



African Markets Institute
(Member of WHADN)

**AFRICAN DIASPORA
DEVELOPMENT FUND**

... a financial access platform

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July 21, 2006



Mandated Mission:

From African Union via WHADN

- Provide financial access and empowerment to the African Diaspora in the Western Hemisphere
- Support and strengthen businesses & projects that revitalize Diaspora neighborhoods & communities
- In partnership with African Union, create and promote financial instruments and institutions - such as African Investment Bank - dedicated to the real development of Africa.



Commitment

- **Facilitate capital formation and accumulation**
- **Alleviate poverty**
- **Eradicate social exclusion**
- **Reduce income inequalities**
- **Expand banking and credit Services**
- **Increase capacity to consume, save and produce and Stimulate Development**
- **Fosters technological advancement and job creation**
- **Nurture entrepreneurship and innovation**



Business Model

**African Diaspora
Development Fund is a
Community Development
Financial Institution (CDFI)
dedicated to meet the
financial needs of the
African Diaspora**



Rationale

- **CDFIs** are innovative institutions that have emerged to fill the gap in financing economically disadvantaged people and revitalizing distressed communities.
- **CDFIs** have consistently proven that they can counter structural and systemic causes of poverty and create wealth and opportunities for economically disadvantaged people and communities.



Keys to Success

- **Industry's Impressive Track Record**
- **Great Performance**
- **Proven Dedication to Community**
- **Socially – Responsible**
- **Distressed Neighborhood Oriented**
- **Attractive Regulatory Incentives**
- **Partnership with MFI**
- **Impressive Diaspora Potential Market**



CDFI Industry has an Impressive Track Record

- In 2002, **CDFIs** made **268,000** transactions worth **\$2.6 billion**, including **248,000** loans to individuals worth **\$1.2 billion**.
- **CDFIs** financed and assisted **7,800** businesses that created / maintained more than **34,000** jobs
- **CDFIs** facilitated the construction or renovation of more than **34,000** units of affordable housing and **500** community facilities in distressed neighborhoods.



Great Performance

- **CDFIs** High Capital Deployment Ratio at **81%**
- Contrary to the common belief and intuition, the **CDFIs** have **less risk in serving low-income clients** than mainstream banks serving affluent borrowers.
- **Net Charge Offs** for **CDFIs** in our sample was **0.5%** in FY 2001. This rivals the charge off ratio of commercial banks, which was **0.9%** for all commercial banks (Study...)



Proven dedication to Community

Sector	Percentage
Affordable Housing	48%
Small Business	25%
Community Facilities	18%
Microenterprise	4%

Source: National Community Capital Association, CDFIs: *Bridges between Capital and Communities Capital Communities, 2001* MEMBER STATISTICS AND INFORMATION, 2001



Socially – Responsible

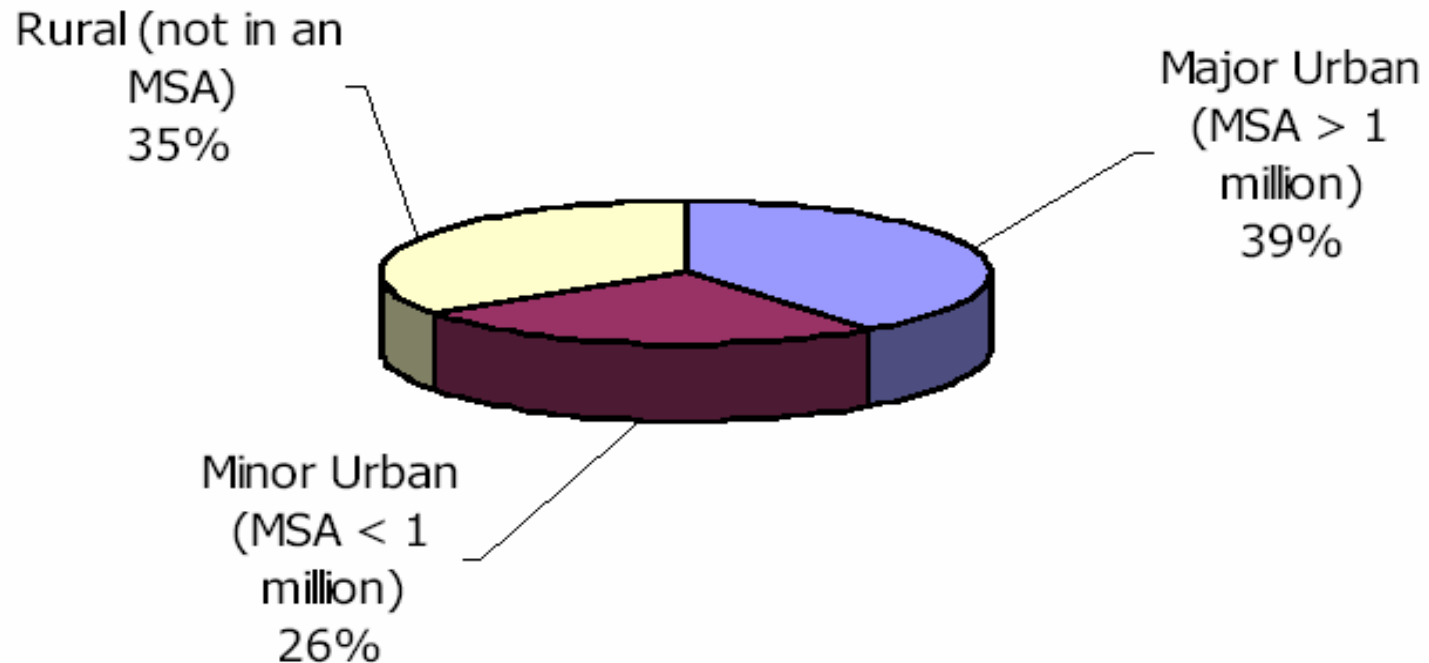
Economically Disadvantaged	Percentage
Low-Income	72%
Female	49%
Ethnic	46%

Source: National Community Capital Association, CDFIs: *Bridges between Capital and Communities Capital Communities*, 2001 *MEMBER STATISTICS AND INFORMATION*, 2001



Distressed Neighborhoods Oriented

Geographical breakdown of Clients Served (Average per CDFI)



Source: National Community Capital Association, CDFIs: *Bridges between Capital and Communities Capital Communities*, 2001MEMBER STATISTICS AND INFORMATION, 2001



Attractive Regulatory Incentives

- Community Reinvestment Act (**CRA**) regulation encourages financial institutions to participate in community development activities
- Non-deposits taking **CDFIs** such as Loan Funds are lightly regulated and very easy to start
- Through monetary awards programs and allocation of tax credit programs such as Bank Enterprise Award (**BEA**) Program, New Markets Tax Credit (**NMTC**) Program), the **CDFI Fund** helps promote access to capital and local economic growth in urban and rural low-income communities across the nation.



Increasing Interest of Mainstream Financial Institutions

By partnering with MFIs, CDFIs can:

- Access financial support and technical assistance
- Make larger loans for more significant projects
- Spread lending risks and increase lending activity with better accommodation of the special needs of low- and moderate-income residents and
- Better Risk Management with policies already in place to manage the key drivers of the business: loan portfolio mix, adequate reserves, interest rate spread and asset/liability management



Operating Partnerships

- By the end of 2001, **Bank of America** had established **98** relationships with **CDFIs**, representing **135** investments with nearly **\$190 million** for funding.
- **Citigroup** is one of the leading institutions in community development and strongly believes that money can be made at the **BOP**. Through its Center for Community Development Enterprise (**CCDE**), it offers a wide range of integrated financing packages and technical assistance...



... Aggressive Partnership

The Tampa Bay Community Reinvestment Corporation (**TBCRC**) is a Multi-Bank Community Development Lending Organization with **34 Financial Institution Members** and a **\$50 Million Loan Pool** dedicated to financing **Multi-Family Affordable Housing** in the Tampa Bay Region of Florida.



Impressive Diaspora Potential Market

Diaspora...

...a potential vibrant market

- Some sources estimate that **390 million people of African descent** reside in the Western Hemisphere - Canada, USA, the Caribbean and South America.
- Nearly **900 million Africans** live in Africa
- These figures mean that **nearly half the people** of African descent live in the Western Hemisphere

... with a tremendous Purchasing Power

- Roughly **35 Million** Citizens of African descent live in the U.S. And this number is projected to rise up to **25%** of U.S. population in the future
- **250,000** of this number are scientists and physicians
- **30,000** Africans from the continent are now studying in the U.S.

This Diaspora has a collective annual purchasing power of about \$650 Billion



Challenges



In the Western Hemisphere...

...African Diaspora Lags

African Diaspora Lags in Entrepreneurship compared to other ethnic groups such as Chinese and Japanese who easily raise fund from their respective ethnic group organizations such as Rotating Credit Associations (RCA)



... Weak Diaspora Contribution to Africa

- U.S / African trade totaled only **\$24 billion** in 2002; a mere **3.7%** of the purchasing power of the African Diaspora in U.S.
- The contribution ratio of the African Diaspora to U.S. / African trade is even much smaller, making the financial and commercial contribution of African Diaspora to its mother continent **insignificant.**



In Africa...

...heavy dependency on foreign aid

- Foreign assistance still have a heavy weight in the ordinary and development budgets in most African countries... **This weight can rise at over 65%**
- Unfortunately, no one can be developed on foreign aid! Aid creates only Aid dependence and Aid addiction, not development! At best, it undermines Africa's capacity to help itself.
- Africans to establish the financial Institutions that they can understand, own, manage and control, AFCU will be making a wake-up call to Africa to the reality that the time of stopping the above systemic and spiral Aid dependence has arrived, and that Africa



In Africa...

...Alarming Brain Drain

- More than **70,000** highly qualified African professionals per year leave Africa according to a July 2003-Africa Recruit London survey
- Over **40,000** African Ph.D. holders live outside of their continent
- Ghana's doctor to people ratio is **1:23,000**. (The USA ratio is 1:420 and 1:810 in the United Kingdom) . Alarmingly, up to **68%** of medical staff trained in Ghana between **1993 and 2000** have left the country



... the Saddest Thing

- More than **100,000** expatriates – **Some unemployable in their country of origin** - are employed in Africa...
- At a cost of **\$4 billion** each year to offset the annual migration bleeding from Africa by her own skilled professionals

...Bane of Slavery

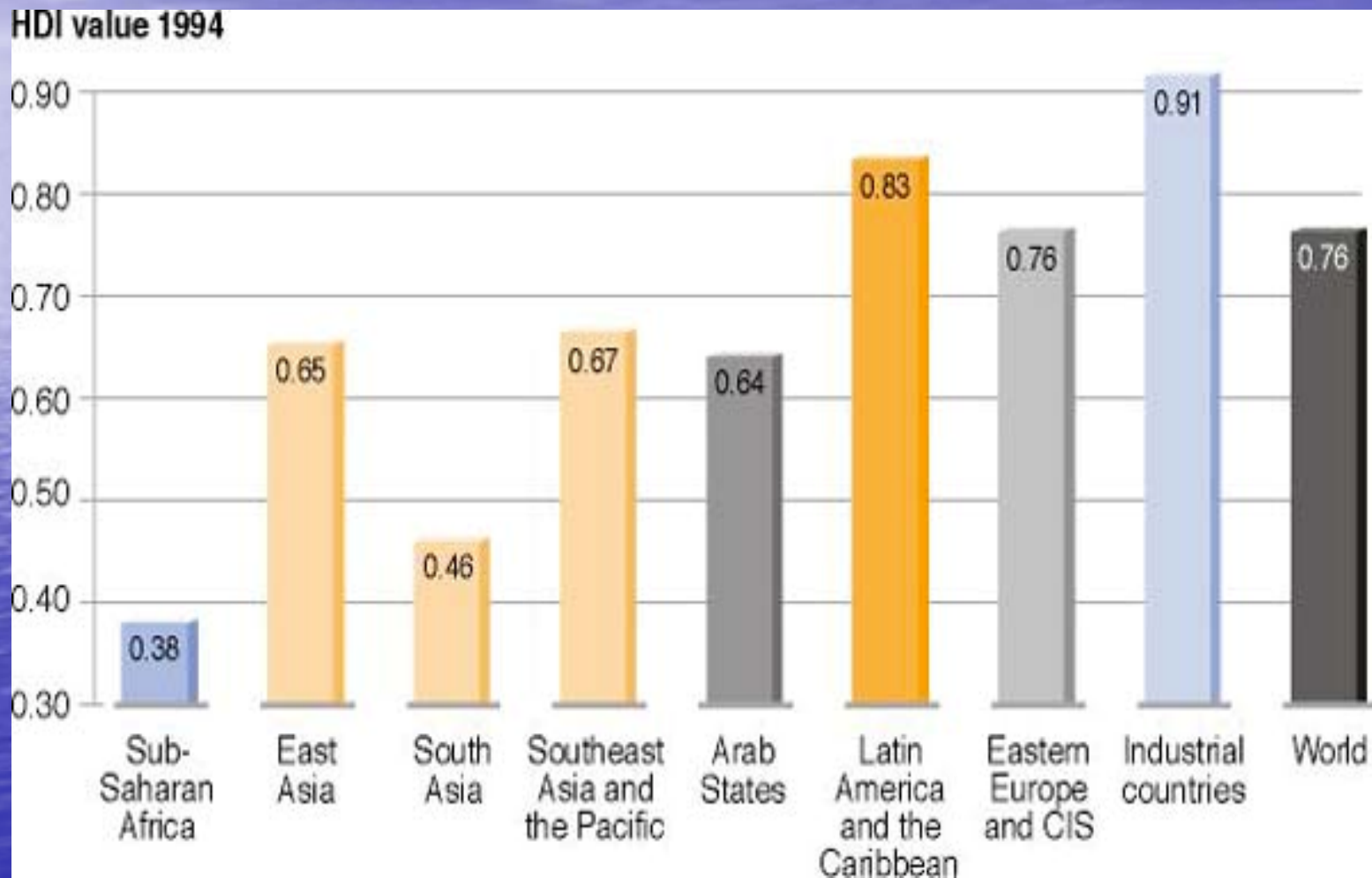
Region	Pop. In Millions 1650	Pop. In Millions 1900	Average annual increase %
Africa	100	120	* 0.08
Europe	103	257	0.60
Asia	423	857	0.41

***Slavery was one of the most devastating factor of Africa's underdevelopment, creating a structural shortage of labor relative to the natural resources.**



...Low human development Index

(FAO, 1994)





... Adverse Terms of Trade

Africa is confined to **primary, unprocessed commodities**, with **no-added value**

- **70%** of exports are primary products; more than **62%** non-processed products (UNCTAD)
- Africa accounts for only around **2% - 3%** of world trade (UNECA)
- Africa's share of world exports fell from **4.6%** in 1980 to **1.8%** in 2000 (UNECA)



...Loss of Purchasing Power

	1980	2003	% FALL
AGRICULTURAL RAW MATERIALS	100%	40%	- 60%
FOOD AND BEVERAGES	100%	21%	- 73%
COFFEE	100%	17%	- 81%
	*100%	-9%	- 109%
COTTON	100%	33%.	- 67%
ALL COMMODITIES COMBINED PRICE INDEX	1997	2001	% Fall
	100%	47%	- 53%

Source: **UNCTAD** *Base: 1961



...Trade and Debt Trap

- With decreasing International prices, African countries **must borrow** expand their exports in order to service their debts according to the requirements of the World Bank and IMF.
- But the more their export earnings diminish, the less the debt is serviced adding more arrears to previous balances which increase the debt stock!



... Shrinking FDIs

- Since 1988, **65%** of fresh debt pay accumulated arrears With an increasingly tarnished image, Africa's is no longer a destination of fairly priced investments
- Its share in Global Private Capital Flow sharply declined from about **9.0% in 1970s** to about **1.6% in 1990s.**



...FDI Map (Foreign Direct Investments)

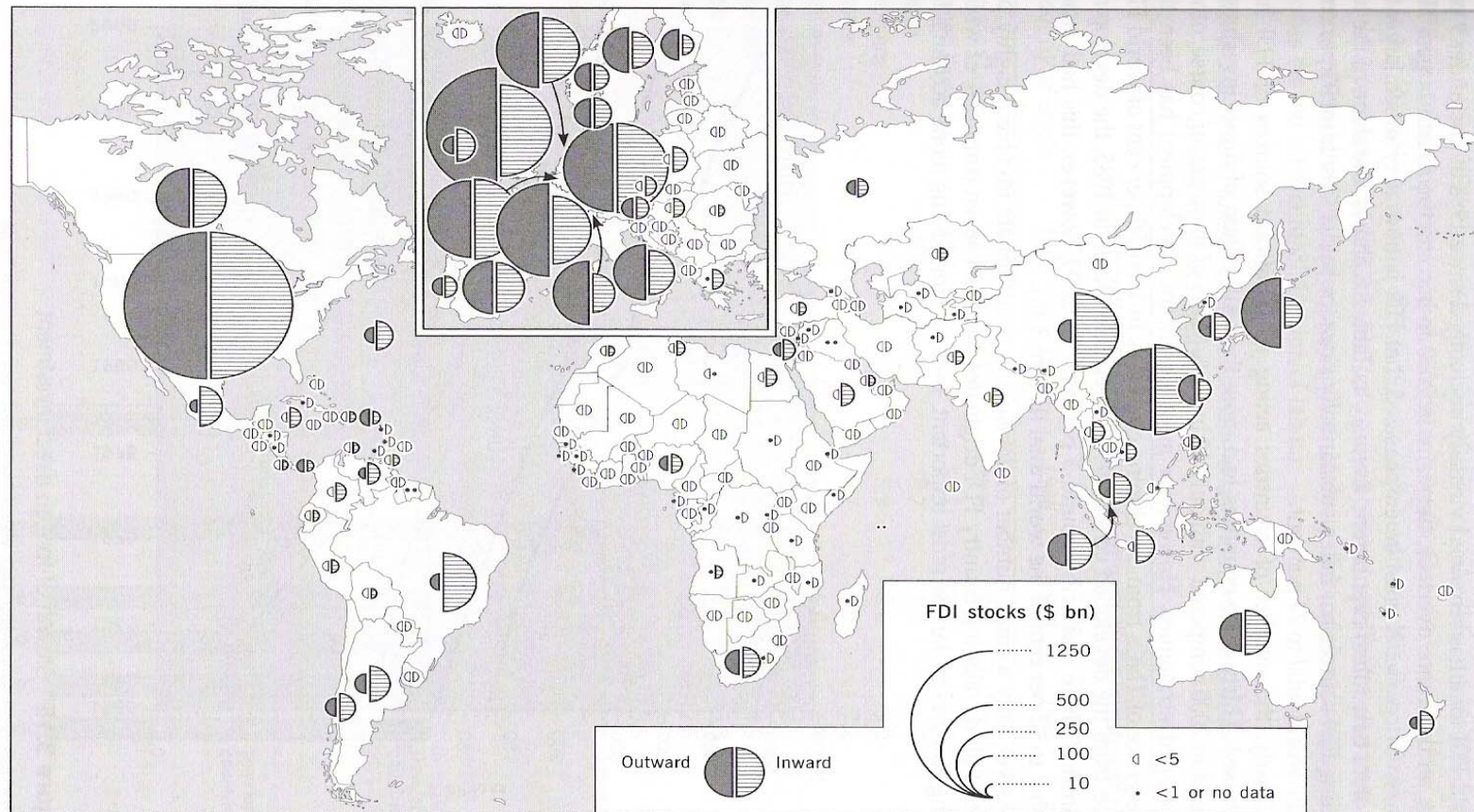


Figure 3.14 The map of foreign direct investment

Source: Based on data in UNCTAD, 2001: Annex Tables B3, B4



... Africa, Net Exporter of Capital

- Sub Saharan Africa's (SSA) \$240 billion debt service (**1980 - 2000**) amounted to more than **4 times** its 1980 debt. Even then, it still owed **4 times** what it owed 20 years earlier
- In **1978**, Nigeria borrowed **\$5 billion**. By **2000**, it had reimbursed **\$16 billion** and still owed **\$31 billion!** (*President Obasanjo*)



...Increasing Capital Flight

- Africa recorded net capital export of **\$5.3 billion** in 1981, **\$21.5 billion** in 1985, **\$36 billion** or **\$100 million** per day in 1988 and **\$150 billion** in 2000
- From 1970 to 1996, capital flight from 25 low-income SSA Countries was over **\$193 billion** (in **1996 dollars**), accumulating to **\$285 billion** by computing interest earnings. The combined external debt of these countries stood at **\$178 billion** in 1996 dollars (**Boyce and Ndikumana,**)

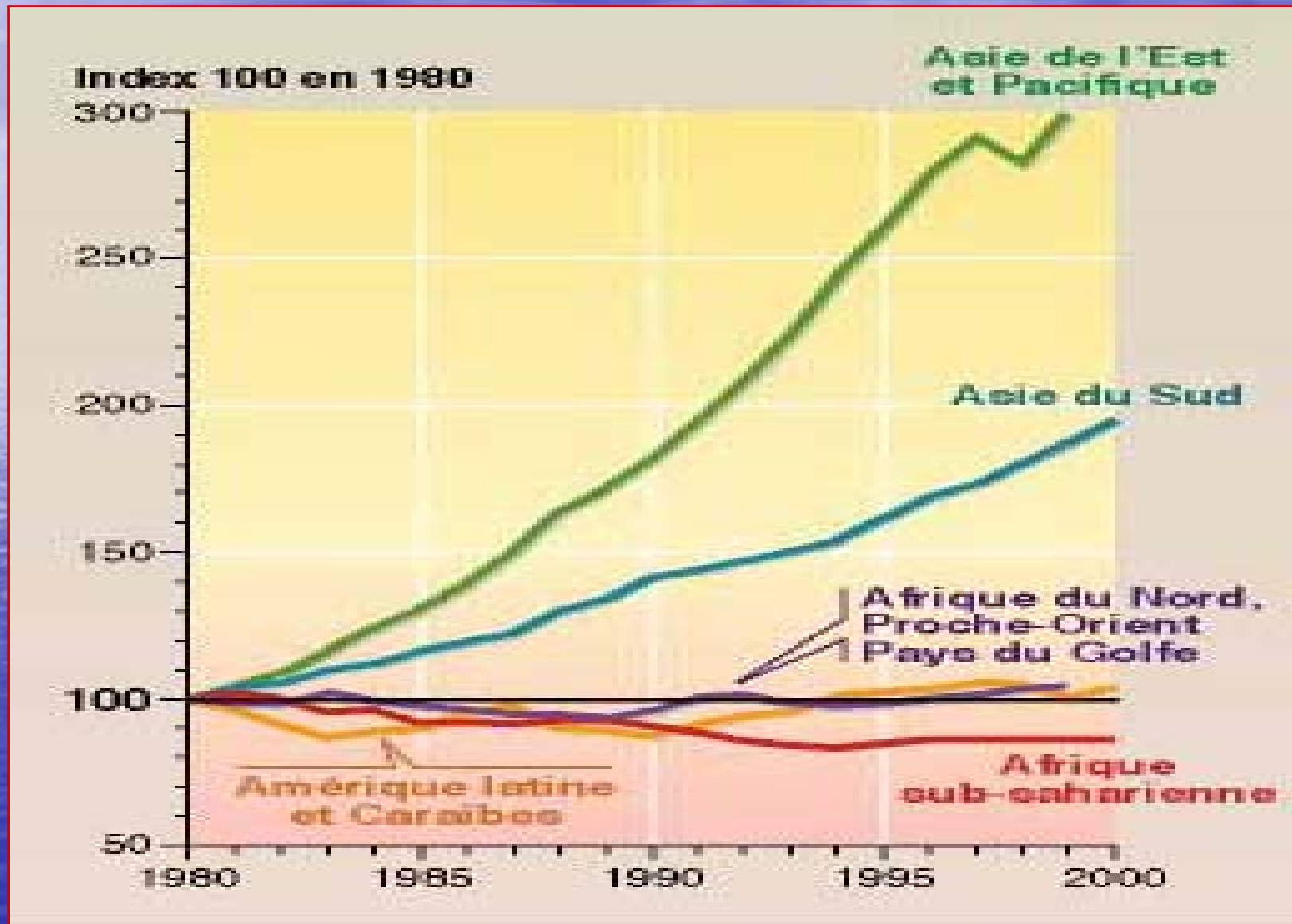


...more Capital Flight Concerns

- Economics Professor **George Ayiteey** of American University estimated that capital flight out of Africa is **\$20 billion** per year
- In 1991 alone, according to one United Nations estimate, **\$200 billion** or **90%** of the Sub-Saharan African GPD, was shipped to foreign banks (**The New York Times** (4 February 1996; p.A4).



...Declining Economy





Strategy Forward

- According to UN, by 2025 Africa will have **1.5 billion** people.
- If these people can be brought into the market system, the African economy will be vibrant. Thus, it is imperative to engage the bottom into a **well-structured financial empowerment.**



African Diaspora Development Fund

Solution



Strategy

Start in U.S.

Span to Western Hemisphere

Customize the Fund model to Africa



Start from the USA

**Financial
Strength**

**Build Discipline and
Capital Base from
Deep and Well-
Regulated U.S.
Financial Markets**

**Professional
Sophistication**

**Provide Modern
Financial Services to
the Diaspora**



Span the Western Hemisphere

Plan for the Western Hemisphere

Create an efficient and duplicable Platform for Success in Other Parts of the Western Hemisphere

Enhance USA-Africa Relations

- Strengthen the Western Hemisphere – Africa's Economic And Financial Strategic Ties
- Financially Empower and Re-Connect The African Diaspora in the Western Hemisphere to the Motherland



Establish Financial Institutions Customized to African Realities

- Africa's financial and banking systems are fundamentally underdeveloped and inefficient. Banks collect deposits, but don't lend: **90% of loanable funds** sit in the banks or invested in State treasuries.
- The banking systems, insurance companies, stock exchanges, and other supporting services serve mainly a **small urban-driven Formal Markets**
- These entities have become an **island in the African financial landscape**: their financial services were and still are primarily designed to accommodate the needs of the Political Elite and Expatriate Community



Span to Africa (Cont...)

- Needs of middle and lower income people are not properly met. The long-term consequence of this neglect is **an economic dualism** where **poorer persons are effectively barred from entering the better served and more profitable modern financial markets.**
- Thus, the emerging and polarization of *two parallel un-connected markets*:
 - A huge rural-based underserved Informal Financial Market
 - A very small urban-based, well-served Formal Financial Market

The Fund will work to reduce this duality by integrating these sectors



The Fund Programs

Remittances Niche Market

African Development Notes

Main Destination of the Investments



Remittance to Africa: A Niche for the Fund

- The World Bank estimates that workers' remittances amounted to **\$88 billion** worldwide in 2002. They stood at **\$165 billions** in 2005.
- In 2002, remittances to developing countries accounted for **42%** of these countries' total private capital inflows.
- In 2002, close to **\$35 billion** in remittances was sent from the United States to other countries.



Remittances (Cont...)

- In 2002, remittances to Africa accounted for **15%** of the **\$12bn-total remittances** to the developing countries (**\$80bn**).
- In 2002, remittances to Nigeria (\$2bn) accounted for **5% of the GDP** playing a large part of the economy positively helping the balance of payments
- Dilip Ratha, a researcher at the World Bank, estimates that remittances to Cape Verde totaled **\$80 million**, or **14% of GDP**, in 2002



Capital Markets Lending

- **CDFIs** raise funds mostly from foundations and government
- **These Sources** have limited funds to meet the increasing financial needs of the Diaspora
- **CDFIs** are **Portfolio Lenders**: lend and hold on the loans in the Portfolio
- **The Fund** will utilize Capital Market Lending methods to increase its liquidity (such as loan securitization, credit enhancements) in order to go beyond government and foundations as sources funds.



African Development Notes (ADNs)

- **ADNs** are unique Financial Community Investment Instruments to be issued and distributed by **ADDF**. Some sales may be completed through registered broker-dealers. **Calvert Foundation** will be the Adviser to the Issue.
- **ADNs** Prospectus will be necessary as these Notes will be registered with Security Exchange Commission (SEC)
- **Initial Principal** is being planned at **\$1000** or greater, for a term of 1, 2, 5 or 10 years



ADNs (Cont...)

- **ADNs** Proceeds will be placed with qualified WHADN – Member organizations and other Community Development Organizations that focus on low-income housing, economic development and business development.
- **The Fund** will approach providers of credit enhancement and guarantee to boost the tradability of the **ADNs**. Institutions such as African Development Bank, COMESA Bank, IFC will be approached for the enhancement of the credit grade of the **ADNs**.



Main Investment Destinations of the Fund

The African Diaspora Development Fund will primarily place the funds with the following categories of organizations:

- **Low Income Housing Organizations** specialized in affordable houses for the Diaspora and other communities
- **Community Development Funds** specialized in business enterprises and community facilities.
- **Community Development Banks** specialized In banking services to targeted disadvantaged communities.
- **Microfinance Institutions** specialized in Empowering the informal financial markets neglected for so long by the Mainstream Financial Institutions.





Next Steps

Time of rhetoric is gone, Time of Action is Now...

- **When?** **The Fund must start Right Now**
- **Where?** **Washington DC & Miami**
- **Money?** **Money primarily exist in our minds. It will naturally flow into the Fund with our commitment to establish the **African Diaspora Development Fund**.**
- **Why?** **As a Diaspora, we owe this Institution to African Union as its 6th Region and to Africa as our Mother Land**