

# Merchant solutions could be the answer to mobile money's last mile issue



By [Vahid Monadjem](#)

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The mobile money agency system has made huge progress in increasing access to financial services and reducing the cost of transactions, though in terms of serving the "last mile" - those wishing to make single dollar transactions - there is still much to be done. But the answer may be staring us in the face.



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In disrupting the traditional financial system, with its reliance on formal tellers and ATMs, mobile money and its agency model have taken off across Africa. According to Frost & Sullivan, the value of mobile money transactions in sub-Saharan Africa reached USD 656m in 2014, and may more than double to USD 1.3 billion in the next four years.

The success of the likes of M-Pesa, Paga, Zoono and Splash-Cash stemmed from the relative inaccessibility to and unaffordability of the banking system for small transactions. Mobile money providers reduced the cost of transactions by eliminating the need for high-cost office space and tellers behind expensive counters. Yet, if we are speaking about banking the unbanked, values transacted are still relatively large and hence infrequent. The average M-Pesa transaction value is over USD 20, which is a lot if you earn less than USD 2 per day, which well over one billion people globally do. It's time to extend the gains of the agency model to the next level: to single dollar transactions with general retail merchants on every street corner.

For payments with dedicated agents, who earn all their income from transactions, the fixed monthly cost is USD 150 - 250 per agent. An agent would have to process over USD 20,000 in transactions to break even. If they were to do that on single dollar transactions, each agent would have to process two transactions a minute, eight hours a day, every day of the week. This is not likely to happen. So average transaction values remain at around USD 30 and providing single dollar transactions continues to be uneconomical.

There is a need for a third tier in the payments system if the last mile of payments is to be covered. The first tier is of course bank branches and ATMs, the second tier is mobile money agents and the third tier is merchant payments. We need to make single dollar transactions a cost-effective reality, which it cannot be under the current system, as it is impossible for single dollar transactions to cover the costs of the first and second tier models.

The answer, however, may be staring us in the face: merchants in the informal retail trade. Nigeria has thousands of bank branches, tens of thousands of mobile money agents, and hundreds of thousands, if not millions of small retail merchants. This is a ubiquitous touch-point for consumers across Africa.

At Nomanini we are realising that services like ours can be the last mile when it comes to single dollar payments.

This is based on simple economics. Whereas 100 per cent of an agent's income comes from payments, merchants sell all sorts of other items, so processing of transactions provides an additional income or a complementary income for the rest of their business. In fact a merchant wants to do small transactions to attract customers. If the transactions are too large, their liquidity suffers and they would rather refer those transactions to dedicated agents. With lower overheads - the shop is already built, the staff are already employed - costs come down, and with them so do transaction values. Now single dollar payments are a possibility, simply by utilising a massive pre-existing network.

People that live on USD 5 per day - over four billion people, or two-thirds of the world's population - can now cost effectively make electronic transactions daily. This third tier of financial services provides one more level of inclusion to the use of e-money, which can then be extended over time to transactions for other things such as microfinance and insurance. To create a truly cashless society will require that the liquidity and cost of using of e-money to be on a par with cash, for those at the bottom of the pyramid as well as at the top. That is the story of single dollar payments, where currently cash has a better value proposition for daily payments.

Creating this third tier has its challenges. Payments is a low margin business and last mile is an unattractive area to serve for many businesses regardless of what sector you are in. There has been little consolidation in the market, and the immaturity of the ecosystem is a hindrance to doing it at scale. Merchant acquisition is intensive and requires significant tech and organisation.

By utilising the huge existing merchant network to make single dollar payments more accessible and affordable to the bottom of the pyramid, a third tier is possible. This is what our service offering enables. And from there, it could provide a springboard to a multitude of ancillary services - such as credit scoring and inventory management for merchant. We just need to get the economics right for nano-transactions.

## ABOUT VAHID MONADJEM

Vahid Monadjem is the co-founder and CEO of Nomanini, a South African-based mobile Point of Sale service for facilitating cash transactions in emerging markets. He is passionate about working at the intersection of technology and design in informal markets, where Nomanini's solutions can directly impact people's lives.

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