



# **How should Bangladesh leverage Diaspora Bonds for Infrastructure Projects?**

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## Executive Summary

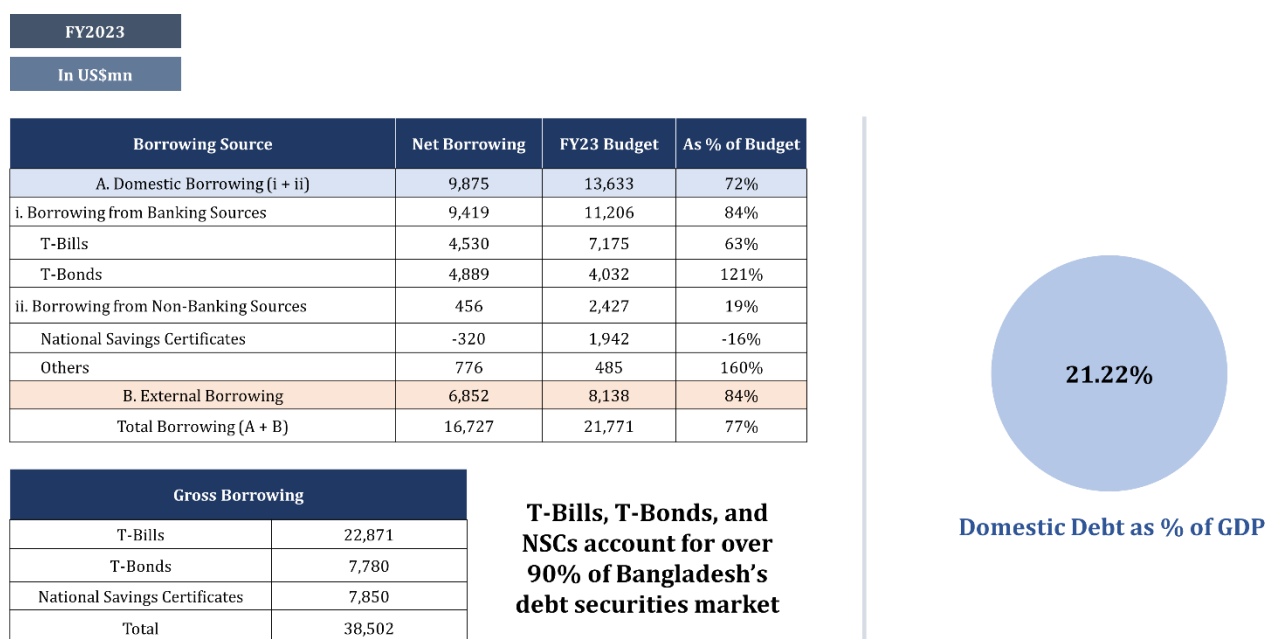
In the backdrop of a domestic debt securities market still in its early stages, Bangladesh has attempted to raise external financing from the Bangladeshi diaspora through diaspora bonds since 1981, when the country debuted her first such expatriate-focused bond, the Wage Earner Development Bond, before later introducing two other such bonds in 2002—the US Dollar Investment Bond (USDIB) and the US Dollar Premium Bond (USDPB). However—despite having the world's 6th largest diaspora—Bangladesh's attempts with diaspora bonds have been largely inconsequential, as evidenced by declining investments in these diaspora bonds and a poor record of raising only US\$119 million through USDIB and USDPB in the last 20 years.

Pulled back by primarily poor policies, negligible efforts at connecting with the Bangladeshi diaspora, and mismanagement of the country's only three diaspora bonds are to be blamed for the underutilization of diaspora bonds. When studying the successful diaspora bond cases of India and Israel, it becomes clear that the drawbacks experienced by Bangladesh have roots in the absence of meaningful contact with most of her diaspora, poor governance, and a lack of better technical capacity.

If these three key areas—diaspora, governance, and technical capacity—are adequately addressed with both short-term and long-term initiatives, Bangladesh could tap her large diaspora's potential through a prudent diaspora bond program. In fact, addressing these areas would lay the foundations for an investment-friendly and mature domestic market for all forms of investment.

# 1. Bangladesh Debt Securities Market Overview

Bangladesh's debt securities market stood at almost US\$92 billion<sup>1</sup> at the end of FY2023, comprised of mostly different maturities of Bangladesh Bank-issued Treasury Bills (T-Bills), Treasury Bonds (T-Bonds), Bangladesh Government Investment Sukuk (BGIS; Shariah-compliant equivalent of Treasury Bonds), National Savings Certificates (NSCs; High-Yield Savings Certificates), and three diaspora or expatriate-focused bonds that are issued against the US dollar—with T-Bills, T-Bonds, and NSCs being the most frequently bought instruments in the public and secondary markets combined. T-Bills, T-Bonds, and NSCs alone represent over 90%<sup>1</sup> of the debt securities market. Other than these debt instruments for development financing by the government, private companies also offer bonds called Corporate Bonds and Shariah-compliant bonds called Corporate Sukuks. However, the private debt instrument presence is insignificant with rare issuances of corporate bonds and sukuks, and consequently, their negligible presence in the secondary market. The small corporate bond market due to structural reasons, as well as the fact that secondary market trading is largely exclusive to institutional trading, with negligible retail investor presence due to accessibility inconvenience, demonstrates the overall debt market's relatively early stage. All existing debt instruments other than two US dollar-denominated bonds for Non-Resident Bangladeshis (NRBs)—US Dollar Investment Bond and US Dollar Premium Bond—are denominated in the local currency, the Taka.



N.B.

- National Savings Certificates are also popularly known as Sanchayapatra
- Amount in Taka converted to US Dollar at 103 USD/BDT exchange rate (12 month average)

ULAB CES Visual based on data from the Finance Division, Ministry of Finance of the Govt. of the People's Republic of Bangladesh

Figure 1

<sup>1</sup> 7th Debt Bulletin. (2023). In <https://mof.portal.gov.bd/site/page/9466b739-2f5c-4914-ba82-b204af6a594e/Debt-Bulletin>. Finance Division, Ministry of Finance of the Government of the People's Republic of Bangladesh; Amount in Taka converted to US dollars at 103 USD/BDT exchange rate (12 month average for FY23)

Treasury bills are zero-coupon debt securities that pay the principal with interest—also referred to as “coupon”—at maturity, and treasury bonds are coupon-bearing debt securities that pay interest bi-annually (every six months) at a fixed rate and the principal at maturity. All existing treasury bills and bonds are fixed-rate bonds, but the Bangladesh government floated a 3-year treasury bond as a floating-rate bond in early 2019<sup>2</sup>, which was later phased out of auctions.



ULAB CES Visual based on Bangladesh Bank data

Figure 2

Similar to treasury bonds, Bangladesh government investment sukuks pay a fixed yield bi-annually and the principal at maturity. As for NSCs, also popularly referred to as Sanchayapatras, they are mainly classified into four types, with maturities of three and five years. These high-yield savings certificates allow you to withdraw profits quarterly or monthly at a variable rate based on the

<sup>2</sup> Uddin, A. Z. (2019, March 26). First floating rate T-bond hits market. The Daily Star. <https://www.thedailystar.net/business/news/first-floating-rate-t-bond-hits-market-1720789>

remaining maturity period, or to withdraw the entire profit along with the principal at maturity. However, while Sanchayapatras are available for purchase at any time, treasury and corporate bills, bonds, and sukuks are auctioned at different intervals.

Treasury bills have maturities of 91 days, 182 days, and 364 days, and treasury bonds have maturities of two years, five years, 10 years, 15 years, and 20 years.<sup>3</sup> Similar to in the US and elsewhere, under normal circumstances, treasury bonds typically offer the highest yields to compensate for holding onto them the longest, and treasury bills offer relatively lower yields than those of treasury bonds. It is to be noted that although debt securities of maturities of 2-10 years are considered “treasury notes” in the US, they are classified as equivalent to bonds in Bangladesh.

| Debt Instrument                     | Primary Market | Secondary Market |
|-------------------------------------|----------------|------------------|
| T-Bills, T-Bonds, and BGIS          | ✓              | ✓                |
| *Corporate Bonds & Corporate Sukuks | ✓              | ✓                |
| Diaspora / Expatriate-Focused Bonds | ✓              | ✗                |
| **NSCs                              | ✓              | ✗                |

*\*Although corporate bonds and sukuks are traded in the secondary market, they are largely done Over-the-Counter (OTC)*

*\*\*Also popularly referred to as Sanchayapatra*

ULAB CES Visual based on Bangladesh Bank data

Figure 3

Except for Sanchayapatras and the bonds against the US dollar, all debt instruments are tradable in the secondary market, where treasury bills and bonds are the most popular debt instruments. Treasury bonds are usually auctioned in the primary market once a month, while treasury bills are usually auctioned once a week—making them the most frequently auctioned. Even though the auction frequencies of these instruments generally follow the aforementioned frequencies, there is no fixed timeline, and thus discrepancies in auction schedule can occur from time to time depending on the government's appetite.

Following suit with most, if not all, countries, the treasury bill and bond market in Bangladesh becomes increasingly popular when interest rates are high and rising, thanks to the cheaper prices they fetch at high yields, as well as the asset class's stable nature due to guaranteed payments. Furthermore, the treasury securities segment of the overall debt securities market plays an important role in determining the economic outlook and benchmarking consumer interest rates; for example, the six-month weighted average yield of the 182-day T-bill is considered the base interest rate for

<sup>3</sup> Bangladesh Bank. (n.d.-b). <https://www.bb.org.bd/en/index.php/financialactivity/govsecmrkt/index>

lending in Bangladesh<sup>4</sup>, similar to how the US 10-year T-bond yield is widely regarded as a proxy for mortgage rates in the US.<sup>5</sup>

## 2. Local Currency Bond Vs. Foreign Currency Bond

Any bond denominated or issued in the local currency is a local currency bond. Similarly, any bond denominated or issued in a foreign currency is a foreign currency bond, which is also known as a Eurobond.<sup>6</sup> Eurobonds can be issued both on behalf of any government and by private companies. Eurobonds issued on behalf of the government are classified as a type of Sovereign Bond in the same way that local currency-denominated bonds issued for the government are. Currency denomination or issuance aside, all features such as the payment mechanism of principal and coupon or interest, maturity, bond pricing, etc. are largely the same, which may vary only according to the universally recognized bond types (e.g., Fixed-rate bonds, Floating-rate bonds, Convertible bonds, etc.) and the discretion of the issuer.

Although Eurobonds can be denominated in any foreign currency—US dollars, Japanese yen, or any currency foreign to the issuer’s home country—most of them are arguably denominated in the US dollar owing to it being the most used currency in international trade and the most held currency in the foreign reserves of most countries. This unofficial reserve currency status also grants the US dollar the status of Hard Currency—a globally traded currency that is a reliable and stable store of value. Such confidence by investors in the US dollar as a Hard Currency made it the most preferred currency for issuing Eurobonds.

In terms of credit risk—the possibility of loss due to defaulting on a loan or not meeting other debt obligations—local currency sovereign bonds are popularly believed to bear lower risk than sovereign Eurobonds. This is evidenced by the historically better credit rating of sovereign bonds issued in the local currency.<sup>7</sup> The argument that issuers of local currency-denominated sovereign bonds are less likely to default on their debt obligations because they can always ensure money for debt servicing through taxing and printing is a popular rationale for such a better credit rating of sovereign bonds in the local currency. However, a 2018 study on sovereign risk suggests that a surge in global reserves and reduced reliance on overseas foreign currency borrowing has led to a diminishing gap between local and foreign currency credit risk. On the contrary, this gap could continue diminishing only if these variables remain in low-risk conducive states<sup>7</sup>, i.e., global reserve levels remain high and reliance on foreign currency borrowing remains low—a state that is becoming difficult in today’s high-interest rate environment.

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<sup>4</sup> Prince, J. N. a. T. M. S. (2023, April 3). Bangladesh Bank sets new lending rate formula. The Business Standard. <https://www.tbsnews.net/economy/banking/bangladesh-bank-sets-new-lending-rate-formula-609866>

<sup>5</sup> Zucchi, K. (2023, May 24). 10-Year Treasury Bond yield: What it is and why it matters. Investopedia. <https://www.investopedia.com/articles/investing/100814/why-10-year-us-treasury-rates-matter.asp>

<sup>6</sup> Team, C. (2023, October 13). Eurobond. Corporate Finance Institute. <https://corporatefinanceinstitute.com/resources/fixed-income/eurobond/>

<sup>7</sup> Amstad, M., Packer, F., & Shek, J. (2020). Does sovereign risk in local and foreign currency differ? Journal of International Money and Finance, 101, 102099. <https://doi.org/10.1016/j.jimonfin.2019.102099>

### 3. Diaspora Bond

Diaspora Bonds are a type of bond issued to raise funding from the overseas diaspora of the issuer's home country that can be paid back or serviced in either foreign or local currency.<sup>8</sup> However, most diaspora bond issuers have opted to service their diaspora debt in the local currency due to repayment flexibility and less pressure on foreign reserves. Diaspora bonds could be issued by a country, private companies, or even sub-sovereign entities. Traditionally, diaspora bonds have been used to raise funds for development financing.

Introduced in the early 1930s by Japan and China<sup>9</sup>, diaspora bonds are issued primarily with the expectation of accessing capital at any time in any circumstances at what is known as a “patriotic discount,”<sup>10</sup> which is essentially the premium diaspora investors are expected to pay as a patriotic token.

### 4. Bangladesh's Only Diaspora Bonds: US Dollar Investment Bond, US Dollar Premium Bond, and Wage Earner Development Bond

Bangladesh currently has three diaspora bonds—US Dollar Investment Bond, US Dollar Premium Bond, and Wage Earner Development Bond. All three are issued against the US dollar, but only the Wage Earner Development Bond is serviced in Taka. In the case of the other two dollar-denominated bonds, the principal is repaid in the US dollar, while the interest payments are made in the local currency.

As for maturity, both the US Dollar Investment Bond and the US Dollar Premium Bond have the same maturity of three years, and the Wage Earner Development Bond has a maturity of five years. The two bonds with US dollar servicing offer a variable interest rate that changes based on the remaining maturity period according to slabs of investment amounts. According to recent Bangladesh Bank data, the interest rates of the US Dollar Investment Bond and the US Dollar Premium Bond fall in the ranges of 2.0%-5.0%<sup>11</sup> and 2.5%-5.5%<sup>12</sup>, respectively. On the other hand, in the same way, the Wage Earner Development Bond currently offers a similar variable interest rate that currently ranges from 6.53% to 12.00%.<sup>13</sup>

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<sup>8</sup> Ketkar, S. L., & Ratha, D. (2007). Development Finance Via Diaspora Bonds Track Record And Potential. In World Bank policy research working paper. <https://doi.org/10.1596/1813-9450-4311>

<sup>9</sup> Boamah, E. F., Osei, D., & Yeboah, T. (2017). Beyond patriotic discourse in financing the SDGs: investment-linked diaspora revenue bonds model for sub-Saharan Africa. *Development in Practice*, 27(4), 555–574. <https://doi.org/10.1080/09614524.2017.1310184>

<sup>10</sup> Ketkar, S. L., & Ratha, D. (2010). DIASPORA BONDS: TAPPING THE DIASPORA DURING DIFFICULT TIMES. *Journal of International Commerce, Economics and Policy*, 01(02), 251–263. <https://doi.org/10.1142/s1793993310000147>

<sup>11</sup> Bangladesh Bank. (n.d.). <https://www.bb.org.bd/en/index.php/investfacility/investbond>

<sup>12</sup> Bangladesh Bank. (n.d.). <https://www.bb.org.bd/en/index.php/investfacility/premibond>

<sup>13</sup> Bangladesh Bank. (n.d.). <https://www.bb.org.bd/en/index.php/investfacility/wedbond>

| Wage Earner Development Bond                   |                                    |                                  |                                  |                     |
|------------------------------------------------|------------------------------------|----------------------------------|----------------------------------|---------------------|
| Period                                         | Coupon Rate (Simple Interest Rate) |                                  |                                  |                     |
|                                                | Up to BDT15 Lac                    | More than BDT15 Lac to BDT30 Lac | More than BDT30 Lac to BDT50 Lac | More than BDT50 Lac |
| Within 6 months of issuance                    | No Coupon                          |                                  |                                  |                     |
| After 6 months (but not later than 12 months)  | 8.70%                              | 7.98%                            | 7.25%                            | 6.53%               |
| After 12 months (but not later than 18 months) | 9.45%                              | 8.66%                            | 7.88%                            | 7.09%               |
| After 18 months (but not later than 24 months) | 10.20%                             | 9.35%                            | 8.50%                            | 7.65%               |
| After 24 months (but less than 60 months)      | 11.20%                             | 10.27%                           | 9.33%                            | 8.40%               |
| At maturity (after 5 years)                    | 12.00%                             | 11.00%                           | 10.00%                           | 9.00%               |

Minimum Investment Size  
BDT25,000

Investment Limit  
BDT1 Crore

Table 3

| US Dollar Premium Bond                    |                                    |                                |                    |
|-------------------------------------------|------------------------------------|--------------------------------|--------------------|
| Period                                    | Coupon Rate (Simple Interest Rate) |                                |                    |
|                                           | Up to US\$100K                     | More than US\$100K to US\$500k | More than US\$500K |
| Within 1 year of issuance                 | No Coupon                          |                                |                    |
| After 1 year (but not later than 2 years) | 4.50%                              | 3.50%                          | 2.50%              |
| After 2 years (but less than 3 years)     | 5.00%                              | 4.00%                          | 3.00%              |
| At maturity (after 3 years)               | 5.50%                              | 4.50%                          | 3.50%              |

Minimum Investment Size  
US\$500

Investment Limit  
None

Table 3

| US Dollar Investment Bond                 |                                    |                                |                    |
|-------------------------------------------|------------------------------------|--------------------------------|--------------------|
| Period                                    | Coupon Rate (Simple Interest Rate) |                                |                    |
|                                           | Up to US\$100K                     | More than US\$100K to US\$500k | More than US\$500K |
| Within 1 year of issuance                 | No Coupon                          |                                |                    |
| After 1 year (but not later than 2 years) | 4.00%                              | 3.00%                          | 2.00%              |
| After 2 years (but less than 3 years)     | 4.50%                              | 3.50%                          | 2.50%              |
| At maturity (after 3 years)               | 5.00%                              | 4.00%                          | 3.00%              |

Minimum Investment Size  
US\$500

Investment Limit  
None

Table 3

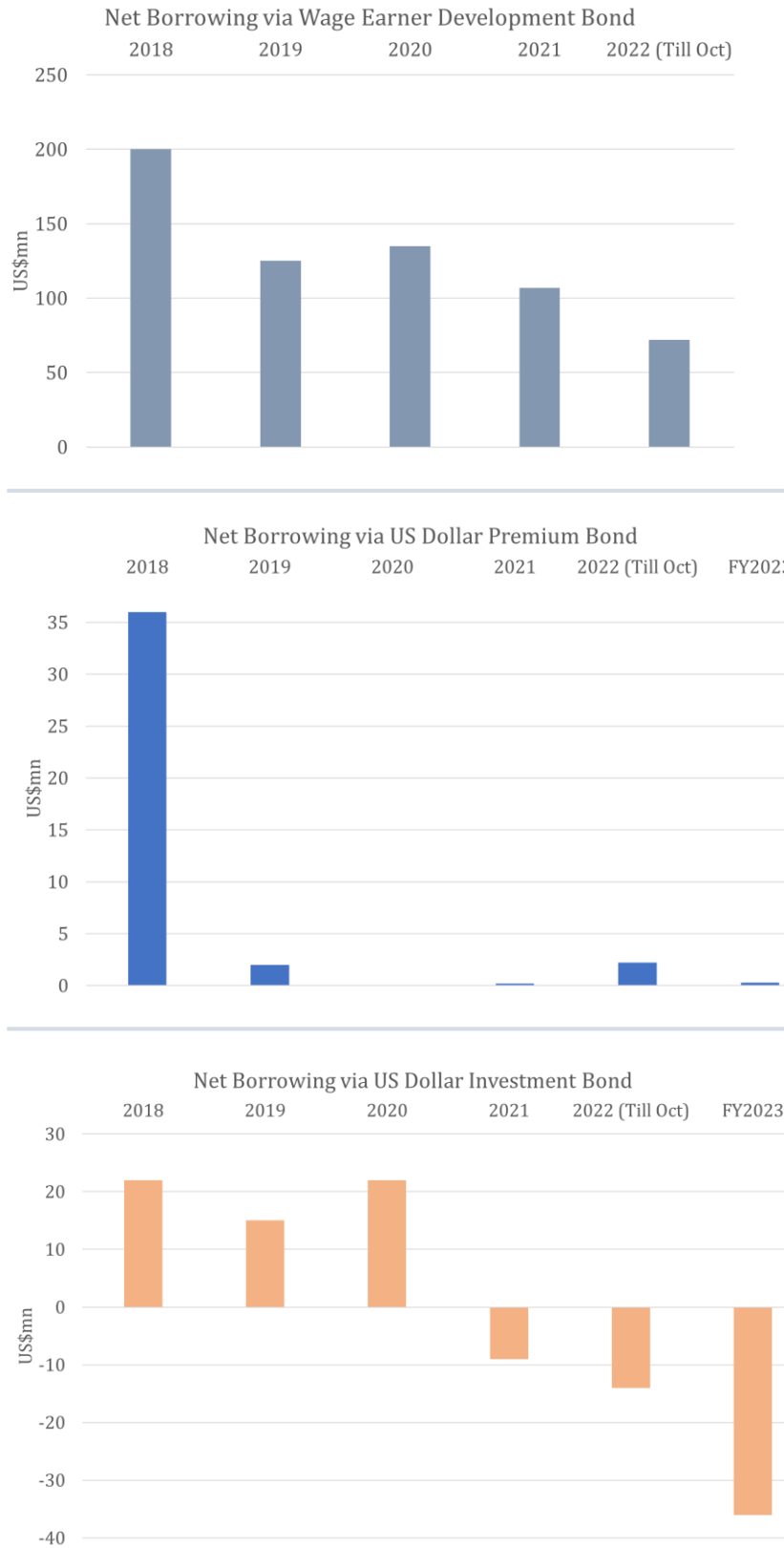
## 4.1 Discouraging Utilization of Diaspora Bonds: Poor Track Record & Declining Investments by Expatriates

Only ~US\$84 million and ~US\$35 million have been raised through the US Dollar Investment Bond and US Dollar Premium Bond to date, respectively since they were first issued in 2002.<sup>14</sup> For a country with the world's 6<sup>th</sup> largest diaspora population<sup>15</sup>, these are very meager amounts raised in the last 20 years through these diaspora bonds. Whereas, in FY2023 alone, Bangladesh received US\$21.6 billion in remittance inflows<sup>16</sup>—which are mostly sums of money sent by someone working abroad to their family in Bangladesh. This disproportionate difference only goes to show the unrealized potential of diaspora bonds in Bangladesh.

<sup>14</sup> Abdullah, S. (2023, October 19). Diaspora Dollar bond-holders unhappy as banks pay them in taka. The Business Standard. <https://www.tbsnews.net/economy/diaspora-dollar-bond-holders-unhappy-banks-pay-them-taka-722650>; Amount in Taka converted to US dollars at 111 USD/BDT exchange rate.

<sup>15</sup> World grows with 281 million migrants; Bangladesh is the 6th largest migrant sending country. (2021, December 2). <https://bangladesh.iom.int/news/world-grows-281-million-migrants-bangladesh-6th-largest-migrant-sending-country/>

<sup>16</sup> Pratidin, B. (2023, July 2). Bangladesh receives \$21.61 billion remittances in FY23, second highest ever. Bangladesh Pratidin. <https://www.bd-pratidin.com/en/national/2023/07/02/8521>



ULAB CES Visual based on data reported in The Business Standard

Figure 4

Indicative of declining interest from diaspora investors, net investments in these three diaspora bonds decreased by US\$49 million in January-October 2022<sup>17</sup>, according to Bangladesh Bank. In the same period, net investments in the US Dollar Investment Bond were in the negative, i.e., outflows or redemptions through these bonds were much higher than inflows or investments. In FY2023, ~US\$70 million was withdrawn from US Dollar Investment Bonds in contrast to ~US\$34 million invested in them—resulting in a net investment or rather an outflow of around US\$36 million. The net investment from the US Dollar Premium Bonds was only ~US\$272,727.<sup>17</sup>

Although a domestic dollar market crisis marked by insufficient dollar liquidity and higher returns in markets outside Bangladesh is partly to blame for recent underperformance, they alone are not culpable for the poor performance of these diaspora bonds over the past two decades. Repatriation issues resulting from ineffective policies, reported mismanagement of diaspora bonds such as improper bond repayments (e.g., principal repaid in Taka when it should have been repaid in US dollars<sup>15</sup>), and poor diaspora outreach are more to blame for such underutilization of these bonds.

## **5. Case Studies of Successful Diaspora Bonds: India & Israel**

Although Bangladesh's stint with its diaspora bonds so far hasn't been good, she is joined by several countries with poor experience with diaspora bonds. However, interestingly, only India and Israel have witnessed success with their diaspora bonds.

### **5.1 India's Case: Emergency Access to External Funding through Non-Resident Indians to Support Her Balance of Payments**

India undertook external financing through diaspora bonds on only three occasions—in 1991, 1998, and 2000. But India successfully supported their Balance of Payments (BoP) by raising US\$1.6 billion from India Development Bonds in 1991, US\$4.2 billion from Resurgent India Bonds in 1998, and US\$5.5 billion from India Millennium Deposits in 2000—collectively raising an impressive quantum of US\$11.3 billion.<sup>18</sup>

When a debt-burdened India's significant fiscal imbalances and rapidly depleting foreign currency reserves in 1991, as well as international sanctions barring access to international capital markets following nuclear bomb tests in 1998, pushed the country to seek alternative foreign currency sources to stabilize her balance of payments, these three bonds stepped in as saviors. Despite issuing diaspora bonds at little or nearly no "patriotic discount," India achieved her goal by obtaining finance from the Indian diaspora at a time when the country desperately needed it due to restricted or no access to foreign capital markets.

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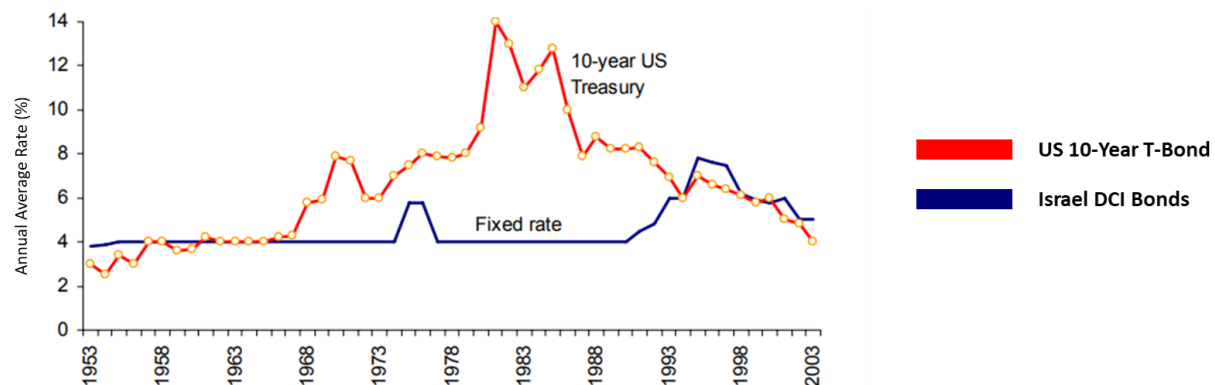
<sup>17</sup> Prince, S. (2023b, January 4). Investments in expat bonds dip amid fluctuating dollar, low returns. The Business Standard. <https://www.tbsnews.net/economy/investments-expat-bonds-dip-amid-fluctuating-dollar-low-returns-562618>

<sup>18</sup> Ketkar, S. L., & Ratha, D. (2010b). DIASPORA BONDS: TAPPING THE DIASPORA DURING DIFFICULT TIMES. *Journal of International Commerce, Economics and Policy*, 01(02), 251–263. <https://doi.org/10.1142/s1793993310000147>

## 5.2 Israel's Case: Access to Cheap Funding through the Jewish Diaspora

In contrast to India's opportunistic utilization of diaspora bonds, Israel raises a bulk of her external funds through diaspora bonds and notes, and US government-guaranteed debt regularly. Since 1951, Israel has raised over US\$46 billion<sup>19</sup> by mid-2021 from the Jewish diaspora through a menu of diaspora bonds and notes with maturities ranging from one to 20 years at rates cheaper than market rates, in other words, the expected patriotic discounts of such bonds.

Up to the late 1980s, Israel issued 10 to 15-year diaspora bonds at 4% when the yields of the US 10-year yields averaged 6.8%<sup>20</sup>—successfully leveraging a patriotic discount as described in relevant literature. Although funds from diaspora bonds have not always been sufficient to meet financing needs, for example, the country's strong access to cheap funds through these bonds was insufficient to resolve her painful adjustment program to contain hyperinflation and cut large deficits in the mid-1980s, funds from them have been critical to financing comprehensive infrastructure development and even extreme events such as the 1967 six-day war.<sup>20</sup>



Visual from the paper "Development Finance via Diaspora Bonds: Track Record and Potential" by Suhas L. Ketkar and Dilip Ratha

Figure 5

<sup>19</sup> Gevorkyan, A. V. (2021). The frailties of diaspora bonds. ResearchGate.

[https://www.researchgate.net/publication/356147984\\_The\\_frailties\\_of\\_diaspora\\_bonds/](https://www.researchgate.net/publication/356147984_The_frailties_of_diaspora_bonds/)

<sup>20</sup> Ketkar, S. L., & Ratha, D. (2010b). DIASPORA BONDS: TAPPING THE DIASPORA DURING DIFFICULT TIMES. *Journal of International Commerce, Economics and Policy*, 01(02), 251–263. <https://doi.org/10.1142/s1793993310000147>

| Israel                                                      | Vs. | India                                                                           |
|-------------------------------------------------------------|-----|---------------------------------------------------------------------------------|
| Annually issued since 1951                                  |     | Opportunistically issued in 1991, 1998, and 2000                                |
| Development-oriented borrowing                              |     | Balance of Payments (BoP) support-oriented borrowing                            |
| Significant but declining patriotic discount                |     | Small patriotic discount                                                        |
| Fixed-rate and Floating-rate bonds and notes                |     | Fixed-rate bonds                                                                |
| 1 to 20-year maturity                                       |     | 5-year maturity                                                                 |
| Jewish diaspora                                             |     | Non-Resident Indians (NRIs)                                                     |
| Direct distribution by Development Corporation Israel (DCI) |     | Mixed Distribution by the State Bank of India in conjunction with foreign banks |

ULAB CES Visual based on data from the paper "Development Finance via Diaspora Bonds: Track Record and Potential" by Suhas L. Ketkar and Dilip Ratha

Figure 6

## 6. Factors that Worked for India & Israel

Even though India and Israel benefited from diaspora bonds in slightly different ways, their successful utilization of their diaspora bonds was due to a combination of mainly three common factors, i.e.,

- i. Patriotism (Commitment to Country of Origin)
- ii. Trust in the governance in the home country
- iii. Strong belief by diaspora investors in their ability to influence policies at home (especially regarding bond repayments)

### 6.1 Patriotism

Both India and Israel have pursued comprehensive diaspora outreach campaigns in countries with high concentrations of their target diasporas—exclusively Non-Resident Indians (NRIs) for India and primarily Jewish people for Israel—to map and establish connections with their respective diaspora that led to the development of a patriotic bond between the diaspora and their country of origin.

As part of such outreach campaigns, India marketed their diaspora bonds directly through the State Bank of India (SBI) and indirectly through some diaspora-favored foreign banks such as Citibank and HSBC in the Gulf region.<sup>21</sup> SBI particularly outsourced the marketing of Resurgent India Bonds and India Millennium Bonds to these two foreign banks. On the other hand, Israel markets its diaspora bonds to the Jewish diaspora directly through the Development Corporation for Israel (DCI).<sup>21</sup> Reflective of the thoroughness of Israel's outreach campaigns, there are about 200 DCI employees<sup>21</sup> in the US alone, who maintain close contacts with Jewish communities in an effort to understand investor profiles and preferences.

Of course, Israel's efforts in this arena were more effective and efficient as a result of their direct or in-house marketing channels and their bond menu with options designed to develop engagement

<sup>21</sup> Ketkar, S. L., & Ratha, D. (2010b). DIASPORA BONDS: TAPPING THE DIASPORA DURING DIFFICULT TIMES. *Journal of International Commerce, Economics and Policy*, 01(02), 251–263. <https://doi.org/10.1142/s1793993310000147>

with the Jewish people outside Israel. Testament to Israel's engagement prioritization—which potentially improved investments from the Jewish diaspora in the long term—is the fact that their diaspora debt instrument menu allowed one to invest a minimum as low as US\$100 in contrast to the minimum investment amount of US\$2000 for Indian diaspora bonds, making investing in Israel more accessible to Jewish retail investors abroad.<sup>22</sup>

Essentially, diaspora mapping and connecting with them through institutional presence abroad drove the buildup of a patriotic sense among the diaspora of India and Israel, which is arguably the strongest factor behind the success of the diaspora bonds of these two countries.

## **6.2 Trust in Home Country's Governance**

Along with patriotism, ensuring governance through a system of accountability and transparency has been key to building confidence in diaspora investments. Such confidence also leads to the necessary belief that contracts will be enforced.<sup>22</sup>

Activities such as ensuring stability among countrymen by keeping the government accountable for their actions and earmarking proceeds from diaspora bonds for specific projects could develop trust among diaspora investors. Both India and Israel, being globally recognized democratic countries, helped them develop this trust.

Although credit enhancements provided by creditworthy institutions and investment safety guarantees provided by guarantors such as insurance companies or banks for countries with an unstable political environment and weak institutions to ensure governance may help, establishing a governance-guaranteeing system is critical to gaining confidence from diaspora investors.

## **6.3 Strong Belief in Diaspora Investors' Ability to Influence Policies**

Akin to the impact of governance, the perception of having tangible influence on domestic policies, particularly bond repayments, as a result of policymakers being attentive to diaspora investor concerns and offering repayment options favorable to diaspora investors boosted the willingness of diaspora investors to invest in their home country.<sup>22</sup>

Understanding diaspora investors' preferences and concerns through diaspora outreach efforts has been critical to creating a conducive investing environment for them.

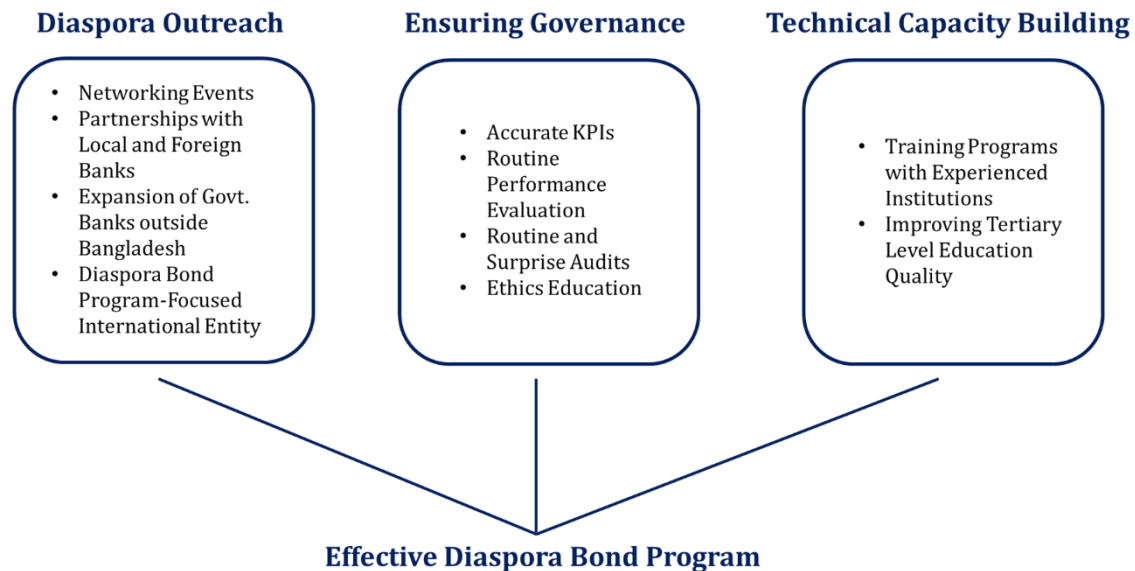
Aside from these three primary factors, a supplementary factor for both India and Israel was the view of diaspora bonds' strong ability to pay interest and principal in local currency as an attractive feature to diaspora investors. It is likely due to diaspora investors in these two countries typically having current or contingent liabilities in their home country<sup>22</sup>—which, however, may not be the case for other countries unless there's a good case for investing in one's country of origin.

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<sup>22</sup> Ketkar, S. L., & Ratha, D. (2010b). DIASPORA BONDS: TAPPING THE DIASPORA DURING DIFFICULT TIMES. *Journal of International Commerce, Economics and Policy*, 01(02), 251–263. <https://doi.org/10.1142/s1793993310000147>

## 7. How Bangladesh Could Utilize Diaspora Bonds

Bangladesh, like any other country, must take a comprehensive strategy to develop diaspora commitment to their country of origin while also fostering an investment-friendly environment in the country through governance and proper implementation of a diaspora bond program.



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Figure 7

### 7.1 Connecting with the Diaspora: Utilizing Diplomatic Missions and Partnering with Bangladeshi Diaspora-Favored Local and Foreign Banks

In the immediate future, Bangladesh could undertake regular networking events for people of Bangladeshi origin through her 82 diplomatic missions<sup>23</sup> already existing across the world. To initiate such an endeavor more effectively, Bangladesh could begin with a select few countries with the most of its diaspora, such as the US, Canada, the UK, and some Middle Eastern countries. In parallel, as contacts with the Bangladeshi diaspora improve, the country could enter into partnerships with local and foreign banks that are known to be favored by the Bangladeshi diaspora. While networking efforts will improve understanding of the preferences and concerns of the Bangladeshi diaspora, foreign banks could act as an effective channel to market Bangladeshi diaspora bonds.

However, in the long run, in order to establish an in-house marketing channel to reduce reliance on foreign intermediaries, Bangladesh could potentially be better off by taking lessons from Israel and setting up diaspora-focused institutions such as Israel's DCI in key countries with the exclusive goal of successfully implementing a diaspora bond program. Although it would be an expensive undertaking initially, eventually it would not only lead to a more cost-effective and safer channel but

<sup>23</sup> Wikipedia contributors. (2023, September 27). List of diplomatic missions of Bangladesh. Wikipedia. [https://en.wikipedia.org/wiki/List\\_of\\_diplomatic\\_missions\\_of\\_Bangladesh](https://en.wikipedia.org/wiki/List_of_diplomatic_missions_of_Bangladesh)

also an effective diaspora bond program designed according to crucial individual-level information from the diaspora. Additionally, increasing the presence of government banks abroad and ensuring a comfortable client experience through them would help such an initiative.

## **7.2 Ensuring Governance and Improving Credit Rating: Building Responsible Institutions that Lead to Better Governance at All Levels**

As important as connecting with the Bangladeshi diaspora is, building confidence in Bangladesh among potential Bangladeshi diaspora investors is equally important. Creating accountable institutions that run on the rule of law is essential to implementing an effective state machinery that leads to governance at all levels. Usually, as observed in better-performing countries, such institutions are democratic and limited only by a just and neutral judicial system.

The absence of responsible institutions ultimately leads to the handing over of power to incompetent individuals at all levels, which then sets off the domino effect of mismanagement across an entire economy. A clear example indicative of this is the current high levels of Non-Performing Loans (NPLs) weighing down the country's banking sector—which has ultimately led to the downgrading of Bangladesh's credit rating recently.<sup>24</sup> Proper governance could've ensured tight risk management in banks, which would've evaded the current high levels of NPL. Aside from incorporating the study of ethics into tertiary and professional level education, routine performance evaluation based on accurately defined Key Performance Indicators (KPI) at all levels, routine and surprise audits of relevant government and private departments by eligible audit firms, as well as the routine screening of the audit firms would be a step in the right direction. Tight oversight would eventually result in actions that would result in a better credit rating for Bangladesh, which would support the confidence-building effort even more.

## **7.3 Developing Technical Capacity and Ensuring Productive Policies: Improving Technical Know-How that Supports Productive Policymaking**

Closely aiding governance is the technical know-how needed to make prudent decisions or policies. The absence of a comprehensive understanding of technical matters by people at the top is partly to blame for the underdeveloped debt securities market of Bangladesh.

Better technical understanding would also accelerate the development of investing facilities (e.g., a retail investor friendly platform for trading debt instruments), which would, in turn, lead to a surge in investments. Efforts for developing such technical understanding could include, but are not limited to, undertaking joint training programs with countries that have the relevant experience (e.g., Bangladesh Bank could undertake such programs with the State Bank of India) and improving the quality of education at tertiary levels. Better technical understanding would also lead to better diaspora bond implementation, such as optimally pricing diaspora bonds so that target amounts can be raised at the lowest possible cost or raising funds through them when, for example, global interest

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<sup>24</sup> Fitch Ratings. (2023, September 25). Fitch revises outlook on Bangladesh to negative; affirms at BB-. <https://www.fitchratings.com/research/sovereigns/fitch-revises-outlook-on-bangladesh-to-negative-affirms-at-bb-25-09-2023>

rates are low because most countries have historically been unable to enjoy significant patriotic discounts.

Prudent policymaking will eventually pave the way for investment-friendly and mature market conditions for all types of investments—domestic and foreign—which will support driving up investments in diaspora bonds.

## **8. Potential Benefits from an Effective Diaspora Bond Program**

Bangladesh could benefit from diaspora bonds in a variety of ways. However, given the country's near-term future, the following areas for utilizing these bonds could be the most impactful:

1. Balance of Payments (BoP) support
2. Budget Deficit financing
3. Infrastructural Development financing
4. Mobilizing Remittances into Investments

Bangladesh, like many other emerging market countries, experiences trade and fiscal deficits due to a relatively underdeveloped industrial base, a low tax base, and external shocks (e.g., the Russia-Ukraine war recently and the Covid Pandemic in 2020). Depending on market conditions, external financing through diaspora bonds could be relatively cheaper, while also relieving pressure on other financing sources to support the BoP and the budget. Large-scale infrastructure projects, such as bridge construction and public transportation system development, actually contribute to the expansion of deficits; however, financing such projects is critical to the economy's long-term growth and development. Even if significant discounts from diaspora investors are not possible, diaspora bonds could help reduce overreliance on a few financing sources for large amounts of capital by providing supplementary capital as well as contributing to improving the credit rating—allowing access to more capital at preferential or better rates. Such diversification of the investor base or capital source makes pursuing costly yet necessary projects tenable. However, external financing through diaspora bonds can only leverage such benefits if the financing raised through them reaches a significant scale; and continuing efforts to convert remittances into diaspora investments by encouraging the Bangladeshi diaspora to channel a portion of the remittances they send back to their families to diaspora bonds would increase the magnitude of diaspora bond investments. If the effort bears fruit, diaspora bond investments will eventually match the large magnitude of remittance inflows seen today—allowing for greater economic benefits.