

Can a Diaspora Bond Help Grenada?

A program was aired on October 4, 2009 by radio host George Grant on Grenadabroadcast.com which introduced the idea of exploring the potential for Grenada to issue a diaspora bond. This article explains what a diaspora bond is, which countries have used it to attract investment by their nationals overseas, its benefits and drawbacks.

What is a Diaspora Bond?

A diaspora bond is a bond that is issued by the government of Grenada similar to current bonds except that this financial instrument will be marketed to nationals overseas and will not be sold in Grenada. This bond gets its name because it is sold to a nation's diaspora who are able to purchase the bond in foreign currencies which is extremely valuable for financial investment at home. Although the diaspora bond is marketed and sold to the diaspora, several countries that have successfully issued these bonds have permitted proxy purchasing which allows citizens at home to buy these bonds through friends and families abroad.

As it is used by other nations in recent years, diaspora bonds typically mature in 5 – 7 years and pay annual dividends between 5% and 8%. (Currently, bank deposit and certificate of deposit interest rates are not more than 2%). Every year, the bond pays the purchaser this interest and at the end of the term, the purchaser receives her principal as well as the accrued interest.

Diaspora bonds have been used for many purposes like improving infrastructure and relieving national debt. However, it has been pointed out by Allan Bierzynski, the Managing Director of Jonas Brown & Hubbard (G'da) Ltd and Henry Joseph, a prominent accountant, Grenada's infrastructure is sufficiently geared up to facilitate efficient movement of material and goods and the tri-island state has an extremely reliable source of power and telecommunications. Consequently, Grenada may capitalize on its existing infrastructure and utilize proceeds from a diaspora bond for a revenue producing investment such as the construction of a large scale environment-friendly, first class hotel.

If a diaspora bond is issued by the government of Grenada it will be fully guaranteed and endorsed by the Eastern Caribbean Central Bank or a private banking institution which the government of Grenada may engage to ensure that, like all bonds, the returns to investors are guaranteed.

History of Diaspora Bonds: Successful Countries

The first country to issue a diaspora bond was the young state of Israel in 1951 when its then first Prime Minister Ben Gurion traveled across the globe urging Jews and friends of Israel to help the fledging young nation survive amidst mounting challenges. Until 1991 no other country in the world had attempted to tap their nationals abroad for investment capital aid.

Between Prime Minister Ben Gurion's first visit abroad in 1951 and subsequent issue of diaspora bonds in 1991, Israel was the only county to successfully experiment with this method of raising funds for the home country. Likely due to the size, dispersion and net worth of its nationals and friends scattered worldwide and especially in the United States, Israel has reaped tremendous benefits from its bonds, which are currently rated by Wall Street rating agencies.

On three separate occasions India has issued diaspora bonds and their success, many believe, account for the global surge in governments' pursuit of this development tool.

In 1991 India turned to diaspora bonds when its Central Bank assessed a looming emergency in the nation's foreign exchange as the country veered on the edge of financial collapse. Months later the bonds were fully subscribed and a financial collapse had been averted. India's first bond raised \$1.6B, an astonishing amount for that time.

Later in 1998 a global embargo was declared against India after it exploded a series of nuclear test bombs in violation of the global nuclear weapons ban. India responded by launching its second diaspora bond, the Resurgent India Bond so that it could operate its economy outside the coordinating agencies of its traditional economic partners. Less than two months later the bond was oversubscribed and India raised an astonishing \$4.2B.

Once again in 2000 India issued the India Millennium Deposits, another diaspora bond and netted another \$5.5B.

If there was any doubt that diaspora bonds could significantly impact a developing country's foreign exchange earnings or inject much needed capital to its fledging economy, the Indian experience signaled that the rest of the world was now ready to duplicate the Indian experience.

Thereafter other nations took note of the value of diaspora bonds. South Africa, Sri Lanka, Ghana and Kenya as well as the Philippines along with several other countries with significant diaspora populations have either issued these financial instruments or have announced plans to proceed with this instrument. As an indication of its incredible success, consider that Ghana's Golden Jubilee bond had to be issued twice because it was oversubscribed to the tune of over \$500m and Sri Lanka has raised more than \$550m from its overseas populations.

In 2003, Jamaica's Prime Minister P.J. Patterson, at a Caricom Conference, urged Caribbean nations to study the viability of diaspora bonds pointing to the examples above. Patterson delivered that same message at a subsequent feature address in New York and the audience resoundingly supported this initiative. However, Patterson's government did not seriously study this idea or consult with its expatriate leaders on moving forward with this initiative. Then in 2009, the Bruce Golding administration attempted to move further with Patterson's idea yet Jamaica, whilst being the first Caribbean nation to draw attention to the diaspora bond, has been unable to rally its stakeholders around this important initiative.

It has become clear that migration and remittances have deeply impacted the success potential for diaspora bonds. In 2007 global remittances were \$320B. At the start of the global recession, estimates were that there would be a drop off in remittances of 8-10%; however, according to the World Bank at its ground-breaking diaspora conference this past July, remittances have declined by only 2-3%, much lower than predicted.

Diaspora Bond: Prospects for Grenada

Grenada, just like the rest of the Caribbean, receives significant amount of remittances than any other region of the world of similar size. The latest World Bank figures show that in 2008 Grenada received US\$64 million from workers' remittances, compensation of employees, and migrant transfers.

Still, we must be cautious about drawing examples with the nations that have succeeded in issuing diaspora bonds, for while Grenada's diaspora is certainly larger than the home population this is still a micro-economy, a mere dot when compared with the African and South Asian countries.

Some of the most important considerations that governments contemplate before issuing a diaspora bond are these: the size and wealth of its diaspora; the compactness or dispersion of that diaspora; level of patriotism; integrity and stability of legal systems in the home country; and the potential for full subscription of the bond itself.

In Grenada's case, several of these requirements augur favorably for the tri-island nation to seriously explore issuing a diaspora bond. While it is impractical to suggest that Grenada can raise hundreds of millions from this instrument, recent research suggests that \$75 million (USD) is well within reach. Specifically, in New York City and the tri-state area alone demographers suggest that some 100,000 of our nationals reside. Combined with approximately 20 to 30,000 residents in Canada, 30,000 in the United Kingdom and another 20,000 persons dispersed throughout Caricom member states, it is plausible that Grenada can realistically achieve tremendous success with a diaspora bond.

According to the US Census Bureau, the average income of Grenadian households is almost \$50,000.00 which is above the average for native born households. Educational level, which is often the driver of an individual's wealth and income potential, similarly indicates that Grenadian nationals are in the higher levels for all US persons.

Today, concrete steps are undertaken to create structures that encourage diaspora residents to become more engaged with stakeholders back home to discuss the viability of supporting a diaspora bond. These talks are becoming more focused with suggestions from home and abroad for the targeting of revenue-generating projects from the proceeds of a successful diaspora bond. One concrete idea is for the proceeds of a diaspora bond to be used for the construction of a first class hotel.

Benefits to Investors and the Government

For the investors, both small and large, bonds are among the safest investments currently available because they are guaranteed to pay principal and dividend. In addition to diversifying their assets' composition, the individual investor also gets the benefit of using diaspora bonds to satisfy financial obligations at home and the satisfaction of participating in developmental projects that directly benefit their country while reaping the financial rewards of that investment.

Government benefits by raising a ready pool of foreign exchange that improves its credit worthiness in addition to having a relatively cheap source of hard currency funds available to embark on jobs and revenue-creating projects.

What is obvious about the diaspora bond is that it definitely creates a win-win situation for both the Grenada government and its non-resident citizens in the Diaspora.

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