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April 23, 2012

## Money on the Move: Payments and Money Transfer Behavior of African Households

**Jake Kendall**

**Bill & Melinda Gates Foundation**



**Nandini Harihareswara**

**USAID**





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## **Jake Kendall**

Bill & Melinda Gates Foundation

Jake Kendall is a Program Officer in the Financial Services for the Poor (FSP) initiative at the Bill & Melinda Gates Foundation. Kendall manages the research strategy of FSP including managing FSP's major research grants and engaging with the academic community. Prior to joining the Foundation, he was an Economist with the Consultative Group to Assist the Poor (CGAP). Kendall holds a PhD in Economics from UC Santa Cruz and a BS in Physics from MIT. After graduating from MIT, he volunteered for 2 years in Zambia as a fisheries extension agent with the US Peace Corps.



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## **Nandini Harihareswara**

USAID

Nandini Harihareswara is the Director of Operations and Senior Partnerships Officer in USAID's Mobile Solutions Division. In this position, she encourages USAID partners, donors, businesses and host governments to use electronic payments as appropriate. Previously, Harihareswara worked as an Investment Officer for the USAID Development Credit Authority Office. Harihareswara has worked extensively in the public, private and non-profit sectors and enjoys bringing people together to craft innovative solutions for development challenges. She holds a MBA and Masters in International Trade and Investment Policy from GWU.

# Domestic Payments – Gateway to Financial Inclusion?

*Survey Data from 11 African Countries*

Jake Kendall

BILL & MELINDA  
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# We believe effective financial services for poor people will reduce poverty

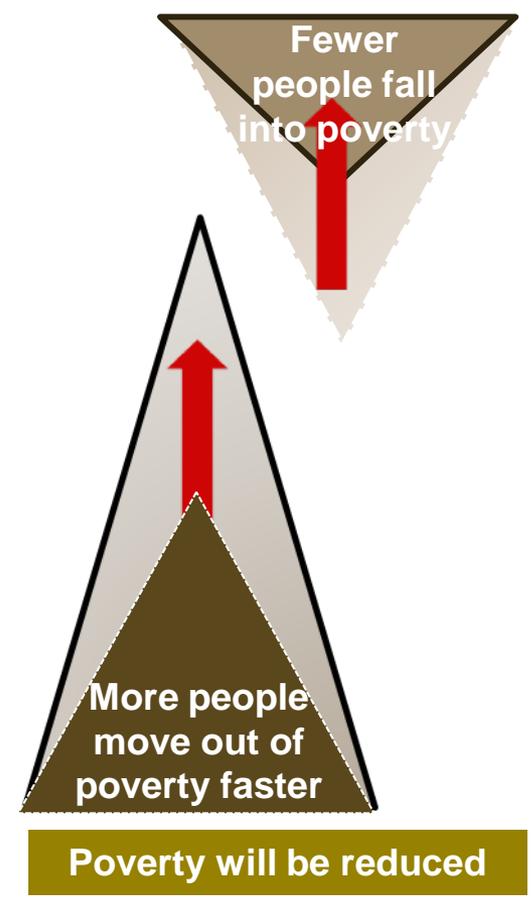
## Increased access to financial services...

- Ability to efficiently move money to/from peers
- Ability to efficiently move money to/from institutions
- Access to better value storage and savings options
- Access to better credit and insurance options

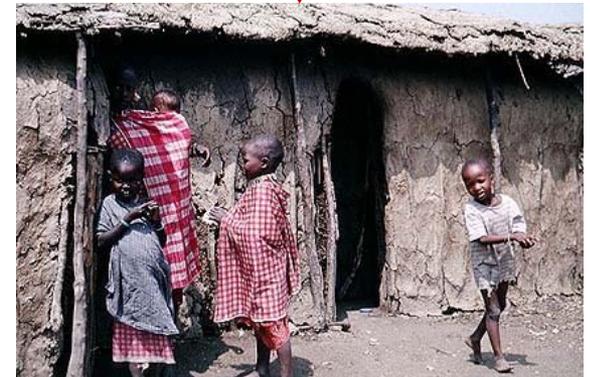
## ...could potentially produce the following positive outcomes...

- Reduce direct costs of financial transactions**  
e.g. Reduced time and cost for clients to access services
- Distribute risks over wider networks**  
e.g. Reach out to distant family and friends in an emergency through digital payments
- Enable investments**  
e.g. Increased investment in farm productivity due to reduced cost of borrowing and time spent acquiring credit
- Connect to the wider economy**  
e.g. Small business links efficiently to distant customers and suppliers through digital payments

## ...leading to reductions in poverty

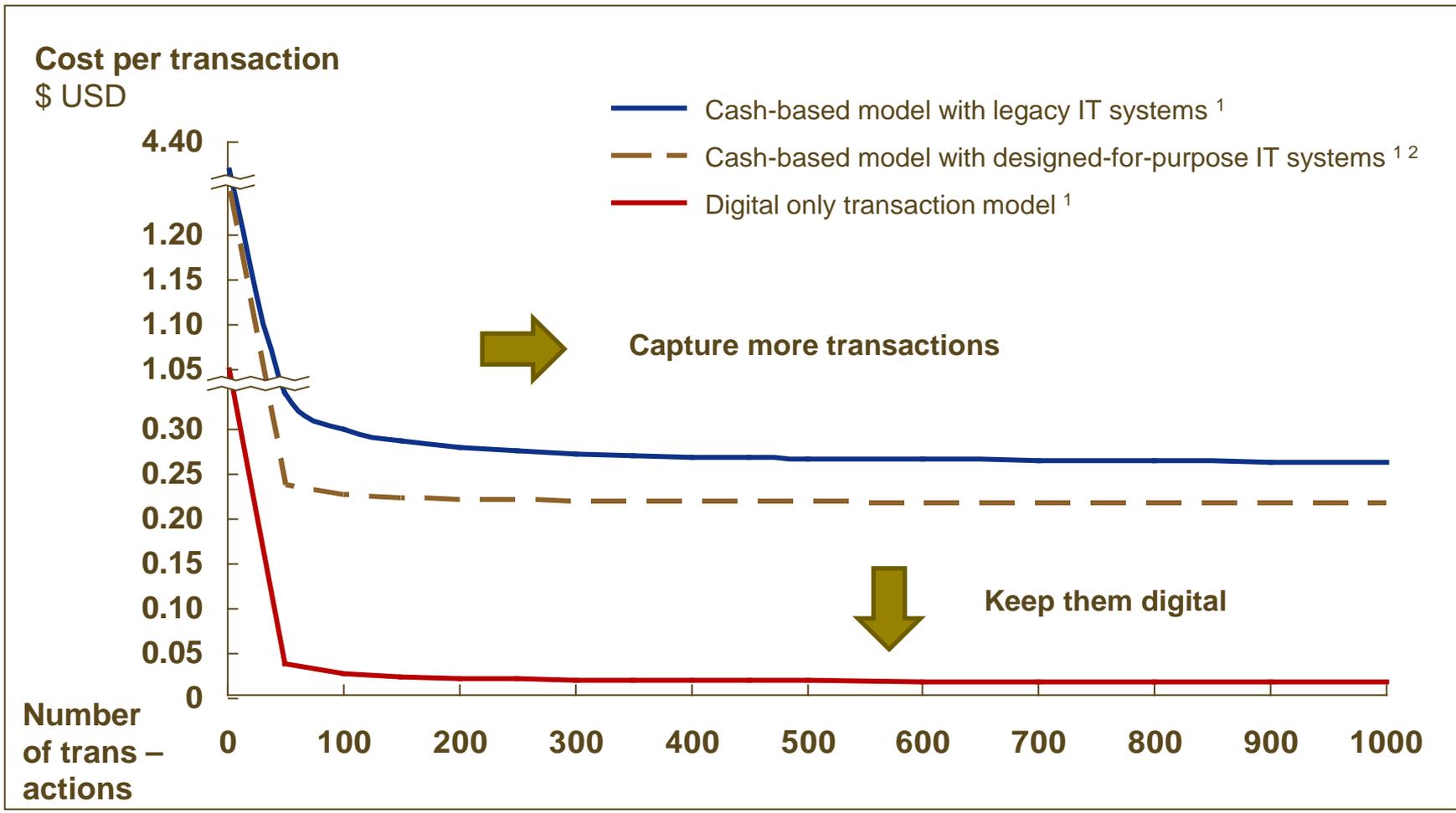


# Current reality: The “jalopy-led” model of financial inclusion?



# Digital-based models solve major cost barriers to access

Cost per transaction under progressive cost reduction assumptions



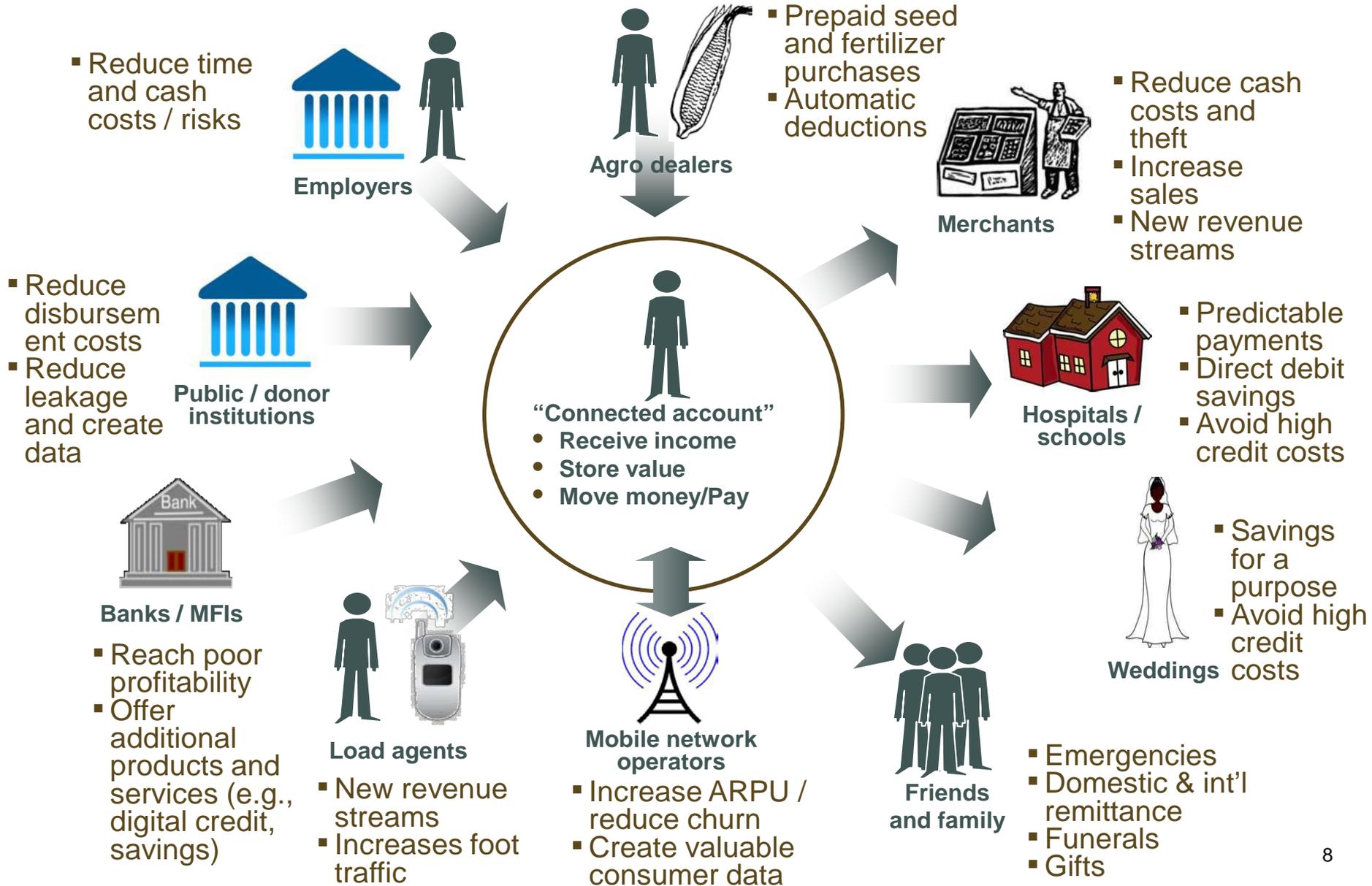
1 Assumes an interbank transaction  
2 Traditional bank back-end and IT systems are designed to provide a range of products and meet diverse regulatory compliance requirements. Back-end and IT costs are typically lower for newer purpose-built IT systems, designed to provide basic providing basic financial services only (i.e. a basic account and payments)  
Source: FSP Modeling, team analysis

# Keep value in digital form!

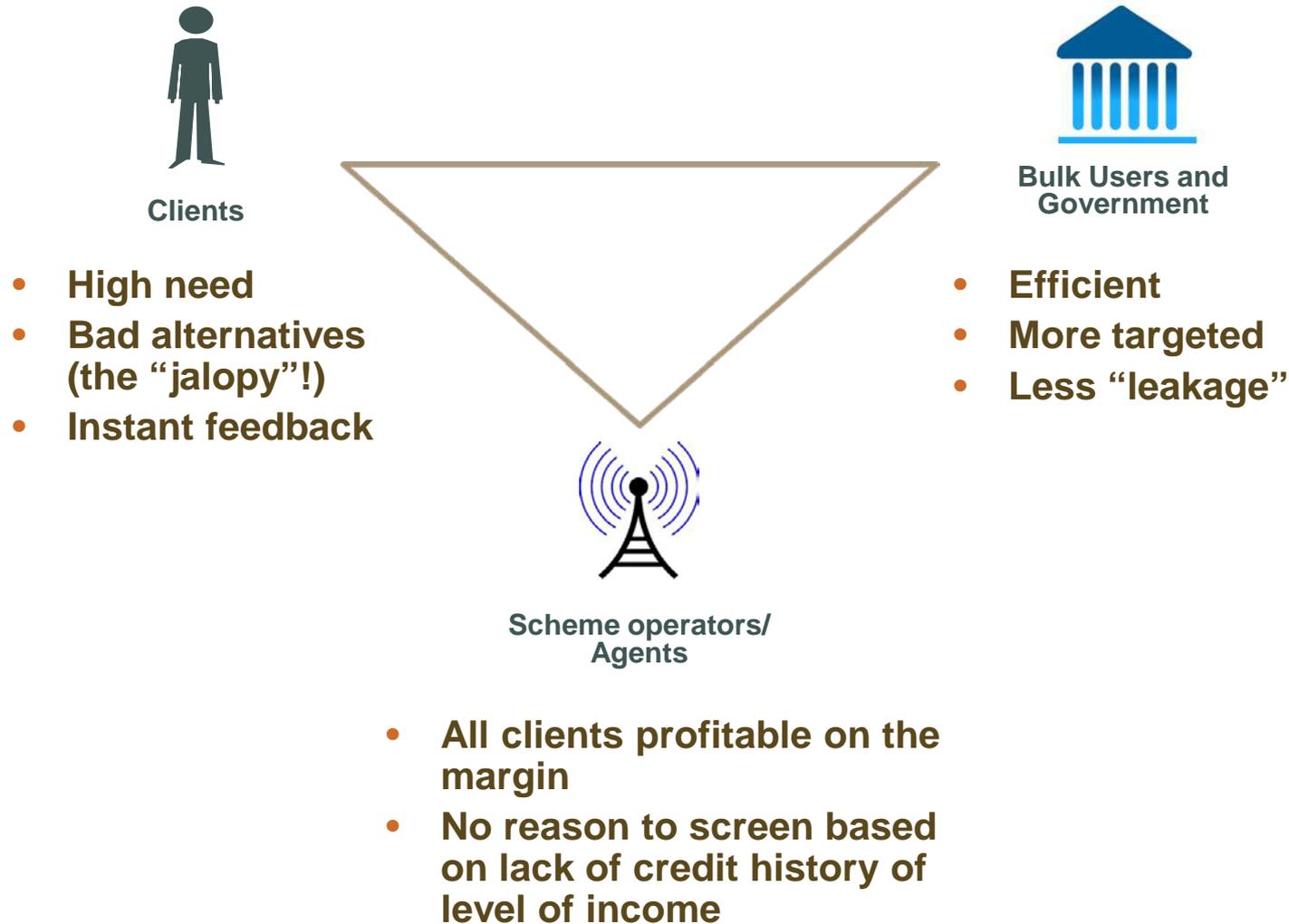


Cash truck broken down by the side of the road

# An effective system drives many financial inclusion use cases – the "payments connection" is critical!



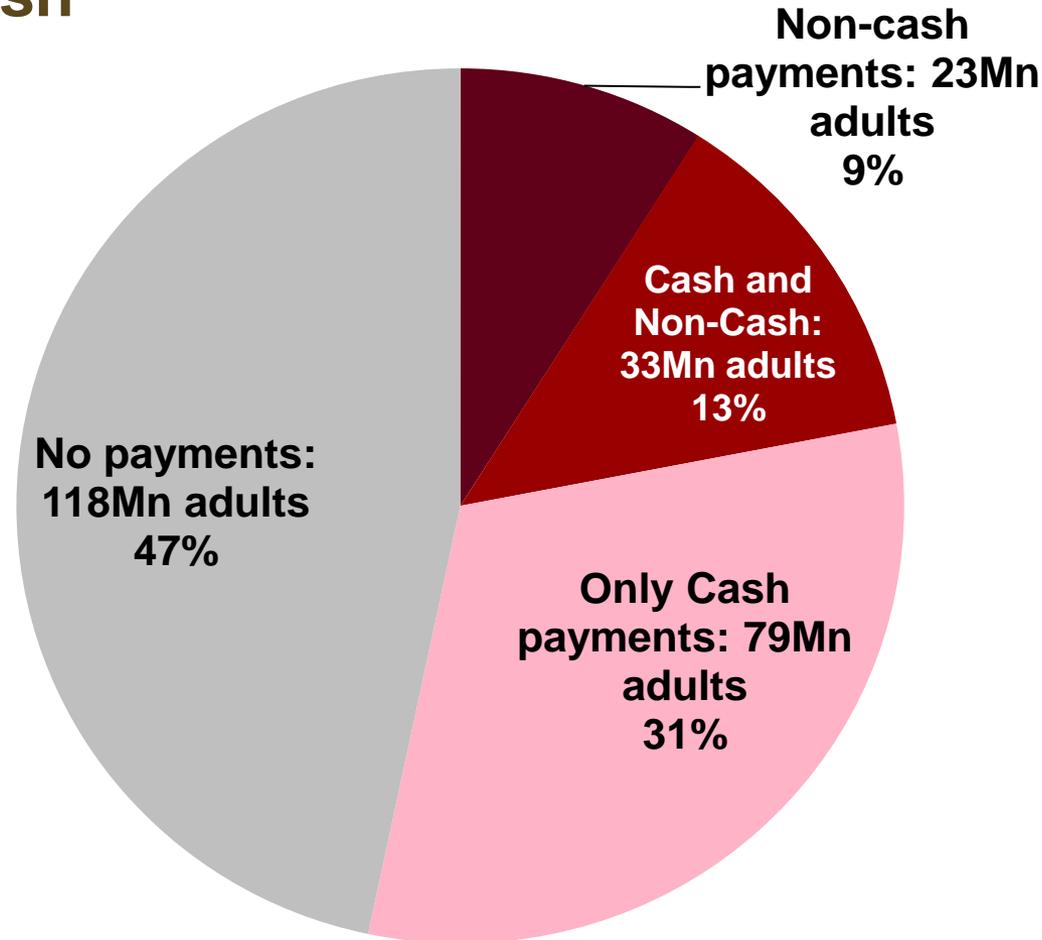
# Long distance payments as gateway to financial inclusion



# Payment behavior survey methodology

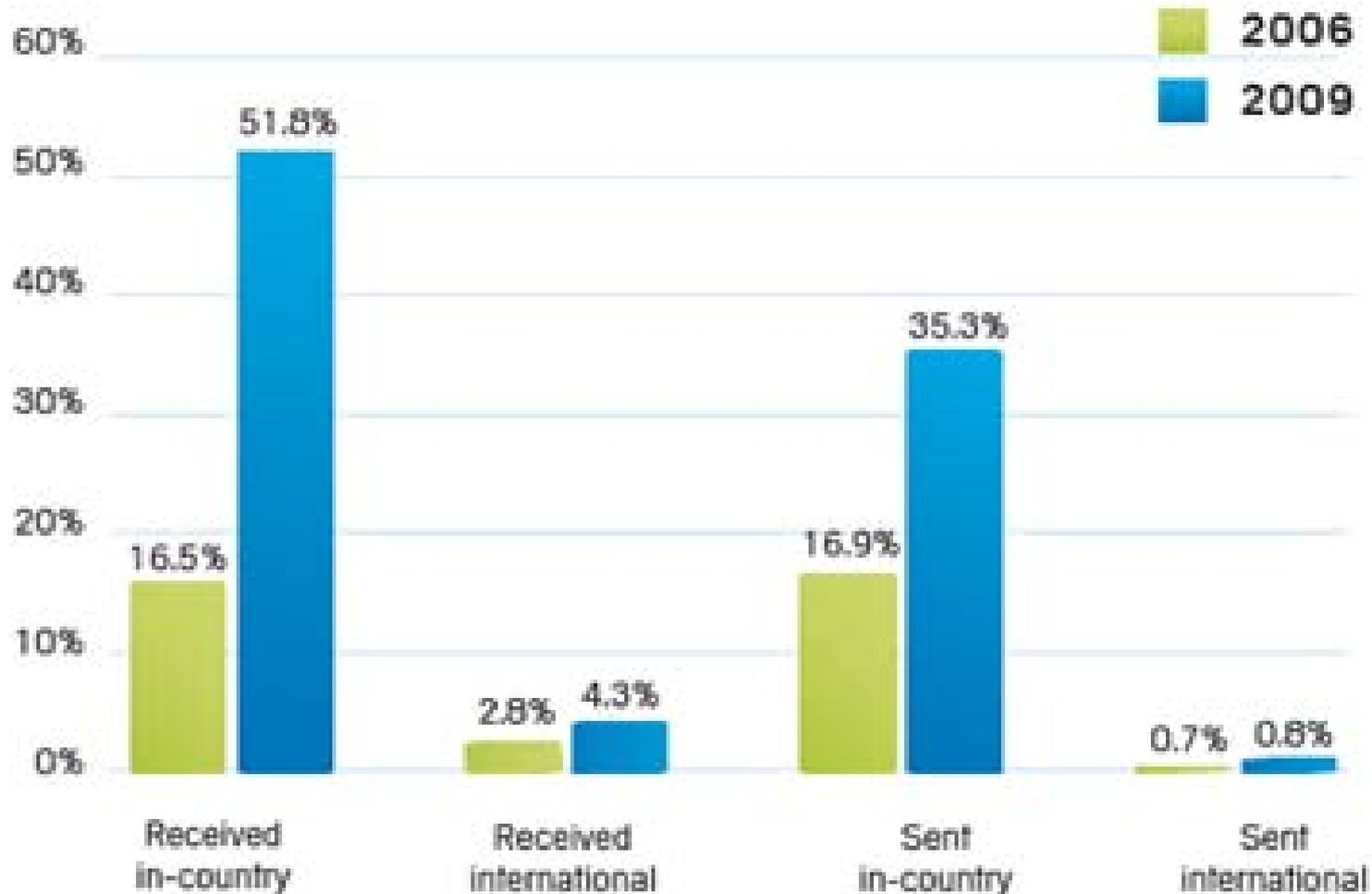
- Gallup World Poll of 1000 adults in each of 11 African countries (nationally representative, random walk)
- South Africa, Zambia, Nigeria, Kenya, Tanzania, Uganda, the Democratic Republic of the Congo (DRC), Sierra Leone, Botswana, Mali and Rwanda
- Transactions occurring in the last 30 days; payments to/from distant counter parties (i.e. in “different areas or cities” in the same country)
- Domestic money transfers, payments for goods, international remittances, government and wage payments, and utilities and other bills.

**The market for better electronic payments is large, 134Mn adults in 30 days, and not well served - currently, its mostly in cash**



***Conducted some form of distant payment to/from family and friends, government, or other formal counterparty in the past 30 days. Non-cash implies none of their reported payments were in cash.***

# Dynamic response? Incidence of remittances in Kenya before and after M-PESA – FinScope 2006 & 2009



**How to capture the market? Segment market and find key client use cases with high willingness to pay and try.**



**m-PESA** **Send pesa by phone**

M-PESA is the new, easy and affordable way to send money home.  
\* Please see following advertisement for a list of Authorized M-PESA Agents.

Register **FREE** at any Authorized M-PESA Agent\*

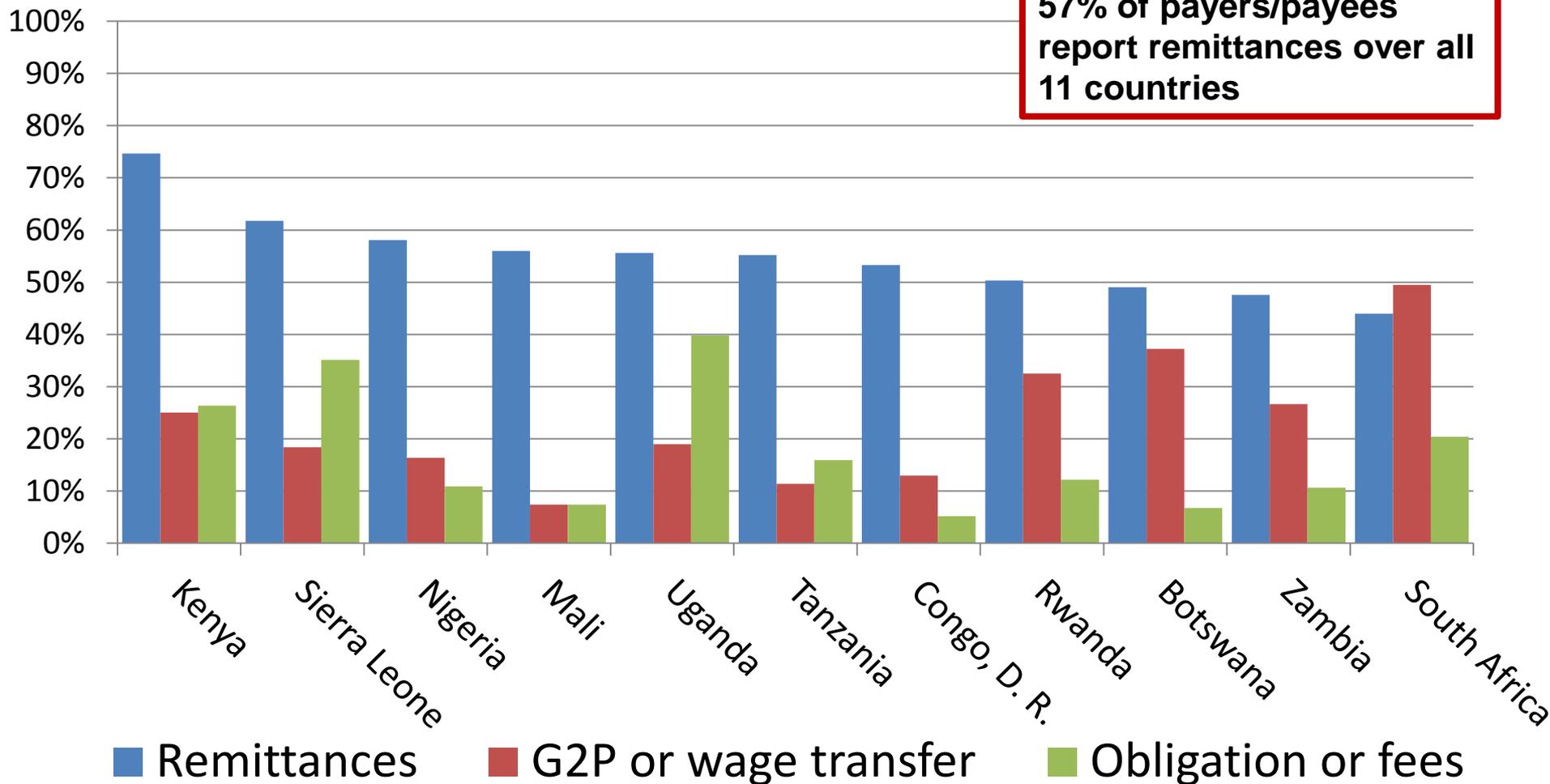
www.m-pesa.com  
Send Money Home

**Is “Send Money Home” the only approach?**

# The sending money to family and friends is the dominant payment activity, even outside of Kenya

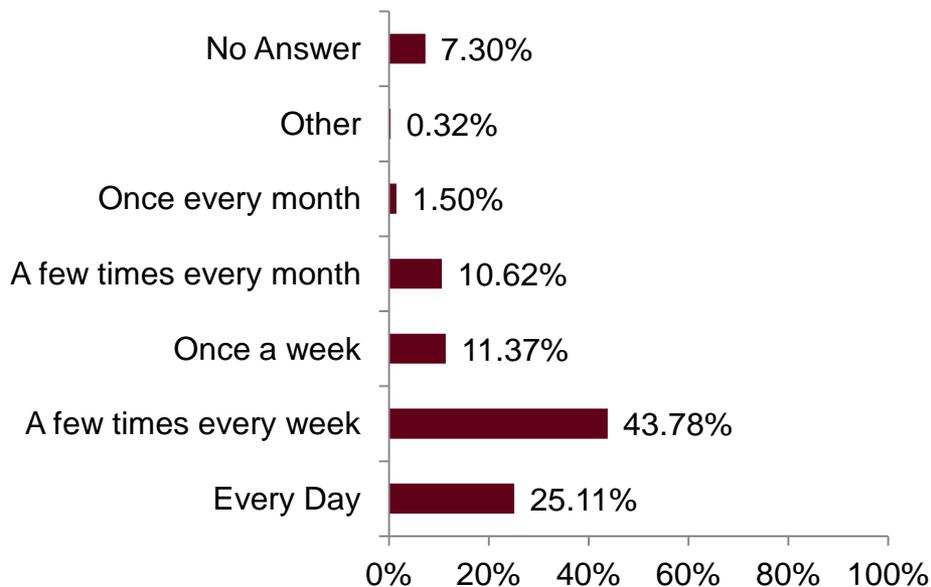
% of payers/payees reporting...

57% of payers/payees report remittances over all 11 countries



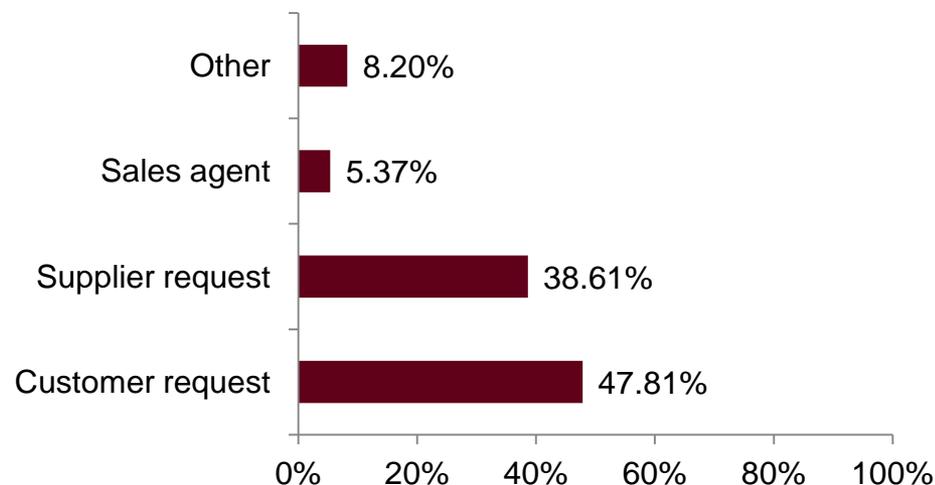
# SMEs are heavy users and may drive viral adoption in the value chain

## Heavy Users



***How often do you use mobile money?\****

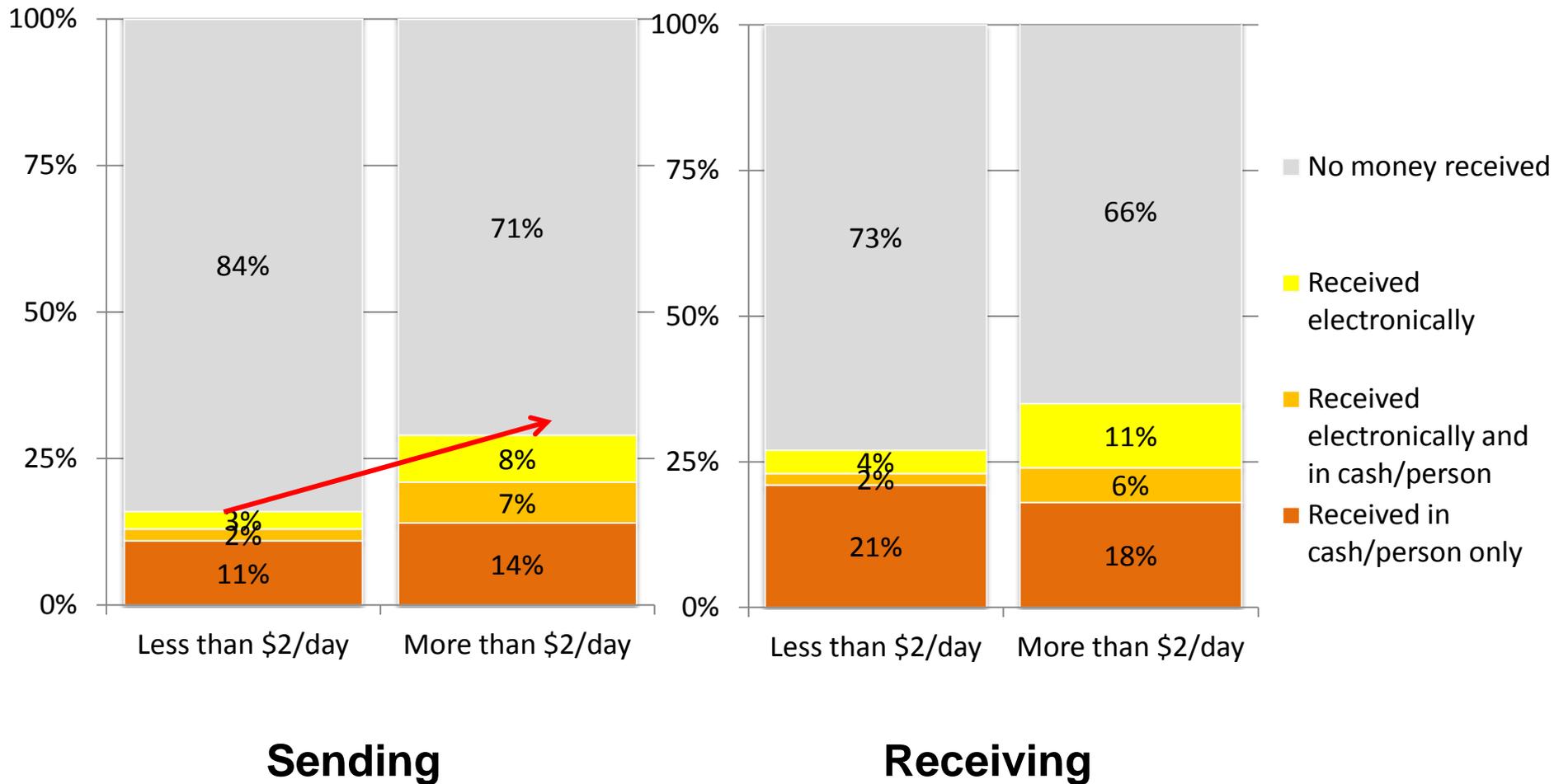
## Driving Viral Adoption in Value Chain



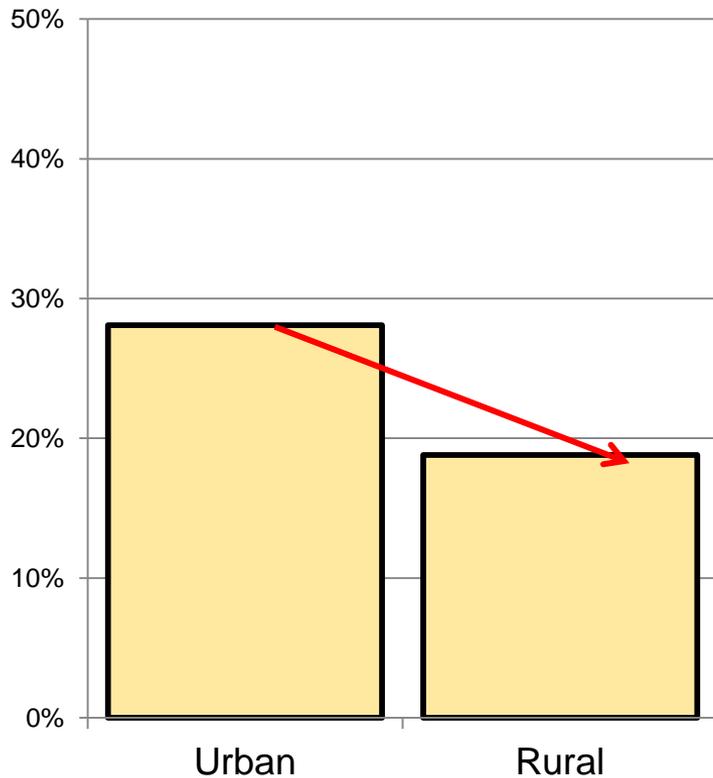
***Why do you use mobile money for business?\****

*\*Data comes from Lyon, Higgins, Kendall (2012) "Mobile Money Usage Patterns of Kenyan SMEs"*

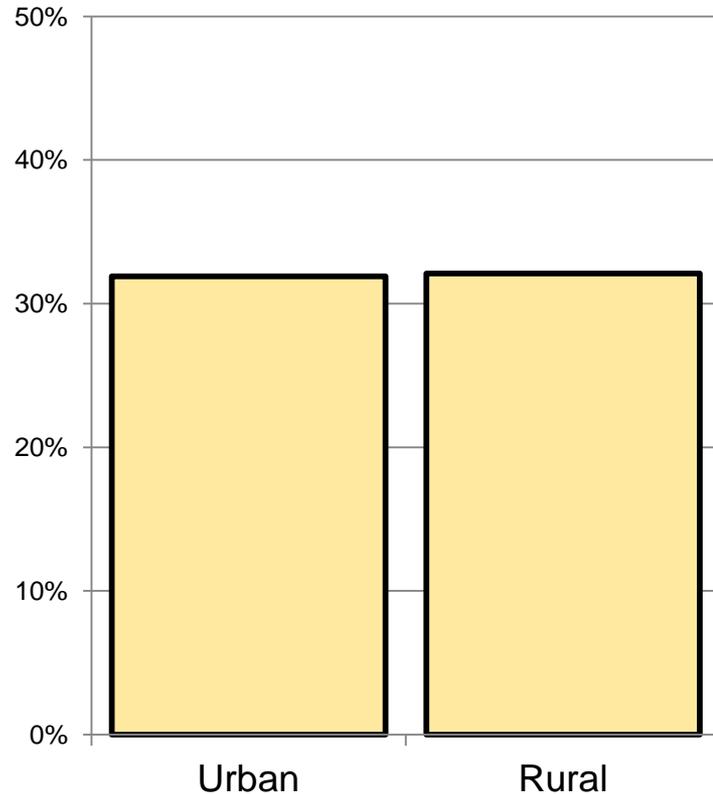
# Remittance sending behavior tends to increase with income, receiving behavior is less correlated with income



**While there are more urban senders, there are also many urban receivers indicating urban-urban flows**

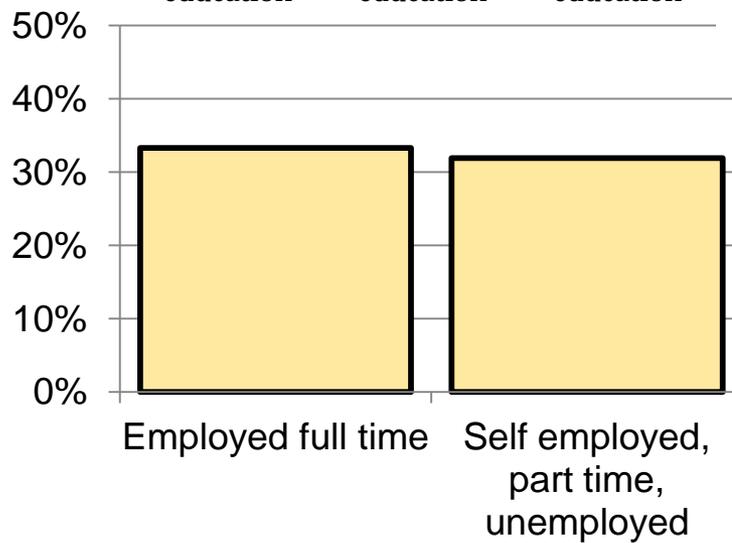
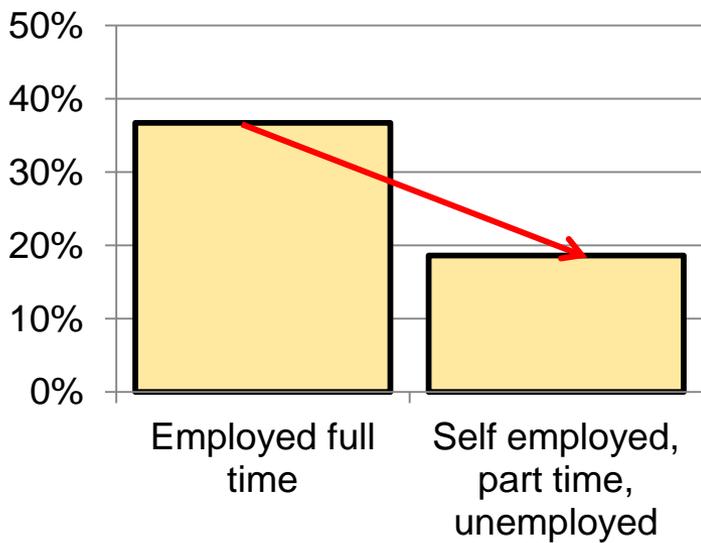
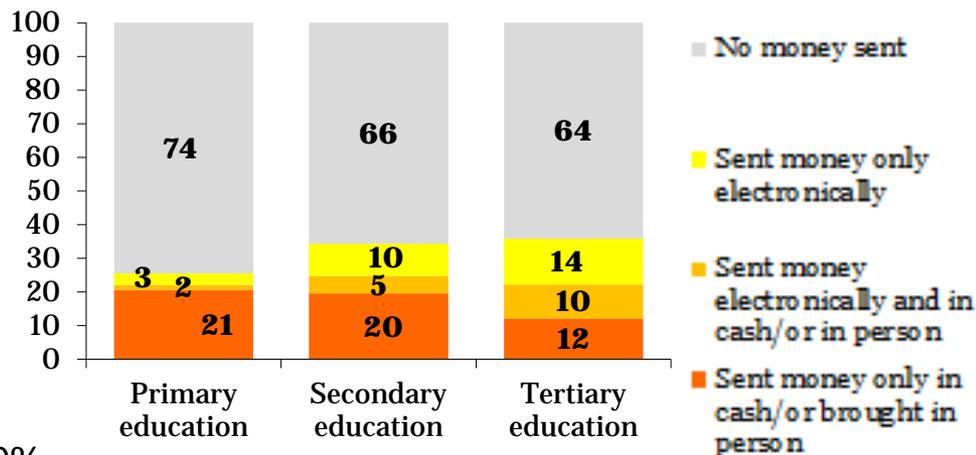
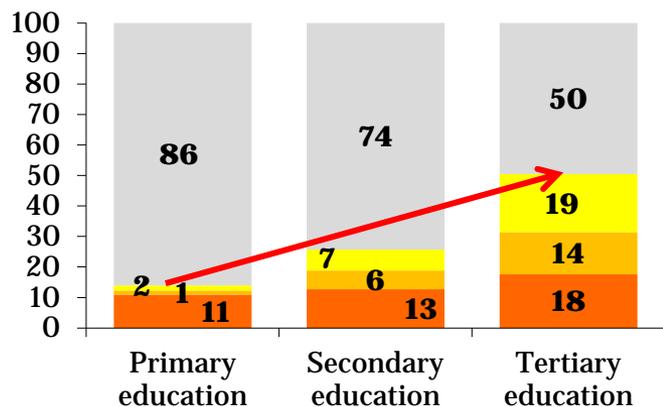


**Sending**



**Receiving**

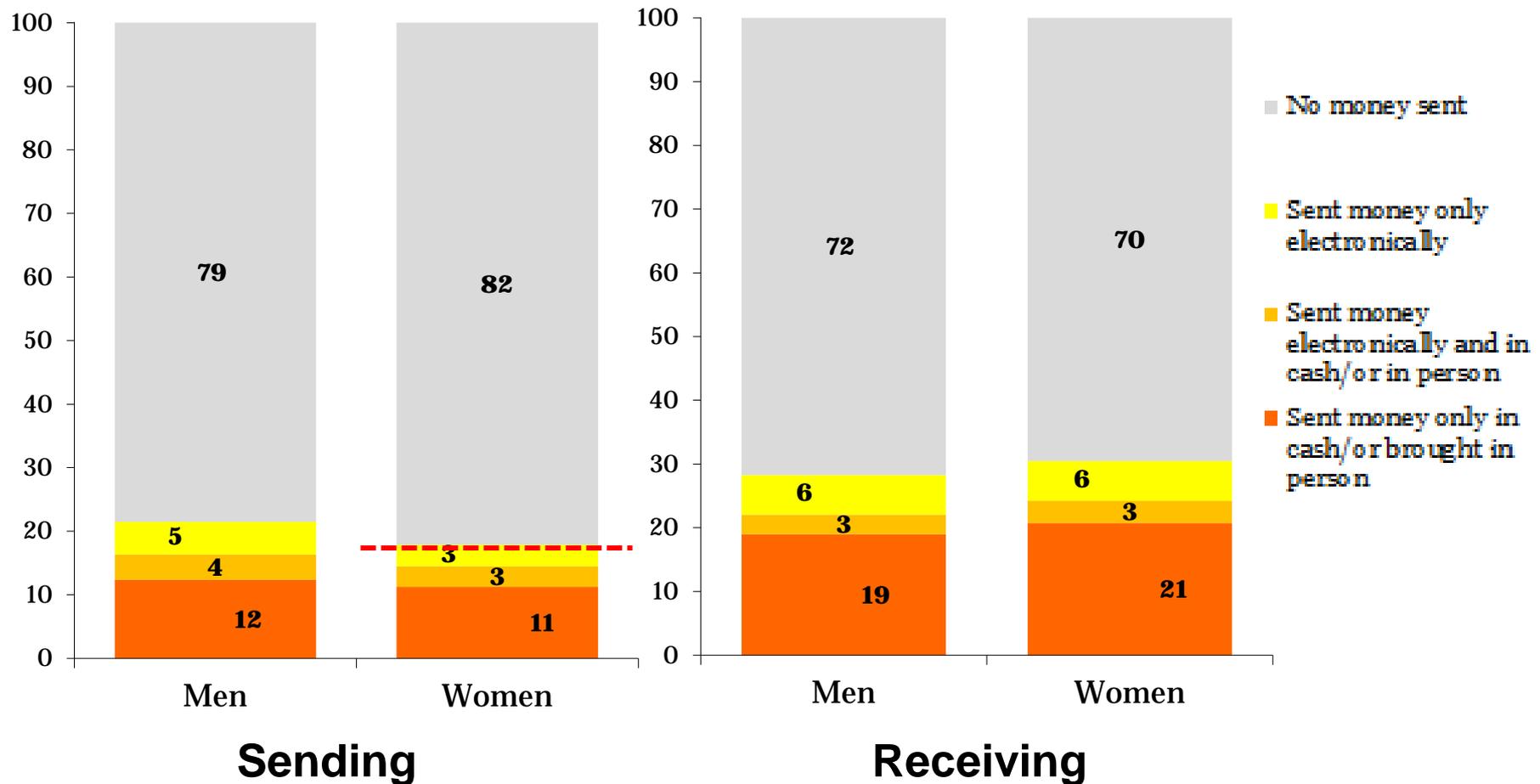
# Sending behavior is more correlated with white collar, educated, formal, full time employed, receiving is more evenly distributed



**Sending**

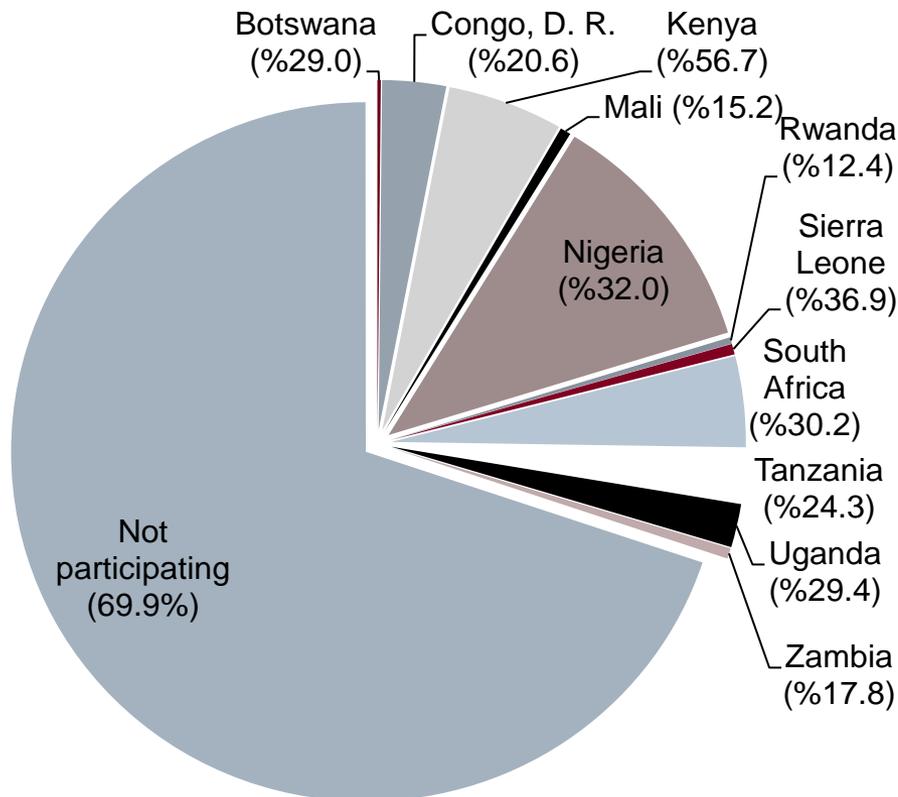
**Receiving**

# Women are not just remittance receivers, they are active senders too

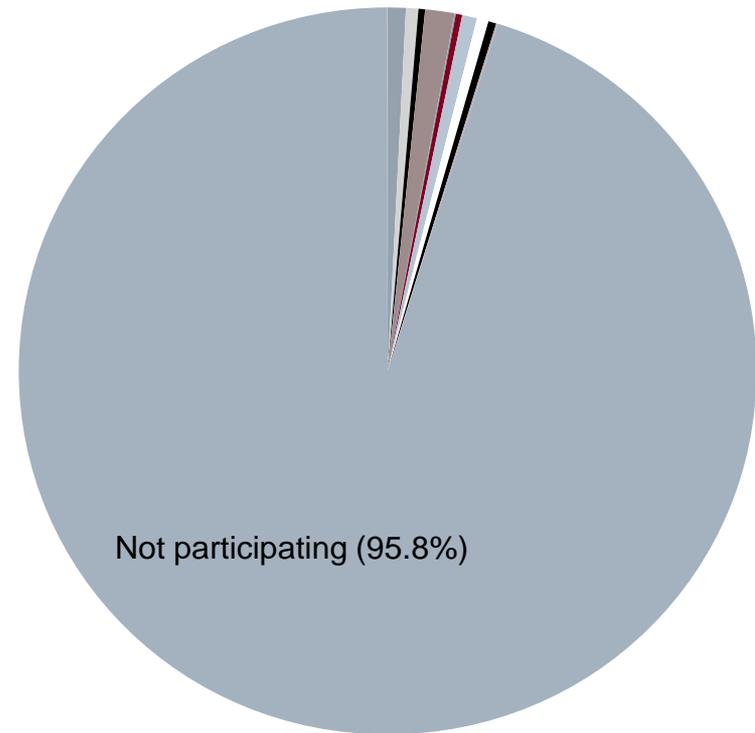


# Broader reach: Domestic remittances touch 6X as many more people than international remittances and are 3X the volume

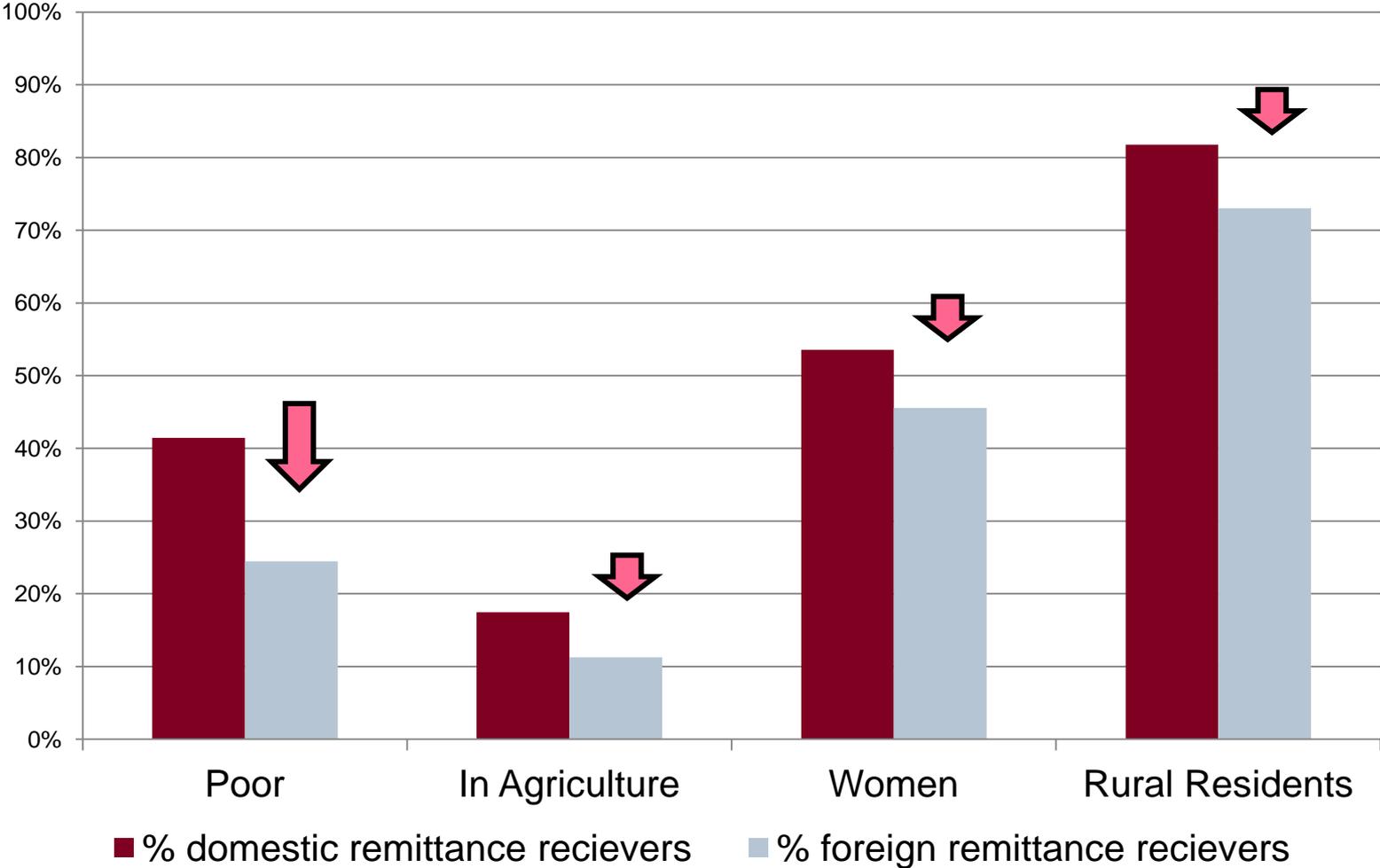
**Domestic remittances touch 30.1% of population**



**Foreign remittances touch 4.8% of population**



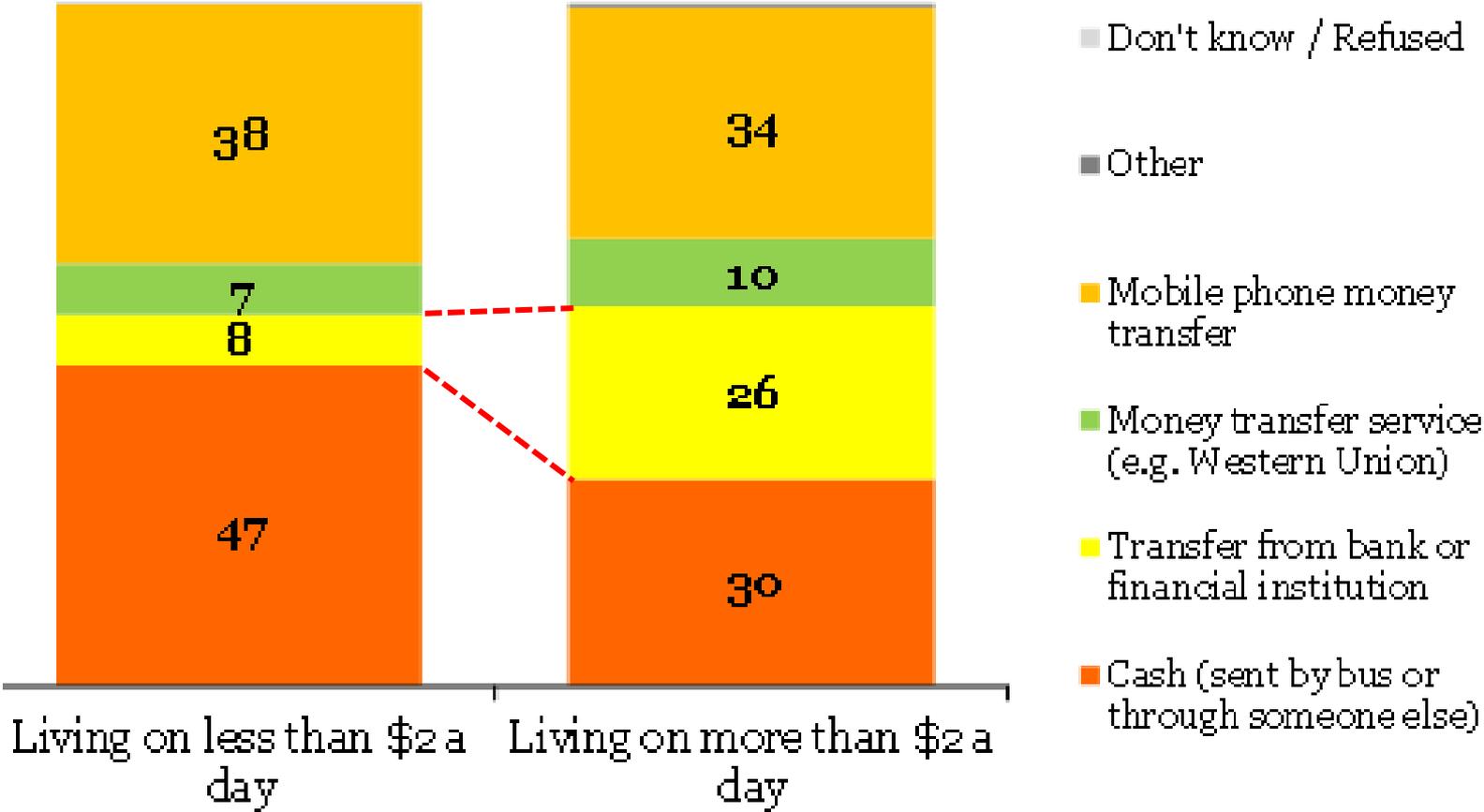
# Deeper reach: Domestic remittance receivers are more often poor or in agriculture than are international remittance receivers



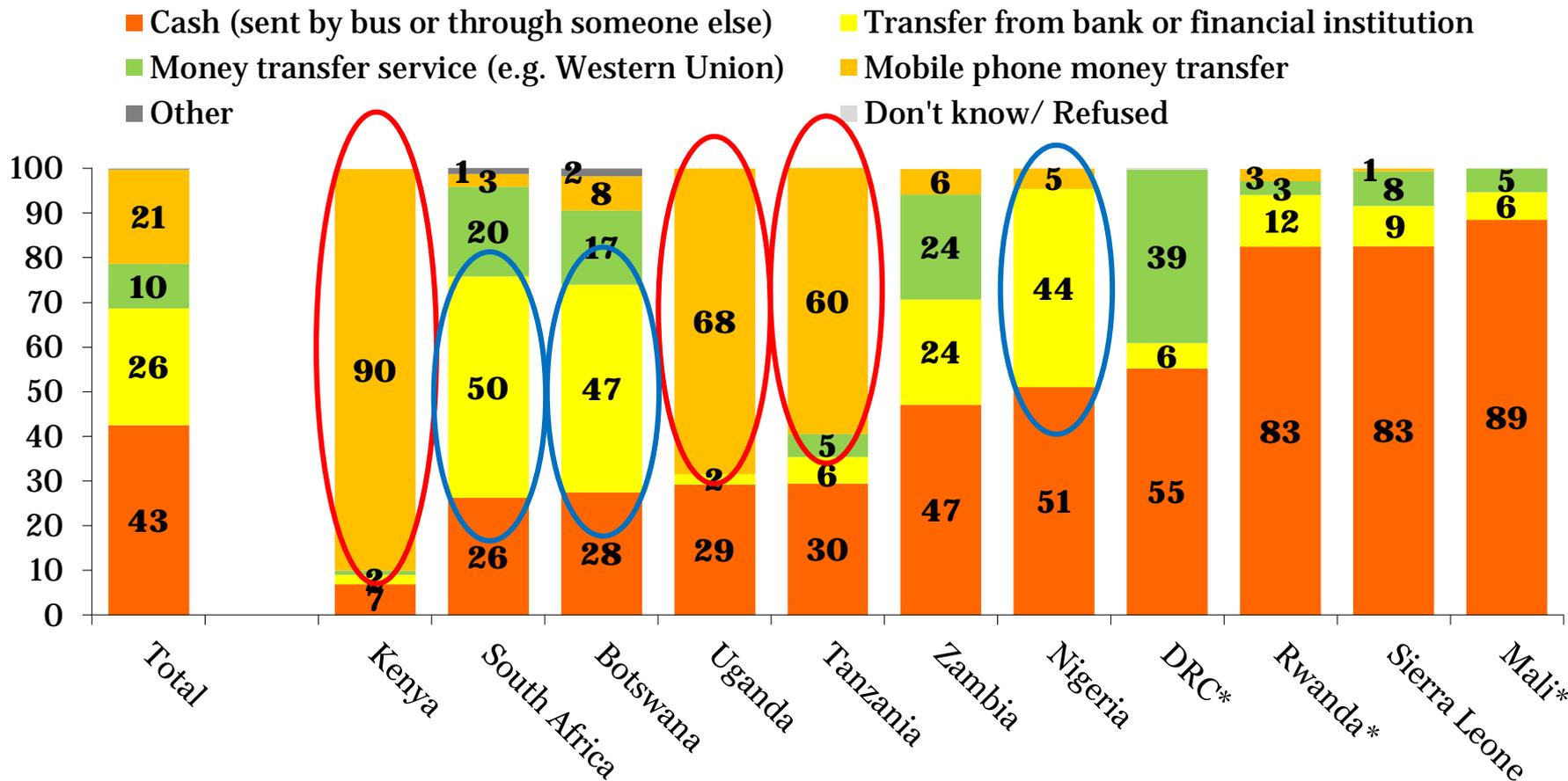
## The public sector stands to benefit directly from widespread use of digital payment services – and can add critical volume to promote the sustainability and inclusiveness of the system

- **Cost savings:** McKinsey study estimates government of India could save \$18Bn per year by switching to electronic payments.
- **Less “leakage” and corruption:**
  - Afghanistan switched payments to police from cash based payments to mobile money transfers and many thought they had been given a raise (less “leakage” to superiors).
  - Argentina switching to electronic safety net payments reduced number of clients who were asked for bribes to get money and 89% of clients said new system was easier and more efficient.
- **Targeting:** In Niger, study authors argue mobile better at targeting to women than cash, improving outcomes.

# Banks are mostly the reserve of the rich, mobile has greater penetration with the poor



# Different market types include the poor at different rates: Mobile payments are more inclusive than bank based



## Senders from bottom 40% of income:

- Bank senders, 8%
- Mobile senders, 21%

# Conclusions

## For policy makers:

- Domestic remittances should be higher on the development agenda in Africa because:
  - They touch so many people (4.5X as many as international)
  - They reach the poor (1.7X as often as international)
  - Large flows may be good for economy (11% of GDP across 11 economies)
  - Many are in cash – major pain point, and makes them a good inclusion “gateway”
- The mobile players should be allowed to contest the payment space.
  - The poor don't use banks for remittance services, but do use mobile

## For market players:

- The market for payment services is large in Africa:
  - 134M people sent and received payments in 11 countries in previous 30 days; 79M in cash (should be easy to beat!)
  - \$134 Bn received annually in domestic remittances alone (is biggest use case in most markets)
  - Market could be bigger if growth of remittances in Kenya after M-PESA is indicative
- Senders tend to be richer and urban, work in salaried office jobs; Receivers are more evenly spread over income, education, employment, and geography
- SMEs are key group as they drive value chain adoption to “close the e-loop”



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