

Remittances and microfinance in Latin America and the Caribbean: two steps forward on a long road ahead

DRAFT

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Introduction

This report presents the findings of a study of 166 microfinance and credit union institutions and an in depth case study analysis of five of them. The report shows that one third of these financial, non-commercial lending and savings institutions, are participating in the remittance market as payers of large money transfer operators (MTOs), and to a lesser extent providing financial services to its remittance clients. Using a case study of five institutions the report shows the varying modalities and experiences in money transfers and stages of bankarization resulting from cross sale and financial outreach.

The main findings of this study show at least four conditions for MFIs to operate in money transfers, namely financial position, branch spread, rural presence and MTO partnership. A closer look to the specific case studies reveals that these factors are relative to the local conditions in which an MFI is located and its participation (successful or not) is also reflected in the institutional initiative to work in this market, the type of money transfer payment model adopted, as well as in the outlook on reaching out to remittance receiving families in the respective communities. Those institutions that are more exposed to the reality of migration will also be among the most active in operating money transfers and providing financial services.

The study also identifies some recommendations necessary to improve the potential of MFIs to enter or strengthen their current position. These recommendations include aspects relating to their capacity to improve their market position by adopting more competitive strategies, modifying the internal information systems that can be adapted to the money transfer platforms and serve as preliminary data interface to feed financial profile of recipients. Other recommendations include strategies on financial literacy as well as on implementing modern payment methods

through card or mobile based transfers by 'bankarizing' merchants and MFI clients.

This report offers fresh data on microfinance institutions and answers questions about the capacity of MFIs to operate in international money transfers. The lessons learned through this study are replicable outside the Latin American context and can serve as basis for thorough policy discussions about their role in strengthening the link between development and migration.

1. Remittances and its relationship to finance and microfinance

The continuity of international labor mobility at global scale has triggered greater mobilization of money and capital from migrants to their countries of origin. These flows may account to four hundred billion dollars in 2006 worldwide, US\$300 billion of which go to developing countries. These flows reach urban and rural areas in Latin America and Caribbean countries from the United States, Spain, Brazil, Canada, Argentina and other parts of the world.

More importantly is the fact that remittances interplay with finances, particularly among those receiving these flows. Specifically, receiving remittances increases the likelihood of having savings, and those who receive remittances in larger amounts are more likely to have bank accounts, savings and investments (Orozco 2005; 2007). Recent research on remittances and finances shows that propensity to save and invest to be the case. Using national survey data Orozco found that in Guatemala and Nicaragua the percent of people with bank accounts is higher among those receiving remittances. But more importantly is found that savings increase with the amount of money received by at least 30% for every dollar received (Orozco 2008, p. 30).

The demand for financial services, however, is yet to be met by a supply of these products by banking institutions, partly due a combination of factors such as misperceptions of behavioral spending among recipients, to lack of access to places where remittances are arriving or to business models geared towards high income groups. There is thus a lack of correspondence between supply and demand (IAD 2006).

One issue addressed on this aspect has been the role of microfinance institutions as players who could fill such gap. Microfinance institutions in some cases and countries posited themselves as players in the payment of remittances and financial services to recipients. In some African countries, for example, MFIs are main payers of remittances even though

are not legally allowed to pay but operate as subagents of banks (Orozco and Millis 2007). In other countries, MFI management has made the conscious decision to enter the remittance market to leverage this flows for financial services.

To that effect many MFIs have sought to become involved and offer these products arguing that they are strategically better located than banking institutions and have more commitment in their mandate to serve these remittance recipient clients. Moreover, development institutions have welcomed the idea and in some cases and countries financed projects linking MFIs with remittance transfers.

[bring up Anne Hastings paper]

2. Paying through MFIs: growth and competition¹

Participation in the remittance market by microfinance institutions has resulted primarily from an institutional observation about how their branches have been working with clients whose relatives are migrants or who raised some of their collateral or working capital through savings received from transfers of remittances. Interviews with these institutions confirmed either by the senior management or credit officers showed precisely that many of their clients were connected one way or another through a relative who was abroad and remitting.

The institutions interviewed for this study showed lending portfolios ranging from four to seven million US dollars with branches in smaller numbers in Latin America. Their years of operation, however, are relatively similar dating to the mid nineties coinciding with periods of economic recovery.

Table : Financial and institutional profile of MFIs

	Average				Median			
	Branches (#)	Rural (#)	Year started	Lending portfolio	Branches (#)	Rural (#)	Year started	Lending portfolio
<i>Africa</i>								
Inafi International (31)	42	31	1,993	\$22,890,491	21	14	1,995	\$7,694,700

¹ This section is based on interviews with 166 MFIs operating worldwide, member of different networks, among them INAFI international, Forolacr, and Red de la Gente, Mexico. The interviews included 17 question questionnaires (see appendix) requesting information about paying remittances, offering financial services, and knowledge on money transfers.

	Average				Median			
Americas								
Red de la gente (17)	9	3	1,991	\$10,713,115	5	1	1,996	\$4,368,500
Forolacrl (36)	16	6	1,992	\$23,316,539	9	4	1,994	\$4,719,560
Inafi International (22)	14	13	1,993	\$115,662,750	10	8	1,996	\$7,000,000
Asia								
Inafi International (35)	279	286	1,991	\$154,426,210	15	12	1,992	\$3,384,565

Over one third of these MFIs were working as agent payers for money transfer companies in different parts of the world (see the table below). Overall, those paying remittances exhibit different characteristics than those that are not in the remittance market. Table x shows that paying MFIs have generally a larger number of branches and a significantly larger lending portfolio, and relatively a bit older institutions. They also have far more presence in rural areas. These differences may suggest their comparative differences as payers: size in branches and portfolios, and rural position.

Table : MFIs paying remittances (%)

	Region			Total
	Africa	Americas	Asia	
Does not pay remittances	61.3%	61.0%	68.6%	62.8%
Pays remittances	38.7%	39.0%	31.4%	37.2%
	100.0%	100.0%	100.0%	100.0%

Table : Median size and characteristics between MFIs who pay and do not pay remittances

	Pays				Does not pay			
	Branches (#)	Rural (#)	Year started	Lending Portfolio (US\$)	Branches (#)	Rural (#)	Year started	Lending Portfolio (US\$)
Africa								
Inafi International	29	18	1993	30,796,289	14.5	8	1996	2,117,740
Americas								
Red de la gente	5	1	1996	4,368,500				
Forolacrl	17	4.5	1993	11,650,000	7	2	1994	2,500,000
Inafi International	17	11.5	1992	10,500,000	10	6.5	1997	6,400,000
Asia								

	Pays				Does not pay			
Inafi International	149	137.5	1988	19,058,100	12	11	1993	1,762,255

When looking at the length of time they have been operating, the median and average years are two, that is, they mostly started in 2005. This percentage shows how in short period of time these institutions have become involved in this market. It is worth noting however that formal or licensed remittance transfers at a global scale are relatively new dating to the late nineties. Western Union, for example, started operations worldwide in 1997. Money transfer companies that started operating with one country corridor also started in the mid nineties in the majority of cases. Thus, this one third of MFIs that entered the market in less than ten years of a global expansion in retail money transfers, can be seen as the first generation of MFI payers. The average monthly transfers are relatively small and variable across regions. Note that the median and average of African MFI transfers is larger than that of other regions. This is partly due to the fact that MFIs in Africa often have greater presence and as much capacity for international payment as banks, which often have a smaller number of branches. However, the size of the annual volumes is smaller: the size of the amounts transferred is smaller due to the presence of intra-regional transfers.

It is also important to note that the growth in volume of transfers from the time they started to the time they were interviewed (two years later) rose to nearly ten times for transfers to the Americas and Asia and doubled to Africa. As the case studies will show, many institutions develop greater payment capacity and traction on the second or third year of operation receiving transfers from their MTO partners.

Table : Average remittance transfers

<i>REGION</i>		<i>Monthly transfers</i>	<i>Current Annual volume</i>	<i>Annual transferred on first year</i>
Africa	Median	425	\$1,295,855	\$898,793
	Mean	2,753	\$7,554,373	\$4,938,091
Americas	Median	200	\$644,024	\$39,400
	Mean	899	\$13,063,434	\$1,034,001
Asia	Median	113	\$861,742	\$81,783
	Mean	388	\$28,031,748	\$3,432,634

Source: MFI interviews, November 2007.

A closer look to MFIs and remittances in Latin America

The results for Latin American MFIs interviewed shows important data relating to their investments in the remittance product, the extent of awareness of compliance to international regulations on money transfers, and the role of cross sales. First, sixty percent MFIs claim that they have invested in marketing to compete in the market, and sixty percent also say that since offering money transfers their business has improved. Among the reasons they give include that client deposits have increased in some cases, or that client services are more appreciated. In fact, when asked whether their remittance clients had other financial services, over one third responded positively. Overall they think one quarter of their typical clients receives remittances, and one quarter of those do so through their MFI. The percent is relatively low considering the low number of transfers the institutions are conducting and the number of clients they usually have (a figure averaging 15,000).

Table : MFIs and institutional investment (%)

	Institution interviewed		
	Red de la gente	Members of Forolacr	Total
Have you invested resources to compete in money transfers?	59	57	58
Have your MFI businesses improved since offering money transfers?	65	63	64
	100.0	100.0	100.0

Table : MFI clients and remittances (%)

	<i>Red de la gente</i>	<i>Forolacr</i>	<i>Total</i>
MFI clients who receive remittances ²	26	22	24
MFI clients who receive remittances through the MFI	30	20	25
Remittance clients who have other financial services	52	35	44

Another issue of concern with regards to money transfers among MFIs is capacity in compliance or to follow and demonstrate awareness to international rules on money transfers. To this latter issue MFIs were asked what aspects of the regulatory environment on international foreign currency payments were they aware. The large majority knew very well

² The difference between the first two responses is that the first one asked who among the MFI clients receives remittances, regardless of the MTO system and agent they use. The second one asked if anyone of the typical MFI clients that receives remittances cashes the money through them. There are many MFI clients who receive remittances but DO not withdraw the money at the MFI but use another agent .

about anti-money laundering and suspicious activities regulations, but much less about OFAC and KYC. The response on KYC is surprising because tellers or cashiers at the institutions are quite rigorous at complying with know your customer regulations. Visits to at least ten branches of MFIs in several Latin American countries and observation of how cashiers perform remittance payment and cross sale of financial services showed that cashiers are much careful at verifying a beneficiaries' identity asking passwords required by the money transfer companies and proper identification matching the name in the transfer with the name of the recipient.

Table : MFIs awareness of international compliance rules (%)

Knowledge about . . .	Red de la gente	Members of Forolacr
Anti-money laundering laws	83	86
Suspicious Activities	67	79
OFAC list	22	43
KYC (Know Your Customer)	11	14
Knows very little about international regulatory issues	22	36

On technology and software applications most MFIs said that they use the software platform provided by the MTOs, and half of those said that they have integrated the software to their own systems. Such system integration is predominantly used to reconcile their account payment systems with the information provided by the MTO on the transfers. However, generally the integration does not have a mechanism to analyze whether the recipient is a current client and what financial profile he or she has. Few of these MFIs have developed such level of integration in part because they are yet to figure a method to do so and justify the relevance of doing it.

Table : Type of software platform employed by MFI (%)

	Red de La Gente	Members of Forolacr
Don't have a platform	6	16
Institution's own platform	11	16
Platform installed by MTO that operates independent from MFI systems	33	32
Platform installed by MTO that operates integrated to MFI systems	28	37

Overall the results show that more MFIs are participating in the market for remittances, and are seeking to remain active in the business. Their

performance is relatively new and it shows that financial intermediation, knowledge of compliance and technology development and integration are relatively limited. The next section offers a closer look at several case studies that reveal more detail about these experiences.

3. Microfinance and remittances: case studies from credit unions and cajas

This study researched the participation of six institutions involved in money transfers, and interested in providing financial services to recipients. The institutions studied were MFIs in the form of credit unions or regulated MFIs. In the first place, these include credit unions in Mexico (Cajas Populares Mexicanas, and other Cajas affiliated through Red de la Gente) and El Salvador (Fedecaces). In the second place are regulated MFIs operating in Mexico (AMUCSS), Nicaragua (FAMA) and Paraguay (Financiera El Comercio).

All groups have worked on remittances for at least five years, have expressed interest in providing financial services to remittance recipients, and at some point have received technical assistance from donor agencies such as USAID and the IADB. The volume of transfers performed by them is variable ranging from 2500 for Fama to 40,000 for El Comercio in Paraguay. Their activity in money transfers reveals important information about the role of these institutions in achieving financial inclusion as well as to expand opportunities for collaboration from development players.

The focus of the analysis of these institutions consisted in looking at how they were performing in money transfers, that is, how long they have been operating, what kind of partnerships and volume in transfers they were making, what institutional approach they had on the business. Second, the research also try to learn at the extent to which the institutions are institutionally and operationally committing efforts to provide financial services to recipients, and how have they measure their performance in that aspect. These two elements also illustrate the position of their operation vis a vis the financial performance of the institutions.

a) Cajas Populares Mejicanas (Mexico)

Caja Popular Mexicana (CPM) is a nationwide credit union in Mexico whose mission is to contribute to the improvement of its clients' lives through financial education on savings, mutual help, and responsible uses of credit via the provision of quality financial products and services. It

seeks to be the best credit union, recognized for its security, trust, social commitment, and leadership in the financial sector.

CPM operates in 215 municipalities in 22 states. Forty percent of its branches are in rural or suburban areas where people often do not have access to other financial services. The credit union has grown since its inception in 1996, from 257 branches to a current 356 branches. Consequently, its membership has grown from nearly 212,000 clients to over 1.2 million clients – an average annual growth rate of 18 percent.

CPM's main financial indicators have grown an annual average of 30 percent; it currently has USD\$1.616 billion total assets, \$1.357 billion in deposits, and a \$1.164 billion loan portfolio.

According to the DGRV (2007), Caja Popular Mexicana was the largest credit union in Latin America in 2006. With \$1.312 billion in assets, CPM controlled 20.12 percent of all assets in Mexico and 4.43 percent in Latin America and the Caribbean in the credit union financial system. Its assets also constituted 0.55 percent of all assets in Mexico's total financial system that includes banks. According to the credit union's own reporting, at the end of September 2007, the CPM ranked 15 among all 39 banks in Mexico in total assets.

Remittance transfers

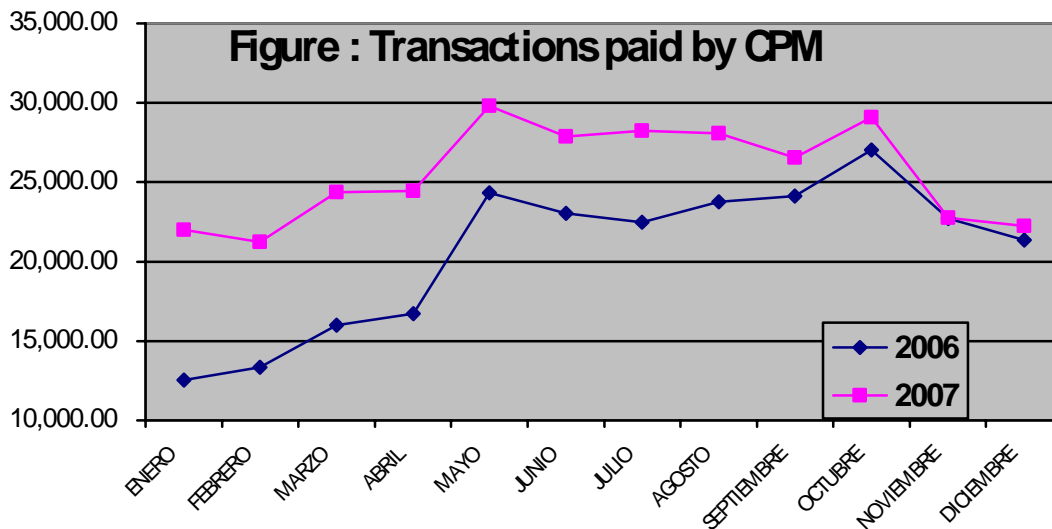
Caja Popular Mexicana initiated its remittance transfer service in partnership with Vigo in August 2003, and since then also operates with MoneyGram and Uniteller. Currently, the credit union is in the process of incorporating Viamericas. USAID collaborated through a small grant to improve their software platform particularly investing the money to acquire equipment such as fax machines and printers, and paying for some staff salary. The software platform is an application designed to integrate payments from different money transfers, except those from MoneyGram, which are performed via web based platform. CPMs platform can be linked to the main financial accounts software of the institution.

In the first year, CPM paid out 2,977 remittance transactions totaling over \$1.24 million. Last year, the credit union paid out 306,642 transactions – 62 percent of which were process through Vigo and 36 percent from MoneyGram – totaling over \$117 million. Their average transaction is relatively higher than that reported by the Bank of Mexico. The table below shows how CPM's payments of remittances grew dramatically in five years.

Table : Remittance transfers by Cajas Populares Mexicanas

	<i>Transfers</i>	<i>Volume</i>	<i>Average</i>
2003	2,977	1,246,266	419
2004	43,293	21,158,183	489
2005	142,094	60,093,953	423
2006	247,493	101,158,562	409
2007	306,642	117,296,539	383

Since 2006 the number of transactions has grown to around 23,000 monthly. These flows experience a decline in number in the last two months of 2007, however, they are experiencing similar fluctuations and patters normal to the cyclical behavior of remitters. As the company adds another MTO these volumes are likely to grow partly because of its reliance predominantly to one major provider, Vigo which pays two thirds of the transfers.



The service is available to clients and non-clients and has been used as a tool to attract new clients to the credit union, though statistical indicators tracking the number of new clients from this service do not exist.

Financial intermediation

The Cajas are yet to provide an effective strategy and approach to cross sale other financial services. Their focus has consisted so far in raising their volume and providing the service to clients in the areas where they are operating. In places where there is some volume transferred (that is above ten transactions a day) the staff is generally aware of the number of clients that come to the Caja to withdraw their remittance and are

often familiar with their needs and background. However, they do not offer financial products. Interviews with remittance clients withdrawing the money confirmed their interest to have some other financial relationship be it a savings account or a small credit for production. One client expressed that she would happily put money aside during the transfer into a saving account, whereas another client suggested that she would apply for a loan to expand the husband's cattle business to acquire more cows.

From the perspective of the senior staff one reason for the absence of a strategy is that their focus was on offering this financial service and let consumers decide onto other products. These executives however do not disagree that Cajas could and should embark in a more systematic approach to financial intermediation. There is recognition that greater awareness of the significance of the remittance recipient market is needed to engage it into a business venture. In that regards they identified some step forwards to enhance financial intermediation—these will be discussed below.

Challenges and opportunities

The performance of Cajas in money transfers and financial intermediation suggest that they are an underutilized institution that can offer greater volume in several Mexican states where they operate and migration is important. On the side of money transfers Cajas can double the number of transactions; at less than 30,000 for a strong institution they are a formidable partner for several MTOs. Cajas is similarly positioned to be a player such as Banrural in Guatemala, which established payment agreements with more than 10 MTOs and is a leading payer in the country (Orozco and Hamilton 2005).

From the financial services perspective Cajas also offers some important opportunities to incorporate a larger pool of remittance recipients independently of whether they withdraw remittances at their location. In those places where its branches have volumes over twenty transfers a month and bank staff are familiar with the remittance client they can approach the consumer and offer financial products. Currently the staff at Cajas uses a feature in the platform to tell whether the remittance client is also a Caja member. The feature however does not have any data content or analytical purpose. Senior staff sees the systematization of such feature as a step forward to identify the current financial profile of those remittance clients and have at a minimum a sense of which percent who receive remittances are currently members.

Other considerations they found to be important among senior and branch management was financial literacy. Local management at the Cajas recognizes that a key component of maintaining a relationship with the client is to transmit basic knowledge of finances. The challenge they face however is to consider how to transmit that information and knowledge and who can do it. This latter point is relevant because cashiers and tellers are those who have a better relationship with clients, but also their attention time span is limited to the actual transaction which often is less than 10 minutes.

b) Red de la Gente

The Banco de 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 *Red de la Gente*, a pool of popular banks, micro-finance institutions and credit unions to act as a remittance payer. It established arrangements with companies like GiroMex and DolEx and has extended its partnerships to Vigo, MoneyGram, El CaminoTransferencias, Via America, and Moneyda. BANSEFI also works with US Banks and Directo a Mexico, the Federal Reserve Bank of Atlanta's partnership with the Bank of Mexico.

BANSEFI offers financial products and tries to give individuals a sense of financial culture. As part of its Partnership for Prosperity program between the Mexican and U.S. Government, BANSEFI is trying to disseminate information about the costs of remittances from the United States. 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 (SCIs) are beginning to play an active role in this market. Together with BANSEFI, 69 SCIs form 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 can offer financial services in their communities, mostly low income urban and rural areas where the formal financial system has no coverage and also where many migrants originate. Once the remittance is paid, member institutions of L@Red de la Gente have the incentive to open savings accounts to the migrant and their family, knowing they have an income source. BANSEFI's extensive distribution network is well positioned to serve Mexicans in areas where commercial banks have no presence or knowledge of the local market.

The transformation and formalization of the sector will contribute to deepening the Mexican financial system, allowing more people – particularly those with low levels of income – to have access to financial products and services and new opportunities to promote their own personal financial growth.

BANSEFI's L@Red de La Gente has grown to a network of 1,385 branches throughout Mexico which services over 700 municipalities. Only 2 banks, Bancomer and Banamex can boast more coverage. Despite its relatively recent upstart, L@Red de La Gente has managed to capture 2 percent of the market share of the remittance market and the 120,000 remittances paid out in May 2007 represent a 28 percent year-on-year growth.

BANSEFI has been actively promoting Directo a México as a faster and cheaper method of sending remittances as transfer fees are significantly lower and money is deposited directly from account to account the next business day. BANSEFI is currently in the process of expanding the reach of this initiative by having more and more of its banks connect to the system as well as attempting to expand the number of participating banks in the U.S. Already 250 accounts in México have been opened to specifically take advantage of the Directo a México payment scheme and BANSEFI has found that the average transfer to these accounts is much higher than traditional cash to cash transfers. In addition, the balance of these accounts (after several months) tends to be double the amount of other conventional accounts.

As a method to “banking on both sides of the border,” BANSEFI has recently introduced the BAR (Beneficiary Account Registration) System. This innovative tool allows U.S. financial institutions to pre-open an account at any BANSEFI or participating L@Red de la Gente credit union branch for a third-party beneficiary in Mexico, who then has 10 days to go to the selected branch, formalize the account and receive their money. By increasing financial access in Mexico and promoting bank usage, BANSEFI has removed the obstacle in account-to-account remittances from the U.S. to Mexico. Banking individuals on both sides of the border will be an effective solution in reducing the cost of remittances. In turn, migrants will have access to needed financial products, so their income and remitted funds can be used to improve their standard of living through access to savings accounts, health and life insurance, pension funds, as well as investment opportunities to build or improve housing through access to credit.

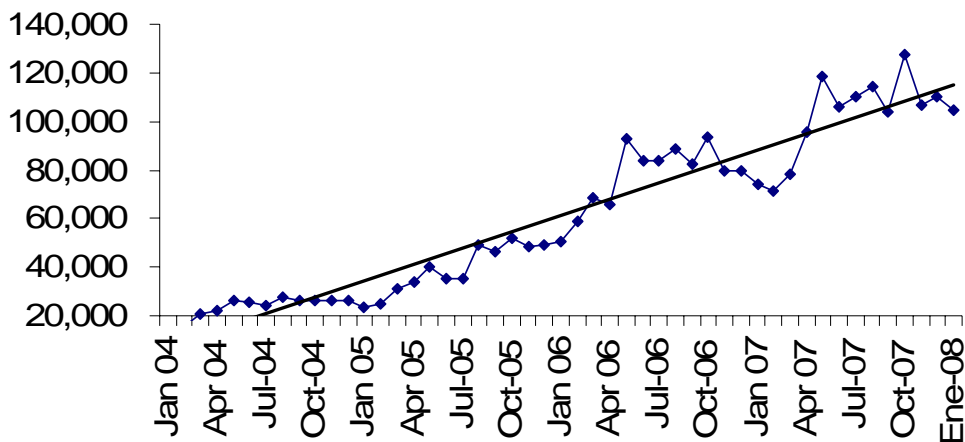
While BANSEFI has experienced significant success in reaching remote corners of México, there still remains the challenge of attracting more

migrants in the U.S. to use their services. Many still hesitate to provide banks with any sort of personal information for fear of deportation. Furthermore, BANSEFI has yet to implement all of its financial products and services throughout its branches. Increasing the financial literacy existing and potential customers also remains a task to be tackled more effectively.

BANSEFI sees the account-to-account transfers as the most valuable product to remittances recipients. While reduction of costs and fees associated with remittance transfers is a major goal of BANSEFI, it also emphasizes the importance on customer service. Most bank officials are from the local community and seek to treat their clientele with understanding and respect for the vital role they play in México's development. In addition to promoting the benefits of account-to-account services, BANSEFI seeks to expand its product line to include stored-value cards as it has embarked on a pilot program in Orlando, Florida.

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 hometown association leaders. Individual banks will then follow up with the associations, 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 United States, and proved the best strategy in Mexico. 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.

Remittances Paid by L@Red de la Gente



c) FEDECACES (El Salvador)

The Federation of Salvadoran Savings and Credit Cooperatives (FEDECACES) was founded on June 11, 1966. Its mission is to provide support for its 32 cooperative affiliates in order to be efficient, solvent, and to integrate into the cooperative system.

It is a second level cooperative entity with 55 points of access in 14 departments and 95,000 clients nationwide.³ Membership increased by over 14 percent in 2007 year-on-year; as of November 2007, FEDECACES has 106,697 clients – 46,957 males and 53,528 females.

FEDECACES has a combined credit portfolio of US\$122,534,817 distributed to 118,000 clients. Sixty percent of these credits are for consumption, 14 percent are for commerce, and 10 percent are for housing.⁴

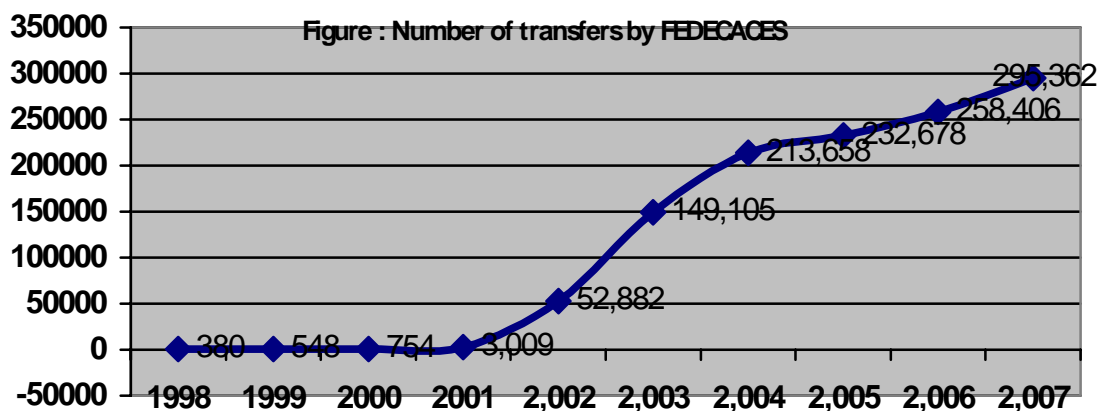
Remittance transfers

FEDECACES is one of the institutions that offered remittances quite early in the development of money transfers. They started in 1998 offering payments in small number, but they become significantly active in 2002 after negotiating with money transfer operators in order to be their agents through agreements with WOCCU. WOCCU initiated negotiations with Vigo, a successful money transfer company which was later in 2003 bought by an investment firm, and again in 2006 by Western Union. The management of FEDECACES realized early on that in order to capture remittances they needed to work directly with MTOs. As a result they have engaged more than one MTO as they move along.

At the end of December 2007 FEDECACES was paying nearly 25,000 transfers a month or 300,000 a year. Although they have experienced significant growth the increase over the past three years has not been as fast as in the initial period in 2002. As a result FEDECACES has expanded its partnership with more MTOs with the aim of increasing the number of transfers and connecting with more consumers. In terms of revenue the Federation and its members are sharing the revenues and costs for payment and obtain US\$2.00 per transaction which is more or less split between the federation and each cooperative.

³ Fedecaces website.

⁴ Boletín from Nov 2007.



As with other agents paying remittances not all transfers are evenly distributed throughout the member cooperatives. Rather there is a geographic distribution that often mirrors the migration patterns. A look at which cooperatives are transferring shows that six out of the 26 are paying nearly 80% of all transfers, particularly from Acodjar and Acaciba.

Table : Money transfers of Fedecaces by cooperative

Cooperative	Transactions	(%)
ACODJAR	60,708	21
ACACCIBA	56,619	19
ACACU	39,148	13
ACOCOMET	29,418	10
ACACYPAC	26,071	9
ACAYCOMAC	18,604	6
Other cooperatives	64,794	22

Ciudad Barrios and Accaciba

ACACCIBA is a cooperative based in Ciudad Barrios which is a semi rural town located near the border with Honduras and with close proximity to Nicaragua. The city is a growing commercial center and is host to different services, including medical attention that is often provided to Hondurans crossing the border seeking attention as is more convenient to them than to travel to major Honduran cities. Ciudad Barrios is also a supply center for grains and other agricultural commodities. Migration has also been significant in the area and remittances are a major source of income.

The cooperative started operations in 1977 but joined FEDECACES in 2003 as a strategy to recapitalize the institution and improve its position in the local market. They are the second largest payer for the federation and

pay US\$80,000 a day. The institution is an important place for transfers but also a location for cross sales.

Financial intermediation

To Fedecaces financial intermediation or financial inclusion has been the driving force in offering remittances. The executive group at the Federation did see the relevance of remittances beyond the earning itself but as a source of financial asset building. To the executive director of Fedecaces, the savings and credit cooperatives are effective instruments of financial inclusion and mobilization of remittances into the local economy. Therefore the Federation has worked towards increasing financial access to the clients receiving remittances, while at the same time seeking to mobilize savings into the productive sector. The results of such exercise have been successful overall.

The federation has encouraged the cooperatives to offer membership into their base and in turn offer a range of financial services. They have not only pursued an effort to increase deposits, but also have tried to understand the demographic, socio-economic and financial profile of recipients.

Fedecaces has conducted surveys on its remittance recipient population but has also offered training to the staff to offer membership into the cooperatives, and it has strengthened its technology platform and staff in order to have an effective money transfer system.

The effort to get people into the institutions has been providing important results. Fedecaces estimates that at least one quarter of remittance recipients have joined the membership. Such number is at least 5,000 people in four years. But it may be more than that. For example, data collected for ACACCIBA, the cooperative operating in Ciudad Barrios and nearby rural areas of San Miguel shows that 34% of members are recipients of remittances who joined the cooperative. More importantly, the number of deposits into that cooperative is 80% of all deposits in the area and 16% of all credits. The lower percent in credits may reflect important features relating to remittance recipients as well as the local credit market. In the first case, surveys of remittance recipients generally show that less than ten percent of people invest or borrow for some economic activity. Second, although access to credit is generally small in developing countries, the presence of microfinance institutions may represent an alternative over a credit union to borrow among remittance recipient households interested in microloans relating to small economic activities such as house improvement, acquisition of durable goods or some small business.

The statistic they have captured reflects those recipients, 856, who have converted into the cooperative's membership as a ratio to all members. The use of such metric to assess the conversion is an important one as it reflects the performance of financial inclusion within the community.

Table : ACACCIBA's financial profile

	<i>Contribution</i>		<i>Deposits</i>		<i>Credit</i>	
	(#)	(\$)	(#)	(\$)	(#)	(\$)
CIUDAD BARRIOS	495	\$69,942	513	\$1,943,557	66	\$264,140
CHAPELTIQUE	78	\$20,795	37	\$36,416	15	\$51,819
GUATAJIAGUA	283	\$65,091	106	\$99,157	83	\$215,176
TOTALS	856	\$155,828	656	\$2,079,130	164	\$531,135
PARTICIPATION	34.3%	50.4%	44.7%	81.5%	17.7%	16.48%
Total	2492	\$309,080	1469	\$2,552,066	925	\$3,222,822

Fedecaces also has identified that their value added is stronger in rural El Salvador perhaps because they have more presence and prominence than banks, though they compete often with some MFIs, hence the lower credit size of their portfolios among recipients. Data collected for a cooperative in a semi-rural community, ACACYPAC, in Chalatenango and near San Salvador, shows different results. The result is that 10% of all members are remittance recipients (people who withdraw within Fedecaces system) and their participation in deposits is much lower than in the other cooperative. Although ACACYPAC is doing half the volume that ACACCIBA is doing the 'bankarization' is dramatically lower. The reasons for this difference stem in part due to the presence of recipients relative to the population, their income and more presence of banks and institutions to choose from.

Table : ACACYPAC financial profile

	<i>Contribution</i>		<i>Deposits</i>		<i>Credit</i>	
	(#)	(\$)	(#)	(\$)	(#)	(\$)
NUEVA CONCEPCION	48	12,206.00	73	150,064.00	10	29,391.00
LA PALMA	192	20,554.00	169	657,434.00	23	92,998.00
DULCE NOMBRE DE MARIA	290	31,007.00	453	755,489.00	19	73,480.00
APOPA	91	16,331.00	91	96,032.00	22	80,749.00
TOTALS	621	80,098.00	786	1,659,019.00	74	276,618.00
PARTICIPATION	9.90%	9.87%	8.63%	16.00%	2.91%	2.63%
Total	6270	811,373	9,109	10,369,747	2,542	10,531,204

Fedecaces is perhaps the most successful credit and savings institution that has been able to gradually expand systematically its financial services to remittance recipients. The senior management also recognizes

that they need to improve their growth in money transfers and their strategies to deepen financial access.

One of the issues observed is that staff operating in communities where remittances are more active aspect of life are able to recognize the value of the flows as a tool to provide other financial services. Cross selling is still incipient despite the efforts of bankarization partly because dedicated personnel to offer services is not yet in place. Moreover, there is agreement among management and the staff that performing direct financial education with clients is an essential step to remittances. In particular, what the management observes is that the transition from remittance client to cooperative member can be lengthy if no strategic intervention to reach out to the community exist, and instead many may not join at all any point in time. However, educational efforts have worked whenever they reach out and work with those recipient clients. But the systematic effort attached to a methodology on financial practices is an integral part to the intervention.

4. Microfinance and remittances: case studies from regulated MFI

Here we analyze the role of three important microfinance institutions which have operated in remittances for at least four years. Each institution has a relative position in the places they operate. Some like EL Comercio have a national prominence, but FAMA and AMUCSS are nationally known and recognized as leaders in microlending. They offer important lessons about the remittance models they have adopted and the financial intermediation approach pursued. In each we observe limitations and opportunities.

a) AMUCSS (Mexico)

AMUCSS is an association composed of 28 rural banks and 22,000 clients and less than US\$7 million in savings, and US\$5 million in loans. It has been in operation for 15 years in rural finances with the mandate to create and support financial intermediaries in indigenous rural areas of Mexico where roughly 40 percent of remittances from abroad are received. AMUCSS is the founder of a network of rural credit unions, insurance funds, cooperatives, as well as savings banks. For over 10 years, AMUCSS has been recognized for its creation of an innovative model of microbanks in rural regions throughout the country. These microbanks offer services that include savings, credit, utility payments, life insurance, change of government checks, etc. There is also, *Enlaces*, a network of rural financial

institutions that has AMUCCS and its system of microbanks as its nucleus. This network encompasses over 50 different institutions throughout México.

Remittances

The main objective of AMUCCS is to integrate payment of remittances and the “bankarization” of the local population, mobilize savings generated by remittances and to invest locally through the use of credit. The strategy to accomplish this aim is to design financial products and services, such as savings, credit, and insurance, to attract and maintain clientele in rural communities where the microbanks are located. Local financial intermediation and capture of migrant savings as opposed to the mere payment of remittances is what AMUCCS believes to constitute the appropriate mechanism to enhance development in rural areas of high migration. To strengthen its network of microbanks, AMUCCS has developed close ties with federations of migrant hometown associations in the United States. The existence of these relationships in Illinois, California, and North Carolina helps direct the representatives of these organizations their remittances/donations through AMUCCS institutions.

At one point AMUCCS was paying 4,000 monthly remittance transfers through micro-banks, which was aided in large part through agreements with Intermex in Puebla and Guerrero (which accounts for 60% of the remittances sent). However, due to some problems with robberies in some of the communities, banks decided to interrupt the service temporarily lowering the volume to a monthly 1,000 average. Later on the volume has risen again with the incorporation of several micro-banks in L@Red de la Gente. However, such impressive and accelerated growth has exceeded the operational capability to effectively “bank the unbanked.” While the incorporation of remittance payment services has had a positive effect on confidence-building in migrant communities, there remains a problem of profitability.

The transfers vary from bank to bank. Their transfer operations depend predominantly on the extent to which they have significant migration and agreements with money transfer operators for which they work as agents. Currently AMUCCS main operation has been with Finrural institutions which made an agreement with a remittance processor, Intermex. Intermex is a company that pays for several MTOs in the United States and offers a US\$1 commission to the bank.

The small commissions the companies pay (an average of US\$1) represents very small income for the participating micro-banks. Even if volume reaches 1,000 to 1,500 remittances per month, the commissions paid by remittance companies only cover the rise in operational costs

and perhaps the financial cost of working capital that should be invested. AMUCSS, however, sees their work a public service in their area of influence rather than profit-seeking in the most traditional business sense. The table below shows where in Mexico these transfers are taking place through the rural banks. The rural bank in Pahuatlan, Puebla, shows to have the largest number of transfers.

Table : Remittance operations by AMUCSS banks

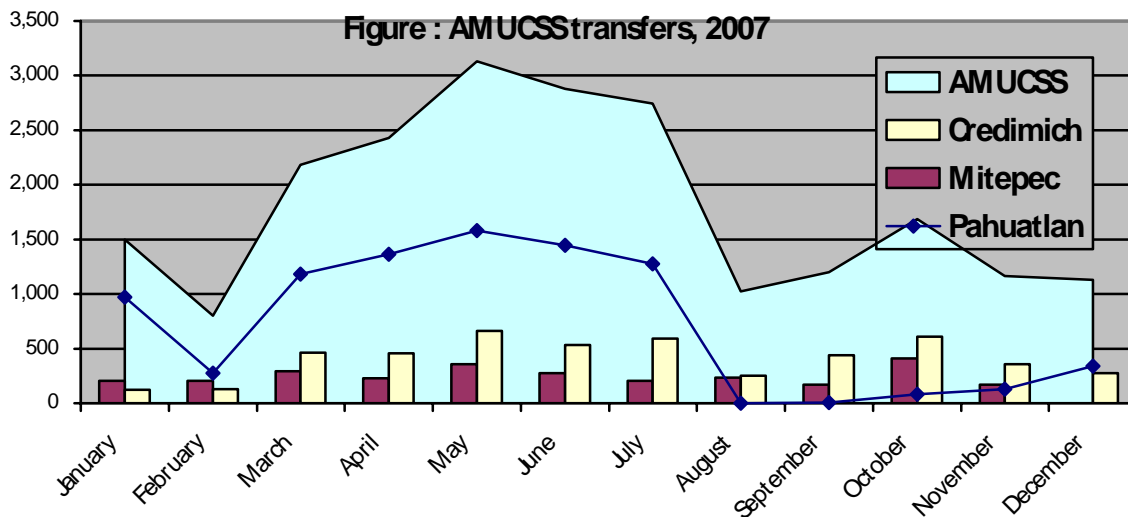
Bank	Location	Operations in 2007	Accumulated amount (pesos)
Finrural	Hueyapan	483	1,360,638
	Bienvenido	1481	5,804,360
	Pahuatlan	8649	31,265,247
	Huehuetla	12	11,417
	La Uno	785	2,157,690
	Ahuacatlan	89	305,992
	Zacatlan	134	339,493
	Total	11633	41,244,838
FINCOAX	Tlaxiaco	340	1,896,264
	Mixtepec	2740	16,060,619
	sub total	1276	7,471,581
	Miahuatlan	1412	8,583,150
	Ejutla	0	-
	San Agustín	13	42,864
	San Baltazar	266	1,146,099
	sub total	852	4,825,585
	Total	4771	27,728,996
Maseual	Huitzucó	204	851,585
	Tlaquil	0	-
	Xalitla	78	325,977
	Copalillo	177	499,650
	Total	459	1,677,212
Credimich		4890	17,345,741
Zihuatlme		123	483,964
Total		21876	88,480,751

Source: AMUCSS

The case of Pahuatlan, Puebla

The bank in Pahuatlan operates in an indigenous community composed of Nautl and Otomi groups which are geographically, ethnically and politically separated from each other and the meztizo elites. This community located in the Northern state of Puebla has a relatively recent migration phenomena that responds to the economic shifts in the local and national economy. In fact, the emigration process is partly the result

of an accumulation of unresolved issues dating back from the lack of access to land in the fifties, followed by unemployment among the then rural proletariat from sugar and coffee plantations in the seventies and eighties, to then face the pressures from global economic shifts. International migration starts in the 1990s and intensifies in the 2000s with the indigenous community mobilizing into Durham, North Carolina. The rural bank responded to an increased demand for money transfers (subsequently also of financial services) from the local community where only a money exchange house was operating to payout the remittance. The bank at one point in 2006 and early 2007 was making a larger number of transfers proving to be a successful payer. However the bank suffered from two robberies that had serious financial costs and effects on the institution's trust and ability to continue the business. The figure below shows how Pahuatlan is the major source for money transfer payments among all the rural banks. The two major dips in 2007 were February and August when the robberies took place, making the bank to reconsider the operation. The bank canceled its partnership with Intermex, working more with Red de la Gente and since then the transfers have again increased.



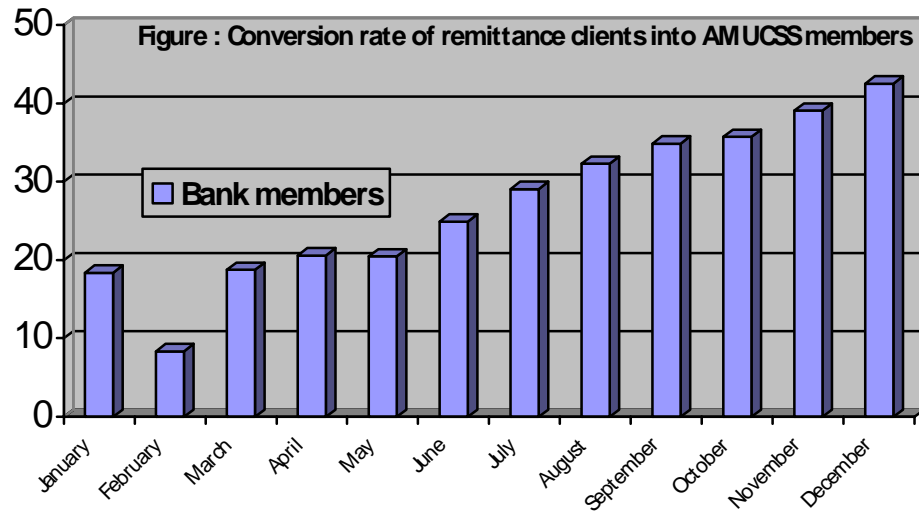
One strategy that the Association decided to pursue consists of developing its own payout platform and serve as its own processor for the micro banks and other rural banks operating in the country. Envios Confianza is a small business designed to operate as a processor, intermediary and financial advisor to different rural banks working in Mexico by negotiating with several MTOs and linking them to the rural banks. It presents itself as an alternative to other private processors and to Red de la Gente offering relatively higher commissions to the member banks.

Financial intermediation

In addition to remittances, AMUCCS continues working with financial products. AMUCSS is perhaps one of the first MFIs in Latin America and the Caribbean to clearly underscore the significance of financial intermediation to recipients. Its commitment to increase and mobilize savings in rural Mexico has been informed in part from the realities of the lack of financial access and from the observation of their clients' savings and investments associated to the inflow of remittances. Moreover, the Association has interpreted the mobilization of remittance savings according to a reality that reflects patterns in the local communities. This mobilization includes what they call "forced savings", which are savings people put in lieu of investment opportunities in the local economy, or "exclusive savings" that apply to those who intentionally program their budget by setting some money aside.

Amucss has also recognized the importance of financial literacy and is studying a way to introduce it to its clients during the remittance transaction process. In addition, they have developed and market several insurance products including body repatriation and a remittance insurance that covers the recipient's income for six to nine months in case of extreme emergencies. One of these insurance products is called "Tu Tierra en Tus Manos" in cooperation with SEP-USA, which will also sell life insurance in Mexico.

One of the results of its offer of financial services, savings in particular is that remittance clients have increasingly open savings accounts. In 2007 the number of remittance recipient clients who opened savings accounts rose in December to 43%.



These percentages are perhaps the highest among all financial institutions paying remittances. The success in getting an increasing number of people into the rural banks is associated to several factors. First, many of those receiving remittances were already members. Second, the relationship that the bank has with the community has built in trust and gives a motivation to people to seek to put their savings at the local bank. Third, the staff working at the bank is particularly familiar with most of their clients. Each bank has less than 2,000 members on average, and a staff of four to five individuals who manage the bank's operations, including credit officers. These officers and other staff are relatively familiar with the clientele that visits them as well as with the conditions in the local economy. Such situation allows them to introduce the product not only when they are visiting credit clients, but when a remittance client arrives to withdraw the remittances. Fourth, the percents increases are also partly associated with the increase in transactions as the volume of transfers opens the door to market their other products.

b) Financiera Fundación para el Apoyo a la Microempresa (Nicaragua)

Financiera FAMA is one of several MFIs that started in post-civil war Nicaragua. They initiated operations in 1991 by private entrepreneurs and with the support of ACCION International. Their operations started as a non-profit organization under the name Fundación para el Apoyo a la Microempresa (FAMA). In 2002 the Inter-American Development Bank awarded FAMA with the award on "Excellence in Micro-finance for an unregulated institution".

In 2005, FAMA started a second stage in its institutional development by updating its platform, remodeling its physical structures, and training its personnel in an effort to become a regulated entity under the Superintendencia de Bancos y de Otras Instituciones Financieras (SIBOIF) in 2006. The institution becomes Financiera FAMA in 2007 as a newly regulated entity operating

It currently operates in urban and rural areas through the country and is made up of 26 branches, including 9 branches in Managua, and 409 employees. FAMA serves 42,918 active clients who are microenterprises, small and medium enterprises, salary workers, and/or remittance recipients. It holds a \$31.37 million loan portfolio, and \$33.85 million total assets.⁵

Remittances

Remittances to Nicaragua have historically demonstrated an informal component partly because of the flow from Costa Rica, but also because competition among MTOs didn't find Nicaragua to be a major market. Contrary to other Central American markets such as Honduras, El Salvador and Guatemala, transactions from the United States to Nicaragua are estimated to have increased to 400,000, a figure that is at least half of any of the other countries. However, competition has increased as MTOs seek to expand worldwide and this number of transactions is higher than what they had estimated years before. In 2008 only 12% of recipients were relying on informal mechanisms.

Fama initiated remittance transfers in October 2003 and through a partnership as a subagent with local cooperatives which have an agreement with Vigo through the WOCCU system. It also established partnerships with a Costa Rican MTO, ServiExpress, and one in Spain, e-transfer. The number of monthly transactions they are making in total is relatively small, 2500, up from 300 from the year they started. Their operation through the partnership with the cooperative may be limiting their ability to grow further both in revenues and volume.⁶

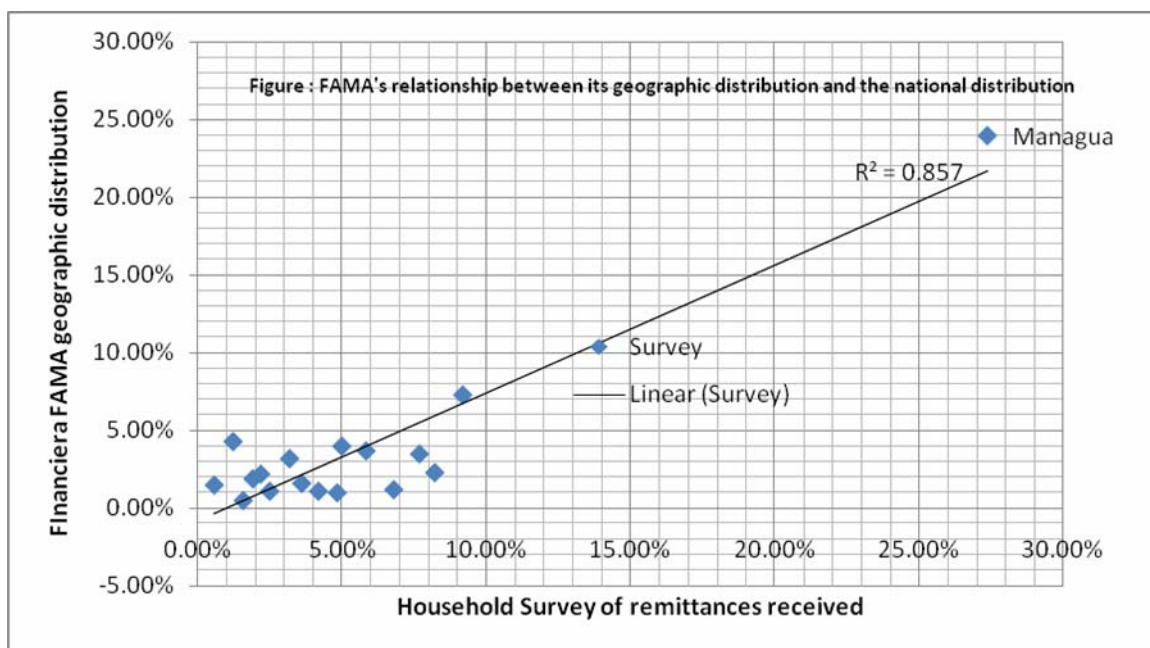
Transfers are handled through their local software platform, TOPAZ, which receives FTP batches from the cooperative and then integrates the transfers through a remittance module which contains the required fields to address regulatory compliance. The payment is supported by dedicated personnel who handle any difficulties in the transaction (delays, name matching inconsistencies, rerouted locations, etc.). The module is a relatively simple addition to the overall information system but is not

⁵ Figures to Dec 31, 2007. <http://www.financierafama.com.ni/>

⁶ Their commission is relatively small, US\$1.25.

directly linked to it. The software has a feature called 'Posicion de cliente' which provides information about the client's balance and could be linked to the transfer.

The opportunity of the financiera to improve its payment position is significant considering that the branch locations where they are located (in 63% of places where remittances go) do coincide with the national geographic distribution of all flows. In turn this positioning gives more potential to operate with larger volumes and present itself as an appropriate competitor and payer to more than the current MTOs and under a different mechanism as subagent.



Financial intermediation

FAMA adopted a concrete approach on financial intermediation for remittance recipients by providing home improvement loans. Through technical assistance from Accion International, FAMA conducted field work research to identify areas of attention to the clients of remittances, and found home improvement loans as a cross sale product. They prepared the product and designed basic marketing material (brochures) to be distributed throughout the institution's branches.

Two products were created, 'Mejora de vivienda de corto plazo', and 'Hipoteca de largo plazo'. In the first one, short term house improvement loan FAMA has sold 224 loans for a total of 3 million cordobas (US\$160,000). In the second one the number of mortgages amount to 19 for a total of

982,000 cordobas (US\$52000). Both loans are relatively small with an average of US\$700 and US\$2700 respectively. The bank executives see this product is underperforming and like to increase it more. The product however is minimally promoted through the distribution of brochures and teller advertisement on the window. As the bank restructures they would like to offer other products they believe would have more traction.

c) Financiera El Comercio (Paraguay)

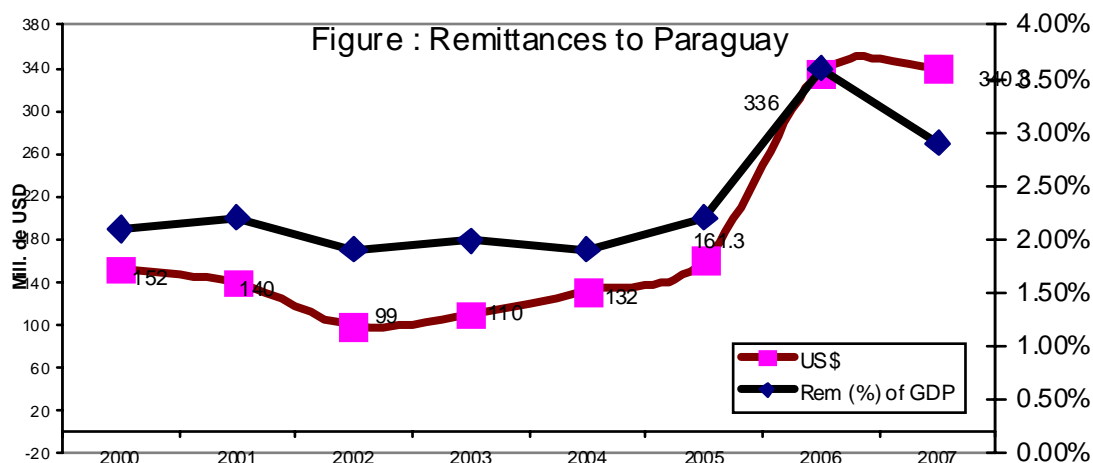
International labor mobility in Paraguay has existed for several decades during the twentieth century (). But in the late eighties and early nineties a new migration wave goes to Argentina where is said that half a million Paraguayans may be residing. Official statistics put the number of Paraguayans to just over 400,000, or 7% of its population.

Table : Paraguayan international migration

<i>Region</i>	<i>Latin America & Caribbean</i>
Argentina	325,046
Spain	35,000
Brazil	23,069
United States of America	13,876
Canada	5,291
Other	11,743
Total	414,025

Source: GMOD

Moreover, the Central Bank of Paraguay estimates remittances to be around US\$340 million in 2007 and are nearly 4% of the countries national income. At first the figures may reflect a normal migration pattern, however there are inconsistencies between the official statistic and what money transfer operators are doing on the ground with migrants. The migration figures also do not seem to reflect the entire picture of migrants abroad.



For example, according to the Central Bank 45% of transfers arrive from Spain, 31% from the U.S. and only 8% from Argentina, the country which happens to have the largest migrant population. Data from money transfer operators and payers shows that such geographic distribution would represent 34,000 transfers from Argentina, that is 10% of the official Paraguayan migrant population in that country. In total, the number of migrants remitting is then 30% of all migrants.

Table : Geographic distribution of remittances and estimated number of remitters

	(%)					Estimated flows*	Estimated remitters*
	2003	2004	2005	2006	2007		
ARG	1.9	2.9	22	4.7	8.3	27,200,000	34,000
USA	76.2	51.1	25.9	38.6	30.7	105,400,000	31,369
ESP	9.1	29.3	31.5	42.8	45	153,000,000	39,843
Other	13	17	21	14	16	54,400,000	16,190
Total	100.0	100.0	100.0	100.0	100.0	340,000,000	121,403

Source: Central Bank of Paraguay; * Estimates are based on the official Central Bank figures and MTO and agent payment in Paraguay on \$1200 annual transfers from Argentina; US\$3360 from the U.S. and other parts of the world, and US\$3840 from Spain.

According to MTOs paying in Paraguay the actual volume is likely to be double the Central Bank's report.⁷ For example, they argue that Western Union alone pays US\$300 million every year, and another competitor that works in Argentina is likely to be paying US\$70 million minimum from Argentina: A survey carried out by Financiera El Comercio shows that 7%

⁷ Interviews with several MTO representatives,

of costumers used Western Union and 58% used Nuestra Señora de la Asunción.⁸

About Financiera El Comercio

El Comercio is an MFI with 31 years of experience in Paraguay and 21 years in the rural and agricultural sectors. Its mission is to operate via innovation and efficiency to help lower income people and businesses access more and better financial services and thus reduce poverty.

El Comercio offers loans for micro, small, and medium enterprises; the rural and agricultural sector; personal expenditures, and improving the home, among others. Other services and products include credit and debit cards, certificates of deposit, transfers, and remittance services. It has several projects

El Comercio has 23 branches and 15 service centers, concentrated in the southern and eastern part of the country. It has 52,762 clients total: 34 percent in the urban areas and 66 percent in the rural areas. 23,719 are micro entrepreneurs and 12,058 have savings. The average loan to micro entrepreneurs is \$1,318 and for small and medium entrepreneurs is \$18,500.

El Comercio's total portfolio is \$37,170,860, with more than half (60%) made up of microenterprises and 11 percent made up of personal loans. Loans are made up of one-fifth commerce, one-fifth agriculture, and one-sixth consumption loans. The MFI's profitability was 49% in 2007, with a projected profitability of 39% in 2008.

Remittance transfers

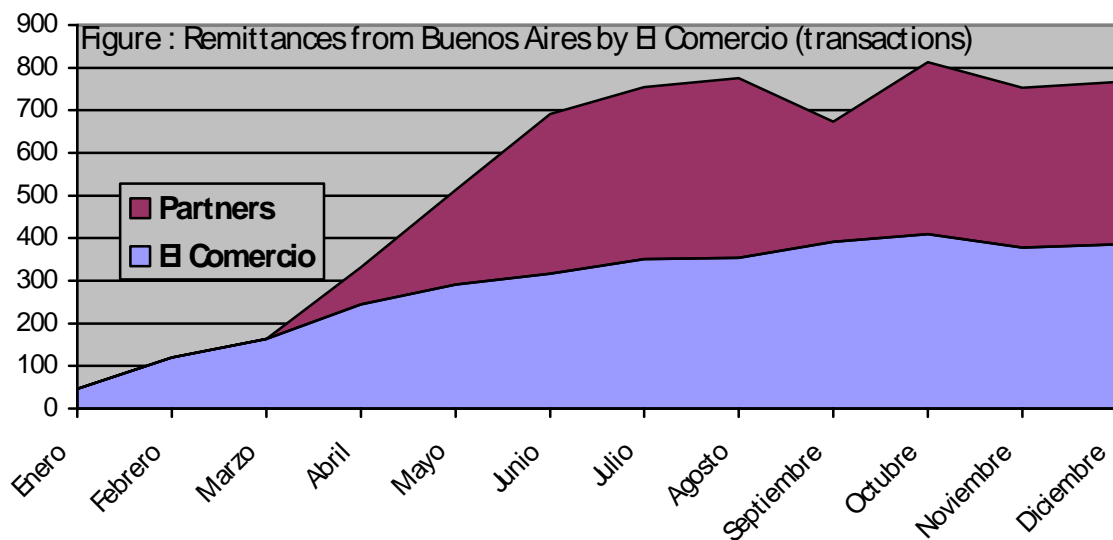
Financiera El Comercio entered in the remittance market in 2004 as a reluctant agent for Western Union. Like many other financial institutions in Paraguay, remittances were perceived as negligent and non profitable. However, the locations of El Comercio's branches and the decision of the senior management to directly link the remittance product to financial cross sales, gave a strong motivation to participate in the market.

The Financiera has grown dramatically from less than 500 transfers in 2004 to over 40,000 in early 2008, transferring US\$12 million monthly. Such growth has make them a group that holds 50% of the Western Union market to Paraguay. Despite its tremendous growth, El Comercio is facing several challenges in the market associated to its presence as a major payer, and it has sought to set a footprint in Argentina.

⁸ El Comercio, as it will be shown below pays 13,000 monthly transfers from Argentina, that means that Nuestra Señora's 58% would represent just over 100,000 transactions a month.

Prior to Western Union's entrance into Paraguay's market, most flows were informally transferred. Nuestra Senora, the company operating transfers predominantly from Argentina, has been a formidable competitor that enjoys the trust of migrants and families. Moreover, a new range of MTOs has entered the country since El Comercio emerged as a payer and has forged partnerships with few banks and many other MFIs. Banks unlike other places in Latin America and the rest of the world have not been the major payers in this country, but it rather was DHL and El Comercio, and Nuestra Senora. Over the past three years, since 2005 other companies emerged making agreements with these competitors. Among them are payers in Paraguay in the credit union system and other MFIs, as well as a few banks. On the MTO side different companies also emerged, including MoreMoney, Telegiros, Ria, Link Transfers, and Delgado, seeking to set a presence in the country. MoreMoney is a growing regional payer in Latin America and it has consolidated its presence in Paraguay making transfers that may be as large as El Comercio's.

El Comercio also sought to set foot in Argentina to posit itself as an alternative to the traditional Nuestra Senora and bus drivers carrying the money. El Comercio set up in 2007 a small office in Buenos Aires downtown commercial area of Constitucion with the aim at attracting the market. It has faced significant challenges in growing as well as with safety: it was robbed twice in 2007. However, El Comercio formed partnerships with another MFI, FIE, and with a drugstore chain, Dr. Ahorro, which helped to attract more clients. It has also offered other services, including bill payment services. The senior management sees such development as a slow movement but is willing to continue its presence. A closer look would suggest that as a small business operation in a foreign land, the locale is following a typical growth cycle of initial slow growth. Most money transfer operations begin to 'break even' only after two complete years of operation.



Overall Financiera El Comercio has developed a strong reputation of being the main payer of remittances and it has sought to strengthen its position in the country as well as with its communities abroad. It has conducted survey studies in the U.S., Argentina and Spain to understand their profile as well as basic financial preferences. This latter issue has been a major driving force in working on remittances.

Financial intermediation

Providing financial services to the now 40 thousand or more remittance clients is a key objective of El Comercio. They have tried to develop a strategic approach with support from the Inter-American Development Bank in order to deepen their bankarization efforts. At the end of 2007 the institution had nearly seven thousand remittance recipient clients who had joined El Comercio as borrowers or savers, 17% of all remittance clients. More importantly the banking efforts have bear fruit over 2007 when the institutional engagement grew to recruit recipients as bank clients.

Table : Financial intermediation and service rates among remittance clients

	<i>Financial intermediation efforts (number of clients)</i>		
	From 06/2004	From 01/2007	Growth from 07
Client applying for credit	3,606	2,985	83%
Clients depositing savings	3,076	2,280	74%

TOTAL	6,682	5,265	79%
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Source: Financiera El Comercio, 2008.

At first sight the percent growth may seem relatively low compared to the experiences encountered in other places as in AMUCSS or Fedecaces. However, contrary to the other cases observed and to the average from all MFIs studied, El Comercio's growth in money transfers has been one of the most rapid of any MFI known in this field. Such growth in itself poses the challenge not of how to provide financial intermediation but how to offer services at a speed that can catch up with the growing number of remittance clients. Such question is a strategic concern particularly when the market keeps becoming more competitive and remittance recipients may change from different payers as these expand in numbers. Capturing these clients is thus an urgent priority that requires aggressive positioning.

Remittances in Rural Paraguay: Santani and Curuguay

Paraguay is among the most rural societies in Latin America, and particularly of South America. Its population relies significantly in agricultural production and most of El Comercio's credit goes to serve that market: 60% of its clients are small entrepreneurs most of which (80%) is rural based. Moreover 33% of credit goes directly into agriculture and cattle.

These communities have experienced outmigration mostly starting in the 1990s among those going to Argentina, and in this decade among those going to Spain. The table below shows that migrants have left at various times, for example, those going to Spain have left in the past five years, whereas those to the U.S. have done so over earlier periods of time.

Table : Year of departure from Paraguay by place of destination

	USA	Spain
Less than a year	5	26
One to three years	30	57
Three to five	25	15
Five to seven	13	2
Seven to ten	11	0
Over ten	12	0

Source: Financiera El Comercio, migrant surveys conducted in 2007.

According to a survey conducted by El Comercio in Spain, those sending remittances are doing it to various rural areas: only 38% were sending the money to the capital. This is the case of rural branch payment in Santani and Curguati. In the branch of Santani, for example, credit for

agricultural work amounts to about US\$10 million lent to 60% of clients who are small agricultural producers.⁹ At their branch they are paying 500 transfers, and an additional 1000 performed by a subagent. Local managers estimate that nearly half of those receiving remittances are keeping deposits, but are yet to confirm the information beyond their empirical knowledge. In Curuguati, another rural branch which lends 60% of its portfolio to agricultural workers is paying 1200 transfers, half at the branch and the other half through its subagents. The local management also agrees that some 40% of these remittance clients are opening deposit accounts.

During interviews with remittance recipients and MIF staff, one credit official stressed that of his portfolio of 400 borrowers he visits, some 270 are remittance recipients, but only a handful withdraw the money at the Financiera. The impression of this officer reflected a reality observed among most bank officials, not only in Paraguay but elsewhere: their regular contact with clients makes them acutely aware of the financial profile of the client but also of other circumstances, including having relatives abroad and receiving remittances. However, no one has a systematic way to record and document this reality which can serve as basis for a significant marketing resource.

Financiera El Comercio is perhaps the most successful microfinance institution in Latin America paying remittances at large volumes and transactions. It is also an institution that through its commitment to expand financial services will deepen access to many families.

5. Common patterns revisited

All the institutions reviewed in this report demonstrate that each one has potentials and challenges, as well as achievements. These aspects however vary from each of the groups reviewed.¹⁰ When looking at the case of the performance of remittances there are differences depending on the issue at stake, whether is on the type of partnership, the market position, position, investment in marketing and commitment to grow and improve its current position.

The statistical results presented in the first section show initial cues about factors that enable successful performance in money transfers as measured by the number of transfers. Three of those are presence in rural areas, number of branches and size of assets. These results would suggest

⁹ Average loans are about US\$2000

¹⁰ Bansefi's Red de la Gente are not included in this section due to lack of data collection obtained at the time of the study for a specific institution.

that not so large or very small MFIs may be less likely or unlikely to pay remittances, or that MFIs with small asset size may not pay. However these statistical indicators provide only a preliminary scoop of the context. Positioning between the location of an institution and the geographic destination of remittances is a key defining factor that can only be determined with a systematic survey of remittances into a given country matched to the branches and operations in different communities. For example, AMUCSS, El Comercio and FEDECACES show that their geographic positioning is a competitive advantage they enjoy as their operations in rural areas where remittances are destined coincide in several cases. This coincidence not only provides them with the incentive to provide financial services but to negotiate with MTOs partnerships that can be advantageous to both. Financial size of an institution is critically necessary but not sufficient to perform money transfers. Small MFIs can pay money transfers provided that they have enough cash flow to pay money on a regular basis. A minimum rule of thumb resulting from observing MFIs is that these institutions should have cash flow capacity to pay four transactions (US\$1200 in total) a day at each branch. Financiera Fama and AMUCSS are small MFIs with less than US\$30 million in assets, yet most of their branches can pay four transfers a day.

One of the issues observed as part of the success of performing money transfers is the type of partnership an institution holds. Previous research (Orozco and Hamilton 2005) shows that partnering with large MTOs or with multiple ones ensures a competitive position. This is the case observed in the review of all 166 MFIs but also in the detail cases.

Another aspects of key relevance is the extent of commitment of the institution to work on expanding and strengthening the remittance market position. Some institutions such as Cajas Populares Mexicanas have adopted remittances as an added service of its overall product delivery to its members. Other institutions such as El Comercio have introduced the service not only to its clients but to the community at large and has sought to expand its presence as a way to effectively serve a value added product attached to other financial services. There are no right or wrong choices on these cases, however, the impact on development will vary depending on the institutional resources invested to expand inclusion of clients into a wider range of financial services and the mobilization of savings into loans in the local economic base.

Table : Remittance transfers

	CPM	AMUCSS	FAMA	FEDECACES	El Comercio
Type of	Direct	Subagent of	Subagent	Agent for	Main agent

	CPM	AMUCSS	FAMA	FEDECACES	EI Comercio
partnership	agent of three MTOs (Vigo included)	Red de la Gente, Intermex, negotiating directly with MTOs	for two MTOs (Vigo included)	12 MTOs (Vigo included)	for Western Union
Transaction cost	Average	Average	Average	Average	Above average
Market Position	Very low positioning	Competitive where it operates	Very Low	Relatively competitive	Very competitive
Marketing	Poor or limited	Strong	Poor or limited	Strong	Strong
Institutional position and commitment	Modest	Strong	Modest but shifting	Strong	Strong

Similarly we find that the role of financial institutions in leveraging remittances to further expand services to recipients depends on varying levels of engagement and commitment. First is the trustworthiness that an institution enjoys in the community. People are more likely to be inclined to establish a financial relationship with an institution if they are familiar with their reputation. A second aspect is the familiarity of the institution with its clients. All MFIs reviewed here were relatively well familiar with the clients withdrawing remittances and in some cases knew the client very well. Such element is a key component to develop a relationship with a client. But the awareness of the staff about the value of remittances as a key component of finance and development is a critically important issue. Bank staff is the link between supply and demand of financial services and often can strengthen an institution even when the leadership is not fully committed or engaged. In most cases the staff is not fully trained and aware of the financial significance of remittances. While they understand the role of the flows in the overall context of migration, their understanding is more sociological, than financial. Such factor poses a challenge about the ability of the financial institutions to work on money transfers and financial intermediation. Moreover the staff has closer relationship with clients has limited interaction time and knowledge about remittances.

Most institutions realized the importance of pushing their strategy by training their staff further and demonstrating greater commitment to provide financial services to recipients. However, the commitment ranges from the rhetorical to the proper allocation of resources and business

intelligence to act on the moment. At a more structural level, most MFIs are not aware of the link between remittances, migration and the global economy and the implications of shifts at global scale in labor mobility and economic growth. They need to internalize more their understanding of the reality of migration in order to value the flows of money not only to be considered as a transactional activity but as part of a broader process of the value chain in economic development in the global context.

Associated to that is a critically important allocation of material resources, including marketing and product design. Institutions like AMUCSS, FAMA and FEDECACES have invested resources on specific products including savings and insurance. The body repatriation product introduced by AMUCSS has been a successful instrument to maintain people connected to the bank. Similarly, FAMA's home improvement loan is another case of investment in product design. Marketing is essential and does not simply include production of advertisement material but outreach and education to clients coming to the institution. The investment needed for these activities often is not allocated into several activities and sometimes is done on an ad hoc basis with little analysis of the financial preferences of customers. One example is the use of raffles to keep people motivated with the institution, which is often done as a competition strategy. Such approaches often miss the value added a financial institution offers vis a vis retail businesses and is only learned later as the institution matures in the segment and market they are working.

Table : Financial intermediation

	CPM	AMUCSS	FAMA	FEDECACES	EI Comercio
Trustworthiness of institution	Strong	Strong	Widely recognized	Strong	Strong
Familiarity with clients	Moderate	Strong	Moderate to Strong	Very Strong	Strong
Staff awareness of the role of remittances in the financial asset chain	Unclear	Relatively strong	Limited or weak	Relatively strong	In progress
Institutional commitment	Unclear	Strong	Committed	Strong	Strong
Financial	None	Several	One	Active	In

product design		products	product		progress
Financial product marketing		Comprehensive	Limited	Active	Limited
Organic growth of transactions	Limited	Significant	Limited	Significant	Moderate

6. Moving a step forward through international cooperation

Although one third of MFIs are paying remittances such percent is critically important, particularly because is a new and emerging phenomenon. In that regard international cooperation is positioned at a critical juncture to provide support to accelerate a process of financial service penetration and intermediation.

This section concludes with six recommendations about the range of instruments that international cooperation can offer in areas where impact can be significant to leverage flows through a financial access that enhances development. These recommendations are preliminary steps to further the capacity of these institutions and address both sides of supply and demand, issues that intrinsic to the development of the institution and its approach to the remittances and financial inclusion.

a) Data structuring, systematization and staff training

One key component that ensures a clear understanding about the potential to maximize the financial worth of money transfers is systematic data collection linked to the financial systems of the institution. Such systematization includes the structuring of an interface linking the payment platform to the financial accounting software, the design of two separate data forms containing relevant information about remittance recipients financial profile and MFI clients extent of links to migrants and remittances. The processing of such data is the key element explaining the position of the MFI vis a vis remittances in the local community. However, such structuring and systematization has to be accompanied by an appropriate analysis of the data and followed by training the staff, both executives and floor staff, about the linkage of these flows with the institutions potential to engage remittance recipients on financial intermediation. Training includes information about the target population to outreach and market products with goals and standards on bankarization ratios among branches.

Financial institutions need to pay greater attention to methodologies that obtain and collect data on these aspects and prepare projections and

objectives. International cooperation can be effective in providing technical assistance to support such approach.

The main justification as to why this step is essential relates to the fact that financial institutions lack a systematic and analytical understanding of the remittance market in the local communities where branches operate. Moreover, they lack the interface that can link remittance transfer data with financial system data. Without such interface institutions are unprepared to know which clients are bankarized or not, which clients could be a source for new financial services or for client service consolidation. All financial institutions need such kind of institutional development within their systems and the costs of carrying such tasks are not large.

b) Increased competitive capacity

Another aspect that is evident among all financial institutions is to improve their competitive capacity. Some institutions like CPM are underperforming in relationship to their capacity and the volume of transfers. Others like El Comercio are unable to grow beyond their contractual relationship to Western Union due to exclusivity agreements held with them. Financiera FAMA is constrained by its role of subagent, and FEDECACES is not growing with its traditional partners. Each one need to expand their partnerships, negotiate new arrangements and forecast their competitive projections branch by branch.

The money transfer industry is currently undergoing important transformations related to their growth strategies and adjustment to a changing market where a process of consolidation is occurring, shifting demands are taking place among end users, and regulatory environments are tightening international foreign currency payments. These companies are expanding their traditional areas of operations and in doing so are seeking new partners in the destination. This is where MFIs have a major opportunity to emerge as major payers during this climate of expansive competition. Each institution reviewed as a unique justification to grow and forging alliances with several MTOs, traditional cash to cash, to emerging technology intensive, large and small, companies is a key way to consolidate their position.

In profiling in the payout market as formidable competitors, MFIs and cooperatives are also closing the gap between supply and demand for financial services because they are closer to areas in rural and underserved markets than banks are and because their mandate is closer to that of financial outreach. International cooperation in this area includes the support to establish links with MTOs, learn about them and

those with whom to partner as well as to develop bargaining skills on international payments.

c) Financial literacy

The literature on financial literacy has shown that this form of education yields important results in promoting financial access. Among remittance recipients little has been promoted to educate senders or recipients to expand their knowledge about financial instruments. However, some evidence shows that financial literacy has positive effects. More importantly the experience of interviews of many remittance recipients in the four countries shows little understanding of financial concepts as well as the role of financial institutions in improving personal finances. In Paraguay for example a remittance recipient lady preferred to save her money buy buying pigs or cows and sell them in case of emergencies as a feature of risk mitigation. However the cost of the investment was higher than saving the money at Financiera El Comercio: the value of the cow or pig would decrease over time as the animal would age or emergencies would not arise, whereas El Comercio’s interest rates were competitive in the overall financial market. In Nicaragua a remittance recipient who received transfers every two weeks, acknowledged to have excess savings and a need to invest on her small business. Yet she was not only unaware of the services Financiera Fama offered, but demonstrated the typical type of consumer who sees borrowing as a bad or negative practice of personal finances. In Mexico a young remittance recipient who was picking up her money to repay a small debt was unaware of the Cajas financial services on debt consolidation.

A recent pilot program on financial literacy among performed during a six month period in Moldova to 5,000 remittance recipient clients showed that 80% of those receiving financial education would express their interest in having financial services. Moreover the results of an intake evaluation form showed a strong correlation between owning a savings account and having prior knowledge of financial issues.

Table :

	B	S.E.	Wald	df	Sig.	Exp(B)
Experience budgeting	-.069	.110	.398	1	.528	.933
Gender	.014	.100	.018	1	.892	1.014
Age	.043	.004	103.871	1	.000	1.044

Education	.103	.034	9.400	1	.002	1.109
Income	.045	.022	4.235	1	.040	1.046
Length of time receiving	.164	.064	6.484	1	.011	1.178
Informal saving	.452	.111	16.690	1	.000	1.571
Banking or SCA	2.330	.138	286.151	1	.000	10.278
Small business investment	.491	.209	5.553	1	.018	1.635
Invest in durable goods	.403	.118	11.782	1	.001	1.497
Prior knowledge of finances	.047	.011	17.788	1	.000	1.048
Constant	-5.055	.297	289.015	1	.000	.006

Source: data compiled by author based on pilot financial literacy project in Moldova at five banks in 20 branches in the country.

d) Benchmarks and goals

Commitment towards integrating migrants and families into the financial system must be accompanied by specific goals and standards. Thus, establishing targeted goals to access a group over a given time period and improving recipients' understanding of financial preferences can hasten migrant financial inclusion.

Players in the financial intermediation field should consider assisting banks to increase financial outreach as well as establishing standards like an annual target number of people to be recruited as bank, microfinance or credit union clients. Legislators, policy makers and advocacy groups must also play a role in improving migrants and their families' financial condition.

Because the current issue about banking the unbanked is limited to a small number of institutions, not even a policy debate, particularly when

discussing unbanked immigrants or their families, many more participants must engage in a dialogue in order to effectively set agendas, propose goals, and exchange important information. Immigrants and families themselves must participate and convey the scope of their financial knowledge as well as their financial preferences with the goal of devising schemes to address current limitations.

e) POST expansion: bankarizing merchants

One key competitive strategy for financial institutions that also brings development implications is the expansion of payment networks through point of sale terminals established among small commercial entities clients of MFIs. Bankarizing merchants is a key to bring people into financial institutions while adding value to their money through electronic payment instruments (card or mobile based). Donor cooperation can target the distribution of POSTs among several participating merchants, clients of banks paying remittances, and market debit cards among recipients of remittances. What makes this approach a success is the distribution of these devices to merchants who regularly cater their business to recipients. Therefore, an effective market research on these retailers is required as a start, followed by integrating them into an electronic payment network.

f) Other considerations

Methodologies to enhance immigrant and families' financial intermediation are also critical for success. Financial institutions need to work with donors, governments and non-profit organizations in order to identify immigrants' financial and economic preferences and to design and market financial products that meet immigrants' needs. The experience of international cooperation providing technical assistance to leverage remittances through new product development (remittance insurance, medical insurance, body repatriation, savings plans, small dollar loans, among others) attached to marketing tools that include financial outreach have proven successful. International cooperation can accelerate and strengthen MFIs to enter the remittance market or consolidate their position, while enabling them to expand their financial sector to migrants and their families. One effective method to accomplish such task consists of working with networks of MFIs and credit unions to coordinate the assistance directly with beneficiary institutions.

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