MOBILE MONEY IN KENYA

Eric Forden, Office of Industries
eric.forden@usitc.gov, (202) 205-3235

M-Pesa—the M *stands for "mobile," while* pesa *means "money" in Swahili—was launched in Kenya as the world's first mobile money service in 2007. Mobile money services, which allow users to conduct financial transactions using mobile phones (cellphones), have given Kenya's "un-banked" population a safe and easy way to transfer funds and pay for goods and services. Over the past seven years, mobile money services have grown very rapidly in Kenya due to several factors unique to its market, including an effective marketing strategy, high mobile penetration rates, strong demand for domestic remittances, and limited regulation.*

What is mobile money? "Mobile money" is the term used to describe mobile telephone-based financial services offered by telecommunication service companies.

- Deposits to users' mobile money accounts are made using local agents—typically gas stations and corner stores—that credit a monetary amount to users' accounts (less a small fee) in exchange for cash payments. Account balances and other user data are stored on users' mobile phone SIM cards.
- Cash transfers, by far the most common service, are carried out using menu-based commands on mobile phones ranging from inexpensive, low-spec models to smartphones. Recipients can withdraw cash from more than 113,000 local agents across Kenya.
- A broader variety of mobile money services—including point-of-sale payments, bulk payments (payroll), short-term microloans, and international cash transfers—have been introduced, but are not widely used because people are unaware of such services or unsure how they work.

Mobile money offers Kenya's "un-banked" a safe and convenient way to save and transfer money.

- Historically, a large portion of Kenya's population did not have a bank account due to high fees, inadequate personal documentation, geographic inaccessibility, and mistrust of banks. As a result, millions of farmers, traders, craftspeople, and other workers in the informal, cash-based economy had few safe places to keep money. Under such conditions, the safe storage of cash is mobile money's bedrock service.
- Kenya has a long history of large-scale, domestic migration—typically young men moving to cities to work—creating the need to send money to relatives in rural areas. In the past, such transfers were risky and cumbersome, typically requiring individuals to deliver cash personally, often by bus, or find a trustworthy bus driver. As a result, the safe and efficient cash transfers made possible by mobile money services were very popular with migrant workers.

Mobile money has grown very rapidly in Kenya. During 2007–13, the number of users, volume of transactions, and value of transactions grew at a compound annual growth rate of 64 percent, 126 percent, and 112 percent, respectively. The number of local agents also grew very rapidly (see table below).

Mobile money, market statistics, Kenya, 2007–13

	2007	2008	2009	2010	2011	2012	2013	Change 2012-13	CAGR 2007-13
Agents	1,582.0	6,104.0	23,012.0	39,449.0	50,471.0	76,912.0	113,130.0	47.1%	103.7%
Users (millions)	1.3	5.1	8.9	16.4	19.2	21.1	25.3	19.9%	64.0%
Transaction volume (millions)	5.5	62.7	193.5	311.0	433.0	575.0	733.0	27.5%	126.0%
Transaction value (million $)	242.1	2,408.4	6,120.1	9,241.1	13,165.0	18,188.8	22,080.0	21.4%	112.2%

Source: Financial Sector Regulators Forum (Kenya), *Kenya Financial Sector Stability Report 2013,* August 2014, 70.
Note: CAGR is an abbreviation for compound annual growth rate.

- By 2012 (latest available data), 67 percent of the adult Kenyan population used mobile money services to receive money, and 61 percent used such services to send money.
- Although the value of most mobile money transactions is low—on average $29 in 2013—large transaction volumes make such services profitable for telecommunication companies.

Rapid mobile money growth is fueled by Kenya's market structure. In most sub-Saharan African countries, mobile money services are just beginning to take root. Rapid growth in Kenya is due to a unique combination of factors, including:

- Strong demand for remittance services due to large numbers of migrant workers within Kenya.
- High mobile penetration rates—nearly 80 percent of Kenyans own a mobile phone.
- M-Pesa's introduction by Kenya's dominant mobile services provider, Safaricom.
- A simple and clear marketing campaign, "Send Money Home," which was highly effective.
- Limited regulation: Kenya did not try to regulate M-Pesa like a bank, allowing it to freely develop on an experimental basis.
- The outbreak of violence after a disputed election in 2008, just as the service was getting off the ground, spurred mobile money subscriptions as many Kenyans used such services to send money to friends and relatives trapped in the slums of Nairobi, the capital city.

Safaricom[1] is the leading provider of mobile money services in Kenya. M-Pesa was developed by Safaricom in Kenya in 2007 in conjunction with Vodafone (which provided the technology) and the U.K. Department of International Development (which provided partial financing).

- M-Pesa was originally established to facilitate microfinance loan repayments, but was quickly re-purposed as a remittance service; remittances are still the most common transaction.
- As of March 2014, M-Pesa accounted for more than 90 percent of mobile money transactions in Kenya; competitors included Airtel, Orange, Mobikash, and Yu (see table below).
- M-Pesa earned revenues totaling $298.2 million in fiscal year 2014, representing 18.4 percent of Safaricom's total revenues.
- Safaricom's mobile money service has nearly 20 million customers (74 percent of the market), although the number of active users is likely 60 percent or less of this total.

Mobile money subscriptions, market share and growth, 2013–14

	Subscriptions June 2013	Subscriptions June 2014	Change (2013–14)	Market share (2014)
Safaricom	17,561,999	19,776,056	12.6 %	74.3%
Airtel	4,580,467	3,238,754	-29.3 %	12.2%
Yu (Essar)	2,291,473	2,147,139	-6.3 %	8.1%
Orange	166,114	185,463	11.6 %	0.7%
Mobikash	240,351	1,263,665	425.8 %	4.7%
Total	24,840,404	26,611,077	7.1%	

Source: Communications Authority of Kenya.
Note: Yu liquidated in 2014, with Airtel acquiring its subscriber base.

[1]Safaricom is co-owned by the government of Kenya (60%) and the United Kingdom's Vodafone (40%).

Sources: Safaricom website (http://www.safaricom.co.ke/personal/m-pesa"Mobile Money Deposits Surpass Central Bank Deposits," April 23, 2013; IBISWorld, "Mobile Money Services Critical for Banks," July 23, 2014; *Economist*, "Dial M for Money," June 28, 2007; Matt Twomey, "Cashless Africa: Kenya's Smash Success with Mobile Money," *CNBC*, November 11, 2013; Hilary Heuler, "Mobile Money Takes East Africa by Storm," *MarketWatch*, April 2, 2012; *Economist*, "Why Does Kenya Lead the World in Mobile Money?" May 27, 2013; *Economist*, "The Power of Mobile Money," September 24, 2009; Business Monitor International, *Kenya Telecommunications Report Q4 2014*, August 2014; Lyndsey Gilpin, "The World's Unlikely Leader in Mobile Payments: Kenya," *TechRepublic*, March 20, 2014; International Telecommunications Union, "The Mobile Money Revolution: Serving the Unbanked," September 2013; *Economist*, "All Together Now," January 17, 2013.