Title

Intermediaries, Cash Economies, and Technological Change in Myanmar and India - Part One (IMTFI Blog)

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Intermediaries, Cash Economies, and Technological Change in Myanmar and India (Part One)

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M-pesa, perhaps the best known and most successful mobile money service in the Global South, credits its success in large part to the widespread network of human agents that has facilitated wide adoption. But why do human agents continue to be important, when one has a mobile phone and could easily do without them? As the GSMA blog post that inspired our research puts it, “So here’s the puzzle: why do so many consumers … continue to rely on agents to make mobile money transactions… when sending money directly from an account registered in their own name is cheaper, faster and more convenient?” (Mann & Mutemi, GSMA’s Mobile Money for the Unbanked, 2015)

We set out to explore this question, starting from the viewpoint that if financial intermediaries persist, they must add some kind of value to the transactions they are involved with. What is this value, then? To uncover the value that human intermediaries bring to such encounters, we studied the roles they perform in financial transactions. We then analyzed which of these roles were amenable to being taken over by mobile money and phones, which ones were viewed as strictly linked to humans and why.

To answer these questions, we conducted multi-country field research on financial transactions in Kerala, southwest India (Srinivasan) and in Shan state, northeast Myanmar (Oreglia). In Kerala, our focus was on fishers and in Shan state, on agricultural communities. In order to understand “who” moves money in these contexts, we took a step back and started from “how” money moves. Separating the “how” from the “who” turned out to be the first step in recognizing that intermediaries do not merely perform a function that can be accomplished instead with the use of technology. Rather, they create value for their customers in complex ways that a functional description such as “moving money from place x to place y” does not fully capture.

Our fieldwork thus started by asking people how they sent around and borrowed money In both sites, we observed that there are a multitude of intermediaries available to farmers, small traders, shop keepers, and others who needed to perform financial transactions, both within and from/to other countries. A large proportion of these intermediaries did not operate through officially sanctioned or formalized institutions, working instead through more informal channels and networks. Overall, the complex web of such intermediaries we identified at the two sites included the following types:

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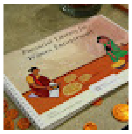
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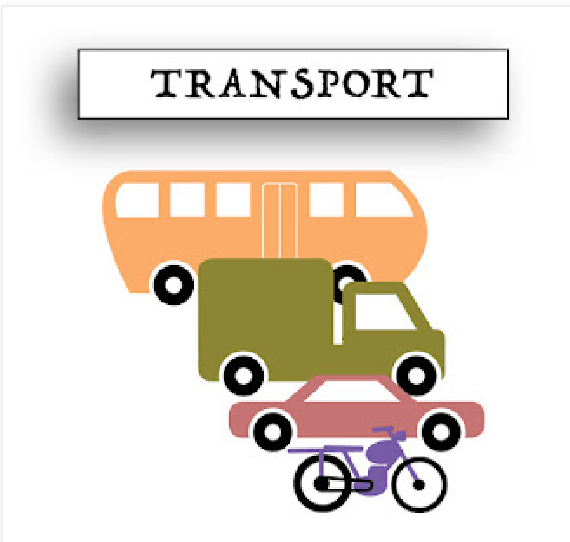
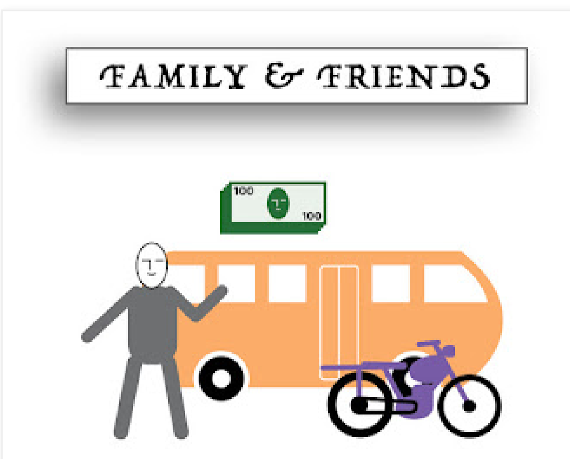
1. Hundi, a system to transfer money (like hawala) that is based on informal networks of agents in different areas of a country - or even across borders - who transfer and lend money very quickly. In the Burmese context, these are often also traders, so they can move money around while also moving merchandise. While hundi is in fact a financial tool, in Myanmar people also referred to the agents themselves as hundi.



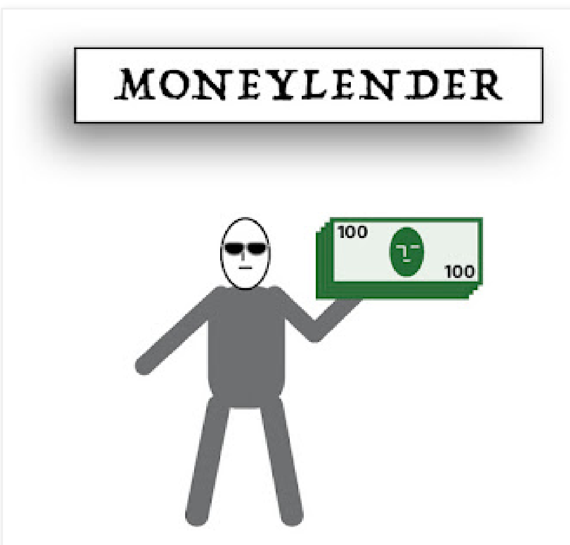
2. Transport companies are used to transfer money for remittances or for commerce all over Myanmar. People give money directly to drivers, or to the bus company, which might then keep the money – acting rather like a clearinghouse with correspondents all over the country.



3. Family and friends were used to move money around, and to borrow from, at both our sites. These transactions were governed by complex rules on whether / when to charge

interest and how much.

4. Traders, who are typically very mobile and have somewhat more liquidity than their average client, can transport (and loan) money easily. Such traders were present at both our sites. At the Kerala site, for example, many fishers would be loaned the money to purchase their fishing craft and equipment by medium and larger traders of fish in return for the right to auction the fishers' catch and a percentage of their fish sales on every trip.



5. Specialized money lenders (called 'blades' in Kerala) lend money at very high interest rates for short periods of time to clients (in this case, small-scale female fish vendors) who need an unpredictable amount of cash every day to purchase their produce (here, fish) because of wide fluctuations in the volume, quality and variety of the daily supply.

These 'informal' intermediaries take on great significance in light of how formal channels of finance function in the sites we studied. In Myanmar, they played a crucial role during the years of the military dictatorship (1962-2011), when the formal financial sector was limited to urban areas and to a very small segment of the population, and when the majority of people did not have other alternatives to move money around. In India, and especially Kerala, formal financial services, including international money transfer services, have been relatively more accessible for a large proportion of the population. Even here, however, fishing communities have been outliers.

By mapping out the existing solutions to move and borrow money outside formal financial services, we see that there are many services available even in places without banks and mobile money. In some cases, these intermediaries are in competition with each other, which keeps service charges down. For example, in Shan state there were so many different options to send money around the country that it was often a free service – as opposed to mobile money, which always charged a service fee. However, it is not only cost considerations that explain the persistence and reliance on these intermediaries, as we will discuss in our next blog post.

Read Part Two of this blogpost series.

Building on this IMTFI-funded research, Srinivasan and Oreglia are hosting a one-day workshop **this Friday, November 11th at IIIT-Bangalore. CLICK HERE to register and view the program, and join the research discussion with expert panelists from Eko, Microsoft Research India, McKinsey Digital Labs, the Gates Foundation, India and the National Payments Corporation of India.*

1 While cooperatives and banks also offered loans to fishers in Kerala, the number of loans they could offer was far exceeded by the demand for loans in sites such as the one I studied.

Posted by Unknown at 9:15 AM

Labels: India, Information technology, intermediation, mobile money, Myanmar, social relationships

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