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# Leveraging Efforts on Remittances and Financial Intermediation

Manuel Orozco
Rachel Fedewa

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# LEVERAGING EFFORTS ON REMITTANCES AND FINANCIAL INTERMEDIATION

**Manuel Orozco and Rachel Fedewa***

## I. INTRODUCTION

This report seeks to analyze the efforts among financial institutions to leverage the relationship between financial intermediation and remittance transfers. The impact of family remittances has been highlighted in the literature as an important one for development. A development impact is one that addresses issues relating to the distribution of wealth and overall improvements in the quality of people's lives. More recently, policy recommendations have stressed the importance of linking remittances to financial intermediation as a strategy to harness the development impact of such earnings. Financial intermediation of remittance flows, is argued, can provide both senders and recipients with access to asset building, which -as with education and health- is essential to achieving development (Orozco and Hamilton [2005]; Robinson [2004]).

In practical terms, the notion that financial intermediation of remittances can lead to development is rooted in the concept that money transferred through financial institutions paves the way for senders and recipients to gain access to other financial products and services, which they might not have otherwise. The provision of remittance transfer services gives banks a vehicle for reaching out to unbanked recipients -or recipients with limited financial intermediation- and an ensuing banking relationship potentially affords recipients the ability to establish credit histories, to take advantage of health and educational savings plans, among other investments. Intermediaries might even develop products and services that specifically cater to remittance senders and/or recipients, as will be demonstrated here.

Indeed, a recent cross-country analysis found that in countries with better developed financial intermediaries, the income earnings of the poor improve even more so than the non-poor, demonstrating that financial intermediaries play an important role in reducing income inequalities (Beck, Demirgüç-Kunt and Levine [2004]). Indeed, poverty and development in Latin American is connected to low penetration and outreach of financial institutions. For example, roughly a third of Mexicans, 20% of Guatemalans and 10% of Nicaraguans have bank accounts. There are several reasons explaining the low penetration of financial intermediaries in Latin America, including lack of risk among financial institutions to work with the average citizen, mistrust of the banking system, limited knowledge of how banks function and of the asset building opportunities they can offer, and so on.

Although addressing the concerns related to market failures is beyond the scope of this paper, what is intended here is to highlight some current and ongoing efforts by financial institutions to

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insert themselves into the remittance transfer marketplace in receiving communities, and in doing so, augment the ranks of the banked in Latin America.

This paper attempts to identify emergent trends in the remittance and finance world that potentially point to a deepening connection between remittances and development *vis-à-vis* financial intermediation. Are banking and non-banking financial institutions participating in remittance transfers while offering other financial services to recipients? What is the magnitude of such a trend? Furthermore, to what extent and how is the international donor community involved in harnessing remittances for development?

This paper is a case study analysis of nine financial institutions, and focusing on three basic indicators: institutional ability to *provide remittance transfers* to its clients and community, to *offer low cost remittance services*, and to *compliment transfer services with other financial services*. One important finding resulting from the analysis suggests that the scope of an institution's distribution -of remittance transfers and complimentary financial services- depends on its institutional resources and existing presence in a community. Moreover, when looking at low cost transaction costs, it seems that such is not a priority. However, to a certain degree most institutions do offer other financial services such as savings accounts, though the majority does not have a systematic strategy for marketing these financial products to recipients.

The second section of the paper looks at the range of policy issues that link remittances to development. Although this is not an exhaustive list, it highlights some of the most relevant aspects. The third and fourth sections analyse these nine institutions by looking at the indicators, which are outlined in the paper. This paper also reviews what the donor community is doing in this area. Many donors stress the importance of leveraging remittances for development; however, there are only a few institutions investing in this field.

The paper concludes that in order to improve the capacity of financial institutions to work in this field it is important to pay attention to technical assistance to small savings and credit institutions about strengthening their marketing and product design capacity.

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## II. POLICY ISSUES ON REMITTANCES

Within the context of the changing dynamics and realities in Latin America and the Caribbean, there are important development alternatives to consider. Remittances[1] pose a very important financial stream in rural areas of Latin America. The Dominican Republic, El Salvador, Guatemala, Guyana, Haiti, Mexico and Nicaragua are all countries where at least one quarter of remittances goes to their rural areas. If adequately addressed, remittances can become a major form of foreign savings energizing an economy.

The financial activities of migrants in the form of remittances have a more complex impact than what is generally perceived. It is important to recognize, however, that while remittances primarily go to the poor, remittances alone are not a solution to the structural constraints of poverty. In many and perhaps most cases, remittances provide a temporary relief to a families' poverty, but seldom provide a permanent avenue into financial security. To do this, structural reforms regarding inequality in Latin America as well as specific policies for integration and financial democracy for sending and receiving homes are necessary (Orozco [2004a]). Thus, the various relationships that immigrant communities have with their home country demand strategies that have a direct impact on issues relating to reducing transaction costs, leveraging the capital potential of remittances through banking and financing, promoting tourism, nostalgic trade, and investment, and establishing a state policy that attends to a country's diasporas. A description of policy issue and opportunities are as follows:

### A. Diaspora Outreach Policy

An outreach policy aimed at the community residing abroad is key to any migrant-sending country's economic strategy. This should be the first step in addressing the linkages with the immigrant community living abroad.

### B. Cost Reduction

The transmission costs of remittance sending -fees incurred through the use of intermediaries- continue to be a significant concern to immigrants, development agencies, and other actors involved in the process. Sending money to home countries entails costs of between 4 and 10% of the funds sent. However, as options for reducing costs -such as the formation of strategic alliances between money transfer companies and banks, and between banks in Latin America and North America, and the use of debit card technologies- permit more direct transfers, money transmissions are becoming less expensive.

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[1] Our understanding of remittances refers to the sending of migrant worker earnings to families. It does exclude any notion of "collective" flows, or immigrant capital investment.

## C. Banking the Unbanked

Many people in remittance-recipient societies lack access to the formal banking system: for example, in El Salvador, only two in ten have access to bank accounts. The effects of being unbanked include a higher susceptibility to greater transaction costs and the lack of the opportunity to establish credit records and obtain other benefits from financial institutions. Remittances are an alternative source of funding in the absence of banking systems and provide capital to recipients for different forms of investment, insurance and precautionary savings. Micro-finance institutions and credit unions in remittance-recipient countries demonstrate the potential to respond to this growing demand for financial transactions.

## D. Investment and Micro-enterprise Incentives

Studies have shown that, on average, around 10% of remittances received are saved and invested, and a percentage of people are in a position to use their money for an enterprising activity. Both private sector and development players can insert themselves as credit partners for these potential investors. The effect is the provision of credit, supported by remittances, in local communities that lack the presence of active markets and production networks. Tying remittances to micro-lending has a development potential to enable the enhancement of local markets.

## E. Hometown Associations as Agents of Development

The philanthropic activities of Hometown Associations as Agents (HTAs) have a development potential. Some of the infrastructure and economic development work performed by these associations represents an opportunity for development agents to partner in local development. Governments can work with international organizations and HTAs to jointly figure income generation schemes for their local communities.

## F. Tourism

Although a significant percentage of immigrants visit their home countries as tourists, there is still no tourism policy aimed at diasporas. The lack of such policy reflects not only Government neglect but also a lost opportunity. Governments and the private sector can participate in joint ventures to offer their diasporas tour packages to visit traditional and non-traditional sites to rediscover and discover their home countries. They can also work out investment alliances with diasporas interested in partnering to establish joint ventures relating to tourism.

## G. Nostalgic Trade

There is a significant demand for nostalgic goods, and many of the small businesses created by diasporas rely on the importation of such goods. Governments, development agencies and the private sector, particularly local artisan businesses, find a natural opportunity to enhance their productive and marketing skills by locating their products with small ethnic businesses in North America, where a demand exists.

Some initiatives have been pursued in countries like Ecuador, El Salvador, Guatemala, Guyana, Jamaica and Mexico, either by governments or private organizations, and typically as a result of international collaboration between all the players involved. These examples demonstrate progress and success in innovative approaches to cross-marketing remittance transfer services with other financial products. Perhaps even more importantly, these initiatives lay the foundation for mechanisms that can be applied elsewhere, particularly in communities where such a range of financial alternatives has never before been available.

This report looks at a range of initiatives taking place as they relate to remittance transfer services. The lessons learned here were gathered through data analysis and interviews with key representatives of the organizations profiled. The selection of institutions is based on a review of more than forty financial institutions in Latin America offering remittance transfers. The choice of these institutions focused on their size, location and interest in the remittance market.

## III. REMITTANCES AND FINANCIAL INTERMEDIATION

In 2006, Latin America received more than US$ 60 billion in remittances from the US, Japan, Europe, Canada and Latin America itself. The transmission costs of remittance sending -fees incurred through the use of intermediaries- continue to be a significant concern to immigrants, development agencies, and other actors involved in the process. Sending money to home countries entails costs of between 4 and 10% of the funds sent (Orozco [2003]). However, as options for reducing costs -such as the formation of strategic alliances between money transfer companies and banks, and between banks in Latin America and North America, and the use of debit card technologies- permit more direct transfers, money transmissions are becoming less expensive. (Orozco [2006]).

Concurrent to concerns about high transfer costs is the fact that many people in remittance-recipient societies lack access to the formal banking system: For example, in El Salvador, only two in ten have access to bank accounts. The effects of being unbanked include a higher susceptibility to greater transaction costs and the lack of an opportunity to establish credit records and obtain other benefits from financial institutions. Remittances are an alternative source of funding in the absence of banking systems and provide capital to recipients for different forms of investment, insurance and precautionary savings.

**TABLE 1**
**PEOPLE WITH BANK ACCOUNTS**
(remittance recipients and non-recipients)

| Country | Dom. Rep. | Jamaica | Colombia | Ecuador | Bolivia |
|---|---|---|---|---|---|
| Recipient | 66% | 65% | 52% | 46% | 44% |
| Non-recipient | 58% | 60% | 45% | 34% | 35% |

| Country | Guatemala | Peru | Honduras | El Salvador | Mexico | Nicaragua |
|---|---|---|---|---|---|---|
| Recipient | 41% | 37% | 34% | 31% | 29% | 10% |
| Non-recipient | 17% | 35% | 16% | 19% | 28% | 10% |

Source: *Receptores de Remesas en México* (October, 2003); *Receptores de remesas en Guatemala, El Salvador y Honduras* (September, 2003); *Receptores de Remesas en Ecuador* (May, 2003). Washington, DC: MIF-IDB. *Receptores de remesas en República Dominicana* (September, 2004); *Receptores de remesas en Bolivia, Perú* (September, 2005).

Because remittances intersect with financial intermediation micro-finance institutions, credit unions and banks in remittance-recipient countries have the potential to respond to the growing demand for financial transactions. In order to understand how financial intermediation can leverage the development role of remittances, it is important to look at basic indicators that demonstrate the relationship between remittances and financial intermediation. This paper identifies three basic indicators, namely: remittance market service coverage, the provision of competitively low cost remittance transfers, and the availability of financial services. These indicators are minimal, as there are other factors that should be taken into consideration in measuring the success of financial institutions at leveraging remittances for expanding financial intermediation. However, they are presented as a minimum criterion in the consideration of the intersection between remittances and finance.

A. *Remittance market service coverage*. The institution provides remittance transfer operations to its clients or members, as well as to the communities where its branches operate.
B. *Low cost remittance transfer*. The institution seeks to offer a competitive pricing product, making it attractive to sender and recipients. Simultaneously, lower transaction costs mean more money available to the migrant and remittance recipient households.
C. *Accessible financial services*. The institution markets, designs and provides recipients with an array of various product options, including savings, credit, insurance, pension funds.

The indicators were analyzed by looking at nine financial institutions, including banks, credit unions, microfinance institutions, and regulatory bodies. This preliminary analysis reveals that there are key factors which define the ability of financial institutions to leverage remittances, which include the institution's resources and its existing presence in the community. In other words, does the institution possess the necessary financial resources, as well as knowledge of -and reputation in- the community that it serves, to facilitate its entry into the remittance transfer marketplace? Below is the list of institutions analyzed for this report. The list includes institutions in countries where there is large remittance presence, such as Mexico, Guatemala, El Salvador, and Ecuador, as well as Paraguay where intraregional flows are very important to the local Paraguayan economy. The list also includes other countries where financial institutions operate as remittance payers and are seeking to provide financial services, such as Haiti, Dominican Republic and Jamaica.

**TABLE 2**
**BANKS, CREDIT UNIONS AND MICROFINANCE INSTITUTIONS OFFERING REMITTANCES**

| Institution | Country | Type |
|---|---|---|
| *Banco Industrial* (BI) | Guatemala | Commercial bank |
| *Cooperativa de Ahorro y Crédito Salcajá* | Guatemala | Credit Union |
| *Banco Salvadoreño* (BSal) | El Salvador | Commercial bank |
| Federation of Salvadoran Savings and Credit Cooperative (FEDECACES) | El Salvador | Credit Union |
| *Banco Solidario* (BSol) | Ecuador | Transformed MFI |
| National Savings and Financial Services Bank (BANSEFI) | Mexico | State bank |
| Oaxaca Bank | Mexico | Microbank |
| Wells Fargo | Mexico | Commercial bank |
| *Financiera El Comercio* | Paraguay | MFI |

Source: Information compiled by author through interviews with institutions.

## A. Remittance Market Service Coverage

In terms of coverage, banks will typically partner with a remittance transfer service provider that is sufficiently well positioned in both the sending and receiving communities. *Banco Industrial* (BI) established an alliance with King Express, a US-based courier and money order company. One of Guatemala's largest private banks, BI acts as a complement to King Express by offering value-added services. Through the alliance, remitters can go to King Express to buy a money order, which will be immediately paid out to beneficiaries in Guatemala by presenting the document and a form of identification.

BI promotes the service by marketing the immediacy of the money order retrieval, the fact that an account with the bank is not a requirement and that it offers a better market exchange rate. Marketing strategies include direct mail, open advertising, raffles on occasions such as Christmas and Mother's Day, and participation in events in the communities where it has branches. King Express is responsible for marketing on the US side, where it utilizes its large database for direct mail marketing. King Express also has a close relationship with the community, participating in many social events at restaurants and clubs frequented by Latin Americans. It also puts on promotions at Guatemalan fraternities in cities with large populations like Chicago, Miami, New York and various parts of California.

Aside from these savvy marketing techniques, the mechanism itself is attractive to users in large part because of the widespread presence of both King Express outlets in the US and BI's national network of over 850 points of service (branches, kiosks, Automated Teller Machines-ATMs, etc.). A survey of 200 BI remittance recipient clients showed that the majority withdraws the money in urban areas and that 80% of recipients are women. Although the average withdrawn is US$ 250, 46% receive less than US$ 150 a month.

**TABLE 3**
**REMITTANCE RECEIVED BY CUSTOMERS OF *BANCO INDUSTRIAL***

| Amount | % of customers |
|---|---|
| Less than US$ 50 | 3.5 |
| US$ 51 to US$ 100 | 35.0 |
| US$ 101 to US$ 150 | 8.0 |
| US$ 151 to US$ 200 | 19.0 |
| US$ 201 to US$ 250 | 3.5 |
| US$ 251 to US$ 300 | 12.0 |
| Over US$ 300 | 19.0 |

Source: Orozco, Manuel. Survey commissioned to *Borge & Associados*, 2004.

The alliance with King Express for remittances has been very successful, with BI averaging 200,000 transactions per month and 90,000 of its affiliates using the service.

The National Savings and Financial Services Bank (*Banco del Ahorro Nacional y Servicios Financieros* - BANSEFI), is a program of the Mexican Government with the mandate to increase the financial products and services available to the Mexican population, particularly those Mexicans with low incomes. BANSEFI created a pool of popular banks, micro-finance institutions and credit unions to act as a remittance distributor. BANSEFI established arrangements with companies like GiroMex and Dolex and has extended its partnerships to Vigo, MoneyGram, *El Camino Transferencias*, Via America, and Moneyda. BANSEFI also works with US Bank and has plans to expand agreements to other community and national banks. In September 2004 the Federal Reserve Banks and the *Banco de México* announced two new developments in the FedACH International$^{SM}$ Mexico Service that will result in lower transaction costs for electronic payments sent to Mexico, and that will create a greatly expanded distribution channel in Mexico for bank transfers. The distribution network will be enhanced by the participation of BANSEFI, which will provide a greatly enlarged distribution channel in Mexico for making bank-to-bank account transfers from the US.

BANSEFI offers financial products and tries to give individuals a sense of financial culture. It is also working with other institutions to teach people about the benefits of using the account-to-account transfer system. Saving and Credit Institution's (SCI's) are beginning to play an active role in this market. Together with BANSEFI, 69 SCIs have created a commercial alliance called *L@Red de la Gente*. This alliance has enabled SCIs to participate in the distribution network of remittances through contracts negotiated by BANSEFI. Under this scheme the members of *L@Red de la Gente* are offering remittance transfer services in mostly low-income urban and rural areas that experience significant emigration to the US, and where the formal financial system has no coverage.

On the marketing side, the Mexican Foreign Ministry's Institute for Mexicans Living Abroad and BANSEFI invite banks like US Bank, Wells Fargo, Bank of America, HSBC and Citigroup to discuss remittance and other services with HTA leaders. Individual banks will then follow up with HTAs, invite them to the branch, let them observe their Spanish-speaking employees and make them feel comfortable. Word of mouth has been effective in the US and proved the best strategy in Mexico. In mid-March 2004, BANSEFI opened an office in the Mexican Consulate in Chicago as a pilot marketing program. The office distributes information about BANSEFI's remittances and other products.

Like BI and BANSEFI, *Banco Solidario* (BSol) has formed strategic alliances with international banks throughout Spain, Italy, Bolivia, Peru and soon the US, marketing its remittance transfer and other banking services under the name Andean Link (*Enlace Andino*). In Spain, BSol has alliances with six popular banks (*cajas*) and one commercial bank. BSol began working with its first bank, *Caja Murcia*, in the beginning of 2003, which is located in an area of high Ecuadorian concentration. In Spring 2003, it started more formal operations with *Caixa* and *Caja Madrid*, later reaching agreements with BanCaja, *Caja de Monte y Sevilla*, *Caixa Catalunya* and *Banco de Valencia*. In Italy, BSol recently began working with *Banca Popolare di Milano*, *Banca Sella and Banca Iccrea*. BSol's alliances with Spanish *cajas* and Italian *bancas* allow clients to access nearly 9,500 European outlets to send money.

Also forming part of BSol's multi-regional Andean Link is *Banco Solidario* in Bolivia with 34 outlets, and in Peru BSol has begun working with *MiBanco*. Meanwhile, BSol is receiving assistance from ACCIÓN International to replicate its successful European model through an alliance with Citibank in the US. In Ecuador, BSol has created a network of 15 national cooperatives, which provides 110 locations at which clients can receive remittances. BSol focuses marketing on its distribution channels, although it also utilizes radio and television ads focusing on price and service. Word of mouth is also common there.

*Banco Salvadoreño* (BSal) on the other hand has essentially created its own international alliance by offering remittance products through its US affiliate, BancoSal Inc. In the bank's strategic plan devised in 2002, it determined that there is a major US niche and established reaching the compatriot segment as one of its priorities. At the bank level it began looking at how it could transport money for that segment as well as how the bank could benefit by placing other products in the market.

Through its *Salvadoreño Emprendedor* program, established in July 2003, beneficiaries open a savings account for funds sent directly from accounts opened at any of BancoSal Inc.'s now seven agencies in the US. Projected to reach eleven, these agencies are located in areas of high Salvadoran migrant concentration, including major cities in California, Nevada and Texas. Using their VISA Electron debit card, recipients in El Salvador can access funds any time through any one of the bank's 154 Automated Teller Machines (ATMs), and pays bills over the Internet, telephone or at kiosks. In addition to radio spots, print media and television, the bank also participates in Salvadoran community events, where it distributes brochures and other promotional materials.

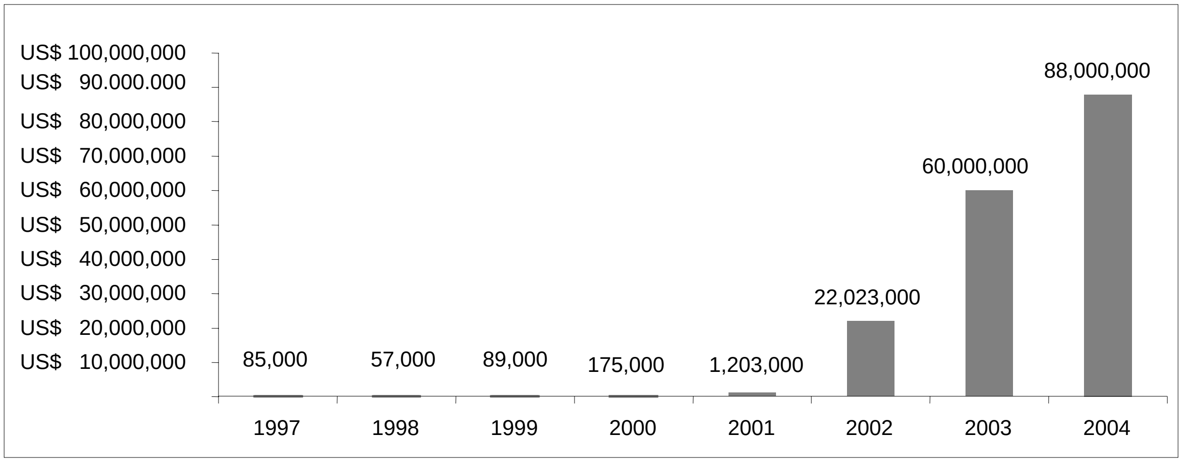
Despite its success, however, BSal faces aggressive competition with banks installing themselves in the US, among them *Banco de Comercio*, which has opened 17 agencies. To expand its reach, BSal intends to form alliances with other remittance transfer companies. The bank briefly offered King Express services, but is now pursuing other alternatives that can guarantee increased transactions for the institution and help BSal to expand its potential client base.

Several banks have adopted BSal, BSol and BANSEFI's dual approaches to remittances; that is, they design products to respond to both the needs of senders and recipients. Large banks in particular issue specially designed debit cards for sending and receiving remittances. On the US side, Wells Fargo and it's *Intercuenta* Express have had greater success than other major banks with remittance products, having placed branches in locations with highly diverse populations. Its marketing efforts have proven successful, according to officials for Cross-Border payments. They noted double-digit growth in revenues, transaction volume and planned acquisition growth.

Savings and credit cooperatives generally have more initiatives and outreach to remittance senders and recipients than typical banks, something that BANSEFI has leveraged through its *L@Red de la Gente* commercial alliance described above. In 1994, the Federation of Salvadoran Savings and Credit Cooperatives (*Federación de Asociaciones Cooperativas de Ahorro y Crédito de El Salvador de R.L.* - FEDECACES) initiated the IRnet system, which provides international wire transfers among credit unions, in alliance with the World Council of Credit Unions. This initiative originally faced limitations due to lack of resources. In particular, it required developing computer software that would allow for a more efficient money transfer system that could operate throughout their branches and member institutions. The Inter-American Development Bank (IDB), however, provided a line of support to address some of their limitations. As a result, the program has been able to attract clients into its money transfer system that encompasses 26 points of service in El Salvador, in addition to its central offices and the participation of 18 cooperatives.

Prior to this expansion, between January and September 2001, FEDECACES transferred US$ 483,068. Because of its newly expanded reach, remittance transactions in the last three years have grown significantly to represent 5% of market share (Figure 1).

**FIGURE 1**
**REMITTANCE TRANSFERS BY FEDECACES**




Source: FEDECACES officials' interview, January 2004 & 2005.

FEDECACES' relationship with other financial institutions underscores arguments this report makes about best practices and the advantages of enabling environments that facilitate flows, customer empowerment, and related economic and social benefits.

In Guatemala, Salcajá has provided remittance transfer services since 2001 through VIGO, as a member of the National Federation of Savings and Credit Cooperatives (*Federación Nacional de Cooperativas de Ahorro y Crédito de Guatemala* - FENACOAC). FENACOAC, with its 28 member cooperatives and 104 branches, is now concluding negotiations for an alliance with MoneyGram.

In 2004, Salcajá averaged 1000 remittance transactions per month, processing over US$ 29.6 million for the year. These figures become especially significant considering Salcajá operates in relatively small rural communities in and surrounding Quetzaltenango and San Cristóbal Totonicapán in western Guatemala: 62% of the transfers are distributed in Totonicapán and 35% in Quetzaltenango. One interesting aspect is that 33% of recipients are existing members of Salcaja, 18% enrolled the cooperative after cashing the money through them, and 49% are only remittance customers (Pisabaj Flores interview).

El Comercio, a microfinance institution with nearly 30 years of experience in Paraguay's rural and agricultural sectors, just recently (August 2004) began offering remittance transfer services as one of only two authorized Western Union agents in the country. After four months, *El Comercio* has cleared 800 transactions (de Velilla interview).

Besides widespread coverage and 24 hour Spanish language customer assistance, another benefit of the Western Union alliance is that it provides *El Comercio* with access to market information and other remittances related data. However, *El Comercio* also conducts its own research, and recently completed a sample survey among 500 clients (7%), offering the institution a better glimpse into their target market and its growth potential. Nearly 19% of its clients are remittance recipients. More men (56.8%) than women (43.2%) receive remittances, and nearly a third receive their money from a sibling working abroad. Migrants mostly remit from either Spain (35%), the US (26%) or Argentina (15%). The majority of recipients (66.3%) are employed in the trade and services sectors. On average, half of the funds received are allocated to "family expenses" (consumption), followed by loan repayment (26%) and housing (12%).

## B. Low Cost Remittance Transfer

It is hypothesized here that an institution's ability to offer competitively priced remittance transfers makes it an attractive service for senders and recipients. Simultaneously, lower transaction costs mean more money remains available to the migrant and remittance recipient households for investment in other financial products and services.

Low cost remittance transfers depend significantly on the nature of the agreement established between the financial institution and the money transfer company, and the money transfer company itself. Those institutions that work with more competitive companies will likely be able to offer a lower cost than others, which is the case with Fedecaces, Bansefi, and *Banco Solidario*.

Originally, FEDECACES would only transfer remittances from a US based credit union such as L.A. based *Comunidades*. In order to expand its service in the US, it then arranged to send money through three money transfer companies; Vigo International, Rapid Money, and Viamericas, all companies which charge lower prices than their business competitors. Competition enhanced through expansion places downward pressure on remittance transfer fees, and from 2002 to 2003, FEDECACES was able to slice its fees in half, from 8 to 4.1%. FEDECACES' remittance service tripled (Figure 1) from the moment in expanded its activities to include the money transfer companies.

Competing with FEDECACES's fees, BSal's ability to provide remittance transfers through its own US-based affiliate has allowed the bank to charge consistently competitive fees: 4.15% on average between 2001 and 2004, compared to the national average of 5.3%. Attractive fees, as well as efficiency and accessibility, have helped the bank capture a 12% share of El Salvador's remittance market. This figure is impressive considering that it relies on just seven branches to transfer an average of 100,000 transactions per branch a year.

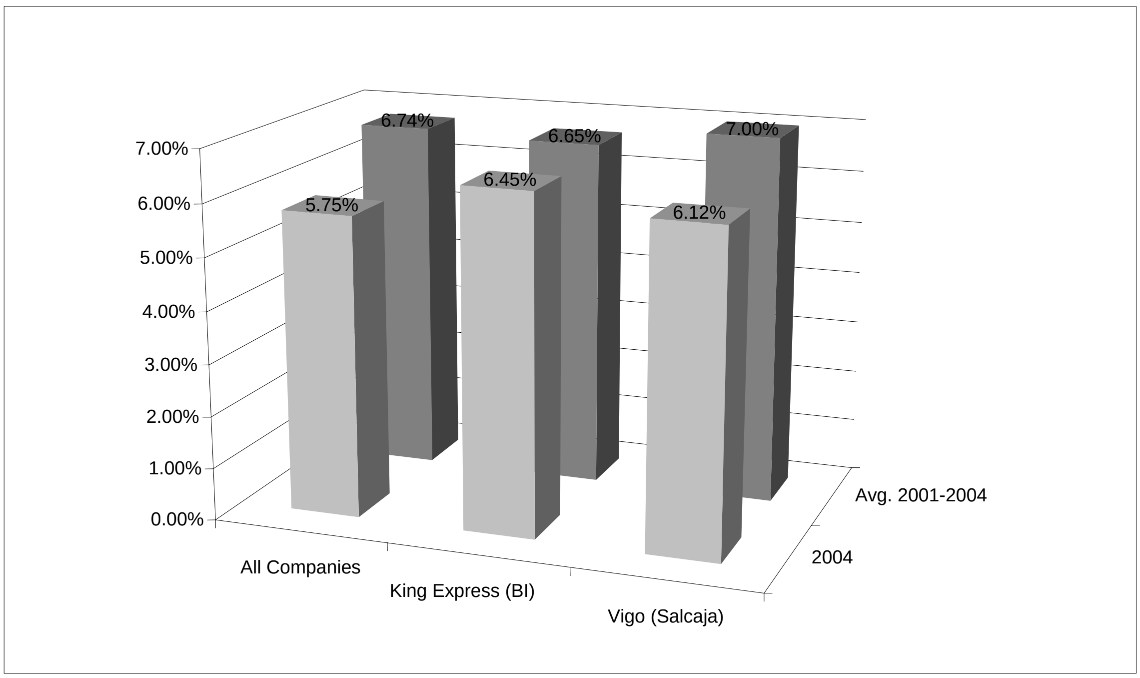
Like BSal, BSol is able to offer virtually seamless transactions by enlisting clients into its "My Family, My Country, My Return" accounts. BSol transfer fees originating in Europe generally range between € 6-9, but are waived for account holders, which naturally presents a strong incentive to become a BSol client.

Wells Fargo's *Intercuenta* Express is another example of an account-to-account service allowing customers at Wells Fargo branches to pay US$ 8 to transfer up to US$ 3,000 directly into their beneficiary's BBVA-Bancomer account in Mexico. Wells Fargo recently reduced the transfer fee by 20% and tripled the allowable transfer amount. Wells Fargo also offers *Dinero al Instante*, a cash-to-cash service initiated in spring of 2002 and based in California, Arizona and Texas, which for a US$ 10 fee, allows non-customers to wire money to Mexico.

As part of its Partnership for Prosperity program between the Mexican and US Government, BANSEFI disseminates information about the prices of US remittances. BANSEFI's *L@Red de la Gente* commercial alliance provides remittance transfers using MoneyGram, Vigo, US Bank, Giromex, Order Express, Moneyda, Viamericas, *El Camino*, Dolex and Enramex. Total costs are 5.4% of the transfer amount, which is equal to market cost.

While fees have decreased since BI began providing remittance transfers in late 2002, they remain nearly three quarters of a percentage point higher than the national average (Figure 2). Taking note of the lessons learned by institutions like FEDECACES about diversification, BI has commenced negotiations with at least two other remittance transfer companies. Increasing its alliances will certainly provide additional coverage at a more competitive price. Likewise, while slightly more competitive than BI, Salcajá's remittance transfer fees remain above market cost. Salcajá is also reaching out to form other alliances.

**FIGURE 2**
**TRANSFER FEES IN GUATEMALA**
(as a percentage of total amount remitted)




Source: Pricing data compiled by Manuel Orozco.

*El Comercio* charges on average 9.8% of the remittance amount. Compared with the other institutions in this report and in general, *El Comercio*'s remittance transfer fees are expensive. This can largely be attributed to a lack of formality and competition in Paraguay's remittance transfer marketplace for the Argentina-Paraguay corridor. The benefits of diversification are there to be had, similar to that experienced by FEDECACES, however *El Comercio* provides transfers through Western Union, a company that requires exclusivity.

## C. Accessible Financial Services

In addition to money transfer services, key to the intersection between remittances and financial institutions is the ability to provide other services in the financial intermediation industry. A first step is to offer bank accounts, savings and checking. Moreover, providing credits, small or large, is another indication of the extent or depth of intermediation by these institutions leveraging remittances received. Some banks like *Banco Industrial, Solidario and Salvadoreño* have pursued a banking strategy. But small institutions like Salcajá or *El Comercio* have also sought to leverage remittance recipients income through other financial services.

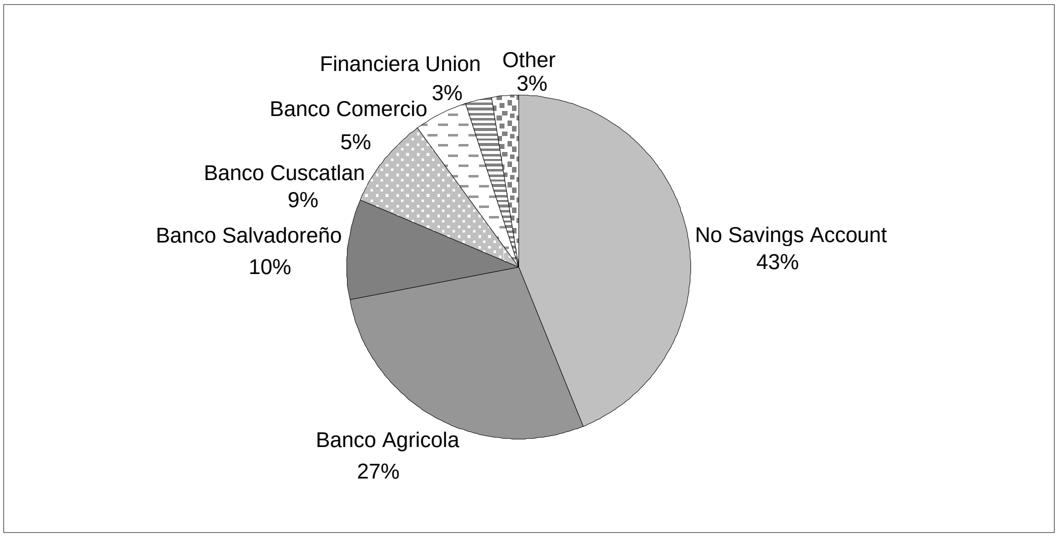
When clients enter a BI branch in Guatemala to use remittance services, the bank offers its other financial services. The bank tends not to overwhelmed clients with many products at once, but instead takes a gradual approach. Savings accounts are usually the first product that remittance recipients select. The bank teaches the client how to manage the account and about the financial institution.

*Banco Industrial* also offers special promotions for opening accounts through gifts and raffles for prizes like home appliances. It has had satisfactory results in turning remittance clients into full bank clients, but it believes more can be accomplished. According to bank officials, 30% of clients who use remittances also hold a bank account (a recent survey among 200 remittance clients showed that 40% have a savings account, and 24% have a checking account, half of whom hold their accounts with BI). Advertising remittances, rather than other financial services, has proved a much more successful way to attract clients (Rivera interview).

BSal views family remittance recipients as potential clients for other services, such as insurance and certificates of deposit. Like BI's more personalized approach, BSal has discovered that the most effective cross-marketing tools are its branches' *"Señoras de Bienvenidas"* (like hostesses) who demonstrate various products and instruct clients on how to use ATMs and kiosks. In marketing other bank services, BSal's goal is to convince remittance clients that opening an account is secure and that they can make withdrawals according to their necessity.

Besides the savings account used in electronic money transfers, the second most common product is the certificate of deposit. In its efforts to convert mere remittance recipients into bank account holders, BSal has managed to penetrate nearly 10% of this segment -or 17,000 remittance beneficiaries- second only to *Banco Agrícola* and significant considering nearly 50% of that market remains untapped (Figure 3).

**FIGURE 3**
**INSTITUTIONS WHERE REMITTANCE RECIPIENTS HOLD SAVING ACCOUNTS IN EL SALVADOR**




Source: Orozco, Manuel. Survey commissioned to *Borge & Asociados*, 2004.

Like BI and BSal, the BSol customer making a transfer is given preferential treatment with the mindset that the bank wants to establish a long-term relationship. The goal is to attend to relatives and create incentives for them to use the bank's services. BSol's main strategy has been to transnationalize its clientele with financial products designed for both remittance senders and recipients. As part of its Enlace Andina, BSol created a special account called "My Family, My Country, My Return", which offers clients bundled savings options. The segment most frequently uses credit lines, housing and home buying credits, savings accounts and insurance. Two hundred and fifty-three remittance recipients have bought homes through credit.

After less than two years of operating in the remittance transfer marketplace, BSol holds between five and eight percent market share, and expects to attain between 8 and 12% market share by the end of 2005. It's growth is evidenced in Table 4 below.

**TABLE 4**
**BANCO SOLIDARIO REMITTANCE TRANSFERS AND BANKING INFORMATION**
(2002-2004)

| Year | Transfers | Volume | Accounts | | Credits | |
|---|---|---|---|---|---|---|
| 2002 | 1,800 | US$ 6,000,000 | 270 | US$ 150,000 | 50 | US$ 70,000 |
| 2003 | 14,000 | US$ 23,000,000 | 860 | US$ 670,000 | 230 | US$ 525,000 |
| 2004 | 60,000 | US$ 50,000,000 | 4,000 | US$ 3,500,000 | 1,700 | US$ 4,000,000 |

Source: *Banco Solidario* officials' interview, January 2004 & 2005.

As part of its cross-marketing efforts, BSol will also soon be offering credit cards personalized for each cooperative and their corresponding associates within the national network. BSol's other banking products include the *Chauchera* smart card that allows clients to make transactions through the POS network used by pre-established providers. The product is for all clients but is commercially sold as a value-added for emigrants. And the bank offers small credit loans for urgent needs.

While a remittance transaction does not necessarily translate into the opening of a savings account, members of *L@ Red de la Gente* are encouraged to open savings accounts once their remittance has been paid. On average, BANSEFI by January 2005 had transferred 25,000 transactions a month, and opened accounts for 10% of the individuals who come in for remittance services, an improvement from 6% in 2003. *L@ Red de la Gente*, together with BANSEFI, has over 1,000 branches and will soon expand to more than 1,200 branches as more SCIs are integrated into the alliance.

Much of BANSEFI's success has to do with establishing trust with its clients. While the bank believes the number of account holder will grow, BANSEFI is not where it wants to be in terms of banking the remitting sector. The bank has also found that individuals still use traditional remittances because they are a proven method that works. The idea is to find out how to reach Hispanic populations in the US especially given the lack of market information available. BANSEFI's Mexican branches are located where people don't hold accounts. For the year that it has been involved in banking the unbanked via remittances, the bank has been successful, though it could be much more aggressive, especially with a larger budget.

Wells Fargo, Bank of America, Harris Bank and Wells Fargo are the largest banks involved in seeking ways to capitalize on money transfers as a way to increase their assets, by attracting immigrants to open deposit accounts (Orozco [2004a]). Each has either developed partnerships or made major acquisitions in Mexico, which have facilitated the roll-out of relatively competitive transfer services. Financial institutions catering to immigrants focus on three areas: building relationships, addressing the specific preferences of this new customer base (expanding hours, hiring bilingual tellers, and opening branches near immigrants' residences) and developing new product and approaches. The end result is an increase of at least 500,000 new customers in banks and credit unions. That amounts to about 5% of the estimated eight million Latino immigrants who lack bank accounts.

Regarding to the essential business of building trust among clients, many banks find that their Hispanic clients want individual attention, which can be more time consuming. One bank representative estimated that the average new account takes 20 to 35 minutes to set up, whereas Hispanic customers were more likely to take an hour. Bank respondents consistently emphasized the need to establish trust with Hispanic customers. Wells Fargo's bundled service option, Gold Pack, includes *Intercuenta* Express, a checking account, discounted money orders, check-cashing, and insurance services, and is intended as a relationship-building product. Wells Fargo considers it a success but will continue adjusting it until the right mix of products is found that will sell the bank, rather than the product, in the consumer's mind.

Measuring the success of outreach efforts to attract new accounts is challenging. In part, banks are only beginning to track the presence of Hispanics in their institutions, and usually rely on surname lists to identify them, which is not always accurate. Wells Fargo reports that it has attracted 250,000 new accounts since offering *Intercuenta*.

Creating a more user-friendly environment and building trust among potential clients often comes more naturally to smaller-scale credit unions and microfinance institutions. To reach clients, Salcajá has take advantage of social capital networks, using word of mouth, and ensures that its branch tellers and representatives are well informed and capable of transmitting information about the remittance services it offers, as well as other products available to recipients. Meanwhile, the institution is formalizing a cross-marketing strategy, and plans are underway to install at least one client-service window at each branch dedicated solely to attending remittance recipients. The goal is to expand Salcajá's current base of nearly 15,000 clients by offering recipients other specialized financial services, including: pension funds, life insurance, medical insurance, small business credit, home equity funds, and various savings packages.

Because of its social orientation, Salcajá is also heavily focused on education, particularly that of youngsters and pre-teens who are the most susceptible to viewing migration as the only means to advancement. In addition to providing academic scholarships, the institution has designed products such as the Infant/Youth Savings Plan (*Plan de Ahorro Infantil/Juvenil*), which encourages parents to invest in their children's schooling over the long-term. Salcajá currently averages 1000 remittance transactions per month, and remittance recipients represent nearly half of their clientele.

Approximately 25% of remittance recipients who choose FEDECACES to receive their remittance are also FEDECACES clients. To determine how best to tap the other 75% potential client base, FEDECACES commissioned a needs assessment with financial support from the IDB. Among other things, the exercise revealed that many recipients do not understand what it means to hold a savings account, having never been offered this type of financial alternative. FEDECACES intends to share these findings with other cooperatives operating in El Salvador, in the hopes that jointly they can work towards fostering a more pervasive savings culture among remittance recipients.

FEDECACES is significant because, like Salcajá, it is an alternative savings and credit institution with a commitment to work with low-income households as well as to operate in rural areas. This latter point is very important considering that forty percent of remittances go to rural areas where the existence of commercial banks is very limited, especially outside the main departmental cities. Institutions like FEDECACES and other microfinance operations have offices and branches in many areas neglected by the larger banks (Mena interview).

In Mexico, one successful microbank operates in the Mixteca region in Oaxaca, *Xuu Ñuu Ndavi* (Money of the Poor People). The residents in this indigenous town have relatives living abroad and remitting money home. Of the US$ 170,000 received in remittances after the first year of operation, the microbank's 168 members (83 of whom are women) accumulated US$ 160,000 in savings. The experience of this bank demonstrated that remittance-receiving households have a propensity to save, and to do so in financial institutions, in this case, microfinance banks. Key to the success of this and similar microbanks is their level of trust with the local population.

*El Comercio* is also designing financial products to be cross-sold with remittance transfers. *El Comercio* currently works with 7000 clients. Besides a range of micro-credit options ranging from micro-enterprise to credit cards and housing loans, *El Comercio* also offers a range of savings accounts. To this end, *El Comercio* has plans to conduct a more detailed market study and is seeking technical assistance for institutional capacity building in order to fully implement remittance relevant product offerings and launch corresponding marketing campaigns. One key issue however is that 40% of those already those receiving remittances have savings programs, and a majority also has a demand of personal loans.

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## IV. REMITTANCES AND FINANCIAL INSTITUTIONS: ON THE WAY TO FINANCIAL INTERMEDIATION?

Looking at the performance of these institutions in relationship to the indicators addressed, some issues are identified. First, transfer costs are not necessarily a critical factor in the ability of institutions to attract remittance recipients as clients. Second, the institutional strength of a business helps determine their distribution capacity. Third, targeting remittance recipients in the provision of financial products and services appears to depend more on the institution's initiative rather than its institutional resources.

Most institutions offer a competitive transfer cost when compared nationally with other providers, however, their costs are mostly close to the national averages. What does matter, however, is the institution's ability to secure as many contracts with money transfer companies as possible, as this becomes a mechanism for providing client -as well as potential-client- remittance recipients a wider range of transfer options, securing the institution a more competitive position in the remittance transfer marketplace. Here a disadvantage lies in that smaller cooperatives and microfinance institutions are not as capable as the larger banks at penetrating the remittance transfer marketplace due to less bargaining power to negotiate agreements with large money transfer companies.

The transformation of remittance recipients into account holders continues to be challenging. However, looking at these institutions, large or small, shows that about one fifth of recipients have also become bank clients (Table 5). One reason relates to the level of trust cultivated by the institution, and/or the ability of the institution to transnationalize its cross-selling tools (this is particularly the case of BANSEFI and BanSal). However, while BSal's success in the placement of its own agencies in migrant sending communities may be well beyond the scope of smaller institutions, it is worth noting that an alliance seeking strategy such as BSol's can be scaled down and replicated at their level.

**TABLE 5**
**TRANSFER VOLUME, NUMBER OF ACCOUNT HOLDER AND BRANCHES BY INSTITUTION**

| | Transfer cost (company / market average) | Volume of transfers per month | Number of remittance recipients that are clients | Total number of clients | Number of branches |
|---|---|---|---|---|---|
| FEDECACES | 3.9% / 4.2% | 17,500 | 4,375 | 90,000 | 26 |
| *Banco Salvadoreño* (BSal) | 3.9% / 4.2% | 58,000 | 17,000 | n/a | 110 |
| Salcajá | 6.1% / 5.8% | 1,000 | 7,650 | 15,000 | 3 |
| *El Comercio* | 9.8% / 8.7% | 200 | 1,330 | 7,000 | 11 |
| *Banco Industrial* (BI) | 6.5% / 5.8% | 200,000 | 150,000 | 500,000 | Over 250 |
| *Banco Solidario* (BSol) | 0% / | 12,000 | 4,000 | 91,600 | 32 |
| BANSEFI | 5.4% / 5.4% | 25,000 | 2,500 | 500,000 | 550 |
| Wells Fargo | 5.4% / 5.4% | 70,000 | 250,000 | Over 1 million | Over 3000 |

Source: Orozco, Manuel. Survey commissioned to *Borge & Asociados*, 2004; Institutional interviews, January 2004-2005.

Meanwhile, it is the more intimate contact with clients and their communities that afford the smaller operations a great deal of social capital to be leveraged and penetrated with uniquely tailored financial products that should be highly attractive when cross-marketed with remittance transfer services. Salcajá is a prime example, and the larger institutions do well by adopting this approach through community outreach and socially oriented product offerings, such as BANSEFI. Moreover, investing the time and resources into analyses of existing and potential clients, particularly those who receive remittances, provides a wealth of information to any institution regardless of size. *El Comercio* and FEDECACES have indisputably benefited from such exercises. Table 6 maps out each institution profiled, highlighting the strengths and weaknesses of their best practices initiatives, in the context of the aforementioned indicators.

**TABLE 6**
**EXTENT OF FINANCIAL OUTREACH BY INSTITUTIONS**

| Institution | Coverage | Cost | Financial Services |
|---|---|---|---|
| *Banco Industrial* (Guatemala) | ✓ Participation in community events<br>✓ Widespread nation-wide presence<br>✓ Strong marketing through alliance | ✓ Above market cost (King Express)<br>✓ Expanding its alliances | ✓ Cross-markets remittances with other products<br>✓ “Little-by-little” approach, starting with savings accounts<br>✓ Promotions and gift incentives |
| *Salcajá* (Guatemala) | ✓ Operates in rural areas, some without other financial alternative<br>✓ Knowledgeable representatives promote services and facilitate access | ✓ Above market cost (Vigo)<br>✓ Expanding its alliances | ✓ Designing complementary products & cross-selling tools<br>✓ Preferential treatment of remittance recipients<br>✓ Strong focus on educational savings plans |
| *Banco Salvadoreño* (El Salvador) | ✓ Its own agencies placed in highly concentrated migrant communities.<br>✓ Sophisticated marketing campaigns.<br>✓ Widespread nation-wide presence.<br>✓ Knowledgeable representatives promote services and facilitate access. | ✓ Competitive fees, below market cost (BancoSal).<br>✓ Installing more US based agencies.<br>✓ Expanding its alliances. | ✓ Transnational bank accounts.<br>✓ Cross-markets remittances with other products. |
| FEDECACES (El Salvador) | ✓ Member of IRnet.<br>✓ Operates in rural areas.<br>✓ Collaboration with other cooperatives to foment “savings culture”. | ✓ Competitive fees, below market cost (IRnet, Vigo, Rapid Money, Viamericas, etc.). | ✓ Cross-markets remittances with other products.<br>✓ Commissioned needs assessment.<br>✓ Promotions and gift incentives. |

**TABLE 6**
(continued)

| Institution | Coverage | Cost | Financial Services |
|---|---|---|---|
| *Banco Solidario* (Ecuador) | ✓ Strong global alliances with well established banks, marketed under one recognizable name (*Enlace Andino*).<br>✓ Expansion into neighboring countries.<br>✓ Widespread nation-wide presence.<br>✓ Credit cards customized to cooperatives. | ✓ Fees waived for account holders<br>✓ Expanding alliances. | ✓ Transnational bank accounts.<br>✓ Cross-markets remittances with other products.<br>✓ Preferential treatment of remittance recipients. |
| BANSEFI (Mexico) | ✓ Strong network with widespread nation-wide presence, especially in rural areas.<br>✓ Educational campaigns targeted at diaspora. | ✓ Competitive fees, below market cost (Vigo, Money Gram, *El Camino* Transferencias, Via America, Moneyda, etc.).<br>✓ FedACH International Mexico Service.<br>✓ *L@ Red de la Gente*. | ✓ Bank-to-bank account transfers.<br>✓ Cross-markets remittances with other products. |
| Oaxaca Microbank (Mexico) | ✓ Knowledgeable of local rural population in which it operates. | ✓ High level of trust. | ✓ Cross-markets remittances with savings. |
| Wells Fargo (US-Mexico) | ✓ Widespread and well-placed global presence.<br>✓ Bundled services designed as “relationship building” products. | ✓ Competitive fees, below market cost. | ✓ Transnational account-to-account service through *Intercuenta* Express.<br>✓ Cross-markets remittances with other products.<br>✓ Specialized attention, focused on building trust. |
| *El Comercio* (Paraguay) | ✓ Operates in rural areas.<br>✓ Widespread remittance transfer company presence. | ✓ Expensive fees, (Western Union). | ✓ Designing complementary products & cross-selling tools.<br>✓ Commissioned needs assessment. |

Source: Data elaborated by author.

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## V. DONOR ACTIVITIES & PRACTICES

Discussions on leveraging remittances for development have reached many in the donor community. In the case of Latin America, a range of donor institutions are seeking ways in which to mobilize these funds as savings, or that are already working on different aspects related to leveraging these funds -including *vis-à-vis* financial intermediation- for development. Here, we provide a description of what some institutions are doing in various parts of Latin America and the Caribbean. Broadly, these donors are only in the earlier stages of working on this field. Four institutions combined have invested nearly US$ 50 million in grants to leverage remittances development role. The IDB is the only institution that has gradually systematized its work. Yet, it is important to identify all possible lessons learned from the projects funded.

### A. The Multilateral Investment Fund of the Inter-American Development Bank

One of the pioneering institutions in addressing the link between remittances and development has been the Multilateral Investment Fund (MIF) of the Inter-American Development Bank. The MIF has addressed the issue from a research, advocacy and operational perspective. Since 1999, the MIF engaged in a series of discussions and studies about the impact of remittances in Latin America and the policy problem posed by high transaction costs. As its research and public discussion ensued, the Fund moved one step forward by taking the initiative to fund projects aimed at modernizing a financial infrastructure that could attract money transfers at lower cost, while addressing the financial needs of unbanked remittance receiving households.

**TABLE 7**
**PROJECTS FUNDED BY THE MULTILATERAL INVESTMENT FUND**
(2005-2006)

| Project | Country | Amount (US$) |
|---|---|---|
| Promoting Financial Democracy by Supporting *FEDECREDITO* | El Salvador | 3,339,000 |
| Create a Housing Finance Market for Transnational Families | El Salvador | 5,250,000 |
| Development of Services to Improve Remittances Access and Management | Bolivia | 291,610 |
| Remittances and Training for Brazilian Migrants and their Beneficiaries | Brazil | 470,000 |
| Analysis of the Portugal/Brazil Remittances Market | Brazil | 47,350 |
| Remittances and Rural Development in the Dominican Republic | Dominican Republic | 321,500 |
| Remittances and Rural Development in El Salvador | El Salvador | 366,000 |
| "More than Remittances" | Guatemala | 198,000 |
| Social-Cultural Financial Services Adaptation | Guatemala | 103,662 |
| Enhance Development Impact of Workers' Remittances | Guatemala | 5,200,000 |
| Enhancement of the Remittances Services to and within Rural Haiti | Haiti | 260,000 |
| Support for the Economic Development of *La Piedad-Michoacan* | Mexico | 32,000 |
| Pilot Project 3x1 for Migrants | Mexico | 7,000,000 |
| Direct Savings by Mexicans Living in USA toward Purchase of Housing in Mexico | Mexico | 5,250,000 |
| International Migration, Remittances and Impact on Rural Communities in Zacatecas | Mexico | 55,000 |
| Facilitation of Access to Housing Finance for Recipients of Remittances | Mexico | 1,700,000 |

**TABLE 7**
(continued)

| Project | Country | Amount (US$) |
|---|---|---|
| Bringing Unbanked Remittance Recipients into Formal Financial System | Paraguay | 222,000 |
| Remittances Valuation of Peruvian Immigrants in Italy | Peru | 49,000 |
| Voluntary Return Migration Model Based on Entrepreneurship Development | Regional | 3,975,000 |
| Application of General Principles for Remittance Markets | Regional | 1,759,300 |
| Immigrant Remittance Corridors | Regional | 167,500 |
| Support for MIF Office | Regional | 13,400 |
| Improving Central Bank Remittance Reporting and Procedures | Regional | 1,306,884 |
| *Total* | | *37,377,206* |

Source: IDB-MIF 2006b.

To that effect the MIF has funded over 20 million dollars in projects in several countries in Latin America (Brazil, Colombia, Dominican Republic, Ecuador, El Salvador, Mexico, Nicaragua), many of which go to microfinance institutions or alternative savings and credit institutions. Table 7 above, identifies some of the more known projects funded and related to remittance transfers.

Some of the success cases identified above, such as that of BANSEFI in Mexico, FEDECACES in El Salvador, and *Banco Solidario* in Ecuador, have been related to projects funded by the MIF in those institutions. The end result has been an accumulated knowledge of activities and issues linked to operations currently underway.

More recently, the Fund has decided to engage in partnerships with other donors and institutions. For example, it now has an alliance with the International Fund for Agricultural Development (IFAD) of the United Nations. In April 2004, the two institutions announced the creation of a 7.6 million dollar fund aimed at funding remittance related projects that addressed microfinance and investment. Under this agreement, to which MIF provided US$ 4 million local counterpart organizations, such as microfinance institutions and credit unions, are expected to commit US$ 1.6 million to the projects they propose (IDB-MIF [2006a]).

## B. The United States Agency for International Development (USAID)

The United States Agency for International Development (USAID) has followed the issue of remittances since 2000, considering it an area of attention within its programmatic plans. Some missions have decided to participate in some projects linking with micro-finance, banking and hometown associations. The following section highlights USAID's work in Mexico, and Jamaica as well as the work of USAID's Global Development Alliance, a recently created unit within the agency.

In 2002 the Latin American regional office of USAID, began a pilot program on remittances focusing mostly on Mexico. USAID initiated four specific programs related either to the financial aspects of remittances. Their efforts pertaining to financial activity deal with expanding the financial services accessible to recipients of personal remittances. In September 2002, USAID gave a US$ 500,000 grant to the World Council of Credit Unions, Inc. (WOCCU) to amend an ongoing project with *Caja Popular Mexicana* to help the latter connect to WOCCU's remittance services and market related services to recipients. In September 2002 USAID granted US$ 166,000 to *Acción Internacional* for their research examining the links between microfinance and remittances in order to gauge the interest of microfinance institutions in becoming involved in the service.

USAID has planed future projects that will include partnerships with microfinance organizations, cooperatives and banks in order to extend banking services to the low-income sectors in the countries and communities where the agency is engaged. The agency will provide US$ 900,000 annually from 2004-2008 aimed at improving financial services to low income remittance senders and receivers. While USAID's projects related to remittances are still in the early phases and the traditional results from development projects are not yet available, preliminary indications appear promising. The program linking WOCCU to *Caja Popular Mexicana* processed US$ 9 million in transactions from its launch August to December 2003.

USAID is also working on a number of economic growth issues in Jamaica, with a particular focus on improving the business environment. One aspect of this effort focuses on access to financing through microenterprise and remittance programs. In November 2003 USAID entered into an agreement with the Jamaica National Building Society (JNBS), one of the country's remittance companies. Through the program with JNBS, JNBS introduced smart card technology to reduce the cost of money transfers and create greater accessibility to funds. After eighteen months of work 21% of remittance recipients were withdrawing their money with debit cards.

Moreover, JNBS leveraged the savings created from the implementation of the smart card into development work. The building society participated with USAID in acquiring computers from US companies and donating them to different schools in Jamaica. JNBS helped pay for the costs in Jamaica of setting up computer connections and possible training in the technology.

## C. The Global Development Alliance

GDA is the section of USAID dedicated to forging public-private alliances with between Governments, businesses and civil society. To date, GDA has not allocated a significant amount of resources into remittance and development programs, leaving that up to the various USAID missions. However, over the past year GDA has become involved in the area by partnering with the Foundation for International Community Assistance (FINCA) and Hewlett Packard separately to develop new technology, such debit cards, to lower transaction costs of remittances. In late January of 2004, GDA announced a US$ 600,000 grant to expand a public-private alliance with VISA and FINCA towards electronic microfinance. The program will take place over five phases, beginning in Central America, and provide a business model that VISA and USAID will customize for other nations.

GDA's primary foci are: (1) increasing market driven alternatives to large wire transfer companies such as Western Union and Money Gram; (2) strengthening the capacity building of HTAs and broker groups; and (3) developing alternate technology to reduce transaction costs of remittances. GDA provided an estimated US$ 1 million in funds over the past year for such activities. According to the personnel interviewed for this study, the fact that there is no single person dealing with the remittances and development issue within the GDA constitutes a significant barrier for the agency.

## D. Ford Foundation

The Ford Foundation has a number of different programs, many of which focus on microfinance and access to financial services for poor people. The foundation began making grants to broader projects dealing with remittances in 2002. The foundation's focus is on family and individual remittances, rather than collective (HTA) remittances. It is interested in programs that allow individuals to build financial assets and let financial institutions become intermediaries in rural communities. The Ford Foundation has 10 migration and development programs with remittance components totaling an estimated US$ 700,000 in grants. It typically spends a few hundred thousand or more annually on such projects.

Recipients of the Ford Foundation's funding include the Mexican Association of Social Sector Credit Unions (*Asociación Mexicana de Uniones de Crédito del Sector Social* - AMUCSS), the California Credit Union League and UCLA's North American Integration and Development Center's effort to incorporate immigrants in Santa Maria, California into credit unions to access financial services and find a means to send back money to the town of Santa Cruz, Mixtepec through a microbank. As another part of the program, the groups worked with HTAs to connect people to financial services in California.

The foundation has worked with microfinance networks at the regional, Mexican and Central American level. The Ford Foundation made a US$ 235,000 grant to the Interdisciplinary Group on Women, Work and Poverty to support 35 student fellowships at Mexican universities to research how poor women use remittance income to improve their livelihoods and welfare of their families. The foundation has granted US$ 60,000 to the organization *Alianza para el Desarrollo de Microempresas* (ALPIMED), which has done significant work on remittance transfers.
The Ford Foundation's future plans will focus on the relationship between remittances and microfinance institutions. The foundation is interested in promoting efforts that will shed light on how microfinance institutions can effectively deal with remittance flows. Once particular area of concern for the Ford Foundation is to determine how remittance activity will relate both technically and legally with unregulated microfinance institutions.

## E. International Fund for Agricultural Development (IFAD)

Another case where institutional relationships and partnerships have occurred between the IFAD of the United Nations, and other players. In the area of remittances, IFAD, together with the MIF of the IDB, recently created a program to support binational rural development projects in remittance receiving communities. The program, which is headquartered at the Inter-American Dialogue, supports funding in three areas: knowledge development for community-based organizations and rural development, development of rural financial services, and development of rural productive investment. Eligible institutions include NGOs, immigrant philanthropic groups working to support their home communities, as well as savings and credit institutions.[2]

[2] FAD has also worked in other areas of funding to hometown associations, a topic outside the analysis of this report.

**TABLE 8**
**INVESTMENT ON REMITTANCE RELATED PROJECTS**
**BY INTERNATIONAL DONORS IN LATIN AMERICA AND CARIBBEAN**

| Donor | Aggregate Investment 00-05 (US$) |
|---|---|
| IDB | 68,417,616* |
| USAID | 10,000,000 |
| Ford Foundation | 700,000 |
| IFAD | 1,000,000 |
| Rockefeller | 200,000 |

Note: *Aggregate Investment 2001-2006.

Source: Information compiled by the author through interviews with institutions.

## F. Other Initiatives

This paper focuses primarily on efforts at financial intermediation among remittance recipients, while remittance senders represent another, yet equally important, side of the equation. The Federal Deposit Insurance Corporation (FDIC) and the Consulate General of Mexico launched The New Alliance Task Force (NATF) in May 2003. The initiative is comprised of a coalition of over 30 banks, 25 community based organizations, and government agencies all striving to provide immigrants with necessary financial and education and support services to access the US banking system. The NATF is made up of four working groups: Financial Education, Mortgage Products, Bank Products and Services, and Social Projects.

Prior to the launch, the Mexican Consulate had been promoting how the *Matricula Consular* could be used to promote banking services. This coincided with the FDIC's conclusion that immigrants' primarily challenge to entering the banking system is obtaining the proper from of identification. The FDIC began presenting the *Matricula* as an alternative and engaged in a two-year educational process with banks. Currently 118 banks nationwide accept both the *Matricula* and the Individual Taxpayer Identification Number (ITIN) as alternative forms of identification to open bank accounts. Eighty-six of such banks are located in the Midwest. Over 20 banks in the Midwest offer bank products with remittance features.

The Task Force holds quarterly meetings in Chicago to take an inventory of who is doing what, share best practices, and report on new laws. Each of the working groups meets regularly. The Financial Education Working Group employs the FDIC's Money Smart financial curriculum to help adults outside the financial mainstream improve their money skills and creating positive banking relationships. The program is offered in Spanish and three other languages. Future classes will be held on topics such as homebuyer information, predatory lending, taxpayer education, and use of alternative forms of identification, among others. Eighteen organizations including banks, non-profits, and others would be involved. Banks, such as Bank of America, have donated ATMs for in-class simulation purposes.

The Mortgage Products Working Group helps banks develop loan programs for immigrants that can be held in the bank's portfolio, as well as be sold on the secondary market. The Task Force has created a model loan product called the New Alliance Model Loan Product (NAMLP). It is intended for use by potential homeowners who pay taxes using an ITIN. The NAMLP is based on developed unconventional mortgage programs to help immigrants qualify for existing home loan programs created by Second Federal Savings and Loan Association in Chicago and Mitchell Bank in Milwaukee.

One of the highlights of the Bank Product and Services Working Group was the December 10, 2003 conference held at the Mexican Consulate in Chicago. Thirty national, regional and community banks gathered for a showcasing of current and future remittance products. Bank of America, North Shore Bank, Mitchell Bank and Fifth Third Bank featured their four different remittance products with four different features. These programs demonstrated that such products are needed by the community as well as are a means to involve the 30 "unbanked". The business case for banking the "unbanked" has been successful and there is real interest in the economics of the issue. The Task Force has also been successful in receiving input from community organizations. While the profits do not necessarily come from accounts for remittance senders, banks are looking to the long term. They want clients to enter the system and then cross over into other products like credit cards, auto loans, small business loans, etc., where the profits lie. There is a tremendous loyalty in the immigrant market, once you get individuals into the system, they are unlikely to leave and that they usually bring in another 10-15 people.

In its December 10, 2003 press release the Mexican Consulate highlighted the promising preliminary results of NATF. So far, more than US$ 100 million in deposits have been invested in financial institutions that accept the Mexican *Matricula*. Official reports from over 30 banks that operate in the Midwest indicate that over 50,000 new bank accounts had been opened in the Midwest by December 2003 by formerly "unbanked" customers, with an average balance of US$ 2000. The Task Force estimates that new accounts represent over US$ 100 million in deposits. As of December 2003, over 35,000 immigrants in the Midwest have participated in education classes or workshops using the FDIC's Smart Money curriculum and similar financial education programs. In the 2002 tax filing season, almost 7,500 immigrant working families were served in Chicago area free tax preparation sites, with EITC refunds of US$ 9.3 million, saving immigrants US$ 750,000 in preparation fees.

According to FDIC personnel interviewed, mortgage loans will be of major interest to banks. Banking the unbanked has been a three stage process, beginning with (1) learning about the *Matricula Consular* and learning regulators views; (2) offering remittance features to bring in clients; and (3) offering mortgage loans. Some banks are providing mortgage loans using ITIN numbers -six in the Milwaukee and Chicago area-. To date, 15 of the 35 NATF-member banks offer mortgage products that utilize ITIN numbers, totaling 659 loans -approx US$ 93 million in originations-. The Wisconsin Housing & Economic Development Authority (a NATF member) purchases these loans in the secondary market from local banks in Milwaukee, WI.

The FDIC has now expanded the program throughout the Midwest, California (Los Angeles), Texas (Austin), Iowa and Georgia (Atlanta), New York and Boston and has formed working groups in these areas.

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