CASE # 12.7

FINANCIAL INCLUSION: SAFARICOM AND THE M-PESA CASE IMPACT LOOPS 1–2–3–4

[Relating to Section 12.3.2 of the book – see footnote 9]

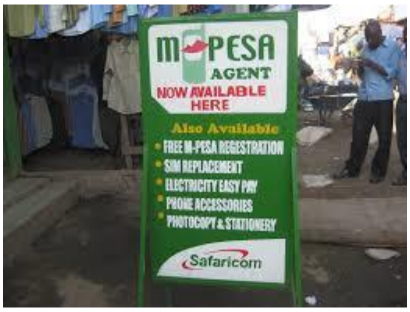
THE CASE[1]

Safaricom is the largest telecom operator in Kenya, with a market share of 71% and a workforce of 5,434 employees by 2017. The company was incorporated in its current form as a joint venture between the Government of Kenya (60%) and Vodafone Group of the UK (40%) in 2000. In 2008, the government sold off 25% of its stake through a public offering in the Nairobi Securities Exchange (NSE), which was bought by more than 600,000 individual investors. Safaricom's total market valuation exceeded 6 billion USD, making it the largest listed company on the NSE. The company is a member of the UN Global Compact and the head of its local chapter. Safaricom has also integrated its operations and growth strategy with the SDGs in an effort to reverse materiality (see section 9.3). Safaricom participates in the Business and Sustainable Development Commission (BSDC) to promote similar sustainable business approaches.

Safaricom has become widely recognized for its mobile banking service called M-Pesa, which is credited with expanding financial inclusion among large segments of unbanked populations in Kenya. The service is currently used by more than 27 million Kenyans. It enables users to open 'mobile accounts' that support services such as (international) money transfers, bill payments, and microcredit using simple and accessible mobile phones. The East African region has consequently moved to the forefront of the mobile money revolution, with Kenya as a frontrunner, with more than 70% of the country's adult population using mobile money services as early as 2015. M-Pesa, the country's leading mobile money service, is one of the first and most successful mobile money services in the world and credited with inspiring similar innovations globally. Mobile money has become an integral part of Kenya's economy, and is extensively used for diverse purposes – such as paying school fees, paying utility bills, point-of-sale transactions, and domestic and international money transfers.

[1] For a full description, see Lashitew, A., Van Tulder, R. & Liasse, Y. (2019). 'Mobile phones for Financial inclusion: What explains the diffusion of mobile money innovations', *Research Policy* 48(5): 1201-1215.

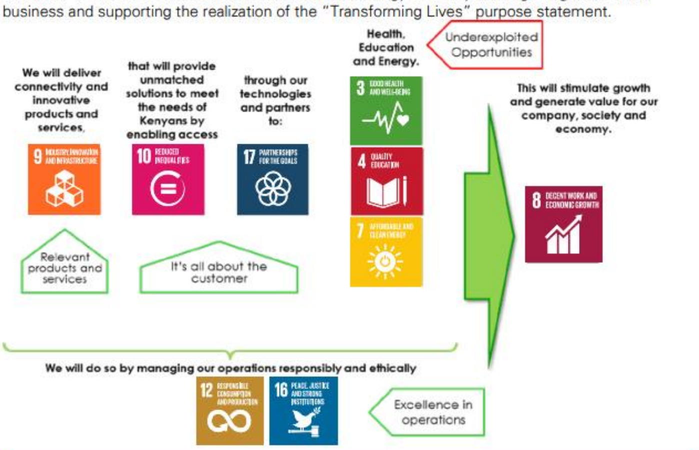
M-PESA FOUNDATION ACADEMY



Integrating the Sustainable Development Goals in Safaricom

This consultation process, helped Safaricom to develop a narrative and provide the business with a purpose statement for its commitment to sustainability that fits within our business strategy *"We commit to* ***deliver connectivity and innovative (Goal 9)*** *products and services that will provide unmatched solutions to meet the needs of Kenyans by* ***enabling access (Goal 10)*** *through our technologies and* ***partners (Goal 17)*** *and by exploring opportunities in* ***Health (Goal 3), Education (Goal 4)*** *and* ***Energy (Goal 7)****. We will do so by managing our operations* ***responsibly (Goal 12)*** *and* ***ethically (Goal 16)****. This will* ***stimulate growth*** *and* ***generate value (Goal 8)*** *for our company, society and economy."*

This narrative was articulated in a way that fits within Safaricom's business strategy which has 3 pillars: "Excellence in Operations", "Relevant Products and Services" and "It's all about the customer". The SDGs have been overlaid on this strategy as a way of integrating them in the business and supporting the realization of the "Transforming Lives" purpose statement.



> *"The initial intention was to shortlist just few SDGs. However, when we started talking to the business we realised the SDGs work better for us as a system. They are like a car that needs all its parts to run properly. We therefore steered away from selecting a few goals and moved toward a narrative. We articulated this framework for it to serve our purpose of Transforming Lives"*
>
> Elisa Moscolin, Sustainability Manager, Safaricom

IMPACT AND SCALING

The value of money transferred through M-Pesa had reached more than 30% of the country's GDP by 2011, growing to 85% of GDP in 2016 (Safaricom, 2016). Accordingly, M-Pesa has effectively become 'the second currency' of the country. In addition to peer-to-peer and customer-to-business payment services, M-Pesa supports short-term microloans for millions of small businesses and individuals, thereby providing significant welfare advantages. According to some estimates (Suri and Jack, 2016), M-Pesa helped lift at least 2% of Kenya's population out of extreme poverty. Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit, insurance – delivered in a responsible and sustainable way. With its mobile banking platform M-Pesa, Safaricom promotes financial inclusion by providing millions of otherwise financially excluded individuals the opportunity to transfer, save, and borrow money using basic mobile phone devices.

In order to reach this kind of scale, Safaricom worked closely with regulators to create a new regulatory framework for mobile payment services which, in effect, led to the launch of a new industry in Kenya (scaling 'up' and 'deep', see Box 10.9 in the book). Vodafone subsequently introduced M-Pesa in nine other countries where it is operating, providing financial services via a network of more than 261,000 agents. The mobile money system has since expanded to Tanzania, Mozambique, DR Congo, Lesotho, Ghana, Egypt, Afghanistan, South Africa, India, Romania, and Albania (scaling 'wide'). Building on the success and the network effects of M-Pesa, Safaricom furthermore introduced a range of social innovations that provide key goods and services in sectors as diverse as health, agriculture, energy, and education ('scaling across').

THE PARTNERING APPROACH [2]

A key precondition for the successful development and diffusion of M-Pesa was the involvement of both local and international actors in the development of the service. When M-Pesa was piloted in 2007, it was led by an international partnership that included DFID (the UK Department for International Development, a governmental donor organization), Safaricom, and Vodafone – Safaricom's majority owner. The project was initially piloted in partnership with a local microfinance institution to enable its clients to conveniently receive and repay their loans, using their mobile phones. Safaricom eventually introduced M-Pesa as a service targeting domestic remittances, based on close observation of how clients used the service during the piloting stage. Although Safricom's initial strategy was to use M-Pesa as a branding strategy, its market potential turned out to be greater than anticipated. The success of M-Pesa eventually engendered a change in Safaricom towards a strong commitment to financial inclusion and social impact. In 2015, Safaricom adopted the new motto '*Transforming Lives*' to express its commitment to creating social impact. Safaricom's laudable management practices and its high-quality service provision enabled it to effectively legitimize M-Pesa and build trust in the new service. This propelled the success of M-Pesa in Kenya, and elsewhere in Africa – and beyond.

M-Pesa was borne out of a true co-creation effort that involved partners with diverse expertise. At the core of this collaboration were the three leading firms – Safaricom, Vodafone, and the Commercial Bank of Africa – that contributed their specific competencies to create the value offering of M-Pesa. Moreover, Safaricom established an extensive network of agents, super-agents, and other intermediaries that provide the interface between the company and its users. Following the initial launch of M-Pesa, Safaricom expanded the mobile platform to include services that addressed a variety of societal needs. These initiatives required specialized know-how and expertise in diverse fields of healthcare, agriculture, and sustainable energy – knowledge that a telecom company such as Safaricom could not readily bridge. To overcome this gap in expertise, Safaricom partnered with a wide range of civil society organizations (CSOs) and businesses to leverage expertise and capabilities in these fields. Given the difficulty in assessing the market risks involved in such divergent areas, these partnerships also had the advantage of shielding Safaricom from the financial and market risks associated with exploring and operating in new markets.

APPLYING THE CONCEPTS OF PART III

The success of the Safaricom case illustrates a variety of the mechanisms that were introduced throughout Part III, and that explain why a company like Safaricom was able to develop a 'sustainable business' – at four levels of intervention and engagement:

[2] See Lijfering, S. & Van Tulder, R. (2020). *Inclusive Business in Africa. A business model perspective*. The Partnerships Resource Centre at Rotterdam School of Management, Erasmus University.

- **Level 1**: **addressing market failure, avoiding the incumbent's curse**. In Kenya, the existing banking system did not serve the needs of poor people. Banks did not have the ambition nor the business models required to expand their services toward 'unbankable' people. For instance, reaching poor people would imply a significant expansion of their banking offices in less-developed and poor regions. Incumbent banks had either disregarded these latent customer segments or were unable to design a feasible business case for this approach. Safaricom made effective use of this 'institutional void' by introducing an organizational innovation: 'branchless banking services' – a network of local agents (kiosks) that include airtime reseller and small retail outlets that were allowed to act as banking agents and to handle money deposits and withdrawals, even very small amounts of money.

- **Level 2**: **addressing negative externalities while avoiding the philanthropy trap**. Safaricom/Vodafone is a telecommunications company and thus not directly involved in banking. The initial step to start a project on mobile banking nevertheless triggered funding from international donor organizations and Vodafone as the parent company. This partnership functioned as a testing ground for new business models and a new business case. As soon as the pilot proved successful, Safaricom linked the mobile money activities with its core business. This move was relatively easy to establish because the director of the Foundation also acted as the Strategy Director.

- **Level 3**: **scaling positive externalities by meeting real needs**. Once the strategic value of M-Pesa became apparent to Safaricom, the company could throw its full weight into its growth. Safaricom effectively entered the financial industry – allowed to do so by the new regulations for mobile payment systems. Safaricom leveraged its capabilities as a telecom company to disrupt the traditional payment system. It had discovered a source of innovation that provided for the yet unmet needs of a massive customer segment, thereby empowering individuals and small businesses and contributing to the welfare of millions.

- **Level 4: maximising ecosystem and network effects**. Safaricom managed to create a new ecosystem of mobile money and inclusive finance. Partly as a result of the failure of the business model of traditional banks, but also because of its partnerships with national and international organizations. The company also profited from significant 'network effects', allowing it to reap the benefits of 'first-mover' advantages – it had set the standard and now benefited from high 'entry barriers' to newcomers. The company's dominant market share and the lock-in of people in the network is one of the strongest points of critique regarding the company. It also explains why in some other countries, the system is less effective and subject to greater competition. Safaricom, however, tries to consolidate its leading position by broadening its service offering in other vital areas of sustainable development (e.g., insurance, health), and by explicitly referring to its core value proposition of 'Transforming Kenyans' Lives". By embracing the SDGs and communicating its progress, the company demonstrates a serious commitment to sustaining its 'license to scale' (level 3) and 'license to experiment' (level 4). Its extensive partnering strategy aims to engage in continuous learning and upgrading in this respect.

CASE QUESTIONS

- In what way does M-Pesa create social impact? Explain the impact it has created at various levels of impact loops (see section 12.3).
- Corporations often struggle to create innovations that advance social impact. Why do you think Safaricom has succeeded? What do you deem critical success factors?
- In general, what kind of capabilities, cultures, values and 'philosophies' do companies need to be able to design and successfully diffuse social innovations?
- Explain how Safaricom's partnership with the following actors contributed to the success of M-Pesa: (a) local actors, such as microfinance institutions; (b) international actors, such as DFID; (c) governmental bodies.

FURTHER READING

Lashitew, A. A., Bals, L., & van Tulder, R. (2020). 'Inclusive Business at the Base of the Pyramid: The Role of Embeddedness for Enabling Social Innovations', *Journal of Business Ethics*, 162(2): 421-448.

Lashitew, A., Van Tulder, R. & Muche, L. (2020). 'Social Value Creation in Institutional Voids: A Business Model Perspective', *Business & Society*, 61(8): 1-47. https://doi.org/10.1177/0007650320982283

Lijfering, S. & Van Tulder, R. (2020). *Inclusive Business in Africa. A business model perspective*. The Partnerships Resource Centre: Working Paper Series, Rotterdam School of Management, Erasmus University. Available via https://www.rsm.nl/news/detail/15072-new-publication-inspires-companies-to-do-inclusive-business-in-africa/

Lashitew, A., Van Tulder, R. & Liasse, Y. (2019). 'Mobile phones for financial inclusion: What explains the diffusion of mobile money innovations? *Research Policy*, 48(5):1201-1215. https://doi.org/10.1016/j.respol.2018.12.010.

Safaricom – M-PESA website, https://www.safaricom.co.ke/personal/m-pesa

Vodafone – M-PESA website, https://www.vodafone.com/about-vodafone/what-we-do/consumer-products-and-services/m-pesa