

Vodafone: 'Financial Services for the Unbanked'

In this case study we will:

- Demonstrate how the new application of existing technology can support sustainable business growth
- Show how companies can create a new revenue stream for their business by helping stimulate economic activity in a developing economy and help address the issue of reducing world poverty
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Why is this strategic?

- Vodafone want to continue to grow their business for their shareholders
- Vodafone believe that the mobile industry has great potential to generate positive social and economic development particularly for individuals in the developing world (*Vodafone: Economic empowerment through mobile*)
- Emerging markets such as Kenya represent significant growth potential as research has shown that mobile technology can revolutionise social and economic growth in such countries (*WBCSD "Financial Services for the Unbanked"*)
- Vodafone partnered with Commercial Bank of Africa (CBA) and Faula Kenya (a local micro-finance institution) to work together to address common challenges in an area in which they all stood to benefit.

Background

Vodafone is a leader in the international mobile telecommunications market, with presence in 25 countries across 5 continents with over 200 million customers worldwide. (*Vodafone website*)

In order to meet shareholder expectations, they must continue to grow their business by establishing their brand and products in lucrative new markets and innovating new products and services.

Africa represents just the type of market attractive to Vodafone. The pace of development in the region has been extremely fast, with mobile phone users outnumbering fixed telephone lines by more than four to one in many markets. (*Euromonitor, 4th March 2007*)

"This is not for altruistic purposes" said Vodafone CEO Arun Sarin. "We have no desire to undertake the role of government or NGO's or embrace an exclusively philanthropic approach to 'do good'. Rather we recognize that around 20% of the world's mobile phone users are from low to middle income countries and can see that the next billion mobile users are likely to live in markets which have very different needs from those we are used to" . (*WBCSD "Financial Services for the Unbanked"*)

In 2005, Vodafone partnered with its local telecom affiliate, Safaricom, to provide financial transactions over cell phones in Kenya. The M-PESA service was piloted as a public-private venture, as a partnership with the UK Department for International Development (DfID) (providing matching funding), the Commercial Bank of Africa (providing local banking services and interface to the regulatory system), and the microfinance organisation, Faulu (providing local expertise). In March 2007 Safaricom launched M-Pesa, within the first month 20,000 customers had registered. (*M-PESA – "Mobile Money for the Unbanked"*)

The Challenge

The challenge for Vodafone was to adapt existing mobile technology to deliver financial services in a fast, secure, simple and low cost way to accommodate the needs of customers who were unbanked (had no bank account), unconnected, often semi-literate, and who faced routine challenges to their physical and financial security. (*M-PESA – “Mobile Money for the Unbanked”*)

The Response

Vodafone realised early on that this wasn't about developing new technology, it was about a new application of existing technology – financial services in emerging markets require a very basic application of mobile technology.

As a first stage Vodafone applied for and won funding of nearly £1m from the Financial Deepening Challenge Fund – a UK government fund available to private sector projects that help improve access to financial services. The money was awarded on a matched basis (50% of total costs) but was fundamental to the progress of the programme as it gave Vodafone comfort that the project was addressing a market of potential future value. The funding enabled Vodafone to put together a pilot in partnership with the Commercial Bank of Africa (CBA) and Faula Kenya.

Several services are available to M-PESA users: making loan repayments, ability to deposit or withdraw cash from authorised agents, ability to make person-to-person money transfers, purchase airtime and receive account statements. The pilot project confirmed several important benefits to users. Users found M-PESA safe and convenient to use, allowed users longer “banking hours” and as a result lead to more prompt and regular loan repayments and hence a reduction of default rates on loans. (*WBCSD “Financial Services for the Unbanked”*)

The growth of telecommunications in the continent in general has brought significant benefits for wider economic development. These include stimulating business at a micro-level and increasing the efficiency of trade, particularly in rural areas which otherwise struggle to communicate. A more stable economy brings benefits for the long-term business of Vodafone in the continent (*Euromonitor, March 2007*).

The equation is quite simple: access to finance facilitates entrepreneurial activity. In turn this creates wealth through economic activity, job creation, and trade. (*M-PESA – “Mobile Money for the Unbanked”*)

For Vodafone the scheme has brought financial rewards too. The service attracted 20,000 customers in the first month, well ahead of the targeted business plan (Innovations “M-PESA: Mobile Money for the Unbanked”). The programme plans to target 200,000-300,000 users in Kenya and seeks to become the platform of choice for nearly \$500m in remittances received annually (*Vodafone: Economic Empowerment through mobile*)

What Can We Learn?

The case study demonstrates how Vodafone has played a significant role in tackling sustainable development, whilst growing their business for shareholders.

Key lessons learned by Vodafone (*Vodafone: Economic Empowerment through mobile*) are:

- In developing markets, as in all markets, 'know the customer'.
- To achieve success in developing markets new business models are a necessity
- Successful entrants to these markets are building from the ground up, engaging local communities deeply, appreciating the potential size and strength of the market, and thus committing for the long haul.

By engaging with stakeholders and applying existing technology to meet their needs, in this case in association with other companies with complementary ambitions, Vodafone have enhanced their reputation in Kenya and created an additional revenue stream for the company.

Reporting and performance measurement

N/A (only in press releases)

Other examples

Nokia and Vodafone have jointly produced a website that showcases examples of organisations using mobile technology to bring about social change.

<http://www.shareideas.org/>

Standard Chartered Bank works in local communities in developing economies by providing services such as Microfinance and Islamic banking

References

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