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An African Diaspora Bond for infrastructure development: Lessons learnt from India, Israel and Islamic bonds

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Introduction

African states, independently and collectively, lack finance for development. Research by the World Bank, shows that the shortfall in meeting Africa's infrastructure needs alone approximates USD93 billion per year. To overcome Africa's development finance gap, the political will from the continent's leaders needs to be complemented in equal measure by new ideas of its peoples and unprecedented innovation in its institutions.

In spite of the usual promises of forthcoming large trunks of development aid to Africa by industrial powers, as repeated again by G8 leaders, the continent must accept that this may not fully materialise, and as a result, the continent will need to plan accordingly. The truth is that it is unlikely that Western powers would finance Africa's development in the same way the United States financed Western European's post Second World War reconstruction through the Marshall Plan or the US's post-Second World War financing of East Asian reconstruction as part of it strategic objective to secure these countries against communist influence .

Neither can Africa realistically expect that former colonial powers will compensate individual African countries for the detriments of slavery and colonialism, in the manner that Germany compensated Israel for Jewish suffering during the Holocaust after the Second World War . The global financial and Eurozone crises have as a consequence the continued likelihood that industrial nations dramatically will diminish development finance to Africa and re-channel the funds for their own internal economic reconstruction.

The collective savings of African citizens in countries on the continent are wholly inadequate to finance development. Africa exhibits the world's lowest rate of personal savings. Gross domestic savings of sub-Saharan Africans average 18 percent of GDP in comparison with southern Asia's 26 percent, and close on 46 percent in eastern Asia and the Pacific . This, despite Africa's accelerated economic growth since 2000; the world's second-fastest growing region. During the seven years from 2003 to 2010, growth in sub-Saharan Africa averaged 5.7 percent. Between 2010 and 2011, it averaged between 5 and 5.5 percent. Africa now offers the second highest returns on investment of emerging markets - with Asia being the first.

The urgent challenge for Africa is how to diversify innovatively the way in which it raises capital for development. Figures provided by the Inter-American Development Bank show that remittances to Africa from Africans abroad amounted to approximately USD50 billion in 2007 . Unrecorded informal flows of remittances from Africans abroad to the continent were in all likelihood at least a third of this amount.

Money of the African diaspora, including savings in the hands of African Americans in the US or Brazilians of African descent may in the form of bonds serve as a source of additional development finance if leveraged effectively. Diaspora bonds have the potential, and are likely to raise additional funds for African development than would be available from development aid. Internationally, diaspora bonds tend to be long-dated securities which a country redeems on maturity . Such bonds are a source of foreign finance that is long-term and relatively stable in nature. The income from such bonds have considerable potential to finance development .

Africa is perpetually perceived as the continent holding out the "begging bowl" - a notion resented by the continent' populations and diaspora communities as condescending and demeaning. A diaspora bond will be able to counter Africa's reliance on Western or Eastern 'charity'. Diaspora bonds may also enable Africa to circumvent proscriptions imposed on development and investment finance emanating from long-established industrial nations and emerging powers.

This paper discusses the establishment of an African diaspora bond, which will serve to supplement existing development finance for infrastructure development.

Africa's marginalisation in global finance

Throughout the successive waves of independence after the Second World War, African states have become marginilised in terms of global finance. African leaders have neglected Africa's position in the world of global finance, building instead their devastated and resource-stripped states in forging new nations. Africa must not only secure greater participation in global finance, but must also use global financial instruments for development more frequently and effectively.

The first priority should be to develop a platform to use the collective resources of the African diaspora more effectively, invite them to partake in realizing the new opportunities in Africa today, and partner with them in creating prosperity. African governments need to create an enabling environment, with simplified entry and access into African countries for the Diaspora.

Africa as a viable investment opportunity

Africa today offers good returns on investment. In a report titled: Africa, Taking Ownership: Successes and Challenges, McKinsey & Company made it clear that the continent is increasingly attracting favourable attention from international investors. For instance, the report said that there are '230 companies with Africa-based revenues greater than USD1 billion, including 10 percent of the Fortune 500 companies'.

Of the 230 companies, 16 have revenues greater than USD10 billion, 26 have revenues greater than USD5 billion, 34 have revenues greater than USD3 billion, and 150 have revenues greater than USD1 billion.

Defining the "African Diaspora"

Based on discussions of the African Union, the African Diaspora includes the following:

- "The peoples of African origin whose ancestors within historical memory came from Africa, but who are currently domiciled in other countries outside the continent and claim citizenship of those countries;
- The Africans who, for various reasons, have settled outside the continent, whether or not they have kept the citizenship of an African country;
- Within the context of the above, the Diaspora, in their relations with Africa should also express their common will to contribute side by side with other citizens of Africa to the building of the African Union."

The Diaspora refers to:

- "all the African people living outside the continent for various reasons, who claim citizenship of those countries;
- The role of the Diaspora in their relations with the continent is to contribute to the development of the continent and the strengthening of the African Union."

Diaspora bonds: Israeli, Indian and Islamic bonds:

The case of Israeli

Israel, and India, have been at the forefront of exemplifying the ways in which Diaspora bonds can be used as a successful instrument of development finance. At their inception in 1951, Diaspora bonds were issued and administered by the Development Corporation for Israel (DCI) as the authority established by the Israeli government. Although the bond was targeted at the Israeli Diaspora, it was not thus limited as the DCI was registered with the United States Securities and Exchange Commission (SEC). The bonds could be exchanged like listed securities and were subject to the US federal laws and regulations that govern the financial markets. The availability of Israel's Diaspora Bonds was continual while providing different investment avenues depending on market requirements as dictated at the time .

Through the DCI bonds, bonds worth more than $32 billion have been raised for development in Israel, particularly for infrastructure development in the transport, energy, water and telecommunications sectors. The bonds issued by the DCI were fixed, floating rate bonds and notes with maturity periods ranging from 1 to 20 years with bullet repayment. The bonds presented a large patriotic discount, and other financial incentives included Israel making its interest rate slightly higher than US Treasury-bills .

To make the bonds more accessible, the DCI established retail agencies in the United States (considering that 6 million of the 7.5 million Jews representing the Jewish Diaspora live there) and in other countries. The Israeli government extended the range of the bond by granting any member of the Jewish Diaspora the right to Israeli citizenship, provided that the member demonstrated commitment to defending and rescuing Jewish people residing in oppressive countries. The Jewish Diaspora has a distinctive connection to Israel in that there is a irrevocable sense of shared-being and belonging in that economics and politics stem primarily from a shared religious belief which reinforces patriotism.

The case of India

India's Diaspora bond differs from that of Israeli model in that in India bonds were issued to support their balance of payments in 1991, 1998 and 2000 . Through the State Bank of India (SBI), Indian Development Bonds (IDBs - $1.6 billion), Resurgent Indian Bonds (RIBs - $4.2 billion), and Indian Millennium Deposits (IMDs - $5.5 billion), raised an estimated $11.3 billion in this period. India chose to fixed rate bonds with a five year maturity and a bullet maturity.

The bonds were issued strictly to the Diaspora and sales were exclusive to investors of Indian origin and heritage. India chose not to register its bonds with a securities' exchange, contrary to the approach of the Israelis. It is estimated that there are 20 million members of the Indian Diaspora, with strong religious, cultural, professional and political networks. Government created a body that would focus specifically on liaising with the Diaspora. To encourage the purchase of bonds, the interest rate on the Indian bonds were two percent higher than United States Treasury bills. The Indian Diaspora bonds were tax-exempt in terms of the Indian income and wealth tax.

Islamic bonds

A number of Middle-Eastern countries have recently issued Islamic bonds for people of the Islamic faith, rather than for a country-specific diaspora. Such bonds are typically structured as asset-backed securities, with medium term maturity. Investors share the proceeds. Islamic law, Sharia law, prohibits receiving or paying interest. The Islamic bond market is comprised of corporate, Sukuk, Sovereign and quasi-Sovereign markets. Markets for Islamic bonds were severely affected by the global financial crisis of 2007/2009. These bonds have, however, rebounded and have been thriving again lately.

The Indonesian government, for example, has issued USD13bn in Islamic bonds over the past four years. The government issued its first Sukuk in 2008 to help reduce its budget deficit. Almost 80% of Indonesia's population is Muslim. In April 2012, Saudi Arabia overtook the United Arab Emirates (UAE) to become the largest Sukuk (Islamic bond) issuer in the Gulf region, raising $6.4 billion in the first quarter of 2012. Overall, Malaysia accounts for 71 percent of total bonds issue and was among the top six Sukuk issuers with $31 billion. Malaysia was followed by Saudi Arabia ($6.4 billion, 15 per cent of the total) and

Indonesia ($3.4 billion). Sukuk issued in the first quarter of 2012 reached a record $43 billion worldwide. It is estimated that Sukuk issuance in 2012 could reach $126 billion by the end of the year.

Other examples of Diaspora providing finance

Other instances of Diaspora bonds channeling funds into a home country exist, primarily through remittances. In 1991 Lebanon initiated a treasury account aimed at reducing Lebanese debt. Through this account, and treasury bonds being made available, the Lebanese Diaspora contributed about $35 million to assist their home economy. Lebanon has an estimated 4-15 million Diasporas worldwide, and as such it also receives high levels of remittance.

Of the household income, remittances represent 22 percent and savings accounts contribute 88 percent. The Lebanese Diaspora has enabled the acquisition of homeland bonds. After the 1991 issue of bonds, however, additional funds could have been raised had subsequent government regimes prolonged and retained Diaspora bonds.

In the year spanning 2009 and 2010, the Government of Nepal initiated the Infrastructure Development Bonds (IDB). The government set out to issue bonds worth $78 million (Rs. 7 billion) to its Diaspora in South Korea, Saudi Arabia, UAE, Qatar and Malaysia. The bond was called the Foreign Employment Bond. The targeted amounts of the bond were not achieved.

The absence of success has been attributed to poor marketing of the bonds; a short period of two weeks in availing the bonds; a low interest rate; limited targeting of Diaspora (Diaspora living in India and OECD countries were excluded); and, unattractive investor incentives. Nepal did not use the availability of the Diaspora effectively as investors. They have focused more on Diaspora remittances (in 2010, a quarter of Nepal's GDP was from remittances USD3.5 billion).

An African Diaspora Infrastructure Bond: its potential and its management

Initiating an African Diaspora Infrastructure Bond will, if marketed and communicated correctly, instill levels of patriotism in the African Diaspora. Such a bond will be used for infrastructure development that will contribute to the continent's growth and development. Investment in infrastructure development is important in promoting employment.

Through adequate infrastructure, the continent will be equipped better to meet the needs of the African populace. Through sufficient health infrastructure, life expectancy is increased; levels of mortality can be improved the spread of curable and incurable disease is contained.

Through the establishment of such a bond, the continent can be equipped to meet better the targets set out in the Millennium Development Goals (MDGs). Managed effectively, the bond would benefit all members of African society from Cape to Cairo, without preference for one African region or the other.

The infrastructure programme that the African Union has in place is led by member heads of state investing in the bonds that enhance the relationships between states and their Diaspora. A such-like bond would allow for African countries to cement their relations with fellow continental counterparts as this would encourage dialogue between states. Additionally, Africa could establish and cement its presence in countries with Diaspora through regional offices.

The creation of the Diospora bond will strengthen African institutions. Through NEPAD's infrastructure programme, South Africa has been mandated by the AU to champion this cause (particularly in recent infrastructure developments), thus indicating that the groundwork is being laid. Development finance institutions such as the Development Bank of Southern Africa and the African Development Bank, have the skilled labour required to manage a bond such as this. Additionally, these institutions are reputable and have the necessary development financial experience required. This will be an opportune avenue for Africa to rebrand itself through such a bond. The Diaspora can have a sense of pride in having an affiliation to Africa.

Potential challenges of an African Diaspora Infrastructure Bond

What would be the key obstacles to successfully issuing an Africa diaspora bond for development finance purposes?

Unlike in Israel and India, Africa does not have a shared identity. The measure of shared identity among Africans is arguably an affinity (albeit negative) in being mutually victim to slavery, colonialism and apartheid. Africans are arguably united (at least ordinary citizens are) in their wanting to overcome the continued residue of underdevelopment left by the triple oppression of African peoples.

The absence of governance, measured in civil strife, is clearly a significant constraint for Diaspora bonds. While this requirement would not disqualify most countries in the Far East and many in Eastern Europe, several in Africa may be found wanting.

In contradistinction to the success stories of national Diaspora bonds, Africa is a continent and constituted of 54 sovereign states. Deciding on the currency denomination of the bonds is a significant challenge. Despite a shared rhetoric, African countries have not united as a continent in the interests of mutual development. This will have to change. African governments will clearly have to show greater political will to genuinely tackle underdevelopment decisively putting aside the usual rhetoric and slogans.

Poor governance, a lack of democracy and an appalling incidence of mismanagement by African governments renders investors considering purchasing a Diaspora bond, such as it may become, wary. Globally investors are sceptical of Africa's long-term stability and future security. Rarely has there been sufficient confidence in Africa's long-term stability to promote investment by global financial players.

The re-entry of emergent and emerging powers, China, India and Brazil, into the African arena have fundamentally changed the views of former industrial powers that Africa represents too risky a place for investment. Many formerly sceptical investors from industrial nations are now also increasing investments in Africa, taking their lead from the newfound confidence in Africa from the new emerging powers such as China, India and Brazil.

According to most global indexes, Africa lags behind in terms of ease of doing business. The threefold challenge is: how to persuade potential diaspora investors to invest in Africa; how to ensure ease of investment in Africa; and, thirdly, how to ensure long-term profitability of investment in Africa?

A significant contributory factor in ensuring the success in the purchase of Diaspora Bonds is the degree of interaction between the homeland and its Diaspora and the congeniality of that relationship. Creating innovative channels of communication and interaction ensures that the Diaspora will maintain a certain level of connectedness with the homeland, thus further encouraging the patriotism that a Diaspora has towards the homeland.

Recommendations

The idea of issuing diaspora bonds should be considered as a viable alternative to raise finance for Africa's development, specifically infrastructure development.

Early efforts by the African Development Bank to explore African bonds that would be guaranteed by African central banks have met with little success, precisely because many individual African central banks are poorly governed and lack credibility.

Yet, credible individual, regional and continental development finance institutions, such as the Mauritius Development Bank, Development Bank of Southern Africa, and the African Development Bank, are institutions that have successfully issued bonds, and can club together to issue and guarantee an African diaspora bond.

If there is serious capacity and institutional constraints, such an African diaspora could also be outsourced to foreign banks, although the ideal should be that the African DFIs manage the bond.

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