Sierra Leone - Mobile Money Transfer Market Study

FINAL REPORT, March 2013
Disclaimer

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Contents

Introduction ........................................................................................................................................... 3

Executive Summary and Recommendations ......................................................................................... 9

I. Module 1 Regulation and Partnerships (Supply side) ............................................................... 23

II. Module 2 Markets and products (Demand side) ........................................................................ 56

III. Module 3 Distribution Networks ............................................................................................... 74

IV. Module 4 MFI Internal Capacity ............................................................................................... 95

V. Module 5 Scenario's for Mobile Money Transfers and the MFIs in Sierra Leone ................. 99
Introduction

- Cordaid has invited PHB Development to execute a market study on Mobile Money Transfers (MMT) in Sierra Leone and on the opportunities this market offers for Microfinance Institutions (MFIs). This study follows on the MITAF1 programme that Cordaid co-financed in the period 2004-2011.
- The results of the market study were shared in an interactive workshop in Sierra Leone on 26 February 2013. 27 persons attended, representing MFIs, MMT providers, the Bank of Sierra Leone and the donor.
- This final report represents an overview of the information collected, on which the workshop has been based. Moreover, information obtained during the workshop is reflected in this document. In addition, the MFIs have received individual assessment reports on their readiness for MMT.
- This report starts with an executive summary followed by recommendations for the MFIs and Cordaid. Chapters 1-5 provide detailed information on the regulation and the supply side of market players and MMT partnerships (module 1), on the demand for financial products (module 2) and the agent networks in Sierra Leone (module 3). Module 4 focuses on the MFI’s readiness to engage in MMT and the last chapter shows scenario’s of the role that MFIs can play.
- In this report we use the terminology Mobile Money Transfer (MMT). This stands for a selection of Mobile Financial Services (MFS) that are currently available in Sierra Leone. Namely Person2Person money transfers, bill payments and salary payments. In addition, agents perform cash-in and cash-out services.
- The team consisted of Gera Voorrips, Aurélie Wildt-Dagneaux and Philip Swaray. We are grateful to the Ayani team, who provided information on the MFI sector and guidance and support onsite in Sierra Leone.
**Introduction**

Reminder: Project approach as proposed in the Technical Proposal

1. **Regulatory evaluation** (linked to MFI, banking and telecom sectors)
   Potential for partnerships

2. **Market assessment** - Customer needs, habits and available products.

3. **Assessment of Distribution networks** (agents, retail networks, etc.)

4. **Assessment of internal capabilities of MFI sector & required assistance**

5. **Recommendation on the options to use mobile money transfer, targeted to the MFI-sector in Sierra Leone**
Introduction

Acronyms

- AML  Anti Money Laundering
- ATM  Automatic Teller Machine
- BSL  Bank of Sierra Leone (Central Bank)
- CDD  Customer Due Diligence
- CFT  Combating Financing of Terrorism
- FI   Financial Institutions
- FSA  Financial Services Association
- KYC  Know-Your-Customer
- MFI  Microfinance Institutions
- MFS  Mobile Financial Services
- MFSP Mobile Financial Services Provider
- MMT  Mobile Money Transfer
- MNO  Mobile Network Operator
- NATCOM National Telecommunications Commission
- OTC  Over-the-Counter
- PAR  Portfolio at Risk
- P2P  Person-to-Person (transfer)
- POS  Point of Sale (terminal)
- SLAMFI Sierra Leone Association of MFIs
Introduction
Methodology: a range of sources of information were used

- Focus groups with 56 clients (from Hope, ACtB and SMT)
- MFI questionnaire (10 MFIs responded)
- Workshop with 27 participants from the MFI sector, the BSL, Splash, Airtel Money, Cordaid and Ayani
- Interviews conducted in Sierra Leone, with:
  - 3 MFIs (SMT, Hope, ACtB and feedback received from the workshop)
  - 3 Banks (GT, Zenith, Ecobank MF)
  - MMT providers (Airtel Money and Splash)
  - Bank of Sierra Leone
  - IFAD
- Desk research based on:
  - Information that was received in Sierra Leone from the MMT providers, banks and Ayani
  - PHB knowledge and documents
  - Refer to list of references
## Introduction

Sierra Leone main characteristics

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Value</th>
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<tr>
<td>Population</td>
<td>6.2M</td>
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<tr>
<td>% rural population</td>
<td>62%</td>
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<td>% under poverty line</td>
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<td>Literacy rate</td>
<td>35%</td>
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<td>% access to financial services</td>
<td>10%</td>
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<td># branches/100 000 inhabitants</td>
<td>1.5</td>
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<td>Mobile penetration</td>
<td>40% (2.5M)</td>
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<td>Mobile Network Operators</td>
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<td>MMT solutions</td>
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<tr>
<td>Regulation on MFS</td>
<td>Drafted</td>
</tr>
</tbody>
</table>

Mobile Network Operators:
- Africell
- Airtel
- Comium
- Splash
- Airtel Money
Introduction

Executive Summary and Recommendations

I. Module 1 Regulation and Partnerships (Supply side)

II. Module 2 Market and products (Demand side)

III. Module 3 Distribution Networks

IV. Module 4 MFI Internal Capacity

V. Module 5 Scenario's for Mobile Money Transfers and the MFIs in Sierra Leone
Various laws were analysed, including the Banking Act and Guidelines for different financial sector actors, the AML/CFT Act 2012, the Credit Referencing Act 2011 and the Telecommunications Act 2006/2009. Also the Draft of Guidelines for Mobile Money Services (courtesy of Bank of Sierra Leone) were considered. This has lead to the following conclusions:

Positive points:
+ A draft of regulation for MFS (guidelines) has been prepared but not yet approved;
+ Interoperability of MMT services is required and exclusive partnerships are forbidden;
+ E-money can be issued by non-banks on the condition it is backed up with the deposit of a corresponding amount on a CDA (=custody deposit account) in a bank;
+ The use of agents is permitted on the condition that due diligence on the agent is accomplished;
+ Agents can work with several MMT providers;
+ MFIs can use MMT for loan disbursement and repayment and also for money transfers;
+ MFIs can be an agent for one or several MMT providers.

Points for improvement:
- NATCOM and most market players are unaware of the draft MFS guidelines;
- Currently Banks must lead, MNOs and 3rd party providers can only operate with a licensed bank partner (but this is likely to change with the new MFS regulation);
- Most MFIs are not deposit-taking, neither dealing with foreign currencies, which excludes them from a part of the MMT business (international remittances and offering saving services);
- KYC are the same for banks and MMT providers (but proportionality will be introduced);
- Regulation does not state minimum requirements for liquidity and size of agent business.
Executive summary: Partnerships for MMT (supply side)
The MMT ecosystem is still immature, but a lot of players already involved

- The mobile phone sector is growing and penetration is increasing (currently 52%). Mobile network coverage is good in urban and rural areas (>80%). The unreliability of mobile services due to lack of power and network outages will stay a concern for the time being.

- Different players are involved in providing financial services: banks, micro finance institutions (MFIs), community banks (CBs), financial services associations (FSAs) and money transfer organisations (MTOs). The number of MFIS, CBs and FSAs have grown considerably since the war and have demonstrated a commitment to serve rural areas. The banking sector seems less dynamic in reaching out to new clients or regions.

- In payments, some initiatives are underway such as the establishment of an ATM switch and the WAMZ*) Payment System Development Project. Also, the concept of a 'national switch', linking the ATM switch to the Mobile Money Transfer (MMT) platforms is being discussed.

- A lot of players are already involved in the MMT ecosystem in Sierra Leone:
  - MMT providers Splash and Airtel Money started offering services since 2010. They are supervised by the Bank of Sierra Leone via the banks that hold their trust accounts (CDAs);
  - Banks are also agents for MMT and CBs and FSAs will become agents soon. An MFI (Hope and soon Ecobank) proved that MFIs can be agents for MMT as well;
  - Various businesses and institutions pay salaries or allow for bill payments via MMT (Oxfam, DsTV, etc).

- At the same time it can be concluded that the MMT initiatives have not yet reached maturity. They are not profitable yet and have low numbers of customers (300,000 subscribers) and agents (around 1,000 together). Particularly the lack of qualified agents is hampering the development of the services. This implies that continued investment will be required in the coming years.

*) WAMZ West African Monetary Zone
Sierra Leone is a cash economy, more than any other country in Sub Saharan Africa. The use of formal financial services is very low, around 10% (607k bank accounts), although growing.

There is a huge unmet demand, particularly for credits and to a lesser extent for savings. MFIs, CBs and FSAs are responding to this need and have built up an impressive market position in 10 years (90k active borrowers at MFIs). Many informal means of savings and credits are also in use, such as borrowing from family and friends and traders or savings with a ususu-person.

In addition, there is a huge untapped potential for domestic money transfers: an estimated 3.3 million transactions run through informal channels annually. Drivers or family & friends are mostly used. These informal ways are cheaper, but perceived as less reliable and slow.

The current offer of MMT - from Splash and Airtel Money - responds primarily to the need for better domestic payments. Most popular MMT services are P2P, bill payments, top-ups and corporate payments. Since 2010 the MMT providers acquired 300,000 subscribers; early adopters can be found in more urban and educated populations. However, also lower end people (urban and rural) seem interested, especially in the P2P payments, offered by agents (‘over-the-counter’) and airtime top up.

In Sierra Leone, the most important benefits that MMT offers to clients are a better control over payments (no cheating, reliable delivery) and more convenience (no need to queue at the bank). In addition, speed and invisibility (no-one sees that you are carrying money on your phone) are appreciated. The convenience benefit will strengthen once the agent network is better developed.

Necessary conditions to make MMT a success include: a denser and more liquid agent network especially in the more remote areas and ample resources for customer and agent education.

The following page provides an overview of financial needs and existing propositions in Sierra Leone:
### Executive summary: Market and products - demand side

MMT responds primarily to a need for better domestic money transfers

#### Customer Segment

| Owners of large businesses (rice importers, mining, senior politicians, CEO's) |
| Professionals (accountants, bankers), senior civil servants, owners of SME’s |
| Teachers, junior civil servants (military, police), urban and rural micro business (informal) |
| Small-scale farmers, small rural businesses (limited stock in shops), farm labourers, rural poor |

#### Need & Demand

| Owners of large businesses |
| Professionals |
| Teachers, junior civil servants |
| Small-scale farmers |

- Easy 24/7 access to bank accounts
- Transfer to unbanked
- Bill payments

#### Existing Propositions

- Bank account (Leone and US$)
- Cheques
- Cards (debit/credit, usability?)
- Cash

- Bank accounts (Leone)
- Cheques & cards (debit)
- Cash
- Bank loans
- Money transfer, (in)formal

#### MMT Opportunities

- Bill payments
- Salary payments (corporate side)
- Bill payments
- P2P to relatives
- Receipt of salary
- P2P to relatives (also OTC at agent)
- Bill payments
- P2P receipt of transfers
- P2P to suppliers and relatives (OTC at agent)

#### 10% is banked

- 70% lives below the poverty line, 65% in rural areas
Conclusions on the distribution network
Few structured networks in SL, offering the opportunity for MFIs to act as agent

- Agents are the **masterpiece in the delivery of financial services through mobile phones**, especially in remote and rural areas, at an affordable price:
  - Agents can perform **over-the-counter transactions (OTC)** on behalf of clients or train the customer to do P2P transfers, bill and merchant payments and loan repayment by themselves.
  - When **building an agent network**, the choice of using existing networks (retailers, post, etc) or building a network from scratch depends on what matters most for the MMT provider: Is it speed of roll out, speed of contracting, targeted location or network control?
  - **Liquidity management and network coverage are the biggest challenges**. Recruitment of agents, incentives, training and management/monitoring also need to be addressed well.
  - **Super agents act as intermediary** between the individual agents and the MMT provider. They often take care of recruitment of agents, liquidity management and monitoring.

- **Current distribution networks used by MMT providers** in Sierra Leone include airtime resellers, bank branches, MFIs branches, remittances companies, supermarkets and soon, gas stations. Important criteria for being an agent include: liquidity, trust, network coverage, interest of potential agent and interest of MMT provider.

- However, in Sierra Leone there are few structured networks that can act as agent. This seriously hampers the roll-out of MMT in the country.

- **MFIs are the 2nd biggest structured network in Sierra Leone with >100 branches**. This offers potential for MFIs to become agents. MFIs can also consider becoming super agents, either per MFI or to form an association of agents (through SLAMFI for instance).

- 2 MFIs, Hope and Ecobank, have already stepped in and are acting as agents (Hope works with Splash, Ecobank MF intends to work with both Splash and Airtel money).
Executive Summary: MFI assessment and their readiness for MMT

Some MFIs ready to engage in MMT, but many need consolidation of core business

- **MFI’s readiness to play a role in the MMT ecosystem** in Sierra Leone was analysed, focusing on:
  - The exposure of the MFI and its clients to the financial system and the mobile phone network. This determines how receptive and accustomed they are for cashless money transfers and accounts.
  - The characteristics of the MFI and its capability to introduce and properly serve a MMT product. This is measured by indicators such as the MFI management and portfolio quality, its position in the market and experience with introducing new products, its cash operations and the status of IT and MIS.

- A standardised analysis was performed for 10 MFIs and individual MFI readiness reports were prepared. The average score is:

**It can be concluded that:**

+ Some institutions have the potential to become involved in MMT instantly,
+ Though still low, MFI’s client readiness for MMT seems to be present
+ Managerial quality in many institutions seems available

- Most institutions have significant weaknesses that will hamper their MMT involvement in the short run.

- Various institutions could become attractive partners in the MMT ecosystem, after they solved their more pressing internal issues (such as PAR, OSS< 100%). They might be ready to consider their role in MMT within a year.

- **A weak financial position and high levels of PAR are show-stoppers:** in those cases the management should have other priorities (though SMS messaging to delinquent clients might be an option).
Different scenario’s can be distinguished for the role that MFIs can play in the MMT ecosystem. The different scenario’s vary in the direct costs they imply and the benefits and revenues they generate for the MFIs. In general, scenario 1 (becoming an agent) has lower requirements and implementation effort than Scenario 2 and 3. But it also offers less control over the MMT solution.

In Sierra Leone the following examples were found:

### Scenario 1: Becoming an agent for MMT
Hope is an agent for Splash since 2011, and performs Splash client registrations and cash-in and cash-out transactions. Ecobank is in the process to become an agent for Airtel money.

### Scenario 2: using MMT to better service your existing MFI-products
Hope started to use Splash in 2010 for loan repayments but it quickly shifted to use it for disbursements only. Currently all loans are disbursed using Splash. Ecobank MF is considering to use MMT for loan disbursements and/or repayments.

### Scenario 3: setting up your own MFS platform
SMT is considering acquisition of its own platform. It will be for domestic money transfer (over the counter) at agents, who use a mobile device to perform the transaction. It will not offer the full suite of products such as P2P or bill payments.

Initial outcomes for Scenario 1 show that agent activity levels are not yet very high. Also, the MFI decided not to allow clients to cash-out at its own branches to prevent staff compliance issues.

For Scenario 2, it was learned that at the start ample client training is required. Clients are open to use MMT though the large majority directly cashes out the entire loan amount. Clients must be guided on which agents to use. The MFI benefits from more transparency in transactions as these are documented in the MMT reports. The MFI’s cost base increased because it decided to pay the client fees for cash-out.
In Sierra Leone, Splash and Airtel Money are in urgent need of agents, especially in rural areas. At the same time, the MFIs have a large network of about 100 branches (of which about 60% rural). Also, most MFIs have cash operations and sufficient space and staff capacity in their branches. Finally, they have a trust relationship with almost 90,000 clients.

Therefore, for MFIs it is recommended to consider becoming an agent (scenario 1). Benefits lie in gaining commission income and in generating more traffic and new persons in the branch, thus an opportunity to cross-sell MFI products. Moreover, it will familiarize clients in remote areas with cashless modes of money transfer in Sierra Leone.

In some cases, MFIs may consider using MMT for repayments and/or loan disbursements (Scenario 2). In Sierra Leone, this would increase convenience for clients who currently always need to come to the branch and it could reduce operational risks (such as less fraud by MFI staff).

Scenario 2 carries costs such as fee payments for the MMT services and a risk of loss of direct interaction with clients. Moreover, the MFI cannot guarantee a good customer experience at the agent because it does not control the quality and liquidity of MMT agents.

In both scenarios the efforts to prepare and train staff and clients for the new services will be high, especially in the beginning.
Recommendation for MFIs

- The ecosystem for Mobile Money Transfers (MMT) has been established in Sierra Leone, though regulation of MMT by the BSL needs to be finalized.

- There is a **huge untapped potential of 3.3 million domestic remittances**, which flow through informal channels annually.

- This results in a **demand for more convenient payments: quicker and more transparent and secure.** Agent networks will play a key role to assist senders and receivers.

- MFIs are recommended to consider **becoming an agent (scenario 1)** or using MMT to ease **loan disbursements and potentially also repayments (scenario 2).**

- **Some MFIs have the potential to become involved in MMT quickly.** Others do not yet meet all requirements to become MMT-players in the short run.

- A **careful consideration of benefits and costs, requirements and implementation efforts must be made** by MFIs when stepping into MMT. It is recommended to make a good business case addressing these issues. Information about agent commissions and client fees is available from the MMT providers and should be used in this business case.

- This business case could also help to **obtain support or funds from Splash and Airtel Money.** Both expressed interest to (operationally and financially) support MFIs to become involved in MMT.
References

- African Development Bank, *Infrastructure and growth In Sierra Leone*, 2011
- Bank of Sierra Leone of Sierra Leone, *Financial Sector Development Plan*, 2009
- Gallup & Gates Foundation, *Payments and Money Transfer Behavior of Sub-Saharan Africans*, June 2012
References (regulation)

- Banking regulations (Bank of Sierra Leone)
  - Banking Act (2003)
  - Banking Act 2011 – Enhanced standards for corporate governance of the commercial banks and strengthens Bank of Sierra Leone’s supervisory and enforcement powers.
  - Bank of Sierra Leone (BSL) Act 2011 – strengthens the Bank of Sierra Leone’s autonomy, institutionalizes the monetary policy and audit committees, and defines the conditions for central bank’s lending to government.

- Guidelines for different financial sector actors (Bank of Sierra Leone)
  - Guidelines on Credit-Only Microfinance Institutions
  - Guidelines on Other Deposit Taking Institutions – applies to community banks and deposit-taking microfinance institutions
  - Guidelines on Finance Leasing Institutions

- AML/CFT Act 2012 (Bank of Sierra Leone) – A revision of the AML Act 2005 to incorporate issues on combating terrorism financing as well as widening the scope of anti-money laundering operations. It establishes the Financial Intelligence Unit (FIU) as an autonomous entity with monitoring and enforcement powers.

- Credit Referencing Act 2011 (Bank of Sierra Leone) – It led to the establishment of the Credit Reference Bureau at the Bank of Sierra Leone.

- Telecommunications Act 2006 and Amendment of 2009 – it established National Telecommunications Commission (NATCOM) and gave it powers to regulate and monitor telecommunications operators

- Draft of Guidelines for Mobile Money Services (courtesy of Bank of Sierra Leone) – not yet validated and released – Rules for Mobile Financial Services Providers (operational requirements, agents, AML/CFT/CDD/KYC, reporting…)

## List of persons interviewed (1/2)

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<thead>
<tr>
<th>Organization</th>
<th>First name</th>
<th>Name</th>
<th>Position</th>
<th>Date of meeting</th>
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<td>Splash</td>
<td>Daniel</td>
<td>Osei Antwi</td>
<td>Managing Director</td>
<td>Feb 19th</td>
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<td>Splash</td>
<td>Shane</td>
<td>O’Connor</td>
<td>CTO</td>
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<td>Kindi Bah</td>
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<td>G. Williams</td>
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<tr>
<td>BSL</td>
<td>I.K</td>
<td>Lamin</td>
<td>Director, Financial Market Department</td>
<td>Feb 20th</td>
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<tr>
<td>BSL</td>
<td>Samuel F.</td>
<td>Jabbie</td>
<td>Assistant Director, Other Financial Institutions</td>
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<td>BSL</td>
<td>Fatmata</td>
<td>Kamara</td>
<td>Banking Officer, Financial Market Team</td>
<td>Feb 20th</td>
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<td>BSL</td>
<td>Dr. Davidson</td>
<td>Kormoi</td>
<td>Senior Manager, Other Financial Institutions</td>
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<td>Rugiatu</td>
<td>Jalloh</td>
<td>Head, Payments, Banking Department</td>
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<tr>
<td>Hope</td>
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<td>Kanu</td>
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<tr>
<td>Hope</td>
<td>Peter</td>
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<tr>
<td>Hope</td>
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<td>3 loan officers</td>
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## List of persons interviewed (2/2)

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<th>Name</th>
<th>Position</th>
<th>Date of meeting</th>
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<tr>
<td>Call to Business Microfinance</td>
<td>David A.</td>
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<td>Airtel Money</td>
<td>Madelaine</td>
<td>Bart Williams</td>
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<td>Fadugu</td>
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<td>IFAD</td>
<td>Mohamed Momodu</td>
<td>Tejan-Kella Sesay</td>
<td>Managing Director</td>
<td>Feb 25th</td>
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</tbody>
</table>
# Contents

- Introduction
- Executive Summary and Recommendations

## I. Module 1 Regulation and Partnerships (Supply side)
  1. Assessment of the regulatory environment
  2. Assessment of the telecom and financial services sector – the supply side
  3. Mobile Money Transfers (MMT) in Sierra Leone and partnerships

## II. Module 2 Markets and products (Demand side)

## III. Module 3 Distribution Networks

## IV. Module 4 MFI Internal Capacity

## V. Module 5 Scenario’s for Mobile Money Transfers and the MFIs in Sierra Leone
I. Assessment of the regulatory environment
# Regulatory bodies for FI and MNOs:

BSL regulates banks and other FIs and NATCOM regulates MNOs. Mobile Money providers so far are licensed by NATCOM but regulated by BSL.

<table>
<thead>
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<th>Regulation applicable</th>
<th>Roles and Responsibilities</th>
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<tbody>
<tr>
<td><strong>Central Bank: Bank of Sierra Leone (BSL)</strong></td>
<td>Defines objective of Bank of Sierra Leone: to achieve and maintain price stability</td>
</tr>
<tr>
<td>- Bank of Sierra Leone (BSL) Act 2011</td>
<td>Grants licenses and supervises Banks, credit only MFIs, other deposit institutions and other financial institutions</td>
</tr>
<tr>
<td><strong>National Telecommunications Commission (NATCOM)</strong></td>
<td>Gives approval to MMT providers to work with banks and collects reports from banks on MMT activity</td>
</tr>
<tr>
<td>- Telecommunications Act 2006 (section 6 in particular)</td>
<td>In charge of financial regulation and monetary policy</td>
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<tr>
<td>- The amendment of 2009 to Telecom Act</td>
<td>Defines prudential rules to abide by (minimum paid up capital, capital adequacy ratio, liquidity ratios, provisions…*)</td>
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<td></td>
<td>Mandate for</td>
</tr>
<tr>
<td></td>
<td>- Licensing and regulation of telecommunications operators (fixed lines, mobile phone, internet service providers)</td>
</tr>
<tr>
<td></td>
<td>- Promotion of universal access to basic telecommunications services</td>
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<tr>
<td></td>
<td>- Ensuring fair competition among operators</td>
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<tr>
<td></td>
<td>- Protecting the interest of the investors and users of telecommunication networks and services</td>
</tr>
<tr>
<td></td>
<td>- Improving the regional and global integration of Sierra Leone in telecommunications, and to provide for other related matters.</td>
</tr>
<tr>
<td></td>
<td>Gives licence to MMT providers as “value added services”</td>
</tr>
<tr>
<td></td>
<td>Controls the pricing and tariffs of the operators in the marketplace and must approve any price increases, which the MNOs must notify the regulators about in advance.</td>
</tr>
<tr>
<td></td>
<td>Monitors Interconnection rates and pushes towards reduction</td>
</tr>
</tbody>
</table>
**Regulation for financial institutions** – Most MFIs are not allowed to accept deposits and deal with foreign currencies directly (eg: international remittances)

<table>
<thead>
<tr>
<th>Regulation applicable</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking Act 2011</td>
<td>Bank of SL (Central Bank) has defined eligibility criteria for license for each financial institution type</td>
</tr>
<tr>
<td>Guidelines on Credit-Only Microfinance Institutions</td>
<td>Significant equity holding is submitted to Bank of SL authorization</td>
</tr>
<tr>
<td>Guidelines for financial leasing institutions (2011)</td>
<td>Composition of Board is regulated by Bank of SL (number of members, profile,...)</td>
</tr>
<tr>
<td>Guidelines for other deposit taking institutions (2011)</td>
<td>Changes in composition of Board and shareholder structure must be notified to Bank of SL</td>
</tr>
<tr>
<td>Banking Act</td>
<td>Obligation to have an external Audit Committee and to publish audited balance sheet and P&amp;L annually</td>
</tr>
<tr>
<td>Guidelines for financial leasing institutions (2011)</td>
<td>Reporting obligations are assigned to each financial institution type (monthly, quarterly, bi annually, annually)</td>
</tr>
<tr>
<td>Guidelines for other deposit taking institutions (2011)</td>
<td>Obligation to display registration licences and interest rates for all financial institutions</td>
</tr>
</tbody>
</table>

- For MFIs there exist two kinds of licenses "Credit-only MFI" and "Deposit-taking MFI".
- **MFIs are are prohibited to deal in foreign currencies directly**
- Other financial institutions are allowed to take deposits
- Limit on position and deposits in foreign currencies for all financial institutions (forbidden for MFIs)
- Obligation to report entry of currency have 30 millions leones (5100€) could impact international remittances
Actual Regulation for Mobile Banking: non bank e-money issuers are allowed and will be regulated; outsourcing to 3rd parties is accepted and a whole list of KYC/AML/CFT procedures is in place and managed by FIU

<table>
<thead>
<tr>
<th>Regulation applicable</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>None so far</td>
<td>Planned in the coming months (prudential approach)</td>
</tr>
<tr>
<td>E-Money regulation</td>
<td>Yet, <strong>non bank e-money issuers are permitted</strong> by the Bank of SL (such as Splash)</td>
</tr>
<tr>
<td>AML/CFT Act 2012</td>
<td>States that third parties (such as agents or intermediaries can be relied upon for customer verification (<strong>CDD and KYC</strong>) (article 25)</td>
</tr>
<tr>
<td>Third parties (Agents &amp; Correspondents?)</td>
<td>Yet, <strong>the party relying on agents remains liable</strong> should issue with client identity verification or AML/CFT arise</td>
</tr>
<tr>
<td>AML/CFT Act 2012</td>
<td>In the case of correspondent banking between banks, <strong>must perform a due diligence of correspondent banking partner</strong></td>
</tr>
<tr>
<td>KYC/AML/CFT (introduction, detailed after)</td>
<td>Agents &amp; banking correspondents are allowed</td>
</tr>
</tbody>
</table>

- The **Financial Intelligence Unit (FIU)** established by this Act is responsible for recommending policies, applying them and prosecuting offenders
- Money laundering offence is defined and punished with minimum 7 years imprisonment for individual and a fine of 30 millions Leones for corporates (5100€)
- Financing of terrorism offence is defined and punished with min 15 years imprisonment for individuals and minimum 30 millions Leones fine for corporates
- **Preventive measures** have been established to combat money laundering and financing of terrorism on a **risk based approach** (minimum standards to abide by)
Planned regulation for Mobile Money Services (1/4) – Many-to-many model and interoperability required, financial institutions led model and requirement to create a separate MMT entity for NBFI

<table>
<thead>
<tr>
<th>Scope and licensing</th>
<th>Regulation applicable</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Licence approval from BSL for financial institutions engaging in MFS or agents</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Non bank financial institutions must create a separate entity to deal with MFS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Licence application must include financial statement and business plan including feasibility study, financial projections for 3 years and stating services planned, risk management measures and processes and prudential ratios status</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Only accepted model: financial institution-led model (agency model or partnership FI-MNO)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Only accepted model: many to many, no exclusive partnerships</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Settlement in Leones</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ End of day reconciliation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Proof of transaction stored</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Trail of transaction from origin to destination</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Customer account relationship must be with a deposit taking financial institution</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Payment alerts and notifications for clients</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Financial institutions willing to engage in MMT services must abide by these rules and will be licenced, regulated and monitored by BSL</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Non bank Financial institutions (MNOs, Splash…) are required to create a separate entity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Obligation to submit business plan to BSL with planned activities and a special focus on risk management processes planned (concern of BSL)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Model and Interoperability | |
|---------------------------|-----------------------|--------------|
| ▪ Only accepted model: financial institution-led model of MFS, requiring partnership of MNOs with financial institutions |
| ▪ Interoperability is required, so a MNO cannot exclusively work with a FI and exclude others |

| Operational requirements | |
|--------------------------|-----------------------|--------------|
| ▪ Creates a financial institution-led model of MFS, requiring partnership of MNOs with financial institutions |
| ▪ A MFS provider must have a CDA account with a deposit taking institution for transactions |

Courtesy of Bank of Sierra Leone. First Draft of Regulations, not yet approved.
Planed Regulation for Mobile Money Services (2/4) – Range of activities permitted matches MFIs needs. Concern of BSL about e-money being backed up by money on bank account. Prohibition to pay interest on savings in e-wallets.

<table>
<thead>
<tr>
<th>Activities permitted</th>
<th>Impliedtions</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Sending and receiving Leones (remittances)</td>
<td>▪ Range of activities permitted matches MFIs needs</td>
</tr>
<tr>
<td>▪ Opening and maintaining a MMT account (with a bank)</td>
<td>▪ Loan disbursement and repayment has been planned</td>
</tr>
<tr>
<td>▪ Account to account transfer (MMT account ↔ Bank account)</td>
<td></td>
</tr>
<tr>
<td>▪ P2P transfers</td>
<td></td>
</tr>
<tr>
<td>▪ Cash in / out</td>
<td></td>
</tr>
<tr>
<td>▪ Bill payment</td>
<td></td>
</tr>
<tr>
<td>▪ Merchant payment</td>
<td></td>
</tr>
<tr>
<td>▪ Loan disbursement/repayment</td>
<td></td>
</tr>
</tbody>
</table>

**E-Money**

- **Storage:**
  - Obligation for MMT provider to have a custodian account in a financial institution and have the equivalent of e-money issued in deposited funds
  - When a MMT provider has several CDA with several providers, must define clearly set of e-money accounts attached to each CDA
  - Custodian account blocked in case of bankruptcy/close of business of MFS provider

- **Client side:**
  - Prohibited to pay interest or profit on e-money account balance of clients
  - Obligation to identify and report dormant e-money account of clients
  - E-money account closing: obligation to notify client in writing

**Courtesy of Bank of Sierra Leone. First Draft of Regulations, not yet approved.**
Planned regulation for Mobile Money Services (3/4) – Proportionality of KYC/AML requirements will be introduced; BSL want to have control over pricing and transaction limits

<table>
<thead>
<tr>
<th>Regulation applicable</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>KYC/AML/CFT</strong></td>
<td>- Some proportionality of KYC rules for Banks will be introduced</td>
</tr>
<tr>
<td></td>
<td>- CDD on all new accounts and one off cash transactions over certain amount (identify customer, verify identity)</td>
</tr>
<tr>
<td></td>
<td>- Report suspicious transactions</td>
</tr>
<tr>
<td></td>
<td>- Have policies and procedures to address risks</td>
</tr>
<tr>
<td></td>
<td>- Unique identification of each MMT customer (SIM card registered by FI)</td>
</tr>
<tr>
<td><strong>Third party providers</strong></td>
<td>- KYC rules on showing ID with picture might be a little too harsh for MFIs in rural areas to execute identification of clients with ID containing picture (since not so common in those areas to have ID)</td>
</tr>
<tr>
<td></td>
<td>- KYC/AMC/CFT rules will be adapted for MFS providers</td>
</tr>
<tr>
<td></td>
<td>- Third party must be differentiated from agents</td>
</tr>
<tr>
<td><strong>Transaction limits</strong></td>
<td>- Airtel Money limits are Le 4M for clients and Le 15M daily transactions for agents</td>
</tr>
<tr>
<td></td>
<td>- Obligation to handle customer queries and complaints in 24h might be hard to manage for MFS providers</td>
</tr>
<tr>
<td><strong>Customer protection</strong></td>
<td>- Pricing must be reviewed by BSL before implementation: just review or approval that can delay the process?</td>
</tr>
<tr>
<td></td>
<td>- Clear reporting rules defined</td>
</tr>
<tr>
<td><strong>Disclosure</strong></td>
<td>- Pricing must be displayed in print and electronic versions</td>
</tr>
<tr>
<td></td>
<td>- Copy of pricing must be sent to BSL for prior review</td>
</tr>
<tr>
<td><strong>Reporting</strong></td>
<td>- Monthly: transaction volume per product type and balance + complaints + balance sheet and P&amp;L</td>
</tr>
<tr>
<td></td>
<td>- Quarterly: report on agents and locations</td>
</tr>
<tr>
<td></td>
<td>- Annually: audited financial statement, P&amp;L and cash flows</td>
</tr>
</tbody>
</table>

*Courtesy of Bank of Sierra Leone. First Draft of Regulations, not yet approved.*
Planned regulation for Mobile Money Services (4/4) – Agents - Regulation applicable

### Agent profile
- At least 12 months of business activity
- Must be registered with Register of Companies and have tax clearance from NRA
- Must not have been classified deficient, doubtful or non performing in the previous 12 months
- Must have physical infrastructure and HR to provide services with efficiency and security
- Evidence of availability of funds to cover operations (in particular withdrawals)
- Good moral, business and professional reputation

### Services that agent can perform
- Opening accounts
- Cash in/out
- Bill payment
- Loan disbursement/repayment
- Fund transfers

### Agent due diligence
- MFS must perform it at the beginning of relationship and have clear policy and procedures for due diligence

### Agency agreement
- Must have a service/agency agreement describing functions/activities, responsibilities, liability of agents, confidentiality, fees
- Data must be recorded for 7 years and kept by either agent or MFSP

### Agent supervision
- MFSP must have information on number and volumes of transactions for each agent and monitor compliance with limits and prudential rules and periodically visit agents

Implications
- Clear rules set to select adequate agents
- Yet, missing requirement on liquidity and minimum business revenues or size
- MFIs can be agents
- List of services that agent can perform clearly established
- Obligation to perform due diligence of agents since it remains liable for them
- Obligation to state conditions of agreement in contract between MFS provider and agents
- Rules defined for supervision of agents and frequent visits
### SWOT of current regulation for Mobile Money

#### Strengths
- 3rd parties allowed
- Reasonable KYC requirements
- AML/CFT limits should not affect MMT (reporting limit is >30 millions Leones, € 5100)
- Clear and specific regulation and rules for each financial institution type (banks, deposit taking, financial leasing and MFIs)
- Agents & banking correspondents are allowed (MFIs to act as and/or also to use agents)

#### Weaknesses
- Does not state which services 3rd parties are allowed to perform
- No regulation on e-money (yet)
- No regulation on data privacy and consumer protection
- No specific regulation for mobile money although existing for 3 years

#### Opportunities
- E-Money regulation is currently being drafted and is addressed in an integrated way with other banking regulation
- Bank of SL has a prudential approach and risk based approach with minimum standards and avoiding heavy burden
- No restrictions for MFIs to use MMTT for their existing business (disbursements and repayments)

#### Threats
- Most MFIs are not deposit-taking and it will take them time to transform to deposit-taking MFI from credit-only MFI.
- MFIs are not allowed to deal with foreign currencies i.e. cannot be involved in international remittances, representing a flow of $168 million,
- Lack of specific control of mobile banking activities could lead to potential abuses
### SWOT of planned Mobile Money regulation

#### Strengths
- **Agent:** defines clearly agent model: profile, services that can be outsourced, due diligence and supervision
- **Agents can work with several MFSP providers**
- **E-money:** defines e-money, storage, obligation to have a bank account matching e-money issued
- **KYC/AML/CFT:** states needed CDD on new accounts and above a limit (30M Le) and obligation to have a risk policy
- **AML/CFT limits** should not affect MMT (reporting limit is >30 millions Leones, € 5100)
- **Consumer protection:** rules are set to ensure queries and complaints are addressed within 24h
- **Obligation for NBFI to create a separate entity for MFS**

#### Weaknesses
- **Agents:**
  - does not state limits on transactions performed by agents (to be discussed with BSL)
- **E-money:**
  - does not state limits on transactions
  - interest on savings in e-wallets not allowed

#### Opportunities
- Interoperability compulsory / exclusive partnerships not allowed
- **Financial-led model allowing other FI such as current players to operate**
- MFIs can use MMT for loan disbursement and repayment and also for remittances
- Bank of SL has a prudential approach and risk based approach with minimum standards and avoiding heavy burden

#### Threats
- Pricing for MMT services must be reviewed by BSL prior to release ➔ just a review or an approval that can delay the process?
- **KYC/AML/CFT:** too strict at the time but BSL says proportionality will be introduced
- No requirement for minimum size of business and liquidity of agents can lead to selection of agents not able to perform cash out requirements
Conclusion on regulation:
Positive framework for development of Mobile Financial Services

+ Draft of regulation for MFS has been prepared and must be approved
+ Interoperability is required and exclusive partnerships are forbidden
+ E-money can be issued by non-banks on the condition it is backed up with a deposit of corresponding amount on CDA in a bank
+ Use of agents is permitted on condition that due diligence is accomplished
+ Agents can work with several MMT providers
+ MFIs can use MMT for loan disbursement and repayment and also for remittances
+ MFIs can be agents for one or several MMT providers

− NATCOM and most market players are unaware of the draft MFS guidelines
− Currently banks must lead, MNOs and 3rd party providers can only operate with a licensed bank partner (but likely to change with new MFS regulation)
− Most MFIs are not deposit-taking, neither dealing with foreign currencies, which excludes them from a part of the MMT business (international remittances and offering saving services)
− KYC are the same for banks and MMT providers (but proportionality will be introduced)
− Regulation does not state minimum requirements for liquidity and size of agent business
II. Assessment of the telecom and financial services sector - the supply side
Overview of the Telecom sector
A Brief History

Following more than a decade of civil war, Sierra Leone has enjoyed peace, stability and rapid economic growth since 2002. The country’s traditional telecommunications infrastructure has suffered damage and neglect, but the mobile sector has experienced excellent growth. In 2008, mobile subscribers crossed the 1 million milestone.

Sierra Leone’s first mobile network was established in 1994 by U.K based Mobitel Sierra Leone Limited, which offered a radio-based telephony network and a mobile paging system throughout the country. The days of landlines in Sierra Leone now appear to be waning. In 2008, mobile telephone subscribers outpaced fixed lines users 32 to 1.

Today the telecommunications market is competitive with 4 GSM networks in play, Africell, Comium, Airtel and Sierratel (CDMA). Some consolidation took place when one network ceased operations and Africell acquired Tigo. Additional mobile licences to SmartMobile and Green N have been issued but they have yet to launch services.

The state-owned fixed-line incumbent, Sierratel has entered the mobile market with a CDMA2000 1x network which it uses to provide fixed-wireless access and broadband internet services following an upgrade to the EV-DO standard, making it the first 3G mobile network in the country. Other 3G services based on HSPA technology were launched in 2011 and 2012.

Sierratel’s monopoly on the international gateway was reinstated in a controversial regulatory move in 2007 but a review of this decision is currently in progress. It was placed under a three year management contract in 2012 and its privatisation has been approved by Parliament. With assistance from the Indian government, Sierratel had already started to rehabilitate its fixed-line infrastructure and has taken first steps towards the rollout of a national fibre backbone network.

The Universal Access Development Fund (UADF) was set up several years ago to increase mobile reception in rural areas, but we are yet to see any major initiative from them.

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1. Viewed as controversial because pro monopoly supporters allege that by liberalising the gateway, the government runs the risk of jeopardising the security of the country e.g. allowing criminals easier access and illegal mobile phone businesses to operate.
One impetus for growth in mobile phones was the return of refugees to the country following the long civil war. Whilst abroad, many had been exposed to more advanced mobile handsets and networks; back in Sierra Leone, they were eager to have similar technologies at their disposal.

Cell phones are useful, but can be expensive tools that are inaccessible to the poor and marginalized (the average Sierra Leonean earns less than a dollar a day). However, market competition, among other factors, will help bring down costs. Indeed, service providers have begun to offer cheaper handsets tailored to financially constrained customers.

Airtel and Nokia entered a partnership in 2010 to offer low cost handsets with a connection. Apparently 2 out of 3 Airtel subscribers come from villages.

Rapidly declining average revenue per user (ARPU) is forcing the mobile operators to improve their services, streamline their operations and create new revenue streams, such as internet access via mobile data services.

Prepaid cards can be purchased throughout Freetown and in some provincial towns, while the companies offer post-paid contract services to some reliable customers across the country.

Mobile phones have created job opportunities and numerous people have established businesses engaged in selling phones and accessories.

The government is encouraging foreign investors in communications technologies in order to improve services and lower costs.1

Depending entirely on satellites for international connections, without access to international fibre bandwidth, broadband services in Sierra Leone have remained extremely expensive, but this is expected to change following the recent landing of the first international fibre optic submarine cable in October 2012.

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1. The government offers a number of incentives to foreign investors. The governments of China and India have both invested in developing the ICT infrastructure in Sierra Leone. China loaned US$15 million to connect the fibre optic cable and India provided funds to upgrade the fixed line network. The Commonwealth Telecommunications Fund has also invested US$50 million in the telecoms sector.
Overview of the Telecom sector
52% penetration and growing, Africell and Airtel are the largest MNOs

Key Facts

- **Access to mobile phones**
  - 52% penetration of mobile phones (3.3M SIMs)
  - 2.7 million unique subscribers (40%)
  - 30% households have access to a mobile phone
  - Mobile phone sharing is common, especially in poor communities
  - From those living on less than $1 a day, 34% own a mobile and 24% have access through a neighbour/relative.
- **Access** is spread evenly across all age groups:
  - 38% amongst those aged 45 and older
  - 42% for 25-44 years old
  - Little difference in access between genders: 42% of men and 39% of women
- **Network coverage**
  - 82% of network coverage
  - Geographically disproportionate: Freetown (Western Area) and Kenema District (Eastern Region) have high mobile phone coverage.
  - Poor coverage of mobile network in rural areas

MNO Market Share
- estimated, 2012 -
## Overview of Telecom sector
### Details per MNO

<table>
<thead>
<tr>
<th>Player</th>
<th>Main Facts</th>
<th>Products and services</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>africell</strong></td>
<td>- Launched 2005&lt;br&gt;- Subsidiaries in Gambia &amp; DRC&lt;br&gt;- Acquired Tigo in 2009&lt;br&gt;- 82% network coverage</td>
<td>- Prepaid and postpaid, voice and data, including range of SMS and call services&lt;br&gt;- 3G network</td>
</tr>
<tr>
<td></td>
<td>- Launched as Zain and rebranded Airtel 2010&lt;br&gt;- Owned by Indian operator, Bharti Airtel&lt;br&gt;- Operates in 16 African markets&lt;br&gt;- 80% network coverage</td>
<td>- Prepaid and postpaid, voice and data, including range of SMS and call services&lt;br&gt;- Airtel Money; MMT, bill payments and access to bank accounts&lt;br&gt;- 3G network</td>
</tr>
<tr>
<td><strong>airtel</strong></td>
<td>- Launched 2005&lt;br&gt;- Operates GSM services in Gambia, Sierra Leone, Liberia and Ivory Coast. Voip in USA, Brazil and France&lt;br&gt;- 81% network coverage</td>
<td>- Prepaid and postpaid, voice and data, including range of SMS and call services&lt;br&gt;- GPRS</td>
</tr>
<tr>
<td></td>
<td>Created in 1995 due to merger of Sierra Leone External Telecommunications Company LTD (SLET) and Sierra Leone National Telecommunications (SLNTC)&lt;br&gt;- 100% government owned.</td>
<td>- Fixed line and CDMA mobile operator</td>
</tr>
</tbody>
</table>
Overview of Financial Services
A brief history

2009: Financial Sector Development Plan for access to finance for low income population and expansion of financial services to rural areas

- In 2009, Financial Sector Development Plan approved by parliament to 1) enhance banking system capacity 2) increase access to finance 3) strengthen contractual savings and capital markets 4) fortify an enabling environment and capacity building
- Fairly liberalised financial system; interest rates and exchange rates are market determined, no selective credit controls and despite the fact that the largest commercial bank is state owned, the activities of the banking sector are not government controlled, however banks must follow cash liquidity requirements set out by Bank of Sierra Leone (BSL)
- In 1987, ECOWAS Monetary cooperation called for a single monetary zone in West Africa and the West African Monetary Zone (WAMZ) was born, comprising Nigeria, Ghana, Sierra Leone, Gambia, Liberia and Guinea

2008: WAMZ Payment System Development began

- In 2008 WAMZ Payments System Development project implemented and to end in 2012
- Objective to achieve full economic union of the 6 WAMZ countries; encourage private sector growth and upgrade the basic infrastructure of financial services sector through a well functioning real time gross and securities settlement system, an efficient clearing system, a better Bank of Sierra Leone applications process and satisfactory performance of the telecoms infrastructure with standby generators
- Payments system is still rudimentary with limited number of debit cards, no widespread credit card use, no significant use of cheques or internet banking, neither a large scale electronic payment system. No credit rating agency
- Access Bank and Ecobank planning to launch Visa branded cards into market
- Commercial banks trying to establish a national switch for interoperability of ATM cards and credit cards. Delays due to the approval process of BSL. Sierra Leone’s Association of Commercial Banks (SLACB) will own a 51% stake of the switch. SLACB is considering interconnecting the switch with mobile financial services through a partnership with 3rd Party service provider.

Switch planned for interoperability of ATMs and credit cards

SLACB considers interconnecting switch with mobile financial services
### Overview of Financial Services

#### Commercial Banks

<table>
<thead>
<tr>
<th>Bank Name</th>
<th>Date established</th>
<th>Owners</th>
<th>Customer Base</th>
<th>No. branches ATMs &amp; POS</th>
<th>Portfolio ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access Bank</td>
<td>Nov 2007</td>
<td>Access Bank Plc, Nigeria</td>
<td>12,324</td>
<td>4 (3 in Freetown)</td>
<td>$4.8M</td>
</tr>
<tr>
<td>ECOBANK</td>
<td>2007</td>
<td>Ecobank Transnational Inc (100%)</td>
<td>65,675</td>
<td>7 (4 in Freetown)</td>
<td>NA</td>
</tr>
<tr>
<td>First International Bank</td>
<td>June 2002</td>
<td>FIB Group Limited, Banjul FIB Limited Gambia</td>
<td>61,296</td>
<td>18 (5 in Freetown)</td>
<td>NA</td>
</tr>
<tr>
<td>Guaranty Trust Bank</td>
<td>Jan 2002</td>
<td>Guaranty Trust Bank Plc, Nigeria</td>
<td>67,062</td>
<td>11 (4 in Freetown)</td>
<td>$10.6M</td>
</tr>
<tr>
<td>International Commercial Bank</td>
<td>2005</td>
<td>ICB Financial Group Holdings AG (100%)</td>
<td>7,301</td>
<td>2</td>
<td>$12M</td>
</tr>
<tr>
<td>Bank PHB</td>
<td>June 2009</td>
<td>Bank PHB PLC</td>
<td>7,737</td>
<td>1 (Freetown)</td>
<td>NA</td>
</tr>
<tr>
<td>Rokel Commercial Bank (RCB)</td>
<td>Sept 1999 (fromBarclays)</td>
<td>GoSL 51%, Private Shareholders (including Staff) 49%</td>
<td>148,626</td>
<td>12</td>
<td>NA</td>
</tr>
<tr>
<td>Standard Chartered Bank</td>
<td>1894</td>
<td>SCB Holdings (81%), Publicly owned (18%), Directors (1%)</td>
<td>8,638</td>
<td>3 (2 in Freetown)</td>
<td>NA</td>
</tr>
<tr>
<td>Skye Bank</td>
<td>September 2008</td>
<td>Sky Bank Plc (95%), Sierra Leoneans (5%)</td>
<td>3,811</td>
<td>1 (Freetown)</td>
<td>$3.1M</td>
</tr>
<tr>
<td>Sierra Leone Commercial Bank</td>
<td>Feb 1973</td>
<td>Govt of Sierra Leone (100%)</td>
<td>131,180</td>
<td>14</td>
<td>NA</td>
</tr>
<tr>
<td>United Bank of Africa</td>
<td>July 2008</td>
<td>United Bank of Africa Group, Nigeria</td>
<td>20,311</td>
<td>5 (All in Freetown)</td>
<td>NA</td>
</tr>
<tr>
<td>Union Trust Bank</td>
<td>1995</td>
<td>Sierra Leoneans (100%)</td>
<td>63,407</td>
<td>9 (6 in Freetown)</td>
<td>$29M</td>
</tr>
<tr>
<td>Zenith</td>
<td>September 2008</td>
<td>Zenith Bank PLC</td>
<td>9,940</td>
<td>4 branches</td>
<td>NA</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>NA</strong></td>
<td><strong>NA</strong></td>
<td><strong>600,000+</strong></td>
<td><strong>91 branches</strong></td>
<td><strong>$83.22M (Le3.62 trillion)</strong></td>
</tr>
</tbody>
</table>

*Source: BSL, status per December 2012*
## Overview of Financial Services
### MFIs

<table>
<thead>
<tr>
<th>MFI</th>
<th>Start date</th>
<th>Nb of branches (Feb 2013)</th>
<th>Active borrowers (June 2012)</th>
<th>Loan portfolio (June 2012)</th>
<th>Average loan (June 2012, $)</th>
<th>PAR 30 (June 2012, %)</th>
<th>OSS (June 2012, %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ecobank (EMSL)</td>
<td>2008</td>
<td>7</td>
<td>2,000 (50,000 clients)</td>
<td>164 Billion Leones, 3.7 Million Dollars</td>
<td>1,700</td>
<td>91.6%</td>
<td></td>
</tr>
<tr>
<td>BRAC</td>
<td>2008</td>
<td>44</td>
<td>23,000</td>
<td>12.5 Billion Leones, 2.9 Million Dollars</td>
<td>126</td>
<td>74.8%</td>
<td></td>
</tr>
<tr>
<td>Finance Salone</td>
<td>2007</td>
<td>12</td>
<td>15,000</td>
<td>7 Billion Leones, 1.6 Million Dollars</td>
<td>107</td>
<td>110.1%</td>
<td></td>
</tr>
<tr>
<td>LAPO</td>
<td>2008</td>
<td>NA</td>
<td>12,000</td>
<td>6 Billion Leones, 1.4 Million Dollars</td>
<td>114</td>
<td>97.9%</td>
<td></td>
</tr>
<tr>
<td>Call to business MF</td>
<td>NA</td>
<td>5</td>
<td>10,000</td>
<td>3 Billion Leones, 0.7 Million Dollars</td>
<td>100</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td>SMT</td>
<td>2011</td>
<td>7</td>
<td>7,500</td>
<td>5.3 Billion Leones, 1.2 Million Dollars</td>
<td>162</td>
<td>133%</td>
<td></td>
</tr>
<tr>
<td>ARD</td>
<td>2008</td>
<td>5</td>
<td>7,000</td>
<td>5.6 Billion Leones, 1.3 Million Dollars</td>
<td>180</td>
<td>82.5%</td>
<td></td>
</tr>
<tr>
<td>Hope</td>
<td>2002</td>
<td>3</td>
<td>5,000</td>
<td>1.4 Billion Leones, 0.3 Million Dollars</td>
<td>63</td>
<td>58.7%</td>
<td></td>
</tr>
<tr>
<td>GCEM</td>
<td>2011</td>
<td>3</td>
<td>4,000</td>
<td>2.7 Billion Leones, 0.6 Million Dollars</td>
<td>151</td>
<td>122.3%</td>
<td></td>
</tr>
<tr>
<td>CEDA</td>
<td>2007</td>
<td>4</td>
<td>2,000</td>
<td>0.7 Billion Leones, 0.2 Million Dollars</td>
<td>71</td>
<td>71%</td>
<td></td>
</tr>
<tr>
<td>Send</td>
<td>2011</td>
<td>4</td>
<td>840</td>
<td>NA Billion Leones, NA Million Dollars</td>
<td>NA</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>88,000</strong></td>
<td></td>
<td><strong>Le 210 bn</strong></td>
<td><strong>$13.5M</strong></td>
<td><strong>$270</strong></td>
<td><strong>11%</strong></td>
</tr>
</tbody>
</table>

### Key Facts
- 13 MFIS (7 NBFI, 1 deposit taking, 5 NGOs)
- 1.6% population has microcredit
- Average loan: $150, not including Ecobank
- Average deposit: $66
- Active borrowers: 88,000
- Total portfolio of MFIs: $13M
- Ecobank is the only deposit taking MFI with 50,000 clients.
- In 2011, Hope Micro became the first microfinance institution in Sierra Leone to offer loan disbursements through Splash Mobile Money

*Source: Ayani, 2012*

Websites of MFIs
# Overview of Financial Services

**Community banks and FSAs**

<table>
<thead>
<tr>
<th>FSAs</th>
<th>Community banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Started in 2008 by IFAD</td>
<td>Bank of SL had established 6 transferred to IFAD in 2010/11</td>
</tr>
<tr>
<td>Location: remote areas/village level ➔ target: 149 FSAs</td>
<td>Location: at chiefdom level</td>
</tr>
<tr>
<td><strong>Figures</strong></td>
<td><strong>Figures</strong></td>
</tr>
<tr>
<td>- Currently 45 FSA, 62 planned end 2013</td>
<td>- Currently 13, 17 planned end 2013, 5 more in the pipe</td>
</tr>
<tr>
<td>- 1,000 shareholders on average/FSA ➔ 45,000 clients</td>
<td>- 5 out of 6 have reached OSS, others are too young</td>
</tr>
<tr>
<td>- 45% take a loan ➔ 20,000 loans</td>
<td></td>
</tr>
<tr>
<td>- 40% FSA have reached OSS</td>
<td><strong>Balance between development and profit</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Products offered: savings, loans, transfers</strong></td>
</tr>
<tr>
<td><strong>Based on membership</strong></td>
<td><strong>Do refinancing of FSAs since FSAs have account in CB and commercial banks</strong></td>
</tr>
<tr>
<td>- Members are stakeholders</td>
<td><strong>Will be a licensed FI, falling under Banking Act for clearance (currently a “other FI” regulated by BSL)</strong></td>
</tr>
<tr>
<td>- Members save first for 3 months, then can take loans up to 4 times their numbers of shares i.e $18 max for 1st loan</td>
<td><strong>Acting as agents for Splash and Airtel</strong></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Lending methodology</strong></td>
<td><strong>Functioning of FSAs</strong></td>
</tr>
<tr>
<td>- Group of 6 people</td>
<td>- Elected Board from shareholders</td>
</tr>
<tr>
<td>- Solidarity based, no collateral</td>
<td>- 3 staff per FSA: manager, cashier, security guard</td>
</tr>
<tr>
<td>- Loan period: 3-6 months</td>
<td>- Manual transactions with excel sheets</td>
</tr>
<tr>
<td>- Up to Le 10 million ➔ after graduate to community banks</td>
<td>- Legal entities but not other FI ➔ not licensed by BSL</td>
</tr>
<tr>
<td>- Interest rate: inflation +2% ➔ currently 11%</td>
<td>- Do money transfers for Western Union, Splash, Airtel Money</td>
</tr>
<tr>
<td>- PAR; 4-5%</td>
<td><strong>1 to 3 CBs per district (14 districts in SL)</strong></td>
</tr>
<tr>
<td></td>
<td><strong>4 to 9 FSAs per district</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Plan to have a central MIS for all FSAs and CBs</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Currently establishing a Technical Assistance Agency that will become Apex and manage FSAs and CBs</strong></td>
</tr>
</tbody>
</table>
## Overview of Financial Services

### Money Transfer Organizations (MTO) & Remittance Providers

<table>
<thead>
<tr>
<th>Player</th>
<th>Products and services</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Western Union</strong></td>
<td>Operating since 1995. Access Bank, Skype Bank and Union Trust, Ecobank Bank offers WU money transfer services. Cash-to-cash transfers 75 agents in SL</td>
</tr>
<tr>
<td><strong>Afro International</strong></td>
<td>Established in 2002 in the US. Send and receive money through cash, money order or cashier's cheque. 24 agents in SL. 30% market share Sender pays fee</td>
</tr>
<tr>
<td><strong>MoneyGram</strong></td>
<td>MoneyGram services available through Afro International, GT Bank, Sierra Leone Commercial Bank, UBA and Rokel Commercial Bank. Cash transfers 40 agents in Freetown</td>
</tr>
<tr>
<td><strong>Kanson Services</strong></td>
<td>Established in 2005 and based in UK. Provide money transfer to Sierra Leone (Freetown, Kenema, Kabala and Kambia) Average Transfer fee on send side £1.50</td>
</tr>
<tr>
<td><strong>Skye Bank</strong></td>
<td>Introduced money transfer service, Flitcash in 2012. Cross border remittance service. System works through scratch cards and online</td>
</tr>
<tr>
<td><strong>Fadugu</strong></td>
<td>Based in the UK. 0.1% market share. $1.8 million revenues/year Domestic and international remittances through cash (over the phone), internet, mobile phones and prepaid cards. Online through AccessPoint and offer MasterCard prepaid cards. Direct bank transfers Access Bank, Ecobank, First International Bank, Guaranty Trust Bank, International Commercial Bank, Pro-Credit Bank, Rokel Commercial Bank, Sierra Leone Commercial Bank and Skye Bank Partner with AFFORD to implement Remitplus</td>
</tr>
</tbody>
</table>
### Overview of Financial Services

#### Market Players for Financial Services

<table>
<thead>
<tr>
<th>Banks</th>
<th>Other Financial Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>- 13 commercial banks (&gt;10,000 clients each)</td>
<td>- 13 MFIS (7 NBFIs, 1 deposit taking, 5 NGOs)</td>
</tr>
<tr>
<td>- 91 bank branches</td>
<td>- 100 MFI branches</td>
</tr>
<tr>
<td>- Less than 50 ATMs and POS terminals, 30 of which are deployed by Ecobank 1.4 branches for 100,000 habitants</td>
<td>- 13 community banks (17 by year end 2013), primarily service rural communities</td>
</tr>
<tr>
<td>- Most POS terminals are located in high-end establishments and usage is low</td>
<td>- 45 Financial Services Associations rising to 62 by year end 2013</td>
</tr>
<tr>
<td>- Less than 10% own a bank account (607,304 bank accounts but many have 2 or more)</td>
<td>- 1.65% of the population</td>
</tr>
<tr>
<td>- 39,000 loans (estimate)</td>
<td>- 110,000 loan and 95,000 savings clients (incl. FSA, excl Community banks)</td>
</tr>
</tbody>
</table>

### Money Transfer Organisations (MTOs, Remittances Providers)

- 6 Money Transfer Organizations of which 2 international (Western Union and MoneyGram) offering remittance services
- Ecobank has its own remittance services: Rapid Transfer

31% of Sierra Leonean households do money transfers: 8% use formal channels (banks: 3%) and Western Union: 5%

Informal channels (e.g. by bus, visitors passing by or unofficial agents) much more used in rural areas

---

1. By law Foreign Exchange Bureaux cannot receive or make remittances for customers but the transfer of illegal remittances can be justified by their lower transaction costs and the failure of the banking system, during the civil war, to honour their customers’ deposits.
### Overview of Financial Services

#### Market Players for Financial Services

<table>
<thead>
<tr>
<th><strong>TOP 3 BANKS</strong></th>
<th><strong>TOP 7 MFIs</strong></th>
<th><strong>TOP 3 MTOs</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>(600,000 clients in total / 13 banks)</td>
<td>(140,000 clients in total / 13 MFIs)</td>
<td>(estimated 100,000 clients / 7 MTOs)</td>
</tr>
<tr>
<td>200,000 clients</td>
<td>50,000 clients</td>
<td>75 agents</td>
</tr>
<tr>
<td>180,000 clients</td>
<td>20,000 clients</td>
<td>24 agents</td>
</tr>
<tr>
<td>100,000 clients</td>
<td>13,000 clients</td>
<td>30% market share</td>
</tr>
<tr>
<td>480,000 clients</td>
<td>12,000 clients</td>
<td><strong>Money Gram</strong></td>
</tr>
<tr>
<td></td>
<td>11,000 clients</td>
<td>40 agents</td>
</tr>
<tr>
<td></td>
<td></td>
<td>in Freetown only</td>
</tr>
<tr>
<td></td>
<td>10,000 clients</td>
<td>* many WU and MG agents are inside commercial banks</td>
</tr>
<tr>
<td></td>
<td>8,000 clients</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>46 124,000 clients</td>
</tr>
</tbody>
</table>

*) many WU and MG agents are inside commercial banks
III. Mobile Money Transfers (MMT) in Sierra Leone and partnerships
An introduction to the Mobile Money Transfer (MMT) providers
Focus on SPLASH

Investors
- Manocap / Africa Enterprise Challenge Fund / Soros Economic Development Funds

Launch Date
- Pilot in 2009; launch in January 2010

Products & Services
- Corporate disbursements and salary
- P2P transfers
- Bill payments (DsTV, school fees)
- MF loans
- Aritime top up (from April 2013)
- International remittances

Technology
- SMS based (MNOs not ready for USSD2)
- Interoperable with the 3 MNOs (Airtel, Africell, Comium)

Clients
- 100,000 registered customers – 50 corporate partners
- 10% active

Agents
- Nearly 200
- 40 of Ifad 50 community banks acting as agents
- Hope branches

Existing Partnerships
- DsTV: pay your bills
- Hope: fior loan disbursement (since 09/2011)
- Schools

Bank partners
- GT Bank: issuing bank where Splash has a CDA account to back up e-money issued
- Will work with Access and Ecobank MF

Regulator
- NATCOM gives the licence as value added service
- BSL gives approval to work with bank and monitors activity through bank reporting
- Registration: free
- P2P transfer:
  - Over the counter: 1.5% to 6.5% for registered clients/3.5% to 16.5% for unregistered clients
  - Through own phone: fixed fee of Le3,000 Le
- Cash in: free
- Cash out:
  - 2% to 6.5% for registered clients/
  - Free for unregistered clients (paid by sender)
- Bill pay: Le 3,000
- 2-3% of transaction volume

Fees paid by clients
- Registration: Le750
- Cash in: 0.75%
- Cash out: 1%

Fees paid by B2B partners
- Liquidity issues for agents, especially in rural areas (50% agents need support from Splash)
- People tend to immediately cash out Splash balance

Commissions paid to agents
- Pilot with National Commission for Social Action to offer G2P payments (in rural areas)
- With Ecobank MF and Access Bank for CDA
- Utility bill payment (water and electricity)
- Airtime topup (Africell and Comium) – April 2013
- International remittances: StarPay, Oxygen

Issues
- Planned partnerships
An introduction to the Mobile Money Transfer (MMT) providers
Focus on Airtel Money

Investors
- Subsidiary of Indian telco, Bharti Airtel, previously owned by Zain; independent from Airtel
- Launched in 2010 as Zap; relaunched as Airtel Money in July 2012

Launch Date
- Top up with air time
- P2P transfers
- Utility bill payments
- Other Bill payments (DsTV, school fees)
- Mobile Banking

Products & Services
- Sim tool kit (menu of choice)
- Not interoperable
- 150,000 to 200,000 as of Feb 2013

Technology
- 800 of which 600 active
  + IFAD agents very soon (50 FSA and 15 community banks)

Clients
- DsTV: pay your subscription fees
- National Power: pay electricity bills (from March 2013)
- Supermarkets: Choithrams & Sons, Foodland Supermarket, London Supermaket

Agents
- GT Bank
- Ecobank
- Zenith bank
- NATCOM gives the licence as value added service
- BSL gives approval to work with bank and monitors activity through bank reporting

Bank partners

Regulator
- Transfer for individual: Le 4 millions
- Transfer for corporation: Le 500 millions
- Maximum balance for individuals: Le 4 millions
- Daily transaction per agent: Le 15 millions

Limits on transactions
- Registration: free
- P2P transfer: 1 to 5%
- Cash in: free
- Cash out:
  - For registered clients: 1.2% to 5%
  - Non registered clients: 2 to 10%
- Bill payment: Le 1,500
- Airtel Money to Bank: 0.25%

Fees paid by clients
- % of transaction volume

Fees paid by B2B partners
- Registration: Le 500
- Cash in: Fixed amount with brackets
- Cash out: 40% of transactions

Commissions paid to agents
- Building awareness (campaign with IFAD)
- Building the agent network

Issues
- With GUMA for water bills
- IFAD for loan disbursement
- Total: as agents and merchants (pay fuel)
- NP: as agents and merchants (pay fuel)
- Supermarkets: St Mary (chain)
- Seacoach for payment (transportation airport-downtown)

Planned partnerships

Existing B2B Partnerships

Planned partnerships

Bank partners

Regulator
- GT Bank
- Ecobank
- Zenith bank
- NATCOM gives the licence as value added service
- BSL gives approval to work with bank and monitors activity through bank reporting

Agents
- 800 of which 600 active
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Technology
- Sim tool kit (menu of choice)
- Not interoperable
- 150,000 to 200,000 as of Feb 2013
The ecosystem for MMT
The theory

Supply side:
- MMT Provider, Mobile Operators, Banks
- Community banks and FSA's, MFIs, Agents & Companies

Demand side:
- Customer

Regulator
IT Vendor (MMT system)
Cards & Payment systems
Handset manufacturer
The ecosystem for MMT
What are the current partnerships in Sierra Leone

Working with:

- MNOs
- Banks
- Community banks/FSA
- MFIs
- MTOs

13 community banks/
45 FSAs

Considering having their own system:

PHB Development
BUILDING FLOURISHING COMMUNITIES
Has a global partnership with Airtel Money (also in Ghana, Liberia, …)
Manages one of the 3 trust accounts (CDA) of Airtel Money and the CDA of Splash
Airtel Money is integrated with GT Bank: you can move money from your Airtel account to your bank account
Acts as agent for Splash and Airtel Money
Considers Mobile Money as a tool to bring people to banks
Has plan to set up a microcredit department

Helped Airtel Money get their licence and manages one of Airtel Money trust accounts (CDA)
Has to report on mobile money transactions to BSL
Considers MMT as a high operational risk (money laundering and fraud, insufficient KYC)
Currently trying to walk out of relationship with Airtel Money
Has not performed any Airtel transactions in 4 months
Has no plan for branchless banking

Ecobank international Holding has an agreement with Airtel Holding
- The Bank is an agent for Airtel Money and can link Airtel wallets to bank account for top up (integrated since December 2012)
- Ecobank MF will be an agent for Airtel Money also (waiting for BSL approval)
- has a banking agreement with Splash
  - The bank manages the CDA and is also an agent
  - Ecobank MF is an agent
- Want to use Splash for loan disbursement/repayment
- Does cash in/out for international remittances companies
- Created its own remittance service (Rapid transfer) for the 34 Ecobanks worldwide
The MMT partnerships
Focus on MFIs, CB and FSAs, acting as agents for MMT and willing to use MMT for loan disbursement

- Currently a Splash agent
- Ecobank MF will be an agent for Airtel Money also (waiting for BSL approval)
- Would like to use Splash for loan disbursement/repayment

Community banks

- Will be agents for both Splash and Airtel Money

FSAs

- Will be agents for both Splash and Airtel Money
- Not all FSAs can be agent since they do not all have mobile network coverage
- FSAs keep no more than Le 2M in safe ➔ can go to CB or commercial bank if need liquidity

- Currently a Splash agent but low transaction amounts
- Using Splash for loan disbursement since September 2011, but not through its own branches (through Bank branches acting as agent of Splash: Ecobank and GT Bank)
- Did a pilot on loan repayment but was not successful (Feb – April 2011 with 6 clients)
  - Heavy training of clients required
  - Integration of Splash to MIS is an issue
  - Clients would have to pay a fee on each loan repayment
- Made loan disbursement through phones compulsory, which can exclude some clients
  - Yet, Hopes pays the cost of cash out for the client
- Training:
  - Splash trainers trained loan officers and stayed at Hope branches for the first 2 months
  - Clients are trained by agent and Splash trainers at the agent location the first months
- Issues faced with MMT
  - Liquidity of agents
  - Literacy of clients (70% illiterate)
SWOT
The telecom and financial sectors & partnerships for MMT

**Strengths**
- Mobile phone penetration still increasing (now at 52%) and network coverage is good (>80% in urban & rural areas)
- In payments, initiatives are underway (ATM switch, WAMZ Payment System Development Project). Significant investment from the donors and foreign investors to develop banking and ICT infrastructure
- Different players involved in providing financial services: Banks, MFIs, CBs, FSAs, money transfer organisations.
- MFIs, CB and FSAs have a commitment to serving rural areas and show clear growth since 2002
- A lot of players is already involved in the MMT ecosystem (banks, MFIs, FSAs, CBs, MTOs, businesses, NGOs)

**Weaknesses**
- Mobile money initiatives launched by Splash and Airtel have not yet reached maturity and are low in customers and agents
- Mobile phone penetration in rural areas is still weak
- Unreliability of mobile based services due to lack of power and network outages
- Low level of ICT literacy amongst staff
- Low level of literacy among clients

**Opportunities**
- Splash is an interoperable platform that can easily plug into banks, MFIs and MNOs
- Large number of money senders and receivers have access to mobile phones (43%) → a client base already equipped
- MFIs have paved the way for others (Hope, Ecobank) and proved that MFIs can be agents for MMT
- Partnership of Splash and Airtel with FSAs and CBs show a clear need to address the rural areas

**Threats**
- Impatient investors – MMT providers in Sierra Leone have not yet reached profitability, but it is uncertain that Splash, especially can keep up the required level of investments
- Mobile Money schemes have not yet achieved high awareness among clients
- Lack of agents is hampering the scalability of mobile money
Conclusions on the supply side
The MMT ecosystem is still immature, but a lot of players already involved

- The mobile phone sector is growing and penetration is increasing (52%). Mobile network coverage is good in urban and rural areas (>80%). The unreliability of mobile services due to lack of power and network outages will stay a concern for the time being.

- Different players are involved in providing financial services: banks, Micro Finance institutions (MFIs), Community Banks (CBs), Financial Services Associations (FSAs) and Money Transfer Organisations (MTOs). The MFIS, CB and FSAs demonstrate a considerable growth since the war and a commitment to serving rural areas. The banking sector seems less dynamic in reaching out to new clients or regions.

- In payments, some initiatives are underway such as the establishment of an ATM switch and the WAMZ*) Payment System Development Project. Also, the concept of a ‘national switch’, linking the ATM switch to the Mobile Money Transfer platforms is being discussed.

- A lot of players already involved in the Mobile Money Transfer ecosystem in Sierra Leone.
  - MMT providers Splash and Airtel Money started offering services since 2010. They are supervised by the Bank of Sierra Leone via the banks that hold their trust accounts (CDAs);
  - Banks are also agents for MMT and CBs and FSAs will become agents soon. An MFI (Hope and soon Ecobank) proved that MFIs can be agents for MMT as well;
  - Various businesses and institutions pay salaries or allow for bill payments via MMT (Oxfam, DsTV, etc).

- At the same time it can be concluded that the MMT initiatives have not yet reached maturity nor profitability. They are still loss making and low in customers (300.000 subscribers) and agents (around 1000). Particularly the lack of qualified agents is hampering the development of the services. This implies that continued investment will be required in the coming years.

*) West African Monetary Zone
Contents

Introduction

Executive Summary and Recommendations

I. Module 1 Regulation and Partnerships (Supply side)

II. Module 2 Markets and products (Demand side)
   I. Demand for Financial Services in Sierra Leone
   II. Validation of the current value proposition of MMT in Sierra Leone
   III. Summary

III. Module 3 Distribution Networks

IV. Module 4 MFI Internal Capacity

V. Module 5 Scenario's for Mobile Money Transfers and the MFIs in Sierra Leone
I. Demand for financial services in Sierra Leone
Regional differences in status and access to finance and mobile network
West relatively wealthy, North and South least served by FIs and MNOs

<table>
<thead>
<tr>
<th>Name</th>
<th>Density (persons/km²)</th>
<th>MNO (network coverage)</th>
<th>MNO (activity)</th>
<th>Financial Institutions branches</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Western Area</strong> (Freetown and surroundings)</td>
<td>1700</td>
<td>high</td>
<td>Airtel, Africell, Comiun</td>
<td>51</td>
</tr>
<tr>
<td><strong>Eastern Province</strong> (Districts: Kono, Kailahun, Kenema)</td>
<td>76</td>
<td>medium</td>
<td>Africell is #2 Airtel is strong</td>
<td>13</td>
</tr>
<tr>
<td><strong>Northern Province</strong> (Bombali (contains capital Makeni), Tonkolili, ambia, Koinadugu,Port Loko)</td>
<td>48</td>
<td>low</td>
<td>Africell is strong Airtel #2</td>
<td>11</td>
</tr>
<tr>
<td><strong>Southern province</strong> (Bo, Bonthe, Moyamba)</td>
<td>70</td>
<td>medium</td>
<td>Airtel is strong, Africell is #2</td>
<td>11</td>
</tr>
</tbody>
</table>

Socio-economic status in the provinces:

- **West**
- **East**
- **North**
- **South**
Financial access & financial products in use
Use of formal financial services is growing, from very low base level

Commercial Banks:
- 607 thousand accounts (20% increase compared to 2011)
- But many banked persons hold accounts at different banks
- Thus financial inclusion is lower than 10%
- Moreover, MFI clients have bank accounts, especially around towns (60% of focus groups)

Cards and ATMs:
- 50 ATMs in the country (0.2 per 1000 km2)
- 4% of population holds debit card and 2% a credit card
- But cards are hardly used (mainly when abroad)
- High down-time percentage (ATMs not in use, due to poor quality of bank notes & power outage - load shedding)

MFIs and Community Banks:
- MFIs have around 90,000 active borrowers (as at June 2012)
- Interest is high (upto 5% nominal per month) due to high inflation and scarcity of funding (low savings propensity)
- 95,000 deposit accounts outstanding (incl. Ecobank MF and FSAs, excl. Community Banks)
- MFIs are not deposit taking but members have compulsory savings account

Source: BSL, SLABC, Ayani, IFAD, IMF, own research
Financial access & financial products in use
High unmet demand for credits, low savings propensity

Credit:
- There is a considerable demand for credit of about $239 million and 58% households is interested in having a loan (of $602 on average)
- This demand is partially met: 6% of population had a loan from a financial institution in 2011
- Informal ways of obtaining credit:
  - Loan from family or friends (43% of adults had such a loan in 2011)
  - Village Savings and Loans Groups (VS&LGs). These groups are initially self funded, as each member contributes, and then loans are provided from the funds.
  - Independent traders offer loans (with considerable profits) due to their proximity to the client

Savings:
- Low demand for savings of an estimated at $14 million in total ($105 urban vs $35 in rural)
- 33% of households is interested in savings and they quote as primary reason to cater for emergencies. Education or setting up a business come second.
- 14% of adults saved at a financial institution in 2011 and outstanding deposits with commercial banks are at 30% of GDP.
- Informal solutions for saving:
  - Via a savings club (10% of adults, 2011)
  - Giving money to an Ususu person or independent trader
  - Savings at home

Overview

- 86% of overseas Sierra Leoneans are sending money home regularly.
- Estimated annual flows vary:
  - World bank, officially recorded flows: US$ 60 mln (2011, 2.5% of GDP)
  - IFAD: US $168m annually (2009, around 12% of GDP)
  - Government calculations: $250 and $400 million (2009, 20-25% of GDP)
- The true size of remittances, including unrecorded flows through formal and informal channels to Sierra Leone, is considerable.
- The most important remittance corridors to SL: from United Kingdom and the United States

Methods in use:

- Formal:
  - Money transfer companies (cash-to-cash)
  - Bank transfers (account-to-account),
- Informal:
  - Bringing cash (e.g. through family and friends)
  - Through merchants’ agents: There is now an established system of agents operating in the UK and US who will accept remittances on behalf of merchants in Sierra Leone.
Zooming in on domestic remittances in Sierra Leone:
A cash economy (47%), more than any other country in Sub Saharan Africa

Estimated Market Size of Payment Channels in Sub Saharan Africa

<table>
<thead>
<tr>
<th></th>
<th>Made payments</th>
<th>No payments</th>
<th>Only electronic payments</th>
<th>Only cash payments</th>
<th>Electronic &amp; cash payments</th>
<th>Adult population (m)</th>
<th>Consumers total (m)</th>
<th>Consumers only using cash (m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>76%</td>
<td>24%</td>
<td>15%</td>
<td>22%</td>
<td>38%</td>
<td>23.3</td>
<td>17.7</td>
<td>5.2</td>
</tr>
<tr>
<td>South Africa</td>
<td>69%</td>
<td>31%</td>
<td>18%</td>
<td>31%</td>
<td>19%</td>
<td>34.9</td>
<td>24</td>
<td>10.9</td>
</tr>
<tr>
<td>Botswana</td>
<td>60%</td>
<td>40%</td>
<td>9%</td>
<td>36%</td>
<td>14%</td>
<td>1.4</td>
<td>0.8</td>
<td>0.5</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>59%</td>
<td>41%</td>
<td>2%</td>
<td>47%</td>
<td>11%</td>
<td>3.3</td>
<td>2</td>
<td>1.6</td>
</tr>
<tr>
<td>Nigeria</td>
<td>55%</td>
<td>45%</td>
<td>8%</td>
<td>38%</td>
<td>9%</td>
<td>90.6</td>
<td>49.9</td>
<td>34.8</td>
</tr>
<tr>
<td>Uganda</td>
<td>53%</td>
<td>47%</td>
<td>7%</td>
<td>29%</td>
<td>16%</td>
<td>17.2</td>
<td>9.1</td>
<td>5</td>
</tr>
<tr>
<td>Tanzania</td>
<td>44%</td>
<td>56%</td>
<td>6%</td>
<td>26%</td>
<td>12%</td>
<td>24.8</td>
<td>10.9</td>
<td>6.5</td>
</tr>
<tr>
<td>DRC (Congo-Kinshasa)</td>
<td>39%</td>
<td>61%</td>
<td>7%</td>
<td>27%</td>
<td>5%</td>
<td>35.4</td>
<td>13.7</td>
<td>9.5</td>
</tr>
<tr>
<td>Zambia</td>
<td>38%</td>
<td>62%</td>
<td>6%</td>
<td>25%</td>
<td>6%</td>
<td>6.9</td>
<td>2.6</td>
<td>1.8</td>
</tr>
<tr>
<td>Mali</td>
<td>27%</td>
<td>73%</td>
<td>1%</td>
<td>25%</td>
<td>1%</td>
<td>8.1</td>
<td>2.2</td>
<td>2</td>
</tr>
<tr>
<td>Rwanda</td>
<td>24%</td>
<td>76%</td>
<td>2%</td>
<td>20%</td>
<td>2%</td>
<td>6.1</td>
<td>1.5</td>
<td>1.2</td>
</tr>
<tr>
<td>Total</td>
<td>53%</td>
<td>47%</td>
<td>9%</td>
<td>31%</td>
<td>13%</td>
<td>252.1</td>
<td>134.3</td>
<td>79</td>
</tr>
</tbody>
</table>

Based on interviews conducted throughout 2011. Figures may not add up to 100 percent due to rounding.

Source: Gallup 2012
Zooming in on domestic remittances in Sierra Leone:
Large majority of domestic money transfers is through informal channels

Annual domestic remittances (US$’000)

- Estimated 3.3 million transactions (informal)
- US$ 226,320 (92%)
- US$ 12,300
- US$ 7,380

Remittances (2011):
- 40% is sent domestic
- 7% is sent international

Source: KFW, Gallup
Common ways of sending money in Sierra Leone:
Drivers and family & friends are mostly used

High awareness of Splash and Airtel Money in Focus Groups:
- Splash: 65%
- Airtel Money 45%

Average amounts (US$ppp)
- Brought in person: $114
- Relative and friends: $142
- International transfer: $350

Source: Gallup, PHB research
### Common ways of sending money in Sierra Leone:

Informal ways are cheaper (but perceived as less secure and more slowly)

<table>
<thead>
<tr>
<th>Type</th>
<th>Average amount send, in Le, estimates</th>
<th>Average fee, in Le</th>
<th>Average fee %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bus Drivers</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At the busterminal (Pakin' grohn') find someone to carry the money to the beneficiary. (Beneficiary will be informed by phone about the amount and expected arrival time)</td>
<td>300-500 Th</td>
<td>Depends on closeness of relationship with driver.</td>
<td>0 or small fee</td>
</tr>
<tr>
<td><strong>Family and Friends (F&amp;F)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A family or friend carries the money to the beneficiary. (Beneficiary will be informed by phone about the amount and expected arrival time)</td>
<td>300-500 Th</td>
<td>Usually no fee, but some form of barter</td>
<td>0 or small fee</td>
</tr>
<tr>
<td><strong>Domestic Money Transfer</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(WU, Moneygram, Afro International)</td>
<td>150 -500 Th</td>
<td>10 Th -30 Th</td>
<td>1-10%</td>
</tr>
<tr>
<td><strong>International Money Transfer</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(WU, Moneygram, Fadugu)</td>
<td>US$ 300</td>
<td>US$ 9.99 + 1% on exchange rate</td>
<td>4-5% (MG)</td>
</tr>
<tr>
<td><strong>Personal pick-up</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The beneficiary is informed by phone to come to a specified location (in a larger village) where the money will be delivered. The sender will pay for the transport costs of the beneficiary.</td>
<td>75-150 Th</td>
<td>Price of transport</td>
<td>variable</td>
</tr>
<tr>
<td><strong>Airtime vouchers</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The sender pays cash to an airtime agent who sends electronic airtime vouchers to another airtime agent, where the beneficiary will cash-out.</td>
<td>40-120 Th</td>
<td>2000 per 40th</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Mobile Money</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1) P2P transfers: from the senders phone to the beneficiaries phone (who can then cash-out at an agent or keep it on the phone)</td>
<td>50 -200 Th</td>
<td>3000 (P2P and Bill)</td>
<td>2-4%</td>
</tr>
<tr>
<td>2) sending money over the counter from an agent to the beneficiary’s phone, who can cash-out at an agent.</td>
<td>1500-10.000 (cash-out)</td>
<td>1500-10.000 (cash-out)</td>
<td>3-5%</td>
</tr>
</tbody>
</table>

Sources: own estimates, MG website, Airtel Money, Splash, Gallup, KfW
II. Validation of the current market positioning of MMT in Sierra Leone
## MMT providers in Sierra Leone
### Comparison of Airtel Money & Splash Mobile Money

| Launch                  | • Pilot in 2009  |
|                        | • Launch early 2010  |
|                        | • Launch in 2010 under Zap  |
|                        | • Relaunched in July 2012 as Airtel Money  |
| Product and services   | • Corporate disbursements and salary  |
|                        | • P2P transfers  |
|                        | • Bill payments (DsTV, school fees)  |
|                        | • MF loans  |
|                        | • Airtime top up (from April 2013)  |
|                        | • International remittances  |
|                        | • Top up with air time  |
|                        | • P2P transfers  |
|                        | • Utility bill payments  |
|                        | • Other Bill payments (DsTV, school fees)  |
|                        | • Mobile Banking  |
| Technology             | • SMS based (MNOs not ready for USSD 2)  |
|                        | • Interoperable with the 3 MNOs  |
|                        | • Sim tool kit (menu of choice), uses JAVA  |
|                        | • Can receive Airtel Money on all 3 operators phones, but not send if not registered to Airtel  |
| Clients                | • 100,000 registered  |
|                        | • 150,000 to 200,000 registered  |
| Agents                 | • 150  |
|                        | • Hope, Ecobank, Community banks and FSAs  |
|                        | • 800 of which 600 active  |
|                        | • Ecobank, Community banks and FSAs soon  |
| Existing partnerships  | • DsTV: pay your bills  |
|                        | • Hope: for loan disbursement (since 09/2011)  |
|                        | • Schools  |
|                        | • Some restaurants (Roy’s, Noresco)  |
|                        | • Supermarkets  |
|                        | • DsTV: pay your subscription fees  |
|                        | • National Power: pay electricity bills (from march 2013)  |
|                        | • Supermarkets: Choithrams & Sons, Foodland Supermarket, London Supermaket  |
| Bank partners          | • GT Bank  |
|                        | • Will work with Access and Ecobank MF  |
|                        | • GT Bank  |
|                        | • Ecobank  |
|                        | • Zenith bank  |
| Issues                 | • Liquidity  |
|                        | • Building the agent network  |
|                        | • Cash out culture  |
|                        | • Awareness  |
|                        | • Building the agent network  |
MMT providers in Sierra Leone
Most popular services are P2P, bill payments, top-ups and corporate payments

Splash:
- Most popular services:
  - P2P money transfers, especially Over the counter (OTC), with agents at two sides
  - Corporate disbursements and salary payments (Flash Vehicle Rentals, Oxfam, etc)
  - Bill payments for services like DStv, school fees
- Also some microfinance loans disbursements
- Planned:
  - Utility bills
  - Airtime top-up (only Africell and Comium, still a manual process)
  - International remittances (with niche player MTOs as Starpay (UK/US) and Oxigen (UK)

Airtel:
- Entered recently, currently a lower value of monthly transactions then Splash
- Most popular services:
  - P2P money transfers
  - Airtime topups
- Planned:
  - Utility bills
Mobile Money transfer
Benefits and risks of mobile money in Sierra Leone

Benefits
- Most important are a better Control over payments (no cheating, reliability of delivery) and the Convenience of no need to queue at the bank or utility company
- In addition Speed and Invisibility are appreciated
- Accessibility and Cost are less perceived as benefits

Risks:
- Theft of phone (perceived, mentioned by many persons)
- Not sufficient money available at the agent
- No agents yet in the more remote areas
- The SMS can be hard to read or write

Expected early adopters:
- Urban, higher middle class, for bill payments and P2P (from urban to rural)
- Lower middle class and upper lower class for P2P (especially OTC at agents) and airtime top up

Convenience
- No queuing at the bank

Control
- Transparency, no cheating, reliability of delivery

Speed
- Real time, no waiting until driver arrives

Invisibility
- Less peer pressure to hand-out cash

Cost
- As compared to the formal money transfers

Accessibility
- In more remote places

“Despite the challenges, there are reasons to believe that mobile phone banking could take off. Mobile operators have experienced rapid growth of their “e-vouchers”. [...] Low-end and rural users take advantage of this service more often, as units are sold in smaller quantities, and sometime scratch cards are unavailable in rural areas. The rapid adoption of mobile phones and “e-vouchers” shows that the lower market segments are able to adapt to new technology.”
KFW report, 2009
III. In Summary
## SWOT:
The potential of MMT in Sierra Leone (combining demand and supply)

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convenience and Speed – quicker than going to the bank and standing in</td>
<td>Low number of agents linked to Splash and Airtel Money</td>
</tr>
<tr>
<td>line or waiting for the bus driver to arrive</td>
<td>Commission structure of agents seems unattractive</td>
</tr>
<tr>
<td>Perceived benefits of MMT – more controls so reduction of cheating</td>
<td>Lack of monitoring and supervision on internal operations and transactions of the MMT providers</td>
</tr>
<tr>
<td>Perceived benefits of MMT – money is invisible so less demand from</td>
<td>Low literacy levels – difficulty in reading or writing SMS</td>
</tr>
<tr>
<td>relatives</td>
<td>User interface is not easy to use and PIN is insecure (Splash)</td>
</tr>
<tr>
<td>Trust and awareness – concept of sending money by phone is not alien in</td>
<td>Java Application is not compatible with all phones (Airtel)</td>
</tr>
<tr>
<td>SL</td>
<td>Low number of repeat customers (10-15% active users)</td>
</tr>
<tr>
<td>Already many parties are included in the MMT ecosystem</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Huge untapped potential: 3.3 million domestic remittances through informal channels</td>
<td>Poor supply of qualified agents, especially outside the urban settlements – low level of liquidity and (perceived) reliability</td>
</tr>
<tr>
<td>MFIs and CBs &amp; FSA offer reach into remote area (especially compared to the under-developed bank branch network)</td>
<td>Impatient investors – MMT requires a long-term vision</td>
</tr>
<tr>
<td>Institutions that have a high number of cash payments (government agencies, donors, agricultural value chains /SNAP?)</td>
<td>Too demanding KYC regulations for MMT (non-proportional and pending regulations)</td>
</tr>
</tbody>
</table>
Overview of financial needs and existing propositions in Sierra Leone

MMT responds to a need for better payment & money transfer solutions

Customer Segment: Owners of large businesses (rice importers, mining), senior politicians, CEO’s, ...

Need & Demand:
- Easy 24/7 access to bank accounts
- Transfer to unbanked
- Bill payments

Existing Propositions:
- Bank account (Le and US$)
- Cheques
- Cards (Debit/Credit, usability?)
- Cash
- Bank credit
- Money transfer, (in)formal

MMT Opportunities:
- Bill payments
- Salary payments (Corporate side)

Customer Segment: Professionals (accountants, bankers), senior civil servants, owners of SME’s, ...

Need & Demand:
- Easy 24/7 access to bank accounts
- Transfer to unbanked
- Bill payments

Existing Propositions:
- Bank accounts (Leone)
- Cheques & Cards (debit)
- Cash
- Bank credit
- Money transfer, (in)formal

MMT Opportunities:
- Bill payments
- P2P to relatives

Customer Segment: Teachers, junior civil servants (military, police), urban and rural micro business (informal)

Need & Demand:
- Transfer to the underbanked
- Bill payments

Existing Propositions:
- Cash
- Savings accounts (In Le)
- Money transfer, informal
- MFI loans

MMT Opportunities:
- Receipt of salary
- P2P to relatives
- Bill payments

Customer Segment: Small-scale farmers, small rural businesses (limited stock in shops), farm labourers, rural poor

Need & Demand:
- Receipt of transfers
- Payments of suppliers
- Small credit and Savings

Existing Propositions:
- Cash
- Money transfer, informal
- Informal Credits
- Informal Savings

MMT Opportunities:
- P2P receipt of transfers
- P2P sending OTC (to suppliers, to relatives)

10% is banked

70% lives below the poverty line
Conclusion on markets and products

MMT responds primarily to a need for better domestic money transfers

- Sierra Leone, is a cash economy, more than any other country in Sub Saharan Africa. The use of formal financial services is very low around 10%, though growing.

- There is a huge unmet demand particularly for credits and to a lesser extent for savings. MFIs, Community banks and FSA are responding to this need and built up an impressive market position in 10 years. Many informal means of savings and credits are also in use, such as borrowing from family and friends and traders or savings with a ususu.

- In addition, there is a huge untapped potential for money transfers: an estimated 3.3 million of domestic remittance transactions runs through informal channels annually. Drivers and family and friends are mostly used. These informal ways are cheaper, but perceived as less reliable and slow.

- The current offer of MMT - from Splash and Airtel Money - responds primarily to the need for better domestic payments. Most popular MMT services are P2P, bill payments, top-ups and corporate payments. It seems that early adopters can partially be found in the more urban and educated populations. However, also lower end people (urban and rural) are interested, especially in the P2P payments executed over-the-counter at agents and airtime top up.

- In Sierra Leone, the most important benefits that MMT offers to clients are a better control over payments (no cheating, reliable delivery) and more convenience (no need to queue at the bank). In addition speed and invisibility are appreciated. The convenience benefit will strengthen once the agent network is better developed.

- Necessary conditions to make MMT a success are a denser and more liquid agent network especially in the more remote areas. Also, ample resources for customer and agent education are needed (only mass marketing is NOT sufficient).
Contents

Introduction

Executive Summary and Recommendations

I. Module 1 Regulation and Partnerships (Supply side)

II. Module 2 Markets and products (Demand side)

III. Module 3 Distribution Networks
   I. Agent network theory: role of agents and strategies
   II. Assessment of the existing & potential distribution networks in SL
   III. Focus on MFIs as agents

IV. Module 4 MFI Internal Capacity

V. Module 5 Scenario's for Mobile Money Transfers and the MFIs in Sierra Leone
I. Agent network theory

- What is an agent / role of an agent?
- Why use agents?
- How to set up an agent network (strategies)
Agent network theory – Role of agents (1/2):
Delivery of financial services in remote areas at an affordable price

- Somebody who performs another activity not necessarily related to financial services, before becoming an agent for financial services: can be a retailer, an airtime dealer, a mom-and-pop store, a pharmacist, a gas station manager...

- Can be exclusive to a mobile operator or mobile money service provider (such as Airtel dealers) or work for several providers at the same time (such as Splash agents) and/or several mobile service provider (such as Ecobank in Sierra Leone)

- Deliver financial services to the greatest number and in particular to low income clients in remote areas
- Reduce delivery costs of financial services through the use of technology such as mobile phones and the use of existing dense distribution network

Agents are the masterpiece in the delivery of Mobile Money Services to under banked or unbanked clients in remote areas at affordable prices, through the use of technologies such as mobile phones
Agent network theory – Role of agents (2/2):
Over-the-counter transactions (OTC) on behalf of clients or assist clients in P2P

- Over-the-counter transactions: The agent performs the transaction on behalf of the client
- Peer-to-peer (P2P) transactions: The client does the transaction himself (transfer, bill and merchant payment, loan repayment). However he needs the agent to register him and cash-in money (conversion of cash into e-money)

<table>
<thead>
<tr>
<th>Type of actions</th>
<th>Over-the-counter (OTC) transactions</th>
<th>Peer-to-peer (P2P) transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Done by Agent</td>
<td>Done by Client</td>
</tr>
<tr>
<td>Registration</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Know your customer requirements</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Cash in</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Cash out</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Transfer</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Loan disbursement</td>
<td>E-money ➔ Cash</td>
<td>E-money ➔ Cash</td>
</tr>
<tr>
<td>Loan repayment</td>
<td>Cash ➔ E-money</td>
<td></td>
</tr>
<tr>
<td>Bill payment</td>
<td>Cash ➔ E-money</td>
<td></td>
</tr>
<tr>
<td>Merchant payments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training</td>
<td>✔</td>
<td></td>
</tr>
<tr>
<td>Customer service (enquiries and demands)</td>
<td>✔</td>
<td></td>
</tr>
</tbody>
</table>
Agent network theory – Why use agents (1/2):
To act as intermediary in the delivery of financial services…

Agents are the intermediary between the MFI/Bank or Mobile Operator and the Client. Agents deliver financial services to clients that MFIs/banks and MNOs cannot access directly.

**BANK / MFI / MOBILE OPERATOR**

**E-money ↔ cash**

**AGENTS**

**CLIENTS**

**P2P transactions (e-money)**
- P2P transfer
- Bill payment
- Merchant payment

**Registration KYC**

**Training**

**Cash in Cash out**

**OTC: Agent performs transaction**
Agent network theory – Why use agents (2/2):
To deliver those financial services at affordable prices

<table>
<thead>
<tr>
<th>Distribution Options</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional branch</td>
<td>$250,000</td>
</tr>
<tr>
<td>Branch in store</td>
<td>$50,000</td>
</tr>
<tr>
<td>ATM</td>
<td>$10,000</td>
</tr>
<tr>
<td>Agent with POS device</td>
<td>$2,000</td>
</tr>
<tr>
<td>Agent with mobile phone</td>
<td>$400</td>
</tr>
<tr>
<td>No agent (cashless)</td>
<td>$0</td>
</tr>
</tbody>
</table>

Source: CGAP analysis

Agents deliver financial services at lower costs than other distribution options

Setting up agents with mobile phone is much cheaper than opening a bank branch, thus enabling to deliver service at lower costs and thus lower prices.
### Agent network theory – Strategies to set up an agent network

Choice of how to build an agent network depends on the most important criteria

<table>
<thead>
<tr>
<th>Examples</th>
<th>Speed of network roll out</th>
<th>Targeted location</th>
<th>Network control</th>
<th>Speed of contracting</th>
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<tbody>
<tr>
<td><strong>Use existing airtime retailer networks</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Airtime resellers of Airtel / Comium</td>
<td>++</td>
<td>++</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td><strong>Use existing retailer networks</strong></td>
<td></td>
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</tr>
<tr>
<td>Banks, MFIs, Post Office, Gas stations, supermarkets</td>
<td>+++</td>
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<tr>
<td><strong>Build a network of independent agents (one by one)</strong></td>
<td></td>
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<tr>
<td>mom-and-pop stores</td>
<td>+</td>
<td>+++</td>
<td>+++</td>
<td>++</td>
</tr>
</tbody>
</table>

- There are several strategies to set up an agent network: use existing retailers or airtime dealers or build a network from scratch, recruiting agents one by one.
- The choice of strategy depends on the most important criteria for you, whether it is speed of network roll out, speed of contracting, having control over the network or choosing targeted locations.
- Using existing networks (*such as; Airtel Money using its own airtime dealers*) will enable you to roll out fast, at the expense of choice of location and loosing a bit of control ➔ *Airtel Money has 800 agents after 1 year*.
- Building your own network of agents (*such as; Splash*) will enable you to choose the best locations and control your network but roll out will be slower ➔ *Splash has 150 agents after 3 years*.
Agent network theory – Challenges to overcome
Liquidity management and network coverage are the biggest challenges

Important things to consider / challenges to overcome in setting up an agent network:

- **Recruitment of Agents**: Recruit the right agents (location, cash management, business profile, trust,…)
- **Agent Network Coverage**: Structure the agent network according to your strategy/ the most important criteria for you: speed of roll out, targeted location, network control, speed of contracting?
- **Incentives for Agents**: Propose attractive incentive to agents (commissions, generate more traffic in store…)
  - Ensure they get incentive for each transaction performed (whether it is cash or having more clients)
- **Training**: Train agents at the beginning (minimum 1 day)
  - On-going training is required regularly
- **Liquidity Management**: Ensure your agents have the adequate liquidity level to perform cash out
  - Poor liquidity management can harm very badly a brand or a reputation
- **Management of Network**: Monitor agent performance (cash, respect of rules, visibility, results) through regular visits

Liquidity and coverage are the biggest challenges for an agent network
Agent network theory – options to overcome challenges:
Super agents: outsource the challenges recruitment, liquidity and monitoring

- A 2 level network (agents and super agents) enables mobile money providers to outsource some responsibilities to super agents
  - Agents deal with the client
  - Super agents are the intermediary between the agent and the mobile money provider
  - What remains the job of the mobile money provider even if using super agents
    - Structuration of agent network / Ensuring coverage
    - Training
    - Setting up the incentive policy
  - What can be outsourced to super agents
    - Recruitment of agents
    - Cash and liquidity management
    - Monitoring agent performance

<table>
<thead>
<tr>
<th>Challenges to overcome</th>
<th>Done by Super Agent</th>
<th>Done by MFS provider</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruitment of agents</td>
<td>✔</td>
<td></td>
</tr>
<tr>
<td>Structuration of agent network</td>
<td></td>
<td>✔</td>
</tr>
<tr>
<td>Setting up the incentive policy</td>
<td></td>
<td>✔</td>
</tr>
<tr>
<td>Training</td>
<td></td>
<td>✔</td>
</tr>
<tr>
<td>Liquidity management</td>
<td>✔</td>
<td></td>
</tr>
<tr>
<td>Monitoring agent performance</td>
<td>✔</td>
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</tbody>
</table>
II. Assessment of existing and potential distribution networks in SL
## Existing agent networks for MMT in Sierra Leone –
Airtime resellers, banks, MFIs, supermarkets and gas stations are used

<table>
<thead>
<tr>
<th>Type of agent network</th>
<th>Used by Splash</th>
<th>Used by Airtel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airtime resellers</td>
<td>Africell / Comium ✔</td>
<td>Airtel ✔</td>
</tr>
<tr>
<td>Bank Branches</td>
<td>Ecobank / GT Bank ✔</td>
<td>Ecobank / GT Bank ✔</td>
</tr>
<tr>
<td>MFIs branches</td>
<td>Hope Ecobank ✔</td>
<td>Ecobank ✔</td>
</tr>
<tr>
<td>Remittances companies</td>
<td>Afro international ✔ ✔</td>
<td>(Afro international as super agents) ✔</td>
</tr>
<tr>
<td>mom-and-pop shops</td>
<td>✔</td>
<td></td>
</tr>
<tr>
<td>Supermarkets</td>
<td>✔</td>
<td>London supermarket,… ✔</td>
</tr>
<tr>
<td>Gas stations</td>
<td>in Negotiation ✔</td>
<td>in Negotiation</td>
</tr>
<tr>
<td>Pharmacies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Post Office</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ATMs / automated cash distribution systems</td>
<td></td>
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</tr>
</tbody>
</table>
Existing agent networks for MMT in Sierra Leone
Splash has 150-200 agents, from mom and pop stores to MFIs and Banks

150 agents
- International remittance company (Afro International)
- Banks: GT branches (6)
- Airtime resellers
- Convenience stores
- MFIs: Hope and Ecobank branches
- Community banks and FSA

Requirements to be agent
- Min 2 million Leones capital
- Min 3 million Leones liquidity
- Trained for 1-2 days (incl. on KYC/AML) plus refresher courses as and when needed

Transactions limits
- Transfer for indiv.: 4 million Le
- Transfer for corpo: 500 millions Le
- Balance kept: 4 millions Le for clients
- Daily transaction per agent: 15 millions

Services performed
- Registration / KYC/ CDD
- Cash in/Cash out
- Bill payment

KYC/AML
- Entice agents to register customers
- Regulations enforced by software

Commissions paid to agents
- Registration: none @ time of registration - Le750 when client hits Le100,000 worth of transactions
- Cash in: 0.75%
- Cash out: 1%
- Transfer: 0.75%

Commissions paid by clients
- Registration: Free
- Cash in: Free
- P2P transfer
  - Over the counter: 1.5% to 6.5% for registered clients/ 3.5% to 16.5% for unregistered clients
  - Through own phone: fixed fee of Le3,000 Le
- Cash out
  - 2% to 6.5% for registered clients/
  - Free for unregistered clients (paid by sender)
- Bill payment: Le 3,000
### Existing agent networks for MMT in Sierra Leone

Airtel Money currently has 600 agents: airtime dealers and use of super agents

<table>
<thead>
<tr>
<th>800 agents, of which 600 active</th>
<th>Requirements to be agent</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Airtime resellers</td>
<td>- Min Leones 400,000 for an agent and min 5 million Leones capital for a dealer</td>
</tr>
<tr>
<td>- Community banks: IFAD very soon</td>
<td>- Min 2 million Leones liquidity</td>
</tr>
<tr>
<td>- Gas stations: NP, Total</td>
<td>- Registered business (with documentation)</td>
</tr>
<tr>
<td>- Supermarkets</td>
<td>- Be trained for 2-3 days, incl. on KYC/AML</td>
</tr>
<tr>
<td>- Super agents to manage network: Remittance company (Afro International) and soon Balani</td>
<td></td>
</tr>
</tbody>
</table>

#### Services performed
- Registration
- Cash in/out
- P2P transfers
- Bill payment

#### KYC/AML
- Entice agents to register customers
- Must notify Airtel Money if client refuses to register

#### Transactions limits
- Transfer for indiv.: 4 million Le
- Transfer for corpo: 500 millions Le
- Balance kept: 4 millions Le for clients
- Daily transaction per agent: 15 millions

#### Commissions paid to agents
- Registration: 500 Leones
- Cash in: fixed amounts with brackets
- Cash out: 40% of transaction
- Transfer:
- Super agents: 10%

#### Commissions paid by clients
- Registration: Free
- Cash in: Free
- P2P transfer: 1% to 5%
- Cash out:
  - Registered clients: 1.2% to 5%
  - Non-registered clients: 2% to 10%
  - Bill payment: Le 1,500
Potential distribution networks in Sierra Leone –
Limited choice of structured agent networks, MFIs form 2nd biggest network

Number of potential agents

Post offices: 24
Supermarkets: 40
Gas stations: 75
Bank branches: 86
MFIs branches: 100
MTOs: 200

+ non structured networks
  • Pharmacies: 215
  • Airtime resellers: >50,000 potential agents
  • mom-and-pop stores: thousands
### Potential agent network: Airtime resellers:
The biggest network, a great potential to be agents

<table>
<thead>
<tr>
<th></th>
<th>Airtel</th>
<th>Africell</th>
<th>Comum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nb of active SIMs</td>
<td>1.2M</td>
<td>1.7M</td>
<td>0.4M</td>
</tr>
<tr>
<td>Market share</td>
<td>35%</td>
<td>50%</td>
<td>12%</td>
</tr>
<tr>
<td>Country coverage</td>
<td>80%</td>
<td>82%</td>
<td>81%</td>
</tr>
<tr>
<td>Nb of airtime dealers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Master agents</td>
<td>Balani</td>
<td>Balani</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Afro International</td>
<td>Afro International</td>
<td></td>
</tr>
<tr>
<td>MMT services</td>
<td>Own platform: Airtel Money</td>
<td>Interoperable with Splash</td>
<td>Interoperable with Splash</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Can receive Airtel Money but not send it</td>
<td>Can receive Airtel Money but not send it</td>
</tr>
<tr>
<td>Type of agent</td>
<td>Description</td>
<td>Nb of branches</td>
<td>Trust for money</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>----------------------------------------------------------------------------------------------</td>
<td>-------------------------</td>
<td>----------------------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| Bank branches                  | • 13 Banks operating in Sierra Leone  
• Small number of branches each  
• Few ATMs, mostly from Ecobank (60%)  
• Most POS terminals are located in high-end establishments and usage is low | Banks have 3 to 14 Branches each  
86 branches in total  
50% branches in Freetown  
50 ATMs/POS Ecobank has 30 | Trusted to keep and have money available when needed  
Yet, long queues are an issue for clients, reducing their perception of the service | GT Bank and Ecobank are agents for both Splash and Airtel Money  
Access will become agent for Splash  
Other banks are not interested | Could be good potential partners as they have liquidity needed  
Yet, low number of branches and issues of having to queue for hours to withdraw your money |
| Money transfer and remittances companies | • 6 money transfers and remittances companies  
• Sending money internationally and within SL via a network of agents/branches | 200-250 agents  
Western Union: 90 claimed  
Moneygram: 40 in FT  
Afro International: 24 | Trusted money-wise  
Perceived as expensive and more oriented at international remittances than domestic | Splash and Airtel are both negotiating with remittance providers to become agents  
Splash: StarPay, OXygen8  
Airtel: Ecobank, Afro International | Have a large network coverage, are used to handle money and have liquidity  
Yet, perception as expensive options could be an issue |
| Convenience stores             | • mom-and-pop stores  
• No network but small independent stores                                                      | Not available, probably hundreds | Trust issues in rural areas | As a complementary source of revenues | Are close to people and frequently visited  
Yet, need to be affiliated one by one  
Probably have low liquidity |
III. Focus on MFIs as agents
Focus on MFIs as potential agents
MFIs can be agents, super agents or form an association of agents

- **3** potential roles for MFIs in the distribution channel

  1. **Agent**: become an agent of mobile money
     - For cash in/cash out (eg: Hope, Ecobank)
     - For disbursement/repayment of loans
     - Can be exclusive to a MM provider (eg: Hope with Splash) or work for several (eg: Ecobank with Splash and Airtel)

  2. **Super agent**: become a recruiter and manager of agents on behalf of a mobile money provider
     - The MFI recruits the best credit officers and/or clients to become agent
     - The MFI is in charge of training, monitoring, management and liquidity management of the agent network it has built

  3. **Agent association**: if several MFIs decide to act as agents of mobile money
     - MFIs can form a single structure serving as agent for mobile money
     - MFIs thus share the costs of becoming agents (liquidity management, training, control,…)
     - MFIs can negotiate as one single entity with the MMT provider
Focus on MFIs as agents – Number and location of branches – MFIs have a wide coverage and 100 branches pulled together

<table>
<thead>
<tr>
<th>MFI</th>
<th>Freetown</th>
<th>Bo</th>
<th>Makeni</th>
<th>Kenema</th>
<th>Port Loko /Lunsar</th>
<th>Kailahun</th>
<th>Others</th>
<th>Nb of branches</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
<td>Urban areas</td>
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<td>Rural areas</td>
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<td>TOTAL</td>
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<td>BRAC</td>
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</tbody>
</table>
Potential agent networks – MFIs:
MFIs are interested, trusted and reach rural areas, but liquidity can be an issue.

<table>
<thead>
<tr>
<th>Type of agent</th>
<th>Network coverage</th>
<th>Trust</th>
<th>Liquidity</th>
<th>Staff capacity</th>
<th>Interest (of them) in MMT</th>
<th>Interest for MMT providers</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFIs</td>
<td>LOW</td>
<td>HIGH</td>
<td>AVERAGE</td>
<td>TBD</td>
<td>HIGH for some</td>
<td>HIGH</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>TBD for others</td>
<td></td>
</tr>
<tr>
<td>Strengths</td>
<td>MFIs cover rural areas better than other financial services provider</td>
<td>MFIs are trusted by the community where they operate</td>
<td>On repayment days, MFIs have high liquidity</td>
<td>High interests of Some MFIs (Hope, Ecobank, others)</td>
<td>MFIs are trusted entities and are able to reach rural areas</td>
<td></td>
</tr>
<tr>
<td>Weaknesses</td>
<td>MFIs have less than 10 branches on average</td>
<td>Could be perceived as a distraction from their core business of microfinance</td>
<td>MFIs have a policy of low cash in branches, but this can be addressed if MFI decides to become an agent</td>
<td>To be assessed</td>
<td>Liquidity can be an issue and the network of one MFI is not so large (10 branches) All together yet, MFIS have over 100 branches</td>
<td></td>
</tr>
</tbody>
</table>
Agents are the masterpiece in the delivery of financial services through mobile phones, especially in remote and rural areas, at affordable prices.

Agents can perform over-the-counter transactions (OTC) on behalf of clients or train the customer to do P2P transfers, bill and merchant payments and loan repayment by themselves.

When building an agent network, choice of using existing retailers or building a network depends on what matters most for the MMT provider: Is it speed of roll out, speed of contracting, targeted location or network control?

Liquidity management and network coverage are the biggest challenges. Recruitment of agents, incentives, training and management/monitoring also need to be addressed well.

Super agents act as intermediary between the individual agents and the MMT provider. They often take care of recruitment of agents, liquidity management and monitoring.

Current distribution networks used by MMT providers in Sierra Leone include airtime resellers, bank branches, MFIs branches, remittances companies, supermarkets and soon gas stations. Important criteria for being an agent are: liquidity, trust, network coverage, interest of potential agent and interest of MMT provider.

However, in Sierra Leone there are few structured networks that can act as agent. This seriously hampers the roll-out of MMT in the country.

MFIs are the 2nd biggest structured network in Sierra Leone with >100 branches. This offers potential for MFIs to become agents. MFIs can also consider to become super agents, either per MFI or to form an association of agents (through SLAMFI for instance).

2 MFIs, Hope and Ecobank, have already stepped in and are acting as agent (for Splash in the case of Hope, for both Splash and Airtel money for Ecobank).
Contents

Introduction

Executive Summary and Recommendations

I. Module 1 Regulation and Partnerships (Supply side)

II. Module 2 Markets and products (Demand side)

III. Module 3 Distribution Networks

IV. Module 4 MFI Internal Capacity

V. Module 5 Scenario's for Mobile Money Transfers and the MFIs in Sierra Leone
## Executive Summary: MFI assessment and their readiness for MMT

How to assess the MFI readiness for MMT

Areas that were analysed:
- The exposure of the MFI and the clients to the financial system and the mobile phone network
- The characteristics of the MFI and its capability to introduce and properly serve a MMT product

<table>
<thead>
<tr>
<th>What?</th>
<th>Examples of indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Payments &amp; Mobile (Money) Exposure</strong></td>
<td></td>
</tr>
<tr>
<td>1. Of the MFI</td>
<td>Current linkage to Mobile Money (MM) Platform</td>
</tr>
<tr>
<td></td>
<td>Linkage to domestic banking system</td>
</tr>
<tr>
<td></td>
<td>Linkage to Money Transfer Organisation</td>
</tr>
<tr>
<td>2. Of the Clients</td>
<td>Clients’ ownership of bank accounts</td>
</tr>
<tr>
<td></td>
<td>Clients’ having mobile phones</td>
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<tr>
<td></td>
<td>Clients’ awareness and use of mobile payments</td>
</tr>
<tr>
<td></td>
<td>Clients’ use of internet</td>
</tr>
<tr>
<td><strong>Capability of the MFI</strong></td>
<td></td>
</tr>
<tr>
<td>3. Management, Sales &amp; HR</td>
<td>Institutional performance (PAR, OSS)</td>
</tr>
<tr>
<td></td>
<td>Ability to engage/negotiate with banks/MNO</td>
</tr>
<tr>
<td></td>
<td>Product innovation and training capability</td>
</tr>
<tr>
<td>4. MIS/IT &amp; Operations</td>
<td>Computerisation at HQ and branch levels</td>
</tr>
<tr>
<td></td>
<td>Connectivity</td>
</tr>
<tr>
<td></td>
<td>IT resources</td>
</tr>
<tr>
<td>5. Cash/Liquidity/AML/KYC</td>
<td>Cash and vault at branches</td>
</tr>
<tr>
<td></td>
<td>Liquidity management (cash levels, supply of new cash)</td>
</tr>
<tr>
<td></td>
<td>Know-Your-Customer (KYC) procedures in use?</td>
</tr>
<tr>
<td>6. Market position and other channels</td>
<td>Size in the market</td>
</tr>
<tr>
<td></td>
<td>Number of branches, distribution rural/urban</td>
</tr>
<tr>
<td></td>
<td>Product offer</td>
</tr>
</tbody>
</table>
MFI assessment and their readiness for MMT
Results for MFI sector in Sierra Leone (the spider diagram)

Average score for 10 MFIs: ARD, BRAC, Call2Business, Ecobank MF, FSL, GGEM, Hope, CEDA, SEND, SMT
Conclusions on MFI readiness for MMT
Some MFIs ready to engage in MMT, but many need consolidation of core business

- Some institutions have the potential to become involved in MMT instantly
- Though still low, MFI’s client readiness for MMT seems to be present
- Managerial quality in most institutions seems available

- Most institutions have significant weaknesses that will hamper their MMT involvement in the short run.
- Some institutions have the potential to become active in MMT, after having solved their more pressing issues. But they might be ready to consider their role in MMT within a year.
- A weak financial position and high levels of PAR are show-stoppers: in those cases the management should have other priorities. Still, the mobile phone might be a useful tool for this, e.g. to use SMS messages to alert delinquent clients.
Contents

Introduction

Executive Summary and Recommendations

I. Module 1 Regulation and Partnerships (Supply side)

II. Module 2 Markets and products (Demand side)

III. Module 3 Distribution Networks

IV. Module 4 MFI Internal Capacity

V. Module 5 Scenario's for Mobile Money Transfers and the MFIs in Sierra Leone
   I. Scenario’s for Mobile Money Transfer and MFIs
   II. 3 scenario’s in detail
   III. In summary
I. Scenario’s for Mobile Money Transfer and MFIs
Scenario’s for Mobile Money Transfer and MFIs
What is happening worldwide?

Microfinance Institutions and MF-Banks using the mobile network
Scenario's for Mobile Money Transfer and MFIs
An overview

CONTEXT:

MFIs in countries with existing MFS infrastructure

MFIs in countries with no existing MFS infrastructure

ROLE OF MFI:

Scenario 1
Act as agent on behalf of the MFS provider

Scenario 2
Use MFS to improve MFI products (loan disbursements/repayments/deposits)

Scenario 3
Build your own MFS system

Scenario 4
Use phones to improve internal operations (data collection from loan officers, send SMS)

IN SIERRA LEONE:
Hope Ecobank MF

Hope SMT (preparation)

No examples found
II. 3 scenario’s in detail
3 scenario’s in detail
Scenario 1: becoming an agent

- MFI acts as agent and performs cash-in, cash-out and registration services
- MFIs will receive a commission per transaction
- It is relatively easy to implement

The experience in Sierra Leone
- Hope is an agent for Splash since 2011, and performs Splash client registrations and cash-in and cash-out transactions. The Splash activity at their branches does not seem to be very high. This may be caused by the fact that Hope does not cash-out the loan disbursements for their clients at their own branches, to limit staff compliance issues. Instead, they refer their clients to other Splash agents with sufficient cash (such as; GT bank and Afro International)
- Ecobank is in the process of becoming an agent for Airtel money.

International experience
TIAVO is a credit cooperative in Madagascar with a network of 49 branches (caisses), which also covers rural areas. TIAVO offers microloans to 8,000 borrowers and has about 43,000 depositors. TIAVO is an agent for the mobile operator Telma since 2010. People can send or receive Telma Mvola money transfers and buy Telma telephone cards. TIAVO benefits from the commission it receives on any transaction for Telma. Moreover, due to more people entering the branches, TIAVO experienced a strong growth in membership to 85,000 members in September 2011 from 68,000 in 2010.
### 3 scenario’s in detail

#### Scenario 1: becoming an agent

<table>
<thead>
<tr>
<th>Benefits</th>
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<tbody>
<tr>
<td>- Increase of income (receipt of agent commission)</td>
</tr>
<tr>
<td>- Extra footfall/traffic -&gt; opportunity to cross-sell MFI products</td>
</tr>
<tr>
<td>- Positive impact on image (innovation)</td>
</tr>
<tr>
<td>- Way to familiarize clients with the MMT</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Disadvantages</th>
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</thead>
<tbody>
<tr>
<td>- Risk of neglect of existing services and clients</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Cash in branches</td>
</tr>
<tr>
<td>- Sufficient liquidity and options to liquidity supply</td>
</tr>
<tr>
<td>- Sufficient space for extra persons entering your branches</td>
</tr>
<tr>
<td>- Mobile phone or Internet in the branch</td>
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</table>

<table>
<thead>
<tr>
<th>Implementation effort</th>
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<tbody>
<tr>
<td>- Training of staff for new services</td>
</tr>
<tr>
<td>- Education of MMT clients (especially at the start)</td>
</tr>
<tr>
<td>- In case of overcrowded branches: additional space and personnel</td>
</tr>
<tr>
<td>- In case of super agent: set up and management of agent network</td>
</tr>
</tbody>
</table>
3 scenario’s in detail
Scenario 2: using MMT to better service your existing MFI-products

- Clients can use MFS to repay loans or to receive loan disbursements
- Potential to increase outreach to client without the need to open new branches

The experience in Sierra Leone
- Hope started to use Splash in 2009 for loan repayments but it quickly shifted to use it for disbursements only. Currently all loans are disbursed using Splash. Initially, the clients did not like to go to another bank and found the Splash interface on the phone (with SMS) difficult to use and needed extensive training by Splash and Hope staff. Additionally, at the start Hope still had to identify the Splash agents that had sufficient cash and where they could advise their clients to go to. The client experienced benefits such as less pressure from family members to give the money, as it was invisible on their phone. Hope benefits from more transparency in transactions as these are documented in the Splash reports. Using Splash also implies a cost, as Hope pays the cash-out fee.
- Ecobank MF is considering to use MMT for loan disbursements and/or repayments

International experience: Tamweelcom clients repay loans with Zain-e-Mal
Tamweelcom is an MFI (NBFI) in Jordan with 57,000 clients. It offers group loans to women, individual/SME loans and insurance. It started using mobile payments from Zain e-Mal in 2011. Loans can be disbursed to or repaid from the M-wallet of Zain e-Mal. As of November 2011, about 8,000 transactions had been performed. The main challenge is to convince the sometimes illiterate and somewhat technology-averse women clients to use the new channel. Furthermore, Tamweelcom branches act as agent for Zain e-Mal (model 1).
### 3 scenario’s in detail

**Scenario 2: using MMT to better service your existing MFI-products**

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Disadvantages</th>
<th>Requirements</th>
<th>Implementation effort</th>
</tr>
</thead>
</table>
| - Increased efficiency, especially in remote areas where clients live far from branches (decrease of fixed costs)  
- Increased client convenience  
- Reduction of operational risks (fraud, security of loan officers,..)  
- Positive impact on image (innovation)  
- Easier mobilisation of deposits (savings) via MMT | - Increase in variable costs (in case MFI pays the cash-out fees)  
- Risk of loss of direct interaction with clients  
- You do not control the quality and liquidity of MMT agents | - High managerial focus  
- Back-end automation, to integrate with MMT platform  
- Customer call center, to contact in case of problems  
- Chosen MMT platform(s) should interact with Clients SIMs | - Large impact on current operations (IT interfaces, business process redesign, product redesign, staff training, etc)  
- Commitment of staff for new services  
- Education of MFI clients about MMT (especially at the start) |
3 scenario’s in detail
Scenario 3: setting up your own MFS

- Launch your own MMT platform, integrated with your own MIS/scorebank system
- Clients can make balance and transaction enquiries and directly transact on their account. They can make P2P transfers to other registered users
- In many cases this also implies setting up an agent network where customers can cash-in and cash-out

The experience in Sierra Leone
- SMT is considering to acquire its own platform. It will be focused only on domestic money transfer over the counter at agents, who can use a mobile device to perform the transaction. It will not offer the full suite of products such as; P2P or bill payments.

International experience: XacBank offers M-banking with AMAR
Xacbank is a community development bank and MFI in Mongolia, a country with an extremely low population density. Xacbank has 190,000 depositors and around 75,000 borrowers. In 2009 it launched its own M-banking system AMAR. It is linked to Xacbank accounts and offers the possibility to make account-to-account transfers, remittances and bill payments, as well as loan repayments. More than 70% of the 35,000 M-banking subscribers are located outside the capital Ulaanbataar and the majority of the 2,500 agents are in the rural areas. In November 2011 Xacbank reported 6,000 active users, covering 2% of total Xacbank transactions. The main challenge for Xacbank is to activate the clients and the agents to use the M-banking services.
3 scenario’s in detail
Scenario 3: setting up your own MMT platform

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Disadvantages</th>
<th>Requirements</th>
<th>Implementation effort</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Increase of income (receipt of all customer fees)</td>
<td>▪ High financial costs (US$ 0.5 - 3 mln CAPEX)</td>
<td>▪ Only feasible for large MFIs (with bank license)</td>
<td>▪ You have to set up and manage an agent network</td>
</tr>
<tr>
<td>▪ Efficiency gain, especially in remote areas</td>
<td>▪ Strong managerial resources and attention</td>
<td>▪ Strong managerial resources and attention</td>
<td>▪ Large impact on current operations (IT interfaces, business process redesign, product redesign, staff training, etc)</td>
</tr>
<tr>
<td>▪ Better control of the MMT platform</td>
<td>▪ Full back-end automation and MIS system, to integrate with MMT platform</td>
<td>▪ Full back-end automation and MIS system, to integrate with MMT platform</td>
<td>▪ Commitment of staff for new services</td>
</tr>
<tr>
<td>▪ Positive impact on image (innovation)</td>
<td>▪ Large scale of transactions, to justify investment</td>
<td>▪ Large scale of transactions, to justify investment</td>
<td>▪ Education of MFI clients about MMT (especially at the start)</td>
</tr>
</tbody>
</table>
III. In summary
In summary
Do not underestimate the investment in order to realise the benefits of MMT.

<table>
<thead>
<tr>
<th>SCENARIO</th>
<th>Requirements</th>
<th>Implementation Effort</th>
<th>Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario 1: becoming an agent</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Scenario 2: using MMT to improve your products</td>
<td>Medium</td>
<td>Medium/High</td>
<td>Low</td>
</tr>
<tr>
<td>Scenario 3: setting up your own MMT platform</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>

Do not underestimate the investment (time and money) in order to realise the benefits of MMT, especially for scenario 2 and 3.
## In summary
**SWOT of Scenario's for Mobile Money Transfer and MFIs**

### Strengths
- Nr of 100 branches (all MFIs together, of which 60% rural)
- Most MFIs have cash in branches
- Sufficient capacity in branches (space, staff)
- Trust relationship between the MFI and 124,000 clients

### Weaknesses
- Low liquidity levels in some MFIs, often as a matter of policy (this can be adapted)
- Weak IT and MIS and limited innovation capacity
- Low connectivity of branches to Internet
- Opening hours of MFIs branches are limited (but better than banks)
- Low presence of MFIs in some rural areas
- Low profitability (scenario 2 and 3 require high investments)
- Sometimes weak staff capabilities at branch level

### Opportunities
- Splash and Airtel Money are in urgent need of agents, especially in rural areas
- Huge untapped potential: 3.3 million domestic remittances through informal channels
- Demand for more convenient payments in rural areas
- BSL allows MFI to act as agents
- Increase of income from MMT agent commission
- Cross selling of MF products

### Threats
- Low take up of MMT products in SL
- High demand for cash-out will put strain on liquidity
- MMT implementation requires high involvement of management is required
- The MMT platform should be able to work on the clients’ SIM cards
- Large efforts to educate clients is time consuming

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**PHB Development**

**Cordaid**

**BUILDING FLOURISHING COMMUNITIES**
Different scenario’s can be distinguished for the role that MFIs can play in the MMT ecosystem.

The different scenario’s vary in the direct costs they imply and the benefits and revenues they generate for the MFIs. In general, scenario 1 (becoming an agent) has lower requirements and implementation effort then Scenario 2 and 3. But it also offers less control over the MMT solution.

In Sierra Leone, the following examples were found:

**Scenario 1: Becoming an agent for MMT**
Hope is an agent for Splash since 2011, and performs Splash client registrations and cash-in and cash-out transactions. Ecobank is in the process to become an agent for Airtel money.

**Scenario 2: using MMT to better service your existing MFI-products**
Hope started to use Splash in 2009 for loan repayments but it quickly shifted to use it for disbursements only. Currently all loans are disbursed using Splash. Ecobank MF is considering to use MMT for loan disbursements and/or repayments.

**Scenario 3: setting setting up your own MFS platform**
SMT is considering to acquire its own platform. It will be only for domestic money transfer (over the counter) at agents, who use a mobile device to perform the transaction. It will not offer the full suite of products such as P2P or bill payments.

In Sierra Leone, Splash and Airtel Money are in urgent need of agents, especially in rural areas. At the same time, the MFIs have a large network of about 100 branches (of which about 60% rural). Also, most MFIs have cash operations and sufficient space and staff capacity in their branches. Finally, they have a trust relationship with 124,000 clients.

Therefore, for MFIs it is recommended to consider becoming an agent (scenario 1). In some cases, MFIs may also want to consider using MMT for repayments or loan disbursements. However, before deciding to step into MMT, a careful consideration of benefits and costs, requirements and implementation efforts needs to be considered by MFIs (preparing a business case).
Thank You

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