

Diaspora Bonds for Education

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Diaspora Bonds: Introduction

- Definition: Bonds issued by a country to its own Diaspora to tap in their wealth in the adopted developed countries
- Examples: State of Israel bonds, RIBs and IMDs from India, also bonds issued by Lebanon and Sri Lanka
- Greece preparing to issue DBs
- Diaspora in US from Haiti, Kenya, Rwanda & Nigeria have expressed interest in DBs

Main messages

- Israel has tapped Jewish since 1951 raising nearly US\$30 billion; annual issuance \$1.0 to 1.5 b in recent years
- India has issued DBs on three occasions to raise \$11 b
- Many other countries with large diaspora can potentially do the same
- But diaspora bonds to fund basic education would require additional credit enhancements & investor protections

Diaspora Bonds: Introduction

- Attraction for issuing countries:
 - Patriotic discount
 - Stable source of finance, esp. in bad times
 - Support to sovereign credit rating
- Attraction for investors:
 - Patriotism & desire to do “good” in the country of origin
 - Risk management – Diaspora investors are likely to view the risk of receiving debt service in local currency with much less trepidation

Diaspora Bonds: Israel vs. India

Israel	India
Annual issuance since 1951	Opportunistic issuance in 1991, 1998 and 2000
Development oriented borrowings	Balance of payments support
Large though declining patriotic discount	Small patriotic discount, if any
Fixed, floating rate bonds and notes	Fixed rate bonds
Maturities from 1 to 20 years with bullet repayment	Five year with bullet maturity
Direct distribution by DCI	SBI distribution in conjunction with int'l banks
Targeted towards but not limited to diaspora	Limited to diaspora
SEC registered	No SEC registration
Non-negotiable	Non-negotiable
Non-volatile	Non-volatile

Potential for DB Issuance

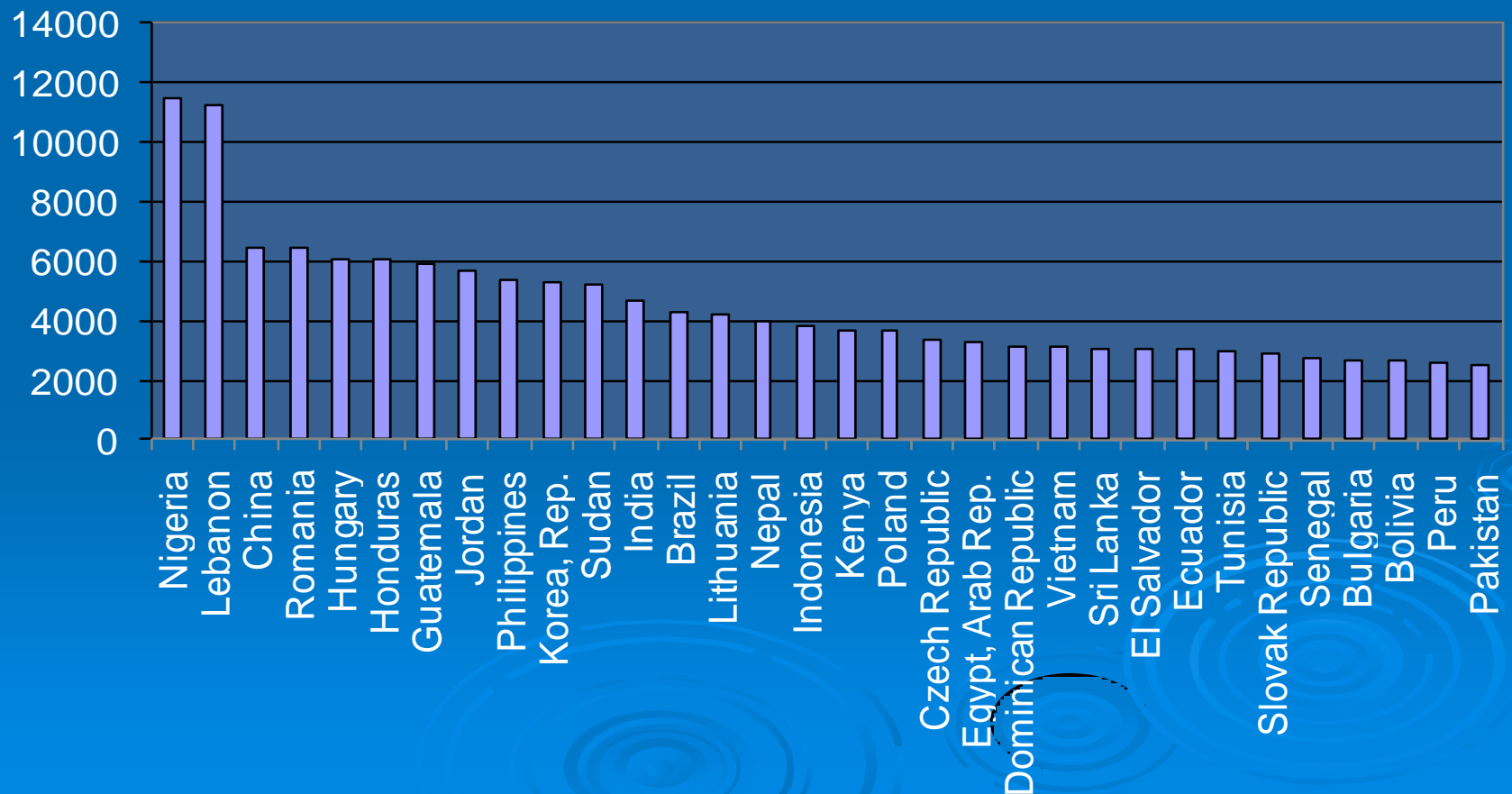
Diaspora savings of developing regions			
	Diaspora stock (millions)	Diaspora savings estimate, 2009 (\$ billions)	Diaspora savings as % of regional GDP
Developing countries	161.5	397.5	2.40%
East Asia & Pacific	21.7	83.9	1.30%
Europe & Central Asia	43	72.9	2.80%
Latin America & Caribbean	30.2	116	2.90%
Middle East	9.3	18.9	3.50%
North Africa	8.7	22.3	4.30%
Sub-Saharan Africa	21.8	30.4	3.20%
South Asia	26.7	53.2	3.30%
<i>Low income countries</i>	<i>27.7</i>	<i>34.4</i>	<i>9.00%</i>
<i>Middle income countries</i>	<i>133.8</i>	<i>363.1</i>	<i>2.30%</i>

Potential for DB Issuance

Diaspora savings of developing countries			
	Diaspora stock (mil.)	Diaspora savings est, 2009 (\$ bil.)	savings as % of domestic saving
Low-income			
Bangladesh	5.4	4.6	29.90%
Haiti	1	3.7	..
Afghanistan	2.4	2.6	..
Ghana	0.8	2	85.40%
Ethiopia	0.6	1.9	157.10%
Kenya	0.5	1.8	78.10%
Somalia	0.8	1.8	..
Zimbabwe	1.3	1.6	..
Korea, Dem Rep.	0.3	1.4	..
Cambodia	0.4	1.3	73.40%
Lao PDR	0.4	1.3	..
Congo, D.R.	0.9	1.1	59.20%
Nepal	1	1	98.90%
Myanmar	0.5	0.8	..
Uganda	0.8	0.6	31.90%
Kyrgyz Republic	0.6	0.6	..
Liberia	0.4	0.6	..
Mozambique	1.2	0.6	264.60%
Tajikistan	0.8	0.5	..
Tanzania	0.3	0.5	..

Potential for DB Issuance

Countries with Remittances exceeding \$2500 per Emigrant



Adapting DBs for Education

	Corruption		
	Low	Medium	High
Investment Grade	Poland South Korea Hungary Israel	India China Mexico Brazil Czech Republic Slovak Republic	Algeria
Speculative Grade	Jordan	Romania Serbia Colombia Sri Lanka Albania Jamaica Senegal Moldova	Philippines Nigeria Pakistan Egypt Sudan Nepal Kenya Haiti

Adapting DBs for Education

Examples of credit enhancement:

Seek guarantees from multilateral/bilateral agencies or foundations – \$750 to 800 m in global private aid to education used to provide guarantees could raise \$5 b in bond funding

- Encourage developing country banks to securitize future USD receivables from credit card vouchers, workers' remittances, and DPRs to raise financing & use proceeds to provide loans to schools
- Extend partial local currency denominated IFC guarantees, which are currently available to support partner bank loans to schools in developing countries, to diaspora bondholder
- Explore possibility of Education Venture Funds providing guarantees

Adapting DBs for Education

Examples of investor protections:

- Channel proceeds from diaspora bonds to existing education funding structures – Multi-Donor Trust Funds, Education Pooled Funds and Catalytic Funds that are managed as partnership between governments and their development associates
- Establish Independent State Authorities to manage education funds especially where normal channels of providing public services have broken down
- Issue bonds against achieved results such as number of students who finish primary school & reach a minimum level of achievement

Adapting DBs for Education

A nascent idea: Higher education supporting basic education:

- Have a well established medical school in a country in sub-Saharan Africa, say Ghana, accept 50 diaspora students every year with each paying US\$25,000 in tuition, generating a revenue stream of \$3.8 m per year
- Subtracting cost of training diaspora students, estimated at US\$1.55 m, and some additional costs of US\$0.75 m would still leave US\$1.5 m in surplus cash flow
- At 5% coupon this could support debt of US\$30 m into perpetuity, which can be used for basic education
- Similar schemes can be extended to business and technical education for diaspora children

Conclusions

- Diaspora bonds have been used by Israel & India with success
- A number of other countries are potential candidates for issuing diaspora bonds
- But credit enhancements via donor guarantees or securitization, and investor protections via outside professional fund management would be needed to facilitate use of diaspora bonds to fund education