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Data-driven Research to Bring Billions Online

SMARTMONEY INTERNATIONAL

PROVIDING MOBILE SAVINGS AND PAYMENT SERVICES AND
FINANCIAL LITERACY TRAINING TO RURAL COMMUNITIES IN
TANZANIA & UGANDA



Two SmartMoney employees. Photo credit: SmartMoney

EXECUTIVE SUMMARY

SmartMoney is a digital savings and payments company that has provided affordable and accessible financial services to rural communities in Africa since 2010. The company does so by charging zero fees to its retail customers and passing those charges on to local institutional partners/customers who also benefit from the reduced costs of engaging in digital transactions versus riskier cash transactions. SmartMoney runs a strategic marketing campaign and pioneers a scalable financial literacy training program, staffed by locals, to attract customers and partners and to teach them to use the company's mobile technologies.

Keywords: mobile money, financial inclusion, rural communities, Africa

CONTEXT

While Africa’s formal financial services industry remains underdeveloped and underutilized relative to other developing regions, the continent’s mobile money subindustry has seen tremendous growth for over a decade now. With the fastest-growing mobile money services in the world and possessing half of all of these services in the world, Africa has been recognized as a global leader in this sector. The market has flourished with innovative technologies and business models that are more affordable and accessible to low-income people and small business owners, particularly in eastern Africa. According to a World Bank report on financial inclusion, 21% of adults in Africa had a mobile money account in 2017. The largest providers in this landscape include MTN, Orange Money, Tigo and M-Pesa.

Large swaths of the population still remain outside of this market and the digital revolution more broadly. Inhabitants of rural areas, who are disproportionately poor and lacking in education, are less likely to have mobile accounts. Other demand-side barriers include lack of financial literacy, irregular incomes, and unemployment. On the supply side, major barriers include high costs of service provision in geographically spread and underdeveloped areas, difficult government regulations, and reliance on one-size-fits-all approaches that are unfit for the nuanced social, cultural and economic conditions of target groups. However, these challenges have spurred greater product and service diversification that continues to give more people access to the formal financial sector.

In Tanzania, over 50% of adults now have access to mobile money services. The country is among the top 25 countries that the World Bank has projected will be able to provide universal access to electronic accounts by 2020. Major developments that have led to this include reduced transaction costs and increased products offerings such as credit and insurance. One priority for Tanzania in the coming years is moving users beyond transactional into savings and credit services, to derive benefits akin to traditional banking. Uganda’s mobile money market is also characterized by rapid growth and expanded access, but improvements are stymied by challenges like high-interest credit and increased government taxation on service providers.

Tanzania			
Population (UN, 2015)	59,091,392	Fixed broadband subscriptions (%) (ITU, 2016)	0.25
Population density (people per sq.km) (UN, 2015)	66.71	Mobile cellular subscriptions (%) (ITU, 2016)	74.36
Median household income (Gallup, 2006-2012, USD)	2154	Individuals using the Internet (%) (ITU, 2016)	13
Education (Mean years of schooling) (UNDP, 2013)	Male: 5.8 Female: 4.5	Individuals using the Internet by gender (%) (ITU, 2016)	N/A

PROJECT DESCRIPTION

SmartMoney was launched in Tanzania in 2010 with the aim of providing rural communities with digital payments and savings to reduce security issues, payment related costs and to increase savings as a mechanism for empowering local investment by creating digital income sources. Initially targeted to communities in the cotton industry, the business expanded into other agricultural sectors such as coffee and maize, and also into small enterprises and organizations (churches, schools, agricultural cooperatives) once rolled out in Uganda in 2012.

Recognizing that fees in the existing financial services market were prohibitive for potential rural retail consumers, SmartMoney introduced an innovative business model that offers free of charge digital wallet services for retail customers such as rural households, smallholder farmers, and rural merchants and charge 2% for institutional customers such as schools, churches, agriculture companies, and small NGOs. In addition to collecting institutional fees, the business generates revenue by collecting investment returns on customer deposits in the same vein as traditional banks. In certain cases, they invest in government bonds, which pay 18% in Uganda.

The company has to invest in creative marketing methodologies and effective hands-on, sustained financial literacy training (weekly over what might be several months) to establish strong trust-based local networks and foster successful adoption of its technologies. Marketing is carried out by small, highly organized on-the-ground locally hired marketing teams who advertise the company through roadshows in branded vehicles. These cost-effective roadshows are based on carefully created maps and calendar of markets events. The company operates in one geography at a time, targeting markets at the district level.

SmartMoney provides a financial education program to promote take-up among rural communities. They identified practical hands-on training as the best possible method to teach rural communities how to make a deposit, how to check their balance, and how to withdraw money on their phones. The customer base is sustained through ‘SmartMoney Saving Clubs’ based in the local partner institutions such as schools, churches, and agriculture coops, where the community organize. The training is provided over a period of three months with weekly repetitive training by trusted people in the local communities who speak the local tribal languages. They train not just farmers but also merchants in their surrounding villages so that they would accept the digital payments from the farmers. SmartMoney maintain a sizeable on-the-ground team and motorized transport to meet these demands in geographically dispersed areas.

SmartMoney jointly occupies the financial technology, training, banking, and payments service spaces. The cycle takes approximately 18 months to reach sustainability with operational costs of approximately \$500,000 per site. However, this process is hampered by intermitted and inconsistent funding. The project received donor funding from Africa Enterprise Challenge Fund, Master Card, and USAID. The company hopes to secure more reliable funding to sustain development costs.

Project details			
Technology	Cloud-based mobile technology	Cost to users	Free

Year program started	2010	Training	3 months, weekly repetitive training
Geography	Tanzania, Uganda	Total cost of program	Operational cost: USD 500,000 (for 18 months)
User profile	200,000 retail customers - 2500 of them are merchants, roughly equal among men and women in Uganda	Associated organizations	Africa Enterprise Challenge Fund (AECF) Ministry of Trade Industry & Cooperatives Mountains of the Moon University The MasterCard Foundation

PROGRESS AND RESULTS

SmartMoney has successfully integrated into its target markets. It currently has 200,000 retail customers, 2500 of which are local merchants, in a district of 800,000. While slightly more men than woman are registered customers in Tanzania, the gender breakdown is roughly equal in Uganda. The company has overcome major cultural, geographical, logistical, financial, and educational barriers to bringing the benefits of digital financial services to these underserved markets and creating a more technologically savvy population. The savings clubs supported by SmartMoney has sustained service use in areas of implementation.

SmartMoney 2,500 points of presence in community, engages with 300 institutions every three months, and has 900 active institutional customers. In their current district of operations, they have identified 5,000 potential institutional customers and partners.

CHALLENGES

Resistance from rural farmers – Despite the free pricing, the cotton farmers rejected the free digital wallet and digital payments from cotton companies because they did not understand how this service works and how to use phones, and how to withdraw the digital money into cash, and most importantly none of the shopkeepers in the villages were accepting digital money as a form of payment.

Providing effective and efficient sustainable training programs – The fundamental challenge is to identify a high-touch, repetitive practical training from local trainers to financially illiterate population in most remote villages on top of mountains sustainably. If you train people only once, the training will not have a sustainable impact. Based on SmartMoney’s experience, people need to be trained over a period of three months with weekly repetitive training.

Building high performance training team with a limited skill set – It is difficult to find local people who have the skillset to be effective managers. Many locals are uneducated, unskilled, and inexperienced, requiring significant investment in their own training.

Monitoring local employees – SmartMoney’s local employees, coming from conditions of scarcity, have incentives to engage in dishonest financially beneficial behaviors. The company manages these employee risks by maintaining a robust operating model with very rigorous monitoring and control of all activities and effective methods of adjudicating and punishing violations. This creates substantial overhead costs.

Investment funds – Lack of patient investment capital poses a major obstacle to meaningful change. Donors want to see measurable results to justify continued expenses, but it generally takes a longer time horizon to see measurable results in a given locale. Lack of investment and no government support lengthens the time between implementation and self-sustainability. In addition, finding smaller amounts of funds is difficult, particularly from Silicon Valley.

SMARTMONEY’S SUGGESTIONS FOR FUTURE PROJECTS

Develop local solutions for local problems – The problem space is not the same in rural African contexts as it is in Western or even urban African contexts. Therefore, it is important not to project assumptions about the latter onto the former. Too often, solutions imported into rural areas fail because they are based on radically different market conditions. One must have an appreciation of the unique challenges in rural areas—such as lack of access to technology, education and training, and trust—and to adapt solutions to them. Relatedly, these obstacles make the costs of operating businesses higher in rural areas, and investors must be prepared for that.

Local relationships are essential – Community organizations play an essential role by constituting the institutional customer base and by providing sites for savings clubs and marketing and training activities. Trust is built and maintained through trainers who are community members, who speak the local tribal language and have some sort of family or tribal connection with local community. Relationships with these parties in various capacities are necessary for business implementation and sustainability.

Explore multiple solutions – A big challenge in the fintech space is that businesses put themselves into discrete categories. In so doing, they might only provide partial solutions. SmartMoney evolved from strictly fintech to fintech, training, banking, payments in order to address the unique problem space encountered in rural communities. Companies should be open to adaptation to become more effective problem-solvers.

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