



Pathfinder Economic Flash

Securitization of Future Remittances: Low Cost, Long Term Innovative Financing of Development

Sri Lanka now a middle-income country has to operate within a new paradigm, particularly in raising finances for the country's development program. In this context the Pathfinder Foundation wishes to draw the attention of policy makers and the leadership to study the feasibility of raising low cost, long-term financing through a new innovative mechanism, technically known as introducing an innovative, low cost and long-term 'Asset Backed Securitization of Future Flow of Receivables' such as remittances. Securitization is a form of secured borrowing involving the transfer of assets to a Special Purpose Vehicle (SPV) that finances the assets with securities backed by the value of the assets.

The findings of a research on this subject published by the World Bank include that: i) this mechanism provides a way of raising funds particularly for middle-income countries, especially during times of low liquidity and heightened perception of sovereign risk ii) such transactions can be structured to mitigate sovereign risk so that a developing country borrower can access longer-term financing at lower interest rates than unsecured bonds iv) Governments may find this asset class attractive because, when planned and executed ahead of time, it can provide a way of assessing markets during times of liquidity crisis.

Your views and comments on this subject is welcome at www.pathfinderfoundation.org