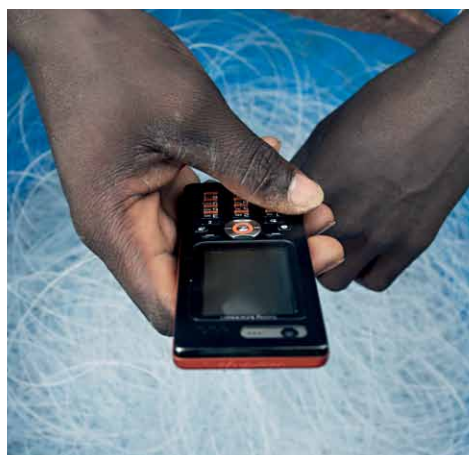# Mobile Money for the Unbanked

Innovative Inclusion:

How Telesom ZAAD Brought Mobile Money to Somaliland

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Introduction

In June 2009, Somaliland's leading mobile network operator (MNO) Telesom launched Telesom ZAAD, the country's first mobile money service. Since then, the service has gained significant traction: in June 2012, almost 40% of Telesom GSM subscribers were active users of Telesom ZAAD. What is most striking about the service is the level of activity on the mobile money platform. Active Telesom ZAAD users perform over 30 transactions per month on average, far above the global average of 8.5 per month.[1] Telesom ZAAD is one of the 14 GSMA Mobile Money Sprinters[2] and is recognised as one of the most successful mobile money services in the world.

The World Bank's Global Financial Inclusion Database (Findex) recently revealed that Somalia was one of the most active mobile money markets: 26% of the population reported using mobiles to pay bills, which is the highest rate in the world, and 32% to send and receive money. Most of this mobile money activity has been driven by Telesom ZAAD.

This case study details the success of Telesom ZAAD and the factors underlying this success. The objective for Telesom's mobile money service, in the words of its CEO, has always been to bring financial inclusion to Somaliland. It was this vision that drove the company to offer their service to customers for free, and it has produced a number of other unique outcomes as well, which are discussed in the first section of the case study.

To transform its vision of financial inclusion into a reality, Telesom's strategy has been to develop the mobile money ecosystem around Telesom ZAAD. This ecosystem is focussed on solving two issues faced by mobile money services around the world: getting money into the system and then keeping it there. Most mobile money services are still functioning as a money transfer service, with customers withdrawing all their funds from the system as soon as they receive them. However, Telesom ZAAD has succeeded in convincing users to keep money in their e-wallets by building an ecosystem of salary payers and merchants. Exactly how the

ecosystem works and how the business is structured is discussed in section two of the case study.

The results of this original and ambitious mobile money strategy are presented in section three. These results frame a discussion of how successful Telesom ZAAD has been at functioning as a cash replacement. The case study concludes with a brief discussion of the challenges facing Telesom ZAAD as they evolve their service over the coming years.

SECTION 1
Developing a mobile money strategy for Somaliland

Telesom is the leading MNO in Somaliland with close to 1 million mobile connections (about 85% market share). Founded in 2002, Telesom is a privately held company owned by 1,500 shareholders – all Somalilanders who live locally or abroad. The Telesom CEO, Abdikarim Mohamed Eid, was also one of the seven founders of Telesom and he has been driving Telesom's works for the past 12 years.

There is no formal banking infrastructure in Somaliland and no internationally recognised banks operate there. Mr. Abdikarim Mohamed Eid and his management recognised the negative impact that the lack of formal financial services were having on Somaliland's economy and that there was an opportunity for Telesom to address this issue through Telesom ZAAD. Their broader vision was to bring financial services to Somalilanders, while on

a strategic level the service was initially designed as a customer retention tool.

LEARNING FROM M-PESA AND ADAPTING THE MODEL TO SOMALILAND
Prior to launching Telesom ZAAD, a team of senior Telesom officers travelled to Kenya and Tanzania to study Safaricom's and Vodacom's M-PESA services. They learned a lot about the model, but identified some aspects of the services that would not translate to Somaliland. Telesom decided to adapt the M-PESA model to its country context in three distinct ways.

- **Making the service free.** In an interview with MMU, Mr. Abdikarim Mohamed Eid told us, "We decided to offer the service for free. The M-PESA business model was not applicable in the context of Somaliland where people are very poor and not familiar

with mobile money." Telesom ZAAD aimed to achieve an active rate of 40% of their GSM customer base before revisiting that policy.

- **Using in-house agents.** Telesom decided to utilise its own distribution network and not to recruit external agents. This meant relying on the stores it already owned and operated with salaried employees. This decision was driven in part by the fact that there was no formal banking infrastructure or suitable chain of

retail stores/businesses in Somaliland equipped to deliver the service or to provide an adequate distribution solution for Telesom ZAAD. Since mobile money was a completely new concept in Somaliland, Telesom management also realised that it would be challenging to convince external agents to offer the service. For both these reasons, Telesom decided to use its own outlet network as mobile money agents.
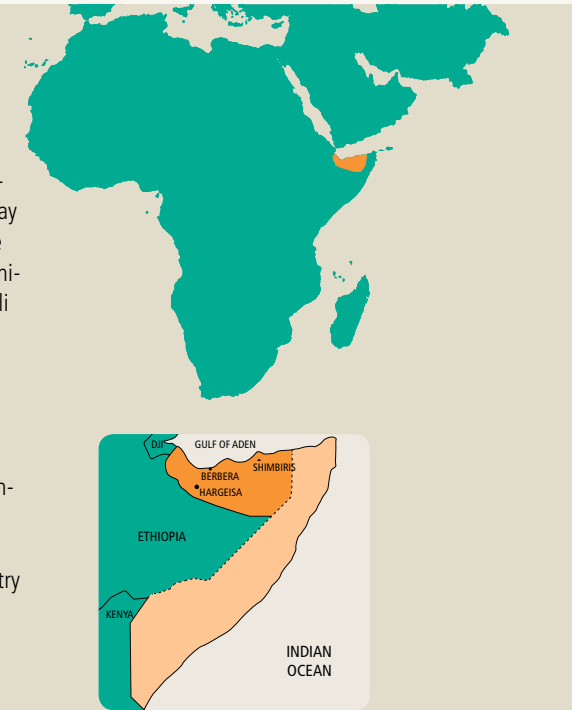
- **Including merchants from the start.** While Telesom has offered money

SOMALILAND
FACTS AND FIGURES

Somaliland is a small territory located in the Horn of Africa. In May 1991, after years of civil war, the people of Somaliland declared unilateral independence from Somali Democratic Republic. Although Somaliland is not recognised as a country by the international community, it has developed its own governing institutions and currency and it functions independently from the rest of Somalia. Constitutionally, the Republic of Somaliland is a democratic country with a multi-party system.

Telecommunications in Somaliland

Telecommunications is one of the most dynamic and innovative industry sectors in Somaliland, but it is also very competitive. There are four MNOs operating in Somaliland alone and seven more in the rest of Somalia. Mobile penetration is less than 45% and fierce competition has led MNOs to offer some of the world's cheapest mobile rates.[b] The telecommunications industry is investing heavily in this region to improve connectivity; 3G has already been rolled out in some regions and the port city of Berbera will soon be connected to the Eastern Africa Submarine Cable System via Djibouti.

POPULATION IN 2010

3.85m

55% OF SOMALILANDERS ARE NOMADS

700,000 PEOPLE LIVE IN HARGEISA, THE CAPITAL CITY.[a]

YEARLY PER CAPITA INCOME

$250-$350[a]

NATIONAL EMPLOYMENT RATE

52.6%[a]

GDP

$1.05b

NOMINAL PRICE

$2.10b
(PPP)[a]

OFFICIAL CURRENCY
SOMALILAND SHILLING. WHILE SOMALILAND SHILLINGS ARE WIDELY USED FOR SMALL VALUE TRANSACTIONS, SOMALILAND IS A DUAL CURRENCY MARKET AND US DOLLARS ARE WIDELY USED AND GENERALLY MORE TRUSTED.

a Ministry of National Planning and Development, Somaliland, 2012, "Somaliland In Figures." http://slministryofplanning.org/images/somaliland-in-figures/somaliland-8edition.pdf (accessed 5 April 2013).

b World Bank Data

	SAFARICOM'S M-PESA	TELESOM'S ZAAD
CUSTOMER OUTREACH STRATEGY	AGENTS ARE THE KEY POINTS OF CONTACT BETWEEN SAFARICOM AND ITS CUSTOMERS. • HAS CLOSELY MONITORED THE RATIO OF CUSTOMERS TO AGENTS SINCE LAUNCH • ABOUT 260 REGISTERED CUSTOMERS PER REGISTERED AGENT (MARCH 2013)[c]	MERCHANTS ARE THE KEY POINTS OF CONTACT BETWEEN TELESOM AND ITS CUSTOMERS. • STABLE RATIO OF CUSTOMERS TO MERCHANTS SINCE LAUNCH • ABOUT 43 REGISTERED CUSTOMER PER REGISTERED MERCHANT
DISTRIBUTION STRATEGY	USE BOTH INTERNAL AND EXTERNAL AGENTS FOR CASH-IN/CASH-OUT; MOST M-PESA AGENTS ARE EXTERNAL AGENTS	ONLY USE TELESOM'S STORES FOR CASH-IN/CASH-OUT
PRODUCT STRATEGY	FOCUS ON DOMESTIC P2P TRANSFERS	FOCUS ON MERCHANT PAYMENTS AND SALARY PAYMENTS
BUSINESS MODEL	PAYING SERVICE; M-PESA REPRESENTS 18% OF SAFARICOM'S REVENUES	FREE-OF-CHARGE SERVICE; FOCUS ON INDIRECT REVENUES

TABLE 1
A comparison of Safaricom's M-PESA and Telesom's ZAAD

transfer as a core product from the start, management saw an opportunity for goods and services payments to spur growth and to help the company keep up with its growing numbers of customers. As a result, merchant acquisition took the place of agent acquisition in the Kenyan model.

INVESTMENT AND RETURNS
From the very start, Mr. Abdikarim Mohamed Eid's commitment to the service was matched by strong investment: "We decided early on to invest heavily in the service. We knew customer education would be difficult as the level of financial literacy in Somaliland was far behind that in either Kenya or Tanzania."

An open book approach to budgeting was taken in the first year to get the service off the ground. One quarter of the initial investment of US$ 1 million[4] was put into developing the in-house platform using Telesom's own coding and development expertise. Since Telesom ZAAD has always been treated as a separate business from Telesom's core GSM business, it has had its own dedicated business unit from the start. Another half of the initial investment was used to build and equip the Telesom ZAAD head office where the team now works.

The investment strategy takes on a new light when the business model was dis-

cussed: Telesom ZAAD has been a free-to-use service from the start. Although this is both a financial and strategic decision, it is driven by a commitment to financial inclusion and the recognition that customer education would pose a major challenge to the success of the service.

From a financial perspective, although Telesom decided to offer its mobile money service for free, the company was able to quickly recoup its initial investments from indirect revenues:

- Savings on airtime distribution have been significant, with almost 70% of Telesom airtime sold over Telesom ZAAD in April 2013 rather than through scratch cards. These savings amounted to US$ 2 million in 2012, $1.8 million in 2011, and $865,000 in 2010.

- Telesom also measure increased airtime sales due to Telesom ZAAD. This represents the difference between projected sales growth and actual growth. In 2010 soon after the launch of the service, Telesom registered a 33% increase in airtime sales, 22% in 2011 and 17% in 2012.

- Finally, Telesom managed to reduce customer churn from 5% before the launch of Telesom ZAAD to 2% in 2013.

OVER
70%
OF TELESOM AIRTIME IS SOLD OVER MOBILE MONEY

4 This figure of US$ 1 million is in line with most other mobile money sprinters. See Claire Pénicaud, 2013, "State of the Industry: Results from the 2012 Global Mobile Money Adoption Survey," GSMA Mobile Money for the Unbanked Programme, available at: http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2013/02/MMU_State_of_industry.pdf

5 Safaricom fiscal year 2013 results, available at: http://www.safaricom.co.ke/images/Downloads/Resources_Downloads/FY_2013_Results_Presentation.pdf

Given the fierce competition over price for voice and SMS, indirect revenues have become essential and Telesom ZAAD is giving Telesom an important competitive distinction.

SHOULD MORE MOBILE MONEY PROVIDERS BE OFFERING THEIR SERVICES FOR FREE?

Although it might seem attractive given Telesom ZAAD's success, offering mobile money for free is not enough to drive customer adoption by itself, and mobile money providers need to carefully weigh the pros and cons before adopting this business model.

Fierce competition and price wars over voice and SMS strongly influenced Telesom's decision to build Telesom ZAAD as a retention tool and to offer it for free. While this certainly contributed to the quick uptake of the service, other factors contributed to Telesom's success as well: Telesom is one of the most recognisable and trusted brands in Somaliland and one of the biggest employers.

Telesom is not the only provider to offer mobile money for free. Services in other regions of Somalia have also adopted this strategy. Other African providers also currently offer or have offered free P2P transfers: Stanbic in Nigeria, yu in Kenya, and Airtel in Tanzania, among others.

### CUSTOMER DUE DILIGENCE PROCEDURES IN SOMALILAND

The Central Bank of Somaliland was inaugurated in 1994. When Telesom ZAAD was launched in 2009, there was no e-money regulation in place and Telesom was granted a remittance license. Since the remittance regulation does not provide specific guidelines on the provision of mobile money services, Telesom decided to take a proactive approach to identifying and implementing customer due diligence (CDD) procedures. To mitigate the risk of the service being used for financial crime, Telesom adopted CDD procedures that are compliant with the international guidelines issued by the Financial Action Task Force (FATF).

All Telesom ZAAD customers are subject to identification procedures that confirm their identity. If the customer is a company or firm, Telesom ensures it is properly constituted and that all direct and ultimate shareholders or beneficiaries are identified as fit and proper persons with whom to do business.

Following the FATF recommendation to adopt a risk-based approach to customer due diligence, Telesom created two types of ZAAD customer accounts: ordinary accounts with a balance limit of US$ 2,000 and high-value accounts. To open an ordinary account, a customer must visit one of Telesom's stores and show an identity document, such as a passport, driving license, or other valid identification document. Since there is no formal nationally issued ID in Somaliland, many customers do not have an identification document. Those customers can sign up for the service if they are referred by a local chief or well-known businessperson, who must provide written confirmation of their identity.

Every customer's proof of identity is copied and stored digitally by Telesom, together with a photo of the customer. This allows all agents to check the identity of any registered Telesom ZAAD customer every time the customer performs a cash-in or a cash-out, when their image appears on the agent's computer screen. All agents have a personal computer connected to a central database and are also able to tag any new customer they register as "low risk" or "high risk", based on an interview during the registration process. The transactions of high-risk customers are closely monitored by Telesom ZAAD, which verifies the source of funds to ensure they match the customer's information, business, and risk profile.

Telesom ZAAD has appointed an AML reporting officer and deputies who are responsible for ensuring that Telesom ZAAD agents and the rest of Telesom staff are vigilant in detecting and preventing illegal activities. Telesom ZAAD regularly monitors and reviews the appropriateness, effectiveness, and adequacy of its KYC compliance policy and procedures. All Telesom ZAAD agents and Telesom staff are trained at least once a year on KYC compliance to ensure that they understand and are committed to upholding Telesom ZAAD's compliance policy and procedures.
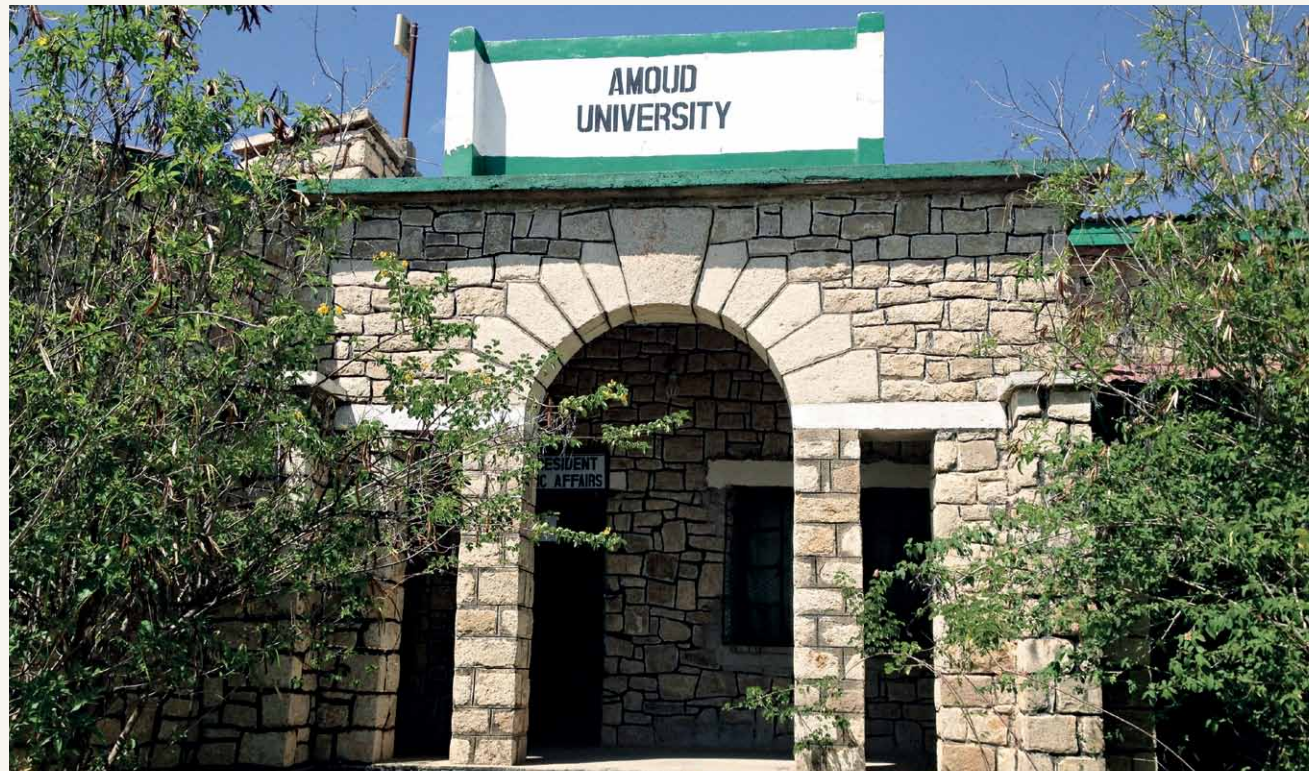
SECTION 2

Implementing an effective distribution strategy and creating the mobile money ecosystem

Understanding the socio-economic characteristics status of Somaliland was an important starting point in the development of Telesom ZAAD's distribution strategy. In order to realise their vision of delivering financially inclusive services, Telesom chose to use a wallet-based mobile money service with a focus on keeping cash in the system. To do this, they focussed on developing a strong mobile money ecosystem around the service, which has informed its approach to both products and distribution.

COMMITMENT TO MERCHANT PAYMENTS AND SALARY PAYMENTS
Telesom ZAAD was launched with a focus on salary payments and merchant payments. The idea was to create a mobile money system that did not require service users to repeatedly cash-in and cash-out. Instead, Telesom ZAAD users would regularly receive money in their wallet (their salary, for example), maintain a small balance, and use it for daily transactions, such as paying for goods and services. In order

CONVINCING MERCHANTS AND INSTITUTIONS TO MAKE AND ACCEPT PAYMENTS USING TELESOM ZAAD

Kaah Electric Power Company

Kaah is the main electricity provider in Somaliland. Before the launch of Telesom ZAAD, Kaah employed 50 bill collectors who collected payments door-to-door. This system was not only unsafe for the bill collectors, it also lacked the traceability and transparency the company needed to monitor its payments properly. Kaah's customers could also go to the company office to pay their bill with cash, but this was not a convenient solution. Soon after Telesom ZAAD launched in 2009, Kaah allowed its customers to pay their electricity bill with mobile money. Today, 85% of Kaah's 12,000 customers use Telesom ZAAD to pay their electricity bill.

In 2010, Kaah began paying the salaries of its 400 employees through Telesom ZAAD. Abdirahman Farah Jama from Kaah's finance department told us that employees were very satisfied with this new system as they no longer need to go to the headquarters to pick up their salaries every month, and can use Telsom ZAAD to make payments and transfers remotely when they work in other areas of the country.

Amoud University

Amoud University in Boroma is Somaliland's oldest university and one of the most reputable. Amoud only accepts Telesom ZAAD as a means of payment for the tuition fees of its 3,000 students. Three hundred of Amoud's 450 employees receive 100% of their salary through Telesom ZAAD and all suppliers to the university are paid using Telesom ZAAD.

According to Ahmed Abdullahi Boqorre, the VP of Administration at Amoud, "Using Telesom ZAAD has saved us time and money and added traceability and transparency to our accounting systems. Students pay fees in installments so we can quickly track payment, which we could not before." Amoud required their suppliers to move to Telesom ZAAD for payment and the larger suppliers, in turn, have required their suppliers to convert to Telesom ZAAD as well.

Approach to corporate users

Acquiring Kaah and Amoud as corporate users was strategically very important to Telesom, as their reach and influence would filter down to others through suppliers, employees, and customers.

Telesom is committed to working closely with their corporate clients and has developed customised platform features for their business. For example, when Amoud University asked Telesom ZAAD to develop a new feature on their web-based interface, they were quick to react. As Ahmed Abdullahi Boqorre explained, "We requested a filter feature to allow us to search via student number and pull up all transactions. This was not a field Telesom ZAAD offered as standard but they turned it around very fast for us."

to promote both products successfully, Telesom concentrated its efforts on two target groups: merchants and employers.

In the beginning, the team spent a lot of time educating merchants about the service. Telesom also offered free handsets to new merchants as an incentive to accept payments via Telesom ZAAD, but they quickly halted this program as merchants

started to come to Telesom ZAAD even without the incentive. When Telesom ZAAD was launched in June 2009, 170 merchants had already agreed to accept payments via mobile money. Merchants were encouraged to use the e-money in their account to buy Telesom products instead of cashing out, which has helped to keep money in the system. Many mobile money services struggle to get customers

to maintain balance but Telesom have been very successful.

Today, two members of the Telesom ZAAD team are dedicated to merchant supervision and monitor their activities on a daily basis. They also identify merchants with limited activity and visit them to understand why.

The Telesom ZAAD team knew that convincing employers to pay salaries through mobile money would be particularly challenging since mobile money was so new to Somaliland. Telesom decided to lead the way, and two months before the commercial launch of Telesom ZAAD, it started to pay its 1,430 employees exclusively with mobile money. This was a bold decision – most mobile money providers that want to push salary payments start by paying only a small percentage (usually between 5% and 10%) of their employees' salaries using mobile money. This helped to convince other companies to start paying their employees using Telesom ZAAD.

Telesom also wanted their employees to become brand ambassadors and to start using Telesom ZAAD to pay their rent, buy goods and services, and transfer money. As relatively high net-worth customers to their local businesses, Telesom employees promoted the service very effectively. To encourage uptake by word-of-mouth, Telesom trained all its employees on Telesom ZAAD so that they were fluent in using and promoting the new service.

MOBILE MONEY DISTRIBUTION
Telesom ZAAD has taken a unique approach to mobile money distribution by not relying on external agents. Telesom decided to use its own retail stores exclusively to register new customers and offer cash-in and cash-out services. As mentioned earlier, this approach has been possible due to the unique market conditions in Somaliland and Telesom's strong presence and brand recognition.

Telesom operates 178 of its own retail outlets distributed around Somaliland, which has been sufficient to reach its subscriber base. The 20 largest stores, which Telesom calls "dealers", are responsible for managing the liquidity of the smaller stores. In the Telesom ZAAD model, people who work for stores that facilitate

TELESOM ZAAD'S CURRENT PRODUCT OFFERINGS

Transfers:

- Domestic money transfer

- Inter-network money transfer

- International money transfer

Payments and disbursements:

- P2B – purchases (shopping); educational institutions (school fee payments); health service providers (charge collection); utility providers (monthly bills for electricity, water, waste, TV, etc.)

- B2B – businesses (purchases and bill payments)

- B2P – payroll and bulk payments, expenses

- Airtime, Internet data recharges

Conversion transactions:

- Cash-ins and cash-outs

cash-ins and cash-outs, as well as dealers who supervise smaller stores, are all Telesom employees. As such, they receive a monthly salary from Telesom. Offering a high-quality mobile money service is one of their objectives and their bonus depends on whether or not they are able to reach their mobile money targets.

Interestingly, dealers are also responsible for recruiting and supervising merchants. This reflects the importance of merchants in Telesom ZAAD's business structure. For Telesom, agents and merchants are the two ways customers can directly interact with the company, and both groups are seen as equally important. All Telesom ZAAD staff are trained to use the service when they are hired and then given refresher training each following year. This training has ensured that staff knowledge and customer service levels are kept very high. Weak links in the value chain are also discovered and
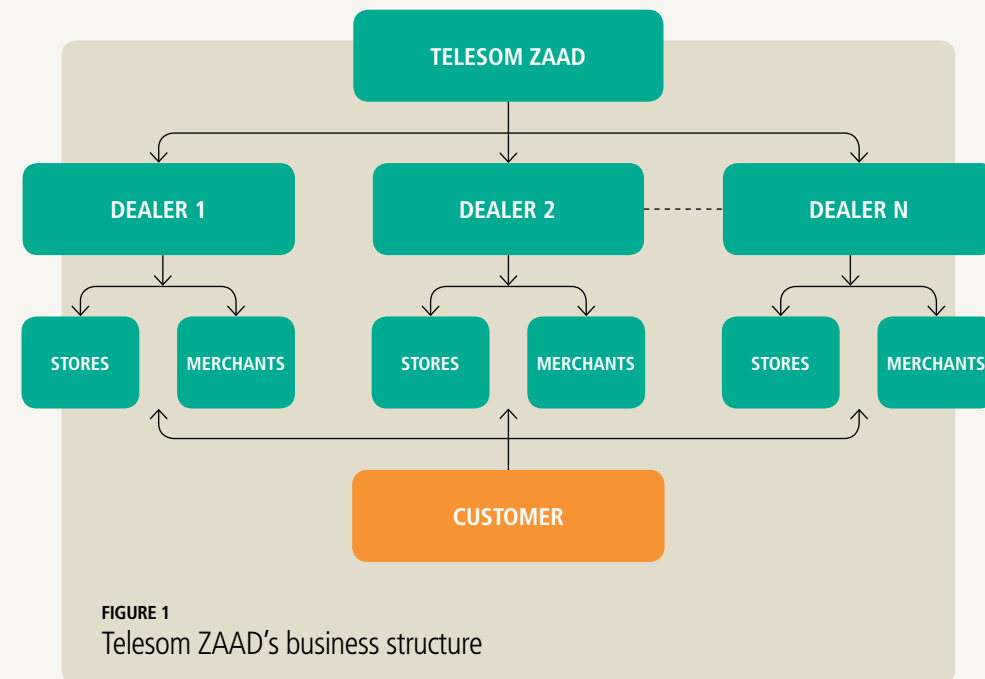
FIGURE 1
Telesom ZAAD's business structure

identified quickly which, in addition to the in-house distribution system, preserves trust in the Telesom ZAAD brand.

THE WIDER ECOSYSTEM
Focussing on the ecosystem has meant that Telesom ZAAD has had to connect with other key financial service stakeholders, including money changers (also called currency exchangers) and neighbouring mobile money services.

Because the Telesom ZAAD platform uses only US dollars, money changers are an important part of the extended mobile money ecosystem. Telesom ZAAD customers often

need to change Somaliland shillings into dollars before they can perform a cash-in into their Telesom ZAAD account. Telesom ZAAD users can either go to a Telesom store to do this, or they can go to one of Somaliland's 6,500 money changers. When they go to a money changer, Telesom ZAAD users simply have to bring Somaliland shillings and ask for the equivalent amount in US dollars to be deposited into their account. This is performed as a traditional P2P transfer since money changers also have standard customer accounts. Every time they put dollar value into a Telesom ZAAD wallet, money changers are helping to facilitate and expand mobile money transactions.

Money changers on a Hargeisa street

FIGURE 2

Subscriber growth over time

SECTION 3
Results of the strategy

BUILDING AN ACTIVE SUBSCRIBER BASE

Telesom has put a lot of focus into build-ing an active subscriber base, for both cus-tomers and merchants. These efforts were quickly rewarded – just one year after the launch of Telesom ZAAD, over 70% of subscribers were actively using the service. The active subscriber rate has remained at the same level ever since and has never fallen below 70 percent.

It is interesting to note that both the cus-tomer base and the merchant base have always grown hand-in-hand. Since the launch of Telesom ZAAD in June 2009, Telesom has maintained a ratio of approxi-mately 43 registered customers per regis-tered merchant. In April 2013, over 368,000 customers and 8,600 merchants were registered on Telesom ZAAD and 275,000 of these were active. This represents 35.6% of Telesom's GSM base.

GROWING TRANSACTION VOLUMES (JUNE 2009 TO APRIL 2010)

Figures 3 and 4 show the growth in vol-ume of Telesom ZAAD's major products: P2P transfers and bill and merchant pay-ments.[6] Both charts show a similar growth curve and there is a noticeable point of inflection in April 2010.

The service was launched in June 2009, and by April 2010 awareness of the service had reached a tipping point. The impact of its marketing campaigns in rural villages became noticeable and the service began to take off. Telesom was also agile enough to respond to changing market conditions: a drought in Somaliland during this period prompted various emergency response NGOs to use Telesom ZAAD to disburse payments. This flexibility combined with extensive marketing campaigns produced exponential growth in April 2010 (this

tipping point is visible in Figures 3 and 4). Anecdotal evidence suggests that cus-tomers and merchants began to come to Telesom ZAAD naturally, indicating that their strategy to develop an ecosystem was starting to pay off.

At the end of March 2010, less than a year after launch, Telesom ZAAD had already reached usage levels that were either slight-ly higher than global averages for transfers, disbursement, and payment transactions, or in line with global averages for cash-ins and cash-outs (see Figure 5).

35.6%
PERCENTAGE OF TELESOM GSM SUBSCRIBERS WHO ARE ACTIVELY USING ZAAD
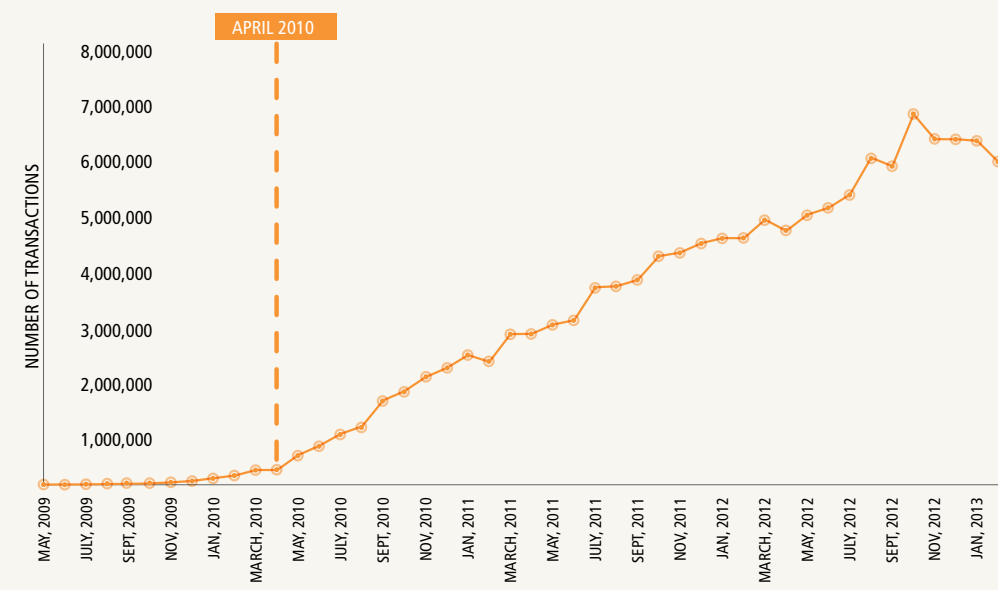
FIGURE 3

Growth in Telesom ZAAD customer-initiated P2P transactions over time

6 P2P transfers and salary payments have the same identification codes in Telesom ZAAD's platform, which does not allow these types of transactions to be differentiated in the database. The same applies for bill payments and merchant payments.
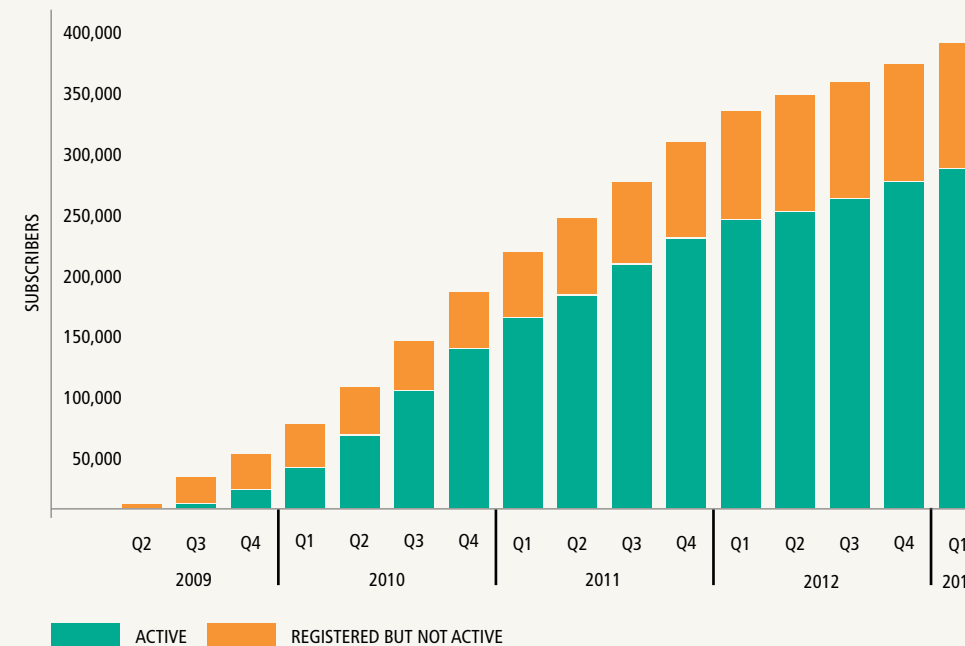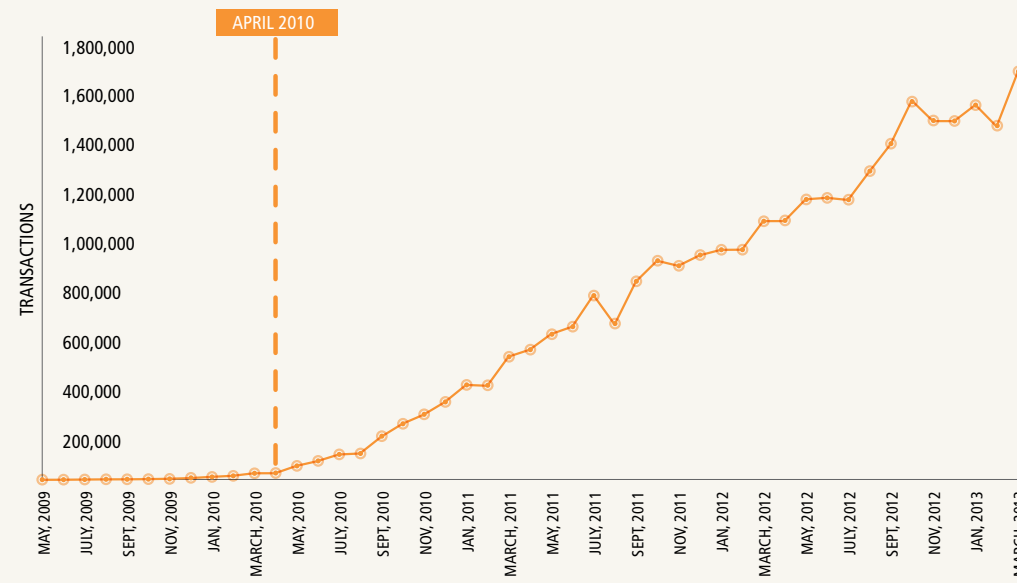
FIGURE 4

Growth in Telesom ZAAD bill and merchant payment transactions over time

41

NUMBER OF TRANSACTIONS PER ACTIVE USER OF ZAAD IN MARCH 2013

- GLOBAL AVERAGE IN JUNE 2012
- AVERAGE FOR MOBILE MONEY SPRINTERS IN JUNE 2012
- ZAAD IN MARCH 2010
- ZAAD IN MARCH 2013
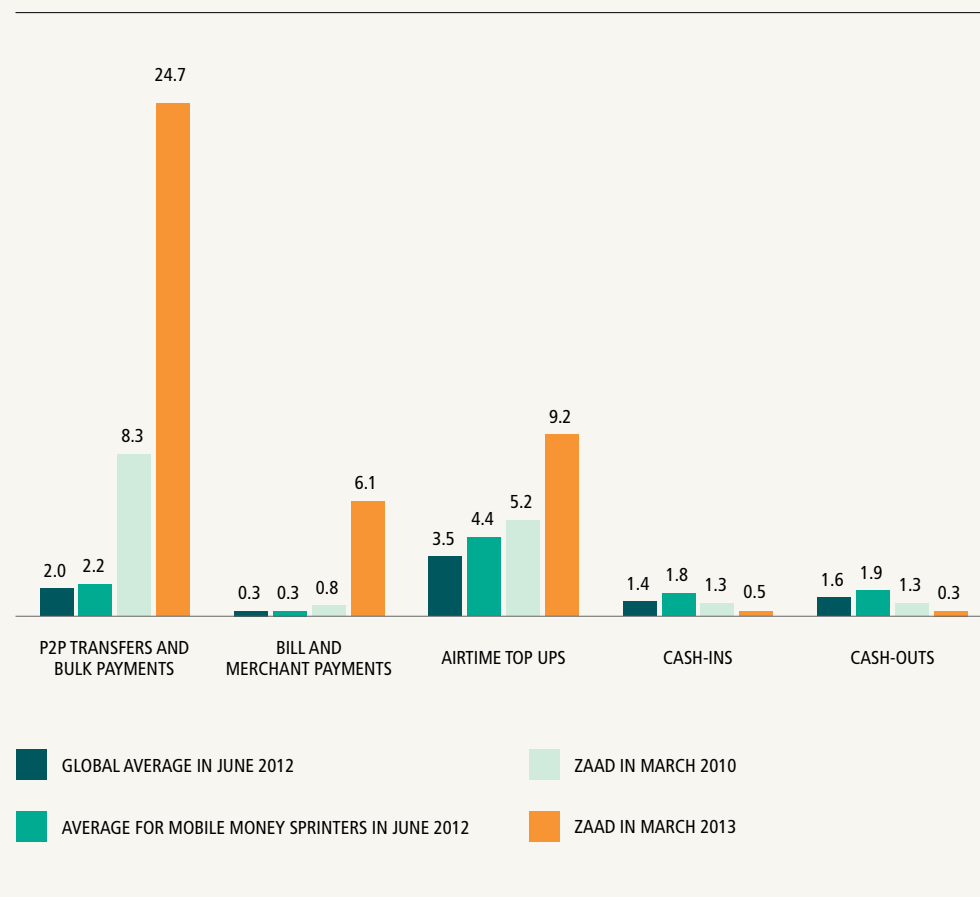
FIGURE 5

Average number of Telesom ZAAD transactions per active user[7]

CASH REPLACEMENT

Mobile money services all over the world have struggled to develop their service into something more than a simple remittance tool. As outlined previously in the paper, Telesom has succeeded in getting their customers to keep money in their Telesom ZAAD wallets and to use mobile money instead of cash for a variety of everyday transactions.

What benefits does cash replacement actually bring?

For customers, mobile money offers a secure and convenient alternative to cash. By giving consumers secure and immediate access to all of their funds on demand, Telesom has significantly improved the ability of consumers from Somaliland to make better buying decisions. For the private sector, mobile money has improved the ease of business transactions, particularly by improving traceability and giving merchants access to a large pool of customers with a means of easy payment. Finally, for central banks, digitising transactions brings increased transparency, reduced production costs, and better visibility into the economic environment.

TELESOM ZAAD AS A CASH REPLACEMENT TOOL (APRIL 2010 TO MARCH 2013)

In March 2013, customer usage of the service had surpassed the averages of mobile money sprinters. Each active customer on average performed almost 25 P2P transfers and just over six bill payments in March 2013 alone. Meanwhile, the frequency of cash-ins and cash-outs declined from 1.3 to 0.5 respectively in March 2010 and 1.3 to 0.3 in March 2013. These are clear signs that Telesom ZAAD is evolving into a cash replacement tool.

Telesom ZAAD's ecosystem strategy and focus on salary payments and merchant payments have clearly worked. Customers are getting money into the system through other means than just cash-in, and the money is staying in the system. Instead of cashing out, Telesom ZAAD users keep a balance in their account and use

TRANSACTION TYPE	TOTAL NUMBER OF TRANSACTIONS	TOTAL NUMBER OF TRANSACTIONS PER ACTIVE SUBSCRIBER[8]	TOTAL NUMBER OF SUBSCRIBERS PERFORMING A TRANSACTION	PERCENTAGE OF SUBSCRIBERS PERFORMING A TRANSACTION[9]
P2P TRANSFER INITIATED BY A CUSTOMER	6,507,315	24.2	244,405	66.4%
P2P TRANSFER INITIATED BY A MERCHANT AND SALARY PAYMENT	294,912	46.8	5,162	59.9%
AIRTIME TOP-UP	2,478,010	9.2	184,796	50.2%
CUSTOMER BILL PAYMENT AND MERCHANT PAYMENT	1,652,150	6.1	160,548	43.6%
MERCHANT TO MERCHANT PAYMENT	29,593	4.7	3,825	44.4%
CUSTOMER CASH-IN	147,479	0.5	53,558	14.6%
CUSTOMER CASH-OUT	78,359	0.3	28,956	7.9%
MERCHANT CASH-OUT	3,435	0.5	755	8.8%

TABLE 2

Total transactions on Telesom ZAAD in March 2013

this balance to conduct transfers or make payments. This point is confirmed upon examination of the cash-in and cash-out curves that appear in Figure 6.

While customer cash-ins have continued to increase in volume since April 2010, the rate of increase has slowed down, and almost three years on the total volume is 250% greater. Customer cash-outs, on the other hand, have increased just 50% since May 2010.

Evidence of the success of Telesom ZAAD as a cash replacement can be encapsulated neatly by examining the average balances of customers' accounts. On 31 March 2013, 59% of customers had a positive balance in their Telesom ZAAD account, $37 on average. Telesom's analysis of account balances over time indicates that customers are now comfortable maintaining balances, as they understand there are multiple ways to use the funds. Retail merchants are also keeping money in the system – 83% of maintain a positive balance of $352 on average.

One way to assess the extent to which a mobile money service has been adopted is to look at how money flows into, through, and out of the system. In the case of Safaricom's M-PESA, from October 2012 to March 2013, US$ 5.3 billion entered the system through cash-ins and $4.6 billion exited through cash-outs. The total value of all transactions in the system (transfers and payments excluding cash-ins and cash-outs) during this period was $6.2 billion. This means that every dollar cashed in moved through the system 1.2 times as a transfer or a payment before exiting the system. As a comparison, that ratio was just over 4.1 for Telesom ZAAD during the same period.

All evidence seems to indicate that Telesom is the first mobile money provider to create a mobile money system that is functioning effectively as a cash replacement tool.

> **TELESOM IS THE FIRST MOBILE MONEY PROVIDER TO CREATE A MOBILE MONEY SYSTEM THAT IS FUNCTIONING AS A CASH REPLACEMENT TOOL**
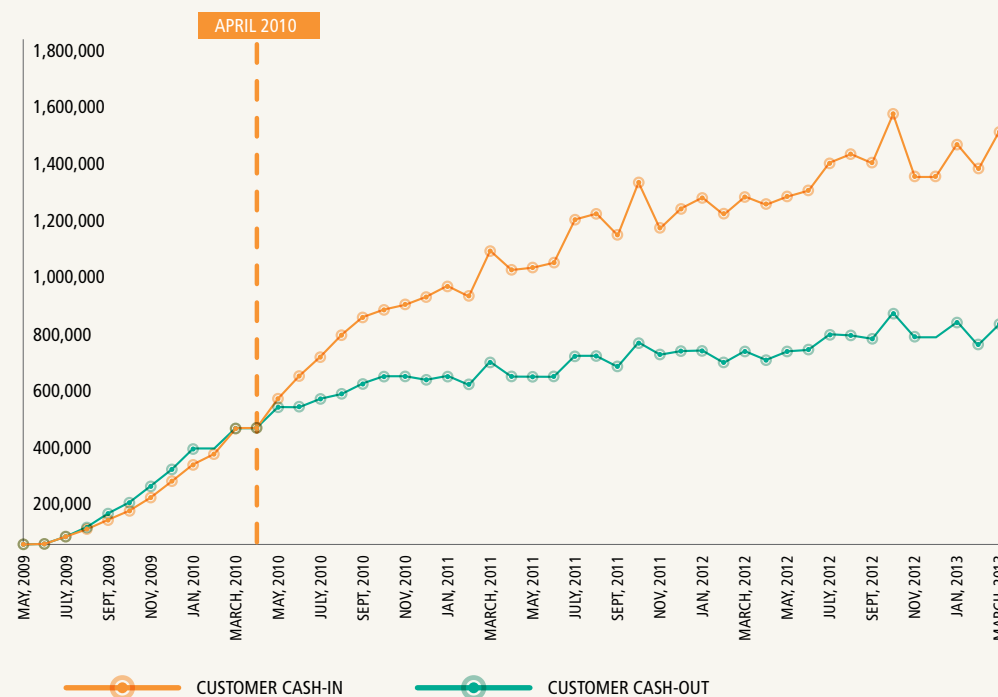
> **4.1**
> RATIO OF AMOUNT OF MONEY BEING TRANSACTED TO AMOUNT BEING CASHED-IN

M-PESA

USD 6.19b

X 1.18   X 1.34

USD 5.26b   2   USD 4.62b

1   3

ZAAD

X 4.12   X 4.56

1   2   3

1. MONEY ENTERING THE SYSTEM THROUGH A CASH-IN
2. MONEY MOVING INTO THE SYSTEM AS A P2P TRANSFER, BILL PAYMENT, MERCHANT PAYMENT, AIRTIME TOP-UP, ETC.
3. MONEY LEAVING THE SYSTEM THROUGH A CASH-OUT

Note: M-PESA figures are sourced from Safaricom fiscal year 2013 results, available at: http://www.safaricom.co.ke/images/Downloads/Resources_Downloads/FY_2013_Results_Presentation.pdf

FIGURE 7
M-PESA and Telesom ZAAD usage (October 2012 – March 2013)

APRIL 2010

1,800,000
1,600,000
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,000

MAY, 2009 | JULY, 2009 | SEPT, 2009 | NOV, 2009 | JAN, 2010 | MARCH, 2010 | MAY, 2010 | JULY, 2010 | SEPT, 2010 | NOV, 2010 | JAN, 2011 | MARCH, 2011 | MAY, 2011 | JULY, 2011 | SEPT, 2011 | NOV, 2011 | JAN, 2012 | MARCH, 2012 | MAY, 2012 | JULY, 2012 | SEPT, 2012 | NOV, 2012 | JAN, 2013 | MARCH, 2013

CUSTOMER CASH-IN   CUSTOMER CASH-OUT

FIGURE 6
Growth in cash-in and cash-out volumes over time

Conclusion

Telesom has learned from the experiences of successful mobile money services in neighbouring countries and applied these lessons to Somaliland's unique cultural and socio-economic context. Apart from the no-fee business model and internal distribution network, the major difference in Telesom's approach is its commitment to salary payments and merchant payments. The results have been extremely encouraging; Telesom has created a new model for mobile money whereby customers are encouraged to keep money in the system rather than cashing it out.

Telesom ZAAD will soon be facing some major challenges, however.

First, Telesom ZAAD's active customer base recently reached 40%, and its initial plan was to revise the free-to-use business model once customer usage reached this level.

- Should Telesom start charging customers to use the service?

- What could Telesom do to mitigate possible customer drop-off once charges are introduced?

Second, although the number of Telesom ZAAD customers and customer usage continue to increase, the pace has started to slow. Telesom ZAAD now must answer the same questions that many other mobile money services are asking:

- How can mobile money usage be increased among existing customers? What new services would attract new customers?

- How can new segments of the GSM subscriber base be reached?

Telesom is also discussing how they could increase their footprint in the market by extending their network of cash-in/cash-out points and recruiting external agents, which prompts these questions:

- What kinds of challenges would managing external agents create, given Telesom ZAAD's current business structure?

- How could Telesom leverage the ecosystem around Telesom ZAAD to create new cash-in/cash-out points?

Telesom ZAAD has clearly been very successful in bringing financial services to unbanked people. Its mobile money service has changed the way people do business in Somaliland by making transactions easier, faster, and more secure. The MMU team will continue to work closely with Telesom ZAAD and to learn from them as they continue to grow and overcome new challenges.

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