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The Impact of Pure Mobile Micro-financing on the Poor: Kenya's Musoni Experience

By Tonny Omwansa and Timothy Waema

Musoni ('M' for mobile and 'Usoni' for future) is a microfinance institution in Kenya that offers all its services exclusively through mobile technology. Most other MFIs have established brick and mortar operations and mobile money (MM) only complements their traditional ways of serving clients. Musoni is the first in the world to achieve this kind of cashless automation and has provided a paradigm shift in the way MFIs operate. This innovative approach eliminates some administrative costs and makes transactions more efficient for both consumers and the MFI. Musoni's clients are poor workers, some of whom run small businesses. The clients sign up in groups and seek low

value loans from the MFI. Musoni believes that customer loyalty increases when the frequency of client group meetings is reduced leaving customers with more time to themselves and for their businesses.

In a context where 80% of transactions are cash based, Musoni's model somehow "forces" its clients to adopt and increase their confidence in MM. This study by IMTFI researchers Tonny Omwansa

and Timothy Waema uses qualitative and quantitative methods to understand how Musoni's technology-based financial services impact their clients socially and economically and to ascertain whether this leads to less cash use in their other transactions. At the time of the study, all of Musoni's loan disbursements, repayments and savings were being channeled through M-Pesa, Kenya's largest mobile money service provided by Safaricom.

Main Research Findings

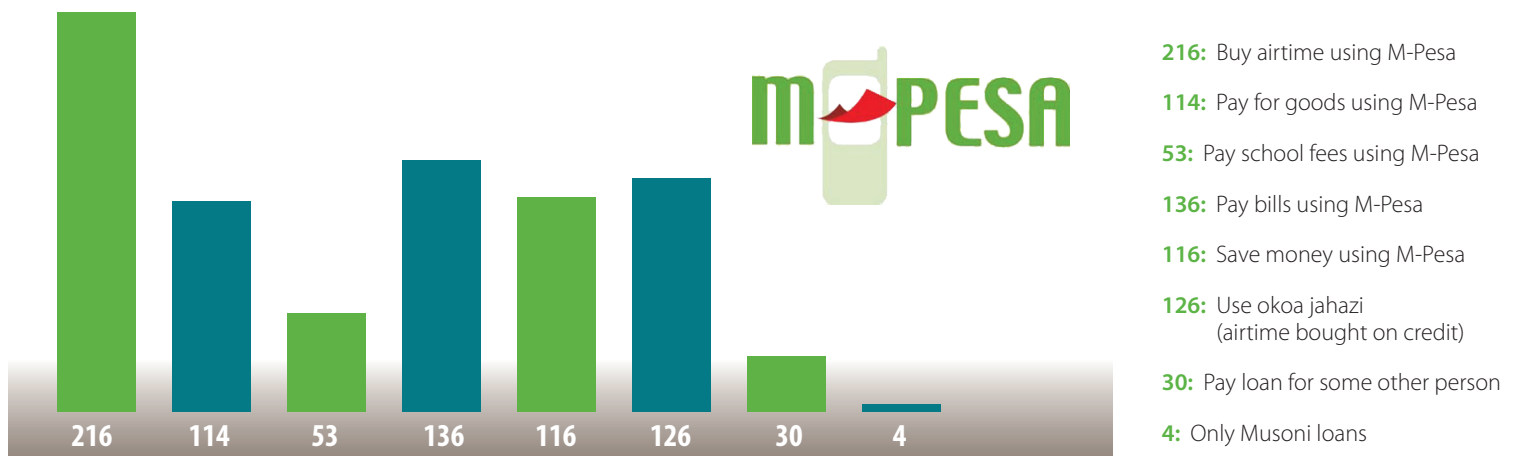
The Value of Electronic Money

Over 75% of Musoni clients said the option of loan repayment through M-Pesa was faster, easier to track and more convenient. MM also provided a safer and more confidential way of receiving credit from the MFI. As a tool for managing finances, more than 50% of respondents felt that receiving and repaying loans through M-Pesa was better than cash. The question of particular interest to this study was whether benefits from Musoni's MM operations would lead to shifts in preference from cash to e-money in other transactions. As many as 90% of respondents said that they kept some money in M-Pesa for uses besides loan repayment. Figure 1 shows the usage of other M-Pesa services by Musoni clients. In addition, 82% of respondents said that their M-Pesa usage had increased since they started receiving loans from Musoni. This indicates that respondents were developing a different view of e-money and they valued MM more when M-Pesa was bundled with more complex financial services.

Musoni's Challenges

- Developing the computing infrastructure to integrate with M-Pesa for back-end operations
- Ensuring customers make correct entries.
- Enhance customer education to facilitate operating solely with mobile money.
- Dependence on just one mobile money provider

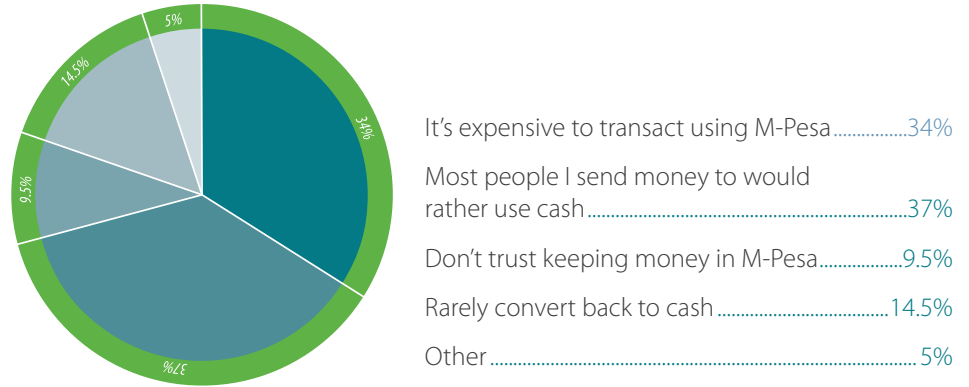
Figure 1: Usage of M-Pesa by Musoni Clients



“I Have to Pay a Bill to Pay a Bill” - Is Mobile Money Ideal for the Poor?

Despite these findings that point to increased MM usage, cash as a preferred means of payment continues to persist. While temporary storage (which could be considered savings) may have gradually become electronic, respondents would still rather make payments in cash. Respondents said this was because recipients only wanted cash and merchants did not accept MM as a mode of payment. Hence, even if customers appreciated the value of MM, they often converted back to cash to pay for goods and services. See Figure 2 for results on why Musoni users move e-money back to cash.

Figure 2: Why Musoni Users Move E-Money Back to Cash



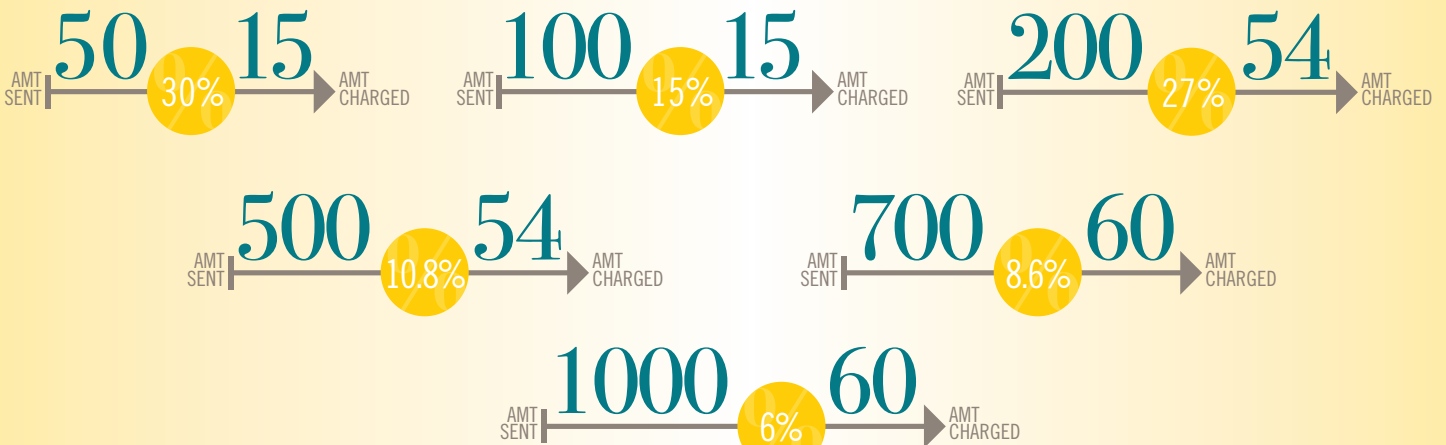
Moreover, the transaction fees for MM continued to be very high. While Musoni absorbed one third of the loan repayment fee at the time, as it builds its client base, the transaction fee will be ultimately paid entirely by the consumer. In addition to MM transfer fees, there were also cash withdrawal fees that were steep, especially for smaller amounts (See Figure 3). It was common practice for the sender to include an amount over what was requested because they were expected to absorb both the transfer and cash out fee. Due to the prevailing cash culture, some respondents had devised strategies to reduce transaction costs by transferring

money from their phones to their bank accounts before cashing out.

At the time of the study, MM providers had also introduced customer to business (C2B) bill pay functions but with relatively high transaction fees. Commenting on this, one Kenyan said, “I have to pay a bill, to pay a bill.” For participants in this study, business-related transactions took place in a limited geographical area and they preferred to walk to make payments rather than incur a fee. Most respondents ran small businesses with few suppliers and their clients visited them at their site of

operation. Cash payments were important because they enabled informal face-to-face interactions that included discussions ranging from personal and domestic matters to possible business opportunities and collaborations. These cash transactions went beyond just monetary exchange and had spiritual, moral, cultural and social dimensions that small traders valued. Mobile money was not able to fulfill all these social needs and cash continued to be very important. Therefore, the poor need a combination of mobile money and cash to play specific roles in their financial lives and perform different functions.

Figure 3: Cost of Transferring and Withdrawing Small Amounts of Money (KShs)



1 USD ≈ 98KShs