SECTOR BRIEF SENEGAL:

Microfinance

Introduction and Overview

Today, more digital financial services are provided in Africa than in any other region of the world. This is a result of the introduction and growth of digital financial services, which has led to an unprecedented increase in the number of people who have access to formal financial services.

Mobile money solutions and agent banking provide affordable, instant and reliable transactions, savings, loans and even insurance options in rural villages and urban neighbourhoods where no bank has yet established a branch. This transformation to provide banking at the doorstep of a large segment of the population is impactful and cuts across multiple layers of society.

About a decade after the emergence of digital financial services as well as digital transformation in Africa, the continent is beginning to reckon with the huge benefits and ripple effects of this transformation. What makes a difference to a small business owner or a small farmer leads to broader gains for countries like Senegal, where digitalisation is one of the major drivers in the national economy and growth. The aspiration behind the economic plan is to bring new life to the sector, by creating new growth drivers and sources to the players on the market, and thus increase the digital sector's contribution to GDP to 10 % by 2025. In Senegal, getting small and medium sized enterprises (SMEs) to play a driving role in the Senegalese economy will create growth. Currently, 300,000 SMEs (90 % of businesses in Senegal) account for only 42 % of total employment and 33 % of total value added.

These SMEs are faced with multiple challenges, with access to tailored financial services being identified and reported as one of the key challenges. To understand and address this challenge, it should be viewed in the context of the overall digital transformation across the continent:

SMEs as a result of their informal nature have generally been ignored by banks and large financial institutions. Microfinances have traditionally filled in this gap and focused on this segment, with slow, but increasing degree of success.

The impressive growth in financial inclusion in Sub-Saharan Africa over the last few years has been driven primarily by mobile money and agent banking. Traditional banks have played close to no role. In most of the cases where this increase in financial inclusion has occurred, this has been preceded by the key elements of digital financial services – mobile money and agent banking.

To predict and influence the role of SMEs in the Senegalese economy, it is therefore important to fully understand the impact of the digitalisation within the context of Microfinance.

Differentiating Key Aspects of Digital Financial Services

As with the emergence of every new technology trend, there are a multitude of articles addressing digital financial services that have unfortunately blurred the lines between the different terms and overloaded others. It is important to create a good baseline definition for the most important key words.

- **Digital Financial Services (DFS):** a broad range of financial services accessed and delivered through a variety of digital channels, including payments, credit, savings, remittances and insurance.
- **Agent Banking:** a third-party business that is engaged to provide customers with a selection of financial services, often including deposit and withdrawal, on behalf of a financial service provider.
- **Mobile Money:** a type of electronic money (E-Money) that is transferred electronically using mobile networks and SIM-enabled devices, primarily mobile phones. The issuer of mobile money may, depending on local law and the business model, be a Mobile Network Operator (MNO), a financial institution or another licensed third-party provider.
- **Mobile Wallets:** an account that is primarily accessed using a mobile phone, usually provided by a non-bank and linked to a pooled bank account which holds the associated funds.
- **Bank-to-Wallet:** transactions between bank accounts and mobile wallets.

Overview of the Digital Finance Sector in Senegal

Country Overview – Senegal

Senegal has a population of just over 15 million, and more than half of the people (56 %) live in urban areas.

Unemployment is high, and most jobs are in the agricultural sector which employs over three-quarters of adults and contributes 17 % of GDP. The youth population is large and growing, with more than 60 % under 25 years old.

Formal financial inclusion is very low at 15 %, and most banks are cautious about extending their reach via DFS.

For several years Senegal has had successful local over-the-counter (OTC) services that are widely used to send money and to pay bills. The two main services are both locally owned and operated.

The largest is Wari, offered by Cellular System International, which was also the first to be launched in 2008 as a low-cost alternative to Western Union for domestic remittances.

The regulatory environment in Senegal is generally supportive of the development of DFS. BCEAO (Banque centrale des états de l'Afrique de l'Ouest), the regional regulator for the WAEMU (West African Economic and Monetary Union) region, allows licensed organisations to operate as e-money issuers (EMI), but they must partner with financial institutions to offer savings and loans. Banks do not need an EMI license.

World Bank, Findex	
Any account ownership, adult population, 2017	42%
Any account ownership, women, 2017	38%
Any account ownership, young adults (15–24 years), 2017	34%
Financial institutions account, adults, 2017	20%
Mobile money account, adults, 2017	32%
Saved at a financial institution, adults, 2017	7%
Saved semi-formally, in a savings dub or with person outside the family, adults, 2017	24%
Borrowed formally, from an institution or credit card, adults, 2017	8%
Borrowed from freinds and family, adults, 2017	30%
Poverty rate, 2011	38%

In addition, DFS agents mandated to be non-exclusive to the DFS provider, levelling the playing field for new entrants from start-ups.

GSMA	
Unique mobile network subscribers, 2017	8.4 m
Mobile penetration rate, 2017	53%
BCEAO, AFSD	
Volume of MM transactions, 2016	72,673,296
Value of MM transactions, 2016	1,044 m US $
Registered mobile money users (wallets), 2016	4,408,487
Number of agents, 2016	39,172

The MNO Orange Money service is offered in 60 % of agents. A constraint for OTC services is that the customers do not have an account where money can be held and self-service transactions performed. For these reasons, despite the service they offer to the unbanked, OTC services are generally not included in financial inclusion statistics.

Overview of Financial Sector

Banking Sector

According to the central bank of west African states, there are a total of 30 banks and semi-banks in Senegal as of 31st December 2020. Senegal has the second largest number of banks, second only to Ivory Coast, though its population is far smaller than that of Ivory Coast.

Country	Banks	Financial Institutions (semi-banks)	TOTAL
BENIN	14	1	15
BURKINA	15	4	19
CÔTE D'IVOIRE	29	2	31
GUINEA BISSAU	5	0	5
MALI	14	3	17
NIGER	14	4	18
SENEGAL	26	4	30
TOGO	14	3	17
TOTAL WAEMU	131	21	152

Common Products in the Microfinance Sector

Most of the analyzed microfinances offer classical products that may have different commercial names, but basically could be simplified to:

- Savings
  - Savings accounts
  - Termed deposits
- Loans
  - Microloans
  - Classical loans

Significantly absent/under-represented from most microfinances are so-called micro-savings or "daily savings" services using field agents to collect micro-savings from SMEs at their doorsteps.

Key Challenges Facing Senegal regarding Microfinance Institutions (MFIs)

Duality of Threat and Opportunity Posed by Mobile Money

There are concerns to varying degrees about the very dominant role Orange Money is playing in the Senegalese market space, and it has been confirmed that there had been internal discussions as to the benefits and threats of a partnership with Orange Money.

On the positive side, Orange Money brings the following advantages:

- Ubiquity
- Ease of access with vast network of customers
- Simple in-country transfer

However, it is an open industry secret that most Mobile Money providers already have plans in their drawers to launch a digital microfinance that shall frontally compete with the existing market players.

With the ease of use for customers comes loss of contact and closeness to customers: Customers simply withdraw from their microfinance accounts (Bank-to-Wallet) and perform all transactions and value-added services outside of the microfinances.
The consequence being:

- Microfinances have less understanding of consumer patterns
- Microfinances struggle to design new products for the consumers
- Mobile Money Operators (MMOs) have better data to score consumers
- MMOs have a much stronger negotiating position.

This problem is further compounded for SMEs with special business financing needs who are not catered for by MMOs, but are increasingly being less accessible to microfinances.

Wide Gap Between Big vs Small MFIs

The majority of the top 10 microfinances that are supervised by the central bank and make up about 75 % of the savings volume (but not customer base) are large enough to invest into or attract investment for their digital financial strategies. There are indications that they have undertaken or are planning to undertake significant digitisation initiatives.

However, the remaining 270+ institutions are struggling massively to implement their digitisation strategies. As mentioned above, the CTI (Senegalese Computer Processing Centre) initiative to provide group solutions to these microfinances is struggling due to underfinancing, know-how to implement these strategies as well as lack of investment.

Infrastructure Challenges Slowing Down Digitisation

High costs of internet as well as poor connectivity outside of the key urban areas are a factor that is limiting digitisation in microfinances that are serving SMEs and farmers in rural areas.

USSD (Unstructured Supplementary Service Data) technology that is usually used to fill this gap seems to be still prohibitively high. All microfinances, fintechs and technology partners interviewed confirmed that they were not offering, planning to offer or build any such products as the costs make the services unprofitable.

According to the central bank BCEAO, the telecoms regulator body, ARTP (Autorité de Régulation des Télécommunications et des Postes (ARTP)) has reduced these tariffs two times in the last three years. A step that seems to be insufficient.

Limited Use of Data Science for Decision Making

Across the board, there is very limited use of data science tools such as big data, data lakes, machine learning to support decision making and business insights. Of the market participants interviewed, only two had or were planning to implement data analytics projects. The key challenges identified include:

1. A lack of understanding of the importance or value of data science to microfinances
2. A shortage of expertise in the marketplace
3. A lack of pre-requisites (IT infrastructure) that lay the groundwork for such implementation
4. A lack of financial resources to implement these solutions

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"New Markets – New Opportunities: A Guide for German Companies" is supported by the Federal Ministry for Economic Cooperation and Development (BMZ).
All issues are published on the websites of GTAI and GIZ. You can find selected issues, for example on Senegal also at

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