

Leveraging Remittances for International Capital Market Access in Poor Countries

Dilip Ratha

(with Prabal De, Sanket Mohapatra,
and Suhas Ketkar)

UN-ESCAP session, Turin
June 29, 2006



DEVELOPMENT PROSPECTS

Outline

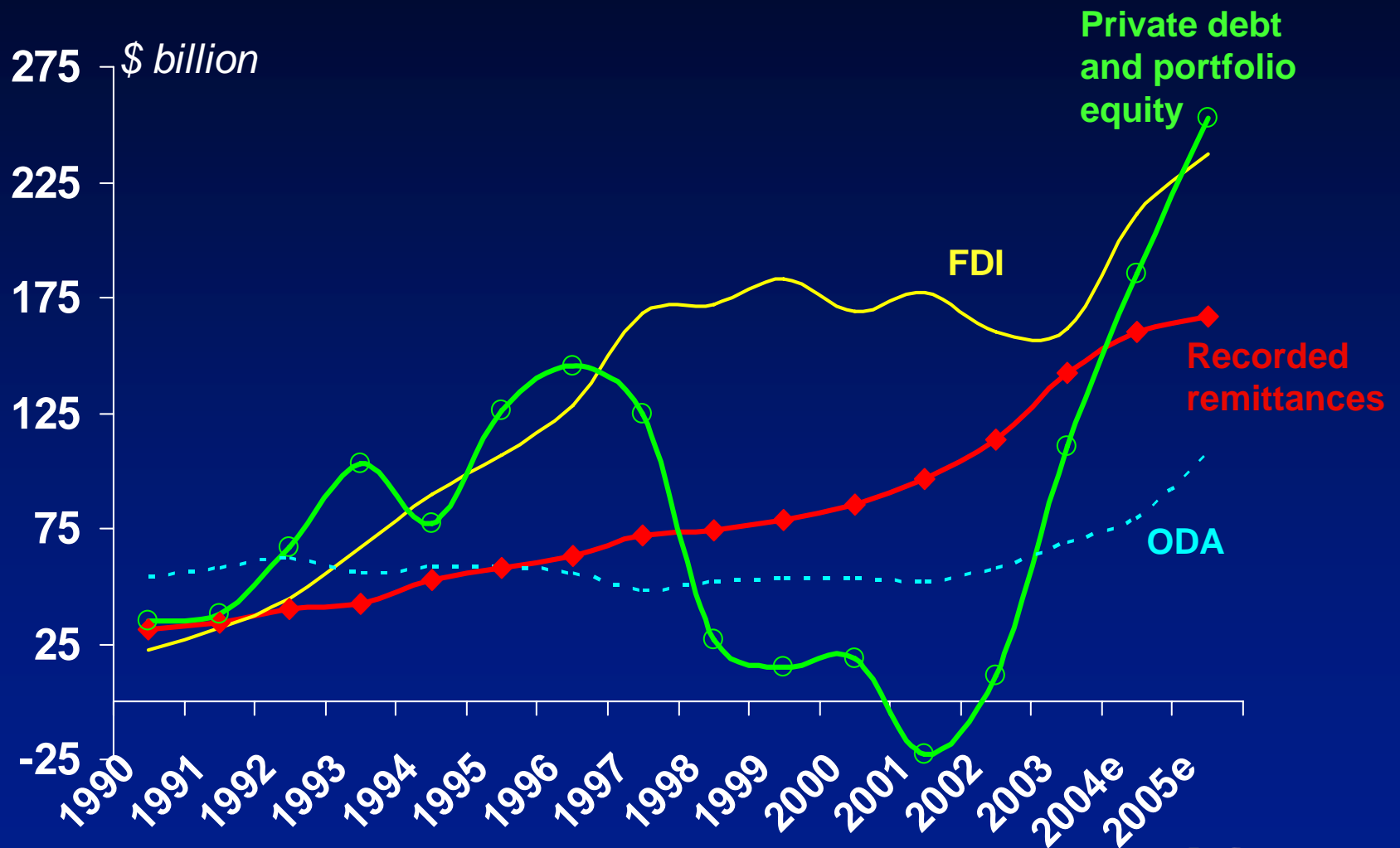
1. Remittance trends

2. Leveraging remittances for raising development financing

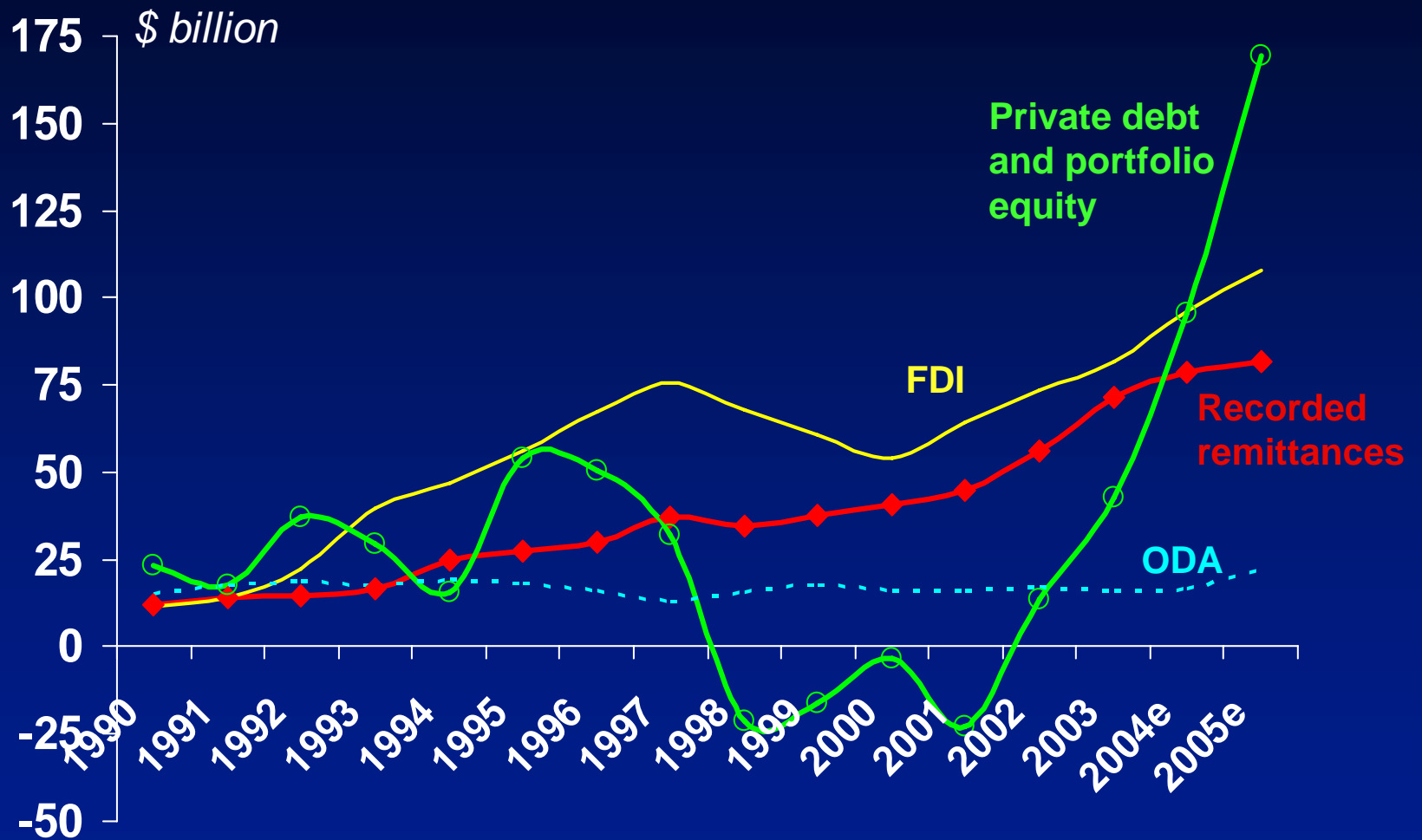
- Sovereign credit rating
- Securitization



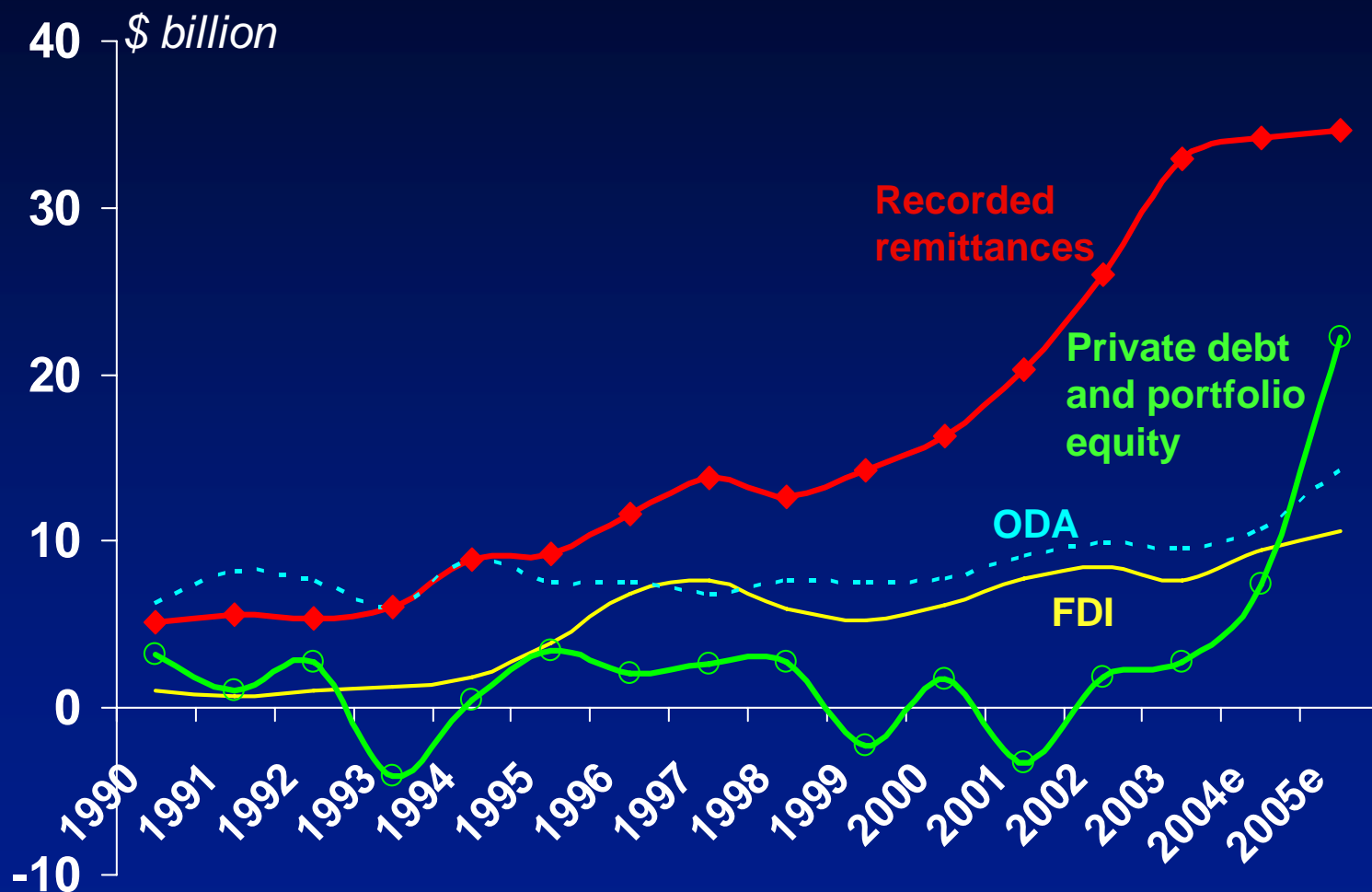
Remittances are large, have continued to increase



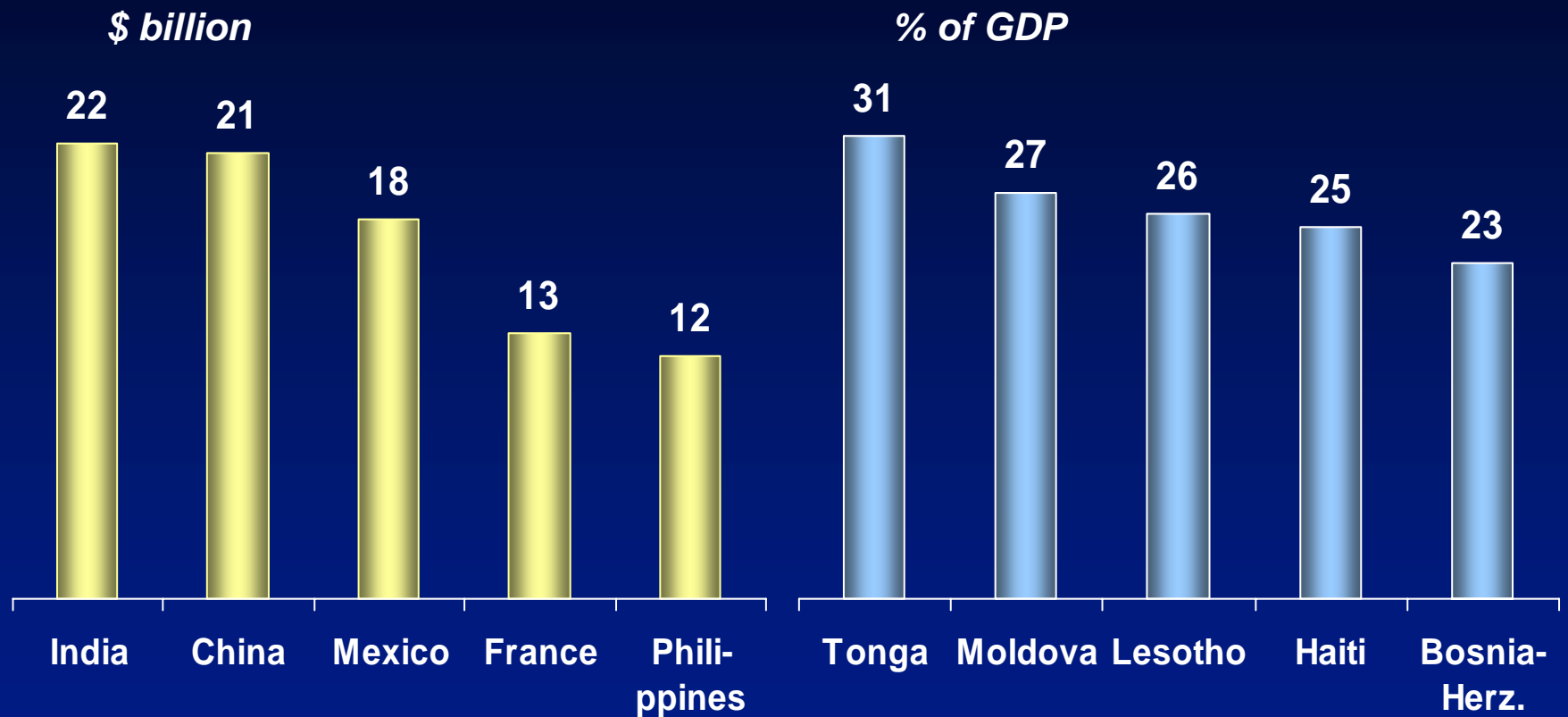
Remittances follow similar trends for ESCAP countries



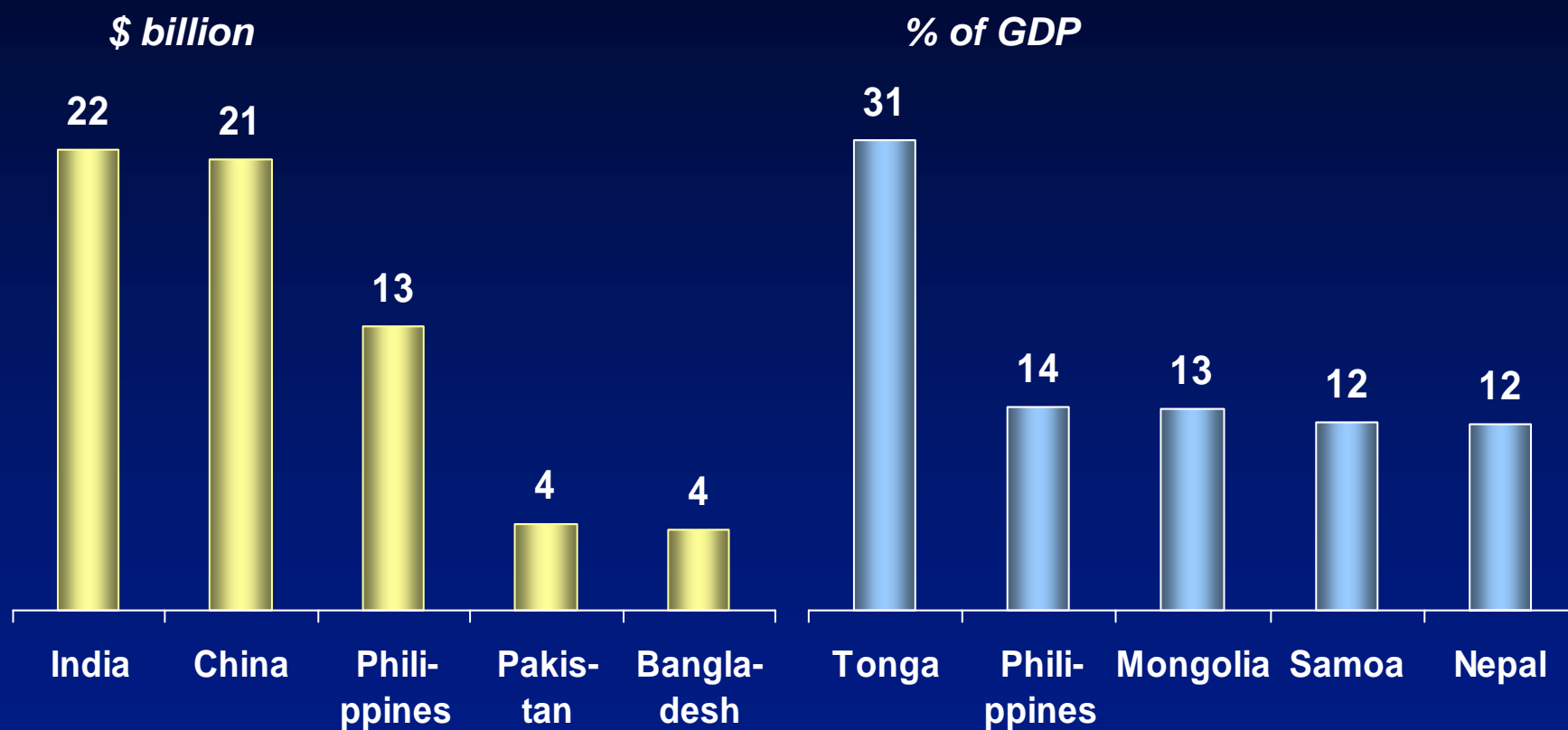
Remittances are especially important for low-income ESCAP members



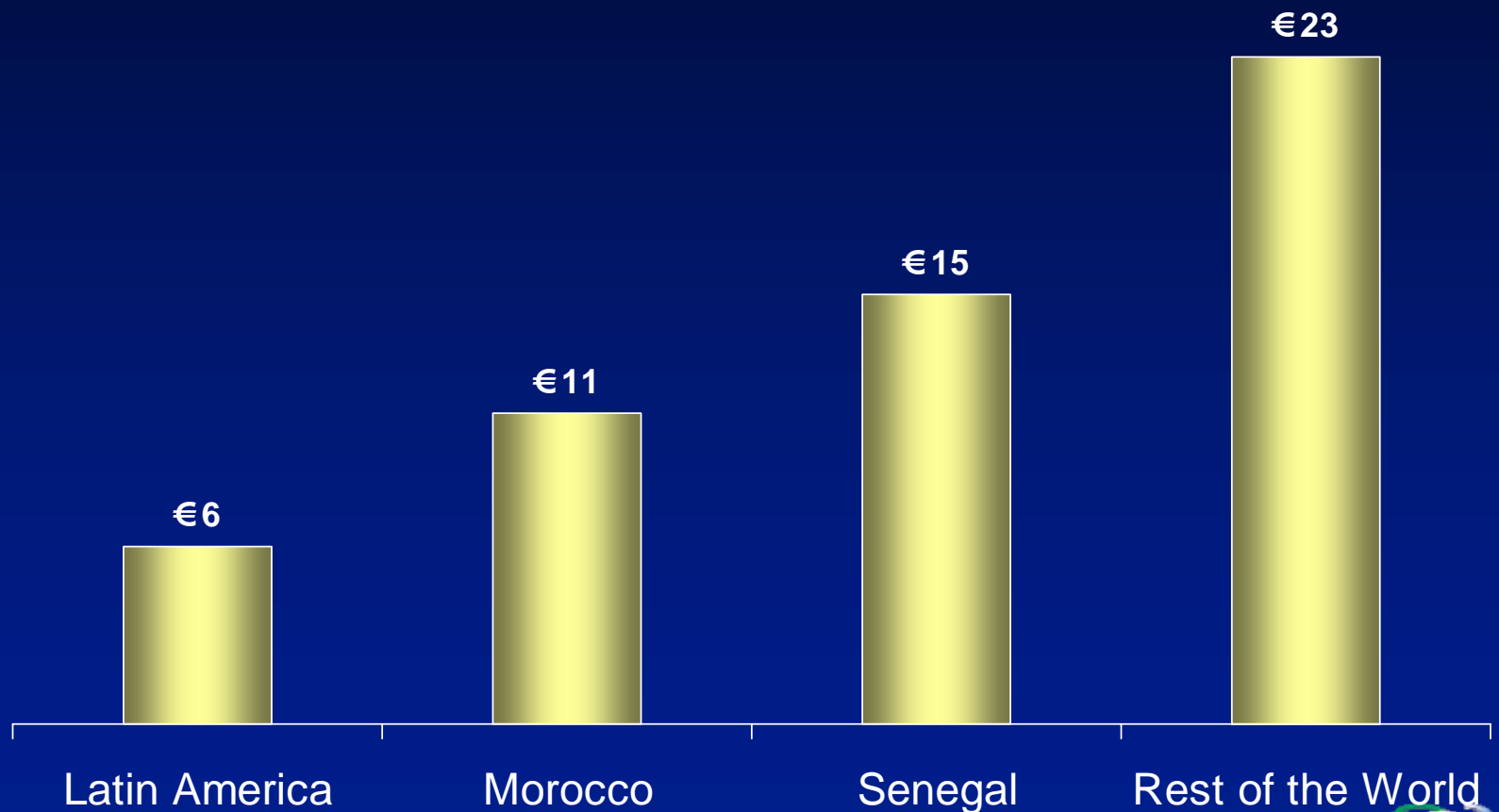
Top recipients of remittances, 2004



Top recipients of remittances in UNESCAP countries, 2004



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



Outline

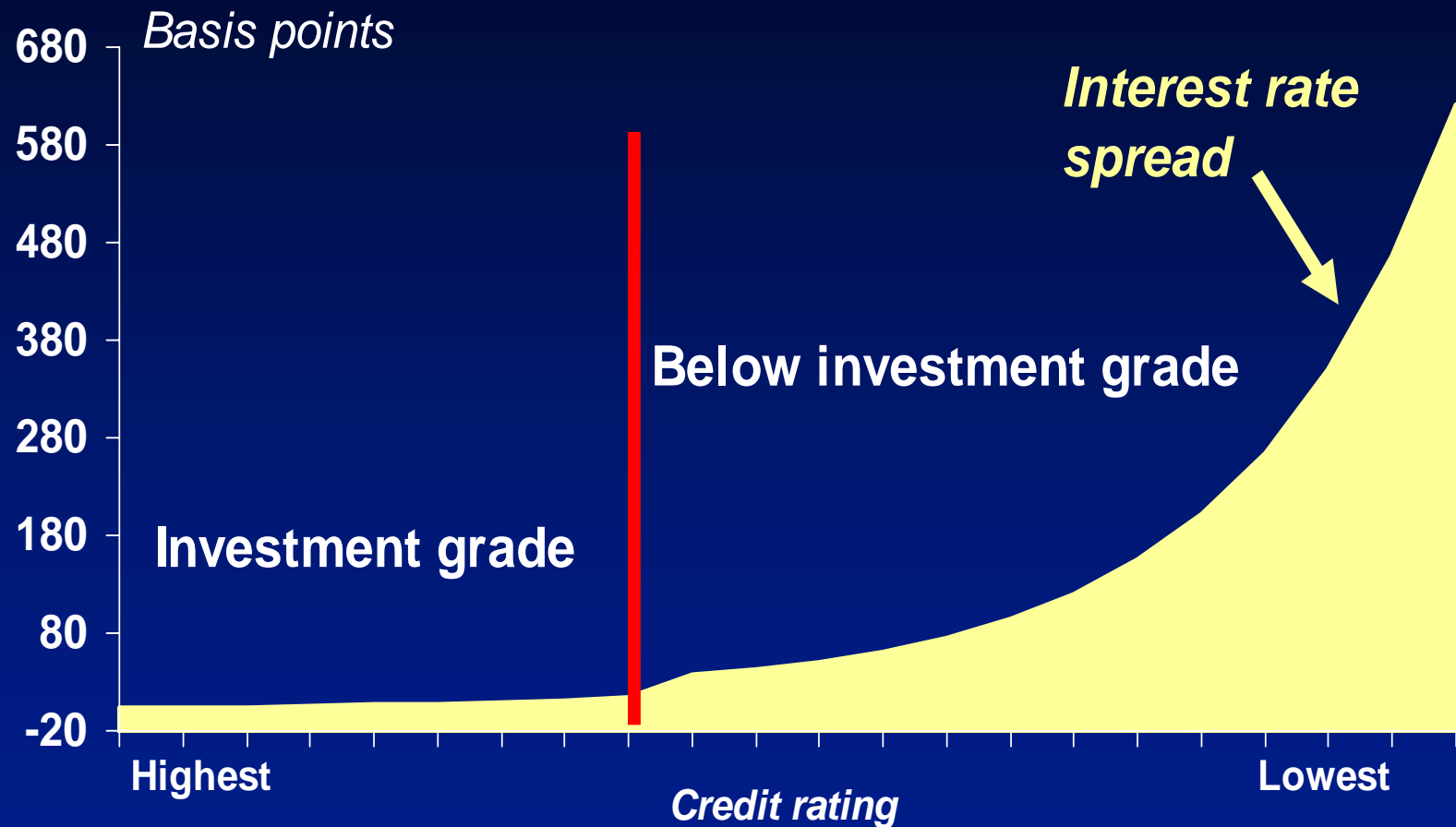
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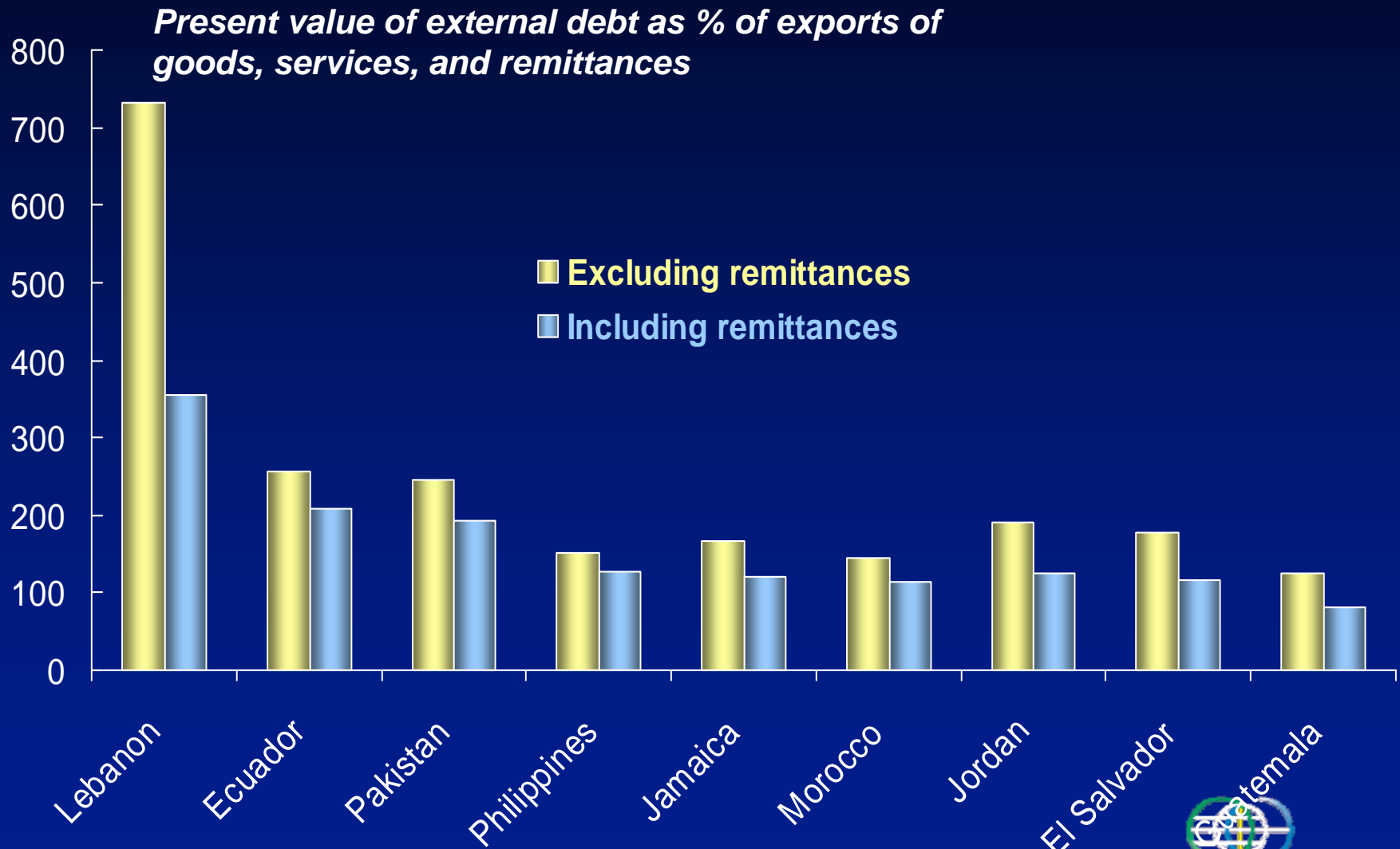
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Borrowing cost rises exponentially as credit rating deteriorates



Remittances improve indebtedness indicators, and hence credit rating



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)



DEVELOPMENT PROSPECTS

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

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

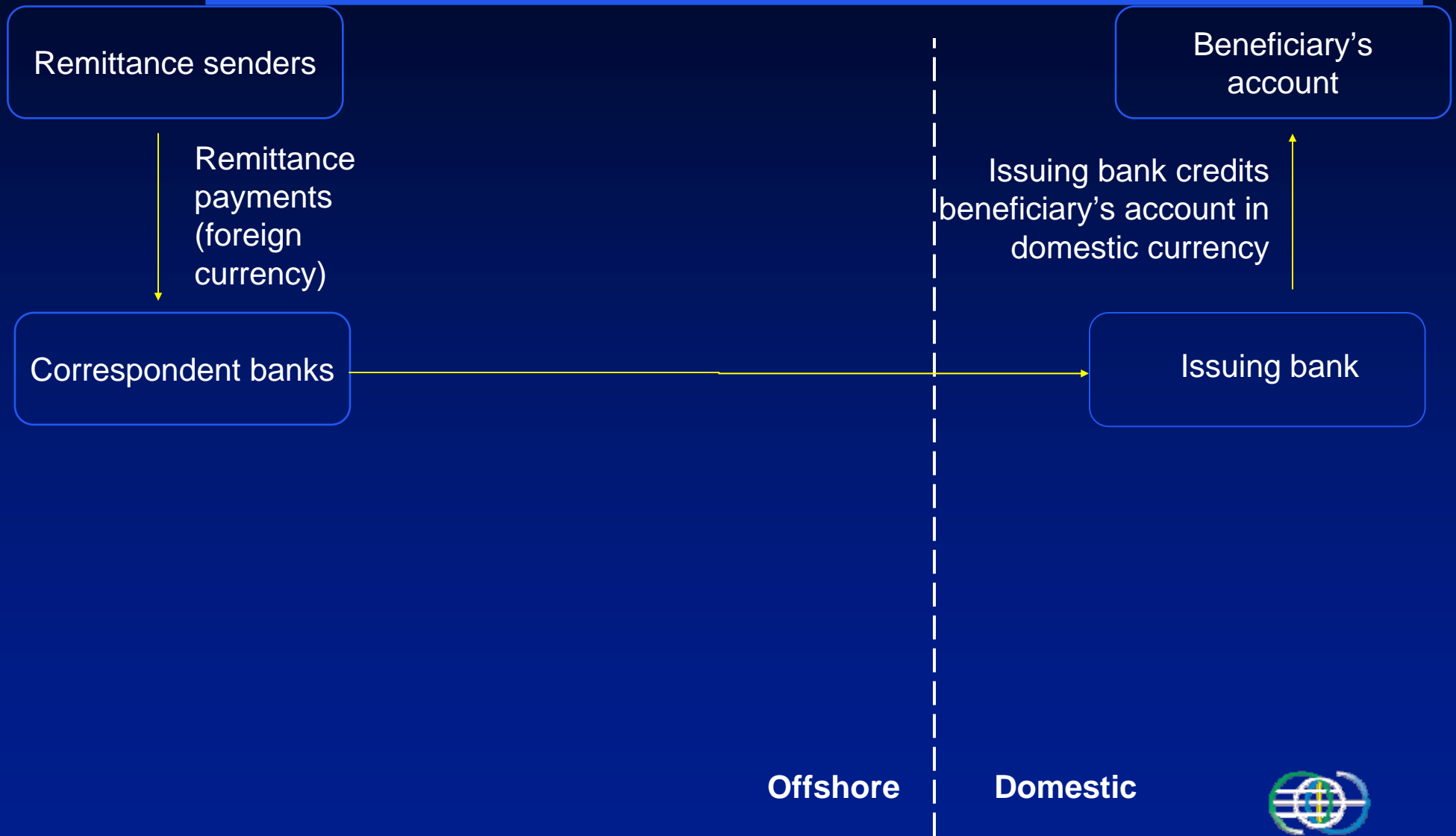


Securitization of future remittances can improve credit rating above investment grade

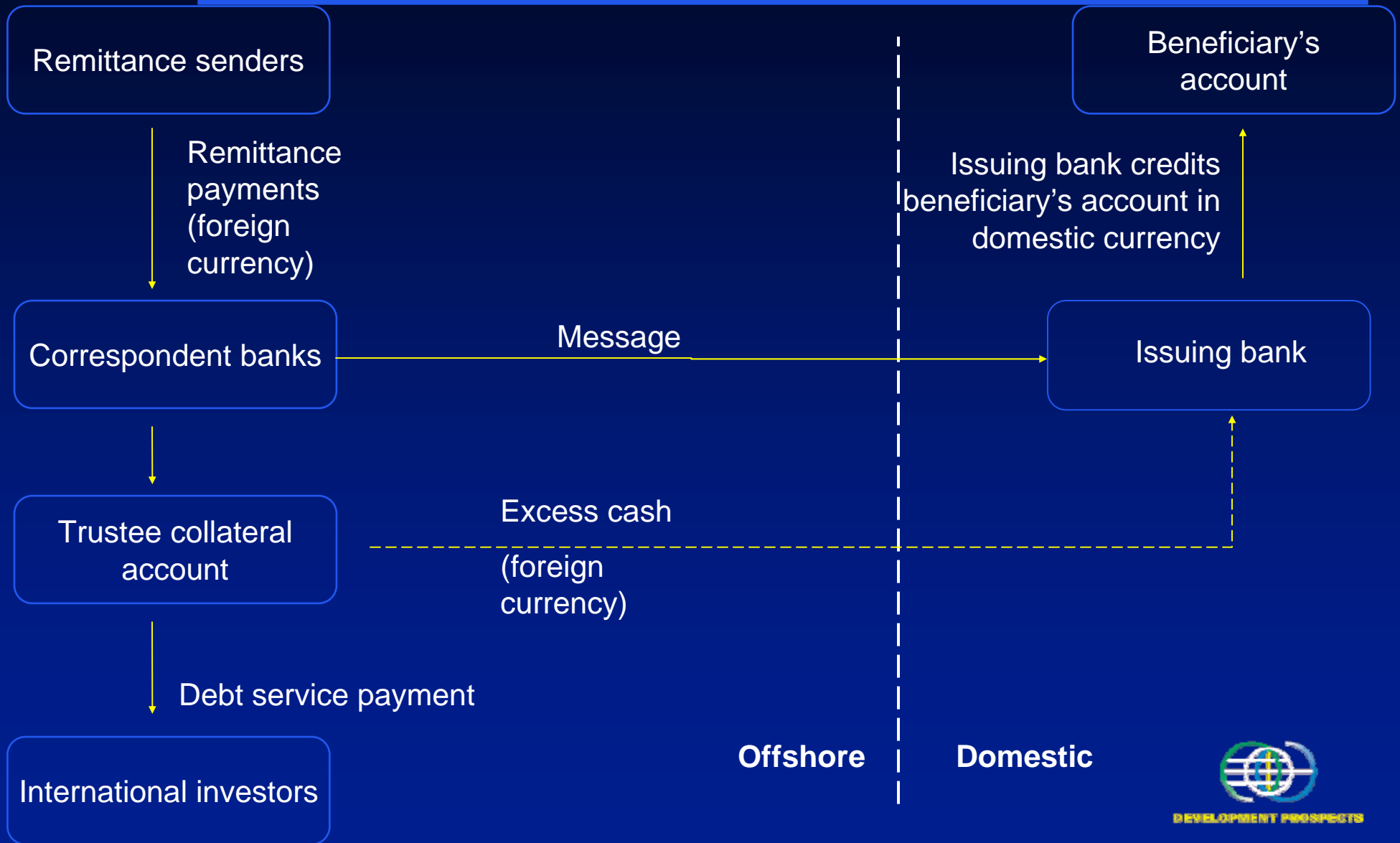
Year	Issuer	Amount (US\$ mn)	Flow type	Transaction rating	Sovereign rating
1998	Banco Cuscatlan	50	Remit.	BBB	BB
2004	Banco Salvadoreño	25	DPRs	BBB	BB+
2002	Banco do Brasil	250	Remit.	BBB+	BB-



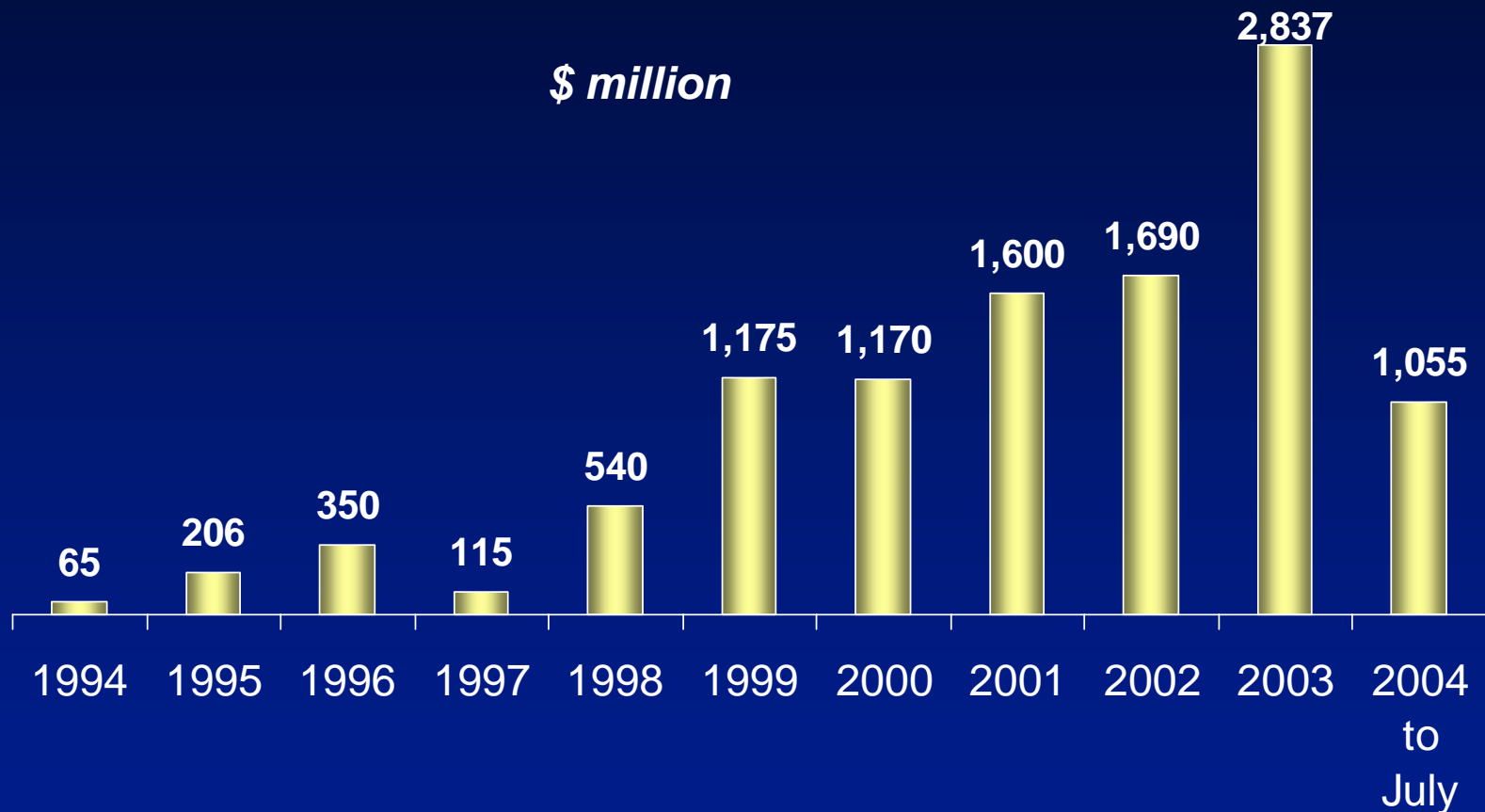
Remittance securitization structure



Remittance securitization structure



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

