DIASPORA/MIGRANT INVESTMENT SCHEMES AND ENGAGEMENT FROM AROUND THE WORLD

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A. INTRODUCTION

As Mexico's remittances grow to record-breaking levels, policymakers are asking how can this steadily increasing resource be leverage for development finance? This report leans on an existing running project sponsored by **the U.S.-Mexico Foundation** (USMF) that seeks to survey US-based Mexican migrants and professional diaspora on their predispositions towards investing back in Mexico. In the interim to the finalization of the migrant survey, USMF has commissioned a global overview of diaspora investment schemes sponsored or incentivized by policymakers in other countries that have wrestled with diaspora/migrant investments and, in some cases, have successfully solved for it. This report is written by **Homestrings** an award-winning diaspora investment engagement and research platform.

B. EXECUTIVE SUMMARY

Mexico can take advantage of progress made by other countries such as Indonesia, India and the Philippines to leverage more effectively remittances its migrant and diaspora population send back to Mexico. These remittances, currently standing at in excess of US$ 40 billion, present a unique opportunity to finance development priorities. However, to achieve this the Mexican government needs to adopt new policies that coordinate and facilitate migrant and diaspora investments back home.

This report is a summary compilations of success stories from around the world from studies conducted by Homestrings, Inc. – a diaspora and migrant research and investment platform based in the US.

C. CURRENT SITUATION – GLOBAL REMITTANCE FLOWS VS. SOVEREIGN FISCAL CONSTRAINTS

The coronavirus pandemic has dramatically disrupted global economic activity, artificially shutting down economies and forcing policymakers to rely on fiscal tools to support ailing economies and in the process hampering migrant efforts to send remittances back home. Many governments, most from the West, have relied on fiscal headspace to revert to massive quantitative easing and household support.[1] Most countries in Emerging Markets have not been able to replicate these tools for lack of fiscal headspace. As a result, they have had to scramble for ineffective solutions while infection rates and deaths increase exponentially.[2]

Nevertheless, thanks to the digitization of money transfer services, the inability to go to money transfer tellers, due to lockdowns and social distancing, has not hampered migrants sending money back home. Instead, on aggregate, remittances levels have reached record levels.[3]

These dramatic increases in remittances have triggered policymakers to think hard about potential means by which they can provide incentives to migrants and diaspora to support home economies – either through meaningful philanthropy or through active investments.

D. THE POLICY CASE FOR ENGAGING GLOBAL DIASPORA/MIGRANTS

Many governments in Asia, in particular, supported by the Asian Development Bank (ADB) have explored ways to actively engage with migrant populations and professional diaspora who send

[1] US Federal Reserve alone contributed over US$ 7 trillion to address Covid-19 related economic distress - https://www.statista.com/topics/6441/quantitative-easing-in-the-us/
[2] Latin America and the Caribbean have suffered in excess of 300,000 Covid-19 related deaths (February 2021) - https://www.statista.com/topics/6441/quantitative-easing-in-the-us/
[3] Mexico year-on-year remittances growth exceeds 15% and on track to pass US$ 40 billion - https://bit.ly/3eg6lol

money back home. In 2015 the ADB launched a new practice, “Promoting Remittances for Development Finance” following a successful policy level forum where members expressed a desire to pursue diaspora engagement policies.[4]

Southeast Asia receives in excess of US$100 billion in annual remittances and exploring ways to channel a portion of these flows into the productive sector has been a key objective of policymakers. Below are case studies that explore successful approaches undertaken by policymakers from different countries.

[4] https://www.adb.org/news/events/forum-promoting-remittances-development-finance

E. DIASPORA/MIGRANT WORKER ENGAGEMENT CASE STUDIES

1. Indonesia[5]

a. Context

Despite being the largest economy in Southeast Asia, and a member of the OECD, Indonesia has one of the lowest household banking penetration rates. In order to remedy this, the government began active household awareness campaigns. In addition, with growing remittance flows, currently standing at US$ 11 billion or approximately 1% of GDP, the government sought to engage the migrant and diaspora communities, the majority of whom live and work within a 3-hour radius of Indonesia, to grow domestic savings and ultimately increase investments into government bonds.

b. Policy Objectives

In 2019, Indonesia's external debt issuance stood at $10 billion a year, a portion of which the government sought to shift to Indonesian hands. To achieve this the Ministry of Finance (MoF) commissioned a diaspora bond feasibility study from Asian Development Bank.

c. Remittances Engagement Strategy

The MoF was already testing an **electronic government bond distribution system** whose aim was to facilitate household investment into government bonds through the banking system – linking savings accounts to new brokerage accounts overseen by the banks. The Electronic Bond Distribution System or more commonly referred to as **E-SBN** has gained significant traction

[5] Asian Development Bank – Indonesia Diaspora Bond Feasibility study – 2019 (Homestrings)

among Indonesian households, particularly because of the successful launch and marketing of the mobile version of the system.

d. Solution Adopted

The MoF, in conjunction with the local securities regulator and the Ministry of Foreign Affairs (MoFA), devised a **diaspora identification process** that would give diaspora and migrants clear access to E-SBN's offerings by requiring that they open **domestic bank accounts.** The diaspora identification process resulted in the issuance of a diaspora identification card managed by MoFA in conjunction with the securities regulator to maintain Indonesia's high standards of anti-money laundering.

e. Implementation

The MoF began a large **diaspora survey** with the assistance of several diaspora associations. The survey served as an E-SBN **awareness campaign** that would lead to growth in diaspora domestic bank accounts being opened and increased diaspora participation and investment in the government bond investment program. MoF would eventually use survey data to create **new diaspora domestic investment schemes to further link remittances to priority domestic investments.**

2. Bangladesh[6]

a. Context

Remittances represent over 5.5% of Bangladesh GDP and stand at US$19.8 billion per annum. The government recognized the importance of migrant workers role in supporting the local economy. The majority of Bangladeshi migrant workers send the majority of their earnings back home to support family and small businesses. The government sought to capture the investment component of remittances, estimated at 25%, by launching two types of government bonds sold through an online exchange run by the government: The **Overseas Workers Savings Bonds** (in local currency), and the **International Bond** (in USD). It is worth noting that migrant workers have a **strong level of trust** in their government and when surveyed repeatedly referred to the fact that the government had never defaulted on its debt.

b. Policy Objectives

The Bangladeshi government's policy objective was to explore ways to involve **migrant worker financing of a pipeline of infrastructure investments** which were pillars of its long-term economic development plan. The government launched successfully placed, migrant worker-directed, electronically accessible, short-term bonds. However, some small technical impediments prevented strong uptake were resolved in a subsequent study.

c. Remittances Engagement Strategy

The government engaged with private sector banks and finance houses to promote the migrant bonds in markets where diaspora and migrant workers resided. Those that were marketed in so-

[6] Asian Development Bank – Bangladesh Diaspora Bond Feasibility study – 2016 (Homestrings): https://bit.ly/3kQSO8s

called **Less-Regulated Markets** (LRM), where the majority of migrant workers reside and work, such as the Middle East and ASEAN-member nations, were successfully placed. However, the banks and finance houses hesitated to market the bonds in so-called **Highly Regulated Markets** (HRM) such as the UK, EU and USA. In part because the bonds were not registered in those markets and the regulatory compliance for facilitating banks was seen as prohibitive.

d. Solution Adopted

The government opted to focus on Less-Regulated Markets in a first phase and revamped their online bond distribution platform to make it easy for finance houses and banks to promote government offerings. The second phase was to coordinate with US, UK and EU securities regulators to explore exemptions on diaspora-focused investments. If successful, this would anoint designated intermediaries and free them from onerous regulatory compliance requirements in those markets.

e. Implementation

As of this writing, the online platform is catering successfully to LRM. No indications that the government has engaged with HRM to seek exemptions on its bond offerings. The coordination with finance houses and banks has been a successful partnership by all measures.

3. Sri Lanka[7]

a. Context

The Sri Lankan government faced several challenges: a. migrants from Sri Lanka were primarily young woman between the ages of 25 and 30 – mostly working in domestic homes in the Middle East. Several reports of abuse led to diplomatic interventions and ultimately a shift in migrant workers policies to focus on skilled labour and more inclusive of male workers; b. sovereign development loans made by China provided very little headroom for alternative sources of refinancing of commitments; c. The Board of Investments, the equivalent of the investment promotion agency, had a significant portfolio of attractive government assets, but was challenged to convert them into **investible propositions attractive to wealthy Sri Lankan** diaspora seeking investment opportunities to go along with their extensive philanthropic contributions to the country; d. remittances represented in excess of 8% of GDP, but the government had no real migrant/diaspora investment engagement strategy.

b. Policy Objectives

The government sought to: a. formalize their portfolio of investments to attract both wealthy diaspora and migrant workers to invest in the country – despite ethnic rumblings; b. look at remittances-based financing alternatives for a couple of pipeline sovereign assets; and c. address the growing social crisis involving women migrants.

[7] Asian Development Bank – Sri Lanka Diaspora Bond Feasibility study 2016 (Homestrings) - https://bit.ly/3blr9JC

c. Remittances Engagement Strategy

A range of remittances-based financing solutions were proposed, including upgrading the Board of Investment's capacity to structure transactions for global investors, including wealthy diaspora. The largest bank, which happens to be government-controlled, is also the largest processor of global remittances towards Sri Lanka. With the introduction of mobile payments, the bank committed to introducing new financial products to attract remitters to investing in government-sponsored financial products.

d. Solution Adopted

The government's largest bank redefined its engagement with migrant and diaspora by introducing a range of new financial products to cater to their investment needs, but also to government priorities. The Board of Investments committed to enhancing its ability to structure transactions in its portfolio to attract global institutional and high net worth diaspora **using remittance receipts as credit enhancement tools.**

e. Implementation

In a subsequent Asian Development Bank Institute gathering of policymakers around remittances, the government made honorable mention of the work sponsored by ADB and carried out by Homestrings and pointed to advances made to date. The government sought further assistance from the Asian Development Bank to build capacity at the Board of Investments and to more formally structure government offerings for global capital market offerings including to wealthy diaspora.

4. ADB Supporting Role

a. Context

ADB recognized early, among Development Financial Institutions, that growing remittances in Asia could play an important role in financing development above and beyond simply growing foreign exchange reserves and strengthening local currencies. In response to this reality, ADB launched a forum on Promoting Remittances for Development Finance, in Manila in 2015. Subsequent to this, its members confirmed their interest in getting support to determine a path to leveraging remittances for financing growth alongside ADB loans.[8]

ADB played a pivotal role in normalizing remittances as dynamic source of alternative, "home-grown", development finance tool. As a result, several successful initiatives were undertaken.

b. Policy Objectives

ADB sought **to normalize remittances as a source of development finance** by exploring private sector tools that are applicable to policy objectives. In this vein, ADB reached out to the private sector to scan the globe for best practices, build an internal practice and begin to develop tools and practices to deliver to their sovereign clients.

[8] ADB Promoting Remittances for Development Finance Forum – Manila, Philippines 2015: https://bit.ly/3rrQR4I

c. Remittances Engagement Strategy

ADB financed several feasibility studies that resulted in **substantive policy changes** and approaches to remittances. Including among these was the launch of partial guarantees to support diaspora bonds and related projects, as well as funding to support digitization of remittances.

5. Jamaica

a. Context

Jamaica's remittances stand at US$ 2.5 billion or approximately 16% of GDP. Jamaica is one of the largest exporters of healthcare workers to the US, UK and EU. In addition, it has a higher percentage of professionals exported to the US where its cluster of diaspora is the largest – and by extension – the largest source of its remittances. Because its diaspora has a more professional profile, the countercyclicality of its remittances is more pronounced than in other countries that export lower skilled workers. This was evident during the 2008 financial crisis where Jamaica's remittances emanating from the US did not suffer a dramatic fall when compared to Costa Rica or other Latin American countries where low skilled migrant workers form the majority of diaspora working in the US, for instance.

b. Policy Objectives

Following the successful restructuring of the economy, the government has **sought to more progressively engage with the diaspora in the area of investment and entrepreneurship**. In this vein, it launched a World Bank financed ground-breaking global survey of Jamaicans living abroad with the view of exploring impediments to investments in the home country.

c. Remittances Engagement Strategy

What was discovered through the survey, among other things, was that the US overwhelmingly contributed to remittances and within those, women had the highest contribution in both fund transfers, but also in widespread economic engagement – from healthcare to education.

What the survey also uncovered were **deeply rooted regulatory constraints that made it hard for US-based diaspora to open and maintain the convenience of having a home-based bank account.** In light of technological progress these impediments seemed surprising. With a stock market performing among the best in the world, access to investments by Jamaicans living abroad was further constrained by US securities regulations making it hard for common folk to invest back home.

The Jamaican Stock Exchange (JSE) and Jamaican financial institutions began a sustained outreach to diaspora in the US with tailored banking products and investment vehicles. Local regulators were also lobbied to review old rules and regulations.

Homestrings' report provided a roadmap and several financial product suggestions which JSE and others are exploring.

d. Solutions Adopted

The JSE and private brokers, along with several banks, looking to leverage remittances and several transactions were successfully engaged. The Exchange is exploring cross listing of investment vehicles in both the US and the UK to cater to diaspora there.

F. SUMMARY FINDINGS

Effectively connecting remittances to development finance has been a recent drive of the development world. Those countries that have developed a keen understanding of their diaspora and migrant worker force have been able to design effective solutions that meet regulatory constraints in the host country, while marshalling significant capital towards development priorities. These solutions have included **structured transactions** that leverage remittance flow more directly and uses them as credit-enhancements to extend the maturity of development finance debt beyond existing yield curves available to the government, but also to lower the cost of financing due to the predictable nature of remittances as a prized collateral.

G. THE MEXICO CASE

While Mexico's migrant workforce, to the extent to which it is not structured as a formal export product similar to the likes of the Philippines or of India, presents a unique opportunity to leverage its remittances back to Mexico at the same scale as those cited countries.

To establish a formal connection between growing remittances and investments into the country, the Mexican government needs to take similar steps to those taken by Indonesia, India and the Philippines – particularly as it relates to an in-depth understanding of who these migrants and professional diaspora are. Understanding what their predisposition to invest is, through which complaint vehicles, in what frequency and in what amounts is an important step that should not be neglected. These questions are critical in order to develop a cogent and effective diaspora investment programs directed at migrants and resulting in meaningful socio-economic contributions. Furthermore, it is worth exploring whether the Inter-American Bank (IDB) should play a more active role in this area – similar to that played by the ADB.

Homestrings is currently working with the U.S.-Mexico Foundation to lay the basis for such programs with a **Mexico migrant/diaspora survey** expected to reveal answers to the above questions.

H. CONCLUSIONS

Mexico has a unique opportunity to leverage its unique migrant and diaspora population to finance economic transformation in an unprecedented way. What is needed, following the completion of the Homestrings Diaspora/Migrant Survey, is the will to put in place a comprehensive diaspora/migrant investment program which includes key stakeholders from the private sector. USMF hopes to contribute this roadmap.

About the Author:

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Eric has advised the African Development Bank, the Asian Development Bank, The World Bank and USAID on diaspora engagement matters. He has published research papers on connecting remittances to development finance in Bangladesh and Sri Lanka for the Asian Development Bank.

He is a graduate of Cheikh Anta Diop University (Dakar, Senegal), Duquesne University, and Harvard Business School (a World Bank Scholar and a Harvard Fellowship recipient). Eric is recipient of several awards including 2013 Entrepreneur of the Year; and 2014 African Financier of the Year for Homestrings.

About Homestrings, Inc.:

Homestrings is the leading Global Diaspora engagement and research platform. Homestrings conducts in-depth research on diaspora bonds and diaspora investments and develops innovative solutions to assist migrant workers and their families around the world.

About the U.S.-Mexico Foundation:

The U.S.-Mexico Foundation (USMF) is a binational non-profit organization that is dedicated to fostering bilateral cooperation and understanding between the United States and Mexico. We started operations in 2009 with seed funds from the David & Lucile Packard Foundation, Carnegie Corporation and the Business Foundation in Mexico (Fundemex).

USMF executes its mission in two different ways: operating programs and promoting constructive dialogue on key topics of binational interest.