REMITTANCES AND MICROFINANCE IN LATIN AMERICA AND THE CARIBBEAN

STEPS FORWARD ON A LONG ROAD AHEAD

microREPORT #118

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INTRODUCTION

This report looks at the relationship between international remittances and microfinance, and presents the findings from a study on 166 microfinance and credit union institutions and an in-depth case study analysis of six of them. The objective of this report consists of learning whether microfinance institutions (MFIs) are paying remittances and if so, whether they are linking remittance transfers to other financial products. Previous research on this subject has been relatively limited, yet assumptions about the organic relationship between remittances and microfinance have been made. Through this report, we aim to go one step closer in identifying patterns in this relationship.

The report shows that one third of these financial, non-commercial lending and savings institutions are participating in the remittance market as payers for large money transfer operators (MTOs), and to a lesser extent are providing financial services to its remittance clients.1 Using a case study of five institutions, the report shows the varying modalities and experiences in money transfers and the stages of 'bancarization' resulting from cross-sale and financial outreach. The institutions studied were MFIs in the form of credit unions or regulated MFIs: credit unions are located in Mexico (Caja Popular Mexicana, and other Cajas affiliated with L@Red de la Gente) and El Salvador (FEDECACES), while regulated MFIs operate in Mexico (AMUCSS), Nicaragua (FAMA) and Paraguay (Financiera El Comercio).

The main findings of this study show at least four features that characterize an MFI's operation in money transfers, namely,

- Financial position,
- Branch spread,
- Rural presence and
- MTO partnership.

A closer look at the specific case studies reveals that these factors are relative to the local conditions in which an MFI is located. Furthermore, participation (successful or not) is reflected in the institutional initiative to work in this market, the type of money transfer payment model adopted, commissions negotiated, as well as the intention of reaching remittance receiving families in the respective communities. Findings show that institutions most exposed to the reality of migration will also be among the most active in operating money transfers and providing financial services.

The study also identifies some recommendations necessary to improve the potential of MFIs to enter into or strengthen their current position in the remittance market. These recommendations to MFIs include,

- Adopting more competitive strategies to improve their market position, and

[1] International money transfer is a business that includes alliances and outsourcing, and players have become increasingly creative over the years in forming cross-border institutional partnerships. Within this industry, Money Transfer Operators (MTOs), such as Western Union, Telgiros and Coinstar, originate the majority of remittance flows to Latin America., although banks, post offices and credit unions are also major players. MTOs are unique because they operate through a robust consolidated network of distribution agents that can include anything from convenience stores, travel agencies, drug stores and MFIs. These agents are able to operate under the regulatory umbrella of the MTO, as well as benefit from resources provided by the MTO. Many MFIs have found that serving as "payers" on behalf of MTOs is the most pragmatic first step toward engagement in this market.

- Modifying the internal information systems to adapt to money transfer platforms and serve as a preliminary data interface to feed recipient financial profiles.
- Adopting strategies on financial literacy
- Designing and marketing remittance related financial products and
- Implementing modern payment methods through card- or mobile-based transfers by "bancarizing" merchants and MFI clients.

This report offers fresh data on microfinance institutions and answers questions about the capacity of MFIs to operate within the international money transfer market. The lessons learned through this study are replicable outside the Latin American context and can serve as basis for thorough policy discussions about the role of MFIs in strengthening the link between development and migration.

REMITTANCES AND THEIR RELATIONSHIP TO FINANCE AND MICROFINANCE

Continuing international labor mobility on a global scale has triggered increased mobilization of money and capital from migrants to their countries of origin. These flows may have accounted for up to $400 billion[2] in 2007 worldwide, $290 billion of which went to developing countries, $68 billion to Latin America and the Caribbean. These flows reached urban and rural areas in Latin America and Caribbean countries from the United States, Spain, Brazil, Canada, Argentina and other parts of the world.[3] (Orozco 2007c; IFAD 2007)

Accompanying this flow is the fact that remittances interplay with finances, particularly among those sending and receiving these funds. Research on remittances and finances show that the propensity to save and invest increases in relation to remittances. Specifically, remittance recipients have a higher likelihood of having savings than non-recipients, and those who receive remittances in larger amounts are more likely to have bank accounts, savings and investments. (Orozco 2005; Orozco 2007e) In a recent study using national survey data, Orozco found that in Guatemala and Nicaragua the percent of people with bank accounts is higher among those receiving remittances. More importantly, for every additional dollar received, savings increases by at least 30 percent. (Orozco 2008a, 21)

The demand for financial services, however, has yet to be met by a supply of these products from banking institutions. Thus, there is a lack of correspondence between the supply and demand of financial services. (IAD 2007) This is due to a combination of factors such as misperceptions of behavioral spending among recipients, lack of access to remittance receiving locations, and business models geared toward high-income groups.

Thus, an issue explored is if and how microfinance institutions could fill such a gap. Some analysts argued that MFIs intersected with remittances because they served a physical and geographic base that coincides with beneficiaries of remittances. Orozco and Hamilton (2005) analyzed the link between remittances and microfinance, and defined it as "a condition in which microfinance institutions offer remittance transfers in underserved areas through an effective market presence, selling tailored financial

[2] All currency values in this report are in US dollars, unless otherwise stated.

[3] See also World Bank 2008 figures reporting $251 billion.

services based on a systematic understanding of the remittance recipient market." Specifically, they sought to test the capacity of MFIs to increase the development impact of remittances by looking at factors such as a) geographic presence in underserved areas, b) MFI's market position, c) the effectiveness of these institutions in providing a broad range of financial services, and d) the quality of transfer technologies and management information systems.

The authors found that that most MFIs have a moderately effective presence vis a vis the major competitors, but whenever they are present, they are "strategically placed to provide a wider range of financial services than remittance recipients might otherwise have". In addition, they found that most MFIs offered transfer costs below the market average. But they also found that only one third of the MFIs offered financial services to remittance clients.

More recently, other issues connecting remittances to microfinance have been found, that include aspects about the instrumentalization of these institutions to operate the business. In several countries, microfinance institutions have positioned themselves as players in the remittance payment market and have offered financial services to recipients. In some African countries, for example, MFIs are important payers of remittances even though they are not legally allowed to pay but instead operate as subagents of banks (Orozco and Millis 2007). In other countries, MFI management has made the conscious decision to enter the remittance market in order to leverage flows into financial services. To this effect, many MFIs have sought to become more involved by offering these products, arguing that they are strategically better located than banking institutions and have more commitment to serving remittance-recipient clients. These realities have coexisted as barriers to MFI entry in migrant foreign currency transfers.

Yet Hastings (2006) consistent with experience and previous studies, argues several opportunities to "entry into the remittance market represents for pro-poor microfinance institutions." (6) These opportunities include the ability to provide a quality product at a lower cost, help clients build a safety net, attract new clients and open opportunities to cross-sell other microfinance products, increase loyalty among existing clients who receive remittances through the MFI, generate income (and ultimately profits) from a fee-based product, and mobilize savings from incoming remittances as a means to strengthen the lending capacity of the MFI. In turn, development institutions have increasingly welcomed the idea of the remittance-MFI nexus and are increasingly financing projects linking MFIs with remittance transfers.

MFI participation in the remittance market has thus resulted primarily from an institutional observation about how branches have been working with clients whose relatives are migrants or with those who have raised some of their collateral or working capital through savings received from transfers of remittances. As the study will show, Interviews with senior management and credit officers of these institutions confirmed that many of their clients are connected to a relative who is abroad and remitting.

1. AN OVERVIEW OF REMITTANCES AND MICROFINANCE IN PRACTICE

This section offers an analysis of interviews to several MFI networks predominantly operating in Latin America. 4 The findings from these interviews show that over one-third of the MFIs examined work as agent payers for MTOs in different parts of the world (see table below). Overall, this research has shown that candidate MFIs must meet certain preconditions in order to engage the market for remittances. Table 3 shows that paying MFIs generally have a larger number of branches and a significantly larger lending portfolio relative to older institutions. They also have far more presence in rural areas.

TABLE 1: FINANCIAL AND INSTITUTIONAL PROFILE OF MFIS

	Average				Median			
(# of MFIs surveyed)	Branches (#)	Rural (#)	Year started	Lending Portfolio ($)	Branches (#)	Rural (#)	Year started	Lending Portfolio ($)
Americas								
L@Red de la Gente (17)	9	3	1991	$10,713,115	5	1	1996	$4,368,500
FOROLACFR (36)	16	6	1992	$23,316,539	9	4	1994	$4,719,560
INAFI International (22)	14	13	1993	$115,662,750	10	8	1996	$7,000,000

Source: MFI Interviews, November 2007.

Additional findings showed that MFI remittance performance is relatively new and it shows that financial intermediation, knowledge about compliance requirements, and technology development and integration are relatively limited. These issues are discussed below.

[4] The project included two sets of interviews in addition to a collection of secondary information. The first set applied to three microfinance networks (INAFI International, L@Red de la Gente in Mexico, and FOROLACFR in Central and South America) amounting to 166 institutions operating in Latin America and other parts of the world.[4] Questions were asked about the institutions' financial profile, and role in paying remittances and offering financial services. Questions about remittances included information on amounts, volumes, length of time paying, and type of money transfer partners. Questions about offering financial services to recipients included information about their product offerings, marketing approach, incentives to staff, and product design or adaptation of existing products.

TABLE 2: MFIS PAYING REMITTANCES (%)

	Region			Total
	Africa	Americas	Asia	
Does not pay remittances	61.3	61.0	68.6	62.8
Pays remittances	38.7	39.0	31.4	37.2

Source: MFI Interviews, November 2007

TABLE 3: MEDIAN SIZE AND CHARACTERISTICS BETWEEN MFIS WHO PAY AND DO NOT PAY REMITTANCES

	Pays				Does not pay			
	Branches (#)	Rural (#)	Year started	Lending Portfolio ($)	Branches (#)	Rural (#)	Year started	Lending Portfolio ($)
Americas								
L@Red de la Gente	5	1	1996	4,368,500				
FOROLACFR	17	4.5	1993	11,650,000	7	2	1994	2,500,000
INAFI International	17	11.5	1992	10,500,000	10	6.5	1997	6,400,000

Source: MFI Interviews, November 2007.

Average length of time in operation is two years meaning that that most MFIs started in 2005. This percentage shows how, in a relatively short period of time, these institutions have become involved in this market. It is worth noting however that formal or licensed remittance transfers at a global scale are relatively new dating back to the late nineties. Western Union, for example, started operations worldwide in 1997. In the majority of cases, money transfer companies that started operating with a one-country corridor also started in the mid-nineties. Thus, the one-third of MFIs that entered the market did so in less than ten years of a global expansion of retail money transfers, and can be seen as the first generation of MFI payers.

The **average monthly transfers** are relatively small and variable across regions. Note that the median and average of African MFI transfers is larger than that of other regions. This may be partly due to the fact that MFIs in Africa often work as subagents of banks and thus receive transfers from larger MTOs. It is also important to note that the growth in transfer volume from the time MFIs started to the time they were interviewed (two years) rose nearly ten times for transfers to the Americas and Asia and doubled for transfers to Africa. As the case studies will show, many institutions develop greater payment capacity and traction on the second or third year of operation in receiving transfers from their MTO partners.

TABLE 4: AVERAGE REMITTANCE TRANSFERS

Region		Monthly transfers (#)	Current Annual Volume ($)	Annual transferred on first year ($)
Africa	Median	425	1,295,855	898,793
	Mean	2,753	7,554,373	4,938,091
Americas	Median	200	644,024	39,400
	Mean	899	13,063,434	1,034,001
Asia	Median	113	861,742	81,783
	Mean	388	28,031,748	3,432,634

Source: MFI Interviews, November 2007.

A CLOSER LOOK AT MFIS AND REMITTANCES IN LATIN AMERICA

The results of interviews with Latin American MFIs show important data relating to their investments in the remittance product, the extent to which they are aware of compliance to international regulations on money transfers, and the role of cross-sales.

First, 60 percent of MFIs claim that they have invested in **marketing** to increase their competitiveness and that since offering money transfers, their business has improved. They have experienced increases in client deposits and client services are more appreciated. In fact, over one-third of MFIs indicated that remittance clients are using other financial services. Overall, MFIs think one-quarter of their typical clients receives remittances, and one-quarter of these use the MFI to receive funds. However, one issue of concern is that the percent is relatively small considering the already low number of transfers the institutions are conducting and the number of clients they usually have (a figure averaging 15,000).

TABLE 5: MFIS AND INSTITUTIONAL INVESTMENT (%)

	Institution interviewed		
	L@Red de la Gente	Members of FOROLACFR	Total
Have you invested resources to compete in money transfers?	59	57	58
Have your MFI businesses improved since offering money transfers?	65	63	64

Source: MFI Interviews, November 2007.

TABLE 6: MFI CLIENTS AND REMITTANCES (%)

	L@Red de la Gente	FOROLACFR	Total
MFI clients who receive remittances[5b]	26	22	24
MFI clients who receive remittances through the MFI	30	20	25
Remittance clients who are using other financial services	52	35	44

Source: MFI Interviews, November 2007.
[b] NOTE: The second row is not a subset of the first row. Whereas the first row refers to the percentage of total clients who receive remittances through any means (the MFI, a bank, informally, etc.), the second row refers to the percentage of the MFI's remittance-receiving clients who choose the MFI as their distribution mechanism.

Another issue of concern with regard to MFIs and money transfers is their capacity in legal and regulatory compliance, or their ability to follow and demonstrate **awareness about rules related to international money transfers**. On this latter issue, MFIs were asked about their knowledge about the regulatory environment on international foreign currency payments. The large majority have a good understanding of anti-money laundering and suspicious activities regulations, but much less knowledge about the Office of Foreign Assets Control (OFAC) and Know Your Customer (KYC) regulation.[6] The response on KYC is surprising because tellers and cashiers at the institutions are quite rigorous about complying with actual know your customer regulations.[7] Visits to at least 10 branches of MFIs in several Latin American countries and observations of cashier transactions showed diligence in security measures. While performing remittance payments and cross-sales of financial services, cashiers were careful about verifying beneficiaries' identity by asking for passwords required by the money transfer companies and requiring proper identification that matched the transfer name with the actual recipient.

TABLE 7: MFIS' AWARENESS OF INTERNATIONAL COMPLIANCE RULES (%)

Knowledge about…	L@Red de la gente	Members of FOROLACFR
Anti-money laundering laws	83	86
Suspicious Activities	67	79
OFAC (Office of Foreign Assets Control) list	22	43
KYC (Know Your Customer)	11	14
Knows very little about international regulatory issues	22	36

Source: MFI Interviews, November 2007.

In response to technology and software applications, most MFIs said they use software platforms provided by the MTOs,[8] and half of those said that they have integrated the software into their own

[5] The difference between the first two responses is that the first one asked who among the MFI clients receives remittances, regardless of the MTO system and agent they use. The second one asked if any of the typical MFI clients that receive remittances. There are many MFI clients who receive remittances, but do received them through the MFI .

[6] One important component of regulatory compliance on money transfers requires that both senders and recipients of remittances be properly identified by the originating and paying entities. The term Know Your Customer is applied to this rule.

[7] The discrepancy may reflect lack of practical knowledge among senior MFI staff on these matters. They may understand the finances of money transfers and the issues in general, but less regulatory aspects.

[8] Typically this entails a software program with encrypted password information to store and process data and money transfers.

systems. This type of system integration is predominantly used to reconcile MFI account payment systems with the transfer information provided by the MTO. Integration is on a transactional basis rather than customer basis so MFIs are not able to develop client profiles and track these clients' use of or demand for financial services. Ideally, a MFI would need a customer relationship management (CRM) application to enable this type of analysis. Few of these MFIs have developed this degree of integration, in part because they have yet to figure out a method to do so and justify the relevance of doing it.

TABLE 8: TYPE OF SOFTWARE PLATFORM EMPLOYED BY MFI (%)

	L@Red de La Gente	Members of FOROLACFR
Don't have a platform	6	16
Institution's own platform	11	16
Platform installed by MTO that operates independent from MFI systems	33	32
Platform installed by MTO that operates integrated to MFI systems	28	37

Source: MFI Interviews, November 2007.

2. BRINGING REMITTANCES INTO MICROFINANCE: CASE STUDIES[9]

This next section offers a closer look at several case studies that reveal more details about these experiences. This study researched the participation of six institutions involved in money transfers and that were interested in providing financial services to recipients. The institutions studied were MFIs in the form of credit unions or regulated MFIs (see Appendix II for a description of their profile):

- Credit unions are located in
  - Mexico (Caja Popular Mexicana, and other Cajas affiliated with L@Red de la Gente) and
  - El Salvador (FEDECACES),
- While regulated MFIs operate in
  - Mexico (AMUCSS),
  - Nicaragua (FAMA) and
  - Paraguay (Financiera El Comercio).

All groups have worked on remittances for at least five years, have expressed interest in providing financial services to remittance recipients, and at some point have received technical assistance from donor agencies such as the United States Agency for International Development (USAID) or the Inter-American Development Bank (IADB). The number of monthly transfers performed by MFIs is variable, ranging from 2,500 (FAMA in Nicaragua) to 40,000 (El Comercio in Paraguay). Their money transfer activity reveals important information about the role of these institutions in achieving financial inclusion, as well as their ability to expand opportunities for collaboration with other development actors.

The institutional analysis focused on examining how credit unions and regulated MFIs are performing in money transfers, that is, the length of time in operation, kind of partnerships in use, volume of transfers, and kind of institutional approach they have on the business.

A. CAJA POPULAR MEXICANA (CPM) IN MEXICO

Mexicans in the United States have historically send money into their hometowns. Between 1990 and 2007, the volume of remittances to Mexico grew from three to 24 billion. Mexico offers a competitive market among businesses that are aimed at attracting more remittance volume. This level of competition exists both in the United States and Mexican markets. There are at least one hundred money transfer

[9] The majority of the information here has been gathered through interviews with several MFi representatives.

businesses operating in Mexico as well as more than twenty U.S. banks. Companies compete by reducing the exchange rate fees, particularly for those sending larger amounts of remittances per transaction.

Eight MTOs control a tight remittance market in Mexico: Western Union, Dolex, Vigo, MoneyGram, Sigue, Ria Envia, Orlandi Valuta and Mexico Express. Some of the major competitors in the receiving end are banks like Banamex and Bancomer that have the largest payout participation in the market. Increasingly non-banking financial institutions, such as MFIs and cooperatives have entered the market.

THE CAJA EXPERIENCE IN REMITTANCE TRANSFERS

Caja Popular Mexicana (CPM) initiated its remittance transfer service in partnership with Vigo in August 2003, and since then also operates with MoneyGram and Uniteller. Currently, the credit union is in the process of incorporating Viamericas.

USAID collaborated through a nearly $5 million grant to the World Council of Credit Unions (WOCCU) to support CPM in becoming a solid financial institution. The funds were used to improve CPM's software platform and purchase equipment to enable the reception of remittances. The software platform is an application designed to integrate payments from different money transfer operators (except those from MoneyGram) through a web based platform. CPM's platform can be linked to the main financial accounts software of the sending institution. Moreover, the grant—in particular—paid for a technical assistance team that would advise the credit union over the course of six years. This involved strategic planning, financial discipline, credit methodology, risk management, IT systems, staff training plans, and new product (including remittances) development.

In the first year, CPM paid out 2,977 remittance transactions totaling over $1.24 million. Last year, the credit union paid out 306,642 transactions – 62 percent of which were processed through Vigo and 36 percent from MoneyGram – totaling over $117 million. Their average transaction amount is relatively higher than that reported by the Bank of Mexico. The table below shows how CPM's payments of remittances grew dramatically in five years.

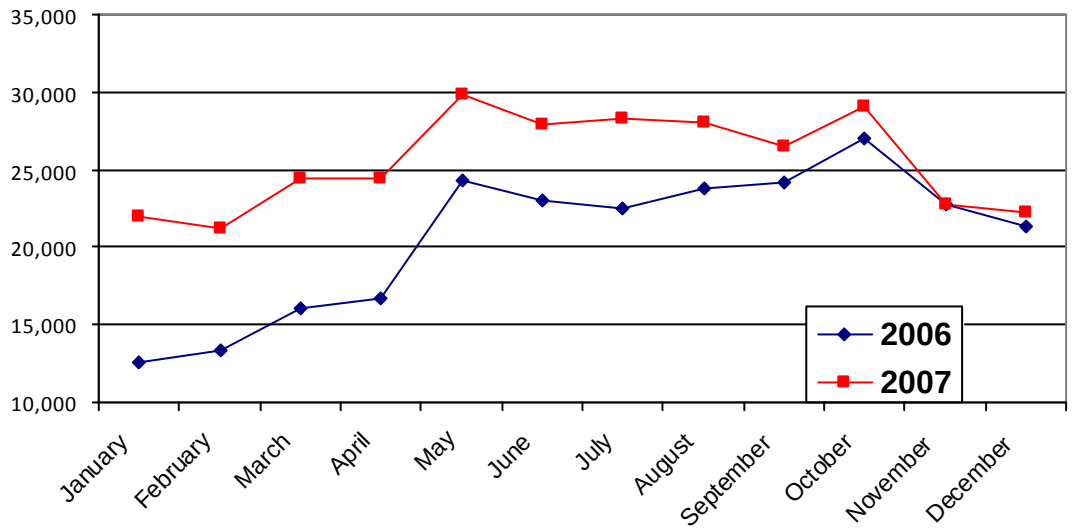
TABLE 9: REMITTANCE TRANSFERS BY CAJA POPULAR MEXICANA

	Transfers (#)	Volume ($)	Average ($ per transaction)
2003	2,977	1,246,266	419
2004	43,293	21,158,183	489
2005	142,094	60,093,953	423
2006	247,493	101,158,562	409
2007	306,642	117,296,539	383

Source: Caja Popular Mexicana, January 2008.

Since 2006 the number of transactions has grown to around 23,000 monthly. These flows experienced a decline in number in the last two months of 2007; however, CPM is experiencing similar fluctuations and patterns normal to the cyclical behavior of remitters. As the company adds another MTO these volumes are likely to grow partly because of its current reliance predominantly on one major provider, Vigo, which pays two thirds of the transfers.

FIGURE 1: REMITTANCE TRANSACTIONS PAID BY CPM (#)



Source: Caja Popular Mexicana, January 2008.

The performance of CPM in money transfers and financial intermediation suggests that it is an underutilized service that can increase remittance volume in several Mexican states where it operates and where migration is important. In regard to money transfers, CPM can double the number of transactions. Given its national reach, reputation and presence in areas where migration occurs, money transfer operators find CPM a formidable partner. At less than 30,000 transactions per month and with only a few partners, CPM has the capacity to expand its payout position. CPM is similarly positioned to be a player like Banrural in Guatemala, which has established payment agreements with more than 10 MTOs and is a leading payer in the country. (Orozco and Hamilton, 2005)

B. L@RED DE LA GENTE IN MEXICO

Banco de Servicios Financieros (BANSEFI) is a program of the Mexican government with a mandate to increase the financial products and services available to the Mexican population, particularly Mexicans with low incomes. BANSEFI created L@Red de la Gente, a network of popular banks, microfinance institutions and credit unions to act as a remittance payer. It established arrangements with companies such as GiroMex and DolEx and has extended its partnerships with Vigo, MoneyGram, El CaminoTransferencias, Via America, and Moneyda. BANSEFI also works with banks and Directo a Mexico, the Federal Reserve Bank of Atlanta's partnership with the Bank of Mexico.10

BANSEFI offers financial products and tries to give individuals a sense of a financial culture. As part of its Partnership for Prosperity program between the Mexican and United States Government, BANSEFI is

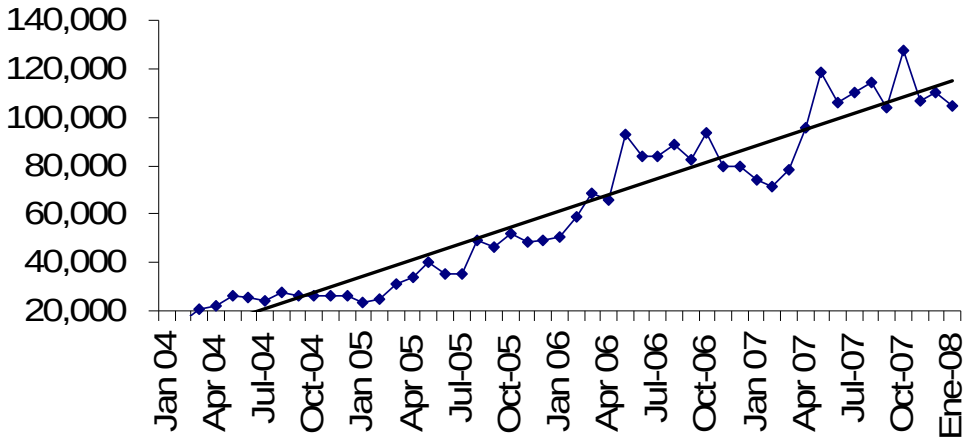
[10] Directo a Mexico is a partnership to settle account to account payments between the Federal Reserve Bank of Atlanta and the Bank of Mexico. The Atlanta Fed's ACH system allows any person in the U.S. to use their bank account to make a money transfer at a relatively low operating cost (US$0.67) to any a bank account of a Mexican banking financial institution. For further details see www.directoamexico.com

trying to disseminate information about the costs of remittances from the United States. It is also working with other institutions to teach people about the benefits of using the account-to-account transfer system.

The institutions forming the network are beginning to play an active role in the money transfer market. The network has enabled the banks to participate in the distribution network of remittances through contracts negotiated by BANSEFI. Under this scheme, the members of L@Red de la Gente can offer financial services in their communities, mostly low-income urban and rural areas where the formal financial system has no coverage and where many migrants originate. Once the remittance is paid, member institutions of L@Red de la Gente have the incentive to open savings accounts for the migrant and his/her family, knowing they have an income source.

BANSEFI's L@Red de La Gente has grown to a network of 1,623 branches throughout Mexico, which services over 700 municipalities. As a result of its spread and partnerships with several MTOs, L@Red de La Gente has managed to capture 2 percent of the remittance market with a monthly average of 120,000 remittances in 2007, representing nearly 30 percent year-on-year growth. BANSEFI has been actively promoting Directo a México as a faster and cheaper method of sending remittances with significantly lower transfer fees and the convenience of direct one-day account to account transfers.

FIGURE 2: REMITTANCES PAID BY L@RED DE LA GENTE



SOURCE: BANSEFI, FEBRUARY 2008.

C. AMUCSS IN MEXICO

The main objectives of AMUCCS are to provide payment of remittances, 'bancarize[11]' the local population, mobilize savings generated by remittances, and invest locally through the use of credit. The strategy to accomplish these objectives is to design financial products and services, such as savings, credit, and insurance, to attract and maintain clientele in rural communities where the microbanks are located. Local financial intermediation and the capture of migrant savings, as opposed to the mere payment of remittances, is what AMUCCS believes to be the appropriate mechanism to enhance development in rural areas of high migration. To strengthen its network of microbanks, AMUCCS has

[11] We use the term 'bankarize' to refer to the effort to bring a person into the financial system through a depository institution, whether banking or credit union institution by encouraging or motivating them to open a savings account.

developed close ties with federations of migrant hometown associations in the United States. The existence of these relationships in Illinois, California and North Carolina helps direct the representatives of these organizations and their remittances/donations through AMUCCS institutions.

At the end of April 2007, AMUCCS was paying 4,000 monthly remittance transfers through micro-banks, which was aided in large part by agreements with Intermex in Puebla and Guerrero (accounting for 60 percent of the remittances sent). However, due to some problems with robberies in some communities, banks decided to interrupt the service, temporarily lowering the volume to an average of 1,000 monthly transfers. The volume has since risen again with the incorporation of several micro-banks in L@Red de la Gente. However, such impressive and accelerated growth has exceeded the operational capability to effectively "bank the unbanked." While the incorporation of remittance payment services has had a positive effect on confidence-building within migrant communities, there remains a problem of profitability.

Transfers vary from bank to bank and their transfer operations depend predominantly on the extent to which they have significant migration and agreements with money transfer operators for which they work as agents. Currently AMUCSS' main operation has been with institutions of the FINRURAL network, which entered into an agreement with the remittance processor Intermex. Intermex is a company that processes transactions for several MTOs in the United States and offers a $1 commission to the bank. This is a relatively small commission compared to other partnerships in Mexico and Central America averaging $1.5.

The small commission paid by Intermex (an average of $1) represents a very small income for the participating micro-banks. Even if volume reaches 1,000 to 1,500 remittance transfers per month, the commissions paid by remittance companies only cover the rise in operational costs. AMUCCS, however, sees its work as a public service rather than as a profit-seeking venture in the most traditional business sense. The table below shows the locations in Mexico where transfers are taking place through AMUCSS banks. The rural bank in Pahuatlan, Puebla shows the largest number of transfers.

TABLE 10: REMITTANCE OPERATIONS BY AMUCSS BANKS

Bank	Location	Transactions in 2007	Accumulated amount (pesos)
Finrural	Hueyapan	483	1,360,638
	Bienvenido	1481	5,804,360
	Pahuatlan	8649	31,265,247
	Huehuetla	12	11,417
	La Uno	785	2,157,690
	Ahuacatlan	89	305,992
	Zacatlan	134	339,493
	Total	11633	41,244,838
FINCOAX	Tlaxiaco	340	1,896,264
	Mixtepec	2740	16,060,619
	sub total	1276	7,471,581
	Miahuatlan	1412	8,583,150
	Ejutla	0	-
	San Agustín	13	42,864
	San Baltazar	266	1,146,099
	sub total	852	4,825,585

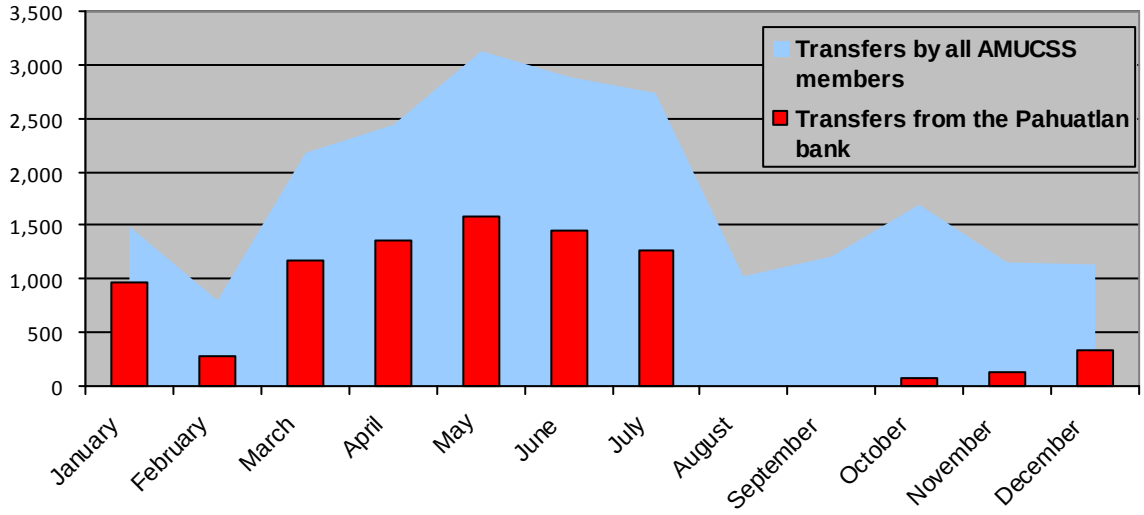
Bank	Location	Transactions in 2007	Accumulated amount (pesos)
	Total	4771	27,728,996
Maseual	Huitzuco	204	851,585
	Tlaquil	0	—
	Xalitla	78	325,977
	Copalillo	177	499,650
	Total	459	1,677,212
Credimich		4890	17,345,741
Zihuatlme		123	483,964
Total		**21876**	**88,480,751**

The case of Pahuatlan, Puebla

The bank in Pahuatlan operates in an indigenous community composed of Nauatl and Otomi groups that are geographically, ethnically, and politically separated from each other and mestizo elites. This community located in the Northern state of Puebla has a relatively recent migration phenomenon that responds to the economic shifts in the local and national economy. In fact, the emigration process is partly the result of an accumulation of unresolved issues dating back from the lack of access to land in the fifties, followed by unemployment of the then rural proletariat from sugar and coffee plantations in the seventies and eighties, to the pressures caused by global economic shifts. International migration started in the nineties and intensified in the beginning of this millennium with the mobilization of the indigenous community into Durham, North Carolina. The rural bank responded to an increased demand for money transfer services (subsequently also of financial services) from the local community, where only a money exchange house was operating to payout a remittance. At one point in 2006 and early 2007, the bank was making a larger number of transfers, proving to be a successful payer. However, the bank suffered from two robberies that had serious financial costs and effects on the institution's trust and ability to continue the business. The figure below shows how Pahuatlan is the major source for money transfer payments among all the rural banks. The two major dips in February and August 2007 show the effects of the robberies, causing the bank to reconsider its operation. The bank canceled its partnership with Intermex and opted to work more with L@Red de la Gente; since then, transfers have again increased.

Source: AMUCSS, 2008.

FIGURE 3: REMITTANCE TRANSACTIONS PAID BY AMUCSS IN 2007 (#)



Source: AMUCSS, January 2008.

One strategy that the Association decided to pursue consists of developing its own payout platform and serve as its own processor for the micro-banks and other rural banks operating in the country. Envios Confianza is a small business designed to operate as a processor, intermediary, and financial advisor to different rural banks working in Mexico by negotiating with several MTOs and linking them to the rural banks. The small business avoids the use of third party intermediaries (such as L@Red de la Gente) and negotiates directly with MTOs. In doing so the financial institution gains more independence and is able to connect itself directly through global money transfer operators.

D. THE SALVADORAN EXPERIENCE: THE CASE OF FEDECACES

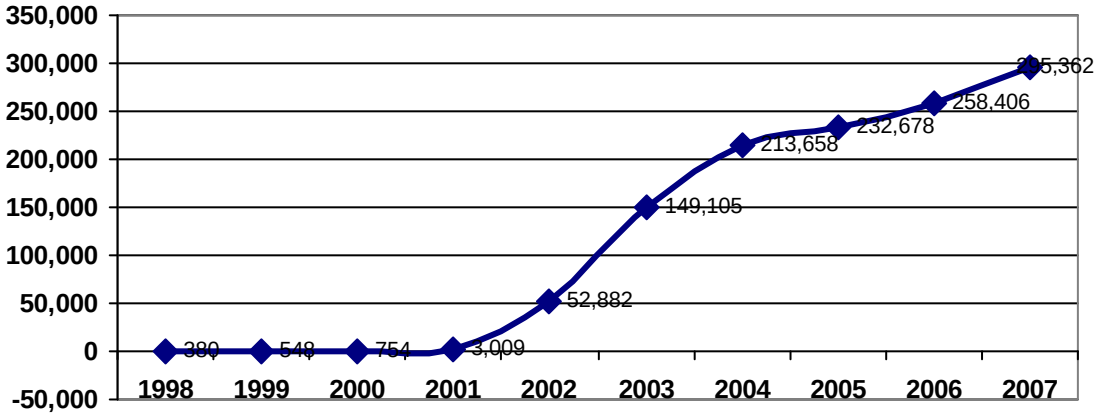
El Salvador is one of the major remittance recipients in Latin America and the Caribbean. International migration from El Salvador stems partly from flows in the eighties during the civil war, which later expanded in the nineties through the established transnational networks between the United States and El Salvadoran families. The country received over three billion dollars in remittances in 2007 and is one of the most competitive money transfer markets in the region with some of the lowest transfer costs. Salvadoran banks have been significantly active in the business, as have been several microfinance institutions and credit unions, FEDECACES being one of them.

REMITTANCE TRANSFERS AT FEDECACES

FEDECACES is one institution that began offering remittances services quite early in the development of the money transfer industry. Starting in 1998 with a small number of payments, FEDECACES became significantly active in 2002 after negotiating with money transfer operators in order to be their agents through agreements with WOCCU. WOCCU initiated negotiations with Vigo, a successful money transfer company which was later bought in 2003 by an investment firm, and then sold again in 2006 by Western Union. The management of FEDECACES realized early on that in order to capture remittances it needed to work directly with MTOs. As a result, it has continuously engaged more than one MTO as its business expanded.

At the end of December 2007, FEDECACES was paying nearly 25,000 transfers a month (or 300,000 a year). Although they have experienced significant growth, the increase over the past three years has not been as fast as in the initial period in 2002. As a result FEDECACES has expanded its partnership with more MTOs with the aim of increasing the number of transfers and connecting with more consumers. In terms of finances, the Federation and its members are sharing both revenues and costs of payments, obtaining $2.00 per transaction that is more or less split between the federation and each cooperative. This revenue is above typical average commissions paid in Mexico and Central America.

FIGURE 4: REMITTANCE TRANSACTIONS PAID BY FEDECACES (#)



Source: FEDECACES, February 2008.

As with other agents paying remittances, not all transfers are evenly distributed throughout the member cooperatives. Rather, there is a geographic distribution that often mirrors migration patterns. A look at which cooperatives are transferring shows that six out of the 26 are paying nearly 80 percent of all transfers, particularly from Acodjar and Acaciba.

TABLE 11: MONEY TRANSFERS OF FEDECACES BY COOPERATIVE

Cooperative	Transactions (#)	(%)
ACODJAR	60,708	21
ACACCIBA	56,619	19
ACACU	39,148	13
ACOCOMET	29,418	10
ACACYPAC	26,071	9
ACAYCOMAC	18,604	6
Other cooperatives	64,794	22

Source: FEDECACES, February 2008.

Ciudad Barrios and Accaciba

ACACCIBA is a cooperative based in Ciudad Barriors which is a semi-rural town located near the border with Honduras and with close proximity to Nicaragua. The city is a growing commercial center and is host to different services, including medical attention that is often provided to Hondurans who cross the border seeking attention since it is more convenient for them than to travel to major Honduran cities. Ciudad Barrios is also a supply center for grains and other agricultural commodities. Migration has also been significant in the area and remittances are a major source of income.

The cooperative started operations in 1977 but joined FEDECACES in 2003 as a strategy to recapitalize the institution and improve its position in the local market. They are the second largest payer for the federation and pay $80,000 a day. The institution is an important place for transfers and for cross-sales.

E. REMITTANCES TO NICARAGUA AND THE FUNDACIÓN PARA EL APOYO A LA MICROEMPRESA (FAMA)

Remittances transfers to Nicaragua are increasingly growing in importance in the 21st century and competition has played a role in reducing informality and increasing the flow. Traditionally, flows were informal with over 50 percent handled by unlicensed couriers, partly because of the inflow from Nicaraguans living in Costa Rica, and also because MTOs did not find Nicaragua to be a major market. (Orozco 2003) Contrary to other Central American markets such as Honduras, El Salvador, and Guatemala, transactions from the United States to Nicaragua are estimated to have increased to 400,000 over the past five years, a figure that is at least half of any of the other countries. Competition in this corridor has increased as MTOs seek to expand worldwide; this number of transactions is higher than what MTOs had estimated years ago. In 2008, only 12 percent of recipients are relying on informal mechanisms. (Orozco 2008)

REMITTANCES AT FINANCIERA FAMA

FAMA initiated remittance transfers in October 2003 through its role as a subagent to local cooperatives, which have an agreement with Vigo through the WOCCU system. It also established partnerships with a Costa Rican MTO, ServiExpress, and an MTO in Spain, e-transfer. The total number of monthly transactions it is processing is relatively small, 2,500, compared to 300 the year it started. FAMA's operation through the partnership with the cooperative may be limiting its ability to grow further both in revenue and volume: FAMA is an example of how institutions working as subagents loose leverage because they lack control to negotiate partnerships and contracts directly with MTO, are subject to lower commissions ($1.25) than the market's average, and do not have control over the distribution of transfers to branches, thus being subject to the discretion of the main agent's decision.

Transfers are handled through the Financiera's local software platform, TOPAZ, which receives FTP batches from the cooperatives and then integrates the transfers through a remittance module that contains the required fields to address regulatory compliance. Personnel handle any difficulties in the transaction such as delays, name matching inconsistencies, and rerouted locations. The module is a relatively simple addition to the overall information system but is not directly linked to it. The software has a feature called "Posición de cliente," which provides information about the client's record with the MFI and can be linked to the transfer.

The opportunity for the Financiera to improve its payment position is significant considering that its branch locations, situated in places that receive 63 percent of remittances in the country, coincide with the national geographic distribution of all remittance flows. In turn, this positioning gives FAMA more potential to process larger volumes and present itself as an appropriate competitor and payer to the current MTOs, and under a different mechanism, as a subagent.

F. PARAGUAYAN MIGRATION AND REMITTANCES, AND FINANCIERA EL COMERCIO

International labor mobility in Paraguay has existed for several decades during the twentieth century. But in the late eighties and early nineties a new migration wave went to Argentina, where it is said that half a

million Paraguayans may be residing. Official statistics put the number of total number of Paraguayans abroad to just over 400,000, or 7 percent of its population.

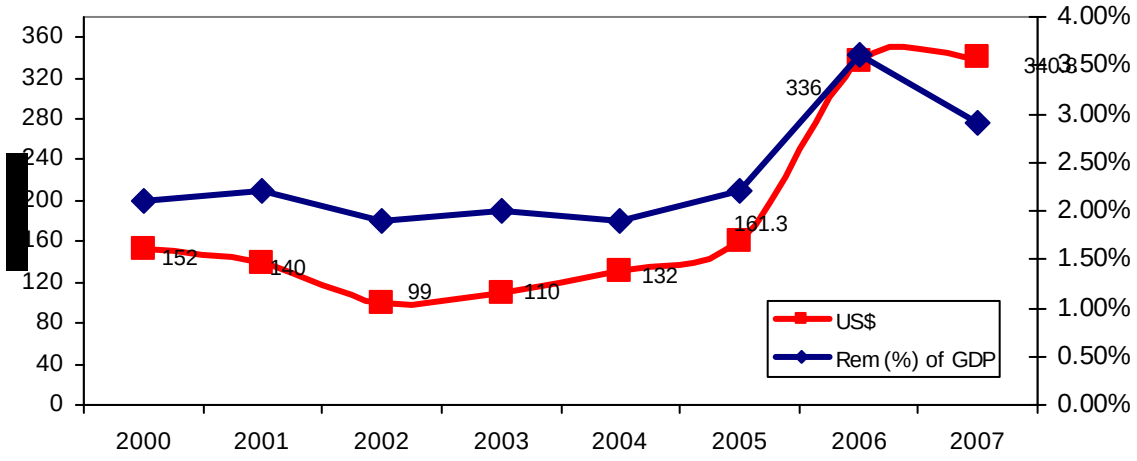
TABLE 12: PARAGUAYAN INTERNATIONAL MIGRATION

Host Country	Paraguayan migrants (#)
Argentina	325,046
Spain	35,000
Brazil	23,069
United States of America	13,876
Canada	5,291
Other	11,743
Total	414,025

Source: DRC, 2007.

Moreover, the Central Bank of Paraguay estimates that remittances were around $340 million in 2007—nearly 4 percent of the countries national income. At first the figures may reflect a normal migration pattern. However, there are inconsistencies between the official statistics and amounts that reflect the money transfer operators' relationship with migrants. The migration figures also do not seem to reflect the entire picture of migrants abroad.

FIGURE 5: REMITTANCES TO PARAGUAY



Source: Central Bank of Paraguay.

For example, according to the Central Bank 45 percent of transfers arrive from Spain, 31 percent from the United States, and only 8 percent from Argentina—the country which happens to have the largest migrant population. Data from money transfer operators and payers shows that such geographic distribution would represent 34,000 transfers from Argentina, which is 10 percent of the official Paraguayan migrant population in that country. This would mean that in total, the number of migrants remitting from Argentina is 30 percent of all migrants.

TABLE 13: GEOGRAPHIC DISTRIBUTION OF REMITTANCES AND ESTIMATED NUMBER OF REMITTERS

	(%)					Estimated flows* ($)	Estimated remitters* (#)
	2003	2004	2005	2006	2007		
ARG	1.9	2.9	22	4.7	8.3	27,200,000	34,000
USA	76.2	51.1	25.9	38.6	30.7	105,400,000	31,369
ESP	9.1	29.3	31.5	42.8	45	153,000,000	39,843
Other	13	17	21	14	16	54,400,000	16,190
Total	100.0	100.0	100.0	100.0	100.0	340,000,000	121,403

Source: Central Bank of Paraguay; * Estimates are based on the official Central Bank figures and MTO and agent payment in Paraguay on $1200 personal annual transfers from Argentina; $3360 from the United States and other parts of the world, and $3840 from Spain.

According to MTOs paying in Paraguay, the actual volume is likely to be double that of the Central Bank's report. For example, the Bank argues that Western Union alone pays $300 million every year, and another competitor that works in Argentina is likely to be paying a minimum of $70 million from Argentina. A survey carried out by Financiera El Comercio shows that 7 percent of customers use Western Union and 58 percent use Nuestra Señora de la Asunción, a major MTO working exclusively in the Argetina-Paraguay corridor.[12]

REMITTANCE TRANSFERS

Financiera El Comercio entered the remittance market somewhat reluctantly in 2004 as an agent for Western Union. Like many other financial institutions in Paraguay, remittances were perceived as negligible and non-profitable. However, the locations of El Comercio's branches and the decision of the senior management to directly link the remittance product to financial cross-sales, gave it a strong motivation to participate in the market.

The Financiera has grown dramatically from less than 500 transfers in 2004 to over 40,000 in early 2008, currently transferring $12 million per month. Such growth has made it a group that holds 50 percent of the Western Union market of transfers to Paraguay. Despite its tremendous growth, El Comercio is facing several challenges in the market associated to its presence as a major payer, and has sought to set a footprint in Argentina.

Prior to Western Union's entrance into the Paraguayan market, most flows were informally transferred. Nuestra Señora, the company processing transfers predominantly from Argentina, has been a formidable competitor that enjoys the trust of migrants and families. Moreover, since El Comercio emerged as a payer, a new range of MTOs has entered the country to forge partnerships with banks and other MFIs. Banks in Paraguay, unlike in other places in Latin America and the rest of the world, have not been the major payers; DHL (the express mail company), El Comercio (both Western Union agents), and Nuestra Señora have dominated the market.

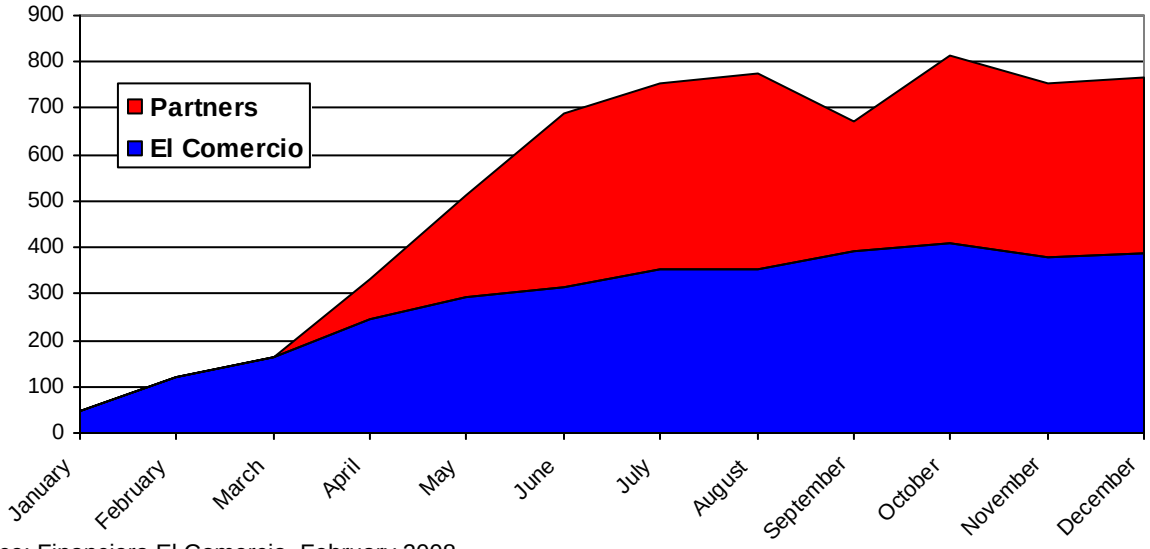
Since 2005, other MTOs have emerged and are making agreements with other payers. Among the new payers in Paraguay are credit unions, other MFIs, as well as a few banks. On the MTO side, the

[12] El Comercio, as will be shown below, pays 13,000 monthly transfers from Argentina, which means that Nuestra Señora's 58 percent would represent just over 100,000 transactions a month.

companies that have emerged include MoreMoney, Telegiros, Ria, Link Transfers, and Delgado Express. MoreMoney is a growing regional payer in Latin America and it has consolidated its presence in Paraguay, making transfers that may be as large in volume as El Comercio's.

El Comercio also sought to set foot in Argentina to position itself as an alternative to the traditional Nuestra Señora and bus drivers transferring the money. In 2007, El Comercio set up a small office in the Buenos Aires' downtown commercial area of Constitución with the aim of attracting the market. It has faced significant challenges in growth as well as with safety: it was robbed twice in 2007. However, El Comercio formed partnerships with another MFI, FIE, and with a drugstore chain, Dr. Ahorro, which helped to attract more clients. It has also offered other services, including bill payment services. The senior management sees such development as a slow movement but is willing to continue its presence. A closer look would suggest that as a small business operation in a foreign land, the locale is following a typical growth cycle of initial slow growth. Most money transfer operations begin to break even only after two complete years of operation.

FIGURE 6: REMITTANCES TRANSACTIONS FROM BUENOS AIRES BY EL COMERCIO (#)



Source: Financiera El Comercio, February 2008.

Overall, Financiera El Comercio has developed a strong reputation of being the main payer of remittances and has sought to strengthen its position in the country as well as with Paraguayan communities abroad. It has conducted survey studies in the United States, Argentina and Spain to understand migrants' profiles as well as basic financial preferences. This latter issue has been a major driving force in its work on remittances.

Financiera El Comercio is perhaps the most successful microfinance institution paying remittances in large volumes and transactions in Latin America. It is also an institution that through its commitment to expanding financial services will deepen financial access to many families.

Remittances in Rural Paraguay: Santani and Curuguaty

Paraguay is among the most rural societies in Latin America, and particularly of South America. Its population relies significantly on agricultural production and most of El Comercio's credit goes to serve that market: 60 percent of its clients are small entrepreneurs, most of which (80 percent) are rural based. Moreover, 33 percent of credit goes directly into agriculture and cattle.

These communities have experienced outmigration, mostly starting in the nineties going to Argentina, and in this decade going to Spain. The table below shows that migrants have left at various times; for example, those going to Spain have left in the past five years, whereas those to the United States have done so in earlier periods of time.

Year of departure from Paraguay by place of destination

	USA	Spain
Less than a year	5	26
One to three years	30	57
Three to five	25	15
Five to seven	13	2
Seven to ten	11	0
Over ten	12	0

Source: Financiera El Comercio, migrant surveys conducted in 2007.

According to a survey conducted by El Comercio in Spain, those sending remittances are sending to various rural areas—only 38 percent were sending money to the capital. This is the case of rural branch payments in Santani and Curguati. In the branch of Santani, for example, credit for agricultural work amounts to about $10 million lent to the 60 percent of clients who are small agricultural producers.1 At the branch they are paying 500 transfers per month, and an additional 1,000 performed by a subagent. Local managers estimate that nearly half of those receiving remittances already have deposits, but are yet to confirm the information beyond their empirical knowledge. In Curuguati, another rural branch that lends 60 percent of its portfolio to agricultural workers is paying 1,200 transfers per month, half at the branch and the other half through its subagents. The local management also believes that some 40 percent of these remittance clients are opening deposit accounts.

During interviews with remittance recipients and MFI staff, one credit official stressed that of his portfolio of 400 borrowers some 270 are remittance recipients, but only a handful withdraw the money at the Financiera. The impression of this officer reflected a reality observed among most bank officials, not only in Paraguay but elsewhere: their regular contact with clients makes them acutely aware of their financial profiles and also of other circumstances, including the extent to which they have relatives abroad and receive remittances. However, no one has a systematic way to record and document this reality that can serve as basis for a significant marketing resource.

3. FINANCIAL OUTREACH: LINKING REMITTANCES TO OTHER FINANCIAL SERVICES

In addition to analyzing remittance payments, this research examined the extent to which the institutions are institutionally and operationally making efforts to provide financial services to recipients, and how they measure their performance in this regard. These two elements also illustrate the position of their operation vis-à-vis the financial performance of the institutions.

Institutions were asked whether they were targeting remittance recipient clients as part of their growth and expansion plans and what methods or strategies they adopted. This approached focused on two basic considerations: one, an institutional commitment to cross-sell, and two, the scope and depth of such commitment. This latter issue focused on practical approaches to cross-sell, particularly, whether they designed or adapted financial products, marketed and reached out to the population, developed incentives to its staff and trained them, or analyzed the integration of remittance clients into their institution.

A. CAJA POPULAR MEXICANA: FINANCIAL INTERMEDIATION

CPM has yet to provide an effective strategy and approach to cross-sell other financial services. Thus far, their focus has consisted of raising transaction volume and providing service to clients in existing areas of operation, rather than using remittances as a client acquisition tool. In places where there is significant volume transferred (that is, above ten transactions a day) the staff is generally aware of the number of clients that come to CPM to withdraw their remittance, and are often familiar with their needs and background. However, CPM does not explicitly attempt to cross-sell other financial products to these clients. Interviews with remittance clients withdrawing money confirmed their interest in having some other financial relationship with the Caja, be it though a savings account or a small credit for production. One client expressed that she would happily put money she received into a savings account, whereas another client suggested that she would apply for a loan to acquire more cows and expand her husband's cattle business.

From the perspective of the senior staff, one reason for the absence of a strategy is that their focus has been on offering remittance transfers and letting consumers decide whether to access other financial products and services. These executives, however, do not disagree that CPM could and should embark in a more systematic approach to financial intermediation. There is recognition that greater awareness of the significance of the remittance recipient market is needed to engage it into a business venture. In that regard, CPM has identified some step forwards to enhance financial intermediation.

From the financial services perspective CPM offers some important opportunities to incorporate a larger pool of remittance recipients independent of whether they withdraw remittances at their location. In places where its branches have volumes of over twenty transfers a month and bank staff who are familiar with remittance clients, CPM staff can approach the consumer and offer financial products. Currently, the staff at CPM uses a feature of the platform that indicates whether the remittance client is also a Caja member, though lacks data content and an analytical purpose. Senior staff sees the systematization of

such a feature as a step forward in identifying the current financial profile of remittance clients, and at minimum, in gaining an estimate of the percent of remittance receivers who are currently members.

Financial literacy was also found to be very important to branch and senior management. Local management at CPM recognize that a key component of maintaining a relationship with the client is educating him/her about basic financial information. The challenges it faces in this endeavor are how to communicate information and how to communicate it in a relatively short time period. This latter point is relevant because while cashiers and tellers have the best relationship with clients, their opportunity time span is limited to the actual transaction, which often lasts less than 10 minutes.

B. L@RED DE LA GENTE: FINANCIAL INTERMEDIATION

BANSEFI has a commitment to financial inclusion through remittances and has done so predominantly by supporting the payout network of L@ Red de la Gente. It has also developed a partnership with the Federal Reserve Bank of Atlanta to promote account-to-account transfers through the Directo a Mexico program. The partnership between the Atlanta Fed and L@ Red de la Gente follows its commitment to reduce money transfer costs and increase financial access.

The partial outcome of this objective is to have opened over 300 accounts in México and has found that the average transfer to these accounts is much higher than traditional cash-to-cash transfers. Consequently, the balance in these accounts (after several months) tends to be double the amount of other conventional accounts that are not involved in the Directo a México program.

As a method of "banking on both sides of the border," BANSEFI introduced the Beneficiary Account Registration (BAR) System. BAR is a system that allows United States financial institutions to pre-open an account at any BANSEFI or participating L@Red de la Gente credit union branch for a third-party beneficiary in Mexico, who then has 10 days to go to the selected branch, formalize the account and receive his/her money.

While BANSEFI has experienced significant success in reaching remote corners of México, the challenge of attracting more migrants in the United States and their families to use their services remains. BANSEFI sees the account-to-account transfers as the most valuable product to remittances recipients. An important outreach approach from BANSEFI has consisted of opening an office in the Mexican Consulate in Chicago as a pilot marketing program to distribute information about their products.

C. FEDECACES: FINANCIAL INTERMEDIATION

The link between remittances and finances has been the driving force for FEDECACES in offering a money transfer service. The leadership at the Federation realized the relevance of remittances beyond the earning itself, and understood the funds to be a source of financial asset building. To the executive director of FEDECACES, the savings and credit cooperatives are effective instruments for financial inclusion and mobilization of remittances into the local economy. Therefore, the Federation has worked toward increasing financial access to clients receiving remittances, while at the same time seeking to mobilize savings into the productive sector. The results of this exercise have been successful overall.

The Federation has encouraged the cooperatives to offer membership to remittance recipients and in turn, offer a range of financial services to them. It has not only pursued an effort to increase deposits, but have also tried to understand the demographic, socio-economic and financial profile of recipients.

FEDECACES has conducted surveys on its remittance recipient population and has also offered training to staff on how to offer membership into the cooperatives. Additionally, it has strengthened its technology platform in order to have an effective money transfer system.

FEDECACES established a membership tracking system that links the remittance transfer platforms to the credit union's financial information system. Each credit union staff updates the recipient's membership information and produces a record of the share of remittance recipients who are members and the value of their deposits and loans. This procedure has allowed FEDECACES to know what percent of recipients has become a member and the amount of their deposits and loans in relation to all credit union members. This mechanism has been part of an effort to increase membership.

The efforts to increase membership at the institution are producing important results. FEDECACES estimates that at least one-quarter of remittance recipients have become members. This number represents at least 5,000 people in four years, but possibly larger. For example, data collected for ACACCIBA, the cooperative operating in Ciudad Barrios and nearby rural areas of San Miguel, shows that 34 percent of cooperative members are recipients of remittances. More importantly, the number of deposits at this cooperative is 80 percent of all deposits and 16 percent of all credits in the area. The lower percent in credits may reflect important features relating to remittance recipients as well as the local credit market. In the first case, surveys on remittance recipients generally show that less than ten percent of people invest or borrow for some economic activity. Second, although access to credit is generally small in developing countries, microfinance institutions may represent an alternative over credit unions for remittance recipient households interested in borrowing microloans that can be applied to small economic activities including home improvements, acquisition of durable goods and small businesses investment.

The following statistic represents the 856 recipients converted into the cooperative's membership as a ratio to all members. The use of such a metric to assess conversion is important as it reflects the performance of financial inclusion within the community.

TABLE 14: ACACCIBA'S FINANCIAL PROFILE

	Contribution		Deposits		Credit	
	(#)	($)	(#)	($)	(#)	($)
Remittance clients members of FEDECACES at ACACCIBA	856	$155,828	656	$2,079,130	164	$531,135
All ACACCIBA members	2492	$309,080	1469	$2,552,066	925	$3,222,822
Share	34.3%	50.4%	44.7%	81.5%	17.7%	16.5%

Source: FEDECACES, February 2008.

FEDECACES has also identified that its value added is stronger in rural El Salvador, perhaps because it has more presence and prominence than banks, though it often competes with some MFIs, hence the lower credit size of their portfolios among recipients. Data collected for a cooperative in a semi-rural community, ACACYPAC, in Chalatenango near San Salvador, shows different results. The result is that 10 percent of all members are remittance recipients (people who withdraw within FEDECACES system) and their participation in deposits is much lower than in the other cooperatives. Although ACACYPAC is doing half the volume of ACACCIBA, 'bancarization' is dramatically lower. The reasons for this difference stem in part to the presence of recipients relative to the population and their income, and the large presence of banks and institutions to choose from.

TABLE 15: ACACYPAC FINANCIAL PROFILE

	Contribution		Deposits		Credit	
	(#)	($)	(#)	($)	(#)	($)
Remittance recipients members of ACACYPAC	621	80,098.00	786	1,659,019.00	74	276,618.00
ACACYPAC	6270	811,373	9,109	10,369,747	2,542	10,531,204
Share	9.90%	9.87%	8.63%	16.00%	2.91%	2.63%

Source: FEDECACES, February 2008.

FEDECACES is perhaps the most successful credit and savings institution to be able to gradually and systematically expand its financial services to remittance recipients. The senior management also recognizes that it needs to improve growth in money transfers and expand strategies that deepen financial access.

One of the traits observed is that staff members operating in communities where remittances are more prevalent are able to recognize the value of remittance flows as a tool to provide other financial services. Cross-selling is still incipient despite the efforts of 'bancarization' partly because dedicated personnel who could offer such services are not yet in place. Moreover, there is agreement among management and the staff that performing direct financial education with clients is an essential step in accessing the remittance market. In particular, what the management observes is that the transition from remittance client to cooperative member can be lengthy if no strategic intervention to reach out to the community exists, and instead many may choose to never join. However, educational efforts have worked whenever staff reach out and work with those recipient clients.

D. AMUCSS: FINANCIAL INTERMEDIATION

In addition to remittances, AMUCCS continues working with financial products. AMUCSS is perhaps one of the first MFIs in Latin America and the Caribbean to clearly underscore the significance of financial intermediation for recipients. Its commitment to increase and mobilize savings in rural Mexico has been informed in part by the realities caused by the lack of financial access in those communities and by the observation of its clients' savings and investments associated to the inflow of remittances. Moreover, the Association has interpreted the mobilization of remittance savings according to a reality that reflects patterns in the local communities. This mobilization includes "programmed savings," which applies to those who intentionally program their budget by setting some money aside.

AMUCSS has also recognized the importance of financial literacy and is studying a way to introduce it to its clients during the remittance transaction process. In addition, it has developed and marketed several insurance products including body repatriation and a remittance insurance that covers the recipient's income for six to nine months in case of extreme emergencies. One of these insurance products is called "*Tu Tierra en Tus Manos*" ("Your land in your hands"), offered in cooperation with SEP-USA.

"*Tu Tierra en tus Manos*" (called "*Seguro Reciproco*" in Mexico) is a life insurance and body repatriation product for migrants and their family members. It is bought by the family member in Mexico and insures both the migrant and family member. The lowest coverage is 15,000 pesos and costs 375 pesos a year; the highest coverage is 100,000 pesos and costs 1,200 pesos annually. If the migrant or family member dies, the other receives the 15,000 pesos. If the migrant is living in the United States,

his/her body is repatriated for free and the insurance company (Zurich Vida) manages the paperwork and process to repatriate the body.

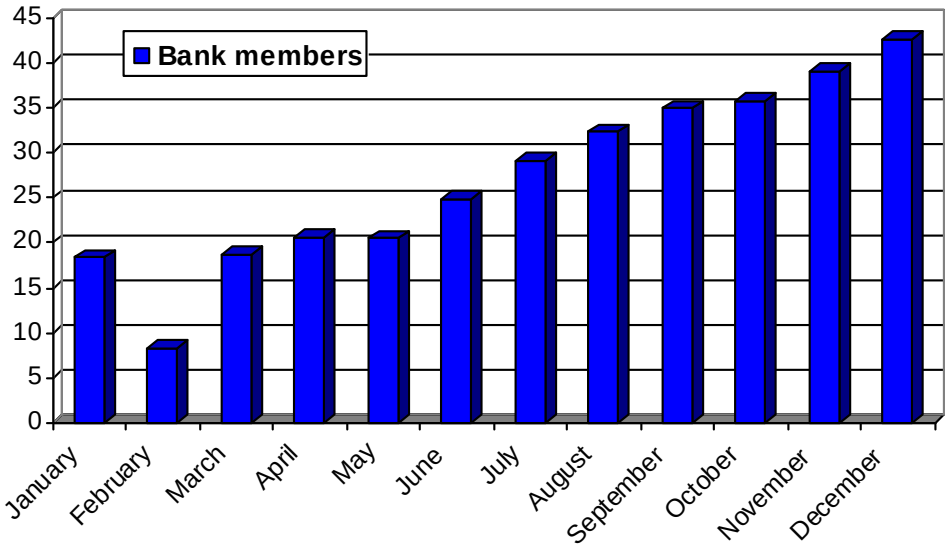
AMUCSS adapted its "*ahorro programado*" ("programmed savings") to target migrant savings toward education or a home. The migrant deposits money into his/her own account via a family member; the technology is not yet adapted to allow the migrant to deposit directly.

Furthermore, AMUCSS has loans for investment in "productive products" ("*productos productivos*"), which began in a network with high migration rates and are now being extended to six other networks with high migration rates. This product is indirectly targeted to migrants and their family members because remittances often times replace microcredit in these areas. With this product, people can acquire loans of 50,000 to 100,000 pesos, a higher amount that usually permitted because the investment is for a "productive product." These loans are only available to an existing formal business that pays taxes and has been in operation for at least one year.

AMUCSS is able to integrate these products by marketing to the target client base via field staff and tellers who pay remittances.

A result of its offer of financial services, savings in particular, its remittance clients have increasingly opened savings accounts. In December 2007, the number of remittance-recipient clients who opened savings accounts rose to 43 percent.

FIGURE 7: CONVERSION RATE OF REMITTANCE CLIENTS INTO AMUCSS MEMBERS



Source: AMUCSS, February 2008.

This percentage is perhaps among the highest of all financial institutions paying remittances and their success in getting an increasing number of people into the rural banks is associated to several factors. First, many remittance recipients were already members. Second, the relationship between the bank and the community is one built on trust that motivates people to put their savings in the local bank. Third, the staff working at the bank is particularly familiar with most of their clients, as well as with the conditions in the local economy. Each bank has less than 2,000 members on average, and a staff of four to five individuals— including credit officers—who manage the bank's operations. Such situation allows staff

members to introduce the savings account product not only when they are visiting credit clients, but also when a remittance client arrives to withdraw his/her money. Fourth, the percent increase in savings accounts is partly associated with the increase in remittance transactions as the volume of transfers opens the door to market other products.

E. FAMA: FINANCIAL INTERMEDIATION

Financiera FAMA adopted a concrete approach to financial intermediation for remittance recipients by providing home improvement loans. With technical assistance from ACCION International and funding from IADB and USAID, FAMA conducted market research to identify areas of attention to the remittance clients and found home improvement loans to be a feasible cross-sale product. It prepared the product and designed basic marketing material (brochures) to be distributed throughout the institution's branches. The market study evaluated the evolution of a migrant's financial goals with the concurrent process that occurs in the home country in relation to these goals, amount of years migrants send remittances, countries from which migrants send, types of investments remittance recipients make, and personal plans of recipients. The study also identified seven different types of remittances based on their nature, amount, frequency, use, motivation, and recipient. This helped FAMA identify its current target market and potential market. The institution developed an initial product and monitored its performance in three branches. Once the product proved to be viable in all stages, from availability to repayment, the institution expanded its availability on a nation-wide scale.

There were two products created for clients whose income is mainly made up of remittances: "*Mejora de vivienda de corto plazo*" (Short-term home improvements) and "*Hipoteca de largo plazo*" (Long-term mortgage loans, which are also home improvement loans). FAMA has sold 224 short term home improvement loans totaling 3 million cordobas ($160,000) and 19 mortgage loans totaling 982,000 cordobas ($52,000). As of the end of May 2008, the institution had dispersed a total of 375 home improvement loans. The maximum amount offered for a home improvement loan is $5,000 for a period of up to six months, but both loans are relatively small, an average of $700 and $2,700, respectively.

The remittance recipient is the principal debtor and is the person who pays the loan. The bank requires that the person submit copies of receipts showing he/she has been receiving remittances for a consecutive six-month period, or a letter from the money transfer company indicating how long the person has been receiving remittances and the average amount received each time. The bank executives consider these products to be underperforming because of the small number sold after three years in operation. Furthermore, clients have expressed a demand for other types of loans to pay for education or start a business. The existing products, however, are minimally promoted through the distribution of brochures and teller advertisements on the window. As the bank restructures, it would like to offer other products it believes would have more traction.

F. EL COMERCIO: FINANCIAL INTERMEDIATION

Providing financial services to the now 40,000 or more remittance clients in the country is a key objective of El Comercio. It has tried to develop a strategic approach with support from the IADB in order to deepen its 'bancarization' efforts. At the end of 2007, the institution had nearly 7,000 remittance recipient clients—17 percent of all remittance clients—who had become borrowers or savers of the institution. More importantly, the majority of these clients joined the bank in 2007 when the institutional engagement to recruit recipients as bank clients grew.

TABLE 16: FINANCIAL INTERMEDIATION AND SERVICE RATES AMONG REMITTANCE CLIENTS

	Financial intermediation efforts (# of clients)		
	From 06/2004 to 01/2008	From 01/2007	Growth from 01/2007
Clients applying for credit	3,606	2,985	83%
Clients depositing savings	3,076	2,280	74%
TOTAL	6,682	5,265	79%

Source: Financiera El Comercio, 2008.

At first glance, the percent growth in financial intermediation may seem relatively low compared to the experiences encountered in other places such as AMUCSS or FEDECACES. However, contrary to the other cases observed and to the average from all MFIs studied, El Comercio's growth in money transfers has been one of the most rapid of any MFI known in this field partly because it enjoyed Western Union flow of money transfers, but also because its locations through agents and subagents have rendered the most competitive player in the market. Such growth in itself poses the challenge, not of how to provide financial intermediation, but how to offer services at a speed that can catch up with the growing number of remittance clients. This is a strategic concern, particularly as the market becomes more competitive and remittance recipients may change from different payers as they expand in number. Capturing these clients is thus an urgent priority that requires aggressive positioning.

4. COMMON PATTERNS REVISITED

All the institutions reviewed in this report demonstrate that each one has potential, as well as challenges and achievements. These aspects, however, vary among each of the groups reviewed.[13] When looking at the performance of remittance transfers, the institutions have different key issues at stake, which include: type of partnership, market position, investment in marketing, and commitment to grow and improve its current position.

The statistical results presented in the first section show initial cues about the factors that enable successful performance in money transfers, as measured by the number of transfers. Three factors are: presence in rural areas, number of branches, and size of assets. These results would suggest that not so large or very small MFIs may be less likely or unlikely to pay remittances, or that MFIs with small asset size may not pay. However, these statistical indicators provide only a partial picture. Positioning the location of an institution at the geographic destination of remittances is a key factor. This can only be determined by conducting a systematic survey of remittances in a given country to determine how to match branch locations and operations with particular communities. For example, AMUCSS, El Comercio, and FEDECACES show that their geographic positioning gives them a competitive advantage: their operations in rural areas often coincide with locations where remittances are destined. This coincidence not only provides them with the incentive to provide financial services, but also with the ability to negotiate with MTOs and form partnerships that can be advantageous to both parties. The financial size of an institution is critically necessary, but is not sufficient enough to determine performance of money transfers. Small MFIs can provide money transfer services provided that possess good cash flow management and have sufficient liquidity to pay money on a regular basis.[14] A foundational rule of thumb resulting from observing MFIs is that institutions should have enough cash flow capacity to pay four transactions ($1,200 in total) per day at each branch. Financiera FAMA and AMUCSS are small MFIs with less than $30 million in assets, yet most of their branches can pay four transfers a day.

One of the issues observed as part of the success in performing money transfers is the type of partnership an institution holds. Previous research (Orozco and Hamilton 2005) shows that partnering with large MTOs or with multiple operators ensures an advantageous competitive position. This is the case observed in the review of all 166 MFIs and in the detailed case studies.

Another aspect of key relevance is the extent to which the institution is committed to expanding and strengthening its remittance market position. Some institutions such as Caja Popular Mexicana have adopted remittances as an added service of its overall product delivery to its members. Other institutions such as El Comercio, have introduced the service not only to its clients, but to the community at large and has sought to expand its presence as a way to effectively serve a value-added product attached to other

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[13] Bansefi's L@Red de la Gente is not included in this section due to lack of data collection obtained at the time of the study for a specific institution.

[14] These requisites assume that an MFI is allowed to pay. In many countries MFIs are not allowed to perform foreign currency transfers, see Orozco, 2007d.

financial services. There are no right or wrong choices in these cases, however, the impact on development will vary depending on the institutional resources invested to expand inclusion of clients into a wider range of financial services.

One resulting issue over this matter refers to commissions. To most MFIs the commission is a rationale of being in the remittance business but not the principal one. While no institution wants to lose money the rationale is to offer a new service and to aim at some form of cross selling. They try to get a commission that cover their operating costs and have a profit margin. Looking at the different institutions studied shows that commissions varied from $1 to $2 depending on the nature of the arrangement they made with an MTO or a payer authorized to negotiate for the MTO. The businesses whose remittance revenue helps their bottom line are those predominantly that reach a non-negligible volume that could be no less than 1,000 transfers averaging US$1,500 a month.[15]

TABLE 17: REMITTANCE TRANSFERS

	CPM	AMUCSS	FAMA	FEDECACES	El Comercio
Type of partnership	Direct agent of three MTOs (Vigo included)	Subagent of L@Red de la Gente, Intermex, negotiating directly with MTOs	Subagent for two MTOs (Vigo included)	Agent for 12 MTOs (Vigo included)	Main agent for Western Union
Transaction *cost for the client	Average	Average	Average	Average	Above average
Commission	$2	$1.5	$1.25	$2.0	Over $2.0
Market Position in the payout network	Very low positioning	Competitive where it operates	Very Low	Relatively competitive	Very competitive
Marketing	Poor or limited	Strong	Poor or limited	Strong	Strong
Institutional position and commitment	Modest	Strong	Modest but shifting	Strong	Strong

* Cost: if cost to consumer is below or average market costs, they benefit the consumer.

Similarly, we find that the ability of financial institutions to leverage remittances by expanding services to recipients depends on varying levels of engagement and commitment. First, the trustworthiness that an institution enjoys in the community is a key factor. People are more inclined to establish a financial relationship with an institution if they are familiar with their reputation. A second aspect is the familiarity of the institution with its clients. All MFIs reviewed here are relatively familiar with the clients withdrawing remittances and in some cases know the clients very well. Such element is a key component to developing a relationship with a client. However, the awareness among the staff, tellers and loan officers in particular, about the value of remittances as a key component of finance and development is a critically important issue. Bank staff is the link between the supply and demand of financial services and

[15] Most operating costs in a remittance transfer are fixed and part of a typical operation, with the exception a dedicated telecommunication line and staff to oversee the operation. Depending on what is needed the variable costs may require a start up investment.

often, can strengthen an institution. In most cases studied, the staff is not fully trained and aware of the financial significance of remittances. While staff members understand the role of the flows in the overall context of migration, their understanding is more sociological than financial. This factor poses a challenge to the ability of the financial institutions to work on money transfers and financial intermediation. Moreover, the staff with the closest relationship with its clients has limited interaction time and limited knowledge about remittances.

Another issue directly associated to the point raised above is that the institutions lack any methodological approach to systematize the information they process from their typical microfinance clients and their remittance clients. Therefore, they don't know who among their current microfinance clients receive remittances and who among those receiving remittances has a saving or credit with them. FEDECACES is the only exception with a method to measure the 'conversion' ratio from remittance to bank (or member) client. While most institutions realize the importance of pushing their strategy by training their staff further and demonstrating greater commitment to providing financial services to recipients, the commitment ranges from the rhetorical to a minor allocation of resources. At a more structural level, most MFIs struggle to link the impact of globalization and migration to their communities. Internalizing their understanding of migration and development to their activities significantly contributes to leveraging remittances for development. Systematizing data in that regard is essential to develop information profiles of their clients and help with marketing and product design.

Critically important to the above is the allocation of material resources to areas such as marketing and product design. Institutions such as AMUCSS, FAMA, and FEDECACES have invested resources in specific products including savings and insurance. The body repatriation product introduced by AMUCSS has been a successful instrument in maintaining people connected to the bank. Similarly, FAMA's home improvement loan is another case of investment in product design. Marketing is essential and not only includes the production of advertisement material, but also outreach and education to clients coming to the institution. The investment needed for these activities is often not allocated and sometimes is done on an ad hoc basis with little analysis of the financial preferences of customers. One example is the use of raffles to keep people motivated with the institution, which is often done as a competition strategy. Such approaches often miss the value-added a financial institution offers vis-à-vis retail businesses and is only learned later as the institution matures in the segment and market it is working in.

TABLE 18: FINANCIAL INTERMEDIATION

	CPM	AMUCSS	FAMA	FEDECACES	El Comercio
Trustworthiness of institution	Strong	Strong	Widely recognized	Strong	Strong
Familiarity with clients	Moderate	Strong	Moderate to Strong	Very Strong	Strong
Staff awareness and/or training of the role of remittances in the financial asset chain	Unclear	Relatively strong	Limited or weak	Relatively strong	In progress
Institutional commitment	Unclear	Strong	Committed	Strong	Strong
Financial product design or adaptation for remittance recipients	None	Several products	One product	Active	In progress
Financial product marketing	Unknown	Comprehensive	Limited	Active	Limited

5. STEPS FORWARD ON A LONG ROAD AHEAD

The experience of MFIs in the remittance context suggests that there is significant room for improvement. The fact that one-third of the surveyed MFIs are paying remittances is critically important and telling, particularly because it is a new and emerging phenomenon. The novelty of the activity can benefit from observations based on lessons learned and can help accelerate a process of financial service penetration and intermediation.

Here we advance seven observations based both on the issues identified during this work and learned from experiences in other contexts. These ideas applies to tools to leveraging flows through financial access. These issues can strengthen the capacity of these microfinance institutions and address both sides of supply and demand, issues that are intrinsic to the development of an institution and its approach to remittances and financial inclusion.

A. DATA STRUCTURING, SYSTEMATIZATION, AND STAFF TRAINING

As discussed previously, there is little data systematization and training of the staff on how to identify strategies to cross sale, become more familiar with the clients, or introduce new products. One component that ensures a clear understanding of the potential to maximize the financial worth of money transfers is systematic data collection linked to the financial systems of the institution. Such systematization includes the structuring of an interface that links the payment platform to the financial accounting software, and the design of two separate data forms containing relevant information about remittance recipients' financial profiles and existing MFI clients' relationships with migrants and remittances.

The processing of such data is the key element that explains the position of the MFI vis-à-vis remittances in the local community. However, such structuring and systematization has to be accompanied by an appropriate analysis of the data and followed by staff training, to both executives and floor staff, on the linkage of these flows to the institutions potential to engage remittance recipients on finances. Training includes providing information about the target population in order to outreach to potential clients and market products with goals and standards on 'bancarization' ratios among branches. Financial institutions need to pay greater attention to methodologies that obtain and collect data on these aspects and prepare projections and objectives. International cooperation can be effective in providing technical assistance to support such an approach.

The main justification as to why this step is essential relates to the fact that financial institutions lack a systematic and analytical understanding of the remittance market in the local communities where its branches operate. Moreover, they lack the interface that can link remittance transfer data with financial system data. Without such interface, institutions are unprepared to know which clients are 'bancarized' or not, and which clients could be targeted for new financial services or for client-service consolidation. All financial institutions need this kind of institutional development within their systems and the costs of carrying such tasks are not high.

B. INCREASED COMPETITIVE CAPACITY

Another aspect that is evident among all financial institutions is the need to improve their competitive capacity. Some institutions, such as CPM, are underperforming in relationship to their capacity and the volume of transfers. Others (El Comercio) are unable to grow beyond their contractual relationship with Western Union due to exclusivity agreements held with the MTO. Financiera FAMA is constrained by its role as a subagent and FEDECACES is not growing with its traditional partners. Each one needs to expand its partnerships, negotiate new arrangements, commissions, and forecast its competitive projections, branch by branch.

The money transfer industry is currently undergoing important transformations. These are related to MTO growth strategies adjusting to a changing market where consolidation is occurring, end users are shifting demands, and regulatory environments are tightening international foreign currency payments. These companies are expanding their traditional areas of operations and in doing so, are seeking new partners in the destination countries. This is where MFIs have a major opportunity to emerge as major payers in this climate of expansive competition. Each institution reviewed has a unique justification for growing, and forging alliances with several MTOs (traditional cash-to cash-companies) or emerging technology intensive companies (large and small) as a key way to consolidate its position and become a formidable competitor. All of these conditions will also help them improve their negotiations on fees or commissions.

MFIs and cooperatives are also closing the gap between supply and demand for financial services because they are located closer to rural and underserved markets than banks and because their mandate is more directed to financial outreach. International cooperation in this area can include support in establishing links between MFIs and MTOs, learning about the markets and those with whom to partner with, as well as developing bargaining skills on international payments.

C. FINANCIAL LITERACY

Published works on financial literacy argue that this education has yielded important results in promoting financial access, though little of it has been promoted to educate senders or recipients in order to expand their knowledge about financial instruments. Interviews with remittance recipients in the four countries where case studies took place show that MFIs have little understanding of financial concepts and the role of financial institutions in improving personal finances. A remittance recipient preferred to save her money by buying pigs or cows and selling them in case of emergencies, a feature of risk mitigation. However, the cost of the investment is higher than saving the money: the value of the cow or pig decreases over time as the animal ages or emergencies do not arise, whereas the interest on a saving account yield higher return.

A recent pilot program on financial literacy performed during a six month period in Moldova with 7,000 remittance recipient clients showed that 80 percent of those receiving financial education expressed an interest in having financial services. Moreover, the results of an intake evaluation form showed a strong correlation between owning a savings account and having prior knowledge of financial issues (Orozco 2008ILO).

D. BENCHMARKS AND GOALS

Commitment towards integrating migrants and families into the financial system must be accompanied by specific goals and standards. Thus, establishing targeted goals to access a group over a given time period and improve recipients' understanding of financial preferences can hasten migrant financial inclusion.

Players in the financial intermediation field should consider assisting banks to increase financial outreach as well as to establish standards, such as an annual target number of people to be recruited at the bank, microfinance or credit union. Legislators, policy makers and advocacy groups must also play a role in improving migrants' and their families' financial condition.

Because the current issue of banking the unbanked is limited to a small number of institutions, and is not even a policy debate, many more participants must engage in a dialogue in order to effectively set agendas, propose goals, and exchange important information. Immigrants and families themselves must participate and convey the scope of their financial knowledge as well as their financial preferences with the goal of devising schemes to address current limitations.

E. POST EXPANSION: 'BANCARIZING' MERCHANTS

One key competitive strategy for financial institutions that also has development implications is the expansion of payment networks through point of sale terminals (POSTs) established among small commercial entities that are clients of MFIs. "Bancarizing" merchants is key to bringing people into financial institutions while adding value to their money through electronic payment instruments (card- or mobile-based). Donor cooperation can target the distribution of POSTs to several participating merchants (clients of banks paying remittances) and market debit cards to recipients of remittances. What makes this approach a success is the distribution of these devices to merchants who regularly cater their business to recipients. Therefore, an effective market research on these retailers is required as a start, followed by integrating them into an electronic payment network.

F. FINANCIAL PRODUCT DESIGN AND MARKETING

Implementing strategies on how to design and market new or existing financial products to remittance clients is one important priority. This priority includes learning from other institutions what strategies have worked, but also doing client fieldwork to learn which their financial preferences are, or where their financial needs lie. There are several products that have been developed that have had a successful entry into the 'remittance client' market. Among those are the designs of products strictly tailored to remittance recipients, these include savings products, home improvement loans, as well as insurance products such as the remittance insurance. Other examples that are increasingly emerging but need refining are remittance backed financial products. Many MFIs are taking remittance reception as part of a demonstrated history of earnings, which is used to assess and approve credits. However, most institutions lack the proper design of an assessment method to estimate risk or opportunity costs. Designing a remittance backed tool for credit or cash advances could bring benefits to recipients and the institutions.

G. DONOR ROLE OR INTERNATIONAL COOPERATION

Methodologies to enhance immigrants' and their families' financial access are critical for success. Financial institutions need to work with donors, governments, and non-profit organizations in order to identify immigrants' financial and economic preferences and to design and market financial products that

meet immigrants' needs. The experience of international cooperation providing technical assistance to leverage remittances through new product development (remittance insurance, medical insurance, body repatriation, savings plans, and small dollar loans, among others) attached to marketing tools that include financial outreach have proven successful. This cooperation can accelerate and strengthen MFIs to enter into the remittance market or consolidate their position, while enabling them to expand their financial services to migrants and their families. One effective method to accomplish this task consists of working with networks of MFIs and credit unions to coordinate the assistance directly with beneficiary institutions.

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APPENDIX I: MFI NETWORKS

L@RED DE LA GENTE

L@Red de la Gente is a payment network created in 2003 by Mexico's quasigovernmental Financial Services Bank (BANSEFI) in partnership with other savings bank, and consists of 186 members with 1,623 points of service. It established MTO partnerships to perform international money transfers to families of migrants. (L@Red de la Gente 2007)

Its members include deposit-taking popular banks, credit unions, regulated microfinance institutions, and microfinance institutions on their way to being regulated by the National Banking and Valuation Commission. Seventeen members of this network were interviewed and each have, on average, 9 branches, 3 of which are in rural areas, and a lending portfolio of nearly $11 million. A median institution has fewer branches (5 per institution) and a smaller lending portfolio of $4.4 million.

INAFI INTERNATIONAL

Founded in 1995, the International Network of Alternative Financial Instructions (INAFI International) is a global network of development organizations that seeks to promote financial access to the poor. INAFI works with 310 member institutions that provide financial services to over 25 million people in Asia, Africa and Latin America. (INAFI 2008)

In Latin America, INAFI has 27 members, some of which are networks, yielding a total of more than 130 microfinance institutions. With a total of 2,052 offices, INAFI members serve two million clients with a combined loan portfolio of over $1.4 billion. On average, INAFI Latin America institutions have 14 branches, 13 of which are in rural areas, and a portfolio of $116 million. The number of branches is similar for a median institution, though the loan portfolio is $7 million.

FOROLACFR

The Latin American and Caribbean Forum for Rural Finance (FOROLACFR) is a microfinance network comprised of 16 member networks in 13 countries that focus on working with rural and peri-urban populations. It includes 370 financial institutions who serve over 4.8 million clients with a combined portfolio of over $4.6 billion.

The average financial institution in the FOROLACFR network operates a portfolio of over $23.3 million. On average, members operate 16 branches, where six are located in rural areas. Overall, the institutions interviewed have lending portfolios below averages compared to other MFIs in the region.[16]

[16] See for example in comparison the MFIs analyzed by Navajas and Tejerina, 2006.

APPENDIX II: INSTITUTIONAL PROFILE OF MFIS STUDIED

CAJA POPULAR MEXICANA

Caja Popular Mexicana (CPM) is a nationwide credit union in Mexico. Its mission is to contribute to the improvement of its clients' lives through financial education on savings and credit through the provision of quality financial products and services. It seeks to be the best credit union recognized for its security, trust, social commitment, and leadership in the financial sector.

CPM operates in 215 municipalities in 22 states. Forty percent of its branches are in rural or suburban areas where people often do not have access to other financial services. From its inception in 1996, the credit union has grown from 257 branches to 356 branches. This growth is partly associated to a merger among various credit unions. Consequently, its membership has grown from nearly 212,000 clients to over 1.2 million clients – an average annual growth rate of 18 percent.

CPM's assets and number of loans have grown an average of 30 percent each year: in 2007 it had $1.616 billion in total assets, $1.357 billion in deposits, and a $1.164 billion loan portfolio. (CPM 2007)

The German Cooperative and Raiffeisen Confederation (DGRV), reported that Caja Popular Mexicana was the largest credit union in Latin America in December of 2006. CPM had $1.312 billion in assets and controlled 20.12 percent of the credit union market in Mexico, but only 0.55 percent of the assets in the national financial system. In Latin America and the Caribbean, it held 4.43 percent of the credit union market. (DGRV 2007) According to the credit union's own reporting at the end of September 2007, CPM ranked 15th in total assets among all 39 banks in Mexico.

AMUCCS

AMUCCS is an association composed of 28 rural banks and 22,000 clients holding less than $7 million in savings, and $5 million in loans. It has been in operation for 15 years in rural finances with a mandate to create and support financial intermediaries in indigenous rural areas of Mexico, where roughly 40 percent of remittances from abroad are received. AMUCCS is the founder of a network of rural credit unions, insurance funds, cooperatives, as well as savings banks. For over 10 years, AMUCCS has been recognized for its creation of an innovative model of microbanks in rural regions throughout the country. These microbanks offer services that include savings, credit, utility payments, life insurance and change of government checks. Envios Confianza, a network of rural financial institutions, has AMUCCS and its system of microbanks as its nucleus. This network encompasses over 50 different institutions throughout México.

FEDECACES

The Federation of Salvadoran Savings and Credit Cooperatives (FEDECACES) was founded on June 11, 1966. Its mission is to provide support to its 32 cooperative affiliates in order to be efficient and solvent, and to integrate into the cooperative system.

It is a second level cooperative entity with 55 points of access in 14 regions and 95,000 clients nationwide. (FEDECACES 2008) Membership increased by over 14 percent in 2007 year-on-year; as of November 2007, FEDECACES has 106,697 clients – 46,957 males and 53,528 females.

FEDECACES has a combined credit portfolio of $122,534,817 distributed to 118,000 clients. Sixty percent of these credits are for consumption, 14 percent are for commerce, and 10 percent are for housing. (FEDECACES 2007)

FINANCIERA FAMA

Financiera FAMA is one of several MFIs that started in post-civil war Nicaragua. It initiated operations in 1991 with private entrepreneurs and the support of ACCION International. The operation started as a non-profit organization under the name Fundación para el Apoyo a la Microempresa (FAMA). In 2002 the Inter-American Development Bank awarded FAMA with the award on "Excellence in Micro-finance for an unregulated institution."

In 2005, FAMA updated its platform, remodeled its physical structures, and trained its personnel in an effort to become a regulated entity under the Superintendencia de Bancos y de Otras Instituciones Financieras (SIBOIF) in 2006. The institution became Financiera FAMA in 2007 and currently operates in urban and rural areas throughout the country. It is made up of 26 branches, including 9 branches in Managua, and has 409 employees. FAMA serves 42,918 active clients who are microenterprises, small and medium enterprises, salary workers, and remittance recipients. It has a $31.37 million loan portfolio and $33.85 million in total assets. [17] (FAMA 2008)

FINANCIERA EL COMERCIO

El Comercio is an MFI with 31 years of experience in Paraguay and 21 years in the rural and agricultural sectors. Its mission is to operate with innovation and efficiency to help lower-income people and businesses access more and better financial services, and thus reduce poverty.

El Comercio offers loans for micro, small, and medium enterprises; the rural and agricultural sector; personal expenditures; and home improvement, among others. Other services and products include credit and debit cards, certificates of deposit, transfers, and remittance services.

The Financiera has 23 branches and 15 service centers, concentrated in the southern and eastern part of the country. It has 52,762 clients total: 34 percent in the urban areas and 66 percent in the rural areas. Microentrepreneurs make up 23,719 of their clients and the average loan amount is $1,318. The average loan for small and medium entrepreneurs is $18,500. Moreover, 12,058 of its total clients have savings.

El Comercio's lending portfolio is $37,170,860, with more than half (60 percent) made up of microenterprise loans and 11 percent made up of personal loans. In 2007, El Comercio reported that its return on equity (ROE) was 49 percent .

[17] Figures to Dec 31, 2007.