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The Impact of Remittances on Microfinance Institutions

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ACCION Objectives:



 To promote the development of remittances services through microfinance institutions

 Bank recipient families and facilitate access to financial services

Goals:

- Leverage the economic impact of transfers to improve the lives of families: facilitate links to savings and loan products
- Immigrants live in two worlds. Adapt products accordingly
- Provide profitable line of business to MFIs that will attract customers and provide opportunities to cross-sell.



ACCIÓN Partner Involvement in Remittances



Institution/Country (year remittances began)	Volume (millions)	Number	% Growth in Number	Partners
BancoSol Bolivia (2003)	\$35.9	128,437 (acc.)	76% (2004)	La Caixa, CECA, Dolex, Quisqueyana, Microfinance Int'l, Exact Transfer, NSA, MACCORP
Banco Solidario Ecuador (2002)	\$20.8	79,000 (acc.)	100% (2004)	La Caixa and other Spanish cajas Banco Popular de Milano and other Italian banks
Banco Caja Social Colombia (2003)	\$2.6	10,000 (acc.)	100% (est. 2005)	Bancomer Western Union subagent
Sogebank/Sogexpress Haiti (2000)	\$67.0	352,000 (18 mo.)	n/a	Western Union agent
El Comercio Paraguay (2004)	\$1.7	10,000 (acc.)	n/a	Western Union subagent
FAMA Nicaragua (2003)	\$0.8	7,000 (acc.)	100% (est. 2005)	VIGO-WOCCU Credit Unions



Future Plans

Examples: Banco Solidario (Ecuador) / BancoSol (Bolivia)

- **High rates of growth during initial years: 76% in 2004, 100% expected for 2005**
- **Cross-sell: 5%-8% of transactions accessing other products (3,800/47,000 for Banco Solidario)**
- **Partnerships with different money transfer companies**
- **Remittances channeled from different corridors: Spain, United States, neighboring countries**
- **Products being adapted to this niche market: Mortgages, home improvement, savings, insurance**



Are Remittances Profitable for MFIs?



Depends on type of partnerships established:

- **FAMA-Nicaragua:** Works with network of credit unions, commission is split with network, not enough to cover costs
- **BancoSol-Bolivia:** Multiple partnerships established directly with money transfer companies
- **Banco Caja Social-Colombia:** Operates as a subagent of Western Union.
- **Consolidator Model??** Commissions are split with consolidator. High volume but low revenue per transaction. Harder to cross-sell



MFI Requirements to Enter Remittance Market



- **Good coverage and large distribution network. Partnerships with other financial institutions**
- **Convenience: hours of operation -- weekends, evenings**
- **Customer service: good management of traffic in branches. Call center**
- **Technology platform to manage transfers internally**
- **Able to link with money transfer companies: interface**
- **Internal controls: compliance**
- **Liquidity management: coping with varying flows**



Linked Products: Savings

Recipient

- **Most transfers received in cash at MFIs**
- **Seeks value-added: access to loans or relationship with institution**
- **Remittances designated for specific household expenses – not viewed as investment resources**
- **Can't depend on timing and frequency**
- **Recipients save average 5% of transfers (IDB studies)**

Immigrant

- **Potential: multipurpose account (B. Solidario) as a tool to manage funds sent, % to be given in cash to relative, % for down payment**
- **Prefer to save in US**
- **Interest among undocumented during initial years in US**



Linked Product: Loans and Mortgages



Immigrant

- **50.1% of households that receive transfers own a home (vs. 44.2%)**
- **Interest in housing: as investment, to help relatives back-home, to have a place to stay when visiting, as the goal to achieve to go back-home (recent immigrants)**
- **Challenges: evaluation of undocumented immigrants, collection in the US**
- **Banks are requesting prove of repayment capacity: a percentage of remittance has to be saved for 6-9 months**
- **House back-home as collateral**



Linked Products: Loans and Mortgages (Continued)

Niche: Recent immigrant sending to close relatives

- Frequent transfers and constant amounts
- High control over how funds are used

Products: home improvement, micro credit to start businesses, high risk and not offered by MFIs

Challenges:

- Frequency and amount not controlled by recipient
- Funds designated for household expenses
- Loan to immigrants have a better repayment than to recipients (B. Solidario)
- Profile of recipient, not necessarily the same as microentrepreneur (parents, children)





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Ofrecer a la gente los recursos que
requieren para salir de la pobreza

