.00	2.2%
South Africa	47	0.71	1.50	0.34	0.66	0.74	0.74	255.20	5,429.79	0.3%
Congo, Dem. Rep.	59	0.57	1.00	…	..	0.64	..	8.50	144.07	7.4%
Senegal	12	0.46	4.00	0.23	0.63	0.63	0.87	9.20	766.67	7.1%
Mauritius	1	0.12	9.60	0.18	0.22	0.22	0.22	6.30	6,300.00	3.3%
Togo	6	0.22	3.60	0.03	0.19	0.19	0.19	2.21	367.69	8.7%
Mali	14	1.21	9.00	0.07	0.18	0.18	0.19	5.93	423.50	3.0%
Ethiopia	73	0.45	0.60	0.05	0.17	0.17	0.17	13.30	182.19	1.3%
Cote d'Ivoire	18	0.15	0.80	0.12	0.16	0.16	0.18	17.60	977.78	0.9%
Cape Verde	0.52	0.18	35.80	0.09	0.14	0.14	0.11	1.10	2,115.38	12.0%
Cameroon	17	0.23	1.40	0.01	0.10	0.10	0.10	18.32	1,077.82	0.6%
Ghana	23	0.91	4.10	0.03	0.11	0.10	0.11	12.90	560.87	0.8%
Gambia, The	2	0.06	3.70	0.01	0.06	0.06	0.06	0.51	255.34	12.5%
Guinea-Bissau	2	0.12	7.30	0.00	0.03	0.03	0.03	0.30	152.23	9.2%
Madagascar	19	0.15	0.80	0.01	0.01	0.01	0.01	5.50	289.42	0.2%
SSA countries	770	15.90	0.02	4.623	9.315	10.300	10.48	712.70	925.58	1.4%

11 As indicated in the methodological note, this refers to officially recorded workers remittances received by the countries.

The data shows that diaspora inflow into most of the countries is significantly higher than the officially recorded Foreign Direct Investment (FDI) into these countries. It is only in oil rich countries (of Nigeria and Angola) and the advanced economy of South Africa where this is not the case.

This indicates that diaspora inflow represent, after exports, a significant source of income in the economy and thus SSA countries should rapidly put in place policies and initiatives to increase this flow and to channel it to productive investment.

2.2.4. FDI as a share of GDP (FDI/GDP)

The FDI/GDP ratio is an indicator of the attractiveness of an economy to draw FDI. Overall, this ratio is an index of the prevailing investment climate in the host economy. Countries with more conducive liberalization policies and measures tend to have larger share of FDI inflow to their GDP.

Using the available balance of payments data on foreign direct investment flows, we can establish another selection criterion, by calculating the ratio of net foreign investment to nominal GDP. Considering the fact that a low national income[12] is accompanied by a deficiency in domestic savings, the importance of foreign investment is particularly relevant for low-income African countries. Moreover, in this case, net direct foreign investment should be considered an important non-debt creating financing item in the balance of payments, upon which policies should focus.

This indicator could also provide information about the presence or absence of successful policies geared at attracting foreign capital from abroad, irrespective of whether the economic agent investing and residing abroad is a member of the diaspora or not.

The comparison of these ratios across countries and the analysis of the reasons behind the estimates obtained from the calculation of this ratio could also be an avenue for having a first glance at the relative willingness and ability of different countries in sustaining economic policies capable of developing and maintaining an enabling environment for attracting large income-generating investment flows from abroad as well as from domestic sources over time. However, this issue needs to be analysed in detail at another stage of the research.

Net FDI (US$ billion) (3)	Gross Capital Formation (US$ billion)	Remitt. per capita (migrant stock) (R/MS)	Net FDI as % of GDP	Gross Capital Formation as % of GDP (2006) (GCF/GDP)	FDI as % of GCF (2006) (FDI/GCF)	FDI Performance index (2006) (FDI PI)
9.10	24.56	3,978	7.9%	21.30	37.05	3.29
0.05	3.74	1,884	0.2%	16.40	1.36	0.09
2.23	3.39	1,853	4.9%	7.50	65.78	2.06
7.90	52.32	923	3.1%	20.50	15.10	1.29
0.26	1.38	1,113	3.1%	16.20	19.17	1.29
0.14	2.69	1,366	1.5%	29.20	5.14	0.63
0.11	1.54	1,800	1.7%	24.50	6.87	0.70
0.07	0.34	865	3.4%	15.40	21.78	1.40
0.08	1.36	146	1.3%	22.90	5.74	0.55
0.40	2.63	386	3.0%	19.80	15.34	1.27
0.32	1.71	1,081	1.8%	9.70	18.51	0.75
0.11	0.43	789	10.2%	39.40	25.84	4.24
0.01	3.30	446	0.1%	18.00	0.39	0.03
0.25	4.18	116	1.9%	32.40	5.86	0.79
0.04	0.12	1,022	8.6%	24.30	35.38	3.58
0.01	0.05	241	3.1%	17.20	18.22	1.31
0.04	1.36	73	0.8%	24.80	3.11	0.32
17.10	148.24	586	2.4%	20.80	11.54	

(1): Migration and Remittances factbook, World Bank (except for Congo,DR and Angola - IFAD, 2006);
(2): World Development Indicators database, April 2007, World Bank
(3) Article IV consultation reports, IMF; (4): 2005 except for Angola and RDC)

12 This is a common economic trait in most of these countries.

Within the sample of countries included in this report, we find that this ratio ranges from a very low level in Cameroon (0,1%) and Kenya (0,2%) to quite a high ratio in Cape Verde (10,2%)

2.2.5. FDI Performance index

Another interesting indicator shown in the table 4 above is the UNCTAD Inward FDI Performance Index, an instrument used to compare the relative performance of countries in attracting FDI inflow. It ranks countries by the FDI they receive relative to their economic size[13]. An index value greater than one indicates that the country receives more FDI than its relative economic size given by its relative GDP. It thus captures the influence on FDI of factors other than market size, assuming that, other things being equal, size is the "base line" for attracting investment.[14] As shown in the table, this index correlates favourably with the FDI/GDP ratio.

2.2.6. Gross Capital Formation as a share of GDP (GCF/GDP)

The GCF/GDP indicator relates to the gross addition to the stock of capital in the economy, as a result of investment in new plant and equipment, without factoring capital depreciation. The ratio of GCF relative to GDP reflects the capacity of an economy to channel a significant portion of total expenditure into investment.

Coupled with availability and quality of human capital, investment is a key engine of economic growth. Since it mainly originates in the private sector, its behaviour could be interpreted as a performance indicator of the relative success or failure of economic policies in attracting investors; that is, in maintaining a relatively high rate of return on investment and a low-risk business environment. Table 4 ranks SSA countries according to the GCF/GDP ratio.

It is worth noting that countries such as Cape Verde, Senegal and The Gambia that show a strong level of capital formation also show a high R/GDP ratio. The Gambia and Cape Verde also show a high FDI/GDP ratio.

This is not the case, for instance, for Angola and Madagascar, where GCF is rather low when compared with the FDI ratio. In the case of Angola, this could be the result of a high level of FDI concentrated in the hydrocarbon sector.

2.2.7. Target of diaspora inflow

Determining the target of diaspora inward flows from the SSA diaspora community is an arduous task given the paucity of available data and the fact that a major component of this flow is through informal channels and hence not included in the official statistics.

The task is further complicated by the conceptual limitations of definitions used to capture such flows that focus generally on transfers resulting from labour activities in the host country without concern for transfers for the purposes of equity and portfolio investments in home economies.

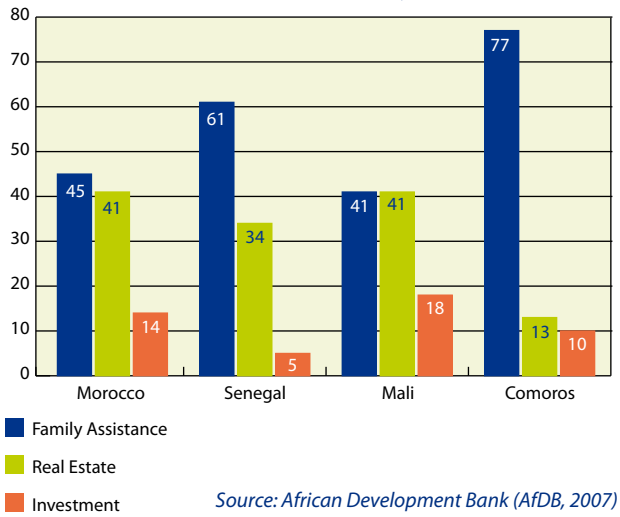
A number of studies have shown that the target of inward flows from the diaspora cover a large spectrum of areas. These include:

1. Monetary transfers to families for consumption – to improve the standard of living and to meet with socio-cultural life expenses (birth, wedding, death).
2. Those associated with investments in human capital (i.e., medical / health care expenses and education - enhancing skills and knowledge embodied in the labour force)[15].
3. Investment in real estate.
4. Income or employment generating activities;
   - Foreign capital investments (or investment in fixed assets) enhancing the country's capital formation, in very small family businesses or in medium and large-sized enterprises.
   - Portfolio investment, mainly mutual funds investing in fixed income instruments and equity.

With respect to the target of the flow, results reported in studies carried out in Latin America show that up to 80% of the flows are dedicated to covering the daily needs and expenses of households, with a further 5-10% used to invest in human capital *(Sanders 2003a and Suro 2003)*.
For SSA countries, available data does not always facilitate the statistical differentiation between the consumption and investment uses of such flows for all countries. Surveys conducted on members of the UK African diaspora community reported that 82% of the Kenyan diaspora in the UK remit for sustenance purposes *(Africarecruit 2006)* with the percentage dropping to 70% for the Tanzanian diaspora *(Africarecruit 2008)*.

A recent study conducted by the African Development Bank on migrants from four countries (Morocco, Mali, Senegal, Comoros) residing in France show that this percentage varied from a low 5 % in Senegal to a high 18% for Mali (Figure 3).

Figure 3: Breakdown of transfer volume by expenditure item



Source: African Development Bank (AfDB, 2007)

13 The Inward FDI Performance Index of country n is obtained by diving the relative FDI of that country (FDIn / FDIregion) by its relative GDP (GDPn/GDPregion)
14 These other factors can be diverse, ranging from the business climate, economic and political stability, the presence of natural resources, infrastructure, skills and technologies, etc
15 Items 1 and 2 are generally grouped into the consumption component of remittance usage. The terms Family Assistance and Sustenance are also used to refer to this category.

Finally, a survey carried out among the Ghanaian diaspora in the US, UK and Germany reported that 40% responded that they sent money for 'other activities' *(Oroczo 2005)*. The data in table 4 indicates that between 18 and 20% of Ghanaians in Germany and the UK, respectively, make transfers for small or commercial business in Ghana while approximately 5% in both countries send money to pay loans contracted to maintain a business.

Table 4: Economic activities of Ghanaians

	Host Country		
	Germany	UK	US
Savings account in a bank	89	89	97
Mortgage loan	13	11	5
Small family or commercial business	18	28	2
Loan to maintain business	5	4	0
Student loan	7	9	1
Pension plan	1	5	0
Loans money to family for small investments	1	8	2
Other	0	1	2

*n=111 (Germany); n=229 (UK); n=174 (USA); *Based on multiple choice responses*

Source: Oroczo, 2005

On the basis of these results we can safely assume that approximately 10% of diaspora inflow into the SSA region are channelled into productive (income and employment generating) investments.

2.3. Scoring of countries based on quantitative data

Table 5 below provides a summary of the set of macro-economic indicators that strive to reflect the record of a number of countries of the region in attracting their respective diaspora inflow and channelling them into private sector investments. As indicated earlier they include:

- Remittances as a share of GDP and Remittances per capita of migrant stock – to measure the relative magnitude of the diaspora inflow.
- FDI as a share of GDP and FDI Performance Index – to reflect the attractiveness of an economy to draw foreign direct investment in general.
- Gross Capital Formation (GCF) as a share of GDP – indicating the capacity of an economy to channel a significant portion of total expenditure into investment.

It should be noted however that these measures only provide an indication as to a country's performance in this respect, as it does not take into account other vital information such as the proportion of inflow actually channelled to private sector investment as well as the prevailing business climate that impact on foreign direct investment in general and diaspora investment in particular.

Nevertheless, the measures throw up a number of interesting observations with regard to a country's ability to capture and mobilise its diaspora inflow.

Thus for example, if a country shows uniformity in the positive behaviour of all indicators, the analysis of economic policies and business environment could be used as a successful case, from which recommendations could be drawn.

Table 5: Scoring of countries based on quantitative criteria

	R/MS	R/GDP	FDI/GDP	FDI PI	GCF/GDP
Cape Verde	789.21	12.0	10.20	4.24	39.40
Nigeria	3,978.10	2.9	7.90	3.29	21.30
Gambia, The	1,021.81	12.5	8.60	3.58	24.30
Angola	1,852.90	2.2	4.90	2.06	7.50
Mauritus	1,800.31	3.3	1.70	0.70	24.50
Togo	864.83	8.7	3.40	1.40	15.40
Senegal	1,365.98	7.1	1.50	0.63	29.20
Congo, Dem Rep	1,112.62	7.4	3.10	1.29	16.20
Ghana	115.77	0.8	1.90	0.79	32.40
South Africa	922.73	0.3	3.10	1.29	20.50
Kenya	1,883.82	5.3	0.20	0.09	16.40
Madagascar	72.67	0.2	0.80	0.32	24.80
Ethiopia	385.71	1.3	3.00	1.27	19.80
Ivory Coast	1,080.69	0.9	1.80	0.75	9.70
Guinea Bissau	241.12	9.2	3.10	1.31	17.20
Cameroon	445.56	0.6	0.10	0.03	18.00
Mali	145.91	3.0	1.30	0.55	22.90
….					
SSA countries	585.85	1.3	2.40		20.80

Cases where the behaviour of indicators shows lack of uniformity (this is the case for Kenya, Madagascar and Togo) provides a welcome opportunity to make policy recommendations in order to reduce the disparity and aim at a positive convergence of those indicators over time. Thus, Togo with rather positive indicators on remittances, an average one on FDI and a dismal performance of GCF could provide a case for a modification in policies geared at increasing the country's private investment potential to funding by domestic and/or diaspora sources. Pending more detailed analysis, Togo's case could be one in which, for instance, the low level of education and skills of the labour supply could be one of the reasons for a low return on investment.

It is also important to consider that it is possible to find particular cases in which a country shows a high ratio of foreign investment to GDP which could be associated, for instance, with a single large export-oriented mineral extraction project undertaken by a foreign investor. Frequently, the provision of an attractive incentives package to attract an investor is the determining factor in the decision to develop a new profitable business activity. In this case, the quality of appropriate macroeconomic policies and the presence or absence of an enabling economic environment for promoting private investment play a rather less important role in the investment decision compared to decisions made in economic environments in which natural factor endowments, export orientation and incentives play a lesser role and where a competitive environment to attract foreign investment in a variety of sectors prevails.

2.4. Cases of non-African diaspora funding

2.4.1. Introduction

There are lessons to be learnt from the experiences of certain non-SSA countries in attracting inflow from abroad, particularly from members of their respective diaspora. In effect, some countries have been successful not only in attracting significant amount of remittances and channelling them into productive investment, but also have benefited largely from diaspora-connected investments into their economies. A quick literature review reveals that:

- 19 of the top 20 Indian software businesses were founded or managed by professionals from the Indian diaspora. The industry relies on diaspora-led professional organizations in India and abroad, and diaspora-led subsidiaries in key markets such as the US for new ideas, new technologies and new markets. *(Zhang, 2006)*. In 2002, the software industry created 400,000 new jobs in India and exported over US$ 6 billion worth of goods and services.
- in 1999 70% of China's $50 billion in FDI came from Chinese people living abroad (Devan et al, 2001).
- Between 1994 to 2004, 69% of foreign investors that invested in Armenia were diaspora connected investors and the diaspora was instrumental in bringing most of the international brands present in Armenia today (Marriott, HSBC, KPMG, Coca-Cola). *(Hergnyan et al, 2006)*.

Table 6.: Quantitative indicators for non-SSA countries

Country	Pop. (Million) (2005)	Migrant Stock (Million) 2005	Migrant stock as share of pop. (%)	Remittances (US$ billion)			% increase (2000 - 2006)	GDP, 2006 (US$ billion)	GDP per capita, 2006 (US$)
				2000	2005	2006			
El Salvador	6,67	1,13	16,8	1,77	2,84	3,33	89	18,7	2.783,6
India	1.094,58	9,99	0,9	12,89	21,29	25,43	97	911,8	821,4
Mexico	104,22	11,50	11,1	7,52	21,92	24,73	229	839,2	8.069,2
Bolivia	9,35	0,42	4,6	0,17	0,35	0,61	259	11,2	1.244,4
Morocco	30,50	2,72	9,1	2,16	4,59	5,45	153	65,4	2.180,0
Nicaragua	5,00	0,68	13,7	0,32	0,60	0,66	105	5,3	1.060,0
Philippines	84,57	3,63	4,3	6,20	13,57	15,25	146	117,5	1.382,4
China	1.312,00	7,26	0,6	6,24	20,34	23,32	274	2.644,6	2.015,7

In this section we present three non-SSA countries that may be considered as "success stories" and that should provide important lessons with respect to attracting both diaspora inflow and foreign direct investment into home economies. These include El Salvador, Mexico and India. Additionally, a special note is included for China, given its track record on attracting diaspora-initiated or facilitated investment. These countries have been selected on the basis of the following:

- Their demonstrated capacity to attract a relatively important volume of remittances and foreign direct investment into their economies.
- Presence of an efficient institutionalised link with their diaspora.
- Concrete evidence, in at least one of the countries, of a significant impact of its diaspora in the expansion of a particular sector of the economy.

Table 6 below presents some statistical data and indicators on these countries. For ease of comparative analysis, information on four other countries from the relevant geographical areas is also shown.

2.4.2. Country profiles

2.4.2.1. El Salvador

EL Salvador is a rather small low-middle income country in Central America with a long and successful history of sound macroeconomic policies and structural economic reforms, including openness to trade and foreign investment. The country has enjoyed sustained economic growth since the end of the civil war of the 1980s.

Remitt. as share of GDP (%) (2006)	Remitt. per capita of migrant stock (2005)	Net FDI (US$ billion) 2006	FDI Perform. Index (2006)	GCF as share of GDP (%) (2006)
17,8	2.516,2	0,2	0,46	16,1
2,8	2.132,0	17,5	0,89	34,0
2,9	1.905,4	19,2	0,94	22,0
5,5	830,2	0,2	0,09	12,0
8,3	1.688,0	2,7	0,65	32,0
12,4	877,8	0,3	0,17	29,0
13,0	3.735,7	2,3	0,73	14,0
0,9	2.801,9	78,1	1,00	45,0

Source: World development indicators (World Bank) and Article IV consultative reports (IMF)

El Salvador has a relatively high number (16.4%) of its population living in other countries as migrants. The top 5 migration destination countries for Salvadoran migrants are the United States, Canada, Guatemala, Costa Rica and Australia.

Capacity to attract remittances and other FDI

Between 2000 and 2006, El Salvador registered an 88% jump in the total amount of remittances received, from US$2.8 billion to US$ 3.3 billion respectively. Remittances per capita of the migrant stock for the year 2005 reached a robust level of US$ 2.517, an amount significantly higher than that for Mexico and of other countries in the same geographical area.

The relevance of remittances for the country is highlighted by the fact that, in the trade balance, inflow originating in merchandise exports registered a ratio of 19,4% of GDP in 2005 which is barely 1,2 percentage points higher than that originating in remittances.

Despite a comparatively low GCF/GDP ratio of approximately 16%, the country boasts a relatively high FDI performance index compared to other Central American countries. This indicates the relative success of such a small market to attract external funding flows when compared to other larger markets of Bolivia and Nicaragua.

Moreover, at 6,7%, the relatively high ratio of FDI to GCF attests to the important role played by FDI in total investment. This is a very positive performance for a country with a small market size and limitations in the quality of human capital.

Institutional link with the diaspora

The Ministry of Foreign Affairs of El Salvador maintains a communication channel with the diaspora through an agency named Dirección General de Atención a la Comunidad en el Exterior (General Directorate for Attending to the Community Abroad) which also provides a website for organisations and nationals residing abroad.

One particular lesson derived from El Salvador's example is the dynamic role played by hometown associations (HTA) in strengthening the diaspora's links with the home country and in facilitating and promoting the transfer of remittances. A HTA is one type of organisation which provides an institutionalised structure for migrants to maintain ties with their homeland. Some of the channels available through the HTA for Salvadorans to maintain ties with their country of origin include: providing information on mechanisms to make remittances; ways to import goods from their homeland; a channel for facilitating charitable donations; information on investment opportunities[16].

16 Other examples of prominent roles of diaspora's HTA in the USA are those of the following countries: Bolivia, Dominican Republic, Ecuador, Guatemala, Guyana, Jamaica, Mexico and Nicaragua. (Orozco, 2007)

These and other types of organisations established by Salvadoran migrants are often linked to government agencies, thus providing a channel of communication which contributes to the enhancement of their problem-solving capacity and facilitate the smooth flow of remittances into financial institutions located in El Salvador. They also contribute to providing its members with information on the cost of transferring money as well as on advantages associated with the use of the domestic banking systems in the homeland.

Lessons learnt

As shown by the data and the reference to the institutional setting, economic stability and the linking of the diaspora with the homeland are to be considered interesting ingredients of lessons learned for Africa, when evaluating the development potential of their respective diaspora. This is the particular case for El Salvador, a country beset by prolonged violence, political turmoil, macroeconomic volatility and constrained by a small market size.

The main lessons provided by El Salvador include:

- Sound macroeconomic policies and openness to trade and foreign investment are two important features for attracting remittances and capital inflow from abroad.
- The authorities have been quite successful in providing an institutional structure developing links with HTA in the US, by establishing public agencies focusing on the activities of the diaspora.
- Promoting the channelling of remittances through the domestic banking system is contributing to enhance the efficiency and security for transfers, as well as developing formal channels of financial intermediation, particularly in rural areas.

It is worth noting however that, compared to other countries under review, the low-skilled composition of Salvadoran migrants may still turn out to constitute an important constraint on the income-generating capacity of its diaspora. This may also limit the country's ability to attract more foreign investors in the future and could signal the presence of an obstacle to the country's ability of sustaining the development of a critical mass of entrepreneurs.

Improvements in technical skills of the labour force and in the level of entrepreneurship are required to absorb a minimum of technological complexity, which characterises contemporary production process in a wide array of products and services.

2.4.2.2. India

The Indian diaspora, estimated at 10 million, is the second-largest in the world although, given the size of the country's population, this represents just close to 1% of the total population. The country makes a distinction between Non-resident Indians (Indian citizens living abroad) and Persons of Indian Origin (who have acquired citizenship abroad).

The top 5 migration destination countries for Indian migrants are United Arab Emirates, Saudi Arabia , United States, United Kingdom, Bangladesh, Nepal.

Capacity to attract remittances and FDI

Remittances transfer into India totalled just over US$ 25 billion in 2006, up from US$ 21 billion in the previous year. This represented a 97 per cent jump from the amount received in 2000. At US$ 2,132 the flow of registered remittances per capita of migrant stock in 2005 was among the highest in our sample.

Entrepreneurs of the Indian diaspora with businesses in the Silicon Valley in the US have been at the origin of the rapid development of the IT outsourcing industry in India, having channelled a significant volume of funding into the software sector.
The nature and economic welfare impact of the Indian diaspora is, by no means, limited to the magnitude of the funding flows generated by its members. Some of the direct and indirect economic impacts resulting from the successful development of the Indian software sector include:

- A beneficial transfer of technology and know-how usually takes place when a diaspora member establishes a software firm in India and she/he has ownership control and/managerial responsibility.
- A unique opportunity for a transfer of managerial and marketing know-how results when a member of the Indian diaspora is hired by a multinational firm to manage its subsidiary in India.
- The availability of a relatively large pool of diaspora professionals with technical and managerial experience gained abroad (in this case, in the IT sector) facilitates decisions of foreign firms to invest in India. The same is true for their knowledge of the local market and their network of local relations.
- The return to India of diaspora investors and managers provide employment opportunities in software and other linked activities for skilled local professionals. This is a positve multiplier effect of investing in this sector.
- Through their networks, members of the diaspora could assist Indian entrepreneurs in raising venture capital abroad, thus contributing to the generation of additional foreign investment.

The Indian economy has one of the highest growth performances in the world, with real GDP growth rate averaging 9% in 2006 and 2007.
The ratio of exports of goods and services relative to GDP increased from 13.2% in 2000 to 23% in 2006, indicating an accelerated insertion of the economy in the world economy.

Obviously, investment has played a significant role in the country's economic performance, as attested by the increase of the GCF to GDP ratio from 24,8% in 2000 to 34% during 2006. Notwithstanding such a prominent role of investment in supporting a remarkable economic growth performance and a significant increase in the investment flows from abroad some indicators show that foreign investment[17] may

17 There is a debate among experts on the accuracy of statistical estimates of FDI into India (FDI INDIA, 2006)

still remain below the economy's absorptive capacity. Inflow of foreign investment was multiplied by a factor of four between 2000 and 2006, but the ratio of FDI to GCF remained at 5,6%; higher than Mexico's, but lower than most other countries in the sample. However, with respect to the FDI performance index, the country ranks among the highest of the group; only behind Mexico and China.

Institutional link with the diaspora

The government of India has launched a series of policy initiatives with an emphasis on emotional, cultural and spiritual links with India, as well as utilizing scientists, academics, and the intellectual talent of the diaspora. In August 2000, the Ministry of External Affairs established a High Level Committee on the Indian Diaspora. The committee submitted a report to the Indian government in December 2001, which led to the establishment of the Ministry of Overseas Indian Affairs.

In 2003, the Indian government announced a dual citizenship initiative, the Overseas Citizenship, which grants overseas citizenship to persons of Indian origin from 16 countries, including Canada. The Overseas Citizenship facilitates Indian expatriates travelling to India, but does not allow them to vote. From January 9-11, 2003, the Indian Ministry of External Affairs, along with the Federation of Indian Chambers of Commerce and Industry, held the first Pravasi Bharatiya Divas, a national Indian Diaspora Day to recognize their achievements.

It is reported that the Indian government is studying proposals that include granting voting rights, streamlining remittances (through an Integrated Remittances Gateway), streamlining the emigration process, setting up credible mechanism for skills certification, and setting up a Diaspora Knowledge Network.

Lessons learnt

The particular example of the Indian diaspora is rather unique with respect to the situation of the SSA diaspora. However, it provides a number of lessons that could be useful and should be taken into consideration.

- The skill component of the diaspora and foreign language command are key elements in determining the level of remuneration of the diaspora and, therefore, influencing their capacity to generate remittances and direct foreign investment. The Indian diaspora is generally made up of individuals with a relatively high level of education and skills set and a good command of the English language. This confers it a fair advantage.
- Macroeconomic stability and high growth rates of GDP, by themselves, are not enough to exploit the full funding potential of a large diaspora stock.
- The focusing of appropriate regulatory measures and other policies aimed at the ability to conduct business and reducing transaction costs are also important in facilitating and increasing diaspora funding.
- In contrast with the examples of El Salvador and Mexico, the dynamic behaviour of a diaspora network working in a specific sector became a significant source of FDI and foreign exchange for the country, without significant intervention by public officials.

2.4.2.3. Mexico

The proximity of the porous border with the US giving access to a high-wage labour market creates strong incentives for Mexicans to migrate. The stock of Mexican migrants was estimated[18] at approximately 11.5 million in 2005 representing almost 11% of the total population. The top 5 migration destination countries for Mexican migrants are the United States, Canada, Guatemala, Spain and Australia.

Capacity to attract remittances and FDI

The estimated recorded amount of remittances into the country rose significantly from US$ 7.5 billion in 2000 to almost US$ 25 billion in 2006. This represented a 229% increase, clearly putting Mexico among the countries with the highest jump in remittances inward flows during that period.
At a level of US$ 1.905 in 2005, the remittances per capita of migrant stock was one of the highest in Latin America, showing the marked relevance of funding flows from the diaspora. Considering the many informal channels available to the Mexican diaspora through the existing porous border between Mexico the US, this estimate also represents an underestimation.

As is the case for most countries, data on the funding flows originating in the Mexican diaspora does not facilitate the distinction between flows going into consumption and investment. However, a survey conducted in 2001 *(Woodruff et al, 2001)* showed that, in the urban areas located in the ten Mexican states with the highest rate of migration to the USA, about 30% of investment was funded by remittances. Moreover, the estimate of the share of remittances channelled into productive investment for all urban Mexico is 20%, which represents a doubling of the share that is reported for SSA countries.

With respect to FDI, the sustained implementation of sound fiscal and monetary policies and structural reforms, during more than a decade, have contributed to maintaining positive and stable rates of economic growth and preserving financial stability. Since 2001 the rate of growth of real GDP rose steadily to almost 5% in 2006. Moreover, GDP growth averaged 3% throughout the 2000-2006 period. Even though per capita income registered a moderate average rate of growth of 2% during the 1996-2005 period, its current level of US$ 7.900 is the highest in Latin America and one of the highest of developing middle income countries.

The pursuit of the policy objective of broadening the insertion of the Mexican economy in the world trade system is reflected in the increasing role of exports in the economy. As a share

18 Most likely an underestimation

of GDP, exports of goods and services reached 32% in 2006. The positive impact of the preferential trade agreement (the North American Free Trade Agreement) signed in 1993 with the USA and Canada has also contributed to a sustained trend of openness to trade.

Macroeconomic stability and a declining external debt service with respect to total exports have contributed to significantly improvement of the country's creditworthiness. One of the engines of sustained growth has been a robust level of mainly private investment expenditure, as shown by a high GCF/GDP ratio of 22% in 2006 – approximately the same ratio for Nigeria. Within a context of economic and political stability, openness to foreign investment and an attractive large pool of low-wage labour created incentives for maintaining a high and continued inflow of funding from abroad in a large number of sectors. Specifically, in terms of the FDI performance index, Mexico ranks as one of the highest in the sample, behind China and India.

Institutional link with the diaspora

As with the case of El Salvador, the presence of HTA has been a prominent mechanism through which remittances of the Mexican diaspora have played a role in economic development. Not only have they contributed to maintain social and psychological links with the homeland, but also serve as vehicles for promoting investments in small-scale enterprises and in low-scale development projects in their hometown *(USAID, 2004*). Most of these projects are associated with the provision of public goods and services, which address collective needs.

The ability of an HTA to channel a sizeable portion of remittances into SME and development projects depends on its capacity to identify opportunities and needs, as well as to mobilise resources. Depending on the complexity of the investment or development project, their capacity constraint for planning and implementing a project also influences project selection. In some cases, HTA plans and executes a development project in partnership with local, state or federal authorities. There are about 2.000 HTA in the USA and most of the development projects they undertake or participate are in the areas of education, health and the construction or improvement of small-scale infrastructure.

One avenue that Mexican HTAs are rapidly developing is that of executing a project in partnership with government agencies. There are obvious advantages in this option, such as to be able to undertake projects of larger size and more technical complexity. Moreover, it provides the opportunity of incorporating the technical and administrative know-how of the public sector, thus enhancing the likelihood of a broader impact.

Lessons learnt

The salient characteristics of the Mexican case are the following.

- Sound macroeconomic policies and a strong insertion in the world economy present constitute an enabler to attracting funding from abroad from different sources.
- The presence and initiatives undertaken by HTA have facilitated the channelling of remittances into investments in SME and in low-scale development projects. Their enlarged financial capabilities have facilitated their development into formal mechanisms to finance and promote private investment. This feature is also becoming a problem-solving mechanism for some of the pressing needs of local communities.
- As the magnitude and frequency of cross border money transfer increased over time, so did the demand for more efficient and safer mechanisms for transfering funds, such as local banks. This feature is having a positive impact on financial intermediation.
- The development of partnerships with government agencies has improved the likelihood of impact, as well as the quality of project selection, planning and execution.

2.4.2.4. China

Although the World Bank estimates the Chinese diaspora at 7.62 million in 2005, other sources put this figure at some 34 million making it the largest diaspora population around the world. The top 5 migration destination countries for Chinese migrants are United States, Singapore, Japan, Canada and Thailand.

Capacity to attract remittances and FDI

At approximately US$ 23 billion, remittance flows into China in 2006 almost matched that of India. However, the percentage increase from its 2000 level of 273 dwarfed that of India.

It is now an established fact that China's track record in attracting FDI is far superior than any other country in the World. With respect to the list of countries under review, it is the only one with an Inward FDI Performance Index greater than 1 indicating that it receives more FDI than its relative economic size.

Institutional link with the diaspora

The Chinese government has long had an explicitly favourable policy toward overseas Chinese/Chinese diaspora. At the beginning of the communist regime, the government established agencies, such as Office of Overseas Chinese Affairs under the State Council, to seek support from its diaspora for national unification and economic development. In the 1950s, the objective of the Chinese government's policy toward overseas Chinese was to promote economic and political interests. They were allowed to send money and goods to their relatives; to explore markets for Chinese goods around the world; and to make investments in their homeland. Politically, they served as activists for unification, supporting Chinese revolutionary diplomacy. The Chinese government dealt with them based on the principle of dual nationality.

The Chinese evaluated the high achievements of overseas Chinese in business and assured them of their importance. Four basic policy guidelines toward diasporas were announced in May 1989:

- first, to no longer recognize their dual nationality but to encourage them to obtain the nationality of the host country.
- second, to demand that the host government guarantee their rights and benefits.
- third, for them to learn to respect the laws of the host country and coexist with the people of the host country in harmony.
- and fourth, to promote their unity by cultivating their patriotism and love for China.

The policies also focused on attracting capital, technology and intellectual expertise for both domestic economic development and overseas market development. The Chinese policy toward overseas Chinese is summed up in the 1991 Protection Law on Returned Overseas Chinese and Overseas Chinese Relatives. The key elements of the guidelines for the Chinese authorities are to support their diaspora survival and development in their host countries, and to use them as bridges of friendship and cooperation between China and foreign countries.

2.4.3. Conclusion

Even though it is too early at this stage to affirm that the experiences and results obtained from the example of the Mexican, Salvadoran, Indian and Chinese diaspora could be transposed to the African context, they provide important lessons that could be incorporated in the analysis of the characteristics of different SSA migrant groups.

They convey a message about important necessary conditions to facilitate the linking of the presence of a diaspora with its potential impact on investment into the home economies. The elements and characteristics of the examples provided by these three countries could also be useful in elaborating feasible policy avenues and workable suggestions for enhancing the development potential of remittances of the SSA diaspora in their homelands.

3 Hurdles and obstacles to diaspora-led investments

3.1. Introduction

This chapter provides an overview of the hurdles and obstacles to diaspora investment in a select number of countries of the region. It is based on desk review as well as country visits by the study team to each of the countries during which the team held discussions with authorities responsible for engaging with the diaspora as well as influencing diaspora-led investments[19].

3.2. Countries overview

3.2.1. CAPE VERDE

3.2.1.1. The Role of diaspora inflow in the economy

At 35.8 percent of a population of 518.000, this small archipelago of ten islands off the coast of Senegal has one of the highest emigrant stock in the region[20]. The top five destinations of Cape Verdean migrants include Portugal, United States, Mozambique, Senegal and France.

Since the early '90s and considering that the stock of emigrants is quite high, remittances from the Cape Verdean diaspora has played a very prominent role as a reliable external source of financing and has also shown much less volatility than other categories of external financing. In fact, this inflow constitutes a large segment of the banking system's funding base, since it represents almost 40 percent of total bank deposits. In addition, it accounted for 12.1 percent of the country's GDP in 2006, dropping slightly to 10.1 percent in 2007 as the share of tourism rose sharply to 23.3 percent of GDP.

Most likely, this trend will be sustained, as the preferential interest rate on interest-bearing deposits offered to members of the diaspora continue to decline as economic conditions improve. Also diaspora deposits are becoming increasingly motivated by investment considerations. Thus, members of the diaspora have reportedly made a number of investments in the tourism sector. Other investments by the diaspora entrepreneurs include the MOURA BUS Company, that provides mass transportation and a ferry line servicing eight of the ten islands, and MECON, a company specialized in construction materials.

Although such inflow from the diaspora today play a less prominent role in the economy when compared to the tourism sector, it is likely to remain an important source of funding for the country.

3.2.1.2. Institutional links with the diaspora

3.2.1.2.1. Strategy

The country's authorities have always been keenly aware of the key relevance of the transfer of remittances originating in the diaspora. Policies geared to enhancing the role of the diaspora in economic and political spheres have been at the forefront of public policy initiatives, which have taken into consideration the opinions of the diaspora and the domestic banking system.

The scarcity of natural resources, geographical traits and a narrow export base are important sources of imbalances in the external accounts, in the presence of high growth rates. Therefore, high rates of real GDP growth are always associated with a robust demand for imports and large trade deficits. Moreover, the increasing reliance on volatile inflow from tourism enhances the vulnerability of the external accounts to the impact of exogenous events on funding flows. Therefore, the search for new mechanisms to channel a larger portion of remittances into investment should remain a priority in public policy initiatives in the near future, in order to contribute to the current efforts undertaken for diversifying the economy (Cape Verde 2008). Below, we present the most important policies and initiatives undertaken by the public and private sector to maintain links with the diaspora in an effort to attract larger diaspora inflow and to channel it to them private sector investment.

Networking activities: The country's commercial banks regularly organise marketing events during which it provides information on financial investment products to the diaspora.

3.2.1.2.2. Legal and regulatory framework

Granting of dual citizenship: A Cape Verdean citizen can take up another nationality without losing his/her citizenship rights. This measure confers legal and political rights to the Cape Verdean diaspora making it easy for them to avoid double taxation and facilitates acquisition of property rights. These rights and privileges have facilitated substantial investment by the diaspora in residential real estate, as well as in hotels and tourist-related activities

Establishment of a government agency dealing with diaspora issues: In 2001, the government established a diaspora-focused agency within the Ministry of Foreign Affairs. This agency, Instituto das Comunidades (IDC), with a 14-member staff (five of which are senior technical advisors assigned to different geographic regions), is mandated to:

- Originate proposals to, as well as suggest amendments on, legislation and regulations of interest to the diaspora (transmitted to the Council of Ministers) and remittances (transmitted to the central bank).
- Monitor developments and law practice on the subject.
- Organize conferences and workshops on issues of interest to the diaspora, particularly on investment themes.
- Defend emigrants' rights in host countries.
- Maintain contact with and provide information to the diaspora on relevant issues concerning investments and the cost of transferring remittances. The agency

19 These included policy makers, relevant government departments and agencies as well as representatives of the private and public sector
20 Source: World Bank. However, some surveys report that more Cape Verdeans live abroad than in Cape Verde itself.

provides this service via a dedicated website and through the publication of a manual referred to as "Manual do Emigrante".

Set up of a specific regulatory framework: The IDC has drafted a legislative bill, which is currently being discussed, addressing specific diaspora investment issues. The legislative draft mainly relates to measures designed to:

- Protect the property rights of diaspora investors.
- Adjust the extent and duration of tax incentives to encourage investment in sectoral priorities[21] (i.e., industrial zones aimed at diversifying the economy).
- Discourage informal transfers and close loopholes that may facilitate money laundering.

It also contains measures on re-investment of dividends, selective exemptions on customs duties for new investments and tax deductions on costs associated with training and improving the skills of workers. Most of these measures are also being taken in an effort to adapt legislation and regulations to requirements associated with the membership in the WTO.

3.2.1.2.3. Initiatives and mechanisms

Set up of incentives designed to attract diaspora inflow: Some of the incentives instituted by the government include

- Preferential higher rates on interest-bearing deposits (in both local and foreign currency) in the banking system. The percentage point differential with respect to deposits by local citizens was as high as four percentage points five years ago although this has declined continuously and currently stands at 0.5 percent.
- Emigrants are entitled to an exemption from the 20 percent withholding tax on interest earned.
- Any member of the diaspora who has a minimum balance in a savings account with a bank and requests for a loan for investment could benefit from an interest rate reduction of up to three percentage points. This obtains particularly for investments in such sectors as industry, tourism, retail, real estate and transportation.
- A corporation established by an emigrant is exempted from the 35 percent corporate tax during the first five years.

3.2.1.3. Obstacles and hurdles to diaspora-led investments and recommendations

Even though Cape Verdean authorities and the private sector have been quite diligent in implementing policies that successfully maintain a link with the diaspora and promote their involvement in the country's economy, there are a number of obstacles and hurdles which are limiting the magnitude of the share of inflow channelled into investment. Making abstraction of the widely accepted FDI limiting issues such as the cost of doing business, a number of diaspora-specific issues need to be addressed.

1. The diaspora-focused agency is short staffed and under-funded:

- The IDC does not have a countrywide coverage as it has only a presence in the capital, Praia, located in the São Tiago Island. Municipal authorities in other islands handle diaspora-related issues, although in collaboration with IDC.
- Instruments made available to maintain a link with the diaspora, the website and Manual do Emigrante, need improvement. The manual is not updated annually and is cramped with too much information on government personalities as well as on programmes that are unrelated to the diaspora. Also, there is a dearth of information on local development projects as is the case for information vehicles devised by El Salvador and Mexico.
- Substantial relationships with Cape Verdean HTAs in host countries is lacking due to lack of presence of the IDC in the country's consulates overseas.

Recommendations:

- More financial and human resources should be made available to the IDC to allow it to establish a presence in the archipelago as well as in consulates in key host countries.
- The manual needs to be re-edited in order to improve the quality of the presentation and to become more selective about the type of information provided. These improvements could be inspired by the examples of other countries, such as Mexico. For instance, the publications and content of the website of the **Guía Paisano**[22] stand out for their quality, relevance of the information and frequent updating on issues of interest to the diaspora (i.e., legal matters, employment opportunities, fluctuations in the cost of transferring remittances and investments and local development projects) residing in the USA.
- The government should increase engagement with **HTAs** to coordinate their efforts and to boost links (and make them more stable) with public agencies, their diaspora-related initiatives and local development projects.

2. Remittances transfer costs remain very high

Depending on the origin of the transaction and the intermediary chosen, the cost of transferring remittances currently fluctuates between 10 percent and 17 percent of the transferred amount. This is essentially due to the lack of competition on this market as there are only three main players on the market: Banco Comercial do Atlántico, Caixa Económica de Cabo Verde and Western Union. The latter utilizes Caixa as the main agent bank.

Recommendation:
By incorporating other types of financial institutions, such as those in the microfinance category and by banning exclusivity agreements used by some intermediaries will contribute to lowering transfer costs.

21 Mainly on Chapter 2 of the bill.
22 See www.paisano.gob.mx

3. The country is not making full use of its micro-finance institutions

In such a small market characterized by a large retail sector, numerous micro-enterprises[23] and the dearth of knowledgeable entrepreneurs, **microfinance** vehicles should be incorporated to intermediate remittances and channel them into investment. Unfortunately, the micro-finance law[24] does not allow this category of financial intermediary to seek funding from remittances originating from members of the diaspora. Funding is limited to donations from NGOs, the anticipated contribution of the African Development Bank and the results of the operations of a recently created fund to be managed by the Federation of Micro-finance Associations.

Recommendation:
Considering the high employment-generation capacity of micro-enterprises, the authorities may wish to consider modifying current legislation, in order to allow micro-finance institutions to seek funding from diaspora remittances and channel them into productive investment in small-sized firms. For the sake of efficiency, there might be the need to transfer the regulatory mandate on micro-finance institutions from the Ministry of Labour to the central bank, the Banco de Cabo Verde.

3.2.2. GHANA

3.2.2.1. The role of diaspora inflow in the economy

The World Bank estimates that Ghana has an emigrant stock of approximately one million with a relatively well-established diaspora[25] in the neighbouring countries of Ivory Coast and Nigeria as well as in the United States and the United Kingdom. However, the Minister of Interior puts this figure to approximately 4 million with a third of them residing in Europe and North America. *(Owusu-Ankomah, 2006)*. This diaspora has a reputation for maintaining strong ties with their homeland. Participation in HTAs is quite high among this group, varying from 15% in the USA up to 37 % in Germany *(Orozco, 2005)*.

Private remittances constitute one of the largest sources of external finance for Ghana, being larger than the combination of official transfers, official capital, and private capital inflow. Although the World Bank estimates this at US$105 million in 2006, the Minister of Interior indicated that the Bank of Ghana estimates remittances to Ghana in 2005 at US$4.5 billion[26]. At this level, private remittances was significantly more than the country's export earnings from cocoa and gold or total Foreign Direct Investment in that year constituting 15 percent of GDP and 40 percent of total exports..

The Ghanaian diaspora is actively involved in community sector investment projects in their home country communities, essentially through HTAs. A recent study *(Orozco, 2005)* reported that approximately 14 percent of Ghanaian diaspora HTAs profiled have participated and/or contributed to community infrastructure investment (including street construction and repair, water provision, electricity and so on) with over 96 percent supporting health and education activities.

There are a number of noteworthy diaspora-led private sector investments by the Ghanaian diaspora in the country. It is estimated that approximately 80 percent of total housing stock built in recent years are owned by NRGs.

One of the prominent examples is the Investment banking firm, DataBank, established in 1990 by three young Ghanaians[27] from the diaspora on a loan of US$ 25,000. Originally founded to provide corporate and public finance advisory services to companies in Ghana, Databank has expanded its operation and presence over the years to become a full-service investment banking firm offering stock brokerage, corporate finance, asset management, equity research and private equity services. The company has been involved in numerous groundbreaking transactions that have taken place on the Ghana Stock Exchange in recent years. The company plans to expand its activites into new markets in West Africa especially Francophone markets and Nigeria.

The Kyerekuanda Hotels Ltd (investment in a 17-room executive suite hotel in Accra and a 200 suite beachfront resort in Takorodi) and Kyerekuanda Plantations Ltd (200 acres of palm plantation) is another investment by a Ghanaian diaspora member[28]. Finally, the Earlbeam Group founded by a return migrant from Japan[29], owns one of Ghana's most renowned building material supplier, a 68-room four-star hotel (Earlbeam hotel) and a 5-story shopping mall (the Jubilee Shopping Mall).

Finally, Ghana's Network Computer Systems (NCS, owners of www.ghana.com and initially the principal domain extension .gh as well), is the brainchild of a Ghanaian who had spent some time in the U.S.

3.2.2.2. Institutional links with the diaspora

3.2.2.2.1. Strategy

Commitment of the Ghanaian diaspora to the homeland is a function of family attachment, personal self interest in the form of investments and ownership, and national identity.

The policy of engaging the diaspora in a more formal way began with the organisation of a 'Homecoming Summit'

23 Representing 80 percent of total firms and accounting for 50 percent of employment. (Baptista 2006)
24 Law No. 14/VII/2007, which appeared in the Boletim Oficial (official bulletin), on September 10, 2007.
25 Referred to as Non-Resident Ghanaians
26 It is interesting to note that almost $1.5 billion reportedly came from individuals, while the rest were from religious groups and NGOs.
27 These included Ken Ofori-Atta (Salomon Brothers, New York), Keli Gadzekpo (KPMG, Washington) and James Apko (based in Ghana).
28 Mr. Solomon Ankonum who left the country in 1951 as a stowaway to the United Kingdom
29 Alfred Dankwah returned to Ghana in 1991 with US$ 40,000 worth of roofing sheets and eight Nissan pick-up vehicles that served as seed capital for his entrepreneurial activities in the country.

held in 2001. This summit, reportedly attended by over one thousand Ghanaian professionals from the diaspora, resulted in a five-point action plan that called for, inter alia, the need to grant NRGs dual citizenship and the right to vote.

Prior to hosting of the "Homecoming Summit", the government had initially organized the 'Emancipation Week' event which targeted Africans in the diaspora to come back to their 'roots' and share in the rich Ghanaian culture. It was also used as a forum to present to the participants the various social, cultural and economic opportunities available for investment in the country.

In 2003, the government launched the Non-Resident Ghanaians Secretariat, which serves as a central point "for the co-ordination of programmes and activities between Non Resident Ghanaians and the country with a view to harnessing the global Ghanaian resource potential for accelerated national development". The secretariat was established by the Ghana Investment Promotion Centre (GIPC) and the office of the National Economic Dialogue after a long period of consultations and discussions among key stakeholders in Government, notably the Ministries of Foreign Affairs, Finance and Economic Planning, the Interior, Information and National Economic Dialogue Secretariat, as well as the GIPC.

Finally, all these activities culminated in the renaming of the Ministry of Tourism and Diasporan Relations in April 2006.

Networking activities: The government is heavily involved in networking with its diaspora. Officials from the government on missions abroad are actively encouraged to meet with the Ghanaian communities in the countries that they are visiting.

3.2.2.2.2. Legal and regulatory framework

Over the last few years, the Ghanaian government has strived to put in place a number of legal and regulatory framework designed to further engage its diaspora and to address issues that impacted on the volume and value of official inward transfer from this community. These include:

Foreign Exchange Act, 2006 (Act 723): This act which became effective in December 2006 addressed most of the regulatory constraints affecting investments by non-residents. Some of the key provisions of this act included:

- Residents and non-residents are allowed to maintain foreign currency bank accounts with banks. The accounts may be credited with transfers in foreign currency form abroad or other foreign currency accounts.
- Payment may be made to or for the credit of a person resident in Ghana on the behalf of or by order of "any person".
- No restrictions on the purchase of capital market instruments by non-residents (except for the banking sector where the acquisition of a stake greater than 10% requires prior approval of the Bank of Ghana [BOG] (Ghana's central bank).

Granting of dual citizenship: The Citizenship Act, 2000, Act 591 makes it possible for Ghanaians to have dual citizenship. Section 16 (1) of the Act provides as follows 'A citizen of Ghana may hold the citizenship of any other country in addition to his citizenship of Ghana". The law also provides for Indefinite Stay and Right of Abode. The Indefinite Stay serves those Ghanaians who have acquired foreign citizenship but cannot hold dual citizenship while the Right of Abode targets people of African descent in the diaspora by extending to them the right of abode in Ghana.

Granting of the right to vote: In February, 2006 Ghana passed the Representation of the People's Amendment Law (ROPAL) extending voting right to Ghanaians living outside the country. The relevant Section of the law reads: 'A person who is a citizen of Ghana resident outside the Republic is entitled to be registered as a voter if the person satisfies the requirements for registration prescribed by law other than those relating to residence in a polling division'. However, as a result of latent political reasons, this law is yet to come into effect.

3.2.2.2.3 Initiatives and mechanisms

Non-Resident-Ghanaian Fund for Poverty Reduction: In its 2003-2005 Poverty Reduction Strategy paper, the country proposed the establishment of the Non-Resident-Ghanaian Fund. This fund which was to be jointly managed by the government and representatives chosen by the Ghana diaspora would finance project developed by both group. It was also, slated to be used to finance the shipping costs of associated with poverty-targeted in kind contributions from the diaspora.

Remittances programme: In an effort to better harness the remittances from its diaspora, the government commissioned two studies[30] into the remittances market/environment in Ghana. The studies recommended that a remittances programme for Ghana should have three components:

- A competitive grant facility (CGF) to support new remittances products and services.
- A programme to address regulatory and technological constraints that are inhibiting improvements in remittances receipts through formal channels and delivery in Ghana.
- Support to improve sender access to formal remittance channels

A call for proposals was recently issued by the government to recruit a firm that will establish the CGF while a UK-based firm to be procured by DFID will address sender end issues.

Launch of E-Zwich, the national switch for electronic payment: Early this year, the Bank of Ghana issued a directive requiring that all banks link their ATMs & Point of Sale (POS) terminals to the National Switch, (the E-ZWICH) by March 31, 2008. Banks with existing switches were expected to upgrade them to make them compatible with the National Switch by July 1, 2008 while banks without switches/ATMs / POS terminals are expected to integrate their payment terminals

30 With funding from the World Bank and DFID.

directly into the National Switch or through a E-ZWICH compatible switch. Adoption of this measure would ensure that all commercial banks, rural banks and savings and loans institutions implement a common payment platform and biometric smartcard and a secure way of paying for goods and services throughout the country based on biometric identification. This would further make it easier for recipients areas.

Databank Homecoming Account: The Databank Group recently established the Homecoming Account, which is specially designed for Ghanaians living outside Ghana who have medium or long-term financial obligations to meet in Ghana. It is a hybrid account that invests in various mutual funds and financial instruments in Ghana and other regulated markets in Africa.

3.2.2.3. Obstacles and hurdles to diaspora-led investments and recommendations

Generally, the government has reviewed and made amendments to most of the legal and regulatory measures that were constraining the leveraging of remittances for investments and attracting diaspora-led private sector investments. Also, as indicated above, the government will be setting up a Competitive Grant Facility that is expected to spur the introduction of innovative remittances products and services. However, further measures need to be taken to:

- Extend the reach of formal money transfer institutions to remote areas by licensing other categories of institutions to operate money transfer businesses, such as co-operatives and community-based organisations that have the capacity to serve as additional channels.
- Lift restrictions that constrain banks and other non bank financial institutions to expand to other parts of the country.
- Encourage non-resident Ghanaians to channel their remittances through short-term and medium-term financial products such as mutual funds, trust funds, unit trusts, stock-exchange listed securities and government treasury bills, notes and bonds.
- Provide the NRG secretariat with a higher profile. The decision to provide the Ministry of Tourism with a mandate over diasporan affairs shifts the emphasis away from engaging the diaspora to play a role in the country's development prospects. The ministry's website for example does not make reference to NRGs, focusing only on the tourism potential of the country to the wider Africa (read African-American) diaspora. The study team recommends that the government reverts diaspora issues to the NRG Secretariat.

3.2.3. NIGERIA

3.2.3.1. The role of diaspora inflow in the economy

With the largest population in the continent, Nigeria represents one of the more mobile societies in Africa. The World Bank estimates the emigrant stock at 0.6% of the population (approximately 850.000). However, such official statistics are grossly inaccurate and incomplete. Some estimates put the number at just over 5 million (USAID 2007). The top 5 destinations for Nigerian migrants are United States, Chad, United Kingdom, Cameroon and Benin.

As with the emigrant stock, officially reported inflow from the Nigerian diaspora only partially reflect the migrant population residing abroad. For the year 2006, the World Bank estimated the volume of remittances at US$ 3.3 billion. However, in a recent study, the Central Bank of Nigeria reported that remittance inflow into the country reached US$ 10.3 billion (CBN 2006) for the same year (see Table 7). This still does not take into account transfers through the informal sector (mainly hand-carried cash) that could easily represent an extra 50 percent of this amount. Most of these person-to-person transfers typically come from the United States, the United Kingdom, Italy and other Western European countries.

The CBN study also revealed that approximately 25 percent of remitted funds are channelled to investment for either the sender or the recipient, the rest going to sustaining recipient families (consumption, school fees, medical, charity) This is a rather high percentage, when compared to estimates reported in other studies across the continent. However, a survey carried out by Africa Recruit in 2004 puts this figure at 6% with respondents citing mismanagement of the funds by entrusted family members or friends and the weak linkage between the Diaspora and investment opportunities in the country, as well as the lack of awareness of the various opportunities available.

The Nigerian diaspora is widely recognized to be committed to the development of their home community by investing in community sector projects – schools, hospitals, water, etc.. Just like the Ghanaian diaspora, participation in HTAs is quite high within the Nigerian diapora.

The Nigerian diaspora has been instrumental in leading foreign direct investments into the country. The project team was not able to obtain a comprehensive list of such investments. However, it is worth mentioning that a return migrant[31] was actively involved in the set up of Transnational Corporation of Nigeria (Transcorp), a conglomerate with interests in the energy, hospitality and entertainment, telecoms, agro business and other sectors.

Other diaspora led investments include Top Air Nigeria, which has exclusive distributorship of US based York (a Johnson Controls company) air conditioning products in the country. The Geometric Power Limited (GPL) is a private-sector driven power provider in Nigeria, founded by Professor Bartholomew O. Nnaji who until recently was a Professor of Engineering and Director of the United States National Science Foundation (NSF) Center for e-Design: Information Technology enabled Design and Realization of Engineered Products and Systems at the University of Pittsburgh, Philadelphia, USA . GPL is focused on generation and distribution of affordable and reliable power to industrial clusters and the general public in Nigeria and Sub -Saharan Africa.

31 Nicholas OKoye who was previously with Merill Lynch & Co Inc in New York and currently serving as the Group Executive Director/Operations of the company.

Table 7: Remittances inflow to Nigeria (US$ Million)

Year	Remittances inflow	Annual growth rate
1996	832.9	
1997	1,773.7	113
1998	1,439.4	-18.8
1999	1,181.8	-17.9
2000	1,618.0	36.9
2001	1,237.5	-23.5
2002	1,349.8	9.1
2003	1,061.7	-21.3
2004	2,262.3	113.1
2005	6,475.8	186.2
2006	10,577.1	63.3

Source: Central Bank of Nigeria (2006)

Finally, our interview of some members of the Nigerian diaspora in London revealed that a substantial number of them are investing in the country's stock exchange. They also indicated that the yield on these portfolio investments was substantially higher than yields they would have obtained if they invested on the London Stock Exchange.

3.2.3.2. Institutional link with the diaspora

3.2.3.2.1. Strategy

In 2000, the Federal Government took measures to encourage a more constructive engagement with the Nigerians in the Diaspora. This was with the intention of creating opportunities that would enable them to leverage their invaluable human resources and forge a closer relationship with Nigeria. In that year, the president held a Presidential Dialogue with Nigerians in the Diaspora in the United States and later in the United Kingdom and encouraged the establishment of the **Nigerians in the Diaspora Organisation** (NIDO). Through this initiative, the government sought to "develop an effective, unified platform for Nigerians abroad to harness their talents, expertise and resources for Nigeria's development and nation building".

The establishment of NIDO was followed with the setting up of the **Nigerian National Volunteer Service** (NNVS) to work with and facilitate the involvement of Nigerians abroad in the task of nation building. It has become the national focal point for the articulation, execution and coordination of government's initiative and policy towards the Nigerian diaspora. The NNVS has the responsibility to create the public awareness both at home and abroad, and promote the NIDO initiative among the diaspora and government agencies at the federal, state and local government levels.

Networking Activities: For the past four years, the NNVS has organised an annual Nigerian Diaspora Day (in collaboration with NIDO) with the objective of fostering and maintaining linkages with the Nigerian diaspora. The last edition was held in July 2008 and was attended by over 600 delegates from 23 countries.

3.2.3.2.2. Legal and Regulatory framework

Foreign Exchange Act (1995) and the Banks and Other Financial Institutions Decree (1991, amended in 1999): This act regulates the money transfer market in Nigeria. It authorizes only banks to perform foreign currency payments under the narrow definition of "authorized dealers" in foreign currency.

Banking sector reform: In an effort to rationalise the sector, the Central bank of Nigeria in 2004 led a reform of the financial sector that sought to increase the value of shareholder's funds[32] and require all community banks to convert to microfinance banks licensed to operate as unit banks. As a result, the number of banks decreased from 89 to 25 within one year and approximately 450 microfinance banks (out of the 770 community banks) have emerged.

Legal and regulatory framework for business activities: In order to attract FDI into the country, the government has eliminated all measures that constrain foreign equity ownership in the corporate sector. In 2006, the Nigerian Investment Promotion Center (NIPC) established a One-Stop Investment Center (OSIC) where relevant government Agencies and Ministries are brought to one location, coordinated and streamlined to provide efficient and transparent services to Investors.

Measures to reduce the level of corruption: In its bid to reduce the level of corruption in the country, the government introduced some anti-corruption measures including the setting up of The Economic and Financial Crimes Commission (EFCC), The Independent Corrupt Practices and other Related Offences Commission (ICPC) as well as The Office of Due Process, Budget Monitoring and Implementation in the Presidency.

3.2.3.2.3. Initiatives and Mechanisms to attracting diaspora-led investments

The Nigerian Diaspora Investment Fund: Early in 2008, the European chapter of the Nigerians in Diaspora Organisation (NIDOE) initiated and sponsored a US$ 200 million open-ended Nigerian Diaspora Investment Fund (NDIF). A minimum of 90 percent of the fund is expected to be invested in Nigerian equities (listed locally and globally), liquid government, state and corporate bonds, quoted Real Estate Investment Trusts, mutual funds, etc.. with a maximum of 10 percent being invested in private equity projects in Nigeria. This fund was launched in Nigeria in September 2008 and in London the following month.

National Resources Fund (NRF): In its bid to attract diaspora-led investments, the government presented its

32 From N1.9 billion (US$ 15million in 2004) to N25 billion (US$ 195.5 million in 2005 dollars).

latest FDI incentive to the Nigerian diaspora community in Germany early this year. Through this package, any Nigerian citizen with projects in the industrial sector of the economy can draw from an 80 billion Naira investment fund. Investors can access this National Resources fund (NRF) to finance local capacity building efforts as well as technology transfer, product standardisation to create overseas markets for Nigerian goods.

New diaspora-focused financial products: Nigerian banks are actively courting the diaspora with a plethora of offerings designed to tap into their savings and investment potential. Besides the traditional domiciliary account, which can be operated by anybody whether living at home or abroad, banks are now coming up with special products designed to meet the peculiar banking and investment needs of Nigerians who, though living abroad, would like to maintain relationship with their homeland. Some of the banks at the forefront of this innovation include Bank PHB with its Nigerians in the Diaspora Account (NIDA); UBA plc with its Non Resident Nigerians (NRN) Banking Services; Oceanic Bank's Nigerians in Diaspora (NID); Fidelity Bank plc and the latest addition being Diamond Bank plc with Diamond Reach. The UBA NRN is a special purpose vehicle through which Nigerian citizens in the diaspora can invest in the country enabling them to benefit from high yield investment opportunities available in the country.

3.2.3.3. Obstacles and hurdles to diaspora-led investments

Although the country has put in place a number of institutional and regulatory measures to engage its diaspora, there remain a number of obstacles to the country's ability to increase the inward transfer of remittances through the formal channels, channelling it to productive investments and attracting private sector investments from its diaspora.

Remittances transfer costs remain high: As indicated above, only "authorized banks" can perform remittances transfers. However, most of these banks have signed exclusivity agreements with MTOs such as Western Union and MoneyGram. It is reported that 21 out of the 25 banks operating in the country have entered into such agreements *(USAID, 2005)*. This constrains competition on the market[33] leading to relatively higher remittances transfer cost to the country when compared to other regions. It is estimated that the average cost, including foreign exchange premium, of sending $200 from London to Lagos, Nigeria, in mid-2006 was 14.4 percent of the amount, and the cost from Cotonou, Benin, to Lagos was more than 17 percent *(Ratha and Shaw 2007)*.

Recommendation: The government needs to review the regulation limiting the types of financial institutions that could perform remittances transfers in a bid to foster competition.

Oceania Bank PLC offers the following Nigerian in Diaspora (NID) products:

NID Gold Account – a Naira denominated Hybrid of a savings and checking account

- Interest rate is 1% above regular savings rate at any time
- Free financial advisory service (instructions can be given to the bank to buy shares of companies quoted on the Nigerian Stock Exchange)

NID DOM Account – a foreign currency denominated account

- High yield domiciliary account
- Interest rate is at 0.5 percent above regular domiciliary account rates
- International money transfer services available (inflow and outflow)

NID Invest Account – a money market investment account

- Fixed Deposit/Tenured-Saving Account
- Minimum duration of 60 days
- Certificate can be used to secure loan with the bank
- International money transfer services

Financial access remains low: Despite the concerted effort by the government to expand financial access by encouraging the establishment of a number of financial institutions (rural banks, savings and credit associations, community banks, etc..), the number of financial institutions remain low and their geographical coverage is mainly limited to the large cities. Access to banking institutions or to financial services, especially in rural areas, thus remains low. It is reported that close to 80 million of the population (approximately 65 percent) remain unserved by the formal financial institutions.

Recommendation: MFIs should be encouraged to provide financial intermediation services to recipients and senders.

3.2.4. MALI

3.2.4.1. The role of diaspora inflow in the economy

With a population of approximately 12 million, this poor land-locked country has a long history of migration both internally and internationally. The stock of emigrants as a percentage of the population stands at 9 percent. The top five destination countries for Malian migrants are Ivory Coast, Burkina Faso, Nigeria, France and Niger. Through the years, its diaspora has developed an effective informal remittances transfer systems based on social and solidarity networks. The country is, however, grappling with several migration issues, including well–established networks that move thousands of Malians abroad, sometimes with false documents.

33 The USAID study reported that nearly all senders (98 percent) indicated that they used money transfer agencies to send money with 71.9 percent reportedly preferring Western Union. Also, approximately 80 percent of the money transfers through banks is reportedly controlled by Western Union.

The principal source of Malian diaspora inflow is France, accounting for up to 65 percent of total inflow. At US$177 million, remittances represented approximately 3 percent of the country's GDP in 2006, having more than doubled from its 2000 level of US$ 73 million. It is estimated, however, that up to 70 percent of remittances to the country are not recorded officially as they transit through the informal sector (see below). A recent study (AfDB 2007) reported that close to 18% of remittances received by the country are channelled into investments, a significantly high proportion when compared to other countries. However, the bulk of these investments are on community sector projects – health centres, schools, etc.

The study team could not identify any significant private equity or portfolio investment made by the Malian diaspora or return migrants. Nevertheless, there is evidence of SMEs and micro-enterprise investments, mainly in the services industry and trading, by some return migrants, essentially through the French government or European Union "co-financing scheme" or "Migrant Return" schemes[34].

At approximately €7,700, the average amount received by a Malian household per year is estimated to be one of the highest in the region *(AfDB 2007)*[35]. However, the ability for these households to save and invest received funds is somehow limited given that the average household size of recipients is quite high (9 on the average).

Remittances play an essential role in the Kayes region of Mali where a sizeable number of households are dependent on funds received from its diaspora for subsistence. The activities of Malian migrant villager associations (Associations Villageoises de Migrants, AVM) initially began with mutual help and group savings efforts. Mosque-building is the leading investment (32 per cent of spending), followed by water infrastructure (25 per cent), health (19 per cent) and education (11 per cent). The process of decentralisation in Mali since the late 1990s has given the AVMs much greater prominence in local development (Source: Gubert and Raffinot (2006). According to a World Bank report, contributions from Malians living in France have helped build 60 percent of the infrastructure in the region, with about 40 Malian migrant associations in France supporting nearly 150 projects including for instance the installation of photovoltaic equipment for the electrification of the region.

3.2.4.2. Institutional links with the diaspora

3.2.4.2.1. Strategy

With the establishment of the Department for Overseas Malians within the Ministry of Foreign affairs in 1991, Mali has been among the small number of countries in the region to have developed a long-standing institutional link with its diaspora. The country has been historically supportive of co-development schemes with France, the principal overseas destination of its migrants, cooperates with assisted return programmes for unauthorised Malians, and works with international organisations to attract highly educated Malians back to Mali.

Given its importance to Kayes, a multi-stakeholder conference was recently held to address how to maximise the developmental impact of remittances. The final resolution called for the adoption of a framework that is "consistent and attractive for financial and human resources investments from overseas Malians". The new *Ministère des Maliens de l'Extérieur et de l'Intégration Africaine*[36] also emphasises the need for an increased involvement of the Malian diaspora in the current decentralisation process, at national and regional levels. Individual members and organisations of the Malian diaspora are encouraged to join the Coordination and Monitoring Committee to oversee the implementation of the decentralisation process.

3.2.4.2.2. Administrative and regulatory framework

Establishment of a diaspora-focused administrative body: Since the 1990s a department within the Ministry of Foreign Affairs and Malians Abroad had been specifically charged with relations with the Malian diaspora. The Malian government has sent economic missions to Europe to promote the return to Mali of members of the diaspora to invest in agribusiness. Dual citizenship laws has been finally liberalized and the government has created Le Haut Conseil des Maliens de l'Exterieur (HCME) which liaises with various Malian diaspora organisations

The country's Investment Promotion Agency (APIM) has set up a one-stop-shop to assist investors, non resident as well as resident, in their procedures. The CIFAM ("Club des Investisseurs Français au Mali") is also actively contributing to providing the government with proposals on measures to facilitate FDI.

Regulatory framework: There is no specific code or law related to diaspora investment but the 26 February 1991 Investment Code aiming at attracting foreign investment and national saving offered important tax exemptions for periods of 5, 10 or 15 years according to the use of the investment. In August 2005 the Code enlarged the scope of tax exemptions enabling investors to benefit from the thirty-year exemption from all duties and tax connected with their activities. The code also reinforces the incentives available to firms locating outside the Bamako area or that develop innovative technology. It provides international investors, including from the diaspora, the full rights to their earnings, and allows for free export of dividends and capital. The Fiscal Code (Art. 131 and 132) offers additional waivers to any registration in new business.

The Government of Mali has also adopted an investment code specific to the tourism and hotel sector, effectively attracting members of the diaspora (including successful musicians and sportsmen) in this sector.

34 Approximately 10 percent of the Malian diaspora surveyed reported remitting for the purpose of engaging in a capital formation investment (AfDB 2007)
35 This amount is approximately €3,000 for Senegal.
36 http://www.maliensdelexterieur.gov

3.2.4.3. Obstacles and hurdles to diaspora-led investments

Although Mali has been at the forefront of engaging its diaspora for national development since the early nineties, a number of challenges remain to be addressed if the country is to attract more inflow, especially private and community sector investments, from its diaspora. In addition to a number of FDI attraction constraints: infrastructure (transport by train, cost of energy), customs and tax frauds, impact of the informal sector, rigidity of employment laws and corruption, we identified the following diaspora-led investment specific hurdles.

Official remittances transfer costs remain very high
This is essentially due to the fact that 95 percent of the transfer market is held by one MTO thus stifling competition. There is also a relatively low geographic coverage of distribution points by MTOs (30 percent as compared to 100 percent in the case of Senegal). As a response to these limitations, Micro Finance Institutions are playing an important role and innovative formal (m-banking) and informal schemes have sprung up. Thus for example, remittances transfer between France and the Kayes region is essentially via "cash carriers" who account for 70 percent of such transfers with the remaining 30 percent via the "fax" system.

Low access to banking facilities by the population
The relatively low access to banking facilities by the population means that remittances recipients are not aware of financial instruments that could be instrumental in channelling received funds into investment opportunities.

Recommendations:
- Enhance laws and systems for collection and dissemination of data on migration; greater coordination between ministries and research institutions gathering migration data.
- The country should encourage further participation of Micro Finance Institutions in the remittances market. There is the need to set up a regional credit and savings self regulated network[37].
- Need to establish a specialised fund backed among others by a structure supporting return migrants.
- Facilitate twinning and partnership co-development agreements between regions of interest to the diaspora (for example, between the Nord Pas de Calais Region in France and the Kayes region).
- Ensure public co-financing through a Regional Development Fund (based on specific taxes) supporting public private partnerships at all levels.
- Further liberalise state-owned enterprises (including banks and the cotton sector) and utilities (including telecom) and restrictions over foreign involvement in business services, as both tend to increase the "costs of doing business" and discourage investment. A more exhaustive investigation into "success stories" and how this might be accomplished is beyond the scope of this study.
- Further encourage diaspora participation, consultation and direct involvement at all stages, processes and institutions.
- Also, given the importance of the Kayes region, we recommend to explore how that region could be established as an Economic Zone with specific linkages and agreements with the migrants' savings for the development of private as well as collective activities and business.

3.2.5. SENEGAL

3.2.5.1. The role of diaspora inflow in the economy

At approximately 463,000[38] the Senegalese stock of emigrants represented 4 percent of the total population in 2005, with Gambia, France, Italy, Mauritania and Spain constituting the top five destination countries.

In 2006, officially recorded remittances from the Senegalese diaspora amounted to US$ 633 million representing 7.1 percent of the country's GDP. As is the case for many countries of the region, the true size of remittances is much higher if unrecorded flows through formal and informal channels[39] are included. Thus, for example, remittances by the Guinea diaspora is been reported to transit through Senegal for conversion into CFA Francs and then introduced in the parallel market of Guinea and Guinea-Bissau.
The bulk of remittances into the country is essentially used by recipients for sustenance purposes with some limited investment in real estate. Only a very small portion of transfers is thus allocated to productive investments.

The Senegalese are noted for their entrepreneurship both at home and when living in foreign countries. It is estimated that 90 percent of them belong to the Sufi *brotherhoods* and thus investments are made through **dahiras**[40] (for example, the Mourid diaspora for the holy city of Touba).

Senegalese Associations are also active in host countries. In 2006, a Senegalese-German Business Association (Senegalesisch-Deutscher Wirtschaftsverband) was officially established at the Senegalese Embassy in Berlin. The membership of the association is made up of people active in business, academia and science in Germany and Senegal. Also, there exists a federation of Senegalese associations in Germany, which is indeed a federation of *dahiras*. These Senegalese associations are quite prominent in supporting community sector investment projects.

There are a number of noteworthy diaspora-led private sector investments by the Senegalese diaspora in the country. This is the case of Yérim Sow, a return migrant from Ivory Coast,

37 Réseau régional de caisses de crédit et d'épargne autogérées
38 Some estimates put the figure at approximately 2 million.
39 Some estimates indicate that the total volume of remittances may account for approximately 20 percent of the country's GDP.
40 Dahiras are religious networks
41 Operating under the brand name TéléCel Cote d'Ivoire

where he owned Loteny Télécom[41], a telecommunication firm. After the firm was acquired by MTN for US$ 150 million, he decided to return to invest in Senegal. His company, Teylium, has interests in the entertainment (owns a five-star hotel on the Dakar seafront) consumer (shopping mall and restaurants) aviation (leasing of aircrafts) and financial (banking) sectors.

3.2.5.2. Institutional links with the diaspora

3.2.5.2.1 Strategy

Given the importance and dispersal of its diaspora, the country has been one of the few countries in the region that sought to engage with its diaspora as far back as the early 90's. In 1995, a Council of Senegalese Residents Abroad was established (Conseil des Sénégalais de l'Extérieur). Although this body is reported to have had no impact, it became the fore-runner for a number of initiatives to be taken by the government. Thus, for example, since 2001, the country's senate has included three senators representing the Senegalese diaspora.

In 2003, the Ministry of Tourism and Senegalese Abroad was established and was given the mandate to initiate, implement and monitor policies and activities designed to protect the rights as well as promote the interests of the Senegalese diaspora.

Following a diaspora conference held in Dakar in May 2008, the Senegalese Diaspora Foundation (Fondation des Sénégalais de l'Extérieur) was established with the objective of involving the diaspora as agents for FDI promotion into the county and as active actors in national economic development.

Senegal is one of the first countries to have revised its original Poverty Reduction Strategy to take into account the potential role that the diaspora could play in the process. It opened up the participatory process and is seeking to better articulate the use of remittances through investments with development priorities.

3.2.5.2.2. Legal and regulatory framework

In line with its diaspora strategy as outlined earlier, the country has initiated a number specific measures. Thus, the Ministry of Tourism and Senegalese Abroad also makes recommendations to the Presidential Investment Council (Conseil Présidentiel de l'Investissement, CPI) to better channel migrants' savings into productive investments. It implements these recommendations in partnership with other institutions and operational strategies such as those linked to the co-development initiatives between France and Senegal. It includes the promotion of financial services that could be used in both the origin and the host country: real estate, retirement benefit, health insurance.

There is also a continuous effort to promote access to finance at the local level, to push for a reduction in the money transfer rates and to encourage savings. Thus, for example, simplification of the licensing procedure in Italy has encouraged competition between MTOs. It is reported that the 50 percent reduction in the transfer costs resulted in an increase by 30 percent of senders using this formal channel (Afdb 2007).

3.2.5.2.3. Inititatives

Networking activities: In synergy with the Dakar International Fairs (Foire Internationale de Dakar, FIDAK), the *Centre International du commerce extérieur du Sénégal* (CICES) regularly organises fairs exclusively devoted to the Senegalese diaspora.

Establishment of an investment fund: The Government encourages the financing of remittance-related pilot operations, specialized pools with targeted proposals. To this end, the ministry has established a fund to support investments from the Senegalese diaspora *(Fonds d'Appui à l'Investissement des Sénégalais de l'Extérieur*, FAISE). This fund is directly linked to the Minister's Cabinet.

3.2.5.3. Obstacles and hurdles to diaspora-led investments

Senegal meets many of the standard criteria that international investors, including those from the diaspora, consider critical – proximity and ease of access through a natural port, relatively good infrastructure and political stability. However, the country still has to address some key challenges.

Low access to financial institutions: Despite its more urban profile, Senegal has a low bank penetration rate in urban and rural areas and an extremely low bancarisation rate (estimated at 5 percent). The share of the conventional postal network is estimated at 8 percent of the total financial institution market. It is mainly retiree transfers that usually transit through the formal channels of banks and the post office. But rate of bancarisation is increasing thanks to remittances and institutions such as *Crédit Mutuel of Senegal*. The MFIs seek to act as intermediaries between the MTOs and the beneficiaries. Legislation in Senegal only authorizes them to sub-contract these operations to commercial banks which, in turn, sub-contract operations from the MTOs. The result is a chain of formal/informal operators contributing to the densification of the distribution network. The MFIs are at the end of this system sharing their margins with banking operators with which they sub-contract. That chain of intermediaries also contributes to an increase in the operating cost.

Inadequate access to capital. One critical factor is the difficulty in gaining access to funds for investment. It is extremely difficult to obtain credit from the local financial system. Development Banks usually provide loans for projects that require over €10 million funding, an amount that is outside the reach of SMEs. Micro-credit institutions have in general loan ceilings of just US$ 20,000 a relatively small amount even for some small-scale entrepreneurs. Moreover lenders lack the knowledge or capacity to reliably evaluate projects, particularly in high-tech sectors.

41 Operating under the brand name TéléCel Cote d'Ivoire

Other obstacles and hurdles include:

- The relatively **small size** of the formal private sector.
- Lack of adequate **incentives** to channel remittances into productive investments.
- Lack of **Regulatory Impact Assessments** in new measures and laws related to business and finance.
- The **negative perception by foreign investors**, especially with respect to excessive bureaucracy.
- the **judicial system** lacks sufficient technical capacity to handle financial matters: difficulties in enforcing contracts, cases may take many months, issues in the implementation of OHADA law in debt recovery.

Recommendations:

- It is essential that the Senegalese diaspora effectively implements the strategies and policies adopted by their (successive) organisations if they are to become partners for development cooperation projects.
- To promote enhanced competition among fund transfer operators to reduce cost of remittances and reduce the informal sector; sensitizing financial operators (including MFIs) on the market potential; to adapt the regulatory framework and facilitate mobile banking technology that associates telephone operators with the banking sector.
- To make available to the diaspora financial instruments (including risk capital), that would allow for diversification of the use of funds and beneficiaries, in order to channel increased resources towards productive investment, private sector and diaspora business creation projects. The objective is to strengthen spillovers of diaspora-led investments to the rest of the economy.
- To focus on individuals/projects/firms capable of undertaking a real entrepreneurship project and having the technical/management capacity, human qualities, a minimum of capital and a professional network.
- To create identification and support mechanisms for diaspora investors, using structures dedicated to businesses in host countries and countries of origin; e.g. strengthening links between national business federations and the CCI together with counterparts in the EU, to support business creation.
- To facilitate and emphasise the use of funds for co-development projects; encouraging migrants and the beneficiaries to use part of remittances to also fund community and infrastructure investments, with co-financing provided in the form of public support.
- To better integrate diaspora financing processes and other strategies, processes and structures (poverty reduction, good governance); this integration at the institutional level should not undermine the need for innovative capacity building and functional analysis implied by such new linkages; e.g. anti-competition measures, making property rights more secure, opening up public procurement to the diaspora.

3.2.6. KENYA

3.2.6.1. The Role of diaspora inflow in the Kenyan Economy

Kenya ranks second in our sample, in terms of diaspora inflow per capita of the stock of migrants and represent 5.3 percent of GDP (2006). More recently[42], preliminary estimates show that this increased by 28.5 percent during the first six months of 2008 compared to the same period last year, thus blunting the negative impact on the current account of the slowdown in merchandise exports during the first quarter, which contributed to avoid a major depreciation of the Kenyan shilling (Ksh) resulting from a larger loss of international reserves. At the height of the wave of the recent generalized violence and due to the emergency needs of households during the first quarter, formal remittances increased by 27 percent, in comparison to the total registered in the same period of 2007[43]. This was followed by another sharp increase of this category of inflow in April due to the public offering of the government's 25 percent stake in SAFARICOM, the mobile telecommunications company.

It is important to point out that, with structurally large shares of agriculture (28 percent) and services (54.8 percent) in GDP, a limited industrial capacity (17.2 percent of GDP) and a rather open trade regime, high rates of GDP growth are frequently associated with a robust demand for merchandise imports (mainly, fuel, manufactured goods, machinery and transport equipment). Therefore, these trends are at the origin of simultaneous high trade and current account deficits. Here, the relevance of formally transferred remittances as a source of foreign exchange is highlighted by the fact that, according to preliminary estimates, they represented 20.5 percent of services exports, 14.4 percent of merchandise exports and 80 percent of FDI in 2007. Again, if an estimate of informal remittances were added these ratios would be significantly higher.

A number of significant investments in the country have been made by the Kenyan diaspora. Thus, AFRICAONLINE was started by Kenyans who were then students at MIT. Today, the business has become one of the major ISPs on the continent.

3.2.6.2. Institutional links with the diaspora

3.2.6.2.1. Strategy

Notwithstanding the major role played by inflow from the diaspora for a significant period of time, public sector interest in the diaspora did not openly materialise until 2004, when discussions on the subject began at different public agencies. Since then, the government has started work on establishing the administrative, legal and regulatory framework geared to improving its capacity to attract further diaspora funding and channelling it into private sector investments.

42 Based on remittances transferred through formal channels and recorded by the Central Bank, which is widely accepted to be significantly underestimated, since official data does not include frequently utilized (mainly by illegal immigrants and by those evading taxation) informal transfer executed through mechanisms known as the "hawala" transfers based on physical delivery through trusted intermediaries.

43 Data provided by the External Payments and Reserves Management Division of the Central Bank of Kenya

In March 2007, the Kenyan government established the **International Jobs and Diaspora Office** (IJDO) domiciled at the Ministry of Foreign Affairs and linked to the Cabinet Office in the Office of the President. The diaspora section of the office engages with the diaspora seeking, amongst others, to:

- Facilitate the increase in remittances from the diaspora by working with the relevant Government organs to formulate and implement cheaper and faster methods of remitting funds home.
- Engage with the Diaspora and enlighten them on investment opportunities available in Kenya.
- Facilitate the development of a consular service that addresses the needs of Kenyans in the Diaspora.
- Research and develop products and a policy framework that increases and directs remittances towards more "developmental" uses.

Led by the Ministry of Planning (MOP) and the Kenya Private Sector Alliance (KEPSA), an umbrella organisation formed in 2003 to enhance the role of the private sector in public policy formulation, a number of meetings were held by different public agencies leading to the establishment of an inter-agency-committee-**the Diaspora Technical Team**. It aims at the mainstreaming of the diaspora, by highlighting the key role it could play in the country's economic development. It also has the mandate to provide suggestions on laws, regulations and policies to create a conducive environment for facilitating diaspora involvement in relevant domestic political, economic and social issues. The work of the team is also geared at incorporating the diaspora as a main element of the national strategy - VISION 2030 Development Process - designed to modernize the economy and accelerate economic growth. Elaborated by a group of eminent persons from academia, civil society, as well as the public and private sectors in 2005, it is a roadmap with a long-term vision to bring the country to a middle-income status by the year 2030.

3.2.6.2.2. Legal and regulatory framework

Initiatives designed to establish a regulatory framework: The most recent draft of the **new constitution**, rejected in a referendum in 2007, incorporated some modifications geared at enhancing the rights of the diaspora, as a potential source of investment. One very important modification is the legalisation on **dual citizenship**, which is quite relevant for eliminating the current burden of double taxation and in enhancing property rights. The government plans to re-submit a revised draft of the constitution to a referendum but a new date has not yet been set.

Following a conference in June 2007, the Diaspora Technical Team published a **draft session paper**, which has been discussed frequently in public and private circles, as well as in the media. It also included the first draft of a legislative bill that is still in the process of being discussed and revised[44]. It is unlikely that some of the suggestions made by the Technical Team in the Session Paper, including those on a new law on the diaspora, would be operationalised before the new constitution is approved. However, a new date to submit the new constitution to another referendum has not yet been set. Another important sensitive issue delaying the approval of the new constitution is the debate on whether **property rights** on land should be exclusively community-based or whether rights could be conferred to individuals, irrespective of whether they are Kenyan citizens or not.

The Central Bank of Kenya **(CBK)** drafted a bill on the **National Payments System**, which has been sent to the Attorney General's office for a legal opinion before being sent to the legislature. It provides criteria on minimum standards and directives on different types of financial transactions including cross border transfers and phone transactions. Establishing criteria for an entity to qualify as an intermediary in financial transactions is another important feature of the bill. According to the CBK, once it becomes law, the bill is supposed to provide a needed base upon which laws and regulations on remittances and diaspora investment could be elaborated.

3.2.6.2.3. Initiatives and mechanisms

Networking activities: In conjunction with the Kenyan Investment Agency (KIA), the IJDO has organized a number of conferences and workshops in the UK and the USA (2006-2007) and began to step up efforts to establish links with diaspora networks in different countries. These initiatives have encouraged real estate firms to organise marketing-oriented meetings with members of the diaspora, mainly in London.

3.2.6.3. Obstacles and hurdles to diaspora-led investments and recommendations

Notwithstanding the fact that some initiatives generated by public agencies have been put in place and that the visibility of the role of the diaspora in economic, political and social matters has been enhanced, there are a number of challenging shortcomings which undermine the contribution of the Kenyan diaspora to the country's economy. In addition to of the generally accepted impediments to FDI attraction by the country (lack of infrastructure and high level of corruption), there are specific obstacles to diaspora investment.

1) The diaspora-focused agency is short staffed and under-funded:

Issue: The **IJDO** is under-staffed, most likely under-budgeted and certainly requires substantial capacity building in all aspects of its mandate to become an adequate instrument to deal with the diversity and complexity of diaspora and remittance-related issues. It has not yet elaborated a survey to detect the stock of, locations and opinions of the diaspora. Moreover, it has not yet established a website or a manual for

44 Diaspora Technical Team, Maximising the Potential and Input of Kenyan Diaspora in the Political Process, Wealth Creation, Employment Generation and Poverty Reduction, Nairobi, June 2007, pp. 31-47. Hereafter referred to as "Maximising the Potential…"

emigrants, to enable the agency to provide key information on issues of interest to the diaspora including emerging sources of transfer mechanisms, the cost of remittances, investment opportunities and available development projects. The personnel of the IJDO is not present in any consulate or embassy, thereby maintaining its dependence on the MFA, and thus seriously weakening its capacity to establish links with emigrants' networks and reducing the likelihood of impact. When questioned about the issue of remittances during our visit, the interviewed members of the agency's staff were unable to provide any information on the subject, perhaps signaling the serious limitations on resources available and on the office's mandate.

Recommendation. Enlarge the mandate of the IJDO to issues related to remittances and provide capacity building on, at least, its key activities, including: preparation of a survey; launching a website and publishing a manual for emigrants; increasing personnel and ensuring presence in consulates.

2) The legal and regulatory framework remains weak

Issue: It is taking Kenya an inordinate amount of time to put together a coherent legal, regulatory and administrative framework to facilitate diaspora investments. One of the reasons for this slow pace of progress is that there are a large number of public agencies involved in discussing and drafting policy principles and in initiating legislative projects. The Diaspora Technical Team coordinated by MOP and KEPSA includes the Ministry of Labour, the MFA and IJDO, the Ministry of Finance, KIA, the CBK and the sporadic participation of delegates from several diaspora networks. Coordinating the participation of all these agencies and seeking consensus on proposals have been a laborious and slow-paced process. This is one of the reasons why the policy and legislative suggestions incorporated in the session paper "Maximising.the Potential…" drafted by the Technical Team in mid-2007 has not yet produced any tangible result in terms of new policies or legislation[45].

Thus, the government is yet to adopt some widely accepted legal and regulatory best practices considered as enablers to diaspora-led investments. These include:

a) **Dual citizenship:**
By not granting dual citizenship to its diaspora, Kenya is maintaining the burden of double taxation on its diaspora and limiting its full participation in the country's economy. The Kenyan investment law currently places a number of restrictions on foreigners: they can lease, but not own land; a maximum of 40% equity share in a corporation; restrictions on ownership in the telecommunications sector. These restrictions not only reduce the attractiveness of investing in domestic ventures, but also weaken the legal and psychological linkages between the country and its diaspora, as well as the motivations of its members to contribute to the country's economic development.

Recommendation: Modify the constitution and grant dual citizenship to the Kenyan diaspora. Sign bilateral protocols with those countries where there is a presence of Kenyan diaspora in order to avoid double taxation and ensure the enlargement of property rights.

b) **Absence of tax incentives for diaspora investors.**
Tax rates are relatively high in Kenya, including a 30,0% corporate tax, a value-added tax of 16,0% and 10,0% withholding tax on interest earned on savings deposits.
Recommendation: To provide the necessary recognition of the diaspora as a valued source of funding, **temporary tax exemptions**, including customs duties on imported physical capital, represent a necessary condition for starting to build an incentive mechanism to attract investments from this important source.

Recommendations: Streamline the number of agencies participating in the activities of the Technical Team reducing it to MOP, KEPSA, the CBK and the IJDO. Additionally, carry out a division of labour and a re-distribution of tasks within the Team, in order to increase efficiency. The fact that the participation of diaspora networks is admitted as sporadic is not a good omen in terms of ownership and the relevance of policy recommendations.

3) Engagement with the diaspora remains weak

Issue: The government is generally slow in supporting and enabling diaspora-led initiatives. Thus, for example, the diaspora network, **Kenyan Club**, presented a proposal at the beginning of 2008 to create a fixed income security (also called an **"infrastructure or diaspora bond"**) to finance infrastructure projects, suggesting that a substantial share of the offering would be allocated to diaspora investors. Multilateral agencies are also discussing this possibility with public officials. However, the offer will most likely be rejected due to the absence of a legal structure to deal with diaspora investments. The same happened with another proposal emanating from the diaspora about registering a **Kenyans Abroad Investment Fund** in the stock exchange which was introduced in April 2007. The Capital Markets Authority has not yet provided an answer anticipated to be negative to the proposal.

Additionally, in early 2008, a HTA in Kansas City (USA) requested exemptions of customs duties for medical equipment donated for establishing a clinic in a rural area. They are yet to receive a response from the authorities. Another HTA in Atlanta (USA) had proposed to bring investors, including diaspora entrepreneurs, to explore investment opportunities in the country.

Recommendation: IJDO and other government agencies should be more aggressive in engaging with Kenyan diaspora networks and HTAs and should react diligently to their initiatives.

45 Particularly, chapter 9 (pp. 29 to 47) of the session paper, which presents a legislative draft concerning the diaspora including specific proposals on dual citizenship, tax incentives and regulations on investments originating in the diaspora.

4) The cost of transferring money remains high

Issue: Competition on the money transfer market in the country is quite limited and thus the transaction costs are quite high. Thus, for example, Western Union contractually establishes that any financial intermediary (mainly commercial banks) playing the role of the agent bank for money transfers initiated by the firm cannot engage in the same kind of business with other operators, such as Moneygram. This "exclusivity clause" is one of the reasons why the cost of transferring remittances remains high, at an average of 5 percent of the balance transferred, which also incorporates the additional cost of an exchange rate premium compared to the prevailing market rate. It is worth mentioning, however, that in the last four years, the cost of transferring money has declined by approximately 60 percent.

3.2.7. CAMEROON

3.2.7.1. The role of diaspora inflow on the economy

According to the Minister of External Relations close to 4 percent (approximately 900,000) of Cameroonians reside outside the country as migrants[46], a number that is significantly higher than the 232,000 reported by the Wold Bank. The largest emigrant stock of Cameroonians is located in the United States where it is estimated that 250,000 of them have taken up the American citizenship. Other countries that report a large concentration of the Cameroonian diaspora include France, Germany and to a lesser extent, Belgium[47].

The World Bank estimates remittances inflow into the country in 2006 at 103,000 million or 0.6 percent of GDP. As with other countries, it is believed that the true size of remittances is significantly higher as there is a sizeable amount of unrecorded flows through formal and informal channels.

The Cameroonian diaspora has a long-held tradition of contributing to community sector investment projects via HTAs in their home communities.

The study team could not identify any private sector investment by a member of the Cameroonian diaspora in the country. However, it is worth mentioning the case of CASHMO, a London-based money transfer company founded in 2005 by an entrepreneur of the Cameroonian diaspora[48].

3.2.7.2. Institutional link with the diaspora

Cameroon is one of the lagging countries with respect to engaging its diaspora. The country's concrete action in this area dates back to the end of 2006 when the Ministry of External Affairs organised a conference on the theme of "Diaspora and development in European-African relations".
In its recent address to the government, referred to earlier, the ministry of external relations outlined a number of actions that the government plans to undertake to better engage with its diaspora:

- The establishment of an institutional body with mandate to engage the diaspora – "Haut Conseil Répresentatif de la diaspora" and "Agence Nationale des Migrations".
- Implementation of an information campaign dedicated to the diaspora.
- Review of dual citizenship rights and the right to vote.
- Establishment of investment incentives – granting tax exemptions and other fiscal incentives.
- Measures to facilitate access to credit by the diaspora.
- Establishment of a guarantee fund.
- Measures to reduce remittance transfer costs.

3.2.7.3. Obstacles and hurdles to diaspora-led investment

Cameroon is at the early stage of engaging with its diaspora. As with most of the countries in the region at this stage, obstacles to diaspora-led investment include: high cost of remittance transfer to the country, absence of a legal and regulatory framework dealing with diaspora inflow (one of the few remaining countries in the region that is yet to grant dual citizenship to its diaspora) and absence of a dynamic banking sector that could effectively serve to channel diaspora inflow into productive investments.

3.3. Conclusion

Inflow from the region's diaspora to their origin countries takes different forms: private transfers (or remittances), funds invested in private or community sector ventures and in portfolio investments. Over the last few years, there is a reported increase in the volume of such funds into the SSA region.

However, in comparison with other developing countries, the region attracts the least volume of remittances, has a limited capacity to channel such remittances into productive investments and lags behind in its effort to capture private equity and portfolio investments from its diaspora.

The reasons for such low performance in the countries in our sample were highlighted in the individual country reports. Below, we present a summary of these obstacles and hurdles to diaspora-led investments into the region. A comparative review of the institutional, regulatory framework and obstacles to increased inflow from the diaspora in 7 countries of the region is presented in Annex 1.

3.3.1. Obstacles and hurdles to increasing the volume of remittances received through formal channels

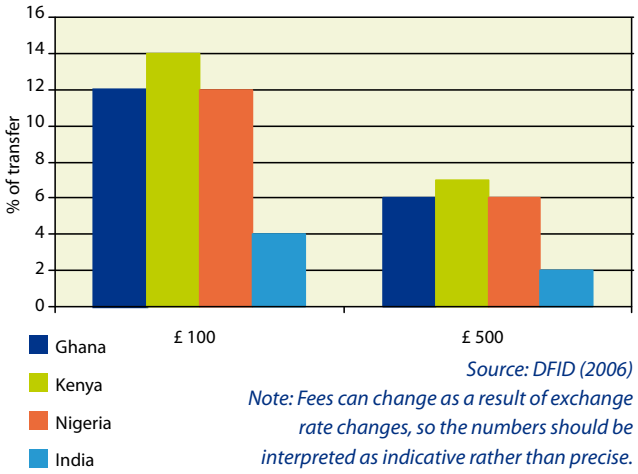
Remittances transfer costs to the region remain high:

Remittances to the sample countries covered in this report are essentially made through formal and informal channels.

46 From the statement on "Migratory movements form Cameroon and the contribution of Cameroonians residing abroad in the national development effort" by the Ministry of External Relations in a cabinet meeting chaired by the Prime Minister on the 31st July 2008
47 The Cameroonian diaspora in Belgium is made of highly qualified professionals, with approximately 25 of them active in the medical profession.
48 Founded by Moyo Kamgain - the study team could not confirm at present whether this company is still operational.

Unlike countries in Latin America and Asia, the cost of formally transferring funds to SSA remains high and as such senders prefer using informal networks that in addition to being relatively cheaper provide those without papers with a "safe" means for making their transfers.

Figure 4: Remittances Transfer costs to SSA region



Source: DFID (2006)

Note: Fees can change as a result of exchange rate changes, so the numbers should be interpreted as indicative rather than precise.

Thus, a survey of MTOs in the United Kingdom revealed that the fee on money transfers through official channels was lower between the United Kingdom and India, where volume is high, than between the United Kingdom and Africa[49]. The high cost of sending money through official channels is one of the reasons for an estimated 50 to 75 percent[50] of remittances being sent via informal channels with a significant proportion remaining outside the financial system.

This essentially results from the fact that there is less competition in the transfer market in the region with one MTO – Western Union - controlling the market in most of the countries surveyed.

In some countries, regulatory restrictions impede entry into the remittance market of financial institutions such as micro finance institutions with extensive geographical reach and proximity to the poor. This is the case of Nigeria where only commercial banks are permitted to make remittance payments.

3.3.2. Obstacles and hurdles to channelling remittances into productive investments

Some of the obstacles to the region's low capacity to channelling received remittances into productive investments include:

Inappropriate legal and regulatory framework: As indicated earlier, a number of countries have placed restrictions that constitute a barrier to entry for some key institutions with the capacity to play a key role in the intermediation of remittances. These restrictions generally relate to minimum capital requirements and the type of institutions that can engage in money transfer activities. This is the case for non banking financial intermediaries such as micro finance institutions, cooperatives and community-based organisations.

Inefficient financial system: Despite much progress made in some countries in the last few years,[51] the governments and the local financial institutions in the region are still not offering innovative financial products/instruments that could be used to channel remittances to private sector investments. This lack of access to the formal financial services by the recipients impedes financial deepening.

3.3.3. Obstacles and hurdles to attracting diaspora private sector investments

In recent years, countries in the region have made great strides in improving their business climate, with Ghana, Kenya, Madagascar, Mauritius and Mozambique leading the way . Nevertheless, a number of challenges still face the diaspora investor in the region.

Lack of access to finance: The diaspora investor faces the crucial problem of inability to access finance for investment in their home countries: 1) Financial institutions in their host countries are reluctant to provide the diaspora investor with loans for investment in an African country. 2) International finance institutions and local African banks are unwilling to provide the diaspora with financing as they are not resident in Africa.

Lack of information on investment opportunities: Most potential diaspora investors are generally unaware of investment opportunities in the region.

Weak institutional links with the diaspora: Most of the countries of the region are yet to adopt a legal and regulatory framework that would enable their diaspora to remain emotionally tied with and become economically attracted to it.

Unfavourable enabling environment: Finally, as applicable to other investors, the poor state of the region's infrastructure, rigid bureaucracy, corruption, etc… does dampen the enthusiasm of some diaspora investors.

49 The average cost, including foreign exchange premium, of sending $200 from London to Lagos, Nigeria, in mid-2006 was 14.4 percent of the amount, and the cost from Cotonou, Benin, to Lagos was more than 17 percent (Ratha and Shaw 2007)

50 The African Development Bank puts this figure at 50 percent (Foran 2005) while a recent paper by World Bank staff puts it at a high 75 percent (Page and Plaza, 2005)

51 This would be the case of Nigeria and Ghana where the banks are aggressively courting the diaspora.

4 Policy options and initiatives for fostering diaspora-led investments

4.1. Introduction

The development of a Policy framework for diaspora led-Investment calls for a flexible and non prescriptive approach involving a number of stakeholders as well as legal and regulatory measures designed to improve the investment climate. Like other investors in the region, diaspora investors face the same set of issues that have hampered investment in the SSA region: unfriendly business regulations, relative absence of the rule of law in some countries, limitations on ownership, bureaucracy, corruption, etc. It is thus obvious that the economies would be better off by ensuring that the local environment is conducive to enabling investments from all potential investors: domestic, diaspora and other foreign investors.

Nevertheless, given the specific nature of diaspora investment, there is the need to put in place specific administrative, legal and regulatory measures as well as initiatives to further encourage and support such investments in the economies of the origin countries. These measures and initiatives should be adopted at both the origin and host country levels as well as at the level of multilateral institutions, given the role that such institutions play in the migration and development sector.

In the following sections, we outline a set of policy options as well as initiatives that need to be considered in view of addressing challenges to diaspora-led investments.

4.2. At Origin country level

The potential of an origin country to attract a significant inflow from its diaspora depends on its ability to create conditions in the country that would make its diaspora remain emotionally linked to home and that will make them to become economically attracted to it as an investment destination. A key determinant of this will be the *strategic and institutional links* it maintains with its diaspora as well as the *legal and regulatory framework* it proposes with regard to diaspora investment. *Initiatives* proposed should also contribute to creating and maintaining such conditions in the country.

Given the variation in local conditions, it is worth mentioning that these instruments should be "adapted" to take into account each country's specificity.

4.2.1. Strategic and Institutional links with the diaspora

One of the key points for the authorities of countries in the SSA region is how to attract diaspora-led investments in a way that supports and reinforces economic development and good governance strategies. This integrated approach implies commitment at the highest level of government allowing for the integration of diaspora funding with a range of interconnected national and economic sector strategies. This relates to strategies on poverty reduction, privatisation, decentralisation, medium-term budget planning, "marketing the country" and export promotion, increasing overall FDI and technology inflow, strengthening sectors (e.g. tourism, agriculture, industry, ICT, cultural heritage, education and academic research), trade-related investment measures (TRIMs) negotiations, democratisation, accountability, justice and anti-corruption measures.

Such a strategic integration implies specific reforms in the legal and regulatory framework through a participatory approach as well as effective institutions that would implement and monitor measures adopted.

Diaspora-focused institution

Most of the countries that have been successful in attracting diaspora-led investments are characterised by the existence of a viable and effective institution dedicated to engaging with the diaspora. This is the case for India (Ministry of Non-Resident Indian Affairs), El Salvador (Dirección General de Atención a la Comunidad en el Exterior) and China (Office of Overseas Chinese Affairs), etc..

Such an institution should seek to encourage involvement of civil society organisations, diaspora organisations, financial intermediaries (including Money Transfer Organisations - MTOs) and the donor community in its activities. It should be adequately staffed, funded and have the support of the government in carrying out its mandate, which should include, inter alia, the following activities:

- Has the technical capacity to draft laws and regulations necessary for improved diaspora investment policies. The unit should aim at reducing the regulatory burden on diaspora investors and to provide them with the opportunity to comment on draft laws.
- Regularly collect, maintain and disseminate data on diaspora investment including registration, levels of investment, employment, liquidation, and other statistics of interest to policy makers and the private sector.
- Maintain an efficient website that serves as communication medium to the both the diaspora and the government.
- Provide an effective monitoring system of the remittances market to ensure fair competition by ensuring, for example, that there is no undue barrier to entry into the market, MTOs adhere to the transparency principle in prices and services provided and do not impose exclusivity conditions on their agents.
- Highlight and report on strategic sectors of comparative advantage for diaspora investment.
- Ensure that the local media reports on matters related to diaspora investment with the goal of providing the general public with a greater understanding of the impact of diaspora investment. This is the case for Channel 2 in

19 These included policy makers, relevant government departments and agencies as well as representatives of the private and public sector
20 Source: World Bank. However, some surveys report that more Cape Verdeans live abroad than in Cape Verde itself.

Morocco that conducts programs and events to promote better understanding of the benefits of an improved environment for diaspora investors and its impact on national economic development.

In the absence of such an institution, there is the need to:

- Appoint one or more high-level government officials or change agent(s), who champion the cause of increased diaspora investment including participating in the drafting of laws, comments on regulations, suggesting amendments and similar input to lawmakers on diaspora-led investments.
- Ensure that there is a meaningful private sector participation in the law making process. Diaspora investor representatives, associations and networks should be encouraged to provide input to policy makers, the law making process and the parliament. Diaspora associations, banking associations, professional associations, business groups and chambers of commerce should actively monitor law practice and developments that have an impact on diaspora investors.

4.2.2. Legal and regulatory framework

4.2.2.1. Dual Citizenship

Nationality is a primary legal entry point. The definition of citizenship is a political and normative matter by which people are "classified" as nationals or foreigners, residents or non-residents. It is a major thematic link connecting legal definitions and regimes, from investment, labor markets and taxes to migration and diaspora. It has a fundamental impact on how the identities of individuals as well as companies, should be ascertained, "given", registered and communicated.

The loss of a nationality has a serious emotional impact on the diaspora member who still wants to maintain links with the home country. Granting dual citizenship to non-resident nationals also has the impact of broadening the country's economic base and of fostering trade and investment between the origin and host countries. It is thus important that this should be given serious consideration by countries in the region.

Within the African continent, only a very limited number of countries have granted this right to their non resident nationals who have taken up other nationalities. Nevertheless, there is now a new momentum for the countries of the region to consider granting such rights. Thus, for example, in a recent statement to the parliament[53], the Cameroonian Minister of External Affairs advocated a reversal of the law against dual citizenship.

4.2.2.2. Investment regulations

Historically, many investment laws in Africa have been of the general type, not addressing the needs of any specific investor class or industry and assuming that conditions exist that will facilitate an efficient allocation of investment capital. This kind of investment law is useful in countries where the basic market system is developed and free from distortions. The goal is only to improve the investment climate.

On the other hand, an *all-encompassing investment law* seeks to transform local economies and focuses on all issues of development including those of transfer of technology, the requirements for industrial upgrading, manufactured exports, access to financial capital, etc... This second type of investment law presents pitfalls. It compels policy-makers to identify the most important investment needs and to determine what incentives should be given and for how long. The design of such comprehensive legislation is costly and time consuming with uncertain results due to inaccurate assumptions. It is thus risky to elaborate a unique and over ambitious "diaspora investment law".

A preferred option would be to develop a set of interrelated and interconnected laws present in different statutes but tied together through a clear vision and objective in relation to the diaspora. This approach does not consider any particular investment law as the end to the process. Each significant area of policy and law (investment, financial, business, trade in services) should be given attention with a view to strengthening its critical components for the diaspora. Annex 2 presents the legal framework underlying diaspora investment and an outline of a legal strategy.

Some of the recommendations on formulating policy measures designed to enhance diaspora-led investment into domestic economies would include:

- **Enact legislation that would lead to more competition in the remittances transfer market:** legislation that constitutes barriers to entry for some key institutions with the capacity to play a role in the intermediation of remittances should be relaxed. This is especially the case for the law that requires institutions to obtain a full banking licence in order to serve as a money transfer operator. This would allow for the entry of non-banking financial institutions such as micro finance institutions, cooperatives and community-based organisations, into this market. Increased competition in the market would lead to the lowering of the high costs of remittances transfers[54]. Additionally, banking reforms that allow domestic banks to seek investment from abroad could potentially change the dynamics of this market as these financial institutions can now offer "diaspora account" which can be used to make monetary transfers from abroad. (see below)

- **Establish the legal basis that would allow for the creation of innovative investment vehicles** that specifically address the diaspora investor. Some countries in the region still do not allow the floatation of a financial product in the domestic market by a foreigner. Thus for example, the Kenyan government recently did not grant

53 Parliamentary session of the 31st of July, 2008

54 It is estimated that Sub-Saharan African countries can potentially raise US$1-3 billion by reducing the cost of international migrant remittances, $5-10 billion by issuing diaspora bonds, and $17 billion by securitizing future remittances and other future receivables.

authorisation for the floatation of an infrastructure bond, by a UK-based diaspora entrepreneur, to which privileged access would be granted to the diaspora investors.

- **Avoid the erection of artificial barriers to diaspora investment** – This is typically the case where dual citizenship is not granted to the diaspora with the ensuing impact on property rights. As indicated earlier, a number of countries in the region still have provisions in their investment related legislation that prohibits a foreigner to own land and to invest in certain sectors of the economy. Further restrictions are made as to the share of equity that the latter may hold in a national corporation. It is thus important to waive such provisions for the diaspora of a country where dual citizenship is still prohibited.

- **Provide exceptions to the application of certain laws** - whenever the principle of equal treatment results in a clear disadvantage for the diaspora investor. This would be the case, for example, in the application of bankruptcy law where information and notification of shareholders on their rights and on presenting claims may reach the diaspora investor too late for them to defend their rights on an equal footing with respect to domestic investors.

4.2.3. Incentives and mechanisms for fostering diaspora-led investments

Over the past few years, a number of initiatives to foster diaspora-led investments into migrant domestic economies have been proposed. In addition to "setting the macroeconomic house in order" in view of creating an enabling environment for investments into the countries in general[55], two sets of objectives have been pursued by such diaspora-related initiatives:

- Increase the volume of remittances inflow through the formal channels (and to the domestic banking system) and channelling received remittances to productive sectors of the economy
- Facilitating diaspora entrepreneurship

4.2.3.1. Initiatives that impact on volume of remittances inflow through formal channels

Given that remittances remain private in nature, it has been shown that mandatory schemes to influence the channel used by the migrant often do not produce desired results *(Foran, 2006)*. This is more so given the fact that the authorities in the region do not have direct control over the migration process. Measures that are in the form of incentives generally work better. These may include:

- **Establish framework that would allow for introduction of innovative financial instruments by domestic financial institutions.** The government should allow for and encourage the establishment of financial instruments that would serve to capture remittances from the diaspora. A number of banks in the region are already offering such services, covering the full spectrum of products that address the needs of the diaspora community: current, savings and investment accounts[56]. Some of these instruments would include:

  - **Repatriable foreign exchange accounts** – such accounts could be allowed to yield premium interest **rates and** premium foreign exchange rates.[57]

  - **Issuance of diaspora bonds:** A diaspora bond is a debt instrument issued by a country – or potentially, a sub-sovereign entity or a private corporation – to raise financing from its overseas diaspora. Diaspora bonds are typically long-dated securities to be redeemed only upon maturity. They are often sold at a premium to the diaspora members, thus fetching a "patriotic" discount in borrowing costs. Given that these bonds are long term in natures, proceeds could be used to finance investments. Issuance of this instrument also has the effect of improving the issuing country's sovereign credit rating. Some of the constraints that SSA countries issuing such bonds may face include: weak and non-transparent legal systems for contract enforcement; a lack of national banks and other institutions in destination countries, which can facilitate the marketing of these bonds; and a lack of clarity on regulations in the host countries that allow or constrain diaspora members from investing in these bonds *(Ketkar and Ratha 2007, Ratha et al 2008)*. Diaspora bonds are considered to be effective in diverting unrecorded remittances into the formal banking system because of the anonymity provided.

- **Establish programs to improve recipient financial literacy:** Most remittances recipients (and even senders) are not aware of available financial (savings and credit) services that could serve as "stepping stone" to the start up of a SME. It is thus important to elaborate schemes that could provide the remittances actors with such information. Thus, for example, remittances receiving financial institutions could be encouraged to provide related financial services documentation to each recipient. With assistance from the government, special training sessions could also be organised in collaboration with these institutions.

Remittances securitization: Additionally, countries can improve their access to international capital markets through securitization against expected remittances earnings from it diaspora. According to the World Bank, this may contribute to overcoming the currency and emerging market risks that these countries face by establishing offshore collection accounts for foreign currency receipts (World Bank, 2005)[58].

55 Measures that address the legal and regulatory framework were presented earlier.

56 Home Coming Account (Databank, Ghana), Nigerians in Diaspora Account (Bank PHB, Nigeria), Nigerians in Diaspora Domiciliary Account (Oceanic Bank, Nigeria), Diamond Reach (Diamond Bank, Nigeria), etc..

57 In countries that still maintain a strict foreign exchange control.

58 The first securitization deal involving remittances was reportedly struck in 1994 in Mexico. It is estimated that Mexico, El Salvador and Turkey raised approximately US$ 2.3 billion through the monetization of future flows during the 1994-2000 period, with Brazil raising up to US$ 5.3 billion during the 2000-2004 period.

It is estimated that SSA countries can potentially raise US$ 17 billion by securitizing future remittances and other future receivables *(Ratha et al, 2008)*.

4.2.3.2. Initiatives that facilitate diaspora-led investments

In addition to the set of measures described earlier which have the potential effect of spurring investments by the diaspora, other investment promotion-specific incentives need to be considered. These would include:

- Establishing specific tax/sectoral/export/tariff incentives for new diaspora investments.
  - Preferential tax rates. An example would be the Nigerian Pioneer Status scheme that grants a 5 years corporate tax amnesty to first time diaspora investors. This is also the case for Cape Verdean diaspora investors (see box)
  - Offer concessional rates of duty on imported capital goods (i.e. machinery and equipment).
  - Creation of a one-window clearance system for diaspora investments.
  - Preferential access to capital goods and raw materials import.

Some of the incentives provided by the Cape Verdean government to foster diaspora-led investments include:

- Preferential higher rates on interest-bearing deposits (in both local and foreign currency) in the banking system. The percentage point differential with respect to deposits by local citizens was as high as 4 percentage points in 2003 although this has declined progressively and currently stands at 0.5 percentage points.
- Emigrants are entitled to an exemption from the 20 percent withholding tax on interest earned;
- Any member of the diaspora who has a minimum balance in a savings account with a bank and requests for a loan for investment could benefit from an interest rate reduction of up to three percentage points. This obtains particularly for investments in such sectors as industry, tourism, retail, real estate and transportation;
- A corporation established by an emigrant is exempted from the 35 percent corporate tax during the first five years.

- Provide business advisory services: The authorities may be encouraged to establish centers that provide advisory services on investment in the domestic economy. These would include providing information on available investment opportunities, saving schemes, financial support, business start-up procedures etc.. Such services could be provided by the diaspora-focused institution identified earlier or by a unit within the country's investment promotion agency.
- Use MFIs to directly support diaspora-led investments: In a number of countries, non-bank financial institutions such as MFIs remain outside the remittances market. However, given their reach, they could be empowered to capture remittances as deposits and channel to them to existing businesses in the economy. As with the banking institutions, MFIs could thus be able to offer the same set of financial instruments that could serve to "accumulate" remittances in view of constituting seed capital for business venture, real estate investments or even serve as a fund from which local SMEs could borrow.

4.3. At the Host Country level

4.3.1. Strategic relationship with the diaspora

Diaspora groups and networks in host countries, especially those that are established as Home Town Associations (HTAs), play a key role in maximising the developmental impact of migration on origin countries. With respect to investment into the origin countries, these groups are recognised for fostering bilateral trade between their host and home countries as well as being effective in initiating and implementing community sector investment projects in their origin countries. Such groups are effective based on the links they maintain in both the origin and host country.

The concept of **co-development** pioneered by France sees the diaspora as partners in development co-operation. At its inception, however, co-development was narrowly focused on encouraging migrants to return home. Today the approach is to include all aspects of development co-operation in which all members of the diaspora including entrepreneurs can be involved.

Instruments of co-development are of a financing nature (e.g. Public Private Partnerships) as well as of an expertise type. It includes helping migrants to direct their savings better towards productive investment in their countries of origin and strengthening the capacities of financial institutions (including micro). The French "Programme Dévelopement Local Migration" (PDLM) provides an illustration of the various components of the co-development concept.

Launched in the mid 1990's as a pilot project in Mali and Senegal, the PDLM finances micro-project start-ups developed by return migrants. It ensures its follow-up on the ground and its smooth integration with on going national strategies of regional and sector development programmes. They also contribute to co-operation between decentralised entities (regions, districts, municipalities) and facilitate twinning and partnership agreements between regions of interest to the diaspora (for example, the Kayes region of Mali)

Host country governments can strengthen formally constituted institutions but the effectiveness of networks lie in their informal relationships and social capital, which should be preserved and supported. Co-development initiatives that seek to integrate the specialised knowledge of diasporas, virtually or physically, back into the home country, is a good example of innovative ways to engage with the diaspora.

4.3.2. Policy recommendations

Given the importance of the remittances market, host country authorities should work with their counterparts in the home countries on technical, regulatory and oversight matters to ensure transparency in the market. Measures that contribute to increased access to the financial system by migrants would also enable them to use the formal channel for their remittances transfers.

4.3.3. Incentives and Mechanisms

Some initiatives that could be put in place to foster improved diaspora investments into their home economies may include:

- **Establish technical and financial assistance programs** that provide support to diaspora entrepreneurs in initiating investment projects in the region.
- **Involve the diaspora in economic missions** to their respective home countries. Not only would this provide the diaspora participant with an opportunity to identify investment opportunities, such actions would also be beneficial to host country entrepreneurs who can gain useful insight from the diaspora members on "local conditions".
- **Make provisions for short term work placements.** Encourage and put in place beneficial plans that would encourage short term work placements of diaspora members in the region. The period spent in a given country by a member of the diaspora will provide the opportunity to ascertain investment opportunities in that country.

4.4. At the level of Multilateral Institutions

Multilateral institutions (or the so called development actors) have a key role to play in fostering diaspora-led community and private sector investment in the SSA region. Institutions such as the IOM have been addressing issues related to the sector for some time now[59]. In recent years, there has been a flurry of activity at other major multilateral institutions.

Thus, in 2007 the World Bank launched the Development Marketplace for African Diaspora in Europe (D-MADE) initiative targeting diaspora members in Europe (see box) and in 2009 the European Union will be launching a multi-million Intra-ACP migration facility that would address some elements of diaspora-led investments. The Pan African Capacity Building Forum[60] held in Maputo, Mozambique in 2007 also, called for "strategies to facilitate the contributions of African Diasporas to the development of their countries".

D-MADE is an initiative of the World Bank that is financially supported by the Belgian Development Cooperation, the Dutch Ministry of Foreign Affairs, the German Federal Ministry for Economic Co-operation and Development and the French Development Agency.
The initiative awards cash prizes and technical assistance to innovative entrepreneurial African Diaspora groups for projects implemented in Sub-Saharan Africa, through a competitive process. At the end of the first edition of the process that concluded in June 2008, a total jury award of close to US$ 1 million was granted to sixteen investment projects in Africa out of 500 submissions. The winning projects will be implemented in 11 African countries, including Mali (4), Cote d'Ivoire (2) Benin (2) and one each for Burkina Faso, Cameroon, Democratic Republic of Congo, Ethiopia, Madagascar, Malawi, Sierra Leone, and Togo.
www.d-made.org

4.4.1. Strategic links with the diaspora

The role that migrants play in promoting investments in their countries of origin, as well as the contribution they make towards the prosperity of their host countries, should be recognised and reinforced. African diaspora investment should become an integral part of global, regional and national strategies for poverty reduction. Measures to encourage the transfer and investment of remittances should be combined with strategic policies that are conducive to good governance and economic growth.

Multilateral institutions as well as their member States should work with SSA government authorities to address diaspora investment with more consistent strategies, policies and legislations including: nationality, commercial and financial law, tax law, international family and family property relations, international legal cooperation and litigation. The governance of international migration and investment could also be enhanced between countries at the regional level, with more effective cooperation among governments and between international institutions and organisations of the region. Such efforts must be based on the close linkages that exist between international migration, investment and development and other key policy issues, including trade, aid, state security, human security and human rights.

59 Focus has been on supporting community sector investment initiatives and on entrepreneurial activities of return migrants.
60 Forum was attended by delegates representing cabinet ministers, senior government officials, representatives of development partner institutions and civil society groups. Also in attendance was the former president of Tanzania (Benjamin Mkapa) and Prime Minister of Mozambique (Luisa Dias Diogo)

4.4.2. Incentives and Mechanisms to fostering diaspora-led investments

At the *community sector investment level*, multilateral institutions should be instrumental in providing the platform for sustaining projects initiated by diaspora groups. Some of the key recommendations include:

- **Linking up with and supporting diaspora group initiatives** – It is vital that these groups be engaged effectively for the "long term" on initiatives that they generate themselves. The groups are better placed to determine the right community projects for their regions and will not readily buy into those projects imposed by development actors.

- **Encourage diaspora groups to become involved in internationally-funded local development projects.** These groups have the knowledge base and network to effectively contribute to the successful outcome of local community development projects. A scheme to encourage consortia that vie for the implementation of such international funded development projects to include competent diaspora groups should be given due consideration.

The African Export-Import Bank (Afreximbank) has been active in facilitating future flow securitization since the late 1990s. In 1996, it co-arranged the first ever future-flow securitization by a Sub-Saharan African country, a $40 million medium-term loan in favor of a development bank in Ghana backed by its Western Union remittance receivables (Afreximbank 2005, Rutten and Oramah 2006).

The bank launched its Financial Future-flow Pre-financing Programme in 2001 to expand the use of migrant remittances and other future flows—credit card and checks, royalties arising from bilateral air services agreements over flight fees, and so forth—as collateral to leverage external financing to fund agricultural and other projects in Sub-Saharan Africa.

In recent years, the Afreximbank has arranged a $50 million remittance-backed syndicated note issuance facility in favor of a Nigerian entity using Moneygram receivables in 2001, and it co-arranged a $ 40 million remittance-backed syndicated term loan facility in favour of an Ethiopian bank using its Western Union receivables in 2004 (Afreximbank 2005)

Quoted from Ratha et al, 2008

Initiatives by multilateral institutions geared towards supporting diaspora *private sector investments* should involve both direct support to the diaspora entrepreneur and support the creation of an enabling investment climate in the region as well as assisting the countries in their efforts to channel remittances from its diaspora into productive investments.

- **Initiate and support schemes designed to support diaspora-led private sector investments.** A typical example of such a scheme is the D-MADE initiative (see box)

- **Facilitate the involvement of diasporas in existing initiatives and financing programs** which endorse SME activities in the region. As with community sector projects, existing programs such as the World Bank's IFC Private Enterprise Partnership program (PEP-Africa)[61] should be adapted to support diaspora-led investments. Another instrument that should be opened up to diaspora investment would be the Small Investment Program (SIP) guarantee program developed by the Multilateral Investment Guarantee Agency (MIGA) of IFC, the World Bank private sector arm. This program, specially designed for SMEs[62], offers a standardized package of risk coverage including currency inconvertibility and transfer restriction, expropriation, and war and civil disturbance.

- **Assist SSA governments in their effort to improve the investment climate in their countries.** The study team is aware of a number of initiatives at the level of several multilateral institutions that focus on this issue. The European Union has in place a number of such initiatives[63] that provide funding to developing an efficient and effective enabling investment.

- **Provide international support to initiatives designed to leveraging remittances for contribution to the home economies.** Multilateral institutions should provide adequate support to the countries in the region that seek to increase the flow of remittances into the economy either through the emission of diaspora bonds or through securitization of future remittances.

4.5. At the level of the Diaspora Community

As indicated earlier, not only does the diaspora community invests in both private sector and community sector projects, it also has the knowledge and network that could be deployed in fostering foreign direct investment in the domestic economies of their origin countries. However, to play the FDI facilitator role, there is need for an increased networking between the members of the community in view of building capacity for effective participation in decision-making at all private and public sector levels in both origin and host countries.

61 Established in 2005, the PEP-Africa program supports the development of private, small and medium size enterprises in the region. It establishes partnerships with donors, governments, and the private sector to design and deliver technical assistance programs and advisory services that improve the investment climate, mobilize private sector investment, and enhance the competitiveness of small- and medium-sized businesses.

62 According to a MIGA representative, the program can provide coverage for investments as low as US$ 200,000.

63 Including the African Business Climate Facility (BizClim) that is funding the present study.

At the home country level, they need to:

- **Engage with the authorities in the origin country** to promote good governance and to improve the enabling environment for private sector development.

At the host country level, there is need for them to:

- **Actively engage with host country business promotion institutions** (investment promotion agencies, chambers of commerce and other business associations). The diaspora member or organisations could be instrumental in providing information on investment opportunities in home economies, participating in business promotion events (for example, economic missions, trade events) directed towards the origin country.

- **Foster trading links with their origin countries.** Members of the African diaspora, who are employed amongst the top consultancies and multinational firms, should facilitate access to the top management, support Africa's trade and FDI initiatives, and help in increasing Africa's share of products outsourced by large multinational corporations. Professionals, traders and businessmen should also provide useful insights for market penetration strategies and use their networks for the entry of products and services from their home economies into host market.

- **Make contributions that will foster a positive image of Africa in the host country.** Active participation in the media to "sell Africa in a positive light" might just be as important as sending money home.

5 The African Diaspora Investment Facility

5.1. Goal and Objectives

The African Diaspora Investment Facility (ADIF) aims at making available instruments that will enable and sustain African diaspora-led investments into countries of the SSA region.

The facility will assist existing and potential diaspora investors with adequate instruments at three levels of the business venture cycle: genesis, start-up and sustainability. At each point in the cycle, there is the need to provide assistance in the form of information, capacity building, and funding.

Thus this facility has the following objectives:

- Provide an integrated set of services in the areas of information and documentation, development of bankable project proposals, facilitation of access to finance, management and marketing in view of improving existing diaspora-initiated businesses in the continent or the setting up of new ones (Information and Technical Assistance – ITA).
- Make available a funding facility for the benefit of the diaspora entrepreneur (DiaFund).

5.2. Information and technical assistance (ITA)

5.2.1. Activities

This service will provide potential diaspora entrepreneurs or diaspora groups of investors with information and assistance at the investment project genesis as well as during start up and implementation phase.

At the project genesis and elaboration phase, the following information service is envisaged:

- Compile, document and disseminate information about available investment opportunities, including potential joint venture partnerships with local and foreign investors.
- Provide information on legal, financial and other requirements for investing in target home countries.
- Provide information on government policies and procedures as well as the facilities and incentives made available to diaspora investors.
- Provide remittances senders and receivers with informations on financial products and services in a bid to leverage remittances for capital and employment generating activities.
- Facilitate financial literacy education to both senders and recipients.

Additionally, the facility should be able to assist and/or coordinate assistance to diaspora entrepreneurs in the "packaging" and "marketing" of their projects. These will include:

- Provision of advisory and training services in the elaboration of business plans that meet the requirements of financial institutions (international development finance institutions, venture capital firms, banks, etc...).
- Liaising with these institutions to secure funding for projects.
- Structuring of joint venture partnerships with local and/or foreign companies.
- Assistance in obtaining the approval of government authorities of target countries.
- Seeking out potential investors, providing guidance on how to approach them, being active in setting up meetings and contacts.

Finally, the facility should serve as the platform for identifying, recruiting and deploying experienced managers to provide requisite managerial expertise to the diaspora investor during the start-up and implementation phases of the project. Where this is available, the facility will make use of the services of professionals from the diaspora community.

5.2.2. Implementation

The facility will make use of resources available at international institutions and NGOs for the technical assistance and implementation aspects of its activities.

Some of the international institutions and organisations that have been identified for this purpose include:

- Centre for the Development of Enterprise (CDE)
- Technical center for agricultural and technical cooperation ACP-EU (CTA)
- African Management Services Company (AMSCO)
- International Organization for Migration (IOM)
- Development NGO's such as GRET, ATOL and TECHDEV
- Network of consultants: Coachinvest, "retired" senior consultants

5.3. Diaspora Investment Fund (DiaFundTM)

Introduction

In addition to the usual investment deterrents plaguing the continent, the African diaspora investor typically faces the crucial problem of inability to access to capital for investment in their home countries:

- Financial institutions in their host countries are reluctant to provide the diaspora investor with loans for investment into an African country.
- International development finance institutions and local African banks are reluctant to provide them with financing as they are not resident in Africa.

We are proposing to establish a fund specifically designed to facilitate funding of investment initiatives by entrepreneurial and enterprising members of this community.

The African Diaspora Investment Fund (DiaFundTM) is a fund of funds that will invest in quality seed and venture capital funds within and outside the SSA region that commit to invest in promising diaspora-connected deals in the region.

Mission

The mission of the DiaFund would be to increase the amount and diversity of capital funding available to help the diaspora early-stage and growth companies to grow, prosper and mature in the SSA region. It would do this by:

- encouraging the availability of a wide variety of venture capital in the region interested in funding diaspora-connected businesses.
- helping diaspora-connected businesses in the region gain access to sources of capital.
- helping to build a significant, permanent source of capital available to serve the needs of diaspora businesses in the region.

Investors (sourcing)

Four types of investors will be targeted for constitution of the fund. They include both non-profit and profit-making investors.

- **Institutions**

Key international institutions that have been identified include:

- The European Investment Bank
- The African Development Bank
- The World Bank

- **Private companies and Foundations:**

These are companies and foundations with interests in the continent. Multinational companies (Shell, Diageo, BP, etc) as well as the growing base of large corporate concerns where African entrepreneurs have interests (MTN, Celtel, etc..).

- **Diaspora community**

  - Members of the African diaspora community with funds to invest. These include professionals and entrepreneurs active in the corporate sector outside Africa.
  - An important source of investment into such a fund might be derived from the remittances made by the community. A number of schemes for pooling of remittance funds or the constitution of remittances-related funds have been proposed by diaspora organisations. These include the remittances relief tax (Faal 2006) proposal from the UK-based organization AFFORD and the Direct Expatriates Nationals Investment (DENI) (Kwoba, 2006) program initiated by the Foundation for Democracy in the United States. Such diaspora organizations will also constitute an important medium for reaching potential diaspora investors.

- **Host country governments**

The development finance institutions and related ministries of European governments are other potential sources of funding. This will include the development cooperation agencies and/or ministries as well as institutions set up by these governments to provide support for investment into developing countries. These will include institutions such as:

- Directorate General for Development Cooperation - DGDC (Belgium)
- Belgium Investment Organisation – BIO (Belgium)
- PROPARCO (France)
- Department for International Development – DFID (UK)
- Swedish Development International Agency – SIDA (Sweden)
- Swedfund International AB – Swedfund (Sweden)
- Swiss Development Corporation – SDC (Switzerland)
- The Netherlands Development Finance Company - FMO (Netherlands)
- Finnish Fund for Industrial Cooperation – FINNFUND (Finland)
- The Industrialization Fund for Developing Countries – IFU (Denmark)
- Norwegian Investment Fund for Developing Countries – Norfund (Norway)

Fund size

The target fund size will be $200 million and will be structured to be financially self-sustaining. Investors can take up equity investment in the fund (with a designated scheduled rate of return and a scheduled redemption) or subscribe to debt obligations issued by the fund (with a designated payments of principal, interest or interest equivalent).

Investment strategy

SME's have flourished in most developed countries because of the critical role that capital markets, especially venture capitalist markets, have played. Venture capitalists do not just bring money to the table; they help groom start-ups into viable business institutions. Bringing venture capital markets to focus on this segment of the market could help ensure the sustainability of diaspora-connected companies.

The DiaFund will not make direct investments in individual businesses but would rather invest in:

- High-quality venture capital funds managed by investment managers who have made a commitment to equity investments in diaspora-connected businesses located within the region.
- National-based diaspora investment funds. This will include funds such as the Nigerian Diaspora Investment

Fund (NDIF) and the proposed Kenya Diaspora Investment Fund (KDIF) and other national-based funds that would be established in the future.

It is expected that an investment or investments by the DiaFund in any venture capital fund may comprise no more than 20% of the total committed capital in the venture capital fund.

Management Structure

The fund will be managed by a professional fund manager but would be governed by a special unit of the ADIF – the ADIF DiaFund Board - that will be charged with:

- Overseeing and reporting on the fund's activities.
- Approving its financing.
- Approving all portfolio investments made by the fund.
- Managing the fund's project staff and external investment advisor.

6 Conclusion

6 Conclusion

In recent years, there is a growing interest on the part of governments in the SSA region to attract increased inflow from their diaspora with the objective of maximising the developmental impact of such contributions on the domestic economy. With respect to remittances inflow, the prime goal is to increase the volume of the flow that goes through the formal channel and to direct the received inflow into the income-generating and employment-creating sectors of the economy. Additionally, despite the current low level of portfolio private investments by the diaspora today, there is a potential for this to grow in the near future as the diaspora from the SSA region continues to consolidate its position within the corporate and financial sectors of host countries in developed economies. Finally, the diaspora could play a critical role in fostering bilateral and multilateral investments into the economies of their origin countries. However, for this to happen, policy measures need to be put in place and concrete initiatives proposed in view of addressing obstacles and challenges to further expansion of such diaspora inflow.

This report has proposed policy recommendations and initiatives at the level of four key stakeholders to diaspora-led inflow: origin country governments, host country governments, multilateral institutions and the diaspora community itself. It also presented a brief overview of the African Diaspora Investment Facility designed to make available instruments that would enable and sustain African diaspora-led investments into the region.

At the origin, host and multilateral levels, strategic links should be maintained with the diaspora and the legal and regulatory framework should be reviewed in the light of contributing to an increase in diaspora inflow into the region and to fostering diaspora-led investments. The policy measures and initiatives proposed in this report need to be adapted to take into account the specificity of the origin and host countries.

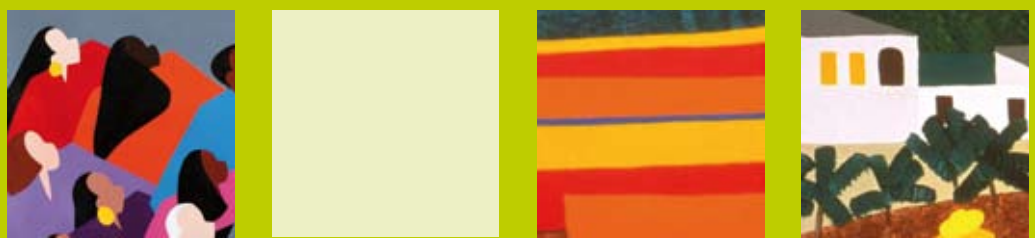
Annex 1

Comparative review of institutional, regulatory framework and obstacles to diaspora inflow

Country	Diaspora focused Institution	Diaspora-specific regulatory framework
Cape Verde	- Instituto das Comunidades (IDC)	- Dual citizenship rights - Legislative bill under discussion
Ghana	- Non-Resident Ghanaians Secretariat (2003) - Ministry of Tourism and Diasporan Relations (2006)	- Dual citizenship rights - Residents and non-residents are allowed to maintain foreign currency bank accounts with banks. - No restrictions on the purchase of capital market instruments dual citizenship - Right to vote (not ratified)
Nigeria	- Nigerians in the Diaspora Organisation (NIDO). - Nigerian National Volunteer Service (NNVS)	- Dual citizenship rights - Foreign Exchange Act (1995) and the Banks and Other Financial Institutions Decree (1991, amended in 1999)
Mali	- Ministère des Maliens de l'Extérieur et de l'Intégration Africaine - Haut Conseil des Maliens de l'Exterieur (HCME)	- Dual citizenship rights - 1991 and 2005 Investment Code - investment code specific to the tourism and hotel sector
Senegal	- Ministry of Senegalese Abroad and Tourism - Senegalese Diaspora Foundation (Fondation des Sénégalais de l'extérieur)	- No formal dual citizenship rights - Ministry of Senegalese Abroad and Tourism makes recommendations to the Presidential Investment Council
Kenya	- International Jobs and Diaspora Office (IJDO) - Diaspora Technical Team	- legislative bill by the Diaspora Technical Team (under discussion) - bill on the National Payments System by the Central Bank of Kenya (under discussion)
Cameroon	- None at present - "Haut Conseil Répresentatif de la diaspora" and "Agence Nationale des Migrations" (proposed)	- None

Initiatives/Mechanisms	Obstacles/Challenges
- preferential higher rates on interest-bearing deposits - exemption from the 20 percent withholding tax on interest earned - interest rate reduction of up to three percentage points on loan (based on savings account) - 5 years corporate tax holiday	- Diaspora-focused agency is short staffed and under-funded - Remittances transfer costs remain very high - The country is not making full use of its micro-finance institutions
- Non-Resident-Ghanaian Fund for Poverty Reduction - Competitive grant facility (CGF) to support new remittances products and services (yet to be implemented) - Launch of E-Zwich, the national switch for electronic payment - Diaspora-specific financial products (Ex: Databank homecoming account)	- Remittances transfer costs remain high - NRG remains ineffective with a low profile; Ministry of tourism and diaspora relations remains ineffective on diaspora issues - Restrictions on banks and other non bank financial institutions to expand to other parts of the country
- One-Stop Investment Center (OSIC) at the Nigerian Investment Promotion Center - The Nigerian Diaspora Investment Fund (to be launched shortly) - National Resources Fund (NRF) - Existence of several diaspora-focused financial products	- Remittances transfer costs remain high - Access to the financial system by remittances recipients remains low
- tax exemptions for periods of 5, 10 or 15 years according to the use of the investment - 30 years exemption from all duties and tax connected with their activities.	- Remittances transfer costs remain high - Access to the financial system by remittances recipients remains low - Restrictions on banks and other non bank financial institutions to expand to other parts of the country
- Initiatives to promote access to finance at the local level and to reduce high cost of remittances transfer and encourage savings - Establishment of a Diaspora investment fund -Fonds d'Appui à l'Investissement des Sénégalais de l'Extérieur, FAISE - The "Centre International du commerce extérieur du Sénégal" (CICES) regularly organises fairs exclusively devoted to the Senegalese diaspora.	- Absence of formal dual citizenship rights - Remittances transfer costs remain high - Low access to capital by diaspora investors - judicial system lacks sufficient technical capacity to handle financial matters
- Networking activities with the diaspora by the Kenyan Investment Agency (KIA) and IJDO in the UK and the USA - Kenya Diaspora Investment Fund (proposed)	- Absence of dual citizenship rights - IJDO is short staffed and under-funded: - Engagement with the diaspora remains weak - legal and regulatory framework remains weak - Absence of incentives for diaspora investors. - Remittances transfer costs remain high
- One networking activity with the diaspora (conference in 2006)	- Absence of dual citizenship rights - Remittances transfer costs remain high - absence of a legal and regulatory framework dealing with diaspora issues

Annex 2



Legal framework underlying diaspora investment

The purpose of this section is to (a) to define the scope and features of the legal framework underlying diaspora investment (b) to provide the outline of a specific legal strategy with recommendations facilitating the contribution of the diaspora to domestic economies including mechanisms for the continuous and dynamic assessment of the legal and regulatory risks and hurdles to the diaspora investment.

1. Scope and features of the legal framework related to Diaspora Investment.

1.1. Impact of investment, financial and business law on diaspora Investment

This section introduces a specific set of criteria for an accurate assessment of the legal, regulatory, fiscal and financial framework in the area of diaspora investment. Though comprehensive, it does not pretend to cover all the traditional criteria of a legal framework, from family law to criminal law.

With increasing global trade liberalization, financial and business law now have a major impact on diaspora investment. The review of ivestment policies in Africa in the UNCTAD 2003 report reported that the standards of treatment and protection of foreign investors are no longer the main contentious issues in Africa. The issue is not only in an attractive "special investment law" or fund or instrument for diaspora investment but rather the key challenge is the availability of an attractive " regular legal framework".

It should be also understood that "trade policy" by now encompasses much more than trade in goods. It has evolved to take into account the increasing mobility of economic resources including *capital movement*. As the regime of these interlinked laws plays a key role, it is important to assess how it performs its task, positively or negatively, in the different countries considered from the financial instruments of transfer of Diaspora funds up to the treatment of the diaspora's assets in the country and to insolvency policies. Our approach is comparative, based both on legal specialized research as well as on the field trips of the study team. Attention has been paid not only to the "law in the book" but also on practices and the "law in action".

1.2. The notion of investment

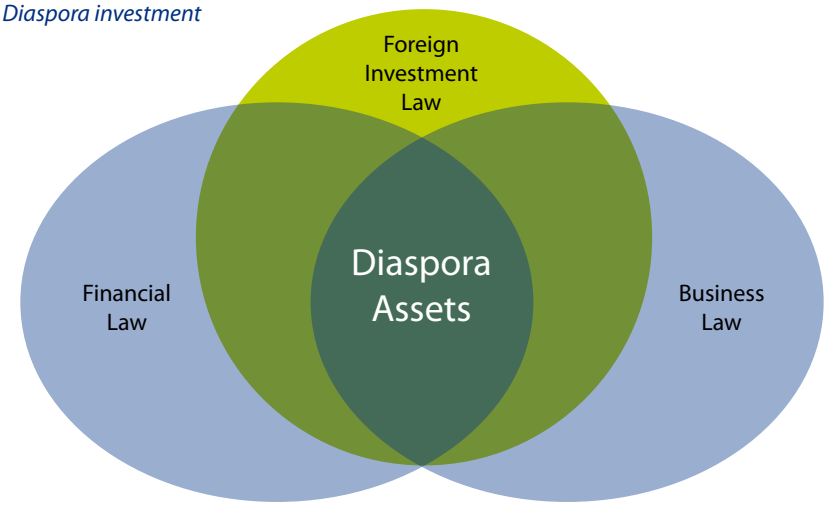
According to the Model Law on Investment in Africa (19 December 2003) investment means: *Capital used by any person, natural or legal, to obtain an interest in and rights to personal, intellectual or real property, material or immaterial, corporeal or incorporeal goods, rights and/or services, including that utilized for initial establishment and/or creation of business.* To be more detailed, and taking into account most international and bilateral agreements, investment is: i) a company; ii) shares, stock and other forms of equity participation in a company, and bonds, debentures and other forms of debt interests in a company; iii) contractual rights, such as under turnkey, construction or management contracts, production or revenue-sharing contracts, concessions or other similar contracts; iv) tangible property, including real property; and intangible property, including rights, such as leases, mortgages, hypothecs, liens and pledges on real property; v) rights conferred pursuant to law, such as licences and permits provided that that there is a significant1 physical presence of the investment in the host state. To summarize this long list from a legal point of view, at the heart of Diaspora investments, is embedded the notion of **assets** with its three classes:

- Immoveables: land, real property;
- Intangible assets: securities (such as bonds, shares, titles in collective investment schemes, and hybrids such as convertibles, preference shares, subordinated debts and the like), but also, considering the ToR wide definition of investment intellectual property, debt claims, security interests, title finance and bank deposits, bank loans and project financing;
- And some tangible moveables linked to investments (goods and material). An investment does not include however claims to money deriving solely from commercial contracts for the sale of goods and services to or from the territory of a Party to the territory of another country.

1.3. Intermediaries

Given that financial asset is invisible and usually confidential, it has been already outlined in this study, that it is difficult to pin down its precise origin or nationality for legal purposes. Its location however matters in relation to which state has jurisdiction to regulate it and to subject it to proceedings (e.g. insolvency), in particular as Diaspora investment may

Figure 5: Scope of the legal regime for Diaspora investment



trigger conflict of laws. Banks play in principle a major role as depositories for the people's savings and to diversify and reduce investments risks. Non bank intermediaries of savings include: mutual and hedge funds, pension funds, insurance companies (which collect premiums). Diaspora savings could use any of these intermediaries to invest for instance in project finance, in equity shares or in other marketable debt securities (e.g. bonds). Certificates for share and debt securities take the forms of accounts kept by the operator of a clearing system which records what the investment is and who owns it. It is thus important to assess the relevant legal framework of such financial institutions and of their investment transactions.

Together with registries and better even than investment centers or bilateral chambers of commerce, banks and non bank intermediaries are the entities which know best their "Diaspora Investor" client. In particular as Investor means, according for instance to the Model Law on Investment in Africa: *Any person, natural or legal, who makes any Investment in the country, regardless of residence or nationality.*

1.4. Four key features

should be assessed in the national legal frameworks, as well as recommended in order to facilitate the contribution of the Diaspora to the domestic economies:

- **Legal stability, simplicity and predictability:** the law should not be volatile, uncertain, unnecessary complex, unenforced. Government intervention should not be arbitrary.
- **Freedom and non discrimination:** The law should not put hurdles. It should be as free as consistent with fundamental policies where there is a need for protection (e.g. environment, consumers, against corruption, money laundering or crime). It should eschew legal tribalism and xenophobia.
- **Property and contract rights:** These fundamental rights include reasonable taxation, not expropriation, as the means of a redistributive policy.
- **Risk and cost reduction:** Financial law should seek to lower, not increase, risks and costs flowing from investments; sanctions for non compliance should not be unreasonably high, criminalizing civil wrongs or nullifying transactions for minor reasons.

1.5. Increased harmonization

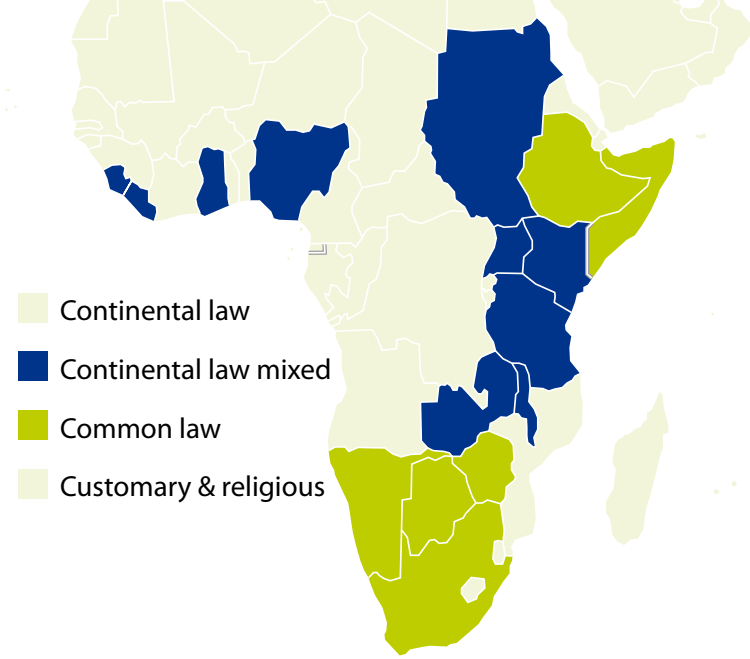
Until the 1980's, many ACP countries remained frozen in their past legal traditions: continental law, mixed systems or common law[64] . The postulate that one or the other tradition of law is causally linked to economic development is inaccurate as all three systems of law were related to the colonisation process and still correspond to a large percentage of illiterate people with difficult access either to law or investment[65].

In terms of diaspora investment, if Mali or Senegal does better than Zimbabwe that has little to do with civil law. The fact that Malawi is a common law country will not by itself ensure the country's increased capacity to attract diaspora investment. Irrespective of the legal tradition, issues such as discrimination, legal uncertainty, breach of property and contracts rights impact negatively on investment. The notion of fragile state, the criteria of stability, legal and judicial certainty, the pattern of diaspora investment concentration are much more accurate than the legal tradition. Moreover investment, financial and business law is an area of great convergence through: international and bilateral conventions (for the protection of investment, on taxation, fight against corruption), international recognized standards, established rules of customary international law, national treatment, and most-favoured-nation treatment, the Basel capital adequacy rules for banks as well as model laws (e.g. UNCITRAL on cross border insolvency). Regional cooperation and integration strengthens such convergences. Legal harmonisation falls within the framework of the objectives of the New Partnership for Africa's Development (NEPAD), endorsed in June 2002. Already ECOWAS in West Africa, CEMAC in Central Africa, the Common Market for Eastern and Southern Africa (COMESA), and other regional zones are effective tools of approximation in trade and investment.

64 By and large, investment legislation in Africa was the result first of the decolonization process, then of economic nationalism, in particular under socialist regimes, and indigenization in the 1970s, it was followed by liberalization in the 1980s and beyond.
65 The methodology of Doing Business

Figure 6: Legal systems in SSA countries

Continental law mixed = based on Roman-Dutch law; or Roman-Dutch law and English common law e.g; South Africa where the influence of English law is more pronounced in criminal legal procedures; or Continental law (civil, "French, Egyptian, Belgium, German, Swiss, Spanish or Portuguese" sources), with common law presence (e.g. Cameroon).
Customary &/or religious law is in all SSA, in different forms, including unwritten practices & separate traditional or religious courts



1.6. Implementation issues

The Organisation for the Harmonisation of business law in Africa (OHADA) created by the Treaty of Port Louis in Mauritius on the 17th October 1993, also represented progress in this area. As in other African common law countries the issue is not necessarily in the legal framework but in its implementation. Most of the principles found in the Uniform Acts (e.g. collaterals and guarantees, Company law, Arbitration) represent international standards common to all modern legal systems. Though some articles need refinement, simplification and refreshment, the problem is not simply legalistic and/or linguistic. Cameroon, a mixed legal traditions country, is a testing ground for successful harmonization. Ghana and Liberia are considering joining and the DRC announced that it would join. In most matters relating to business law, and thus a great part of investment aspects, OHADA member states have transferred legislative powers to a supranational body, the Council of Ministers and the function of final court of justice to the CCJA. As the latter is established in Abidjan, the issue of access to justice has been raised, though by virtue of article 19 of the Rules of Procedure, the CCJA, may meet in any member state with the latter's prior consent and without financial burden for the state.

Many OHADA countries however have not taken the financial and human resources means to create, run and maintain the Trade and Personal Property Credit Registry (TPPCR), brought forth by OHADA and that could facilitate the attraction and identification of Diaspora investment. Even in Cameroon, TPPCR have faced some difficulties (but Douala is now performing well). Inadequate facilities, administrative and bureaucratic bottlenecks lead, at best, to a ledger of entries of registered companies. Many companies, commercial operators and States (including the Treasury) have not complied with their obligations (e.g. article 42 of the Uniform Act on General Commercial Law) and are unaware of its implications, uncertainties and rippling effects. But the gap between the law in the book and the law in action is not specific to OHADA countries, it also exists in common law African countries. In order to attract Diaspora investment it is thus important to ensure that all the stakeholders do implement the applicable texts in their specific context.

2. Assessment and recommendations

2.1. The overarching assessment question is

"To what extent is the legal framework consistent with a strategy and instruments favourable to diaspora investment?" Such a framework question, with all its subsequent possible sub questions, implies the prior understanding of what are those appropriate legal frameworks, strategies and instruments? How is it concretely possible, in legal terms, to remove impediments to diaspora-led investment and to encourage such investment?

A first step is to identify and assess the type of investment law, existing or to be developed. Historically, many investment laws in Africa have been substantially of the general type: not addressing the needs of any specific investor class or industry and assuming that conditions exist that will facilitate an efficient allocation of investment capital. It usually provides basic legal protections and guarantee property rights to investors. This kind of investment law is thus useful in countries where the basic market system is relatively developed and free from significant distortions. The goal is to eliminate impediments and improve the investment climate. The **all encompassing** investment law is one that seeks to address all relevant issues in the investment law. As did the defunct Decision 24 of Andean Pact it seeks to transform local economies and focuses on all issues of investment and development including those of transfer of technology, the requirements for industrial upgrading, manufactured exports, access to financial capital, and so on. This second type of investment law presents some advantages and many pitfalls. It compels policy makers to identify the most important investment needs and to determine what incentives should be given and for how long. It also has the advantage of serving as one-stop-legislation in that all relevant laws on investment can be found in one legislative instrument. However, such comprehensive unique investment legislation presents

66 See The 2003 African Union Convention against corruption.

67 In addition to the trade arrangements between the EU and member countries of the African, Caribbean and Pacific (ACP) organisation, many regional trade arrangements or Free Trade Areas (FTAs) in African countries have foreign investment related aspects:
(1) Customs and Economic union of Central Africa (UDEAC) has the Common Convention on Investment (1965); (2) The Economic Community of the Great Lakes Countries (CEPGL) has an investment code; (3) The Treaty for the Establishment of the Economic Community for Central African States (ECCAS) (4) The Treaty Establishing the Common Market for Eastern and Southern Africa (COMESA) (5) Treaty for the Economic Community of West African States (ECOWAS) (6) Treaty for the Establishment of East African Community (EAC) (7) The Treaty Establishing the African Economic Community (AEC); (8) Southern African Development Committee (SADC) has a Finance and Investment Sector Co-ordinating Unit (9) West African Economic and Monetary Union (WAEMU) (10) Southern Africa Customs Union (SACU)

68 The objective of the OHADA Treaty, stated in article 1, is "the harmonization of business laws in the Contracting States by the elaboration and adoption of simple modern common rules adapted to their economies, by setting up appropriate judicial procedures, and by encouraging arbitration for the settlement of contractual disputes."

serious risks. Its design can be costly and time consuming with uncertain results due to inaccurate assumptions. Though the approach is important to develop as a strategy, policy and action plan it should not necessarily lead to a unique and over ambitious "Diaspora investment law". Our preferred option/criteria for the diaspora investment legal framework is the **development of a set of interrelated and interconnected laws found in different statutes[69] but tied together through a clear vision and objective function in relation to the diaspora**.

That is why the study team assessed a set of laws designed to be internally and externally coherent and consistent in their interrelationships and application. What matters for their successful design and continuous adjustment **is the policy behind them**. The team started by identifying and assessing to what extent the legal framework was guided by a sound national strategy in relation to diaspora investment. This approach does not view any particular investment law as the end to the process. Each significant area of policy and law (investment, financial, business, trade in services) has been given attention with a view to assessing its critical components for the diaspora and any potential tool of investment and asset.

2.2. Institutional capacities

The development of a system of interrelated "Diaspora investment laws" requires **institutional capacities** and a deliberate coordination of interests and policies in the host country. The laws might sometimes focus on increasing sub optimal levels of diaspora investment to meet the target policies. The process requires an active and purposeful dynamic policy. It could be backed by the "Diaspora Investment fund" and/or banking instruments. It would permit an easy fix if problems emerge that are unique to a specific area or statute. There are signs of such capacities in some sample countries (e.g. Ghana, Nigeria, Senegal) but it is unclear how efficient they are. The team must therefore assess whether the financial intermediaries play an effective, efficient and sustainable role; and whether a National Authority, contact point or center has been established, how it perform its functions:

- providing a contact for assistance in diaspora investment promotion and facilitation;
- maintaining statistics about inward and outward diaspora investment;
- handling enquiries in relation to the conduct of diaspora investor or investors;
- investigating and seeking to resolve concerns or conflicts raised in relation to diaspora investment
- operating in a visible, accessible, transparent and accountable manner. Its legal advice should however in certain circumstances be confidential and subject to the same standards of lawyer-client protection and service as a private law firm.

2.3. Host countries

Host countries should also assist origin countries in the promotion and facilitation of diaspora investment. Such assistance is consistent with the DAC development goals and priorities and the Paris Declaration. The team will assess in particular whether such assistance includes, *inter alia*:

- capacity building with respect to host state agencies and programs on Diaspora investment promotion and facilitation.
- insurance programs and direct financial assistance in support of diaspora investment or of feasibility studies prior to the investment being established; technology transfer.
- periodic trade missions, support for cooperative efforts to promote diaspora investments.

2.4. Guarantees regarding the protection of Diaspora investment

The team will assess whether host sample states ensure that their administrative, legislative and judicial processes do not operate in a manner that is arbitrary or that denies administrative and procedural fairness to Diaspora investors and investments. The team will also assess whether the law provides that all interests and rights of a Diaspora Investor shall be protected against nationalization, expropriation, requisition, in whole or in part, or any other act by the State or any subdivision thereof having a similar effect, without due process of law. According to recognised standards the Investor must be entitled to, and provided with, prompt and appropriate compensation calculated at fair market value as determined by independent appraisal agreed to by both parties according to internationally accepted accounting methods and practices and shall be payable in such currency as that originally invested or in such currency as agreed by the parties. The diaspora investor should have full and unfettered access to all administrative, judicial and alternative dispute resolution procedures. Administrative decision-making processes shall include the right of administrative appeal of decisions. Judicial review of administrative decisions should also be available through domestic judicial review processes.

2.5. Guarantees of transfer

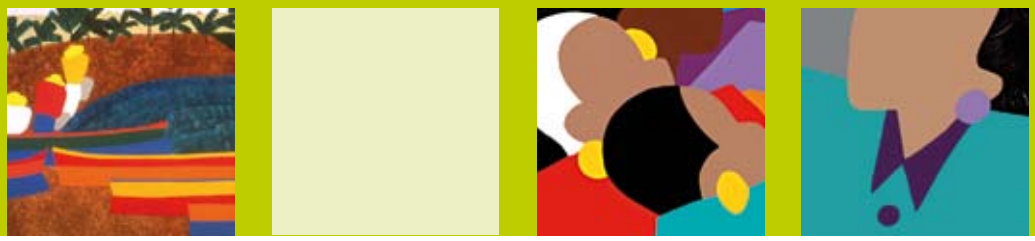
Subject to national fiscal obligations and exchange control regulations, every non resident diaspora Investor and enterprise should have the right to transfer freely outside the country, in any convertible currency, any amounts, including for payment of dividends, interest, capital, suppliers or otherwise, and costs relative thereto, and, in the event of cessation of activity, assets. It will be explored whether the regime applicable to Diaspora investors, even though resident, could be given a specific advantage.

2.6. Anti corruption

There is the need to assess whether the legal framework prevents diaspora investors and their investments, prior to the establishment of an investment or afterwards, to offer, promise or give any undue pecuniary or other advantage, whether directly or through intermediaries, to a public official of the host country, in order that the official or third party act or refrain from acting in relation to the performance of official duties, in order to achieve any favour in relation to a proposed investment or any licences, permits, contracts or other rights in relation to an investment.

69 Including legislation on dual citizenship as described in this study.

Annex 3



Principle 3 of the General principles for international remittance services

General Principle 3. Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions.

1. The legal and regulatory framework includes both the general legal infrastructure (such as the law relating to contracts, payments, securities, banking, debtor/creditor relationships and insolvency) and any specific statutes, case law, regulations or contracts (for example, payment system rules) relevant to remittances. As noted in Section 3.3, the points covered by this principle may also be relevant to non-legally binding policies (such as recommendations) issued by the authorities.

2. This principle does not call for the establishment of a specific legal regime for remittances. A country's existing laws and regulations may already address the requirements of the principles or may be capable of being modified to do so. In particular, the provision of remittance services is likely to be helped by a well-founded legal framework governing domestic payments.

The legal and regulatory framework should be sound, predictable, non-discriminatory and proportionate

3. To be well-founded, the legal and regulatory framework should be sound, predictable, non-discriminatory and proportionate. A sound framework that is well understood helps minimise the risks faced by both RSPs and their customers. A *predictable* framework is one in which it is clear which laws and regulations are relevant, where they do not change with excessive frequency and where they are enforced by the authorities, including the courts, in a consistent manner. Predictability is a key component in creating a climate that favours private sector investment. This is crucial in order to increase competition in, and to improve the quality of, remittance services.

4. *Non-discriminatory* refers to the legal and regulatory framework being equally applicable to different types of RSPs insofar as they are providing equivalent services, ie independently of the nature of the provider's other lines of business. This helps to promote a level playing field between different RSPs that encourages competition on a fair and equitable basis. Because remittance services are provided by many different types of service providers, a functional rather than institutional framework may be desirable to minimise different treatment of service providers offering similar services. However, often this may be impractical: many countries already have different bodies of law and regulations applying to different types of RSPs and changing this would be difficult. For example, bank RSPs and non-bank RSPs may be governed by different, well-established legal and regulatory frameworks. Where this is the case, the underlying principle can be met instead by ensuring that equivalent rights and obligations exist regardless of which body of law applies to an institution. For example, the know your customer requirements for the purpose of remittances should be the same for banks and for non-bank RSPs even if they are governed by separate regulations.

5. *Proportionate* means that the legal and regulatory framework for remittances should not be overly restrictive and burdensome relative to the possible issues it is designed to tackle or the number and value of transfers involved.

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Avenue Roger Vandendriessche, 38
1150 Brussels, Belgium
Tel : +32 2 772 01 19
Fax : +32 2 777 08 60

info@acpbusinessclimate.org
www.acpbusinessclimate.org