

Interoperability in East Africa

Dispatches from the Home of Mobile Money

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The success of interoperability depends on finding the right balance between governance, business and technology arrangements for participants

CGAP has found evidence across markets that pursuing interoperability without addressing each of these elements can lead to sub-optimal results. See CGAP's [interoperability blog series](#) for more information.



Governance. There must be decision-making to manage shared processes, rules, operations, and risks.



Business. Models must balance the economic interests of interoperability participants and users.



Technology. Infrastructure must exist to connect participants and transfer payments and related data.

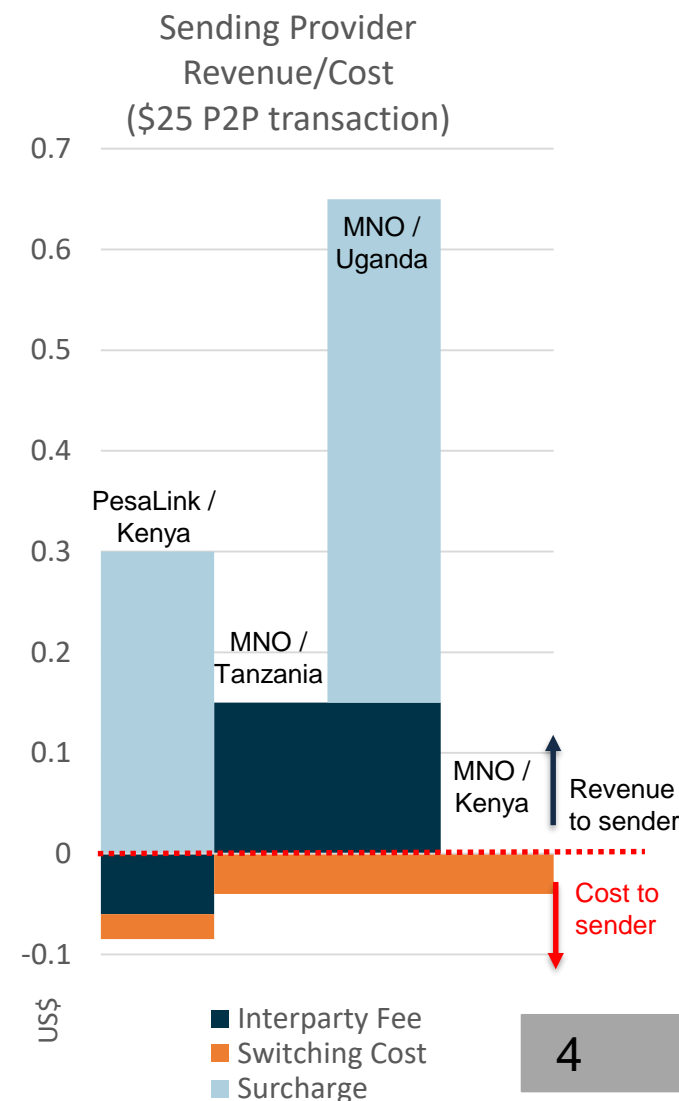
A variety of approaches are being pursued across East Africa

Country	Launch date	Regulation	Governance	Business Model	Technology	Approach
Tanzania	2014–2016	NPS Act and e-Money Regulations, no mandate	Multilateral agreement between Airtel, Tigo and Zantel. Vodacom bilateral with each provider.	<ul style="list-style-type: none"> Receiver pays interparty fee, bilaterally negotiated No consumer surcharge 	Bilateral	Industry initiated and led with independent facilitator
Uganda	2017	No NPS Act, strong encouragement from Bank of Uganda	Multilateral agreement	<ul style="list-style-type: none"> No interparty fee, then moved to receiver pays Consumer surcharges 	Aggregator, then bilateral	Strong encouragement from regulator, but led with independent facilitator
Kenya	2018 (MNO)	NPS Act, no mandate (but regulator encouragement)	Bilateral agreements	<ul style="list-style-type: none"> No interparty fee and no surcharge for initial trial period. 	Bilateral	Strong encouragement from regulator, no independent facilitator
	2017 (Bank)	NPS Act, no mandate (but regulator encouragement)	Multilateral agreement	<ul style="list-style-type: none"> Sender pays interparty fee Consumer surcharge 	Switch	KBA led with independent facilitator (FSDK)
Rwanda	TBD	NPS Act, historical mandate, but not full compliance	TBD	TBD	TBD	Initiated by regulator

Interparty business models can have significant impact on success

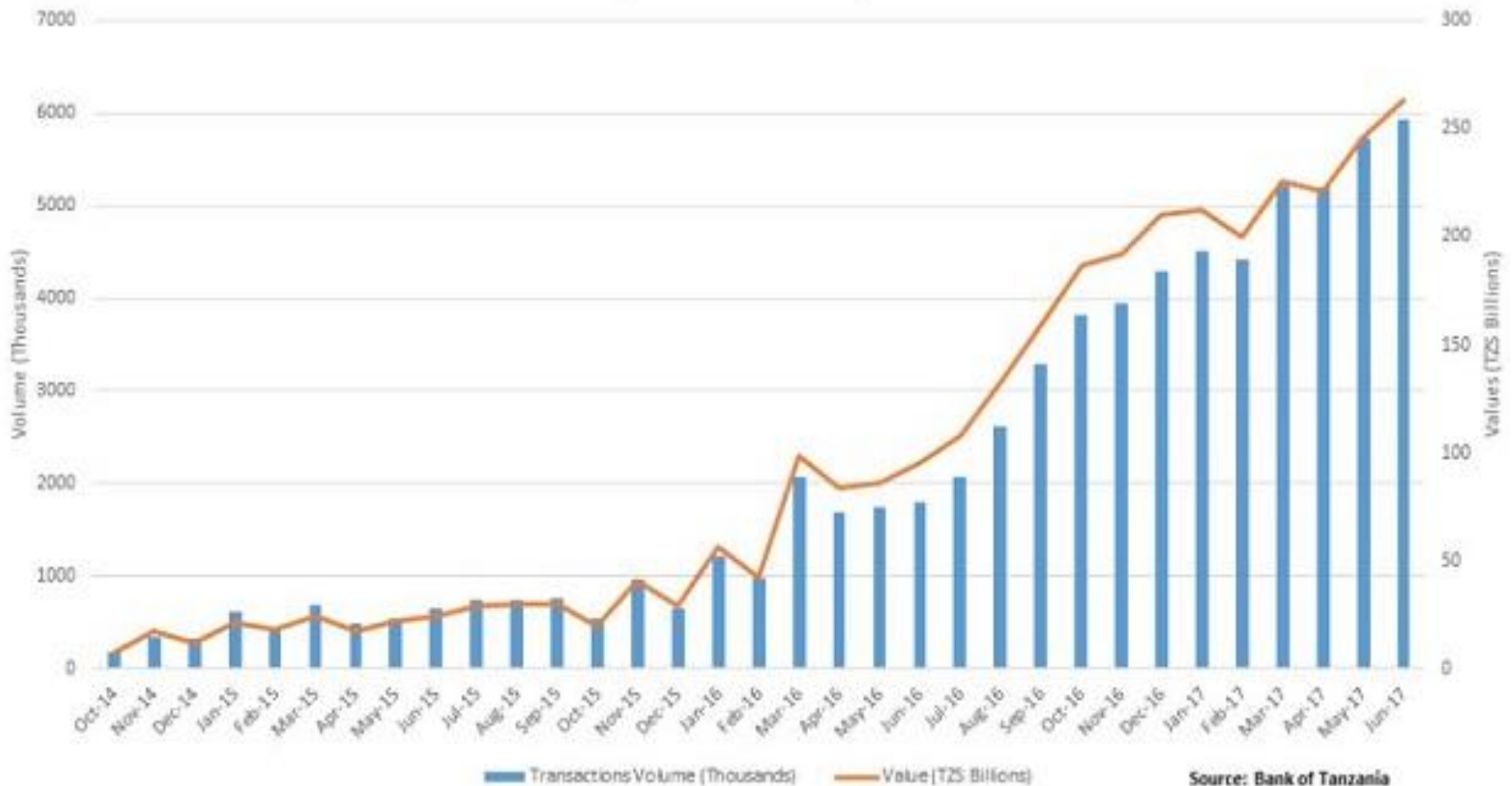
Schemes across East Africa have approached interparty models in a variety of ways. Each has different impacts on provider profitability, customer value, and ultimately total volumes.

Person-to-Person (P2P) Scheme	Interparty Model	Potential Impact
MNO / Tanzania	Receiver pays interparty fee and no surcharging. The sending provider is compensated via the interparty fee.	Off-net transactions are "revenue neutral" to providers. Customers have desire to transact.
MNO / Uganda	Receiver pays interparty fee to sending provider. The sending provider surcharges customer.	Profitable for the sender, but unclear whether customer is incentivized to transact.
PesaLink / Kenya	Sender pays interparty fee, with sending provider surcharging customers to cover cost.	Provider economics may be balanced, but unclear whether customer is incentivized.
MNO / Kenya	No interparty fee and no surcharge.	Value for the customer, but not profitable for the provider, so questions remain around provider incentives to promote service.



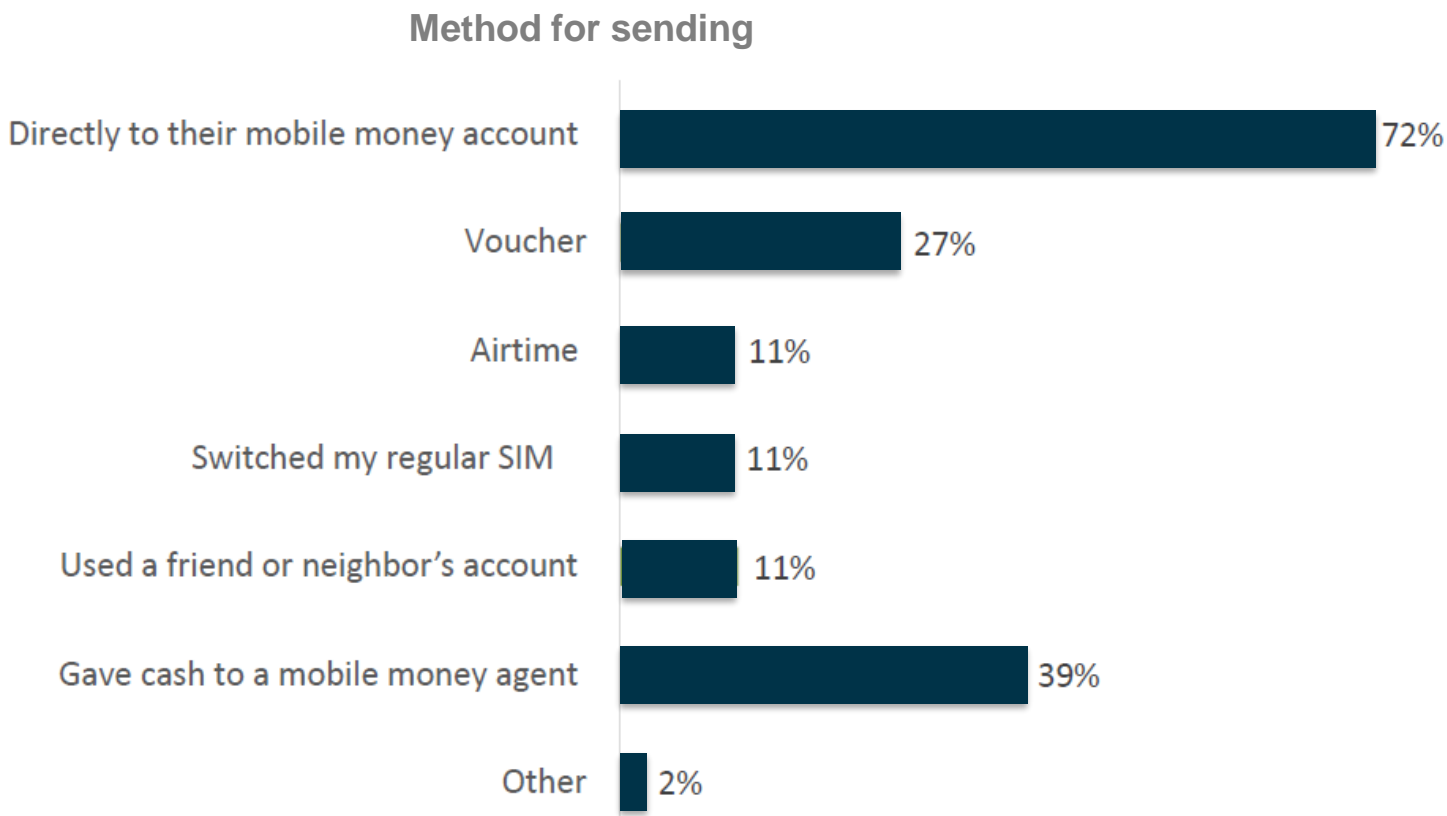
Tanzania has performed the best so far in driving volumes

Interoperable P2P transactions currently account for ~30% of all P2P in the market



Over 60 percent of phone owners in Tanzania transact between providers

CGAP performed a nationally representative survey in Tanzania and found that over **60 percent of phone owners** were using the interoperable service, and **75 percent of mobile money customers** transacting with different customers were using the service.

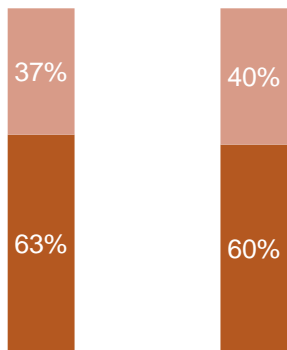


Interoperable users are mostly similar to non-interoperable users

Users of interoperability look the same as non-users by most demographic measures, including gender, age, level of education, and the reasons they send money.

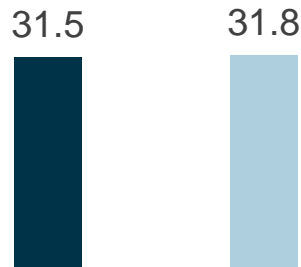
Gender

Male Female



Interoperable Non-interoperable

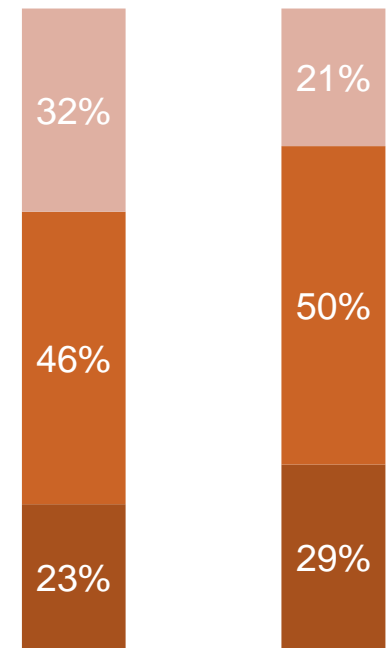
Mean Age



Interoperable Non-interoperable

Education

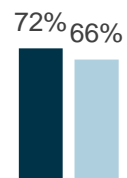
Technical training, university
Secondary
Primary



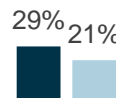
Non-interoperable Interoperable

Reason for sending

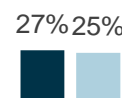
Friends and family



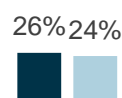
Business partner



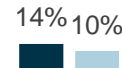
Business supplies



Services



Salary



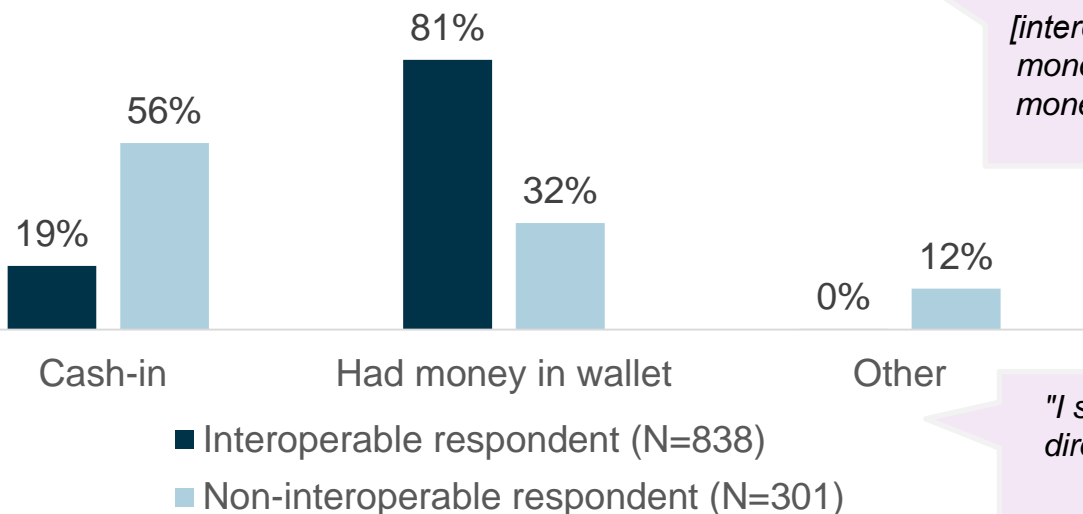
Interoperable

Non-interoperable

But interoperable users do more to integrate digital into their daily lives

Users of interoperability do however differ from non-users in a few important ways: they **send more frequently**, they **send smaller amounts**, and they **keep larger balances** on their wallets. In short, they are doing more than non-users to integrate payment services into their daily financial lives.

Did you cash-in for this transaction or did you already have money in your wallet?



"Yes [I pay bills using my account] No [I did not do before]. Nowadays after this new system [interoperability] that's when I do it more... The flow of money has increased [since] I can send and receive money from any network." - Male FGD participant, interoperable group in Mtwara rural

"I store money for a long time as now money goes directly to my account and I have no fear that I will delete the text." - Male FGD participant, interoperable group in Mtwara town

Meet Aisha...

27-year-old business woman from Dar es Salaam

“Right now I can say I save more than I used to...it doesn't cost me to save money there and **when I want to send it to someone I can move it to M-Pesa so it's easy.**”

“Before let's say I wanted to send money to my mother in the village I would send 200,000 [Shillings]]at once. **But now that I can send maybe every two days, 20,000 or 10,000 - something like that.**”



Photo: BFA / 2017

Meet John...

Cloth importer in Dar es Salaam

“When I go to the agent, I just tell him to deposit the money in my account. ***Then I will get to decide how I am going to send to a recipient, which is different from asking the agent to do it. It just makes it easier.*** [Before I had to ask] the agent to directly deposit in the persons account and since you give the recipients number in a rush you get a number wrong. Then...after some time the recipient tells you they have not received [the money]”

“If someone knew your phone number, he had the ability to steal from you....***Once they made it easier, the money now goes directly to my account, to my wallet. This is unlike the procedure before that used to be confusing and was untrustworthy.***”

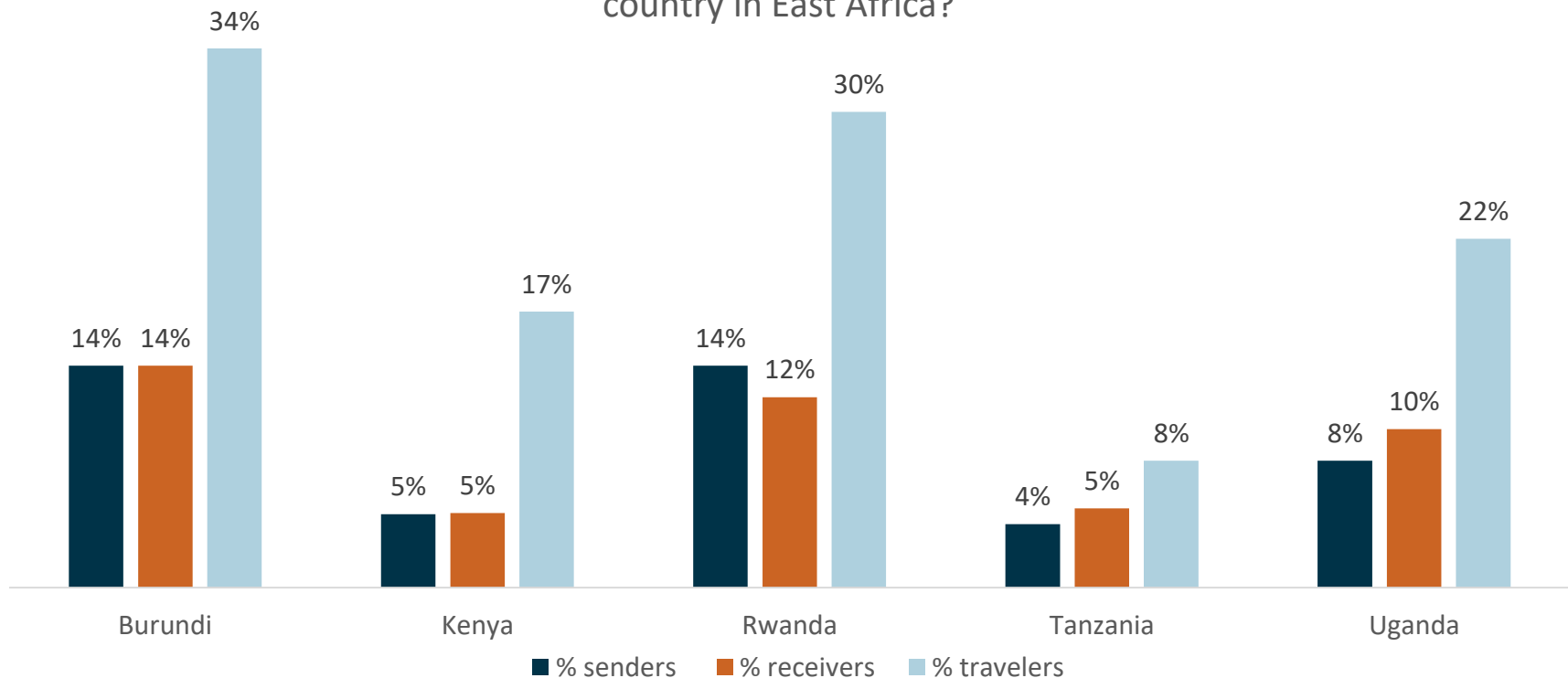


Photo: BFA / 2017

So what's next for interoperability in East Africa?

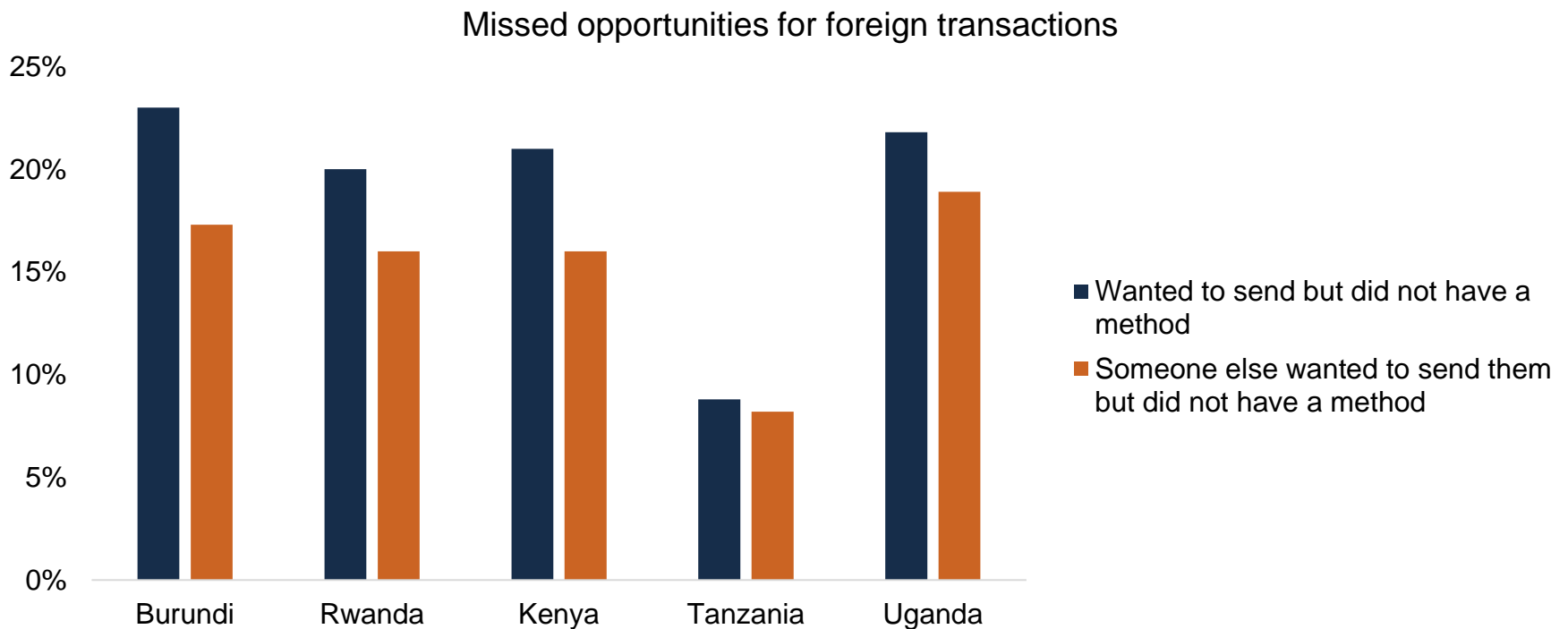
CGAP research indicates that cross-border remittances are an opportunity. CGAP performed a nationally representative survey across East African markets and found that around **8 percent of phone owners send/receive across borders**, and **2-3x this number travel across borders**.

Over the past year, have you sent or received money or traveled to another country in East Africa?



Around 1 in 5 phone owners in East Africa are missing transactions they want to perform across borders.

The same study found that **cross-border corridors already provide a channel for customers to make these transactions (and almost 50 percent of today's cross-border transactions are moving through these corridors); however, friction is high and opportunities for transactions are consistently missed.**



Beyond P2P, cash-out may be the biggest cross-border opportunity

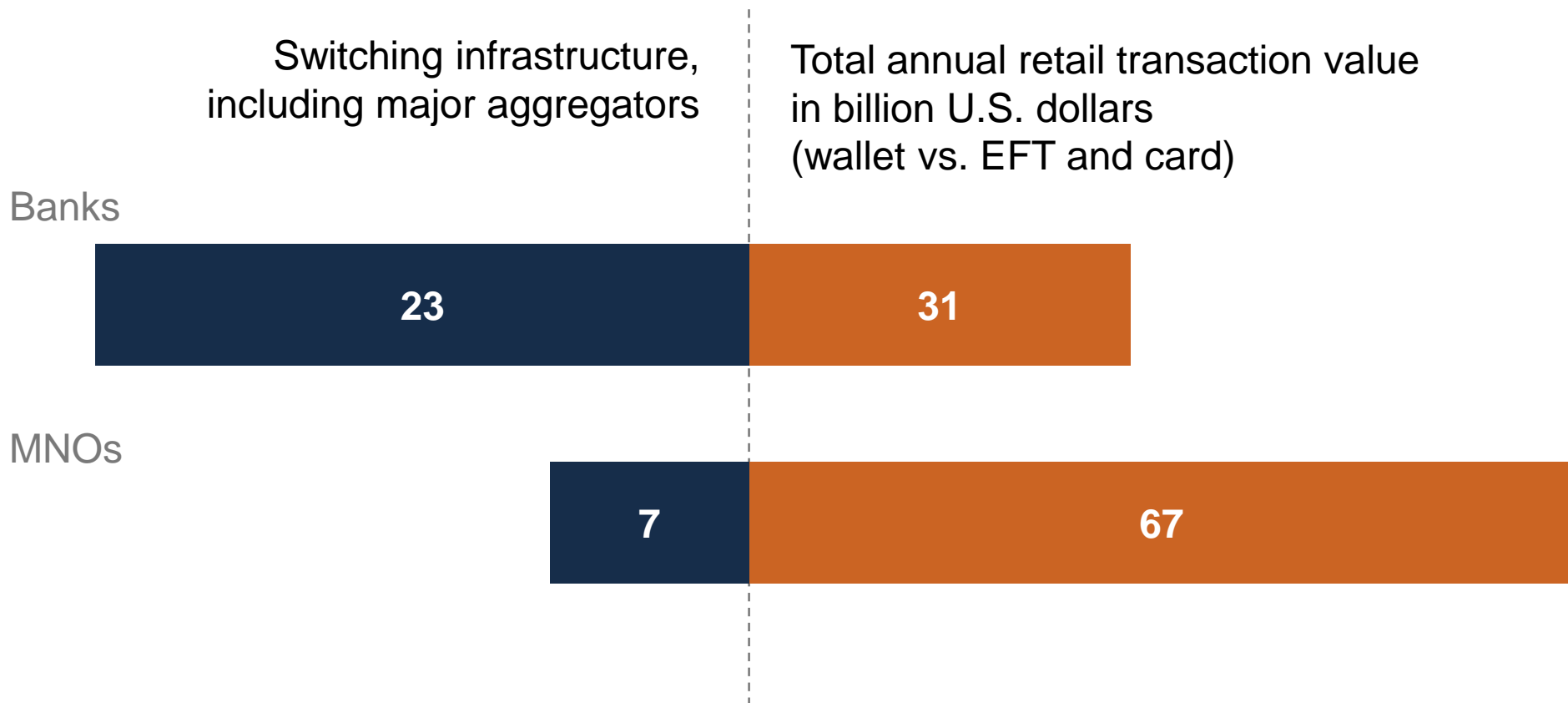
While many cross-border transactions are being made through mobile money corridors, the vast **majority of travelers still carry cash**. Add to this the fact that the number of travelers is at least double the number transacting, and a significant potential opportunity emerges. Around **75 percent said they would prefer to use mobile money cash-out if available**.

How did travelers get funds during their most recent trip?

	Burundi (N=344)	Rwanda (N=391)	Kenya (N=384)	Tanzania (N=140)	Uganda (N=405)
Carried cash	90%	82%	64%	79%	71%
Withdrew from ATM	4%	4%	13%	12%	12%
Used credit card	1%	3%	2%	0%	1%
Withdrew from mobile account	2%	13%	20%	11%	11%
Used travelers checks	2%	1%	1%	0%	1%

As solutions progress, we should not repeat past mistakes

Today, retail banking in East Africa services **half the value of mobile money using three times the infrastructure**. Banking technology is often implemented at sub-scale levels for every use case and in every market, **increasing cost and friction** for payments. As scheme discussions progress across East Africa, stakeholders **should instead focus on driving economies of scale**.





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