

# How Mobile Money Has Changed Lives in Kenya

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November 2010

Making it cheaper and easier to send money may seem like a small innovation, but M-PESA has had a profound impact on the ability of Kenyan households to manage their money. M-PESA appears to have improved people's ability to deal with shocks, allowed businesses to better coordinate their activities, and opened a connection to the financial system for a large swath of the previously excluded. The Bill & Melinda Gates Foundation is conducting research that seeks to quantify these effects, although results will not be available for months or years. In the meantime, survey results show favorable perceptions of M-PESA. According to one survey, 90 percent believed their money was safe with M-PESA; more than 90 percent said they were "happy," "very happy," or "extremely happy" with the service; and 92 percent said they would be worse off without M-PESA.<sup>1</sup>

Although the anecdotes presented here are not necessarily representative of the full M-PESA experience, they do reflect our understanding of the ways in which the ubiquity of mobile money and the ability to make immediate transactions are changing lives.

## Averting Hunger, Illness, and Missed School

The ability of friends and family to make immediate, real-time transactions of as little as \$2 helps prevent unnecessary periods of going without food. Early research shows that households with M-PESA are more successful at weathering negative events and, specifically, do not reduce their food consumption when faced with a shock.<sup>2</sup> Additionally, being able to get money quickly allows a family to take a relative to see the doctor on the first day of their illness, and children are able to attend school when they would have otherwise been forced to skip or drop out for lack of fees.

### M-PESA Allows a Daughter to Help Her Mother

Sarah Kigwama works as a housekeeper in Nairobi. Like many other urban workers, she helps support relatives in poor rural areas. Each month, she sends about \$20 of her monthly salary of \$115 to her mother, who lives in a rural village about 200 km away.



Only 1 percent of Kenyans have a land line, but Kigwama is among the 70 percent who have a cell phone. "This mobile has changed, really, my life," she said.

Before the introduction of M-PESA, the money transfer service offered by Safaricom, the country's largest wireless provider, Kigwama had to put the cash in an envelope, send it with someone on a country bus, and hope the person she gave it to would deliver it. Now she can send the money to her mother instantly and more securely with the push of a few buttons. Within seconds of transferring about \$2, she gets a call back. "They have received it and they are very happy," she said with a laugh.

"I feel so good because if she has no food in the house she just goes and buys food immediately, no suffering about hunger again," said Kigwama.

*From CBC News, September 27, 2010*

In addition to the benefits to households, real-time payment transactions also benefit service providers. When health care organizations can receive payments more quickly and more transparently, they can provide better service. In Kenya, it's common for hospitals not to release a patient until fees are paid, leading to excessive costs and burdens. But if fees can be paid right away, the patient can be discharged immediately—a savings to the clinic as well as to the patient and their family. Similarly, schools benefit from e-payments when students don't have to be caught up after missing school due to a late payment of their school fees.<sup>3</sup>

Bridge International Academy, a for-profit primary school franchise in Kenya, has instituted a policy wherein all payments coming in from parents or going out to suppliers or staff must be made through its M-PESA or Equity Bank accounts. Centralizing all payment transactions facilitates record-keeping, minimizes errors, and provides real-time access to data on the business. Bridge has developed an automated system whereby school managers use text messages to request or deny payments to staff and suppliers without ever handling the money themselves, which provides greater security and lower rates of malfeasance.<sup>4</sup>

## Promoting Business and Enhancing Local Economies

Payments are fundamental to economic enterprise, and many entrepreneurs in Kenya have adopted M-PESA to streamline transactions with suppliers and customers. Market traders no longer have to close their shop to travel to pay a distant supplier and arrange delivery. Instead, they can send their money to the supplier who can then send the goods. Robert Cull, who detailed his M-PESA experience in mid-2010 on his blog, discovered that “at Jubilee market in Kisumu, shop owners no longer spend two days traveling to Nairobi and back to provide funds for their suppliers. Funds arrive via M-PESA and suppliers draw on them to produce or obtain goods that are then sent to Kisumu. In addition to the time savings, M-PESA provides a secure alternative to traveling with relatively large amounts of cash.”<sup>5</sup>

The advent of M-PESA may be stimulating local economies by reducing the cost of transactions and giving people access to their money in their neighborhoods. Because cash is available at rural locations and small towns, people tend to spend more of it locally, enhancing the local economy. According to “The Economics of M-PESA,” mobile money makes it easier for people to pay and receive payment for goods and services.

People can pay for electricity bills within moments instead of traveling to an “often distant office with a fistful of cash and waiting in a long queue,” and consumers can quickly purchase airtime without traveling to the nearest retailer. Some taxi drivers have noted that they can operate their businesses more safely, as electronic payments from their customers keep them from having to carry large amounts of cash.”<sup>6</sup>

### Mobile Money Provides Access to Health Care

Changamka Microhealth Ltd. and Pumwani Maternity Hospital are the joint winners of the 2010 Award for Contribution to MDG 5 - Improving Maternal Health in Kenya. Their public-private partnership program provides an innovative health savings plan to low-income mothers who have no access to medical plans or insurance coverage. (See the Changamka website, <http://changamka.co.ke>.)

Women can save money on their Changamka Medical Smart card with M-PESA and use it towards antenatal clinics, delivery, postnatal clinics, and affordable outpatient treatment at a network of 36 clinics in Nairobi and five in Mombasa.

Launched in 2008, Changamka Microhealth Ltd. has sold about 8,000 cards as of September 2010. This relatively low number could be due to lack of attention and funds toward marketing.

## Using a Bank for the First Time

Banks, cooperatives, and nonbank financial service providers have quickly connected to M-PESA in order to allow existing customers to access their accounts more easily, though to date there have been fewer attempts to target new market segments (i.e., the previously unbanked). The partnership between Safiricom and Equity Bank to issue a simple savings account, known as M-KESHO, is the main banking service optimized for use with mobile money. Recently, providers have launched a number of innovative nonbank services (e.g., pension funds, mutual funds, insurance, etc.) that can only be used via mobile money and target a low-income market, but so far none have seen mass uptake. We expect that as providers learn how to market and sell to a mass audience that is using mobile money, customers will start to use these financial products in greater numbers.

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<sup>1</sup> Tavneet Suri and William Jack, “The Economics of M-PESA: An Update” (October 2010).

[http://www9.georgetown.edu/faculty/wgj/papers/M-PESA\\_Update.pdf](http://www9.georgetown.edu/faculty/wgj/papers/M-PESA_Update.pdf).

<sup>2</sup> Tavneet Suri and William Jack, “The Performance and Impact of M-PESA: Preliminary Evidence from a Household Survey,” unpublished paper (June 2008).

<sup>3</sup> Primary education is free in Kenya but there are costs for additional books, supplies, uniforms, and boarding.

<sup>4</sup> Ignacio Mas, “Micro e-payments and Low Cost Schooling in Kenya,” NextBillion blog (September 2, 2010).

<http://www.nextbillion.net/blog/guest-post-micro-e-payments-and-low-cost-schooling-in-kenya>.

<sup>5</sup> Robert Cull, “M-PESA: Mobile Payments, Improved Lives for Kenyans,” The World Bank (May 2010).

<http://go.worldbank.org/UVL5PJQX60>.

<sup>6</sup> Suri and Jack, “The Economics of M-PESA: An Update.”