SENDING MONEY HOME:

REMITTANCE TO LATIN AMERICA AND THE CARIBBEAN

MAY 2004

INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

Remittances by Selected LAC Countries

2003 (US$ millions)

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Introduction

Over the past decade, "globalization" has become the term most often used to describe the increasing integration of the world economy. Countless categories of financial flows, trade in goods and services, and various forms of technology transfer are all very carefully monitored, documented, and reported in great detail.

Business coverage has moved from the back to the front pages of newspapers, and electronic media flash new data instantly. Markets move quickly and dramatically in response, as companies and countries alike try to develop strategies and implement policies to improve their "international competitiveness".

Whatever one's point of view, the process and its consequences cannot be ignored – the globalization of finance, trade, and technology is a reality that must be acknowledged and addressed.

However, there is one aspect of globalization that historically has attracted relatively little attention: the flow of workers to fill jobs in more developed countries, and the subsequent financial flows back to their families in countries of origin. But this is rapidly changing as international organizations, national governments, universities, foundations, and financial institutions, are currently in the process of "discovering remittances".

From a purely economic perspective, this movement of labor across borders constitutes an international labor market that is closely connected to the globalization process. But, the transfer of remittances from immigrant workers back home also seems to produce a fundamentally human connection with a process of delivering desperately needed resources across continents and oceans to more than one hundred million families worldwide.

Nowhere is this more apparent than in Latin America and the Caribbean (LAC) where unemployment has been rising, personal incomes falling, and capital flows (particularly foreign investment) drying up.

Because of the recent growth of remittances to LAC, the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB) began four years ago to commission studies, sponsor conferences, and finance projects in order to help:

- Document the increasing importance of remittances to the Region;
- Lower transaction costs by promoting competition, and encouraging innovative technologies; and;
- Leverage the development impact of remittances, once received.

Remittances, the portion of international migrant workers' earnings sent back to countries of origin, have been a traditional means of financial support to family members remaining in less-developed countries for several generations.

Remittances are the expression of profound emotional bonds between relatives separated by geography and borders, and they are the manifestation of the constant interaction among these relatives regardless of the distances between them. Decisions about where to seek income and how to spend funds are often the results of consultation. Even an individual's decision to migrate frequently emerges from a family consensus about the need to develop a source of remittance income. These are, in fact, highly integrated transnational economic units. Indeed the term "transnational families" is becoming a new focus for international study and research by universities, think tanks, and foundations

Families linked by remittances are quintessential players in the globalization process. Like entrepreneurs who seek out markets, capital and labor around the world, they too cross borders in search of competitive advantage.

By facilitating migration, family networks allow their members to seek economic opportunity wherever it can be found, and digital networks now allow them to instantly convey money, and information across borders. This family process, enacted millions of times over each year, is redrawing the map of the Western Hemisphere – and beyond – with new networks of economic and social interconnection.

Migration trends within LAC reflect notable demographic movements both within the Region, and between the Region and other parts of the world. For example, there are now significant communities of Bolivian migrants in Argentina, Nicaraguans migrants in Costa Rica, Guatemalans in Mexico, Peruvians in Chile, and Haitians in the Dominican Republic. A significant increase in Andean country migration is also expected to continue in the coming years.

The migration of Latin Americans to the European Union is also increasing. Approximately 20% of the registered foreign nationals in Spain (mainly from Ecuador Colombia and Dominican Republic), and close to 10% of migrants in Italy are from the Region. Japan is currently experiencing a "return migration" of a quarter million temporary workers from Brazil, predominantly the direct descendants of Japanese migrants to Brazil in the first half of the 20th century.

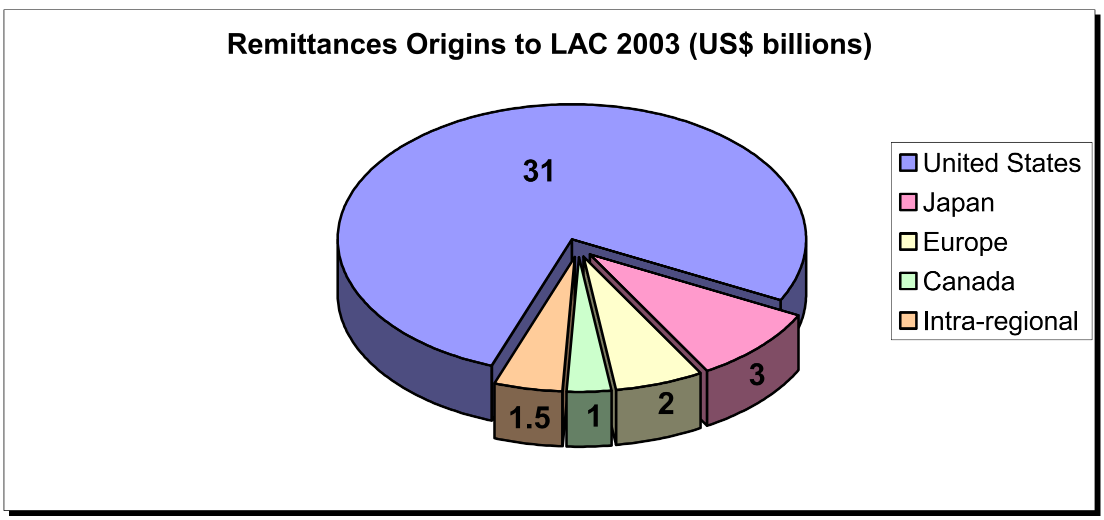
However, for the last two decades the preferred destination for the overwhelming majority of Latin American and Caribbean migrants has been North America, and in particular, the United States. According to the 2000 U.S. Census, approximately 5% of the U.S. population (or some 14.47 million people) emigrated from LAC countries. Recent estimates put LAC born population at about 17 million.

Today's remittance flows to Latin America are an obvious outgrowth of the migration to the United States that has been building momentum for a quarter century. These two phenomena are now closely interconnected and form part of a single channel through which people move North and money moves South. The efficient functioning of this channel is now central to the social and economic stability of many countries throughout the hemisphere. The U.S. economy demonstrated a tremendous appetite for immigrant workers during the 1990s and continues to provide job openings for substantial numbers of new arrivals.

The inevitable impact of these interactions is shaping societies in profound ways which are not yet fully understood or appreciated. It is our collective challenge in the years ahead to create a better environment for transnational families to flourish and to contribute even more to their communities throughout LAC.

As the scale of this migration has increased, the corresponding growth of remittances has become the subject of national and international attention.

The implications for national economies – and the corresponding potential multiplier effect on GDP, consumption and investment – are significant, and the remittance issue is becoming a major financial and development topic throughout the Region.



I. VOLUME OF REMITTANCES

LAC is both the fastest growing and highest volume remittance market in the world. This is no cause for celebration, however. It means that the Region is not producing enough employment to meet the needs of its population.

As migration patterns increase and reporting mechanisms from central Banks improve, remittance flows for the year 2003 reached over US$38 billion from all parts of the world.

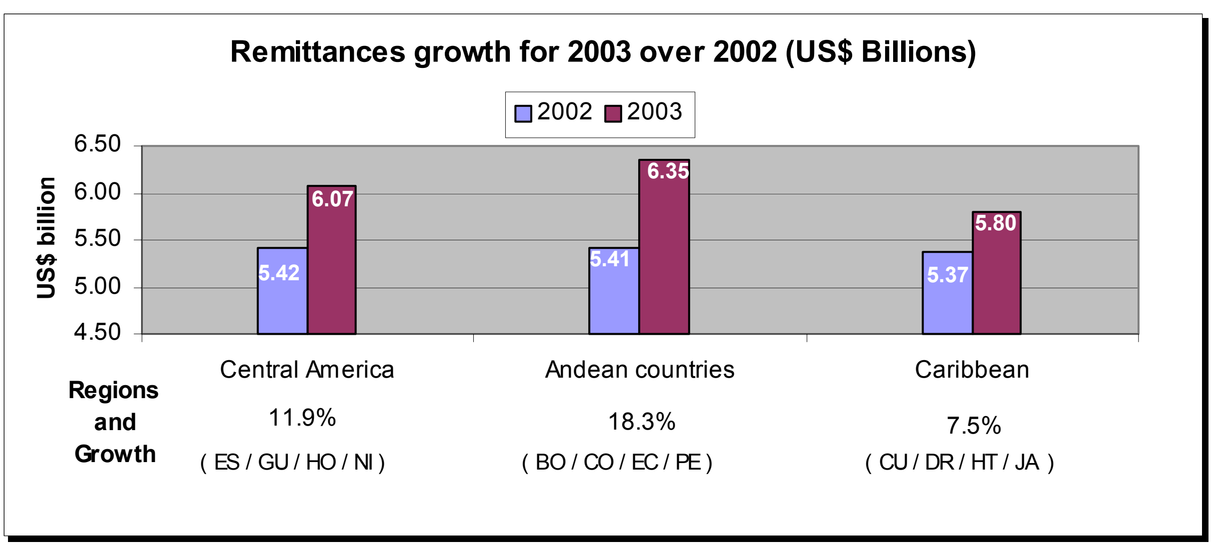
In 2003, remittances flows exceeded all combined Foreign Direct Investment (FDI) and Official Development Assistance (ODA) to the Region. And the volume continues to rise.

Comparative IDB studies of 19 LAC countries show that remittances:

- substantially exceed of Official Development Assistance (ODA) inflows to each country;
- equal more than 150% of the interest paid on the total LAC external debt during the past five years.
- account for at least 10% of gross domestic product (GDP) in six countries: Haiti, Nicaragua, El Salvador, Jamaica, the Dominican Republic, and Guyana.

Individual regions such as Central America, the Caribbean, and Andean countries all report consistent increases in remittances, which reflect the growing integration of labor markets between LAC and the rest of the world.

Figures further underscore the importance of remittance flows for individual countries. Remittances to Mexico, for instance, are more than the country's total tourism revenues, more than two-thirds of the value of petroleum exports, and about 180% of the country's agricultural exports. In the case of El Salvador, the earnings of Salvadorans residing in the United States exceed the entire GDP of the country.



Overall, Jamaica receives the highest volume of remittances per capita, followed by El Salvador and the Dominican Republic.

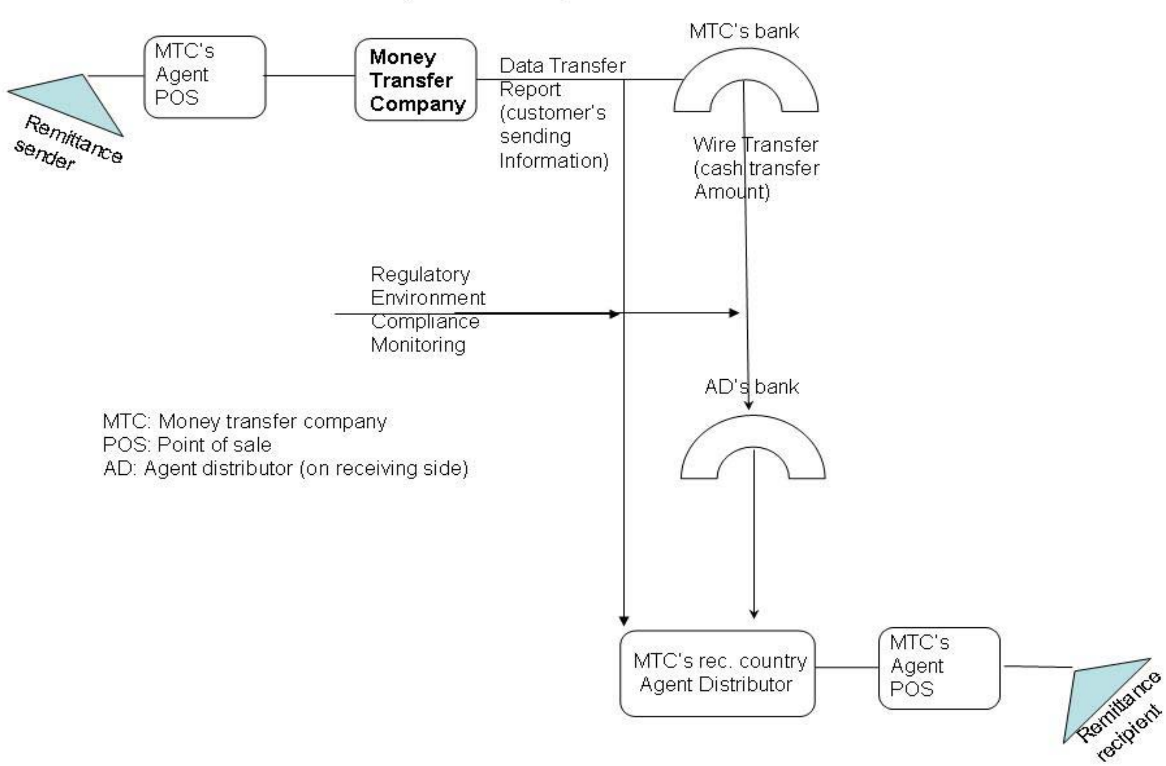
If migration patterns continue at current levels, the importance of remittances to the Region will also grow significantly. At current growth rates, the projected cumulative remittances to Latin America and the Caribbean for the decade (2001-2010) will approach US$ 500 billion

II. Transaction Costs

Before 2000, the average cost of sending remittances to LAC was about 15% of the value of the transaction. In an era of electronic transfer of resources, this reflected a lack of transparency, maturity and competition in the remittance transfer market. It also reflected the unbanked characteristics of both the senders and recipients of remittances.

In 1990, remittances to LAC were largely transmitted through an informal network in which money was hand-delivered by friends and relatives. By 2000, the delivery system had been transformed – remittances were now big business for new money transfers industry, which provided the region with fast, safe, reliable and convenient service -- all at a considerable cost.

International money transfer operation



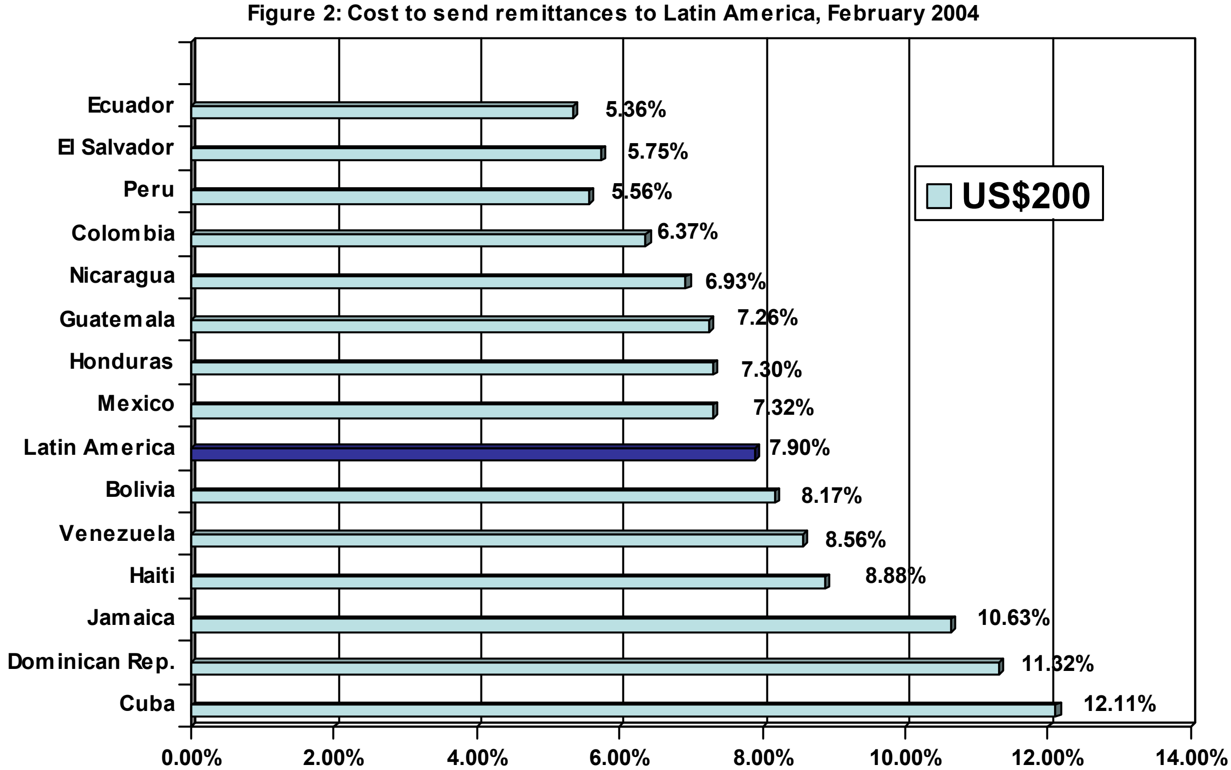
In recent years, the remittance industry has become more transparent and competitive. As a result, transfer costs continue to decline. In February 2004, the average cost was 7.9 percent or $26 for sending $200. This reduced average, when compared with fees five years ago, is mostly due to the fact that charges have decreased with greater competition and use of technology. Remitters to Mexico, El Salvador, and Guatemala charge lower fees than companies sending money to Jamaica and the Dominican Republic where competition is less robust or "controlled". For other countries, like Cuba or Haiti, where market restrictions are even tighter, charges are generally the highest.

Market research also reveals that transaction costs generally drop when the amount sent was greater than the LAC average of US$200.

Competition and costs have come to depend on an array of players that operate among streams of transfers, data and money across countries. Data and money flow from a point of sale into a point of delivery, passing through a series of stages and players (agents, money transfer companies, banks, and distributing agents) that ensure the success of the remission (see previous figure).

Distribution networks require fewer intermediaries, which help reduce charges, while the use of electronic interfaces also lowers costs. Furthermore, the growing attention to the issue, and the consolidation of the industry translates into greater competition for the remitter's business. Consequently, the remitters can now expect better service at a lower cost. A growing number of money transfer companies of all sizes have started to

Figure 2: Cost to send remittances to Latin America, February 2004



employ technology to provide more convenient and efficient service and have become more competitive in the process. Money transfer systems now often use technology to increase their distribution by adding additional agents, increasing the speed of capturing remittance data or to offer cheaper transactions

The interest generated by the increased volume of remittances is also bringing financial institutions such as, commercial banks, credit unions, and microfinance institutions into the remittance market.

For many commercial banks entering this business, the strategy is long-term. Their goal is to build stable account relationships with a growing customer base, and eventually cross-sell other products such as home mortgages and consumer loans. However these institutions continue to have a relatively small and limited reach when compared to the size of the market.

Community banks, credit unions, and microfinance institutionsare also focusing on remittances as a marketing tool. For these institutions, remittances represent a link to the Hispanic customer base that can eventually lead to normalized banking relationships involving other products and services.

Like commercial banks, however, the reach of these local financial institutions is still relatively small, although it is starting to reach important volume in some countries.

In addition, a growing number of depository institutions, both large and small, have simply started offering dual ATM cards with accounts opened in the U.S. The account-holder sends one of the cards to the beneficiary in another country, and money in the account can be accessed at an ATM in that country for the cost of the network fee, usually a few dollars.

Finally, the Federal Reserve Board has recently completed the extension of its Automated Clearing House (ACH) system to Mexico (and eventually to other LAC countries) allowing electronic funds transfer to be accomplished at very low cost, just as they are now to Canada.

All these new process and approaches to this market have the market dramatically where the cost of sending remittances by has been cut by 50%.

Leveraging the Impact of Remittances

In addition to sending remittances, migrant workers provide several other important sources of revenue and economic activity to their home countries.

First, migrants send or bring consumer goods directly to their families and communities. Second, nationals living abroad often visit their home countries, expanding the tourism industry and related economic sectors such as airlines and other forms of transportation. Third, immigrants purchase products from their countries of origin while living abroad thereby stimulating growth in the so-called 'nostalgic industries'. Fourth, immigrants may invest in small businesses in their home country. Finally, many migrants provide financial support to facilitate development and philanthropic initiatives through Home Town Associations (HTAs), which donate cash, goods, and in-kind services to communities in the countries of origin.

In most instances, economic connectivity between migrants and their home country is an ongoing process. Tourism for El Salvador and the Dominican Republic has a strong component of nationals living abroad. In the Dominican Republic, for example, nearly forty percent of tourists who arrive in the country are Dominicans living abroad, predominantly in the United States. From John F. Kennedy airport alone, annual flights to Santo Domingo carry nearly 140,000 people. Another 95,000 travel from Miami. The situation is similar in El Salvador where over forty percent of people arriving into the country are Salvadorans living abroad. *Grupo Taca* now flies 21 times a day from the United States to El Salvador. The same pattern is observed in countries such as Nicaragua and Mexico. At least 20 percent of tourists arriving in Mexico are actually Mexicans residing in the United States. The economic output generated by these flows is significant.

Moreover, migrants have become a new market attracting exports from their home countries. Ethnic imports to the U.S., including items such as local beer, rum, cheese, and other foodstuffs, have gained considerable attention among producers in Central America and the Caribbean. For example, exports to the United States of El Salvadoran beer tripled from one million dollars to $3.3 million between 1999 and 2000. In many cases, home country producers have also established businesses in the United States to cater to the migrant community.

Another important development in the nostalgic trade industries is migrant investment in their home countries to produce the local food products. Investment is not limited to individual enterprises. A recent surveys of migrants residing in the United States indicated that migrant are very interested in investing in the economic development of their country and particularly in their region of origin.

These patterns of continued and increasing economic interaction bring into focus the need to examine the extent to which there may exist an environment to support financial mechanisms for migrants to directly sustain their communities.

But perhaps the most important development objective of remittances could be to deepen financial markets and promote financial intermediation throughout the Western Hemisphere and beyond.

As a way to leverage these flows, the IDB is actively promoting the greater involvement of financial institutions in remittance flows. Only banks, credit unions, and other depository institutions can offer opportunities for savings accounts, checking accounts, and various forms of low-cost credit to LAC immigrants living in developed countries. Only banks, credit unions, and micro-finance institutions in recipient countries can best leverage the economic impact of remittances, once received.

Therefore, the IDB is actively engaged in helping to build a network of financial institutions, including microfinance organizations, in LAC countries which can then link up with formal financial institutions in developed countries to both lower transaction costs and increase the multiplier effect of remittances.

In Mexico, laws and regulations, which previously prohibited financial institutions such as rural credit unions from receiving remittances, have been changed. A network is being formed -- *La Red de la Gente* -- with a goal that about 1,000 financial institutions (both inside and outside that network) will be receiving remittances throughout rural Mexico in the near future.

In Ecuador, *Banco Soladario* is working with a network of Ecuadorian cooperatives and several financial institutions in Spain and Italy to distribute remittances. After just one year, *Banco Soladario* has captured over 10% of the $500 million remittance flow between Spain and Ecuador.

In El Salvador, *FEDECACES* is working with its affiliates to strengthen their capacity to receive international remittances. In 2001, there were 3,000 transfers; for 2002, 52,000; and, for 2003, substantially more than 100,000 were received.

In the past year *Financiera Calpia*, a Salvadoran microfinance institution, recently determined that about one third of its clients were receiving remittances from the U.S. After a concerted marketing campaign, Calpia is now processing thousands of remittances each month, along with other services such as savings accounts, mortgages, and insurance products.

In Bolivia and Argentina, *FIE* has established a microfinance operation in Buenos Aires to provide services to the hundreds of thousands of Bolivians living there, including helping them to send their remittances back home.

The IDB is also building institutional capacity, particularly in rural areas, to organize productive activities through cooperatives and other groups that can be financed by remittances.

But in the end, decisions about how to use remittances will be made by individual families. The ultimate policy objective should be to provide them with more, and better, options to use their hard – earned, resources.

Progress toward reaching financial democracy will present the broadest challenges, but, potentially, the greatest impact. Financial systems throughout Latin America and the Caribbean – like all developing regions – traditionally, do not reach the majority of their populations. Most financial institutions are not interested in serving the "remittance population" and, in turn, most financial institutions are not trusted by these families and the resulting "intermediation gap" is reflected in shallow financial markets which help to perpetuate inequality across the Region, particularly in rural areas.

However, the scale and scope of remittances can be a powerful lever to open up financial systems, mobilize savings, generate small business loans, and multiply development impact for local communities in many other ways.

In developing policies and programs to help increase the multiplier effect of remittances, however, governments, International organizations and other institutions must design their programs with one central principle in mind:

"It's their money".

The inevitable impact of these interactions far transcends financial flows; they are shaping our societies in profound ways, many of which are not yet fully recognized or understood.

It is for this fundamental reason that remittances -- the human face of globalization -- will be an important subject for public policy makers, academic institutions, and everyone else involved in development economics for the foreseeable future.

If these efforts are successful, transnational families will have more money available for their own purposes, and they will be empowered with more options in using those resources. In the coming years, IDB will work with a network of participating stakeholders to help reach two goals by 2010:

- Reduce by 50% the average cost of LAC remittance market transactions by promoting increased competition.
- Increase to 50% the number of families receiving remittances through the financial system.

For the past four years, the Inter-American Development Bank, through its Multilateral Investment Fund (MIF), has convened conferences, commissioned studies and surveys, and financed projects on the volume, transaction cost and the potential development impact of remittances.

In this effort, the IDB has engaged governments at all levels, financial institutions, central banks, NGOs, foundations, universities, think tanks and money transfer companies.

As a result, there is more information and more awareness today about remittances in the LAC Region than in any other part of the world today.

Following is a summary of 15 studies, six surveys, fourteen conferences and several projects financed by the IDB in this process.

I. Studies

Over the last few years numerous governments, financial institutions, international development organizations, and scholars have been recognizing that migrant remittances now constitute a source of vital income to many developing countries and an important form of economic activity among nations. . In an effort to better understand those developments and respond to particular national needs, the IDB conducted a series of studies (see annex A) aimed at collecting information on both remittance sending and receiving throughout the Western Hemisphere.

In order to promote awareness, the MIF also organized a series of round tables and conferences in various LAC countries. These international and national meetings, fourteen to date, generated specific discussions about individual countries, as well as general economic and policy perspectives of the sector.

A. Profiles of Remittance Senders

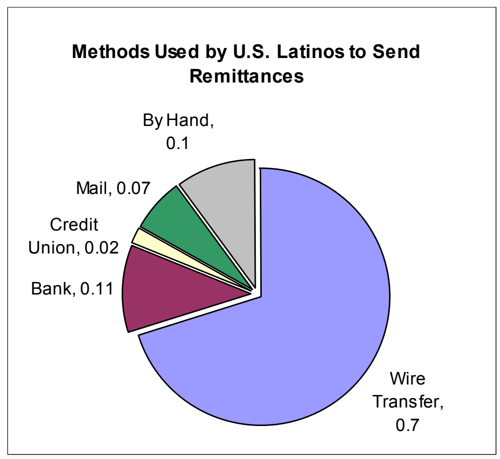
A 2004 MIF study found that over 60 percent of adult, foreign-born Latino people living in the U.S. — send remittances regularly and about another 10 percent send remittances occasionally. Therefore, almost 7 out of every 10 LAC migrant send remittances home every year. Thus remittance senders are not evenly distributed across that population; they are concentrated among more recently arrived immigrants. However, about half of all Latino immigrants who have been in the United States for more than ten years still send remittances to their families on regular basis. Even though the money flow drops off among those with longer tenure, a substantial proportion of immigrants who have been away from home for 20 to 30 years still send money back to their relatives.

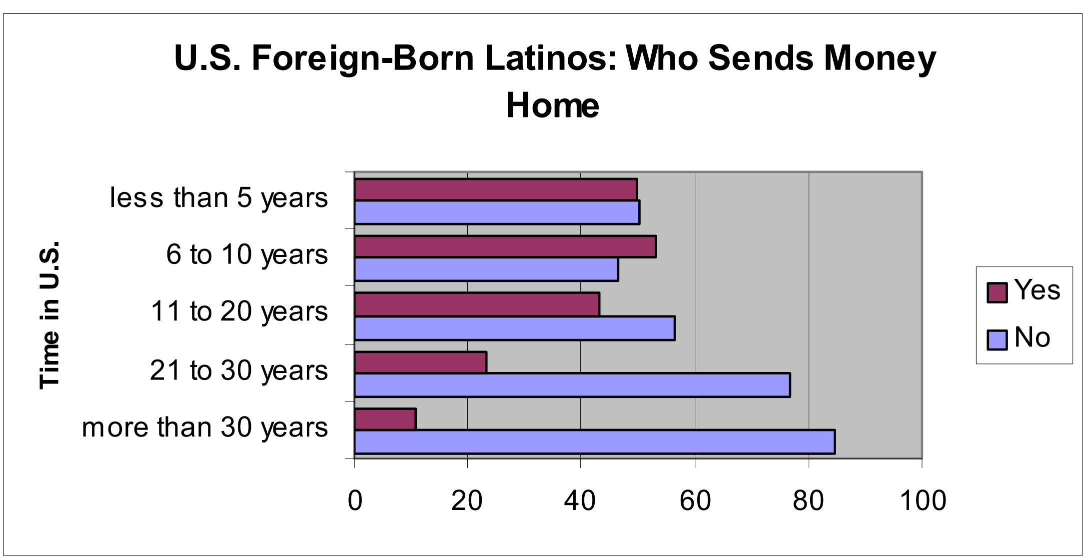
The 2003 MIF – Pew Hispanic Center surveys among remittance receivers confirmed this pattern. In Mexico, for example, respondents whose family members have been abroad for five years or less were nearly twice as likely as those whose relatives had been away longer to report that they received remittances regularly.

Two-thirds of remittance senders dispatch money at least once a month, and the most recently arrived (those in the United States less than five years) are the most frequent remitters with three-quarters sending money at least once a month. Most remitters dispatch between $200 and $300 at a time.

Wire transfer companies such as Western Union or Money Gram remain by far the most common means of dispatching remittances with 70 percent of senders reporting that they use such firms. Several major U.S. banks entered the market in the past two years with new remittance transfer products. Eleven percent of senders reported using banks. A sizeable 17 percent said they used informal means such as the mail or individuals who carry the funds by hand.

However, a significant percentage of senders in the U.S. say that they do not have banks accounts. Providing access to financial institutions for these families is an important priority.





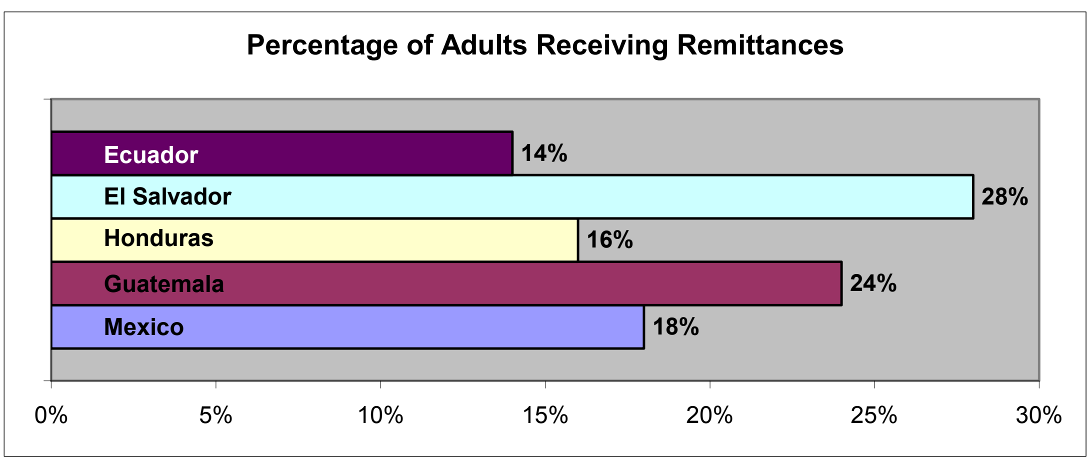
B. Profiles of Remittance Receivers

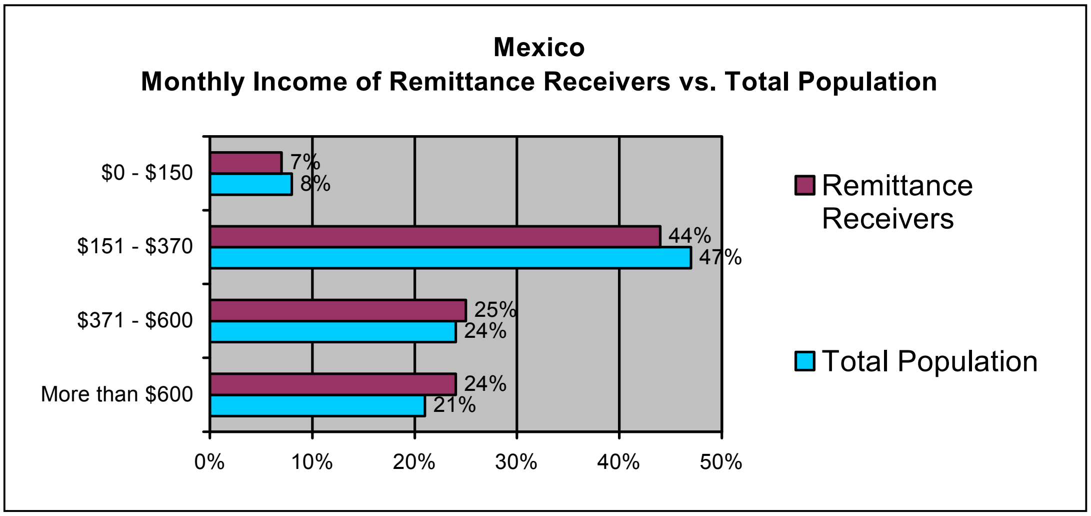
The MIF-PHC studies conducted in five Latin American countries demonstrate that the remittance flow is reaching a broad swath of the population. Extensive nationwide public opinion surveys showed that from a low of 14 percent in Ecuador to a high of 28 percent in El Salvador, significant portions of the adult population reported that they personally received remittances from a family member living abroad.

Moreover, the survey findings should dispel any notions that this phenomenon is limited to the very poor.

In Mexico, for example, the distributions of monthly incomes and educational attainment are virtually the same for remittance receivers as for the population as a whole. In Ecuador, the receivers are highly concentrated among those who are struggling just beyond the bottom rungs of the economic ladder. About half of remittance recipients earn between $250 and $500 a month while that segment makes up a little more than a quarter of the population. Similarly, remittance recipients are over-represented among those who have a high school education.

These findings are important in two regards. Any diminution in remittance flows will adversely affect the fragile midsection of society in such countries, threatening poverty for those who have something, but not a lot, to lose. Whether the cause is price increases, hyperinflation or something else, economic dislocations striking this population segment have contributed to political instability in many cases around the hemisphere. And, the widespread reliance on remittance income poses a new challenge to certain kinds of economic development strategies. Efforts to promote the investment of remittances in micro-enterprises and other forms of job-generating economic activity will need to reach beyond poor and low-skilled populations to reach their maximum impact.



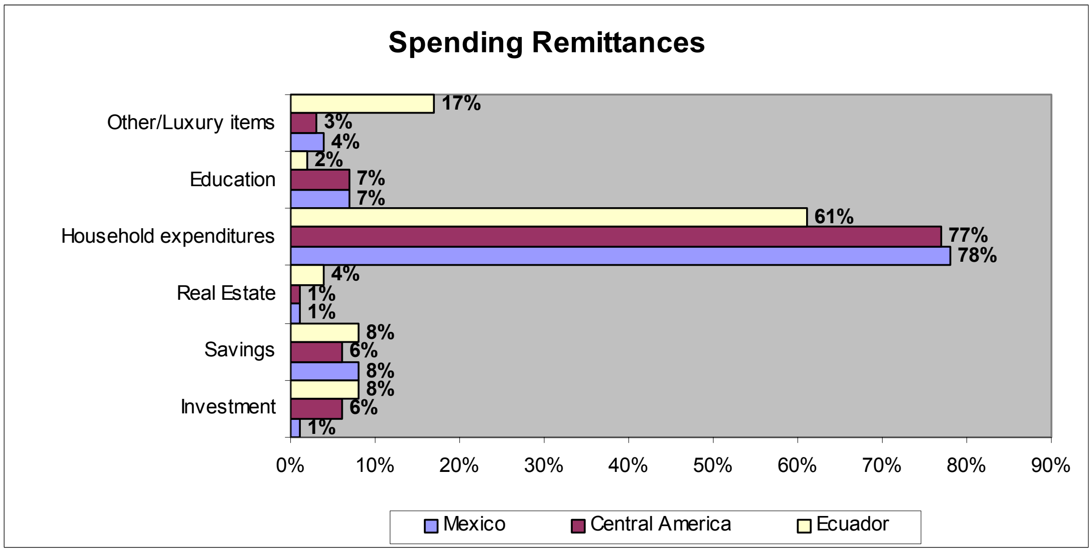


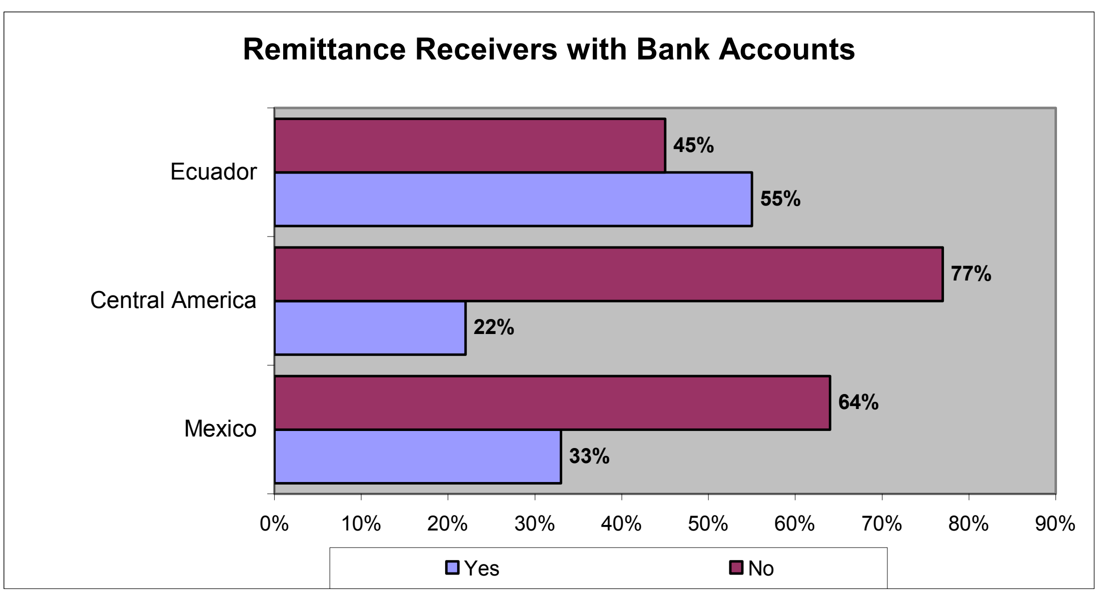
The widening impact of migration and remittance receipts is clearly evident in geographic terms in Mexico.

For many decades five states in Mexico's central highlands—Guanajuato, Jalisco, Michoacán, San Luis Potosí, and Zacatecas—have been the primary source of migrants to the United States and the chief recipients of remittances in return. Those areas still receive a disproportionate share of remittances, 44 percent of the receivers live in those five states compare to only 32 percent of the population. Conversely, however, 56 percent of the remittance receivers live in the rest of the country.

In all of the surveys, clear majorities of remittance receivers said they used the funds to pay for common expenses such as food, housing and utilities. Typically, respondents indicated that three or four people in addition to themselves benefited directly from this household spending.

In Mexico, however, 22 percent of receivers used such services and the share using banks to collect remittances was twice that in the other countries (43 percent vs. 20 percent in Central America and 19 percent in Ecuador). In Mexico, 33 percent of remittance receivers report having bank accounts compared to 22 percent of the general population. In addition, the use of banks appears to reflect an increasing number of financial arrangements by which remittances dispatched from a wire transfer service in the United States are collected at bank branches.


Spending Remittances
Other/Luxury items
Education
Household expenditures
Real Estate
Savings
Investment
17%
3%
4%
2%
7%
7%
61%
77%
78%
4%
1%
1%
8%
6%
8%
8%
6%
1%
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
Mexico
Central America
Ecuador


Remittance Receivers with Bank Accounts
Ecuador
Central America
Mexico
45%
55%
77%
22%
64%
33%
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
Yes
No

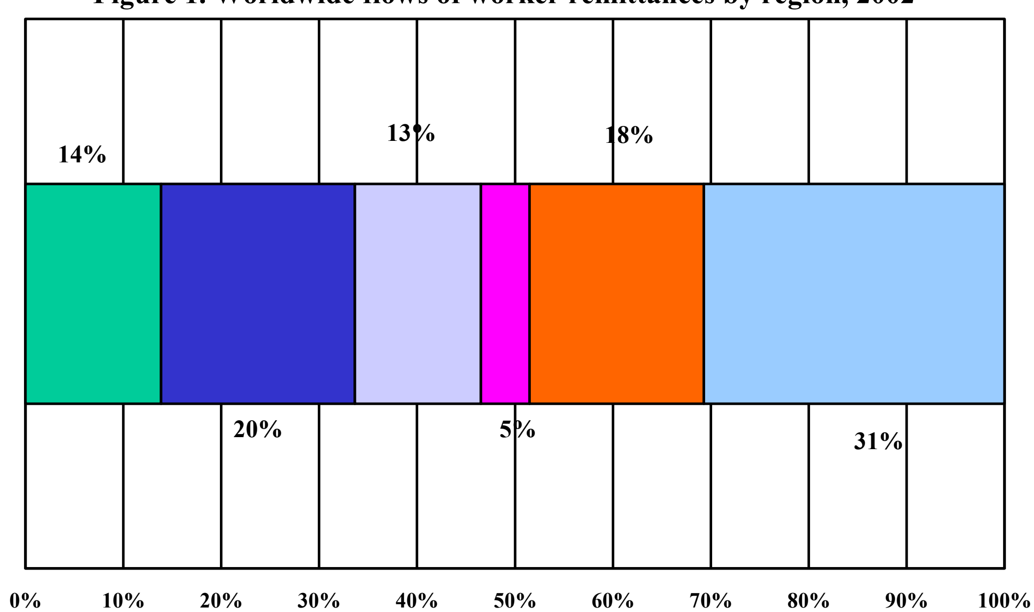
C. International Comparisons

The IDB and the Inter-American Dialogue conducted a study in order to compare LAC remittances with worldwide Remittances. It is estimated that annual worldwide remittances may amount to 180 hundred billion dollars, primarily sent from the industrial to the developing world.

This study looked at the impact of remittances on in Southern Europe, Asia, and Africa, and at the cost of transferring money from six major sending countries. It also compared these costs with sending remittances to Latin America.

Three significant findings were reported. First, Latin America is the region receiving the most remittances. Second, transfer costs are lowest when remittances are sent through regulated financial institutions, such as banks and credit unions. Significantly, when financial institutions offer these services to immigrants, they also sell other products. Third, and finally, the study found that in every case, the average cost of remitting to countries outside Latin America was cheaper than remitting to Latin America, principally because of the greater use of financial institutions. Additionally the use of bank transfers to these countries is also always cheaper than such transfers to Latin America presumably because of the higher level of competition among financial institutions.

Figure 1. Worldwide flows of worker remittances by region, 2002



II. IDB / MIF Projects

To date, the IDB has approved nine projects totaling more than US$ 14 million in technical assistance and will consider at least an additional 6 projects during 2004.

The objectives of individual projects within this remittance program are to: (i) reduce the costs of transferring remittances, (ii) increase the ease and accessibility of remittance trans-mission, (iii) mobilize savings through the increased involvement of formal financial institutions, and to (iv) channel migrant capital into productive investment.

Projects are also assisting both the public and private sector in crafting appropriate mechanisms to improve the develo-pmental impact of remittance flows, and provide more resources to individual recipients.

A. Approved projects

Brazil
Venture Capital Fund for Returning Entrepreneurs from Japan

The objective of the Brazilian Remittance Fund project is to promote entrepreneurial activities by those Brazilian temporary workers overseas – or *dekassegui* -- who desire to start businesses upon their return to Brazil. The project also intends to create a mechanism to tap into the regularly transferred remittance accounts from these Brazilian temporary workers and direct a small portion of the funds to more productive uses.

Brazilian temporary workers are prepared and motivated to start new businesses, using their earned "bootstrap" money and experiences and/or networks established while working in Japan. Due to lack of enough seed capital for start-up or small-size business development, however, they have been unable to follow through on their plans. The target remittances to be tapped are those flowing from Japan to Brazil; which make up a large, constant stream of funds that can be targeted through a financial institution such as *Banco do Brasil*. The project also includes those Brazilians who have temporarily immigrated to countries other than Japan to work, and who would like to return to Brazil to start up businesses.

The creation of a Remittance Fund is currently serving three primary purposes: i) fomenting the development of small businesses; ii) channeling existing savings into productive uses; and iii) supporting returning *dekassegui* in starting new businesses. In addition, the Fund is promoting job creation, entrepreneurship and a socially responsible investment culture. To a lesser extent the project also contributes to local capital market development.

Dominican Republic
Strengthening Distribution Channels for Remittances

Through this loan the IDB promotes: (i) changing traditional remittances distribution channels towards newer, low cost, and more efficient ones through technological innovations; (ii) create a "loyalty brand" between the Dominican communities in the United States which allows lowering the cost of sending remittances through reducing intermediation steps.

The main objective of this loan at market rates is to co-finance the organizational and technological adjustment needed in order for a commercial bank like *Banco Hipotecario Dominicano (BHD)* to massively expand its remittances services. This will allow increasing the banking level of the Dominican population with all the related benefits.

Dominican Republic
Promotion of Financial Services and Remittances for Local Communities

The general objective of this project is to develop products and financial services for remittances recipients in the Credit Cooperative *AIRAC*. This project promotes new international remittances exchange systems based on technology and communications and takes advantage of the current platform that is being implemented. This project not only seeks reducing the cost of transferring remittances but also leveraging the multiplier effect of remittances upon local economies by banking the users of the system and channeling the resulting profits towards the migrants communities of origin. This in order to contribute to a greater extends the development of the productive sector.

Ecuador
Promoting Migrant Remittances from Spain

Through this project, the IDB supported *Banco Solidario*, a leading regulated microfinance institution that entered the remittances market, in financing the technical infrastructure, training and marketing support needed to establish partnership in a joint initiative with the Spanish *Cajas de Ahorro*.

The agreement focused on building jointly a system to channel directly and efficiently the remittances of the approximately 140,000 Ecuadorians that live and work in Spain. This flow represent 40% of the total remittances sent annually to Ecuador and are growing at an extremely fast pace. *Banco Solidario* itself has entered into a partnership agreement with the network of credit cooperatives in Ecuador to distribute these remittances throughout the country.

The fact the both ends are linked through the formal banking system made it possible for *Banco Solidario* and *las Cajas* to process their remittance transaction through a generic transmitting system such as the worldwide recognized "Swift" system which is a secure/coded data transmitting system, initially designed to send reasonable amounts of money between banks. To make this system affordable for the purpose of sending remittances, *las Cajas* and *Banco Solidario* started to use this system to send remittances every other day in order to reach a critical mass of remittances and therefore, lowering the transaction cost considerably. As the amounts of remittances grow bigger, these bulk sending became more frequent and are now made on daily bases.

El Salvador
Strengthening Financial and Remittances Service

The project "Strengthening Financial and Remittances Services" aims at strengthening the network of cooperatives affiliated to the Salvadorian federation of Credit Cooperatives *FEDECACES*. This technical assistance provides training to cooperatives, and networking equipment.

The outcome of the project will allow *FEDECACES* to provide an array of new services to its clients (savings, housing loans...) including the capacity of receiving/sending remittances at the National and International level.

Mexico
Establishing a Network for Remittances to Rural Mexico

It is estimated that around 65% of the Mexican population does not have access to formal and regulated banking institutions. Accordingly, 70% of the remittances flow into marginalized areas of the country without formal financial infrastructure.

The Mexican government has proposed the transformation of the *Patronato del Ahorro Nacional (PAHNAL)* into the *Banco Nacional del Ahorro y Servicios Financieros (BANSEFI)*, which currently works as a second-tier bank for the participants in the Popular Savings and Loans Sector, providing financial services such as risk management, remittances or treasury and trust services

This project is supporting the restructuring called for by the laws governing the low-income savings and loan sector so as to promote the orderly development of its institutions, while at the same time protecting domestic savings and an expansion of the financial services offered to small businesses and microenterprises.

The project has three components**:** (i) technical assistance for 1,000 branches belonging to BANSEFI and four currently regulated *cajas de ahorro* (savings banks) to adapt to the provisions of the new laws; (ii) technological modernization of *BANSEFI***;** and (iii) development of new savings products within *BANSEFI*. A special aim is to create a network to compete for remittances sent by Mexicans living abroad.

Mexico
Leveraging Remittances for Local Economic Development

In partnership with *Nacional Financiera (NAFIN)*, the MIF financed a pilot project in three Mexican States (Zacatecas, Puebla and Guanajuato) to identify productive investments that will attract migrants capital to their communities of origin. The project relies on public-private partnership, and the migrant's Home Town Associations (HTAs) in the US who will play a major role in the definition and dissemination of this investment opportunity.

Through this technical assistance the IBD finance strategic planning for local private investment, and help in the design of development projects co-financed by migrants.

Mexico
Working with Hometown Associations to Promote Investment of Remittances

The general objective of this project is to promote productive activities of mostly agribusiness-related economic groups established primarily by female workforce in the migration-affected rural areas of Mexico, by addressing the lack of business skills, market and information access, and critical seed capital financing. In particular, the project, lead by the *Fundación de Productividad en el Campo (FDPC)*, will focus on selected rural communities in the states of Guerrero, Oaxaca, and Michoacán where such social disintegration phenomenon caused by migration is most noticeable

The Project will leverage migrants´ remittances for productive investments, integrating them into the economic development of their hometowns, creating jobs so as to stabilize the community in the long term. This will be achieved by organizing the remittances of migrants into an effective and accessible source of seed capital for agricultural producers

The Project will enhance the business skills required for producing and marketing agricultural products from rural areas especially to the US market, leveraging the readily accessible market information and marketing *know-how* of migrants in the US. The resources raised and invested by those migrants will stimulate business and employment growth in the difficult regions

Nicaragua
Investment Capital: Financiera Nicaragüense de Desarrollo Sociedad Anónima

The funds disbursed by the MIF will enable *FINDESA, Financiera Nicaragüense de Desarrollo Sociedad Anónima,* to finance approximately 2,600 microenterprises. The resources invested by the MIF will serve as a catalyst for the recruitment of two international private sector partners: *Développement International Desjardins (DID)* of Canada, and *Stichting Hivos-Triodos Fonds*, managed by the *Triodos Bank* of the Netherlands. These two investors will take an active role in corporate governance of the institution and, in the case of *Desjardin*, will act as technical adviser by transferring the methodology needed to mobilize resources and training *FINDESA*'s personnel in the means for attracting deposits.

The technical assistance resources provided by the MIF will co-finance a program to develop new financial services in *FINDESA*, including: saving accounts, attracting deposits and transmitting remittances from Nicaraguan emigrants. In addition, a new banking establishment will be opened in Waslala (Department of Matagalpa), which has no formal financial institution at present. The operation will serve as a model primarily for those institutions that offer microfinancing outside the formal financial system.

Regional Program

Remittances and rural development in LAC support program

The general objective of this line of activity is to promote, through its strategic partnership with *the International Fund for Agricultural Development (IFAD),* sustainable rural financial and economic development by the participation of the migrant communities of the low-income population who are also remittance recipients. This program will be segmented into two types of individual projects: i) development of rural financial services; and ii) development of rural productive investment**.** Crucial to the operation of both types is the capacity building of migrant organizations and their integration with rural poor as full partners in strategies for transnational development. Given the transnational characteristics of the actors involved, the proposed Line of Activity takes into account the importance of sensitization of HTAs, thus will consider granting technical assistance to selected institutions in the migrant recipients countries, in particular USA.

Development of Rural Financial Services: The specific objective under this type of individual projects is to expand access to credit by formal financial institutions for the unbanked through remittances and other financial products and services developed for addressing the needs of the migrants' home community in the rural areas.

Development of Rural Productive Investment: The specific objective of individual projects of this category is to mobilize savings and capital for productive investment, strengthening the income generating capacity of the rural poor.

B. Projects under Development

El Salvador

Productive Investment in SMEs by the Salvadoran Community Abroad

The general objective of this project will be of contributing to the productivity and competitiveness of Salvadoran small and medium-sized enterprises (SMEs) through the promotion of foreign investment from Salvadoran abroad. The specific objective of this initiative will be of developing innovative mechanisms in order to channel resources from the Salvadoran community in the U.S. towards productive investments in Salvadoran SMEs.

Activities within this project will aim at: (i) create links between SMEs seeking investment and potential investors, with special emphasis in identifying these investors within the Salvadoran community living abroad; (ii) provide technical assistance for the implementation of the investment project and the identification of alternative sources of financing to complement capital contribution from local partners; and (iii) follow implementation of the projects to be approved and disseminate of lessons learned for future projects.

The proposed methodology in order to achieve the goal of linking SMEs seeking investment and potential investor is as follows: (i) through the network of Salvadoran banks operating in the U.S., (ii) through community associations of Salvadoran residing in the U.S., and (iii) through the Salvadoran consulates.

Honduras

Remittances and Financial Services to Strengthen Credit Cooperatives

This project specifically aims at strengthening the administrative, financial and management capacity of credit cooperatives affiliated to *FACACH* through the standardization of process and optimization of operational information systems.

The Project will also improve the technological capacity of the systems involved in order to provide remittances services and develop new high quality integrated services at competitive levels. Finally, this initiative will also support process to define standards norms and financial discipline in order to make affiliated cooperatives compliant with the new regulatory framework.

Mexico

Housing Finance Facilitation for Remittance Recipients

The main objective of this project is to increase the efficiency of the Mexican mortgage system and facilitate its expansion to the medium income level population, especially in areas affected by migration, and promote at the same time the housing market.

Within this project, MIF will work with *La Sociedad Hipotecaria Federal (SHF)* in order to promote activities linked with mortgage creation from commercial banks. This will include consumer literacy about this market, as well as, promoting new ways to link migrant remittances from the U.S. with mortgages financing for their families in Mexico.

Peru

Microentreprise Development through Remittance Transfers,

This project, in partnership with *Caja Municipal de Ahorro y Crédito de Arequipa CMAC Arequipa*, aims at promote the economic integration within Peruvian and Bolivian cities along their border. The objective within this initiative is to provide financial services to both unbanked Bolivians and Peruvians that send, hand carry and/or receive remittances across the border. *CMAC* will link with other financial institutions in Bolivia in order to provide a safe, reliable and fast remittances service as well as several financial services such as loans, insurance, housing.

Regional Program

Strengthening Microfinance Institutions through Remittance Transfers

The main objective of this project with *Centro Acción / Acción Internacional* is to link remittances sent from the U.S. with microfinance institutions in LAC. The project will promote the participation of microfinance institutions (MFIs) in the delivery of remittances as a way to reduce transfer costs and increase the access of recipient household to financial services.

The project will forge links between remittance senders and partner MFIs of *Centro ACCION (Centro)* in Haiti (*Sogesol*), Colombia (*Banco Caja Social*), Bolivia (*Bancosol*) and Nicaragua (*FAMA*), and Peru (Mibanco).

This project responds to a growing interest to promote the participation of microfinance institutions in the delivery of remittances as a way to reduce transfer costs and increase the access of recipient household to financial services that can help leverage the economic impact of these funds. Access to savings and credit products tailored to low-income families can help families receiving remittances channel these funds towards future investments, such as housing, education or microenterprises.

The long-term goal of this project is to work towards linking banking services between immigrants in the U.S. and their families back home. In order to achieve this, the project will develop partnership relationships between MFIs in LAC and banks in the U.S. that share the objective of increasing the access to mainstream financial services of low-income immigrant communities and their families.

Regional Program

Regional Local Economic Development.

This US$ 27 million (33% by MIF of the IDB; 33% by IAF; and 33% by Hometown Associations -HTAs-) regional program with the Inter-American Foundation (IAF) aims at forging new partnerships and encourages innovation in supporting income-generating community development projects in transnational communities. In this context, the project will support a range of different options that generate economic development and foster an attractive investment environment in a community. The project will seek to work with civil society groups that function as interlocutors with the HTAs, local communities, private donors and the project. This project will include remittance flows from outside the region as well as intra-regional remittance flows. As a means to provide further financial support, this project will also seek to mobilize the resources of the private corporations, foundations and civil society (international and regional). IAF has received interest and demand for similar assistance. MIF partnership will help create an opportunity for IAF to provide additional support to a broader group of beneficiaries. By partnering with IAF, MIF will be able to extend its reach to smaller projects.

These Initiatives will complement projects under the Remittances and rural development in LAC support program by targeting those projects.

MULTILATERAL INVESTMENT FUND
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MIF REMITTANCE ACTIVITIES

2004 Upcoming Activities

Studies / Surveys

- **Intra-regional Remittances in LAC**
  Institute for the Study of International Migration, Georgetown University
- **Survey of U.S. Remittances Senders: State by State**
  Bendixen & Associates, Miami FL
- **Survey of Remittances Senders: Brazilian Case Study**
  Bendixen & Associates, Miami FL
- **Survey of Remittances Recipients: Colombian Case Study**
  Bendixen & Associates, Miami FL

Events

- **Remittances as a Development Tool: Brazilian Case Study**
  Rio de Janeiro, Brazil May 2004
- **Remittances as a Development Tool: Colombian Case Study**
  Cartagena, Colombia, September 2004
- **Remittances as a Development Tool:**
  Technology trends in the Remittances Market
  Washington D.C., October 2004

2004 Activities

Studies / Surveys

- **Sending Mone4y Home: Regional Map 2003**
  Lima, Peru / March 27th 2004

- **Statement on Remittances to Latin America and the Caribbean**
  Lima, Peru / March 27th 2004

Events

- **Remittances as a Development Tool: Regional Conference 2004**
  Lima, Peru / March 27th 2004

2003 Activities

Studies / Surveys

- **Remittances From Spain to LAC**
  Confederación Española de Cajas de Ahorro, CECA / Spain

- **Worker Remittances: An International Comparison**
  Inter-American Dialogue / Manuel Orozco

- **Improving Access to the U.S. Banking System Among Recent Latin American Immigrants**
  University of Massachusetts at Amherst / Sheila Bair

- **Sending Money Home:**
  An International Comparison of Remittances Markets - Map of 2002
  Inter-American Development Bank / Multilateral Investment Fund

- **Survey of Remittance Recipients in Ecuador**
  Pew Hispanic Center & Bendixen & Associates, Miami, FL

- **Andean Countries Remittance Markets**
  CEPAL, Santiago Chile

- **Microfinance & Remittances**
  Acción International, Cambridge, MA

- **Survey of Remittance Recipients in Central America**
  Pew Hispanic Center & Bendixen & Associates, Miami, FL

- **Survey of Remittance Recipients in Mexico**
  Pew Hispanic Center & Bendixen & Associates, Miami, FL

- **Leveraging Economic Impact of Remittances**
  University of California at Los Angeles (UCLA)

- **Remittance Senders and Receivers: Tracking the Transnational Channels**
  Pew Hispanic Center & Bendixen & Associates, Miami, FL

Events

- **Remittance as an Instrument for Development**
  Washington D.C. / November 24

- **Remittance as an Instrument for Development: The Case of Mexico**
  Mexico City, Mexico / October 28th, 2003

- **Remittance as a Development Tool in Central America: Empowering Microfinance**
  Guatemala City, Guatemala / September 3

- **Remittance as a Development Tool in Ecuador**
  Quito, Ecuador / May 6

- **Regional Conference on Remittances as a Development Tool 2003**
  Washington D.C. / February 28

- **Remittances from Spain to Latin America as a Development Tool**
  Madrid, Spain / January 28

2002 Activities

Studies / Surveys

- **Remittances a Development Tool: A Regional Map of 2001**
  Inter-American Development Bank / Multilateral Investment Fund

- ***Remittances: Markets and Costs***
  Inter-American Dialogue, Washington D.C. / Manuel Orozco

- ***Survey of Remittance Senders: U.S. to Latin America***
  Bendixen & Associates, Miami FL

- **Billions in Motion, Latino Immigrants, Remittances, and Banking**
  Pew Hispanic Center, Washington D.C.

Events

- **Conference on Remittances and the U.S. Financial System**
  Washington D.C. November 22, with the Pew Hispanic Center

- **Seminar on Remittances from Japan to Brazil and Peru**
  Hamamatsu, Japan / November 9

- Round Table on Remittances as a Development Tool in Jamaica
Kingston, Jamaica / September 17

- Regional Conference: Remittances as a Development Tool 2002
Washington D.C. / February 26

- Round Table on Remittances as a Development Tool in the Dominican Republic
Santo Domingo, Dominican Republic / February 13

- Round Table on Remittances as a Development Tool in El Salvador
San Salvador, El Salvador / February 8

2001 Activities

Studies

- Comparative study of LAC Remittances
Inter-American Development Bank / Multilateral Investment Fund

- Evolution of Remittances and their Impact on the Salvadorian Economy
FUSADES

Events

- First Regional Conference on Remittances as a Development Tool
Inter-American Development Bank / May 17

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