Remittances and Microfinance
The Two Main Sources of Financial Help for Families in Need

While many people in poor areas in Latin America have the entrepreneurial spirit and willingness to improve their situation, they are unable to find employment or business opportunities at home. As a result, the only way for them to provide financial assistance to their families is to emigrate to an industrialized country and to then transfer part of their income back home. In 2003, migrant workers from Latin America transferred US$32 billion back to their home countries, creating the largest flow of financial assistance in history. Remittances far exceed the income that results from official development assistance, direct investment, and, often, any other source of foreign income.

On the downside, migration creates divided transnational families, hardship for migrants, and social problems in the host countries. Because remittances are mainly used for consumption of goods and services, they do not help to create badly needed business and employment opportunities. Often, they even cause families to become dependent on the transfers. This puts additional strain on the migrant workers who struggle to maintain two jobs in order to be able to support themselves as well as their family back home - leaving no time for the educational or professional training which would allow them to improve their living conditions in the host country.

Microfinance, the provision of small loans and other basic financial services to underserved people, has proven to be an effective tool for providing financial assistance and for alleviating poverty in developing countries. MFIs have found innovative ways to provide loans to entrepreneurs, small businesses and poor families, helping them to create jobs, social security and a better future.

However, resources available for microfinance are limited and therefore, the majority of people in need are still outside its reach. Since many MFIs have a non-profit background, access to capital is limited to development funds. The small size of many institutions does not allow for economies of scale and prevents the investments necessary to acquire the financial technical infrastructure which would improve efficiencies and increase the reach of services. Operating outside the regulated commercial banking industry, MFIs do not have access to the benefits of interbank transactions such as commercial FX rates, electronic clearing facilities or interbank fund markets. As a result, their participation in remittance transfers has been very limited, in spite of the fact that they are ideally positioned to service the recipients and to help leverage remittances for sustainable economic development.

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Atsumasa Tochisako, the founder of Microfinance International Corp., who had spent more than 12 years as a General Representative for the Bank of Tokyo-Mitsubishi in Latin America, recognized these restrictions for MFIs. At the same time, he realized that microfinance could be a very profitable finance business and make a substantial contribution to development if these shortcomings and limitations could be resolved. He also noticed that remittances create very large accumulations of capital which could be invested for the benefit of the communities, but in traditional money transfer systems are often not used that way. Mr. Tochisako was convinced that remittances could benefit microfinance and local grassroots development if the transfers were channeled through an efficient clearing system dedicated to MFIs. Being a banker, he also realized that remittances could provide MFIs with a product that would attract new customers and could improve the financial performance of the institutions.

In June 2003, he retired from the bank and founded Microfinance International, bringing together professionals with expertise in banking, development, microfinance, remittances and technology. Together, they could work to develop a solution to overcome the limitations of MFIs with the goal of providing sustainable financial assistance to families in developing regions and offering an attractive business opportunity for socially conscious investors.
Microfinance International Corporation’s Solution

The solutions offered by Microfinance International are unique, comprehensive and far reaching. We have positioned our company as the natural financial bridge between the developed and developing worlds. We firmly believe our model can provide sustainable development for those who need it while creating a source of profit for our investors. A true marriage of capitalism and sustainable philosophies.

An Electronic Settlement System for MFIs

The company spent more than 12 months analyzing the microfinance market, evaluating potential options, and developing a solution that would provide MFIs with a way to improve their operational abilities as well as achieve the objectives of our company. After careful analysis, we designed an electronic settlement platform for MFIs that:

- allows MFIs to efficiently process and administer payments and network with parties in the US;
- safely maintains remittance funds in the US banking system between collection and payment and generates interest from accumulated funds;
- enables MFIs to settle financial transactions in real time, make use of the international banking infrastructure and interact with the US banking system.
- uses capital maintained by MFIs in the system for the creation of lending programs for participating MFIs.

The Microfinance International system reproduces the internal treasury operations of an international bank for the benefit of the participating MFIs and hence bundling the strength of many small institutions. Our System is delivered via the Internet, with simple, user-friendly interfaces and does not require MFIs to make investments in new hardware or software.

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A remittance-backed Lending Program making remittances work for development

When we realized that many MFIs do not have sufficient access to capital to fulfill demand for their services, we set out to find a way to use remittances to increase the capital available for microfinance. Our finance team recognized that remittance flows and accumulated capital from remittances could serve as both a pool of low-cost capital and a security to raise funds in capital markets that can be lent to MFIs. At the same time we found that the assessment and due diligence procedures commonly used in commercial lending were too cumbersome and expensive for lending to small MFIs. To address these issues, we have developed a Lending Program for MFIs that:

- uses remittances accumulated in the Electronic Settlement System to back fundraising and lower cost of capital;
- offers an innovative, simple and economical application and due diligence procedure enabling us to include small institutions that are usually excluded from development funding;
- is able to tap capital markets and offers both commercial and development investors an opportunity to make profitable investments in microfinance.

The Microfinance International Electronic Settlement System introduces the efficiency of electronic processing to the transfer of remittances (and other transactions between MFIs). This allows us to accumulate a pool of capital that can be leveraged to raise capital for a lending program for MFIs – enabling remittances to work for the development of the local communities.

The recipient of a remittance usually collects the funds some time after the remitter has paid the funds to the money transfer company (on average 36 hours later), even if funds are available for immediate withdrawal. Typically additional time passes between the payment to the recipient by an agent and the reimbursement of the payment to the agent. During this time, the funds accumulated (so-called “float”) are maintained in the money transfer system. As most money transfer systems process large numbers of transactions, the funds accumulated in the system are substantial, potentially reaching millions of US dollars. However, due to the inefficiency of most of these systems, the remittance float is often handled by a variety of parties in various places so that most of the accumulation effect and potential benefits are lost.

We have constructed our Electronic Settlement System in a way that allows us to maximize the accumulation of the float and to professionally manage the accumulated funds – while payment to the individual recipient can still be provided immediately if required.

The application and due diligence process for our lending program is based on learning from microfinance and institutional banking – combining flexibility and professional risk management. Instead of going through a complex and expensive appraisal process, we lend money only for specific programs that can be assessed more easily. We use portfolio securitization and only lend to institutions that we already know from our Electronic Settlement System. This reduces our administrative costs and risk. At the same time, we increase access to, and reduce the cost of, capital our profile as a socially conscious corporation allows us to raise capital from both commercial and development investors, and the remittance float generated from our Electronic Settlement System provides us with a low cost security.

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**Microfinance International Corporation’s Solution**

**Mi Pueblo Financial Service Centers for Latin Immigrants in the US**

Microfinance support for Latin Americans cannot stop in Latin America; as many families are separated by migration, they need support in both their home countries and in the US. Consequently, many MFIs would like to offer services and market to emigrants from their country who are in the US.

Microfinance International recognized that it is necessary to integrate into the Electronic Settlement System a party that could offer the remittance service, act as a marketing channel for MFIs and, ideally, deliver financial assistance to Latin immigrants in the US. However, no such institution in the US seems to exist. While many Latin immigrants use financial services such as money transfer and check cashing regularly, there are no MFIs or banks in the US that offer these services to them while at the same time functioning as a marketing channel for MFIs in Latin America. Banks sometimes do not have the products and services desired by Latin immigrants, lack the cultural understanding and flexibility necessary to deliver such services, and are not trusted by the communities. Check cashing and money transfer services are usually delivered through inappropriate retail outlets such as supermarkets and mostly offer only a single service so that they cannot provide the needed financial assistance. As a result, Latin immigrants remain largely underserved by the banking industry and excluded from the benefits of receiving professional financial assistance.

This is surprising because providing financial services to Latin Americans in the US is a viable and attractive business opportunity. According to the US Census, “Latinos” are the largest minority group in the US and the fastest growing part of the US population. They spent a larger proportion of their income on financial services than the US average, due to the very high fees charged for money transfers, check cashing, money orders and sub-prime lending, financial services they use very regularly.

We realized that our expertise in microfinance and banking as well as the infrastructure provided by our Electronic Settlement System with its network of MFIs in Latin America provides us with an ideal set up to make use of the business opportunity presented in the Latin market for financial services in the US. As a result, we established Mi Pueblo, a network of financial service centers dedicated to Latin immigrants and offering customized financial products:

- provides Latin immigrants with a one-stop shop for their financial requirements, offering meaningful and customized financial services at reasonable cost in a secure and professional environment;
- allows participating MFIs to market their services to their expatriate customer base in the US;
- enables us to fully control the customer service, compliance and cost of our money transfer service and increase the float accumulated from remittances;

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- offers us the opportunity to use our expertise and unique infrastructure to enter a lucrative untapped niche market for financial services and establish a market leader in a profitable segment with high growth potential.
Management and Directors

James C. Orr, Chairman
In addition to serving as the Chairman of Microfinance International, James C. Orr is also co-founder and Executive Director of the Boston Woods Committee, a group of 650 corporate chief executives, former cabinet officials, and other prominent Americans who support the World Bank and the International Monetary Fund. He is also Managing Director of James Orr Associates, a Washington D.C.-based government policy consulting firm whose clients are international finance companies, central banks, and government ministries. He serves as a Director of TechnoServe and Chairman of the Group to Assist Private Sector Development (GAPS). From 1975 to 1983, Mr. Orr served both Republicans and Democrats as legislative counsel for the International Trade and Development Subcommittee in the U.S. House of Representatives.

Atsumasa Tochisako, President and CEO
Before founding Microfinance International, Atsumasa Tochisako spent 27 years in various operational and representative positions with the Bank of Tokyo-Mitsubishi, including 12 years as a manager and officer in Mexico, Ecuador, Peru, and Panama. He retired from the Bank as Chief Representative of its Washington D.C. office, having previously served the company in virtually every operational theater, ranging from a Special Task Force assigned to restructure government ministries. He serves as a Director of TechnoServe and as an expert at various events, including conferences of the World Bank, Ghana. He served as an industry representative or remittance expert at various events, including conferences of the World Bank, the Multilateral Investment Fund, Investment Banks and various development agencies. Before leaving the legal profession in 1998, Mr. Schmitz practiced as a corporate lawyer and worked for law firms in Germany and the UK.

Juan Buchenau, Executive Vice President
Juan Buchenau has joined Microfinance International after a 20-year long career in microfinance and is responsible for the company’s lending operations. After managing a program to strengthen a multi-purpose small farmers’ cooperative in Mexico, he focused on providing financial services to households at the lower end of the income scale in developing countries. In 1991 he joined a leading microfinance consulting firm, Internationale Projekt Consult (IPC), and was seconded in 1998 to its Washington-based affiliate Frontier Finance International (FFI). He has played a leading role in developing and implementing country-wide microfinance programs which were set up with support of US and international agencies to improve the supply of financial services to underserved clients at the frontier of finance. Mr. Buchenau has participated in various international conferences and has published numerous articles covering a range of microfinance innovations.

Kai Schmitz, Executive VP and COO
Prior to joining Microfinance International, Mr. Schmitz was co-founder and Chief Operating Officer of Money Systems, a leading provider of remittance management systems in Europe. He was a financial consultant and Manager of Corporate Planning for MicroManos, he was a financial consultant and Manager of Corporate Planning for MicroManos, resulting in a practice area to help large financial institutions, including all major players in the U.S. and the UK.

William C. Moss, Director
William C. Moss is founder and Chief Operating Officer of MicroBanx Systems, LLC, a provider of software to MFIs. Before founding MicroBanx, Mr. Moss spent fifteen years with MACOSA, Latin America’s leading developer of banking software (COBID), where he served as Chief Executive Officer at the time of his departure. Mr. Moss also served as Vice President and Chief Information Officer for the Overseas Private Investment Corporation in Washington D.C., and as Vice President for Investment Management of CoPaz.

Thomas W. Bird, Director
Thomas W. Bird is a co-founder and Co-President of Farm Capital Services, LLC, an experimental venture partnership making investments of intellectual and financial capital in fast-growth businesses, technology companies, and outsourcing firms in Germany and the UK.

Daniel A. Weiss, Vice President
Daniel A. Weiss co-founded and served as the Chief Financial Officer and Manager of Corporate Planning for MicroManos Corporation in Washington D.C., and as Vice President for Investment Management of CoPaz.

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