



EMPACT GLOBAL

by Homestrings

Homestrings Diaspora Bond Programme

November 2016

This is not an ADB material. The views expressed in this document are the views of the author/s and/or their organizations and do not necessarily reflect the views or policies of the Asian Development Bank, or its Board of Governors, or the governments they represent. ADB does not guarantee the accuracy and/or completeness of the material's contents, and accepts no responsibility for any direct or indirect consequence of their use or reliance, whether wholly or partially. Please feel free to contact the authors directly should you have queries.

CONTENTS

01	Diaspora Capital	3-7
02	Diaspora Bonds	8-9
03	Remittances	10-11
04	Remittances vs. Diaspora Bonds	12
05	Case Study: Israel	13-14
06	The Homestrings Solution: Diaspora Bonds	15-20
07	Summary	21-23

Channeling Diaspora Capital

The issue for Sovereigns



The Challenges

- Sourcing and channeling diaspora capital effectively
- Fueling growth in the productive sector
- Supplementing Foreign Direct Investment or Development Finance
- Engaging the diaspora
- Addressing high net worth diaspora vs. migrant worker participation
- Accommodating regulatory issues



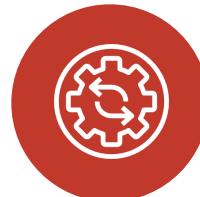
The Homestrings solution

Our *Diaspora Bond Programme* can direct diaspora capital towards fueling growth in the productive sector whilst engaging the global diaspora community



Our toolkit of diaspora products includes:

- Diaspora sovereign bonds
- Tailored diaspora corporate bonds
- Migrant Endowment Savings Accounts (MESAs)
- Remittance-backed bonds



And are implemented through our:

- Web platform
- Network of institutional clients and banking relationships
- Upcoming mobile app

Diaspora remittances

Huge sums of capital are flowing to Emerging Markets through key corridors

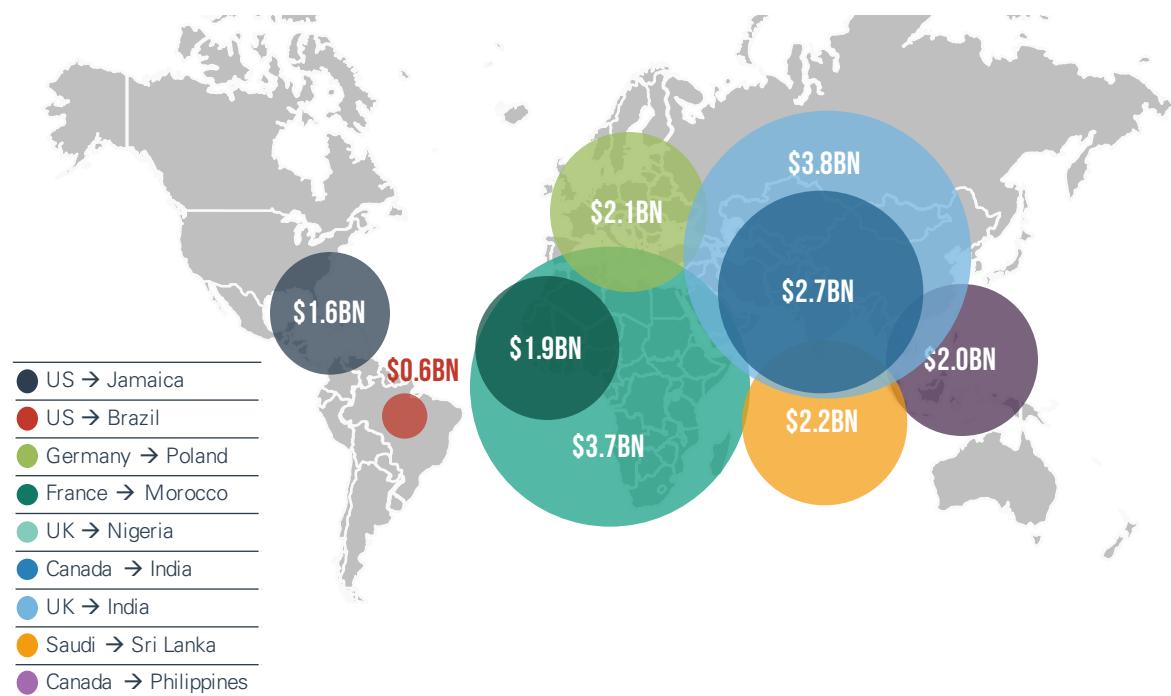
In 2014, remittances from the diaspora was *more than x3* greater than external aid flows

\$441bn
Remittances

\$135bn
Aid flows

Flowing from OECD countries to developing economies and emerging markets

Significant remittance corridors to Emerging Markets, 2014 (\$bn)

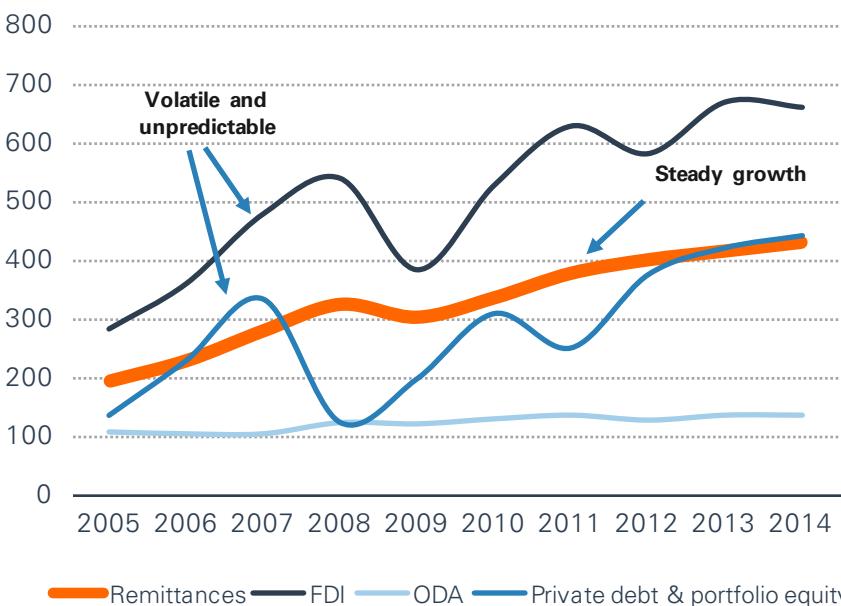


Source: World Bank Global Remittances, Bilateral Matrix (2014)

Diaspora remittances

A stable and significant source of external finance to developing economies

Remittances vs. Development capital to “developing economies”*
(\$bn)



The rise of remittances since 1990

\$441 BILLION

\$29 BILLION ↑

Increase to developing economies

> 1,400% Increase

Clearly there is an emerging diaspora sending huge sums of capital home

These flows are far less susceptible to macroeconomic cycles such as FDI and private debt and equity

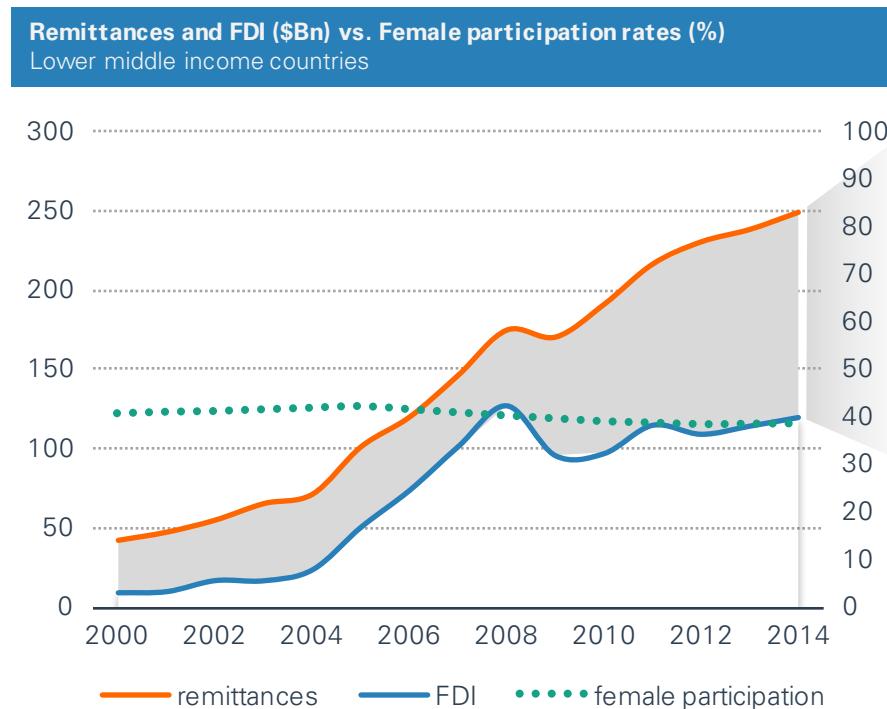
But...

remittances are not fueling the growth of productive sectors in receiving economies.

Fueling the engines of growth

Remittances do not yet affect material change in the receiving countries

Remittances have become more important than FDI, in emerging markets, with over \$250Bn sent home to “lower middle income” countries, in 2014



However...
These remittances are not yet fueling growth in productive sectors e.g. female participation and enfranchisement has remained flat

SOURCE: World Bank Migration & Remittances Factbook 2016.

The Opportunity

“Invest back home and make a difference”

Eric Guichard started Homestrings in 2012 to solve a basic problem:
Facilitate Diaspora investment back in to Africa, by identifying robust opportunities



The \$140bn global market opportunity

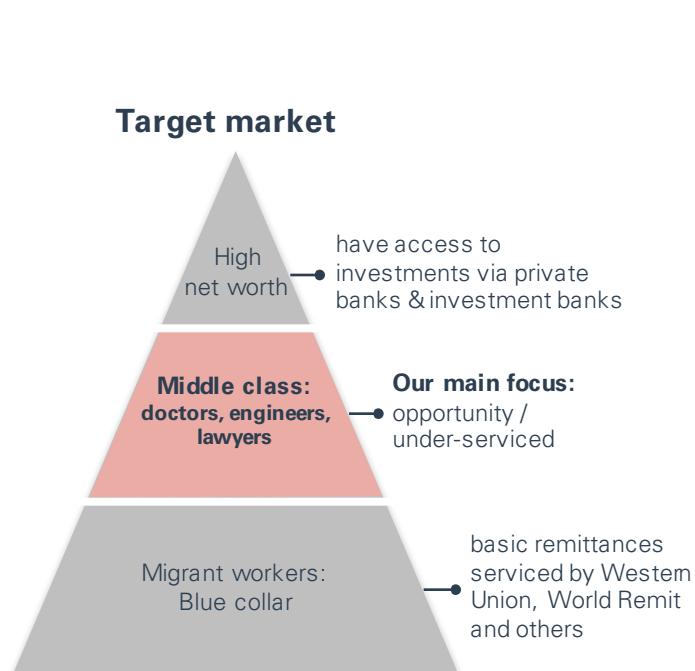
230 million
Expatriates

\$441bn is repatriated annually by expats back home, globally



\$110bn (25%) is seeking investment in "home country". (World Bank/IFA)

AFRICA: \$15.0 billion/year
INDIA: \$17.5 billion/year
CHINA: \$12.5 billion/year



USAID study confirms that over 80% of expatriates use the web to search for investment opportunities in their home country.

Diaspora Bonds

The Homestrings solution for effective diaspora investment

“

(Diaspora bonds are...) A debt instrument issued by a country – or potentially, a sub-sovereign entity or even a private corporation – to raise financing from its overseas diaspora.

Dilip Ratha

Manager of Migration & Remittances,
World Bank



A bond, either bearer or registered, finances sovereign states or impact-orientated projects in **emerging or frontier markets**

Diaspora bonds typically have a coupon of at least

3% P.A.

and offers a reliable source of revenue. However Israel, the pioneer and leading distributor, often issues discounted-to-maturity bonds with zero-coupons

Sovereign diaspora bonds are usually issued either to raise foreign exchange and balance of payment funding for the state or to finance particular infrastructure projects



HOMESTRINGS

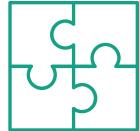
DFIs



Through Homestrings' collaboration with DFIs, there can be a shift towards diaspora bonds being used by impact enterprises and supported with DFI guarantees or credit enhancements

Diaspora Bonds

What purpose do Diaspora Bonds serve in emerging markets?



- 1 Provide a conduit for remittances to flow back into projects and business that stimulate national growth with positive impact
- 2 Re-orientate DFI's aid flows to specific high-impact enterprises through guarantees or credit-enhancements, ensuring more effective and broader distribution of funding
- 3 Offer the 230+ million international migrants, overseas workers and remittance providers with safe, long-term investment instruments, with better returns than banking deposits, often supported with an A-rated guarantee or credit-enhancement
- 4 Address increasing urgency for OECD to direct remittances back into supporting development to help achieve the targets set by the UN's 2030 Agenda for Sustainable Development
- 5 Homestrings' Diaspora Bonds aim to bring together migrants' capital with companies and communities in their homelands, hence re-engaging the diaspora with specific businesses or projects

Remittances

Strengths and weaknesses

STRENGTHS



Diaspora are transferring ideas, behaviours and values back home through remittances

Remittances are the largest source of international financial flow to Africa, which is extremely important because aid flows from OECD are diminishing

Sub-Saharan African remittances in 2014 reached \$35 bn; a 600% increase since 2000

Remittances are ingrained in the diaspora habits and therefore constitute reliable and established flows.

Remittance providers are increasingly seeking patriotic and transparent investment opportunities

WEAKNESSES



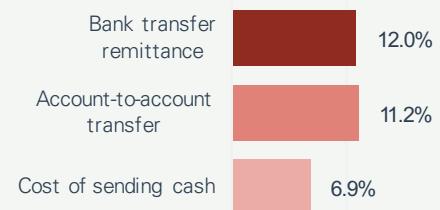
Remittances are a short term fix; a quick and simple solution, appealing to migrants' instinct to support close family and loved ones

Unofficial remittance flows are harder and harder to monitor and have less impact on national growth

Transfer costs: in 2014 the average cost for global remittance transfers of around \$200 reached 8% (12% for Sub-Saharan Africa)

Global authorities scrutinising money movement fees and transaction costs.

In June 2015, the World Bank reported that bank transfer remittance costs were highest on average



Diaspora Bonds

Strengths and addressing the weaknesses of Remittances

STRENGTHS

Long-term benefits to **both** the issuers and the bondholders; improved access to capital for Emerging & Frontier Market countries while offering long-term yield and returns to diaspora

Educating diaspora on fixed-income opportunities and the technical aspects of bond financings, increase flow of ideas back home

Creating communities of investors for Emerging & Frontier Markets worldwide, particularly through crowdfunding and internet investment

Diaspora gain access to early opportunities and best-performing fixed income markets

The diaspora bond programme will lower transactional costs and provide a useful competition to the remittance transferors

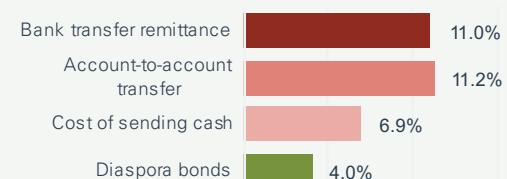
Addressing the weaknesses of Remittances

Diaspora bonds increase the transfer of value and ideas back to source countries; educating migrants and their families about the benefits of fixed income investing, the yield curves, the important projects at home requiring financing and the utility of bonds as a savings instrument

Diaspora bonds facilitate the exchange of knowledge, of projects that matter, between diaspora and the hometown, providing a sense of involvement beyond simple ethnicity

Crowdfunded bonds will encourage more active internet use by migrant groups and we hope to foster “Diaspora Investment Clubs”

The cost of investing in diaspora bonds is lower through Homestrings because of internet distribution



There are clear advantages of Diaspora bonds. E.g.

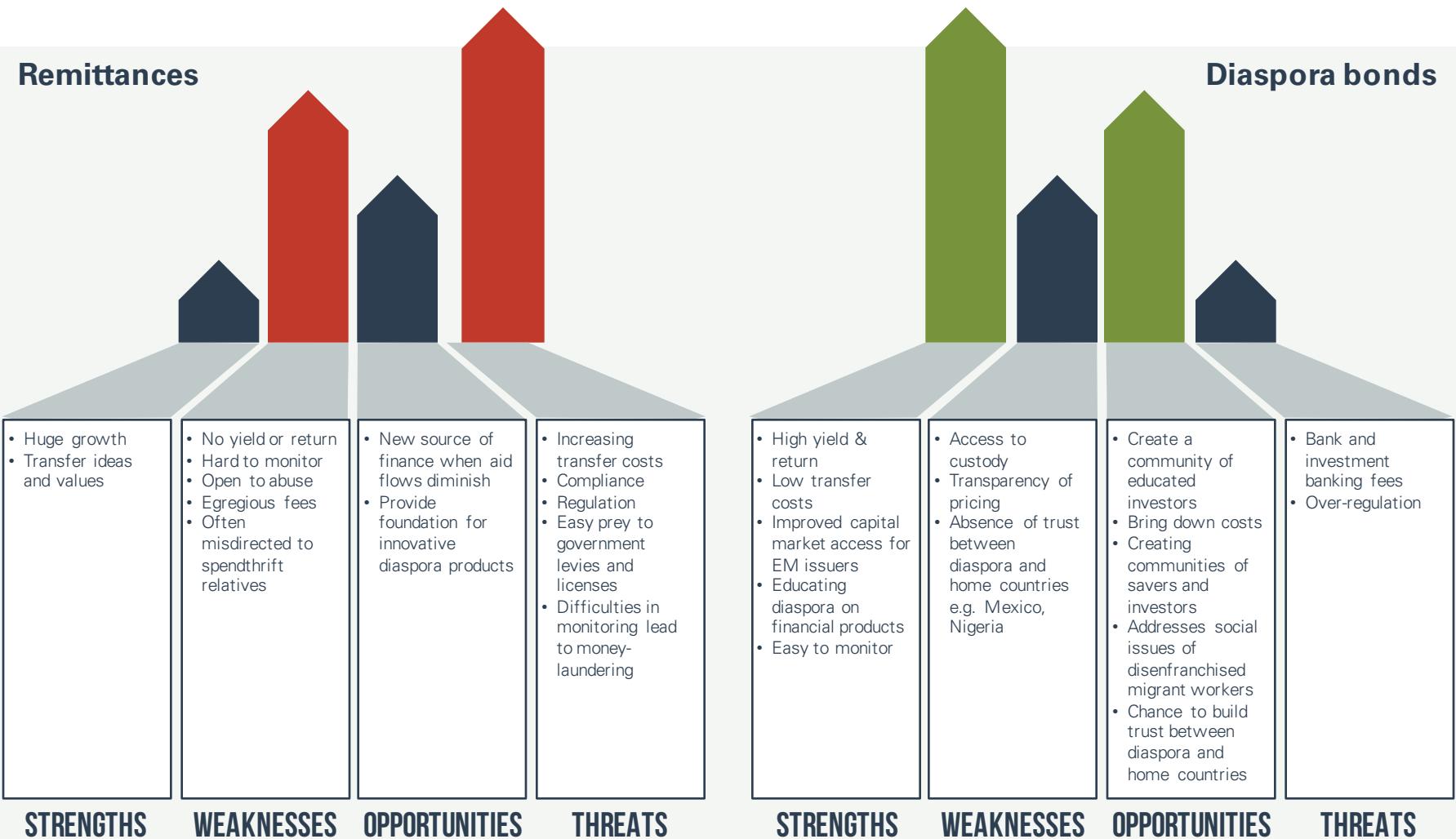
Lower costs and fees

Provision of steady cash-flow of income from interest payments with lower transfer costs

Provision of endowment-style interest and amortization schedule

SWOT analysis summary

Remittances vs. Diaspora bonds



Diaspora Bonds success story: Israel

Part I – what has Israel achieved?



“

Israel Bonds has raised nearly \$35 billion in loans...play(ing) a significant role in the development of a strong, resilient Israeli economy.

Izzy Tapoohi
CEO Israel Bonds

Since 1951 Israel has raised more than

\$35BN

through diaspora bonds

Israel has been issuing annual bonds targeted towards, but not limited to, diaspora living abroad as a means to reinvest in their home country and community

These are development-oriented borrowings with maturities from 1-10 years, and fixed or floating coupons. SEC registered, non-negotiable, non-volatile

Israel's Diaspora Bond Programme has been a huge success;

Contributing to national infrastructure projects such as the National Water Carrier

Helping maintain Israel's credit rating; "the (Israeli) Government has a critical source of external liquidity (in) the Israel Bonds Programme" Moody's

Boosting exports through improvement in port and transport networks

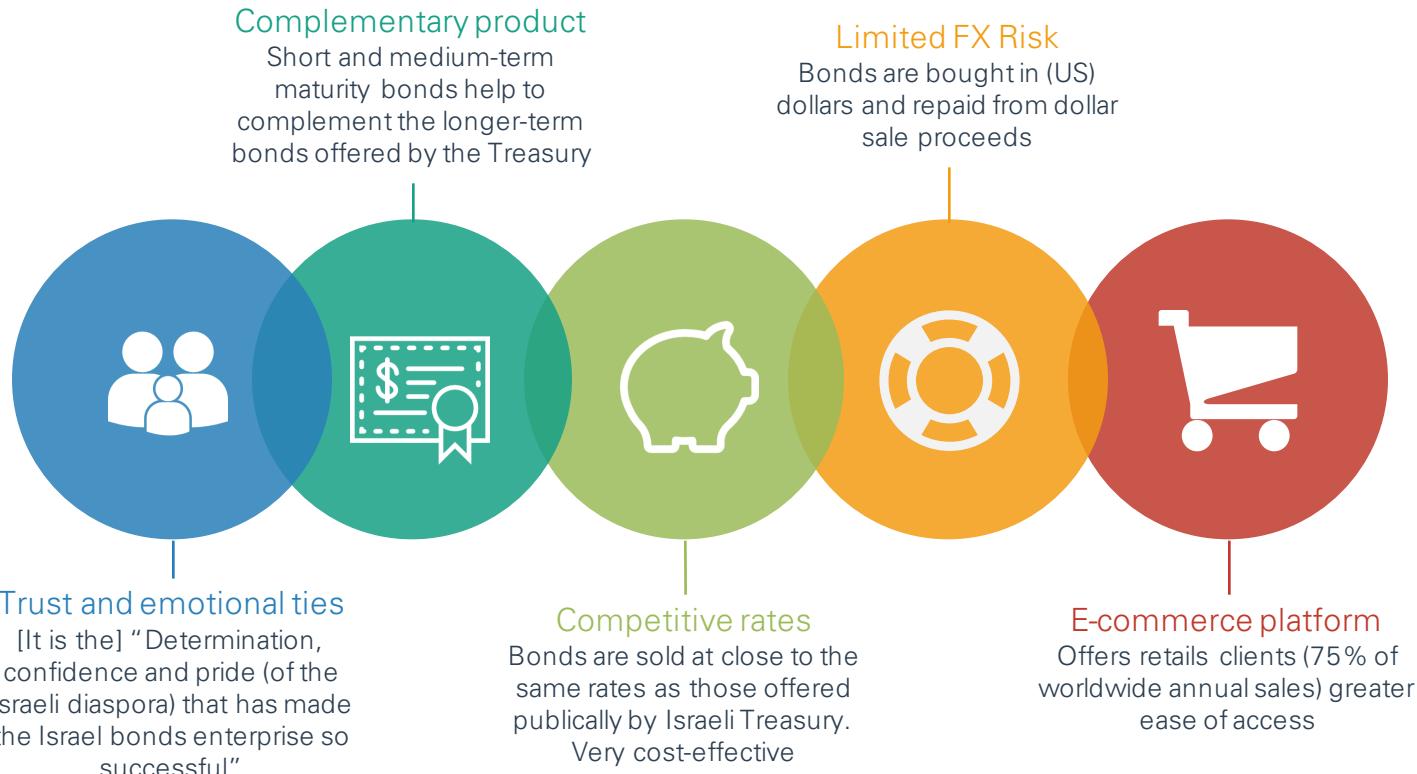
Expanding R&D as Israel is one of world's most vibrant startup hubs

"(Israel bonds) are a way to show faith ... in our growth, faith in our development and faith in our future" Reuven Rivlin, President of Israel

SOURCE: Bank of Israel (2004).

Diaspora Bonds success story: Israel

Part II – what have been their key success factors?



The Homestrings Diaspora Bond Programme builds on these key success factors

SOURCE: Israel Bonds CEO, Izzy Tapoohi (2012)

The Homestrings toolkit

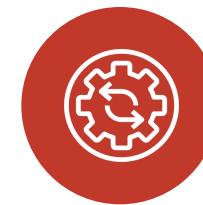
Tools we introduce to create more options for diaspora

Homestrings provides a toolkit of products for channeling diaspora capital effectively in order to drive the engines of growth in recipient countries



Products:

- Diaspora sovereign bonds
- Tailored Diaspora corporate bonds
- MESAs (Migrant Endowment Savings Account); pilot schemes to be sponsored
- Remittance-backed bonds

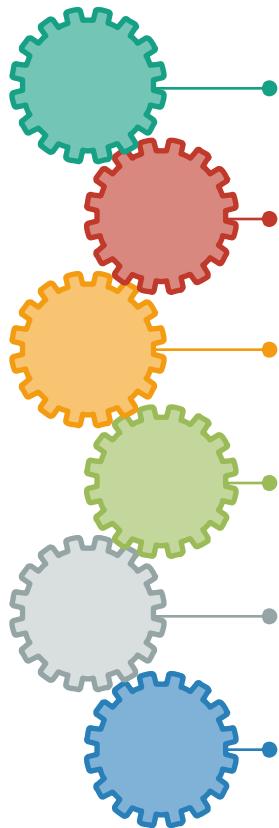


Implemented through:

- Web platform
- Mobile app
- Our network of institutional clients and banking relationships

The Homestrings Solution

What we provide to global diaspora



Platform

Homestrings provides a web-based bond programme, providing simple and secure way to invest in "home country"

Return

Diaspora bonds provide a steady cash-flow from interest payments and amortisations with lower transfer costs

Impact

Used to finance critical infrastructure projects such as hospitals, roads, bridges or power generation. Also provides working-class migrants with the tools to create a foundation for savings

Community

Homestrings will develop a wider community of investors for Diaspora Bonds, cross-selling between different groups including HNWIs, professional classes and migrant workers

Expertise

Homestrings is run by a team of driven and experienced finance professionals, with a track record of successful execution across Emerging Markets at some of the top global investment banks

Security

Bond yields are benchmarked off the sovereign issuers' credit-curve with credit enhancements from A-rated sponsors

Homestrings Cluster Analysis

Identifying and engaging diaspora sets

We have a unique process to analyse and prioritise diaspora datasets

Identify HNWIs and those with disposable incomes

Networking via Development Finance Institutions (DFIs)

CLUSTER ANALYSIS

SOCIALIZING

Ability to construct global diaspora databases

Crowdfunding platform

Conferences hosted by Homestrings

Digital marketing

Outcomes:

- Creating repeatable sources of diaspora capital
- Identifying subsets within the diaspora who have particular investment interests e.g. education/healthcare/infrastructure

Homestrings focus areas

Developing our target pipeline



"Diaspora Dollar" potential

- Homestrings coin the phrase "Diaspora Dollar" to describe the potential to raise finance for countries with disproportionately large migrant or expat communities
- Identifying the sovereign issuers with the greatest needs while having strong "Diaspora Dollar" potential e.g. Ethiopia, Lebanon, Iran and Armenia
- Africa in general: the African diaspora in North America alone number more than 39 million

Partnerships

- Investment Promotion Agency, Embassies, Chambers of Commerce and other official sector entities e.g. British Council
- Focus on the cultural habits and organizations of diaspora
- Outreach programme through Conferences, webinars and seminars

Longer-term: high-potential products

Homestrings is analyzing the potential to develop other sources of diaspora dollar financing through instruments like;

- Remittance flow securitisation
- Migrant Endowment Savings Account
- Better understanding of remittance flows and the diaspora's hunger for more intelligent investing

Diaspora Dollar

Identifying the potential for specific markets

Homestrings has a unique ability to grade sovereign issuers with the greatest “diaspora dollar” potential

“Diaspora dollar”, a term coined by Homestrings, is the overall investing potential of a set of diaspora (e.g. Lebanese living abroad).

We use both quantitative and qualitative criteria to give an overall “diaspora dollar” grade

Countries	Quantitative			Qualitative			Overall
	Remittances (\$bn)	Diaspora (millions)	Remittance per person	Interest in impact	Interest in return	Financial literacy	
	71	13.8	\$5,100				
	28	6	\$4,667				
	7.1	0.8	\$8,754				
	1.6	0.8	\$2,035				
	0.6	0.7	\$801				
	0.2	1.6	\$150				

Homestrings' target

SOURCE: World Bank.

Notes: *Countries listed are (in order) India, Philippines, Lebanon, Armenia, Ethiopia and Iran. ** Investment size is an average given size of remittances and size of diaspora

How Homestrings will build a diaspora community

Outreach



Summary of Homestrings

Why use Homestrings?

Homestrings has a 5-year track record and is the *first and only* EM-dedicated crowdfunding platform to digitally distribute diaspora bonds.

We are a London-based, FCA regulated, integrated crowdfunding and investment banking platform.



Provides access to private investment opportunities in Emerging & Frontier markets through its web-based platform.



Deep skills in deal origination and distribution, offered through our web platform and extensive network of existing clients



Average experience of Management team in investment banking, Emerging Markets and Development Finance



Strong background in e-Commerce and lending-platforms. Extensive experience in crowdfunding.



Homestrings is a leader in Emerging & Frontier Market crowdfunding

Proof of concept completed

2012



Homestrings begins operations.

First deal closed: Kenya diaspora infrastructure bond (water, roads and wind farms) \$1m.

Number of members

594

2013



Biggest deal closed: \$2m raised for Duet West African Consumer Growth PE tranche.

First deal outside of Africa: Australasia mining fund - \$250K.

Harvard Business case study published.

Enterprise of the Year Award - African Diaspora Awards, London.

1,193

2014



Largest investor event: "Invest in Nigeria" in London with 600 registrants.

African Financier of the Year Award - Association of African Owned Enterprises (AAOE) - UK.

Homestrings co-sponsors African Diaspora Investment Symposium in Washington, DC with USAID, Calvert Foundation and DMA: over 500 registrants.

3,114

2015



First deal in CEE: Macedonia SME USAID guarantee backed bond: \$250K.

First in-country event: Investing in Ghana (2015) - 200 registrants.

4,291

2016



Homestrings retained by Asian Development Bank to advise on diaspora funding in Bangladesh and in Sri Lanka.

Raise new capital and ramp up EM expansion.

>5,000

Key milestones and metrics through 2015



>5,000

Registered Members (word-of-mouth)



250

Deals proposed



50

Due diligences



35

Deals completed



\$25M

Raised



12

Countries across Africa and Eastern Europe

Summary

Remittances globally are large and continuing to grow but diaspora need innovative alternative investment instruments.

Diaspora bonds offer significant advantages as an alternative to straightforward remittances, like lower costs and better returns targeted at high-impact borrowers.



Why Homestrings are the *Number One* choice when considering a partner to arrange a Diaspora Bond:

- ✓ 5 years of experience and demonstrating “Proof of Concept” (see previous slide)
- ✓ Team of fixed income specialists with niche expertise in handling diaspora, issuers’ needs and pricing EM bonds
- ✓ Unique understanding of mechanics of Diaspora Bonds; including knowledge of which sovereign issuers are best suited to issue bonds and what the yield / pricing / tenor should be
- ✓ Homestrings unique culture of identifying appropriate issuers and the investment community