



EUROPEAN
MICROFINANCE WEEK 2014
DEVELOPING BETTER MARKETS

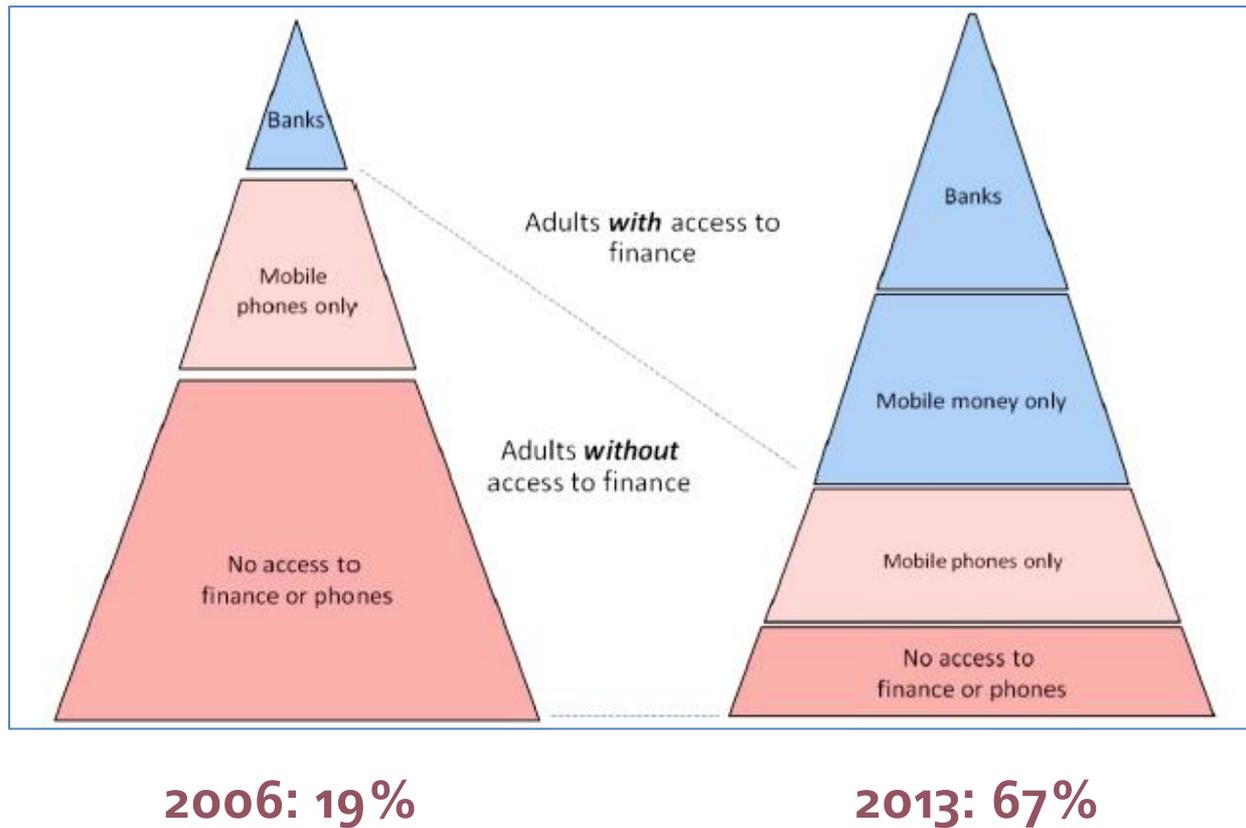
Digital Finance: why does it work in Kenya and opportunities for 7 African countries

Results from an EIB/UNCDF study



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Financial inclusion in Kenya



Why did it work?





Success factors: Regulation

- Kenyan regulatory environment such that Safaricom was able to experiment and innovate.
- That regulatory stance difficult to maintain after the financial crisis
- Interoperability good in theory but more ambiguous in practice

Success factors: Infrastructure

- High penetration of mobile phones in the country
- Widespread use of one type of phone – Nokia with 88% market share: easy to predict which device customers would be handling

Success factors: Providers

- In 2006, Safaricom was a near-monopoly: large captive customer base for their mobile money product.
- Initially designed as a tool for microfinance loan reimbursement, Safaricom observed that M-PESA was mainly used for P2P transfers.
- Effective marketing campaign: “Send money home”
- Strong commitment of CEO, Michael Joseph, to M-PESA.
- Vibrant scene of entrepreneurship in Nairobi. New services latching onto the existing mobile money platform.



Success factors: Agent networks

- M-PESA first recruited 400 of their largest airtime re-sellers as agents
- Today, agent network relying on so-called aggregators who subcontract agents
- Aggregators identify new agents and improve cash management by addressing imbalances between deposits and withdrawals
- Contracts provide incentives for staying loyal to Safaricom

Success factors: Customers

- Kenya characterized by high share of split-families leading to high latent demand for domestic remittances.
- Existing alternatives poor: Before M-Pesa, domestic remittances were expensive and slow.
- Rapid customer uptake due to the security situation during election riots in 2008 and the fact that many banks were closed
- Comparatively high level of education.

Investment opportunities for EIB

- Investment in debt or equity in a mobile financial platform, including regional African platform
- Investment in debt for financial institutions in Africa that will increase their client portfolio using DFS
- Investment in debt or mezzanine for financial institutions increasing their client portfolio using DFS but with higher risk and higher impact (EIB impact envelope)