Emerging Market Finance Refugee Crisis Application

Rationale and Roadmap

WORLD REFUGEE & MIGRATION COUNCIL SPECIAL REPORT

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Photo: Venezuelans cross the border into Cúcuta, Colombia. © UNHCR/Paul Smith

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Executive Summary

In 2019 the World Refugee & Migration Council issued "A Call to Action" recognizing the need for private sector innovation to meet the fiscal challenges posed by the global refugee crisis. The majority of countries hosting refugees are emerging markets where global banks and fund managers actively invest. Traditional credit and capital market instruments including sovereign refugee bonds and equity funds can be adapted to fill the gap left by inadequate UNHCR and other public sector funding. Designed under a public-private partnership, these new products would have broad appeal to both mainstream and Environmental, Social, Governance (ESG)-focused investors.

Today countries like Colombia/Ecuador, Jordan/Turkey, Bangladesh, and Kenya are facing severe fiscal challenges in hosting refugee populations which worsened during the global pandemic. Many also have large numbers of internally displaced persons. These countries all have established capital markets with active foreign institutional investor participation, and credit ratings from the global ratings agencies. The new instruments would have specific reporting for use of proceeds, offering issuers a less expensive financing option, and could carry guarantees or other credit enhancements from development lenders, further lowering costs. Stock exchange listed companies, often already hiring or serving migrant communities, could leverage participation and raise large commercial sums through a dedicated fund.

The World Refugee & Migration Council is uniquely positioned to convene a public-private sector group, including financial, development and humanitarian representatives, to prepare in detail inaugural transactions of hundreds of millions to billions of dollars to meet the social and infrastructure needs of the world's 80 million displaced people.

Introduction

The latest UN displaced population tally of 80 million — around 25 million refugees crossing borders and the rest internal — underscore the longstanding trend that 85% of displacement-affected countries are in the developing world, or emerging/frontier countries in decades established investor terminology. Global banks and fund managers are active in all these regions, and regularly monitor economic developments like mass migration for their impact on loan, bond, and stock portfolios, especially their general fiscal/debt implications and specific infrastructure/labor market fallout.

Official humanitarian and development sources are historically the main funding channels for crisis response, despite the call in the Global Compact for Refugees for private sector innovation and participation. UNHCR at headquarters level and in regional appeals has chronic shortfalls, the 2020 $9.1 billion budget is only 47% met by a handful of donors.[1] It has no standing as a supranational to borrow on its own, as the World Bank and counterparts are able to do after also launching dedicated multi-billion dollar windows for middle-income concessional and poor country lending that too are a fraction of calculated immediate intake and longer-term stabilization needs.

Refugees themselves are often the leading inward channel through broader diaspora remittances supporting households and businesses in country. For developing markets as a whole hundreds of billions of dollars in these transfers exceed foreign portfolio and direct investment. These funds come from informal and formal networks detached from the global financial market nerve center. Multinational banks and businesses have begun to organize for hiring and smaller-scale impact investments through initiatives like the Tent Partnership and Refugee Investment Network. These initiatives focus on jobs and livelihoods and grassroots enterprise startup as bottom-up solutions, while a top-down commercial mobilization model remains lacking.

The World Refugee and Migration Council's flagship 2019 report "A Call for Action" recognized this gap and urged consideration of a suite of established emerging credit and capital market instruments adapted for refugee/migration purposes, and public-private sector coordination to design pilots. Its original recommendations drew on op-ed articles

[1] https://www.unhcr.org/underfunding-2020/#:~:text=UNHCR's%20budget%20was%20%249.131%20billion,a%20funding%20gap%20of%2051%25.

prepared since the 2015 Europe-Syrian emergency which suggested sovereign refugee bonds, equity funds for stock exchange listed companies, and other alternatives appealing equally to mainstream and socially responsible investors.[2]

A template often cited in presentations then was green securities market issuance for clean energy projects, and the sustainable energy category has since evolved for the well-known 2030 goals and pandemic relief the past year. The Council prepared a broad proposal to test multiple structures in the Andean region for the Venezuela exodus and supported a modest private equity housing effort in Colombia. This paper intends to elaborate the case in light of updated and more urgent regional and industry interests, as ESG commitments in particular converge with on the ground economic deterioration and increasing displacement.

[2] https://www.ft.com/content/09ce076a-4d52-11e8-97e4-13afc22d86d4. https://www.ft.com/content/a7807f6a-0361-11e7-ace0-1ce02ef0def9
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Regional Existing Foundation Fits

The Syrian and Venezuelan crises are the world's largest, each with over 5 million displaced, and the main receiving countries are already closely connected to emerging financial markets, and have regularly issued normal domestic and foreign bonds to partially finance social and infrastructure spending. Major companies have been asked to offer hiring, product, and technology support without harnessing collective clout through a large-scale investment fund or raising capital publicly for these strategies. Even where episodes are concentrated in fragile and low-income economies, an overlooked private debt and equity entry point often exists that can be deepened with dedicated instruments. Bangladesh and Kenya, respectively responsible for one million Rohingya from Myanmar and over half a million Somalia/South Sudan refugees, have their own active securities markets and international participation.

Turkey with over 3 million Syrians, in addition to a multi-billion euro pact with the European Union, has financed tens of billions from commercial borrowing at the going rate as a mainstay emerging market presence. Jordan and Lebanon tapped the World Bank's concessional facility for discounted credit at poor country terms, and the former has been under IMF programs for the past decade. Jordanian officials previously urged a private sector window to mobilize bank and institutional investor funding, and requested a concept paper on a pilot refugee bond although these requests have not been acted on. Lebanon in turn last year defaulted on its outstanding Eurobonds, and now requests Fund assistance and consideration of debt swaps to tackle the needs of half its population now in poverty even as many leave for Europe and neighboring Middle Eastern countries in a new refugee wave.

Colombia has an investment grade credit rating it is trying to preserve in the face of the 1% of GDP fiscal cost of absorbing the influx, and has recognized the net migration tax revenue benefit over time as tallied in development lender research. In a breakthrough policy instead of constant renewal of short-term protection status, it offered Venezuelans full formal employment and public service access under legalization for up to 10 years coinciding with the current global average displacement period. President Duque also was clear that the announcement was designed to galvanize official aid far lagging behind the response to the Syrian situation in per capita terms, as the 2020 $1.5 billion UN-organized relief appeal remains only half met.

As mentioned in a previous Council paper produced with the Inter-American Dialogue,[3] officials expressed interest in launching special infrastructure project bonds that could have collateral guarantees and tax incentives for local and international buyers. The country has a deep, sophisticated pool of private pension funds and is a member of a regional stock exchange cross-trading arrangement with Chile, Peru, and Mexico. Ecuador is another major refugee-hosting country and recently completed a commercial debt restructuring that has provisions for cash payment reduction for mutually agreed ESG use. The Northern Triangle countries El Salvador, Guatemala and Honduras are now in the spotlight and focus of a high-level Council task force. Together they have issued billions of dollars in sovereign bonds that can be redesigned with migration-related revenue and transparency provisions.

[3] https://www.thedialogue.org/wp-content/uploads/2018/10/NoStrangersatGate.pdf

Detailed Offering Description

A sovereign displacement bond would be attractive to the issuing country with discount pricing to the standard version, while at the same time carrying high financial return and fitting into the SDG bucket, with specific elements around orderly migration, economic growth, and peace and justice. An early proposal with these features in mind was presented to the United Nations in 2016 (available on the website unglobalcompact.org.) The core catalyst for cheaper cost is reporting/transparency around specific use of proceeds, verified by outside parties, likely relief agencies on the ground.

This mechanism will reinforce best practice aid and development flow tracking, including labor market and social service access. For an investor it will identify cash flows for repayment that could derive from multiple sources, such as moving migrants from welfare to employment rolls, and revenues from energy, housing, and sanitation projects where refugee and local community consumers can cover costs. The transaction should be structured so that net new debt is minimal as host nations often grapple with outsized burdens already, with the option also of swapping out more expensive previous international bond placements.

Development lenders could reduce costs further and strengthen buyer confidence by providing guarantees or other credit enhancements that are well-established in blended finance, and low-rated countries may require this incentive at the outset. This liability is contingent on the balance sheet, enabling greater leverage of existing resources, while the private sector banking and capital markets emphasis opens fresh space for specialist arms like the World Bank's International Finance Corporation. The teams assembling these initial deals, including legal advisers and underwriters, would be compensated with modest fees or honoraria with the expectation that successful demonstrations will establish reputations for innovation, and produce future earnings streams through repetition and replication elsewhere.

On the equity side an equally simple model is to create a country or regional investment fund of major stock market listed companies that often are already engaged in refugee response through hiring and training, supply chain and business startup relationships, or product-service delivery. Money would be raised from local and global institutional investors in exchange for monitored commitments to improve the "double bottom line" in this fashion.

As with the gender lens for women-owned businesses and purposes, the impact investment community has started to propose displaced person equivalents with a scoring methodology that could apply, but sophisticated metrics should not be a precondition so long as good faith presumption can be independently verified. With the proliferation of exchange traded funds globally along ESG themes, this dedicated vehicle could be listed as an ETF in New York or other financial capitals, and preliminary discussions have been held with a specialist house. Both the stock and bond concepts are designed to raise hundreds of millions to billions of dollars at a time and can be regularly rolled over and recycled as long-term commercial funding completely lacking to date.

Conclusion/Immediate Action

The WRMC is not equipped with the technical expertise or commercial motivation to prepare trial efforts in-house but is uniquely positioned as a public-private sector solutions repository to coordinate and convene interested financial, development, and humanitarian institution representatives. Together they can rally and collaborate around a lasting multi-billion dollar unexplored adaptation of existing emerging market asset classes. It can designate such ad hoc working groups as described in “The Call to Action” as an immediate priority, and act as a liaison to guide preparation of actual transactions as professional and host country awareness reaches critical mass.

This convening role is vital at the outset but should recede over time with proof of concept and the wider banking/ capital markets and mass migration/displacement field’s embrace on its own. Once this mission is clear and communicated to policy and commercial audiences, near and medium-term deal volume deliverables should be outlined. With task urgency and the potential securities and geographic alternatives available in the Andean and Middle East, the first-year ambition is presumed to be sizable for both need and credibility sake, with a combined bond- stock fundraising in the $2 billion-plus range, nearly half of the UNHCR’s 2020 budget gap.

World Refugee & Migration Council

Chaired by former Canadian Foreign Minister Lloyd Axworthy, the World Refugee & Migration Council offers bold thinking on how the international community can respond to refugees through cooperation & responsibility sharing.

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