Africa's quest for a cashless economy gains momentum

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When she needed to transfer money to a friend in a faraway village last March, Mouna Ahmed, a gender equality activist in Liberia, did not have to worry about long bank queues and complex paperwork. Instead she took her phone, tapped on the mobile money app, punched in an amount and pressed the send button. Minutes later, her friend acknowledged the kind gesture.

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"Transferring the money took less than a minute," Ahmed told *Africa Renewal*.

A leading Liberian telecom company, Lonestar Cell MTN, launched mobile money in the country in 2013. Since then, Ahmed says, "I pay my electricity, water and cable television bills through my cell phone." Last year, the company announced it will offer transfers in both US and Liberian dollars—a relief for customers who must currently use the US dollar for
payments.

Liberians haven't had much experience with cashless payment methods, particularly mobile money (popularly known as "mobile wallet"); even credit and debit cards are little used. Although businesses and individuals still issue age-old cheques, mobile wallet use is steadily increasing.

Unlike in Liberia, where mobile money is the primary means of making cashless payments, Rwanda is using several different methods. The country's ambitious Smart Rwanda Master Plan (SRMP) seeks to digitise all government financial transactions by 2018, which will allow citizens to make online payments as well as use debit and credit cards for services in health care, finance and education, among other areas.

This strategy is an offshoot of Rwanda's Vision 2020, a government blueprint designed in 2000 for achieving a knowledge-based economy (in which growth depends more on information than on production) and leading the country to the middle-income bracket by 2020.

Already most bus operators in Kigali, Rwanda's capital city, accept prepaid cards. Thousands of commuters riding swanky city buses need only swipe a debit card on a card reader fitted on a bus dashboard before taking their seats. Gone are the days when conductors collected cash payments.

M-Pesa sets the pace

Philip Ngarambe, the chief operations officer of AC Group, a digital payment systems company in Rwanda, explains that previously, "by the time [cash] gets to the company there are so many hands it has gone through—from the conductor to the bus driver to the person collecting it, to taking it to finance and the bank account", that businesses lost between 40% and 60% of revenues through cash pilfering.

Rwanda may be ahead of the curve in cashless commuting, but Kenya's M-Pesa, a mobile payment service launched in 2007, is acclaimed for the revolutionary impact it has had on society. M-Pesa (a Swahili word for "mobile money") allows people, even in rural areas, to transfer money to one another, make day-to-day purchases and pay for services such as electricity and water.

The Global System for Mobile Communications Association (GSMA), the London-based industry group that represents mobile operators worldwide, has lauded M-Pesa's pioneering effort for demonstrating "the potential of mobile technology to transform access to financial services in emerging markets."

Kenya, Tanzania, Uganda, Côte d'Ivoire, Egypt, Nigeria and South Africa are also bellwethers of cashless payment use in Africa, according to GSMA.

The Egyptian government, in collaboration with MasterCard and the Egyptian Banks Company (EBC), is working on a similar project that will allow 50 million citizens to use a single mobile payments gateway. The gateway will link citizens' national IDs to a digital system, which means all those in the financial mainstream—suppliers, distributions, customers, government and so on—can transact with one another.

Similarly, the Nigerian government and MasterCard are planning a national ID programme with biometric functionality that citizens can use to pay for goods and services and to receive salaries. That project, targeting 100 million citizens, will be the largest of its kind on the continent.

Tantalising investment opportunity

A pan-African bank, Ecobank, and MasterCard have set their sights on 100 million customers in 33 African countries (including Nigeria, Kenya, Uganda, Tanzania and Rwanda) with a service dubbed Masterpass Quick Response (QR). Masterpass QR is a digital system that enables customers to make online and in-store payments. In-store customers can make payments by scanning a QR bar code downloaded on a mobile device.

Paradoxically, Africa's lack of financial inclusion—the slow adoption of tools of global commerce, such as banking and financial literacy—has proved attractive to investors. About 90% of retail transactions in sub-Saharan Africa are cash based, while just 34% of adults have traditional bank accounts, according to the World Bank—suggesting tantalising potential for investors.

More than 500 million Africans currently use mobile phones; according to GSMA's 2016 annual report, that number will rise to 725 million by 2020, while 84 million have active mobile money accounts. That report also notes the use of mobile money in 31 African countries.

Mobile money transactions in sub-Saharan Africa could exceed $1.3 billion by 2019, according to data by the consulting firm Frost & Sullivan. Experts forecast that the increasing number of mobile subscribers will inevitably lead to an increase in the mobile money market.

Also on investors' radar is the $62 billion per year—and growing—of international remittances to Africa, which a company like WorldRemit, an international money transfer enterprise founded by Somaliland's Ismail Ahmed, has successfully targeted. Unlike the big global money transfer companies such as Western Union that mostly require receivers to pick up cash from banks, WorldRemit enables African immigrants in Europe and North America to use their debit or credit cards to send money directly to recipients' bank accounts or mobile wallets in Africa.

"I send money to my folks in Ghana every month. I use WorldRemit," says Naa Atswei Kodia, a Ghanaian living in the United States.

For individuals, digital payments save time; for businesses, they send monies seamlessly into accounts; and even government transparency and accountability credentials are enhanced with digital payments. "The use of smart cards… also protects the environment, as there are no longer paper tickets littering [Kigali]," adds Ngarambe.

In Rwanda, electronic payments have reduced the birth registration time from six hours to 40 minutes, reports GSMA. In Tanzania, paying a vehicle license fee now takes an hour, instead of a whole day, as was the case previously.

Less cash leads to less crime, researchers say. A study by William Jack and Tavneet Suri titled, *Mobile Money: the Economics of M-PESA*, published by the National Bureau of Economic Research, a US-based nonprofit research organization, found that a few months after M-Pesa debuted, consumers cited personal safety and security as reasons for using the service.

Benefits

Jude Onwuegbuzie, a Nigerian businessman and legal practitioner, told *Africa Renewal,* "These days, people traveling between cities don't carry cash, so highway robberies are no longer lucrative in Nigeria."

The United States Agency for International Development (USAID), the foreign aid arm of the US government, touts success in partnering with the Liberian government to implement the Mobile Solutions Technical Assistance and Research (mSTAR) project, which enables teachers in Nimba County in northern Liberia to receive monthly salaries paid in the capital, Monrovia, through their phones.

“The mobile money payment eliminated time away from their classrooms and reduced costs to receive their salaries by 84%,” USAID states on its website.

Mobile money moves the poor from the informal to the formal financial sector. With 40.5% of its GDP in the informal sector, Africa has the highest rate of the shadow economy, according to the World Bank. By comparison, the figure is 16% for countries in the Organisation for Economic Co-operation and Development (OECD). “Payments provided via an account can provide the on-ramp to financial inclusion,” maintains the World Bank.

Digital payments and SDGs

GSMA considers mobile payments relevant to 11 Sustainable Development Goals (SDGs), including SDG 1, because it helps to eliminate extreme poverty; SDG 5, because financial services empower women economically; and SDG 9, because digital payments and access to credit services lead to new industries.

But regulatory bottlenecks often slow progress in the cashless payment industry. A lack of interoperability among mobile transactions in some countries, meaning individuals cannot transact across carriers, is a problem, says Daniel Monehin, MasterCard’s division president for sub-Saharan Africa. In Liberia, for instance, Ahmed says that she cannot send money to people on another mobile phone network.

GSMA advises countries to allow banks and nonbank actors into the financial sector and advises providers to focus on “operational efficiency.”

Nigeria penalises certain amounts of cash withdrawals, which encourages people to make cashless transactions. That policy will help modernise Nigeria’s payment system, says GSMA.

Still, Neal Estey, a former director of the Boston University’s Center for Finance, Law and Policy, is circumspect about digital payments. Mobile money “should not be sold as a miracle cure for financial inclusion,” he argues, because people in developing countries who use mobile money instead of opening bank accounts cannot build a financial record, have no credit ratings and do not enjoy the benefits of banking.

But banks hungry for good returns are feeling the winds of change, which is why many are already partnering with credit card and mobile payment companies.

“The future of mobile banking will sooner or later belong to the banks,” says Sunil Sachdev, CEO and chief business development officer of Meed, a US-based mobile financial services company.

Source: Africa Renewal.