

Financing African Development: Mobilising the Diaspora

Introduction

In September 2004, Diageo convened a panel discussion to look at the role the African diaspora can play in advancing the continent's development. *Financing African Development: Mobilising the Diaspora* took place on the fringe of the 2004 Labour party conference and brought together representatives from the UK government and the recently established Commission for Africa, leaders of diaspora organisations and experts in diaspora fund transfer.

Financing African Development: Mobilising the Diaspora was the latest step in a Diageo-led programme that aims to promote greater investment on the African continent. This includes the Diageo Africa Business Reporting Awards, which were launched earlier this year and aim to promote a more accurate understanding amongst international investors of the business environment on the continent.

The African diaspora is already playing an important role in African development. Each year it remits an estimated \$45 billion. *Financing African Development: Mobilising the Diaspora* sought to explore how these funds could be better structured to promote sustainable development on the continent. It is also considered the transfer of intellectual resource and creative business practices that the African diaspora is stimulating.

David Hampshire, managing director of Diageo Africa, chaired the discussion. Highlighting the many long-term and successful investments Diageo has made in Africa, he reiterated the company's desire to encourage others to invest. Panelists then gave short presentations on their areas of expertise, the key findings of which are presented below.

Dr Titilola Banjoko, Managing Director, [Africa Recruit](#)

The findings of a recent survey of diaspora investments in Africa.

- The African diaspora remits – through informal and formal channels - an estimated \$45bn per year.
- However, just 6% of remittances are actually channelled into investments. The vast majority of remittances are made through international money transfers and physical cash transfers.
- There is an appetite within the diaspora to invest in Africa. 91% of those questioned said they would be interested in doing so if certain obstacles were tackled. Crucially, over half of those questioned stated that a lack of reliable information of the business environment in Africa is discouraging investment by the diaspora.
- Importantly, the diaspora is driving the transfer of best practice in business to Africa. For example, a number of diaspora-led franchises have been established in Africa and have become important sources of employment.

Barbara James, Associate Director, [African Investment Advisory](#)

Investment vehicles for the African diaspora.

- The diaspora has a crucial role to play in advocating investment in Africa. In many ways it is best placed to understand the business environment on the continent. Therefore, if it does not invest, why should it expect others to? The diaspora must signal to the rest of the world that Africans themselves are serious about African business opportunities.

- Amongst the investment vehicles available to the diaspora, bank accounts and property are the most readily available. The former effectively translate into loans to business and so have the potential to stimulate economic development.
- Private equity is the investment vehicle with the greatest potential to create employment, particularly if it is private equity investment into small and medium-sized enterprises (SMEs).
- SMEs are a true 'engine for development' because they create a multiplier effect in the economy. Put simply, fast growing businesses offer greater employment opportunities faster.
- AIA is therefore setting up a private equity fund – the African Diaspora Fund - targeted at the diaspora and investment in SMEs.
- Governments can help promote private equity investments in Africa by creating tax incentives for diaspora investments similar to the incentives UK-based charities currently benefit from. They can also help in mobilising corporate and institutional investors to raise the profile of private equity as an asset class with institutional investors.
- The corporate sector operating in Africa can help promote African economic development by providing technical assistance to businesses operating out of their supply chains. They can also assist by mobilising their internal diaspora groups.

Tidjane Thiam, Commissioner, [Commission for Africa](#)

The work of the Commission for Africa to engage the diaspora in its consultations.

- The Commission for Africa is conscious of the need to work closely with the African diaspora.
- On a political level, the diaspora plays a crucial role in raising the international profile of Africa issues e.g. debt relief and apartheid. It can play a key role in shifting the international community's perception of Africa, which can lead to real change on the continent. Given this influence, it is important that the diaspora ensures that it understands the 'African perspective' on these issues. It is easy for there to be a 'disconnect' between the diaspora and the populations they speak on behalf of.
- A study in Ivory Coast revealed a classic case of 'market failure' in the financing of SMEs and highlighted the need to look at private equity investments in Africa. The conventional wisdom is that good business projects find financing because the market is perfect. The study documented hundreds of projects that were sound and led by good managers but which could not find financing.
- One challenge in sampling diaspora views in the UK is the lack of a coordinated representation. The Commission for Africa is working with existing diaspora groups to ensure that no one is excluded from its consultation process. The Commission has already held a number of workshops in London and is supporting similar events outside the UK.
- Acknowledging the size of remittances made by the diaspora, the Commission for Africa is hoping to make concrete recommendations on reducing the cost of sending money to Africa, possibly through tax incentives.

Rt Hon Paul Boateng MP, Chief Secretary to the Treasury, [HM Treasury](#)

The UK Government's commitment to African development.

- It is the responsibility of not just business, but also individuals with some disposable wealth, to make a contribution to African development.

- 2005, when the UK holds the presidencies of both the G7 and the EU, represents an historic opportunity to combat global poverty.
- Central to that goal is the work of the Commission for Africa. The Commission provides an opportunity for a fresh look at Africa's past and present, and the internal community's relationship with the continent. Through the expertise and influence of its Commissioners, it is hoped that the Commission will generate some genuinely new ideas for poverty reduction in Africa, and galvanise support for African-led initiatives.
- It is important to note that the Commission is not in any way a substitute for the important initiatives that are already occurring in Africa at this time, notably those led by the New Partnership for Africa's Development (NEPAD) and the African Union (AU).
- The leadership of the developing and emerging economies in Africa that have embraced an agenda in which the diaspora can contribute is to be saluted.
- The UK Government has a crucial role to play in creating a political discourse around the issue of African development that breeds a bipartisan commitment. One of the great strengths of the campaign of debt is that its origins lay not just with grassroots campaigning groups but also with the premiership of John Major and the Chancellorship of Ken Clarke.
- It is important to ensure that the diaspora are seen as part of the solution rather than being - as they are sometimes presented - part of the problem, because 'they are here and not there'.
- Even as we develop and promote new vehicles to promote large-scale diaspora investment, we must remember the importance of appealing to people of modest means, because that is a way to involve the diaspora at large. UK charity law can work in favour of African development. For example, a UK-based organisation promoting African development can take advantage of this country's tax regime to supplement donations.