



M-Pesa: The Safaricom Story

CASE STUDY

Case Synopsis

M-Pesa is a mobile money service that was officially launched in Kenya, in March 2007, by Safaricom (part of the Vodafone Group), the local Kenyan leading mobile phone operator. M-Pesa provides both 'banked' and 'unbanked' individuals with access to money transactions at affordable prices. M-Pesa works by allowing registered individuals to withdraw cash, store money, make payments and send money P-2-P using their mobile phones. Customers use a network of Safaricom's airtime sellers (agents), shops and petrol stations to access the service. Their national identity card¹ or passport is the means used to verify their identity. Low fees are charged and all monies (e-float) are held in a single bank account at the Commercial Bank of Kenya.

The introduction of M-Pesa involved partnerships between several global stakeholders and introduced formal financial inclusion for base of pyramid (BOP)² and other customers. At the time of the launch M-Pesa was marketed as a fast, safe and affordable way to send and receive money but its growth has been phenomenal. As of March 2014, a nationwide network of over 81,000 agents was supporting the 19.34 million Safaricom subscribers who were actively using the service and M-Pesa was contributing 18 per cent to Safaricom's total revenue.

Background and Context

The M-Pesa project started in 2003 by Nick Hughes of Vodafone. Nick was Head of Global Payments at Vodafone in the UK³ and was tasked with helping the company to understand its role in addressing development issues such as the Millennium Development Goals (MDGs)⁴. Nick had previously headed a climate change programme at BP. He, like many others, believed that access to finance facilitates entrepreneurial activity, thus creating wealth through economic activity, job creation and trade. He was aware that in emerging

¹ All Kenyans have to hold this ID card.

² Base of Pyramid is a concept that was introduced by C.K. Prahalad (2005) in the book, *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits*. The term is used to refer to the poorest socio-economic group – those living on less than \$2 per day.

³ <http://idrisbello.com/2012/01/27/an-afternoon-with-an-m-trepreneur-nick-hughes-founder-m-pesa-mobile-money-platform/>

⁴ There are eight MDGs which range from eradicating extreme poverty to achieving universal education and the development of global partnerships for development.



markets transferring money is challenging due to poor infrastructure and the fact that very few people hold bank accounts. Moving cash in Kenya was risky, costly and slow. People had limited choices; they could use expensive services, such as, MoneyGram, Postapay or Western Union, ferry money via 'letter parcels'⁵ with bus companies or travel long distances themselves with cash on public buses at the risk of being robbed.

Vodafone was limited by its new product development processes which dictate that shareholders capital be used to achieve best returns. Often internal competition is used to allocate funds and development initiatives can lose out. After meeting with a representative from the Department for International Development (DFID) in the United Kingdom, he made an application for funding from their Financial Deepening Challenge Fund (FDCF). This fund was established to finance public-private partnership projects that would improve access to financial services. These kinds of 'challenge funds' initiate new areas of business that are often seen as higher risk. Hughes received the grant on a matched basis. Vodafone were to contribute 50 per cent in the form of people (budgeted to an agreed rate). Now all he needed was buy in from senior executives in Vodafone and Safaricom in Kenya.

The Pilot Project

A pilot project began in October 2005. A key element of the project was the partnerships that were created between Vodafone, a local Kenyan micro-finance institute (Faulu) and the Commercial Bank of Kenya.

This concept of M-Pesa was considered to be innovative in several ways. First, it was created through a partnership between business areas that were not normally considered to be related. The telecoms sector was viewed as young, entrepreneurial and fast moving and the financial services sector was often seen as traditional, cautious and conservative. While the use of technology in banking was not new, the concept of using existing SMS mobile technology to allow people without bank accounts to carry out money transactions was ground-breaking.

After preparing a formal request for proposal (RFP) which set out several key considerations, such as, commitment from key executives in Safaricom, the fact that the e-money must always exactly match real money, the need for a basic model mobile phone that could be used by BOP customers and a set of 'pilot' customers (from Faulu) a British company (Sagentia) was chosen to develop the software. The partnership with Sagentia was very important, the project was dealing with something totally new and there was an element of 'try and see' with some areas of development. Sagentia needed to be open-minded in how they would address design issues.

⁵ Wambalaba et al. 2012



The key issues emerging from the pilot project included the need for extensive training for customers on phone familiarity and task complexity. Additionally, while the pilot was established with the aim of allowing customers of Faulu to repay small business loans, M-Pesa was being put to other uses, including the payment for trading between businesses, purchasing airtime for relations in rural areas and depositing cash to be withdrawn at some other destination. Vodafone now realised where the scale opportunity was for M-Pesa. The pilot also highlighted the usefulness of M-Pesa for helping customers manage their personal finances but was not really suitable for institutions like MFIs - further modifications would be required for back office management systems (an obstacle to scale).

The Launch

Traditionally in Kenya many people work long distances from home and send money to family members around the country so the key marketing message was 'Send Money Home'. The marketing strategy focused on three core features; the ability to deposit or withdraw cash at agent shops, to transfer money person-to-person, and to buy prepaid airtime. One of the key challenges facing Vodafone/Safaricom at this stage was the issue of financial regulation. As M-Pesa was not banking service it did not come under financial regulation in Kenya and there were concerns among the banking sector that it could be used as a money laundering channel. The team did try to recruit a suitable financial partner but none could be found so Vodafone/Safaricom went ahead without one. They did, however, make a point of meeting regularly with the regulator and keeping him abreast of developments. When the time came, Stephen Mwaura, head of the national payments system, at the Central Bank of Kenya adopted a lean regulation approach and allowed M-Pesa to operate under a special licence. All customer funds had to be deposited in a regulated financial institution with interest on deposits going to a not-for-profit trust and the e-float could not be invested. Also, there were limits put on transaction size in order to deal with money-laundering concerns. In recent years (2010), a new law governing partnerships between mobile companies and banks was passed which was aimed at increasing financial inclusion in the marginalised areas of Kenya. This allowed for the expansion of the range of services Safaricom could offer.

The M-Pesa team also worked with a strategic consultancy group that specialised in secure electronic transactions and lawyers in Kenya and the UK to ensure that M-Pesa would meet the requirements of the financial sector. The success of the product was phenomenal and within two years, M-Pesa had 6.5 million (approx.) registered users making two million transactions per day.



M-Pesa Today

Currently, M-Pesa is a significant revenue generator for Safaricom, contributing 18 per cent to its total revenue (March 2014). More importantly, M-Pesa provides huge benefits to its unbanked users who now have access to affordable financial services. Additionally, there are over 81,000 (an increase of over 15,000 from 2013 to 2014) M-Pesa agent outlets providing the service to many who would otherwise not have access to any banking services.

Safaricom have launched other services such M-Shwari a virtual bank service allowing individuals to save, earn interest and borrow money using their mobile phones. This product was developed in partnership with the Commercial Bank of Africa. Minimum savings (Ksh 1: USD0.012), small loans (Ksh 100: USD 1.22), no charges for moving money to M-Pesa and no paperwork, all promote financial inclusion in the BOP sector.

Other innovative services built on the original M-Pesa model include: *ATM withdrawal* (allowing individuals to withdraw cash from ATMs, not only agents as before) *M-Pesa cash* (allowing people to move money from their bank account to M-Pesa accounts using PesaPoint's ATMs); *Faini Chap Chap* (payment of traffic fines through M-Pesa); *Retail distribution* (allowing distributors of fast-moving customer goods to receive payments via M-Pesa eliminating the need for cash within the supply-chain); *Lipa na M-Pesa* (allowing merchants to accept payment for goods via M-Pesa); M-Kesho (a bank-linked savings account); and *Lipa Karo na M-Pesa* (a payment service for school fees).

The contribution of M-Pesa to deepening financial inclusion for the poorest socio-economic groups in Kenya is significant. Research conducted in 2009 (Plyler *et al.* 2010) identified 11 key areas where M-Pesa has made community-level economic effects for both users and non-users of the service. These included in order of impact; money circulation, transaction ease, money security, food security, human capital accumulation, expansion of business, social capital accumulation, employment opportunities, financial capital accumulation, physical security and quality control. Another study (Stuart and Cohen 2011) show that M-Pesa helps people manage cash flow and risk.

In Conclusion

This was an innovative ground-breaking project that required commitment, dedication and resourcefulness in order to achieve the aim of 'materially changing the lives of many people for the better'⁶ and members of the core team gave well beyond what they were contracted to do.

⁶ Hughes and Lonie, 2007.



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