

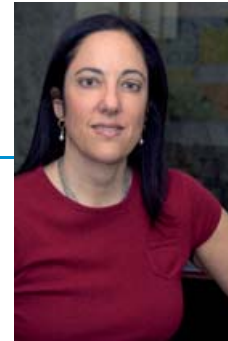


Multilateral Investment Fund  
1300 New York Avenue, NW  
Washington, DC 20577, USA

[www.iadb.org/mif](http://www.iadb.org/mif)



**The Multilateral Investment Fund**  
Promoting Private Opportunity  
for the Public Good



**Julie T. Katzman**  
General Manager  
Multilateral Investment Fund  
Inter-American Development Bank

## Message from the MIF General Manager

Where Private Opportunity Meets the Public Good

It is with a sense of great responsibility and anticipation that I embark upon my new role as General Manager of the Multilateral Investment Fund at the IDB. I am excited by the opportunity to join this talented team and to contribute to an organization that I deeply admire. The MIF has been a powerful tool for addressing the needs of the most vulnerable in Latin America and the Caribbean (LAC). Moreover, its expertise and creativity are sorely needed as we confront the current financial crisis when the most disadvantaged people in our Hemisphere are likely to suffer even more.

In the sixteen years since MIF was launched, the organization has made major contributions to private sector development in the region, and in the process has helped to create jobs and reduce poverty, often by being a pioneer. MIF was the first to recognize and invest in quantifying the development value of remittances, and to help decrease transaction costs dramatically. MIF was also one of the first to invest heavily in microfinance institutions (MFIs), helping over 60 microfinance NGOs to transform into regulated depository institutions. Today, almost three quarters of the microfinance granted in the region comes from regulated MFIs. In total, MIF has launched 1,200 completed and currently disbursing operations (both grants and investments). With counterpart contributions, these projects have put a total of over \$2.7 billion to work across Latin America and the Caribbean.

This "First Act" of the Multilateral Investment Fund is indeed a tough act to follow. But while much has been achieved, much more remains to be done. At least 130 million people in Latin America and the Caribbean live on \$2 or less per day, and the region still has among the highest income inequality in the world. Even during the positive macroeconomic performance of recent years, migrant workers were the fastest growing export of several countries. To quote my predecessor: "No matter what we accomplish, it will never be enough."

"Act Two" of the MIF opens with added urgency as the region confronts the challenges arising from the current financial crisis. As countries move to cut budgets and services, opportunities are all too often reduced for the majority. The poor may lack many things: but intelligence, energy, and entrepreneurial drive are not among them. In fact, people can overcome all types of obstacles – when provided with economic and social opportunity. But where opportunity is absent, hope is lost and poverty becomes enduring. It is this tragic and vicious cycle that we must strive to avoid during difficult times.

Although the challenges ahead are great, there is cause for optimism. For the first time in history, a majority of citizens in the region enjoy political democracy and are able to express their political voice through representative institutions. It is now time to expand financial democracy, by enabling more people to leverage their own efforts, talents and property and thereby express their “economic voice” through participation in the formal financial systems of the region.

Consider the obstacles that the majority of the region's citizens encounter each day as they try to improve their lives – a financial sector to which they are largely invisible, large companies that rarely consider their product needs, and where they do, often only to earn higher than normal profits, dysfunctional property rights and tangled webs of bureaucracy that are difficult and expensive to navigate, unsafe work places that under invest in worker skills and development, and unhealthy neighborhoods where workers' children are often exposed to toxic substances from companies operating nearby.

Then consider what they could accomplish with greater access – to the formal economy, to the financial sector and to other important services. Access is opportunity, and opportunity is the largest untapped force for development in the region. This resource, once unleashed, can move people from the margins to the mainstream of economic activity in Latin America and the Caribbean.

It is against this backdrop that MIF is executing its commitment to the expansion of economic and social opportunity for the majority of citizens in Latin America and the Caribbean. Overall, MIF seeks to create opportunities that show people that they can improve their lives in the present, and those of their children in the future.

We will do this in those areas where we have been successful in the past – in microfinance, in helping small firms and microenterprises, in remittances, in regulatory and business frameworks, and in venture capital. And, by moving into promising new areas that will help to achieve MIF goals like clean energy, new forms of public private partnership, or financial services for those at the base of the pyramid. Overall, MIF will continue to investigate new ideas and expand into areas where there are opportunities that can make a difference in people's lives.

I have been with the MIF for a very, (very) short time. While it is a bit early to speak of new directions, my first priority is clear: to listen very carefully to our Donors, and to those who have helped build the MIF, to our colleagues inside the IDB, and to our many partners and beneficiaries, and then moving ahead, to evaluate the best ideas as the basis for MIF action.

What I know already is that the assets that we have – human, financial and intangible – will continue to make MIF a powerful tool for development in the region. Undoubtedly, there are also many new areas where we can make a substantial impact. A response to climate change offers many market opportunities in the region, but to date these have been available only for the largest, best-connected players. MIF can be a major force in helping smaller firms and investors to benefit from carbon markets, to profit from new, low-cost renewable energy technologies, and to help low-income households better adapt to changing climates.

MIF is also developing a range of innovative new services for microenterprises, including microinsurance, micropensions, microbusiness franchising, and a model for formalizing microenterprises. In addition, MIF will help small firms to benefit from the highly successful concept of “denomination of origin,” in which specialized producers of coffee, wine and other products establish a strong brand for their products based on the geographic location.

It is clear that we do not want for ideas and promising opportunities.

Secondly, I see an opportunity for MIF to develop more fully the knowledge and learning that flow from both past and current projects. To increase our capacity to do this will require a new emphasis on learning and sharing, focusing on what we do well and how we can do it better, and on where and how we can replicate our successes. Building on the past we will enhance the success of projects in the future while developing a base for intellectual leadership in our new chosen fields. Both will present us with ways to leverage MIF's capabilities with new audiences and increase our development impact.

As you can see, there is a lot to do. I look forward to joining you in tackling all of this on the way to an exciting and productive year.





## The Multilateral Investment Fund

Promoting Private Opportunity for the Public Good

*"The Chinese use two brush strokes to write the word 'crisis.' One brush stroke stands for danger; the other for opportunity. In a crisis, be aware of the danger—but recognize the opportunity."*

John F. Kennedy

### Opportunity in Turbulent Times

**The Multilateral Investment Fund** (MIF)<sup>1</sup> was launched sixteen years ago in the wake of an economic crisis that culminated in a "lost decade" for much of Latin America and the Caribbean (LAC). Fortunately, much progress has been made since that time. Now the region faces a new and global challenge, and most countries are better positioned to face the uncertainties ahead. Many nations now have lower levels of debt, greater price stability, stronger banking systems, more diversified economies and improved business frameworks.

Yet much remains to be done in Latin America and the Caribbean, where one out of every four people lives on US\$2.00 per day or less.

MIF recognizes that economic opportunity is the only effective solution to widespread poverty and inequality. Economies that promote opportunity provide the fuel for innovation, productivity, and employment creation, while fostering the entrepreneurial agility required in more difficult times. MIF began promoting opportunity by aiming to improve the prospects of small businesses and microentrepreneurs, who are by far the largest employers in the region. MIF assistance continues to focus on improving the capacities, incentives, and access to finance that small businesses and entrepreneurs need to compete in the 21st century.



<sup>1</sup> MIF is an autonomous fund administered by the Inter-American Development Bank (IDB). It promotes inclusive private sector development in LAC, and is comprised of 38 member countries, most recently welcoming China to its membership. See also MIF at Fifteen: Building Income and Assets for the Majority ([www.iadb.org/mif](http://www.iadb.org/mif)).

### Microfinance: Small Loans Underwriting Large Opportunities

MIF is working on several fronts related to microfinance. In 2008 MIF and ACCION International teamed with the Brazilian private sector to launch new microfinance institutions (MFIs) in the Brazilian states of Amazonas and Pará, a poor region with almost two million microentrepreneurs. Also with *ACCION International*, in a regional project in Colombia, the Dominican Republic, Ecuador, Nicaragua, and Peru, MIF is leveraging village banking, remittances, individual loans, microinsurance, and supply chains to improve the livelihoods of the poor and their microenterprises. MIF is also working with *Habitat for Humanity International* to help MFIs in Honduras and Peru to implement housing microfinance programs for low-income families.

Helping MFIs to survive natural disasters, MIF created the *Emergency Liquidity Facility (ELF)* to inject emergency funds into pre-qualified MFIs throughout the region, enabling them to operate in the wake of disaster. In early 2009, MIF announced the infusion of an additional \$20 million to meet the anticipated demand for additional funds by MFIs as they respond to the global financial crisis. The *Microscope on the Microfinance Business Environment in Latin America*, developed by the *Economist Intelligence Unit* with MIF and the *Corporación Andina de Fomento (CAF)*, provides an analysis of the microfinance industry across the region. Now a reference for investors, donors and governments, the *Microscope* was expanded in 2008 to include 20 countries in LAC.



## Building Income and Assets for the Majority

MIF continues to make important contributions in several areas:

The growth of **small business and entrepreneurship** offers the best chance for generating good jobs and higher incomes across 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, strengthening supply chain mechanisms, helping firms meet international trade requirements and procedures, supporting franchising, leasing, factoring and promoting seed capital investment.

MIF has helped fuel the **microfinance industry** by improving enabling environments, thereby generating a growing asset base to support increased lending. Having become commercially sustainable in many countries, microfinance has grown by as much as 40% annually for several years in some markets. Now, 70% of the microfinance in the region flows through regulated financial institutions, and MIF assistance is helping to develop new products in micropensions, microinsurance, remittances, mortgages, and local currency lending.

### Entrepreneurship: From Angel Investors to Venture Capital

In 2008, MIF continued to promote entrepreneurship through angel investor networks and with venture capitalists in several countries. In the Dominican Republic, MIF is working with *Emprende* to support entrepreneurs in the technology sector by promoting the incubation system for start-ups and creating an angel investor network. In Panama, a project with *Fundación Ciudad del Saber* aims to establish a sustainable, integrated system for the promotion, incubation, and financing of dynamic business ventures.

**Remittances**, financial flows that trace family ties, continue to help to lift millions out of poverty. In 2008, the rate of growth in remittances dropped significantly, but still amounted to about US\$69 billion. MIF remains focused on improving the development impact of remittances by helping families gain more options for using their own money.



### Remittances: Sending Money and Opportunity Home

Several years ago MIF set a goal for 2010: to slash the average cost of sending remittances to LAC by 50% (through increased competition and better technology). This goal was achieved in 2008, giving migrants and their families \$6.25 billion more per year in their pockets. The program *Remittances as a Development Tool*, has 30 active operations, 11 of which are part of the MIF-IFAD *Partnership Facility for Rural Private Sector Development*. Further, an increasing number of governments, international authorities and development agencies seek advice and information on remittances from MIF. The MIF project with *CEMLA* continues to improve remittance data from Central Banks in the region, and MIF continues to help implement the General Principles for International Remittance Services by working with market players, Central Banks and other officials. Also in 2008, MIF and CGAP became founding partners of the *G-8 Task Force on Remittances*.



**Youth Skills** projects raise the job prospects of young people by matching training content to employer needs and supporting skills certification programs. 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. Thus far this program has reached almost 30,000 youth (with a goal of 50,000 young people). MIF partners in these efforts include the Caterpillar Foundation, Nokia, TK Foundation, the International Development Research Center and USAID.



#### Employment and Poverty Reduction in Brazil: Hand in Hand with MIF

*Hand in Hand (HiH)* is an Indian organization with a successful model for working with extremely poor rural groups. In 2008, MIF and *Hand in Hand* collaborated in Northeastern Brazil on training and microcredit for poor, largely female microentrepreneurs.

**Business Climate** improvements mean better incentives for private sector development and help create employment. MIF support for improved legal and regulatory frameworks help to facilitate investment and spur competition. For instance, in Panama, MIF and the *Panamanian Association of Credit* are implementing a new credit scoring system in microfinance institutions and a database to build credit scores, thereby improving the risk environment facing MFIs in Panama.

#### Better Livelihoods for Recycling Collectors in Brazil

MIF is working with a diverse range of partners, including *Fundación AVINA*, *Coca Cola*, *Wal-Mart*, grassroots community organizations and the government, to help informal recycling collectors, or *catadores*, improve their livelihoods and their families' standards of living. Assistance in five urban communities in Brazil is helping to integrate *catadores* into the recycling materials supply chain, through capacity building in local collector associations and job training for *catadores* and community members.



**Climate Change** presents the region with a potent mix of challenges and opportunities. With a long track record in cleaner production and environmental management standards, MIF will redouble efforts to explore innovative assistance related to climate change, including more work in clean energy, the development of carbon markets, linking microfinance with opportunities in low cost renewable energy, public-private partnerships in cleaner energy, and other new areas.

#### Promoting Renewable Energies in Central America

To promote business ecoefficiency, MIF has partnered with the fund manager *E&Co* to create the *Central American Renewable Energy and Cleaner Production Facility (CAREC)*, providing financing to smaller businesses for renewable energy, cleaner production and energy efficiency related deals in Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama. Investments approved in 2008 include the *MAGESA* biogas project in Guatemala and the *Mezapa* hydroelectric project in Honduras, both of which are expected to generate carbon credits.

**Sustainable Tourism** projects help small operators to compete for growing numbers of visitors to local ecological and cultural attractions. Building on 25 sustainable tourism projects in 20 countries, MIF has joined forces with the *National Geographic Society* to engage partners in scaling-up "geotourism programs" that stress the unique aspects of each destination's environment, culture and heritage.

### Social Entrepreneurship Program: Improving the Productive Lives of the Poor

The *Social Entrepreneurship Program (SEP)* has helped more than 600,000 low-income people since its inception in 1998. Funded by the Bank's Fund for Special Operations (FSO) and the Italian and Spanish governments, SEP has been administered by MIF since 2007. The SEP assists the poorest populations, with a focus on women, indigenous groups, and microentrepreneurs. In 2008, projects included microfinance for rural indigenous women's associations in Guatemala, credit for cocoa producers in the Dominican Republic, and financing for solar energy for rural families that are off the energy grid in Nicaragua. New projects are focused on microenterprises in geotourism, small hydroelectric energy for rural families, among other initiatives.

**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 INOVAR program. MIF also acted in an advisory capacity to help government agencies in Argentina, Brazil, Chile, Colombia, Mexico and Peru to better promote venture capital in their countries, and helped start-up companies through angel investor networks, discount facilities, and incubation services. Among these efforts are pioneering funds in energy efficiency and environmental projects.

#### Venture Capital for Development

MIF has invested in over 40 venture capital (VC) funds in the region, thereby helping to develop almost 300 companies and 12,000 jobs. In general, the success rate of business start-ups and early stage VC is around 10%. In the MIF portfolio fully 86% of young companies have survived the early funding period. While MIF VC funds are young, there have been successful exits with internal rates of return ranging from 35% to 82%. MIF, the *Latin American Venture Capital Association (LAVCA)* and the *Corporación Andina de Fomento (CAF)* also developed the first scorecard on the VC environment in Latin America, the forerunner to the MIF Microscope.



**Public-Private Partnerships (PPPs)** harness private incentives to deliver public goods. MIF supports a model of PPP in which both government and the private sector share project risks and rewards, thereby attracting private actors while improving the financial sustainability of these projects for governments. MIF has also helped to leverage over \$300 million in private investment in the first 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.

#### PPPs: Public Benefits from Private Initiative in Mexico

In Mexico, MIF and the Program to Promote Public-Private Partnerships (PIAPPEM) is working with seven southern states to build capacity for the implementation of PPPs in infrastructure. PIAPPEM has developed a PPP training course for decision-makers at the state level and technical staff involved in infrastructure development. MIF is working with the *World Bank Institute* and *Asian Development Bank Institute* to adopt and scale up this course for use across the globe.





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David Bloomgarden, Sandra Darville, Alfredo Giró, Fernando  
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Photographs by  
Yves Lesenfants, Carly A. Lorente and  
Federico Delgado

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