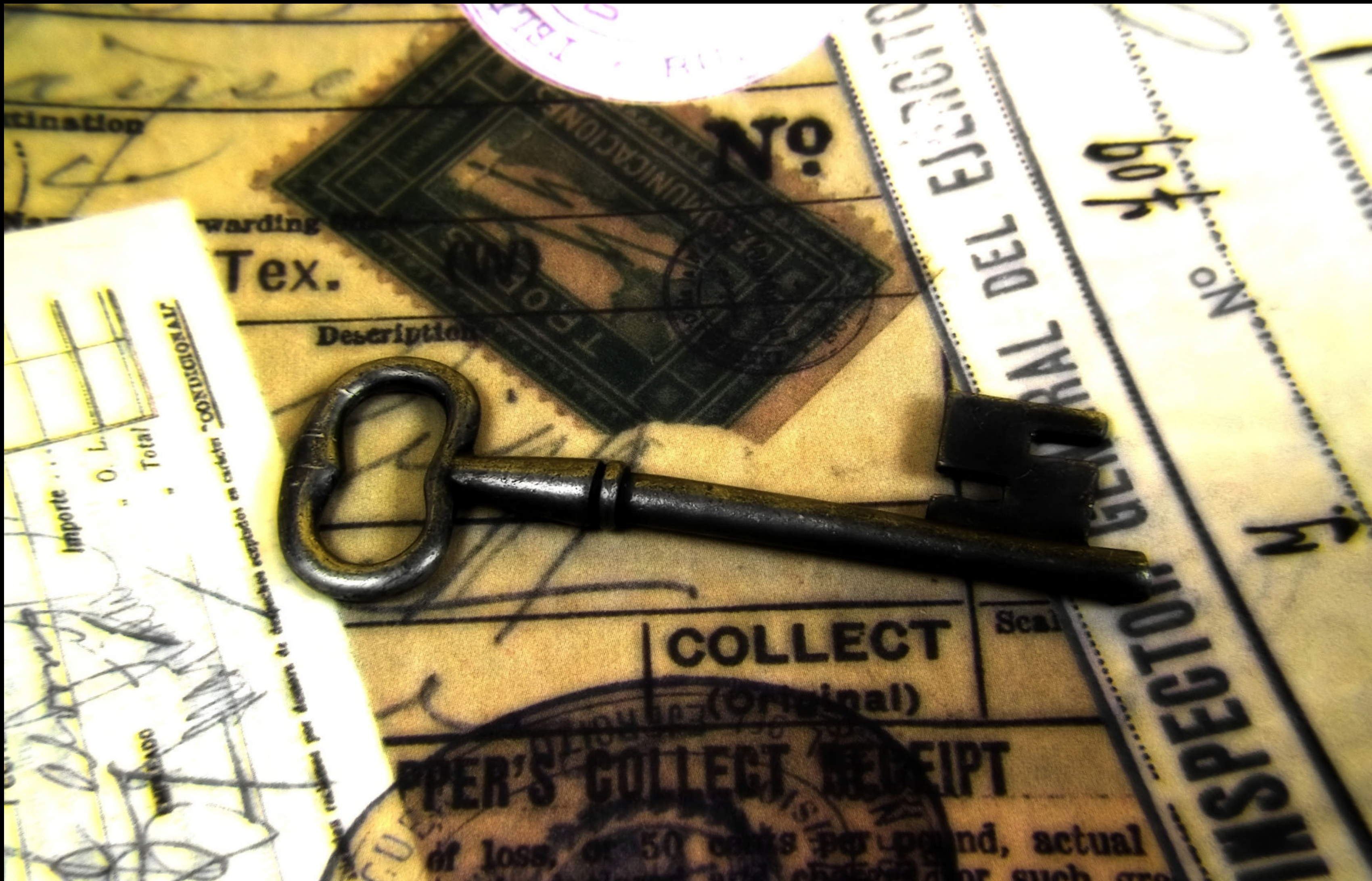
Leveraging Remittances for Local Development



By Alvaro Lima

- Ronaldinho, the Brazilian soccer superstar, has come a long way from the poor suburbs of Porto Alegre where he grew up...

- … like some 1 million fellow Brazilians, he makes a living outside his homeland…
- … unlike most of them, Ronaldinho has access to the best advice and services that money can buy...

- … it is unlikely that Ronaldinho finds himself going to the corner grocery and paying a high fee to send a $100 remittance back to family members…

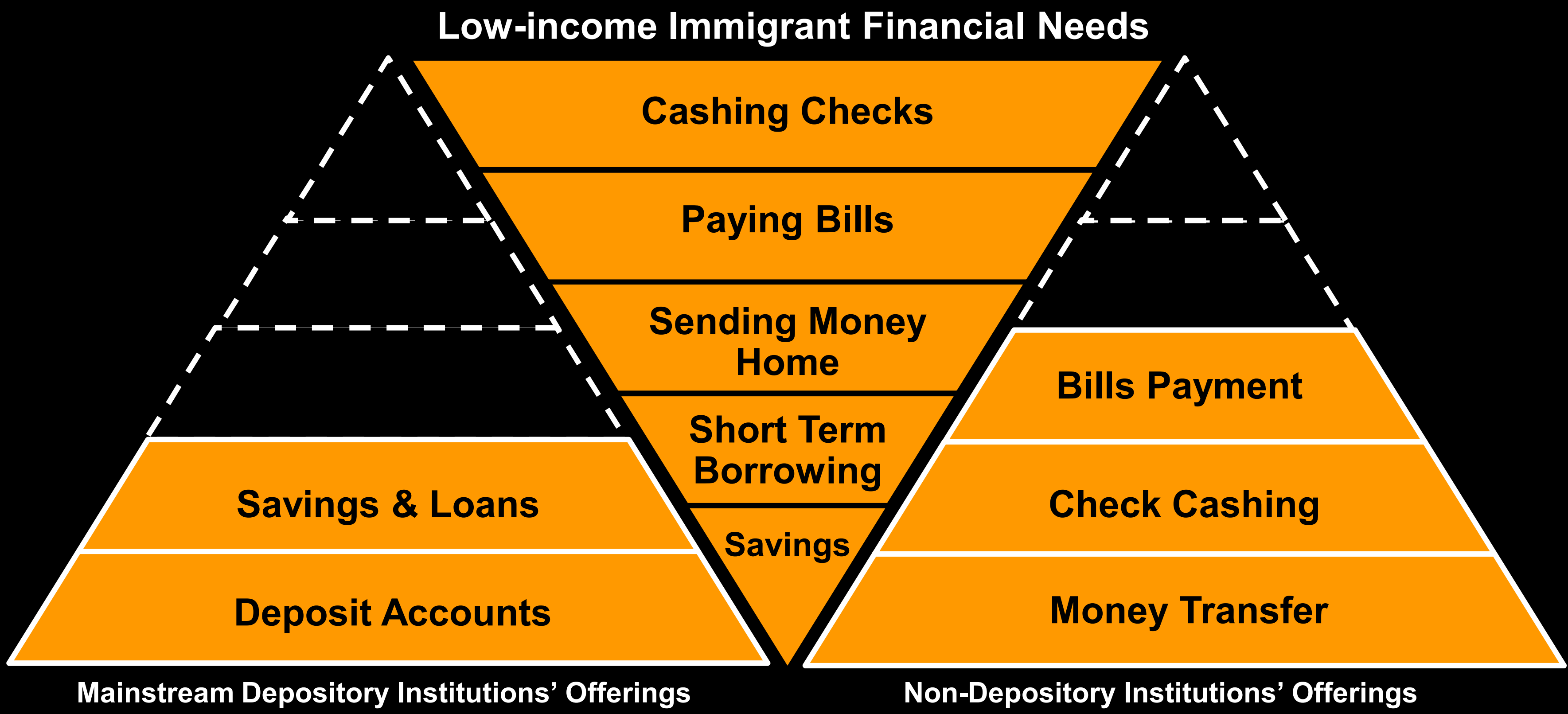
- … or that he and his advisers are at loss when it comes to figuring out what to do with any money he wants to save, invest, give away, or use to buy insurance…

- That is precisely the problem many Brazilians working and living in the U.S. (and elsewhere) face...

The Problem

The Diaspora Dividend

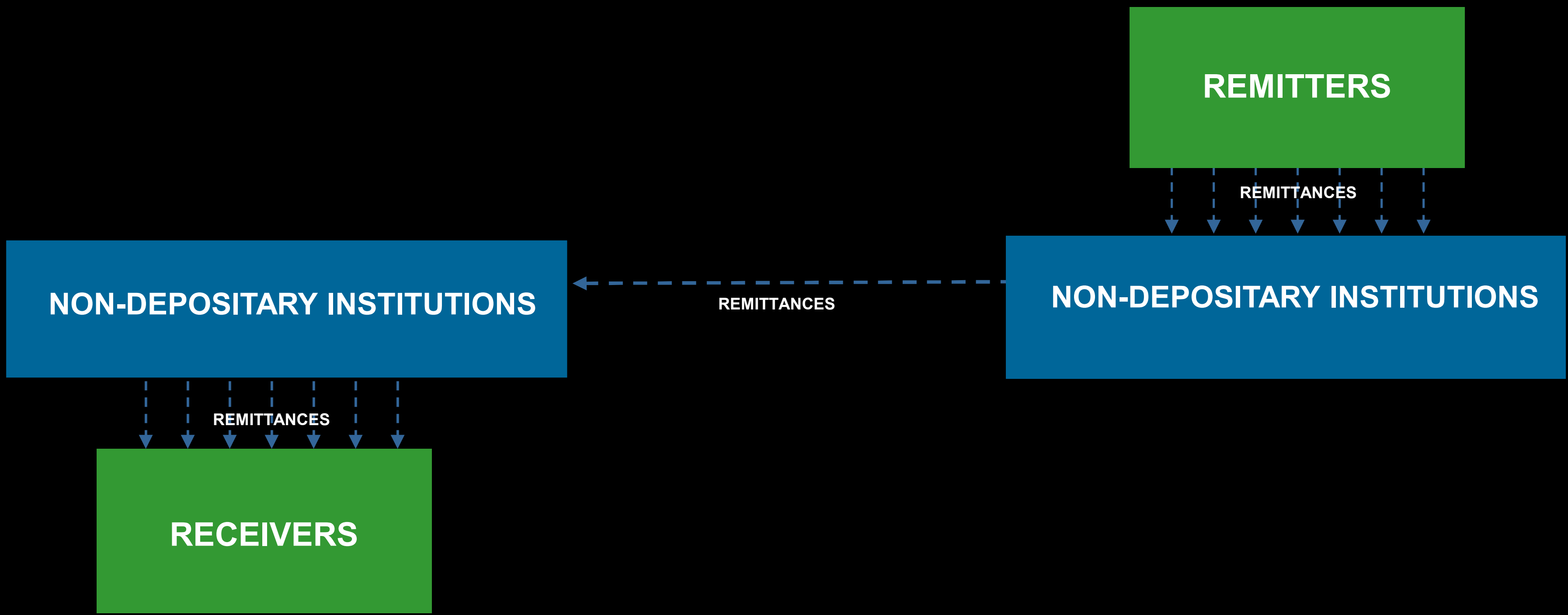
- **THE MARKET IS FAILING THEM…**



As a result, immigrants are kept at the margin of the financial sector. Their remittances are not leveraged since they are made by non-depository institutions – IT IS A CASH-TO-CASH SYSTEM.

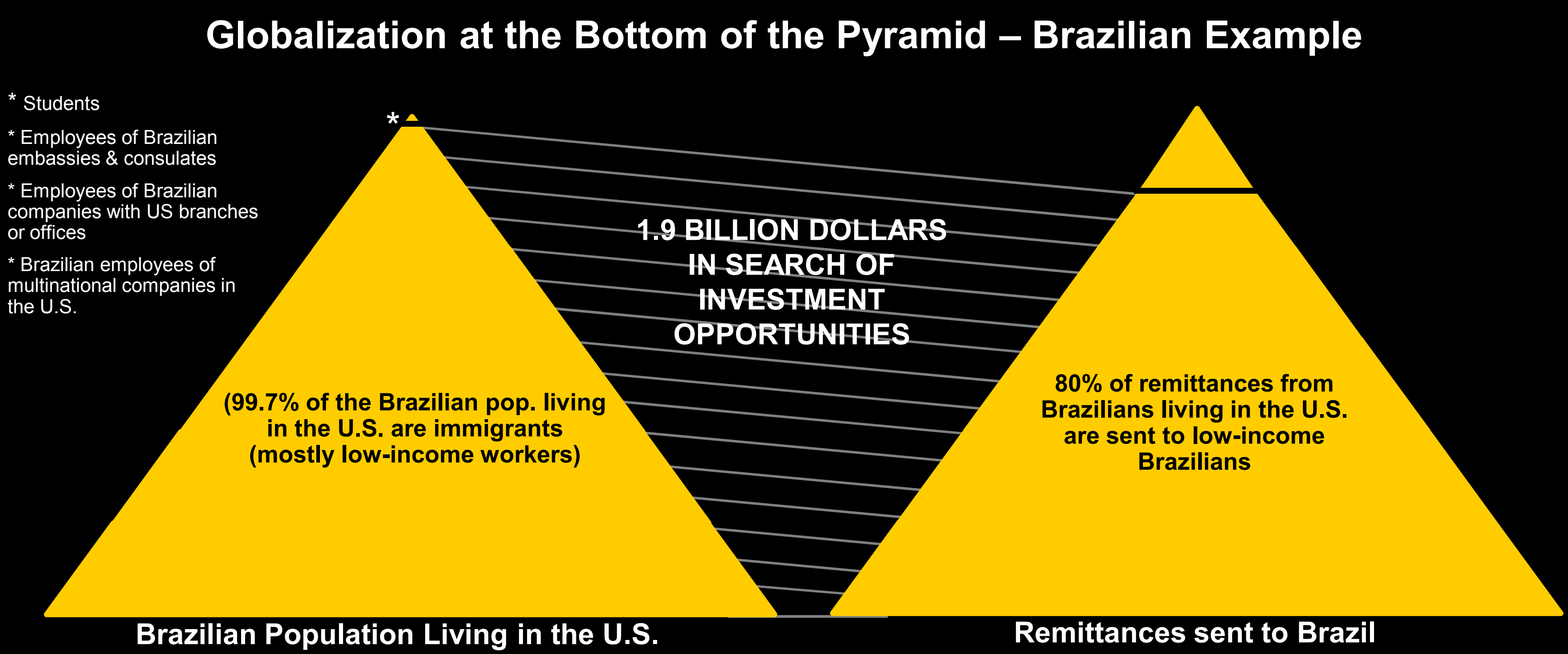
The Problem

"CASH TO-CASH" SYSTEM



The Opportunity

- The remittance economy is an example of globalization at the “bottom of the pyramid” - a transnational BOP - where most remitters and receivers come from low-income communities. They are not Ronaldinhos:



Source: UC Davis, Immigration Data, 1999; Institute of International education, 2005. Analysis by Alvaro Lima and Peter Plastrik, 2006.

The Opportunity

The Remittance "Economy"

- The World Bank estimates that about $232 billion was remitted through formal channels in 2005
- Conservative estimates put the number of people receiving some form of economic benefits from remittances at 1 billion – almost 1/6 of the planet's population
- In 2005 remittances to Latin America and the Caribbean totaled more than $53.6 billion, making the region the largest remittance market in the world

The Opportunity

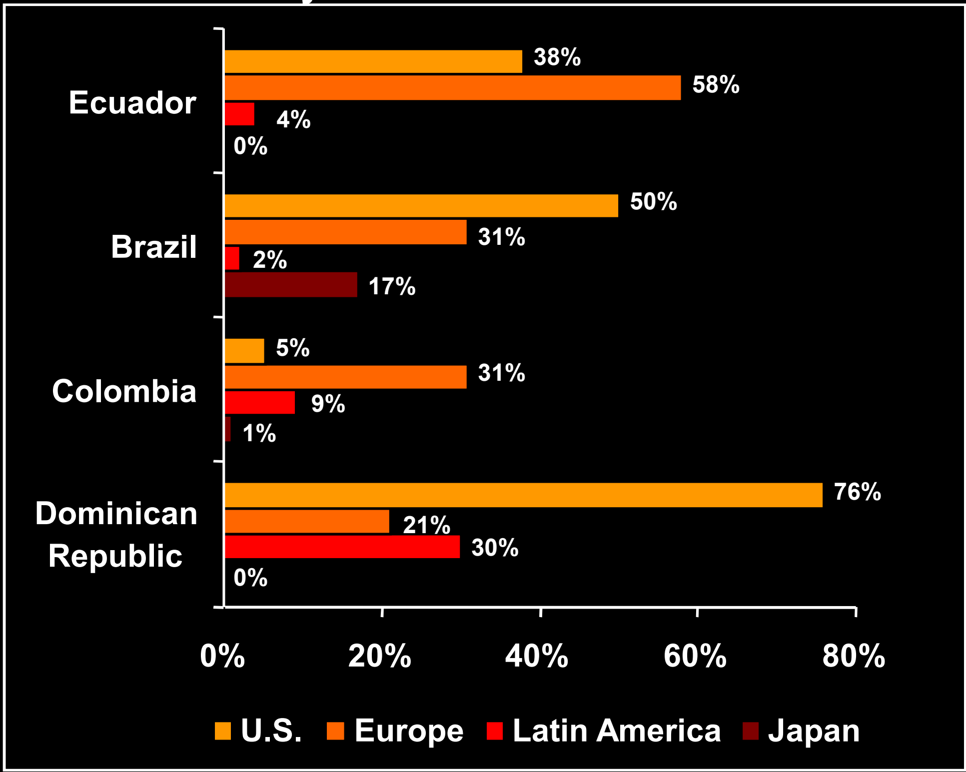
Remittance Flows to Latin America and the Caribbean

Total amount sent (2005): $53.6 billion

Average amount sent: $240

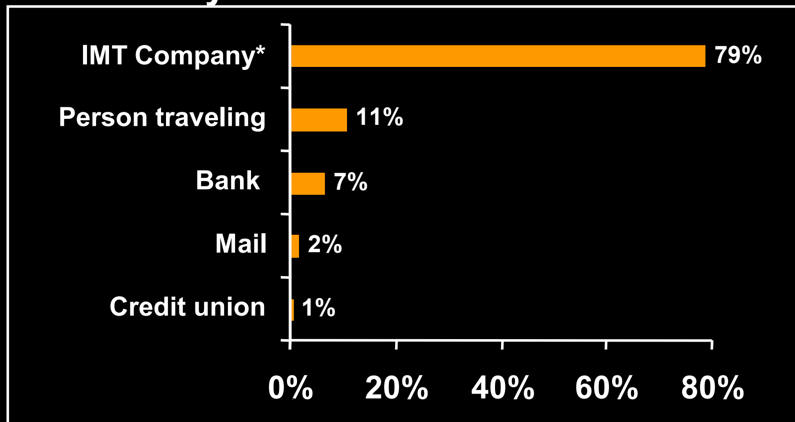
Frequency of remittance: 12.6 per year

Where the money comes from…



Source: Multilateral Investment Fund, 2005; Sergio Bendixen, 2005

How money is sent…



IMT Company = International Money Transfer Company

The Opportunity

- Remittances are the initial point of contact with the world of financial services for many poor individuals and families
- Once these individuals and families are sending/receiving remittances, they have joined the global financial service system
- However, most do not continue to move through the "value chain" of financial services – savings, investment, credit, insurance, etc.

The Challenge

The "4 Gaps" in the Market for Immigrant Financial Services

- In order to create conditions for immigrants to move up the financial services ladder, four gaps need to be closed:

  - **The "Trust Gap"** - immigrants do not trust banking institutions for many reasons, including bad experiences with banks in their own countries;
  - **The "Information Gap"** - financial institutions have limited knowledge of immigrants' lives, culture, and consumer habits;
  - **The "Education Gap"** - the more a consumer progresses along the financial "value chain," the more knowledge is needed to make decisions, including planning one's financial future;
  - **The "Product Gap"** - financial services need to be tailored and bundled specifically for immigrant markets both at the lower levels (basic bank products) as well as at higher levels (asset-building products).

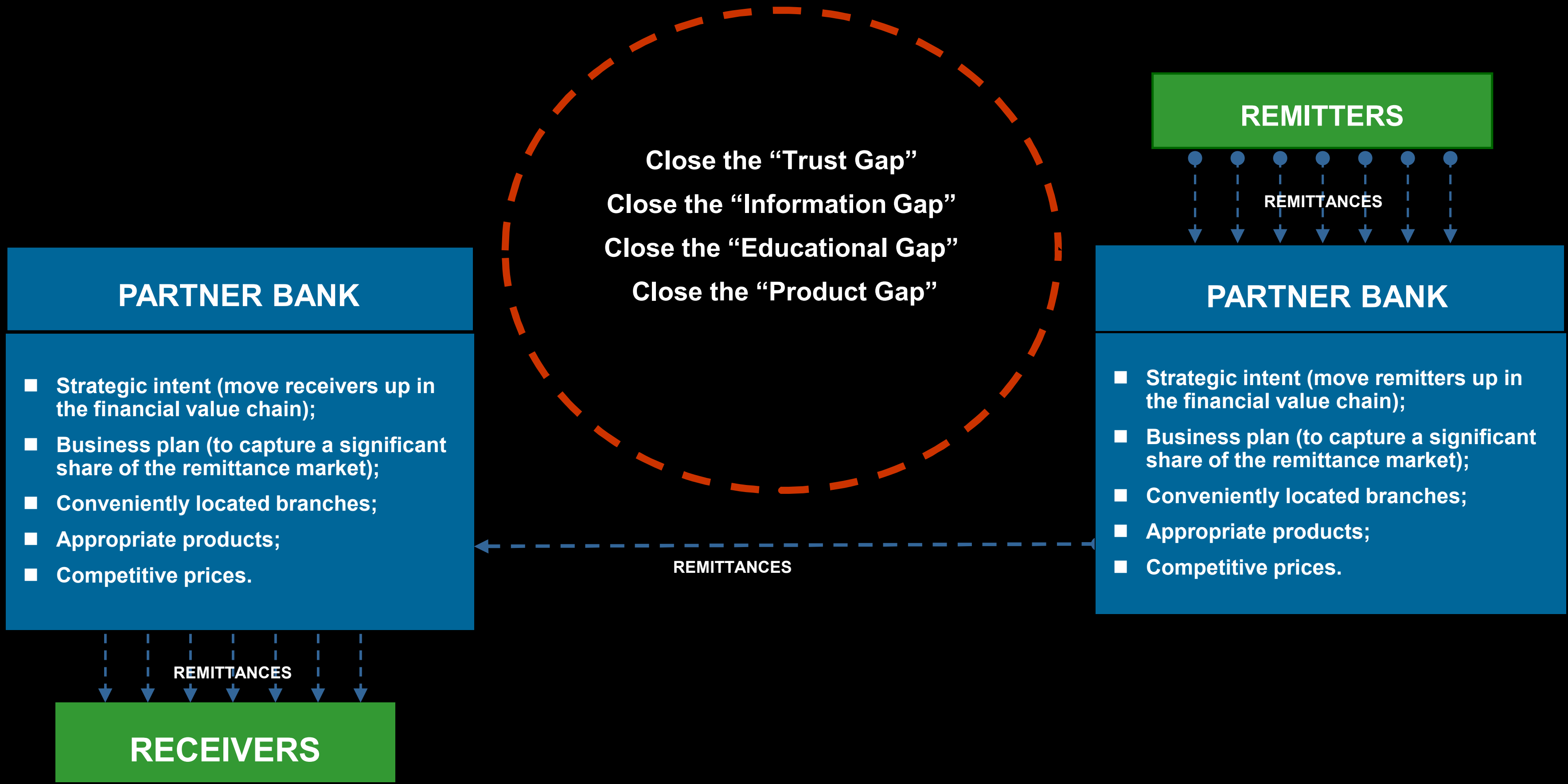
The New Model

Leveraging Remittances

- The four gaps suggest that there is an opportunity to develop a new entity that would act as a "social broker" between:
  - immigrant communities in the U.S.
  - financial institutions in the U.S., and
  - financial institutions in the immigrants' home-country
- The purpose of such an entity is to increase immigrant use of financial services and the creation of philanthropic funds controlled by immigrant community themselves

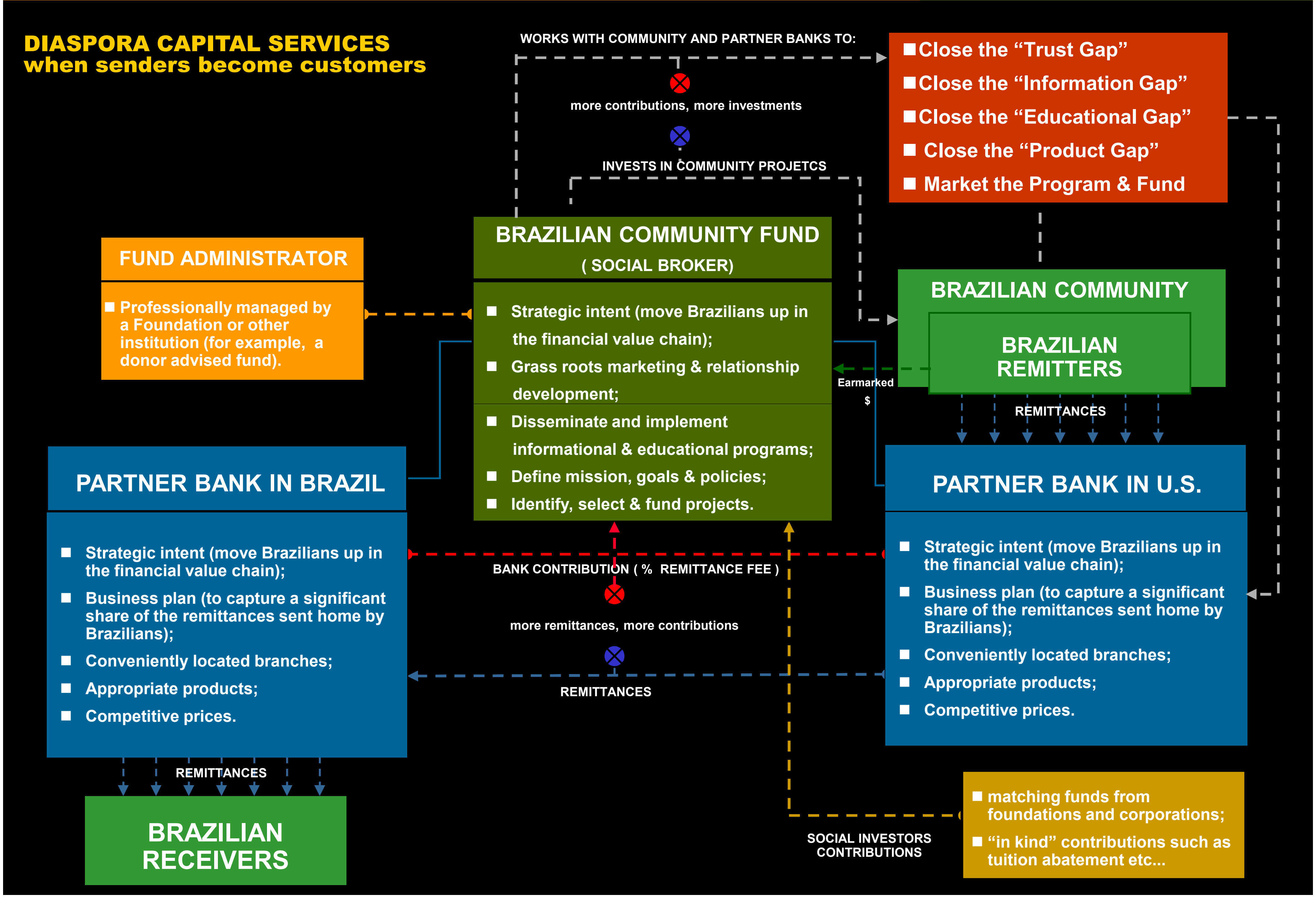
The New Model

“ACCOUNT-TO-ACCOUNT” SYSTEM



The New Model

The Diaspora Dividend



The New Model

As a result:

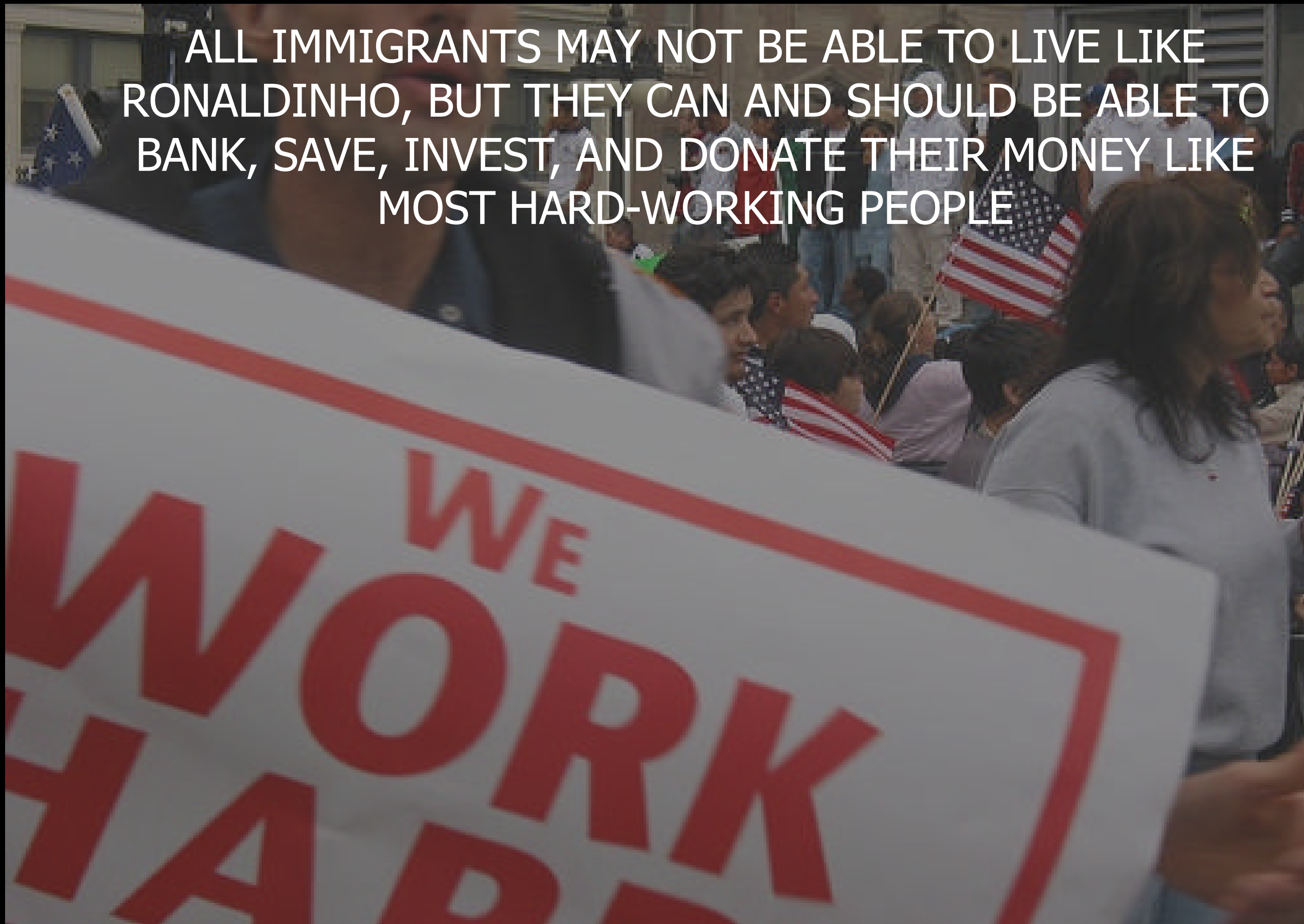
- **Financial institutions would:**
  - increase market share in the immigrant communities for remittances and other financial products;
  - increase fee revenues in a very profitable and highly stable market;
  - fulfill regulatory requirements under CRA

- **Immigrant communities would:**
  - gain access to lower-priced remittance services;
  - increase use of higher value-added financial services and;
  - create community-based philanthropic capital to support own development.

The New Model

The philanthropic fund could be capitalized from four sources:

- Financial institutions contribute a portion of their revenues from remittances fees to the fund;
- Remitters earmark a percentage of their remittances to the fund;
- Other members of the targeted immigrant community contribute money to the fund;
- Other organizations - foundations, governments, etc. - contribute money to the fund.



ALL IMMIGRANTS MAY NOT BE ABLE TO LIVE LIKE RONALDINHO, BUT THEY CAN AND SHOULD BE ABLE TO BANK, SAVE, INVEST, AND DONATE THEIR MONEY LIKE MOST HARD-WORKING PEOPLE