In the current environment of a crisis of confidence in debt markets, many countries are encountering difficulty obtaining private financing using traditional financial instruments. The scarcity of capital threatens to jeopardize long-term growth and employment generation in developing countries, which tend to have limited access to capital even in the best of times. Official aid alone will not be adequate to bridge near- or long-term financing gaps. Ultimately, it will be necessary to adopt innovative financing approaches to target previously untapped investors. Diaspora bonds are one such mechanism that can enable developing countries to borrow from their expatriate (diaspora) communities.1

A diaspora bond is a debt instrument issued by a country—or, potentially, a subsovereign entity or even a private corporation—to raise financing from its overseas diaspora. Israel, annually since 1951, and India, on three occasions since 1991, have raised nearly US$44 billion using these bonds. The rationale behind the Government of Israel’s issuance of diaspora bonds has been different from that of the Government of India. The Government of Israel has offered a flexible menu of diaspora bonds since 1951 to keep the Jewish diaspora engaged. Furthermore, the Jewish diaspora has often paid a large price premium, thereby providing a significant “patriotic” discount in borrowing costs. The Indian authorities, in contrast, have used this instrument for balance-of-payments support, to raise financing during times when they had difficulty in accessing international
capital markets. Members of the Indian and Israeli diasporas have found such bonds attractive because of the opportunities they provide for effective risk management. Furthermore, diaspora communities may have a “home bias” toward their country of origin and may be willing to purchase diaspora bonds.

While India and Israel have been at the forefront in issuing diaspora bonds, many other nations also have large diaspora communities in the world and could benefit from issuing such bonds. These bonds could be a potentially important and innovative source of financing for development and are worthy of more detailed examination. As a vehicle for such examination, this chapter:

- Briefly discusses the rationale for countries of origin to issue, and for diaspora communities to purchase, diaspora bonds
- Compares the Israeli and Indian approaches to the issuance of diaspora bonds and draws lessons for potential issuers of these bonds (while several countries have declared their intention to tap diaspora wealth, the actual issuance of diaspora bonds has been rather limited)
- Explores the reasons for the limited issuance of diaspora bonds and presents ideas on how to alleviate constraints
- Highlights the potential role diaspora bonds can play in providing financial help to earthquake-ravaged Haiti (beyond Haiti, many countries in the developing world could also place bonds with their sizable diaspora communities in developed and emerging economies)
- Summarizes the findings and discusses the direction of future research.

**Rationale for Diaspora Bonds**

Diaspora bonds can be an attractive vehicle for countries to secure a stable and cheap source of external finance. Since patriotism is the principal motivation for purchasing diaspora bonds, they are likely to be in demand in fair and foul weather. Indeed, the purchase of bonds issued by Israel rose during the Six-Day War in 1967. Similarly, India was able to raise funds from its diaspora in the wake of the balance-of-payments crisis in 1991 and again following the nuclear explosion in 1998 when the country faced sanctions from the international community. Also, as discussed further below, the diaspora may provide a “patriotic” discount in pricing these
bonds. The Israeli experience, and to a lesser extent the Indian experience, are in keeping with this hypothesis.

Another factor that might play into the calculus of the diaspora bond-issuing nation is the favorable impact it would have on the country’s sovereign credit rating. By making available a reliable source of funding that can be called upon in good and bad times, the nurturing of the diaspora bond market improves a country’s sovereign credit rating. Credit rating agencies believe that Israel’s ability to access the worldwide Jewish diaspora for funding has undoubtedly supported its sovereign credit rating. But the rating agencies do not view this source of funding as decisive in determining Israel’s credit rating. Standard and Poor’s, for example, cites Israel’s inability to escape painful adjustment programs in the 1980s in reaching this conclusion. In other words, the availability of financing from the Jewish diaspora did not allow Israel to avoid a crisis rooted in domestic mismanagement. While Jewish diaspora investors have stood by Israel whenever the country has come under attack from outside, they have not been as supportive when the problems were homegrown.

While concurring with the above assessment, Moody’s analysts also point out that the mid-1980s economic adjustment that brought down inflationary expectations and the 2002/03 structural reforms that improved Israel’s economic fundamentals have sharply reduced country’s dependence on foreign financing. Furthermore, diaspora bonds and the U.S.-Government-guaranteed debt make up the bulk of Israel’s total external indebtedness. As a result, Israel’s ability to issue diaspora bonds is now much more important in underpinning Israel’s sovereign credit rating than it was in the 1980s, when the country had a much larger financing requirement.

India’s access to funding from its diaspora did not prevent the rating agencies from downgrading the country’s sovereign credit rating in 1998 following the imposition of international sanctions in the wake of the nuclear explosions. Moody’s downgraded India from Baa3 to Ba2 in June 1998 (Indian Express 1998a), and Standard and Poor’s cut the rating from BB+ to BB four months later in October 1998 (Indian Express 1998b). But the excellent reception that Resurgent India Bonds in 1998 and India Millennium Deposits in 2000 received in difficult circumstances has raised the relevance of diaspora funding to India’s creditworthiness. Unlike Israel, however, India has not made diaspora bonds a regular feature of its foreign financing. Instead, diaspora bonds are used as a source of emergency
finance. While not explicitly stated, India has tapped this funding source during times of balance-of-payments difficulties. India’s ability to do so is now perceived as a plus.

Why would investors find diaspora bonds attractive? Patriotism is one reason. The discount from market price at which India, Israel, and Lebanon have managed to sell such bonds to their respective diasporas is a reflection of the charity implicit in these transactions. Until the end of the 1980s, Israel sold bonds with 10- to 15-year maturities to members of the Jewish diaspora in the United States (and, to a lesser extent, in Canada) at a fixed rate of roughly 4 percent, without any reference to changes in U.S. interest rates. U.S. 10-year yields over the same period averaged 6.8 percent, implying a significant discount to market. It was only in the 1990s that the interest rates paid by Israel started to rise toward market interest rates. While members of the Indian diaspora offered little patriotic discount, they provided funding when the ordinary sources of finance had disappeared following the balance-of-payments crisis in 1991 and the nuclear testing in 1998.

Beyond patriotism, however, several other factors may also help explain diaspora interest in bonds issued by their country of origin. Principal among these is the opportunity such bonds provide for risk management. A significant risk associated with diaspora bonds is that the issuing country may be unable to make debt service payments in hard currency. Its ability to pay interest and principal in local currency, however, is perceived to be much stronger. This is an attractive feature of such bonds for diaspora investors. Typically, diaspora investors have current or contingent liabilities in their home country and hence may not be averse to accumulating assets in local currency. Consequently, they view the risk of receiving debt service in local currency with much less trepidation than purely dollar-based investors. They are also likely to be much less concerned about the risk of currency devaluation.4

Furthermore, the well-documented home bias, which keeps investors’ portfolios heavily concentrated in their home-country assets (Ahearne, Griever, and Warnock 2004; French and Poterba 1991; Tesar and Werner 1998), is likely to apply to the case of diaspora investors. Since restrictions on international capital flows driving home bias have lost much of their relevance in recent years, analysts have focused on alternative hypotheses. One such hypothesis contends that home investors have superior access to information about domestic firms or economic conditions (Brennan and
Cao 1997; Pastor 2000; Portes, Rey, and Oh 2001). For members of the diaspora, such informational asymmetry may actually imply superior knowledge of firms and economic conditions in their countries of origin. In addition, diaspora members may have a comparative advantage in acquiring information about their countries of origin, as Van Nieuwerburgh and Veldkamp (2009) have argued. All this may lead to a country-of-origin as opposed to country-of-destination bias in the portfolios of diaspora investors and may provide yet another reason for their willingness to purchase diaspora bonds.

Other factors supporting purchases of diaspora bonds include the satisfaction that diaspora investors gain from contributing to the economic development of their home country. Diaspora bonds offer investors a vehicle to express their desire to do “good” in their country of origin through investment. Furthermore, diaspora bonds allow investors the opportunity to diversify their assets away from their adopted country. Finally, diaspora investors may also believe that they have some influence on policies at home, especially on bond repayments. Whether such influence is real or imaginary is irrelevant. Diaspora members will be motivated to purchase diaspora bonds as long as they believe they have influence on policies.

**Israeli Compared to Indian Issuance of Diaspora Bonds**

Israel’s diaspora bonds differ from India’s in several ways (table 4.1). Israel views its diaspora as a reliable source of external capital and has tapped their wealth and goodwill year after year on a regular basis. India, however, has used diaspora funding only opportunistically.

While the Government of Israel established the Development Corporation for Israel (DCI) to issue diaspora bonds, India relied on the government-owned State Bank of India (SBI). Israel has always viewed DCI’s diaspora bond issuance as a catalyst for economic development and growth. Over US$32 billion in proceeds from such issuance has been used in energy, telecommunications, transportation, water resources, and other essential infrastructure projects. In contrast, India has turned to the SBI to raise funding from members of the Indian diaspora in times of balance-of-payments weaknesses. Thus, the SBI has tapped members of the diaspora for funding on three separate occasions—India Development Bonds following the balance-of-payments crisis in 1991 (US$1.6 billion), Resurgent...
India Bonds following the imposition of sanctions in the wake of nuclear testing in 1998 (US$4.2 billion), and India Millennium Deposits in 2000 (US$5.5 billion).

The 4 percent coupon and the yield on the DCI’s fixed-rate bonds from 1951 to 1989 was often far below the yields on 10-year U.S. Treasury notes. Thus, the Jewish diaspora initially provided a large patriotic discount to the DCI. But the patriotic discount has dwindled in recent years. This is perhaps due to the fact that younger Jewish investors are seeking market-based returns. More important, the decline in patriotic discount is also due to the availability of other Israeli bonds that trade in the secondary market and provide alternative avenues for acquiring exposure to Israel (Rehavi and Asher 2004). In contrast to the Jewish diaspora, Indian investors provided little overt discount—interest rates and yields on the SBI-issued bonds were about the same as comparably rated U.S. corporate bonds. But the fact that members of the Indian diaspora purchased these bonds when India had lost its access to international capital markets suggests that the Indian diaspora in reality offered a large discount.

Another noteworthy difference between the Indian and Israeli approaches to diaspora bonds is the variety of instruments that were made available to the respective diasporas. The SBI’s diaspora bonds were non-negotiable, fixed-rate bonds with a five-year maturity. The minimum investment amount was US$2,000. While the DCI also offered nonnegotiable bonds, it provided a large menu of options—fixed- and floating-rate bonds and notes in denominations ranging from a low of US$100 to a high of US$1 million with maturities ranging from 1 year to 20 years. This is

**TABLE 4.1**

**Comparison of Israeli and Indian Diaspora Bonds**

<table>
<thead>
<tr>
<th>Israel</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development-oriented borrowings</td>
<td>Balance-of-payments support</td>
</tr>
<tr>
<td>Large though declining patriotic discount</td>
<td>Small patriotic discount, if any</td>
</tr>
<tr>
<td>Fixed- and floating-rate bonds and notes</td>
<td>Fixed-rate bonds</td>
</tr>
<tr>
<td>1- to 20-year maturities with single repayment at maturity</td>
<td>Five-year with bullet maturity</td>
</tr>
<tr>
<td>Targeted toward but not limited to diaspora</td>
<td>Limited to diaspora</td>
</tr>
<tr>
<td>Direct distribution by Development Corporation for Israel</td>
<td>State Bank of India distribution in conjunction with international banks</td>
</tr>
<tr>
<td>Registered with U.S. Securities and Exchange Commission</td>
<td>Not registered with U.S. Securities and Exchange Commission</td>
</tr>
</tbody>
</table>

Source: Authors’ compilation.
due in large measure to Israel’s desire to build ties with members of the Jewish diaspora that go beyond raising development finance.

Another difference also stands out. The DCI marketing efforts were targeted toward but not limited to the Jewish diaspora. The SBI, in contrast, restricted access to Resurgent India Bonds and India Millennium Deposits to investors of Indian origin. There are several possible explanations for limiting the size of this market:

- Restricting Resurgent India Bonds and India Millennium Deposits sales to the Indian diaspora may have been a marketing strategy introduced in the belief that Indian investors would be more eager to invest in instruments that are available exclusively to them.
- The SBI perhaps believed that the Indian diaspora investors would show more understanding and forbearance than other investors if India encountered a financial crisis; having local-currency-denominated current or contingent liabilities, the Indian diaspora investors might be content to receive debt service in rupees.
- The SBI concluded, based on the know-your-customer argument, that it knew its Indian diaspora investor base well enough to feel comfortable that the invested funds did not involve money laundering.

A final difference between the Israeli and Indian approaches to diaspora bonds has to do with U.S. Securities and Exchange Commission (SEC) registration. The DCI decided to seek SEC registration. But India went out of its way to avoid SEC registration, even though it meant losing access to the retail U.S. investor base. Generally, high costs, stringent disclosure requirements, and lengthy lead times are cited as the principal deterrents to SEC registration. These were probably not insurmountable obstacles for the SBI, however. Indeed, SBI officials pointed to the plaintiff-friendly U.S. court system in relation to other jurisdictions as the principal reason for eschewing SEC registration. Perhaps an argument can be sustained, as in Chander (2001), to make the U.S. SEC registration optional. Investors who value such registration highly will then be prepared to pay a price premium while unregistered bonds will fetch lower prices (higher yields). In other words, the law and forum would then become another attribute of the security, which will influence its market price.

Giving investors the choice of law and forum can be supported on efficiency grounds. Proposals giving such a choice to investors were floated toward the end of the 1990s (Choi and Guzman 1998; Romano 1998).
However, markets were roiled since then by the collapse of Enron and MCI, and more recently by the Madoff scandal, signaling that markets do not always work in the best interest of investors. In view of this, it is highly unlikely that the U.S. SEC or the U.S. Congress would in the near future relax regulations and permit international investors to opt out of U.S. laws and courts. The inability to register with the SEC may selectively limit the ability of some developing countries in placing diaspora bonds.

While the DCI’s and SBI’s diaspora bonds were quite different, one common thread in their success was the in-house marketing capability. The DCI sold its bonds directly to the Jewish diaspora. Currently, there are about 200 DCI employees in the United States who maintain close contacts with Jewish communities in various regions of the country to understand investor profiles and preferences. They host investor events in Jewish communities with the express purpose of maintaining ties and selling bonds. The SBI’s presence in the United States helped marketing of Resurgent India Bonds. Furthermore, where the Indian diaspora was known to favor specific foreign banks, such as Citibank and HSBC in the Gulf region, the SBI outsourced the marketing of Resurgent India Bonds and India Millennium Deposits to them. Not having their own marketing and distribution channels may, however, hamper the efforts of other countries in issuing diaspora bonds.

**Potential for Diaspora Bonds**

Highly skilled migrants in the rich countries are likely to be the principal purchasers of diaspora bonds. Table 4.2 lists 25 developing countries ranked by the presence of their diasporas in the Organisation for Economic Co-operation and Development countries. Column 3 of the table also presents the total stock of migrants from these countries in the world at large. The presence of millions of Mexican nationals in the United States is quite well known. China, India, the Philippines, the Republic of Korea, and Vietnam from Asia; Colombia, the Dominican Republic, El Salvador, Guatemala, Haiti, and Jamaica from Latin America and the Caribbean; and Poland from Eastern Europe have a significant diaspora presence in the United States. Diaspora presence is also significant in other parts of the world, such as the Chinese and Korean diasporas in Japan; the Indian and Pakistani diasporas in the United Kingdom; the Croatian, Serbian, and
Turkish diasporas in Germany; the Algerian and Moroccan diasporas in France; and large pools of migrants from Bangladesh, India, Indonesia, Pakistan, the Philippines, and Africa in the oil-rich Gulf countries.

But for diaspora investors to purchase hard currency bonds issued by their countries of origin, there has to be a minimum level of governability. Absence of governability, as reflected in civil strife, is clearly a big negative for diaspora bonds. While this requirement would not disqualify most countries in the Far East and many countries in Eastern Europe, countries such as Cuba, Haiti, and Nigeria (and several others in Africa) that have large diasporas abroad but low levels of governance may be found wanting.
Indian and Israeli experience also shows that countries will have to register their diaspora bonds with the U.S. SEC if they want to tap into the retail U.S. market.

The customary disclosure requirements of U.S. SEC registration may prove daunting for some countries. Some of the African and East European countries and Turkey with a significant diaspora presence in Europe, however, will be able to raise funds on the continent, where the regulatory requirements are relatively less stringent than in the United States. Arguably, diaspora bonds could also be issued in the major destination countries in the Gulf region and in Hong Kong SAR, China; Malaysia; the Russian Federation; Singapore; and South Africa. Thus, the potential for developing countries to issue diaspora bonds is large. As many as 11 countries—Ethiopia, Ghana, Grenada, Jamaica, Liberia, Morocco, Nepal, the Philippines, Rwanda, Sierra Leone, and Sri Lanka—are believed to be thinking about this financing vehicle.

The actual issuance of diaspora bonds, however, remains meager to date, for the following reasons.

First, there is limited awareness about this financing vehicle. Governments and other entities are often deterred by the complexities of bond instruments. Lacking the capacity to undertake bond issuance, they take the easy way out of depending upon national banks to generate local and foreign currency deposits from diaspora investors. While foreign currency deposits attract foreign currency inflows, these can be withdrawn at any time. This is certainly true of demand and savings deposits. But even time deposits can be withdrawn at any time by forgoing a portion of accrued interest. Therefore, foreign currency deposits are likely to be much more volatile, requiring banks to hold much larger reserves against their foreign currency deposit liabilities, thereby reducing their ability to fund investments. All bonds, including those targeted at the diaspora, in contrast, are long term (until maturity) in nature. Hence, the proceeds from such bonds can be used to finance investment with some predictability.

In view of this, many developing country policy makers would benefit from technical assistance aimed at improving their understanding of structuring bond offerings, registering them with regulatory agencies such as the U.S. SEC, and whether or not such instruments need to be rated by rating agencies. Not only are potential issuers uninformed about diaspora bonds, market players and regulators in the developed destination countries are also unfamiliar with them.
Second, many countries still have little concrete appreciation of the capabilities and resources of their respective diasporas. As a 2009 World Bank survey (Plaza 2009) pointed out, few governments have a complete mapping of their diaspora. Data on diasporas are mainly based on those who register with embassies. But such registration is incomplete, at best. Furthermore, there is little coordination at the embassy or consular level when dealing with diasporas. As a result, many governments do not know where their diasporas are located. They also have little knowledge of how much members of their diaspora earn, save, and invest. This is now beginning to change, however. With remittances becoming an increasingly important source of development finance, countries are now becoming more and more interested in tracking their diasporas. Countries are also moving toward giving their diasporas dual citizenship.

Third, many potential issuers fail to plan ahead. Indeed, many potential issuers resort to whatever instruments are at hand at the last minute of need. Furthermore, many abandon their plans for using new financing mechanisms as soon as the financing gap is resolved. This seems to have happened in the Philippines and Sri Lanka, for example. The Central Bank of Sri Lanka was contemplating issuing diaspora bonds until recently. But the possibility of raising US$1 billion by selling plain vanilla bonds persuaded the authorities to abandon diaspora bonds.

As mentioned, diaspora investors must have confidence in the government of their country of origin if they are to purchase bonds issued by those governments. Thus, countries that have a hostile diaspora are unlikely to succeed in raising financing through diaspora bonds. Also, countries with political insecurity and weak institutional capacity would find it hard to market diaspora bonds unless credit enhancements are provided by more creditworthy institutions. While patriotism motivates members of diasporas to provide funding at discounted rates, they must have confidence that the funds would be used productively.

Such confidence can be generated by creating appropriate structures for the productive use of the proceeds from diaspora bonds. For example, proceeds from diaspora bonds can be earmarked for specific projects favored by members of the diaspora. A number of examples come to mind such as community infrastructure, housing, medical facilities, modernization of airports and railways, extension of transport infrastructure to smaller cities, and tourism development. On a smaller scale, diaspora investors may also find it attractive to purchase bonds whose proceeds are to be used
to fund microfinance institutions. Of course, it is not enough to simply earmark proceeds from diaspora bonds to specific projects; it is also paramount to establish appropriate transparency, accountability, and governance necessary to enforce contracts.

**Diaspora Bonds for Haiti**

This section explores the constraints on Haiti’s ability to issue diaspora bonds and offers ideas on overcoming these constraints.

Given Haiti’s massive financing requirements in the wake of the January 2010 earthquake, one crucial question is: where will the money come from? Obviously, support needs to be made available in the immediate future. Also, the level of funding has to be predictable over time in order to maintain what will be a long and expensive rebuilding process. International assistance from governments, multilateral institutions, and private foundations is essential, but tapping the wealth and goodwill of the people of the nation living abroad can also be very effective. In the near term, the Haitian diaspora is likely to contribute to both humanitarian relief and development through increased remittances to families. It can also contribute to the country’s rebuilding effort through investment in reconstruction diaspora bonds.

According to official statistics (Ratha 2010), about 1 million Haitians are currently living overseas, and about half of them are in the United States. Newspapers often report that a million Haitians live in the neighboring Dominican Republic. Haiti receives US$1.5 billion to US$1.8 billion in remittances each year, over one-half of the country’s national income (Ratha 2010). In a laudable measure that will benefit Haitians more than any other aid and assistance, announced just three days after the devastating earthquake in Haiti, the United States granted temporary protected status for 18 months to Haitians already in the United States. The temporary protected status would allow 100,000 to 200,000 Haitians residing in the United States without proper documentation to live and work in the United States legally, without fear of deportation (U.S. DHS 2010). It would also allow them to send money home quickly and efficiently through formal remittance channels.

Remittances to Haiti in 2010 will surge, as they have done whenever and wherever there has been a crisis or natural disaster. If the temporary
protected status results in a 20 percent increase in the average remittance per migrant, an additional US$360 million in remittances could be expected to flow to Haiti in 2010. If the temporary protected status were extended once beyond the currently stipulated 18 months (an extension is almost certain to happen, judging by the history of temporary protected status extensions for immigrants from El Salvador, Honduras, Nicaragua, Somalia, and Sudan), additional flows to Haiti would exceed US$1 billion over three years. Beyond remittances, the temporary protected status will also enhance the ranks of members of the Haitian diaspora in the United States, facilitating the issuance of diaspora bonds.

If members of the million-plus Haitian diaspora invested US$500 each in diaspora bonds, it would add up to millions of dollars. The incentive for such investments by Haitians would come partly from patriotism and partly from higher returns. A 5 percent tax-free dollar interest rate, for example, could attract a large number of Haitian investors who are getting close to a zero interest rate on their deposits. Regarding the question of whether Haitian immigrants are too poor to invest in diaspora bonds, consider this fact from the Current Population Survey of the United States7: nearly one-third of legal Haitian immigrants in the United States earned more than US$60,000 in 2009. In comparison, less than 15 percent of immigrants from the Dominican Republic, El Salvador, and Mexico in the United States had this level of household income. A quarter of Haitian immigrants, especially women, are reportedly in the relatively higher-paying health care and education sectors, and only a small number are in the construction sector. Not only Haitians, but also foreign individuals interested in helping Haiti, even charitable institutions, are likely to be interested in these bonds. That would further expand the pool of potential investors in Haiti’s diaspora bonds.

Lack of trust in public institutions, including the government, is likely to be one major obstacle to Haitians and others purchasing diaspora bonds issued by the Haitian government. Haiti was a weakly governed state even before the January 2010 earthquake further eroded confidence in its ability to deliver. Such concerns can, in part, be overcome by establishing a Haiti Reconstruction Authority in partnership with the United Nations or other internationally reputable organizations.8 The Haiti Reconstruction Authority could then raise funds by issuing diaspora bonds. That alone may not suffice to overcome the lack of investor confidence in Haiti. In all likelihood, these bonds would require credit enhancement from multilateral
or bilateral donor agencies. Our preliminary calculations suggest that a US$100 million grant from official or private donors to guarantee such bonds (say, for 10 years, on an annual rolling basis) could generate US$600 million of additional funding for Haiti. Such a guarantee structure could also raise the rating on these bonds to investment grade, reducing interest rates from over 15 percent to potentially 5 percent. Marketing of such diaspora bonds in the United States would, however, require a temporary exemption from U.S. SEC regulations.

**Conclusion**

This chapter discussed the rationale and potential for issuing diaspora bonds as instruments for raising external development finance, mostly drawing on the experiences of India and Israel. The Government of Israel has nurtured this asset class since 1951 by offering a flexible menu of investment options to keep the Jewish diaspora engaged. Indian authorities, in contrast, have used this instrument opportunistically to raise financing during times when they had difficulty accessing international capital markets (for example, in the aftermath of their nuclear testing in 1998).

Although, thus far, only state-owned entities have issued diaspora bonds, there is no reason why private sector companies cannot tap this source of funding. While India’s SBI succeeded on one occasion in the past in bypassing U.S. SEC registration, that is unlikely to happen again in the near future. U.S. investors are unlikely to be allowed to choose the law and forum governing bond contracts.

Finally, factors that facilitate the issuance of diaspora bonds include having a sizable and wealthy diaspora abroad and a strong and transparent legal system for contract enforcement at home. Absence of civil strife is a plus. In addition, earmarking proceeds from diaspora bonds for specific projects should also help improve their marketability. While not a prerequisite, the presence of national banks and other institutions in destination countries would facilitate the marketing of bonds to the diaspora.

In the specific context of Haiti, diaspora bonds could be a useful source of funding to rebuild the country’s earthquake-ravaged economy. Given the Haitian Government’s poor track record in governance, however, overseas Haitian investors’ willingness to purchase diaspora bonds will hinge
critically on the endorsement and involvement of more trustworthy partners. The United Nations or other international organizations can lend credibility to the agency in charge of issuing diaspora bonds for reconstruction activities. That may have to be complemented with explicit credit enhancement of these bonds by multilateral or bilateral donors.

There is also a need for clarity on regulations in the host countries that allow diaspora members to invest or that constrain them from investing in these bonds. A pertinent question in this context is: should these bonds be nonnegotiable or should there be efforts to develop a secondary market for these bonds? An argument can be made for the latter on the grounds that tradability in the secondary market would improve the liquidity and pricing of these bonds.

Notes

1. See, in particular, chapter 3 in Ketkar and Ratha (2009a); and Ketkar and Ratha (2009b) for a broader discussion of innovative market-based financing mechanisms.

2. In a report dated March 13, 2009, Standard & Poor’s said, “We do not...expect Israel to face significant or sustained difficulties in securing external financing.” Among the reasons: “We...expect Israel to make use of its additional borrowing flexibility provided by the loan guarantee program with the U.S. and the Israel Bonds Corporations (sic).” Similarly, in an overview issued March 18, 2009, Fitch cited Israel Bonds as “a reliable source of external financing.” In January 2009, Moody’s stated, “the (Israeli) government has a critical resource for external liquidity—the Israel Bonds program” (Moody’s Investor Services 2009).


4. Pratima Das of the State Bank of India (SBI) and V. Gopinathan of SBICAP Securities were quite explicit in telling us, in early 2007, that members of the Indian diaspora knew SBI to be rupee-rich and, hence, never questioned its ability to meet all debt service obligations in rupees.


6. Ratha, Mohapatra, and Plaza (2008) estimate that countries in Sub-Saharan Africa could potentially raise US$5 billion to US$10 billion annually by issuing diaspora bonds to tap into the wealth of the diaspora abroad and the flight capital held by its residents.

8. Gros (2010) has proposed the creation of such a Haiti Reconstruction Author-
ity (HRA) with a much broader mandate to govern Haiti over the next few
years. What we have in mind is an HRA, much like Israel’s DCI, with a limited
responsibility for reconstruction. Unlike DCI, which works closely with Israel’s
Ministry of Finance, the HRA would be accountable to the United Nations.
9. This calculation draws on Gelb and Ratha (2009).

References

Bias: An Analysis of U.S. Holding of Foreign Equities.” Journal of International


Choi, S. J., and A. T. Guzman. 1998. “Portable Reciprocity: Rethinking the Interna-
tional Reach of Securities Regulation.” Southern California Law Review 71 (5)
(July): 903–53.


Structured Guarantee.” World Bank, Washington, DC.

.google.com/group/soc.culture.haiti/browse_thread/thread/86dbb8132e6487ec.

———. 1998b. “Standard and Poor’s Downgrades India’s Sovereign Rating by One
Notch to BB.” October 23.

Ketkar, S., and D. Ratha, eds. 2009a. Innovative Financing for Development. Wash-
ington, DC: World Bank.
———. 2009b. “New Paths to Funding.” Finance and Development 46 (2) (June):
43–45. International Monetary Fund, Washington DC.

Moody’s Investor Services. 2009. Credit Crunch and Gaza Conflict: New Chal-


