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Schumpeter

Business and management



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Our Schumpeter columnist and his colleagues consider business, finance and management, in a blog named after the economist Joseph Schumpeter

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WANT to get some cash at automated teller machines in Nairobi? Don't be surprised by the guards with machine guns. ATMs attract plenty of muggers and pickpockets.

Unsurprisingly, cashless transactions have been catching on fast in Nairobi and elsewhere in Africa. Microfinance organisations were among the pioneers. In Kenya, for instance, they started using M-PESA, the popular mobile money service, to hand out loans to small-time businesspeople in 2008, soon after its launch.

Musoni, a Kenyan microfinance firm with more than 10,000 customers and over \$6.3m in loans since its launch in May 2010, is now taking the idea even further: in an effort to bypass banks and make microfinance more efficient, it has gone completely cashless—a worldwide first, claims Cameron Goldie-Scot, the firm's chief operating officer.

Cashless transactions are more secure: they are traceable and hard to redirect. Yet combining mobile money with brick-and-mortar banks adds costs. Using services such as M-PESA also does not do much to improve microfinance organisations. Most already enjoy high repayment rates, around 97% in some cases. Efficiency gains require a more radical approach.

Hence Musoni's going all digital. Its loan officers are armed with tablet computers and a custom application for collecting loan-applicant data. They take their devices to the field, for instance to check with owners of portable toilets in Mukuru, a slum in Nairobi. These charge neighbours for a toilet's use and sell the waste it collects to Sanergy, a partner of Musoni's, which converts it into fertilizer and electricity.

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Loan officers estimate how many people live in a toilet's vicinity to calculate the business's future revenue. They also interview potential borrowers. All the data are stored in their tablets and on Musoni's servers. And if the firm's employees approve a loan, it will arrive by text message—as credit on the applicants' M-PESA account.

What is more, thanks to the tablets' wireless connection, loan officers can pull up a borrowers' payment history on the spot, for instance during weekly group meetings with other borrowers. And loan officers can activate automatic payment reminders, holiday greetings and marketing messages. All this allows them to cultivate relationships with a greater number of borrowers than they could otherwise.

Many other microfinance institutions also would like to go cashless, but they lack the necessary technology, says Mr Goldie-Scot. So Musoni will soon offer to license its system to other microfinance organisations for a fee. If it catches on, it will help bring down the cost of credit for many of the world's 2.5 billion unbanked poor, explains Mr Goldie-Scot.

For pickpockets, however, it would be bad news. Among some of them, cash is already out of fashion. They are now out to snatch mobile phones. In a crowded bar this correspondent batted intruding fingers away from the pocket containing his treasured mobile. In the crush a companion's phone, alas, was stolen. In another pocket, though, your correspondent's wallet sat untouched.

(Photo credit: Musoni)



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