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The Kenyan app that helped hundreds of thousands overcome poverty

BY TOM MURPHY ON 15 DECEMBER 2016

1



U.K. Secretary of State for International Development Priti Patel visits a M-PESA kiosk at the Mukuru low income settlement in Nairobi. (Credit: Rob Oxley/DFID/flickr)

Mobile money is more than a way to send and receive money. For some people, it is a path out of poverty – particularly for women.

A [new study](#) in Kenya found that the M-PESA mobile money platform lifted 194,000 households out of poverty. It builds on the evidence that increasing access to and use of financial services can help people living in extreme poverty.

“For women, the route out of poverty might not be more capital, but rather financial inclusion at a more basic level, which enhances their ability to manage those financial resources that are already accessible,” according to the report by [Tavneet Suri](#) and William Jack. “Thus, although mobile phone use correlates well with economic development, mobile money causes it.”

M-PESA is a hybrid of payment apps like Venmo and wire transfer services like Western Union. A person goes to an agent to add money to her M-PESA account. The amount is then available on her phone to send to another person. Much like PayPal, that transfer can pay back a friend,

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send money to a relative or buy something. The instant transfer comes with a small fee and the recipient can withdraw the money at an agent.

“You even hear stories in Nairobi where people put money in at one side of town, go home and then make a withdrawal when they get home,” Suri said in an interview with Humanosphere.

Most Kenyans use M-PESA to buy cell phone minutes and send money to family members. This does two important things Suri said: sends money instantly and directly to the person who needs it. Before M-PESA, people had to physically deliver money to each other. That meant it could take a day for a husband working in Nairobi to deliver money to his wife in the north to pay their children’s school fees. He’d potentially have to take time off work and pay for the round-trip bus ticket.

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Suri and Jack surveyed Kenyan households on their spending, jobs and more between 2008 and 2014. They mapped each household and nearby M-PESA agents. Living close to an agent proved to be an important indicator. By applying the surveyed impacts against a national map of agents, they estimate that M-PESA lifted 2 percent of Kenyan households out of poverty. It notably helped 185,000 women shift from working as farmers to business or retail.

“One reason this may have happened is it allows people to do things they wouldn’t have done because they have a safety net,” said Suri. “Over time these effects of financial resilience can be a big thing. If I now know I can reach five people who can help if things fall apart I might take more risk.”

Kenyan mobile phone company Safaricom launched M-PESA in 2007. Some 96 percent of Kenyan households had cell phones and Safaricom was the most popular provider. Unlike the U.S., the average customer buys a cell phone and separate SIM card from a provider. They buy minutes to pay for calls, text messages and data plans from local vendors.

Safaricom used its existing network of sellers to also act as M-PESA agents. It took off immediately. More than 2 million people used M-PESA a year after its launch. The user base jumped to more than 8 million by the end of 2009. Suri researched that growth in a [previous study](#) finding that the number of agents across the country grew as quickly as the user base. The key was that it spread throughout the country and was not confined to major cities.

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But Suri was careful to point out that it is not a silver bullet.

“Any one product is going to help some set of people in some way, but a diversity of products will help a diversity of people. You are filling one need with one product,” she said. “[Mobile money] is not a be all, end all.”

Microcredit is one example. The microfinance industry garnered attention a decade ago with stories of people starting businesses and leaving poverty. That hype dampened in recent years after studies showed that, on average, the small loans have little impact. But it isn’t a

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failure. Much like the M-PESA study found, there are some people who benefited from small loans.

The discussion now is about financial inclusion. Americans use numerous types of financial products to buy a house, pay bills, save for retirement and protect against an unfortunate accident. The same series of services can benefit the poor.

Suri is particularly interested in a new mobile banking product offered by Safaricom. M-Shwari launched in 2011 to give people instant access to savings and loans, which is different from M-PESA. M-PESA is an informal bank account for quick transactions, and it is not the same thing as a savings account, Suri said. Adding a savings component and talk of a tool to allow people to buy government bonds could help more Kenyans exit poverty.

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

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