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DIASPORA BONDS:

Harnessing the Potential of Yemeni Returnees

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We help our clients by researching and engaging stakeholders at all levels, analysing their needs and interests and advising on policy and project design and implementation. To learn more about Deeproot, please visit our website at www.deeproot.consulting

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Summary

Following Saudi Arabia's efforts to nationalize its labor market, thousands of Yemeni workers, who annually send over a billion dollars in remittances to Yemen, have been forced to leave the Kingdom. While there, many were active in the Saudi informal economy as they struggled to keep up with changing labor laws and regulations that aim to decrease their numbers in the labor market. Such activity has limited their ability to use the formal banking sector in Saudi Arabia and in other countries, and has forced them to return to Yemen and take their savings with them. Given that the Yemeni banking sector is on the brink of collapse, and the country's real estate market climate is discouraging, these Yemenis are now struggling to find a way with which they can safely invest the money they have accrued during their time in the Kingdom. At the same time, and so long as those returnees are unable to invest their savings, Yemen is missing out on a great opportunity to capitalize on a large inflow of foreign currency. To address this situation, this policy brief explores the idea of the Central Bank of Yemen (CBY) issuing diaspora bonds that returning Yemenis can purchase. Such an approach would offer them a path to re-enter the formal banking sector, and would make available an invaluable source of foreign currency that the country could use in financing its development projects and investments.

Yemeni Diaspora in Saudi Arabia

In the 1970's, the oil boom in Saudi Arabia attracted a large number of Yemeni workers and their families. For a long time, these workers did not need to obtain visas or permits to work in the Kingdom and moved freely between the two countries.[1] By the 1980's, it is estimated that the number of Yemenis living in Saudi Arabia had exceeded 1.3 million.[2] However, it was also around that time that Saudi policies towards Yemenis, and Arab immigrants in general, began to change as a result of the rise of nationalist and leftist movements in the region that called for abolishing the monarchy.[3] The regional tension directly impacted Yemeni workers when the Yemeni government sided with Iraq in its war against Kuwait in 1990. That year, the Kingdom expelled around 800,000 Yemeni workers.[4] Later in the 2000's, other regional threats, like the inflow of Al-Qaeda agents through the Yemeni border, have also influenced Saudi Arabia's stance towards Yemeni immigrants.[5] More recently, the Kingdom has been concerned with internal issues that were amplified by the reverberations of the "Arab Spring" across the region, notably the growing rates of unemployment among Saudi youth. The resulting policy changes aimed to address this problem have had a negative impact on Yemeni workers in Saudi Arabia.

Changes in Saudi Labor Laws

As part of the Saudi 'Vision 2030' plan to move the kingdom away from the oil economy, the Saudi government has been implementing changes to Saudi labor laws in hopes of increasing Saudi labor employment rates. In 2011, the Saudi government introduced the "Nitaqat Program" which regulates and restricts the Saudi private sector's ability to hire foreign workers by enforcing hiring quotas.[6] The new laws prevented many foreign workers, among whom were Yemenis, from applying for new work authorizations, and left many others unable to renew previously issued permits. Subsequently, many of these workers joined the informal economy, or left the country altogether.

1 Forsythe, Jessica. "Opportunities and Obstacles for Yemeni Workers in GCC Labour Markets," Chatham House, 2011, pg. 6. https://www.chathamhouse.org/sites/files/chathamhouse/0911pp_gcc_0.pdf.

2 Ibid. Pg. 6.

3 De Bel-Air, Francoise. "Demography, Migration and Labour Market in Saudi Arabia," Gulf Labour Markets, Migration and Population (GLLM) Programme, 2014, pg. 4. http://gulfmigration.eu/media/pubs/exno/GLMM_EN_2014_01.pdf.

4 Ibid. Pg. 9.

5 Forsythe, 2011, op cit. pg. 13.

6 Peck, Jennifer R. "Can Hiring Quotas Work? The Effect of the Nitaqat Program on the Saudi Private Sector," American Economic Journal: Economic Policy vol. 9(2), 2014, pg. 1. http://economics.mit.edu/files/9417.

Since then, similar programs and laws with the same purpose of increasing Saudi employment rates have put further constraints on expatriates' ability to survive in the Saudi labor market. One of these regulations was an increase in fees for residency permits, and requiring, for the first time, that all workers' family members pay those fees as well.[7] The Saudi government also led a crackdown against unauthorized workers and enforced legal punishments stricter than previous ones on those it arrested for violations.[8] These changes made it impossible for some workers to stay, and made the informal economy a less appealing option as workers feared imprisonment or worse. In 2013, it is estimated that at least 200,000[9] Yemenis living in Saudi Arabia were forced to return home, and about half a million followed suit in 2014.[10] Since November of last year an estimated 100,000 Yemeni workers have also had to return.[11]

Challenges the Returning Diaspora Face

Yemenis in Saudi Arabia who face difficulties obtaining licenses for new businesses, or who can not obtain work permits, often resort to operating in the informal economy.[12] Some register businesses they unofficially own under Saudi citizens' names to benefit from legal facilitations offered to Saudi business owners. Others take on jobs despite lacking the necessary work permits. Such work arrangements leave those Yemenis hesitant to report on all their finances as required by financial institutions. This in turn limits their ability to engage with the formal banking sector, as banks verify sources of large sums of money before accepting them. This has led to a large informal "hawala"[13] system that Yemeni diaspora use to transfer funds back to their families in Yemen. In 2016, it is estimated that Yemeni diaspora in the Kingdom sent an estimated $1 billion in remittance through informal channels[14] because they were unable to use, or preferred those to, official banking or money exchange systems.

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Many of these returning diaspora, unable to invest or deposit their savings in Saudi banks, are moving whatever they have not already transferred to Yemen with them now as they return. Upon arrival, they are faced with a few, equally unappealing investment options for these savings. The first two options are investing in real estate or starting a new business, both of which are risky to say the least in a country ravaged by war, where infringements on property rights and the shelling of buildings have become the norm. The third option, which is depositing or investing their savings in commercial Yemeni banks, means they run the risk of losing their money to bank closures, insolvency problems, or looting given the dire economic situation. For these reasons, this group of Yemenis are hesitant to invest their money within the country. They are also incapable of moving their savings overseas to where they could potentially relocate and start a new life away from conflict, as they can not provide proof of source of their funds and will therefore face international banking restrictions. It is for these same reasons that the Central Bank of Yemen should consider the issuing of diaspora bonds to capitalize on the economic opportunity that this inflow of money offers the Yemeni economy at a time when it needs it the most.

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7 Bukhtiar, Asem & Al-Rayes, Abdullah Ibrahim. [AR] "Impact Analysis: The Exodus of Expatriate Labor" ("تحليل الأثر: خروج العمالة الوافدة", 2017), pg. 3. http://maksab.co/attachments/article/58/%D8%AA%D8%AD%D9%84%D9%8A%D9%84%20%D8%A7%D9%84%D8%A7%D9%94%D8%AB%D8%B1%20%D8%AE%D8%B1%D9%88%D8%AC%20%D8%A7%D9%84%D8%B9%D9%85%D8%A7%D9%84%D8%A9%20%D8%A7%D9%84%D9%88%D8%A7%D9%81%D8%AF%D8%A9.pdf.

8 Frouws, Bram. "Mass Deportations Looming: Saudi Arabia gears up to expel millions of migrants…again," Regional Mixed Migration Secretariat (RMMS), May 12, 2017. http://www.regionalmms.org/index.php/research-publications/feature-articles/item/64.

9 De Bel-Air, 2014, op. cit. pg. 10.

10 International Organization for Migration (IOM), "Yemen: Migration Crisis Operational Framework 2017-2018," 2018, pg. 10. https://www.iom.int/sites/default/files/our_work/DOE/MCOF/MCOF-Yemen-2017-2018.pdf.

11 DeepRoot, "The Yemen Trend - March 2018 Issue," July 2018, pg. 5. http://docs.wixstatic.com/ugd/df2b40_8a02ab4d988a4f28ad0b5369b6d2888b.pdf.

12 DeepRoot internal analysis.

13 Hawala, roughly translating to "transfer" or "trust," is an informal value transfer system working in parallel to traditional banking and remittance channels. It is based on mutual trust between an expansive network of brokers working on commission, who supply the required amount without actually moving the original money. Hence, Hawala is often described as "money transfer without money movement."

14 DeepRoot internal data.

Diaspora Bonds

Diaspora bonds are government issued loans that countries sell to their citizens overseas. What often differentiates these bonds from other debt instruments is their lower than average interest rates, their long term to maturity, and their foreign currency denominations. Diaspora bonds tend to have lower returns relative to bonds where the diaspora live. Countries issue these bonds and hope that their diaspora would choose to buy the bonds and provide a "patriotic discount,"[15] in lieu of potentially earning higher returns if they were to invest their money elsewhere. Diaspora bonds also tend to have a long term to maturity (between 5-15 years), only upon which can they be reclaimed. Governments and public institutions prefer such bonds as they are more "efficient"[16] in financing investments. Long dated bonds are secure, durable financing sources, while short dates ones are volatile by nature. The latter often require bond issuers to spend conservatively over longer periods of time to avoid unexpectedly becoming underfunded. Alternatively, bond issuers are forced to sell a larger number of bonds to fund the same investments that fewer long term bonds could have financed over the same period of time.[17] Diaspora bonds are also offered in foreign currencies. However, there remains an underlying understanding that if the country faces a difficulty paying back the value of these bonds, the diaspora, because of their ties to the country, could still benefit from receiving the bonds' denominations in local currency.

A Yemeni worker, deported from Saudi Arabia
REUTERS/Khaled Abdullah

Some countries, like India, have had positive experiences selling diaspora bonds, while others like Greece have failed. In general, it is countries with large diaspora populations, high remittance inflows per non-resident, good governance, and countries that the diaspora can trust would repay their debt, that have success in issuing and selling the bonds. Factors like the budget deficit, or inflation rates, are often overlooked by the diasporas when making the decision to buy these bonds.[18] At times, there is even a positive correlation between factors like ongoing crises or wars in the home country and success of the diaspora bonds sales.[19] Countries that seek to issue diaspora bonds need to have an economically empowered overseas population that can contribute and invest in the bonds. When offering their diaspora bonds, India targeted their citizens in America and in Europe.[20] Those communities were in high-income countries and earned good income. In addition, the overseas nationals need to trust in the country's governing body, and in its ability to pay back the value of these bonds. Indian immigrants who bought the government-issued bonds after crises most likely believed that even if their government struggled in paying back its debt, it would still be able to pay the bonds value in India's local currency. This trust in the government's ability to pay might have even made these bonds seem like low risk investments, further increasing their appeal. Moreover, countries can (and have) successfully issue diaspora bonds during crises. In fact, India has only issued diaspora bonds three times: in 1991, 1998, and 2000, all of which were during crises.[21] The successful selling of bonds at these times was probably a result of the nature of these crises, the diaspora's nationalist sentiment and, more importantly, their trust in the government's ability to eventually pay them back.

15 Ketkar, Suhas L. & Ratha, Dilip. "Development Finance via Diaspora Bonds: Track Record and Potential," paper presented at the Migration and Development Conference at the World Bank, Washington DC, May 23, 2007, abstract. http://documents.worldbank.org/curated/en/867801468165874505/pdf/wps4311.pdf.

16 Akkoyunlu, Sule & Stern, Maximilian. "An Empirical Analysis of Diaspora Bonds," The Graduate Institute of International and Development Studies, 2012, pg. 12. http://graduateinstitute.ch/files/live/sites/iheid/files/sites/globalmigration/shared/_communIntersites/Akkoyunlu_Stern-Rev5-1.pdf.

17 Ketkar, Ratha, 2007, pg. 3.

18 Akkoyunlu & Stern, 2012, op. cit. pg. 19.

19 Ibid, Pg. 19.

20 Ketkar & Ratha, 2007, op. cit. pg. 16.

21 Akkoyunlu & Stern, 2012, op. cit. pg. 19.

Recommendations

While many of the above factors do not necessarily apply to Yemen's case, there is a unique opportunity for Yemen and its returning diaspora to benefit from the issuing of diaspora bonds. As previously mentioned, Yemen has a large inflow of returning nationals who have had to leave Saudi Arabia in the past few years as a result of the introduction of restrictive labor laws. This returning diaspora community has a strong need for a chance to regain access to local and eventually international formal banking institutions, as both options currently remain unviable. Given that relative to local Yemenis, and due to the high currency exchange rate between the Saudi Riyal and the Yemeni Riyal, this returning diaspora population is affluent, it qualifies as a good funding source that Yemen should utilize.

While bonds are typically issued by governments, in Yemen's case there is little trust in the government, which is why the CBY can be the public entity to issue the bonds. The CBY is one of the few surviving state institutions that the Yemeni diaspora can still trust. If it were to issue diaspora bonds, Yemen's returning expatriates, despite the country's civil-political strife and state of governance, might nonetheless be willing to risk investing in the bonds. In addition, the appointment of a new CBY governor who appears to be trusted by regional powers – as signified by the confirmation of a $2 billion deposit by the Kingdom and by various other official statements – gives the CBY additional credibility. If Saudi Arabia can trust the bank with their deposit, it is very likely that the diaspora will too.

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In fact, if the CBY were to issue diaspora bonds, it should capitalize on the Saudi deposit and ensure it signals to the returnee laborers that funds raised through diaspora bonds will be invested and managed by the CBY in the same way that the Saudi deposit is. In addition, regional and international donors can explore options to support the issuance of diaspora bonds. One such option would be for the donors to offer guarantees of repayment to the local bond buyers. In any respect, it would be worthwhile to give greater consideration to the sale of diaspora bonds and ways to support such a financial instrument, given the limited investment options available to returning Yemenis; and the opportunity that diaspora bonds present for citizens to ensure their own financial future while simultaneously contributing to their country's development.

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