

Leveraging Remittances for International Capital Market Access in Poor Countries

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DEVELOPMENT PROSPECTS

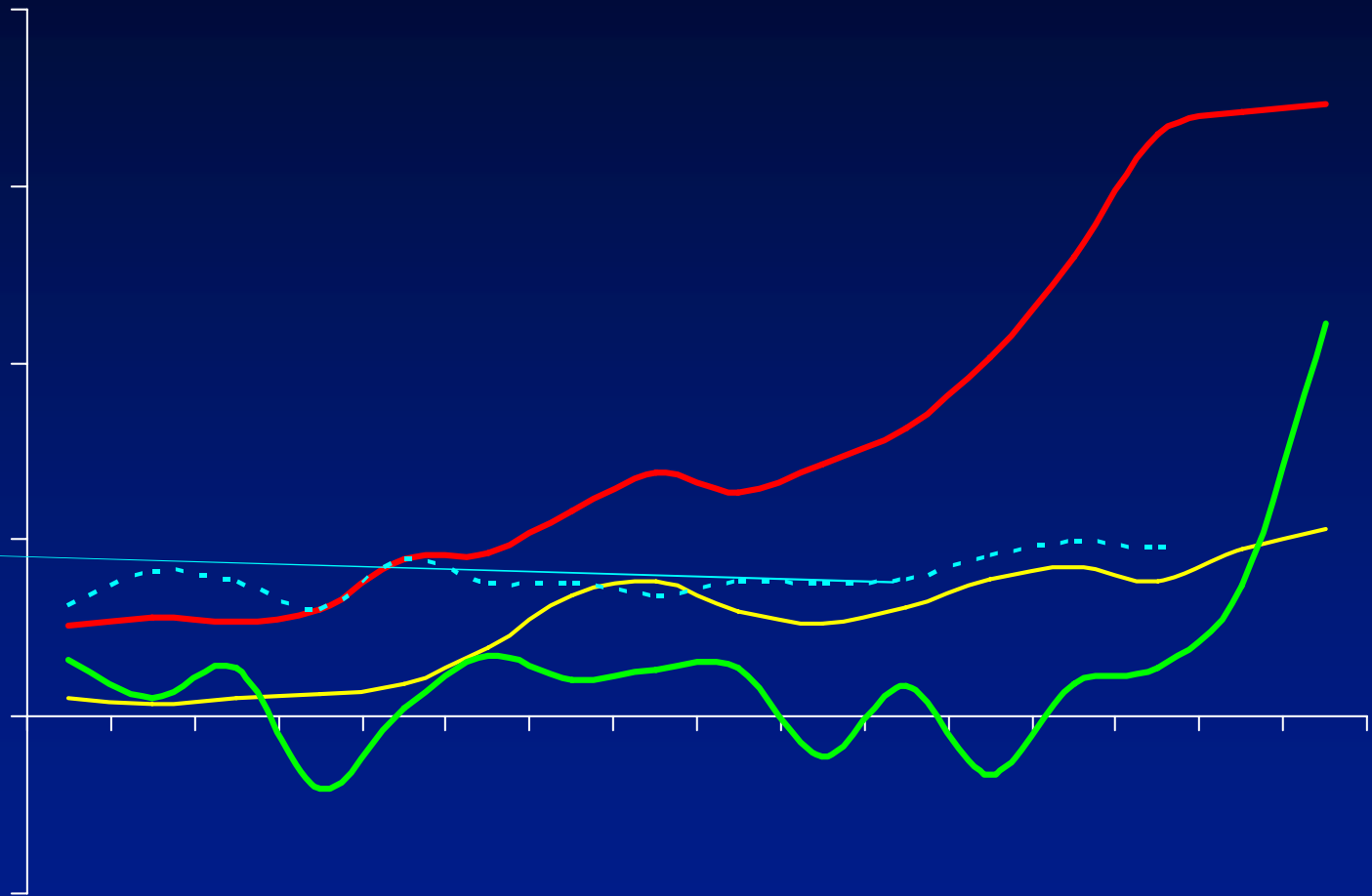
Outline

1. Remittance trends
2. Leveraging remittances for raising development financing
 - ⊞ Sovereign credit rating
 - ⊞ Securitization

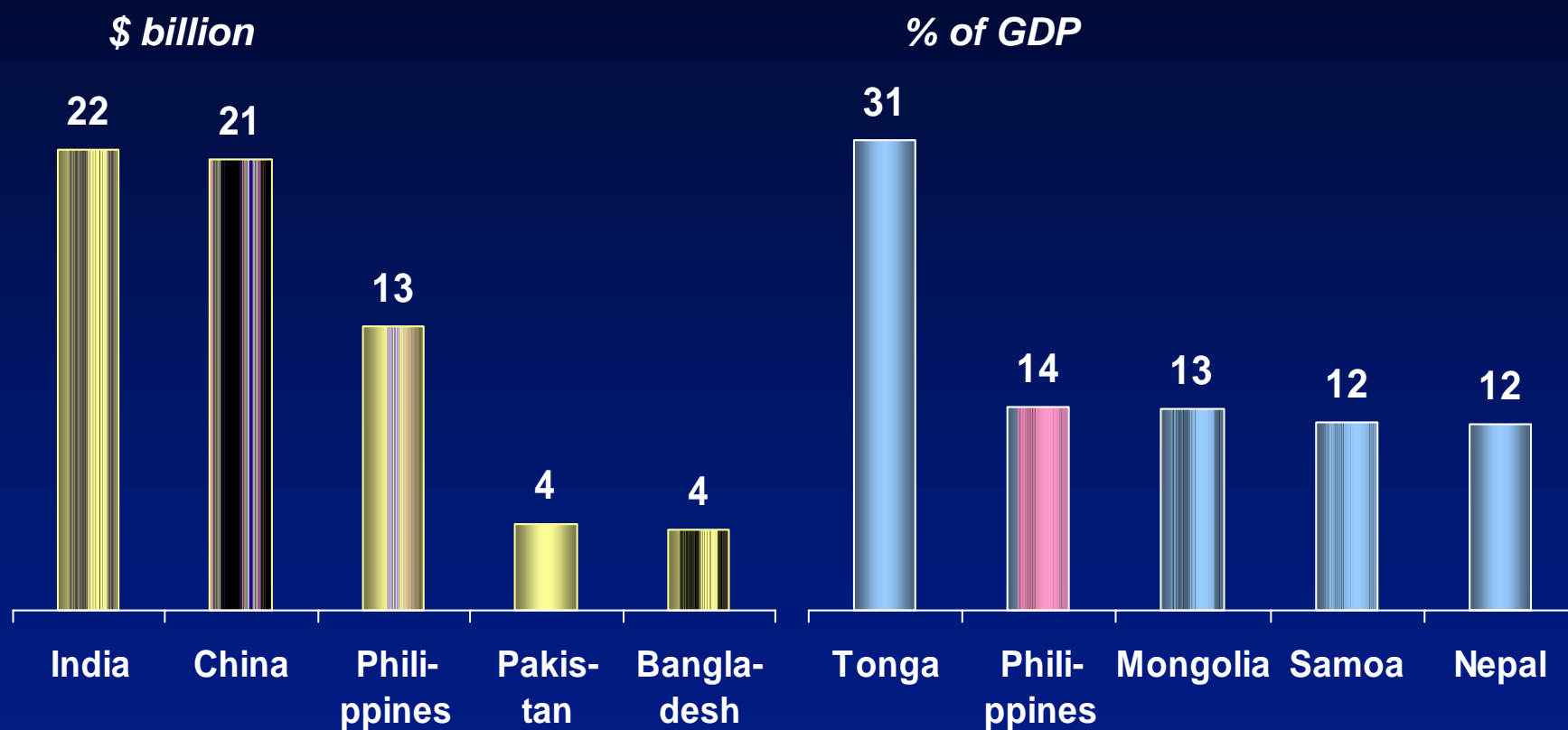




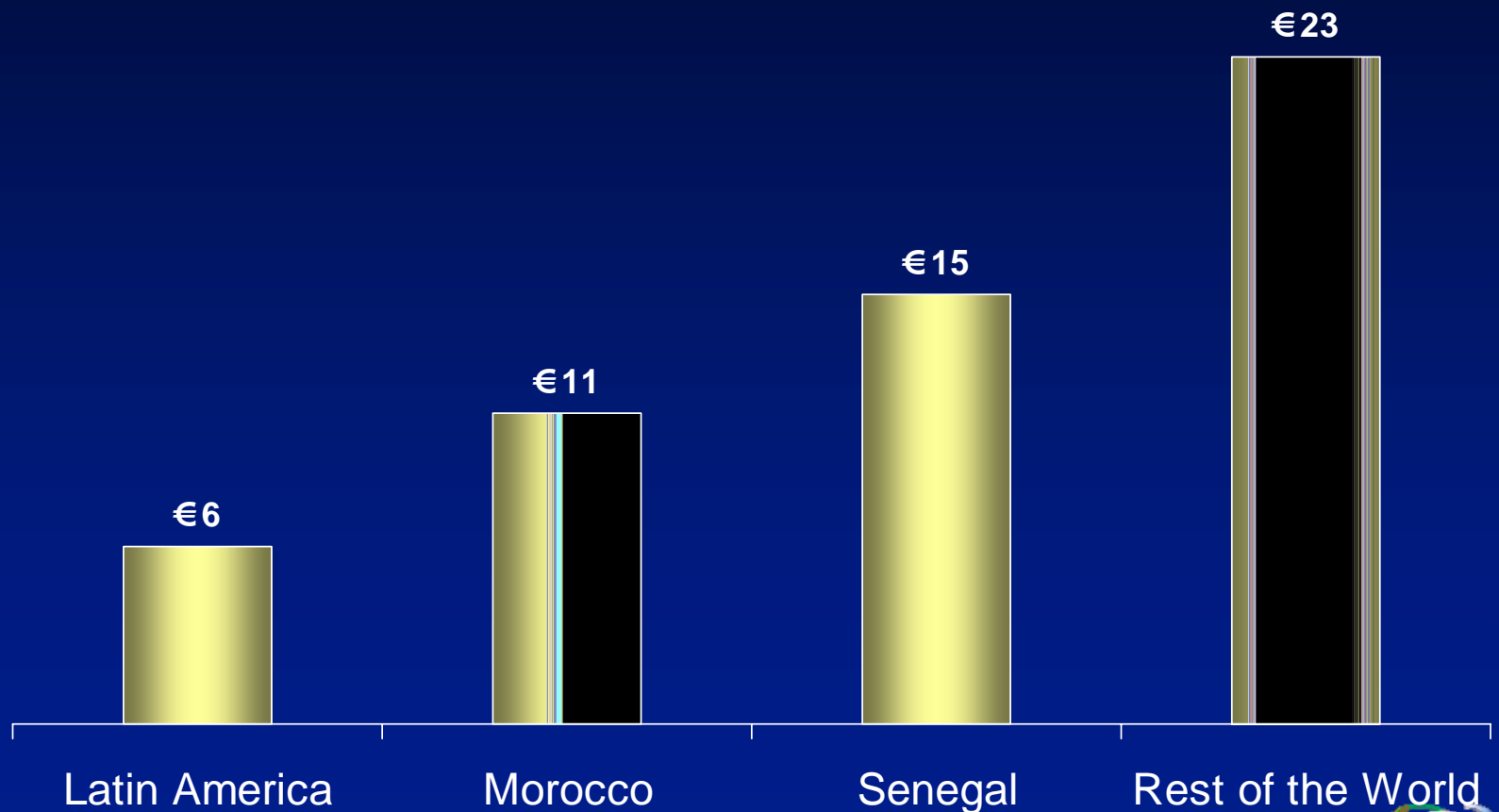
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Top recipients of remittances in UNESCAP countries, 2004



Remittance fees for sending 200 euros through a major MTO, from Turin, June 26, 2006



Outline

1. Remittance trends

2. Leveraging remittances for raising development financing

☐ Sovereign credit rating

☐ Securitization



Borrowing cost rises exponentially as credit rating deteriorates





Remittances can help obtain and improve credit rating

	Remittances (% of GDP, 2004)	Rating excluding remittances	Rating including remittances	Spread saving (basis points)
Lebanon	14	B+	BB-	150
Haiti*	28	CCC	B-	334
Nicaragua*	11	CCC+	B-	209
Uganda*	5	B-	B	161

* Calculated using a model similar to Cantor and Packer (1995), see Ratha and De (2005)



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Predicted rating for Bangladesh: Including remittance income may improve potential ratings by two notches

Model Used	Predicted Ratings w/o Remittance Income	Predicted Ratings with Remittance Income
Moody's	B3(16)	B1 (14)
S&P	B- (16)	B+ (14)
Fitch	B (15)	BB- (13)



List of Comparable Countries in similar rating category

CE Argentina, Brazil, Bolivia, Ecuador, Ghana, Honduras, Indonesia, Jamaica, Lebanon, Madagascar, Pakistan, Turkey?, Uruguay, Venezuela.



Remittance senders

Remittance
payments
(foreign
currency)



Remittance securitization structure

Remittance senders

Remittance payments
(foreign currency)

Issuing bank credits beneficiary's account in

Correspondent banks

Trustee collateral account

Excess cash
(foreign currency)

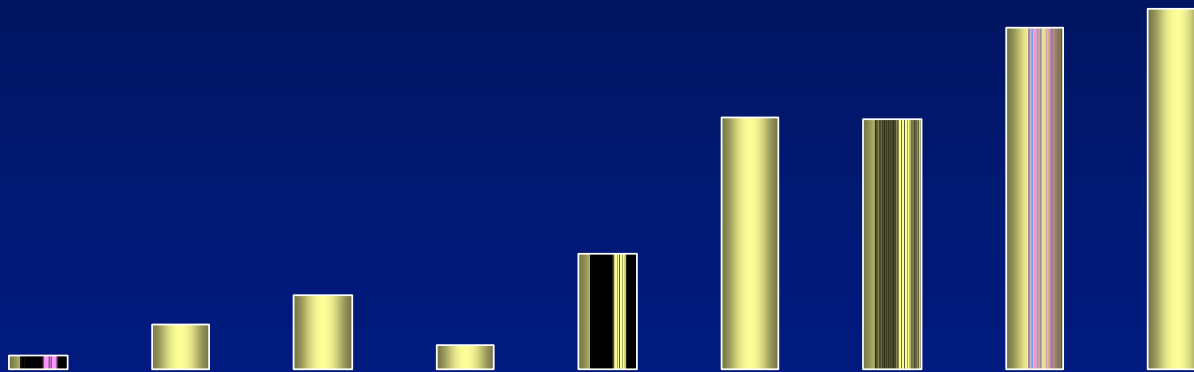
Debt service payment

International investors



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Securitization of remittances has increased in recent years -



Potential - \$ 10-12 billion a year?

Remittances by Region, 2005e (\$ billion)

East Asia and the Pacific	43
Europe and Central Asia	20
Latin America & Caribbean	42
Middle East & North Africa	21
South Asia	32
Sub-Saharan Africa	8
Low-income countries	45
Developing countries	167

Constraints

⌘ Paucity of highly rated entities

⌘ Long lead times

⌘ High fixed costs (legal and others)

⌘ Non-transparent legal structure



Policies

- ☒ On rating: improve methodology, develop local currency rating agencies, improve data, improve macroeconomic management and investment climate

- ☒ On securitization: Master Trust arrangement, and receivable pooling, may alleviate the constraint of high fixed costs

- ☒ IFIs can help
 - Seed money
 - Improving legal framework
 - Counter-party risk assumption as in Unibanco
 - Educate policy makers
 - Improve remittance data

