

Assessing readiness to adopt diaspora bonds for financing infrastructure projects in Malawi

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Abstract:

Infrastructure development is a backbone of the development of a nation. Even though this is the case, there is a financing gap and many nations including Malawi are looking for ways to fill this gap. Diaspora bond is one tool that is being considered as the diaspora community is a key contributor to the well-being of developing countries. This study aimed at contributing on how Malawi can successfully issue the diaspora bond. The study used a qualitative approach where semi structured interviews and open-ended questionnaires were used to collect data. The findings indicated that political risk can be one of the major hindrances in the issuance of the diaspora bonds. Other factors to be considered when issuing the diaspora bond includes the governance systems, a mass of well to do diaspora community. The findings also revealed that there are many local investment platforms that the government and other infrastructure developers have not fully utilised. The policy recommendations have been directed in a way that would enable government tap into both the local investment platform and the diaspora resources.

Keywords:

Adoption, diaspora bonds, enabling environment, infrastructure finance gap

1 Introduction

Investment in infrastructure is one of the areas that has a proven record of having huge impact on the economy as it is the backbone for growth in other areas of investment. Nations like China and South Korea were economically empowered through heavy emphasis on infrastructure (Gutman, et al., 2015). Even though this is the case, most African nations lack in infrastructure development. One of the challenges that these nations face, is the lack of finance to support the projects. In trying to bridge this finance gap, many nations are exploring the option of issuing diaspora bonds (OSAA, 2015).

Diaspora bond is a long-term debt instrument issued by a country or a private corporation mainly targeting but not limited to the diaspora community (Amakom & Ekeocha, 2017). In most cases, any person can buy the rates but preferential rate or a premium are given to target diaspora members (Wenner, 2015). The purchase of these bonds by the diaspora is likely driven by patriotism, opportunity to develop the nation, opportunity to diversify asset composition and improve risk management (Ketkar, 2006).

Israel and India successfully issued diaspora bonds on different occasions including during times of economic crisis which caused reduction of foreign investments (Wenner, 2015). Despite the success in Israel and India, many Africa nations have not successfully issued diaspora bonds (Newland & Tanaka, 2010). To date, Ethiopia and Nigeria are the only African countries that have used diaspora bonds, Ethiopia for its Electric Power Corporation and construction of 5.250MW dam on the Nile River. There were challenges with both issuances, the target money to be raised was not met (Kayode-Anglabe & Spio-Garbrah, 2012). Similarly, Nigeria issued a diaspora bond in 2017 which was oversubscribed by 130 percent. The success can be attributed to good planning and decision to register on America's Securities and Exchange Commission (US SEC), which builds trust among investors and opens doors to provide services to invest in the American financial market (Nath, 2018; Rustomjee, 2018).

Malawi has a diaspora engagement policy that advocates for diaspora bonds, however, it has minimal experience with the issuance of such bonds. Currently, there seems to be potential in the diaspora community as Malawi managed to earn \$186 million in 2018, which was greatly influenced by efforts of the diaspora engagement program (Anon., 2019). There is a marked need to boost the country's underdeveloped infrastructure which contributes to the country's low ranking of position 135 out of 138 on the 2017 Global Competitiveness Index (GoM, 2017). This research aimed at exploring the readiness of adopting diaspora bonds to finance infrastructure development in Malawi. In the sections below, the research methodology was well described, and the findings of the research were well presented.

2 Literature Review

2.1 Global adoption of diaspora bonds for infrastructure development

Globally, Israel and India are the nations recognised to have successfully issued diaspora bonds (Wenner, 2015). Israel has offered a flexible menu of diaspora bonds since 1951 and managed to raise US\$32.4 billion by 2015. Most of these bonds have been used for housing and infrastructure projects (Kayode-Anglabe & Spio-Garbrah, 2012). India has also used these bonds three times and they managed to raise US\$11.3 billion by the year 2015. These bonds were restricted to persons of Indian descent and were used for balance of payments. (Plaza & Ratha, 2011; Wenner, 2015). The ability of diaspora bond to steer economic growth has been underscored due to their success even during times of conflict (Kayode-Anglabe & Spio-Garbrah, 2012). This underpins how diaspora bonds can be a stable source of finance due to the patriotic desire that drives the diaspora.

2.2 Adoption of diaspora bonds for infrastructure development in Sub-Saharan Africa

There is a dearth of literature on adoption of diaspora bonds within Sub-Saharan Africa (SSA). However, strong links exist between development projects in home countries and their diaspora. Evidence can be drawn from the formation of Homer Town Associations (HTAs) by immigrants to mobilise resources for developing their home villages. The developments have been in the form of various infrastructure projects like schools, hospitals, roads among others (Constant & Zimmermann, 2016). Within SSA, diaspora suburbs were built in Zimbabwe during the economic meltdown, a model village and high standard urban buildings in Rwanda,

primary and secondary schools in Ethiopia (McGregor, 2014; Constant and Zimmerman, 2016).

Previous debates have bemoaned the negative impact of diasporic investment in situations where there is hyperinflation in home countries. This was discussed by Mc Gregor (2014), where the diaspora was responsible for skyrocketing property prices in Zimbabwe. However, the diaspora was also scammed in predatory property development schemes. The existence of diasporic engagement in development projects within SSA underscores patriotism as a driver (Rwanda and Ethiopia) and predatory development schemes as a challenge (Zimbabwe). This calls for policies, legislation, guidelines and regulatory frameworks to stimulate diaspora engagement for Africa's infrastructure development through investment vehicles like diaspora bonds.

Although little is known on SSA's adoption of diaspora bonds, other countries have expressed intent while others have espoused them for their infrastructure development agenda. Ethiopia has issued diaspora bonds on two occasions, in 2008, for its Electric Power Corporation. Due to its exclusivity for Ethiopia's diaspora community, they failed miserably (Maurer, 2017). Among the reasons given for the failure were, uncompetitive pricing, political risk, high minimum purchase thresholds and lack of trust in the ability of the government to repay debt (Rustomjee, 2018; Famoroti, 2017). The encountered failure was a learning curve for improvement in the 2011 issuance as evidenced by using a lower minimum purchase threshold for the 5.25MW dam construction project which had improved subscription results although the target was not met (Rustomjee, 2018; Beyene, 2011).

South Africa has considered issuing a diaspora bond due to its sizable wealthy diaspora community, but little is known on the progress of the plans (Boamah, et al., 2017). Kenya has successfully issued infrastructure bonds to develop its infrastructure (Mezui & Hundal, 2013). In 2012, Kenya issued an infrastructure bond that targeted its diaspora. This was a failure. Some of the reasons given for the failure includes the political risk and high inflation rate which was at 17% at the time of issuance (Maurer, 2017; Ozaki, 2015).

Nigeria is one of the nations that has successfully issued its diaspora bond of \$300million targeting several infrastructure projects. The bond was issued at a coupon rate of 5.625 percent (Famoroti, 2017; Nath, 2018). This shows diaspora bonds are still viable instruments to attract African diaspora savings. Nigeria made use of Debt Management Office (DMO), which is a government agency to coordinate issuance of the bond with the help of Standard bank (Standard Bank, 2017). It drafted its diaspora engagement policy before the issuance of the bond. Experienced experts were involved in preparing for the bond issuance. Additionally, the bonds were registered on America SEC and London Security Exchange (LSEG, 2017; Ratha, 2013; Amakom & Ekeocha, 2017). This experience shows the need for diligent planning, listing the bonds in strategic high income host countries and competitive pricing if governments are to have successful bond issuance (Rustomjee, 2018).

A major commonality that has been documented in literature within SSA is political risk which was responsible for low subscription in Ethiopia and Kenya underpinning the need for a stable political environment which is not only a driver but also an enabler for diaspora bonds.

Previous research focused on assessing diaspora bonds in general without specificity on financing infrastructure projects. This research aims to bridge this gap by providing insights on how diasporic investments can boost infrastructure development. Furthermore, there is dearth of literature on adoption of diaspora bonds in southern African nations. Past research is seen in Ethiopia, Kenya and Nigeria. These studies may not adequately present information that would be relevant to other Southern African nations like Malawi. Hence, this research focused on assessing the readiness of diaspora bond targeting a unique field of infrastructure development in Malawi.

2.3 Adoption of diaspora bonds in Malawi

Malawi has the finance management Act which empowers the minister to borrow money on stock market and other platforms (GoM, 2003). Even though this is the case, the bond market in Malawi is underdeveloped though recently the government turned to issuance of Infrastructure bonds to bridge the infrastructure funding deficit (Chiphwanya, 2021). No diaspora bond or international sovereign bond has ever been issued by the government.

There is a growing interest by the government to tap resources from the Malawian diaspora community hence the implementation of a diaspora engagement policy in 2019 with diaspora bond as one of the tools suggested (Kakande, 2019). Although the policy has nine key areas with the one relevant to the study being “Diaspora Direct Investment and Mobilisation of Diaspora Savings”, is silent on the mechanisms that will be used to implement the adoption of diaspora bonds and the specific areas where the money raised from the bonds can be directed to. Additionally, it expresses intent on creating a conducive environment and legal framework to attract investment and savings by the diaspora (GoM, 2017), though no legal framework has been enacted. Regardless of lack of tangible benchmarks within the policy, the diaspora engagement program increased remittance levels from \$38 million in 2017 to \$186 million in 2018. The government has expressed interest in mapping its diaspora community in South Africa, United Kingdom and United States of America (Anon., 2019).

3 Methodology

The study was exploratory in nature due to the issues under investigation. Diaspora bonds are a new phenomenon therefore using exploratory research can help in providing clarity and a better understanding of the matters at hand. Previously, scholars have adopted exploratory research on studies of feasibility of diaspora bond in Ghana and studies of Public Private Partnerships in Malawi and Nigeria when these were upcoming issue at the time (Ibem et al 2014; Mensah 2019; Sukasuka & Manase, 2016). The findings in this study can act as a springboard for further research (Kothari, 2004).

Qualitative design was chosen as the issues in this research are contemporary in nature and it is important to obtain an in-depth understanding of the issues from the experts. Qualitative design provides better means of exploring phenomena and obtaining insightful information from individuals or groups concerning the issue (Biggam, 2011; Creswell, 2014).

Purposive sampling which is non-probability sampling was used due to the complexity of the issue which requires an in-depth understanding from the experts in this field. Additionally,

Snowball sampling was employed to identify the respondents. The first selected experts were in a better position to direct the researcher to other experts in the phenomenon under study (Hennink, et al., 2011). The recommended sample size for purposive sampling ranges from 5 to 25 people with experience on an issues under investigation (Creswell, 2013). Data was collected using in-depth interviews, open-ended questionnaires and review of the related literature.

Table 1: Response rate

Category	Interview Booked/ Open-ended Questionnaire Sent	Experience	Received	Percentage
Multilateral Bank	2	Private Sector Expert and Engineer at Africa Development Bank	2	100%
Central Bank	2	Manager Responsible for Market Development and Analyst in financial markets under marketing department section	2	100%
Commercial Banks	1		0	0%
Ministries of finance and Ministry of foreign affairs	2	Assistant Director(Political affairs) and economist	2	100%
Malawi Stock Exchange	1	Operations Manager	1	100%
Academic Experts	1	Associate Professor, Dean of faculty of commerce, MUBAS	1	100%
Others Experts	1	Former Deputy governor of Reserve Bank of Malawi	1	100%
TOTAL	10		9	90%

4 Results and Discussions

Table 2 presents a summary of the findings. The findings focused on three key elements which are; creating an enabling environment, proper preparations before the bond issuance and working on having an attractive infrastructure bond. The challenges that nations like Ethiopia faced and the success of Nigeria shows that successful bond issuance is not by chance, there is need of good preparatory work and creation of an enabling environment (Rustomjee, 2018). Furthermore, even though patriotism is a key motivating factor, we live in a globally competitive environment. It is therefore important to ensure that the infrastructure projects are secure and attractive investment.

Table 2: Steps to successful Malawi diaspora bond issuance

Number	Creating an enabling environment	Proper preparation of the diaspora bond issuance	Creating an attractive bond targeting infrastructure development
1	Improve governance in government and public institutions	Mapping of the diaspora community	Isolation of resources by ring fencing the proceeds of the bonds
2	Develop robust policies encouraging people to immigrate	Comprehensive marketing and market research on the needs of the diaspora community	Currency hedging
3	Develop regulatory framework that encourage remittances or investment in diaspora bonds	Conduct interfaces with the diaspora community to promote transparency	Syndicated and special purpose vehicle
4		Financial literacy	Multilateral guarantee scheme
5		Develop a pipeline of viable projects that will be funded through diaspora bonds	Tax incentives as yield is primarily the biggest incentive

4.1 Enabling environment

4.1.1 Mass of the diaspora

The mass is among the key enablers for diaspora bond issuance, nevertheless, there is need for a wealthy diaspora to actively participate, “*you need to have a survey that shows how many people have money out there and would be willing to invest in diaspora bonds We have to find out where the well to do diaspora are located*”

Nations that have successfully issued diaspora bonds have large numbers of wealthy diaspora. Mapping helps in understanding this information about the diaspora community (Rustomjee, 2018). A Participant’s response suggests that Malawi might currently not have many well to do diaspora. “*Personally, I do not see so many prosperous Malawian in the UK or USA. For example, in Indiana and Michigan where we have a lot of Malawians, they are usually in low-income jobs*” The mapping exercise will give direction on whether Malawi has an enabler in the context of diasporic wealth.

4.1.2 Governance

The need for a good governance system is underscored as it builds the confidence of the investors, “*the main requirement is people to trust the government.....I am sure that if Rwanda or Botswana was to issue bonds, people would buy into it, because they think it is well managed.*”

“*Yes, Malawi is not even rated by international or regional or credit rating agency. However, if the bond is issued to raise fund for a specific infrastructure project, then it could get guarantee support from AfDB..... The country can only move forward in this regard unless there is change of government. Otherwise with the present government I can predict that we will continue been unrated due to weak governance*”.

Good governance systems contributed to mass subscription in Israel. Agencies like Development Corporation for Israel (DCI) have been very transparent in dealing with their diaspora community and have effectively used the resources raised from the bonds (Mkansi, 2013; Rehavi & Weingarten, 2004). Building a successful local infrastructure investment portfolio will require a good governance system by the government including efficient use of resources realised from the diaspora.

4.1.3 Good Policies

Policies affects other critical factors like the mass of diaspora and the level of engagement between the diaspora and the government. Malawi has just issued a diaspora engagement policy and there has been an improvement in the level of trust of the diaspora which is critical in having an environment for diaspora bond issuance, *“Through the Policy, the Malawian Diaspora are able to gain trust that in the past was not there. In addition, the Government is consistently engaging the private sector to come up with tailor made products and services that they are able to offer to the Malawian Diaspora in a coordinated manner”*.

Even though this is the case, the policy lacks detailed explanation on how some of the plans will be achieved. The findings highlighted the need for policies that empower the diaspora community with little focus on policies that deal with regulating the diaspora bond itself. Such stipulations mirror the contents of the diaspora engagement policy where much emphasis is on how to engage the diaspora community while the issuance of diaspora bond is just a suggestion (GoM, 2017). Nations like Nigeria have provisos in their diaspora policy that accentuates establishment and regulation of diaspora bonds (section 3.26) (Amakom & Ekeocha, 2017). Moving forward would require benchmarks in the policy for regulation of the bonds.

4.1.4 Regulatory Framework

The findings had two keys areas namely, Capital Market Act review and Diaspora engagement Act

(a) Review of Capital Market Act

Another participant observed that *“there is need of reviewing and updating the capital market Act and regulatory framework if we are to create an enabling environment for diaspora bond issuance.”* Ethiopia issued diaspora bonds before enactment of capital market or bond law and this contributed to the failure of their bond issuance (Oji, 2015). Similarly, this can affect investment decisions, more especially among knowledgeable investors.

(b) Diaspora engagement Act

The findings suggest that an Act is not a necessity if we are to issue diaspora bonds, *“.... I don't think we need a specific law on issuance of diaspora bonds because that Act (finance management Act) allows the minister to borrow either from domestic market or abroad. So I am not really sure whether there is need for having a specific law. Maybe for a case where you want to institute a specific entity to manage the resources, maybe, but issuance per say, I do not think we need a specific law.”* It has been observed that there is dearth of literature on the presence of diaspora engagement Acts in nations that successfully issued diaspora bonds, what is prevalent are engagement policies (Kuschminder & Hercog, 2011). However, Nigeria amended an existing Act to guide its separate agency responsible for management of the public debt including diaspora bonds (DMO, 2020). Although such is the case, the Malawian

Finance Management Act, Section 56 (1) highlights the need for a separate Act to empower the minister on overseas borrowing (GoM, 2003). This underscores the importance of a stand-alone Act for diaspora bonds as a debt instrument.

5 Conclusion and Recommendation

Many nations, Malawi inclusive are considering bridging the finance gap of project by engaging the diaspora community through instruments like diaspora bond. This study aimed at assessing how these bonds could be adopted to finance Infrastructure projects in Malawi. Being an instrument that has not been issued before, qualitative research approach was adopted. This enabled the researcher to get the in-depth knowledge of experts in the field.

The findings reveal the need for much preparatory work to put in structures that would lead to a successful issuance. Diaspora bonds flourish in an environment where we have a mass of well to do diaspora. On the part of issuing governments, is the need for good governance, good policies, regulatory framework, and having independent bond issuer agents. This shows that the key catalyst for diaspora bonds to thrive is an environment of trust and good relationship between the diaspora and governments. There is also an undeniable need for capacity on the part of bond issuers to manage diaspora resources effectively and efficiently.

Lastly, understanding that infrastructure bonds is a risky undertaking, and that there are other services competing for funds from investors, government must provide regulatory and institutional frameworks for stimulation of the bond market. The study reveals that unlike issuing general diaspora bonds, bonds issued to raise funds for specific infrastructure projects have an added advantage of getting guarantee support from development bank like Africa development bank even to nations like Malawi that are not rated by institutional rating agencies.

The study also shows that regardless of the financing gap, Malawi still has other sources of finance that have not been fully utilised. Like the government of Kenya, Malawi should consider issuing more infrastructure bonds targeting institutional investors while giving special offers to the diaspora community. Further study could be made on assessing the adoption of regional diaspora bond which would target a large size of well to do diaspora while benefitting from the strength of other nations in creating an enabling environment.

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