Improving financial services for the poor: Facilitating international remittance flows and enhancing their efficiency

RTB2 // Microfinance

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Executive summary

For many years, money transfers between individuals were almost exclusively managed by specialized companies. This monopoly has allowed these companies to maintain a high price for their services. The arrival of new market players, among which are foremost the MFIs and mobile operators, suggests a potential fall in costs to their users since this market represents nearly $300 billion annually.

However, it is clear that, for now, despite the end of exclusive licenses that have often tied MFIs to companies specialized in money transfers, the prices of these services remain stable. Parallel to this, local and international initiatives are developing to improve the services associated with money transfers through partnerships, innovative products, web platforms etc. and are waiting for technological advances and/or new strategies of market players to significantly reduce the costs of money transfers.

Synthesis

According to **Saïd Bourjij**, for many years, money transfers between individuals were almost exclusively managed by specialized companies. This monopoly has allowed companies to maintain a high price for their services.

The two main objectives today are:

- To reduce costs associated with transfer services,
- To transform these transfers in local savings in countries to which shipments are made or where savings are available for local investment. It would go from 'cash to cash' to 'cash in accounts' or to 'cash in investment' in order to have a positive impact on banking services for people and even on the reduction of poverty.

In recent years, new actors have emerged on the market, including microfinance institutions (MFIs). MFIs have long been, and are still often relegated to the role of sub-agents for specialized corporations or financial institutions. They usually need to sign exclusive rights clauses with transfer companies, which prevent them from going along with the competition and reducing costs. Mobile operators are also becoming more active in the transfer market.

The impact of new technologies and the gradual removal of exclusive clauses represent a significant hope for effectively decreasing the costs associated with remittances.

Jean Pouit gives us some figures and remarks:

- The amount of money transfers between individuals from the North to the South is more or less $300 billion with $43 billion mainly for emergency expenses (food, education, health) in Africa.
- African migrants in Europe have savings totaling $28 billion, which could be partly used to finance investments in their countries of origin via Diaspora bonds, as has already been seen in Ghana or Ethiopia for example.
- 65% of the points of service in Africa are held by Western Union and MoneyGram.
- MFI networks are much larger and more extensive than the transfer companies, particularly in rural areas. Their collaboration with transfer companies represents an important issue for the development of these services.

Here is a list of websites for comparing transfer service prices:

- remittanceprices.worldbank.org
- envoidargent.fr
- sendmoneyhome.org

Obed Makori presents the cooperation between **WOCCU** and **Irnet**. WOCCU is the world's largest network of credit and savings cooperatives in the world. It helps its MFI partners gain access to an international platform (IRnet) of money transfers for which the more competitive transfer companies had been previously selected. The objective of WOCCU is to reduce the costs associated with transfers to transfer companies in order to have access to a network with a large number of members. WOCCU offers more technical assistance to its MFI members to implement the money transfers.

This system allows transfers to go directly into peoples' savings accounts without having to pay additional fees or moving money.

Citizens of most countries in which WOCCU works allow the organization to have coverage in rural areas and many points of service compared to traditional transfer companies. In Guatemala for example, transactions reached a number of 50,000 per month.

Adama Ba presents **PAMECAS**'s innovative investment products.

PAMECAS exports its activities through a network of 77 offices in Senegal. The MFI works with 3 different transfer companies, and has developed innovative transfer solutions in partnership with the CIF (Confederation of Financial Institutions) and GRET (French NGO).

One of the first aspects of this program was to develop partnerships with transfer companies in Europe to allow migrants to open an account with PAMECAS from abroad, without having to travel to Senegal.

The Products are:

- Family savings: the migrant's family can recover monthly money transfers. When the transfer has been completed, the family can enjoy the usual amount (overdraft for the migrant).

- Project savings: each migrant may implement a project in Senegal, and receive financial assistance and consulting from PAMECAS.

- Housing savings: migrants who want to build a house in Senegal may benefit from the advice and monitoring of the site by PAMECAS.

800 migrants have already joined the program in Italy, representing a savings volume of XOF 300 million. An office will soon open for migrants living in Spain.

Pape Sene presents the invoices for families and relatives paid directly by migrants from Belgium.

The objective of the **NGO CAAD** Belgium founded by **Pape Sene** is to allow Senegalese migrants in Belgium to pay for water, electricity, telephone, rent or other payments on a bank account their family and relatives have back in Senegal through their mobile phone bill. Each adherent receives a free cell phone whose use is limited to financial transactions under the project. Each phone has a subscription and a monthly credit that allows up to eight transfers, free from communication costs. The transfer system consists of a platform connected to mobile phones, a Belgian bank and a Senegalese bank. All work independently and exclusively for project activities.

This platform reduces costs associated with transfers to the migrant. In addition, one quarter of the commission goes indirectly back to the migrant via a guarantee fund located in Senegal and managed by an NGO. The guarantee fund is designed to help migrants wishing to develop economic activities in their countries of origin. Finally, a partnership with a Senegalese mutual health program was established to help support migrants' families and relatives.

Jean Pouit is currently developing a project called «**INAFI Remittances**», in partnership with the network of African MFIs INAFI, the European Union and Oxfam. This project aims to connect 10 migrant associations from 10 European countries and 10 African MFIs in order to pool together transfer amounts via an Internet platform and reduce their costs. The internet platform should also give users the ability to manage an account in their country of departure, and to obtain information to help them manage their money and develop projects.

Despite the arrival of new players, the costs associated with money transfer services have not decreased. However, if central banks do not react to this problem, we can reasonably imagine that the mobile operators that have purchased licenses of activity at exorbitant prices may decide to start or buy local banks to develop the market for money transfers at lower costs. This event would be a positive move on the price of these services. However, it does not give any insurance on the use of the transfer from the transition from 'cash to cash' to 'cash to account', even 'cash in investment'.

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