

Securitization of Future Remittance Flows

A Global Overview

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Outline

1. Rationale for Securitization
2. Principal features
3. Potential size
4. Constraints
5. Policy Issues



Rationale for sovereigns

- Cost of crisis too high -- need to maintain investment and employment
- Information externalities---as in the aftermath of Brady deals
- Capital market development



Rationale for issuers [Use El Salv, Bra example] ability to escape sovereign ceiling

- lower costs -- longer maturiry

Table 3: Spreads on Pemex Finance Ltd. Securitized Debt

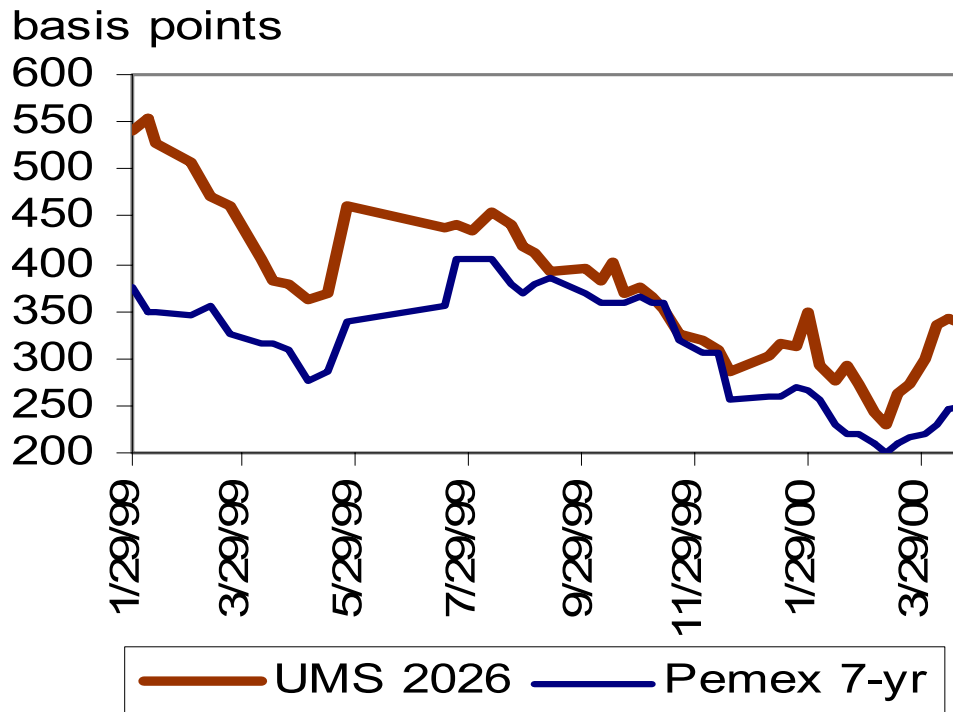
		Issue Size	Avg. life	Final life	Spread	Coupon	Issue Date
	Rating	\$ Mn.	(yrs)	(yrs)	(bp)	(%)	Date
Pemex Finance A	AAA	500	3	5	125	5.720	12/4/9
Pemex Finance A	BBB	350	7	8.5	350	7.000	12/4/9
Pemex Finance A	AAA	400	10	11.5	175	6.300	12/4/9
Pemex Finance A	BBB	250	18	20	412.5	9.150	12/4/9
Pemex Sr. Unsecured	BB	600		10	462.5	9.375	12/2/9
UMS*	BB	1500		10	571	9.875	12/4/9

Source: S&P

Rationale for investors

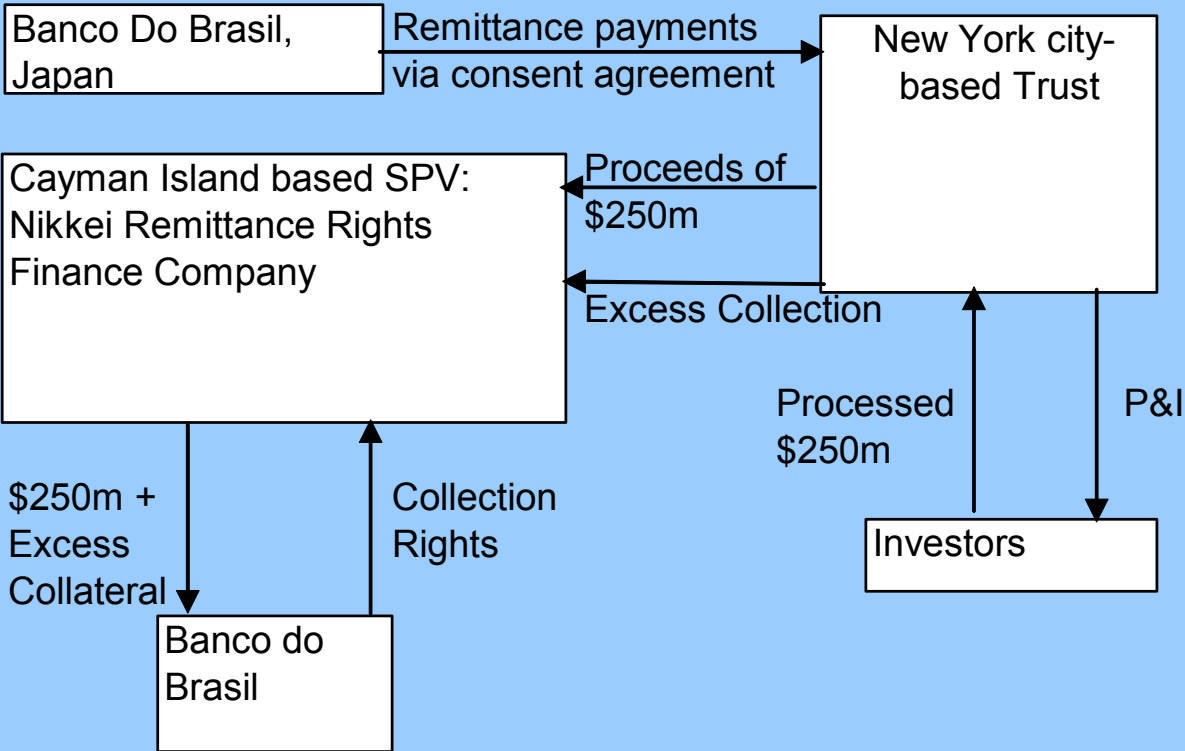
- Good credit rating -- No defaults to date
- Less spread volatility

Chart 6a: Spreads on Pemex 7-year and UMS 2026



Securitization of Remittances

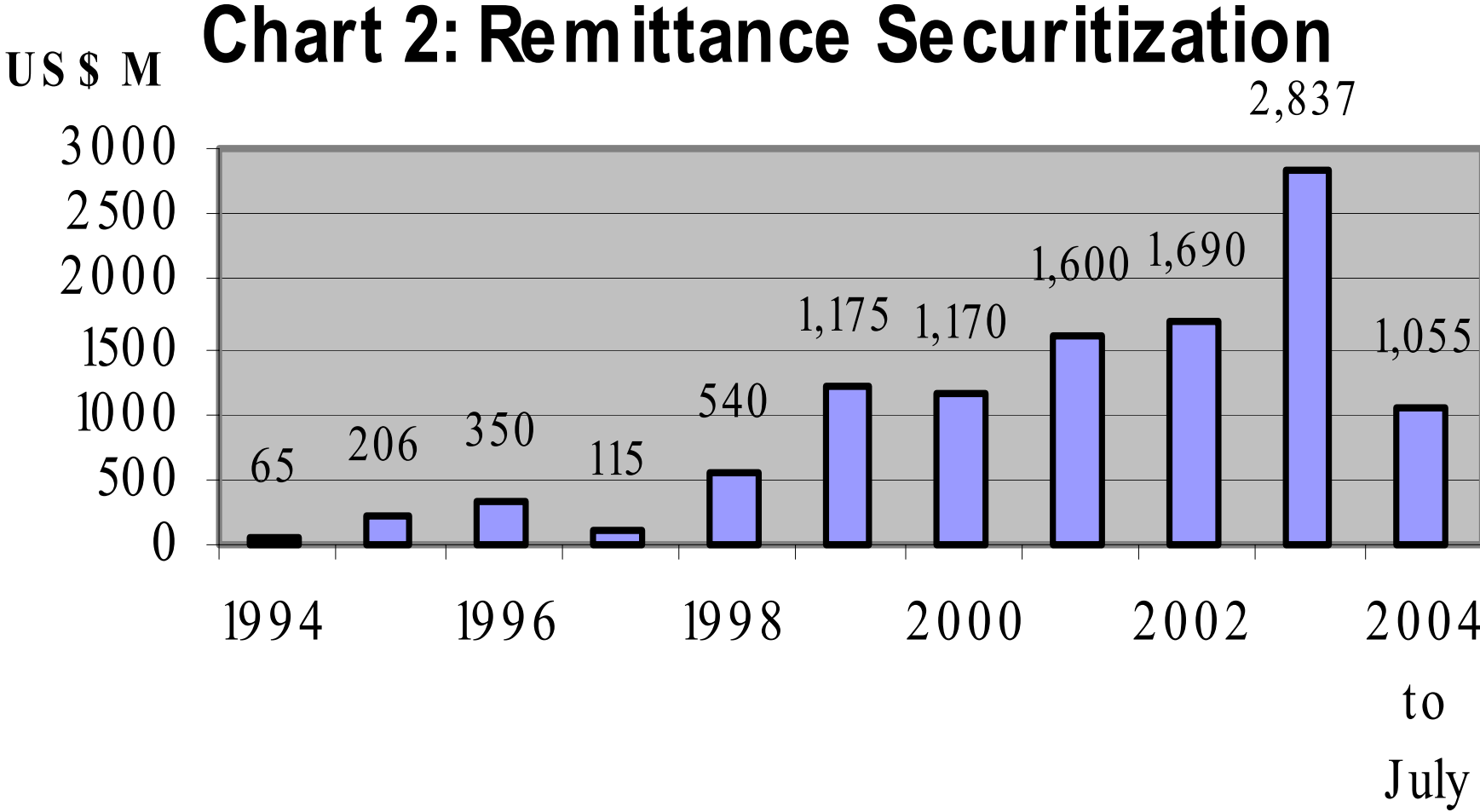
Chart 1: Structure of BdB Remittance Securitization



Source: Standard and Poors (S&P)

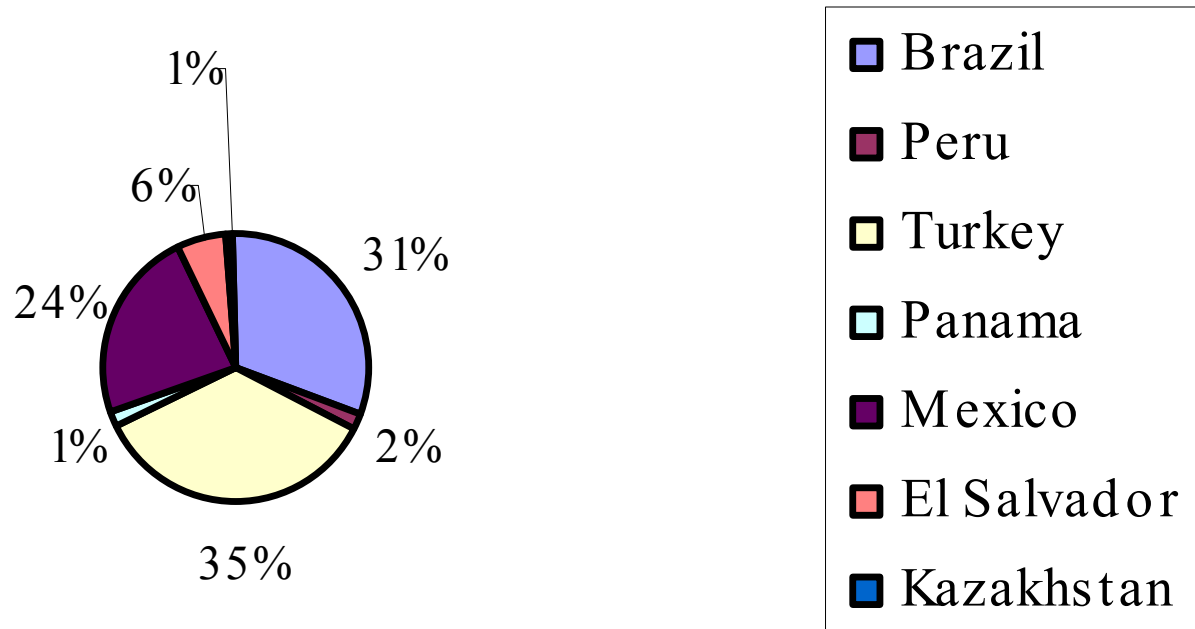


Securitization of remittances has increased in recent years



...Led by Brazil, Mexico and Turkey

Chart 3: Securitization - 1994-2004



But the potential is yet to be exploited



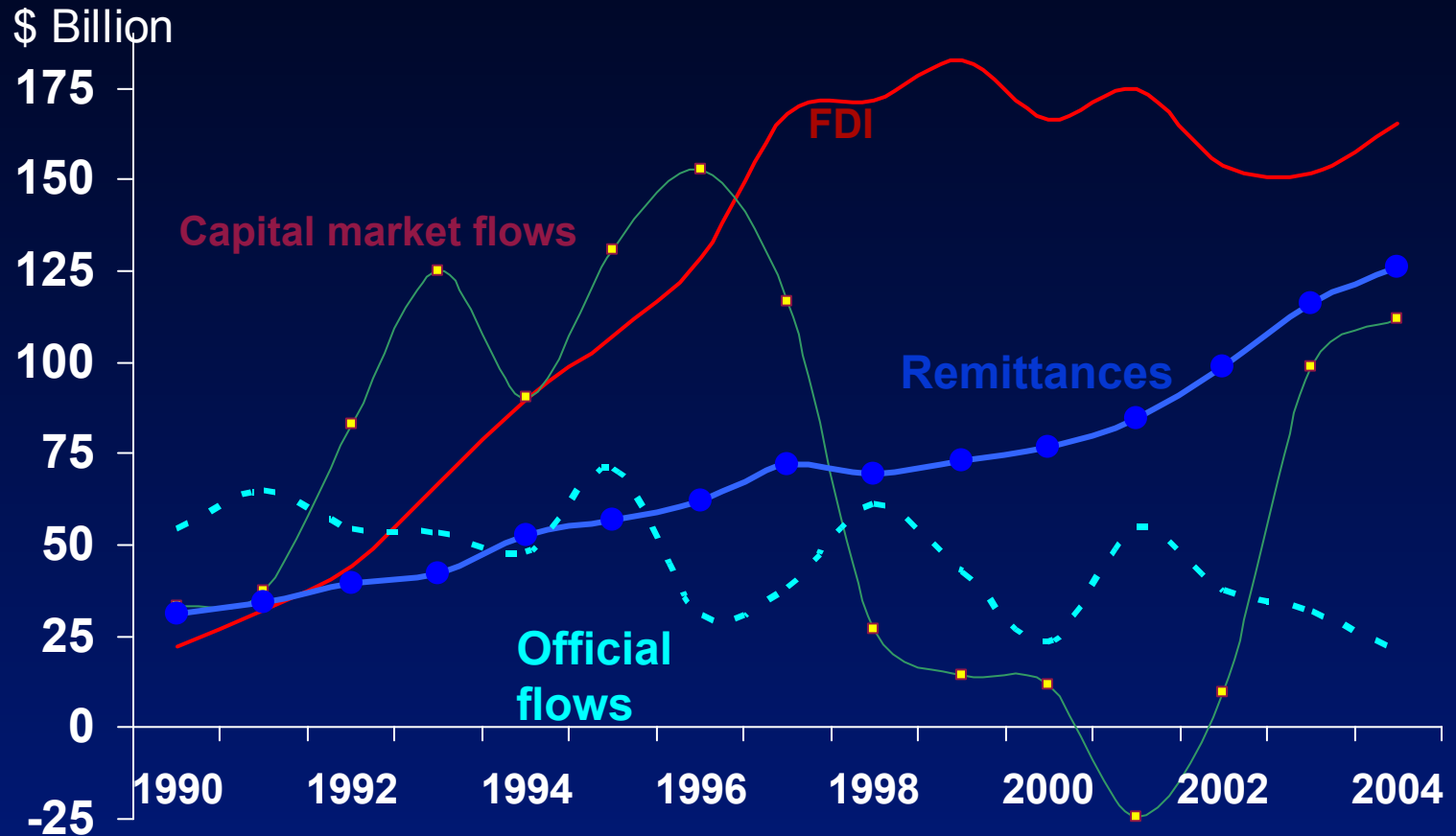
Remittances have become a key source of development finance

<i>\$ billion</i>	<u>1995</u>	<u>2004</u>
FDI	105	165
Debt and port. equity	151	44
ODA	59	69*
Workers' remittances	51	126

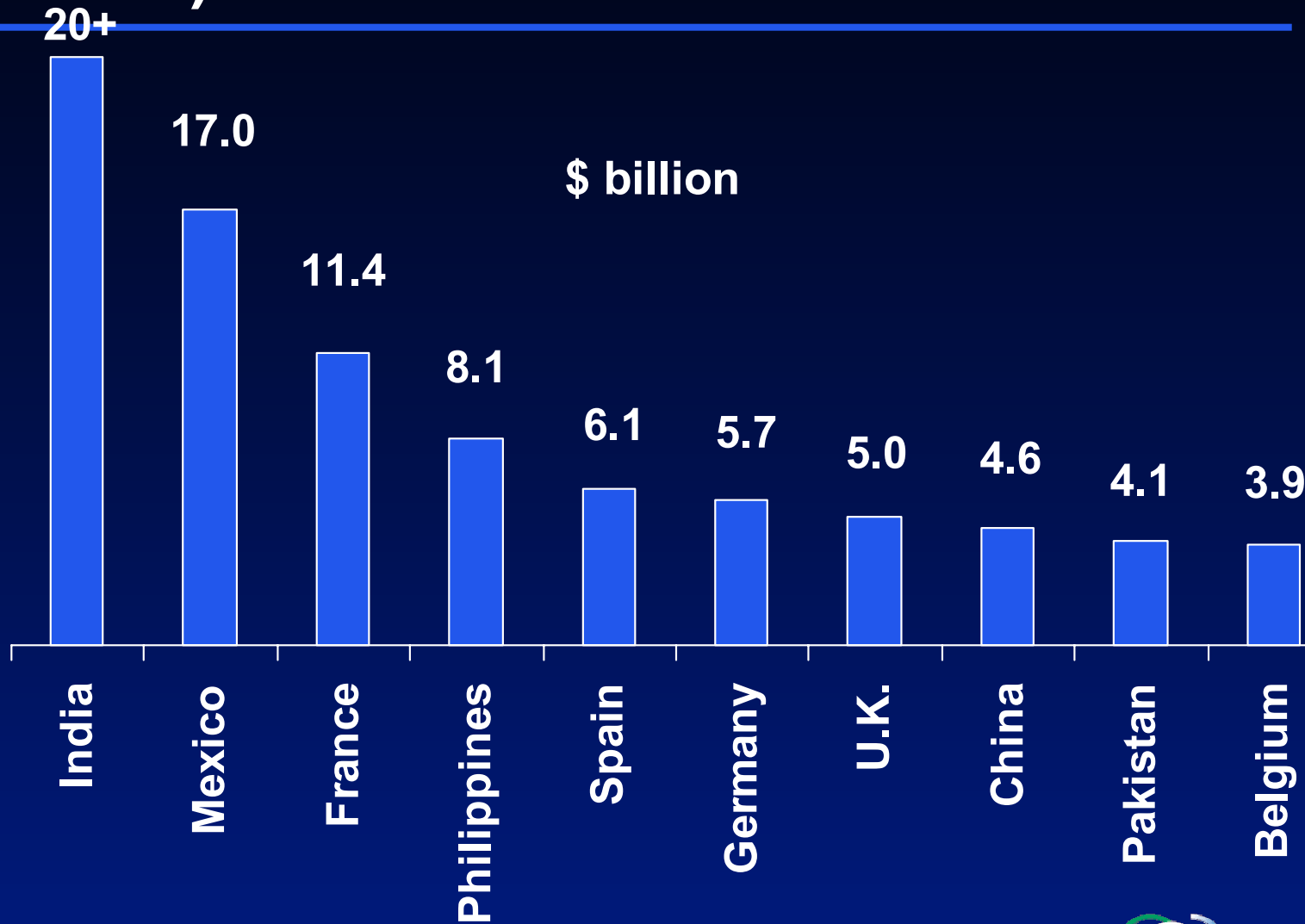
Remittances are larger than official and private flows in 36 developing countries



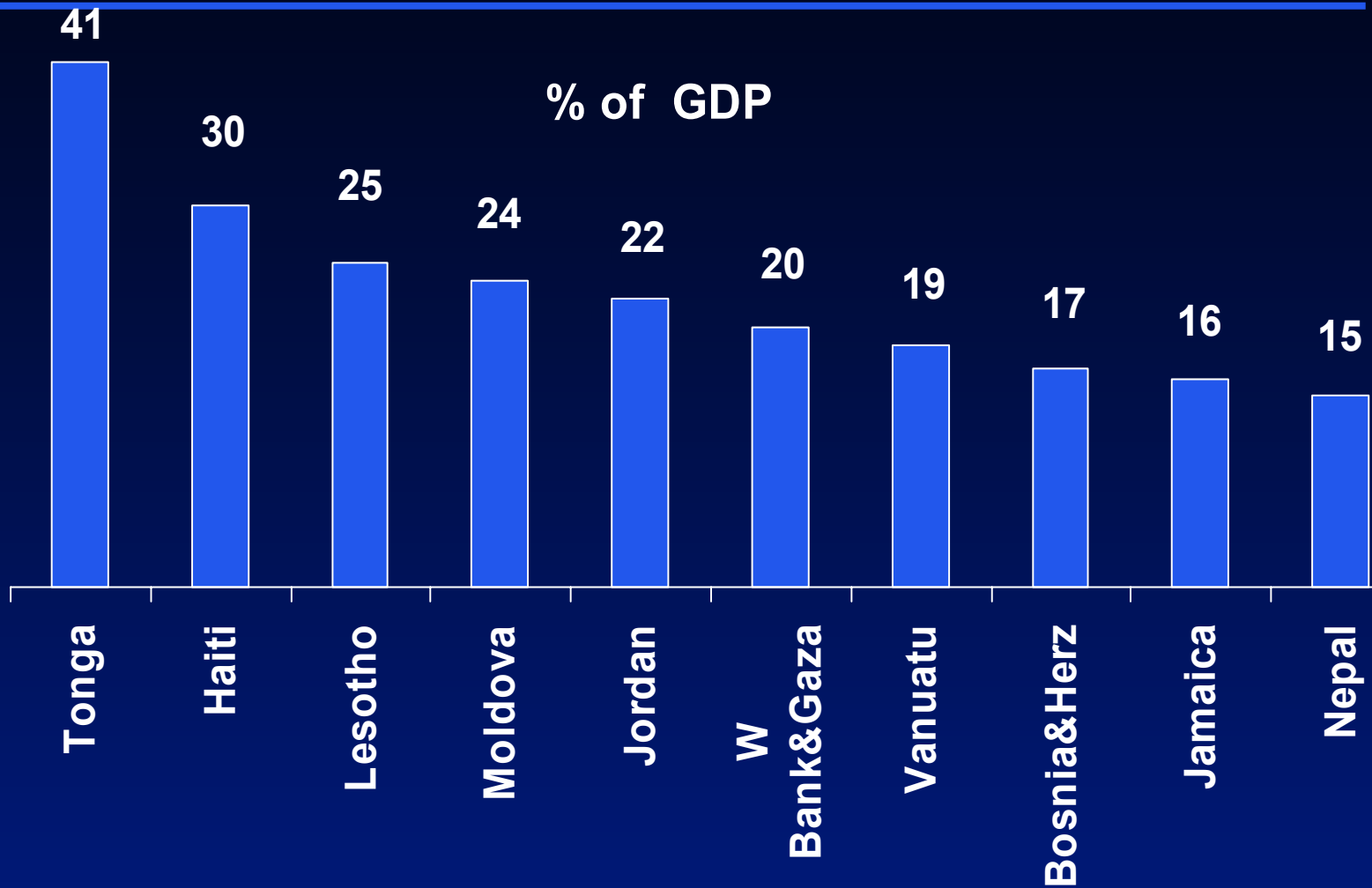
Remittances are stable, and may be counter-cyclical



Top 10 recipients of remittances, 2004 (\$ billion)



Top 10 recipients of remittances, 2003 (as percent of GDP)



Potential...

Remittances: \$8 billion/year

Table 6: Remittances by Region, 2004est.

	Billion US\$
East Asia and the Pacific	20.3
Europe and Central Asia	12.9
Latin America & Caribbean	36.9
Middle East & North Africa	17.0
South Asia	32.7
Sub-Saharan Africa	6.1
Low and Middle-Income Countries	125.8



Constraints

- Paucity of high-rated entities
- Long lead times
- High fixed costs (legal and others)
- Issuers reluctance for full disclosure
- Inadequate legal structure
- Lack of liquidity not a big deterrent



Constraints

Table 10: Number of investment grade entities in below investment grade developing countries (local currency ratings)

Country	Inv. Grade Entities	Country	Inv. Grade Entities
Argentina	15 (6)	Mexico	19 (10)
Brazil	3 (3)	Malaysia	11
China	2	Nigeria	1
Colombia	2 (2)	Pakistan	0
Croatia	2	Panama	3 (2)
Czech Rep.	12	Peru	1 (1)
Egypt	9	Philippines	4 (1)
El Salvador	2 (2)	Poland	8
Estonia	1	Slovenia	1
Hungary	6	Thailand	6
India	5	Tunisia	3
Jordan	0 (1)	Turkey	0 (5)
Korea	6	Uruguay	2
Lebanon	0	South Africa	13



Improve migrants' access to banks

- Banks are cheaper than MTOs
- Improve banking access of migrants
- Involve credit unions, microfinance institutions, and post office savings banks
- Remove exchange controls
- Improve access to payment and settlement systems



Strengthen financial infrastructure

- Improve competition
- Harmonize bond, net worth requirements
- Avoid over-regulation
 - banking license is not necessary
 - know your client requirement may be too harsh
- Avoid exclusivity contracts



Strengthen financial infrastructure

- Harmonize electronic transfer systems
- Take advantage of technology
- Increase transparency



Public policy issues

Encourage remittance flows through formal channels.

Overcome the size issue via “Master Trust” arrangement.

IFIs can provide –

- Seed money for contingency financing facilities.

- Expertise in deal structuring and developing legal & institutional framework framework.

- Counter-party risk assumption as in Unibanco.

- Help in resolving conflicts with the negative pledge provisions.



Improve data on remittances

- Conduct surveys of remittance senders and recipients



Thank you



DEVELOPMENT PROSPECTS