AMERICAN UNIVERSITY OF BEIRUT

FOUNDING A REMITTANCE BUSINESS IN LEBANON

by
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AN ABSTRACT OF THE PROJECT OF

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Emigration is one of the main “industries” that this country is good at. It has been part of its history for decades and continues to have a major impact on its economy. Like any other industry, emigration has created new opportunities for the Lebanese to exploit and have contributed heavily in nourishing the economy at times of crisis.

With the main purpose of studying if a remittance business in Lebanon is feasible enough and if it would really serve the purpose of helping emigrants support their families, a research using both qualitative and quantitative approach was conducted.

The quantitative study conducted has reviewed the remittances inflow to Lebanon during the past few years and identified a sustainable growth of these remittances which constitute a great opportunity for the new business. Moreover, the feasibility study conducted has showed that the business is expected to generate profits. The study as well suggested that expansion by networking through independent agents is advised as opposed to branching out.

The qualitative study, on the other hand, identified a number of advantages for the company such as the already well-established family name that would provide the trust and reputation necessary for such type of businesses and would reduce, to a great extent the capital required as the company won’t be built from scratch but added as a department to the family exchange business. The formulated SWOT analysis found out that the strengths and opportunities identified are enough to hedge the risks associated with the weaknesses and threats rendering the business a promising one.

Last but not least, above all factors that determine the probability of success of any business comes the determination and willingness to achieve. While these two factors combined with the will to succeed in the home country and contribute in its growth, success becomes a matter of time!

Key words: *Emigration, Feasibility study, SWOT Analysis, Competitive advantage, Remittance Business, Risk.*

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INTRODUCTION

1.1 General Background

Since the beginning of its history, Lebanon never knew peace or political relief. It was always prone to foreign attacks and interventions. Starting with the Ottoman's ruling in the 16th century to the French colonization since the end of the First World War to being placed under a league of nations' mandate in 1920. In 1948 Palestinian refugees came to Lebanon after the Arab-Israeli war (Hourani, 2008). In 1967 a second wage of Palestinian refugees came to Lebanon and the latter was used by Arafat[1] as a base for attacks on Israel. In 1968 Israel attacked Lebanon. In 1975 a civil war took place in Lebanon and lasted till 1990 (Maasri, 2010). From 1993 till 1996 Lebanon witnessed 2 of the heaviest Israeli attacks since the 1982 invasion (Nassif & Kovacs, 2001). And since then, assassinations and car bombs have been going off between the Israeli backed parties and Syrian backed parties[2]. Today the situation is no different, the country is still divided to 2 major parties, political instability still reigns, and corruption is now worse than ever.

Now that history has been explained, it becomes only natural for Lebanon to have a very high percentage of emigration especially that Lebanese people had no choice but to leave and start a new life abroad or stay here and remain jobless. According to a study carried by the University of Saint Joseph in Lebanon (USJ), 466

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[1] Yasser Arafat (1929-2004). Palestinian leader, chairman of the Palestine Liberation Organization (PLO), president of the Palestinian National Authority (PNA) and leader of the Fatah political party and former paramilitary group.

[2] "Lebanon: A Brief History." The Telegraph [London, UK] 24 Feb. 2003. The Telegraph. 24 Feb. 2003. Web. 3 June 2012. <http://www.telegraph.co.uk/news/1400004/Lebanon-A-brief-history.html>

thousands Lebanese emigrated from Lebanon between 1992 and 2007. These numbers do not include second kind relationships nor grandchildren abroad. "At that time, almost half of Lebanese households (46.0%) had at least one emigrant among its close kin[3]."

It is worth mentioning, however, that emigration during the 15 years of civil war was much higher than the stated numbers above, but due to the situation at that time no accurate numbers are available (Fargues, 2004).

68% of emigrants left the country either because of lack of security and political instability, lack of employment opportunities, or in search to continue their education (Khalaf, 2002). Today only 23% of young Lebanese working locally reported that they are satisfied with their current wages. Hence, the increased level of emigration. Another interesting statistic in this regard is that more than 20% of emigrants in 2007 (today this percentage has increased) support their families financially and send them funds on a regular basis[4].

1.2 Research Objective

The main purpose of this research is to study if a remittance business in Lebanon is feasible enough and if it would really serve the purpose of helping emigrants support their families. Also, if the business is proven to be feasible, would it be better to expand via networking (a web of independent agents) or through branching out? What are the competitive advantages and breakthroughs that will allow this particular type of business to achieve what others couldn't?

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[3] Di Bartolomeo, A. ,Fakhoury, T, and Perrin, D. (2010). *Lebanon: The Demographic-Economic Framework of Migration The Legal Framework of Migration The Socio-Political Framework of Migration*. CARIM – Migration Profile .Web.

[4]Kasparian, Ch. (2009). *Enquete: L'emigration Des Jeunes Libanais Et Leurs Projets D'avenir*. 1+. Print. OURSE - USJ

1.3 Significance of the Study

This study is quite significant for its purpose isn't just about testing whether starting a remittance business is lucrative enough or not, but also such project will motivate young Lebanese entrepreneurs to start, implement, and therefore enhance Lebanon's economy despite the long lasting political instability. This project, the remittance business, is about supporting the notion that one should work hard to grow and succeed in his own country. It shall allow all those abroad to support their families based on the fact that this business would be a privately owned and would allow owner to offer very low prices compared to international firms. Hence, with more money coming into the country, GNP (gross national product) will rise; the residents' financial and therefore social situation will improve driving up their consumption. Hence, the economy will expand resulting in more job vacancies.

1.4 Statement of Research Questions

This study aims at exploring the following questions:

1. First of all, what is a remittance business?
2. How to fund it and raise awareness and encourage people to start transferring through this business?
3. How are people already transferring money today in and out of Lebanon? How much are they transferring, how often? What competitive advantages do such new business have that will make people use its services?
4. How will it cover all the Lebanese Territories? The branching out strategy Vs the networking (through independent agents) theory. Which is better and why?
5. Which countries to cover first? And how to expand internationally?

6. How to run the business with all this unstable political/regulatory situation and high country risks? And how do they affect this business?
7. Once the company has been established, what would be next and what will allow this company to achieve what others couldn't?

Moreover, based on the discussion of the above questions along with the analysis of the primary and secondary quantitative and qualitative data, this study will answer the following main research question:

Is a new remittance business a feasible project to be implemented in Lebanon?

1.5 Contribution of the Study

Usually, research and studies are conducted with the aim of assessing, investigating, questioning, and proposing situations, projects, or variables and drawing scientific conclusions and above all they suggest and propose valuable solutions and recommendations to an existing problem or obstacle. As for this study, it discussed the feasibility and vitality of remittance business in Lebanon. Thus, to discuss and measure the feasibility along with the benefits and advantages of such a project in Lebanon, this study was developed. Through a detailed presentation of the need for such a business project, its financial, feasibility study, and the discussion of the SWOTS of such a business in Lebanon, this study will define the feasibility of the remittance business in Lebanon. By doing so, this study will contribute to the country's financial sector through adding a financial instrument to the chain of financial players already existing.

1.6 Brief Overview of all the Chapters

Chapter one of this study is introduced with a general background of the topic. It then discusses the research objective, significance of the study, research questions, and contribution of the study and ends up with a brief overview of all the chapters. Chapter two reviews qualitative and quantitative secondary data related to the main topic. Chapter three entails a quantitative analysis of the project and thus presents and discusses the remittance business feasibility. Chapter four holds a qualitative analysis and description of the remittance business in Lebanon. Finally chapter five sums up the qualitative and quantitative presentations of the project and states the project's conclusion and proposes valuable suggestion that render the implementation of the project both effective and efficient.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

The previous chapter was the roadmap for the study. It generalized the ideas related to the main topic in a discussion of its general background, stated the research objective, questions, purpose, significance, and presented a roundup of all the chapters.

This chapter will review literature from studies that have common secondary data with this research main topic. This data is outsourced from refereed sources such as journals, books, and conducted research studies.

2.2 Definition of Remittance Business & How it Works

Remittance business or "remittance transfer provider" is a financial services provider that sends money by means of electronic network, wire transfer or mail (Beck & Pería, 2011). A "remittance business is the business of accepting money for the purpose of transmitting them to persons resident in another country. No one is allowed to operate the Remittance Business unless he is in possession of a valid Remittance's License.[5]"

Another definition would be: "A money transfer operation involves offering the service to collect money from the sender in one country and deliver it to the receiver in another country.[6]"

[5]"Money Remittance Companies." Money Remittance Companies. Web. 02 June 2012. <http://www.mof.gov.bn/English/FinancialInstitution/FAQS/Pages/MoneyRemittanceCompanies.aspx>.
[6]"FAQs | Money Transfer Software | RemitONE." FAQs | Money Transfer Software | RemitONE.Web. 02 June 2012. <http://www.remitone.com/faqs.php>.

How does a remittance business really work?

The money transfer process consists of 4 main parties; the Sender, the Source Agent, the Destination Agent, and the ultimate Beneficiary. The Sender submits the required amount and fees to the Source Agent. The latter receives the amount and sends a transfer order with the beneficiary's name to the destination agent and credits the latter's account with the amount of the transfer and its predetermined fees. Finally, the Beneficiary receives the amount and the transaction would be closed. Of course the sender and the beneficiary have to submit information regarding the purpose of the transfer, the source of their money, and supporting documents if necessary to prove the nature of the relationship for compliance issues. On the other hand, both the source and destination agents have to disclose these transactions and their supporting documents to their local authorities for compliance and regulatory purposes as well. Later on, the agents either offset their balances through transfer clearance or through bank transfers.

Remittance business encompasses three dimensions: intra-regional, domestic and international with the domestic as the most used in developing countries. There are two types of categories in the remittance business: informal and formal (Durdu &Sayan, 2010).

Informal Remittance Service Providers: organizations that fall under this category cater for the types of services or transactionsthat involve money transfers or remittances only such as money transfer operators (MTOs), retail shops, and couriers.

Formal Remittance Service Providers: include a wider range of financialtransactions or services, such as money transfers / remittances, loans, deposits and insurance. This category encompasses providers like commercial and rural banks, Monetary Financial Institutions (MFIs), cooperatives and credit unions.

2.2.1 Advantages and Disadvantages

Remittance business has numerous advantages. The most important of which is its contribution to the economy of developing countries and offsetting the harms of the so called “brain drain” through the floods of money that enters into the country from emigrants sending back home (Akkoyunlu &Kholodilin, 2008).

Remittance business is a two-way transaction that entails two parties a sender who cares for having a cost effective and a convenient service and a recipient who views it from a purely convenience perspective. Using the informal remittance service, both parties can benefit from a minimal amount of paperwork and aneasier, more appealing service. Another equally important factor is Speed. It is the main reason why people favor MTO’s over banks or MFIs despite their higher transaction costs. Other reasons include the reliability, convenience and customer service of these providers.

Despite all these benefits, formal providers, like Banks or MFIs, are still chosen by some clients who would like to benefit from the variety of financial products and services these channels provide. By using remittances, people are being introduced tothe financial sector and can then get access to other financial servicessuch as personal savings and loans (Airola, 2007).

Both categories of remittance enjoy a set of advantages and disadvantages that are summarized in the following tables

Remittance Service Provider	Advantages	Disadvantages
Formal	***Liquidity (for savings) *Large, long-term loans *Better cost on high amounts transferred *Reliability *Privacy *Income (money earns interest) *Choice of products *Allows clients to build a credit history *Operates within banking laws if registered *Access to financial advice and other financial products**	***Can be far away from rural residents *Restricted hours *Minimum deposit requirements may be too high *Charge fees on many accounts *Long lines take time**
Remittance Service Provider	**Advantages**	**Disadvantages**
Informal	*** Access * Proximity * Speed *Access to financial advice and other financial products**	***They don't offer other financial services that might help receivers make the most of their remittances. *It might be relatively unsafe to claim the remittance in the outlet compared to a well secured and monitored bank premises.**

2.2.2 The Value Added by Remittance Firms

In their daily activity of transferring money from one country to another, remittance firms are considered as a critical element in the logistics of migration in the way they aid in transferring back emigrants' money to their families. Remittance services, however, are provided by companies of all sizes that usevarious technologies. They mainly add value in the following four areas, where their services are unique[7].

First, in the absence of a worldwide retail payment system, International payments are mainly carried by banks with correspondent relationships, or, through

[7] Asian Development Bank. *Southeast Asia Workers Remittance Study*. December 2004.

payment card processors that execute the retail activities using correspondent banking relationships to settle balances. Thus, two main factors have contributed in making remittance firms unique in cross border retail payment: the fact that wire transfers are most of the times costly considering the value dates and banks' enforced exchange rates; not to mention that the use of payment cards for remittances is still not widely common[8].

Second, banking transactions usually necessitates the existence of an interface the sender needs to perform his transfer. Additionally, not all senders have a bank account that can be used in this case nor the banks' opening hours are convenient for all the emigrants who usually have a definite work schedule. Cultural and language barriers can be substantial, as well as hesitancy in dealing with huge financial organizations. Fears related to emigrant status can also play a role in making some emigrants refrain from dealing with banks for international transfers. Also, in many cases emigrants have limited choices when it comes to payment methods and modes and often have access only to cash and money orders. In other words, people who have the luxury of choosing among a variety of payment channels like bank accounts, internet, payment cards, and checks can resort to many means while those with access only to cash have scarce options. Remittance firms answer the need of individuals who would otherwise be deprived of transferring or receiving any payment[9].

Third, remittance firms offer convenience of delivery to recipients who can easily pick up their transfers from accessible instruments and channels like cash from a distributing agent that is close to wherethe recipient lives or that hascourier delivery services. In many countries, thelocal payment systems are under developed and permit

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[8]Inter-American Development Bank Report.Sending Money Home: Remittances to Latin America from the US, 2004. 2004.

[9]Inter-American Development Bank/MIF.Mobilization of Remittances through MFIs. 2004.

agent networks to act as a substitute and cater for the recipients' needs instead of obliging him to travel to places covered by the banking system. Through these characteristics, it is appropriate to say that remittance firms facilitate payment services to recipients in the same way it does to senders[10].

Fourth, resorting to remittance firms' services is a cost saving choice. As it is commonly known, bank transfers are slow and expensive (again considering the flat fees on small amounts, enforced exchange rates, and transfer value dates). Remittance firms put together a number of transfers, send them using the banking system, and unbundle the money at the destination. By doing so, the charges incurred are distributed over a number of remittance transactions. Hence, reducing the cost of fundstransfer (Orozco, 2004).

2.2.3 Key Success Factors

Due to technological advances, the remittance industry is rapidly changing. Hence the risk of currently successful business models to be replaced by newer, more advanced ones. Below are the main characteristics of firms that have experienced increases in transaction volume:

- **A higher number of agents.** Firms with a high number of agents have found to be experiencing growth. The more agents a company has, the higher the transactions volume[11].

[10]IFAD. Sending Money Home: Worldwide Remittance Flows to Developing Countries.2007, www.ifad.org/events/remittances/maps/brochure.pdf, (December 18, 2007).
[11]Pozo, S and Amuedo-Dorantes, C. (2002). Remittances as Insurance: Evidence from Mexican Emigrants.

- **Cross-selling.** When Firms increase their transactions or agents they increase as well the cross-selling of their products where they all benefits from each others' advantages and networks both on the sending and on the receiving side.
- **Advanced technology**. Technology has become a comparative advantage for firms that rely heavily on technologically advanced channels in their daily transactionsto capture funds such as automatic clearing house (ACH) and payment cards. They permit, in their day-to-day activities, payments through banks (in addition to many other channels) and don't force clients to pay in exclusive locations as a means of showing flexibility that is the result of an extensive network and cooperation with a significant number of capturing agents. Their communication channels with abroad partners are highly advanced and constitute the major part of their operational expense[12].
- **Operational efficiency.** Firms with increasing transactions have proven to be efficient in the way they operate; they settle moreregularly than other firms. They also enjoy a lower corruption rate abroad. Even if, and like many other firms, they rank low in their ability to obtain bankaccounts, this ranking has never been an obstacle to conducting their business nor is it viewed as a barrier to their entry. In addition, in their transactions they deal with couriers as their main distribution channel instead of postal system like the majority of other firms.
- **Price is not a key to success.** Price levels are not linked to fluctuation in transaction volumes (firms with lower fees do not report increase in

[12]Ratha, D. and al. (2007).Remittance Trends 2007.Migration and Development Brief 3.World Bank. Retrieved from: http://siteresources.worldbank.org/EXTDECPROSPECTS/Resources/476882115713358O628/BriefingNote3.pdf

transactions). Western Union, as an example, has the highest fees compared to its competitors. Yet it is still the best known, customers' first choice, and has they biggest money transfer network.

- **Professional, not personal**. Unlike what many might think, personal relationships have not helped much to increase transaction volumes. As a matter of fact, owners with good contacts in receiving countries keep on reporting decrease in their transaction volumes. This is due to the fact that such firms pay the same as the rest for distribution, pay more for settlement, experience a higher corruption rate abroad, and have not succeeded in significantly lowering obstacles abroad compared to firms that do not rely on connections.[13]

2.3 Overview on Lebanese Expatriates

The number of Lebanese migrants who fled the country between 1975 and 2001 is estimated to have been over 900,000. Their profiles, origins, destinations, etc. differed from the Lebanese migration of the 1800s and early 1900s, as well as from the migration of the oil-boom during the fifties and sixties (Labaki, 1992).

The destination of the Lebanese emigrants has not changed much. Kasparian found that North America absorbed 29.5% of those who left Lebanon between 1975 and 1990, Western Europe 24.4%, the Arab countries 20.4%, Australia 13.1%, Africa 6.3%, Central and South America 4.3%, Eastern Europe 1.4%, Asia 0.4%, and undetermined 0.1%[14].

[13]WOCCU. A Technical Guide to Remittances: The Credit Union Experience. 2004.
[14]Abi Farah, A. Al Mughtaribunbayna 1975 wa 2001 (The Lebanese Emigrants Between 1975 and 2001), *AsSafir*Newspaper, December 3, 2001, p. 6.

At first, Lebanese emigration was restricted mainly to artisans, skilled laborers, peasants, and humble land owners (Naff, 1985). In the fifties, sixties and seventies of the 20th century, emigrants were mainly teachers, technicians, craftsman, and building contractors heading to the oil economies of the Gulf countries. At the time when the Lebanese civil war started in 1975 the majority of emigrants became engineers, businessmen, medical specialists, bankers, craftsmen, and qualified manpower (Labaki, 1992). From 1990 and onwards the majority of emigrants became young educated people (Kasparian, 2003).

2.3.1 Remittances from Expatriates

Most of the emigrants fleeing out of Lebanon leave their families and relatives behind to which they are likely to transfer money on a regular basis. The formal and most used way of money transfers are banks, money transfer agencies and operators. While the informal methods are either through friends, family members, or for them to personally carry the money home. Given the significant statistics of emigration throughout the Lebanese history, money transfer using both channels is a significant operation that is being performed on a daily basis.

Several factors contributed in the increase of inward remittances to Lebanon. The most important of which is the fact that Lebanon is a country that facilitates and encourages the free flow of capital and hard currency and the inflow of emigrants' remittances through formal and informal channels in particular. Emigrants remit because Lebanon has "stable exchange rate, a rigid banking system with one branch per 5,000 inhabitants, international standards, a tradition of banking secrecy, and competitive interest rates. Furthermore, Lebanon has 557 money transfer outlets, of which 437 are Western Union branches, and 120 Money Gram dealers. Today, these numbers have increased dramatically to become about 2300 outlets in Lebanon divided as such: 1400 outlets that operate Western Union services, 700 MoneyGram, 100 Xpress Money, and over a 100 Exchangers that offer money transfer services.

These factors made remittances constitute a fundamental part of Lebanon's economy; they also account for a substantial proportion of Lebanon's foreign revenue. Furthermore, the inflow of remittances and their increases over years are what kept the country's economyfloating. In 2003, Lebanon received $2.7 billion (formally) in remittances from workers abroad, ranking ninth, in absolute terms, among the principal recipient developing countries.

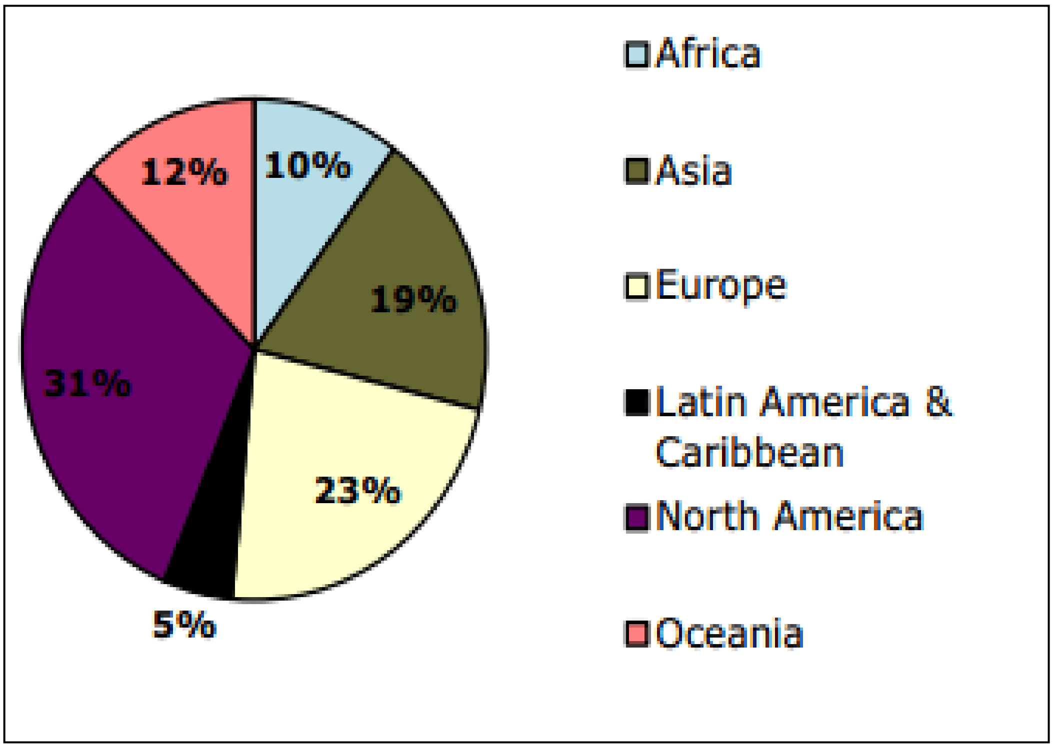

Figure 1: Percent of Lebanese Migrants by Continents of Destination (2009)

Source: Human Development Report, 2009

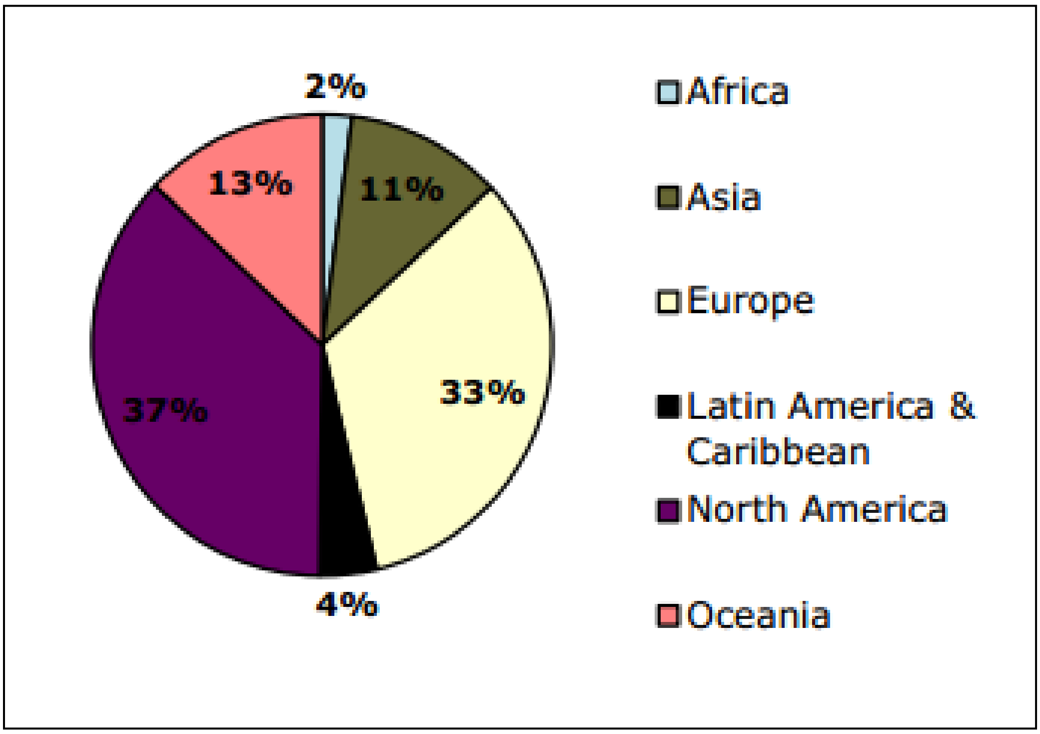

Figure 2: Remittances Inflows to Lebanon by Continent of Origin (2009)

Source: Human Development Report, 2009

2.3.2 Remittances Inflow to Lebanon

The fact that remittances is the most stable of all the financial flows to Lebanon, made it play a vital role in the life of the country and its people. On the micro level, remittances have become a source of safety for families suffering from financial and social problems such as unemployment, education expenses and/or the problem of caring for the sick and elderly. Simplified by both the transferring and the welcoming countries, remittances "have emerged as a critical insurance mechanism for residents of countries afflicted by economic and political crisis (Lebanon during its civil war), those hit by natural disasters (Haiti).[15]"

On the macro level, remittances raise the country's stock of foreign currency and produce positive multiplier effect when used by families even if they are mostly invested in consumption.

Between 1990 and 2003, Lebanon ranked seventh among the top 20 main recipient developing countries in the area of remittances succeeding countries with much sizeable geography and population such as India, Morocco, Philippines, Egypt, Turkey, and Morocco. In the same context, Lebanon was classified third among top recipient developing countries with respect to remittances as a percentage of the Gross Domestic Product (GDP) succeeding Lesotho and Tonga[16]. In 2004, Lebanon ranked fifteenth among the world's top small recipient developing countries with respect to remittances measured as a share of the GDP[17]. Finally, Lebanon is also among the top world recipients of remittances**,** when considered on a per capita basis. In 2001, Lebanon ranked first among the top ten *per capita* recipient countries in the world with a coefficient of $575 per capita[18].

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[15]DeveshKapur and Center for Global Development, 'Remittances: The New Development Mantra?', August 25, 2003, [http://www.livelihoods.org/hot_topics/docs/RemitMantra.pdf]

[16] International Monetary Fund, *World Economic Outlook: Globalization and External Imbalances*, April 2005, p. 72, [http://www.imf.org/external/pubs/ft/weo/2005/01/pdf/chapter2.pdf]

[17] Over 10% of Lebanon's GDP is resulting from remittances. D. Ratha, 'Sending Money Home: Trends in Migrant Remittance', *Finance and Development magazine*, International Monetary Fund, Volume 24, Number 4, December 2005 [http://www.imf.org/external/pubs/ft/fandd/2005/12/picture.htm]

[18]Ghobril, N. 'Expatriates' Remittances & the Lebanese Economy: Brain Drain or Economic Gain?' lecture presented at the Lebanese Emigration Research Center, NDU, April 21, 2004.

As illustrated above, remittances are crucial to the Lebanese economy and account for a percentage of 13.8 of the Gross Domestic Product (GDP). Lebanon ranked eighth in the top ten recipients of workers' remittances as percentage of GDP in 2001[19].

Remittances

US$ millions	2003	2004	2005	2006	2007	2008	2009	2010e
Inward remittance flows[a]	**4,743**	**5,591**	**4,924**	**5,202**	**5,769**	**7,181**	**7,558**	**8,177**
of which								
Workers' remittances	3,964	5,183	4,257	4,623	5,022	5,775	6,385	–
Compensation of employees	779	409	667	579	747	1,405	1,173	–
Migrants' transfers	–	–	–	–	–	–	–	–
Outward remittance flows	**4,081**	**4,233**	**4,012**	**3,445**	**2,967**	**4,366**	**5,749**	–
of which								
Workers' remittances	3,694	3,573	3,281	2,783	2,370	3,576	4,715	–
Compensation of employees	387	660	731	661	597	790	1,034	–
Migrants' transfers	–	–	–	–	–	–	–	–

a. For comparison: net FDI inflows US$3.6 bn, net ODA received US$1.1 bn, total international reserves US$28.3 bn, exports of goods and services US$7.9 bn in 2008.

Table 1: Inward and Outward Remittance Flows (2003-2010)

Source: World Bank

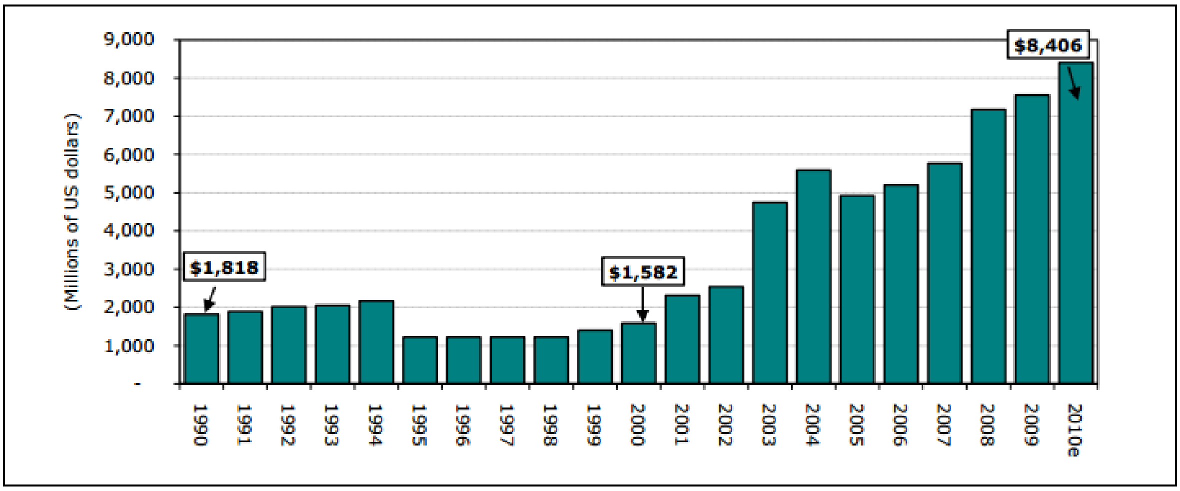

Figure 3: Formal Remittances Inflow - Lebanon (1990-2010e)

Source: Remittances data, Development Prospects Group, World Bank, 2011

[19] DilipRatha, 'Workers' Remittances: An Important and Stable Source of External Development Finance', in *Global Development Finance*, Chapter 7, 2003, [http://siteresources.worldbank.org/INTRGDF/Resources/GDF2003-Chapter7.pdf].

Expatriates' remittances to Lebanon continue to be a source of reinforcement for its economy with an annual average of $1.63 billion. In 1998 remittances accounted for 7.4% of the GDP, but amplified to become 8.5% in 1999, then 9.7% in 2000 and to 13.8% in 2001. Annually, these inflows accounted for 7 to 13% of GDP. For the sake of comparison, it should be noted here that Lebanon's main hard currency income earner is tourism. However, remittances were 275 times the tourism receipts in 2001[20]. It is thus evident from all the above that remittances are turning into the most essentialincome to the Lebanese economy and they are augmenting at a very rapid pace.

Lebanese expatriates' remittances make up for 22% of household incomes in Lebanon and 88% of their savings[21]. In a study, table 2 below, made on the inflows of remittances to the MENA region, Lebanon ranked second after Egypt for three consecutive years starting 2010 in the total amount of remittances which registered 7,619 Million Dollars in 2010, 7,612 in 2011 and 7,578 in 2012.

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[20]'Expatriates' Remittances Have Become Key to the Lebanese Economy, Averaging $1.63bn Yearly, Reaching Nearly 14% of GDP in 2001 and Growing Faster Than Other Growing Faster Than Other Sources of Foreign Currency', Saradar Weekly Monitor, Issue 15, March 31-April 5, 2003, p. 9.

[21]Ghobril, N. 2004

	2010	2011	2012e
Egypt	12,453	14,324	17,971
Lebanon	**7,619**	**7,612**	**7,578**
Morocco	6,423	7,256	7,014
Jordan	3,641	3,453	3,530
Tunisia	2,063	2,004	2,202
Syria	2,079	2,079	2,079
Algeria	2,044	1,942	1,824
Yemen, Rep.	1,526	1,404	1,497
Sudan	1,420	1,420	1,441
Iraq	177	386	377
Saudi Arabia	236	244	244
Oman	39	39	39
MENA	39,720	42,163	45,796
Emerging economies	341,000	381,000	406,000
World	462,313	513,297	533,537

Table 2: Inflows of Remittances to the MENA Region (US $ million)

Source: World Bank & Bank Audi's Group Research Department

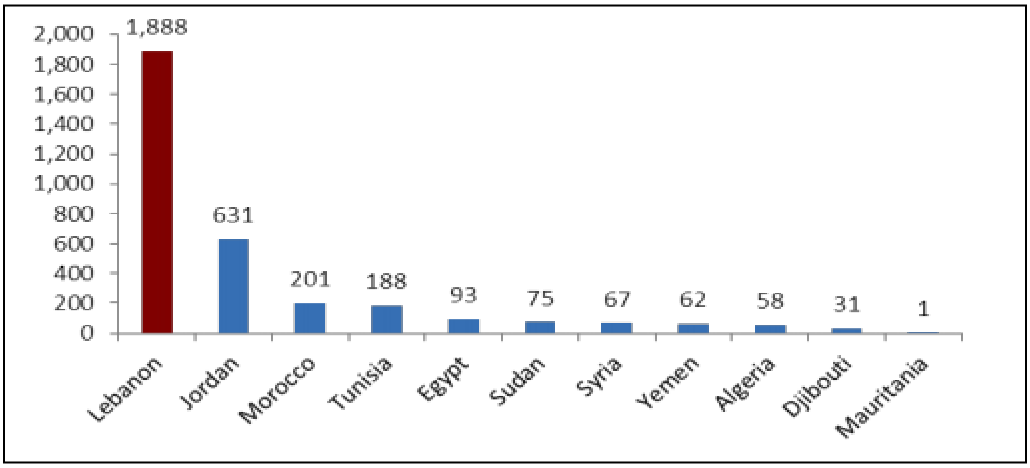

Figure 4: Expatriates' Remittance Inflows Per Capita to Arab Countries in USD (2010)

Source: Byblos Bank

Remittances into Lebanon constitute a key component of bank deposits and are in continuous growth with figures reaching a value of US$ 5.1 billion in 2010; a relatively high remittances to GDP ratio at 12.3 %. In fact, in terms of remittance inflows per capita, Lebanon’s ratio remarkably surpassed those of Arab countries with an exceptional value of USD 1,888per capita (Figure 4).

Of the major factors that have led to the polarization of the Lebanese in general and young and educated in particular are the volume of emigration outflow and remittances inflow which in turn increased in importance as a result of the country’s ‘push’ and the regional and international ‘pull’ factors. To some observers, the raise in the standards of living or the encouraged trade and commercial transactions are logical results of the increase in remittances reported throughout the past few years.

From a geographical point of view, Beirut and its close surroundings have a high rate of money outflow due to foreign workers sending part of their salaries to their families abroad. While on the other hand, the North and the rest of Lebanon are more of receiving areas for the majority of the Lebanese expats originate from these areas who, in their turn, support their families here. Hence the high level of money inflow.

2.4 Lebanese Economy

Lebanon's economy and markets are characterized by a private and liberal economic activity and openness to abroad with attractive capital and labor flexibility. The private sector is well-diversified and accounts for approximately 75% of aggregate demand; it is considered as the sum of economic sectors and is a keysupport for growth and recovery. The Lebanese economy is at the same time an open economy with a large banking sector making up for more than 2.5 times its economic sector and constituting an important support to aggregate demand. On the industry side, some of the most important industries available in Lebanon include metal products, banking, agriculture, chemicals, and transport equipment. Lebanon enjoys a viableand free market regime and a strong laissez-faire commercial tradition. The Lebanese economy is service-oriented relying heavily on banking and tourism as the major growth sectors. It doesn't impose any restrictions on foreign exchange or the movement of capital in and out of the country.

Thanks to its effective macroeconomic policies, the Lebanese economy has succeeded in outperforming some of the regional country growth levels; maintaining strong economic growth levels throughout the last few years. Between 2008 and 2010, GDP growth rates peaked at a 9.3% growth in 2008, 8.5% in 2009, and 7.5% in 2010, turning Lebanon into one of the best performers among regional and emerging economies. Its robust banking system and discreet monetary policies helped it in mitigating the consequences of international and regional instabilities. Of its major economic attractive factors is the monetary stability; the carefully managed exchange rate and lack of foreign exchange controls and restrictions on the movement of capital has led to financial stability and contributed in sustaining a strong and highly liquid banking industry[22-23].

2.5 Lebanese Financial System

Beirut, the capital of Lebanon, was considered as the region's financial hub for the period extending between 1950s and the start of the 1975 war. At the inception of the oil boom in the 1960s, local Lebanese banks were the main recipients of the region's excessin cash flows.

[22]The Economy.The Embassy of Lebanon Washington, DC. Retrieved on July 17th, 2014 from: <http://www.lebanonembassyus.org/the-economy.html>
[23]IDAL.Economic Performance. Retrieved on July 20th, 2014 from:<http://investinlebanon.gov.lb/en/lebanon_at_a_glance/economic_profile/economic_performance>

Lebanon offers many financial services ranging from commercial banking, investment banking, private banking and insurance in addition to others. The conflict and the crisis of 1980s affected a small number of banks, yet it didn't affect the commercial banking sector much which succeeded to maintain its position as a centerpiece of the Republic's service-oriented economy. It grew tremendously during the period from 1992 to the present with Lebanese and foreigners' private sector deposits growth from U.S. $6.6 billion in 1992 to U.S. $125.0 billion in December 2012. Furthermore, starting 1996, Lebanese banks have succeeded in gaining an access to the international capital markets. Being the entry point of capital inflows, Lebanese banking system is today considered a key player in the region and a facilitator of its development. In addition, the Lebanese authorities are setting the evolution and formulating the regulatory framework that can push towards a more varied financial sector and that can facilitate the spreading and development of this sector.

2.6 Money Transfer Companies Running in Lebanon

- **Online Money Transfer (OMT) and Bank of Beirut Money Transfer (BOB)**

  OMT offers to the Lebanese residents as well as expatriates diverse financial services ranging from money transfer to payment services **(**Western Union International Money Transfer, OMT INTRA Money Transfer, Western Union Business Solutions, Payment Services such as telecom bill payment, cash to government…)

- **Cash United (CU)**

  Headquartered and launched in Beirut April 2001, Cash United SAL is a reputable financial services provider that operates through more than 460+ agents in Lebanon. It is the representative of MoneyGram in Lebanon since 2001 and caters for international money transfers. Other services include bill payment, mobile &Internet recharge.

- **Masri Money Express (MME)**

  Founded in 2005 as a financial company to present MoneyGram international money transfer services in Lebanon.

- **Xpress Money (XM)**

  Founded in Beirut to represent the fast growing money transfer network Xpress Money (XM) operating about 100 branches within the country.

2.7 Conclusion

Numerous secondary data was retrieved to build a comprehensive review related to remittance business especially in Lebanon. The reviewed data helped understanding and exploring remittance business along with some real figures about the Lebanese market.

This chapter is the basis for the three following chapters in which the remittance business project plan will be discussed in detail.

CHAPTER 3

QUANTITATIVE ANALYSIS

3.1 Introduction

The previous chapter reviewed and discussed secondary data that favored in clarifying and explaining the project's main topic;"the remittance business". The chapter started with a clear definition of this type of business, its advantages and disadvantages, value-added by this business, the key success factors. Then it tackled Lebanese expatriates, the remittances they transfer as figures and in comparison with remittances inflows in other countries. Also, an overview of the Lebanese economy and financial system were presented.

The secondary data presented in chapter two were essential for the current chapter and the following two chapters. The current chapter will hold a quantitative analysis that will present financial figures and data that support and defend the Foundation of a Remittance business in Lebanon.

3.2 Analysis of Remittances in Lebanon

Since the Lebanese pre-war period until present, the Lebanese economy has witnessed a steady flow of remittances; an attribute that is unquestionably praised and valued by the international credit rating agencies. It has also contributed in reviving the economy at times of political instability by acting as a growth catalyst. The main factor that led to this steadiness is the attractiveness of the Lebanese economy for capital inflows, foreign investments, and foreign remittances despite the external and internal conflicts that confronted the country for years.

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Inflow of Remittances (in Billions of USD)	4.7	5.6	4.9	5.2	5.8	7.2	7.6	7.6	7.3	7.3	7.6

Table 3: Inflow of Remittances (in Billions of USD) for the period 2003-2013

Source: World Bank, IMF, Byblos Research

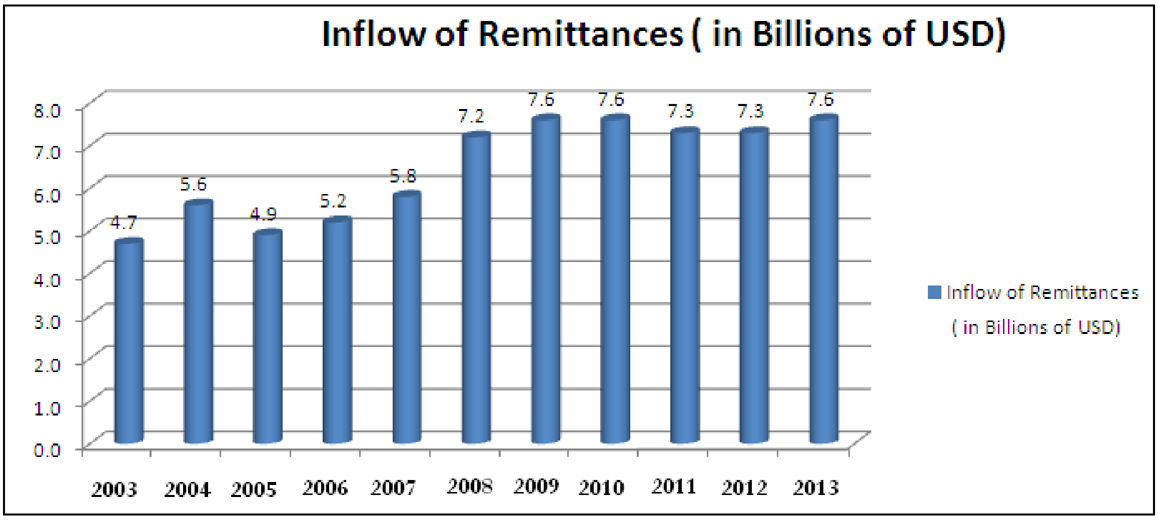

Figure 5: Inflow of Remittances (in Billions of USD) for the period 2003-2013

Source: World Bank, IMF, Byblos Research

According to the World Bank, Lebanon was the 14th-largest recipient of remittances globally, the eighth-largest recipient among developing economies and the largest in the MENA region in 2009. It surpassed Egypt and Indonesia and followed Pakistan and Nigeria among developing countries. Additionally, Lebanon was the second-largest recipient of remittances among 43 Upper Middle Income Countries. It ranked ahead of Russia, Romania and Brazil, and came only behind Mexico in this income category. Remittances inflows to Lebanon accounted for 1.8 percent of the global remittance flows, 2.5 percent of flows to developing economies, 21.6 percent of inflows to Arab countries, and 9.8 percent of remittance inflows to UMICs in 2009. In 2009 Lebanon became the largest recipient of remittances among the Arab countries in nominal terms, relative to its GDP and on a per-capita basis. Moreover, Lebanon registered the second fastest growth rate in remittances among the 10 largest recipients in developing economies in 2010.

The World Bank projected expatriates' remittances inflows to Lebanon at $7.6bn in 2013 that is a rise of 4.4% from $7.3bn in 2012. The Bank reviewed downward its estimation for expatriates' remittances inflows to Lebanon to $7.3bn in each of 2011 and 2012 from previous estimates of $7.53bn and $7.47bn, respectively. As a result, remittance flows to Lebanon contracted by 0.9% in 2011 and remained unchanged in 2012.

Lebanon registered the 10th highest growth among the 15 largest recipients of remittances in developing economies in 2012, surpassing China (+4.1%), Egypt (+4%), Morocco (+2%), Nigeria (+1.8%) and Mexico (-5.9%). In contrast, remittance inflows to developing countries are projected to increase by 6.3%, flows to Arab countries would increase by 4.7% and inflows to Upper Middle Income Countries (UMICs) are expected to grow by 4% in 2013.

In 2013, Lebanon became the 18th largest recipient of remittances worldwide and the 12th largest recipient among developing economies. Moreover, it ranked as the second largest recipient of remittances among 16 Arab countries and the third largest recipient of remittances among 46 UMICs.

On a global view this means that Lebanon received more remittances than Poland ($7.27bn), Sri Lanka ($6.88bn) and Morocco ($6.64bn), and less than Italy ($7.67bn), Indonesia ($7.88bn) and Korea ($9bn). It received more remittances than Sri Lanka, Morocco and Guatemala ($5.41bn) and less than Indonesia, Ukraine ($9.30bn) and Vietnam ($10.65bn) among developing economies. Remittance inflows to Lebanon ranked below inflows to Egypt ($20bn) among Arab countries and China ($60.2bn) and Mexico ($22bn) among UMICs.

Remittance inflows to Lebanon accounted for 1.4% of the global inflow of remittances in 2013, the same since 2011 and compared to 1.6% in 2010 and 1.8% in 2009. They accounted for 1.8% of aggregate remittances to developing economies this same year, down from 1.9% in 2012 and 2% in 2011; and 15.4% of remittance inflows to Arab countries in 2013 relative to 15.5% in 2012 and 17.2% in 2011. In addition, they accounted for 5.2% of remittance inflows to UMICs in 2013 as compared to 5.1% in 2012 and 5% in 2011.

Besides, expatriates' remittances to Lebanon were equivalent to 17.4% of GDP in 2013, the 10th highest such ratio in the world behind Tajikistan (48.4% of GDP), the Kyrgyz Republic (31.9% of GDP), Nepal (26.3% of GDP), Moldova (24.9% of GDP), Lesotho (24.7% of GDP), Armenia (22.8% of GDP), Liberia (20.4% of GDP), Samoa (20.3% of GDP) and Haiti (20.1% of GDP). Expatriates' remittances to Lebanon were equivalent to 17.7% of GDP in 2012 and 18.8% of GDP in 2011.

Rank*	Country	Amount (Billions of USD)	Growth Rate	% of GDP
1	India	71.00	5.6%	3.60%
2	China	60.18	4.1%	0.70%
3	Philippines	26.05	5.7%	9.20%
4	Mexico	22.00	-5.9%	1.70%
5	Nigeria	21.00	1.8%	7.40%
6	Egypt	20.00	4.0%	7.60%
7	Bangladesh	15.19	7.8%	11.20%
8	Pakistan	14.86	6.1%	6.20%
9	Vietnam	10.65	6.5%	6.80%
10	Ukraine	9.29	10.0%	5.10%
11	Indonesia	7.88	9.3%	0.80%
12	Lebanon	7.64	4.4%	17.40%
13	Sri Lanka	6.88	14.6%	10.50%
14	Morocco	6.64	2.0%	6.20%
15	Guatemala	5.41	7.5%	10.20%

Table 4: Top 15 Recipients of Remittance Inflows in Developing Economies in 2013

Source: World Bank, IMF, Byblos Research

*Ranking in this table was based on the amounts of of Remittance Inflows

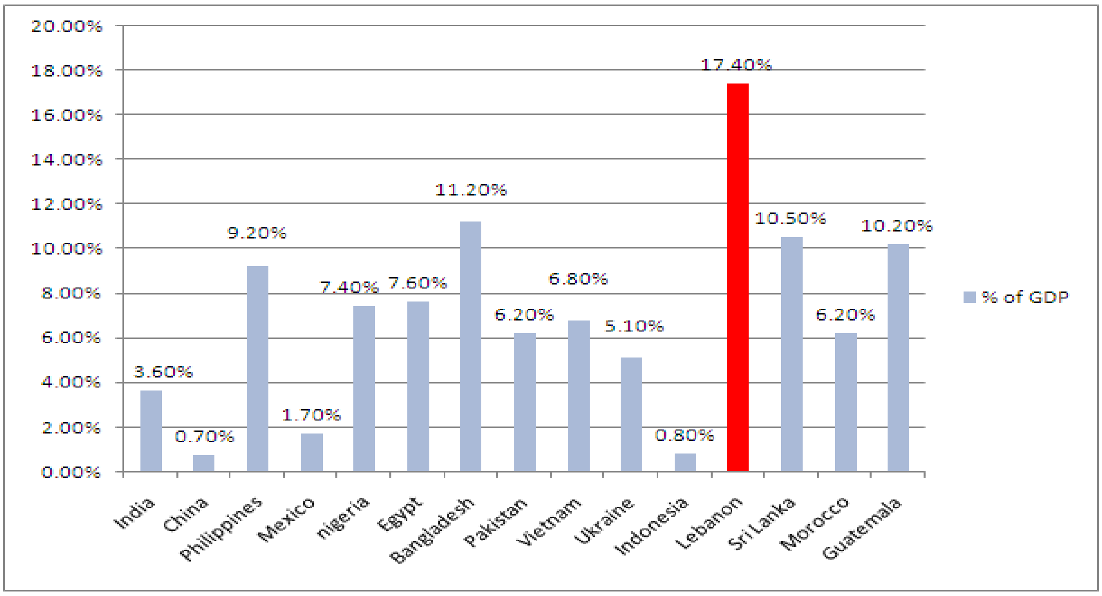

Figure 6: Remittance Inflows as Percentage of the GDP in Developing Economies in 2013

Source: World Bank, IMF, Byblos Research

Rank *	Country	Growth Rate
1	Sri Lanka	14.6%
2	Ukraine	10.0%
3	Indonesia	9.3%
4	Bangladesh	7.8%
5	Guatemala	7.5%
6	Vietnam	6.5%
7	Pakistan	6.1%
8	Philippines	5.7%
9	India	5.6%
10	Lebanon	4.4%
11	China	4.1%
12	Egypt	4.0%
13	Morocco	2.0%
14	Nigeria	1.8%
15	Mexico	-5.9%

Table 5: Ranking of the Developing Economies in Table... based on the Growth Rate

Source: World Bank, IMF, Byblos Research

Moody's Report (March 2014) stressed on Lebanon's strong deposit base and the remittances flows, which partly explains the stability in the country's sovereign rating at "B1"[24].

3.3 Feasibility Study

A feasibility study was conducted for two purposes:

First, to assess the profitability of the remittances business.

Second, to prove numerically whether networking or branching out is more beneficial.

Since the family's business is in Tripoli, the considered scenario was the opening of a new branch in Beirut Versus working through current contacts in the same

[24]Moody's (March 3, 2014).Sovereign Outlook: Middle East & North Africa

area. Data input and estimations have been gathered from the family business's real data and 3 of the mainplayers who are already in the remittance business.

Dawra Branch

Expenses

Rent	$/Year	36000
	$/Month	3000
Electricity and Water	$/Month	600
Wages	$/Month	4000
Capex Dep	$/Month	510
Misc Opex	$/Month	500
Taxes	$/Month	300
Total Monthly Expenses	***$/Month***	***8910***

Depreciation

Capex	**Cost**	**Useful Life**	**Depreciation**	
Motorcycles	1000	3	333	
Furniture	4000	5	800	
Renovations (1st time preparing the branch)	20000	7	2857	
Safe	7000	15	467	
Security System	5000	5	1000	
IT Infrastructure	2000	3	667	
TOTAL	**39000**		**6124**	$/Year
			510	$/Month

Revenues: From Dawra Branch		***Revenues: Agent Instead of Branch***	
Tripoli / Beirut Corridor		***Tripoli / Beirut Corridor***	
# of Transfers per month	100	# of Transfers per month	100
Av. Revenue per Transfer	5	Av. Revenue per Transfer	3
Total Revenue/Month	**500**	**Total Revenue/Month**	**300**
Beirut / World Corridor		***Beirut / World Corridor***	
# of Transfers per month	2000	# of Transfers per month	2000
Av. Revenue per Transfer	7	Av. Revenue per Transfer	4
Total Revenue/Month	**14000**	**Total Revenue/Month**	**8000**
Total Revenue From Branch	***14500***	***Total Revenue From Agent***	***8300***
Total Branch Costs	8910	Total Costs	0
Net Profit	***5590***	***Net Profit***	***8300***

Table 6: Feasibility Study- Branching Versus Networking

As Table 6 above clearly illustrates, the financial study showed that networking will reward higher benefits in the current market size and circumstances. Building on all the above and since the disadvantages spotted for networking are minor and can be overcome, the optimal decision is to go for networking instead of branching out.

Networking, however, does call for a careful follow-up from Masrico's side. Even if this follow-up is not of a countable financial impact, it is still to be considered. In a business of this nature, trust and reputation are crucial which means that the actions and practices of the agents should be always monitored. This action will be conducted through customer surveys and online feedback forms. Any misbehavior or abuse of any kind spotted should be assessed and adequate measures should be taken. Even more, the selection of agents should be careful and precise to ensure dealing with the best in the market. Reputation is never an easy attribute to gain, and the practices of the agents will definitely affect customer experience and might thus bring about negative consequences to the company.

3.4 Conclusion

Foundation of a new business relies mainly on the market need (i.e. the high demand for this business and the opportunities that this business could build on) and the feasibility of the project. This chapter discussed those two significant factors through presenting and discussing the trend of remittance inflows in the Lebanese economy. The figures reflected the sustainable growth of remittances' inflow which forms an opportunity for the new business. Moreover, the feasibility study conducted in the second part of the chapter showed that the business is not only expected to generate profits, but that the option of networking will render its services more effective and more efficient.

The following chapter will discuss and tackle the qualitative side of the project. It will describe the remittance business process, sources of financing, operations, competitive advantages, expansion nationally and internationally, risk mitigation, and above all the SWOT analysis.

CHAPTER 4

QUALITATIVE ANALYSIS

4.1 Introduction

In this chapter the feasibility, mechanism, means and resources necessary to make this business a reality will be discussed. Starting with the project financing to the awareness campaign to be conducted and ending by the risk associated and the SWOT analysis, this chapter will form the basis of the conclusion to be drawn in chapter five and which should indicate whether or not a remittance business in Lebanon is profitable.

4.2 Funding the Remittance Project

In normal conditions, project financing is one of the most challenging issues that should be considered. How to convince banks or other financial institutions to provide the necessary funds, or, if financing is directly from the family, how to convince them that the investment will not be wasted and that their money will generate additional profits. These questions and risks might in many cases hinder people from starting a certain business even if it was their ultimate dream in life.

Second on the list of worries is reputation and people trust. In the case of remittance business, trust is a prerequisite. How can people attempt to transfer money through an institution if they don't trust that their hard work's savings are in good hands and that they will be well delivered? In a business that involves money, reputation, word of mouth and trust are everything! Good service, convenience and speed are also important but come next.

Fortunately, these two worries are not applicable to the case of this project. The business will not start from scratch. A well-established money exchange family business is already in place with all its contacts locally and abroad and with the good reputation it succeeded to maintain throughout 40 years. What is to be done here is to expand horizontally by adding a new service/section; “Money Transfer”. This department would cater for customers with different purposes (trading, family support, etc…) who wish to transfer or receive money. The main stream (main contacts) is there, the company name is there; therefore the offices and experienced teams are also there. There is no need to refunding the account at the contacts’ companies since there is already a business relation going on, nor there is a need for a material initial investment to start the business. What is needed is a complex and efficient remittance software that will link the company with all its agents locally and abroad in addition to some funds to found new corridors with new agents in different areas.

Another competitive advantage is that, unlike global remittance businesses that usually involve the investors/owners, regional agents, country agents, and subagents; Masrico’s operations will only involve two or three parties; Masrico, the source/destination agent, and on rare occasions, a 3rd party agent. Hence, <u>*competitive fees*</u> will be set and that would attract all the family business’s current customers and agents’ customers as well. This fact, better prices while offering the same services, answers to why customers would choose Masrico instead of the global money transfer networks. With time and with the help of the word of mouth and the marketing campaign that is planned to be launched in the first stages to raise awareness and fasten the department’s progress the customers are projecting to increase and expand to include new people. Employees at the exchange department can also be trained to practice cross-selling as many people tend to exchange money with the aim of transferring them to another destination. When such type of people get to know that this company is a one stop shop they are likely to appreciate this convenience and are most likely to become repetitive customers.

As can be evident from the above, the new department will not be beneficial to the establisher only but also to the family business as a whole. With this in mind, the family is likely to be encouraged and seek means of developing both departments at once.

Now that, the money, reputation and venue are secured, it is then the time to build the infrastructure that would suit the requirements of the new department and its activities.

4.3 Infrastructure Needed

The ultimate plan is to create an online platform in the form of a website which grants access to all of my agents and breaks the barriers between them allowing them to send each other transfer orders through Masrico. Each agent will be able to see all the other agents and directly engage business with them while being able to track their live balances and accounts with the main host, in this case Masrico. By opening up Masrico’s network to all of its agents, operation size is expected to double in the first 6 months and to triple by year-end without adding any material costs or sacrificing on efficiency and practicality.

After planning and defining the scope of activity, it is now the time to setup the infrastructure necessary to start the operations. According to the nature of activity and operations, the following will be needed:

1. IT Equipment and Infrastructure: a network of computers connected to a server that hosts a database responsible for saving the daily transactions andthe clients’ data.
2. Business Software: a Remittance Software connecting all banks and agents should be installed on the computers and used by employees to perform the transactions. Also their software will be responsible to render the operations more efficient by saving all the clienteles’ data and their data, hence saving time and nurturing the customer’ loyalty. Moreover, this software will also be responsible to manage the banks/agents’ accounts and provide data for internal and external reporting.
3. A Switch to be installed at different banks to allow their ATMs to communicate with the main server.
4. Bank Account: a Prime Account at one of the major local banks is needed. This account will act as a HUB through which all clearance is done and accounts are settled.
5. Deals/partnerships need to be established with different banks in different countries to allow for operations within these countries and use their wide networks and widen the company’s international coverage. Hence, a much improved customer convenience.

4.4 Operations

Another critical issue to consider in the planning and preparation phase is the operations itself. How will the department operate, what will be the variable and fixed costs to consider and what can be done to establish a cost effective operation. For all these factors, several meetings were held with Banks' IT-specialists from Morocco (they service the entire Levant and GULF area) and a conclusion was drawn out. The operation will be divided into two phases. The first focuses on efficiency and cost reduction while phase two concentrates on expanding globally without having to incur additional material cost.

In phase 1:

The main focus of phase 1 is to increase efficiency and capacity without raising variable and long-term costs. This can be achieved by allowing customers to cash out their transfers through specialized ATM machines without the need to visit the company and be served by an agent. In this way, and since ATMs operate 24/7, office working hourswill increase without having to hire more staff and incur additional fixed as well as variable costs. Also it will increase the capacity and allow "Masrico", the company, to serve more customers at a time. The end result would be, less queuing time and enhanced customer satisfaction.

As a start Masrico will acquire 2 ATM machines and provide customers with personal cards for this purpose. Based on the current statistics drawn from the family's database, the plan is to issue first 3000 cards and increase the number depending on the need.

In phase 2:

After successfully implementing phase 1 and starting the business effectively, the focus will be on moving on to phase 2 which aims at expanding the business to cover the global ATM network allowing customers to cash out and send, at a later stage, their transfers.

To do so, Masrico will leverage on the wide reach of VISA and MasterCard networks so it would save the time, money and the hustle to introduce its cards to the banks that may or may not accept to open their ATMs' security to a newly established company. Having said that, Masrico and its partner bank will be able to issue VISA/MasterCard cards to their customers enabling them to use any ATM in the world.

Theoretically, this will give Masrico a 100% global reach from day one without having to incur material costs.

4.5 Process

In the previous section, phase 1 and 2 of the operations were discussed. In this section, the process to be followed in implementing these phases will be deliberated.

At first, the company can't partner with all banks worldwide to serve its customers; a careful selection of the right banks to approach in each destination/country should be made. This selection will be the result of a comprehensive research and surveys dispatched to our customers to make sure that the banks selected would serve the biggest number of customers and would secure the reach intended out of this global expansion.

After the selection, a switch system has to be installed in the designated banks to allow their ATMs read and accept Masrico cards. In this way banks don't have to apply any changes to their current systems and are more likely to become "tolerant" and render the "getting in" phase easier.

On the other hand, due to regulatory issues regarding issuing personal cards and ATMs, the VISA &MasterCard plan proved to be more efficient, easier to implement especially that it won't require any switches and will render the process even simpler. Moreover, Masrico won't have to chose a number of banks, instead it can chose only 1 bank in each country and get access to its facilities, networks (the country's banks), and the new potential customers.

As illustrated in the reviewed literature in chapter 2, one of the main advantages of the informal money transfer channels is its convenience. Based on this fact, it is mandatory for Masrico to expand its network to allowing different agents to issue customer cards and cater for customers' needs. People will benefit from proximity in addition to the other advantages of the informal channels discussed in chapter 2.

The proposed architecture for both phases as well as the list of modules of each phase of the solution are displayed in the below figures (7- 10).

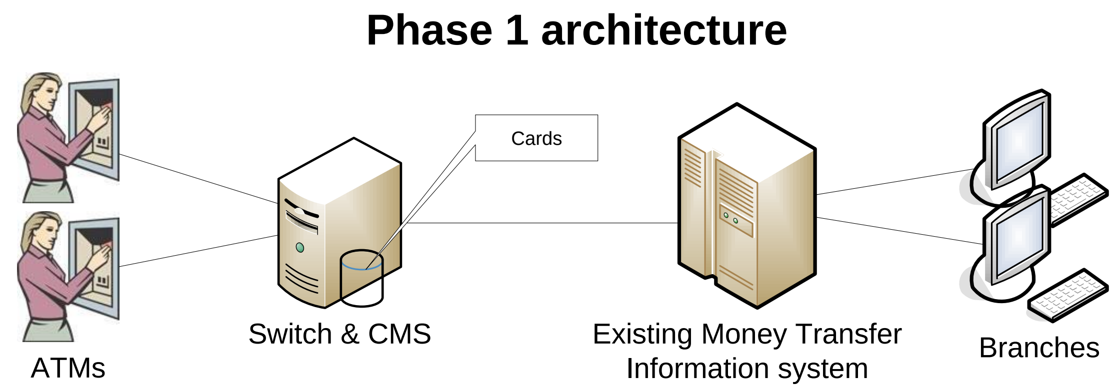

Figure 7: Phase 1 Architecture

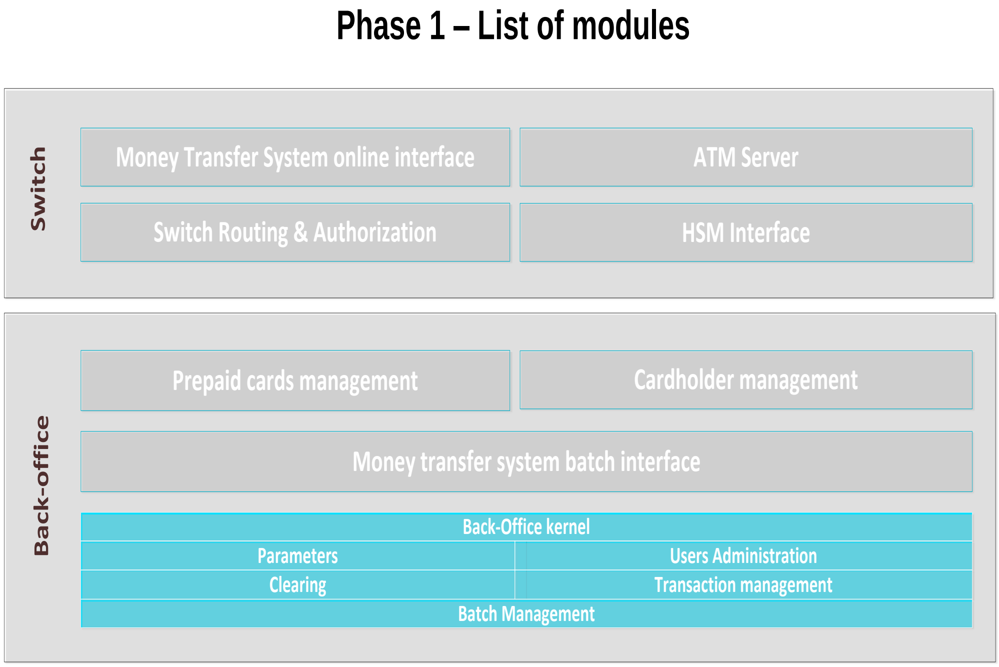

Figure 8: Phase 1- List of Modules

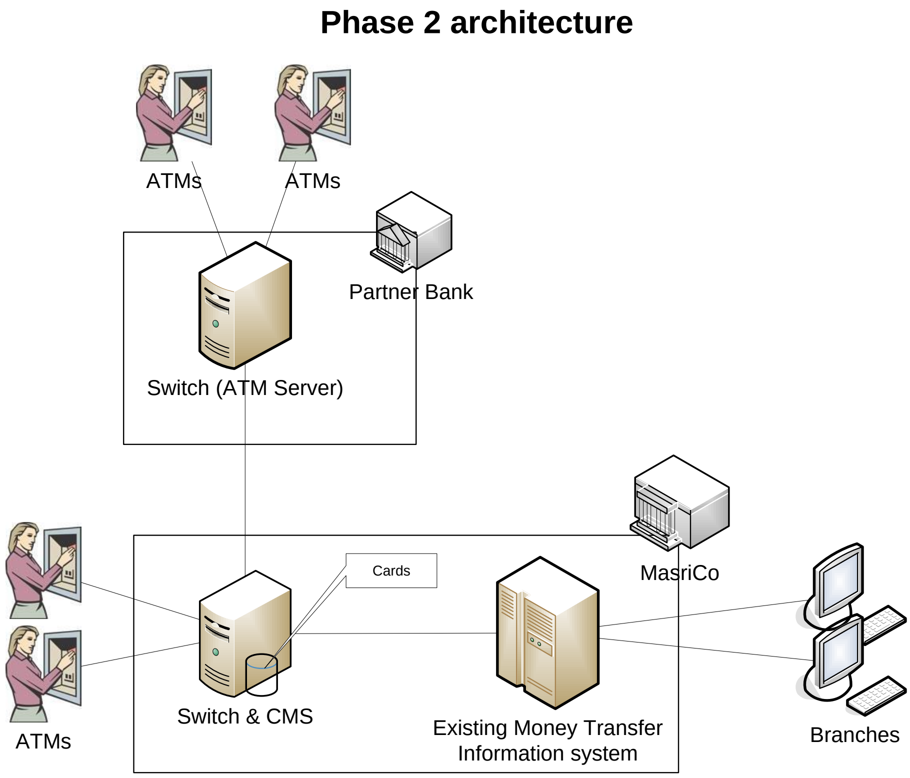

Figure 9: Phase 2 Architecture

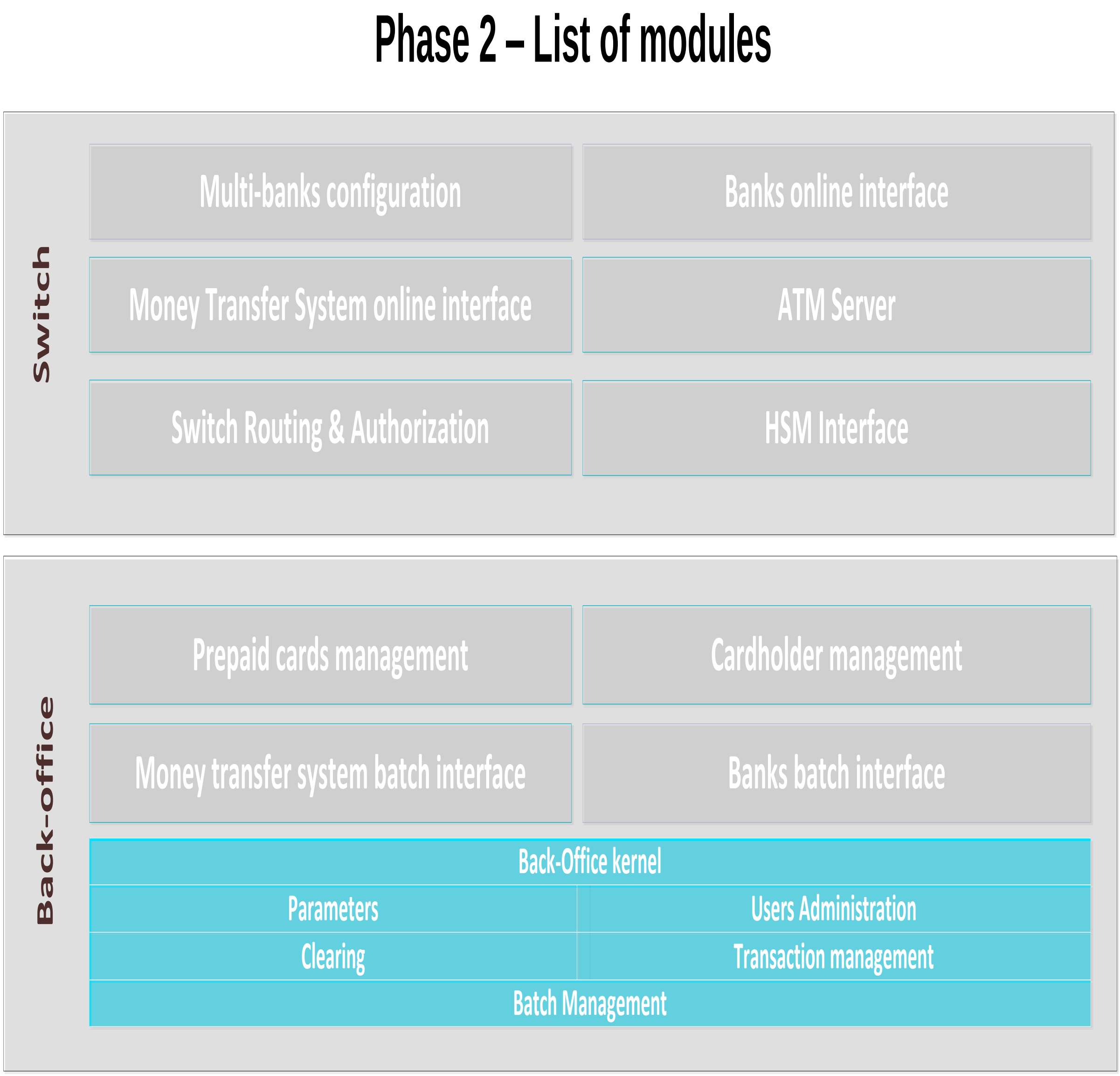

Figure 10: Phase 2- List of Modules

4.6 Raising awareness and encouraging people to start transferring through Masrico

In order for any business to succeed, a certain level of awareness has to be made to encourage people to start or at least try a certain product or service. As already discussed in section 4.2, a business that involves money is more difficult to market than any other business. People trust is crucial and hard to build and maintain. The advantage that Masrico has here is the reputation of the family exchange business. Customers already using the exchange services of the mother company can be somehow easily encouraged to use the services of the newly established transfer department. Of course, not all exchange clients are inneed to use the money transfer service. Here thus comes the role of the awareness campaign to be launched in coordination with a reputable and influential marketing and advertising company. A couple of meetings has been made with a local marketing company and a budget has been set. It will finance the marketing campaign and allow it to access various available channels (social media, TV, Billboards, etc…). The aim of the campaign is to introduce the company as a new entrant to the market building of course on the existing exchange business, highlighting its competitive prices and the exposure it has.

Another tool that will help Masrico attain better reach is by encouraging its agents to market and motivate their customers to use Masrico's channel instead of others. And that could be done by giving the agents higher rewards than the competitors. A question poses itself here, how would Masrico be able to charge lower fees than its competitors yet still be able to give higher rewards to its agents? The answer is quite simple and will be elaborated through this scenario: Say a customer wishes to transfer an amount of USD 1,000$ to Australia. A worldwide known competitor would charge a fee of USD 52$. The known agent reward is 10% of the imposed fee, hence $5.2 for the agent. Masrico, due to is simple network structure, will be able to charge a fee of only USD 20$ of which 50% is rewarded to the agent. Thus the agent receives USD 10$ instead of the initial USD 5.2$ hence doubling their profits in this scenario. Moreover, in a case of a 3rd party, in other words 2 agents are sending transfer orders through Masrico. The source agent would still receive USD 10$ in order to motivate the customer to send through Masrico, while the destination agent receives USD 5$ and the remaining USD 5$ goes to Masrico as commission.

4.7 Competitive Advantages

Building on the competitive advantage is very important for a business to grow and prosper. From this perspective, a careful analysis of the obstacles/barriers versus the advantages was conducted. The remittance business, in general, has a list of barriers that should be overcome, these include:

1- Barriers to entry to this market are very high for this domain.

2- An intense capital investment is required in order for this business to turn over.

3- A well-established name for this kind of business is very important; "Trust" comes first.

4- Central banks' strict regulations and policies that govern the activity of all remittance businesses.

Identifying barriers is the first step towards assessing the risks involved. Building on these obstacles, if possible, would be a great advantage for the business. In the case of Masrico, these obstacles serve the company as competitive advantages:

1- The barrier to entry is overcome by the fact that the exchange business is already in place.

2- The capital investment is not as intense as it would have been if no family business was already in place.

3- Reputation and trust are already present, thanks to the family as well.

4- The New Regulations by the central bank restricting transferring money to Level A-Exchangers only won't affect the business. On the contrary, none in its geographical area is classified as Level A except for the company itself. Moreover, BDL is shutting down all those who are not abiding by the new "strict" regulations reducing by such the competition.

   Other competitive advantages available for Masrico include:

5- Unlike competitors in the area, Masrico staff will be carefully selected and hired with specific qualifications: young and motivated, and well qualified (in terms of education and professional background). This is a strong competitive advantage for all the new regulations that dictate new ways to fight terrorism and money laundering which demands computer literacy, follow up with authorities locally and internationally. Not to mention the heavy systems that incurhigh costs, which will be developed and installed in the company itself.

6- A compliance department will be founded to make sure to stay on the authorities' white lists (This will strengthen BDL's and the inspection entities' trust and establish a healthy relationship with the company).

7- A new "contemporain" online remittance system will be developed (projected time of development is about 18 months as the system intends to be unique and powerful in many areas). The main advantage of this system is the giant leap forward which would guarantee leadership over the market for at least 5 years ahead. It will render all the transactions electronic; I.e. the customer can transfer and cash out a transfer in less than a couple of minutes. The system, as mentioned before, will also store all customers' data which triples efficiency, enhance customer satisfaction, and boost their loyalty.

Internally, this system will allow the company to generate ready-to-submit-reports to all authorities, ease inspection, and prepare data for analysis and decision making purposes.

An extra feature is that whenever an agent enters a new name into the system, it automatically runs a quick search through international blacklists (such as the OFAC, AUSTRAC, London British BANK, GABRIEL, etc…). This feature will give the software, hence the company, a strong position and trusted name when penetrating new markets in new countries.

8- Last but not least, the company's results are expected to be even more promising for that same system not only allows it to operate with agents (2-way communication), but also allows the agents to operate with each other in exchange for a certain fee charged by the company (multi-directional communication). Theoretically, this indicates that the business will also triple in size, while no any extra costs or extra employees are needed.

9- Finally, and as mentioned above, Masrico's prices will be very tough to be beat for it will charge fees just to cover those of the Source agent, Destination Agent, and on rare occasions a 3rd party agent. That compared to the network of current global money transfer companies which include the owners, source agent, Super/area agent, country agent, sub agent (in some countries), and the destination agent. Not to mention that the new rented system will allow Masrico to operate with high efficiency and minimal costs.

4.8 Expansion in the Lebanese market (branching out Vs. networking strategy)

Referring back to discussion held in chapter 2 on the advantages as well as the importance of providing customers with the proximity and convenience necessary to attract and retain them, it was thus essential for this business to consider the option of expanding its network to cover the largest portion of the Lebanese market. Expansion, however, has two forms: expansion via networking through independent agents or branching out. Deciding between these two options is crucial and is likely to have a critical impact on the profitability of the business as a whole. With this in mind, a comprehensive pros/cons analysis would be needed to decide on the best option. An identification of the advantages and disadvantages of the two options is the first step in this analysis:

- Some of the advantages of expanding through a web of independent agents:
    - Use and benefit from the agent's already existing network. Also make use of the agent's strength instead of opening a nearby branch and competing with them.
    - Less concern about safety, especially in Lebanon where the political situation is highly unstable. In Lebanon, an unstable political situation translates into malicious security attacks (Specifically in Tripoli), hence public panic, and economic recession. Therefore, we can conclude that fewer branches ➔ less exposure to political risk.

- Less responsibility in the sense that the company will not be responsible for the funds sent as opposed to being responsible for the funds sent and received when delivering from one branch to another. Also less concerns about robberies, physical movement of funds from one branch to another, etc…). Not to mention that the company will only be responsible for the performance and ethical behaviors of a restricted number of employees (in 1 main branch) as opposed to a number of employees in different branches.
- Need less capital as it doesn't have to fund a number of branches.
- Less paper and governmental work and less-taxes.
- More flexibility in decision making in the sense that an agent in a new area can be added very swiftly while another can be stopped on spot without having obligations towards employees, government, or any other third party.
- No need to register the company in different countries and go through every government's requirements. (Less hustle)

➢ Moving to the disadvantages of networking instead of branching out:
- There is dependency on agent's working hours, strength, and situation.
- Less flexible with operations as difficulties might arise while trying to convince agents to work in a certain way. In other words, there is no centralized decision making. Yet in such businesses, changes to operations are rare and when found are mostly beneficial for both parties. Therefore, this is considered to be quite a minor problem.

- If the political situation, hence the public safety concerns and malicious local armed attacks affect the area of the only branch, operations will shut down unless an online web-based system with servers outside of the country is installed, then operations will never shutdown. Of course this will cost dearly unless the service is rented from an international remittance hosting companies which are available with very convenient prices.

Moreover, based on the feasibility study conducted in chapter three to assess the forecasted profitability of the project, the 2 options were compared in order to decide on the best option to adopt. As a result, the study showed that networking will reward higher benefits in the current market size and circumstances.

4.9 Going International

According to MICS[25], 39.2% of the Lebanese emigrants are living in nearby Arab countries and North Africa, while the rest is dispatched in smaller percentages in the rest of the Countries of emigration. Based on these figures, the highest exposure would be achieved if the highest percentage is targeted; Arabic Countries and North Africa. Second on the list of targets comes Australia where 7.6% of the Lebanese emigrants are situated. In addition, about 90% of these emigrants are scattered between 3 main cities only: Sydney, Melbourne, and Victoria which makes it relatively, an easy market to reach.

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[25]Lebanon. Central Administration of Statistics (CAS). متابعةأوضاعالنساءوالأطفال. By CAS and UNICEF. Final ed. Beirut: MICS, 2009. Web. 01 June 2012. <http://www.cas.gov.lb/Mics3/MICS3_new/Children's%20situation%20in%202009.pdf>

Since networking through agents proved to be more beneficial, this same strategy will be followed in the international expansion and networking through well-established agents who can cover the abovementioned cities. In doing so, there will be no need to establish a name for the company in the new markets, nor compete with local giants. Moreover, this strategy will exempt Masrico from going through foreign governments' requirements, paper work, and huge costs.

Later on, the plan to expand to additional markets will depend on the success of the international exposure explained above in addition to the success of the company as a whole; both locally and internationally.

4.10 Risk Mitigation

In such an unstable political situation and high country risks present in Lebanon, risk mitigation becomes a priority to any business. In Masrico's case, the risk associated with running and monitoring the operation needs to be carefully analyzed. Two options are present: either to buy an IT infrastructure and host remittances and accounting software or to rent this service from a service provider.

The pros and cons of each option is displayed in the table below:

Host own System	**Rent from service provider**
Expensive initial investment.	Very small initial investment.
Need to hire experienced IT personnel.	No need to hire IT personnel.
Responsible for all security threats and any possible malfunction.	The hosting company is responsible for data back-ups, downtimes and security issues.
Be responsible for keeping multiple copies of data in different areas for protection.	They take care of all integrations with agents' software if available, and they take care of the global software and security requirements.
If any machine breaks down, a new one has to be bought and this will incur large costs again.	No need for complicated IT infrastructure, only personal computers and an internet connection will do.
	The system will be maintained and upgraded with every update that comes out.
	The service provider introducesMasrico's network to other agents' networks which increases the volume of its operations.

Table 7: Operation Decision - Renting Vs Hosting

To quantify the advantages of both options and decide accordingly on the best one, the following financial analysis was conducted and which compares the data gathered from appendices 3 and 4, showing the initial investment and costs required for both options, and proves that renting from a service provider is less costly and financially more profitable since the saved initial investment can either yield interest if deposited at the bank or can be used to start a new business with a new agent.

Self Hosting Vs Rent from a Service Provider			
Self Hosting			
Hardware Items		4715	$
Operating Systems		1247	$
Labor		1000	$
Total Hardware Costs		**6962**	$
Useful Life		5	Years
Total Hardware Costs/Year		**1392**	**$/Year**
IT Personnel Yearly Salary		15000	$/Year
Yearly Maintenance		2000	$/Year
Total Operating Costs/Year		**17000**	$/Year
Remittance Software		25000	$
Yearly Maintenance		1500	$/Year
Total Software Costs		**26500**	**$/Year**
Yearly Maintenance		**3500**	**$/Year**
Yearly Investment		**6392**	**$/Year**
Total Yearly Investment		**9892**	**$/Year**
Total Investment		***49462***	***$***
Rent from a service Provider			
Initial Payment		3500	$
Yearly Rent		**5100**	**$/Year**
Total Yearly Investment		**5800**	**$/Year**
Total Investment		***29000***	***$***

Figure 11: Financial Analysis- Renting Vs Hosting

4.11 SWOT Analysis

Every business has a set of strengths and opportunities computing with arrival set of weaknesses and threats. In the case of the remittance business the strengths and opportunities identified are enough to hedge the risks associated with the weaknesses and threats rendering the business a promising one. In the following table, a list of all the four factors that make up the SWOT analysis are displayed:

MasriCo SWOT Analysis

Strengths

1. Leverage on the long well established family name (40 years in the same field: money exchange business)
    a. Where customers have a deep trust in the family's honesty and its competent services.
    b. Agents in different areas in Lebanon are looking forward to be represented in the North by such a prestigious family business.
    c. Agents outside Lebanon (LEVANT & GULF area) also trust the name to represent them in Lebanon.
2. Access to 2 prime locations in the North's business center.
3. The North is rather a receiving area where the majority of the transactions conducted there are "Receive" transfers. Therefore, the new company will mostly be paying out transfers.

    By contract, agents should pre-fund the paying-out company so it can proceed with its operations.

This fact will relieve the owner/founder of investing a large capital in the business.

4. Being part of a large group, the company is able to higher young, competent, and ambitious employees who are up to date and able to use today's technologies to boost the company's efficiency, productivity, and lead it in a professional manner.

Weaknesses

1. International regulations are becoming stricter every year.

   New regulations are being issued regularly to limit and monitor the money transfer businesses around the world.

   The problem with such strict regulations is that they force the customer to provide many documents and answer not less than a dozen questions before sending/receiving a transfer. This will drive money transfer companies to invest heavily in complex systems and data storage to store and report all the required documents and customers' data to increase productivity and avoid customers' dissatisfaction.
2. In Lebanon, Banks are refusing to open accounts for money transfer and money exchange companies by fear of money laundering despite that the later were newly audited and licensed by the governing authorities.
3. Although the central bank has issued new licenses for those abiding by the new regulations, yet the bank is hopeless before foreign accusations/regulations/demands.

4. The money transfer sector is under scrutiny and great investigation around the world, which limits its expansion and natural evolution.

Opportunities

1. Only two companies are licensed to deal with money transfers in all of Northern Lebanon. (This is where the new company is planned to be found)
2. Most to all of the competitors, even the other money transfer licensed company, are being led by 1st generations who are too busy maintaining the business and are looking for stability (risk averse) in this stage of life.
   Not to mention that their operations have reached maturity and haven't changed decades ago.
3. Running a new trendy/up to date/advanced company with a long well established name, will definitely affect customers' perception and will make them feel proud to be part of this new company especially in a relatively small area such as the North.
4. The new money transfer concept, remitting through the ATM worldwide network and across different banks, will be the company's competitive edge. It should appeal to customers and with better convenience, customers database along their loyalty is expected to expand along.

Threats

1. New regulations limiting the money transfer domain have become so strict that they imposed a complicated/confusing operational conduct that poses some questions regarding the central bank's intention on the course it is setting for this

financial sector. BDL issued a new circular “ circular 237, section 4” that amends law number “111” which states that a money transfer company is not allowed to:

a. Conduct trading-purposed transfers. i.e. A merchant is not allowed anymore to settle his dues for foreign suppliers through a money transfer companies. They’ll have to refer to banks which cause great inconvenience for it takes the bank 4 business days on average to pay out a transfer. Not to mention the expensive exchange rates imposed by the bank.
b. Conduct transactions with amounts equal to or greater than $20,000 USD.
c. The overall volume of all the company’s transactions (send & receive) should not be more than “the company’s capital times (x) 10” Acquiring a money transfer license requires a capital of $500,000 USD. Meaning the company have to stop its operations when its total (send and receive) transactions’ volume reaches 500,000 x 10 = $5,000,000 USD.
    i. By law, it is not allowed to link the company’s turnover to its capital. This is why the money transfer and money exchange syndicate has appealed to the state consultative council. But of course, this issue will take few years before it is resolved.
    ii. As a rule of thumb, money exchange companies make $1 per every $1000 transferred (or 0.001$ per $1 transferred) whether sent or received. i.e. the company is bound to have a gross revenue of no more than ($5,000,000 x 0.001) $5000 per year.

This fact also violates the business regulations and rule of conduct that states that no party is allowed neither to limit a business's profitability nor force it to undertake losses. And having a yearly revenue of $5000 is definitely forcing the company to bare losses, unless it chooses NOT to disclose all of its operations which leads to even more severe problems such as facilitating money laundering, terror financing, and so on…

d. All the above stated facts pose a great threat for the current project. Yet, the company can always go with balance clearance through its agents to pay/receive its dues.

   Also to be noted is that the above-mentioned threats ultimately minimize the threat of new entrants. Any new entrant who doesn't have the advantages (mentioned above in the strengths section) this company has combined with the severe scrutiny of this sector worldwide and the new regulations imposed by the central bank will certainly be demotivated and scared away.

4.12 Conclusion

In a country with a relatively high political and economic instability like Lebanon, risk is the number one factor that accompanies every business; small or big, locally or internationally owned. Establishing a business in Lebanon is perhaps one of the toughest decisions to take especially for small entrepreneurs who cannot afford the risk associated with the country's situation.

In order for a business to succeed in any place, there are a set of factors that needs to be analyzed and assessed before a final decision can be made. For the case of the remittance business, Masrico, that is the subject of this research, the risk associated with the country's specific situation cannot be separated from any of the factors considered in the analysis.

Based on the qualitative analysis conducted throughout this chapter, it is adequate to say that the remittance business is a choice of business that is worth considering among many alternatives. Whether or not this choice would bring about the profits and success expected out of it, is what the coming chapter will decide!

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

Emigration is one of the main “industries” that this country is good at. It has been part of its history for years and continue to have a major impact on its economy. Like any other industry, emigration has created new opportunities for the Lebanese to exploit and have contributed heavily in nourishing the economy at times of crisis.

Today, Lebanese Immigrants are spread over various countries around the globe. The highest percentage (39.2%) of these immigrants are living in the nearby Arabic countries and North Africa. 79% of these expatriates in the GCC are men, 82% are married, 62% have a master’s degree or higher, 63% are in middle/lower management and 17% are in senior positions. 46% of Lebanese families have at least 1 close kin abroad.

Building on the above, it, thus, becomes evident that a remittance business is necessary and also a profitable business in Lebanon. However, with every opportunity comes also a threat; and success is not limited to choosing the right business to enter. For any business to succeed, there are a number of factors and conditions that need to be fulfilled.

Being of no exception from any other business, the case of Masrico, a potential remittance business, was thoroughly evaluated through qualitative and quantitative measures to decide whether or not it is the right choice of business to start in Lebanon; the highly risky country.

The quantitative study conducted has reviewed the remittances inflow to Lebanon during the past few years and identified a sustainable growth of these remittances which constitute a great opportunity for the new business. Moreover, the feasibility study conducted has showed that the business is expected to generate profits. The study as well suggested that expansion by networking through independent agents is advised as opposed to branching out.

The qualitative study, on the other hand, identified a number of advantages for the company such as the already well-established family name that would provide the trust and reputation necessary for such type of businesses and would reduce, to a great extent the capital required as the company won't be built from scratch but added as a department to the family exchange business.

As a start, the company will cover the two main markets, the GULF & North Africa, and Australia for they make up 46.8% of the Lebanese immigrants. Expansions to other markets will remain a plan for the future and will depend on the results achieved by the company.

Of the major competitive advantages identified is the specialized system that Masrico intends to develop and which will allow it to combine the existing 3 systems' advantages, nurture a healthy relationship with the authorities, improve customers' loyalty, help with the analysis and decision making, and ease penetrating new markets thanks to its international security and anti-money laundering security.

The formulated SWOT analysis found out that the strengths and opportunities identified are enough to hedge the risks associated with the weaknesses and threats rendering the business a promising one.

Last but not least, given the current Lebanese circumstances and the risk it imposes on any business, especially if newly started, renting the remittance and accounting software from an international, professional service provider proved to be much better than hosting the systems and building a complex IT infrastructure.

Finally, above all factors that determine the probability of success of any business comes the determination and willingness to achieve. While these two factors combined with the will to succeed in the home country and contribute in its growth, success becomes a matter of time!

5.2 Limitations

The presentation, discussion, and development of the remittance business project were carefully and thoroughly executed. However the following limitations were faced throughout this process:

- First, the data and figures related to the inflows of remittances in Lebanon varied among some resources (for instance the amounts reported by Byblos bank varied from those stated in Medbank reports). So, both BDL and the World Bank were taken as the refereed source to match the values and compare them and form the table covering 10 years.
- Second, the data related to Lebanese expatriates and the respective remittances they sent were scarce. Thus, the gathering of secondary data about this specific topic took extensive efforts and time to be accomplished.
- Third, the researcher, being a member of a family that runs a money exchange company since decades sought to keep his objectivity and unbiasness regarding

the subject of the project. The researcher sought to describe the business project qualitatively and quantitatively without bias.

- Lebanon is a highly risk country and reports a high level of corruption. Any business is endangered in such an environment and owners have to struggle and work hard to ensure the prosperity and continuity of its business. So, it is not also about conducting a study and checking the feasibility of a certain project; there are always external factors that can be of a major impact.

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