

International Forum of Remittances 2005



Securitization of Remittance Flows: Leveraging Migrant Flows

Not only between US and LAC

- Ecuadorian population in Spain exploded from 1,000 in 1992 to 375,000 in 2003. (now 500,000).
- Colombia population over 7,000 in 1993 to 244,000 in 2003 in Spain
- Remittances in 2004 Euros 3.2 billion and they are expected to exceed Euro 5 billion in 2007

From Japan as well

- In 2005, over \$2.6 billion will be sent from Japan to the region
- \$2.2 billion to Brazil
- \$365 million to Peru
- \$100 million to Bolivia, Paraguay, Colombia

Despite this massive inflow of foreign currencies

- 80% or more of these flows are used for consumption purposes
- Recipients' access to recipients are limited
- Strong need to leverage remittance flows to productive purposes through financial intermediation of banks.

What is Remittance Securitization ?

- Part of “Asset class” called “Future Flow Securitization”
- Example: New baseball stadium of Washington Nationals financed by future ticket revenues
- Issued internationally credit rated bonds secured by future flow of remittances

MIF Investment Unit can help in the 4 ways

1. New
Remittance
Securitization

3. Remittance
Loan Facility

2. Subsequent
Issues of Bonds

4. MIF Technical
Assistance

1. New Remittance Securitization

- MIF and IDB Group (PRI and IIC) can provide necessary credit enhancement to achieve the desired/required rating
- Partial Credit Guarantee
- Subordinated Debt
- Honest Broker among originating bank, investors, and rating agencies

2. Subsequent Issues of Bonds

- MIF and IDB Group can purchase subsequent bonds issued by the originator
- Subordinated Bond to the prior issues
- Partial Credit Guarantee
- All the structure is in place, no substantial additional cost for subsequent issues

3. Remittance Loan Facility

- Direct loan to banks backed by flow of remittances
- Amount up to \$50 million
- Less costly, no SPV, no international credit rating, low legal cost
- Example: Banco del Trabajo, Peru
- Transactions in Central America, Andean Countries, and Regional Deals

4. MIF Technical Assistance

- Develop new financial products to recipients of remittances
- Mortgage loans backed by remittance flows
- Insurance backed by remittance flows
- MIF Amount around \$200,000
- Counterpart Funding Required

Panelists

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