

# The Economics Pioneers

## SIM Cards, Mobile Phones and Financial Inclusion: The Invigorating Case of mPesa

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### Introduction

In 2007, Safaricom, a Kenyan mobile operator, launched mPesa in the country as a potential alternative for accessing financial services for the vast Kenyan population. Today, it has revolutionized financial access for millions in Sub-Saharan Africa, expanding as we go, and challenging the obstacles posed by traditional methods of financial transactions, empowering many with newfound financial independence. Stemming from a humble solution to conduct Kenyan microfinance repayments, it has astonishingly evolved to become a global powerhouse in facilitating access to financial inclusion and literacy. With its unorthodox and highly resilient, but surprisingly simple mechanism, it has unshackled the previously unbanked and vulnerable, especially in rural areas, from the barriers of traditional finance and banking<sup>1</sup>. Utilizing mPesa's dynamic network of stakeholders, the platform, now a joint venture between Safaricom and Vodafone, has paved way for Sub-Saharan economic growth, individual level transactions, entrepreneurship and financial literacy-induced lifestyle opportunities. In this article, we explore mPesa as a living testament to the sheer power of fintech in revolutionizing and determining future patterns of inclusive finance.



Image 1. mPesa

### Key Insights

- mPesa has revolutionized financial access for millions in Sub-Saharan Africa, challenging the obstacles posed by traditional methods of financial transactions, empowering many with newfound financial independence.
- Supported by its user-centric simplicity, high adaptability, low cost and rapid speed of innovation, the platform has gained immense popularity and expanded across the continent and beyond.
- By democratizing access to banking and financial services, especially for the marginalized groups, mPesa has empowered individuals to save, send and receive money, enabling them to participate in the formal economy.

<sup>1</sup> Ndung'u, N. (2017). Practitioner's Insight: M-Pesa, a success story of digital financial inclusion. Global Economic Governance Program. Retrieved from <https://www.geg.ox.ac.uk/publication/practitioners-insight-m-pesa-success-story-digital-financial-inclusion>



## The Humble Beginnings and Rapid Adoption of mPesa

mPesa emerged in 2007 as a groundbreaking solution by Safaricom, largest mobile operator in the country, to facilitate and make more efficient, the repayments of microfinance loans in Kenya via mobile phones, to address the challenges faces by low-income borrowers in rural areas<sup>2</sup>. The payment system then acquired collaboration of Vodafone, as well as the British Department for International Development. The project's overarching aim was to enable and facilitate financial transfers in rural areas lacking adequate banking infrastructure and making the transfers in question more secure and convenient for users.

mPesa was named using the prefix “m” signifying mobile and “Pesa” meaning money in Swahili – reflecting the project’s mission of leveraging mobile devices for money transfers.

Despite its profound success in becoming a staple method of financial transfers, mPesa too faced ample criticism and regulatory concerns, citing potential perils regarding money laundering and financing of terrorist activity in the region. However, upon persistence by Safaricom and its partners, as well as close collaboration with regulatory bodies, the concerns were addressed. The key reason behind mPesa's success relied on the payment platform's simplicity, reliability and low cost, transforming the way people transferred money in favour of a more practical and convenient solution offered by mPesa. In only a short amount of time, the project became almost synonymous with the concept of money in Kenya and neighbouring regions, processing millions of transactions on a daily basis and marking a paradigm shift in the country's financial landscape.

Encouraged by its persistence success in home country Kenya, mPesa embarked on expansion within and beyond Africa by launching its services in Tanzania in 2008, the platform's first cross-border endeavour. mPesa's inherent qualities and structure only encouraged scalability and adaptability into other countries and regions, seamlessly integrating within their pre-existing financial infrastructure and refashioning to local likings. mPesa currently operates in a wide array of countries ranging from Tanzania, Uganda, Ghana to regions in India and even Eastern Europe. As its global impact and footprint grows, its potential for driving financial inclusion and development remains undisputed, delineating opportunities for digital empowerment and global connectivity.

Among some of the key strengths of mPesa, one is being highly adaptable to changing consumer needs, as well as the ability to innovate continuously, feeding upon evolving digital advancements. Over its course, the platform has undergone incremental changes to further ease the user experience and expanding its use beyond just money transfers. For instance, mShwari, is an extended platform offering savings and microfinance programs directly through mPesa, enabling many users newfound access to such opportunities. Along the same line of thought, Lipa Na mPesa eases merchant transactions in retail in commerce<sup>3</sup>. Via strategic partnerships with banks, governments and technology companies, mPesa

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<sup>2</sup> Ndung'u, N. (2017). Practitioner's Insight: M-Pesa, a success story of digital financial inclusion. Global Economic Governance Program. Retrieved from <https://www.geg.ox.ac.uk/publication/practitioners-insight-m-pesa-success-story-digital-financial-inclusion>

<sup>3</sup> Oluwole, V. (2022). M-Pesa: Kenya's mobile money success story celebrates 15 years. Business Insider Africa. Retrieved from <https://africa.businessinsider.com/local/markets/m-pesa-kenyas-mobile-money-success-story-celebrates-15-years/srp9gne>



has managed to remain relevant and responsive to market needs, exploring new endeavours such as digital lending, remittances and insurance – highlighting its sharp focus on customer-centricity.

In its activities, mPesa has democratized access to financial services, allowing many vulnerable groups to join the formal economy and reap its benefits for communities, families, entrepreneurs and NGOs in various dimensions.

### Empowering the Vulnerable

The emergence of mPesa disproved the view that banking services require physical bank branches and formal bank accounts and revolutionized the way consumers in Sub-Saharan countries are connected financially. It breaks down social barriers, by making financial services accessible to people with limited resources. It is enough to simply to have a mobile device and one can be exposed to a whole world of financial services and products regardless of socio-economic status or place of residence.

The success of mPesa lies in its simplicity. It utilizes user-friendly software and interfaces instead of traditional banking's infamous queues, screenings and bureaucracy. This feature of accessibility is especially important to those living in rural or economically isolated areas, allowing a greater number of people to enjoy the benefits of taking control of their finances, including managing funds, obtaining (micro)loans, paying bills and saving for the future.

In fact, the main positive effect of mPesa is not just limited to convenience but rather opening up a whole plethora of financial decision-making opportunities to individuals previously unfamiliar with this facility. It enables people to take control of their finances and reach for opportunities that improve their economic situations – a pivotal tool for economic empowerment of vulnerable groups.

Often, those without access to formal banking services are left to rely heavily on cash which can be at risk of loss, theft or inflation. mPesa combats this hindrance by providing a more secure and smarter way of managing one's funds considering spending patterns and future expenditures. It also extends financial inclusion to groups who were usually excluded from formal banking and lending channels, by offering tailored microfinance and other credit products. This instigates individuals to invest in income-generating activities such as starting a small business or investing in education, improving their long term financial resilience. mPesa also facilitates saving activities for unexpected emergencies and large expenditures, which promotes financial health in the long term by fostering a culture of saving and risk aversion. At the end, access to such financial services conduces a sense of dignity, autonomy and self-confidence, allowing people to participate on socio-political life more. The ripple effects of financial empowerment quickly transcend from individual to community and societal level, as seen in the case of Kenya.

### The Birthplace of mPesa

Kenya's young and vibrant population, as well as rapidly changing demographic and economic conditions make it an especially intriguing country with respect to financial inclusion. Historically, Kenya has dealt with a majority cash-based economy, with constrained access to formal banking, especially for people dwelling in rural areas. Launched in 2007, mPesa changed the way financial transactions were conducted and gained traction country-wide offering safe and convenient alternative. According to the



World Bank's Global Findex database, in 2011 26.7% Kenyan adults had access to a formal bank account. This number jumped to 82.9% in 2017<sup>4</sup>.

Government and regulatory bodies locally played a paramount role in ensuring the platform's widespread acceptance and assimilation, which has now become almost synonymous with the concept of money, and over 90% of Kenyan households use mPesa for financial transactions.

The effect of this paradigm shift has been nothing short of extraordinary, in the sense that it has conducted an astonishingly profound improvement in financial access and inclusion throughout the country. By democratizing access to banking and financial services, especially for the marginalized groups, mPesa has empowered individuals to save, send and receive money, enabling them to participate in the formal economy. Moreover, the platform has also had major contributions in catalysing entrepreneurship by offering a secure and efficient way of conducting business to SMEs. Socially, the youth and women, often facing more economic barriers in traditional banking, reaped higher marginal benefits from mPesa allowing them to seize economic opportunities. The ripple effects of these improvements are visible in the Kenyan economy via positive effects on socioeconomic development, more widespread access to financial services and financial literacy, decreases in poverty rates and economic growth.

Despite these commendable outcomes, many challenges still remain on the path to complete financial inclusion, namely affordability issues, inequalities in education or gaps in digital literacy. Addressing these would allow the country to reap complete and more comprehensive structural improvements to their economy. Nonetheless, mPesa stands as living proof for the power of technological change for financial inclusion.

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<sup>4</sup> World Bank. (2021). The Global Findex Database 2021: Financial inclusion, digital payments, and resilience in the age of COVID-19



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