

Executive Briefing

The Second Wave of Mobile Financial Services in Africa

Africa is at the epicenter of mobile financial services (“MFS”) innovation, with some of the top services globally in terms of transaction values and volumes. The number of registered accounts in Sub-Saharan Africa has almost doubled over the two-year period leading up to a recent mobile money survey.¹ Yet adoption remains very “thin,” limited to airtime top-ups and person-to-person (“P2P”) transfers, a tiny slice of an economy’s overall transactional flows.

But service providers are looking to tap into the wider economy in order to access the significant untouched potential which still exists in even the most successful markets to date. In terms of transactional flows by categories, Figure 1 illustrates the extent to which this expansion of services is beginning to spread, as well as spaces yet to draw much attention.

While the winning formula for P2P and top-ups is for the most part already broadly understood – generally liquidity and footprint – MFS service providers have struggled to date in moving beyond these ‘pure-play’ use cases to capture a wider slice of an economy’s overall commerce, the “next wave” of MFS.

But there are some hints of change, such as Safaricom’s Lipa na M-PESA which provides merchant accounts to facilitate payments in place of informal P2P transfers to a shopkeeper’s personal account. Third parties may also help to build momentum by providing expertise that fall beyond a mobile network operator’s (“MNO”) core focus such as Kopo Kopo in Kenya which undertakes merchant acquisition, training, and operational support.

The success or failure of this next phase of innovation may reveal whether MFS and mobile money (“MM”), as long hoped for, become drivers of financial inclusion, or remain a bit player for the time being. Agriculture supply chain payments, micro-loan disbursements & repayments, and even emerging insurance products provide some hope. Yet many of these exist only as pilot deployments.

To help answer this question, and quantify potential market opportunity, the Mondato Africa MFS 2015 Report takes a deep-dive look into five representative countries: Ghana, Kenya, Nigeria, South Africa, and Tanzania. These markets were selected given their

Figure 1: Economy Transactional Flow Matrix - Mobile Money Penetration

		Recipient		
		Individual	Business	Government
Payer	Individual	<p>Established</p> <p>P2P Transfers account for the greatest value of MFS transactions in Africa</p>	<p>Pockets of Adoption</p> <p>Adoption primarily for top ups (e.g., airtime & electricity), but also some informal merchant payments</p>	<p>Extremely Limited</p> <p>Some tax authorities and MNOs facilitate MM payments, but usage is very limited</p>
	Business	<p>Early Stages</p> <p>Pilot programs being implemented, such as agribusiness payments to small plot farmers</p>	<p>Hurdles to Overcome</p> <p>Requires more specialized platform and reporting; current P2P does not support necessary invoicing</p>	<p>Untested Potential</p> <p>Businesses likely would not pay taxes by MM in most cases; tax avoidance could limit SME adoption</p>
	Government	<p>Pushing ePayments</p> <p>Novel attempts at benefits ePayments (e.g., eID in Nigeria), but MM yet to be adopted</p>	<p>Uncertain Use Cases</p> <p>Potentially for subsidies or tax refunds, but not necessarily a focus area for providers</p>	<p>Yet to be Attempted</p> <p>Possible expense reimbursements / allowances for civil servants to provide better transparency</p>

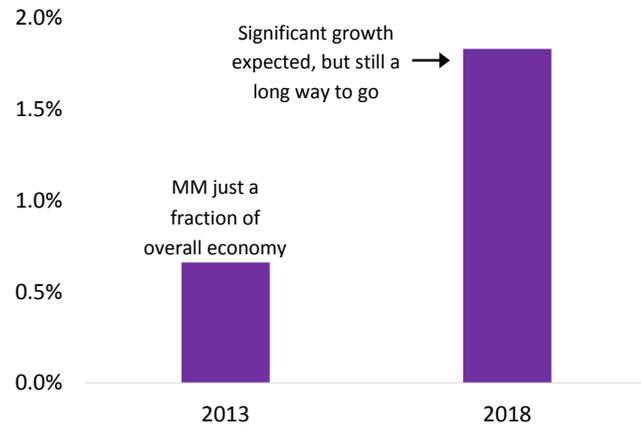
Source: Mondato analysis

¹ “State of the Industry 2013: Mobile Financial Services for the Unbanked,” GSMA, February 2014

range of economic and regulatory differences so as to identify key adoption drivers through a comparative analysis. The combinations of regulatory environments, mobile network operator competitiveness, and socio-demographic profiles result in quite varying MFS service profiles in each country, allowing for new insights distilled from the market-specific adoption drivers across countries, with the potential for broad commercial applications.

Growth in Perspective

Figure 2: Estimate of Mobile Money as a Percentage of Overall Transaction Value in Africa



Source: Mondato analysis, World Bank

African markets are still primarily cash-based. Even in Kenya, where the equivalent of two-fifths of the national GDP is transacted on the M-PESA platform every year, the mobile money share of overall transactions is very small (Figure 2).² GDP is simply a measure of gross value added, and therefore misses out on the many payments changing hands as inputs move through supply chains, with components bought and sold multiple times over.

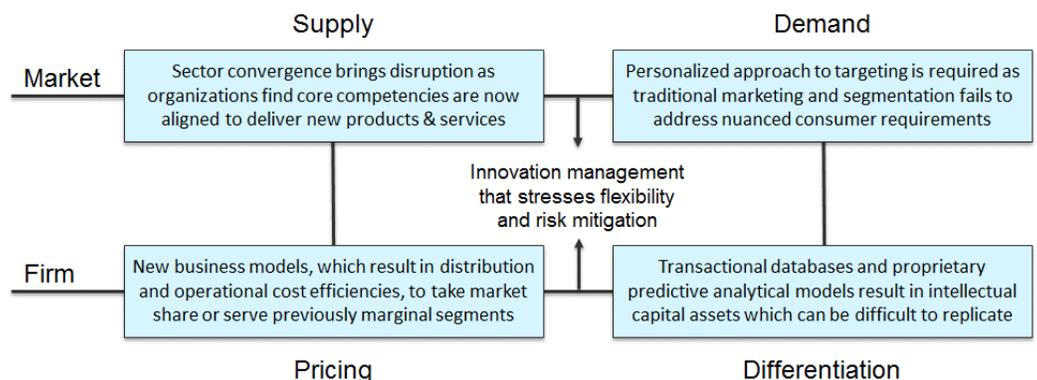
In this respect, after removing airtime top-ups and P2P transfers, Africa is in a very similar position to Europe, and parts of the Americas and Asia, where MFS is not achieving levels of use that were previously forecast. However, to Africa's advantage, a greater proportion of the population has an evolving comfort for transacting over their mobiles, not to mention access to fewer alternatives, which could help African markets more quickly overcome consumer behavior obstacles than peers in other parts of the world.

Evolution or Revolution?

Each market has embraced a move towards digital payments to varying degrees, though the actual implementations are taking multiple paths. Innovation that brings disruption to so many vested interests, while requiring cross-sector collaboration and investment, is unlikely to occur smoothly and overnight (Figure 3).

Use cases range from provision of financial services (raw pure-plays) to the utilization of financial services to facilitate sales of other goods and services (integrated, or embedded MFS), including Digital Finance Plus propositions. The former brings financial products and services to the user via the mobile channel, while the latter leverages banking and payments mobility to ensure engagement at the purchase decision point, regardless of when or where that

Figure 3: Multi-Dimensional Disruption across both the Market and Firm Levels

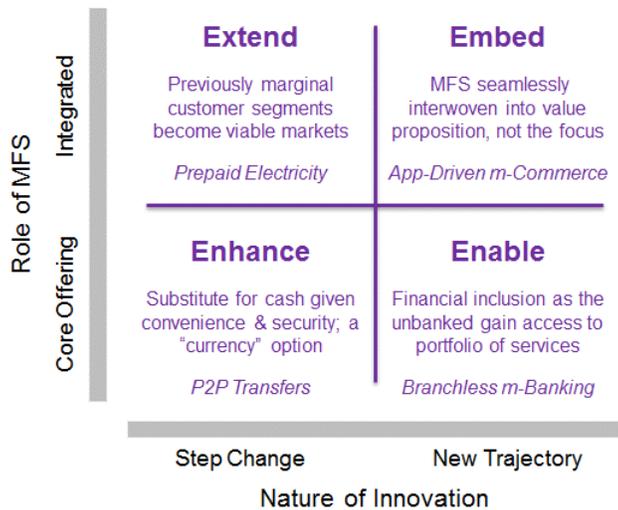


Source: Mondato analysis

may occur. Gaining control of decision points, rather than simply influencing them, as in the past, can be quite disruptive (e.g., Google's seemingly contradictory roles as being both an information search portal and an advertising platform).

² '10 Myths About M-PESA: 2014 Update' <http://www.cgap.org/blog/10-myths-about-m-pesa-2014-update>

Figure 4: Mondato 4Es Framework™ Classification of MFS Services



Source: Mondato analysis

Service providers, whether banks, MNOs, merchants, or others, can now address segments that were previously considered marginal due to the cost of delivering services through traditional channels. Cost structures, which provided a level of comfort to incumbents in the past, and acted as barriers to potential entrants, have been turned on their head. The nature of disruption varies by player, and sector, and is captured in the Mondato 4Es Framework™ (Figure 4). As a result, many companies are now being forced to ask themselves for the first time whether payments are now a strategic element of their business.

Given the uncertainty over how this space may play out, strategic planning should consider various future scenarios, with a focus on flexibility and risk mitigation. A starting point is to consider which market dynamics may be correlated, and understand potential outcomes covering “projected,” “worst,” and “best” cases.

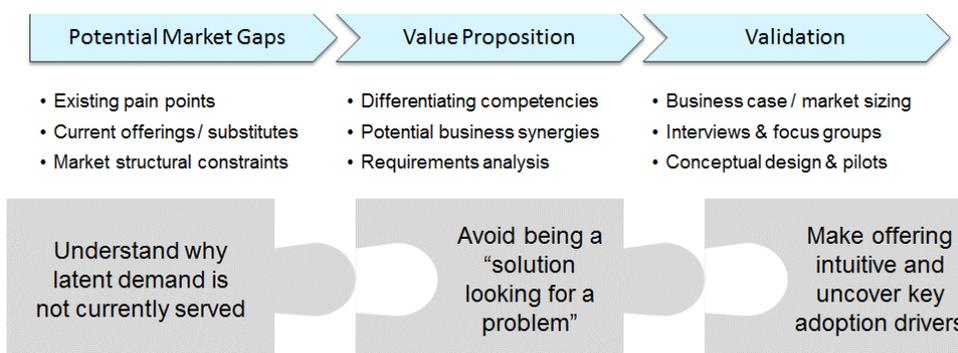
Navigating the Uncertainty

Translating innovation into success is easier said than done. But Africa is a continent of entrepreneurship, both out of necessity, and as a place where enterprising business people see great opportunity to serve vast latent demand and realize grand ambitions. But challenges exist as well. Vested interests and governance gaps mean that some markets are not necessarily an open playing field. And savvy entrants are aware that they may either need to initially pursue a niche strategy in order not to draw too much attention from the incumbents, or enter into strategic partnerships to share the wealth while accessing scarce resources and capabilities.

Africa provides counter-examples as to the best path to adoption, with Kenya and Tanzania providing interesting case studies in different approaches. Both have achieved some of the highest MFS usage rates in the world. But while Kenya achieved this through a dominant MNO, Tanzania rose to the top ranks via a very competitive telecom market and agent non-exclusivity. But the question now is which business models and market structures will be most conducive for this next phase of product innovation.

And this next phase has the potential to transform economies. There are currently great operational costs and market inefficiencies in Africa arising from cash-intense commerce. Cash management itself, from reconciliation of accounts to security associated with transferring the daily takings from registers to bank accounts, can be quite costly. And many companies are flying blind in terms of marketing effectiveness for promotions and advertising initiatives given a lack of consumer data collection or tracking.

Figure 5: Strategic Planning and Product Development

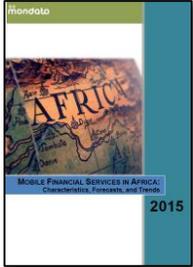


Source: Mondato analysis

The report details key considerations in positioning a company to access potential avenues of growth, moving from identifying market opportunity to conceptual design and operationalization (Figure 5). A disciplined approach to product development is increasingly important as MFS offerings move beyond plain vanilla offerings, to being more the equivalent of “app stores” offering a

collection of use cases that encourage the greater everyday use needed to draw deposits, become the transacting “currency” of choice, and keep positive balances.

Mondato MFS Africa 2015 Report



The newly released report provides comprehensive market-specific insights into competitive dynamics, operational considerations, and adoption drivers. Market sizing projections provide product category outlooks by country offering a much greater level of detail than commonly encountered regional, generalized forecasts. Leveraging front-line experience in MFS, from strategic planning to implementation and beyond, the Mondato MFS Africa 2015 Report goes beyond cookie-cutter treatment of MFS to offer actionable insights with localized context.

This report explores key dependencies to successful commercialization as a guide for unraveling blockages to increased end-user adoption. Addressing issues at both the strategic and operational level within the individual market contexts, as exemplified below, the report is an invaluable tool for MFS practitioners looking to develop innovative service propositions, or explore international growth opportunities:

- **Key players and competitive environment**, including both widely adopted services and emerging use cases
- **Regulatory environment considerations** with a detailed appendix for each country on specific rule and laws
- **Market sizing forecasts through 2018** with estimated growth rates for consumer, enterprise, and government transactions
- **Market-specific adoption drivers** for the five countries based on economic characteristics and in-market substitutes
- **Strategic & operational planning frameworks**, which can be applied across markets, by specific product category

For further insight into the dynamics of the selected five markets, strategic frameworks, or market projections summarized above, visit the Report Section of the Mondato website: <https://mondato.com/reports/>

About Mondato

Mondato is a specialist management consultancy providing strategic, commercial and operational support across the mobile finance and commerce (MFC) ecosystem.

Established in 2008 on a foundation of years of experience in the telecommunications, technology and financial sectors, Mondato possesses a unique understanding of the fast evolving, ever expanding MFC space; we understand the players’ pain points, and have designed our solutions to address them. Mondato’s portfolio of strategic and tactical offerings target MNOs, banks, retailers, vendors, regulators, DFIs, and any other organization interested in implementing, investing in, or encouraging the development of MFC, whether as a pure play or as part of a broader proposition.

Headquartered in Washington, DC, with operations in other major markets globally, Mondato has a cadre of highly-trained experts, who have executed high-stakes projects for private and public sector organizations operating in MFS and adjacent spheres.

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