The Impact of Remittances on Microfinance Institutions

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ACCION Objectives:

To promote the development of remittances services through microfinance institutions

Bank recipient families and facilitate access to financial services

Goals:

- Leverage the economic impact of transfers to improve the lives of families: facilitate links to savings and loan products
- Immigrants live in two worlds. Adapt products accordingly
- Provide profitable line of business to MFIs that will attract customers and provide opportunities to cross-sell.
## ACCION Partner Involvement in Remittances

<table>
<thead>
<tr>
<th>Institution/Country (year remittances began)</th>
<th>Volume (millions)</th>
<th>Number (millions)</th>
<th>% Growth in Number</th>
<th>Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BancoSol Bolivia (2003)</strong></td>
<td>$35.9</td>
<td>128,437</td>
<td>76% (2004)</td>
<td>La Caixa, CECA, Dolex, Quisqueyana, Microfinance Int’l, Exact Transfer, NSA, MACCORP</td>
</tr>
<tr>
<td><strong>Banco Solidario Ecuador (2002)</strong></td>
<td>$20.8</td>
<td>79,000</td>
<td>100% (2004)</td>
<td>La Caixa and other Spanish cajas Banco Popular de Milano and other Italian banks</td>
</tr>
<tr>
<td><strong>Banco Caja Social Colombia (2003)</strong></td>
<td>$2.6</td>
<td>10,000</td>
<td>100% (est. 2005)</td>
<td>Bancomer Western Union subagent</td>
</tr>
<tr>
<td><strong>Sogebank/Sogexpress Haiti (2000)</strong></td>
<td>$67.0</td>
<td>352,000</td>
<td>n/a</td>
<td>Western Union agent</td>
</tr>
<tr>
<td><strong>El Comercio Paraguay (2004)</strong></td>
<td>$1.7</td>
<td>10,000</td>
<td>n/a</td>
<td>Western Union subagent</td>
</tr>
<tr>
<td><strong>FAMA Nicaragua (2003)</strong></td>
<td>$0.8</td>
<td>7,000</td>
<td>100% (est. 2005)</td>
<td>VIGO-WOCCU Credit Unions</td>
</tr>
</tbody>
</table>
Future Plans

Examples: Banco Solidario (Ecuador) / BancoSol (Bolivia)

- High rates of growth during initial years: 76% in 2004, 100% expected for 2005
- Cross-sell: 5%-8% of transactions accessing other products (3,800/47,000 for Banco Solidario)
- Partnerships with different money transfer companies
- Remittances channeled from different corridors: Spain, United States, neighboring countries
- Products being adapted to this niche market: Mortgages, home improvement, savings, insurance
Are Remittances Profitable for MFIs?

Depends on type of partnerships established:

- **FAMA-Nicaragua**: Works with network of credit unions, commission is split with network, not enough to cover costs.

- **BancoSol-Bolivia**: Multiple partnerships established directly with money transfer companies.

- **Banco Caja Social-Colombia**: Operates as a subagent of Western Union.

- **Consolidator Model??**: Commissions are split with consolidator. High volume but low revenue per transaction. Harder to cross-sell.
MFI Requirements to Enter Remittance Market

- Good coverage and large distribution network. Partnerships with other financial institutions
- Convenience: hours of operation -- weekends, evenings
- Customer service: good management of traffic in branches. Call center
- Technology platform to manage transfers internally
- Able to link with money transfer companies: interface
- Internal controls: compliance
- Liquidity management: coping with varying flows
Linked Products: Savings

Recipient

- Most transfers received in cash at MFIs
- Seeks value-added: access to loans or relationship with institution
- Remittances designated for specific household expenses – not viewed as investment resources
- Can’t depend on timing and frequency
- Recipients save average 5% of transfers (IDB studies)

Immigrant

- Potential: multipurpose account (B. Solidario) as a tool to manage funds sent, % to be given in cash to relative, % for down payment
- Prefer to save in US
- Interest among undocumented during initial years in US
Immigrant

- 50.1% of households that receive transfers own a home (vs. 44.2%)
- Interest in housing: as investment, to help relatives back-home, to have a place to stay when visiting, as the goal to achieve to go back-home (recent immigrants)
- Challenges: evaluation of undocumented immigrants, collection in the US
- Banks are requesting prove of repayment capacity: a percentage of remittance has to be saved for 6-9 months
- House back-home as collateral
Linked Products: Loans and Mortgages (Continued)

Niche: Recent immigrant sending to close relatives
- Frequent transfers and constant amounts
- High control over how funds are used

Products: home improvement, micro credit to start businesses, high risk and not offered by MFIs

Challenges:
- Frequency and amount not controlled by recipient
- Funds designated for household expenses
- Loan to immigrants have a better repayment than to recipients (B. Solidario)
- Profile of recipient, not necessarily the same as microentrepreneur (parents, children)
Ofrecer a la gente los recursos que requieren para salir de la pobreza