

**THE EARLY TREND OF DIGITAL ECONOMY WITHOUT INTERNET: AN  
AFRICAN SUCCESS STORY**

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**Abstract:** Digital economy is a growing trend of modern times and it has been considered that it would not be possible to digitize without the use of internet. However, in the mid-2000s, a telecom company from Africa has shown that digital revolution is possible just with mobile network. The article is about the revolutionary idea of the early 2000s to facilitate money transfer by using a basic mobile phone. The article analyzes the early years of digital economy when use of internet was not prevalent in basic mobile phones in Africa. The article is intended to study about the emergence of 'M-PESA, the World's First Large Mobile Payment Platform and its evolution.

**Key words:** Digital economy, digital integration, digital infrastructure, going digital without internet.

Even though the world's first mobile money wallet - Smart Money, was launched in the Philippines in 2001, it was M-Pesa that was launched 6 years later in Kenya, which became the first large mobile payment platform of the world. According to a Forbes report of last year, as of 2023, a staggering 59% of Kenya's GDP flows through M-PESA, the country's dominant mobile payment system, thus amounting to 20 billion transactions during the year.

To Vodafone's initiative to use mobile phones to deliver financial services as a promising approach to sustainable development, the company was awarded one million pounds by the Department for International Development (DFID) a United Kingdom government department in the year 2003.

In 2005, Vodafone's subsidiary - Safaricom, mobile network operator in Kenya, initiated the creation of a full-fledged mobile payment system with the intention to reach those with no bank account.

Thus, in 2007, Safaricom launched M-PESA (M for mobile; pesa is Swahili for money) in Kenya. The service was designed to use a mobile phone's SMS and SIM card to enable money transfers, payments, and micro-financing to serve millions of people in Africa who lacked access to conventional banking, and also to help them manage their money safely and securely.

Despite large segments of the population embracing the service, M-PESA faced a great deal of resistance from banks in the first two years, and the Central Bank of Kenya (CBK) was under pressure to rescind its approval of the service.

Incidentally, the service's launch coincided with a period of political unrest in Kenya in early 2008. During the crisis, many Kenyans found M-PESA to be a more secure way to store and send money than banks, which fueled its further adoption.

Moreover, in January 2009, much to the relief of mobile operators, the treasury of Kenya re-asserted that mobile money was not a banking service, but a low-value retail money transfer service which had passed the scrutiny of the CBK's internal legal and risk assessments, as well as an external information systems audit.

The success of M-PESA could also be attributed to the fact that Western tech giants did not want to expand in markets that are relatively small for these global firms. This had put M-PESA at a crucial advantage as the management team understood these markets very well and the opportunity size was a great fit for further expansion.

M-PESA expanded, first in Kenya and then into other African countries. M-Pesa's success in Kenya established it as a globally recognized case study in financial innovation and inclusion, inspiring similar services worldwide.

#### **M-PESA's failure in South Africa**

Even though M-PESA has been exceptionally successful in East Africa, particularly Kenya, but has notably failed to gain traction in other markets, most prominently South Africa. The service was launched in South Africa in 2010 with the hope of capturing the energy and excitement of a nation hosting the football World Cup.

Being a leading mobile operator in the country, Vodacom thought it could build an M-Pesa customer base of 10 million in three years. However, six years on the service only had 76,000 active users in South Africa.

According to a World Bank report, only 12% of Africans with bank accounts use mobile money services. However, this is not the case in South Africa as it has the most technologically advanced, financially liquid and accessible banking system on the continent with about 75% of adults in the country have bank accounts, a survey, external done by technology research body FinMark shows.

#### **Competition for M-Pesa in Africa**

Currently, in Africa, mobile money is bigger business than mobile voice or mobile data. And it all started in Kenya in 2007.

Presently, Airtel Africa is the second largest telecom operator in Africa, active in 14 markets across the continent. Over the past few months, Airtel Africa has lined up a number of investors to take minority stakes in its mobile money business.

MTN is shaping up to do something similar as the largest telecommunications operator in Africa by subscribers, with 278 million customers across Africa and the Middle East. It too has a mobile money business, accounting for around 8% of group revenues. The company's target is to get that to 20% by 2025.

#### **Difficulty in further expansion of M-Pesa services**

The platform evolved beyond simple money transfers to become a comprehensive financial ecosystem. It now offers a wide array of services, including: (i) Savings and loan products; (ii)

Micro-loans and overdraft facilities; (iii) Payment for goods and services through merchants; (iv) International money transfers.

However, the bigger problem is the type of smart phones used in emerging markets. While penetration is increasing rapidly, most phones have very limited capacity. "The majority of the smartphones sold here are affordable @\$50 thus having limited features including storage," explains Sitoyo Lopokoiyit, M-PESA Africa managing director. He adds that due to this condition users keep a handful of apps on their phones, including the M-PESA Super App."

### Current status of M-PESA

Currently, M-Pesa is ubiquitous in Kenya. It has 28.3 million active users – in an adult population of 30.3 million. In the year to March 2021, \$200 billion of transactions flowed through M-Pesa, equivalent to over 2x GDP.

The impact that M-Pesa has had on the Kenyan economy has been significant. Study estimates that M-Pesa has increased per capita consumption levels and lifted 2% of Kenyan households out of poverty. By increasing financial resilience and savings and creating greater occupational choice, especially for women, who moved out of agriculture and into business.

Going ahead, M-PESA is expected to continue building new products, often in partnership with big technology firms. It is also expected to continue its expansion in Africa.

### Conclusion

The success of M-PESA has shown the importance of financial inclusion by providing accessible, affordable, and user-friendly services for the unbanked, the power of leveraging existing mobile infrastructure, and the more important aspect of addressing specific local needs in an adaptable and innovative manner to foster growth. This focus on customer needs and market adaptation has not only transformed financial lives but also spurred an entire digital economy and startup ecosystem.

Last but not the least is the aspect of collaboration with regulatory bodies and other financial service providers which helped M-PESA overcome challenges and expand its offerings, demonstrating the benefits of working with different stakeholders.

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