

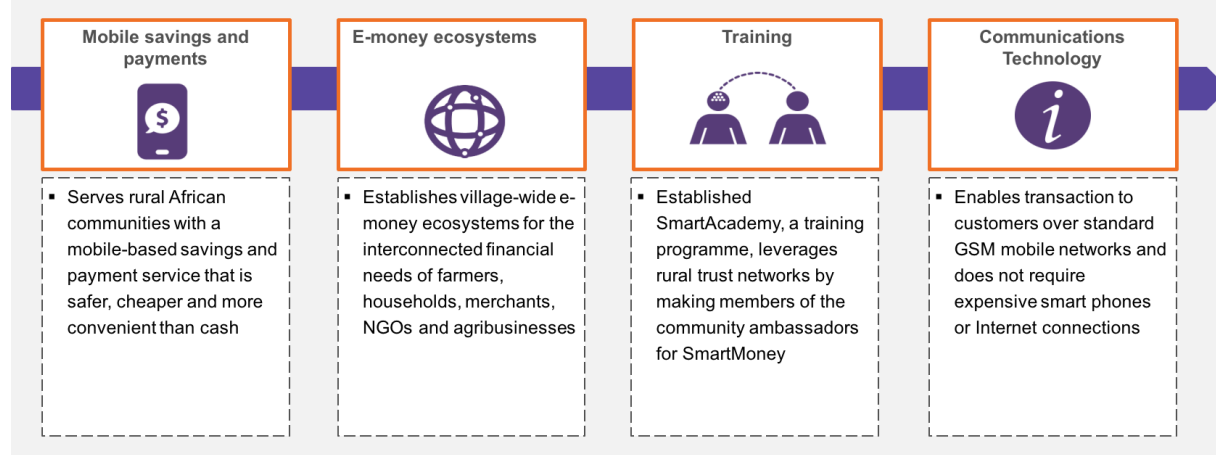
CASE STUDY: SMARTMONEY

SmartMoney

Founding year: 2012
HQ: Kampala, Uganda
Countries of operation : Uganda, Tanzania
Orientation: For-profit
Employees: 80 full-time, 150 part-time
Turnover: USD 10,000 (projected for 2016)

Transporting cash over long distances to make payments is dangerous and expensive. Storage of cash presents other problems such as theft, violence, rampant corruption.

SmartMoney is a mobile money company with experience developing mobile money solutions. It economically empowers smallholder farmers by promoting savings, increasing security and reducing payment costs. SmartMoney pioneers a unique model geared at driving uptake among rural customers and market access to these retail customers to rural institutions. The business model is based on providing free retail services to farmers and rural households while generating revenue from institutional customers such as agribusiness and bank. SmartMoney generates revenue from payment customers (agriculture companies, schools, churches) and deposits (currently marketing fee from banks).



Operating Model

Theft is prevalent and banks are practically non-existent across rural Africa. Transporting cash over long distances to make payments is dangerous and expensive. The lack of secure places to store cash increases the vulnerability of rural farmers to theft and the temptation to spend, and they find it difficult to save the money they work so hard to earn. SmartMoney, a third party provider of mobile money, aims to digitize payments to various actors across the agricultural value chain, and thus, eliminate the transactional costs and risks from dealing in cash.

SmartMoney reduces costs from transportation and risks of theft for both farmers and agribusinesses.

SmartMoney was founded in 2012 with initial capital of USD 500,000 provided by its founder, Michael Borse. Agribusinesses can use SmartMoney’s web interface to transfer electronic funds into the mobile wallet of their intermediary buyers. These buyers purchase crops by transferring money to the mobile wallets of the farmers. Farmers can choose to cash out from another SmartMoney user or maintain the stored value in the mobile wallet and pay cashlessly at rural shops, schools or transfer money to other retail customers. Other users of SmartMoney include retail customers (e.g. farmers) as well as rural merchants such as rural shops, restaurants, butchers, kiosk vendors, input suppliers, and cooperatives. SmartMoney has an agent network to infuse liquidity into its digital payments ecosystem. SmartMoney’s rural merchants are fundamentally

Households can simply swap e-money for cash among neighbors (Community Exchange) - no agents, no fees.

different from conventional mobile money “agents” – SmartMoney does not pay them commission. Instead, it trains them on the benefits of using e-money and provides incentives such as inventory payments through the SmartMoney application. Nearly 95 percent of SmartMoney merchants have switched over from using cash for inventory payments to electronic transactions.

SmartMoney has partnered with the Ministry of Trade, Industry and Cooperatives (MTIC) to introduce the service to more than 13,000 cooperatives throughout the country. Together with the MTIC point of contact, SmartMoney conducted pilots in northern and eastern Uganda and began implementation in August 2013 with coffee and cotton buyers in the Kasese district in western Uganda. The five SmartMoney community operations managers (COMs) serve as relationship managers for the SmartMoney CICO retail shops, SACCOs, cooperatives, large buyers and users. The COMs also manage the 38 independent community representatives (CRs) who register new users on a fee-per-new-user basis that illustrates the potential of digital payments to boost job creation.

The SmartMoney sales and marketing team works with selected large buyers to determine their cash usage behaviour patterns, their intermediary buyers, as well as their farmers. This analysis of the entire cash value chain considered the number, frequency and average amount of transactions incurred by a large buyer. As of August 2014, SmartMoney entered into a contractual relationship with four large coffee buyers.

By driving the use of cashless payments and savings among all key economic stakeholders within a remote rural community, SmartMoney establishes holistic village-wide electronic money ecosystems, called E-Village. These ecosystems address the diverse and interconnected financial needs of farmers, households, merchants, schools, agriculture companies, NGOs and other rural institutions. SmartMoney customers can purchase goods such as salt, sugar and sodas at more than 2,600 rural merchants across Uganda and Tanzania. To drive large scale awareness, trust and usage, SmartMoney has also developed “SmartAcademy”, a comprehensive training programme that leverages existing rural institutions and trust networks (cooperatives, schools, churches) to cost-effectively deliver training to rural households and farmers. SmartAcademy's constituency managers recruit and train institutional registration agents who in turn train and register retail customers. Institutional registration agents are drawn from SmartMoney's partners such as agriculture companies, schools, churches and NGOs.

Another major differentiating factor is that SmartMoney facilitates access from all available mobile networks through USSD, which allows farmers without internet-enabled smartphones to transact using SmartMoney as well. SmartMoney reaches a large number of rural customers with a proprietary cloud-based platform designed to work with the minimum bandwidth and technology available in rural communities – a low-cost GSM mobile phone and a SIM card. No smartphones or internet access are required.

SmartMoney operates with cotton ginneries in Tanzania serving 750,000+ farmers. In Uganda, it partners with the Ministry of Industry, Trade & Cooperatives to introduce SmartMoney to their 13,000 cooperatives throughout the country. The Ministry works with local SmartMoney staff to travel around the country to register farmers in cooperatives and SACCOs involved in coffee, maize, fish, fruit and dairy. It has also partnered with USAID and GIZ that help SmartMoney partner with offtakers. It also works with churches, NGOs, savings group, schools, women SHGs and local churches to help mobilize the Ugandan farmers and build the trust among customers.

Financial Sustainability

SmartMoney offers the retail savings and payment services to farmers free of cost. By additionally providing training and setting up holistic e-money ecosystems in remote rural communities, SmartMoney is able to drive uptake of digital finance at scale across rural markets. SmartMoney

covers this cost through the institutional payment services which generate fee revenues from large rural economic actors (agriculture companies, schools, traders) as well as through marketing fees that SmartMoney charges its partner banks for mobilizing rural deposits on their behalf.

SmartMoney has two revenue streams - payments and deposits. It charges off-takers (agribusinesses), and not the farmers. It collects a 3 percent fee from the agribusiness each time they transfer money, while there is no withdrawal fee for farmers. SmartMoney provides a wallet to farmers for cash-in and cash-out. On deposit side, it works with banks to help them with last-mile access to rural areas. Thus, it acts as the marketing front-end for its partner banks, who pay marketing fees, which is around 9 percent of the deposit.

Agricultural buyers are expected to replace cash payments with e-payments only if the e-payment solution is accepted by and affordable to rural households. SmartMoney is uniquely positioned to offer these actors tailored institutional payment services and generates revenue from these actors (which are SmartMoney's "institutional customers"). For agriculture companies, the solution provides the added benefit of strengthening farmer loyalty, as E-Village provides tangible value to rural farming households (free of charge savings and payment services). SmartMoney is able to negotiate a minimum fee of 3 percent of each institutional payment transaction.

Rural staff, training and transport are the major costs. SmartMoney incurs cost on training retail customers to use their payment solution and imparting financial literacy to them. SmartMoney also invests in training the agribusinesses. It incurs capital expenditure on vehicles (for awareness visits to churches, motorcycles) and marketing material. The enterprise also invests in updating its MIS, and is seeking to use in-house data of agribusinesses for rebalancing and reconciliation. SmartMoney has received donor funding from the MasterCard Foundation for Rural Prosperity and the Africa Enterprise Challenge Fund.

Impact

SmartMoney increases overall savings capacity by allowing rural farmers and households to pay for goods and services at local businesses with their mobile phone, thereby reducing the need to travel with cash to make payments. This allows users to not only save productive time, but also allocate more money to savings. An M&E team on behalf of the MasterCard FRP / KPMG estimates the costs savings to amount to USD 120 per retail household per year. Farmers can benefit through free and convenient access to mobile money transfer service, using it to make a number of transactions such as paying school fees at the schools that have partnered with SmartMoney.

SmartMoney services more than 100,000 farmers in Uganda and around 40,000 in Tanzania.

Agribusinesses can also benefit from cost savings by removing expenses associated with handling cash. Cash handling costs are typically 7 percent-20 percent of annual turnover in the countries where SmartMoney works, as compared to the 3 percent fee charged by SmartMoney to its partners. SmartMoney also increases efficiency, employee safety and transparency for large rural financial institutions by eliminating cash handling and disbursement.

For larger cash-out needs, SmartMoney retail shops provide robust liquidity because they take in cash for the sale of goods. These shops earn no commission, but they have multiple other benefits as a SmartMoney service centre. When liquidity is properly managed, disbursing cash-outs helps them manage their cash balances downward, reducing their risk of theft and their trips to a financial institution to deposit cash. Conversely, making electronic deposits to a financial institution allows them to manage their electronic float. Other SmartMoney shops that provide a wholesale function are strategically positioned at the junctions or crossroads between the village and the densely

populated corridor on the main road. The village shop can place a voice call to the 'wholesale' shop to order three boxes of laundry detergent and then make a SmartMoney transfer to pay for the soap and a one-way motorcycle taxi transport. A key benefit is that the sole employee/owner does not need to close the village shop in order to physically procure more stock and the 'wholesale' shop increases its sales volume.

The increased foot traffic of SmartMoney users presents the opportunity to cross-sell agricultural financial products and services, increase membership, and improve loan tracking for any loans they disburse on SmartMoney. They also benefit from information provided on SmartMoney's radio, print and billboard advertising.

Challenges and Lessons

The major challenge for SmartMoney is building trust with small-holder farmers who are skeptical about formal financial services. To overcome this barrier, SmartMoney works with rural trust networks including agriculture companies, catholic and protestant churches, and NGOs to build trust within local communities. SmartMoney also faces barriers such as low density of population, poor infrastructure of electricity and roads, and regulatory ambiguity in mobile money.

Road Ahead

SmartMoney is opening 750 new customer accounts per day, and further expansion to additional districts in Uganda is already underway. SmartMoney also plans to apply for a banking license so that it is able to have more flexibility to invest customer deposits, and on-lend customer deposits. It has detailed cash flow data on rural merchants who use the e-money to accept retail payments and to restock, as well as on its institutional customers such as agribusinesses. In addition, it has established relationships with larger customers who have expressed the demand for loans. This data from savings and payment services provide an excellent foundation for future lending.