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**THE MULTILATERAL INVESTMENT FUND OF THE INTER-AMERICAN
DEVELOPMENT BANK AND REMITTANCES***

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* The views expressed in the paper do not imply the expression of any opinion on the part of the United Nations Secretariat.

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I. THE IMPORTANCE OF REMITTANCE FLOWS TO THE REGION

- 1.1 The Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB) programme on remittances, *Remittances as a Development Tool* (MIF/GN-73), was launched in 2001. The main goal of this programme is to increase the development impact of migrant remittances – which since 2003 exceeded the combined totals of net official development assistance (ODA) and foreign direct investment (FDI) for all countries of LAC. The cluster supports both technical cooperation projects and numerous efforts to raise awareness, generate knowledge, and disseminate lessons learned. To date, this cluster includes 23 projects with over \$100 million of financing.
- 1.2 MIF assistance has targeted improvements in areas that directly affect the development impact of remittances. These include efforts to:
- § Reduce the costs of sending money home;
 - §

accounts, checking accounts, and various forms of low-cost credit to LAC immigrants living in developed countries. Only banks, credit unions, and micro-finance institutions in recipient countries can best leverage the economic impact of remittances, once received.

- 3.2 In general, MIF assistance in this area has focused on promoting agreements between financial institutions in remittance sending and receiving countries, on improving the legal and regulatory environment in order to expedite the flow of deposits and improve service delivery, on supporting more efficient technology platforms, and on increasing financial literacy. Toward these ends, MIF is building a network of financial institutions in LAC, including microfinance organisations, that can then link up with formal financial institutions in developed countries to both lower transaction costs and increase the multiplier effect of remittances.
- 3.3 There have been promising developments in this area. For example, in Mexico, laws and regulations that have prohibited financial institutions from receiving remittances, such as rural credit unions, have been changed. A network is being formed by BANSEFI -- *La Red de la Gente* -- with the objective of enabling about 1,000 financial institutions (both inside and outside that network) to receive remittances throughout rural Mexico in the near future.
- 3.4 In Ecuador, *Banco Solidario* is working with a network comprised of Ecuadorian cooperatives and several financial institutions in Spain and Italy in order to distribute remittances. In just one year *Banco Solidario* has captured over 10 per cent of the \$500 million remittance flow between Spain and Ecuador. *FIE* has established a microfinance operation in Buenos Aires to provide services to Bolivians living there - including remittance services. A regional initiative with IFAD will promote the channeling of remittance flows into rural finance.
- 3.5 El Salvador, *FEDECACES* is working with its affiliates to strengthen their capacity to receive international remittances. In 2001, there were 3,000 transfers, rising to 52,000 in 2002. By 2003, more than 100,000 were received. In the past year *Financiera Calpia*, a Salvadoran microfinance institution determined that one third of its clients were receiving remittances from the U.S. After a concerted marketing campaign, Calpia is now processing thousands of remittances monthly – and is offering other services such as savings accounts, mortgages, and insurance products. There has been much progress, yet much remains to be done. Eight out ten migrants in the United States

in remote areas banks and money transfer companies may not be easily accessible. In many countries, postal services have the highest geographical presence of any entity – public or private. MIF is exploring the possibility of expanding the role of postal services in the area of remittances.

IV. ATTRACTING MIGRANT CAPITAL TO COMMUNITIES OF ORIGIN

- 4.1 One of most innovative goals of this cluster, and hence the most challenging, is to attract migrant capital - both in money and brains - back to their countries of origin. Promoting linkages between migrant hometown associations and their communities of origin is one area that offers great promise. However, considerable effort will be required to overcome migrants' mistrust of public authorities, as well as the difficulties of identifying attractive investment opportunities in communities of origin. However, progress made in other MIF operations on expanding the access of migrants and their families to financial institutions will be of definite benefit to these efforts.

Remittances and Transnational Networks

- 4.2 Most of the focus on remittance-related assistance has focused on the costs and the mechanisms of remittance transmission, and on the issues related to remittance recipients. Increasingly, broader development opportunities also involve the “supply-side of remittances,” namely, the *senders* of these flows. This area extends the current MIF efforts to bring migrant capital back to communities of origin (such MIF/AT-410) into the broader arena of transnational families and their business networks. Increasingly, migrant entrepreneurs, themselves remitters, are demonstrating new possibilities for ethnic run businesses in the United States, nostalgic trade, and myriad other opportunities for investment and partnerships, and MIF is exploring the role of remittances and business financing in this rapidly growing market segment.