

Can Diaspora Bonds be Used in the Caribbean?

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Abstract

Many independent countries in the Caribbean have large stocks of migrants abroad who send remittances to relatives in the homeland. Most Caribbean migrants reside in four principal host or remittance-sending countries: the United States, Canada, the United Kingdom, and The Netherlands. Remittances constitute more than 5 percent of GDP in most countries and exceed 10 percent in the case of Guyana, Haiti, and Jamaica. The transfers help to smooth consumption patterns, alleviate poverty, increase the supply of investable funds, and improve balance of payments. Many developing countries and most Caribbean states are fiscally constrained and have limited access to private international capital markets. Given substantial remittance inflows worldwide (US\$413 billion in 2014 compared with US\$135 billion in foreign aid in the same year), the governments of remittance-receiving countries wonder how some of its migrants' savings could be tapped to bridge financing gaps. One means would be for governments to issue a diaspora bond with a submarket rate of return that targets patriotic migrants who want to help their home country grow and prosper. This paper defines diaspora bonds, discusses their performance in the post-World War II era, and reviews the critical steps and conditions for successful issuance and subscription. The characteristics of selected Caribbean states are then analyzed to determine suitability for possibly using this financial instrument.

JEL classification codes: F22, F24, G23

Keywords: diaspora, bonds, remittances, emigration, market access, financial integration

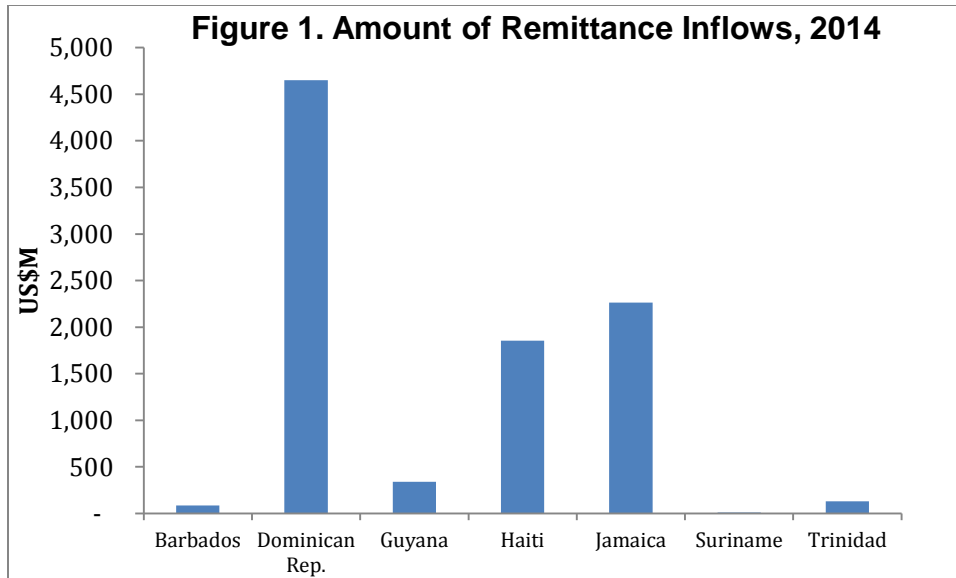
Diaspora Bonds: Can They Be Used in the Caribbean?

1. Introduction

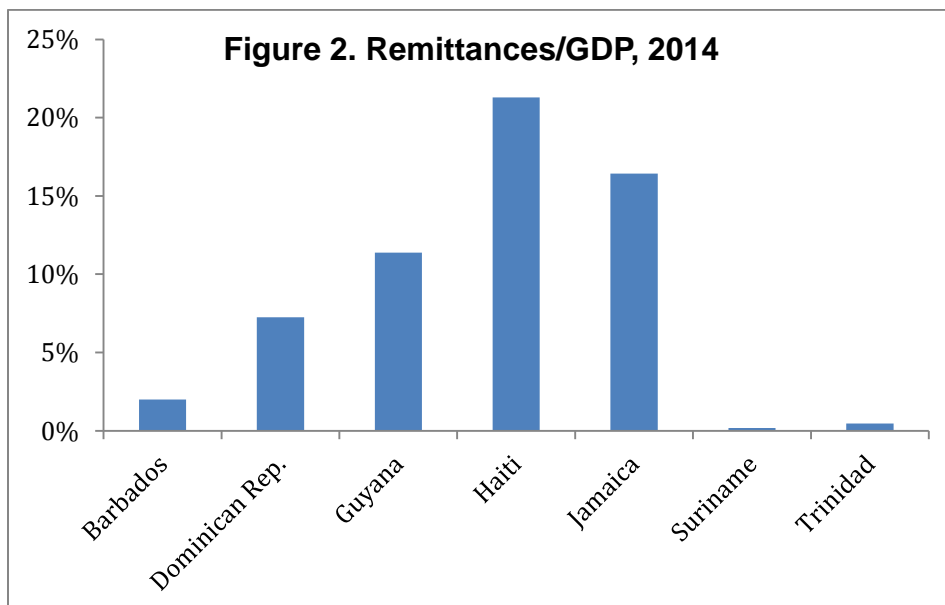
The Caribbean region has an estimated 4,116,000 migrants that reside in the United States (1.3 percent of the United States' total population), and they remitted approximately US\$5 billion in 2013 (Maldonado et al. 2014). Moreover, the Caribbean migrant population was the fastest growing group in comparison with Mexicans, Central Americans, and South Americans. With an increase of 7.3 percent in 2013 and with improving macroeconomic and labor market conditions in the United States, the numbers are expected to increase in the near term (Maldonado et al. 2014). Other metropolitan countries in which Caribbean migrants are present in appreciable numbers include Canada (2.2 percent of Canada's total population), the United Kingdom (1 percent of the United Kingdom's total population), and The Netherlands (3 percent of The Netherlands' total population).¹ Migrants in these countries also remit substantial amounts, but the largest source market is the United States.

Remittances are sent to relatives and are used for a variety of purposes: (1) to smoothen and support consumption patterns of dependent relatives (for example, food expenses, health care, school fees and supplies, clothing, rent or mortgage payments); (2) to make investments in businesses and real estate; (3) for savings; and (4) the repayment of debts (for example, often the debt incurred for smuggling fees or to subsidize the migration of other relatives and loved ones) (see Graziano 2012). The flows are important economically and constitute substantial absolute flows on money ranging from US\$9 million in Suriname to US\$4.6 billion in the case of the Dominican Republic. For Guyana, Haiti, and Jamaica, remittances as a share of gross domestic product (GDP) constitute more than 10 percent (see Figures 1 and 2).

¹ Note that there is a substantial number of persons of Caribbean descent resident in France that hail from Martinique, Guadeloupe, and French Guiana. France is not included in the analysis because these territories are part of France, they are Overseas Departments. Transfers would be considered internal and not cross-border, and the interest of this paper is in cross border transfers and capital market operations.



Source: World Bank.



Source: World Bank.

In Table 1, the stocks of Caribbean emigrants, the percentage with tertiary or university education, and the size of remittances flows are assessed. The main conclusion is that the Caribbean region—with the exception of the Dominican Republic—is a place that exports a high percentage of its skilled people.² This implies that the emigrants can earn more and, in turn,

² The phenomenon of a high percentage of persons with tertiary level education migrating is often called “brain drain”. In the context of this paper, more “brain drain” represents an opportunity to capture a higher fraction of emigrants’ savings to direct into remittances and diaspora bonds, but at the same time, a high level brain drain reduces labor productivity, contributes to low growth rates, and less institutional capacity in home countries.

have more disposable income for investment and saving purposes.

Table 1. Caribbean Emigrants and Remittance Flows, by Country

	Stock of emigrants, 2010	Emigrants as share of population (%)	Top destination countries (Rank order of importance)	Emigration rate of tertiary educated skilled population, 2000 (%)	Remittances, 2010 (US millions)
The Bahamas	33,400	12.8	United States, United Kingdom, Canada, Australia, Cayman Islands, Netherland Antilles, Dominican Republic	61.3	NA
Barbados	105,200	41	United States, United Kingdom, Canada, Trinidad and Tobago, Netherland Antilles, Australia	63.5	161
Dominican Republic	1,035,800	10.1	United States, Spain, Italy, Netherlands Antilles, Panama, Canada, The Netherlands, Venezuela	21.6	3,373
Guyana	432,900	56.8	United States, Canada, United Kingdom Suriname, Trinidad and Tobago, Barbados, The Netherlands, Brazil	89	280
Haiti	1,009,400	9.9	United States, Dominican Republic, Canada, France, The Bahamas, Netherlands Antilles, Venezuela, Netherlands, Belgium, Switzerland	83.6	1,499
Jamaica	985,500	36.1	United States, United Kingdom, Canada, Cayman Islands, The Bahamas, Netherland Antilles, Australia, Barbados	85.1	2,020
Suriname	204,400	39	The Netherlands, United States, Netherlands Antilles, Canada, Belgium, United Kingdom, France, Brazil, Guyana, Spain	47.9	2
Trinidad and Tobago	358,600	26.7	United States, United Kingdom, Canada, St. Vincent, Venezuela, US Virgin Islands, Barbados, Australia, Guyana, Germany	79.3	109

Source: World Bank Migration and Remittances Factbook 2011.

Moreover, remittances produce positive economic effects for the receiving country. They can have poverty alleviation effects. Because remittances are less volatile than are foreign direct investment and portfolio equity investments, they can serve to cushion the impact of external shocks by increasing foreign exchange reserves and improving balance of payments (Ratha 2007; Grabel 2008; Mohapatra et al. 2010).

2. What Are Diaspora Bonds?

A diaspora bond is a fixed-income debt instrument that targets a community of emigrants outside the home country. Even though any person or institution can purchase the bond, preferential rates or a premium are given to members of the target diaspora. Even so, the preferential terms may be less than what would be available on the open market for an instrument that is not normally perceived to be of high investment grade. It has emerged as a means to obtain hard currency financing. They are typically long-dated, fixed interest rate securities that can be redeemed only at maturity. Marketing pricing is based on the prime rate. The proceeds are often used to fund infrastructure investments and housing but can also be used for balance-of-payment support.

3. What Are the Motivations for Issuing and Purchasing Diaspora Bonds?

Issuing Government Perspective

For a cash-constrained developing country government with limited access or no access to international capital markets, diaspora bonds are a favorable method to tap the savings of successful members of its diaspora who are emotionally tied to their home country. It is even believed that the symbolic appeal to second- and third-generation emigrants can be strong. The amount of resources that can be tapped is presumably large. For example, the World Bank estimated in 2014 that diaspora groups from developing countries likely hold upwards of US\$500 billion in savings.

Motivation of Members of the Diaspora Community to Purchase the Bond

The main reasons are the patriotism and strong emotional bonds that emigrants, especially the first generation, feel for their homeland. The diaspora is believed to be willing to accept less return in order to help the homeland progress.

4. Who Has Done It?

Several countries have attempted it, but only two have been clearly successful in modern times. Israel is the leading success story, having raised US\$32 billion to date. Israel started issuing such bonds in 1951, and issues have been regular even amid intermittent conflict.³ For example, during the Six-Day War in 1967, the government of Israel had a successful subscription. As of 2005, diaspora bonds constituted 32 percent of the government's

³ The original issuers were China and Japan in the 1930s but the discussion will focus on the post-WWII era, since China and Japan were on war footings during that time and world financial architecture is markedly different in the post-Bretton Wood era.

outstanding external debt. Most bond proceeds are used for housing and infrastructure projects. The discount on Israel bonds compared with the 10-year US Treasury bill over the equivalent period was substantial: 4 percent versus 6.8 percent.

India has also been successful, having raised US\$11.3 billion to date on three opportunistic issues that were restricted to persons of Indian descent. In contrast, Israel has been much more active with issues over the past six decades. In 1991, India issued diaspora bonds (called *India Development Bonds*) to help with balance-of-payment problems in 1998 and 2000 to help recover from sanctions imposed in the wake of detonating nuclear devices.⁴ Proceeds have been used exclusively for balance-of-payment issues and during times when access to international markets was difficult. The maturity of the bonds issued were 5 years and the returns in US dollars rated from 6.85 to 9.50 percent, approximately 40 basis points less than US corporate bonds.

Other countries that have tried are Ethiopia,⁵ Kenya,⁶ Nigeria,⁷ and Greece.⁸ In the case of Sri Lanka and South Africa, they may have issued diaspora bonds, however, it is not clear as to whether it was a true bond issue or just foreign currency deposits because disaggregated data and clear documentation are not available. No judgment can be made on Sri Lanka and South Africa.

5. Why Has the Track Record for the Issuance of Diaspora Bonds Been So Markedly Different?

There seem to be three main reasons:

1. Reasons behind emigrating. If the main reason was flight from persecution then the emigrant would be less likely to support a diaspora bond, especially if the same regime is in power in the home country. If the main reason was economic then the emigrant

⁴ India has not issued another diaspora bond since 2000.

⁵ Ethiopian Millennium Corporation Bond intended to finance the Ethiopian Electric Power Corporation hydroelectric dam Gilgel Gibe III was undersubscribed because investors did not trust the capacity of the government to service the debt. <http://www.africa-eu-partnership.org/newsroom/all-news/unlocking-potential-diaspora-bonds>

⁶ Kenya had planned to raise \$600 million via bond issue to citizens living abroad in 2011/2012 but had to postpone because of negative reaction by investors. Investors wanted clear region-specific targets for the planned infrastructure. In late 2014, Kenyan authorities announced plans for an upcoming Shilling denominated diaspora bond. The expected release date was June 2015. No information is available on whether the time table was honored and if so, market reaction.

<http://www.businessdailyafrica.com/Plans-for-Kenya-Diaspora-bond-complete/-/539546/2450946/-/15eb8yg/-/index.html>

⁷ In 2011, Nigeria postponed a planned diaspora bond issuance. In 2012, the country returned to capital markets with a Eurobond; since 2013 there have been discussions on a US\$100 million diaspora bond issuance and in 2015, authority was sought to raise the level to US\$300 million.

⁸ Greece issued a diaspora bond in 2010. Approximately 11,000 people, many of them overseas Greeks, invested €3 billion (US\$3.9 billion) but in 2012 the issuance faced losses. Only 53.5 percent of investors' holdings would be repaid at interest rates ranging from 0.6 percent to 3.36 percent, with maturities of 6 months to 30 years. First, repayments were to be in 2014. Private sector investors were forced to receive a "haircut" as passed of the second bailout by Greece by the European Union, the International Monetary Fund, and European Central Bank troika. <http://greece.greekreporter.com/2012/03/13/greeks-diaspora-bond-holders-will-take-big-losses-too>

would be more prone to support a diaspora bond.

2. Strong perceptions of good management and governance in the issuing country
3. Good publicity and outreach

Reason 1: Reason for Leaving

If economic advance was the main motive for leaving, then a higher level of attachment to the homeland would be expected. If the main motive was fear of persecution or the threat of war, then one would expect a lower level of attachment and even antipathy, especially if the regime in power is held responsible for the expulsion. In the case of both Israel and India, persecution in the homeland is not seen as a driving force behind emigration.

In the case of Israel, Jews have been in a diaspora for two millennia, and some Jews have started to return to their ancestral homeland since the formation of the modern Israeli state in 1948. Israel is a country perpetually perceived to be under siege, and Jews around the world tend to rally to support the continuance of the Jewish state. There is no persecution of Jews in their homeland.

In the case of India, the main reasons that people emigrate are to obtain tertiary education and to pursue better economic opportunities. Note, however, that Muslim Indians may be motivated to migrate to avoid sectarian differences and religious conflict. The partition of India and Pakistan in 1947 triggered massive migrations and internal displacements (14 million people) and was accompanied by many atrocities; however, apart from this, there have been two to three other significant disturbances in more recent times but have triggered lesser amounts of internal and out-migrations (Jammu, Kashmir, and Assam) .

In contrast to India, Ethiopia had a massive outflow of emigrants in more recent times fleeing the brutality and repression of the Mengistu regime (1974–91). Even though the current government of Ethiopia, in power for 24 years, is not socialist nor as repressive as its predecessor, Ethiopians in the diaspora seem less willing to collaborate with the government, especially those who were members of the displaced business and professional elite that fled in the 1970s and 1980s and for the most part are now very successful financially.

In the case of Nigeria and Kenya, there are low levels of conflict and moderate to high levels of citizen insecurity depending on the region in the particular country. These countries also suffer from a perception of less-than-satisfactory governability. For decades, Nigeria has faced a low-level conflict in the Niger Delta and, in more recent years, in the northern half of the country, with the rise of Boko Haram. Kenya, for the past two decades, has been facing growing insecurity and conflict, stemming from the rise of Islamic fundamentalists on the coast and high

profile retaliation attacks by Al-Shabab, a Somali militant group, for the role that Kenya has played in United Nations peacekeeping duties in Somalia. These conflicts disrupt and slow the development process and generate internal displacements. However, it is still believed that the main motive for emigration to foreign countries from these two countries is economic. Fleeing from insecurity or persecution is a secondary motive.

Reason 2: Perception of Transparency and Governance

As can be seen in Table 2, Israel ranks high on most indicators of transparency, good governance, innovation, business competitiveness, and macroeconomic stability. India ranks less well on these indicators but has made significant improvements in economic performance, governance, and financial inclusion since trade and economic liberalization started in 1993. India has realized high rates of growth and is second only to China in dramatically reducing poverty rates.

The countries that have been less successful in diaspora bond issues have suffered from perceptions of higher relative levels of corruption, mismanagement of public resources, poor political governance, and physical insecurity (see Table 2).

Table 2. Indicators of Level of Economic Development, Institutional Capacity, and Sovereign Credit Rating

Country	GDP per capita, 2013 estimate (US\$)	Perception of corruption ranking, 2013 (out of 177)	Global competitiveness index, 2013–14 (1–7) with 7 being the highest score possible	Government effectiveness index, 2012 (percentile rank)	S&P sovereign credit rating (local and foreign currency)
Successful issuers					
Israel	36,151	36	4.9	86.12	A+
India	1,499	94	4.3	47.37	BBB-
Unsuccessful issuers					
Ethiopia	498	111	3.5	40.19	B
Greece	22,866 (2014)	80	3.9	62.2	CCC-
Kenya	994	136	3.8	35.41	B+
Nigeria	1,700	144	3.6	15.79	BB-
Caribbean states					
Bahamas	21,908	22	N/A	79	BBB
Barbados	14,917	15	4.4	89	BB-
Dominican Republic	5,826	123	3.8	35	B+
Guyana	3,596	136	3.8	49.76	unrated
Haiti	820	163	2.90	N/A	unrated
Jamaica	5,290	83	3.84	55	B-
Suriname	9,700	94	3.68	56	BB-
Trinidad and Tobago	18,373	83	4.01	65	A

Sources: Transparency International for Perceptions of Public Corruption, World Economic Forum for Competitiveness ranking, and World Governance Indicators for percentile of government effectiveness, and World Bank database for GDP in nominal terms.

As can be seen from Table 2, African diaspora bond issuers rank much lower on most of the four selected indicators in comparison with the two successful issuers.

Reason 3: Good Publicity Campaign Before Issuance

The two successful countries carried out broad and thorough publicity campaigns, whereas the unsuccessful countries did not conduct thorough publicity campaigns.

“Road shows” require planning and good execution. Ben Gurion, the first Prime Minister of Israel, participated in the 1951 bond issuance road show in the United States.

In addition to the three aforementioned reasons, other supplementary factors can play a pivotal role in the success or failure of a bond issue (see Box 1).

Box 1: Other Conditions That Seem to Influence a Successful Issuance

1. Good system of contract enforcement.
2. Absence of armed conflict and civil strife.
3. Network of banks and brokers that can be used to sell the bonds in the countries and cities where the target diaspora is concentrated. Easiest to use is a state-owned financial institution with agents overseas. Second easiest to use is a network of banks that typically capture a fair share of the deposits and business of the target diaspora. Use this to retail the bonds to preexisting diasporic clients.
4. High percentage skilled emigrants in the destination country who have high median incomes and who belong to the first generation.

6. Which Caribbean Countries Are Poised to Issue Diaspora Bonds?

When comparing the Caribbean states with the successful issuers, the Caribbean countries are clearly outperformed by Israel on all counts but generally score better than India on income and governmental effectiveness, except for Dominican Republic. However, a handful of Caribbean states—the Dominican Republic, Guyana, and Haiti—did not score as well as India on global competitiveness and perception of corruption measures (see Table 2).

When comparing the Caribbean states to the African states that have issued diaspora bonds, a subset of Caribbean countries—Guyana, Haiti—are on par or worse than the African states except for per capita income and Guyana in terms of government effectiveness. Another subset had lower perceptions of corruption, relative higher rankings on government effectiveness indicators, and credit risk ratings for the most part above speculative grade (The Bahamas, Barbados, Jamaica, Suriname, and Trinidad and Tobago).

When comparing the Caribbean countries to Greece, a developed country, Greece obviously has a higher income level and outperforms all but two from the region on perception of corruption and government effectiveness and is approximately equivalent on competitiveness. What is markedly different about Greece is its default imminent credit rating (CCC-). The lesson that can be gleaned is that issuing a diaspora bond when the debt burden is unsustainable may not help, even at submarket rates. In the case of unsustainable debt, a combination of expenditure rationalization, growth stimulus, and debt relief is needed.

When assessing emigrants' motivations for leaving, the Caribbean region, unlike the Sub-Saharan Africa, has enjoyed relative political stability and an absence of systematic persecution. Thus, the impetus for Caribbean migration seems to be clearly economic betterment implying that Caribbean emigrants should be more inclined to purchase bonds from their homelands because they do not harbor bitter feelings.⁹ Only a handful of Caribbean countries have had prolonged periods of military or authoritarian rule—Cuba, the Dominican Republic, and Haiti. Suriname had a brief period of military rule, and Guyana and Dominican Republic have had long periods of one dominant political party holding power due to winning repeated elections.

In the 2010 US Census data, it is clear that Caribbean migrants tend to earn more, are relatively better educated, and experience less poverty than do two groupings of Latin American immigrants, so Caribbean migrants should be a prime target for a diaspora bond. Where they falter is in median income, scoring better than Mexicans only. The reason is that Caribbean emigrants tend to have more nontraditional household structures, more unrelated people living together, more divorced and separated persons, and more female-headed households (see Figures 3 through 6).

⁹ Note the exception in the Caribbean may be Cuba. Many in the Cuban diaspora are vehemently opposed to the current communist regime in power in their homeland and are not likely to support financing of any government initiative controlled by the current regime. They are likely to be inclined just to continue sending private remittances that directly benefit relatives. However, the characteristics of Cuba as a likely bond issuer were not analyzed in this paper given limitations of data and the existence of a US Embargo. That embargo would have to be lifted first in order to permit an issuance to its largest diaspora that resides in the US.

Figure 3. Percentage of Individuals With a Bachelor Degree or Higher, by Region of Origin

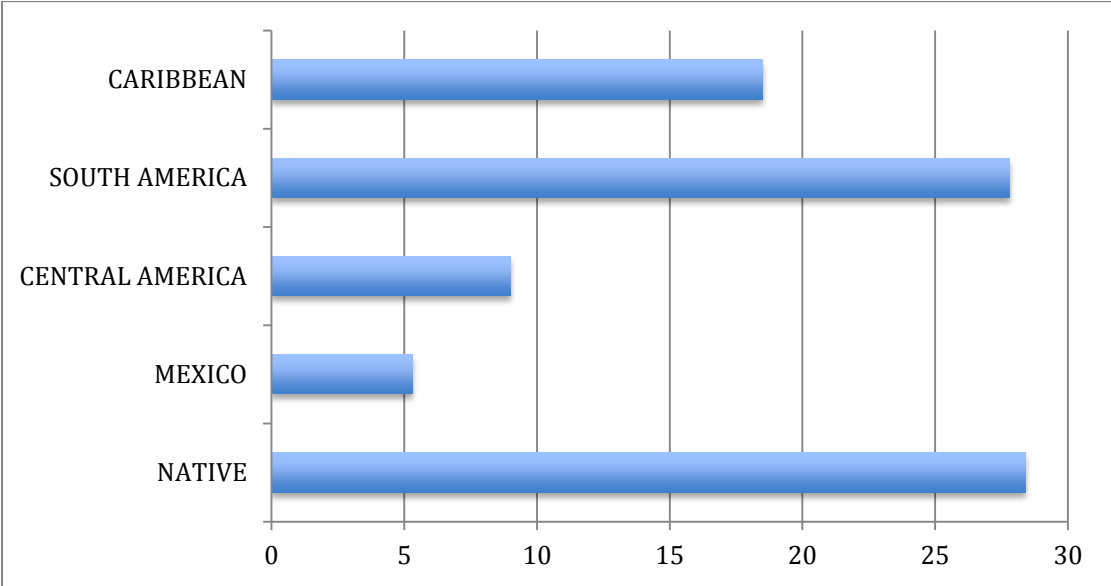


Figure 4. Percentage of Individuals in Management, Business, or Science Occupation, by Region

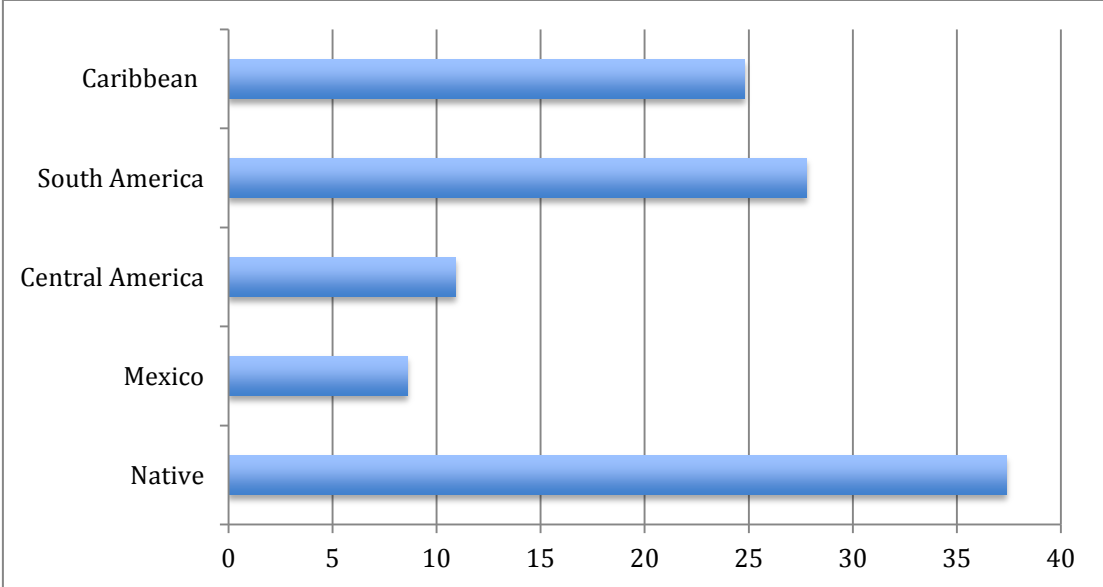


Figure 5. Percentage of Individuals Living Below the Poverty Line, by Region

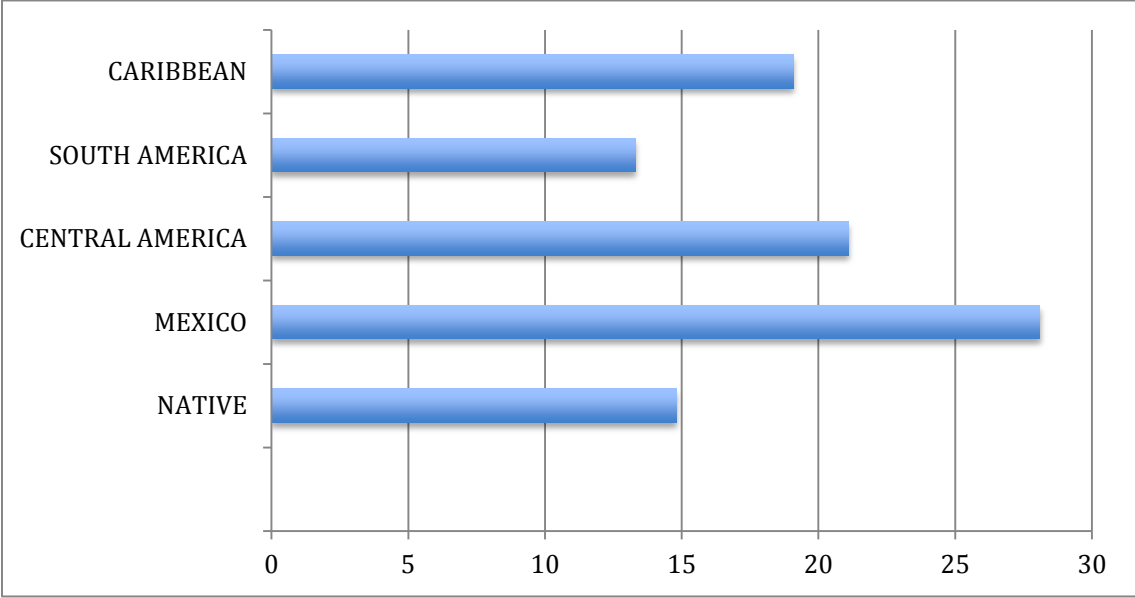
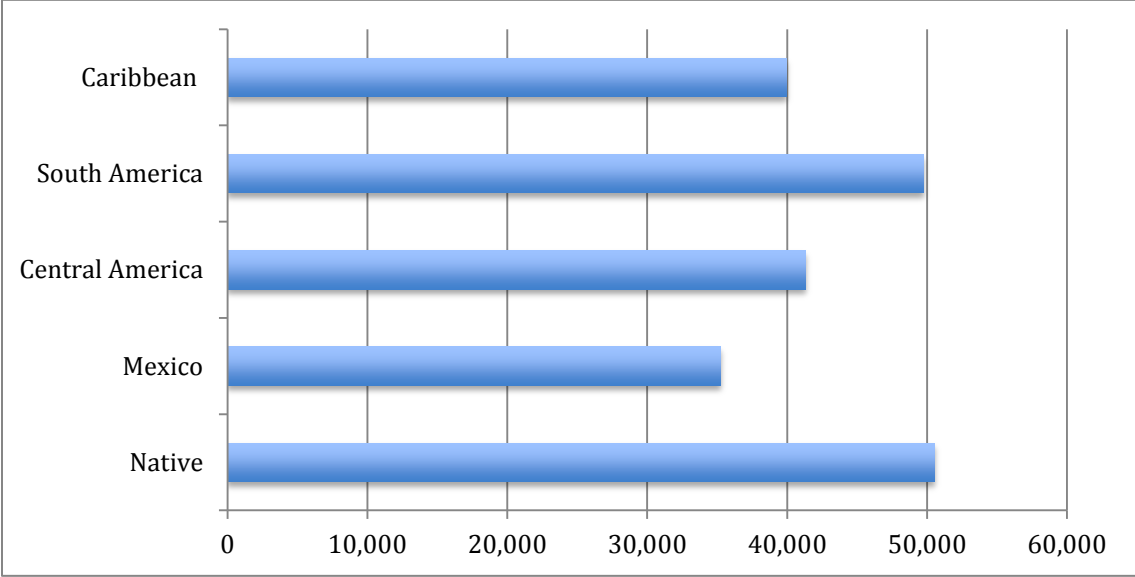


Figure 6. Median Household Income (US\$), by Region



Source: 2010 US Census.

Accordingly, the states with very favorable chances of pursuing the issuance of a diaspora bond are The Bahamas and Trinidad and Tobago, given that these two countries have a relatively high stock of emigrants, sovereign credit ratings that are above the speculative grade, have relatively lower perceptions of public corruption than the other Caribbean states,

and are above the average of global competitiveness and government effectiveness ratings for the selected countries. Countries with fair chances would be Barbados, Jamaica, and Suriname.

7. Steps to Follow in Issuing Diaspora Bonds Based on Lessons Learned

On the basis of the experiences of countries that have issued diaspora bonds before, the following is a step-by-step guide.

1. Determine whether a state-owned entity will issue the bond (state-owned bank or specialized agency¹⁰) and how the bonds will be distributed in destination countries either through brokers or a network of corresponding banks.
2. Determine whether the offerings will have to be registered with the US Securities and Exchange Commission or equivalent regulatory bodies in Canada and the United Kingdom to permit retail sale. The disclosures for the Securities and Exchange Commission are very involved.
3. Address the issue of Know Your Customer to minimize and avoid the recycling of drug proceeds.
4. To structure a bond campaign, explicit and disaggregated information is needed on the specific nationality group that has emigrated to a target market. The main variables will be income level, average savings, degree of affinity to the homeland, investment risk preferences, and expected rates of return.
5. Determine whether a credit rating will be sought. Ratings of BB– (non–investment grade speculative) would imply that the return offered to the investor should be higher than market averages possibly even taking into account the “patriotic discount.”
6. Of utmost importance would be to confirm whether the jurisdiction in question has any pending unresolved deficiencies with Anti-Money Laundering/Counter Terrorist Financing (AML/CTF) standard legislation and enforcement mechanisms. Deficiencies or noncompliance is likely to have a chilling effect on correspondent financial institutions. Even when jurisdictions are ostensibly compliant with Financial Action Task Force (FATF) guidelines there has been a noted drop in correspondent banking relations between many banks in advanced market countries and Caribbean jurisdictions over the

¹⁰ The government of Israel established the Development Corporation for Israel with the mission to raise foreign exchange resources from the Jewish Diaspora through nonnegotiable bonds. Bonds are offered in various denominations ranging from \$100 to \$100,000, with terms of 5–10 years and 10–15 years. The government of Israel uses market interest rates as reference point but does not seek the credit ratings of these bonds from the leading rating agencies such as S&P and Moody's. The government of India issues its diaspora bonds from the State Bank of India.

last year or so (Enoch and Bougha-Hagbe, 2015).¹¹ This cutting of relations is due to the costliness of monitoring and investigating the compliance of hundreds of partner banks with AML/CTF regulations, especially the Know Your Client (KYC) rules. For many of the large international “money center” banks it is far easier to take the precautionary measure of severing relationships with smaller banks that have smaller transaction flows located in more distant and more informationally opaque jurisdictions, than to risk exposure to substantial pecuniary fines due to “errors or oversights” possibly committed by correspondents. This is called “de-risking” and it is an emerging issue confronting financial market supervisory authorities, banking associations, and policy makers that hopefully will be overcome with better communication and information flows. For diaspora bond issuance the main issue is to be a compliant jurisdiction, and if a state bank is going to be the lead it will need to make sure it maintains correspondent relationships.

7. Recent financial crises such as the one involving the Colonial Life Insurance Company (CLICO) in Trinidad and Tobago underline the fact that large pre-existing implicit and explicit contingent liabilities for the central guarantee such as state-owned enterprises that are illiquid, unfunded pension funds, state-owned banks with a high percentage of nonperforming loans, and public guarantees of loans can weight negatively in credit risk ratings and investor assessments of risk-return. Therefore, contingent liabilities need to be managed carefully.
8. Contract a public relations firm to organize a publicity campaign. The main goals would be to determine the perception of the country held by members of the diaspora and the size of the high-skilled, high-income emigrant population.
 - a. A first marketing step is to survey a sample of members of the diaspora in Canada, the United States, and the United Kingdom to determine their degree of openness and willingness to purchase a diaspora bond and under what conditions and terms. The sample should capture high-skilled, high-income, high-savings emigrants.
 - b. The next step is to determine who will be the lead agency (a specialized government agency, a second-tier bank, or the central bank) and then structure bond issuance (pricing, term, level of guarantee, whether nonnegotiable, negotiable, fixed interest rate or floating) and initiate preliminary conversations with a set of overseas banks through which to manage the retail sale, assuming that government agencies will not

¹¹ According to Enoch and Bougha-Hagbe, some 10 national banks in five different Caribbean countries have lost correspondent banking relations as of June 2015. The trend is occurring in other emerging markets as well.

- establish an overseas presence to directly retail.
- c. To help improve the image of the issuing Government and build trust, it is advisable for the issuing government to clearly indicate which programs or major investments will be financed with the proceeds and fully disclose the structure and due diligence surrounding the proposed projects or programs.
 - d. In the investment prospectus and in the marketing pitches, the benefits cannot be overstated nor the risks understated or completely ignored.
 - e. The timeframe for due diligence, establishing partners, conducting market research, and structuring and executing the bond issuance will require a nontrivial outlay of financial resources, allocation of administrative talent, and time. Issuing a successful diaspora bond cannot be done hastily.

7. Role of Multilateral Development Institutions in Credit Enhancement

To attract investors in the bond and improve pricing, a multilateral development institution/bilateral donor agency could provide a partial guarantee to the issuing government. Such a move would help Caribbean countries obtain or enhance access to international finance. Nonetheless, there would be reputational and performance risks for the multilateral development finance institution to analyze during the process of due diligence and if such risks were identified they would have to be duly mitigated.

8. Conclusion

Diaspora bonds are a promising alternative financing instrument, however success seems to hinge on winning and maintaining the confidence of responsive emigrants. The Caribbean has a number of remittance-receiving countries, and many Caribbean emigrants have attained economic success and a measure of financial security in the diaspora. Based on the data available for the United States, one of the major source countries of remittances, a large percentage of its Caribbean emigrants (a) hold tertiary degrees; (b) seem to be employed at a relatively larger percentage in managerial, business, and science and art jobs compared with Hispanic immigrants from Latin America; and (c) experience less poverty. Therefore, this diaspora could be targeted for diaspora bonds.

Moreover, the level of affinity and emotional attachment to the homeland should be high, given that there have been no major wars or systematic, long lasting waves of political persecutions in the Caribbean in general, and in the English-speaking Caribbean in particular. The main reasons for emigrants leaving seem to be economic, not political. With appropriate

technical guidance and a commitment of political will and resources, several of the Caribbean states could explore the issues of diaspora bonds.

The main challenges are to understand the preferences of the emigrants, make credible and full disclosures about the projects to be financed, assure the diaspora that the monies raised will be well spent and bond payments honored, structure a viable deal and, if necessary, obtain credit enhancements from multilateral and bilateral organizations. Some of the countries that receive the largest absolute inflows of remittances can have lower levels of government effectiveness, higher perceptions of public sector corruption, and little or no access to international capital markets, whereas countries with less dependence on remittances have better credit ratings and access to international markets. This presents an opportunity, albeit one with risk, for multilateral/bilateral donor agencies to “create a first-time rating” by guaranteeing a large portion of a bond issue and offering investor protections through outside professional fund management which could facilitate diaspora bond issuance for countries with speculative or no credit risk ratings and perceptions of low effectiveness.

Further research is needed because this is such a nascent field. For example, more information is needed on the Surinamese diaspora in The Netherlands and Caribbean emigrants in the United Kingdom and Canada to determine the prefeasibility of diaspora bonds being targeted to those markets. Other research could focus on determining whether a regional Caribbean Community (CARICOM) bond would be possible. Still other topics to explore could be: (1) the likely socioeconomic implications on remittance-receiving households if direct remittance flows fall and are diverted to formal financial instruments; and (2) identifying the likely impact of including submarket returns for holding diaspora bonds on the overall portfolio performance of prototypical emigrants who send remittances and at the same time invest in a variety of other savings and investments instruments.

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