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TRANSFORMING REMITTANCES INTO SAVINGS AND INVESTMENTS

The Case of Bancolombia and the
Financial Inclusion of Remittance
Recipient Families in Colombia

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Bancolombia 

OVIN
Multilateral Investment Fund
Member of the IDB Group

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EXECUTIVE SUMMARY

Bancolombia entered the remittance business in 2004 with a focus on increasing its participation in the country's remittances payments market. Since then, the bank's focus has evolved into a broader and more holistic vision supporting the financial inclusion of households that receive remittances, and migrant family members living abroad.

Bancolombia achieved this broader vision by creating an environment, or an ecosystem, of products and services, which promotes the financial inclusion of these clients. The objective of this more inclusive strategy is to channel migrant remittances towards the savings and investment goals that accompany these flows of money. The broader goal Bancolombia hopes to achieve with this strategy is also to ensure that these funds help improve the quality of life of remittance recipients, and migrant families living abroad.

Today, Bancolombia offers compelling value propositions for both the remittance recipient and Colombian migrant segments. The bank has also established solid partnerships within the remittances industry and has put in place an effective commercial strategy.

As a result, approximately 54% of Bancolombia's remittance clients are also owners of a Bancolombia deposit account. The bank estimates that, on average, 200,000 clients receive international remittance payments via direct deposit to their Bancolombia bank account each month. The bank has also succeeded in opening savings accounts for more than 98,000 Colombians living abroad, and has extended more than 9,000 transnational mortgages to these clients. Today, Bancolombia is well-positioned as the single largest payer of remittances in Colombia.

This case study begins with a description of the circumstances that gave rise to Bancolombia's comprehensive strategy for financial inclusion. It outlines how the strategy was implemented, and how it created an environment or functioning ecosystem that facilitated access to its financial products and services. The study also highlights the main results obtained with this strategy.

The report concludes with Bancolombia's perspectives and plans for the future, as well an overview of the continuing challenges it faces and opportunities it perceives in the remittance market.

The Remittances and Savings Program of the Multilateral Investment Fund (MIF), member of the Inter-American Development Bank (IDB) Group, contributed to the development of this case study in order to identify and disseminate best practices and successful models for the financial inclusion of remittance clients. The Program seeks to share this information with remittance industry stakeholders (such as financial intermediaries, money transfer operators, and others) in order to create a catalytic impact at the industry level.

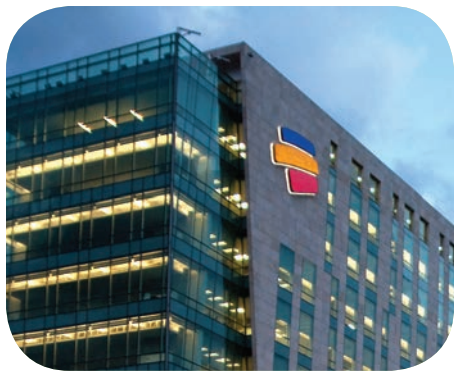


METHODOLOGY

The information included in this case study was compiled on location in Medellín, Colombia, at the headquarters of Bancolombia. The following methodological tools were used:

- *Interviews with Bancolombia staff:* These included meetings with the Bank Manager, the management team from the Colombians Abroad Program, and Bancolombia staff working in this division. The Director of Financial Inclusion Programs of the Vice Presidency for Individuals and Small and Medium Enterprises (SMEs) was also interviewed.
- *Visits to key bank branches:* The research team conducted visits to branches in Camino Real, Teatro Avenida, Carabobo and Parque Bello. Interviews were conducted with the customer service director and head cashier responsible for remittances at each branch visited.
- *Focus groups with remittance recipient clients:* A focus group was conducted with remittance clients who use the direct deposit to an account service to receive their remittances. Two mini-groups were also conducted with clients who receive their remittances over the counter rather than through the direct deposit service.





BACKGROUND

MIGRATION AND REMITTANCES IN COLOMBIA

According to the World Bank, the total number of international migrants in the world in 2015 is expected to exceed 250 million people, an unprecedented number. It is estimated that these migrants will send 601 billion dollars to their families in their home countries in the form of remittances this year.¹

In 2013, the number of migrants in the world reached 232 million people, a statistic which at the time was a historical record.² This number has swelled even more in recent years, mainly due to massive migration from the Middle East and North Africa to the European Community.

Many of these migrants leave their home countries in search of better economic opportunities for their families. Others leave because of political instability and violence in their home country. In the case of Colombia, the migration patterns of the population have been largely due to both, adverse economic conditions, as well as violence stemming from the country's decades-long armed conflict, among other reasons.

¹ World Bank Press Release, 18 December 2015. See: <http://www.bancomundial.org/es/news/press-release/2015/12/18/international-migrants-and-remittances-continue-to-grow-as-people-search-for-better-opportunities-new-report-finds> (viewed 15 January 2016).

² http://esa.un.org/unmigration/documents/The_number_of_international_migrants.pdf (viewed 25 November 2015).

The Ministry of Foreign Relations of Colombia estimates that approximately 4.7 million Colombians reside abroad.³ Given that in 2015 the Colombian population was estimated at 48.2 million,⁴ the number of Colombians living abroad accounts for almost 10% of the total population.

Waves of migration from Colombia

Colombia has experienced three main waves of migration. The first took place in the 1960s and 1970s and was mainly comprised of migration to the United States and Venezuela. Migration to the US coincided with immigration law reforms in this country that facilitated family reunification and legal residency not based on racial or ethnic group criteria.⁵

This wave was characterized in large part by the migration of professionals and skilled workers who demonstrated high levels of education, and English proficiency, and were largely female and from the middle and upper classes.⁶

Around the same period, migration to Venezuela increased significantly from 1951 to 1971 due to the oil exploration boom, Venezuela's economic growth, and the strengthening of Venezuela's currency.^{7,8} This migration was characterized by the migration of agricultural workers, unskilled workers in the transportation sector, as well as craftsmen.⁹ The participation of Colombian migrants in Venezuela's agricultural sector reached 79% during that period, as a testament to the importance of Colombian migrant workers in the Venezuelan economy during this time.

A second wave of Colombian migration occurred between 1975 and 1985, coinciding with a decline in the growth of the country's Gross Domestic Product (GDP), which fell from 8.5 % in 1978 to 0.9% in 1982, as well as with increasing levels of unemployment in Colombia, which rose to 14.5% in 1985.¹⁰ The rate of migration of Colombians to Venezuela continued to grow as well during this period. Between 1979 and 1999, the number of Colombian migrants residing in Venezuela had increased by 194%.¹¹

Lastly, a third wave of migration took place between 1996 and 2006 as a response to the economic crisis experienced by Colombia in 1998 and 1999. Outward migration also grew during this period in response to increasing violence and the deterioration of citizen security in the country, especially in certain regions

³ Recent official data shows an estimated 3,378,345 Colombians are living abroad. This number was cited the National Administrative Department of Statistics (DANE) based on the 2005 census. The Ministry of Foreign Relations estimates that in 2012, 4.7 million Colombians lived abroad, but confirms the official data as the one given by the DANE. Source: Ramirez, C. and Mendoza L. *Migration Profile of Colombia 2012*. International Organization for Migration. Bogotá, Colombia, (2013): p. 42.

⁴ Projections by DANE based on results adjusted from the 2005 Population Census and the census reconciliation 1985–2005: <http://www.dane.gov.co/index.php/poblacion-y-demografia/proyecciones-de-poblacion> (viewed 15 November 2015).

⁵ *International Remittances in Colombia*. Center for Latin American Monetary Studies (CEMLA), Multilateral Investment Fund, Inter-American Development Bank, (2007): p. 7.

⁶ Colombian Ministry of Foreign Relations. <http://www.cancilleria.gov.co/node/1807> (viewed 15 January 2016).

⁷ Carreño Malaver, Ángela María. "Refugiados colombianos en Venezuela: Quince años en búsqueda de protección." *Memorias Revista Digital de Historia y Arqueología desde el Caribe Colombiano*. Año 10, No. 24. Barranquilla, Colombia (2014): p. 102.

⁸ Ramirez, C. and Mendoza, L. *Migration Profile of Colombia 2012*. International Organization for Migration. Bogotá, Colombia (2013): p. 53.

⁹ Carreño Malaver, Ángela María. "Refugiados colombianos en Venezuela: Quince años en búsqueda de protección." *Memorias Revista Digital de Historia y Arqueología desde el Caribe Colombiano*. Año 10, No. 24. Barranquilla, Colombia (2014): p. 103.

¹⁰ *International Remittances in Colombia*. Center for Latin American Monetary Studies (CEMLA), Multilateral Investment Fund, Inter-American Development Bank (2007): p. 7.

¹¹ Carreño Malaver, Ángela María. "Refugiados colombianos en Venezuela: Quince años en búsqueda de protección." *Memorias Revista Digital de Historia y Arqueología desde el Caribe Colombiano*. Año 10, No. 24. Barranquilla, Colombia (2014): p. 103.

such as in Colombia's Coffee Belt.^{12, 13} As opposed to prior migration, this wave affected all socioeconomic groups and was characterized by the exploration of new destinations including Spain, Canada, the United Kingdom, France, and Germany, as well as other Latin American countries (Ecuador, Mexico and Costa Rica); see Table 1.¹⁴ Migration to Spain, the third most popular destination for Colombia migrants, was made up of mostly low and middle-income women with intermediate levels of education.¹⁵

TABLE 1 Main destinations for Colombian migrants in 2010¹⁶

Country	Total estimated percentage of Colombian migrants abroad
United States	28.8%
Venezuela	28.4%
Spain	17.4%
Ecuador	8.0%
Canada	2.1%
Panama	1.4%
France	1.2%
Italy	1.1%
United Kingdom	0.7%
Germany	0.6%

The Colombian departments that are home to the highest concentration of households affected by migration include:¹⁷

TABLE 2 Concentration of households affected by migration by department

Department	Concentration of households affected by migration
Valle del Cauca	23.1%
Bogotá	17.6%
Antioquia	17.7%
Risaralda	6.9%
Atlántico	5.8%
Quindío	3.3%
Norte de Santander	2.6%
Other departments	27.0%

¹² *International Remittances in Colombia*. Center for Latin American Monetary Studies (CEMLA), Multilateral Investment Fund, Inter-American Development Bank (2007): p. 7.

¹³ Colombian Ministry of Foreign Relations. <http://www.cancilleria.gov.co/node/1807> (viewed 15 January 2016).

¹⁴ *International Remittances in Colombia*. Center for Latin American Monetary Studies (CEMLA), Multilateral Investment Fund, Inter-American Development Bank, (2007): p. 7.

¹⁵ Colombian Ministry of Foreign Relations. <http://www.cancilleria.gov.co/node/1807> (viewed 15 January 2016). *International Remittances in Colombia*. Center for Latin American Monetary Studies (CEMLA), Multilateral Investment Fund, Inter-American Development Bank (2007): p. 7.

¹⁶ Ramírez, C. and Mendoza, L. *Migration Profile of Colombia 2012*. International Organization for Migration. Bogotá, Colombia (2013): p. 42-43.

¹⁷ Ramírez, C. and Mendoza, L. *Migration Profile of Colombia 2012*. International Organization for Migration. Bogotá, Colombia (2013): p. 44.

Volume of remittances to Colombia

According to MIF data, Colombia ranks fifth among countries in the region receiving the highest volume of remittances, after Mexico, Guatemala, the Dominican Republic, and El Salvador.¹⁸ As of November 2015, Colombia had received USD 4.165 billion in remittances that year.¹⁹ This represented an increase of 2% compared to the total volume of remittances received in 2014.

Remittances are among the most important financial flows for the country. In 2014, remittances accounted for 1.1% of its Gross Domestic Product (GDP).²⁰ What's more, in 2012 the amount of migrant remittances to Colombia exceeded the total combined revenue generated by exports of products such as coffee, flowers, bananas and textiles.²¹

The volume of remittances into Colombia fell suddenly in the wake of the 2008–2009 international financial crisis, as was the case in the rest of Latin America and the Caribbean overall. By 2013, remittance levels to Colombia had still not grown significantly to reach previous levels.

In 2014, remittances volumes began to drop again, due largely to unfavorable labor market conditions in Venezuela and Spain, main destination countries for Colombian migrants.²² Of those flows, the amount of money sent from Venezuela to Colombia has been hit the hardest in recent years. In 2014 the total value of remittances sent from Venezuela to Colombia fell drastically by 90%, from \$492 million in 2013 to only \$51.3 million in 2014.²³

FIGURE 1
Remittance flows
to Colombia
(2006–2015)
Amount in
USD millions



¹⁸ Maldonado, R., Hayem, M. *Remittances to Latin America and the Caribbean Set A New Record High in 2014*. Multilateral Investment Fund, Inter-American Development Bank, Washington, D.C. (2015): p. 11.

¹⁹ Central Bank of Colombia. <http://www.banrep.gov.co/remesas> (viewed 15 January 2016).

²⁰ Maldonado, R., Hayem, M. *Remittances to Latin America and the Caribbean Set A New Record High in 2014*. Multilateral Investment Fund, Inter-American Development Bank, Washington, D.C. (2015): p. 30.

²¹ Ramirez, C. and Mendoza, L. *Migration Profile of Colombia 2012*. International Organization for Migration. Bogotá, Colombia (2013): p. 56.

²² Maldonado, R., Hayem, M. *Remittances to Latin America and the Caribbean Set A New Record High in 2014*. Multilateral Investment Fund, Inter-American Development Bank, Washington, D.C. (2015): p. 11.

²³ Central Bank of Colombia. <http://www.banrep.gov.co/remesas> (viewed 15 January 2016).

The total volume of remittances sent from Spain to Colombia also fell in 2014, by 6%.²⁴ Although there were signs of recovery in both the construction and service sectors of the Spanish labor market, which employ the majority of Colombian migrants in Spain, this improvement was not enough to offset the drop in employment experienced by this population since the height of the financial crisis.²⁵

Remittances from the US grew slightly by 1% between 2013 and 2014, but this modest growth was not enough to compensate for the negative impact of the reduction in remittances from both Venezuela and Spain.

Looking at the volume of remittance flows received in the first three quarters of 2014 compared to the flows received during the same period in 2015, we see a continuation in the dramatic decline in remittance flows from Venezuela to Colombia. These flows dropped by 96%, from \$51.3 million during the first three quarters in 2014 to \$2.2 million during this same period in 2015.

Remittances from Spain to Colombia during the first three quarters in 2015 increased only slightly by 1%. On the other hand, remittances sent from the United States continued their positive growth with a more robust 27% increase during this period, compared to the first three quarters of 2014.

Table 3 presents the total volume of remittances sent to Colombia broken down by country of origin, using data through September 2015.

TABLE 3. Remittances by country of origin
Amount in USD millions²⁶

Country of origin of the transfer	Remittances received from Jan to Sept, 2015
United States	\$1,567.7
Spain	\$655.7
Panama	\$143.7
Chile	\$119.5
United Kingdom	\$116.4
Ecuador	\$83.2
Italy	\$71.5
Canada	\$69.5
Mexico	\$60.3
Peru	\$45.6
Switzerland	\$40.8
France	\$35.6
Brazil	\$33.9
Germany	\$32.4

An analysis of the market in Colombia by type of remittance payer entity shows that, in 2013, finance companies were the main payers, responsible for 49% of remittance payments in Colombia. Banks followed, with 35% of the market (see Table 4).

²⁴ Central Bank of Colombia. <http://www.banrep.gov.co/remesas> (viewed 15 January 2016).

²⁵ Maldonado, R., Hayem, M. *Remittances to Latin America and the Caribbean Set A New Record High in 2014*. Multilateral Investment Fund, Inter-American Development Bank, Washington, D.C. (2015): p. 24.

²⁶ Central Bank of Colombia. <http://www.banrep.gov.co/remesas> (viewed 15 January 2016).

TABLE 4 Participation in remittance payments market by type of entity²⁷

Intermediary	% of total amount of remittances paid
Finance companies	49%
Banks	35%
Exchange brokerage institutions and Special Financial Services (SICSFE)	7%
Stock Exchange brokers	9%

BANCOLOMBIA— BUILDING A MORE “COMPASSIONATE” BANK

Bancolombia has been providing financial services in Colombia for 140 years and has grown to become the nation's largest bank. Bancolombia belongs to the Bancolombia Group, a conglomerate of financial institutions offering a broad portfolio of financial products and services based on a universal banking model; it is one of the top ten largest financial groups in Latin America. The Bancolombia Group also has an active presence in Central America through Banco Agrícola in El Salvador, BAM in Guatemala, and Banistmo in Panama. It also maintains offshore banking subsidiaries in Panama, the Cayman Islands, and Puerto Rico.²⁸

“We are not trying to see how much profit we can make here, but why and how we earn it. It is not about profit alone, but about how much value we generate.”

Carlos Raúl Yepes
President of Bancolombia. Interview in
El Espectador (20 February 2015)

Bancolombia has developed the largest private network of banking services and local points of service in the country, with more than 1,070 physical branches, 4,524 ATMs, and 4,202 bank correspondent agents. The bank is present in more than 900 municipalities throughout Colombia's 32 departments.

The bank's level of participation in the Colombian market, by gross portfolio, is 22.4%; in June 2015 Bancolombia served more than 9 million clients.²⁹ Financial data from December 2014 show a return on total assets of 1.4%, as well as a 12.5% return on equity. These figures are similar to the assets and equity profitability index of the Colombian banking system.³⁰ Bancolombia's solvency rate was 13.3% as of December 2014, and its past-due portfolio as a percentage of total portfolios was 2.9%.³¹

²⁷ Report on Financial Inclusion 2013. Financial Superintendence of Colombia (SFC) and the Bank of Opportunities Program (BdO), pg. 80.

²⁸ Information provided by Bancolombia and Bancolombia Group's Corporate Presentation. <http://www.grupobancolombia.com/webCorporativa/nosotros/contenido/historia2.asp> (viewed 15 November 2015).

²⁹ Figures provided by Bancolombia, corresponding to amounts as of 30 June 2015.

³⁰ Monthly report issued in December 2014. Asobancaria. http://www.asobancaria.com/portal/page/portal/Asobancaria/publicaciones/economica_financiera/estadisticas_financieras/informe_mensual_consolidado/2014/ (viewed 18 January 2016)

³¹ Figure provided by Bancolombia.

In recent years, Bancolombia has implemented a new business management approach based on creating a more “compassionate” bank, seeking to build long-term relationships with customers based on respect and trust with its clients, partners, shareholders, and the community at large. Its goal is to distinguish itself in the region for its accessibility, cordiality, respect, and inclusiveness in client relations. It seeks to listen closely to clients, understand their businesses, and develop innovative value propositions that respond to their needs.³²

Developing an ecosystem of initiatives to promote financial inclusion

In 2013, Bancolombia decided to bring together all of its businesses and initiatives related to financial inclusion under a single approach. To achieve this, the bank created the Financial Inclusion Department to develop an ecosystem and strategy to make banking services available to low-income clients.

This focus on financial inclusion is aligned with the bank’s mission of being a bank accessible to everyone. Its goal is to grow alongside those clients who have their first formal financial institution experience with Bancolombia, deepen relationships with existing clients, reach new geographic areas, and provide financial education that brings the bank closer to the lives of its clients.

For Bancolombia, financial inclusion is a strategic necessity in light of Colombia’s reality, as well as a way to ensure its future competitiveness. With this inclusive strategy, the bank also wants to support the government’s efforts to increase levels of financial inclusion at the national level as a key component for the country’s overall development.

The main components of the bank’s financial inclusion approach include the offer of small business and consumer credit products, financing for low-income housing, the Colombians Abroad Program, and the creation of a banking correspondent agent network which doesn’t just prioritize geographic coverage but also the quality of attention at each point of service. The effort is also unique in that it includes a network of 250 mobile advisors serving 567 municipalities and jurisdictions in remote areas of Colombia.

³² Interview with Carlos Raúl Yepes, President of Bancolombia, in the national daily *El Espectador*. <http://www.elespectador.com/noticias/economia/banca-humana-si-buen-negocio-articulo-545162> (viewed 15 November 2015).





STRATEGIES

Bancolombia's Financial Inclusion Strategies for Remittance Recipients and Colombians Living Abroad

The main lesson the bank has learned through its work with remittances is that neither Colombian migrants abroad nor their families in Colombia require different products; they simply want to be taken into account. As a result, the bank has implemented strategies that focus on facilitating access to its products for these segments.

Accordingly, rather than developing new products, Bancolombia's efforts have focused on creating incentives and establishing processes, service channels, and partnerships that promote the use of their existing products. It has created an environment that recognizes the financial realities faced by remittance clients in Colombia and abroad, and that promotes the use of banking services among these transnational households.

The bank's strategy for facilitating access among remittance recipient families began internally with the decision to recognize these users as a segment of interest for the bank. As a first step, the bank actively began to invite these families to open a bank account, marketing it as an easy, fast, and safe way to receive their remittances.

In addition, the bank includes migrant remittances as additional income in its credit assessment policy. Inclusion of remittances as additional household income enables families to access higher amounts of credit, or to become eligible for credit products for which they previously would not have qualified. This expanded access to credit can help households reach their financial goals, for example to invest in housing, education, or to purchase a vehicle, among other things.

On the side of the Colombian migrant abroad, the strategy for facilitating access to financial products focused on the promotion of mortgage products, and was implemented through three components. The first component was the adaptation of the bank's products and business model to better align with the realities of the migrant market, including making changes in its credit scoring methodology, establishing partnerships with third party brokers abroad, and setting up the processes needed for promoting and positioning these credits overseas. As part of the second component, Bancolombia lobbied for favorable modifications to Colombia's regulatory framework, and then adjusted internal procedures to this framework in order to be able to offer bank accounts directly to clients abroad. The third component consisted of establishing physical and virtual customer service channels abroad to facilitate access to bank products.

The following section describes the circumstances that prompted the bank to develop these strategies, explains how they were implemented, and presents the main outcomes obtained.

STRATEGY TO FACILITATE ACCESS TO FINANCIAL SERVICE FOR REMITTANCE RECIPIENT FAMILIES

In 2005, Bancolombia terminated an exclusive business contract with one of the largest remittance companies, effectively losing its grasp on the remittance market. The loss of this partnership represented a challenge for the bank, and led Bancolombia to focus its attention on developing a stronger presence in the remittance payment space, with the long term goal of targeting the remittance client segment for other bank products and services.

Bancolombia explored alternative partnership models with remittance companies that did not present the same limitations of an exclusive contract model, and eventually opted to work only with high-volume remittance companies using non-exclusive contracts. Working with high-volume partners was needed to justify the initial up-front investment in technology and operational adjustments required to integrate these partners with the bank. In order to be able to also work with remittance companies handling smaller volumes of transfers, the bank chose to partner with companies that consolidate these remittances volumes into one operational platform. Bancolombia also employed a third partnership model, working directly with commercial banks in Spain and the United States to facilitate bank-to-bank transfers.

These new partnership models proved to be successful, and the volume of remittances paid out by Bancolombia began to grow quickly. This growth, however, brought new challenges. As the number of remittance transactions paid by the bank increased, so did the number of remittance recipients coming into Bancolombia branches to receive their remittances in cash, creating a congestion problem. The majority of these remittance clients were not users of other Bancolombia products.

At the time, Bancolombia did not aspire to become a consumer bank. It had focused mainly on offering services for small and medium sized enterprises, and many of the people who now came to its bank branches for remittance payments were not part of this segment. Little by little, Bancolombia began to understand this group's importance and view them as a potential market segment for the bank. This led the Bancolombia to search for a solution that would solve its problem of crowded branches, and that would enable the bank to interact with and capture new clients from this new market segment.

This is how the bank's strategy to facilitate access to financial services for remittance recipients came about, as a response to a problem of congestion in branches due to an increase in remittances volume.

How Bancolombia implements its strategy to facilitate access to financial services for recipient families

STRATEGY 1: *Open accounts and promote automatic deposit of remittance transfers in accounts*

When Bancolombia launched its initiative to enroll users in the automatic payment of remittances in account service, it began by offering an account designed specifically for these users. The *Cuenta Giros* (Transfer Account) was distinctive in that it charged only 50% of the fee normally applied to the bank's other accounts. About four years after the bank launched the account, however, the product was merged into Bancolombia's traditional account, with remittance clients given the opportunity to select a plan with fewer transactions and a lower fee.

It is important to mention that the country's currency exchange regulation represented a challenge to the automatic deposit of remittances directly to accounts. The Central Bank of Colombia stipulates that persons receiving remittances from abroad in foreign currency should complete and sign Form Number 5, "Foreign Exchange Declaration for Services, Transfers and Other Concepts."³³ In principle, this required the remittance recipient to go to a Bancolombia branch and sign this form each time a remittance was received. The bank's legal team worked extensively to evaluate viable alternatives and to establish procedures that would allow them to offer the direct deposit of remittances service within this regulatory environment.

Bancolombia's strategy for account openings relied on the creation of a commercial ecosystem to promote and facilitate the acquisition of remittance recipients as account holders. This ecosystem is made up of four key elements:

- *Differentiated commission for the service:* The bank negotiated different commissions with each remittance company for transfers paid through automatic account deposits. Since Bancolombia receives a smaller commission when a remittance is paid directly to an account rather than over the counter, remittance companies were motivated to promote the service and set up the necessary operational procedures.
- *Incentives for bank branches:* The promotion of Bancolombia's automatic remittance deposit service was included in the commercial goals for each branch. The value proposition for the branches was to achieve decongestion in the offices by converting over-the-counter transactions into electronic ones. Each client who enrolled in the automatic remittance deposit service had a positive impact on the branch's balance sheet. This goal was also included in the business strategy for the branches' customer service staff, giving employees the opportunity to earn bonuses and higher salaries with each new enrolled client.

³³ Central Bank of Colombia. <http://www.banrep.gov.co/es/cambiaria/4114> (viewed 15 January 2016).

- *Specialized sales force:* The bank supported the work of its branches by deploying a team of salespeople dedicated to the automatic remittance deposit service. These promoters approached customers who came to branches to pick up their cash transfers, and explained the service while they waiting in line to pick up their funds.
- *Positioning:* The fourth key element was to position the automatic remittance deposit service as a way for the client to avoid paying the 4x1000 tax, which is levied by the Colombian government on financial transactions of certain amounts. If a customer receives more than 1.5 million Colombian pesos (approximately USD 470)³⁴ each month in cash over the counter, the money is taxed according to the 4x1000 tax. However, if that client receives the transfer as a direct deposit into their bank account, the threshold for taxation rises to 9 million pesos (USD 2,820) per month. This incentive is aligned with the Colombian Central Bank's objective of reducing financial transactions conducted in cash.

STRATEGY 2: *Incorporate remittances into credit assessment policy*

Bancolombia also made its financial products more accessible by calculating remittances as additional household income in its credit assessment policy. Under the new policy, a remittance recipient can add 50% of the average remittance income received in the last four months to total income when applying for loans or a credit card. For mortgages, the bank takes into account the applicant's earned income plus 40% of the average remittance income received in last four months.

This policy played a role in developing a financial inclusion ecosystem that enabled remittance recipient families to qualify for larger loans amounts, or even for loans for which they otherwise would not have qualified without the recognition of remittance income.

Results of the bank's financial inclusion efforts for remittance recipient families

- Bancolombia estimates it paid a total of approximately 3.3 million remittances by the end of 2015. This positioned the bank as the country's largest remittance payer, with a market share of 40.19%.
- Bancolombia has achieved the financial inclusion of 54% of its remittance recipient clients. This figure is significant; according to national-level estimates, only 39% of Colombians over the age of 15 had a formal bank account in 2014.³⁵
- Nearly 1 million remittance recipients used Bancolombia to receive international remittance transfers in 2015. The bank estimates that each month an average of about 200,000 clients use the automatic account deposit service.
- Bancolombia further segments its remittance recipient clients into different commercial categories depending on their financial services needs and purchasing power, with more than three quarters of remittance clients falling into the personal banking category.

³⁴ Exchange rate on www.oanda.com on 16 January 2016: 1 dollar = 3,191.40 Colombian pesos (viewed 17 January 2016).

³⁵ The World Bank. *The Little Data Book on Financial Inclusion*. Washington DC, 2015.

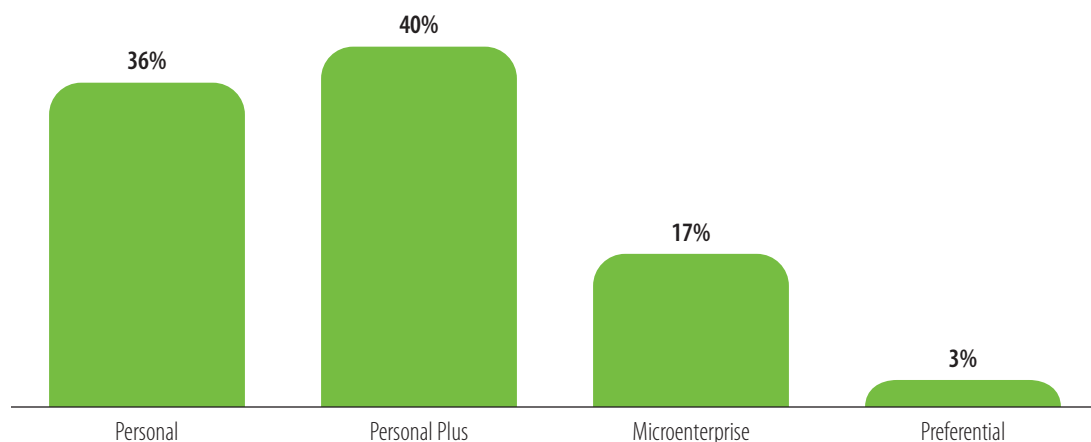


FIGURE 2
Market segmentation of remittance recipient account holders

- When analyzing account utilization trends, Bancolombia has seen higher average account balances among those clients who receive international remittances, compared to clients within the same market segment who do not receive remittances.

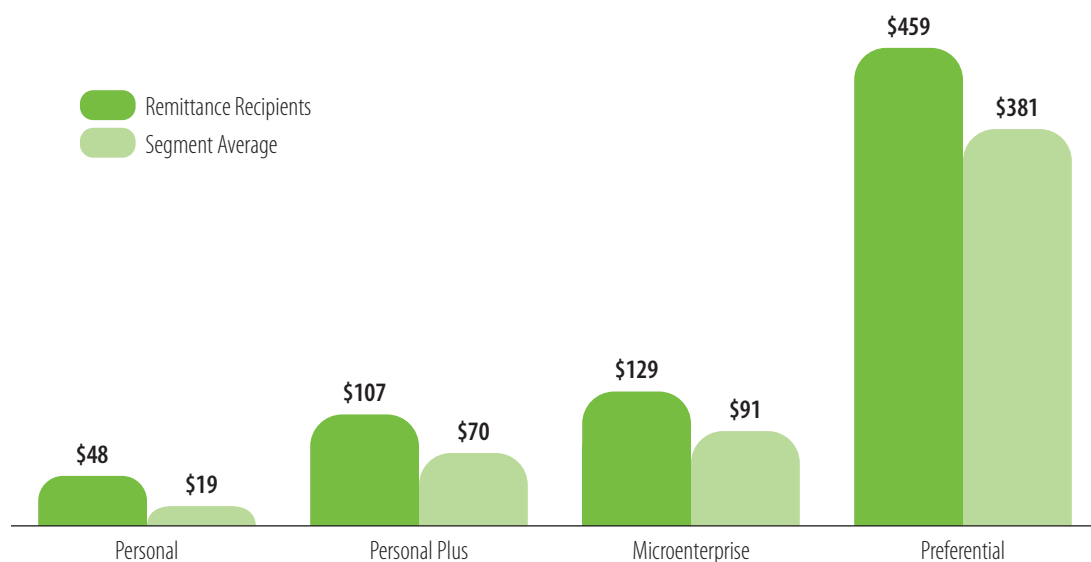


FIGURE 3
Average account balances of remittance recipients vs. overall average per segment, USD

STRATEGY TO FACILITATE ACCESS TO FINANCIAL SERVICES FOR COLOMBIANS LIVING ABROAD

In 2000, the Multilateral Investment Fund (MIF) began promoting awareness in the region of the economic importance of international remittances, and their potential for generating investments and savings among migrants and their families.

In 2004 the Colombian financial institution *Caja de Compensación Familiar de Antioquia* (COMFAMA) initiated conversations with the MIF to design a project that would leverage migrant remittances for the

economic development of Colombian families.³⁶ COMFAMA invited representatives of member Cajas from each of the country's principal remittance destination regions to participate in these conversations, along with the head of the national trade association *Asociación de Cajas de Compensación Familiar* (ASOCAJAS) and representatives of Bancolombia.

These conversations led to the implementation of some preliminary research activities which gave COMFAMA a clearer picture of the hopes and dreams of Colombians abroad, their demographic characteristics, and financial needs. One common financial goal shared by many of the migrants interviewed for this research was to provide a home for their families back in Colombia, or to purchase a house in Colombia as an investment for themselves. This information helped COMFAMA understand the opportunity that existed to channel remittances, as well as the savings and capital of Colombian migrants abroad into housing projects in Colombia.

In the year 2007, COMFAMA developed the project My Home with Remittances, which was created to improve the quality of life of Colombians abroad and their families back home in Colombia through access to innovative housing finance solutions. This project received financial support from the MIF.

COMFAMA established a partnership with Bancolombia for the joint implementation this project, along with the participation of ASOCAJAS and six additional regional funds. Under COMFAMA's direction, the strengths of each participating organization were identified. Bancolombia played a major role in the implementation of this project, offering mortgages to Colombians abroad. Simultaneously, the regional funds complemented Bancolombia's work through the offer of home improvement loans and furniture and appliance financing to remittance recipient families.

Bancolombia decided to participate in this project as a way to explore other ways to interact with this market of potential clients, with which it had only interacted as clients of its remittances payment service up until that point.

Through this project, the bank has gained a better understanding of the financial reality and financial services needs of Colombian migrants abroad, for the most part in Spain and the United States. The bank designed and tested a methodology to assess migrants' capacity to pay for mortgages that included the economic activity of the migrant as well as remittance transfers as a source of payment for these loans; previously this had not been considered viable. The collaboration with COMFAMA on this MIF project exposes Bancolombia to the new idea of considering Colombians living abroad as potential clients. The project motivates the bank to see this business differently and to develop new products tailored to these clients.

Based on the results of this initial project, Bancolombia made the decision to continue working with remittance senders, seeing them as a potentially profitable market segment. With this, Bancolombia established the Colombians Abroad Program, and developed a business model to facilitate the access of Colombian migrants to mortgages and other accompanying account products back home.

³⁶ The *Cajas de Compensación Familiar* in Colombia are organizations that promote the wellbeing of workers and their families through development of programs in the areas of education, health promotion, entrepreneurship, as well as recreation and tourism, among other things.

How Bancolombia implemented its strategy for targeting Colombians living abroad

An important component of the original My Home with Remittances project was an analysis of the regulatory barriers to financing housing investments by Colombians living abroad and their families in Colombia. By studying the existing regulatory framework, the project developed proposals to modify procedures, regulations, and policies that constrained the development of a housing finance market.³⁷ These proposals for regulatory modifications laid the foundation for changes that have since been brought to fruition, thereby opening the path to accessing mortgage loans and savings products for Colombian communities abroad.

It is important to mention that, in order to comply with the laws of the countries abroad where Bancolombia hoped to work with migrants, the bank established a bank branch in Miami as well as a representative office in Madrid. Through these offices Bancolombia was able to process the licenses and respective approvals that allowed the bank to be able to offer mortgage loans and savings accounts to Colombians living in these countries.

STRATEGY 1: *Provide mortgages for Colombians living abroad*

Bancolombia set up an ecosystem to market and sell mortgages to Colombians residing abroad. Since the inception of this initiative, the bank has awarded more than 9,000 mortgage loans to Colombian migrants overseas. This ecosystem is based on the following three components:

- *Methodology for evaluating the creditworthiness of Colombian migrants in their host country:*
Bancolombia uses the same product for mortgage loans that it offers in Colombia, but it has adapted its credit scoring methodology to assess the migrant's capacity to pay. As part of this scoring model, the bank includes an analysis of the migrant's credit experience abroad together with an assessment of the migrant's credit history in Colombia. In each country where this product is offered, the team responsible for the program determines the migrant's level of indebtedness and payment performance. The team evaluates the information available in each country to help determine the candidate's creditworthiness, for example by using existing credit reports. In addition, the team looks at the migrants' tax declarations abroad and validates their legal status in the host country.
- *Customized credit policy for Colombian migrants:*
Many of the bank's migrant clients are not salaried employees, which meant the bank had to adapt its credit policy to account for infrequent or seasonal sources of income, or income that was difficult for the client to document, such as tips. Colombians living abroad often work informally as domestic workers, for example. Therefore, the bank's team had to modify its

*"With my hands and your help, I managed
to buy my house in Colombia."*

**Bancolombia client
in New York**

³⁷ *El Rol de las Remesas en el Desarrollo del Mercado de Vivienda para Personas de Bajos Ingresos. Convenio ATN/ME – 10105 – CO, Informe Final.* Banco Interamericano de Desarrollo, Caja de Compensación de Antioquia. Bogotá, Colombia, (2010): pp. 6, 11 and 23.

documentation requirements to take into account this type of borrower profile, which differs greatly from the profile of domestic workers working in Colombia. The weight given to job continuity in assessing payment capacity also had to be adjusted to reflect migrants' labor mobility. Likewise, adjustments were made to take into account the fact that overseas clients may receive unemployment benefits when they are between jobs, a benefit which is not available in Colombia.

- *Strategic partnerships:* The bank began its Colombians Abroad Program by first opening its own offices in Spain. After a few months, however, it decided that it would be more effective to work in partnership with brokers or commercial real estate agents in Spain instead. These agents are authorized to help their client access finance options for investments in housing. Under this arrangement, these partners offer Bancolombia mortgages directly to clients and handle some of the preliminary paperwork procedures prior to loan approval. The bank worked jointly with these agents to develop the operational processes for mortgage loan approvals, including defining the roles that each party would have in the process. In some cases, the bank also supported these partners in their own business development by providing them with financing for their business. These partners are responsible for advertising Bancolombia products and explaining its features to the migrant, as well as for collecting all documentation and

information required for the credit evaluation. The rest of the credit operation is conducted in Colombia, with the migrant granting power of attorney to a resident in Colombia to sign the loan documents, the deed of sale, and the mortgage with the bank.

The bank also started out by managing the process for collecting payment for these mortgages from its offices in Colombia. However, given the difference in time zones, culture, and processes, Bancolombia decided to transfer responsibility for collections to some of its partners abroad. Later, the bank determined that collections work should not be part of the main business functions of its broker, and the model was modified again. Bancolombia currently outsources this work to a Colombian institution specializing in loan collections, providing it with training and information on the profile and financial behavior of Colombians living abroad.

“My dream is to see my parents doing well.

*I came into this world to give
back to them. For me, to see them in a
decent house is invaluable.”*

Bancolombia client
living in Brandon, Canada, who purchased a
house for his parents in Colombia

STRATEGY 2: *Access to savings accounts for Colombians living abroad*

The ecosystem established by the bank facilitates access to savings accounts for Colombians living abroad. This ecosystem includes:

- *Making use of the modifications made to Colombia's regulatory framework:* One regulatory change proposed by the My Home with Remittances project was to modify restrictions prohibiting account management for nonresidents in Colombia. The Cajas, through the

trade association ASOCAJAS, worked alongside Bancolombia to champion these policy changes and lobby the authorities to eliminate this restriction.³⁸ In 2011, the Central Bank of Colombia, through the External Regulatory Circular Letter DCIN -83, Chapter 10, indicated that Colombians residing abroad could open Simplified Procedure Savings Accounts (known as CATS, for its acronym in Spanish). These CATS accounts could be opened so that funds sent to these accounts could be used to pay for part, or for the entire purchase, of housing in Colombia, or to repay loans granted to finance the purchase of housing back in Colombia.³⁹

- *Processes that facilitate opening of accounts for Colombians living abroad:* The acquisition of Banco Agrícola in El Salvador by the Bancolombia Group enabled Bancolombia to leverage Banco Agrícola's experience opening accounts for Salvadoran migrants in the United States. Based on Banco Agrícola's lessons learned, Bancolombia established the procedures and documentation requirements needed for opening accounts for Colombian migrants in accordance with the law. Today, Colombians living abroad have the option to open an account with Bancolombia through the bank's partners abroad or through a representative in Colombia. The migrant can also open an account online using Bancolombia's website, and making a phone call to the bank's customer service line as part of the process in order to activate the account. Once the physical documents required to open the account arrive in Colombia, the account and the automatic remittance deposit service are available to the client within five working days.

STRATEGY 3: *Innovation in the development of customer service channels for Colombians residing abroad*

The third element of the ecosystem to create access to the bank's financial products for Colombian migrants was the development of innovative customer service channels. These include:

- A web portal dedicated to this segment, where migrants can communicate with bank personnel in Colombia, either via a chat or by requesting a telephone call from a customer service representative in Colombia. Bancolombia has also set up customer service lines for its clients living in the United States and Spain. Migrants most commonly use the chat function online, or request a phone call from a Bancolombia representative as their main method of communicating with the bank. Currently, Bancolombia handles an average of 2,000 such interactions each month.
- The bank has also been working with the network of Colombian consulates in migrant host countries to reach potential clients by offering educational talks accompanied by a financial education video. This educational video has also been presented at real estate fairs that take place periodically in the United States and Spain, sponsored by trade groups such as Camasol and La Lonja, as well as in activities sponsored by the government diaspora program Colombia Unites Us. In the future, the bank will explore how to work more closely with migrant associations abroad.

³⁸ *El Rol de las Remesas en el Desarrollo del Mercado de Vivienda para Personas de Bajos Ingresos. Convenio ATN/ME – 10105 – CO, Informe Final.* Banco Interamericano de Desarrollo, Caja de Compensación de Antioquia. Bogotá, Colombia, (2010): p. 3.

³⁹ Bogotá, Colombia, (2010): p. 3. 38 Colombian Central Bank, External Regulatory Circular Letter – DCIN -83, Chapter 10. http://www.banrep.gov.co/sites/default/files/reglamentacion/archivos/DCIN_83_Capitulo10.pdf (viewed 1 February 2016).

Results of financial inclusion initiatives for Colombians living abroad

- Bancolombia has opened saving accounts for more than 98,000 Colombians living abroad, and has awarded more than 9,000 mortgage loans to these clients.
- To date, the institution provides mortgage loans to Colombian migrants living in 18 countries.
- The bank anticipates an annual average growth of 30% in its mortgage loan portfolio, with approximately 63% of these clients generating profit for the institution.



PLANS FOR THE FUTURE

The migration of Colombians to other countries in Europe and North America is a trend that is likely to continue in the coming years. This trend will create challenges and opportunities alike for Bancolombia and for its goal of positioning itself as the premier financial institution helping Colombians abroad maintain a financial presence in the country. This final section of the report explains Bancolombia's perspectives on some of these challenges.

CHALLENGES

The remittance payment industry is undergoing changes, and it is very likely that in the future the industry will be very different than what it is today. It is anticipated that there will be greater participation by companies that leverage the use of technology to reduce costs and create alternative value propositions for customers. Online social network platforms are also starting to experiment with the delivery of online payment services to their members at no cost.

New money transfer companies seek to differentiate themselves in the market using alternative business models. One new entrant, for example, offers remittance transfer services at no cost, inviting clients to pay what they want based on their own decision of what they consider the service to be worth, and what they think is appropriate. Another company offers transparency in its prices by charging the client a flat transaction fee,

instead of adding an additional fee which tends to be incorporated by many other providers into the exchange rate offered to the client for the money transfer.

Today, smartphones can be used to enable payments in the United States between family and friends, linking a bank account or debit card to an app platform. In the future, these companies may enter the international remittance market, offering their clients the option to make payments to family and friends living outside the United States as well.

In the face of these changes, Bancolombia is evaluating how to modify to its own business model for remittance payments to better compete with innovations and new players in this space.

OPPORTUNITIES

The bank has identified three opportunities for the future, which are described in detail below:

“Savings at your Fingertips” Account

Technology is a key component in Bancolombia's financial inclusion strategy. As part of its participation in the Gateway Financial Innovations for Savings Project, which is financed by the Bill and Melinda Gates Foundation and sponsored by Rockefeller Philanthropy Advisors, the bank has been piloting a simplified procedure account, or mobile wallet, since 2012. The project aims to broaden the value proposition of the account to attract low-income savers, while also improving the bank's economic performance by lowering costs.

The bank will explore linking this mobile wallet, called the “Savings at your Fingertips” account, to its overall strategy of creating an ecosystem to increase bank use by low-income remittance recipient families. For the roll-out of this product, the bank will target individuals who are not currently Bancolombia clients but continue to receive remittances in cash at one of the bank's branches.

For these non-client remittance recipients, a traditional savings account with the bank is not necessarily the best option. This potential client segment, which receives its remittances in cash over the counter, tends to earn income through informal activities. Often these incomes are not enough to cover their daily expenses, so the money received as remittances becomes an essential part of the household budget.⁴⁰ The average value of the remittance they receive is USD 331 per transfer, less than the average USD 513 received per transfer by recipients who have already opened an account with the bank and use its automatic remittance deposit service.

During focus groups with these non-client remittance recipients, it became clear that they do not have a close relationship with the financial sector, which they view with doubt and suspicion. In their minds, they associate formal financial products with high maintenance fees and low interest rates earned.⁴¹

⁴⁰ Source: Focus groups with recipients who receive their remittances through Bancolombia branches.

⁴¹ Source: Focus groups with recipients who receive their remittances through Bancolombia branches.

Bancolombia must take these challenging factors into account when designing a financial inclusion strategy for this segment, which represents approximately 46% of total remittances paid by the bank.

To access Bancolombia's mobile wallet product, non-client remittance recipient families do not have to pay opening or maintenance fees, factors which often represent barriers for them. The account will allow them to avoid paying for transportation to the bank branch, since they can receive their remittance in their account and access the money through an extensive nation-wide network of banking correspondent agents closer to their homes. The mobile wallet will also allow them to have access to an account where they can store their remittance money and withdraw it as needed, rather than withdraw the entire payment in cash all at once.

"Savings at your Fingertips" Account

This account is opened using a cell phone. Clients pay no fee to open or manage this account, and do not receive a debit card. The account pays interest and provides free hospitalization insurance.

Automatic deposits to a commitment savings account

According to the daily newspaper El Nuevo Siglo, in 2015 the devaluation of the Colombian peso against the dollar increased the purchasing power of families receiving remittances in dollars from the United States by as much as 60%, compared to the previous year. Based on surveys conducted by the Inter-American Development Bank, 55% of remittance recipient households are interested in investing these funds in housing.⁴² These developments in the foreign exchange market represent an opportunity to encourage recipient families to channel part of this increased purchasing power into savings, to start a business, or to make an investment in housing.

One product that Bancolombia is considering to offer would allow remittance recipients to automate their contributions to a savings account. The product would allow the client to put aside a predetermined amount from each remittance transfer and to allocate it to their savings goal. The client could then decide to automatically deposit this amount into a programmed savings account, in line with an established savings plan, or to deposit it into an investment fund.

Focus groups with recipients that receive remittances through Bancolombia revealed a low tendency to save. Participants reported that when they receive their remittances in cash, it is easier to spend it all. This insight motivates Bancolombia to offer a product that can foster a culture of savings by combining the benefits of its automatic remittances deposit service with its commitment savings account product.

Focus group participants responded positively to this product concept. The most valued element was that the product would motivate them to save because if you have the remittances money at hand, it is easier to spend it. For participants in these groups, it was important to be able to decide the amount to be put aside from each remittance, as well as the time period after which the money could be withdrawn from their account.

⁴² "Crece el efecto del dólar en edificaciones". El Nuevo Siglo. <http://www.siglodata.co/s/septiembre/20150917NV022.pdf> (viewed 15 November 2015).

Positioning Bancolombia as the financial partner of Colombian migrants abroad

Bancolombia sees an opportunity to continue to deepen its relationship with the nearly 100,000 migrants who are currently clients of the Colombians Abroad Program. In addition, the bank seeks to continue increasing the number of migrant clients and remittance recipient families it serves.

Whether or not the number of Colombians migrating abroad continues to increase in the future still remains to be seen. It is possible that the number of migrants leaving the country decreases, as the negative impact caused by the violence and the armed conflict, which affected the country for several decades, decreases and as Colombia achieves a higher level of economic stability. On the other hand, we could see a continuation of the historical trend Colombia has had as a country with a highly mobile population.

What Bancolombia has observed in recent years is the emergence of new migration patterns among Colombians in the region. For example, Colombians living in Venezuela have migrated to other countries, and Colombian professionals are now frequently recruited to work in Chile. These new migration corridors create opportunities for Bancolombia to continue positioning itself as an institution that helps Colombian migrants maintain a financial presence at home in Colombia. Bancolombia hopes to become the partner of the Colombian migrants, supporting them to achieve their savings or investment goals. After all, in many cases it was these financial goals which inspired them to leave home in the first place.

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