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Village Banking: Joining the Mainstream

Glenn Westley

Village banking has arrived. In a recent survey carried out by the IDB and the Consultative Group to Assist the Poorest of 176 of the largest and most sustainable microfinance institutions (MFIs) in 17 Latin American countries, 47 MFIs offer village banking. Their village bank loans collectively cover a total of 410,000 clients with $61 million in portfolio and an average loan balance of $150. The number of clients served through village banking now exceeds the number served through solidarity group lending (350,000). Village banking institutions (VBIs) range from NGOs offering only village banking to regulated commercial banks offering village banking alongside solidarity group and individual microloans.[1] Geographically, the clients of

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Remittances and Microfinance: A Practical Application

Juan Buchenau

Migration from Latin American, primarily to the United States of America, has generated a major source of income in the form of remittances to the migrants' countries of origin, and in particular to their families, benefiting approximately 18 million families in Latin America who receive around 38 billion dollars per year. Various analyses show that large groups of emigrants overlap with the population segments to which microfinance institutions target their services.

In view of the importance of remittances to their customers' finances, (in average families are estimated to receive 2,000 dollars per family per year), the entities of the IMI[1] network have decided to venture into this service. This article provides a view of the principal experiences

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VBIs range from remote rural regions to peri-urban and urban areas. However, the percentage of clients residing in rural areas is higher for village banking clients (29%) than for group or individual loan clients (17% and 8%, respectively). In addition to this greater rural focus, the target clientele of most VBIs are very poor microentrepreneurs (as shown by the low average balance of $150 for village bank loans, versus $329 for solidarity group loans and $980 for individual loans), and virtually all are women. One indicator of the more intense poverty focus of VBIs, taken from the MFI inventory cited above, is the low average balance of $150 for village bank loans, versus $329 for solidarity group loans and $980 for individual loans.

What Village Banking Offers

Village banking offers several important services:

- Credit—in the form of a loan to a group of approximately 15-30 individuals
- Savings services—both forced and voluntary
- Non-financial services—informal and sometimes formal as well
- The internal account—offered by some VBIs, the internal account provides additional credit, savings, and non-financial services.

Each of these services is now briefly discussed.

Credit. Village banking starts with a loan from the village banking institution (VBI) to a group of approximately 15-30 individuals. In this way it resembles solidarity group lending, only the group size is larger than the 3-7 individuals who commonly receive a solidarity group loan. The 15-30 individuals form a village bank, adopt bylaws, and learn how to keep records of all financial transactions. They elect a president, treasurer, and perhaps other officers to run meetings, collect and disburse money, and generally manage the affairs of the village bank in receiving and providing services. Analogous to the case of solidarity group lending, all village bank members are responsible for the repayment of the loan that has been granted by the VBI to the village bank and divided among its members. If the village bank fails to repay its loan to the VBI, it typically faces the cutoff of all VBI-provided services. Therefore, village bank members have strong incentives to admit only responsible individuals to the village bank, who are likely to repay their loans on time. Since it is fundamentally the village bank that decides the size of the loan each village bank member receives—with some input, perhaps, from the VBI loan officer, who is the VBI's representative to the village bank—all village bank members also have incentives to make sure that no individual borrows more than she is capable of repaying.[2]

Forced savings. VBIs typically require each village bank member to save. These *forced savings* often reach 10-30% are often a significant percentage of the amount the member has borrowed from the VBI, such as 10-30%. Because they act as cash collateral, forced savings are undoubtedly useful to the VBI. However, the utility of forced savings to clients is more open to debate. This is because of the compulsion that *all* clients must save *all* of the time regardless of the business or other uses that they might have for these savings. In addition, these savings are often made quite inaccessible to the client, further diminishing the inherent utility of forced savings to many clients. These clients might be able to more quickly increase their incomes and escape poverty if they were allowed to take some or all of their forced savings contributions and invest them in their own businesses, either as additional working capital or to buy tools and equipment.

Voluntary savings. One of the great advantages of village banking is that it provides a way not only to offer its clients credit, but also savings services. VBIs typically also provide their clients the opportunity to save voluntarily, over and above the amounts they are forced to save. One of the great advantages of village banking is that it provides a way not only to offer its clients credit, but also savings services. By pooling all of their forced and voluntary savings together in a single deposit account, members of a village bank can often overcome the deposit minimums and low balance fees imposed by many banks and other deposit-taking financial institutions. VBIs that permit internal account lending provide savers with the added possibility of earning much higher interest rates than those normally paid by banks, on both voluntary and forced savings.

Informal non-financial services. Village banks meet regularly (generally weekly or biweekly, sometimes monthly) to collect each member's loan payment, take savings and pay out savings withdrawal requests, and transact other business. While these meetings take members away from their own businesses for a significant period of time (a meeting typically lasts 1.5-2 hours), they are the vehicle through which village bank

[1] We use the term VBI to denote any microfinance institution offering village banking loans, even if it also offers other types of credit as well, such as solidarity group or individual loans.

[2] Since village bank clients are overwhelmingly women, we adopt the convention of referring to them using the feminine pronouns, such as "she" and "her."

credit and savings services are delivered. These regular meetings also provide members with a number of other benefits, which include what may be called informal non-financial services. Among these services are networking (including obtaining information about business opportunities), informal technical assistance (members helping each other with business questions and decisions), empowerment (changing attitudes from "I can't" to "I can" as a result of group support, self-management of the village bank, and increased business success), enjoyment from socializing, and a sense of belonging—all of which can all come from participation in a village bank.

Formal non-financial services. Some VBIs offer formal non-financial services and some do not. For example, CRECER and Pro Mujer Bolivia take 20-30 minutes during each village bank meeting to provide all village bank members with education in how to improve their businesses and in a number of basic health areas. Pro Mujer Bolivia also provides primary health care services such as vaccinations, breast examinations, and counselling using nurses and other trained professionals. On the other hand, some very successful VBIs, such as Compartamos and most FINCA affiliates, do not offer any formal non-financial services.

Internal account. Instead of being placed in a commercial bank, the forced and voluntary savings of village bank members may instead be channelledchanneled to the village bank's internal account, where they are used to make supplemental loans to village bank members, including loans for emergencies, consumption, and additional business needs. Generally, these internal account loans can begin and end at any time during a single loan cycle. Thus, in both purpose and timing, internal account loans are more flexible than the external account loans members have with the VBI. Moreover, the internal account generally remunerates savings at a far higher rate than do commercial banks, though typically at the cost of some additional risk and illiquidity. A growing number of VBIs choose not to offer the internal account because of the substantial time it requires of their loan officers to help the village bank manage this flexible savings and loan tool. Moreover, VBIs generally receive no remuneration for providing this assistance and often find that internal account loans reduce the demand for the VBI's own loans to village bank members.

The Need for Greater Flexibility

Compared to individual loans, village bank loans are very inflexible. Each member of a village bank receives a loan from the VBI that starts on exactly the same date and has the same term and the same repayment frequency (usually weekly or biweekly). Although different members are normally allowed to have different size loans, there is generally a cap imposed on the maximum size of the loan to any single village bank member. This is done so that small borrowers in a village bank are not required to guarantee loans that are much larger than their own. Village banking imposes other important inflexibilities on its clients that individual lenders normally do not. The most important of these is the forced savings requirement discussed above.

Village banking also imposes important transactions costs and risks on its clients. However, it is unclear whether these transactions costs and risks are more onerous on the whole than the transactions costs and risks imposed on clients by the individual lending methodology. While village banking clients must attend frequent and lengthy meetings, individual loan clients must instead individually carry their loan repayments to the lender—often once a month, but sometimes every week or two, depending on the MFI and client. In addition, village bank members must bear the risks of guaranteeing the loans of everyone in the village bank, a risk that is avoided under the individual loan technology.

VBI client retention rates are low compared to the retention rates achieved by individual and solidarity group lenders (Table 1). This suggests that village banking still needs to increase the flexibility and client-orientation of its methodology in order to improve client satisfaction, retention, and impact—and thus also improve VBI sustainability and scale.

Specifically, Table 1 presents client retention rates for the years 2000-02 for a number of leading VBIs in Latin America as well as for a comparison group of leading Latin American individual and solidarity group lenders affiliated with Accion International.[3] (Accion International is a U.S.-based NGO that provides technical assistance and other services to a network of leading MFIs in Latin America.) Table 1 shows that, with the exception of Compartamos and FINCA Haiti, VBI retention rates are generally 10-15 percentage points below the average retention rates of the Accion International solidarity group and individual lenders.[4] Because most VBIs serve the lowest income segment of the microfinance market, they arguably face less competition in this market than the Accion International affiliates face in the segment they serve, which generally consists of more mainstream microfinance clients. This would suggest

Table 1
Client Retention Rates: Village Banking vs. Group and Individual Lenders

MFI	Country	2000	2001	2002	Average 2000-02
Pro Mujer	Bolivia	60	61	73	65
Pro Mujer	Nicaragua	59	61	67	62
Compartamos	Mexico	87	97	92	92
FINCA	Nicaragua	71	55	61	62
FINCA	Honduras	77	31	47	52
FINCA	Haiti	100	100	99	100
FINCA	Latin America – average of 7 programs	65	52	58	58
Accion International	Average of 15-17 Latin American affiliates	75	73	71	73

Note: All client retention rates (CRR) are calculated using the same formula: $CRR = C_1 / (C_0 + NC)$, where C_1 is the number of clients at the end of the year, C_0 is the number of clients at the beginning of the year, and NC is the number of new clients (that enter the program during the year). For example, if all clients present at the start of the year (C_0) and all the new clients (NC) remain in the program until the end of the year, then $C_1 = C_0 + NC$, and the client retention rate equals 1 (or 100%). If only half of each group remains at the end of the year, then $C_1 = .5 (C0 + NC)$, and the client retention rate equals 0.5 (or 50%).
Sources: All data are obtained directly from Pro Mujer, Compartamos, FINCA, and Accion International.

even more strongly that village banking needs to improve its product since it has lower client retention rates despite quite possibly facing less competition.

Best Practice Recommendations

4

Most of the longer paper that underpins this article is devoted to deriving and discussing numerous best practice and policy recommendations, with many of these recommendations focused on the theme of increasing the flexibility and client-orientation of village banking. This longer paper surveys and analyzes the current practices of 4 leading Latin American VBIs: FINCA Nicaragua, Pro Mujer Bolivia, Compartamos (in Mexico), and CRECER (in Bolivia). By making a detailed examination and analysis of the major aspects of the village banking methodology employed by these leading VBIs, we aim to show what lies behind their success. Each VBI's practices are studied critically and compared with those of the other VBIs, all within the context of the village banking experience and literature worldwide and especially in Latin America. This allows us to analyze what appears to be working well and what appears to need improvement, that is, what are good, bad, and questionable VBI practices, with particular reference to Latin America. The following are a sampling of some of the best practice recommendations in key areas of village banking.

Maximum loan size and the length of the loan ladder. At $1400 for Compartamos, $1000 for FINCA Nicaragua and Pro Mujer Bolivia, and $800 for CRECER, the maximum loan sizes allowed by the 4 VBIs are generally quite reasonable. They are a far cry from the $300 maximums that were credited with causing substantial client desertion among Latin American VBIs in the mid 1990s. The number of loan cycles (with each loan cycle typically lasting 16 or 24 weeks) required for clients to reach these maximum loan sizes appears more problematic in the case of two of the VBIs, CRECER and Pro Mujer Bolivia. These two VBIs require 6 and 9 loan cycles, respectively, for clients to reach the maximum loan size, versus 3 and 4 loan cycles in the case of Compartamos and CRECER, respectively. As a result, clients with dynamic businesses in Pro Mujer Bolivia and CRECER could be held back for years. Both of these institutions have consistently posted vanishingly small loan delinquency

[3] Accion International is a U.S.-based NGO that provides technical assistance and other services to a network of leading MFIs in Latin America

[4] The very high client retention rates obtained by Compartamos and FINCA Haiti reflect, at least in part, the fact that these two VBIs face little or no competition over most of their service areas. The remaining VBIs do not enjoy such monopolistic positions.

rates (under 1%) and therefore could almost certainly allow clients to progress more rapidly to the final maximum loan size without unduly jeopardizing credit quality.

Repayment frequency. Substantial evidence indicates that the changeover from village banking's traditional weekly repayment meetings to biweekly meetings can be very beneficial in practice to both VBIs and their clients (e.g., VBIs can potentially double loan officer productivity and clients can cut the time they spend in meetings by half). More limited evidence suggests caution in the use of monthly repayments because they may result in high levels of loan default.

Loan term. An area in which VBIs should almost certainly offer their clients greater choice is in the term of their village bank loans. This is true for at least two reasons. First, it costs the VBI relatively little to do this, primarily some reprogramming of its systems. Second, some clients and village banks prefer longer-term loans (with their lower payments) while others prefer shorter-term loans (which allow more frequent replenishment of capital and faster progression to larger loan sizes).

Solidarity group and individual loans. Solidarity group and individual loans offer important avenues through which a VBI can address the diverse credit needs of its target population, and thus help to keep client satisfaction and retention rates high. By offering group or individual loans alongside traditional village banking loans, a VBI allows clients to choose whether they want the greater flexibility and possibly reduced risks and transactions costs of a group or individual loan, or the savings and non-financial services offered by a village bank loan. Forcing clients to leave their village banks in order to access a group or individual loan—as 2 of the 4 surveyed VBIs do—has important drawbacks, and should be seriously reconsidered. Particularly damaging is the fact that such a policy forces village bank members to give up all of the supports and other non-credit benefits of village banks, which many members value very highly.

Forced savings. VBIs typically require each village bank member to save. The following 4 recommendations are made concerning the se forced savings required by of VBI clientss:

- *Less forced savings.* VBIs with good repayment performance—for example, loan delinquency rates of under 5%—should strongly consider capping client forced savings balances at no more than 10-20% of the amount the client has borrowed from the VBI in the current loan cycle. Many VBIs, including the 4 analyzed here, have excellent repayment records, with loan delinquency rates consistently under 1%. Such VBIs can afford to get along with the suggested levels of cash collateral, as Compartamos and CRECER have demonstrated for the past several years. Clients are always free to save additional amounts voluntarily.

- *Varying rates of forced savings.* VBIs can usefully recognize that some village banks are riskier than others by varying the following ratio:

$$\frac{\text{Client forced savings balance}}{\text{Amount the client has borrowed from the VBI in the current loan cycle}}$$

  This ratio would be set lower for all clients of village banks with good repayment records and higher for all clients of village banks with poor repayment records. In this way, cash collateral is increased where it is needed and decreased where it is not.[5]

- *Greater access to forced savings (increased liquidity)*. VBIs should strongly consider following the lead of Compartamos and CRECER and offering their clients a village banking product in which forced savings are freely available at the end of every loan cycle without having to leave the village bank.

- *Illiquidity options.* For clients who prefer their savings to be illiquid, VBIs can offer products from a range of options, including traditional village banks (with forced savings that are available only when the client leaves the village bank or in an emergency), contractual savings products, and certificates of deposit. For VBIs that do not mobilize savings themselves, these last two products would be offered through a partner financial institution that is licensed to accept deposits.

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[5] This is the same ratio that the first bullet suggests capping at 10-20%. Taking these two suggestions together, this ratio might be set at 5% for all clients of village banks with very good repayment records, 10% for all clients of village banks with reasonably good repayment records, and 15-20% for all clients of village banks with weaker repayment records.

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(continued from page 1)

accomplished in the framework of a joint project of the IMI network entities in Latin America[2] under the sponsorship of the Multilateral Investment Fund, MIF. The program was carried out by the consulting company, Frontier Finance International, FFI, which in turn is part of the network of institutions headed by the IMI.

The objective of the project was to introduce the remittance service and to link it to the institutions' other services. This connection makes it possible to maximize the value of the resources received by improving remittance recipients' access to financial services (banking), and by facilitating the transformation of short-term resources from remittances into long-term resources through credits or deposits.

The project was initially developed at Financiera Calpiá due to the benefits derived from beginning operations in a market for which there are abundant sources of information. Later, in the second half of 2003, the activities expanded to Confía and Caja los Andes. Although there is a big demand for this service in Ecuador, the network decided to postpone operations in this country until 2004 in order to analyze in detail the special characteristics of the Ecuadorean market, which has a high rate of emigration to Spain and Italy.

The process of introducing the new service at Calpiá consisted of two steps:

- An initial step, in which the demand was analyzed, a partnering entity was selected and the remittance service was introduced, and
- A diversification step, in which the demand for other financial services by remittance customers was analyzed, and measures were designed and introduced to encourage these customers to use these other services.

Introduction of the Service

To select a Remittance Transfer Company (RTC), which would act as a partner of Calpiá, a study was conducted on the preferences of the central groups of customers involved in the transfer of remittances: emigrants and recipients. While the recipient customers' preferences were able to be assessed through a direct survey of the Calpiá customers who declared receiving transfers from relatives abroad, the analysis of the emigrants' preferences was based, given their dispersion outside the country, on existing studies, many of which have been carried out with the support of the MIF.

A preliminary survey of 1,500 Financiera Calpiá customers who were receiving remittances through different channels made it possible to establish that they valued, in order of importance, the security and speed of the service, followed by the proximity of the offices and the cost of the transactions. As in the use of the deposit services, these customers ascribe undeniable priority to security and reliability, since the risk derived from the safe-keeping/transfer of their resources is difficult to assess. Apart from being a quality criterion in itself, the speed of the service significantly contributes to increasing the perception of security by reducing the period of uncertainty. Once the security of the delivery is guaranteed, remittance recipients prefer to use the services of entities that are closer to customers and that require shorter waiting periods to deliver funds.

Considering the need to have a large network of collection offices in the countries where remittances originate, the high costs of setting up their own business in these countries, and the importance of the security and speed of the service to their customers, Financiera Calpiá established, in the framework of the program, a strategic alliance with the largest agent of remittances to El Salvador. Apart from considering the preferences of the recipients, this decision was based on an analysis of the comparative advantages of the various options to Calpiá and to customers abroad. While the direct costs incurred in the form of commissions by the emigrant customers who use the services of this RTC are clearly among the highest in the market, it can be confirmed that the other costs, which the remitting customers incur, are comparatively low: the transaction costs incurred for depositing remittances are reduced given the existing dense network of recipient offices in the U.S., the opportunity costs between

[1] Internationale Mikro Investitionen, a German company dedicated to investing in microfinance entities and which has an equity stake in 18 financial entities in Latin America, Eastern Europe and Africa.

[2] The network is comprised of the following institutions: Financiera Calpiá S.A. of El Salvador (now Banco ProCredit S.A.); Caja los Andes S.A. FFP of Bolivia; Financiera Confía S.A. of Nicaragua (now Financiera ProCredit S.A.); Sociedad Micro Crédit National S.A. of Haiti and Sociedad Financiera Ecuatorial S.A. of Ecuador.

the time the money is delivered and received in the destination country are also low, while the transaction risk is perceived as very limited due to this company's good reputation and the ease of verifying, almost instantly, the payment of the funds to the payee.

From the perspective of Calpiá, choosing to enter into a cooperation agreement with an established RTC made it possible to enter the market with a reduced initial investment and with a RTC recognized by both emigrants and remittance recipients. This alliance enables Calpiá to earn its own reputation as a remittance agent, which will make it possible for it to expand its services in the future and, when feasible and necessary, to create its own channels at the points of origin of the remittances abroad.

Once the RTC service provider was chosen, Calpiá trained the administrative staff of all its offices in cooperation with the former. The training involved both the employees responsible for informing the public, administrative assistants, cashiers and the office managers in order to have sufficient staff to the customers in a timely manner during the periods of highest demand. In addition, the RTC software was installed and the office staff was trained in its use. The launch of the new remittance service was accompanied by an intense advertising campaign in both the mass media and the entity's offices.

Expansion of the Services Offered

Once the remittance service was established and the corresponding processes were consolidated, a new survey was conducted among 900 customers who had received their remittances through Financiera Calpiá in March and April of 2003. The survey was needed to obtain information on the customers remitting funds, to explore recipient customers' preferences for different financial services and finally, to obtain an evaluation of the service provided by Calpiá in its first months of operations. Based on the results from these surveys, it was possible to establish that three out of five customers remitting funds had been abroad under three years, customers were primarily based in the U.S. and a large group of them had not yet legalized their migratory status in that country. This situation favors the use of non-banking channels to transfer remittances, as these providers do not require their customers to present U.S. identification documentation in contrast to the formal banking channels. With respect to the recipients' preferences for other financial services, the clients showed a clear interest in access to credit (55% of those surveyed expressed interest in credit for housing, consumption, emergencies and microenterprises), and to a lesser extent, in deposit services (42% expressed interest in access to deposit services with a clear preference for highly liquid products such as savings accounts). The vast majority of the customers interviewed stated that they were satisfied with the services provided by Calpiá, noting among its positive aspects the short waiting period for service and the proximity to their home, business or workplace.

Given the wide range of financial services that remittance customers would demand according to the results of the survey, it was decided to offer these customers all existing financial services, as a phase prior to the introduction of new financial products specific and adapted to this new demand.

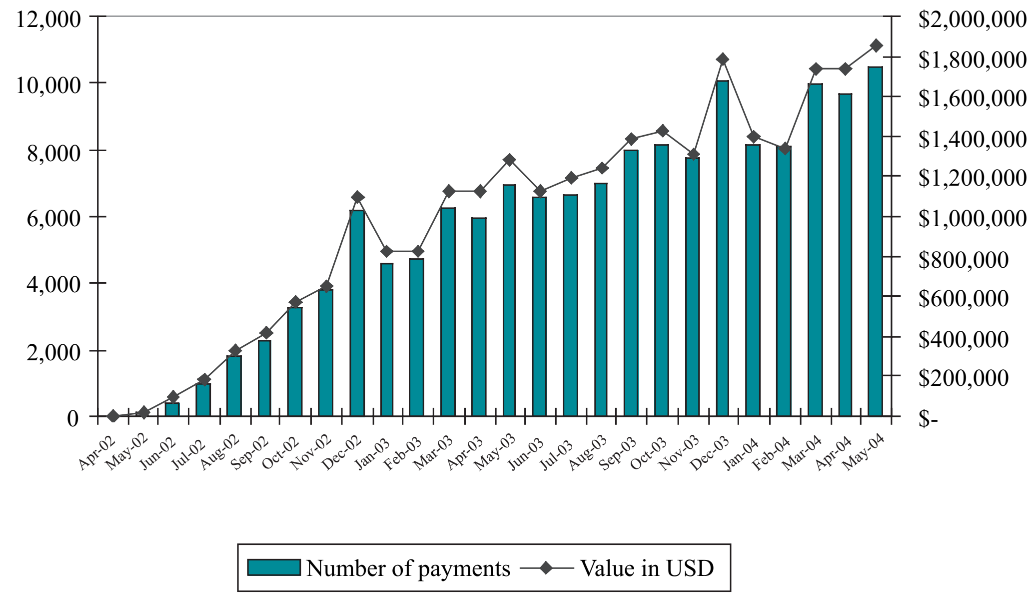
In order to encourage the cross-selling of the private investment bank's other products, Calpiá established a personalized promotion plan in all of its offices. In addition to the evaluation of the results of the promotion activities, Calpiá designated a pilot office which, through specially designed forms, captures general information about

Table 1:
Remittances Received Through FFI Network Entities
(information for the month of May 2004)

Entity	Start Date of Operations	Number of Remittances Recieved	Volume Received (in US$)	Average Volume per Remittance (in US$)
Financiera Calpiá / Banco ProCredit, El Salvador	April 2002	10,467	1,860,000	177
Financiera ProCredit, Nicaragua	August 2003	1,020	240,000	233
Caja los Andes, Bolivia	November 2003	518	140,000	274
Remittances Subtotal		**12,005**	**2,240,000**	

Source: Information provided by the institutions

Graph 1: Evolution in the Number and Volume of Monthly Remittances Transferred via Financiera Calpiá/Banco ProCredit of El Salvador since the Remittance System began Operations.



Source: Financiera Calpiá

each customer, and the transactions that are being carried out in the entity. In this branch, the feasibility of introducing the "multiple platform officer" position, which assumes the duties of three positions (deposit manager, customer service clerk and information and deposit officer), was also evaluated.

Main Results

The total volume of remittances received through the IMI network entities in Latin America has changed in a very favorable manner. This has been possible because of the proximity of the network entities to the population segments to which the remittances recipient families belong, added to the advantages derived from the dense network of offices of the counterpart RTC in the U.S. The following table shows the volume of transactions of each entity up to the month of May 2004.

Financiera Calpiá has succeeded at considerably increasing the volume of transactions from the start of its operations in April 2002. The following table shows the evolution in this activity.

The average amount received per remittance has been slightly less than 180 USD almost every month. This figure is significantly less than the average amount per remittance reported for El Salvador overall, which according to a recent U.S. study was 287 USD[3]. The difference quite probably reflects the short period of stay abroad of the emigrants who were sending their remittances through Calpiá, and which is translated into relatively low income. Even in the context of initial growth, it calls attention however to the clearly seasonal nature of the deliveries, with marked peaks in the months of December (for Christmas) and May (for Mother's Day), which reveal the family quality of the transfers.

On the other hand, Calpiá has made a total of 180 monthly transfers in the last 12 months from El Salvador to foreign countries for a total amount of 450,000 USD per month (the average amount remitted through Calpiá to other countries is 1,600 USD). These transfers are primarily made to Guatemala and Mexico by Salvadorans who have business relationships with those countries or send funds to their children studying abroad.

Lessons Learned

Beyond including the international transfer service as a new financial product, the program drew the attention of the network institutions to this increasingly important phenomenon. Aside from the immediate lessons on handling the new product, the institutions have gained new experience in both serving a new segment of customers (those whose primary source of income is remittances) and in considering remittances an important source of income from the segments that it was already serving. In this context, the effect that the service has had on expanding the entity's customer base is especially

[3] See the presentation "Remesas, Sector Rural y Desarrollo" presented by Manuel Orozco in "Paving the Way forward for Rural Finance", Washington June 2003. Available at www.basis.wisc.edu/rfc

noteworthy: depending on the location of each office, 50% to 75% of the customers who receive their remittances through Calpiá were attracted to the institution by this new service. According to preliminary estimates, in 2003, this phenomenon resulted in an increase of 5,000 new customers.

These new customers belong to a segment that was not served previously: low-income families whose primary source of income is remittances. These families generally have a reduced financial standing, a relatively low level of formal education and only limited experience with using financial services from regulated entities. As a consequence, the use of other Calpiá financial services is incipient and slow, as they are at the start of a new learning curve.

Notwithstanding the preceding, the crossed sale of services and the introduction of multiple platform officers have made it possible to substantially increase banking and the use of financial services by these customers: at this time, 36% of these customers have opened savings accounts[4] while 6.7% have gained access to credit granted by the institution. These figures are consistent with observations made in the other Calpiá offices and contrast favorably with the percentage of the population that uses financial services in Central America, which according to a recent study is only 22%.[5]

Based on the measures introduced in the framework of the program, Calpiá has had its first experience granting credit based on remittances as an important and reliable source of payment. The preliminary results of credits granted for housing to customers whose primary source of income is family remittances are encouraging: approximately 20% of 1,700 credits intended to finance a state-subsidized apartment complex in Sonsonate ("El Sauce" complex) have been granted to this type of customer and their performance, one year out, has been highly satisfactory.

The results described here have resulted in Financiera Confía beginning to offer services to remittance customers in Nicaragua, giving them access to its other services from the start. After four months of operations, Confía has already captured 2.9% of the volume of the remittances in the form of savings or time deposits.

To learn about the behavior of customers receiving remittances, the network's entities have initiated a process to revamp their information systems. These adaptations, which are currently being implemented, will make it possible to monitor each customer's history and thus have the necessary information to measure the effectiveness of the efforts made in pursuit of the banking of the customers receiving remittances.

Future Activities

The polls and surveys conducted among the customers who receive transfers through Calpiá indicate that there is a demand for additional financial services linked to remittances.

The customers surveyed have expressed a clear interest in services that facilitate the receipt and use of the remittances. Services such as automatic tellers, or debit and credit cards among others, would facilitate access to the funds from the remittances received, therefore the network entities are establishing a program to introduce them. The advantages are clear: customers improve the management of their liquid assets and reduce the risk of being robbed when the funds remain in the institutions, while at the same time the entities improve their deposit mechanisms, and with this, the funding to grant financing. This last advantage is of particular importance to the institutions of the IMI network, which have shown very dynamic growth in their deposits over the past year and require new and greater sources of funding for their growth.

A second line of services demanded by clients is related to credit and savings services designed specifically for transnational families. Although the credits granted for housing, which are noted above, are a good beginning, the network entities face the challenge of adapting existing services and introducing new savings and credit products that consider the characteristics of these types of families and the risks that they face. Remittance customers have also shown growing interest in options that reduce the direct costs of transfers.

To find appropriate answers to these requirements, the entities of the IMI network have entered a new phase of analysis and design in which they must increase the depth of their knowledge of their remittance recipient customers and their customers abroad at the same time that they assess the technological and financial options that are of greater benefit to this large group of Latin American companies.

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[4] To date, approximately 16% of these customers have displayed periodic savings behavior, depositing on average around 12% of their remittances in savings accounts.

[5] See: "Remittance Senders and Receivers: Tracking the Transnational Channels," published by the MIF and the Pew Hispanic Center in Washington DC, November 2003

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The Micro, Small and Medium Enterprise Division manages the IDB's microenterprise projects with the private sector and provides training, disseminates best practices, and develops policies and strategies to guide Bank country operations and promote the growth of the microenterprise sector in Latin America and the Caribbean.

Contributions to the *Microenterprise Development Review* are welcome. Please send articles and comments to the Technical Notes Coordinator of the Micro, Small and Medium Enterprise Division. This and other publications of the Micro, Small and Medium Enterprise Division are available in Spanish and English at the Home Page of the Inter-American Development Bank: http://www.iadb.org/sds/

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