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Centro Studi di Politica Internazionale

FONDAZIONI
4 AFRICA
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COMPAGNIA DI SAN PAOLO
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EXECUTIVE SUMMARY

Implementation of an innovative financial platform for the channeling and enhancement of remittances through microfinance Institutions on the Italy-Senegal corridor

Anna Ferro e Daniele Frigeri

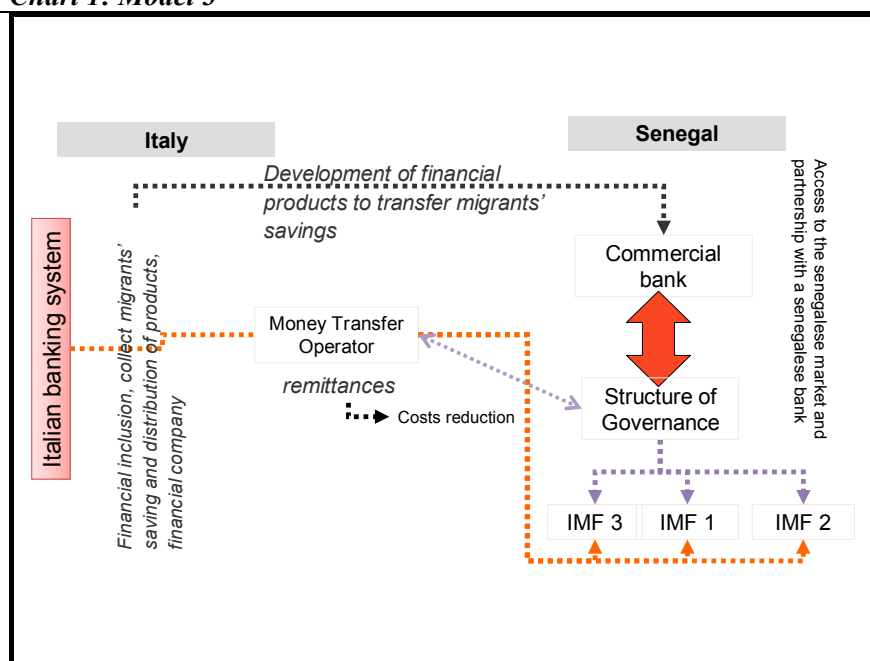
November 2010

PROJECT BACKGROUND

Within the three-year project Fondazioni4Africa (F4A), CeSPI plays a role of research aimed to explore the relationship between remittances and microfinance between Italy and Senegal. The objective is to find potential models through which to channel remittances of Senegalese living in Italy into the microfinance institutions (MFIs) in the country of origin in order to implement a pilot project and an experimental platform.

During the first year of work, all the knowledge gained on the subject, data and background information, has been systematized, and in-depth analyses have been carried out both in Italy (Senegalese needs, their financial behaviors and offer from financial operators) and in Senegal (interviews with migrant families and local financial operators)¹. As a result of these analyses, a *Channeling Model*, which is considered the best fit to meet the objective of enhancing remittances between Italy and Senegal through the MFIs, has been defined. This is a rather complex and articulated model that provides multiple levels of intermediation through relationship between banks located in Italy and banks in Senegal and between them and the MFIs, with the mediation of a Money Transfer Operator (MTO). The model (*Figure 1*) was presented in 2009 at a seminar in Dakar, winning a general interest among the participants.

Chart 1: Model 3



During the second year, further analysis has been carried out on the model identified as optimal for channeling the remittances into the Senegalese MFIs. To test the feasibility of the model, during 2010 a broad and articulated survey process was launched through interviews with representatives of the Senegalese and Italian banks, MTOs, experts and authorities / institutions (e.g. in Italy: Italian Banking Association, Bank of Italy, SACE, and in Senegal: Senegal's Banking Association and the Ministry of Microfinance). Overall, 24 meetings have been arranged between Italy and Senegal.

Main purpose of the meetings had been the verification of the feasibility of the Model, by collecting the strengths and weaknesses highlighted by the operators (in Italy and Senegal) and urging a

¹ All papers are available at: <http://www.cespi.it/africa-4fond.html>.

response on the willingness for its potential experimental implementation. The research led to a discussion paper entitled “*Studio preliminare per la realizzazione di una piattaforma finanziaria innovativa per la canalizzazione e la valorizzazione delle rimesse attraverso le Istituzioni di Microfinanza nel corridoio Italia-Senegal*” (Preliminary study for the implementation of an innovative financial platform for the channeling and enhancement of remittances through Microfinance Institutions on the Italy-Senegal corridor) edited by Daniele Frigeri and Anna Ferro (www.cespi.it), summarized below.

SURVEY PROCESS

Overall, the survey process has been very rich and thorough, in number and representativeness of those involved. Factors such as the innovation inherent in the Model and in its approach, coupled with the presence of 4 Bank Foundations, have driven up the operator interest. The final outcome confirms the general interest in the project and a real openness of the operators towards new channels and tools to reach foreign citizens and enhance their resources.

During the meetings the model assumptions were widely accepted, in particular, the hypotheses that remittances should be included within a more general frame of saving allocation which the Model would innovatively be linked to, and also a structure that takes on, despite the complexity, a critical strategic value through the interaction of various players involved. Indeed, the added value of each operator is fully complementary:

- migrants' ability to efficiently allocate their savings based on temporary needs and opportunities between the two involved countries;
- banks' ability (both Italian and Senegalese) to offer a full package of financial products and services and an adequate access to medium-long term capital markets and to microfinance;
- microfinance Institutions' ability to reach migrants' families and facilitate their financial involvement;
- MTOs' ability to channel remittances ensuring at the same time a good speed-costs-diffusion relationship.

Assuming a development of the Model's pilot phase, the survey process has identified a number of issues which adequate attention must be given to. **Selecting the operators and involving and making aware the diaspora** represent, in many ways, two strategic issues. As for **selecting the operators**, there are many aspects intertwining and overlapping, producing, beside potentiality, also concerns. Interviews revealed greater weakness on the Senegalese side, due to a less involvement of commercial banks and still fragile relations between banks and MFIs; however, they have allowed us to identify possible alternative solutions. Similarly, the main lines of action and the major needs that were identified by all operators concern the necessity to involve migrants and associations, to adequately divulge information, to promote financial education and to coach about the Model and its developments, not only at its early stage but also in the medium term, in order to help building lasting trust relations.

Strengthening the role of the financial system and in particular the one of the MFIs; to create local growth through the resources of the diaspora would lead to a virtuous process which will certainly need the right tools and available operators, but it can only be developed within a propitious and trusting environment, providing for extensive involvement at institutional level, regulatory level, and planning of development policies level, as well as cooperation of both countries.

Conducting a pilot project has a level of complexity and cost implementation not negligible, requiring appropriate economies of scale and a medium-long term growth for the operators involved.

SCENARIO: FEASIBILITY AND POTENTIAL IMPLEMENTATION OF THE MODEL.

At the end of the second year of research activities, various potential scenarios that could support the implementation of a pilot phase of the model were screened, based on the survey process and empirical information collected. Within these, it has been identified, through a comparison with the 4 Bank Foundations, the one that best meets the requirements and objectives of the F4A project.

The third year of operations, therefore, will carry on the work already done so far, supporting the path of implementation and sustainability of the research of the Model. It is a process that, given its complexity, cannot be reasonably completed within a one-year period. During the third year, however, it is possible to create the conditions and lay the foundations for the model to be eventually implemented, becoming in this way operational. In particular, the objective is to start and support the origination of two systems, one in Italy and one in Senegal, for the implementation of the platform provided by the Model.

Below it is explained the implementation scenario outlined at the end of the second year of research activities, broken down by intervention areas, which may lead to completion of a pilot phase in both Italy and Senegal. For each phase CeSPI will play an assistance and intermediary role within the parties involved.

Phase I - The Italian contest. The work will be focusing on an **introductory information** and preparation of the structure of the Model through the possible involvement of the Associazione Bancaria Italiana (ABI, Italian Banking Association). During the survey process, ABI has welcomed the spirit of the project, assuming a scenario similar to the one adopted here. Still, the possibility that the Institute joins and develops this initiative led by Fondazioni4Africa/Cespi is under consideration and it will take a certain time to be cleared out. Therefore, during the third year, meetings and assumptions previously discussed will be followed up and put in practice. The work plan, therefore, will present to the banking system, through its trade association, the creation of a system of agreements intended as a "space of relationships" within which each bank will be free to independently and competitively operate. After having defined the structure of the model on the Senegalese side (see below the planned activities) and the link with the Italian context, through the involvement and mediation of the ABI, it would then be possible to introduce the Model to the Italian banking system and define each relationship with the local Senegalese context. In this way, the Italian banks will be free to enter the scheme defined by the Model (in its structure and its essential content), negotiating independently their own conditions and developing banking products deemed the most appropriate. By following this scenario, in agreement with the banking association, the role of the Fondazioni4Africa - and hence CeSPI –would be merely to assist ABI and expedite relations within the operators through promotion, support, and information of the banking system.

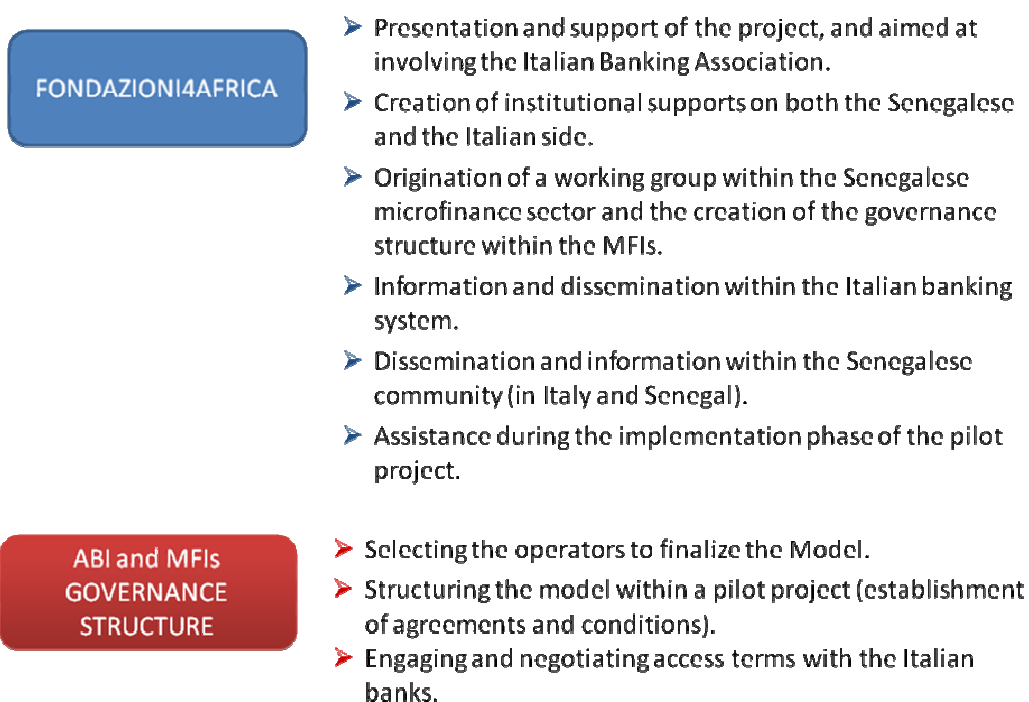
Phase II - The Senegalese contest. - The Senegalese contest. The work will be focusing on the microfinance sector through the creation of a **governance structure within MFIs** members, a lean legal entity, able to bring them together and represent them under a single entity, still focused on defining and managing the model and its conditions, without affecting its full operational autonomy. From this point of view, MFIs partners of the project (Networks of Urmces, FOM and

Delta Mec *mutuelles*) should not be precluded from being on the side of one or more networks of national MFIs. The creation of a governance structure might be an appropriate means to strengthen them and give them adequate representation, as well as generate significant economic benefits. It is hoped to organize the project within a **partnership with the Senegalese Microfinance Minister**, which would initiate a working group in Senegal, starting from the MFIs already involved from the survey phase.

Phase III - Towards the construction of the Pilot Project. After having completed the structure of governance in Senegal and having defined the potential commitment of the ABI in Italy, it can be finally possible to create a pilot project of the Model, through the involvement of the other operators envisaged, in particular, a commercial bank in Senegal and a MTO. Indeed, the two above institutions (the *structure of governance* within MFIs in Senegal and ABI in Italy) will interact with the two categories of operators (Senegalese commercial bank and MTO), with the support of the Fondazioni4Africa Project, identifying, solely on purely economic criteria, the players within the model that can ensure the best operational performances, bringing the expected benefits, and defining the necessary arrangements for its implementation. Given the experimental nature of the model and in order to ensure the benefits it should offer (in terms of volumes, improvement of MFI market access, and savings), it is suggested the engagement of a single operator for each category involved (one MTO and one Senegalese commercial bank). Excessive fragmentation would constitute an increase in implementation costs related to the definition of the agreements, but also a fragmentation of volumes within the operators who would no longer be able to exploit economies of scale. At a later stage, it will be possible to consider opening the Model to new players.

Phase IV - Activities in support of the Model. Fondazioni4Africa, and then CeSPI, will join in those activities by supporting and assisting the construction of the contractual structure of the Model, by supporting the creation of institutional networks, by disseminating and making aware of it within associations of migrants in Italy and among the communities in Senegal.

Within this hypothetical scenario, a separation of functions would result between the activity of support and information of the Model implementation on one side, and a more operational activity of identification of the operators and definitions of terms on the other side:



Based on this scenario, it is possible to provide some implementation phases. This is a temporary work program, which will be subject to further changes and adjustments according to the choices and opportunities and constraints that will arise from time to time. As a result of this, the time of implementation cannot be defined before hand, and it would be difficult to frame it within a one-year period of activities; furthermore, the activities described below do not have very short tenor, but medium-term tenor.

Activities in Italy

The goal of the third year of the project will be the signing and stipulation in Italy of an agreement or *Memorandum of understanding* between the Italian Banking Association (ABI) and the F4A Project (including NGOs and their MFIs) to support the implementation of the model, and the launching of a technical work group involving the Italian banks. The planned activities are:

- checking with ABI about the availability and political willingness to create, alongside and with the support of Fondazioni4Africa, a system pilot project between Italy and Senegal, as a support during the project presentation to ABI;
- modifying the Model on the basis of the new scenario described here;
- ABI's coaching and assistance because of its involvement in the implementation of the model and representing the Italian banking system;
- return proceeding, dissemination and information with the Italian banking system, and ensuring the availability of banks that express interest in participating in the Model and banks linked to foundations of the Fondazioni4Africa project supporting this project, compared to a system scenario, as a result of new disclosed conditions;
- supporting the dialogue phase of individual Italian banks within the Model (the final stage, after completion of previous phases in Senegal).

Activities in Senegal

The goal is to have the MFIs agreeing and joining in the **request to create a governance structure for the model implementation**, preferably with the support of the Senegalese Microfinance Ministry and of other potential institutions (e.g. Ministry of Senegalese Abroad). The planned activities are:

- feasibility study on the governance structure;
- sharing with Senegalese Microfinance Ministry and with other potential institutions (e.g. Ministry of Senegalese Abroad) the process of creating the *governance structure*;
- creating a Senegalese working group within the MFIs, with the support from the Ministry of Microfinance;
- agreement between the MFIs interested in the project and MFIs partners of the project to create a *governance structure* that operates within the *Model*;
- supporting the creation of the *governance structure* within the MFIs;
- defining, together with the Italian Banking Association, the criteria for the selection of the operators (Senegalese commercial bank and MTO) given the implementation scenario defined (in this way the involved players would independently carry out their own *business plan* of the model in order to verify the model's effective economic sustainability and related conditions);
- creation of a working group which includes both categories of operators (MTOs and Senegalese commercial banks), which will be asked to give their best bid, which in turn would represent the parameter used for their selection;

- signing of a *memorandum of understanding* within the involved players, which will commit them to implementing the pilot phase, and will outline the obligations towards the counterparties.

Activities on both the Senegalese and Italian side (feasible since the start of the process)

This is a series of activities that can be called "parallel" to the previous ones, with the aim of creating conditions and an adequate network of institutional supports to sustain the Model and starting informing and educating the Senegalese community in Italy, end users of the Model:

- creating institutional relations in support of the Model;
- informing and making aware the Senegalese immigrants in Italy and their communities in Senegal.