



**MIF AT FIFTEEN:**  
Building Income and Assets for the Majority



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## PROMOTING PRIVATE OPPORTUNITY FOR THE PUBLIC GOOD

The Multilateral Investment Fund (MIF)<sup>1</sup> was launched fifteen years ago, at a time when most nations in Latin America and the Caribbean (LAC) were struggling to overcome the “lost decade” of the 1980s. The oil and commodities boom of the 1970s had given way to a debt bust in the 1980s, and by 1993 many countries suffered from ongoing hyperinflation, unemployment, poverty, and poor trade performance. The region produced the highest inequality in the world and migrant workers were becoming the fastest growing export of too many countries.

From the beginning, MIF understood that the only effective and sustainable solution to widespread poverty and inequality lay in the expansion of economic opportunity across the region. Opportunity is the fuel for private initiative, which in turn drives innovation, productivity, and employment. Private actors are central players in this process, for when armed with the right capacities they can respond rapidly to incentives, thereby creating new opportunities for more people.

MIF began to tackle the issue of opportunity, not with a formulaic set of prescriptions, but with a flexible pro-poor orientation that improves the prospects of small and microentrepreneurs, by far the largest employers in the region. These workers are typically found in the so-called informal sector, the “real economy” where the majority of businesses lack legal identity and/or access to finance.

As the largest grant facility for the region, MIF has the capacity to test strategically targeted new ideas and models that can be brought to scale in ways that truly matter. Partnering with entities in the private sector, civil society, and the government, MIF can work in any sector, funding regional, national and local projects, with an array of funding options and mechanisms.<sup>2</sup>

<sup>1</sup> MIF is an autonomous fund that promotes inclusive private sector development in LAC. It has 38 member countries and is administered by the Inter-American Development Bank (IDB).

<sup>2</sup> More than 60% of MIF's partners have never previously worked with an international organization.

MIF has benefited from fifteen years of intense testing, experimentation, and searching. During this time over 1100 grant projects and around 150 investments (all with counterpart contributions) have put over two billion dollars to work in LAC, illuminating the many intersections between private opportunity and the public good throughout the region. Based on this rich experience, the MIF approach to opportunity rests on the following propositions:

- **Capacities Matter:** Macroeconomic and other reforms are needed to create a more level playing field – but alone they do not deliver the technical, managerial, and financial capacities needed to compete or to create jobs in the 21st century.
- **Incentives Matter:** The “rules of the game” are embedded in the laws and regulations that shape business incentives. In LAC these rules are improving, but can often discourage business investment and risk taking, leaving the majority of citizens without the benefits of the formal economy.
- **Ownership Matters:** By increasing participation of local stakeholders, enormous energy is unleashed as people gain ownership of projects, reforms and processes.
- **Harmonization Matters:** Global integration expands networks of trade, technology, finance, and services; thereby generating additional technical, health, safety, environmental, and legal standards. Finally,
- **Culture Matters:** Policy prescriptions are not “one-size fits all.” Differences in history, norms, and demographics across countries mean that effective assistance must be tailored in partnership with local stakeholders.

### Money Sent, Opportunity Received: Leveraging the Development Impact of Remittances

MIF has worked for several years to improve the environment for migrant remittances. When MIF began its work in this area, the average cost of sending remittances was about 15%. It is 5.6% today. Consequently, there is approximately \$6 billion more each year in the pockets of the 20 million families that send and receive remittances across the region. MIF is not solely responsible for this reduction in cost, of course, but has been critical in efforts to raise awareness, increase competition, and to expand access to financial services. Consider the case of housing in Mexico, where mortgages remain a dream for the majority. MIF and the *Sociedad Hipotecaria Federal* are helping to increase remittance-backed mortgages for low-income Mexican families. MIF work with the International Fund for Agricultural Development (IFAD) is helping to harness remittances for rural development across the region.



## OPPORTUNITY AS THE PATH TO PRIVATE SECTOR DEVELOPMENT

MIF cannot do everything, nor should it try. Working closely with its Donors Committee, MIF has set priorities for sectors and instruments where it can make a difference and accelerate change. In recent years, MIF has also decentralized its operations by empowering IDB country offices throughout the region to identify and execute projects locally. As a result, MIF is now able to reach a much broader range of potential clients, particularly in rural areas, through the use of highly flexible “mini-MIF” grants in amounts under US\$150,000.



Over the past fifteen years, MIF has made important contributions in several areas:

**Remittances**, once hidden in plain view, are now recognized as the “human face of globalization.” In 2007, about twenty five million migrant workers from LAC sent over US\$67 billion to their relatives back home. These resources constitute a direct means of lifting millions of families out of poverty. Now, MIF is focused on increasing the development impact of remittances by providing families with more options to use their own money. If successful, this effort will help translate the region’s largest poverty reduction program into the foundation for its largest local economic development program.

### Raising incomes by 1200% per hectare through Rural Productive Chains in Peru

The work of MIF and the Instituto de Fomento y Desarrollo (INFOD) is helping small farmers in Peru to procure export contracts and to improve their methods, leading to dramatic increases in small farm incomes—from \$63 per hectare before the project to \$790 after implementation.



**Microfinance** is now growing at more than 20% annually throughout LAC, and has become commercially sustainable in many countries. MIF has fueled this industry by improving enabling environments, and helping to transform over 60 NGOs into regulated depository institutions, thereby generating a growing asset base to support increased lending. MIF is now helping to develop innovative products including microinsurance, mortgages, bond offerings, and lending in local currencies. Over the next five years, MIF has set the goal of helping to triple microfinance in the region by reaching up to twenty million clients.



### Microfinance: Moving Millions from the Margins to the Mainstream

MIF has helped over 60 NGOs in the region to become fully regulated formal lenders. MIF programs are also helping microfinance institutions (MFIs) to offer microinsurance, deposit facilities, remittance transfers, public utilities payments, savings products, home improvement loans, and other products. MIF also helps MFIs to mitigate the risks of devaluation. For instance, MFIs typically borrow in U.S. dollars and lend in local currencies, thereby incurring high currency risks. To mitigate this risk, MIF and several partners launched the **Local Currency Fund**, (LOCFUND) in 2007, a pioneering vehicle that makes local currency loans to smaller MFIs. LOCFUND has made nine loans to date.

Among several other MIF projects in this area is a regional initiative (with Women's World Banking) in Bolivia, Brazil, Colombia and the Dominican Republic to assist **entrepreneurial women** in using microcredit. MIF also helped to create *MiCasita*, the first full service mortgage finance company in Peru that targets first-time borrowers in middle to lower income groups. The ***Microscope on the Microfinance Business Environment in Latin America 2007***, prepared by the Economist Intelligence Unit (EIU) for MIF and the Andean Development Corporation, provides an in-depth analysis that highlights key differences in the microfinance industry among 15 countries in the region. A new MIF project with Standard & Poor's also has its eye on the microfinance industry, aiming to create globally accepted credit ratings for MFIs.



**Small Business** growth presents the best chance to generate good jobs and higher incomes for the region. MIF programs seek to build a wide range of small business capacities, by enhancing product quality and competitiveness, improving business frameworks for information and communications technology, promoting corporate social responsibility, facilitating supply chain mechanisms, simplifying international trade requirements and procedures, and supporting franchising, leasing and factoring.



### Competing Through Quality: Upgrading Coffee in Haiti

Using lessons from Central America, MIF and the Haitian Coffee Institute are helping to improve Haitian coffee quality and to increase premium-grade exports through partnerships with exporters and roasters.

### Improving Food Safety in Argentina

Food products must comply with an escalating array of requirements. MIF and the Cultural Association for Comprehensive Development (ACDI) have helped Argentine cattle ranchers adopt new technology to improve the management of 70,000 cattle and ease conformity to food safety requirements. This project is being replicated in Nicaragua.



**Youth Skills** projects raise the job prospects of young people by matching training content to employer needs and supporting skills certification programs. MIF also supports a range of disadvantaged youth training and mentoring programs throughout the region, forging alliances between businesses, NGOs, and government institutions. *Entra 21*, pioneered in partnership with the *International Youth Foundation*, is MIF's largest grant program and is now a groundbreaking model in 18 countries. This program will be replicated in other parts of the region in order to bring opportunity to thousands more youth.



### **A Ganar: Helping Youth to Get Jobs in Brazil, Ecuador and Uruguay**

MIF and Partners of the Americas have teamed up with the sport of fútbol to help youth acquire the skills needed to get a job in the real world. A Ganar (Vencer in Brazil) provides job training for thousands of soccer players and others in team sports in Brazil, Ecuador, and Uruguay, while working with companies to provide internships, scholarships, and training stipends.

### **Trinidad and Tobago: Gaining jobs though IT Outsourcing**

MIF and the Empowerment Foundation of Tobago (EFOT) are helping to create jobs by increasing the number of skilled IT workers in Trinidad and Tobago. In order to attract a share of the booming global market for IT outsourcing, low-income high school graduates are trained and are able to work in the IT industry without leaving the island, while small local businesses also benefit from an expanded pool of skilled IT workers.

**Business Climate** improvements are needed to improve the incentives that spur private sector development and create employment. MIF has supported legal and regulatory frameworks that facilitate private investment, concessions, spur competition, and that promote other forms of private sector participation. **Alternative dispute resolution** programs foster a new business culture in many countries, while assistance in the property rights framework aims to bring “dead capital” (or the informal assets of the majority) into widely productive use, among other MIF activities in support of a better business environment.



### **Resolving Commercial Disputes in Colombia**

Alternative Dispute Resolution (ADR) provides businesses with trained mediators and arbitrators to facilitate commercial settlements out of court. MIF has helped the Mediation and Arbitration Center of the Chamber of Commerce of Bogotá to pioneer the use of ADR techniques and spread best practices to 70 ADR centers throughout the country.

### **Corporate Citizenship and the Bottom Line: CSR in Brazil, Chile, El Salvador, and Peru**

Integrating corporate social responsibility (CSR) systems into smaller firms broadens their contribution to local communities and can improve their bottom line. Working with partners in Brazil, Chile, El Salvador and Peru, the MIF is promoting CSR and helping to build capacity in local CSR service providers.



**Cleaner Production** projects help SMEs to integrate environmental management techniques into their business strategies, thereby lowering costs and helping to develop new markets. **Sustainable Tourism** projects help small operators to compete in a market that draws growing numbers of visitors to local ecological and cultural attractions, and thereby provides jobs for thousands of workers in rural areas.



### **Greener and Leaner: Cleaner Production as a Competitive Edge for SMEs**

Cleaner production (CP) cuts waste and increases efficient resource use, thereby reducing costs, environmental impact and improving competitiveness. Several MIF projects across the region have implemented CP in hundreds of small businesses, and trained hundreds of environmental consultants, several thousand SME staff and entrepreneurs across the region in CP systems.

### **Certifying Sustainable Tourism in Belize, Brazil, Costa Rica, Ecuador and Guatemala**

Sustainable tourism attracts a growing number of tourists to the region's national parks, protected cultural areas and unique ecosystems. MIF promotes international standards for the "green" certification of SMEs in tourism. Working with the Rainforest Alliance, MIF supports the Sustainable Tourism Certification Network of the Americas, helping many family-owned and small tourist operators to achieve international certification as "green operators."

**Venture Capital** is a mechanism that moves promising small businesses, particularly technology companies, into the global marketplace. MIF has been the leader in early stage venture capital in Latin America, and has played a catalytic role in the success of Brazil's innovative *INOVAR* program. MIF also helps start-up companies through support of angel investor networks, discount facilities, and incubation services. Among these efforts are pioneering funds in energy efficiency and environmental projects.

**Public-Private Partnerships** (PPPs) harness private incentives to deliver much-needed public goods. MIF supports an innovative model of PPP in which both government and the private sector share project risks and rewards, thereby making investments more attractive to private actors while improving the financial sustainability of these projects for governments.



### **INOVAR: Jump-Starting Venture Capital in Brazil**

The INOVAR Program is a pioneering MIF project, that with 23 private and public sector Brazilian partners, has created a vibrant venture capital (VC) community in Brazil. INOVAR fosters entrepreneurship, local fund management capacity, and has launched VC technology funds in which several of the largest Brazilian pension funds have recently invested. MIF is now taking this model to scale with other organizations in Peru and Colombia.

### **PPPs: Public Benefits from Private Initiative in Brazil, Colombia and Mexico**

MIF resources have helped to leverage over \$300 million in private investment in the first public-private partnership (PPP) road project in Brazil. The project will revitalize a key artery in Minas Gerais and greatly improve transport logistics and the flow of goods between important markets. In Colombia, MIF assistance is helping vital transport projects to be structured, while in Mexico legal and institutional capacities are being improved to facilitate PPPs in public services and infrastructure.

## MIF II AND THE PRODUCTIVE LIVES OF THE POOR: WHAT MATTERS MOST?

Fifteen years of developing and testing innovative project financing and delivery mechanisms with a network of partners has given MIF a good idea of what works—and what does not. This experience and the momentum it created culminated in the MIF II replenishment, which took effect in March 2007.<sup>3</sup> Coupled with updated charter revisions, this vote of confidence is the green light for redoubled efforts to expand private sector opportunities and leverage MIF resources for poverty reduction. Moving ahead, MIF will continue to attack poverty, promote private sector development and job creation on several fronts.

What are the most important elements in this effort, in short, what matters most?

First, all MIF programs will be guided by an awareness of the link between a lack of opportunity and poverty. Second, an increased emphasis on the scaling up of successful projects will be a critical goal. Third, MIF will continue to pursue the decentralization of authority and the empowerment of local stakeholders. Fourth, MIF will target specific groups, sectors and sub-regional areas where assistance can make a large impact on the lives of beneficiaries. Fifth, MIF will develop new measures, indicators and mapping needed to guide the strategic targeting of economically and socially vulnerable groups, sectors and sub-regional areas. Finally, the drive to expand opportunity and reduce poverty will require new forms of entrepreneurial partnership with others that share MIF goals.

First, the MIF perspective on poverty **looks beyond constraints**. Of course, the poor lack many things: but energy, entrepreneurial drive, and intelligence are not among them. In fact, people often overcome obstacles, a lack of

funds, education, training, social connections—even poor health—when motivated by economic and social *opportunity*.

Where there is opportunity, a shortage of money becomes a matter of cash flow. Where there is opportunity, a lack of education becomes an incentive to acquire learning. Where there is opportunity, a lack of social connections spurs networking and connections with friends and family. In short, where there is opportunity, there is fuel for development.

But what happens in the absence of opportunity? When opportunity is lacking, poverty becomes total: individually a state of mind, collectively, a culture of scarcity. “Poverty traps” and “vicious circles” of underdevelopment describe the stagnation that arises when people lack both the *means* for improving their lives (money, education, skills, etc.), and the *ends* (opportunities) that drive the human spirit to overcome challenges.

For MIF, poverty means a lack of opportunity, and the absence of opportunity is the prime obstacle to economic development and job growth in Latin America and the Caribbean today.

Since WWII all successful global economies have focused on expanding economic opportunities—by improving incentives, private sector capacities and access to finance. Measures to open up to trade and investment, maintain sound money, encourage business formation, implement systems for the enforcement of contracts and basic property rights are among those policies that have increased employment and incomes, even for the poor. But while Latin America and the Caribbean now enjoy the best macro-economic performance of the past 30 years, the region has made uneven progress against poverty and inequality over the same period.

<sup>3</sup> MIF II welcomed several new Donors: France, Haiti, Sweden, Switzerland and the United Kingdom.



Today, one out of four people in the region – more than 130,000,000 human beings—lives on US\$2.00 or less a day.

The majority of citizens remain bounded by a lack of financial democracy on the one hand, and a legal framework that excludes much of their productive activity on the other. This state of affairs prevents people from leveraging their creativity, enterprise, and assets, and from using legal forms of business organization to productively use their resources.

High levels of inequality and poverty result from this “opportunity trap,” leading MIF to conclude that:

- Where the creativity and entrepreneurship of the majority remain untapped, there is a great waste of economic and social potential.
- Where the majority of people and their families hold little hope for material improvement, private sector development and market reforms will be limited or could even be reversed.
- Pro-growth *can* be pro-poor where targeted assistance helps to build capacities and opportunity among microentrepreneurs, microfinance institutions, smaller businesses, vulnerable groups, sectors and sub-regions and the business frameworks that support them.

### **The Emergency Liquidity Fund: Helping Microfinance Survive Natural Disasters**

Natural disasters destroy livelihoods and wreak havoc for microfinance institutions that have clients who cannot repay loans. MIF created the Emergency Liquidity Facility (ELF) to inject emergency funds into pre-qualified microfinance institutions (MFIs) throughout the region, enabling them to operate in the wake of disasters. The ELF now has pre-qualified institutions in 13 countries, which reach 2.5 million clients and represent almost 40% of the total MFI portfolio in the region.



Second, MIF will focus on **bringing successful projects to scale** in order to achieve the greatest impact and most efficient use of resources. Taking a project “to scale” means attaining maximum leverage, that is, the biggest “bang for the development buck” by delivering the *greatest impact, for the most people*, with scarce MIF resources.<sup>4</sup>

Going to scale requires new thinking and tools:

- **No innovation without demonstration** Projects cannot be justified based on *innovativeness alone*. Assistance must aim to produce demonstrations that can go to scale in the marketplace or in the business framework. Support for innovation alone risks “one-off” experiments with limited lasting impact.
- **Improved measures and indicators** When a successful pilot occurs in the marketplace, news can travel rapidly when it is shared. But demonstrations in the legal and regulatory framework will require better measures and indicators to signal success to the right stakeholders at the right time.
- **Better strategy, not more resources** Scaling up successful pilot projects requires a more strategic selection of project areas and partners—not more money.
- **Strategic partners** Scaling up is rapid in the marketplace. But in legal and regulatory frameworks follow-on assistance is often needed to achieve scale. This is often beyond the scope of MIF. Therefore, scaling requires strategic *partnership* with private sector associations and firms, government, NGOs, foundations, etc.

<sup>4</sup> There are different kinds of scaling-up. For instance, *horizontal scaling* occurs when new practices or techniques are adopted across organizations and geographical boundaries; *vertical scaling* drives changes in policy or strategy up or down an organizational ladder.

- **Scale and sustainability are the same thing in the marketplace**

When a demonstration goes to scale in the market, MIF should limit further assistance in the relevant area to dissemination, knowledge sharing and the extension of successful models to new areas.

Third, MIF will continue to **decentralize decision-making** and thereby drive greater ownership and new ideas among local stakeholders. About one half of MIF staff now works in the field, thereby dramatically reducing the “bureaucratic distance” between MIF and its beneficiaries. Redoubled efforts to **streamline and reduce procedures**, along with related new initiatives such as **Disbursement by Results**, will facilitate local control and equal partnership in all MIF projects.



Fourth, MIF will develop projects that **strategically target specific groups, sectors and sub-regional areas** where assistance can have the greatest impact on households near or below poverty lines. Such groups include female entrepreneurs, the indigenous, the disabled, at-risk youth, those living in rural poverty, among others.

Fifth, **new measures, indicators, and demographic mapping methods** are being developed to help set goals for MIF action. For this reason, knowledge sharing will play an important role in MIF going forward. The *K2 Practice—Knowledge for Development* initiative focuses on capturing and disseminating what MIF and its partners are learning.

Sixth, MIF will seek **entrepreneurial partners** in order to better expand opportunity at the grassroots level. Here, there is no shortage of ideas for improving the productive lives of the majority. But there is a shortage of *skilled leaders* who can put these ideas into practice. In the private sector, where profit is the goal, people who make ideas reality are called entrepreneurs. In civil society, where a social good is the objective, such people are known as *social* entrepreneurs.

By whatever name, the two differ only in how they keep score. But both see opportunity where others see risk, and resources where others see scarcity. MIF will seek such partners at the grass roots level and will also enter into new forms of productive cooperation with NGOs, private sector associations and companies, foundations, think tanks, and government entities, among others.



### Training Bankers to Scale-Up Best Practices

MIF assistance to the Association of Peruvian Banks (ASBANC) enabled it to strengthen its Bankers Training Institute (IFB) and thereby to train more than 50,000 bankers, members of the judiciary, and others in credit analysis, legal matters, loan collection, risk management, and anti-money laundering. By leveraging scarce grant resources, MIF helped to increase the competitiveness of Peruvian banking and to scale up best practices across the sector.



## OPPORTUNITY AND THE ROAD AHEAD

Ultimately, MIF will be defined by its *projects*: by lives changed and by families reached, by institutions strengthened and by the local communities that have been energized by opportunity. All efforts that expand opportunity also promote economic growth and poverty reduction. These fronts are mutually reinforcing, for there can be no sustainable poverty alleviation in LAC without significant improvement at all levels of the productive base.

Although the challenge ahead is great, there is cause for optimism.

For the first time in history the majority of citizens in LAC enjoy political democracy. People express their political voice through political institutions, and national leaders are popularly elected. With the struggle to achieve political democracy won, it is time for the region to turn its attention to financial democracy. This does not imply an equality of income or of wealth, but an equality of access: of access to the formal financial sector and to the legal economy, where the majority can express their “economic voice” through formal market institutions.

Today, the poor are still invisible to most formal sector financial institutions, and are not viewed as a market for innovative products. Yet the vibrance of the microfinance industry and smaller enterprises serving the base of the pyramid proves that the poor respond dramatically when offered opportunity and choice, and that robust profits reward those who deliver value for the majority.

Today, tangled legal webs and dysfunctional property rights deny the majority of businesses the most basic asset of all, a legal identity, while preventing most households from using their assets and ideas productively. Yet in the face of these challenges, the resilience, risk-taking and drive of microentrepreneurs and informal businesses generate most of the jobs in the region.

Today, neither the pent-up demand nor the entrepreneurship of the majority figure prominently in the business plans of formal enterprises in LAC. Yet from large companies to smaller firms in supply chains, from the corner *bodega* to the grassroots microfinance institution, businesses are beginning to understand the growing market power and entrepreneurship of the majority in Latin America and the Caribbean.

Today, there is one thing that is certain about tomorrow: political democracy without financial democracy cannot be sustained. Without financial democracy, growing numbers will decide that “the market” is rigged against them and will cast their votes accordingly.

Tomorrow will undoubtedly demand new priorities and processes to meet the challenges ahead. These must unleash the greatest human force, the one that drives the initiative needed to move people from the margins to the mainstream of economic activity.

On this uncertain road to tomorrow, the commitment to opportunity will remain the beacon for MIF action.



Where initiative is abundant  
and opportunity is scarce,  
our mission is to empower the poor.



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