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CBS NEWS

BACK PRINT

Unserved By Banks, Kenya's Poor Use Cells

NAIROBI, Kenya, Oct. 14, 2007

(Christian Science Monitor) *This article was written by* ***Matthew Clark****.*

With a click of a cellphone key, Bernard Otieno makes the transfer - sending funds instantly from his residence in a sprawling Nairobi slum to his wife, who holds down their rural family farm some 250 miles away.

Mr. Otieno, a security guard who works the night shift, used to risk carrying cash on infrequent, slow trips to his hometown or pay high rates to send money through the post office.

Now, he's one of a growing number of Kenyans tapping into a service called M-PESA - M for "mobile" and pesa for "cash" in Swahili. Launched this year, it's one of the world's first cellphone-to-cellphone cash-transfer services for people who lack access to conventional banks.

Most banks have found it far too costly to set up services for the billions of poor people in developing countries. But with cellphone banking, which eliminates most administrative costs, banks could soon find it worth their while to serve the poor. On a continent with more than 225 million cellphone users - double what it had just two years ago, according to World Bank statistics - the impact could be profound on poor families' ability to save for a house, plan for emergencies, or get a loan.

"This could completely change the way banking is done, and what's interesting is that this is happening in the developing world, where 80 percent of people don't have access to banking," says Mark Pickens, a microfinance analyst at the Washington-based Consultative Group to Assist the Poor. "M-PESA is the kind of thing that can move the frontier for access to finance.... This is something that can actually change people's lives."

The technology is not new and the setup is simple: A customer selects from a short menu on the cellphone screen, including "send money" and "withdraw cash." The person receiving the transfer on his or her phone can visit an M-PESA agent or participating gas stations or store to pick up the money.

Joshua Ogol hopes the service, which is not connected to any bank, will change his life. He has a food kiosk and sells scrap metal in Nairobi's huge Kibera slum, but he's trying to build a house in his rural hometown. Usually he sends money back with people going that way, but sometimes they don't deliver all of it, he says.

He also sometimes has trouble collecting money from people who buy goats from his family back home, an important source of income. As he signed up for an M-PESA account at a small shop in Kibera, he said he was going to tell the person who bought the last goat that he no longer has excuses not to pay up.

Just down the street at "Eva's Impressions," M-PESA agent Harrison Mumia is a satisfied customer. He's been using M-PESA since March to send money to his two sons in college and top off the balance on their prepaid cellphone accounts so they can keep in touch. "I find the service very good," he says with a wide smile after receiving a text message from his elder son saying that he got the money Mr. Mumia just sent. "It's very fast. With the others you have to wait for some time."

"We're expanding day in, day out," says Isaiah Onyango, the store manager. "We need a bigger shop."

Indeed, the initial success of M-PESA has surprised even those who helped set it up. "We have now [the number of customers that] we thought we'd have in January," says Gerald Rasugu, the manager for all M-PESA agents nationwide. M-PESA serves more than 450,000 customers, well over the target of 100,000 set at launch, says Michael Joseph, CEO of Safaricom, Kenya's largest cellphone provider, which started M-PESA. He expects to have 1 million customers by January. "I wonder sometimes if people understand how big this can be," he says.

The potential goes beyond M-PESA and Kenya. Once poor people have more access to financial products offered through trusted banking systems, investors soon follow, creating jobs, say economists.

"There's a very clear correlation between a more developed financial sector and GDP growth," says Thorsten Beck, a senior economist at the World Bank in Washington.

Banking access also helps to alleviate poverty: Recent analysis by the World Bank shows that nearly 30 percent of the difference in changing poverty rates between countries could be attributed to financial-sector development.

One concern observers have is how well services like M-PESA will be regulated. "When you get a non-bank providing a bank-like service, we don't know if they'll be as safe as banks," says Mr. Pickens, noting that government regulators in many developing countries don't have laws for these services. "What we're worried about is fraud or bankruptcy damaging consumer confidence." He adds that he's not concerned about M-PESA but possible future lower-budget providers.

Safaricom executives, meanwhile, say their main concern now is how they'll be able to keep up with the growth rate, even though they point out that the service is not a big money maker for them.

"This hasn't been taken on because it will double our profits," says Pauline Vaughan, chief of M-PESA, noting that selling airtime is the core of Safaricom's business. "When I go to the market and see the impact on people's lives, I feel gratified. I've never had that feeling from something at work before."

Otieno, the security guard, says that easier access to cash allows his wife to run their farm of sugar cane and corn more efficiently. And

it made a difference for his very young son as well. Several weeks ago, the 9-month-old fell ill and needed quick attention. "For emergencies [M-PESA is] really good," says Otieno.

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