WILLIAM DAVIDSON INSTITUTE
AT THE UNIVERSITY OF MICHIGAN

Leveraging Remittance as Information (LRI)

Meet John, USA:

Diaspora from **Country A,** he aspires to support business ventures started by friends/family. He wants to play a role in economic development of his home country.

Meet Jason, Country A:

He is **John's** brother and runs a poultry farming business. He needs a loan to hire additional workers and purchase equipment to keep up with demand.

Meet the Banks:

Several banks in **Country A** are trying to develop the SME business segment.

What is the best way to get a loan that benefits all the parties involved?

	Obtain loan directly from a financial institution	Direct remittance from John as loan	Remit the collateral amount through a bank
Challenges	• **Jason** does not have credit history and cannot provide adequate collateral.	• Access to remittance amount only. • Future loan needs cannot always be fulfilled via this medium.	• In absence of credit history, bank cannot vouch for **Jason's** character and behavior once loan is disbursed. • **John** cannot monitor how **Jason's** business is performing after taking the loan.
Mitigation of Challenges	• **None**	• None, as the Money Transfer Operator (MTO) companies dictates the transaction fees.	• Remittances also represent transfer of information as **John** can vouch for **Jason's** character and influence his behavior. • The bank can monitor performance of **Jason's** business after loan is disbursed.
Impact	• **None**	• **Jason** can use the remittance for loan. No guarantees of such future loans from **John**. • **John** may/may not receive the same amount back from **Jason.**	• **Jason** develops a credit profile with **Bank A.** • **Bank A** acquires a new SME customer virtually risk-free. • **John** has helped **Jason** develop independent relationship with **Bank A** and can avail of future loans without his help. **John** can help some other family member towards financial self-reliance.

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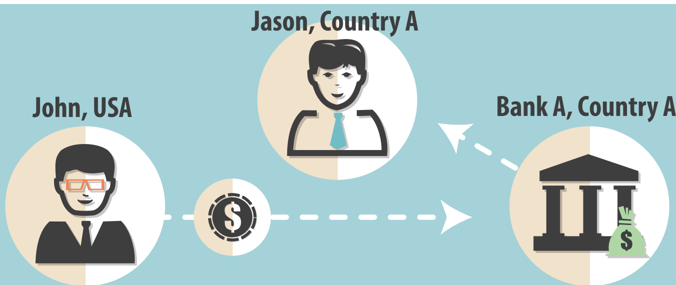
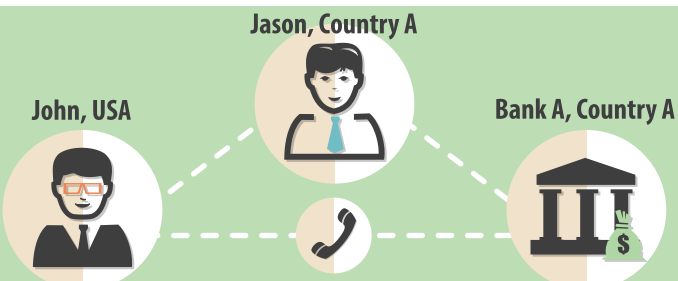
LRI Process

Enter Bank A:
Bank A is trying to develop the SME business segment.

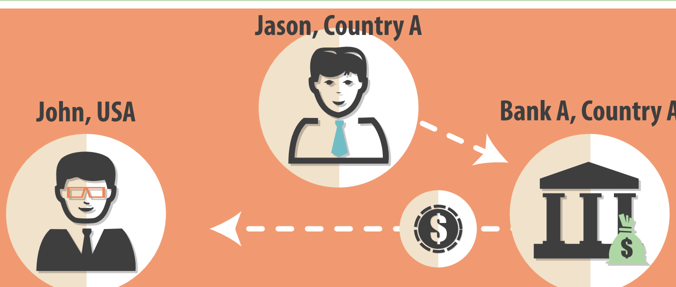
Jason, John and **Bank A** have a meeting. **John** agrees to remit money via **Bank A** which will be used as a collateral.



John transfers the collateral amount to his account in **Bank A** (opened by **Bank A**). **Bank A** disburses loan to **Jason.** Another option can be **Bank A** putting a hold on **John's** bank account in USA. In this case there is no actual money transfer.



John is in constant touch with Jason to see how the work is going. The bank can monitor the performance and competence of **Jason,** updating **John** (the ultimate lender) as needed.



Jason repays loan to the bank. **Bank A** remits collateral back to **John**. If **John** decides to help another family member, the collateral remains in his account and he is free to use it. **John** helped **Jason** build credit history and made him independent in future dealings with banking sector.

John, USA:
Happy to help family and play role in home country economy.

Jason, Country A:
Expanded his business, established credit history. He can now approach bank directly.

Bank A:
Made a low risk SME loan and acquired a new customer.