Can remittances replace Africa's aid binge?

On January 20th 2021, the Kenyan and Chinese governments agreed to a six-month reprieve worth $245 million of a loan the Kenyan government took from the Exim Bank of China. However, on 1st July 2021, Kenya failed to receive an extension of this debt reprieve to December on account of the delays in disbursements to projects financed by the Chinese. For nearly four decades, the Kenyan government, like its African counterparts, has been on a debt binge. These countries have not learned a lesson from the debt binge of the 1980s that led to the debilitating structural adjustment programmes of the Bretton Woods institutions, which placed conditions of severe economic austerity in exchange for debt reprieve requests. Now is the time for African countries to consider diaspora remittances as a sustainable alternative to loans from other countries and global financial institutions. Here's why.

Paul Tiyambe Zeleza argues that African diasporas are a growing development asset for Africa and that there is soaring consciousness of their capacity to act as a strong transnational force for the transformation of their homelands. Kenya's diaspora has been active in this regard and the government has been attempting to bolster enthusiasm in its policy choices. The Diaspora Pillar enshrined in Kenya's foreign policy underscores the necessity of harnessing diverse skills, expertise, and potential of Kenyans living abroad, thereby facilitating the Kenyan diaspora's integration into the national development agenda.

As a result, the inflows into Kenya in terms of remittances increased by 11% to a grand total of $3.09 billion in 2020. Recently the Kenyan Central Bank noted that in December of 2020 alone, remittances from abroad amounted to $299 million, a significant amount considering the ravaging effects of the COVID-19 pandemic.

The above illustration builds a strong case for the Kenyan government—and indeed other African countries—to seriously consider remittances as a strategic alternative to the loans it has sought in the past. Kenya is not alone. Nigeria is seeking to encourage more investments from its diaspora community. The government issued fixed income securities to Nigerians in the diaspora, with $330 million expected to fund infrastructure development. In perspective, this is more than the $245 million for which Kenya failed to get a reprieve.

Similarly, Ethiopia initiated the diaspora bond to tap into the assets of its diaspora. In 2018, the Ethiopian government appealed to the Ethiopian diaspora to invest back home in healthcare expansion and utilities like water supply. Moreover, the diaspora was invited to donate $1 a day to what is known as the ‘New Ethiopian Diaspora Trust Fund.’ This initiative generated about $4 million that the government said would support small and medium-sized enterprises (SMEs).

In the past, diasporans using remittances were restricted to individuals subsidising their relatives back home; however, the trend clearly points to remittances that finance development projects. Significantly, this shift is expected to bring closer ties between governments and their diaspora, especially as the former begin to wean off loans and aid and leverage the resources of the latter for development.

Although the focus of governments has been directed towards the Diaspora in Europe and America, there is more evidence that the diaspora inside Africa is another source of financing for governments. Tanzania, for instance, is Kenya’s top remittance source and it is likely that with better organization and mobilization, diaspora within Africa can equally serve as targeted sources of remittances. Moreover, it should be the rule that all countries with large diaspora

consider it as a source for national development.
The lesson should be that rather than run to multilateral financial institutions for debt, African governments should continue to look inwards to their people for solutions to some of the most pressing problems they face, including resources for development.