Mobile Money for Financial Inclusion: The Mobile Accumulating Savings and Credit Association (M-ASCA) Model In Kenya.

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Abstract

The Kenyan informal sector is characterized by an ecosystem of self made informal savings and credit groups as well as informal money lenders that target the unbanked and marginalized populations. M-ASCA aims at mitigating challenges and conveniently addressing financial needs of the unbanked populations in Kenya. The platform virtualizes all the savings and credit processes making it possible for anyone interested to join from any part of the country including friends and relatives, conveniently save anytime and any amount, use their networks as guarantors from anywhere besides accessing loans at affordable rates on phone. All operations are phone based.

Relevance to innovation. The M-ASCA model was conceptualized to fill in the gap created by the elusive financial products targeting the unbanked. M-ASCA is purely electronic; people sign themselves on the platform and invite their friends and networks from wherever they are. They form virtual groups and guarantee loans for one another via the platform acting as social collateral. The System is integrated with mobile money wallets from main providers and members remit funds via the platform anytime conveniently and no wasting time in meetings. The interest rates are low since it is welfare based. M-ASCA targets all Kenyans to support each other.

Key Words. Informal sector, affordable credit, convenient savings channels, M-ASCA.

INTRODUCTION

Mobile money systems have transformed the execution of monetary transactions in Kenya. As of September 2015 (CA, 2015) 28.7 million subscribers were active in various forms of mobile money transactions among them money transfers, mobile banking, payment systems or other forms. Consequently populations excluded from formal financial services in Kenya have had a chance of participating, with financial service providers extending their services to the segments through agency networks whose number stood at 135,724 as of September 2015. Further mobile phone subscribers increased from 36.1 in 2014 to 37.8 % in 2015 (CCK, 2015).

Driving the exponential transformation is the acute lack of formal financial services particularly in rural areas. In addition mobile money products on offer have been designed to address needs that target poor and marginalized populations. For this reason even populations that were in urban areas but excluded from existing financial services due to unsuitable models (Mulwa &
Ndati, 2013) have found mobile money systems friendly and accommodative of their specific needs. Such needs include convenience of operating hours, amounts of transactions, any time anywhere access, privacy, intermediation among others.

THE M-ASCA MODEL

The M-ASCA model is an indiscriminate mobile phone based accumulating savings and credit application that aims at bringing community members together in order to improve their livelihoods. Operating as a Community Based Organization, named Mobile ASCA, The organization targets every adult Kenyan irrespective of their background (youths, women, small scale business people, the unemployed, private institutions etc) interested in saving in order to access capital for investment, business start ups, old age savings or any other viable need. An end to end electronic system members register themselves from any part of the country, integrated with local virtual platforms of major Mobile service providers they save conveniently to the association even late in the night and in convenient amounts accumulating savings little by little, apply for loans via the platform and request to be guaranteed and get guaranteed on phone, get disbursements to M-ASCA phone based accounts, check balances and exit from the system among other functionalities.

A pure electronic process allows people with irregular income to submit small amounts little by little; it also provides access to marginalized populations nurturing a saving culture as well as ensuring financial inclusion. It fosters transparency and streamlines the informal sector by providing affordable credit to those who do not have access to traditional financial services for their self-sustaining business activities.

PROBLEM STATEMENT

Kenya is categorized as a very poor country with large populations living in extreme poverty (Institute for security studies, 2015). According to world bank report (2015), 46% of Kenyans live in absolute poverty. These people have no means of meeting basic human needs and lead dehumanizing lives according to universal norms of human dignity which include starvation, lack of shelter and are likely to result to immoral activities for survival. Consequently the unemployment rate in Kenya stands at 40% (Trading Economics, 2014) meaning that existing affordable savings services in the form of SACCOs (Savings and credit cooperative societies) are not available for these people.

Sub-Saharan Africa is regarded as having a thriving informal sector with numerous small businesses that require little capital injection to get them started and sustained. In addition Prahalad (2006) is of the view that though the poor are of limited means, taken as an aggregate constitute a viable business volume. Unfortunately proprietors of these small ventures are continually frustrated by the legislative system and consequently the populations in these areas are excluded from essential services because of their meager resources, are sparsely populated and usually reside in rural areas that lack basic infrastructure (SIDA review, 2010).

Instituted support systems to these populations will encourage entrepreneurship, bolster incomes and see living conditions improved through access to growing incomes. Mobile money systems have demonstrated the possibility of extending mainstream financial services to marginalized populations and in effect deepening financial services to the unbanked populations. While the government of the day is alive to this concern through initiatives like the Uwezo, women and the youth funds, more sustainable models of financing the entrepreneurial sector are necessary. The M-ASCA model is designed to conveniently nurture a saving culture amongst the lesser off segments creating a sustainable and self-sustaining model for affordable credit.
OBJECTIVES

The purpose of this paper is to underscore the gaps exhibited by financial inclusion models targeting the lesser off segments and demonstrate how the M-ASCA model in Kenya fills this gap.

The specific objectives are:

(a) Analyze in detail the existing financial inclusion models targeting the poor and marginalized populations in Kenya.
(b) Highlight critical areas in need of interventions for financial inclusion of the lesser off segments in Kenya.
(c) Demonstrate how the M-ASCA model in Kenya is designed to address the specific needs of the lesser off segments in society.

LITERATURE REVIEW

Microfinance, the provisions of financial services to the low-income households and micro and small enterprises (MSEs), provide an enormous potential to support the economic activities of the poor and thus contribute to poverty alleviation (George Omino CBK, 2005). Widespread experiences and research have shown the importance of savings and credit facilities for the poor and MSEs. This puts emphasis on the sound development of microfinance institutions as vital ingredients for investment, employment and economic growth. The potential of using institutional credit and other financial services for poverty alleviation in Kenya is quite significant.

About 18 million people, or 60% of the population, are poor and mostly out of the scope of formal banking services. According to the National Micro and Small Enterprise Baseline Survey of 1999, there are close to 1.3 million MSEs employing nearly 2.3 million people or 20% of the country’s total employment and contributing 18% of overall GDP and 25% of non-agricultural GDP. Despite this important contribution, only 10.4% of the MSEs receive credit and other financial services. The formal banking sector in Kenya over the years has regarded the informal sector as risky and not commercially viable.

According to the Poverty Reduction Strategy Paper (PRSP) of 1999, a large number of Kenyans derive their livelihood from the MSEs. Therefore, development of this sector represents an important means of creating employment, promoting growth, and reducing poverty in the long-term. However, in spite of the importance of this sector, experience shows that provision and delivery of credit and other financial services to the sector by formal financial institutions, such as commercial banks has been below expectation. This means that it is difficult for the poor to climb out of poverty due to lack of finance for their productive activities. Therefore, new, innovative, and pro-poor modes of financing low-income households and MSEs based on sound operating principles need to be developed.

Mobile money has been proposed as a promising trajectory in the effort to address financial inclusion of the poor and marginalized (Mulwa and Ndeti 2013). Traditional lending methods have not been able to address the needs of the unbanked in Kenya. These populations are of irregular and meagre income, work long hours and have several competing needs. There is therefore need for a well thought out model to address their financial needs.

EXISTING MICRO FINANCE MODELS

The fallback to entrepreneurship by majority of Kenyans as a solution to lack of formal employment calls for affordable convenient and reliable financial sources for startup capital. Safe the government initiatives of Uwezo, women and youth funds which need to be supplemented, various models have sprung up to cash on these vulnerable sector. Among these are shylocks and MFIs whose interest in not regulated as opposed to that of banks. MFIs particularly that lend money to groups of people in the informal sector have proven unfriendly due to their mode of execution.
Members are required to be in groups of 10-15 and residing at the same geographical area. These members act as guarantors for loans given to each one of them. Since these members only come together simply as a requirement of the MFI, many take loans and default, leaving the burden to the others. In addition members recover defaulted loans from sale of household items which is straining to extended family members including children.

Shylocks on the other hand are out of reach as they charge scissor interest rates on their loans are unsustainable and leave borrowers poorer (Martina & Ndeti 2013). Besides MFIs, two other significant informal financial services dominating the informal sector are the Rotating Savings and Credit Associations (ROSCA also known as merry go round) and Accumulating Savings and Credit (ASCAs) (FSD Kenya 2009)). These are similar to each other in the sense that they are both voluntary and independent groups with their own rules and no outside organization with control over them. The central difference between ASCAs and ROSCAs is that each time a ROSCA group meets and savings are collected, the whole pot is then immediately in the same meeting redistributed to one or several members of the groups. On the other hand ASCAs do not give the funds to anyone, but lend the funds to willing borrowers with interest. The interest paid on the loans will then accumulate in the group fund. At the end of the year ASCA members often divide part of the profits (from interest payment) to the members.

However, these two models have several challenges (Johnson et. al (2002) for 1999 and 2001; DFS for 2007) which include 1) Costs consisting of erroneous charges, low interest on savings and high interest rates on loans 2) on demand contributions and payments, time and effort to attend meetings, time and effort to do transactions 3) risk /trust, fraud, theft and paying for loans on behalf of defaulters 5) communication which is not efficient and 6) management as well as powerful individuals taking advantage of members. These challenges are mainly because these two models are used by the very bottom of the pyramid that are largely illiterate.

In addition these existing models face challenges in the recovery system for defaulters, increased borrowing capacity, and growth of savings forcing members to borrow loans they do not need yet the interests are very high. Though these challenges may be a serious challenge to financial inclusion considering that these models are the only options for the lesser off in society, a streamlined execution process and management of the models could ensure affordable and sustainable source of credit for the Small and Medium sector in Kenya compared to the other Informal micro finance formations.

According to FSD Kenya (2009), a total volume of some Kshs 65 billion (close to US$1bn) is intermediated through ROSCAs and ASCAs on an annual basis. Given this, there is a justification for arguing that efforts could be directed to improving the internal organization of these groups to reduce the risk of losses through this highly prevalent form of financial intermediation. Understanding lesser off segments and designing appropriate financial inclusion channels that take into consideration the characteristics, capabilities and needs of these people will go a long way in providing a permanent solution to financial exclusion in Kenya.

DESCRIPTION OF THE M-ASCA MODEL

M-ASCA targets those excluded from formal financial services and henceforth exposed to the informal financial sector characterized by exorbitant interest rates for credit and poor management of group activities. The targeted segments engage in small businesses, with equally small margins of profit as a result of saturation of similar activities and limited capacity for alternatives. M-ASCA mobile money enables the organization to serve its members in the entire country, breaking infrastructural and other logistical barriers as well as geographical limitations, and by minimizing the costs of operations such as cutting down on agents and facilities being set up all over the country. This does away with over reliance on agents and enables members to directly access services via their phones. The services are all inclusive from self-registration to loan application,
saving money, request for guarantors, guaranteeing members, checking balances, statements and loan repayments among others.

The model is deliberately designed to eliminate wasting crucial time for members in meetings at the expense of working choosing to empower them to take charge of the management of their financial affairs. The model also avoids tying members to a circle of friends and anyone anywhere can be an M-ASCA member and a guarantor can be anyone in any part of the country. It encourages people to know each other and socialize from wherever they are.

The model is in cognizance of the fact that convenience is critical in nurturing the saving culture of lesser off segments. Though there is a viable economic ecosystem at the base of the pyramid, saving is one among many competing needs, hence the need to avail opportunities for saving close to sources of income and as conveniently as possible. Supported by the M-Pesa and Equitel network of outlets (with over 40,000 and 20,000 agents across the country consecutively) the design puts into consideration the fact that people in the informal sector may not have regular income but access some money anyway, it is necessary to tap this resource at the earliest opportunity. The M-ASCA model allows members to save any amount; as little as Ksh 50, which the system can accept anytime and as many times as one wishes in a day. It also allows them to repay loan installments bit by bit anytime within the month as long as by the end of the month the whole installment has been paid.

M-ASCA recognizes the different social support structures in the country and factors in group saving, where members of a family or an organized group like chamas come together and save into a common kitty here referred to as “super guarantor”. Members of the group get guaranteed from the common kitty, and any money leaving the common kitty (super guarantor) must be confirmed by the signatories. The system also helps in mobilizing savings either through the temporary account or the loan savings account. This is made possible by the USSD (unstructured supplementary service data) based platform. The design is considerate of the heterogeneous demographics and hence simplified to make it easy to use, enabling members to follow a step by step procedure that allows them to navigate services offered by the association.

M-ASCA stands out because the registration of members is electronic, this escalates uptake as documentation required from the target segments sometimes becomes a barrier to uptake of these services. Members also have the option of making contributions or repayments in bits as their income dictates giving them an opportunity to conveniently plan their financial affairs.

Guarantor system encourages recruitment of friends and relatives and in the process incorporates majority of the unbanked populations into the formal system and consequently ripping the benefits as well as scaling the product. The model is affordable, interest rates are low and considerate to the hardships Kenyans go through. Kenyans get value for saving. Discriminated populations in terms of unemployment, women and youth for lack of collateral enjoy credit with themselves as the guarantors and their networks across geographies.
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The product has the potential of creating a unified Kenya as the guarantor system is universal anywhere anywhere is capable of guaranteeing the other. Membership does not need to seize when one relocates or is away from friends.

CONCLUSION

The analysis has clearly demonstrated the importance of the informal financial service sector. Through the informal financial sector 35% of the population, who would otherwise be excluded, have access to financial services. Informal groups also serve poorer clients compared to semi-formal and formal service providers as well as many small scale farmers that SACCOs may not be interested in serving.

There is justification for a consulted effort to engage directly with informal groups in a bid to improve their operations in ways that will deliver higher quality services to some of the poorest people who currently lack access. Engaging with informal groups has clearly been demonstrated to be problematic. This analysis further illuminates that these groups face many challenges, in terms of payments, management and governance of the groups, mismanagement of funds and theft. Approaches to working with these groups must therefore consider how to deal with this tension and allow for this negotiability by enabling groups to serve their member’s needs effectively and respond to emergencies. Working with groups on the basis of their own savings alleviates the need for rigid external performance assessment but may be done in ways that improve their transparency and accountability and hence effectiveness for users. Given their importance in overall access and the evidence of how much savings they mobilize, it is appropriate to consider how their services might be improved, especially in the light that many of these groups are not well organized.

The M-ASCA model comes in handy to streamline the management of the operations of the service through the strategic partnerships that would address the challenges cited by designing a universal savings and credit product that goes beyond to address barriers of socio-demographic factors of age, geographical location, education and gender. The M-ASCA model is also appropriate as it does not fall under the regulations governing deposit taking Micro finance Institutions whose capital and other set up requirements are far beyond the capability of members and incompatible with the simplistic cost cutting measures the M-ASCA model adopts to ensure access. According to the Micro Finance Amendment Act (2013) informally constituted MFIs like Rotating Savings and Credit Associations (ROSCAs), club pools, financial services associations (FSAs) or Accumulating Savings and Credit Associations (ASCAs) should not be supervised by an external agency of the Government. Donors, commercial banks, and government agencies from which they obtain funds or that support them should carry out due diligence and make informed decisions about them.

The mobile money payment system in Kenya has proven to be a reliable and sound method of tracking funds and providing the accountability required in the management of public funds (Alliance for Financial Inclusion, 2010). The M-ASCA model is thus a reliable model capable of overcoming the challenges encountered in the operations of various informal Micro Finance Institutions effectively transforming the lives of over 16 million Kenyans who depend on the Informal financial sector for credit.

Recognition

M-ASCA is a copyright under the Copyright Board of Kenya as well as a Trademark
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