

## Exploring The Potentials of Diaspora *Şukūk* for OIC Member Countries

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### Abstract

*Diaspora bonds, for the issuing country, are believed to constitute a new source of external funding which is more stable and cheaper than the traditional instruments. For the investors, they represent an opportunity to meet, in a more efficient way, current liabilities in local currency back home, and to contribute to the development effort of the origin country by participating in the financing of infrastructure projects. With remittances inflow estimated at \$136 billion, in 2014, the OIC member countries have at their disposal an untapped source of external funding as substantial as the Foreign Direct Investment and larger than the Official Development Assistance. This paper explores the adaptability of Diaspora bonds to the concept of Şukūk. The paper argues that the investors' base for Diaspora Şukūk is potentially wider than that of the Diaspora bonds in OIC countries and that it would positively impact the cost of capital for the issuing country. However, the success of Diaspora securities issuance largely depends on variables such as the size, the wealth, the level of education of the Diaspora as well as investors' trust in the issuing entity. The assessment of the OIC countries with respect to the above-mentioned factors reveal the existence of potential candidates. Thus, for the success of Diaspora Şukūk, the countries are encouraged to gather quality data on their Diaspora, to implement a well thought communication strategy, and to earmark the proceeds of Diaspora Şukūk to projects appealing to the Diaspora.*

JEL Classification: G23, O16

KAUJIE Classification: K13, I14, I13

Key words: remittances, Diaspora *Şukūk*, external funding

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\* I am grateful to Dr Tunku Alina Alias, Business, US Import, Philanthropic and Islamic Finance Law Advisor to Amadou Tidiane Bousso, Senior Officer at the Senegalese Ministry of economy, Finances, and Planning, and to the anonymous referee for their useful comments. Email: [abdoulkarimdiaw@gmail.com](mailto:abdoulkarimdiaw@gmail.com)

## 1. Introduction

The *Ṣukūk* market remains one of the most dynamic Islamic finance segments, in terms of geographic diversification as well as product development. Over the last two years newcomers from various regions in the world have entered the market. Hong Kong, the UK government, the Grand Duchy of Luxembourg and the Republic of South Africa, Senegal, Cote d'Ivoire are examples of countries that found in *Ṣukūk* a new financing instrument.

Besides this geographic expansion, the *Ṣukūk* market witnessed the emergence of innovative structures such as project finance *Ṣukūk*, amortizing *Ṣukūk*, export credit agency-based *Ṣukūk*, bank capital Tier 1/Tier 2 instruments and corporate hybrid *Ṣukūk* having both equity and 'debt'-like features (Ali, 2015). Moreover, the concept of *Ṣukūk* has been combined with other concepts to come up with innovative schemes in the use of *Ṣukūk* proceeds. Thus, in 2014 the International Finance Facility for Immunization Company (IFFIm) raised, through *Ṣukūk* issuance, US\$ 500 million for children's immunization in the world's poorest countries through Gavi, the Vaccine Alliance. The transaction was considered as the first socially responsible *Ṣukūk* in the world. In the same logic, Malaysian Khazanah issued, in 2015, the first Ethical *Ṣukūk* (*Ṣukūk ihsān*) whose proceeds were used to fund Shari'ah-compliant eligible sustainable and responsible investment (SRI) projects.

With the growing importance of remittances inflows in the Organization of Islamic Cooperation (OIC) countries whose volume largely surpasses that of the Official Development Assistance (ODA), there is an opportunity to diversify the public source of funding. In fact, there already exist successful experiences of capturing part of the Diaspora wealth through the issuance Diaspora bonds.

The objective of this paper is therefore to explore the idea of adapting Diaspora bonds to the concept of *Ṣukūk*.

The following section discusses the potential economic contribution of Diaspora. The concept of Diaspora bonds, and their potential benefits are analyzed in the third section. The fourth section will look into the *Fiqh* issues as well as the operational ones related to the concept of Diaspora *Ṣukūk*. The conclusion provides a summary of the main findings and points out to a few recommendations.

## **2. Potential Economic Contribution of the Diaspora**

Defined as people who have migrated and their descendants who maintain a connection to their homeland, Diaspora is gaining more consideration over last few years as one of the most important sources of funding for countries. According to Migrations and Remittances Factbook 2016, the number of international migrants rose from 175 million in 2000 to more than 247 million in 2013, or 3.4% of the world population, and will surpass 251 million in 2015.

Remittances are undeniably the most significant channel through which migrants positively impact the economy of their origin country.

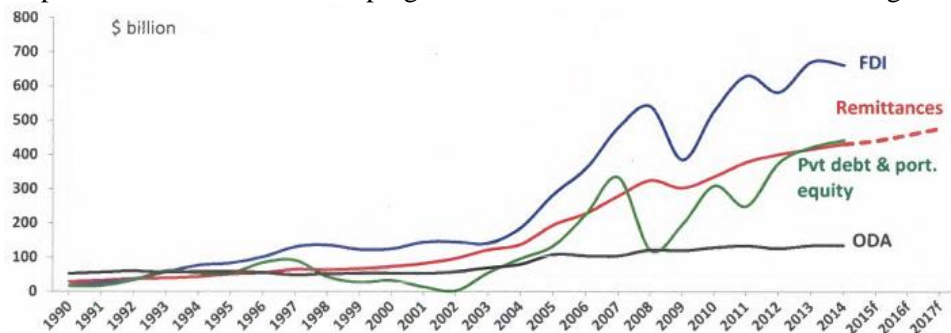
According to the International Monetary Fund (IMF) interpretation, remittances are recorded in three different sections of the balance of payments:

- Compensations of employees are the gross earnings of workers residing abroad for less than 12 months, including the value of in-kind benefits (in the current account, subcategory “income”, item code 2310).
- Workers’ remittances are the value of monetary transfers sent home from workers residing abroad for more than one year (in the current account, subcategory “current transfers”, item code 2391).
- Migrants’ transfers represent the net wealth of migrants who move from one country of employment to another (in the capital account, subcategory “capital transfers”, item code 2431).

From less than \$65 billion in the beginning of 1990s, worldwide remittance flows are estimated to have exceeded \$601 billion, in 2015. The share of that amount received by the developing countries is estimated to about \$441 billion, nearly three times the amount of official development assistance. The true size of remittances, including unrecorded flows through formal and informal channels, is believed to be significantly larger.

Graphs 1 as well as Table 1, while comparing remittance flows to developing countries to other external sources of funding, depict them as both substantial and stable. In addition to this, remittances are proven to be counter-cyclical, thus, providing buffer against economic shocks, as we will see later.

Graph 1: Remittances to developing countries versus other external financing flows.



Source: Migrations and remittances Factbook 2016

**Table-1**  
**Resources Flows to Developing Countries (in US \$ billion)**

	1990	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Remittances	29	73	194	229	280	325	303	336	378	401	416	431	441
FDI	19	125	284	361	480	541	385	529	630	583	671	662	-
ODA#	53	54	108	105	105	123	121	129	135	127	135	135	-
Private debt & Portfolio equity	16	32	134	228	334	122	197	309	250	376	422	443•	-

#OECD Development Assistance Committee (DAD) online database (<http://www.oecd.org/dac>)

• Estimated flow

Source: Migrations and remittances Factbook 2016

For the Organization of Islamic Cooperation (OIC) member countries, the stock of emigrants amounted to about 76 million in 2013 representing 31% of the world stock of emigrants and 43% of that of the developing countries. The remittances inflow to OIC member countries is estimated to \$136 billion, in 2014, corresponding to 23% and 32% of the remittances inflow in the globe and to developing countries respectively. The amount is slightly lower than the net Foreign Direct Investment (FDI) received by OIC countries in 2013 (\$140 billion) but largely higher than the net Official Development Assistance (ODA) they received in 2013 (\$52 billion).

**Table-2**  
**Data Summary on Migrations and Resources Flow**  
**OIC MC, Developing Countries, and World**

	Population in 2014 (in million)	GDP in 2015 (in US\$ trillion based on PPP)	Stock of emigrants in 2013 (in million)	Stock of emigrants as percentage of population in 2013	Migrant remittance inflows in 2014 (US\$ million)	Net FDI inflow in 2013 (US\$ million)	Net ODA received in 2013 (US\$ million)
OIC MC	1693	17.1	76.7	4.5%	136170	140 640	52 240
Developing Countries	5 862	65.3	180	3.1%	431000	671 000	135 000
World	7 260	113.5	247.2	3.4%	593000	1 952 000	150 000

Source: author calculation based on Migrations and Remittances Factbook 2016

This massive amount of money into the OIC countries, if efficiently used, would be of great impact on their economy. Indeed, the literature discusses crucial issues such as effects of remittances on poverty, growth, and balance of payment.

Plaza and Ratha (2011) report findings on the important role of remittances in reducing the incidence and the severity of poverty. It is argued that remittances help households diversify their sources of income while providing a much needed source of savings and capital for investment. They are also utilized for basic consumption needs, investments in education, healthcare, and real estate. For example, a study carried out for the United Nations Conference on Trade and Development (UNCTD, 2011), shows that remittances significantly reduce poverty in recipient countries though the results are more reliable for countries with remittances greater than 5% of GDP.

This can be explained by the fact that, generally, remittances are either invested or consumed. When spent on entrepreneurial investment, they are proven to have positive and direct effect on employment and growth. On the other hand many studies show that remittances, even when not invested, can have an important multiplier effect. One remittance dollar spent on basic needs will stimulate retail sales, which stimulates further demand for goods and services, which then stimulates output and employment.

However, based on a few researches, remittances do not only have positive effects on the origin economy. If they generate demand greater than the economy's capacity to meet this demand, and if this demand falls on non-tradable goods, remittances can

then have an inflationary effect. In Egypt, for example, the price for agricultural land rose between 1980 and 1986 by 600% due to remittances. Furthermore, it is suggested that remittances could encourage continued migration of the working age population and the dependence among recipients accustomed to the availability of these funds. All these would perpetuate an economic dependency that undermines the prospects for development (OECD, 2006).

The contribution of remittances to the receipt side of the origin country balance of payment is another facet of their economic impact. Remittances have the potential of offsetting chronic balance of payments deficits, through the reduction of foreign exchange shortage. Remittances are believed to have a more positive impact on the balance of payments than other monetary inflows (such as financial aid, direct investment or loans). The reasons are: they bear no interest and do not have to be repaid, and their use is not tied to particular investment projects with high import content. Moreover, as shown earlier, remittances are a much more stable source of foreign exchange than other external capital inflows and exhibit, for certain countries, an anti-cyclical character, in the sense that in difficult times, emigrants are more inclined to support the family back home, reflected through higher volume of remittances.

Nevertheless, the realization of these positive effects will depend on how the inflow remittances are spent or invested, as their effects on production, inflation and imports would be different. Thus, a crucial factor in this regard is the extent to which the additional demand induced by remittances can be met by expanding domestic output. Indeed, the flexibility with which domestic supply reacts to extra demand will determine whether remittances will have positive employment effects or adverse inflation effects, and whether additional imports will be necessary (OECD, 2006).

One channel used to mobilize migrant remittances to finance public sector spending is diaspora bonds which, though an old idea, are attracting more and more interest over the recent years. The following section discusses the concept of diaspora bonds and some aspects of its economics.

### **3. Diaspora Bonds: Concept, Benefits and Challenges**

A Diaspora bond is 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 (Ketkar and Ratha, 2011).

There is a growing interest in Diaspora bonds in the development finance literature. Many researchers have elaborated on their rationale, and benefits for the issuing entity as well as for the investors. The significant economic impact of Diaspora, as shown through the discussion in the previous section, helps in understanding this growing interest.

Diaspora bond is not a new concept. Indeed, Kayode and Spio (2012) report that the idea of tapping into migrant wealth goes back to the early 1930s with the Japanese and Chinese issuance of this innovative instrument. Their experiences were followed by Israel in the 1950s and later by India, in the 1990s. Thus, to undertake various development projects and support the occupation program in different events, Israel did have recourse to issuance of Diaspora bonds to mobilize close to \$25 billion over the course of the last 30 years. From 1983 to 2003, Diaspora bonds represented 20-35% of Israel's outstanding external debt.

On the other hand, India rose funding from members of the Indian Diaspora in times of balance-of-payments weaknesses, through the State Bank of India (SBI). Thus, the SBI has issued Diaspora bonds on three separate occasions—India Development Bonds following the balance-of-payments crisis in 1991 (US\$1.6 billion), Resurgent India Bonds following the imposition of sanctions in the wake of nuclear testing in 1998 (US\$4.2 billion), and India Millennium Deposits in 2000 (US\$5.5 billion) (Ketkar and Ratha, 2011).

Ethiopia has made many attempts to tap its emigrants' wealth through diaspora bonds with little success. For instance, the 2011 bond issuance aimed to mobilize funds from the Ethiopian diaspora to build a 5,250MW dam on the Nile River with an estimated cost of \$4.8 billion. However, the objective is yet to be attained (Kayode and Spio, 2012).

Other countries such as Nigeria, Kenya, and Greece have expressed their intention to tap the Diaspora bonds market.

The literature on Diaspora bonds has put forth several of their benefits as rationale for their issuance and purchase.

For the issuing country Diaspora bonds constitute a new source of external funding more stable and, sometimes, cheaper than the traditional instruments.

Developing countries find it hard to get external funding, particularly in difficult time, where access to the financial markets becomes too stringent, in the one hand;

and on the other hand, the conditionalities of the multilateral financial institutions appear too rigid. In such situations, Diaspora can be of great support as it is shown, based on the previous experiences, that patriotism is the main motivation for purchasing Diaspora bonds. Taking into account the size and the stability of the remittances inflow to the developing countries (See Table 1), the potential of Diaspora as an alternative source of funds appears to be immense.

Another element related to the potential benefits of Diaspora bonds for the issuing country is associated to the issuance cost. Indeed, Ketkar and Ratha (2007) documented what they called ‘patriotic discount’ in pricing these bonds, indicating a lesser return to the investors as compared to other instruments with similar risk.

More interestingly for many developing countries, a lack of rating does not seem indispensable for the issuance of Diaspora bonds. In fact, experience shows that many Diaspora bond issuances were not tied to a rating. Even in the case of India where the country was downgraded in 1998 following the imposition of international sanctions, the success of Diaspora bond issuance in the same year and in 2000, was perceived as an attribute by Moody’s and S&P (Kayode and Spio, 2012).

From the investors’ perspective, this willingness to buy the Diaspora bonds even at premium translates their desire to contribute to the construction of the origin country by participating, for example, in the funding of infrastructure projects that will significantly impact the economic development of the country.

However, beyond patriotism, several other factors may also help explain diaspora interest in bonds issued by their home country. The principal among these is the opportunity such bonds provide for risk management. In fact, diaspora investors have current or contingent liabilities in their origin country. Therefore, they would be interested in having revenue generating assets that match those liabilities in local currency. According to study carried out by the common central bank of the West African Economic and Monetary Union (WAEMU), remittances inflow to this zone amounted to \$3.85 billion in 2013. Of this, 54.6% were devoted to the households’ consumption, 15.8% to real estate investment, 9.8% to education and healthcare expenses, and 5.5% to other investments (Kpégo and Gbenou, 2015). The uses of the received remittances in this region of the world can be considered as a proxy for developing countries. In this example, the figures show the importance of the size of current expenses such as, consumption, education, and healthcare, in the amount sent back by the emigrants to their country of origin. If these emigrants had the possibility of owning assets that generate regular revenues that meet part of their current



liability, this would be preferable for them as in such a case they would not have to bear the costs related to sending back money.

Moreover, the default risk associated with Diaspora bonds, issued in local currency, is by far lower than if they were denominated in hard currency, since the ability of the issuing country to pay interest and principal in local currency terms is much stronger. Furthermore, Diaspora bonds give investors the opportunity to diversify their assets away from their adopted country (Ketkar and Ratha, 2011).

These are some of the benefits found in the literature on Diaspora bonds. Since they are a potential source of external funding, particularly for developing countries, it is, then, important to explore their adaptability to the concept of *Şukūk*. The rationale is to come up with innovative *Şukūk* structure that enables OIC member countries, which fall in the developing countries category, to take advantage of it. It is contended here that an Islamic financial instrument is potentially more acceptable than a conventional one in the context of Muslim countries because of the prohibition of *Ribā*, *pari passu*. It follows that the investors' base for Diaspora *Şukūk* is potentially wider than that of the Diaspora bonds in OIC countries and that would positively impact the cost of capital for the issuing country.

#### **4. Exploring Diaspora Şukūk**

In this section the possible underlying contracts for Diaspora *Şukūk* are analyzed. We discuss in the second subsection the factors are found crucial for the success of diaspora bonds issuance in the literature. Finally, the OIC countries are tested against the identified factors to determine those that more likely to succeed in issuing Diaspora *Şukūk*.

##### **4.1. Which Underlying Contract for Diaspora Şukūk Issuance?**

For the sake of simplicity we shall consider in this analysis the basic *Şukūk* structures which are based on either sale, lease or partnership contracts. As documented in the literature, the targeted investors for this type of instrument have generally three particular motivations: i) to meet current liabilities back home in local currency; ii) to contribute to the development effort for the origin country by participating in the financing of infrastructure projects; iii) risk management.

For those investors who are familiar to conventional bonds, lease-based *Şukūk* may look more attractive as they are tradable and can be structured in a way that mirrors bonds cash flows. However, many criticisms have been raised against those

*Ijārah Sukūk* that involve the sale and buy-back of existing assets as such a structure disconnects the financing activities from the productive ones. To better adhere to the spirit of Islamic finance it is preferable to earmark Diaspora *Sukūk* to well identified infrastructure projects. Such a stand has the advantage of enhancing the transparency of the operation and that will positively impact the investors' confidence as their money is being judiciously used for the benefit of the community.

*Istiṣnā'* *Sukūk* are undoubtedly suitable for developing infrastructure projects. Their unpopularity is mainly due to their non-tradability in the secondary market. Taking into account the above mentioned motivations of the potential Diaspora *Sukūk* investors, it appears that the tradability of the *Sukūk* is not a major issue for them. Therefore *Istiṣnā'* would be a suitable contract to issue Diaspora *Sukūk*.

The partnership based *Sukūk* involved the element of profit and loss sharing and are, in this regard, riskier than the *Sukūk* with predetermined return. Still with the proliferation of Build – Operate – Transfer (BOT) contracts for infrastructure development, one may consider that many investors would be willing to buy partnership-based *Sukūk* if the underlying asset projects are well designed. In particular, this would be true for the potential Diaspora *Sukūk* investors.

#### 4.2. Factors to be considered for Diaspora *Sukūk* issuance

Given the pertinence of the idea of issuing Diaspora *Sukūk* it is useful to address a few practical issues crucial for the success of the operation. Part of the literature on Diaspora bonds drew a number of factors that need to be taken into account for a successful issuance, based on the previous experiences (See for example, Wenner, 2015).. Broadly, the factors can be classified into two main categories: the emigrants - related factors and the government related factors.

The emigrants - related factors cover variables such as the size, the wealth, and the level of education of the Diaspora that are certainly critical for the success of a Diaspora *Sukūk* issuance. This is so because the volume of Diaspora saving would positively influence the decision of purchasing the *Sukūk*. Moreover, given the low level of financial literacy in the Muslim world, the well - educated Diaspora members are more likely to participate in this investment.

This points out to the importance, for the government, to gather quality data on its Diaspora to get a clear picture on, for example, the size of the Diaspora, the income structure of its members, and their education level. Unfortunately, few governments have a complete mapping of their Diaspora, as documented by Plaza

(2009). The reason is data on Diasporas are mainly based on those who register with embassies. However, not only, such registration is incomplete, at best, but there is little coordination at the embassy or consular level when dealing with Diaspora. As a result, many governments have little knowledge of the locations of their Diaspora, and of how much members of their Diaspora earn, save, and invest.

Furthermore, a well thought communication strategy to reach the potential investors and increase their awareness of the benefits of Diaspora *Şukūk*, has been proven to be a key factor for the success of the issuance. In connection to this, it is suggested, in the literature, to open the sale of the instrument to all investors although the lion's share of marketing effort is channeled to the Diaspora (Kpégo and Gbenou, 2015).

The government-related factors inform about the ability of the government of a given country to succeed in exercises like issuing Diaspora securities.

As acknowledged in several studies on the determinants of investment in the financial markets, trust is one of the most important variables that influence investors' decision. Indeed, Ng *et al.* (2014) found that trust is a robust and positive determinant of stock market depth and liquidity and is, also, proven to be crucial for market development. The results are particularly true for non-OECD and OIC countries, characterized by weak rule of law. Thus, perception of transparency and good governance are key variables that enhance trust in a potential issuing entity and constitute, therefore, important factors to be considered when evaluating the likelihood for the success of Diaspora *Şukūk* issuance. In this regard, Kayode and Spio (2012) suggest earmarking the proceeds of Diaspora securities to projects appealing to the Diaspora such as infrastructure, housing and social amenities, as a possible way to address the issue of lack of transparency and mismanagement in the use of the proceeds.

#### 4.3. Potential Issuers of Diaspora *Şukūk* Among OIC Member Countries

To identify the potential issuers from OIC countries we also consider the two above mentioned categories of factors as well as the willingness of the government authorities to use Islamic finance instruments for their investments.

For the emigrants-related factors we take the stock of emigrants as percentage of the population, the tertiary-educated as a percentage of the total emigrants in OECD countries, and remittances as a share of GDP as measures for the size, the level of education, and the wealth of the emigrants.

Similarly, we consider Corruption Perception Index (CPI) and Government Effectiveness Index (GEI) to gauge the government-related factors (See the detailed data in the Annex).

CPI has been published annually since 1995 by Transparency International to rank countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys. In the context of the CPI, corruption is defined as ‘the misuse of public power for private benefit’.

On the other hand, GEI reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

Finally, to assess the willingness of a given government to use Diaspora *Şukūk* we examine whether it has already issued *Şukūk* or is reforming its regulatory framework for that purpose.

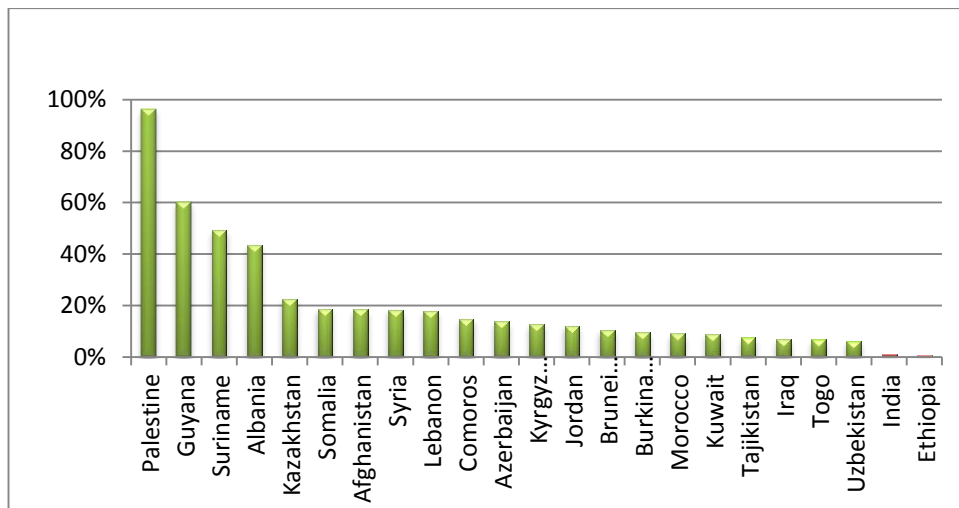
India and Ethiopia, two countries that have already issued Diaspora bonds, are brought in the analysis for benchmark purposes. While the former's experiences were successful, the latter is yet to find out its way in this new market.

For the simplicity of the analysis, we consider the ranking of the top 20 OIC countries, as compared to India and Ethiopia, for the above mentioned factors.

Figures 1 to 3 concern the emigrants – related factors. Except for the level of education – related factor, where India outperforms all OIC countries, the top 20 score better than India and Ethiopia relatively to the variables associated to the size and the income of the emigrants.

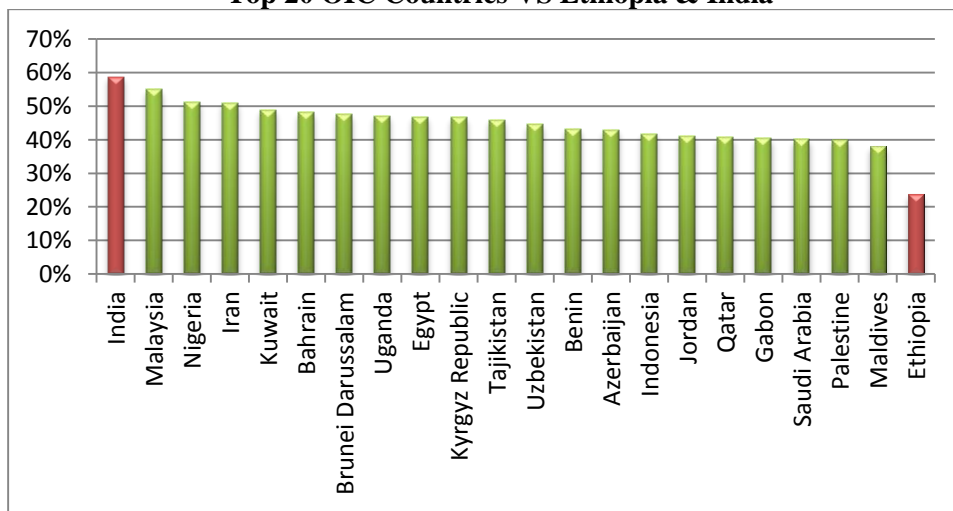
A few countries are ranked in the top 20 for all the three factors considered. That is the case for Jordan, Tajikistan, Kyrgyzstan, and Uzbekistan. For these countries, and for all those which are close to them, it can be inferred that their respective governments have potential new source of external funding. Therefore, they need to implement pertinent policies to take advantage of this opportunity.

**Figure-1**  
**Stock of Emigrants as Percentage of Population in 2013 -**  
**Top 20 OIC Countries VS Ethiopia & India**



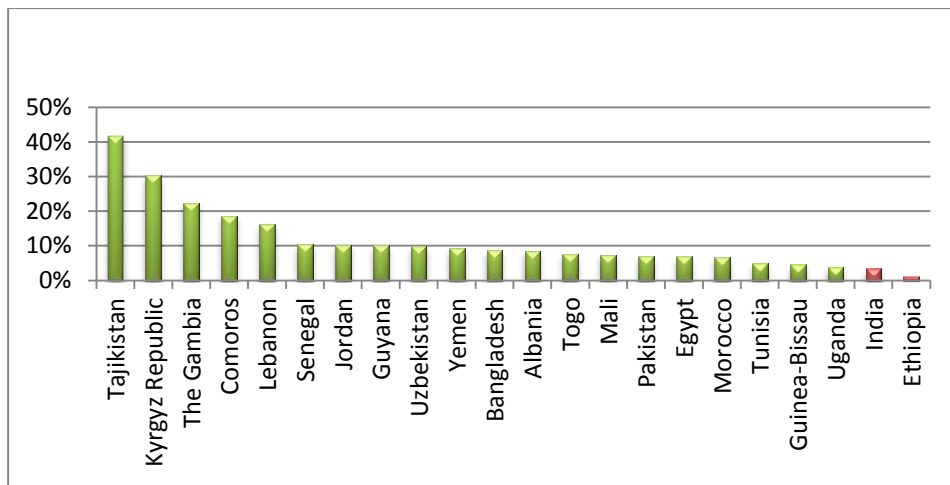
Source: Author's calculations based on data from Migrations and Remittances Factbook 2016.

**Figure-2**  
**Tertiary-Educated as % of Total Emigrants in OECD in 2011 -**  
**Top 20 OIC Countries VS Ethiopia & India**



Source: Author's calculations based on data from Migrations and Remittances Factbook 2016.

**Figure-3**  
**Remittance as a Share of GDP in 2014 –**  
**Top 20 OIC Countries vs Ethiopia & India**



Source: Author's calculations based on data from Migrations and Remittances Factbook 2016.

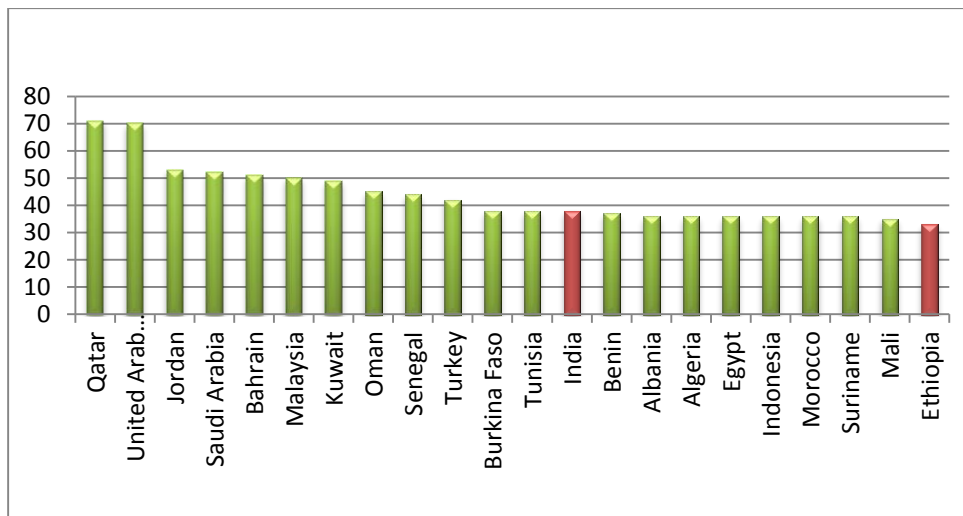
It is worth noting that the total external debt stock of OIC countries reached US\$ 1.5 trillion in 2014 and the corresponding average debt-to-GDP, for the indebted OIC countries, was 22% in 2014. For the sake of comparison, the total external debt stock of OIC countries as percentage of total developing countries debt was 28.2% in 2014.

On the other hand, the world total monetary reserves, including gold, reached US\$ 10.6 trillion in 2015, of which US\$ 1.5 trillion are owned by OIC countries. It may be useful to point out that the share of OIC countries in total reserves of the developing countries declined from 23.6% in 2013 to 21.7% in 2015 (SESRIC, 2016).

Figures 4 and 5 correspond to the government – related factors. All the top 20 OIC countries outperform Ethiopia. However, for India the results are mixed. All the six (6) Gulf Cooperation Council (GCC) countries score better than India in both factors of this category. But if we look back to Figure 3, it appears that none of the GCC countries is ranked among the top 20, and for Figure 1, only Kuwait is ranked. This suggests that citizens from GCC are not emigrating for economic (poverty) reasons; hence, instead of sending money back home those pursuing their studies abroad do receive financial support either from the government or from families.

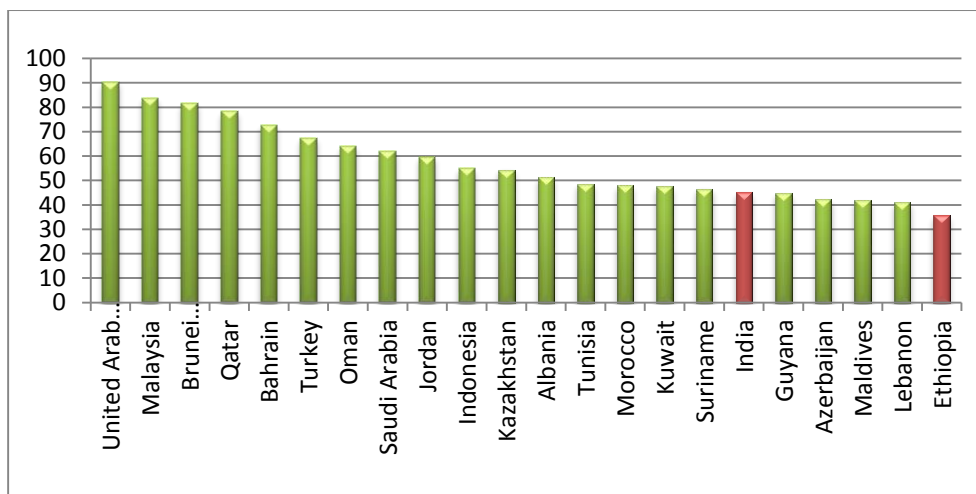
Again, Jordan is only OIC country which outperforms India for all variables.

**Figure-4**  
**Corruption Perception Index 2015 -**  
**Top 20 OIC Countries vs Ethiopia & India**



Source: Author's calculations based on data from Corruption Perception Index of Transparency International.

**Figure-5**  
**Government Effectiveness Index 2014 (Percentile Rank)-**  
**Top 20 OIC Countries vs Ethiopia & India**



Sources: Author's calculations based on data from World Governance Indicators.

If we factor in the willingness of a government to use *Şukūk* as an instrument for external funding, we find interesting profiles that would be potential issuers of Diaspora *Şukūk* in the medium term. We can mention as examples: Jordan, Senegal, Tunisia, Morocco, Algeria, Azerbaijan, Egypt, and Indonesia.

There are other countries with substantial volume of remittances and strong interest in Islamic finance which need, however, to improve their performance in the government-related factors to consider issuing Diaspora *Şukūk*. As examples we have: Pakistan, Bangladesh, Uganda, Mali and Nigeria<sup>1</sup>. The issue can be addressed by, for example, setting up an independent agency to handle all operations associated to the Diaspora *Şukūk*.

## 5. Conclusion

In this paper we have explored the pertinence of Diaspora *Şukūk* as a new instrument for public funding. Indeed, given the evolution of the volume of remittances flows worldwide, Diaspora is gaining more consideration, over the last few years, as one of the most important sources of funding for countries.

It is acknowledged that remittances are much more stable source of foreign exchange than other external capital inflows and, if efficiently used, have the potential of reducing the severity of poverty, and offsetting chronic balance of payments deficits.

Diaspora bonds, as a mean to take advantage of remittances, are believed to constitute for the issuing country a new source of external funding more stable and, sometimes, cheaper than the traditional instruments. For the investors, they represent an opportunity to meet, in a more efficient way, current liabilities in local currency back home and to contribute to the development effort for the origin country by participating in the financing of infrastructure projects.

A few countries have taken advantage of this opportunity through the issuance of Diaspora bonds.

With remittances inflow estimated to \$136 billion, in 2014, corresponding to 23% of the remittances inflow in the globe, the OIC member countries have at their

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<sup>1</sup> Countries such as : The Gambia, Yemen, and Lebanon are excluded in the analysis, despite their potential because of some issues pertaining to political Stability, and violence.



disposal an untapped source of external funding as substantial as the FDI and larger than the ODA.

We argued that the investors' base for Diaspora *Şukūk* is potentially wider than that of the Diaspora bonds in OIC countries and that would positively impact the cost of capital for the issuing country. However, the success of Diaspora securities issuance largely depends on variables such as the size, the wealth, the level of education of the Diaspora as well as investors' trust in the issuing entity.

The assessment of the OIC countries with respect to the above mentioned factors revealed potential candidates such as Jordan, Senegal, Tunisia, Morocco, Algeria, Azerbaijan, Egypt, and Indonesia. Other countries like Pakistan, Bangladesh, Uganda, Mali and Nigeria have substantial volume of remittances and strong interest in Islamic finance, but need to improve their performance in the government-related factors to consider issuing Diaspora *Şukūk*.

Based on the aforementioned findings, here are some recommendations:

- it is important, for the government, to gather quality data on its Diaspora to get a clear picture on, for example, the size of the Diaspora, the income structure of its members, and their education level;
- a well thought communication strategy to reach the potential investors and increase their awareness of the benefits of Diaspora *Şukūk*, has been proven to be a key factor for the success of the issuance;
- to address the issue of lack of transparency and mismanagement in the use of the proceeds, we suggest to earmark the proceeds of Diaspora *Şukūk* to projects appealing to the Diaspora such as infrastructure, housing and social amenities.

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## ANNEX

	Factors related to the quality and quantity of the emigrants							Factors related to Governments		
	Population in 2014 (in million)	Stock of emigrants in 2013 (in million)	Stock of emigrants as percentage of population in 2013	Tertiary-educated as a percentage of total emigrants in OECD countries in 2011 (%)	Remittances as a share of GDP in 2014 (%)	Migrant remittance inflows in 2014 (US\$ million)	Net FDI inflow in 2013 (US\$ million)	Net ODA received in 2013 (US\$ million)	Corruption Perception Index 2015	Government effectiveness index, 2014 (percentile rank)
Afghanistan	31.6	5.632	18.4%	21.6%	3.1%	636	40	5270	11	8.2
Albania	2.9	1.264	43.6%	9.9%	8.5%	1 142	1250	300	36	51.2
Algeria	38.9	1.784	4.7%	20.3%	0.9%	2 000	1690	210	36	33.7
Azerbaijan	9.5	1.287	13.7%	42.9%	2.5%	1 846	2620	60	29	42.3
Bahrain	1.4	0.062	4.6%	48%			990	-	51	72.6
Bangladesh	159.1	7.572	4.8%	35.1	8.6%	14 969	1910	2670	25	21.6
Benin	10.6	0.487	4.7%	43.2%	2.4%	208	360	650	37	34.1
Brunei Darussalam	0.417	0.043	10.5	47.5%			780	-		81.7
Burkina Faso	17.6	1.643	9.6%	21.5%	0.9%	120	490	1040	38	30.8
Cameroon	22.8	0.361	1.6%	37.4%	0.8%	244	550	740	27	23.1
Chad	13.6	0.404	3.1%	37.9%			540	400	22	5.8
Comoros	0.77	0.111	14.8%	13.4%	18.6%	126	10	80	26	1.9
Côte d'Ivoire	22.2	1.02	4.7%	27.3%	1.1%	373	410	1260	32	21.2
Djibouti	0.876	0.015	1.7%	31.1%	2.3%	36	290	150	34	16.3
<u>Egypt</u>	89.6	3.386	3.9%	46.7%	6.8%	19 570	4190	5510	36	20.2
Gabon	1.7	0.0489	3.0%	40.3%			970	90	34	26.4
The Gambia	1.9	0.071	3.8%	19.2%	22.4%	181	40	110	28	28.4
Guinea	12.3	0.398	3.3%	20%	1.4%	93	0	500	25	11.1
Guinea-Bissau	1.8	0.091	5.2%	11.7%	4.5%	46	200	100	17	4.8
Guyana	0.764	0.463	60.2%	30.7%	10.2%	328	200	100	29	44.7

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	Factors related to the quality and quantity of the emigrants							Factors related to Governments		
	Population in 2014 (in million)	Stock of emigrants in 2013 (in million)	Stock of emigrants as percentage of population in 2013	Tertiary-educated as a percentage of total emigrants in OECD countries in 2011 (%)	Remittances as a share of GDP in 2014 (%)	Migrant remittance inflows in 2014 (US\$ million)	Net FDI inflow in 2013 (US\$ million)	Net ODA received in 2013 (US\$ million)	Corruption Perception Index 2015	Government effectiveness index, 2014 (percentile rank)
Indonesia	254.5	4.117	1.6%	41.7%	1.0%	8 551	23280	50	36	54.8
Iran	78.1	1.605	2.1%	50.9%	0.30%	1 330	3050	130	27	38
Iraq	34.8	2.37	7.0%	26.4%	0.1%	271	5130	1540	16	13.9
Jordan	6.6	0.782	12.1%	41.1%	10.3%	3 701	1750	1410	53	59.6
Kazakhstan	17.3	3.827	22.5%	14.9%	0.1%	242	9950	90	28	54.3
Kuwait	3.8	0.323	9.0%	48.8%	..	4	1430	-	49	47.6
Kyrgyz Republic	5.8	0.738	12.9%	46.6%	30.3%	2 243	760	540	28	18.8
Lebanon	4.5	0.811	18.0%	37.8%	16.3%	7 446	2880	630	28	40.9
Libya	6.3	0.147	2.3%	29.6%			700	130	16	2.9
Malaysia	29.9	1.683	5.7%	54.9%	0.5%	1 565	11300	120	50	83.7
Maldives	0.357	0.001	0.4%	38.1%	0.1%	3	360	20		41.8
Mali	17.1	0.896	5.4%	13.4%	7.4%	895	310	1390	35	14.4
Mauritania	4,00	0.136	3.5%	16.6%			1130	290	31	15.9
Morocco	33.9	3.04	9.1%	15.7%	6.6%	7 053	3360	1970	36	48.1
Mozambique	27.2	0.727	2.7%	32.3%	0.7%	118	6700	2310	31	24
Niger	19.1	0.29	1.6%	35.9%	1.9%	152	720	770	34	23.6
Nigeria	177.5	1.118	0.6%	51.2%	3.7%	20 921	5560	2530	26	11.5
Oman	4.2	0.024	0.6%	32.6%	0.05%	39	1630	-	45	63.9
<u>Pakistan</u>	185,00	6.17	3.4%	36.1%	6.9%	17 066	1330	2170	30	22.1
Palestine	4.3	4.018	96.4%	39.9%			190	2610		32.2
Qatar	2.2	0.02	0.9%	40.7%	0.2%	499	840	-	71	78.4
Saudi Arabia	30.9	0.292	1.0%	40.2%	0.04%	269	8860	-	52	62
Senegal	14.7	0.54	3.8%	19.3%	10.4%	1 614	310	980	44	38.9

	Factors related to the quality and quantity of the emigrants							Factors related to Governments		
	Population in 2014 (in million)	Stock of emigrants in 2013 (in million)	Stock of emigrants as percentage of population in 2013	Tertiary-educated as a percentage of total emigrants in OECD countries in 2011 (%)	Remittances as a share of GDP in 2014 (%)	Migrant remittance inflows in 2014 (US\$ million)	Net FDI inflow in 2013 (US\$ million)	Net ODA received in 2013 (US\$ million)	Corruption Perception Index 2015	Government effectiveness index, 2014 (percentile rank)
Sierra Leone	6.3	0.336	5.4%	33.7%	1.4%	68	380	440	29	10.6
Somalia	10.5	1.921	18.7%	13.8%			110	990	8	0
Sudan	39.4	1.508	3.9%	31.7%	0.5%	343	1690	1160	12	3.8
Suriname	0.538	0.263	49.4%	17.2%	0.2%	10	140	30	36	46.6
Syria	22.2	3.971	18.2%	34.2%		1 623	-	3630	18	6.7
Tajikistan	8.3	0.608	7.5%	45.9%	41.7%	3 854	50	380	26	22.6
Togo	7.1	0.461	6.7%	31.4%	7.6%	345	200	220	32	9.6
Tunisia	11,00	0.671	6.2%	19.9%	4.9%	2 291	1060	710	38	48.6
Turkey	75.9	3.110	4.1%	8.9%	0.14%	1 128	12460	2740	42	67.3
Turkmenistan	5.3	0.25	4.8%	35.4%	0.07%	34	3080	40	18	17.8
Uganda	37.8	0.406	1.1%	47.1%	3.9%	1 029	1100	1690	25	38.5
United Arab Emirates	9.1	0.157	1.7%	31.4%			10490	-	70	90.4
Uzbekistan	30.8	1.913	6.3%	44.5%	9.9%	6 206	690	290	19	27.4
Yemen	26.2	1.269	5.0%	14.4%	9.3%	3 343	130	1000	18	7.2
OIC MC	1692.8	76.7	4.5%			136169,9	140 640	52 240		
India	1 295	13.885	1.1%	58.7%	3.4%	70389	28 150	2 440	38	45.2
Ethiopia	97	0.749	0.8%	23.7%	1.1%	624	95	3 830	33	35.6
Developing countries	5 862	180	3.1%	25%		431	671 000	135 000		
World	7 260	247.2	3.4%			593	1 952 000	150 000		

Sources: Author's calculations based on Migrations and Remittances Factbook 2016 data for remittances, Transparency International for Corruption Perception Index, and World Governance Indicators for percentile of government effectiveness, and World Bank database for GDP in nominal terms.