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The "Ultimate Day"

Fifty years ago, in a letter that led to USAID's founding, President John F. Kennedy wrote:[1]

We…intend during this coming decade of development to achieve a decisive turn-around in the fate of the less-developed world, looking toward the ultimate day when all nations can be self-reliant and when foreign aid will no longer be needed.

That "ultimate day" has never before been in our sight—until now. The near ubiquity of mobile phones and the beginnings of a mobile-based network infrastructure brings this day ever closer into view.

Roads, railways, and the Internet transformed markets and unleashed waves of innovation. They radically altered how we interact with one another, the private sector, and our government, opening the door to unimagined possibility. They not only lowered the barrier to entry for the private sector and a cavalry of eager entrepreneurs, but they created a platform for new ideas, new business models, and new modes of communication and collaboration. The development of a mobile-phone-based, networked infrastructure—with mobile money (mMoney) at its center—holds this same promise.

This position should certainly be met with skepticism. This is not the first time we've heard that technology will ameliorate poverty on a scale never before seen. In 1964, Wilbur Schramm, the co-founder of Stanford University's Department of Communication wrote, "What if the full power and vividness of television teaching were to be used to help the schools develop a country's new educational pattern? What if the full persuasive and instructional power of television were to be used in support of community development and the modernization of farming?" Fifty years later, we know that television has fallen short of transforming education and farming practices. So why should the mobile phone revolutionize everything we do—in finance, education, health, agriculture, governance—in a way that the television never could?

It took the radio 50 years to reach an audience of 50 million people. It took the television 13 years,

1 John F. Kennedy, "Special Message to the Congress on Foreign Aid," March 22, 1961, available at http://www.jfklink.com/speeches/jfk/publicpapers/1961/jfk90_61.html.

A Kenyan man in Nairobi sends money through a pioneering mobile phone service called M-PESA, which has sky-rocketed in popularity for its low costs, convenience, and ability to link rural, underserved users with financial services, many for the first time. | AFP Photo: Tony Karumba

and the Internet 7 years to meet this mark. The mobile phone…took only three. Today, there are nearly 6 billion mobile phone subscriptions worldwide. In Africa there were 49 million mobile phones in 2002. Fast-forward 9 years to today: There are 500 million. By 2016, there will be an estimated 1 billion mobile phones in Africa.[2] The mobile phone boom is, quite simply, without parallel in its scale. Mobile phones can fundamentally change our approach to service delivery and transform USAID's role in the world. It shifts the question from "How can we effectively deliver services?" to "How can we enable others to run us out of the service delivery business?" And it all begins with mMoney.

2 "Did You Know: Mobile Stats for Africa 2011," video production of the Praekelt Foundation, posted September 15, 2011, http://www.mobileactive.org/blog/infovideo.

Mobile Money at Scale

mMoney accelerates financial inclusion for the 1.8 billion people with access to a phone but not a bank. It allows people to safely store and seamlessly send money to friends and family in need. Five years ago, only 6 million Kenyans had access to basic financial services. Today, nearly 15 million Kenyans, or about 70% of the country's adult population, use Safaricom's mMoney product, M-PESA, to manage their money.[3] When sticking money in a mudjar or under a mattress is the norm, the ability to make secure payments and store money safely means financial inclusion. Payments also become the rails upon which other financial services—savings, remittances, credit, and insurance—ride.

3 Safaricom, press release, "M-PESA Upgrade, Outage on Saturday Night," February 9, 2012, http://www.safaricom.co.ke/index.php?id=1570.

The story of M-PESA is often told as a story of financial inclusion. But it is also a story of scale. From 2007 to March 2011, the value of M-PESA transactions topped 828 billion Kenyan shillings, or half of Kenya's GDP. M-PESA has 33,000 stores across Kenya, which outnumbers bank branches by a factor of 20. This begs the question: What is possible when mMoney reaches scale and becomes networked infrastructure?

By significantly lowering transaction costs, mMoney unlocks the private sector to create sustainable fee-for-service models. Already, in Kenya, 700 innovative businesses exist because they integrated with M-PESA to lower transaction costs enough to profitably extend critical services to people in remote areas. In agriculture, the insurance industry offers farmers index-based products using M-PESA to collect small premiums and issue payouts. In health, M-PESA's bill-pay function helps expectant mothers save for maternity health care. In water, rural communities access safe water and pay for it using M-PESA.[4] This is happening all across Kenya without formal development assistance.

mMoney at scale enables a responsive and accountable government. mMoney is already being used to collect fees and pay social transfers, which can be quickly disbursed and tracked, engendering accountability and responsiveness across government. But mobile phones can do still more than this; they can fundamentally alter the relationship between people and their governments. They can empower people to track and report human rights abuses, organize and amplify the voice of their community, report on the efficacy of government programs, and access and share critical information, like where and when to vote. In Uganda, the Electoral Commission used SMS to remind voters to vote. In Kenya, BungeSMS empowers citizens to send a text message to their Member of Parliament about their policy preferences. Put simply, the mobile phone begins to replace the elusive "social compact," which depends on an expansive physical infrastructure, with a "mobile compact" that depends on something sitting in your pocket right now.

mMoney enables direct philanthropy. Imagine a world where money can move from your mobile phone to a recipient in Tanzania—in an instant. Imagine if you—not your government or some large foundation unaccountable to you—could pick a project, small business, NGO, or entrepreneur you liked, and donate directly using your mobile phone. Imagine a world where people in developing countries determine for themselves what the donor community funds. It will not be long until something akin to mobile PayPal exists, facilitating payments, credit, loans, and donations across borders without an intermediary organization. It will, of course, require someone on the other end to monitor the progress of the project you funded and evaluate the impact. But even that can be done using a mobile phone—using regular text messages to stay updated. This upends the current landscape—it democratizes the donor community. Instead of a few huge donor agencies determining development priorities and then contracting the work to a few huge private firms, people in developing countries determine their own priorities, and through the simple power of the mobile phone, people around the world support them.

Galvanizing the Mobile Money Ecosystem

Kenya allows us to glimpse this future. It paints a picture of what's possible when mMoney reaches

4 Jake Kendall, Bill Maurer, Phillip Machoka, and Clara Veniard, "An Emerging Platform: From Money Transfer System to Mobile Money Ecosystem" (UC Irvine School of Law Research Paper No. 2011-14, May 3, 2011), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1830704.

scale. But Kenya is a unique case. Without a successful precedent to follow, Safaricom CEO Michael Joseph boldly bet on mMoney, investing $30 million up front. Kenya's Central Bank Governor, Professor Njunguna Ndung'u, gave Safaricom room to run, allowing mMoney to proceed even when the requisite regulations did not exist. And with nearly 80% market share, an aberration in the developing world, Safaricom could sprint. It was a perfect storm. And you cannot easily replicate a perfect storm.

That Kenya is the only example of mass scale amid 120 mMoney deployments worldwide shows that the private sector cannot do this alone. Michael Joseph recently said, "For there to be another M-PESA type success with the scale both in terms of volumes of transactions and values, you would need the public sector, particularly the donor community, to get behind it to generate the volume of transactions and the acceptance of the system from the recipients." Here's why:

Think back to the history of the credit card. It took half a century for the credit card to gain traction in the United States. Customers did not want to sign up for credit cards that merchants were not yet accepting, and merchants did not want to invest in a credit card system that had few customers. In 1958, Bank of America launched BankAmericard, the first credit card issued by a third-party bank and accepted by many merchants. To ensure that these merchants would receive the business to make it worth their while, Bank of America mass-produced credit cards and mailed them unsolicited to bank customers. This same chicken-and-egg problem confronts mMoney today: Customers won't sign up for the service unless there is a merchant conveniently nearby, and merchants won't sign up unless there are customers to serve.

USAID has an incredible opportunity to overcome this challenge and scale mMoney platforms across the developing world. First, we must be intellectually engaged in how to best strengthen this sector. Second, we must be a courageous user and advocate of these systems. If we lever our political presence and financial footprint to get governments, corporations, and implementing partners—that represent big payment streams—to issue social transfers, collect fees, or pay their employees and beneficiaries through mobile phones, we can generate a customer base for mobile-network operators and allay the concern of merchants. Third, we must share our infrastructure to enable growth. This means ensuring that post offices and donor-supported agriculture depots can serve as cash-in and cash-out points. Fourth, we must support public goods such as financial switches and consumer education. Fifth, we must expand access to mobile phones to ensure that this future is for everyone, including women, as there are still 300 million fewer women than men in the developing world who own a mobile phone.

USAID's role will diminish as mMoney opens new markets, empowers responsive and accountable governance, and enables direct philanthropy. This vision is no doubt going to take time. There will be false starts. But we wholeheartedly believe that the mobile phone brings into view that "ultimate day," when the fortune of each individual rests in his or her hands and USAID's role is altogether transformed.

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The views expressed in this essay are their own, and do not necessarily represent the views of the United States Agency for International Development or the United States Government.