

Why is mobile money (M-PESA) a huge success in Kenya?

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Abstract:

The success of M-PESA (a Safaricom launch program) in Kenya was mainly brought about by the demographic factors such as ethnicity. This paper examines some of those factors as well as the availability of resources, the affordability, and the availability of mobile phones throughout the country that existed prior to the implementation of M-PESA. It also explains how the system works and some of the requirements needed in order to use it.

Introduction:

Mobile money is a device that enables individuals to make transactions, for instance, withdrawing funds using a cell phone. It's more popular in developing countries as there are a higher percentage of low-income earners who have been excluded from the financial market that is mainly banking, therefore resulting in the use of mobile money as an alternative. Mobile money helps to diminish this financial exclusion by offering cheap access to credit and savings, thus increasing the financial returns of a business.

The most popular form of mobile money is M-PESA originally from Kenya, where it has attracted approximately fifteen million subscribers and more than ten thousand agents across the country in a short span of time since its launch in March 2007. It is estimated to move approximately two billion Kenyan shillings a day. It brought about financial reliability and stability, hence improving the living standards of the impoverished communities in the country. Therefore, it is considered a great success story that should be emulated among the developing countries.

What is M-PESA?

The word M-PESA stands for M which is mobile and PESA which is the Swahili word for money. It is a mobile banking service which was introduced by a leading mobile service provider, Safaricom, a branch of Vodafone in Kenya. It allows people to make small transactions using the short message service (SMS) without the creation of bank accounts. This therefore results in financial inclusion for those who were deprived of the use of formal financial services such as receiving and sending money.

How it works:

In order to use the M-PESA services, an individual requires a national identity card and a Safaricom SIM card to register. Once registered, the individual visits a local M-PESA agent to deposit money, whereby he or she will be given cyber money, that is "e-float" (the M-PESA currency), in exchange. The electronically held money can then be exchanged with another M-PESA subscriber in the form of an SMS. Therefore, the user can pay bills, send money to family and friends, pay school fees and buy a top up using this system.

The diagram below shows a description of how the M-PESA system works:

[Figure removed due to copyright restrictions. Please see: <http://www-cs-faculty.stanford.edu/~eroberts/cs181/projects/2010-11/SmartPhones/pt4.html>]

The graph below shows how people use M-PESA:

[Figure removed due to copyright restrictions. Please see: <https://www.povertyactionlab.org/sites/default/files/New%20Payment%20Channels.pdf>]

Brief history:

Mobile phones were first introduced in Kenya in the 1990s and have grown rapidly ever since, diminishing the use of landlines which decreased from 300,000 in the 1990s to 250,000 in 2008. At around the same time mobile phone usage drastically increased from almost no users to around 17 million users. Currently 83% of the population aged over 15 have access to a cell phone (Jack 2010). Mobile technology has spread greatly over the years as seen in the figure below. Given its affordability, versatility and ubiquity, it was only reasonable to choose mobile phones to carry out simple financial services.

Use of mobile phones and fixed lines over the years:

[Figure removed due to copyright restrictions. Please see: <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.182.4336&rep=rep1&type=pdf>]

What brought about the success of M-PESA?

Despite the success of M-PESA being brought about by the innovative business model, diverse agent network, strong mobile connection, low prices and great money transfers and marketing strategies from Safaricom, the success of M-PESA was mainly influenced by the demographic factors and the society that existed before its launch.

In Kenya, more than 78% of the population resides in rural households and 30% of those households rely on remittance to sustain themselves. The urban migrants maintain a close

connection with their rural homes, despite a huge number of them living and working in the city. It is common practice for people living in the city, as most of them are the breadwinners of the family, to send money to their friends and families who still live in a rural area, hence increasing the demand for remittance. The close connection between the urban migrants and the rural is strong mainly due to ethnicity; there are 43 ethnic communities in Kenya and most of them reside in rural areas, due to factors like ownership of land, inheritance, burial and social insurance. Therefore the history and culture of the country contributed greatly to the creation of a market for domestic remittance. Some of the services for local remittance included: sending money through the post office; through friends and families; and through commercial banks and bus companies, which were unavailable to most people (there are only around 840 bank branches and some people had to travel long distances just to send money). Hence the methods proved unreliable, slow, costly, and many were also highly insecure and did not meet everyone's demands.

On the other hand, another factor that paved the way for the success of M-PESA was consumers' confidence and trust, resulting from the services offered by Safaricom and the ubiquity and affordability of mobile phones in the country. Safaricom had already created a good brand image, therefore making it easier to launch the system from their company. Offering services to more than 16 million customers and having more than 3,000 employees, it's one of the most recognizable brands in Kenya. Safaricom is responsible for more than 80% of the mobile market, placing it ahead of its rivals, Orange, Airtel and Yu mobile companies. On top of that, the ubiquity of mobile phones across the country, both in the urban and rural, and insufficient banking services made it possible to use M-PESA as a substitute for banks so as to reach the unbanked population.

The increased protection of mobile financial services through strict legislation laws provided by the Commercial Bank of Kenya (CBK) and the international efforts seeking security over mobile payments contributed significantly to the success of M-PESA as customers were assured of the safety of their resources.

Conclusion:

Financial exclusion is one main hindrance that the developing world is facing nowadays. Banks do not have economic interests in the marginalized population with little to no savings and without these financial services there cannot be any investment in the people or the country resulting in no growth whatsoever. The launching of M-PESA showed how mobile money can address these problems and meet the demands of almost everyone. Therefore M-PESA helps to alleviate poverty and improve the living standards of people in

the developing world through employment (creation of jobs through the success of M-PESA), reliability and financial security.

Kenya's population and culture contributed greatly to the success of the implementation of M-PESA due to the increased demand for domestic remittances. This was further supported by Safaricom's brand recognition, low prices, convenience, great mobile infrastructure and trust that it had created with its customers, hence its success in such a short period of time.

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