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WPS/04/25

Harnessing Remittances in Uganda: The Case for Diaspora Bonds and Collective Investment Schemes.

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**UBA Research Department
Working Paper Series**

July 2025



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Executive Summary

Uganda receives over US\$1.2 billion annually in remittances, primarily from its diaspora in Europe, North America, and the Gulf region. However, the bulk of these inflows is directed toward consumption, with limited impact on long-term investment and infrastructure development. This policy paper explores the potential of two financial instruments—Diaspora Bonds and Collective Investment Schemes (CIS)—to transform remittance flows into structured financing for national development. Drawing on comparative case studies from Israel, India, Nigeria, Ethiopia, and Kenya, it identifies key success factors including institutional trust, legal and regulatory robustness, and effective diaspora engagement strategies. The paper argues that Uganda, as an emerging remittance economy with a shallow capital market, presents a unique opportunity to pilot these instruments. It recommends launching project-specific diaspora bonds and diaspora-accessible CIS platforms, supported by targeted financial infrastructure, policy reforms, and investor education. If well-implemented, these instruments can channel remittances toward Uganda’s critical development priorities.

1.0 Introduction

Globally, the bulk of remittances, estimated at over 80% are used for consumption and short-term needs rather than investment (Ratha et al., 2011). In Uganda, the situation is not any different; primarily, remittances go towards housing, education, health, and small investments in local entrepreneurship – small household businesses. According to the UBoS (2024), 25% of remittances go toward food and daily necessities, 17% to education, and the remainder to healthcare, housing, and small business investments.

Importantly, these factors have a limited effect on long-term development and infrastructure. Given this context, there is an increasing interest in mechanisms that formalize and aggregate diaspora contributions for developmental projects. Structured instruments like Diaspora

Bonds and Collective Investment Schemes are being considered for national development. For example, the National Development Plan (NDP) IV recognizes the diaspora as vital development partners. The plan highlights the potential contributions of the diaspora to Uganda’s economic growth through remittances, investments, skills transfer, and promotion of trade.

With the growing number of individuals in the diaspora community, Uganda presents a unique opportunity to pilot both Diaspora Bonds and Collective Investment Schemes (CIS). However, there is limited empirical research on Uganda’s engagement with its diaspora. Additionally, Uganda’s capital market is underdeveloped, with few offerings of CIS and no history of sovereign diaspora bonds. This lack of existing models makes Uganda an ideal candidate for

pilot projects that can draw on lessons learned from other countries while being tailored to local challenges and opportunities.

Consequently, this paper proposes the introduction of two financial instruments—Diaspora Bonds and CIS—to effectively channel remittances into structured investments. The study aims to gain a comprehensive understanding of how these mechanisms can leverage the potential of remittances in Uganda.

1.1 Definitions and rationale

Diaspora Bonds are government or parastatal-issued debt instruments specifically targeted at nationals living abroad. They combine financial returns with patriotic appeal, often issued at slightly below-market rates. Their success

hinges on high levels of diaspora trust, strong macroeconomic fundamentals, and a clear legal and regulatory framework (Ketkar & Ratha, 2010). Countries like Israel and India have used them successfully to mobilize capital, particularly during fiscal crises (Brookings, 2022; Reuters, 2024).

Collective Investment Schemes (CIS) are pooled investment vehicles such as mutual funds or unit trusts that allow individuals to invest in diversified portfolios. Managed by licensed fund managers, CIS offer lower entry barriers, shared risk, and the potential to mobilize domestic and diaspora capital toward priority sectors like real estate, infrastructure, and agribusiness (Aigbe & Essiet, 2024). In Kenya and Nigeria, CIS have played a growing role in capital market deepening, though they face regulatory and performance-related challenges (Muema et al., 2019; Aigbe & Essiet, 2024).

2.0 Case Studies

A. Isreal



Since 1951, Israel's diaspora bonds have raised billions of dollars during times of crisis. According to Reuters (2024), over \$3.5 billion has been raised following the conflict that began in October 2023. These bonds offer yields that are lower than those of conventional sovereign bonds, primarily due to what is known as a “patriotic discount.” The success of these bonds is enhanced by their registration with the U.S. Securities and Exchange Commission (SEC), which boosts their credibility and allows for the effective use of global marketing networks. Both Brookings (2022) and Reuters (2024) highlight how the combination of U.S. SEC registration, global marketing strategies, and a sense of diaspora nationalism contributes to the ongoing success of Israel's diaspora bond issuances.

B. India



India issued diaspora bonds in 1991 (amounting to US\$1.6 billion), in 1998 (US\$5.8 billion), and in 2000 (US\$5.5 billion). These bonds were linked to the global banking channels catering to the Indian diaspora abroad (IMF, 2014; Taylor & Bossman, 2020). Additionally, remittance inflows rose significantly from US\$15.8 billion in 2001-02 to US\$46.9 billion in 2008-09, with a per capita remittance of approximately US\$30, compared to Ethiopia's US\$4 (Katie & Metka, 2011).

C. Ethiopia



Ethiopia issued two diaspora bonds in 2008 and 2011, offering fixed interest rates of 4% to 5%. Unfortunately, both bonds raised significantly less than expected due to trust issues and regulatory non-compliance (Rogers, 2022). It was estimated that there were over US\$50 billion in diaspora savings; however, Ethiopia's bond issuance during 2008-2011, which was intended to finance the Grand Ethiopian Renaissance Dam (GERD), fell short because of political risk, lack of SEC registration, and weak governance, all of which contributed to the trust issue (IMF, 2011). Research has also indicated that diaspora investors prefer bonds that support community projects and are managed transparently (LSE, 2022).



D. Nigeria

Nigeria's first diaspora bond, issued in 2017, raised US\$300 million and was oversubscribed by approximately 130%. However, this amount is relatively small compared to the US\$23.8 billion in remittance inflows the country received in 2019 (Taylor & Bossman, 2020). Additionally, Nigeria's Capital Market Infrastructure Services (CIS) have facilitated financial inclusion and access to capital, although there are still gaps in enforcement and investor protection (Aigbe & Essiet, 2024). While the 2017 diaspora bond was oversubscribed, the total raised remained modest compared to annual remittances of US\$23 billion to US\$25 billion, highlighting the limitations of scale. Duke (2011) attributed these challenges to issues such as limited data on the diaspora, regulatory costs, and the need for meaningful engagement with investor stakeholders.



E. Kenya

In 2011, Kenya launched a diaspora-targeted bond with a goal of raising US\$600 million but only managed to secure US\$141 million. Factors such as structural marketing restrictions and foreign exchange (forex) risk significantly hindered investor uptake (Misati et al., 2019). Additionally, an analysis of Kenya's Collective Investment Schemes (CIS) firms revealed inconsistent returns; while equity investments enhanced liquidity, bond investments did not have a notable impact on return on assets (Muema et al., 2019). Furthermore, a study by Brookings (2021) confirmed that the 2011 bond issue raised just US\$141 million out of the US\$600 million target, citing marketing inefficiencies and forex exposure as major obstacles.

Table 1: Comparative summary of Diaspora Bond Issuance

Country	Year(s)	Amount (\$m)	Uptake	Issues
Israel	Ongoing since 1951	3.5 (2023)	High	Strong diaspora loyalty, SEC registered
India	1991, 1998, 2000	1,600–5,800	High	Global bank networks, formal remittance channels
Nigeria	2017	300	Oversubscribed	Small relative to diaspora wealth/inflows
Ethiopia	2008, 2011	Low, undisclosed	Poor	Governance mistrust, regulatory gaps
Kenya	2011	141	Low	Marketing restrictions, forex volatility

Source: Authors' compilation

Table 2: Performance of Collective Investment Scheme in Kenya

Metric	Value (2018 avg.)	Observation
Return on Assets	2%	Low performance in bonds
Liquidity Ratio	25%	Stronger with equity investments
No. of CIS firms	17	Variety of fund types
Investor base	Predominantly local	Limited diaspora participation

Source: Muema et al., 2019

2.1 Lessons for Uganda

From the review of the aforementioned case studies, Uganda can borrow the following lessons;

- **Credible Governance & Transparency:** Bond instruments should be project-specific, SEC-registered, with audit and impact reporting frameworks.
- **Diaspora Channels & Marketing:** Partnerships with diaspora banks, embassies, and community groups to promote uptake.
- **Patriotic Discount vs Market Return:** Attractive enough but sustainable—Israel’s below-market yield model works only with trust and loyalty.
- **Financial Infrastructure for CIS:** Strengthen digital platforms for CIS subscription and repatriation; improve investor literacy.
- **Pilot and Iteration:** Begin small, sector-specific pilots (e.g. affordable housing, solar projects), then scale.

3.0 Conclusion and Policy Recommendations

In conclusion, the comparative analysis reveals that diaspora bonds and Collective Investment Schemes (CIS) present significant opportunities for Uganda. However, their success depends on effective governance, strong market connectivity, and the establishment of trust with diaspora communities. With thoughtful design and a phased implementation, Uganda can channel a portion of its annual remittances, estimated at US\$1 billion, into structured investments for national development. Therefore, I propose the following policy recommendations:

- **Feasibility and Trust Study:** Survey the diaspora in the UK/USA/UAE on their risk appetite, return expectations, and preferred channels.
- **Pilot Diaspora Bond:** The Government or Bank of Uganda should issue a bond for visible projects, for example, road toll or a major bridge, Lake or Railway transport, Electricity dams, Standard Gauge Railway, Oil refinery, among others, with a modest coupon but clear impact reporting.
- **Diaspora-Accessible CIS:** Develop unit trust funds targeted at diaspora investors, with dual-currency units and repatriable returns.
- **Regulatory Strengthening:** Capital Markets Authority registration, anti-fraud safeguards, and investor protection laws. In addition, develop a Diaspora Engagement Policy: Include financial product development and dual citizenship facilitation.
- **Enhance Financial Infrastructure:** Improve digital investment platforms and ease cross-border transactions.
- **Guarantee Transparency:** Establish reporting, monitoring, and accountability frameworks for fund usage. Transparent Reporting & Feedback Loops: Monthly or quarterly reporting dashboards of bond/CIS projects.
- **Partner with Diaspora Organizations:** Leverage trusted networks for outreach and education.
- Government should put a waiver of withholding tax on diaspora bonds to encourage uptake and build patriotism.
- Diaspora bonds could also be repurposed for climate-finance and ESG investments - if well-designed with transparent allocation mechanisms.



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