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April 7, 2011

Migrant-Backed Loans: Remittances in Guatemala

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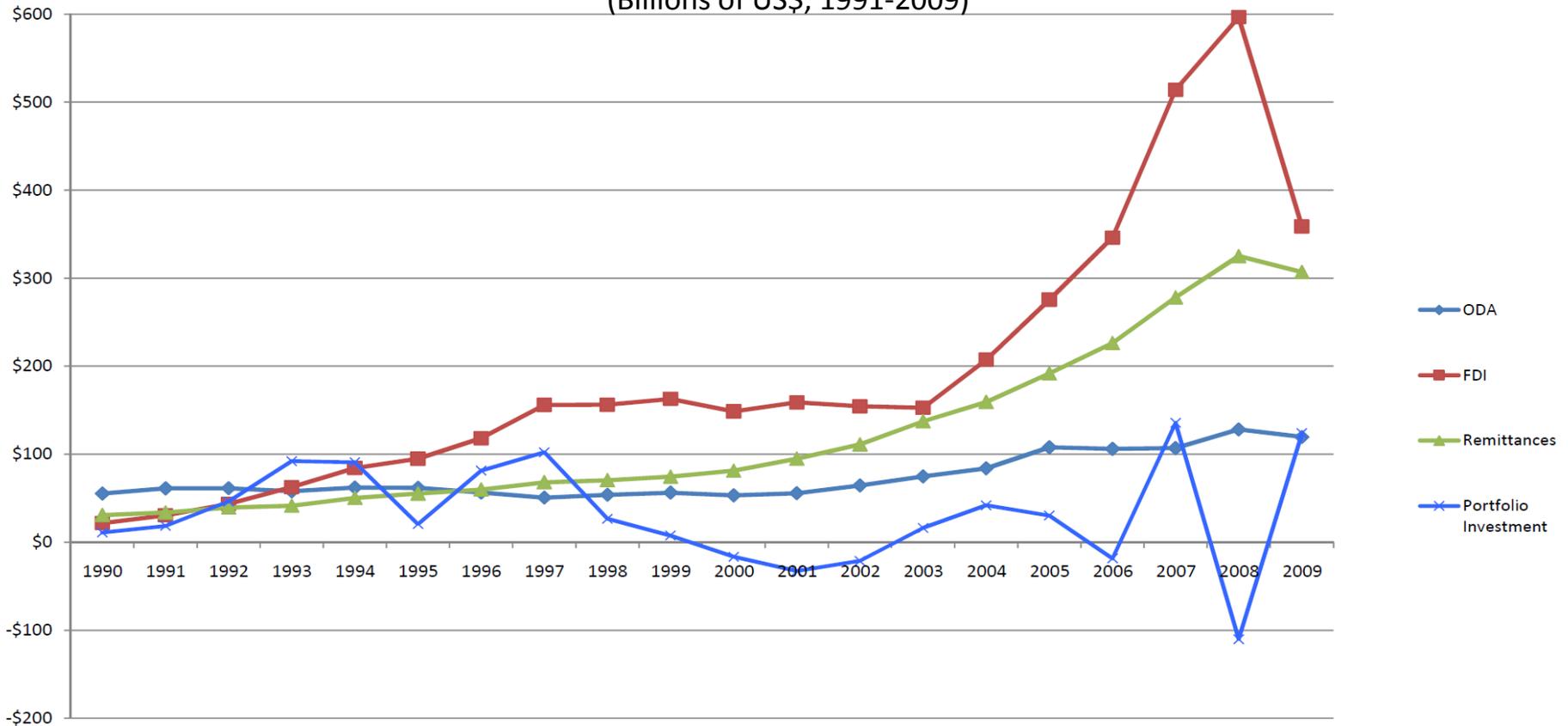
William Davidson Institute

AT THE UNIVERSITY OF MICHIGAN

Migrant Backed Loans: Remittances in Guatemala

Remittances vs. other international flows

(Billions of US\$, 1991-2009)



Source: Data for all flows except ODA are from World Development Indicators 2010. Data on ODA up to 2008 are also from WDI 2010, and for 2009 are from OECD. Data are in billions of current US\$, in total across developing countries (low & middle income as classified by World Bank). Variables displayed are: "Net official development assistance and official aid received (current US\$)", "Foreign direct investment, net inflows (BoP, current US\$)", "Workers' remittances and compensation of employees, received (current US\$)", and "Portfolio investment, excluding LCFAR (BoP, current US\$)".



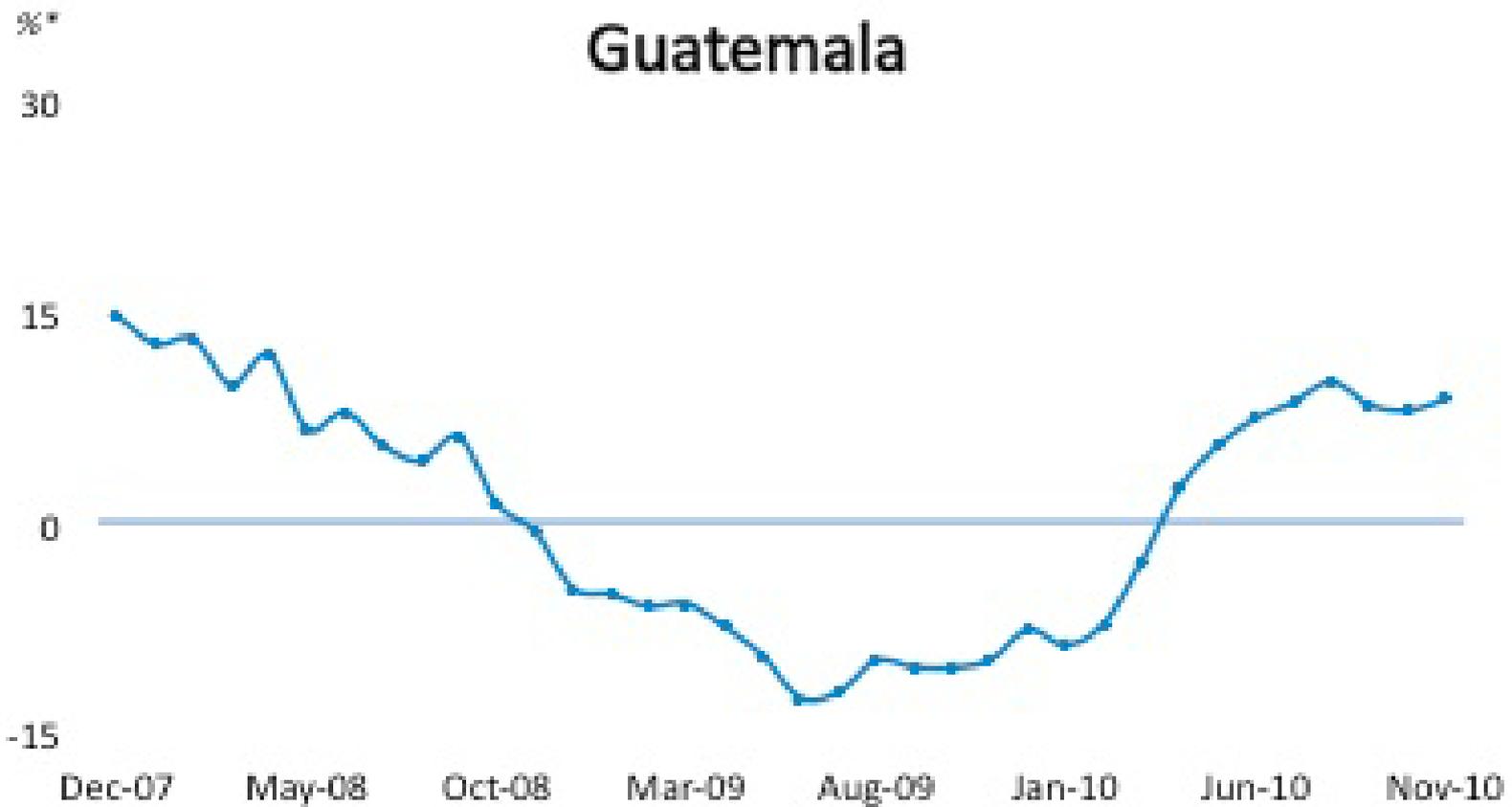
Quarterly Remittances By Country

Country	Month	Remittances inflows (US\$, mn)	Year-on-year growth(%)	Year-to-date growth(%)
Argentina	Q1-2010	153	3.5	3.5
Armenia	Q1-2010	157	16.6	16.6
Bosnia and Herzegovina	Q1-2010	452	-4.6	-4.6
Brazil	Q1-2010	1,008	-11.1	-11.1
Bulgaria	Q1-2010	319	-5.1	-5.1
Colombia	Q1-2010	908	-17.6	-17.6
Georgia	Q1-2010	179	30.6	30.6
Guatemala	Q1-2010	912	-3.2	-3.2
Indonesia	Q1-2010	1,695	5.4	5.4
Kazakhstan	Q1-2010	19	-27.0	-27.0
Moldova	Q1-2010	233	5.8	5.8
Panama	Q1-2010	51	26.7	26.7
Philippines	Q1-2010	4,954	7.2	7.2
Romania	Q2-2010	972	-7.5	-22.7
Russian Federation	Q1-2010	1,267	2.0	2.0
Serbia	Q1-2010	636	-5.5	-5.5
South Africa	Q1-2010	265	46.8	46.8
Thailand	Q1-2010	447	14.2	14.2
Turkey	Q1-2010	194	-8.9	-8.9
Uganda	Q2-2010	175	19.1	18.8
Ukraine	Q1-2010	1,175	1.7	1.7
Venezuela, RB	Q1-2010	29	-14.7	-14.7

Monthly Remittances By Country

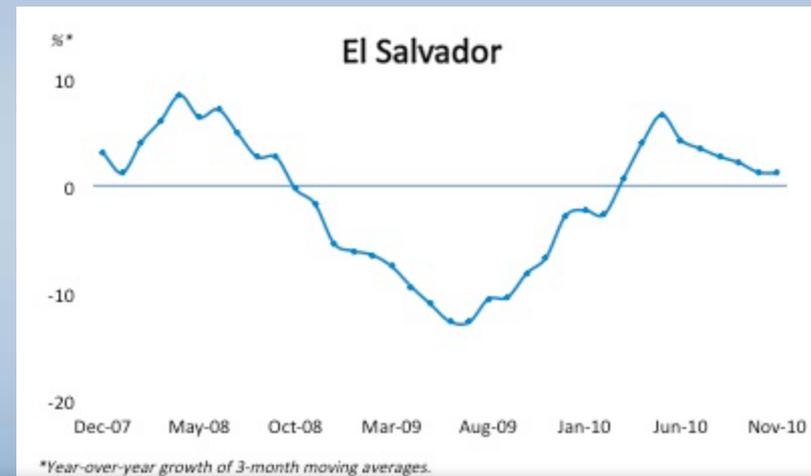
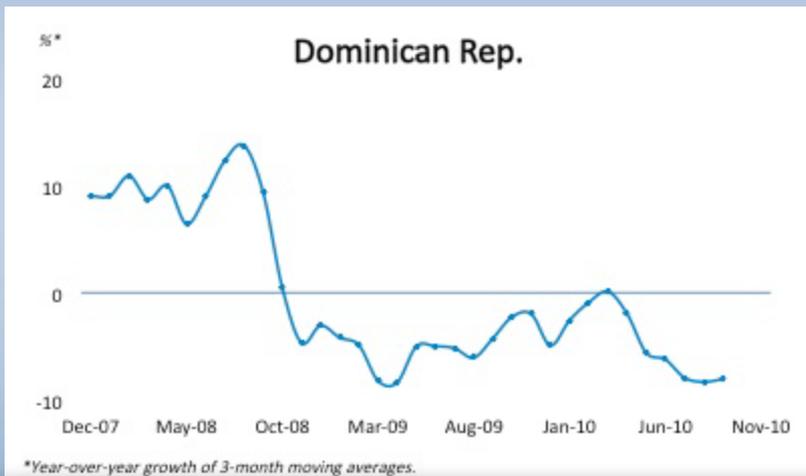
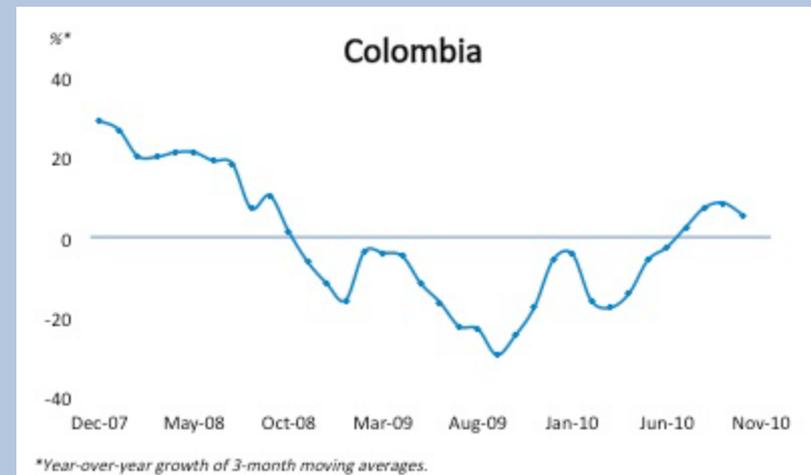
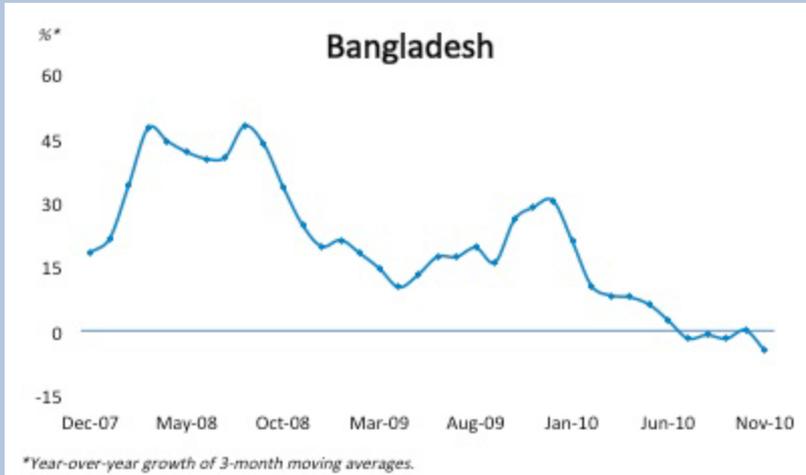
Country	Month	Remittances inflows (US\$, mn)	Year-on-year growth(%)	Year-to-date growth(%)
Bangladesh	Nov-10	946	-10.0	1.4
Colombia	Oct-10	350	0.7	-4.1
Dominican Rep.	Sep-10	232	-6.7	-4.8
El Salvador	Nov-10	273	4.0	2.3
Guatemala	Nov-10	331	15.1	5.3
Honduras	Oct-10	212	5.4	4.0
Jamaica	Oct-10	156	1.0	4.7
Mexico	Oct-10	1,727	2.1	-1.3
Morocco	Oct-10	533	-2.5	3.5
Nepal	Oct-10	304	35.7	19.3
Nicaragua	Oct-10	70	9.2	5.2
Pakistan	Nov-10	927	24.8	10.0
Philippines	Oct-10	1,670	9.1	7.9

Remittances Trend in Guatemala

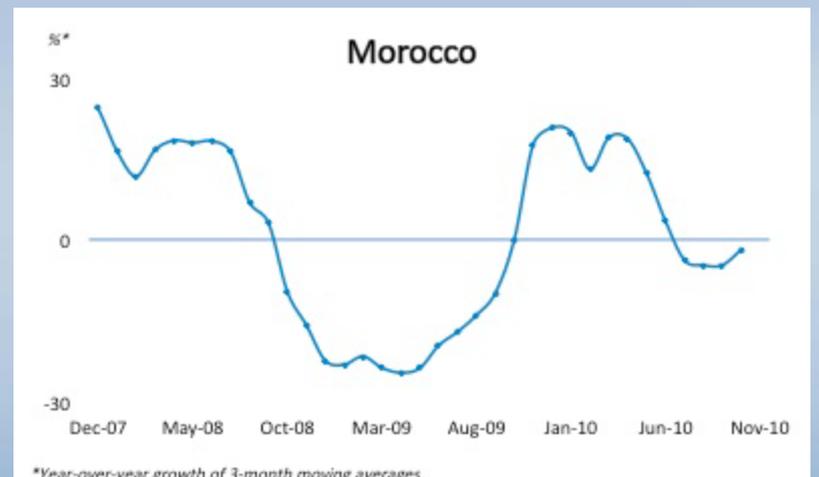
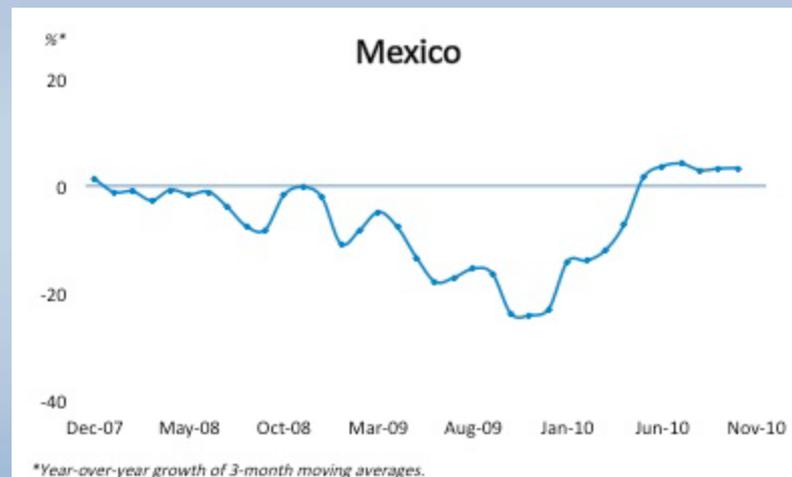
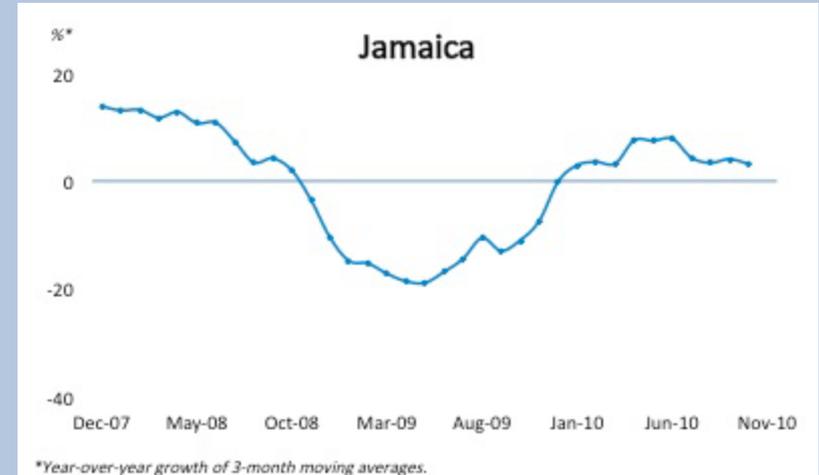
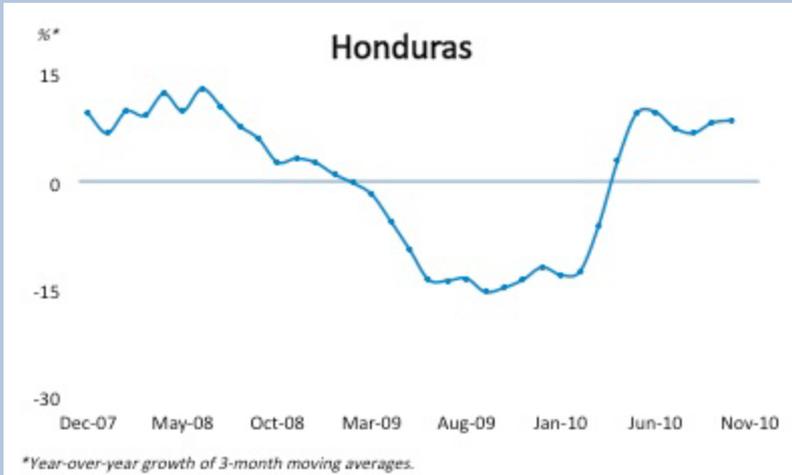


*Year-over-year growth of 3-month moving averages.

Recent Trends by Country

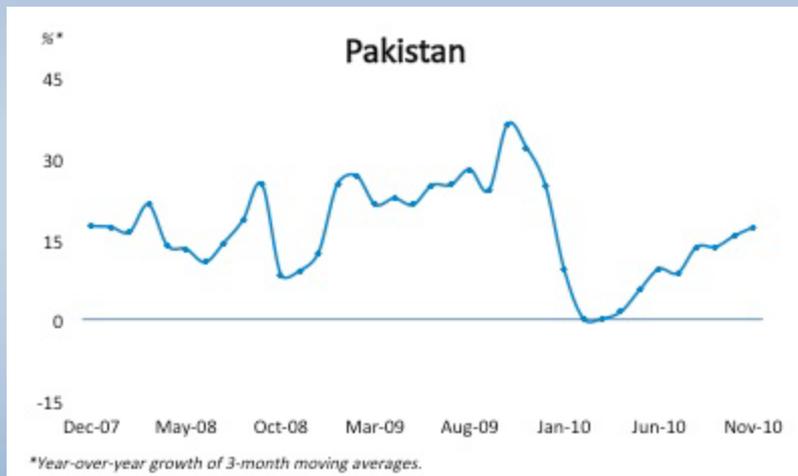
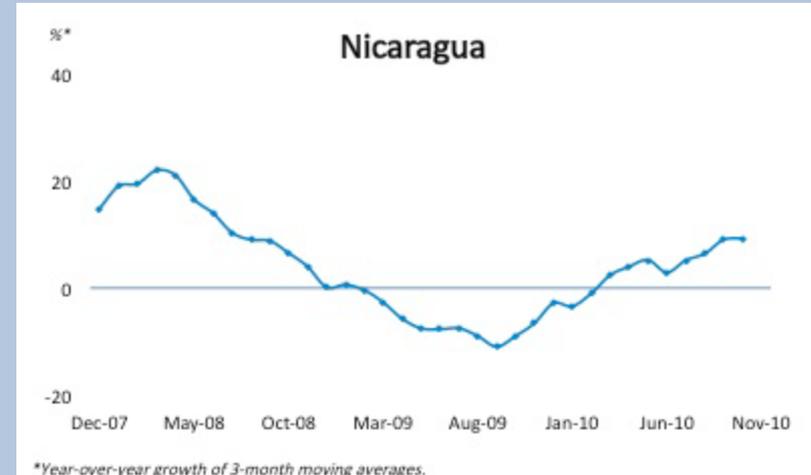
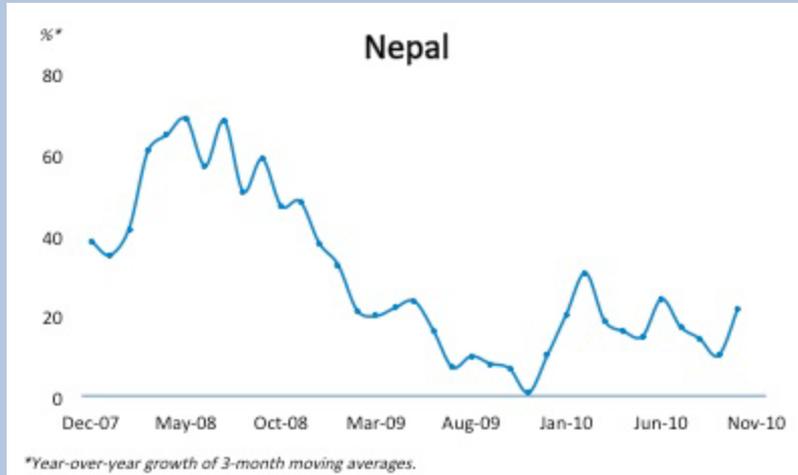


Recent Trends by Country





Recent Trends by Country



Migration, remittances and development

- Migration and remittances bring substantial benefits for migrant-source and remittance-recipient households
 - Higher consumption, lower poverty
 - Increased investments in human capital, small enterprises
 - Help cope with economic crisis (remittances serving as insurance)

Migrant Backed Loans

- Allow migrants overseas to guarantee loans for individuals back home
 - Can encourage migrants to provide funds for lending, if migrants perceive higher likelihood of repayment
- Partners for pilot project with Guatemalan migrants
 - In Guatemala: association of credit unions, ACREDICOM
 - Issue partially-guaranteed loans
 - In US: Microfinance International Corp. (MFIC)
 - Marketing to migrants, processing of applications
- USAID funded pilot test: design and offer of initial loans



Migrant Backed Loans

- Loans are extended to a borrower designated by the U.S.-based migrant.
- The deposit made by the migrant in the special loan account is frozen.
- The borrower then issued a loan greater than the amount in the special loan account.
- Once the loan is repaid, the special loan account funds are to be unfrozen.
- If the loan is not paid back in full, unpaid amounts will be deducted from the special loan account before being unfrozen.

Migrants on Control Over Remittance Uses

“I have many uncles and they get drunk, so I just send money when needed, or I send to someone like my sister who I trust.”

Male, 34 years old, 8 months in the U.S., works as a roofer

“The brother of my boss sent around \$50,000 to his mother over the years. When he thought he had enough money to build a house, he asked his mom for the money. She said she didn't have it. She had lent it to an uncle. When he asked for the money back, the uncle threatened to kill him if he came back to El Salvador for the money.”

Male, 30 years old, 1 year in the U.S., works as a carpenter

Market Research

- Methods:
 - Focus Group Discussions with Guatemalan Migrants (Potential Loan Guarantors)
 - Focus Group Discussions with Guatemalan Small Enterprise Owners (Potential Loan Guarantors)
 - Survey of Migrants of MFIC customers in Washington DC
 - Surveys of ACREDICOM customers in Tejutla Guatemala
- Results:
 - For migrants attractive aspect of MBL is that it makes repayment much more likely.
 - Only attractive if loan amount exceeds amount deposited as guarantee.
 - Migrants would prefer to earn interest on deposited funds
 - In Guatemala, focus group participants saw bank involvement as favorable and would make them more comfortable asking a relative for a loan.
 - Potential borrowers agreed low interest rate was most important characteristic of loan product.
 - Perceived as easier to obtain than other types of loans
 - 96.5% of surveyed migrants had sent remittances within last 12 months.
 - 71.9% of migrants surveyed said they would be interested in MBL product
 - Of potential borrowers surveyed, 72% had not finished primary school
 - 33% reported having their own business
 - 88% reported having received remittances from US but only 11% reported receiving help for their business from someone in the US.

Guatemala MBL Characteristics

Loan Amount	Q1,000 to Q10,000 (US\$125 to \$1,250)
Interest Rate	19%*
Fee for administrative charges	2%
Tenor	6-24 months
Collateral	Deposit/account balance with minimum of 50% of the amount initially disbursed
Activities	Agriculture and livestock, trade, housing, other

*As a reference, ACREDICOM's standard rate for group-lending micro-credit is 22%.



Envisioned Application Process

- The credit application process had the following requirements for applicants:
 - Be registered as a cooperative partner (credit union member)
 - Provide all necessary information to complete the application and sign it
 - Be at least 18 years of age
 - Provide all documentation requested
 - A copy of the *cédula de vecindad* or *DPI* (national forms of ID).
 - A copy of a utility bill or a proof of residence
 - Provide written permission for the use of savings as collateral
 - After information is verified and credit approved, sign the *Contrato de Mutuo* (Mutual Contract)

Marketing Efforts



- Target ACREDICOM Customers in San Marcos (6 branches)
- US Based Migrant Would Open Account with ACREDICOM to Guarantee Loan
- *Intendencia de Verificación Especial (IVE)* did not allow migrant account-opening at ACREDICOM from within the US
- Marketers contacted 150 individuals, 138 of whom were thought to be likely to have a relative in the US with an ACREDICOM account.

Customer Profile

Romelia Pablo Coronado



Relationship with migrant: Sister

Languages: Mam and Spanish

Credit amount: Q. 9,900.00

Term of credit: 12 months

She expects the loan will help her earn more money as she will be able to have her own small family business raising animals – something her children can learn



Project Outcomes

- New financial product developed
 - Product is targeted at borrowers with little credit history
 - Designed to leverage remittances for small enterprise development
 - Initial pilot loans issued
 - Loans given to poor customers who would otherwise not be able to borrow
 - Allowed borrowers to invest their businesses and develop a sustainable livelihood.
 - MFIC-ACREDICOM Cooperation established
 - Proof of concept
 - Potential for continued offering of migrant backed loans
-



World Council of Credit Unions

10 Years of Remittance Distribution

*Lessons from the Guatemalan Credit
Union Experience*

USAID After Hours Series

April 7, 2011

Saul Wolf

Remittances Manager

WOCU

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WOCCU and IRnet[®]

Since 2001, WOCCU has sponsored an international remittances network, IRnet[®], for credit unions and MFI's, principally focused in Latin America. Collectively, more than 1,000 IRnet[®] locations in 9 countries have transferred over \$3 billion in remittances.



On-the-Ground in Guatemala

- Remittance Market: \$4.13 billion USD in 2010
- Credit unions began distributing remittances in 2001 through IRnet's local partner FENACOAC
- Today, 27 affiliated credit unions with nearly 200 points of service pay roughly 25,000 remittances/month
- On-going effort to increase membership of unbanked remittance recipients.





Looking back

Integrating Remittance Recipients into the Financial Sector Pilot

- Funded by USAID FIELD Support (2006-08)
- Partners: WOCCU, FENACOAC and the top five payer credit unions



Credit unions are located in rural and semi-urban areas where emigration to the U.S. is very high.



Barriers to Financial Integration

(Lessons from Market Research)

- Savings by recipients is limited and can be a hard sell
- Remittance senders are key decision makers in the remittance chain
- Lack of knowledge by recipients of credit union products and services
- Limited information for targeted marketing, cross-selling and evaluating loans existed



Product Development

FOCUS on Savings

Savings with Direct Deposit Remittance-Linked Product

Sales Techniques to respond to common savings objections:

- “I don’t have enough money to save.”
- “I already know how I am going to spend the money.”
- “How am I going to be sure that the money is deposited into my account
- “I already know how I am going to spend the money.”





Increasing Data Collection

- MIS web-based remittances platform upgraded to capture more information about recipients and senders
- Report templates to analyze additional data captured by branch, credit union and system nationwide
- Useful for evaluating loans for recipients who don't have a permanent job or a steady source of income apart from remittances

Marketing Credit Union Benefits

- Developing a nationwide remittances brand and slogan *Cuéntales qué...* (“Tell them...”)
- Building awareness at the community level in Guatemala
- Targeting remittance senders in the U.S.

A tus familiares en Estados Unidos

¡cuéntales qué!

Al ser asociado de la Cooperativa y tener una cuenta de ahorro, puedes recibir tus **remesas** de forma segura

Al depositar parte de tus remesas puedes obtener:

- Intereses atractivos
- Seguro de vida
- Préstamos
- Un ahorrito en caso de emergencias

y **muchos beneficios más**

**SISTEMA COOPERATIVO
FEDERADO DE AHORRO Y CRÉDITO**

Promising Results



Results as of the end of the project, one month after the publicity campaign was launched (Sept. 2008):

- 3,350 members had signed up for the remittance-linked savings product (of 65,535 credit union recipients)
- Increased awareness among recipients and senders of credit union products and services through multi-national campaign “*Cuéntales qué...*”
- Improved capacity of credit unions to cross-sell products and assess creditworthiness of recipients.



World Council of Credit Unions

2008 – present

Setting the Stage for Growth

Developing a Nationwide Credit Union Brand



Unidos para dar
vida a tus Sueños

- MiCoope: Nationwide remittances brand; nationwide credit union brand.
- Attracted 200,000 new members in less than a year – reaching 1 million members
- Easier to promote new products appropriate for remittance recipients by positioning one brand

Launching New Products and Partnerships

Visitas **ILIMITADAS**
al MÉDICO

PROGRAMA DE SERVICIOS MÉDICOS PARA EL ASOCIADO

MISALUD

Por sólo **Q.10⁰⁰**
al mes

Médicos Generales, Ginecólogos y Pediatras, para todo tu familia.

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Adquiere este servicio en todas las cooperativas MICOPE del país.

*MICOPE Y SEGUROS COLUMNA como parte de su responsabilidad social cooperativista observa una gran parte del costo de este servicio.

Responding to the needs of remittance recipients identified during the pilot

- Health insurance product
- Life insurance with repatriation option
- Partnership with a cement company to help with the costs of home building

SEGURO DE VIDA
CON BENEFICIO DE REPATRIACIÓN

Este es un gran producto para que tu en Guatemala puedas contar con un seguro de vida.

El cual incluye: servicio de repatriación sin costo para el ser querido que tu elijas y que se encuentre en Estados Unidos.

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Increasing Remittance Partners



SAN MIGUEL GUALÁN
es

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 International Money Express (1-800) 670 8611	 (1-800) 500 3994
 Envios de Dinero (1-888) 993 4639	 WORLDWIDE MONEY TRANSMITTER (1-888)-5787-267
 MONEY TRANSFER (800) 401-7626	 (1-888)-534-8441

- Web services data integration with IRnet web
- 7 new remittance firms
- 2,000 new remittances/month after 6 months.
- For new remittance firms, roughly 1/3 of beneficiaries are members.

Other New Products/Services

- ATMs and Debit Cards
- POS, “Mi negocio es MICOOPE”





Looking Ahead - Vision

- Banking both senders and recipients (International shared branching, account-to-account transfers)
- Further integration of payment systems
- Technology as a means to greater access at a lower cost.





Challenges Ahead

- Exchange Rate Competition
- Competing Banks
- Competitive Market
- Promoting Savings (ongoing)



Why do we do it?





Remittances: A house (before)





World Council of Credit Unions

Remittances: The same house after



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Effectively Catalyzing SME Growth

Through Business Plan Competitions:

Innovative Examples from Latin America

After Hours Seminar #49

Presenter(s): **Andrés Rico Toro**
TechnoServe

Peter Ippolito
TechnoServe

Date: March 9, 2011 - 4:00pm - 5:30pm



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follow up questions

Submitted by [yresplandy](#) on March 14, 2011 - 12:49pm

Thank you so much for this excellent seminar; in this connection, few questions:

1. would the results of the study be different if you could segregate the SME applicants/participants by economic sectors?
2. What was the size of the grant money prize
3. what is the cost of implementing a "traditional BPC" and the cost of an improved model (Business accelerator)
4. the measure used to assess success was basically the Sale Growth. Have you tried to develop other measures of success such as: employment created, number of persons supported by the job created, number of children going to school as result of the job created, sales generated in other companies, etc

thank you so much, YResplandy

Hello, Thanks for the

Submitted by [peterippolito](#) on March 21, 2011 - 12:49pm

Hello,

Thanks for the questions.

- 1) We did look at the differing impact by sector and found that there were no very substantial differences. I think constructing a first-rate business plan and (for the winners) obtaining seed capital will help you in whatever industry you are in.
- 2) The seed capital prizes ranged from \$2,000 to \$10,000. They were some combination of grants, no-interest loans, and business services, depending on the competition.
- 3) The costs depend on a variety of factors, but you could say about \$4,000 per participant for the traditional and \$7,000 for the improved version.



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Upcoming After Hours

Social Assessment and
Certification in Microfinance

May 4, 2011



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After Hours Seminar

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