IMTFI
INSTITUTE FOR MONEY, TECHNOLOGY & FINANCIAL INCLUSION

Monday, October 14, 2013

The Poor are not Stupid; They are Just Poor: Findings from a Study on the Impact of Pure Mobile Micro-Financing on the Poor

A typical shop operated by a Musoni client who participated in the survey. Most transactions between small businesses and their customers are done in cash. (Photo by Tonny Omwansa)

By Tonny Omwansa (tomwansa@uonbi.ac.ke) based upon his IMTFI-funded research project with Timothy Mwololo Waema

In November 2012, Anuj K. Shah, Sendhil Mullainathan, and Eldar Shafir published a paper titled "Some Consequences of Having Too Little" in *Science* magazine. One of the key findings was that poor people make bad decisions not because they are stupid, but because they get overwhelmed. The study attempted to discover why people who are poor seem to exist in a vicious cycle of poverty. The authors concluded that the poor don't have the mental bandwidth needed to handle some other life challenges.

What consumed the bandwidth? Financial pressures! So what should a policymaker interested in alleviating poverty do with this information? “One thing you want to do is facilitate bandwidth. You want to think of ways to make things easier,” the report says.

The authors of *Portfolios of the Poor: How the World's Poor Live on $2 a Day*—an influential account of how people at the "bottom of the pyramid" live on the little money they have—described the financial lives of the poor as a "triple whammy" characterized by low, irregular, and unpredictable incomes. The authors also argued that the poor need appropriate tools to manage their financial lives, and that they might actually need these tools more than their wealthier counterparts. So what do appropriate financial tools for the poor look like? They should be: a) **reliable**, deliverable at the promised time, in the promised amount, and at the promised price; b) **convenient**, enabling nearby, quick access, privately and unobtrusively; c) **flexible** enough to make it easy to reconcile transactions with cash flows; and d) have a structure that would **regularize** the transactions to promote self-discipline.

In our study, we attempted to investigate the effect of a mobile phone-based financial service designed for the poor which incorporates some of the design principles described above. We believe that the service made it easier for the poor to conduct some transactions, possibly freeing up some mental bandwidth. We interviewed 245 users of a mobile phone-based micro-financing service. The service is offered by a micro-finance institution (MFI) in Kenya called Musoni. Musoni stands for “Mobile Future.” The MFI

Popular Posts


Informal Credit Associations in Lucknow, India

Consumer Finance Research: Global Approaches and Methods - Taking On Debt (Part 1) Perspectives from across the Social Sciences


Lessons from the Field: M-Shwari and the Jua Kali in Kenya


Female Financial Literacy: Gender in Mobile Money and Financial Practices

How "the Poor" Account: Financial Reckoning and its Cosmoeconomics in Assam, India (Part Three)

Blog Archive

- ► 2023 (1)
- ► 2022 (4)
- ► 2021 (14)
- ► 2020 (25)
- ► 2019 (20)
- ► 2018 (14)
- ► 2017 (54)
- ► 2016 (51)
- ► 2015 (84)
- ► 2014 (46)
- ▼ 2013 (49)
  - ► December (8)
  - ► November (3)
  - ▼ October (6)
    - Generating, storing and exchanging value: the use ...
    - Figuring Exchange and the art of Máximo González
    - Founding Myths of Mobile Money
    - The Poor are not Stupid; They are Just Poor: Findi...
    - Co-opetition and cashlessness: Why we need redunda...
    - From Street to Satellite: Methods for Mobile Money...

offers 100% mobile phone-based services enabling loan applicants to receive their money to their mobile phone within 72 hours of application and repay it anytime with mobile money. For cash-in-cash-out services, Musoni rides on the M-Pesa agent network. M-Pesa (M for “Mobile” and Pesa for “Money”) is the revolutionary money transfer service offered by Safaricom in Kenya, well documented in the book *Money, Real Quick: Kenya’s Disruptive Mobile Money Innovation*.

The study had two broad objectives: a) to establish whether or not Musoni clients recognized any socio-economic impact of utilizing technology-based financial services, and if so whether or not the perceived benefits drove them to use cash less and less; and b) to establish the impact of cashless, mobile micro-financing on the users’ lives, particularly if there was any implied shift from cash to e-money.

The results of the study showed a great appreciation of mobile money as a result of bundling conventional MFI services with e-money. Most of the respondents initially held accounts with other MFIs, but 59% of them had shifted entirely to using Musoni only. Expressions such as “I don’t need another MFI” were common during focus group discussions. Over 75% of the respondents found the option of using mobile money to repay their loans faster and more convenient. Transferring small amounts of money (e.g. KSh 80 to 400, approximately USD 1 to 5) can cost as much as 20% of the amount being transferred in fees. However, it was interesting to observe that 34% of the respondents felt that using the mobile money channel actually saved them money. The factors determining the cost saving include the amount being sent (which would determine the transfer fee), how far or remote the location where the money is being sent is (which would determine if mobile money is the most convenient), and/or the urgency of the receiver getting the money (which would determine if mobile money is the fastest means). When asked why they would consider Musoni over any other MFI, two factors were ranked highest by the respondents: the speed of transactions, followed by convenience.

A customer being served by one of the respondents who runs a small business in one of the poor areas on the outskirts of Nairobi where Musoni provides MFI services. (Photo by Tonny Omwansa)

It can be inferred that if users saw benefits to using mobile money for MFI transactions, they would be likely to use e-money in other transactions as well. Almost all of the respondents said that they keep money in their mobile phones for other uses besides loan repayment. The amount kept varied significantly, but based on the discussions most respondents had been increasing the amount that they store. Upon receiving the loan, most respondents do not withdraw all of it at once, resulting in temporary storage of money. Some researchers have viewed this as a form of savings, while others have argued that it really depends on how we define savings.

As a tool for managing finances, the respondents generally indicated an improvement in certain aspects such as greater convenience for tracking their money. The fact that they kept money in electronic form even when they did not intend to use it to repay loans indicates a preference to use e-money to do some money management.

There were also barriers to the use of mobile money. A cash culture among the people whom they exchange money with ranked highest as an obstacle to using mobile money. Cash remains king, partly because of transaction fees and lack of infrastructure to facilitate backend transactions for small businesses. Musoni targets small traders operating in defined areas, who are expected to organize themselves for group lending. Most of the funds received are ideally expected to be used for growing their businesses. As such, besides family members, business partners who are within the vicinity are the main recipients of the funds from Musoni clients. To avoid transaction fees, it makes

- ► September (3)
- ► August (2)
- ► July (4)
- ► June (3)
- ► May (2)
- ► April (3)
- ► March (7)
- ► February (4)
- ► January (4)

► 2012 (27)
► 2011 (26)

more sense to walk a short distance and pay in cash.

"If I send mobile money to my supplier, he expects me to send him the withdrawal fee. This means I have an additional fee to incur besides the transfer fee. I may as well walk over or wait to pay him in cash since he comes around often. This translates into a delay, but I can live with that," says Onyango, a carpenter operating at Gikomba Market in Nairobi.

The design principles for financial instruments for bottom of the pyramid consumers are becoming clearer, but not many deployments exist yet. Would services based on these design principles result in higher uptake and have other expected outcomes? Financial exclusion among the world's poor is still very high, yet mobile phones are finding their way to the remotest areas of the world. Maybe it's about time that more radical experiments are done to help rethink and possibly achieve better delivery of financial services to the poor.

1. Link to their final report: The Impact of Pure Mobile Micro-financing on the Poor: Kenya's Musoni Experience

Posted by TSF at 12:22 PM

2 comments:

Unknown October 24, 2013 at 5:41 AM

Hi Tonny,

Your study is a rather well researched piece and thanks for doing such a great job. I agree that poor people really are not stupid. It's just that the poverty prevents them from making some sound financial decisions.

As your study proved, if (poor) people are given the needed logistics, they can actually get themselves out of their situation ... poverty!

Mobile money is something that is currently taking on not just in Kenya but a large part of the African continent. I once visited Ghana and found that lots of the folks there use mobile money through the telcos. And they use the money to make purchases and not just repay loans.

I also think with the Internet becoming more and more available in Africa, e-money will also be used more.

One thing though is that compared to the West, loans do attract very high interest rates in Africa. I wrote a little piece on installment loans for bad credit as a way for those that are poor and still need some money to get them out of emergency situations to get money when they need it.

I invite you and others to read it and let know your thoughts on the issue. Nonetheless thanks for a good piece of research.

Cheers
Brandon

Reply

Meus Cartões April 8, 2014 at 5:44 AM

I believe anyone can stop being poor, since study has, say constant readings and coming out of the vicious cycle of poverty, follows that despise their thoughts of poverty, and has primarily focused that this situation can be changed.

Reply

To leave a comment, click the button below to sign in with Google.

SIGN IN WITH GOOGLE

Newer Post Home Older Post

Subscribe to: Post Comments (Atom)