



NORTH AMERICAN INTEGRATION AND DEVELOPMENT CENTER University of California, Los Angeles

Proposal for the development of a Migrant Savings Bond for Eco-development (Bono Migrante de Eco-Desarrollo)

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Overview:

The migrant savings bond for eco-development is a savings and local investment tool for increasing financial inclusion and access to micro-finance for productive projects in El Salvador. This tool will remove many of the obstacles faced by individual producers and micro- and small businesses in El Salvador, including limited access to capital, high costs for microfinance, and limited access to financial services by vulnerable populations like women, young adults, and the poor, among others. The migrant savings bond for eco-development will specifically support local economic development initiatives that are linked to environmental conservation, education, and biodiversity regeneration activities in El Salvador.

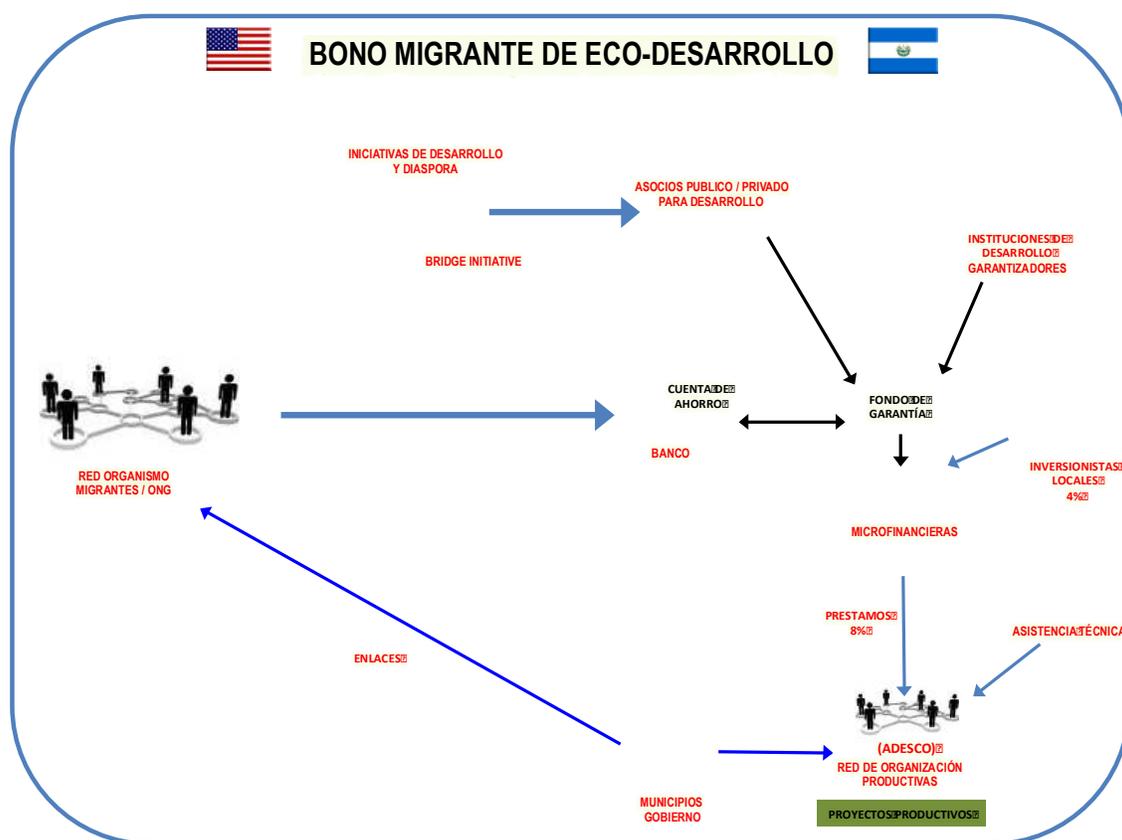
The implementation of the migrant savings bond for eco-development described herein has been divided into two phases. This approach will enable a relatively fast initial implementation, which can then be easily scaled using technology to serve other migrant communities and local development initiatives.

In the first phase, collective remittances by migrant hometown associations will build an eco-development fund, which will then be leveraged as a guarantee fund to attract additional development funding and local investors. The overall objective of this will be to provide low-cost micro-loans for productive projects in El Salvador. This will be done in collaboration with migrant groups and non-governmental organizations (NGOs) in the U.S., local microfinance institutions (MFIs) in El Salvador, U.S. financial institutions, national & international development banks, U.S. and Salvadoran government, multilateral development agencies, and foundations.

The second phase will operate in a similar way, however through the introduction of widely accessible transnational mobile banking platforms, the ability to purchase the migrant savings bond for eco-development will be expanded to individual migrants and non-migrants alike. This phase will incorporate technologies that will allow any migrant and/or individual to contribute to a guarantee fund via the purchase of a bond using a mobile device, Internet, and debit card. The bond will pay a return on investment and contribute to strengthening the guarantee fund. This approach will contribute to reaching a larger scale as well as promote financial inclusion and savings and wealth building in transnational communities.

Details of Phase I:

Phase I of the migrant savings bond for eco-development allows migrant networks and NGOs in the United States to invest in productive projects being implemented by local development associations (ADESCOs). ADESCOs in El Salvador focus on multidimensional development. In the case of the migrant savings bond for eco-development, the participating ADESCOs are involved in environmental conservation and regeneration activities that are linked to local economic development strategies. Support for these projects can improve the income-generating capacity of small-scale producers, generate additional employment opportunities in the region, and contribute to environmental conservation and biodiversity regeneration through education and the implementation of sustainable use practices for El Salvador’s natural resources.



The critical components of Phase I include:

- 1) Networks of migrants and NGOs raise funds in the United States.
- 2) These funds are deposited into a savings account at a regulated bank in El Salvador.
 - a. This account pays a high interest rate (approx. 3-7%).
- 3) Agreement across all of the major parties involved regarding the use of guarantee funds and the process for accessing these funds in the event of default, including:

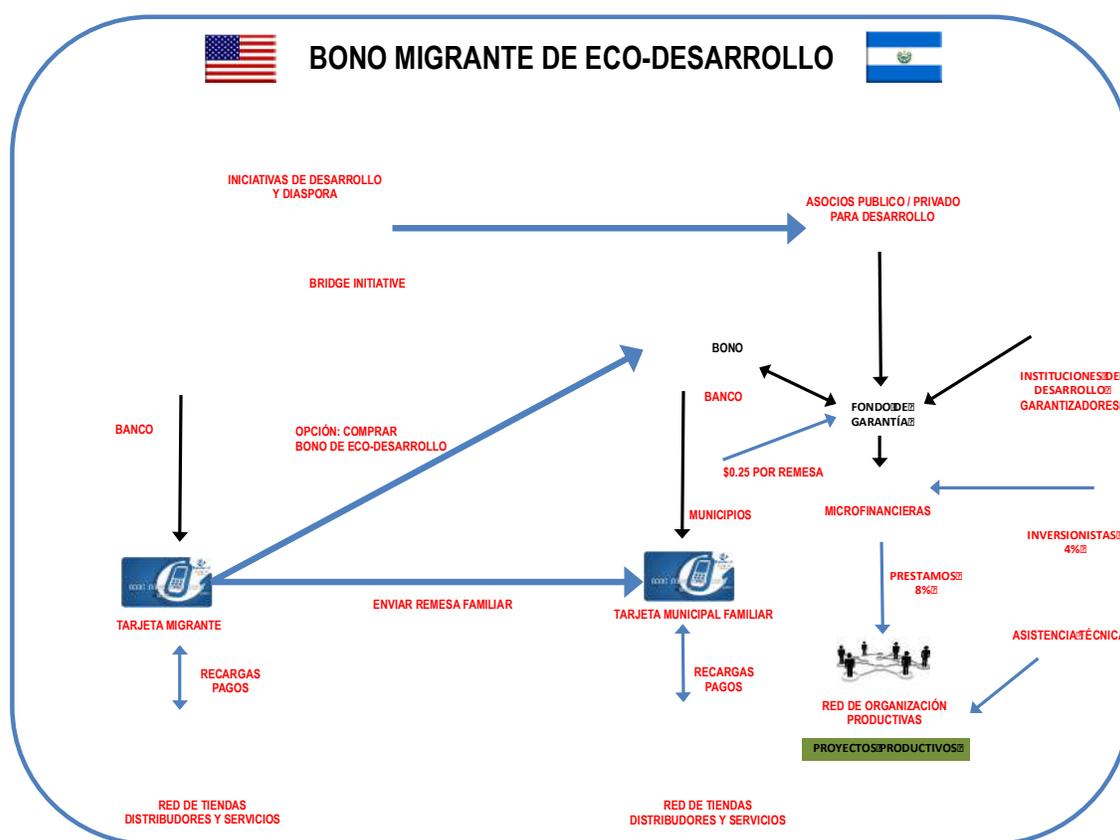
- a. Understanding that if ADESCO members cannot pay their loans, the MFI can access the guarantee fund to cover the delinquent debts.
 - i. The guarantee fund will remain intact except when needed to cover delinquent debts.
 - b. Clear, established order and caps for first, second, etc. losses
 - c. Loans tied to the guarantee fund must be made at a low interest rate.
 - d. The MFI is responsible for evaluating projects and determining the feasibility of the project and ability to repay borrowed capital.
 - e. The MFI will be responsible for managing the loans for approved projects.
- 4) Outside funding will be solicited through government and international development agencies, and/or foundations for technical assistance and/or training, in order to further ensure the success and sustainability of projects linked to the guarantee fund.
- 5) The guarantee fund will be strengthened and expanded by other development institutions like USAID-DCA, World Bank, among others. These institutions will establish agreements with partner MFIs to guarantee a specified amount of the total loans for productive projects.
- a. Example: USAID-DCA guarantees 50% of a loan portfolio, and the MFI is responsible for assuming the risk for the remaining 50%; however in this case, the risk would also be shared with the bond holders.
- 6) Capital flows for the partner MFIs will be comprised of private investments, international & national development loans, among other channels.

Details of Phase II:

Implementation of transnational technology linked to mobile banking and remittances

Partnerships with private sector (SF Global/Transfercel)

The introduction of mobile banking and low cost remittance-sending technologies provided by SF Global/Transfercel in the United States and El Salvador will increase access to savings and investment tools like the migrant savings bond for eco-development. This technology will contribute to further reduce the costs of micro-loans for productive projects, stimulate local economies, and increase public safety. It will also help to facilitate the process of sending remittances, lower costs associated with traditional sending remittances, promote financial inclusion, and increase the capacity of migrants and other individuals to save and accumulate wealth.



The critical components of Phase II include:

Remittances and money exchange:

- 1) In the U.S, a network of stores, financial institutions, and/or other organizations will distribute pre-paid debit cards issued by a regulated bank in the U.S. and equipped with the SF Global/Transfercel mobile banking technology.
- 2) Using virtual accounts linked to the pre-paid debit cards, migrants will be able to send lower cost remittances to the accounts of friends and family in El Salvador.

a. The account-to-account transfer will also contribute to improving public safety in communities with limited access to traditional financial services, and in which many migrants are forced to keep cash in their homes and/or carry it on their person making them vulnerable to be victims of various crimes.

3) In El Salvador, the families will have their own prepaid debit card issued by a regulated bank in El Salvador linked to a virtual savings account and equipped with the same mobile banking technology.

4) The card in El Salvador will be distributed across a network of stores and municipalities.

5) Participating municipalities will receive a small income for each remittance sent through cards linked to their municipality. This revenue can be used for social investments or to enhance and strengthen guarantee funds to support productive projects.

6) Residents of participating municipalities can obtain a prepaid debit card equipped with mobile banking technology that will enable them to exchange payments between individuals, businesses, and to government entities.

- a. This function may serve to stimulate the local economy and improve public safety through the reduced need to carry cash on their person or in homes and/or businesses.
- b. Individuals will also be able to be paid out part or all of their remittances at any participating business, ATMs, and other points.
- c. Government subsidies and cash transfers can also be paid out using this mechanism, and individuals can withdraw these payments as necessary at the network of businesses, ATMs, or other points.

6) Small scale producers can use the prepaid debit card and/or mobile banking technology to receive loan distributions and to repay loans.

- a. The use of technology to distribute and collect loans can reduce administrative costs for the MFI.

Option to buy development bonds:

8) Guarantee funds will be created to support specific types of productive projects, like the migrants savings bond for eco-development proposed in Phase I.

9) Migrants and other individuals in the United States or El Salvador can invest in development bonds using the prepaid debit, mobile banking, or Internet technology.

10) Almost any basic cell phone can be used to choose and purchase savings bonds of various time-commitments and denominations. The individual's investment will be protected under an established contract between the parties contributing to the guarantee fund.

11) This model will generate a steady stream to guarantee funds for development, and make financing for development become more sustainable and more accessible to increased sectors of Salvadoran society.

a. The model can also be expanded to other international contexts characterized by transnational relationships and migration.

Actors in the Migrants Savings Bond for Eco-Development:

U.S.

- Networks of migrant organizations (like HTAs)
- NGOs
- Migrant businessmen and businesswomen
- Other migrants and non-migrants
- U. S. Development Agencies (USAID, DCA, Millennium Challenge Corporation-MCC)
- U. S. Department of State
- Multilateral development lending institutions
- Multilateral development institutions
- Foundations
- Network of participating stores
- Regulated bank and/or credit union
- Prepaid debit cards with SF Global/Transfercel mobile banking technology
- Mobile phones
- ATMs

El Salvador:

- Regulated financial institution
- Microfinance Institutions
- El Salvador government (BANDESAL, etc.)
- El Salvador/U.S. cooperation (Partnership for Growth, MCC/FOMILENIO)
- Local investors
- Multilateral development lending institutions
- Multilateral development institutions
- Foundations
- NGOs
- Networks of productive organizations (ADESCOs, cooperatives)
- Municipalities / local governments
- Network of participating stores
- Prepaid debit cards with SF Global/Transfercel mobile banking technology
- Mobile phones
- ATMs