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## Remitplus™ Factsheet

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## SIERRA LEONE

**June 2018**

# Remitplus™ Fact Sheet –SIERRA LEONE

## 1. Introduction: Commitment to Reducing the Cost of Remittances

Advocating for remittance transfers that are cheaper, safer, faster, reliable and legally-compliant has become a global common interest.

African and European leaders have made a number of commitments to reducing the transaction costs of remittances to 3% or less, and to identify and eliminate remittance corridors, such as from Europe to much of Africa, that have transfer costs higher than 5% by 2020. Moreover, both the SDGs (specifically Target 10c) and the Addis Ababa Action Agenda (AAAA) have incorporated this as a target. The potential gains from this could be as high as \$20 billion in resources flowing directly to households.

Numerous international and regional commitments, policies, and agreements demonstrate the importance of reducing the costs of remittances, such as the SDGs<sup>1</sup>, Valletta Action Plan 2020<sup>2</sup>, and Urgent Action in Africa. The **Nairobi Action Plan**<sup>3</sup> on remittances, agreed by the Government of Kenya, the African Institute for Remittances (AIR - a specialized Technical Office of the African Union Commission), AFFORD and the Africa-Europe Diaspora Development Platform (ADEPT) in July 2016, further highlight the importance of reducing the cost of remittances and sets out actionable commitments to achieve this.<sup>4</sup>

In addition to reducing costs, it also commits to ‘implement the remittance provisions of the **Valletta Action Plan** by identifying corridors for remittance transfers where the partners commit to substantially **reduce the costs by 2020**, from Europe to Africa and within Africa’.

The Nairobi Action Plan further “urges remittance stakeholders including: migrants and diaspora, Money Transfer Organisations, commercial banks, central banks, governments and regional and international regulatory authorities; to work together in a **transparent and purposeful manner, in order to facilitate and ensure that effective cost reduction tools and techniques that are currently in use, are made available for immediate adoption and implementation in countries that have high remittance costs**”.

Finally, the Action Plan also “urges African governments of countries which have high remittance costs, to adopt and implement actions to **reform regulation, facilitate competition, promote interoperability, create social enterprise MTO platforms and stimulate innovation in the money transfer sector, using effective mechanisms that have been tried, tested and implemented in low cost corridors**”.

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<sup>1</sup> <http://indicators.report/targets/10-c/>

<sup>2</sup> <https://www.rabat-process.org/images/RabatProcess/Documents/valletta-action-plan-2015-monitoring-rabat-process.pdf>

<sup>3</sup> <http://www.adept-platform.org/wp-content/uploads/DDD5-Nairobi-Action-Plan-on-Remittances-28-July-2016-1.pdf>

<sup>4</sup> <http://www.adept-platform.org/wp-content/uploads/DDD5-Nairobi-Action-Plan-on-Remittances-28-July-2016-1.pdf>

## 2. Sierra Leone Country Context

Sierra Leone was one of the fastest growing economies in Africa until the Ebola epidemic, since then the annual growth rate has slowed to an average annual rate of 4.3% in 2017 from 6.3% in 2016, and 7.8% over the period 2003-2014. Sierra Leone's economic growth slowed largely due to weak recovery in mineral production. Inflationary pressures eased owing to relative stability of the exchange rate, and the tight monetary policy stance of the Bank of Sierra Leone. Fiscal outturn deteriorated in 2017 due to a shortfall in revenue mobilization and spending overruns in all the major expenditure categories.

The government is trying to improve Sierra Leone's restrictive regulatory environment, inadequate infrastructure, and weak enforcement of contracts<sup>5</sup>. The financial system remains in recovery mode post-civil war and post-Ebola and lacks the capacity to provide sufficient credit for the type of entrepreneurial business activity needed to reduce dependence on diamond production<sup>6</sup>.

The Sierra Leone Conference on Development and Transformation was tasked with rethinking the development path of the country in order to chart a new trajectory that would take the country to middle-income status by 2035<sup>7</sup>.

Sierra Leone's vision 2035<sup>8</sup>, aspires to be a middle-income country with an inclusive society where:

- The rule of law prevails and that provides increased opportunity that leads to a stable economy, with private sector-led growth and good infrastructure to turn a good idea into a profitable business.
- A key trade hub in West Africa, with a leading agri-business sector focused around value added products and a growing services industry.
- A model in responsible natural resource exploitation for other African nations to emulate.
- A recognized player in the sub region and integrated into the global system with advantageous term the ability of citizens to support the agenda of delivering their development.

## 3. Sierra Leone Remittances fact and figures

According to the Bank of Sierra Leone, the data on remittance flows, however, are substantially understated due to the large scale of use of informal/unregulated channels, as a result of a combination of several factors, including the high cost of sending money to and remittances flows within Africa. Indeed, despite significant achievements in lowering transfer costs, remittances to and within the continent remain the most expensive in the world by a substantial margin.

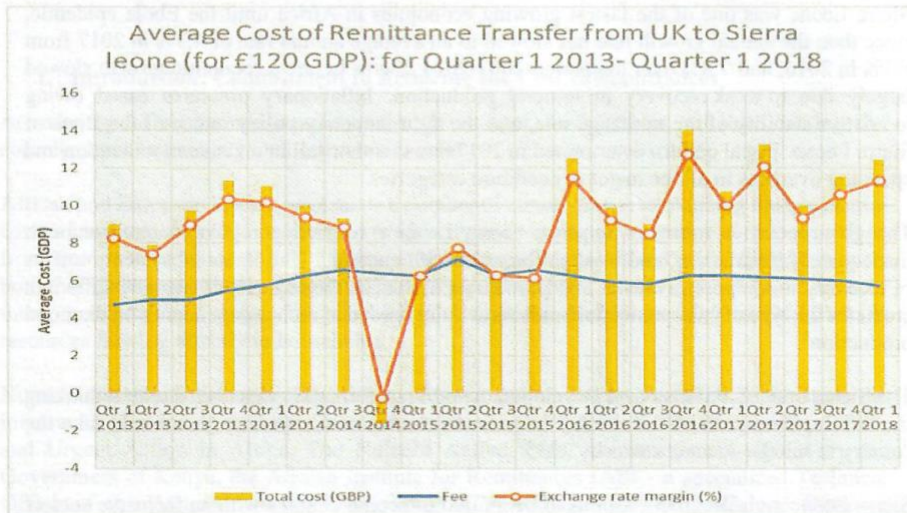
<sup>5</sup> <https://www.heritage.org/index/country/sierraleone>

<sup>6</sup> <https://www.heritage.org/index/country/sierraleone>

<sup>7</sup> [https://www.humanitarianresponse.info/sites/www.humanitarianresponse.info/files/assessments/national\\_conference\\_final\\_report\\_vol\\_1.pdf](https://www.humanitarianresponse.info/sites/www.humanitarianresponse.info/files/assessments/national_conference_final_report_vol_1.pdf)

<sup>8</sup> [https://www.afdb.org/fileadmin/uploads/afdb/Documents/Development\\_Effectiveness\\_Review\\_In\\_Sierra\\_Leone/CDER\\_Sierra\\_Leone\\_En\\_Level\\_1.pdf](https://www.afdb.org/fileadmin/uploads/afdb/Documents/Development_Effectiveness_Review_In_Sierra_Leone/CDER_Sierra_Leone_En_Level_1.pdf)

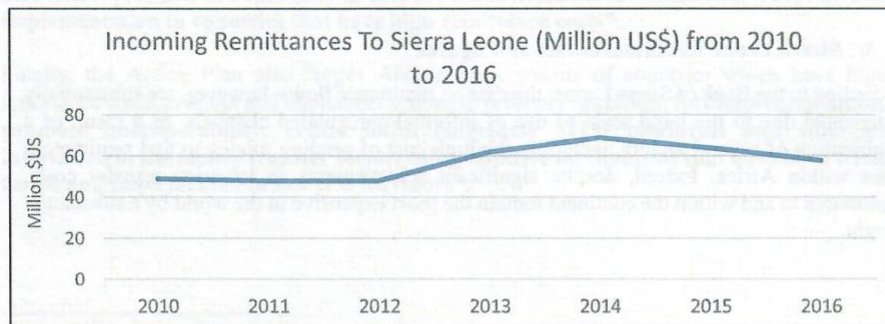
**Fig. 1 Average Cost of Remittance Transfer from UK to Sierra Leone 2013-2018**



Source: World Bank

Fig 1 below sets out the total amounts remitted to Sierra Leone over the last 5 years, based on World Bank data. Remittance flows to Sierra Leone forms an important source of foreign currency transfers to the country, making up approximately 5% of GDP in 2016. There is considerable scope for seeking to increase remittance flows to the country by working with government institutions and private sector firms by reducing transfer costs further in line with the Nairobi Action Plan.

**Fig. 2: Total remittance flows to Sierra Leone 2010-2018**



**Fig 3: Sierra Leone Remittance Figures**

Sierra Leone - Migrant remittance					
Date	Remittance balance (M.\$)	Remittance received (%GDP)	Remittance received (M.\$)	Remittance sent (%GDP)	Remittance sent (M.\$)
2016	-24.8	1.27%	48.2	1.93%	73.0
2015	-14.3	1.47%	62.4	1.80%	76.7
2014	-2.7	1.35%	67.6	1.40%	70.3
2013	-0.5	1.38%	67.6	1.39%	68.1
2012	17.5	2.08%	79.0	1.62%	61.5
2011	15.6	2.63%	77.3	2.10%	61.7
2010	7.6	2.23%	57.5	1.94%	50.0

Source: [countryeconomy.com](http://countryeconomy.com)

The significant difference in remittance data and facts and figures is worrying, as there is always a difference between Central Bank, national statistical data versus World Bank and other international sources of data. For example, in 2009 IFAD has estimated annual flows to around \$168m annually, or around 12% of GDP, which would be the 9th highest in Africa (IFAD 2009). Government calculations place the total at between \$250 and \$400 million, or 20-25% of GDP, which would be among the very highest in Africa (UNDP 2009).

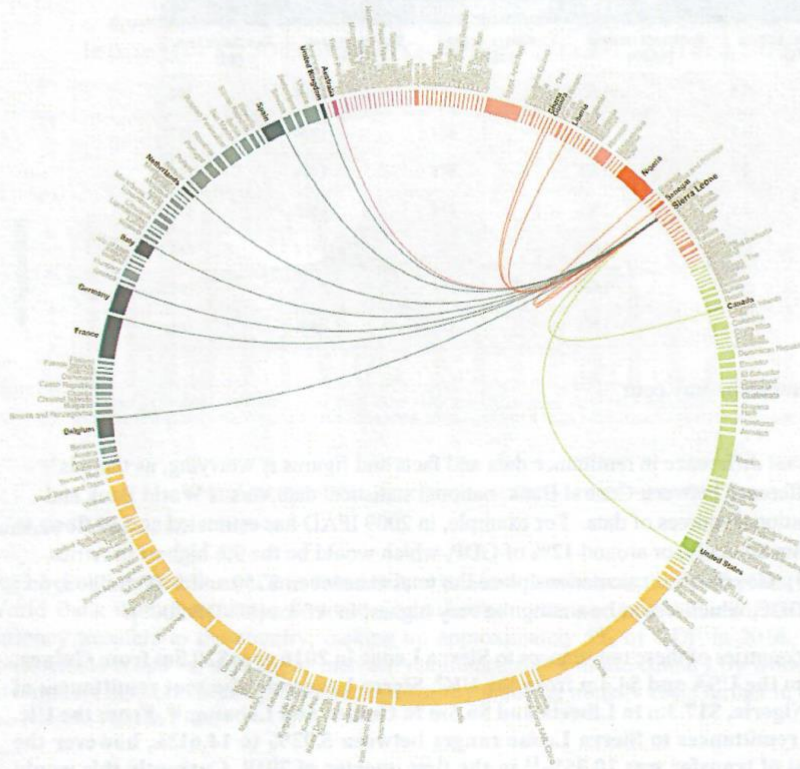
The source countries of these remittances to Sierra Leone in 2016 are: \$20.8m from Guinea, \$11.9m from the USA and \$4.4m from the UK<sup>9</sup>. Sierra Leoneans also sent remittances of \$29.3m to Nigeria, \$17.3m to Liberia and \$6.5m to Guinea and Lebanon<sup>10</sup>. From the UK, the cost of remittances to Sierra Leone ranges between 5.92% to 14.61%, however the average cost of transfer was 10.35%<sup>11</sup> in the first quarter of 2018. Currently this would represent an average figure of over \$400,000 in transfer charges in the UK corridor based on the \$4.4m figure. Thus a reduction to 3%, in line with the Nairobi Action Plan, would free up in this corridor alone, an additional \$280,000 which would remain with senders and recipients.

<sup>9</sup> <https://countryeconomy.com/demography/migration/remittance/sierra-leone>

<sup>10</sup> <https://countryeconomy.com/demography/migration/remittance/sierra-leone>

<sup>11</sup> <https://remittanceprices.worldbank.org/en/corridor/United-Kingdom/Sierra-Leone>

Fig 4. 1. Remittance flows into and out of Sierra Leone, 2014 corridors



[Source: Remittance Flows, Roxana Torre, original visualization available at: <https://faisalkhan.com/remittances/#menu> ]

These data trends reflect the growing importance of remittances to Sierra Leone, but also indicate the fact that significant remittance flows come through informal or semi-informal channels. One of the drivers for this tendency to stop using formal money transfer channels is undoubtedly the cost of transfers. The chart below provides a snapshot of transfer costs to Sierra Leone over the last few years, calculated as an average of the rates provided by the top ten MTOs sending remittances to the country. It demonstrates that while the transfer cost has generally been declining, MTOs have been compensating with exchange rates offered, and the total cost to remitters remains very high at approximately 13%.

**Table 1: Remittances sent from Sierra Leone**

<b>Country</b>	<b>Remittance sent (M.\$)</b>
Nigeria	29.3
Liberia	17.3
Lebanon	6.5
Guinea	6.5
The Gambia	3.0
Ghana	2.8
Senegal	1.6

**Source: *countryeconomy.com***

**Table 2: Remittances received by Sierra Leone**

<b>Country</b>	<b>Remittance received (M.\$)</b>
Guinea	20.8
United States	11.9
United Kingdom	4.4
Germany	1.4
Netherlands	1.4
Senegal	1.2
Liberia	1.2

**Source: *countryeconomy.com***

Arguably, one of the most significant drivers for reduced transfer costs to the Sierra Leone corridor is increased competition from newer, internet-based agencies and Financial Technology (Fintech) providers.

#### **4. Remittance Ecosystem in Sierra Leone and Relevant Regulatory Frameworks**

The main identified methods by which remittances come to Sierra Leone, is through money transfer operators, such as Money Gram and Western Union. However, these remittances account only for a minority of the remittance transfers into the country. A small proportion of the remainder is transferred by mobile phone credits, and the bulk of the remainder enters the economy through unofficial remittance agents operating on behalf of merchants in the country. In Sierra Leone, Orange Money has over 70% of the mobile money market share, with Africell Money and Splash accounting for the rest of the market share. However, new platforms are emerging to widen the market space. Recently, the Sierra Leone FinTech Challenge 2017, led by the Bank of Sierra Leone in partnership with FSD Africa, funded by U.K. aid from the U.K. government, and UNCDF's Mobile Money for the Poor (MM4P), with support from USAID and the Last Mile Trust Fund was launched and the two winning finalists from the challenge will start implementation soon.

Mobile financial services are increasingly being seen as a way to extend financial services to sectors of the population that traditionally do not have access to financial services. In Sierra Leone, more than 85% of the population is considered “unbanked”, meaning that they do not have access to a formal bank account<sup>12</sup>. Formal financial inclusion remains under 50% for the whole West Africa sub-region including Sierra Leone<sup>13</sup>.

**Table 3: MTO participation in the remittance market in Sierra Leone (%)**

Company	% of market
Western union	32
Money gram	36
Coinstar	1
Transhorn money transfer	4
Money transfer	6
Others	21

Source: IFAD

**Table 4: Inbound payment of remittances by institution in Sierra Leone (%)**

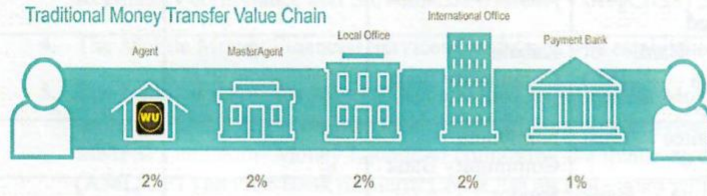
Organisations	% of market
Banks	62
Forex/Bureau de Change (BDC)	20
Retail	3
Others	16

Source: IFAD

<sup>12</sup> <https://awoko.org/2016/12/20/sierra-leone-news-you-can-pay-me-through-my-cell-phone-mobile-money-in-sierra-leone/>

<sup>13</sup> <https://awoko.org/2016/12/20/sierra-leone-news-you-can-pay-me-through-my-cell-phone-mobile-money-in-sierra-leone/>

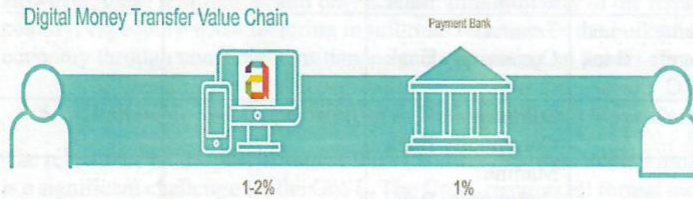
**Fig 5: Traditional Money transfer value chain**



Source: Azimo, 2016

The traditional value chain in fig. 6 shows how all the different stakeholders take percentages on the remittance transfer, hence the increase in the cost of sending remittances. The new and digital value chain model below in fig. 7 shows a system that bypasses all the complex transactions and agents who act as intermediaries, for the remittance to get to the intended recipient.

**Fig. 6: Digital Money Transfer Value Chain**



Source: Azimo, 2016

**Table 5: List of banks and Money Transfer Operators in Sierra Leone**

Government Bank	Commercial Banks	Community Bank	Some International Money Transfer /Platform	Fintech/ Mobile Money Companies
Bank of Sierra Leone	Access Bank (SL)	Marampa-Masimera Community Bank	Money Gram	Azimo
Apex Bank	Rokel Commercial Bank	Yoni Community Bank	Rapid Transfer	MyPay
	Ecobank (SL) Limited	Segbwema Community Bank	Western Union	Splash
	Sierra Leone Commercial Bank	Mattru Community Bank	RIA	Orange Money

	First International Bank (SL) Limited	Zimmi Community Bank	Swift	Africell Money
	First Bank of Nigeria (SL) Limited	Kabala Community Bank		
	Guarantee Trust Bank	Nimiyama Community Bank		
	Keystone Bank (SL) Limited	Sandor Community Bank		
	Skye Bank (SL) Limited	Pendembu Community Bank		
	Standard Chartered Bank (SL) Limited	Nimikoro Community Bank		
	Union Trust Bank (SL) Limited	Tongo Field Community Bank		
	United Bank for Africa (SL) Limited	Koindu Community Bank		
	Zenith Bank (SL) Limited	Simbaru Community Bank		
	Commerce and Mortgage Bank (SL) PLC	Taiama Community Bank		
		Sumbuya Community Bank		
		Madina Community Bank		
		Kamakwie Community Bank		

#### **Advancing regulation in line with the sector's development**

In order to provide a legal and regulatory framework that enables a conducive atmosphere to protect consumer (senders and receivers) interests, the Government of Sierra Leone (GoSL) developed a Remittances strategy framework for sustainable development and a remittance policy. The law provides that investors may freely repatriate proceeds and remittances.

The Bank of Sierra Leone issues licenses to Banks and Bureau de Change (BDC) operators for purposes of buying and selling foreign currency as contained in the regulation.

Sierra Leone Financial regulations:

1. The Banking Act and Other Financial Institutions Act (2001),
2. Bank of Sierra Leone became a principal member of AFI in 2009. It then established the Financial Inclusion Working Group (FIWG)

3. Electronic Financial analysis and surveillance system (Efass) known as Valtech Regulatory compliance and Surveillance System (V-RegCoSS) 2014
4. The Mobile Money Financial Services Guidelines was established in 2015<sup>14</sup>
5. The National Payments Systems Act and the Guidelines for Mobile Money Financial services, (2015) empower the Bank of Sierra Leone to supervise and regulate MMFSPs and Anti- Money Laundry/ countering the financing of Terrorism (AML/CFT) and the Bank of Sierra Leone has an agreement with the National Telecommunications Commission (NATCOM) for jointly regulating the mobile ecosystem<sup>15</sup>

#### **Foreign Exchange and Remittances**

1. There are no restrictions on converting or transferring funds associated with investments, including remittances, earnings, loan repayments, or lease payments.
2. Investors can withdraw any amount from commercial banks and transfer it into any freely convertible currency at market rates.
3. Availability of foreign currencies is often limited, and foreign-controlled businesses in rural areas have reported challenges in dealing with local banks.

However, these remittances still only account for a minority of the remittance transfers into the country, especially when factoring in informal remittances the bulk of the remainder enters the economy through unofficial remittance agents operating on behalf of merchants in the country.

#### **5. Challenges and Opportunities to Reducing Remittance Costs to Sierra Leone.**

The reluctance on the part of some Sierra Leonean remitters to send money via formal channels is a significant challenge for the GoSL. The GoSL requires all formal money transfers by MTOs to be made via registered bank accounts, and there are significant sections of the Sierra Leonean diaspora who prefer to send money through semi-formal or informal channels. This represents missed opportunities for the GoSL and consumers, and liberalization of government regulations offers the prospect of increased remittance flows through such formal channels. One of the main challenges to reducing remittance costs to Sierra Leone remains the dominant market position of traditional MTOs. However, the transfer costs they offer are increasingly being undercut by newer internet and Fintech providers, driving down the total digital revenue of the traditional MTOs.

#### **6. Remittances to Sierra Leone: Future Prospects and Recommendations**

Remittance flows to African countries (including Sierra Leone) are expected to increase by 3% to \$39.6 billion in 2019 (World Bank, 2018). It is projected that African countries can potentially raise an additional \$1-3 billion by a) reducing the cost of international migrant remittances; b) \$5-10 billion by issuing Diaspora bonds and; c) \$17 billion by securitizing future remittances and other future receivables. According to the ODI, a reduction of remittance transfer fees by 1% would cause an extra \$1 bn USD to be remitted to African corridors.<sup>16</sup> The

<sup>14</sup> <https://www.theigc.org/wp-content/uploads/2016/03/Sierra-Leone-1.pdf>

<sup>15</sup> <https://www.theigc.org/wp-content/uploads/2016/03/Sierra-Leone-1.pdf>

<sup>16</sup> ODI, 2014: Remittances: the huge cost to Africa in money transfer fees; available at: <https://www.odi.org/remittances-africa>

goal of reducing the cost of remittances to 3% is clearly within reach but is hindered by the following factors

<p>1. <b>Accessibility to MTO's, Banks and other service providers' data</b> is key to real figures and this will enable policy makers and operators to identify corridors where there were fewer market participants, and to help improve them.</p>	<p>2. <b>Transfer fee:</b> This is the most visible cost component, and can differ significantly among market players. The cost of intra-Africa remittances transactions through official channels are relatively high especially for small amounts of money.</p>
<p>3. <b>Exchange Rate Fee:</b> An important portion of the remittance cost is the exchange rate spread, which is not quoted in the transfer fee. Even though remittances can be paid in foreign currency, the majority of remittance transactions are paid in local currencies, and, thus, an exchange operation is required.</p>	<p>4. <b>Knowledge of anti-money laundering processes.</b></p>
<p>5. <b>Lack of accurate, timely information and inconsistent data, facts and figures.</b></p>	<p>6. Limited access to financial services among remittance recipients to poor and rural networks make it expensive to reach the most isolated villages.</p>
<p>7. Competition and Intermediation are still scarce in a market largely dominated by a few Money Transfer Operators (MTOs) and with limited participation of the formal financial sector.</p>	<p>8. Exclusive deals amongst service providers. However, the Central Bank of Sierra Leone has started the process to remove the exclusivity deals for money transfer organisation like Western Union and Money Gram. It is currently with the Sierra Leone parliament for reviews before enacted as law, it is however already being enforced</p>

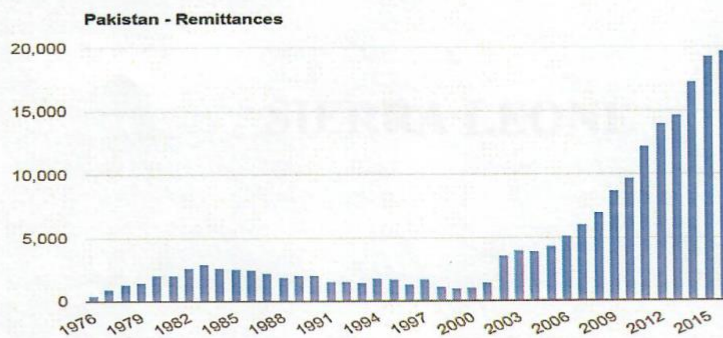
### Lessons from other good practices

The Pakistan Remittance Initiative (PRI) established as a joint initiative between State bank of Pakistan, Ministry of Finance and Ministry of Overseas Pakistanis to offer price incentives to consumers and to bring fundamental changes to the country's remittance regime to boost and facilitate the flow of remittances by

- a. facilitating, supporting, faster, cheaper, convenient and efficient flow of remittance and
- b. creating investment opportunities in Pakistan for overseas Pakistanis

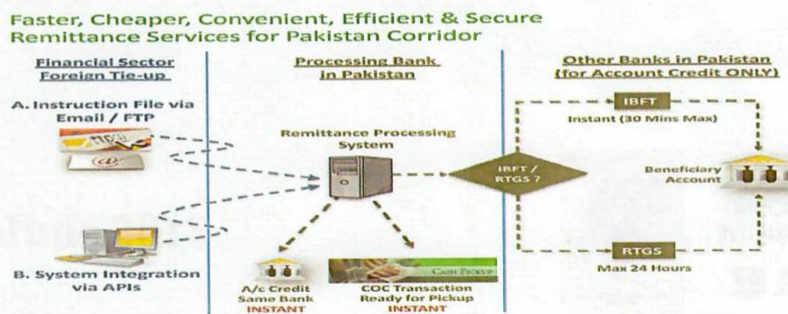
This has been possible through a strategy to formalize the remittance market to Pakistan as well as reduce costs. The process established **360 more channels that are formal** as well as **10,000 physical locations** in Pakistan for receiving remittances thereby reducing the delivery time. In 2016, Pakistan enjoyed a global **remittance cost average of 4.7%** this represented **4.12% from the UK, 3.44% from Saudi Arabia and 2.31% from United Araba Emirates.** This has led to the **increment of remittances from 5.121 million to 19.306 million between 2006 and 2015.**

Fig. 8: Pakistan Remittance from 1976 to 2015



Source: Pakistan Remittance Initiative

Fig. 9: Pakistan Remittance Service Ecosystem



Source: Pakistan Remittance Initiative

### Conclusions

The GoSL remains committed to increasing remittance flows into the country, and it is well placed to increase competition, especially from newer Fintech providers, which has already led to lower transfer fees. Other regional bodies such as the AU and the EU also have potentially important roles to play in setting clear policy and legal frameworks, especially with regard to anti-money laundering and competition and intermediation.

### Recommendations

Sierra Leonean government and remittance stakeholders create a working group to develop a roadmap for remittances and mobile money transfers tailored to Sierra Leone for the reduction of cost of remittances.

- Outlining clear policy strategies, consumer protection, regulatory frameworks, and
- Collaborating with cross-border policy remittance issues and bilateral remittance strategies and policy with main sending and receiving countries.
- Provide resources for data collection and management
- Incentivise senders to work through formal channels

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