

MULTILATERAL INVESTMENT FUND
INTER-AMERICAN DEVELOPMENT BANK

ROUND TABLE ON REMITTANCES AS A
DEVELOPMENT TOOL

THE MEXICAN CASE

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Washington, DC

Introduction

- In recent years the growth of remittances sent by migrant Mexican workers has considerably accelerated.
- During 2000, 20.7 million of Mexicans were residing in the United States of America. Among them, 2.7 million were illegal immigrants.
- During 2001 remittance flows kept growing amounting to more than 9 billion dollars. In familiar remittances, Mexico occupied the first place in America and the fourth in the world.
- The outlook for next years is of a dynamic and continue growth.

Introduction

- Remittances are the fourth source of foreign currency, after manufacturing exports, Foreign Direct Investment and oil-exports.
- The amount of remittances in Mexico is equal to:
 - 13 percent of manufacturing exports
 - 80 percent of Foreign Direct Investment
 - Two-thirds of oil exports
 - 1.3 times tourism revenues

The market of remittances

The structure of the remittances market is formed by four participants:

- Migrant workers that send money periodically to their families or communities.
- Money transfer companies licensed in the United States.
- Distribution companies in Mexico, that includes financial institutions and commercial firms.
- Families that received the money.

The market of remittances

1. To improve the impact of remittances in regional development this market needs to function more efficiently. In order to achieve this there is a need to:
 - reduce transaction costs and increase security to migrants and their families , and
 - promote the “bankarization” of migrants
2. However, the main challenge is to develop financial mechanisms that provide the means to channel an increasing proportion of these funds into productive activities

I. Actions to enhance market competition...

- A first step to increase market competition is to provide adequate and timely information to market participants.
- There is also a need to promote education among migrants and their families.
- To reduce transaction costs, the Mexican government has implemented the program “Who is who in money transfers from the United States to Mexico”.
- The information is published by the Federal Consumer Attorney Office (PROFECO) based on information sent by the companies on a voluntary basis.

I. Actions to enhance market competition...

- The information is related to a cross-section of companies established in Chicago, Los Angeles, New York, Dallas, Miami, Houston, Sacramento and San Jose.
- The objective is to provide relevant information to migrants so that they choose the most convenient company according to their own needs. However, this information is aggregated, incomplete, unverified and there is no enforcement powers.
- The Mexican government do not have the authority to require information to American companies, this can only be done by the state authorities in the US.

I. Actions to enhance market competition.

- Financial institutions are offering a better pricing structure than transmittal companies to migrants. So there is a need to facilitate the access to bank accounts to migrants, in order to reduce the cost of the transaction.
- The Mexican Government is issuing a consular identification that could be used as an ID for Mexican migrants to open bank accounts. Yet banks and credit unions in some cases require an additional ID to open an account.
- In all there is a need to find the right balance for financial institutions to find ways to identify their customers and at the same time facilitate the “bankarization” of migrants.

II. Promotion of productive projects...

- According to estimated figures, in Mexico more than 90% of remittance flows are spent on consumption.
- In second place, these resources are used to buy or build homes.
- An objective of the Mexican government is to promote that a higher percentage of remittances be spent both in savings and productive projects.
- Thus, migrants' families will be able to develop their own sources of income on a sustainable basis.

II. Promotion of productive projects...

- Offering savings accounts, credit and other products and services through formal financial institutions that are accessible to this population, is a key tool to promote investment of remittances in productive activities.
- In 1998 PAHNAL (now BANSEFI) began a pilot program to offer this service with the main purpose of promoting saving habits among remittance receivers. Now, we operate with different money transfer companies, more than 13 thousand remittances monthly.
 - The remittance can be sent to a saving account opened in BANSEFI. In this case the fee is lower than if the money is only withdrawn at cashier's desk.
 - The transfer fee is even lower if the remittance goes to a deposit account.
- We are developing partnerships with other Mexican institutions and government programs, such as Housing Agencies, to link them to the remittances market.

II. Promotion of productive projects.

- By opening savings accounts at formal financial institutions that will be regulated by the Popular Savings and Loans Law, migrants' families could also have access to:
 - Loans at competitive interest rates
 - Insurance products at low costs
 - Credits to buy or build homes

- These financial institutions focus in low income markets and will be offering these kind of financial products and services. This intermediaries are not only interested in providing the payment service, but also to retain the beneficiaries of the remittances as their customers or members.

Remittances as a development tool...

- According to the strategy of the Mexican government to develop popular banking, BANSEFI is designing a network of branches of the Popular Savings and Credit Sector.
- This network will be integrated by BANSEFI branches and the branches of regulated Entities.
- The network will be positioned even in those rural communities in which there are not commercial banking services. It is estimated that in the medium term the network could incorporate more than 4,000 branches.

Remittances as a development tool...

- Several financial products and services will be channeled through the network. Remittances will be one of the first services to be offered through 1,000 branches by mid 2002.
- On February 22, Mexico received a 3.5 million dollars donation from the Multilateral Investment Fund, a part of which will be used to update the technical infrastructure needed to operate remittance transfers.
- BANSEFI will act as the operative center and will spread the transfers to the net branches, including intelligent cards.
- Once the financial products have been develop there is a need to promote them and educate migrants in the opportunities these products represent.

Remittances as a development tool.

- The goal is, firstly, to reduce transaction costs and secondly, to build a network of added value for the families that receive funds from migrant workers, that transforms a remittance payment into comprehensive and secure financial services.
- Through a growing supply of financial products and services provided by formal intermediaries, remittance receivers will maximize the benefits of their income.
- Thus, the families will be able to implement productive projects that promote economic and social development in their communities.