Demand for Micro-Savings Programs in Uruguay: Motivation and Resistance to join C3U

Magdalena Ramada Sarasola

Innovation & Research Multiplier and Social Trade Organization (STRO)

for the Institute for Money, Technology & Financial Inclusion (IMTFI)

Overview

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- Mobile Money and Alternative Currencies
  - Definition of a Mobile Money System (MMS)
  - Definition of an Alternative Currency System (MMS)
  - Discussion of C3U attributes
- Some stylized facts for Uruguay
- Survey design
- Survey pilot: first results

Mobile Money Definition

Mobile Money Systems provide a network in which customers can

- deposit traditional money into an account
- use the money stored in that account to perform economic transactions
- withdraw the e-money cashing it out into traditional money

Usually

- e-currency is usually fully backed by traditional currency
- the system charges fees for each type of transaction
- the system does not pay interests nor generates credit

What are its advantages then?

- simple registration
- cheaper and easy accessible way to perform fin. transactions

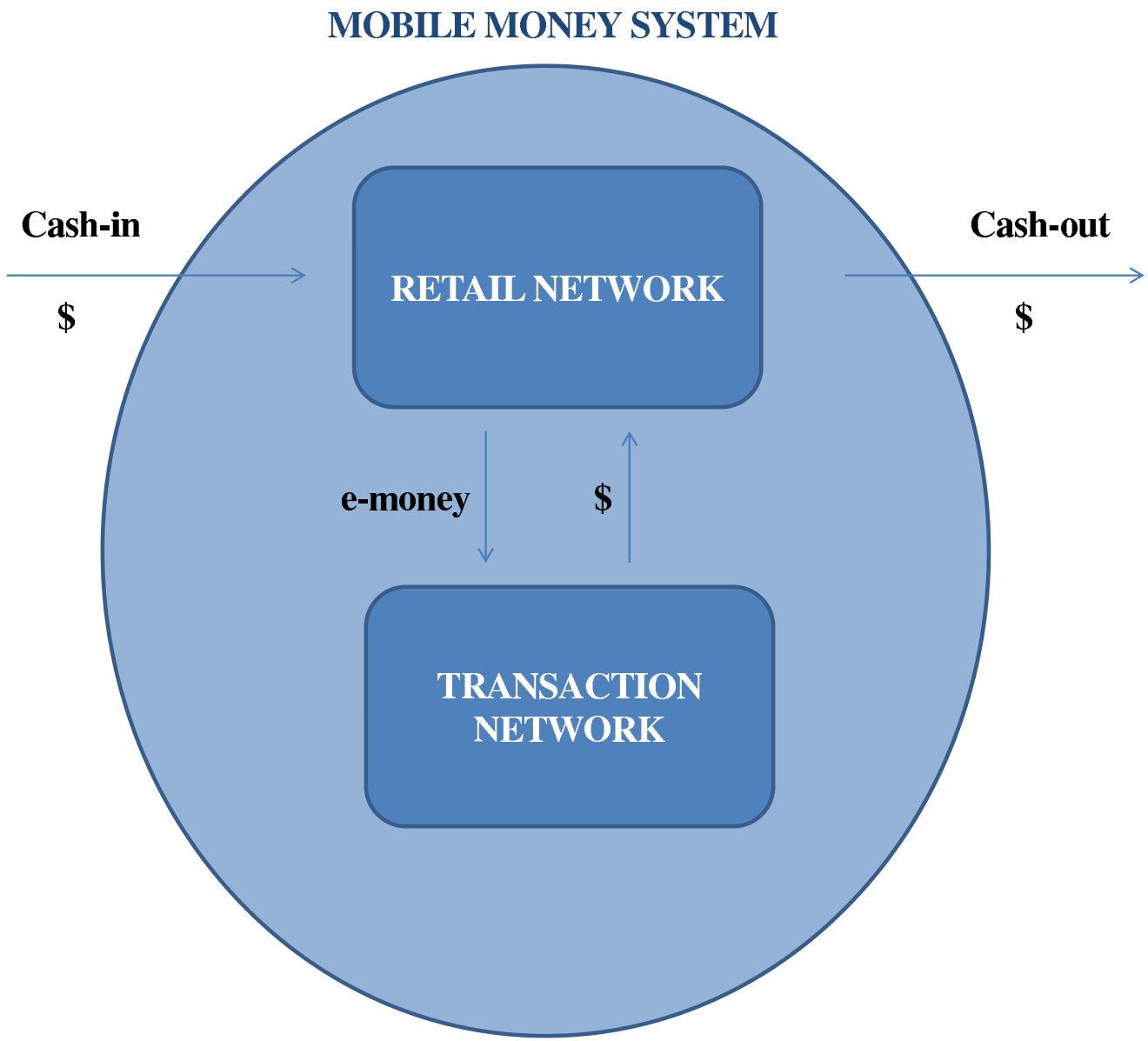
A Mobile Money System is a framework through which economic agents can perform financial transactions using their mobile phones and which fulfills the following conditions:

(a) Transactions are valued in an electronic currency (e-money) that can be exchanged into traditional currency at any time at retail agents

(b) Transactions within the system are made by using mobile phones (SMS)

(c) E-money and traditional money are traded at par

(d) Traditional money flowing into the system is pooled and stored in a bank account of a licensed financial institution


MOBILE MONEY SYSTEM
Cash-in
$
RETAIL NETWORK
Cash-out
$
e-money
$
TRANSACTION NETWORK

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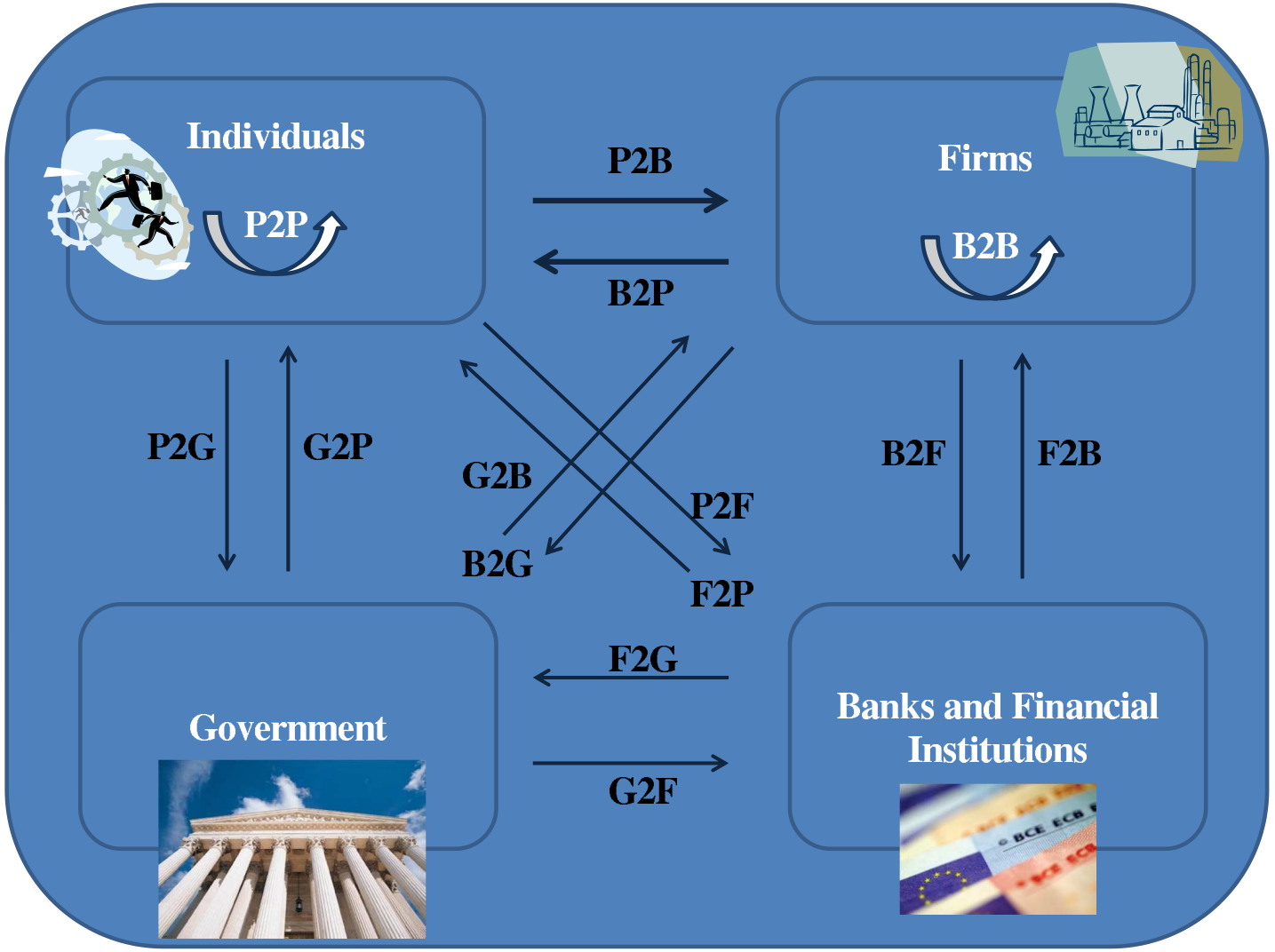
TRANSACTION NETWORK



MMS' ATTRIBUTES

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- MMS is a special case of branchless banking: granularity vs. scale
- Needs to be enabled by a technology that allows to bridge distance
- with "banking" being understood as not being restricted to standard financial institutions
- MMS are usually regulated and led by a mobile operator: M-PESA (Kenya/Tanzania), Smart Money and G-cash in the Philippines
- Sometimes issued by third party which is neither a mobile operator nor part of the traditional banking system
- In almost all these initiatives at some point there is a licensed bank involved as part of the system

An Alternative Currency System (ACS) is an initiative that

1. has strongly limited monetary localism with boundaries that are significantly smaller than national boundaries
2. depends on participants' reciprocity
3. aims at having a significant economic impact *within* geographical boundaries
4. has an explicit measure of economic value for the goods and services it trades – alternative currency – which can be translated into a national or supranational official currency
5. originates from civil society with principle of non-profitability
6. may charge fees or grant discount rates at different stages of the monetary flow
7. design that guarantees for maximum circulation within the ACS

MMS and ACS:

- Share attributes
- Two main differentiators: localism and generation of credit

Commercial Credit Circuit (C3) is a money system innovation developed by the Social Trade Organization (STRO) in cooperation with the World Bank (Inter-American Development Bank), The United Nations (Unido and ILO), the European Commission (EUC) and the Dutch Ministry of Development Cooperation.

- Designed as a Business-to-Business complementary currency
- Aiming at **increasing the liquidity** position of Micro-Small-Medium Enterprises (MSME) through short-term debt capital (loans)
- Combines *factoring* with a internal payment structure often used by corporate holdings, e.g. McDonalds (Van Hilten, 2009)
- **Sets up regional business networks** where MSME's pay each other using C3 credit rather than conventional currency

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- Debt-claims are monetized into a complementary currency
- At all times, the supplier is allowed to exchange its C3 credit for ordinary currency against payment of a fee.

C3 makes it possible hence for **commercial transactions to occur before the money is available**. It gives participants the opportunity to continue their activities in the supply chain, without waiting for the money of their clients, by transferring future claims on money as if it was already cash.

- C3 credit is backed by future payments of conventional national currency
- C3 credit is issued as loans to businesses in need of working capital
- The loan is interest free
- In case of C3U, STRO charges 1.5% and the insurance company 3% once only
- C3 is a not-for profit initiative, making the costs for operating the C3 network as low as possible
- Sustainability through internal recuperation of costs:
  - transaction fee
  - a demurrage (of 0.5% annually in case of Uruguay)
  - an exchange fee (malus)

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- C3 was initially launched in 2005 in several countries, e.g. Honduras, El Salvador, Costa Rica and Brazil (PoA)
- A couple of thousand businesses participated and approximately 12.000 small loans were involved

Economic feasibility requires

- Trust
- Scale
- Chicken-and-egg trap

Specific conditions needed from the outset

- Demand of financial services exists among a sufficiently large portion of population
- High likelihood of building a network
- High likelihood of solving security issues
- Pre-existent infrastructure of reliable partners
- Extensive use of mobile phones, especially at the BoP
- Widespread use of text messaging
- High quality of digital/mobile technology
- Willingness to modify regulatory framework

- Combining a MMS with an ACS and with C3
- Goal: inclusion of poorest economic agents/focus on MSMEs – 45% unbanked
- **Opportunities:**
  - **Scale:** All state-owned enterprises (water, electricity, public transport, communication) will accept C3 Credit
  - **Scale:** Taxes can be paid in C3 credit
  - **Chicken-egg-trap:** Geographical concentration of poor/small population
  - **Chicken-egg-trap:** MSMEs highly concentrated among poorest strata
  - **Infrastructure:** Existing pay-retailers all along ROU
  - **Infrastructure:** High quality of connections/investment (optical fiber)

  - **Access:** 116% m-phone penetration
  - **Access:** Minimal illiterate rate
  - **Trust:** Public bank as warrant
  - **Trust:** High reputation of pay-retailers
  - **Trust:** An initial guarantee fund of US$ 15 million (for the first 6 months of operation) and eventually US$ 250 million from the World Bank will be place to back debt-claims
  - **Security:** New practices preventing the sale of robbed m-phones
- It will potentially reach 10.000 SMEs throughout the country
- **Main Challenge:** understand and reach market at the BoP
- **Market:** 44.2% of MSMEs are self-employed HHs (Unipersonal firms)

- Exclusion of poorest households/MSMEs from financial formal systems is due to
  - High risks – Lack of collateral
  - Limited purchasing power
  - Difficult access – Too costly and cumbersome
- Specificities of Latin America
  - Large proportion of MSMEs
  - High informality levels
  - Large productivity gap between MSMEs and large firms
  - Low integration of MSMEs in value-chains

Table 1: Vehicles used in the ongoing finance of firms by size

Vehicles	Micro	Small	Medium	Micro	Small	Medium
Own funding	212	115	42	15.6%	13.9%	14.7%
Family	41	22	5	3.0%	2.7%	1.7%
Reinvestment of profits	1,011	610	178	74.2%	73.5%	62.2%
Informal Loans	9	8	2	0.7%	1.0%	0.7%
Providers credit	38	32	19	2.8%	3.9%	6.6%
Other loans	7	4	1	0.5%	0.5%	0.3%
Banking loans	32	35	34	2.3%	4.2%	11.9%
ONG	2	2	0	0.1%	0.2%	0.0%
Credit cards loans	4	1	1	0.3%	0.1%	0.3%
Others	7	1	4	0.5%	0.1%	1.4%
Total	**1363**	**830**	**286**	**100%**	**100%**	**100%**

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Table 1: Formality status by size (1)

Formality Status	Micro	Small	Medium	Total
Formal since inception	40.2%	30.3%	9.8%	80.3%
Formalized later	8.0%	2.3%	0.3%	10.7%
Still informal	8.3%	0.6%	0.1%	9.0%
Total	**56.5%**	**33.2%**	**10.3%**	**100.0%**

Table 2: Formality status by size (2)

Formality Status	Micro	Small	Medium	Total
Formal since inception	71.1%	91.2%	95.4%	80.3%
Formalized later	14.2%	7.1%	3.2%	10.7%
Still informal	14.7%	1.7%	1.4%	9.0%
Total	**100%**	**100%**	**100%**	**100%**

- Target population: households Medium-low; Low: and Low-low income strata from Great Montevideo
  - Lowest income segment: m-money aimed at the inclusion of vulnerable unbanked agents
  - Great Montevideo: 50% of the total Uruguayan population + ease under a sequential market-penetration strategy
  - Up-country not considered due to a)budget restrictions; b)demographic/economic specificities: c)different definition of poorest strata
- Target sub-population narrowed to 28 of the 62 Montevideo neighborhoods accounting for
  - 40% of population
  - 80 to 85% of all households within the lowest three income strata

  - higher-income strata households never $> 5\%$

- Sample size: 400
- Stratified sampling model - Strata: 28 neighborhoods
  1. Blocks randomly chosen within each neighborhood: 5 sample units by block until quote fulfilled
  2. Individuals at the selected households chosen to keep the sample distribution by gender and three age-strata
  3. Face-to-face interviews of 20 to 30 minutes duration
- Questionnaire: around 30 closed and 5 open questions

Data collected

- **Demographics** gender, age, role within HH, education, occupation, income formality, HH composition, income-stratus
- **Context:** type of neighborhood, existence of retailers/banks
- **Use of m-phones**/text messaging
- **Financial behavior:** saving/lending practices, use of cards, banked/unbanked, fears/trust, knowledge of bank-practices, inclusion/exclusion/self-exclusion
- Bank characteristics that act as **attractors/detractors**: ease of access, transaction costs, quality of service, eligibility
- **M-money acceptance**: attractiveness, reliability, network, ease, costs, fears, usages
- **MSMEs:** willingness to accept m-payments

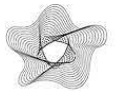
The information gathered in the pilot suggests that:

- the system would not find a priori resistance
- using existing pay-retailers generates no distrust
- mobile phones is attractive to the respondents in order to pay their bills
- suspicions arise when faced to use the system to buy/sell merchandize

Sample composition pilot:

- 45 to 77 years old
- male/female
- inactive/active
- self-employed with/without establishment

Thank you!



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Q&A