Migration, Remittances, and Microfinance

Women’s Economic Empowerment and the Role of ICT
The World Bank
May 4, 2006

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Senior Vice President
## Latin America at a glance

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>2005 or most recent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (million)</td>
<td>442</td>
<td>558</td>
</tr>
<tr>
<td>Growth of population</td>
<td>1.8%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Rural population as % of total</td>
<td>29%</td>
<td>22%</td>
</tr>
<tr>
<td>GDP (US $ bn)</td>
<td>1,436</td>
<td>1,998</td>
</tr>
</tbody>
</table>
...although there is some improvement in the living conditions...

- ...improvement is not constant:

(GDP / capita in LA and selected countries)

Source: ECLAC, 2004
...unemployment is high...

unemployment rates

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate</td>
<td>10.4%</td>
<td>10.3%</td>
<td>13.3%</td>
<td>18%</td>
<td>15.3%</td>
</tr>
</tbody>
</table>

Source: ECLAC 2004
...income distribution is highly skewed (e.g. in Ecuador 2002)...
...and significantly below the achievable income in the US...

GNI per capita (US $)

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America</td>
<td>3,700</td>
<td>3,600</td>
</tr>
<tr>
<td>United States</td>
<td>34,400</td>
<td>41,400</td>
</tr>
</tbody>
</table>

Source: World Bank, World development indicators database
It is estimated, that about

• 25 million Latin American-born citizens live outside their home country, and of them, 22 million live in the US

• 5,000 Hispanics a day migrate to the US due to conflict and economic reasons
Migration Creates Hardship

- Current situation is similar to women on the homefront who did the work of men during WWII

- Women make big contributions and experience great suffering
Remittances as an Outcome of Migration...

- Remittances are the largest source of hard currency and exceed both exports and foreign assistance in many L.A. countries.

- Each $1 remitted to Mexico results in an increase of $2.90 in the GDP and $3.20 in economic output.

- After oil, remittances are Mexico’s largest income source.
US-Latin America Remittance Flows

Worker Remittance Flows to LAC

2001
23 Billion
18.6 from the US
4.3 rest of world

2002
32 Billion
25.6 from the US
6.4 rest of world

2003
38 Billion
30 from the US
8 rest of world

2004
45+ Billion
33 from the US
12 rest of world

2005

55 + Billion?

Source: MIF 2005
Remittances in Perspective…

Table 1: Relevance of remittances for each country in 2002

<table>
<thead>
<tr>
<th>Country</th>
<th>Annual Volume</th>
<th>GDP</th>
<th>Exports</th>
<th>Aid</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>$9,814,400,000.00</td>
<td>3%</td>
<td>6%</td>
<td>7243%</td>
<td>72%</td>
</tr>
<tr>
<td>India</td>
<td>$8,317,105,284.79</td>
<td>2%</td>
<td>17%</td>
<td>569%</td>
<td>323%</td>
</tr>
<tr>
<td>Philippines</td>
<td>$7,189,243,000.00</td>
<td>7%</td>
<td>20%</td>
<td>701%</td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>$3,958,213,677.40</td>
<td>1%</td>
<td>3%</td>
<td></td>
<td>151%</td>
</tr>
<tr>
<td>Pakistan</td>
<td>$3,554,000,000.00</td>
<td>5%</td>
<td>36%</td>
<td>166%</td>
<td>447%</td>
</tr>
<tr>
<td>Portugal</td>
<td>$3,224,355,236.84</td>
<td>2%</td>
<td>13%</td>
<td>13%</td>
<td>580%</td>
</tr>
<tr>
<td>Egypt, Arab Rep.</td>
<td>$2,893,100,000.00</td>
<td>3%</td>
<td>66%</td>
<td>225%</td>
<td>467%</td>
</tr>
<tr>
<td>Morocco</td>
<td>$2,877,152,600.82</td>
<td>7%</td>
<td>36%</td>
<td>452%</td>
<td>637%</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>$2,847,675,583.83</td>
<td>5%</td>
<td>47%</td>
<td>312%</td>
<td>6233%</td>
</tr>
<tr>
<td>Colombia</td>
<td>$2,351,000,000.00</td>
<td>2%</td>
<td>20%</td>
<td>533%</td>
<td>201%</td>
</tr>
<tr>
<td>Serbia and Montenegro</td>
<td>$2,089,000,000.00</td>
<td>14%</td>
<td>92%</td>
<td>108%</td>
<td>372%</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>$1,939,300,000.00</td>
<td>10%</td>
<td>37%</td>
<td>1238%</td>
<td>202%</td>
</tr>
<tr>
<td>El Salvador</td>
<td>$1,935,200,000.00</td>
<td>17%</td>
<td>65%</td>
<td>829%</td>
<td>828%</td>
</tr>
<tr>
<td>Jordan</td>
<td>$1,921,439,046.10</td>
<td>22%</td>
<td>70%</td>
<td>360%</td>
<td>6249%</td>
</tr>
<tr>
<td>Turkey</td>
<td>$1,936,000,000.00</td>
<td>1%</td>
<td>6%</td>
<td>305%</td>
<td>225%</td>
</tr>
<tr>
<td>Brazil</td>
<td>$1,710,976,000.00</td>
<td>0%</td>
<td>3%</td>
<td>455%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Remittances to Latin America in 2004

Source: MIF 2005
Transnational Families are Linked by Remittances

• Similar socio-economic characteristics:
  
  – Poor
  – Urban/rural
  – Unbanked
  – Hard-working, sacrificing, entrepreneurial
Microfinance for Recipients

• Microfinance Institutions in many forms
  – Mostly women customers

– Issues:
  • Access to capital markets
  • Sustainability, scalability
  • Business development (remittance recipients as ideal customer base; technology; etc.)
Latin America MFI Benchmarks

A few things stood out in 2004:

• Nearly all MFIs grew at a rapid rate.

• Profitability has increased rapidly.

• Portfolio quality, which has always been remarkably high, is now improving to even higher levels.

• Transformation of MFIs from mainly equity-based NGOs into supervised financial intermediaries continues.
Microfinance for Senders

• Almost non-existent market, huge potential demand

• Financial service market in U.S. is expensive (Western Union, payday lenders,… ) and unsophisticated (agents,… )

• Big market gaps and opportunities (25 million unbanked Hispanics)

• And challenges (MSB pressures, cumbersome usury laws, for-profit capital access, market knowledge necessary)
Possibility to Connect Global Markets

• Transnational families are linked by remittances

• Opportunity to provide microfinance services anchored around the remittance service

• Interest of immigrants here to receive services there – and of MFIs there to cross sell overseas to Diaspora

• Technology networks to support innovative cross-border collaboration
Microfinance International Corp.

- Japanese banker founded company
- For-profit, private company
- Supported by OPIC, JICA, GTZ
- Corporate objectives:
  - Eradicate poverty through a revolutionary platform linking remittances with microfinance
  - Leverage growth of transnational families
En Alante, sí haces todo en un sólo viaje!
Alante Financial is one of the first commercial microfinance institutions in the US dedicated to the Hispanic market in the US.

Alante offers a one-stop shop for all basic financial service needs, starting from money transfer and check cashing and ranging to loans, insurance and mortgages.
Alante Financial currently serves in excess of 35,000 customers from nine branches in DE, DC, MD and VA.

To support our clients and their families in the US, we currently cooperate with 15 financial institutions in 8 countries in Latin America.

So we can help here and there.
We own all our shops and do not work with agents. This way we ensure that we provide good service, low prices, welcoming branches and that we are compliant with all regulations.
Our services, operations and marketing are totally customized to our market.

As a result, Alante is growing. Our branches grow by an average of 10% a month and we will increase our branch network to 15 branches by the end of 2006.
Alante – Service and branch build-up

Introduction of services

Remittances
El Salvador
Honduras
Nicaragua
Bolivia
Mexico
Guatemala
Dominican Republic
Colombia

Check cashing
Consumer loans
Phone Cards
Bill Payment
Mortgage loans

Opening / incorporation of branches

Mount Pleasant, DC
Wheaton, MD
Alexandria, VA
Milford, DE
The Woodner - DC
Incorporation of Telegiros / Arlington, VA
Manassas, VA
Georgetown, DE
Langley Park, MD
## MFI Network Distribution

<table>
<thead>
<tr>
<th>Country</th>
<th>Expected Availability</th>
<th>Branch Locations</th>
<th>Distribution Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>El Salvador</td>
<td>Current</td>
<td>46</td>
<td>Accovi, Integral, AMC, Campo, Duarte, ALPIMED</td>
</tr>
<tr>
<td>Honduras</td>
<td>Current</td>
<td>56</td>
<td>BANHCAFE, ODEF</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>Current</td>
<td>14</td>
<td>FINDESA</td>
</tr>
<tr>
<td>Bolivia</td>
<td>Current</td>
<td>49</td>
<td>Bancosol, Agrocapital</td>
</tr>
<tr>
<td>Mexico</td>
<td>Current</td>
<td>3,200</td>
<td>HSBC</td>
</tr>
<tr>
<td>Guatemala</td>
<td>Current</td>
<td>300+</td>
<td>BANRURAL</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>Current</td>
<td></td>
<td>Remesas Quisqueyana, One Large Bank (deal being closed)</td>
</tr>
<tr>
<td>Columbia</td>
<td>Current</td>
<td></td>
<td>Remesas Quisqueyana</td>
</tr>
<tr>
<td>Peru</td>
<td>3Q 2005</td>
<td>150+</td>
<td>Two Large Banks, One Microfinance Institution (deals being closed)</td>
</tr>
<tr>
<td>Ecuador</td>
<td>3Q 2005</td>
<td>20+</td>
<td>One Large Bank (deal being closed)</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>4Q 2005</td>
<td></td>
<td>One Microfinance Institution (deal being closed)</td>
</tr>
</tbody>
</table>
MFI Network

• Three-tiered relationship

  – Remittances to fuel growth, then -

  – Loans for microfinance onlending, then -

  – Cross-selling opportunities
Innovative Technology

• Web-based Cooperative Open Banking Information System (COBIS)

• Used throughout Latin America

• Gives MFIs a robust, efficient platform
Economic Benefits

• Senders and recipients can help their countries on a macro and microeconomic level

• Lowering remittance costs (G-8, Partnership for Prosperity, Treasury, World Bank) = more hard currency inflow into developing countries

• Connecting remittances with microfinance improves the productivity of remittances and strengthens the financial infrastructure

• Private sector lending to MFIs gives industry sustainability, opens up capital markets, stimulates microenterprise growth, generates new jobs, and makes financial services accessible to underserved regions

• Microfinance in the First World can de facto help immigrants integrate into the financial sector and succeed financially