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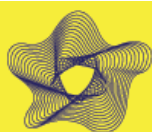
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IMTFI
INSTITUTE FOR MONEY, TECHNOLOGY
& FINANCIAL INCLUSION

Tuesday, July 15, 2014

Leveraging conditional cash transfers to develop local mobile money ecosystems (part 3 of 3)

By IMTFI researcher *Erwin A. Alampay*

Understanding the potential impact of using mobile money for cash transfers to the poor requires understanding how beneficiaries make use of their money, and how their community 'behaves' as a result. For instance, do they consume all the transfers, or would they retain some as savings? How quickly do they spend their money, and for what? Are there gender issues with respect to decision-making regarding its use?



Market vendors tend to follow CCT beneficiaries on day of CCT release

For instance, it has been observed how small markets/ local vendors appear near the places where you can obtain cash when Conditional Cash Transfers (CCTs) are being released. We noted how some of the items being sold were non-essentials (e.g. balloons) (see Picture 1). Gusto & Roque (2014) say that one advantage for entrepreneurial ventures such as this is convenience, saving them transportation expenses and time. However, they noted (like we observed) that

some goods sold might be "unnecessary."

Roque & Gusto (2014) estimate that around half of conditional cash transfers are spent on food, a third on education, and about 6-10% on healthcare. If there were savings, they were usually reserved for education related purposes. At the same time, they noted that the more popular form of "savings" was "non-monetary" in form.

How might mobile money alter this? An experiment in Niger showed that there was greater diversity in goods purchased among beneficiaries who received their cash transfers through mobile money (Aker, et. al. 2011). They speculate that this may be the result of greater "privacy" which in turn affects intra-household dynamics in decision-making concerning how money is used.

At the IMTFI annual conference held last December, our group speculated on how such a scenario might play out (see Photo 2). One can also assume that if carried out in the Philippines a similar change could arise, especially if the space for transfers becomes "virtual." It would then be less public (and more private), and hence there would be no physical space for the local community's vendors to congregate.

At present, there are some system "losses" in terms of use of money for "non-essentials" (see Photo 2). Not only is the release of the transfer known to the households, but the entire community is aware of the event. On the other hand, if the transaction is purely electronic, then there is a stronger possibility for such goods being used primarily for more targeted and developmentally beneficial use.

It should be mentioned that early on one of the potential benefits people considered in the use of m-money was a reduction in reliance on cash as a transactional medium

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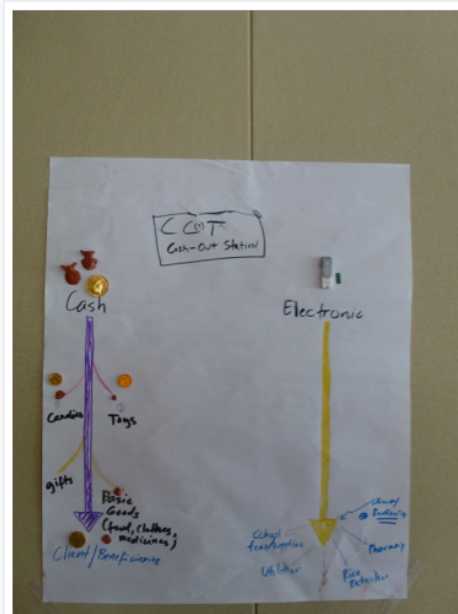
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(Porteous 2006). Indeed, this would be beneficial in the delivery of CCTs if a larger share of the transfers could be kept in m-money form, since this would reduce the amounts that need to be cashed out. This would simplify CCT logistics, reduce the need to transport huge amounts, and provide for a more secure way of saving money, while also expanding the network of people who would be more willing to accept or undertake m-money based transactions.

This brings me to two points:
First, we can work only with merchants (especially the ones that provide basic goods and services) that most beneficiaries would buy from (e.g. rice vendors; hospitals, schools; vegetable/meat/fish vendors) to make these transactions convenient and easier. This would require working with retailers in the area to build their capacity to transact with mobile money. Second, one can view restrictions on CCTs through spending in m-money-only transactions as potentially beneficial, since this could encourage saving by reducing the possibility of spending the money on frivolous (unnecessary) goods.



Output from the IMTFI workshop illustrating expense "losses"

This way, making it easier to use m-money to transact with certain merchants can be helpful in directing consumption towards more development-oriented uses and complementing the primary objective of conditionality. It will reduce the need for cashing out, and at the same time stimulate the local economy through the consumption of local goods and services.

We need to recognize, however, that this kind of change is not easy. There should also be incentives for both beneficiaries to encourage adoption of non-cash based transactions. For beneficiaries, for instance, the consumable value for m-money based transactions can be higher than the actual value (e.g. extra credit; discounted services). For the merchants, the volume of money channeled to CCT beneficiaries on a regular basis hopefully will be enough incentive for retailers to get interested and sustain the change.

However, limiting how CCTs can be consumed also poses a danger of reducing people's freedoms and creating "unwarranted" or false demand on certain commodities that beneficiaries do not consider crucial, thereby affecting local prices. To address this, a system can be designed where the "savings" (m-money unconsumed over a period of time) are freed up for use on any other consumer product, encouraging/incentivizing savings among CCT beneficiaries.

As such, the volume of conditional cash transfers, and more recently cash transfers flowing in for rehabilitation efforts for Typhoon Haiyan, can provide a rare opportunity to get away from what Mas and Radcliffe (2011) call a "sub-scale" trap, by providing a rare opportunity to increase membership in the network of m-money users. This can attract merchants because of the large number of customers and actual funds in the system. Hopefully, its increased use will develop greater trust in the system of m-money commerce and sustain its use in the local ecosystems.

Read the first post, "Use of m-money for conditional cash transfers in the Philippines: Part 1 of 3," and the second post, "[Conditional Cash Transfers in the Philippines.](#)"



1 comment:



Unknown July 28, 2014 at 11:31 PM

Thanks Erwin! This is a great post identifying the challenges and opportunities associated with mobile money.. Idea of moving towards a cashless society is good but I do not agree with imposing restrictions on the use of money only for certain purposes...as it is not feasible to decide what is a good and what is not for a particular family.. for example: I disagree with the argument made above that balloons are a non essential item.. It might be an important and cheap source of entertainment for a family with small kids.

Overall the post is great. We can leverage the Government to Person payments to start such pilots as the G2P cashflows will fuel the whole system.

Regards
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