

# Mobile Money in Africa: Bridging the financial gap and unlocking entrepreneurial potential

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# Introduction

- The informal sector faces many challenges and obstacles preventing informal businesses from reaching their full potential
- Informal businesses usually do not generate enough funds to expand. Any expansion will require access to outside capital
- Mobile phones are widely used among informal businesses
- This study looks at how informal businesses can use mobile technology to access finance
- Focuses on 4 East African countries based on the 2011/12 Household, Individual & Business Survey conducted by Research ICT Africa

# Informal sector

- A safe haven for the poor
- Mainly cash and face-to-face driven sector
- Generally small, often lacking the capital, skills and expertise to expand and improve their businesses
- Rigorous tax laws, labour laws, the registration process and the lack of access to finance and other resources hinders growth of these businesses
- No Transaction histories therefore difficult to access formal financial services

# No bank accounts for majority

Informal business access to formal financial services (source: RIA 2012)		Uganda	Kenya	Tanzania	Rwanda
No bank account		<b>77.8%</b>	<b>63.1%</b>	<b>88.4%</b>	<b>56.0%</b>
A dedicated business account		5.9%	21.2%	9.9%	6.2%
Use private account for business purposes		16.4%	15.7%	1.7%	37.7%
main reasons why businesses do not have bank accounts (multiple response)	too expensive to maintain	63.3%	30.2%	40.7%	37.0%
	banks would not provide my business with an account	14.5%	6.9%	34.8%	16.4%
	no need	<b>45.4%</b>	<b>39.2%</b>	<b>49.9%</b>	<b>55.7%</b>
How was the start up capital financed	Own Savings	<b>80.8%</b>	<b>86.8%</b>	<b>93.0%</b>	<b>69.5%</b>
	Lending from Friends or Relatives	8.3%	7.3%	4.0%	24.8%
	Micro finance Loan	5.6%	4.0%	1.6%	2.3%
	Bank	5.3%	1.9%	1.4%	2.4%
	NGO	0.0%	0.0%	0.0%	1.0%
	Pension	0.0%	0.0%	0.0%	0.0%
Of businesses with access to a bank account	had a loan	<b>19.1%</b>	<b>10.5%</b>	<b>17.4%</b>	<b>6.2%</b>
	were denied a one	6.7%	6.6%	0.0%	0.3%

- In Uganda, cost of maintaining bank account was most cited reason for not having one
- Vast majority got their start up capital from outside the banking system
- Lack of collateral and informal nature of businesses was main reasons why loan applications were rejected

# Mobile Money has wider reach

Bank infrastructure compared to mobile money agents

	Operating Commercial Banks	No. of Bank Branches	Number of bank branches per 100,000 adults	No. of ATMs	Mobile Money Agents
Uganda	25	455	2.431	660	15,000
Kenya	43	970		2291	75226
Tanzania	34	477	1.948	369	17000
Rwanda	9	Bank of Kigali 47 Commercial Bank of Rwanda: 19	5.498	232	700

- Kenya had the widest network with 970 bank branches and 2,291 ATMs
- This was however minute compared to the number of mobile money agents at more than 75,000
- In all countries, there were more mobile money agents than bank branches+ATMs

# Mobile Money is gaining ground

## Means of sending and receiving money that the business uses

	Kenya	Uganda	Tanzania	Rwanda
Mobile Money	58.4%	16.2%	13.8%	7.6%
Post Office	0.8%	0.7%	0.3%	0.4%
Western Union/Moneygram	2.3%	1.8%	0.1%	0.6%
Banks	20.0%	16.9%	4.7%	9.9%
Send cash with someone	<b>86.3%</b>	<b>80.8%</b>	<b>92.9%</b>	<b>70.2%</b>

- **Cash is still “king” among informal businesses**
- **Mobile money is catching up fast in Kenya for informal businesses**

# Paying suppliers is popular

Businesses that use mobile money for:	Kenya	Uganda	Tanzania	Rwanda
A: paying employees	8.1%	22.1%	7.7%	1.2%
B: paying insurance	0.6%	1.4%	18.3%	0.4%
C: paying suppliers	<b>67.3%</b>	<b>63.0%</b>	<b>78.0%</b>	<b>71.9%</b>
D: paying bills	38.9%	25.6%	32.0%	5.6%
e: paying taxes	0.4%	7.7%	32.1%	0.0%
F: paying pension fund contributions	2.5%	0.0%	1.9%	2.0%

- **Informal businesses tend to have established relationships with suppliers and tend to regularly make larger payments to them**

# Mobile Money is still expensive

Cost of cash of USD1 and USD 50 value changing hands via 1) mobile money or 2) bank account and ATM

			1 USD		50 USD	
			Total cost US\$	% of transfer amount	Total cost US\$	% of transfer amount
Uganda	Mobile Money	MTN Mobile Money	0.32	32.4%	1.28	2.6%
		Airtel Money & Warid Pesa	0.28	28.3%	1.01	2%
		UTL M-Sente	NA	NA	0.89	1.8%
	<b>Standard Chartered Bank (Easy Go Account)</b>		<b>5.18</b>	<b>518%</b>	<b>5.18</b>	<b>10.4%</b>
Kenya	Mobile Money	Mpesa	0.18	18.0%	1.19	2.4%
		Airtel Money	0.24	24.0%	0.84	1.7%
		Yu Cash	0.06	6.0%	0.48	1%
		Iko Pesa	NA	NA	0.90	1.8%
	<b>Standard Chartered Bank (Hifadhi Account)</b>		<b>1.62</b>	<b>162%</b>	<b>1.62</b>	<b>1.8%</b>
Tanzania	Mobile Money	Vodacom M-Pesa	0.34	33.9%	1.79	3.6%
		Airtel Money	0.45	44.8%	1.09	2.2%
		Tigo Pesa	0.33	33.3%	1.28	2.6%
	<b>Standard Chartered Bank (Hifadhi Account)</b>		<b>0.48</b>	<b>48.0%</b>	<b>0.48</b>	<b>1.8%</b>
Rwanda	Mobile Money	MTN Mobile Money	0.25	25.0%	1.42	2.8%
		Tigo Rwanda	0.28	27.5%	1.09	2.2%
	<b>Equity Banks</b>		<b>0.63</b>	<b>63.4%</b>	<b>0.63</b>	<b>1.8%</b>

■ Mobile Money is cheaper than bank transfers for small transactions but still much more expensive than cash



# Mobile money: platform to support informal businesses

- Information asymmetry - No transaction history or ability to demonstrate profitability of informal business
- Cost asymmetry - Handling cash is expensive for banks, geographical dispersion and the small loan amounts required make it costly to serve informal businesses
- Mobile money provides a platform to address these issues at two levels: the technology and the human level
- Platform is versatile that 3rd parties can offer value-add applications including better access to information, sourcing for products, managing cash flows, prices, etc.

# Conclusions

- Mobile money is cheaper and has a wider distribution network than banks
- Most banks in East Africa now offer accounts with free deposits and transfers, albeit against a high monthly maintenance fee.
- Suitable approach to keep existing clients but not enough to grow the client base
- Informal businesses will only transact electronically if there are limited or no transaction costs involved, and if doing so is convenient and secure
- A paradigm shift needs to occur in order to determine how the informal sector can be profitably brought into the banking sector
- Through mobile money transaction histories can be built-up, trial balances automatically generated and overdrafts can be extended easily

Share of informal businesses that agreed with the following statement	Kenya	Uganda	Tanzania
Mobile Money helps business save transport costs	<b>97.7%</b>	<b>95.2%</b>	<b>96.2%</b>
Mobile Money helps Business get access to loans	19.8%	7.6%	46.7%
Mobile money helps business pay suppliers more easily	<b>73.9%</b>	<b>59.0%</b>	<b>94.0%</b>
Mobile money did not make any difference in the way we conduct business	8.8%	10.5%	37.7%
mobile money helps the business recover money from customers much faster	<b>67.2%</b>	<b>66.3%</b>	<b>71.1%</b>
the business use mobile money to pay suppliers from outside my city	43.1%	27.4%	51.8%
Agents are far from my location	14.2%	21.3%	10.4%
mobile money allows business to reach more customers	<b>63.7%</b>	<b>65.9%</b>	<b>69.2%</b>
Mobile money has improved the efficiency of the business	<b>91.5%</b>	<b>67.1%</b>	<b>88.9%</b>

# Policy recommendations

- Banks need to get back to basics and focus on making money through financial intermediation rather than through transaction fees
- Policy-makers and regulators need to encourage banks and mobile operators to develop solutions that are not proprietary
- They need to allow access to potential new entrants that can disrupt the lucrative business models of the banks and mobile operators
- The key challenge is to do this while at the same time ensuring high levels of security and trust
- Attempts at convergence of the financial and telecommunications sectors could be made possible by encouraging the development of industry standards for mobile banking security based upon open access principles
- Regulatory systems could be changed to allow mobile operators to become banks, or banks to operate Mobile Virtual Network Operators (MVNOs)

# Thank You

