INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

SENDING MONEY HOME: LEVERAGING BILLIONS THROUGH MICROFINANCE

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Today's conference is about the linkages between a new buzzword, "globalization," and an old fashioned word, "remittances."

Globally, it is about the opportunities for microfinance and other community-based organizations to improve the lives and leverage the economic impact for the 100 million or more migrant workers worldwide who are sending at least $100 billion back home every year to support approximately 400/500 million family members.

Locally, it is about individual microfinance institutions adopting new techniques and technologies to meet the needs of their communities: one client, one family, and one business at a time.

Over the past decade, "globalization" has become the term most often used to describe the increasing integration of the world economy. Countless categories of financial flows, trade in goods and services, and various forms of technology transfer are all very carefully monitored, documented, and reported in great detail.

Business coverage has moved from the back to the front pages of newspapers, and electronic media flash new data instantly. Markets move quickly and dramatically in response, as companies and countries alike try to develop strategies and implement policies to improve their "international competitiveness." Whatever one's point of view, the process and consequences cannot be ignored -- the globalization of finance, trade, and technology is a reality that must be acknowledged and addressed.

However, there is one aspect of globalization that has attracted much less attention: the flow of workers to fill jobs in more developed countries, and the subsequent financial flows back to their families in countries of origin.

For generations, financial flows from migrant workers back to the "home country" have constituted an important means of support to family members remaining in less developed countries.

But improvements in transportation, communication and information technology now make it much easier for these migrant workers and their families, not only to maintain close personal contact, but also to create significant opportunities for economic exchange across national borders. And the process is dramatically accelerating.

From a purely economic perspective, this movement of workers across borders constitutes an integrated labor market connected to a globalizing market economy.

But the transfer of remittances back home also produces a fundamental human connection by delivering desperately needed resources, oftentimes across oceans and continents, to their families.

Unfortunately, the process of transferring these resources has been both costly and inefficient. But this provides the opportunity for microfinance institutions, credit unions, and other community-based organizations to get involved and play a major role in leveraging the impact of these hard-earned resources.

Let me get more specific and much more direct.

Last year, remittances to Latin America and the Caribbean (LAC) reached over $32 billion. The average transaction was for about $200 - $250, typically sent monthly. For Mexico and Brazil, the amounts are higher -- over $300; for Central American, Caribbean, and Andean counties, the amounts are lower, usually $150-$175. Specifically, in countries such as Guatemala, one out of every four adults depends on remittances sent from abroad on a regular basis.

Last year, in the aggregate, about 125 million separate financial transactions took place to transfer these funds, most often through companies such as Western Union, Money Gram, Vigo, and several other local and regional competitors. These money transfer companies provide fast, reliable, and convenient services, and charge as much as the market will bear. Given the high volume and substantial profit margins involved, big commercial banks are now becoming more interested in providing competition, But very few of these resources currently comes through the local financial institutions that are best positioned to generate economic leverage.

Total fees associated with remittance transfers to LAC came to about $4 billion last year. Although transaction costs are now dropping below 10% in many countries, in an era of electronic transfer of resources, this is still very costly. We can do much better, and microfinance institutions are potentially a big part of the answer.

Transaction costs aside, the preferred option for remittances is clearly through financial institutions. Only banks, credit unions, and other depository institutions can offer opportunities for savings accounts, checking accounts, and various forms of low-cost credit to LAC immigrants living in developed countries. Only banks, credit unions, and micro-finance institutions in recipient countries can best leverage the economic impact of remittances, once received. It is for this reason that the MIF is actively engaged in helping to build a network of financial institutions in LAC countries which can then link up with formal financial institutions in developed countries to both lower the transaction costs and increase the multiplier effect of remittances. And we think this is working.

In Mexico, laws and regulations, which prohibited financial institutions such as rural credit unions from receiving remittances, have been changed. A network is being formed -- La Red de la Gente -- with a goal that about 1,000 financial institutions (both inside and outside that network) will be receiving remittances throughout rural Mexico in the near future.

In Ecuador, Banco Soladario is working with a network of Ecuadorian cooperatives and several financial institutions in Spain and Italy to distribute remittances, After just one year, Banco Soladario has captured over 10% of the $500 million remittance flow between Spain and Ecuador.

In El Salvador, FEDECACES is working with its affiliates to strengthen their capacity to receive international remittances. In 2001, there were 3,000 transfers; for 2002, 52,000; and, for 2003, substantially more than 100,000 will be received.

In Nicaragua, Findesa, a small microfinance institution, is linking up with the largest bank in Costa Rica, Banco Nacional, to receive remittances from that country.

In Bolivia and Argentina, FIE has established a microfinance operation in Buenos Aires to provide services to the hundreds of thousands of Bolivians living there, including helping them to send their remittances back home.

In all, MIF is currently sponsoring seven remittance projects in five countries, totalling ten million dollars in financing. There are another six projects, including two regional programs, now in development.

But, much more needs to be done. To start with, we need to help change laws and regulations which make it difficult or impossible for microfinance organizations to engage in remittance activities.

MIF is developing remittance projects with the Accion, Women's World Banking, and Katalysis networks, among others. We are also working with WOCCU and various other credit union organizations. But we want to work with individual organizations as well.

It may seem intimidating to try to compete with the Western Unions and Citibanks of the world. But let me remind you, again, of the numbers involved. If microfinance organizations could capture 10% of the remittance market -- a realistic goal -- more than $3 billion a year would come through the system.

In addition to the fees generated by this business, as much as $300 million could be mobilized in savings every year.

Take it one step further -- the total aggregate of remittances to LAC during the current decade (2001 -- 2010) is conservatively projected to reach over $450 billion (using half the current growth rate). You can do the math -- but the numbers are staggering under any scenario, even if microfinance captures only a small portion of the market.

And, microfinance institutions have a distinct advantage over commercial banks and money transfer companies in this competition. The money is already coming to your people! In many countries throughout LAC, it is likely that a significant percentage of microfinance clients are currently receiving remittances through other distribution channels.

Finally, let me provide one remarkable example of the full range of possibilities. A century ago, a small financial institution was founded in San Francisco Bay essentially to provide services to Italian immigrants, including remittances back home. That institution today is Bank of America.

The opportunity before us is not theoretical; it is realistic.

If it happens, the result will be stronger and deeper financial systems in developing countries meeting the needs of millions of clients not currently served. Billions of additional resources will be saved in transaction costs and made available in purchasing power, which can be leveraged many times over. Additional billions could be mobilized in savings and also leveraged in lending for housing, for investing in microenterprises and small businesses and other forms of local development.

If it happens, the result will be a fundamental change in the way that money works throughout Latin America and the Caribbean. We will be much closer to the day when financial systems serve the majority of the people of the Americas.

It is time for microfinance institutions to step forward to meet the challenge, and seize the opportunity. We stand ready to help.

Guatemala, September 3rd, 2003