2. Transfer Operators

The formal remittances market has recorded a 15% annual increase in recent times. This trend is largely due to the surge in MTCs, whose growth ranges between 35-70% per annum.

Figure 2.1 Remittances Market Breakdown by Mode of Transfer
2.1 Formal transfer Operators

2.1.1 Money Transfer Companies (MTCs)

Emerging in Africa in the mid-1990s, MTC operators have benefited the most from the growth in formal remittances in the last decade. The MTCs have responded to the growing market by tailoring their services to the needs of immigrants, with the emphasis on rapidity and security, within a context of low bankarization. In many countries, MTCs have gradually absorbed other more informal modes of transfer (such as sending money home via a courier). However, the quality of this service comes at a high price due to the monopolistic position of these agents.

The market coverage rate by MTCs varies considerably, 100% in Senegal with a dense, diversified and competitive network; 75% in Morocco where the MTCs compete with banks; and just 29% in Mali where MTC operations are more recent and the vast territory seems to complicate the extension of their networks.

---

9 Mali is particularly conducive to the development of MTC micro-initiatives on a few regional corridors, provided the cost is controlled or the system resorts to transfers by mobile telephone based on the M-Pesa model in Kenya (see article in Annex 4).
Figure 2.2 Breakdown of the MTC Market (10)

10 Based on percentage of families using MTCs at least once per annum.
The MTC market is dominated by the historic leader, Western Union, which commands 65-100% of market share, depending on the corridor. However, other operators are gaining ground, especially MoneyGram (5-25% market share), as well as others specializing in niche markets, for instance inter-African remittances or remittances with Arab countries (e.g. Money Express).

The quality of service provided by these companies is generally appreciated by users who see it either as the principal mode of transfer (where beneficiaries do not have a bank account) or as a back-up for another formal or informal mechanism. However, the high cost of the service limits its growth. As experience shows, only policies promoting a play of competition at both ends of the corridor can help to significantly reduce costs and engender the gradual absorption of informal remittances by MTCs.

In the Anglophone corridors, especially that of the UK, the number of specialized transfer companies has grown tenfold, thanks to a simplification in licensing laws. This has created a wide range of products, and has led to a dedicated website (www.sendmoneyhome.org) to inform migrants about available transfer options (some 50 on the major corridors, about 1,000 in all, compared to fewer than 10 in France). Such a website in France would have less impact due to less competitive price margins.

The Italy–Senegal corridor offers another example. The simplification of the licensing laws in Italy has also encouraged competition. On this corridor, tariffs charged by MTCs are half those charged in France, resulting in 30% greater take-up, to the detriment of the informal channels. The challenge in France relates more to networking than pricing. Western Union, maintains a de facto monopoly over the French corridor through its partnership with Banque Postale (who operate 6,000 collection points between them). Therefore, to reduce costs, measures that favor competition need to be introduced, especially in specific zones where migrants are concentrated (see Figure 1.7).

2.1.2 The Banks

Of all 4 countries, Morocco records the largest take-up of the banking system for migrant remittances. Thanks to the traditional role of Banques Populaires (People’s Banks), the banking sector in Morocco has long catered for the needs of the Diaspora. Currently, out of some 20 banks, 4 (all Moroccan) share 85% of the migrant market. The key reason for their success is their representation in the major host countries, which other African banks lack (although there is indirect representation in some French banks in the case of Mali). Foreign banks (especially those in the migrants’ host countries) tend to employ a different strategy, which consists in setting up “specialized” agencies in some countries, depending on the origin and areas of concentration of the Diaspora. The second reason for the success of Moroccan banks is the diversity of services offered to migrants, which goes beyond money transfer and includes insurance, real estate, investment, etc.

11 Competition from other emerging corridors, especially England, is higher.
In respect of Mali and Senegal, there are a number of reasons for the low utilization of banks when sending money: (i) low bankarization on the part of beneficiaries, (ii) the poor quality of services, and (iii) the cost of the service. A major constraint is the quality of the banking services: often the network is inadequate, particularly for those living in rural areas; there is generally a long delay (1-3 weeks) for the transfer to be made; the waiting time at the agencies is considerable; and unexpected and arbitrary commissions are sometimes deducted.

Surveys indicate that the use of bank transfers is quite similar in the 3 major European corridors studied (France, Italy, and Spain). They also reveal a major network of alliances between various European banks to manage remittances. Furthermore, the innovative marketing offensive launched by the Attijariwafa-Santander Group (no commission, package of services offered, large representation network in Europe) is too recent (January to April 2007) to have produced measurable results. The strategy will likely pay off (according to feedback received from most respondents) by not only capturing migrant transfer flows, but above all, by securing their medium- and long-term deposits.

2.1.3 Microfinance Institutions

Senegal has a very low bankarization rate (5% national average). The MTC market is quite robust and the large MFIs play a specialist role by acting as intermediaries between the MTCs and the beneficiaries. Their involvement at the end of the payment chain accounts for 8% of the total MTC market. They contribute to the densification of the distribution network, thus increasing competition for money transfer services in the informal sector. Through MFIs, the beneficiary bankarization rate could rise, even though their intervention will have little impact on the cost of remittances.

Mali and the Comoros present another opportunity for MFIs. In these countries, the utilization of informal channels is still very high, banking competition is nonexistent, MTC coverage is relatively low, and the emigration basins are more condensed. Here MFIs have an exploitable potential, especially if they move closer to transfer platforms (Visa, MasterCard, etc.) and embark on the use of ICT (m-banking).

In order to reduce costs, some MFIs plan to develop their own rapid transfer platform by sidestepping an operator in the payment chain (an example is being developed between the Kayes region in Mali and the Paris region). However, there is a very high risk that MTCs may try to protect their market share and the de facto monopolies by lowering their charges, embarking on a media blitz, and signing exclusivity contracts. As was the case in the Philippines, it is probable that MTCs will not hesitate to
reduce their profit margins for some time to nip an emerging competitor in the bud.

2.1.4 The Postal Network

The conventional postal network (excluding Western Union) commands 8-15% of the market share in Senegal and Morocco. Postal orders are being used less frequently and mostly by older migrants and retirees. However, out of habit, some migrant families remain attached to this mode of transfer. In the other 2 countries, the postal order has lost all credibility due to past problems of liquidity, which led to payment defaults. Its market share in Mali and the Comoros is practically zero.

Electronic Postal Order: This new product which falls between the postal order and rapid transfer seems well adapted to the demands of the customer, since it combines moderate cost (close to that of informal channels) with a measure of rapidity (12 hours). It draws inspiration from the second semi-rapid product that Western Union already proposes on certain corridors (especially departing Great Britain). The Post Office Bank (Banque Postale) launched the product in March 2007, so it is too early to measure its impact. However, this product is not available in countries where the postal department is in dispute or does not have an agreement with the Banque Postale (viz. Mali and Comoros).
Tables 2.1 Comparison of the Principal Non-banking Money Transfer Systems for EUR 300 Departing France

<table>
<thead>
<tr>
<th>Mode of Transfer</th>
<th>Cost</th>
<th>Duration</th>
<th>Identification/Access Requisites</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Union*</td>
<td>29.00 €</td>
<td>10 min</td>
<td>Migrant with an ID</td>
</tr>
<tr>
<td>Money Gram</td>
<td>23.00 €</td>
<td>10 min</td>
<td>Migrant with an ID</td>
</tr>
<tr>
<td>I bank transfer**</td>
<td>10.00 €</td>
<td>2 days</td>
<td>Migrant and beneficiary with bank account</td>
</tr>
<tr>
<td>I cash transfer**</td>
<td>20.00 €</td>
<td>3 days</td>
<td>Migrant with bank account</td>
</tr>
<tr>
<td>Ordinary postal order</td>
<td>10.60 €</td>
<td>3 à 5 days</td>
<td>Migrant with an ID</td>
</tr>
<tr>
<td>Express postal order</td>
<td>16.70 €</td>
<td>12 hours</td>
<td>Migrant with an ID</td>
</tr>
</tbody>
</table>

* Recent inform indicate a slight reduction in the transfer costs.
* Société Générale m-banking

2.2 Informal Operators

2.2.1 Choice Determinants for Informal Channels

The use of informal channels presents a relatively high risk and so they tend to be used in the absence of more efficient formal solutions.

It is worth noting that the vast majority (90%) of beneficiaries are unaware of the cost of remittances. Such costs are solely the burden of migrants, who often have to meet the demand for urgency and rapidity. Most of the migrants themselves (70%) are unaware of the various costs. Hence, cost is not the principal factor in the choice of the mode of transfer.

There are two broad factors that determine whether a migrant opts for an informal or formal remittance channel. The first relates to the specificities of the beneficiary country (economics, history, policies, etc.); the second to the performance of the banking system and available products. The analysis below looks at the various criteria affecting choice, ranged according to importance.

- Exchange Rate Differential

This automatically generates extra cost to the beneficiary. Indeed, the wider the exchange gap between the parallel and the official markets, the more transfers opt for informal channels. That is the case with regard to Euro/Dinar transfer corridors (Europe–Morocco) where +/-10% gaps were recorded. The same situation also exists between the United States and the CFA Zone but not within the CFA Zone.
This issue also raises regional integration issues (e.g. between Senegal and the two Guineas). For instance, the Guinea Diaspora transits a proportion of its remittances through Senegal for conversion into CFA Francs and subsequent exchange on the parallel market in either of the two Guineas. This distorts the preparation of balance of payments and the reliability of statistical data.

- **Rapidity of Service/ Collection Times**

Most remittances (around 80%) are made in response to emergency needs of beneficiary households, to cover food etc., or because of an exceptional situation (illness, ceremonies, etc.). Thus, one of the principal factors in the choice of transfer operator is the speed of the transfer to respond to the emergency. The whole rapid transfer system is contingent on this, with quasi-instantaneity of remittance and reception operations. A timeframe above 24 hours is generally unacceptable for this type of transfer.

The higher the amount (>EUR 500), the greater the tendency to use more traditional banking transfer (especially SWIFT) or the informal circuit. Although there is a lesser degree of urgency in such cases, the period must be well within 7 days. In practice, many banks cannot accommodate this timeframe, which encourages recourse to informal channels.

Connected to the rapidity criterion, beneficiaries strongly complain about the waiting time at agencies. This can act as a disincentive when clients may lose a whole half-day as in Mali, Comoros, or Senegal.

- **Accessibility of Agencies/ Coverage**

The density of distribution points within the money transfer network contributes to strengthening the operator’s market share. However, this also contributes to a potential increase in the operating cost, since it multiplies the intermediaries to be remunerated, especially where MFIs are at the end of the payment chain (e.g. in Senegal). The key operators specializing in rapid transfers make that strategy the core of their development and keep 50% of the margin.

The poor coverage of agencies largely explains the high usage of informal channels in Mali and the Comoros. However, the gap is being rapidly addressed in all countries, thanks to alliances between money transfer companies, banks, and microfinance networks. Furthermore, MTCs tend to have their own independent distribution points (e.g. Senegal), to further densify the network.

The number of remittance deposit points in host countries is another factor. It is worth noting the de facto monopoly held by Western Union and Banque Postale in France (6,000 collection points between them), which leaves very little room for other operators.

A key measure that beneficiary countries could take would be to end the monopoly of MTCs by reducing or prohibiting exclusivity clauses which partner banks and MFIs
have to sign. This would free up competition and have a
snowball effect on prices and the quality of services.

- **The Cost**

Remittances average EUR 250-300 per rapid transfer
operation – which appears to be the most profitable
market segment for MTCs. Below that amount,
migrants prefer less expensive informal circuits (8-10%
on average for rapid transfer systems, with a proporcio-
nately higher cost for smaller amounts, up to 20%).
A reduction in the transaction cost would bring this mar-
ket share to formal channels, similar to what Western
Union achieved on the Italy–Senegal corridor. Here, a
50% reduction in cost resulted in a sharp increase
(+30%) in the use of the formal channel.

- **Security**

Although an important factor, the risk of loss is relatively
low, with the various well-oiled circuits operating suc-
cessfully over the years (see "Principal Modes" below).
Of course, formal rapid or banking channels offer the
best security. Moreover, in areas (especially major urban
centers) partly spared from social pressure, the tendency
would be to use the MTCs.

- **Low Bankarization Rate**

The low bankarization rate (5-40%, depending on loca-
tion) among beneficiaries, attributable to accessibility,
cost and low income, is another criterion that favors
informal channels. However, bankarization has increased
significantly in recent years, thanks to the microfinance
networks, some of which have reached a size similar to
banks (e.g. Crédit Mutuel of Senegal).

There is a very clear trend by the major MFI networks to
position themselves in the transfer market, maximizing
their extensive networks and broad geographic cover-
age. However, legislation in Senegal only authorizes
them to subcontract these operations to commercial
banks, which also subcontract operations from the
MTCs. Since the relationship between multinational
companies (limited company and commercial banks)
and the MFIs is a highly unequal one, MFIs in Senegal
can obtain only a very marginal profit from operations
based on this model. In contrast, MFIs in Mali and the
Comoros can establish direct relations with MTC oper-
ators and so derive greater profit.

- **Proportion of Unregistered/Illegal Foreign
  Workers**

Our estimates suggest the the number of
unregistered/illegal foreign workers is probably quite high
(30%) for certain corridors (Senegal and Mali). Our find-
ing is based on the number of bank accounts held by
these communities (more than 100,000 for each of the
two countries ), compared to the number of officially
registered residents and the estimated volume of remit-
tances.

Certainly, one of the reasons for the spectacular growth of
Spain as a major transfer corridor is due to the recent raft

---

12 This data should be kept in perspective, given the number of non-resident accounts opened in French banks.
of migrant "regularizations" undertaken in recent times. The size of the unregistered/illegal foreign population is difficult to assess and represents the most significant source of bias in a study seeking to quantify volumes. It renders the compilation of a reliable predetermined sample difficult and increases the complexity (due to the high rate of non-response from migrants). Hence, we reasoned more in terms of financial flow and the utilization ratio of various modes of transfer rather than number of migrant population.

**2.2.2 Principal Modes of Informal Remittances**

After identifying the reasons for using informal channels and assessing their utilization take-up through field surveys, we now examine the different modes of informal remittances and their scope. This will assist in determining appropriate strategies to be adopted in order to encourage formalization of the transfer market.

- **Carriers: Approx. 60-70% of the Informal Channel**

  The principal system for informal remittances consists in assigning a community’s transfer to one carrier. It requires solid social relations and is effected when a member of the community returns home on vacation, or by professional carriers transporting more than EUR 10,000 in cash. This is the minimum amount for professional carriers, whose commission must cover travel expenses and yield a profit margin. This system is very widespread in Mali due to the large territory, which is inadequately covered by transfer agencies. However, it suffers from a bad reputation.

  - “**Fax**: Approx. 30% of the Informal Channel”

  “Fax” is the name given to a system common in Mali, the Comoros, and Senegal, inspired from the traditional Hawala, which involves gathering transfers at one collection point (generally a store or home) and redistributing the sum to beneficiaries almost instantaneously through a trader in the country of origin, after identification by telephone (actually, the fax machine is hardly used). This is a rapid transfer system with similar characteristics to MTCs, but generally less expen-

\[13\] Also referred to as "amnesty," "normalization," or "legalization."
sive (3-5% commission charged, compared to 8-20% for MTCs). The risk is also higher: After the remittance has been made, most of the amounts are compensated through a bank transfer from the collector to the distributing trader, or by sending merchandise.

In Mali, the system uses a distribution network within easy reach of the beneficiaries who are mainly rural dwellers, thereby offering considerable advantage over the formal sector. Due to inefficiencies and delays at bank agencies, this system is also used as substitute for internal bank transfers within the country. It too is strongly based on solid social relations. In Kayes, the number of informal distribution points under the “fax system” is 5 times that of the MTCs.

- In Kind through a Trader (< 5%)

This system is widespread in rural areas and involves entering into a contract with a trader who would open credit to one or several beneficiaries for the supply of consumer items (rice, sugar, cooking oil, etc.). This system was set up by migrants wary of seeing their remittances diverted for purposes other than those intended. It often reflects a relatively conflictual relationship between the migrant and the beneficiaries. Generally, it only concerns subsistence support to families and is of little interest to this study.

- In Kind (<5%)

This concerns consumer goods or merchandise sent by migrants. Often, these are second-hand items (vehicles, home appliances, etc.). This phenomenon mostly concerns Maghreb countries (due to their proximity to Europe) and the major port cities on the West African coast. Most of these countries try to reduce such informal trade by introducing customs duties or restrictive regulations (especially on the age of vehicles).

- By Post (marginal)

Mentioned several times by Moroccan respondents, this system involves transferring small amounts (generally EUR 50) in cash via mail. Risks are limited, given the amounts sent per unit.

Factors Conducive to the Growth of the Informal Circuit

The survey shows that “fax system” operators capture 20-30% of the informal market, while cash carriers account for more than 70%. Most “fax systems” could probably be formalized if licensing regulations were as flexible as the Anglophone model, transforming them into rapid transfer companies for niche markets (specific corridors to a given country or region).

With regard to the MTCs, which represent the main competition to informal channels, the principal hurdle comes from the de facto monopoly exercised by Western Union, which maintains high charges, especially on the French corridor. Vis-à-vis banks, the informal channels have a distinct advantage, due to the low bankarization of the beneficiaries.

In the case of Morocco, the exchange differential between

---

1-Hawala works by transferring money without actually moving it. The components of hawala that distinguish it from other remittance systems are trust and the extensive use of connections such as family relationships or regional affiliations. For more details, see: [http://www.interpol.int/Public/FinancialCrime/MoneyLaundering/hawala/default.asp](http://www.interpol.int/Public/FinancialCrime/MoneyLaundering/hawala/default.asp)
the official and parallel markets (notwithstanding partial coverage by the State via the authorization of non-resident foreign exchange accounts) as well as the proximity to Europe, partly explains the residual informal level. In any event (this was the main constraint of the surveys conduc-
ted in France), migrants working or residing clandestinely use informal channels, to avoid being detected by the banking network or having to justify the origin of funds. Migrants may also avoid MTC agencies because they lack the minimum identification documents required to complete

---

13 This Western Union monopoly is a tacit fact in France and is based on the spread of the network set up through an agreement with Banque Postale (6,000 collection points, compared to a few hundred offered by the competition). It is further facilitated by the difficulties that small niche operators face in obtaining accreditation from the DEGES. In Africa, in contrast, partner paying agents are bound by exclusivity clauses in their contracts with Western Union. The system is also based on the solid finances of the Western Union Group, which compensates its paying agents and collectors twice weekly, compared to once every other month for some banks and postal departments. Lastly, operators up- and downstream consider the margins as equitable, leading to an overall tacit understanding.