

# 7<sup>TH</sup> NATIONAL TREASURY OF SOUTH AFRICA / OECD FORUM ON AFRICAN DEBT MANAGEMENT AND BOND MARKETS

PROCEDURES AND LESSONS ON ISSUANCE OF DIASPORA BONDS– 28 JUNE 2013

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# Overview

## Diaspora bond?

- **“a sovereign bond that targets investors that have emigrated to other countries and the relatives of those emigrants”**

## Reasons for migration:

- Migration evolved from being driven by poverty and political unrest but by the ease of mobility:
  - World is more globalized, interconnected and interdependent than ever before
  - Other factors: government’s declining employment in reaction to fiscal discipline and regional integration

## Remittance?

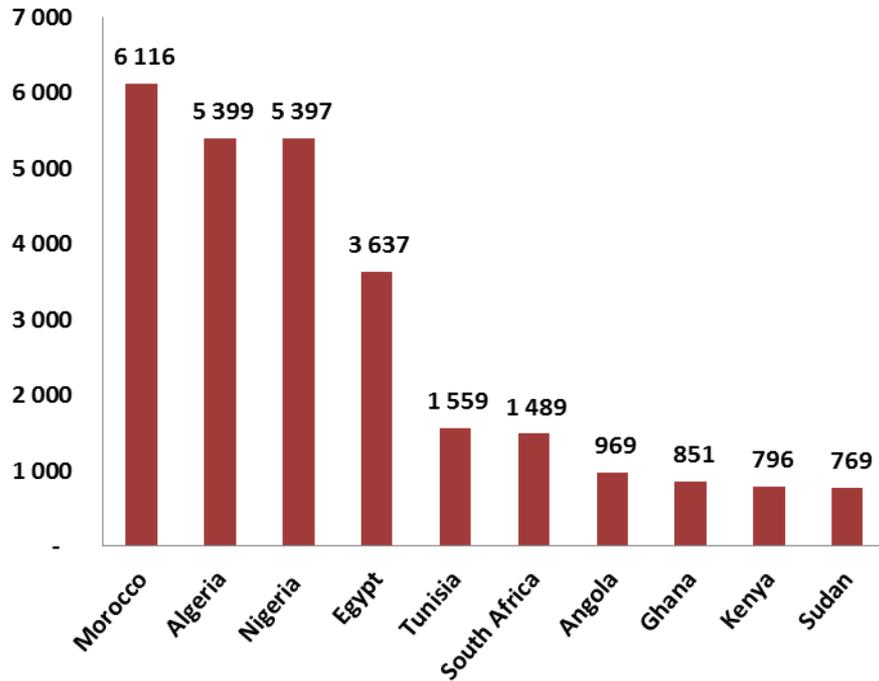
- **“is a transfer of money by a foreign worker to his or her home country”.**
- A global pattern in the world is on upward trajectory with remittance coming to SSA from various regions, Europe 41%, US 48%, Africa 13% etc,

# WB 'Migration and remittances fact book 2011'

- Nearly 140million Africans are living outside the continent with savings of about USD53 billion across the globe
- However countries within Africa, still primary destination of most African migrants (esp. SSA)
- After a modest decline in 2009,remittances have grown steadily, to reach \$351 bln in 2011.
- Recorded remittances in 2009 were nearly three times the amount of official aid and almost as large as foreign direct investment (FDI) flows to developing countries.
- High-income countries are the main source of remittances. The United States is by far the largest. Saudi Arabia ranks as the second largest, followed by Switzerland and Russia.
- Forecasts: 7-8 percent growth in 2012-14
- Remittance flows to developing countries proved to be resilient during the recent global financial crisis—they fell only 5.5% in 2009 and registered a quick recovery in 2010.

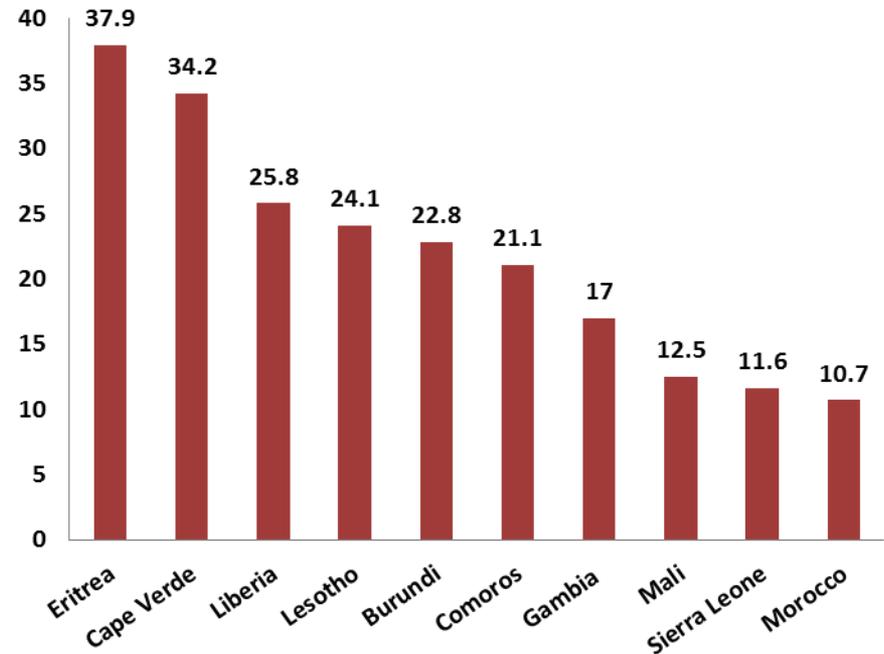
# Remittances flow to and from Africa approaches US\$40 billion, and expected to grow by 6% in 2013

Top 10 \$ millions, 2012



Source: World Bank

Top 10 as % of GDP, 2012



Source: World bank

# Scope for Diaspora bonds?

- It is interesting to note that it has been suggested that sub-Saharan African countries could raise \$5–\$10 billion by issuing diaspora bonds and \$17 billion by securitizing future remittances and other future receivables.
- There is scope for countries with large diasporas to issue diaspora bonds to raise finance for development
- Increasingly countries are exploring the option of issuing diaspora bonds to bridge financing gaps. Such countries include Jamaica, Grenada, Nepal, Zimbabwe, the Philippines and Greece.
  - 2007 - The Government of Ghana issued a \$50 million 'Golden Jubilee' savings bond targeted at Ghanaians both in Ghana and in the diaspora.
  - 2011- Ethiopia launched the second diaspora bond: Renaissance Dam Bond, proceeds used to fund the construction of the Grand Renaissance Dam

**Israel and India have raised over \$40 billion through issuing diaspora bonds**

# Case Study: State of Israel – since 1951

- A very positive track record, consistently raising over \$1 billion each year
- A stable source of overseas borrowing as well as an important mechanism for maintaining ties with diaspora Jewry
- Development Corporation of Israel offerings of diaspora bonds are quite extensive:
  - with multiple maturities and minimum subscription amounts that range from a low of \$100 to a high of \$100,000.
  - Over \$26 billion in proceeds from such issuance has been used in transportation, energy, telecommunications, water resources, and other essential infrastructure projects.
  - Israeli bonds have a minimum investment of \$25k with 2, 5, 7 and 10 year maturities
  - targeted towards but not limited to their diaspora

# Case Study: Indian government –

- Between 1991 and 2000 it issued 3 separate savings schemes aimed at the diaspora
  - 1992 - issued 'India Development Bonds'
  - 1998 and 2000 - launched 'Resurgent India Bonds' and 'India Millennium Development Bonds'.
  - Each offering was targeted towards infrastructure financing in India.
  - The basic assumption in defining these efforts is that despite increasing Indians indicate that 'emotional ties with India' ranks as the single highest motivating factor spurring these diasporic capital flows.
  - Indian bonds are limited to investors of Indian origin.

# Lessons learnt

- Diaspora has been used to attract migrants savings as an alternative to borrowing from the capital market and international institutions
- Ethiopia issued its bond to address a critical national electricity crises
- India issued a diaspora following macroeconomic constraints on foreign exchange and international sanctions following nuclear testing in 1998
- Diaspora bonds could be opened to all kind of investors and not restricted as per nationality only, however the futures will most likely attract the migrants of the country. E.g. Israel
- Diaspora bonds and remittances are financed with the same resources – migrant savings – and during the recent crisis “remittances flows decreased by a much lower percentage than other capital flows
- Experiences shows that most diaspora were not linked to any credit ratings from international credit ratings, e.g. Israel and Ethiopia ( however CR remains important)

# Conclusion

- Diaspora bonds can offer an alternative source of finance for infrastructure development in the continent
- African countries should take advantage and tap into the wealth of remittance liquidity
- infrastructure gap in the continent is estimated to around \$93 billion per year.
- However, good governance , transparency and politics will always play a great role in the success of a diaspora.

# Questions

- Who can issue a diaspora bond?
- Why do they issue diaspora bonds?
- What are the features of a diaspora bonds?
- Who are the targeted investors?
- For what maturities can a diaspora bond be issued for?
- How do you price a diaspora bond and what is the interest rate?
- How to market the transaction?
- Any exchange control regulations?

# Thank You

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