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Cash in hand: why Africans are banking on the mobile phone

The dramatic spread of the handset is revolutionising the way money circulates

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A Cape Town resident is seen chatting on his mobile phone, reflected in the mirror at a barber's shop. Photograph: Mike Hutchings/Reuters

For consumers in developed markets, using a mobile phone for banking services is a smart add-on to a bank's branch network. But to people in the developing world, the arrival of mobile banking - or m-banking - is potentially revolutionary.

If money is an economy's lifeblood, improving its circulation plays a critical role. Many Africans living in rural areas, for instance, rely on money sent home by members of their family who work in towns and cities. But getting that cash to a village that could be hundreds of miles away is a tricky business. In Kenya, for example, workers in urban areas hand wages over to bus drivers, who promise to stop off at the worker's home village en route to their destination.

Even those who do have a bank account - and they make up only a few per cent of Africa's 950 million population - are restricted in what they can do with their money because of the dearth of branches in rural areas.

But the dramatic growth in mobile phone use in Africa - phones now outnumber cash machines by several thousand to one - is paving the way for a new set of services that turn the humble handset into a banking tool with the potential to transform Africa's economy.

Services have sprung up that let people transfer cash by text message to other mobile phone users and give Africa's vast number of "unbanked" their first access to financial products. Instead of using a bank branch, these services rely on local retailers who already sell mobile top-up cards.

"We wanted to offer something that would work," explained Mung Ki Woo, who heads Orange's m-payments division. "Instead of giving people a plastic card, why not use something many people already have: a mobile phone? And instead of doing transactions at a bank branch, why not let people go to their local retailer to deposit and withdraw cash?"

In March the company, owned by France Telecom, launched Orange Money in Ivory Coast, where only 7% of the population has a bank account, and plans to roll it out into some of its other markets, including Jordan and Mali.

Orange Money allows people to deposit cash through Orange's network of local retailers and send it to other registered Orange Money customers, who can then withdraw it through their local store.

Vodafone has moved a step closer to the dream of m-banking with its M-Pesa service. Launched by Vodafone's Safaricom unit in Kenya last year, M-Pesa has well over 2 million customers and adds more than 200,000 new ones every month. Like Orange Money, it uses the network of thousands of local retailers who sell airtime top-up cards to act as a branch network, but registered M-Pesa customers can send their deposited cash to a mobile phone user on any network.

"Money transfer has been touted in western Europe as a good idea for some time," a Vodafone spokeswoman said. "But to be honest it has not really caught on because you can already transfer money easily and most people have bank accounts. But in places where there are no banks it has become almost like a necessity."

Orascom - which has operations in Algeria, Tunisia, Egypt and Zimbabwe - recently announced plans to roll out m-banking across its markets and MTN, the continent's largest mobile phone operator, already has a service up and running in several areas. In South Africa a start-up called Wizzit has been providing mobile banking services, including a debit card, in partnership with a local bank for three years.

These services will all help put basic banking services within reach of many more African consumers. But a deal last month could dramatically alter the African m-banking landscape and finally close the gap between the banking haves and have-nots.

UK-based Monitise has spent the past five years developing technology that makes any mobile phone as secure as a cash machine. The company, formerly MChex and spun out of the technology firm Morse last year, has already clinched a crucial deal in the UK with the Link network and several of its partner banks are using the technology for mobile banking services.

Having proved its technology in one of the world's most advanced banking markets, Monitise has its sights set on Africa. In May it signed a deal with Made In Africa, an organisation co-founded by the designer Oswald Boateng that is helping spur economic development in the region, to bring its technology to Uganda, Tanzania, Rwanda, Burundi, the Democratic Republic of Congo, Kenya, Sudan and Zambia.

Monitise wants to build a service that functions whether or not a person has a bank account, regardless of which bank they use if they do have an account, and that can be accessed by customers of any mobile phone network.

"Basically, we are working with the banks to extend their model outwards from the small number of people who have access to banking services into the far larger number of people who have a mobile phone," explained its chief executive, Alastair Lukies.

The basic idea mirrors what operators such as Safaricom and Orange are doing but Monitise also wants to make use of local intermediaries who will go into rural areas, almost as mobile bank branches. Local intermediaries have been very effective in micro-finance, lending small sums to projects in the developing world and ensuring repayments are collected. Monitise hopes to have networks of retailers, operators and banks set up across east Africa later this year but it offers the potential to set up full-scale banking businesses across the continent.

"One of the things the banks are waking up to now is micro-finance," Lukies explained, "and 'the unbanked' has gone from being a thing you talk about in the corporate and social responsibility paragraph at the end of the annual report to being a fantastically viable market."