Title
E-money for Enhancing Millennium Development Goals (MDGs) at Bottom of the Pyramid: A Case Study for m-Banking in Kenya (Synopsis of Research Results)

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Project Year

2009

Region(s)

East Africa

Country(ies)

Kenya

Project Description

This research will investigate potential for using m-banking among the poor in Kenya as an MDG strategy based on three research questions: what is the nature of m-banking practices, what are prospects for m-banking in Kenya, and how can m-banking transform the economic experience of the poor to enhance MDGs? It will be based on interviews with key stakeholders in mobile banking in Kenya and representatives from two groups of m-banking clients.

Researcher(s)

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About the Researcher(s)

Francis Wambalaba is the Director of Academic Research and Academic Programs Development at the United States International University, Kenya. He has a PhD in Urban Studies and Regional Science, Portland State University, Portland OR.

Akosa Wambalaba completed some work toward the PhD 1993 -94 in Education Administration. She is a Lecturer at the United States International University, Kenya.

Philip Machoka holds an MBA from International University, Nairobi, Kenya and teaches as a lecturer at USIU-A, Nairobi, Kenya.

Synopsis of Research Results

This research was designed to investigate the potential for using m-banking among the poor in Kenya as a Millennium Development Goal (MDG) strategy based on three research questions, i.e., what is the nature of m-banking practices, what are prospects for m-banking in Kenya, and how can m-banking transform the economic experience of the poor to enhance MDGs? This research presented an opportunity for a transformative approach for accessing cashless banking services for the poor by engaging them into modern financial practices and thus economic empowerment to function in the modern economic environment. The study was also based on the premise that public-private partnership was essential for providing public service more efficiently.

This research had implications for resource transfers to the poor from the wealthier local urban areas as well as Kenyan emigrants and international donors. The study directly benefits users and providers of this service and indirectly promotes use of new technologies to enhance functions of money in society. Secondly, it enhances Kenya's prospects for meeting the millennium development goals. Unlike previous research that simply focused on documenting technological capabilities and current practices, this research went further to investigate potential for m-banking at bottom of the pyramid in the context of MDG strategies. Finally, it was hoped to be a timely applied research to intervene against the finance minister's threat of not only curtailing M-PESA's further product development, but this possibility was overtaken by events.

The target population for this study included key stakeholders in the mobile banking sector of the economy. The population sampling included six categories of groups anticipated to be the key stakeholders. First were the mobile phone service providers, or Telecos (Safaricom and Zain), which provide the equipment and service for mobile banking. The second group consisted of banks closely associated with provision of service to those at bottom of the pyramid (Equity bank and Cooperative bank). The third group were the microfinance organizations (Jamii Bora and Faulu Kenya) which provided financing to the poor with the goal of growing them into mainstream businesses. Fourthly were relevant regulators whose coordination was necessary for implementation (Central Bank of Kenya for regulation of money and the Communications Commission of Kenya for regulation of mobile phones). While the fifth category consisted of respective government ministries (Ministry of Information Communication and Technology for mobile phones and Ministry of trade for business opportunities) the research was not able to interview the ministry of trade due to lack of responsiveness. The final group included individual end users (Jamii Bora clients) in order to evaluate first-hand user experience.

This study documented both bank and user perceptions about M-Payment transactions in terms of level of use in general or specific item purchases as well as perceived difficulties in sending or receiving money, level of risks, level of comfort in making payments and deposits or withdrawals and the level of service charge for using the service.

User Experiences: We were able to interview some members at the Jamii Bora financing offices, where we carried out the interviews. In generall, we found that most women appreciated the existence of Jamii Bora saving accounts, because they helped them feel more in control of their lives. Some women said that before they became members of Jamii Bora, money was very scarce in their homes. Their husbands would leave very little for domestic use and they soon got tired of always begging their husbands for extra money. Jamii Bora has helped them become more economically independent and they no longer feel like beggars but economically empowered as they engage in different businesses to feed their families.

Example: Angeline is a married and in her late twenties. She decided to become a member of Jamii Bora because of friends who spoke of the opportunities the organization provided. One of the opportunities was the possibility of having a savings account. Before joining Jamii Bora, Angeline had tried to open bank accounts with different banks in Nairobi, but each time she had been turned away because of her low earnings and lack of permanent formal employment. She joined Jamii Bora 11/2 years ago, as part of a group of 5 small business women, each running her own business. Angeline sells new clothes is a small market stall.Since joining Jamii Bora and opening an account, Angeline has been able to save more money than she ever imagined. Based on her savings she has been able to apply for loans 3 times, which she has used to stock and expand her clothes business. The first loan she received was for 10,000 Kenya shillings (KSH), $129, which she repaid in 2 months, much earlier than the expected repay period of 3 months. She then applied for another loan of KSH 20,000 ($268) and repaid it within 3 months earlier than the expected repay period of 6 months. She is currently servicing a loan of KSH 30,000 ($397).

Since she started taking loans, her business has become more profitable, as she has been able to easily restock her clothes. She mainly stocks for men, since she noticed men generally prefer shopping for new clothes and avoid buying 2nd hand clothes. Angeline's husband is a self employed technician. He is very supportive of his wife's business, despite the fact that her business earnings are higher than his. He instead encourages her, because according to Angeline life has been less difficult with her supplementary family earnings. Her dream is to own a home of her own. To achieve this goal she plans to borrow even more money, restock and expand her business, so that she can qualify for a house at the Jamii Bora ecological village in Kaputei town.

Conclusion: Although policy makers and regulators initiated investigations into impropriety claims by banks against the mobile device, it was clear from the study that most of the claims were baseless. Therefore the device was not only authorized, but the policy makers and regulators saw it a positive means by which to stimulate the economy, hence improving prospects for m-banking in Kenya. In fact, mechanisms and infrastructure were put in place to stimulate growth and competition among the Telecos which were the drivers of the device, with an impact on inclusion of those at bottom of the pyramid. From the Telecos' perspective, especially in terms of financial inclusion, it was very clear that the adoption rates for using the device had grown at a phenomenal rate. It had introduced 90% of Kenyans who did not have bank accounts into the formal financial world of money transfers. Money that was previously transferred clandestinely could now be sent legally, in real time and anywhere. For example, by July 2010, the M-Pesa customer base had grown to 11.89 million, from 7.38 million the same period the previous year. It was also found that banks subsequently saw this as a huge opportunity to penetrate the underserved low-income markets, starting with the banks like Equity and Cooperative, which had historically wanted to serve these markets. Each bank now strived to partner with the Telecos to introduce the new device to its customers.

Parallel to the Teleco device, it was found that the microfinance institutions such as Jamii Bora also introduced their own device with feature more suited for the low-income population and with much higher penetration rates. Foe example, the research established that about 50% of Jamii Bora members used the M-PESA device on a weekly basis compared to 93% who used the Jamii Bora device weekly. It was also found that the Teleco devices were not heavily used for transactions except for receiving and sending money similar to Jamii Bora's device. Ironically, the perceived levels of risks of using both devices were also not very high. Similarly, the perceived levels of difficulty to send or receive money were not rated high either. However, about 67% were uncomfortable making payments above 10,000 through the device and 62% were uncomfortable making deposits or withdrawals above 10,000. These implied active participation among the poor. When asked how much they would be willing to pay as a service charge on purchases using the device, a little over half were willing to pay 1-2% while and 72.4% would not pay above 4%.

Overall, the study found that the device did not only succeed in penetrating the low income market, but was bound to grow at phenomenal rates as traditional banks scrambled to join the market with even newer concepts. To further improve its prospects, it is therefore recommended that the devices be modified in line with Jamii Bora's experiences so as to be more versatile with the needs of low-income groups. It is also recommended that banks and Telecos form stronger partnerships with microfinance institutions and government support to enhance financial services in low income communities. Finally, it is recommended that further research be done to fully understand the needs and social economic transformational experiences of low-income groups.