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**THE MULTILATERAL INVESTMENT FUND OF THE INTER-AMERICAN
DEVELOPMENT BANK AND REMITTANCES***

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* The views expressed in the paper do not imply the expression of any opinion on the part of the United Nations Secretariat.

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I. THE IMPORTANCE OF REMITTANCE FLOWS TO THE REGION

- 1.1 The Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB) programme on remittances, *Remittances as a Development Tool* (MIF/GN-73), was launched in 2001. The main goal of this programme is to increase the development impact of migrant remittances – which since 2003 exceeded the combined totals of net official development assistance (ODA) and foreign direct investment (FDI) for all countries of LAC. The cluster supports both technical cooperation projects and numerous efforts to raise awareness, generate knowledge, and disseminate lessons learned. To date, this cluster includes 23 projects with over \$100 million of financing.
- 1.2 MIF assistance has targeted improvements in areas that directly affect the development impact of remittances. These include efforts to:
- Reduce the costs of sending money home;
 - Channel remittances through formal financial institutions, and to,
 - Improve the incentives and capacities needed to bring migrant capital back home.

II. REDUCING COSTS

- 2.1 The MIF has supported a number of activities aimed at contributing to the reduction of money transfer costs. A systematic campaign of *awareness-raising* and the *knowledge dissemination*. MIF has had numerous meetings with key stakeholders in member States, the money transfer industry, the financial sector, civil society, including migrant hometown associations, NGOs, foundations, press and media, as well as with other multilateral and bilateral donors, among others.
- 2.2 MIF presented *Remittances to Latin America and the Caribbean: Goals and Recommendations* (see Annex B) at the IDB annual meeting in Lima 2004. These recommendations and best practices for industry, government, and civil society outline areas in need of improvements in areas such as competition, transparency, access to financial services, financial literacy and other key areas. This work was the joint product of MIF and an External Advisory Group comprised of more than 20 financial institutions, money transfer companies, and multilateral institutions.
- 2.3 Overall, the MIF campaign to raise awareness and disseminate knowledge on remittances has been successful. Migrant remittances are no longer “hidden in plain sight,” but have now become a high priority on the agenda of the G8. Most importantly, the average cost of sending a remittance from the U.S. to LAC has fallen from 15 per cent to 7 per cent.

III. CHANNELING REMITTANCES THROUGH THE FINANCIAL SYSTEM

- 3.1 Most of the new areas that MIF is exploring are related to this second goal of the cluster. MIF efforts focus in improving the mix of incentives and capacities needed to increase the flow of remittances through financial institutions. The goal is to deepen financial markets and promote financial intermediation throughout the Western Hemisphere and beyond. A more immediate objective is to increase the financial choices and services available to migrants and their families. Only banks, credit unions, and other depository institutions can offer opportunities for savings

accounts, checking accounts, and various forms of low-cost credit to LAC immigrants living in developed countries. Only banks, credit unions, and micro-finance institutions in recipient countries can best leverage the economic impact of remittances, once received.

- 3.2 In general, MIF assistance in this area has focused on promoting agreements between financial institutions in remittance sending and receiving countries, on improving the legal and regulatory environment in order to expedite the flow of deposits and improve service delivery, on supporting more efficient technology platforms, and on increasing financial literacy. Toward these ends, MIF is building a network of financial institutions in LAC, including microfinance organisations, that can then link up with formal financial institutions in developed countries to both lower transaction costs and increase the multiplier effect of remittances.
- 3.3 There have been promising developments in this area. For example, in Mexico, laws and regulations that have prohibited financial institutions from receiving remittances, such as rural credit unions, have been changed. A network is being formed by BANSEFI -- *La Red de la Gente* -- with the objective of enabling about 1,000 financial institutions (both inside and outside that network) to receive remittances throughout rural Mexico in the near future.
- 3.4 In Ecuador, *Banco Solidario* is working with a network comprised of Ecuadorian cooperatives and several financial institutions in Spain and Italy in order to distribute remittances. In just one year *Banco Solidario* has captured over 10 per cent of the \$500 million remittance flow between Spain and Ecuador. *FIE* has established a microfinance operation in Buenos Aires to provide services to Bolivians living there - including remittance services. A regional initiative with IFAD will promote the channeling of remittance flows into rural finance.
- 3.5 El Salvador, *FEDECACES* is working with its affiliates to strengthen their capacity to receive international remittances. In 2001, there were 3,000 transfers, rising to 52,000 in 2002. By 2003, more than 100,000 were received. In the past year *Financiera Calpia*, a Salvadoran microfinance institution determined that one third of its clients were receiving remittances from the U.S. After a concerted marketing campaign, Calpia is now processing thousands of remittances monthly – and is offering other services such as savings accounts, mortgages, and insurance products. There has been much progress, yet much remains to be done. Eight out ten migrants in the United States still send money via money transfer companies, and a full 70 per cent of the population in LAC does not have access to the banking sector.

Next steps

- 3.6 Next steps. There are many sides to remittances, and much to be learned. MIF success in this area derives directly from the generation and dissemination of new knowledge through surveys, studies of best practices and other *learning products*. These efforts continue to yield impressive dividends, by increasing the awareness of policymakers, forging networks of stakeholders, and informing the design of effective technical cooperation.
- 3.7 Toward this end, the MIF continues to expand its *learning network* in order to expand the knowledge frontier of remittances, through linking with universities, think tanks and foundations, governments, civil society organisation, other multilateral organisations, bilateral donors, and other stakeholders.

3.8 While much more must be learned, there are several promising new areas for technical cooperation. These include:

- remittance securitization,
- housing and mortgages,
- remittances and transnational networks, and, opening new channels for remittances.

Remittance Securitization

3.9 MIF has developed pilot projects to promote the securitization of remittances. Remittances have become a stable source of hard currency for the region's larger banks. This steady flow represents an under-used asset that offers promise for medium and long term funding from international capital markets through the process of "remittances securitization." This is a way for banks in emerging markets to borrow hard currencies by issuing bonds that are backed by future flows of remittances. To date, remittance securitizations have been concentrated in Brazil and Mexico. Except for El Salvador and Peru, there have been no remittance securitizations in the middle and low-income countries of LAC - despite significant remittance flows to these countries. Securitization offers several potential benefits, including:

- Greater lending by local banks,
- Better and lower cost services for remittances senders and receivers,
- Increased access to international capital markets for non-investment grade countries,
- Improved financial condition of local banks.

Remittances and Housing

3.10 In collaboration with governments, local commercial banks and other specialized financial institutions, the MIF is seeking new and innovative mechanisms to facilitate housing access for families of remittance senders. The MIF is exploring and implementing projects in this area in Mexico, El Salvador, Ecuador, Colombia and Perú. Currently, neither banks nor the regulatory environment are prepared to translate remittance flows into housing loans or related vehicles. Commercial banks remain reluctant to extend credit to migrants' families due to non-existent credit histories. Moreover, banks are currently unlikely to consider future remittance flows as valid legal securities. However, progress in this area will yield valuable returns, such as:

- **Access to mortgages** – migrant capital and remittance flows are untapped resources that can back support housing for migrants' families;
- **New financial instruments** – these include instruments to guarantee the risks associated with mortgage lending to migrants and remittance recipients; and,
- **Increased financial literacy** – projects will include activities to spread knowledge of financial services and promote financial literacy.

Opening New Channels for Remittances

3.11 As noted, the average cost of sending money to LAC has fallen significantly. This is attributable in part to growing competition, newer technology, and increasing awareness. Moreover, the gradual entry of financial institutions into the remittances market will further expand financial choices for migrants and their families. However, for many family members – particularly those

in remote areas banks and money transfer companies may not be easily accessible. In many countries, postal services have the highest geographical presence of any entity – public or private. MIF is exploring the possibility of expanding the role of postal services in the area of remittances.

IV. ATTRACTING MIGRANT CAPITAL TO COMMUNITIES OF ORIGIN

- 4.1 One of most innovative goals of this cluster, and hence the most challenging, is to attract migrant capital - both in money and brains - back to their countries of origin. Promoting linkages between migrant hometown associations and their communities of origin is one area that offers great promise. However, considerable effort will be required to overcome migrants' mistrust of public authorities, as well as the difficulties of identifying attractive investment opportunities in communities of origin. However, progress made in other MIF operations on expanding the access of migrants and their families to financial institutions will be of definite benefit to these efforts.

Remittances and Transnational Networks

- 4.2 Most of the focus on remittance-related assistance has focused on the costs and the mechanisms of remittance transmission, and on the issues related to remittance recipients. Increasingly, broader development opportunities also involve the “supply-side of remittances,” namely, the *senders* of these flows. This area extends the current MIF efforts to bring migrant capital back to communities of origin (such MIF/AT-410) into the broader arena of transnational families and their business networks. Increasingly, migrant entrepreneurs, themselves remitters, are demonstrating new possibilities for ethnic run businesses in the United States, nostalgic trade, and myriad other opportunities for investment and partnerships, and MIF is exploring the role of remittances and business financing in this rapidly growing market segment.