

M-PESA: Financial Services for the Underbanked

Contributed by the Shared Value Initiative



COMPANY DESCRIPTION

Safaricom is the leading mobile services provider in Kenya, handling almost four out of every five minutes Kenyans spend on their mobile phones. In 2012, the company earned \$1.25 billion in revenue. Since 2000, UK-based multinational telecom company Vodafone has held a 40% ownership stake in Safaricom.

THE OPPORTUNITY

Kenya's traditional banking infrastructure was not designed to meet the needs of all segments of the country's society. In 2006, 400 bank branches and 600 ATMs served a population of 36 million people, reaching only 18.9% of Kenyans.¹ Another 7.5% had access to other formal services through microfinance institutions, but the remaining population was either limited to informal mechanisms, like savings groups, or completely unbanked. Despite this lack of formal bank services, the financial lives of the poor are complex, and unbanked Kenyans had found ways to pay bills, save, transfer money, and otherwise hedge their financial risks.²

In one study exploring financial alternatives for the poor, researchers funded by the UK Department for International Development (DFID) found that people in Uganda, Botswana, and Ghana were transferring mobile airtime minutes as a proxy form of currency.³ This innovative, user-driven activity indicated the strong potential for mobile technology to facilitate banking services for under- and unbanked populations. DFID reached out to Vodafone to develop a product that would:

- Provide banking and financial services to a portion of the world's 2.5 billion unbanked people
- Unlock new "bottom of the pyramid" markets for Vodafone, thus creating sustainable impact by enabling the company to align business incentives with development priorities
- Leverage the fact that, while less than 25% of Kenyans have bank accounts, 80% can access mobile phones

THE STRATEGY

Choosing Kenya due to the strong penetration of mobile technology within the country, Safaricom and Vodafone set out to design a mobile-based product, M-PESA ("m" for mobile, "pesa" the Swahili word for money), to facilitate customer loan repayment to microfinance institutions. An initial pilot



Credit: M-PESA

¹ Tonny K. Omwansa and Nicholas P. Sullivan, *Money, Real Quick: Kenya's Disruptive Mobile Money Innovation* (Balloonview Press, 2012).

² Ibid.

³ Kevin McKemey, et. al., "Innovative Demand Models for Telecommunications Services," Gamos Ltd. Final Technical Report, Contract No. R8069, funded by the UK Department for International Development (DFID) (September 2003).

showed that most customers used M-PESA as a low-cost remittance service, leading Vodafone and Safaricom to re-design M-PESA as a novel mobile banking service that would easily allow customers to send money, deposit and withdraw cash, pay bills, purchase airtime minutes, and, in some cases, transfer money between the service and a traditional bank account—all from their mobile phones.

- **Reconceiving products and markets:** M-PESA works through the following process:
 - Safaricom users create an account associated with their name, registering with either a passport or the national ID card that all Kenyans are issued
 - In exchange for cash deposits, Safaricom issues e-float, a commodity measured in the same units as local currency, that is held in the M-PESA user's account. The float is 100% backed by three commercial banks in Kenya, which donate the interest earned to charity—allowing Safaricom flexibility to operate outside of bank regulations in the country⁴
 - Once users place money in their account, they can make transfers to other people, deposit and withdraw money, and pay bills, incurring various small fees per transaction
- **Redefining productivity in the value chain:** Users deposit and withdraw money at one of over 12,000 agents (such as Safaricom stores, gas stations, retail kiosks, and other neighborhood shops accustomed to handling cash), eliminating the need for visits to bricks-and-mortar bank locations and expanding the network of financial agents who can provide access to needed services

RESULTS – VALUE FOR BUSINESS AND SOCIETY

Following its launch in March of 2007, M-PESA has been quickly adopted by the Kenyan population, and its use has extended the effects of financial flexible and security to millions of previously unbanked and underbanked Kenyans.

Business results:

- Through January 2010, more than \$600 billion had been transferred using M-PESA, generating about \$100 million in revenue for Safaricom
- Five years after launch, M-PESA had grown to over 14.5 million active users in Kenya, with daily transactions in Kenya outnumbering daily Western Union transactions globally⁵

Social results:

- A 2011 study found that M-PESA had contributed to improving the outcomes of individual Kenyans by facilitating more frequent money transfers and remittances, increasing access to funds, and indirectly promoting savings and banking patterns among users⁶
- M-PESA won the 2011 AfricaCom Changing Lives Award for having “significantly impacted African telecommunications in the community and contributed to economic and social development”

LESSONS LEARNED, CHALLENGES AND OUTLOOK

M-PESA's tremendous success in Kenya has led Vodafone to expand elsewhere, with mixed results:

- M-PESA rollouts in markets like Tanzania (5 million users) have fared well; markets like South Africa (100,000 registered in the first year, or 1% of the 10 million user target set by Vodafone) have been disappointing. Despite this mixed record, Vodafone is expanding beyond Africa; in 2013, it launched M-PESA with India's ICICI Bank, targeting 220 million of India's 700 million under- and un-banked people
- Incorporating M-PESA into national financial regulatory frameworks has proved challenging; much of M-PESA's success in Kenya can be attributed to a unique set of regulations exempting the program from requirements faced by traditional banking institutions
- While M-PESA has been touted as a savings tool for the poor, there is little evidence to suggest that the service is widely used to store value as savings

⁴ Isaac Mbiti and David M. Weil, “Mobile Banking: The Impact of M-PESA in Kenya,” NBER Working Paper No. 17129, June 2011.

⁵ Omwansa and Sullivan.

⁶ Mbiti and Weil.