CHALLENGES FACED BY SAFARICOM (MPESA) LIMITED IN INTERNATIONAL MONEY TRANSFER

BY

ERICLEE NYAGA MUCIIMI

SUPERVISOR: ELIUD O. MUDUDA

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SEPTEMBER, 2010.
DECLARATION

I, the undersigned, declare that this project is my original work achieved through my personal reading and toil of my work, research and personal thought. To the best of my knowledge, it has never been submitted to any other college or university by anyone else for academic credit. All information from other sources has been duly acknowledged. I am solely responsible for any errors of commission or omission that may be found in this project.

ERICLEE NYAGA MUCIIMI

DATE

DECLARATION BY THE SUPERVISOR

This project report has been submitted for examination with my approval as the University supervisor

ELIUD O. MUDUDA
Lecturer
Department of Business Administration
School of Business
University of Nairobi.
DEDICATION

Once again, I dedicate this piece of work to my parents, Mr. and Mrs. Muciimi who first sowed the seed of education in me, and for their moral and financial support. And to my brothers and sisters for always being there for me.
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The main purpose of this research was to find out the challenges facing Safaricom (MPESA) Limited in international money transfer. The study was guided by the following research questions: What is the effectiveness of Safaricom (M-Pesa) international money transfer service? What are the challenges facing Safaricom (M-Pesa) international money transfer service?

This study used case study design. Case study studies normally focus on a contemporary phenomenon in its real-life context. Purposive sampling procedure was used to arrive at the sample of the heads of departments who participated in the study. Interview schedules were used as the main data collection instruments. The outcome of the quantitative data from the opened-ended questions was extracted and consequently tabulated using graphs and tables in form of frequencies and percentages.

The study found out that: the Safaricom (M-Pesa) international money transfer service was effective mainly because: M-PESA international money transfer provides the clients a cash transfer channel with a greater reach; M-PESA international money transfer ensures a timely and secure method of transaction; and M-PESA international money transfer lower the transactional cost of funds transfer. Key challenges facing Safaricom (M-Pesa) international money transfer service were found to be: numerous regulatory and bureaucratic controls involved in mobile international money transfer; mobile money transfer system is suspected to fuel illegal money flows; in some countries, mobile money transfer may not be permitted by governments since regulation may be difficult; the mobile money transfer is suspected to nurture tax evasion.
The study recommended that: Safaricom management should offer intensive public education to convince various stakeholders that mobile money transfer is as secure as other conventional money transfer channels. The company should also design packages to cater to people depending on their social, economic and geographical positions; Mobile money transfer service providers should deploy services primed to encourage and exploit national growth in order to gain faith from governments. They should also elaborate mobile international money transfer operations to government authorities; the government through the ministry of information and communication should come up with policies that are geared towards creation of a favorable environment for mobile money transfer. It should also ensure that these policies are able to regulate against excesses of mobile money transfer to ensure that clients' security and privacy rights are safeguarded.
CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

For centuries people have crossed borders seeking better opportunities for themselves and their families. Ever-improving transportation and communications technologies have accelerated this phenomenon, making it easier and less costly for people to migrate, communicate and send money home. Nevertheless, less is known about the players who facilitate this financial access, that is, the international money transfer corporation. According to El-Qorchi (2002), an international money transfer corporation is a non-deposit-taking payment service provider, whose service involves payment-per-transfer (or possibly payment for a set or series of transfers) by the sender to the payment service provider (e.g. by cash or bank transfer), as opposed to a situation in which the payment service provider debits an account held by the sender with the payment service provider.

In the contemporary era where technology advances with every single day, money transfer corporations have become more innovative. Money transfer corporations have embraced new technological development through the adoption of new hardware, the development of software platforms, and the adaptation and integration of existing technologies (Grillo, 2003). One such integration of advanced technology to facilitate the provision of quality services among money transfer corporations is the mobile-based money transfers, an area that this study examined.
1.1.2 International Money Transfer

As noted in the preceding section, international money transfer is a service that involves cash transfers by the sender to a recipient through a payment service provider. International money transfer is one of the most important financial services required by individuals overseas. The international money transfer corporations’ ability to provide products that are competitive with respect to informal products is an important requirement for financial deepening. According to De Haan (2002), the international money transfer environment is divided in two forms: formal services and cross border services. Formal services are divided into bank services, post office and specialist money agent services such as Western Union & Money Gram. Cross border services on the other hand, are the regular or sporadic transfer of money from benefactors living or working in different parts of the world. Unlike the former case transfers across borders face substantially different technical, legal and political challenges.

There is a distinction between international money transfer and domestic money transfer. Although, technologically, little separates these two segments of the market, they face substantially different legal and political environments. Whereas the government aims to encourage the latter, the same cannot be said about the former. All the same, international transfers are essentially a social need and can be linked to effective financial access and expansion goals.
The business model of international money transfers involves two critical functions as noted by McNabb (1999): the central service provider and its peripheral agents. The central service provider which is typically a bank, money transfer operator or mobile operator is responsible for the accounting, account management, settlement and logging of all transactions. Another key service performed at the core is the cash-in-transit services. Consequently, the peripheral agents provide the capillarity of the system and perform all client-facing operations: cash handling (reception, delivery) and document management (ID, log-book, etc.). There is the critical function of communication – both between the agents and the end clients, which is naturally the domain of the mobile operator.

International money transfer service providers do offer an important service to people in the African continent in that they provide instant transfers where the recipient can collect as soon as they receive the information. Further, International money transfer providers have established distribution infrastructure in African which is more closely aligned with the needs of the target market than traditional banking infrastructure (Mamadou, 2000).

In Africa as whole, money transferred from overseas far exceed official development assistance, and for many countries they exceed foreign direct investment as well. The cost of sending money to Africa, however, remains relatively high and subject to wide variations. Transfer costs from the United States are generally among the lowest, followed by transfer costs from Europe. The cost of sending money within the continent is far higher. Money transferred to African countries is particularly relevant and particularly expensive to Africa’s underserved rural areas, which receive an estimated 30-
40 per cent of all flows. Often these remittances are picked up far from home, and families must add substantial travel costs and time to the already high transfer fees. Much of the money sent to Africa is used to purchase daily necessities, yet no significant amount is available for savings or investment (IMF, 1998).

Ammassari (2004), points out that a large percentage of International money transfer in Africa is in form of the National Payments System for deposits, withdrawals and electronic transfers. Non-bank institutions like the Post Office make use of existing and established network infrastructure; alternatively non-bank institutions like Western Union and Money Gram also utilize agency-based networks established on a contractual basis.

In the last several years the mobile money products comprising of mobile banking, mobile payments and money transfers have received a lot of attention from mobile operators, regulators and trade organizations as an adequate means of International money transfer (Buencamino and Gorbunov, 2002). Specifically in the case of money transfers, there have been a number of success cases, notably M-pesa by Safaricom in Kenya.
1.1.3 Brief Overview of Safaricom Limited

Safaricom Limited started as a department of the former state owned Kenya Posts & Telecommunications Corporation, initially launching its operations as early as 1993. In 1997 Safaricom was incorporated as a private limited liability company. In May 2000, Vodafone group Plc of the United Kingdom, the world's largest telecommunication company, acquired a 40% stake and management responsibility for the company.

The state corporation Telkom Kenya acquired a 60% stake in Safaricom by contributing its ETAC and GSM networks together with a subscriber base valued at US$30 million. It further lent Safaricom US$33 million to enable the latter settle its US$55 million Kenya Cellular License. Similarly, Vodafone Kenya Limited acquired a 40% interest in Safaricom by contributing US$20 million in cash and subsequently lending Safaricom US$22 million for settlement of the above mentioned license. In cooperation with Vodafone Kenya Ltd, Safaricom launched the award-winning money transfer service known as M-PESA. "M" stands for "Mobile" and "Pesa" is Swahili for money. This revolutionary service addresses immediate money transfer needs of people with no bank accounts including those living in remote areas. M-PESA service facilitates cash withdrawals from ATMs using mobile phones only and had a client base of over 4 million people in Kenya as of January 2009 (Safaricom Website, 2010).
1.2 Statement of the Problem

Despite the increased pace of globalization, ease of communication, introduction of new technologies and the growth of transnational banking, mobile banking as a mode of international money transfer has not received sufficient attention. Conventional international money transfer modes continue to be used in the present day. The reasons for their popularity are manifold. One of them lies in the hosting country’s macroeconomic environment and government policies and regulations, such as currency controls and overvalued currencies, high tariffs and taxes, and slow and expensive licensing process for financial institutions. Continuous failure of conventional international money transfer has been manifested through prolonged weaknesses in conventional financial systems, such as high costs, poor or unavailable service and lack of access.

In much of Africa, the financial infrastructure is weak and services do not reach large parts of the rural and low income populations who are among the main group of remittance receivers. Over the years people across the continent have been receiving remittance from their affiliates overseas via traditional international money transfer channels. On the other hand, mobile banking is an essential factor in the effective transfer of remittances and it is certainly an efficient means to bridge gaps left by traditional international money transfer services. However, despite its outstanding strengths, mobile international money services potential still remain widely unexploited. This phenomenon is apparently prevalent due to the relatively newness of the mobile international money transfer technology. In this regard, the current study sought to look into this subject of
mobile international money transfer by investigating the challenges faced by Safaricom (MPESA) Limited in international money transfer.

A number of studies have also been conducted with regards to international money transfer such as studies by Kabucho and Mukwana (2004); Anarfi and Awusabo (2000); Buencamino and Gorbunov (2002); De Haan (2002); and Lypany (2008).

The study further strove to answer the following Research Questions:

i. What is the effectiveness of Safaricom (M-Pesa) international money transfer service?

ii. What are the challenges facing Safaricom (M-Pesa) international money transfer service
1.3 Objectives of the Study

The study was directed by the following research objectives:

i. To determine the effectiveness of Safaricom (M-Pesa) international money transfer service

ii. To examine the challenges facing Safaricom (M-Pesa) international money transfer service

iii. To establish ways in which challenges facing Safaricom (M-Pesa) international money transfer service can be solved

1.4 Significance of the Study

The findings obtained from this study would be of benefit to a number of stakeholders. Among the chief beneficiaries of the study include: The Company’s management, the clientele, and the Ministry of information and communication. The study is also set to contribute to the knowledge base.

Safaricom management would benefit a great deal from this study since the findings would particularly concern the company. The management would be able to gain more insights concerning the effectiveness of their international money transfer service. The findings would also enlighten them on the challenges facing their international money transfer service and the possible solutions to these challenges. This way they would be able to device adjustments or modifications required as far as this mode is concerned, all for the well being of their company’s way forward.
The clientele of Safaricom (M-Pesa) would benefit from the findings of the study as they would benefit from the steps taken by the management towards improving the international money transfer service. The recommendations suggested in the study would serve as a platform towards establishment of effective international money transfer in the company.

This study illuminates on a new effective international money transfer trend that has not been extensively embraced. Corporate managers of other telecommunication companies would grasp crucial hints pertaining to the effectiveness of mobile international money transfer service. More so, they would be able to discern the challenges that are associated with this service before they can adopt it in their respective corporations.

The findings of this study would be of great significance to the ministry of information and communication. The Ministry would be able to gain some insights on various aspects of mobile international money transfer service. This way, the ministry would be able to come up with policies that would govern the use of this service. In doing this, the ministry would not only ease the use of mobile international money transfer but would also demonstrate its effectiveness in ensuring that consumer rights are safeguarded.

This study is set to contribute immensely to the existing knowledge base. Bearing in mind that mobile international money transfer is a relatively new field in the local context, and hence it has not been widely researched- then insights on the effectiveness of Safaricom (M-Pesa) international money transfer service, and challenges facing Safaricom (M-Pesa) international money transfer service would definitely be a vital contribution to the current knowledge base.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents an up to date review of related literature on international money transfer. The literature was sourced from relevant professional education journals, and published papers. The chapter helps to show what other researchers have found out about international money transfer in general. The chapter is divided into the following sections: Introduction, explanations of major concepts in international money transfer and review of major pertinent literature explaining particular concepts in mobile money transfer. Empirical studies on the general factors influencing international money transfer have been reviewed in accordance with the research objectives.

2.2 Concepts in International Money Transfer

Conceptually international money transfer can be described as a method of transferring money from one person or institution (entity) to another across continents or overseas. International money transfers can be made from one bank account to another bank account or through transfers of cash at cash offices (Bowen, 2007).

According to Barnes (2002), international money transfer is executed as follows:

The entity wishing to do a transfer approaches an international money agency and gives the agency the order to transfer a certain amount of money. Special codes are given as well so the agency knows where the money needs to be sent.

The sending agency transmits a message, via a secure system, to the receiving agency,
requesting that it effect payment according to the instructions given. The message also includes settlement instructions. The actual transfer is not instantaneous: funds may take several hours or even days to move from the sender's account to the receiver's account.

The agencies collect payment for the service from the sender as well as from the recipient. The sending agency typically collects a fee separate from the funds being transferred, while the receiving agency and intermediate agency through which the transfer travels deduct fees from the money being transferred so that the recipient receives less than what the sender sent.

Giaglis (2006) points out that there are various forms of international money transfer namely: FX Global Transfer; Online money transfers; Electronic Funds Transfer System; Retail money transfers; and Mobile Money Transfer. In FX Global Transfer, the key to low cost is the exchange rate offered. When one transfers funds, one is selling one currency and buying another. Currency dealers' mark up the exchange rate by adding a spread which is the difference between the price at which one can sell one's primary currency and what one has to pay to buy the delivery currency.

Online money transfers, provide services for individuals transferring money internationally as an alternative to banks wire transfers, typically at lower costs since they don't need physical branches or locations. They require their customers to access their services through internet, whereas Electronic Funds Transfer System (EFTS), is the system one uses when one gives one's bank account number and routing information to someone one owes money and that party transfers the money from one's account. It is also the system used in some payments made via a bank's online bill payment service.
In retail money transfers, noting that one of the largest companies that offer retail money transfer is Western Union, allows individuals to transfer or receive money without an account with Western Union or any financial institution, but in Mobile Money Transfer, individuals conduct money transfer transactions from a mobile handset. This service also facilitates application and pay back of loans, move money between their bank accounts, check balances, pay bills and shop among others.

As noted by Hartwick (2004) international money transfer channels can be classified into two major categories, that is, conventional money transfer channels such as, retail money transfer through Western Union and Electronically-based money transfer systems. The current study opts to dwell on the Electronically-based money transfer systems as concepts and arguments surrounding this channel coincide with the scope and focus of the study.

A mixture of different money transfer systems has evolved to service the growing requirements of both trade- and non-trade-related commerce. In the majority of cases, these systems operate as closed proprietary networks, creating incompatibilities between different systems. According to Liao and Chen (1999), there is a particularly sharp division between the payment and settlements systems which are used for large value transfers and those which are available to settle smaller payments, particularly on a cross-border basis. This has led to an inverse relationship between the volume and the number of transactions. It has also further accentuated the division between large multi-national corporations and smaller enterprises wishing to utilize electronic systems for making payments.
Electronically-based payment systems have been in operation since the 1960s and have been expanding rapidly as well as growing in complexity. However, in most of the major industrialized countries, an inverse relationship exists between the volume and the number of transactions handled electronically. This has been due to four related factors as outlined by Tähtinen (2005): (1) proprietary closed networks were developed by banks to handle large and increasingly internationally based payments systems; (2) large value payments are increasingly associated with foreign exchange and global securities transactions, thereby becoming divorced from underlying world trade; (3) large value payment systems were not designed nor are they cost-effective for small value payments; and (4), paper-based non-automated payment systems remain an established part of accepted business practice for varying institutional reasons, thereby remaining ingrained in the economic system.

As the demands for international settlement of currency and securities transactions have increased, electronic payment systems for large payments have developed. SWIFT, which stands for the Society for Worldwide Interbank Financial Telecommunication, currently dominates the field of interbank messaging in the world but is increasingly facing competition from other networks (Grillo, 2003).

In recent years, diverse forms of Electronically-based international money transfer systems have evolved. De Haan (2002), identifies some of these systems to be: Payment Messaging Systems; Electronic data interchange (EDI); Credit Card Payment Systems; Automatic Teller Machines (ATMs); Digitized 'e-cash' Systems; Credit card based transfer systems; Smart Card Based Systems. The most important Electronically-based
international money transfer systems- as far as the current study is concerned- is the Mobile Money Transfer.

2.3 Major Concepts Relevant to Mobile Money Transfer

The definition of Mobile Money Transfer is often open to interpretation and can differ from source to source. Cronin (2001) defines Mobile Money Transfer as sending and receiving of funds through a mobile device such as a phone, PDA (Personal Digital Assistant) or such a device. Mobile Money Transfer can as well be defined as money transfers between two mobile phones, which can be redeemed for airtime, cash, or used to pay for bills or goods by the receiving party. Typically, these services are provided using SMS, a downloaded application, account based or a phone browser (Geffen, 2005). As a personalized end-user communication instrument, today mobile phones are perhaps the easiest channel on which customers can be reached on the spot, as they carry the mobile phone all the time no matter where they are. Besides, the operation of SMS banking functionality over phone key instructions makes its use very simple. This is quite different from internet banking which can offer broader functionality, but has the limitation of use only when the customer has access to a mobile phone. Also, urgent warning messages, such as SMS alerts, are received by the customer instantaneously; unlike other channels such as the post, email, Internet, telephone banking, etc. on which a bank's notifications to the customer involves the risk of delayed delivery and response.

Many money transfer agencies would have some concerns when the prospects of introducing mobile money transfer are discussed. Most of these concerns could revolve
around security and operational controls around mobile based money transfer. However, while mobile money transfer is not as secure as other conventional money transfer channels, like the ATM and internet transfers, the mobile money transfer channel is not intended to be used for very high-risk transactions (Myers and Aaker, 2006).

Mobile Money Transfer is positioned to exercise considerable transformational effect on developing economies, a crucial factor for wider world economic growth. Mobile Money also enables financial services and money transfers - often initiated by urban and international immigrants - to reach poor people in rural areas. Mobile remittance services will form the first commercially viable and sustainable opportunity to reach the unbanked with low cost, no-frills financial services.

The huge potential for mobile money transfer can be seen from the sheer volume of cross-border remittances typically sent through existing channels such as banks and money transfer agencies. According to Fardaus (2003), measured flows have grown exponentially over the last decade - by 130 percent since 2001, with an estimated US$248 billion sent primarily from industrialised countries to the world's emerging markets in 2007. Although remittance flows are currently experiencing short-term decline, existing services and pilot projects in Kenya and the Philippines have shown operators a feasible route towards gaining a share of those large remittance flows expected by and new mobile remittance services are expected by 2011 at the latest. Operators and banks in the Middle East, Europe, Asia and Africa are in the process of deploying services primed to encourage and exploit potential growth.
Major operators with international and inter-regional footprints such as Vodafone and Orascom Telecom have announced their intention to deploy mobile remittance, which they hope will act as a catalyst for the wider adoption of mWallet-enabled transaction services. Most importantly, mobile remittance presents a way for these inter-regional players to further maximise revenue potential through a greater proportion of their respective footprints, leveraging their assets in Europe and the Middle East in synergy with those in South Asia, Africa and the Asia Pacific (Lympany, 2008).

The mobile phone has the potential to become the key enabler for sending international remittances apparently due to the following emerging issues marked out by Myers and Aaker (2006):

2.3.1 Limitation of Conventional Money Transfer Channels

With many traditional remittance services, access to facilities to receive money is often limited, particularly for the poorest people in more rural areas, where the banking sector is under-represented and the economy is largely cash-based. Those who would benefit most are therefore the least likely to be able to receive remittances from migrant workers. They are locked out of the market due to their social, economic and geographical position. In addition, retail premises and staff costs of banks and remittance companies lead to high fixed commission costs for remittances. The average commission fee is estimated to be 15% per transaction, increasing to over 25% for remittances below $100. These high costs limit the ability of individual workers to distribute funds to a larger number of people and penalize the poor who can only afford to send small amounts of money.
2.3.2 Efficiency of Mobile Funds Remittance

Mobile phones now significantly outnumber ATMs, giving mobile operators a level of reach far greater than money transfer providers and banks. Mobile operators are therefore uniquely positioned to solve the access problem and drive costs down to levels that open the formal remittance channel to users that would otherwise seek informal methods of remittance. In the developed world, the availability of smart phones, a demand for an integrated lifestyle and a desire for greater convenience is driving increasing interest in mobile money and mobile enabled remittance.

2.3.3 Resources Economization Aspect of Mobile Funds Transfer

Mobile technology can lower the cost of remittances as it removes the need for physical points of presence and ensures a timely and secure method of transaction. This concept of 'e-cash' is extremely attractive to low income users in particular. The World Bank estimates that reducing remittance commission charges by 2-5% could increase the flow of formal remittances by 50-70%, which would boost local economies. Reducing the cost of sending each individual remittance encourages the delivery of lower value remittances, at values far less than today's average transfer of US$200.

2.3.4 Benefits Derived from Mobile Funds Transfer

The ubiquity and high penetration rates of mobile technology around the world provide mobile operators with the potential to vastly improve and transform access to remittance funds for people in developing countries. Mobile money transfer and m-payments have great potential due to the relationship between a mobile subscriber and their handset, where the mobile device is often with the end-user for most of their waking time. With
mobile penetration reaching 100 per cent in many developed markets, the mobile phone will soon be in virtually everyone's pocket. Payments and banking are currently major areas of growth in the mobile world and these are set to become even more specialized than they are at the moment.

2.4 Empirical Review

This section comprises of various empirical studies related to the aim of the study. These studies were thematically reviewed in accordance to the research objectives.

2.4.1 Effectiveness of Mobile Money Transfer

Cronin (2001) conducted a study entitled Mobile Money Transfer Industry: The Requirement and Opportunities for New Money Transfer Systems Using the Mobile Phone. The study sought to explore into the various strengths that mobile money transfer possessed over conventional money transfer channels. The study utilized a multi-method research approach with both qualitative and quantitative data via focus group and scenario-based survey. Data from the study enabled the researchers to come up with the following findings: mobile money transfer provides a technological platform that can enable the world's poor participate in the global e-economy; mobile money transfer rapidly expands volumes of foreign exchange; mobile money transfer is a cost-effective and efficient electronic money transfer system.

A study carried out by Fardaus (2003) sought to investigate on Cross-border remittance and global banking: Profiting from Mobile Money Transfer. The study aimed to assess the distinctive aspects of Mobile Money Transfer that can make it appropriate for cross-
Money Transfer and global banking. Questionnaire, developed by the researcher in person was used as the main data collection instrument. It was divided into two main parts, namely, demographic and items related to the main purpose of the study. Findings from the study appeared to suggest that: Unlike conventional transfer systems, Mobile money transfer provides opportunities for the creation of completely new sets of global and national trading relationships; mobile money transfer offers the possibility of an 'open systems' payment and settlement system which operates in parallel to existing, more traditional bank-based networks; Mobile money transfer provides 'value-added' services including messaging associated with the concerned transaction.

2.4.2 Challenges facing Mobile Money Transfer

Shvedova (2000), conducted a study entitled Challenges and limitations Linked with Global Mobile Money Transfer Channels. He aimed at establishing the various problems that plague global mobile money transfer channels. The study used a combination of survey and naturalistic research designs. Data collection instruments in the study included: Questionnaires, in-depth interview guides, document analysis guides, observation schedules and focus group discussion guides. The study found the main challenges and limitations linked with global mobile money transfer channels to be, Significant costs are associated with the global mobile money transfer, a raft of regulatory and bureaucratic controls are involved in this mode of money transfer; in some countries, mobile money transfer may not be permitted by governments precisely because regulation will be too difficult.
A study by Geffen (2005), sought to investigate on *Policy and Regulatory Challenges Touching the Worldwide Mobile Money Transfer Links*. The paramount objective of the study was to determine the chief legal and ethical shortcomings associated with international mobile money transfer. Mail questionnaire technique was to collect data from stakeholders in the mobile money transfer in the randomly sampled countries worldwide. An in-depth interview with relevant regulatory authorities was also conducted. The study revealed the policy and regulatory challenges touching the worldwide mobile money transfer links to be: international mobile money transfer could fuel illegal money flows; international mobile money may facilitate illegal trade in drugs; international mobile money transfer might permit greater rather than less monitoring of the payments system with correspondingly less control over the money laundering; international mobile money transfer channels may be used to fund organized crime and terrorism; and international mobile money transfer may nurture tax evasion.

All the studies reviewed laid more emphasis on particular objective matters and were restricted to specific aspects ostensibly because of the original purpose why they were conducted. And as such, these particular studies were rather general and limited in their scope. In actual fact, none among them has touched on the challenges faced by a mobile funds transfer firm in Africa. Therefore, the researcher intended to narrow down on the challenges faced by Safaricom (MPESA) Limited, a Kenyan mobile service provider, in international money transfer.
2.5 Conceptual Framework

Figure 2.1 shows the interrelation between certain aspects that pose as challenges impending effectual international money transfer cycle.

Figure 2.1 Relationships between Variables

[Diagram showing the interrelation between Shortcomings in international money transfer (Independent Variables) and the Dependent Variable]

Figure 2.1 shows the interrelation between the loopholes of mobile oriented money transfer marketing that hamper acquisition of an effectual international money transfer cycle. Occurrence of certain mobile interrelated limitations - like excessive government regulations, bureaucracy, illegal cash flow and low adoption- are potentially a challenge hindering an all round and effective international money transfer process.
2.6 Explanation of Variables

In the current study, the term international money transfer was taken to mean the method of transferring money from one person or institution (entity) to another across continents or overseas. The term ‘mobile money transfer’ was used to refer to sending and receiving of funds through a mobile device such as a phone, PDA (Personal Digital Assistant) or such a device across countries or continents. M-PESA was used to refer to an award-winning Kenya mobile money transfer service that has recently gone international. "M" stands for "Mobile" and "Pesa" is the Swahili term for money.
3.1 Research Design

This study used case study design. Case study studies normally focus on a contemporary phenomenon in its real-life context. They are also characterized by systematic collection of qualitative data from members of a given population through interviews. Thus, this design was used in this study since it involves the procedures of collection and analysis of data from the members of a sample, in this case the heads of various departments in the M-PESA wing of Safaricom Limited.

3.2 Data Collection Procedure

All heads of departments in the M-PESA wing of Safaricom Limited were targeted since they are expected to provide reliable information regarding the challenges faced by Safaricom (MPESA) Limited in international money transfer.

Purposive sampling procedures were used to arrive at the sample of the heads of departments. One (1) head of department were sampled from each of the four (4) departments in the M-PESA wing of Safaricom Limited giving a total of 4 participants. These departments comprised of Sales and marketing; operations; administration; and customer care.
In this study, interview schedules were used. Interview method was used since it generally yields highest cooperation and lowest refusal rates, offers high response quality, takes advantage of interviewer presence and it is a multi-method data collection. An in-depth interview with the heads of departments solicited a lot of information that was useful in determining the challenges faced by Safaricom (MPESA) Limited in international money transfer.

Prior to data collection, various documents that were deemed vital in carrying out the research were also obtained from the relevant bodies. Having obtained all the documents required the researcher progressed with data collection. He first established contacts with the management of Safaricom Limited in Nairobi. Once this was done, the researcher in person conducted the interviews with the managers from the 4 departments. The collected data was used for data analysis.

3.3 Data Analysis Procedure

The outcome of the quantitative data from the opened-ended questions was extracted and consequently tabulated using graphs and tables in form of frequencies and percentages. Furthermore, the data was interpreted in relation to the research objectives. The interpretation and conclusions was derived from the findings of the study.
CHAPTER FOUR
DATA ANALYSIS, PRESENTATION AND DISCUSSION OF THE FINDINGS

4.1 Introduction
This chapter deals with the data analysis, presentation and discussion of the findings. The first section presents the demographic information of the heads of departments. Other sections of the chapter are presented based on the major research objectives: To determine the effectiveness of Safaricom (M-Pesa) international money transfer service; to examine the challenges facing Safaricom (M-Pesa) international money transfer service; to establish ways in which challenges facing Safaricom (M-Pesa) international money transfer service can be solved.

4.2 Demographic characteristics
The demographic characteristics of heads of departments who took part in the study were considered. These demographic characteristics included: sex, age and working experience.

4.2.1 Sex
Both male and female heads of departments took part in the study. Their distribution is shown in figure 4.1
Figure 4.2: Gender of Heads of Departments

Figure 4.2 shows a majority of the participants in the study, 3 (75%) were male whereas 1 (25%) was female. This vast discrepancy in participation could be attributed to the common belief that senior positions in technical professions such as the mobile service industry are designated for men.
4.2.2 Age

Age of the participating heads of departments was also determined in the study. Figure 4.2 shows the age brackets of the participants.

Figure 4.2: Age of Heads of Departments

![Age Distribution Bar Chart]

Figure 4.2 shows that majority of the respondents (50%) were aged 31 years and above. There was a tie between those aged between 21 and 25 years and those aged 26 and 30 years; with 25% each.
4.2.3 Working Experience

Working experience of the heads of departments participating in the study was also determined. Their experience is shown in table 4.1

**Table 4.1: Working Experience of Heads of Departments**

<table>
<thead>
<tr>
<th>Working Experience</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 Years and Above</td>
<td>3</td>
<td>75</td>
</tr>
<tr>
<td>1-4 Years</td>
<td>1</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 4.1 shows that a majority of heads of departments, 3 (75%) had a working experience of above 5 years; only 1 (25%) had an experience of 1 to 4 years. This symbolizes that the heads of departments in the study had an adequate understanding of the operations in the mobile money transfer sector; they were therefore certain to provide necessary information required in the study.

4.3 Effectiveness of Safaricom (M-Pesa) International Money Transfer Service

The study aimed at establishing the effectiveness of Safaricom (M-Pesa) international money transfer service. The heads of departments in the study were first asked to indicate the customer turn out level since introduction of international money transfer service by M-PESA. Table 4.2 shows their response
Table 4.2: Customer Turn Out Level since Introduction of International Money Transfer Service by M-PESA

<table>
<thead>
<tr>
<th>Customer Turn Out Level</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
<td>2</td>
<td>50</td>
</tr>
<tr>
<td>Somewhat High</td>
<td>1</td>
<td>25</td>
</tr>
<tr>
<td>Not very High</td>
<td>1</td>
<td>25</td>
</tr>
<tr>
<td>Extremely High</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Very Low</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

According to table 4.2, half of the heads of departments in the study 2 (50%) were of the view that the customer turn out level since introduction of international money transfer service by M-PESA had been very high. There was a tie between those who indicated that the turn out level was somewhat high and not very high each represented by 1 (25%).

The participating heads of departments were further asked to indicate whether the introduction of international money transfer service by M-PESA had been effective in any way. Figure 4.4 shows their response.
According to figure 4.3, a majority of the heads of departments in the study (75%) were of the view that introduction of international money transfer service by M-PESA had been effective. The rest (25%) indicated that it wasn’t.

Those heads of departments who indicated that introduction of international money transfer service by M-PESA had been effective were further asked to point the specific ways in which it had been effective. Their response is shown in Table 4.3
Table 4.3: Ways in Which Introduction of International Money Transfer Service by M-PESA had been Effective

<table>
<thead>
<tr>
<th>Effectiveness of Safaricom (M-Pesa) International Money Transfer Service</th>
<th>F</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>M-PESA international money transfer provide the clients a cash transfer</td>
<td>3</td>
<td>75</td>
</tr>
<tr>
<td>M-PESA international money transfer ensures a timely and secure method of transaction</td>
<td>2</td>
<td>50</td>
</tr>
<tr>
<td>M-PESA international money transfer lower the transactional cost of funds transfer</td>
<td>2</td>
<td>50</td>
</tr>
<tr>
<td>Unlike conventional transfer systems M-PESA international money transfer system is easy to use</td>
<td>1</td>
<td>25</td>
</tr>
<tr>
<td>M-PESA international money transfer provides extra services like messaging associated with the concerned transaction</td>
<td>1</td>
<td>25</td>
</tr>
</tbody>
</table>

Table 4.3 shows the response of the heads of departments on the ways in which introduction of International Money Transfer Service by M-PESA had been effective. Majority of them, 3 (75%) pointed out that M-PESA international money transfer provide the clients a cash transfer channel with a greater reach. There was a tie between those who indicated that M-PESA international money transfer ensures a timely and secure method of transaction, and M-PESA international money transfer lower the transactional cost of funds transfer; each presented by 2 (50%). There was yet another tie between those who pointed out that unlike conventional transfer systems M-PESA international...
money transfer system is easy to use, and M-PESA international money transfer provides extra services like messaging associated with the concerned transaction; each presented by 1(25%).

Findings in this section indicate that Safaricom (M-Pesa) international money transfer service has been significantly effective. The foremost indication of this is the expression by half of the heads of departments in the study that the customer turn out level since introduction of international money transfer service by M-PESA was very high. Further, a vast majority of the heads of departments agreed with the view that introduction of international money transfer service by M-PESA had been effective. Specific effectiveness of International Money Transfer Service by M-PESA was evident in terms of accessibility, where M-PESA international money transfer provide the clients a cash transfer channel with a greater reach; convenience and safety, where M-PESA international money transfer ensures a timely and secure method of transaction; and cost effectiveness, whereby M-PESA international money transfer lower the transactional cost of funds transfer.

4.4 Challenges Facing Safaricom (M-Pesa) International Money Transfer Service

The study was also interested in determining the challenges facing Safaricom (M-Pesa) international money transfer service. Heads of departments in the study were first asked to indicate whether or not there were challenges facing M-PESA international money transfer service.
All the heads of departments in the study 4 (100%) unanimously agreed that there were challenges facing M-PESA international money transfer service.

The heads of departments were further asked to indicate the frequency in which these challenges were encountered. Figure 4.4 shows their response.

**Figure 4.4: Frequency in which Challenges were encountered**

![Frequency in which Challenges were encountered](image)

According to figure 4.4, half of the heads of departments (50%) indicated that the challenges facing M-PESA international money transfer service were often encountered. Those who pointed out that the challenges encountered very often and those who were of the opinion that the challenges were only encountered sometimes were presented by 25% each.
The heads of departments were further asked to point out precisely what these challenges were. Table 4.4 shows their response

Table 4.4: Specific Challenges Facing Safaricom (M-Pesa) International Money Transfer Service

<table>
<thead>
<tr>
<th>Challenges Facing Safaricom (M-Pesa) International Money Transfer Service</th>
<th>F</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Numerous regulatory and bureaucratic controls involved in mobile international money transfer</td>
<td>3</td>
<td>75</td>
</tr>
<tr>
<td>The mobile money transfer system is suspected to fuel illegal money flows</td>
<td>3</td>
<td>75</td>
</tr>
<tr>
<td>In some countries, mobile money transfer may not be permitted by governments since regulation may be difficult</td>
<td>2</td>
<td>50</td>
</tr>
<tr>
<td>The mobile money transfer is suspected to nurture tax evasion</td>
<td>2</td>
<td>50</td>
</tr>
<tr>
<td>The mobile money transfer channel is a potential medium for organized crime rings and terrorist networks to remit funds for their operations</td>
<td>1</td>
<td>25</td>
</tr>
</tbody>
</table>

Table 4.3 shows the response of the heads of departments on the specific challenges facing Safaricom (M-Pesa) international money transfer service. A majority of the respondents 3 (75%) pointed out both numerous regulatory and bureaucratic controls involved in mobile international money transfer and the mobile money transfer system is suspected to fuel illegal money flows as the main challenges facing this service. Those who indicated that in some countries, mobile money transfer may not be permitted by governments since regulation may be difficult, and the mobile money transfer is
suspected to nurture tax evasion were each presented by 2 (50%). Only 1 (25%) pointed out that the mobile money transfer channel is a potential medium for organized crime rings and terrorist networks to remit funds for their operations.

The findings denote that the key challenges that often face Safaricom (M-Pesa) International Money Transfer Service pertain to regulatory bureaucracy, whereby there are numerous regulatory and bureaucratic controls involved in mobile international money transfer; suspicion, where the mobile money transfer system is suspected to fuel illegal money flows and tax evasion; stringent government regulation, where mobile money transfer may not be permitted by governments due to strict regulation.
5.1 Summary

The main purpose of this study was to investigate the challenges faced by Safaricom (MPESA) Limited in international money transfer. The study was guided by the following research questions:

i. What is the effectiveness of Safaricom (M-Pesa) international money transfer service?

ii. What are the challenges facing Safaricom (M-Pesa) international money transfer service?

This study used case study design. Case study studies normally focus on a contemporary phenomenon in its real-life context. Purposive sampling procedure was used to arrive at the sample of the heads of departments. One (1) head of department was sampled from each of the four (4) departments in the M-PESA wing of Safaricom Limited giving a total of 4 participants. The outcome of the quantitative data from the opened-ended questions was extracted and consequently tabulated using graphs and tables in form of frequencies and percentages. The analysis of the data enabled the researcher to come up with the following major findings:

Safaricom (M-Pesa) international money transfer service was effective mainly because: M-PESA international money transfer provides the clients a cash transfer channel with a greater reach (75%); M-PESA international money transfer ensures a timely and secure
method of transaction (50%); and M-PESA international money transfer lower the transactional cost of funds transfer (50%).

Key challenges facing Safaricom (M-Pesa) international money transfer service were found to be: numerous regulatory and bureaucratic controls involved in mobile international money transfer (75%); mobile money transfer system is suspected to fuel illegal money flows (75%); in some countries, mobile money transfer may not be permitted by governments since regulation may be difficult (50%); the mobile money transfer is suspected to nurture tax evasion (50%).

5.2 Conclusions

Based on the findings of the study, it is apparent that mobile money transfer notably M-pesa by safaricom can play a more crucial role in international money transfer. Safaricom (M-Pesa) international money transfer service has been significantly effective specifically in terms of accessibility, convenience and security, and cost effectiveness. Key challenges that often face Safaricom (M-Pesa) International Money Transfer Service pertain to regulatory bureaucracy, suspicion, and stringent government regulation.

5.3 Recommendations

The following recommendations were made to various relevant stakeholders concerning the challenges faced by Safaricom (MPESA) Limited in international money transfer. These stakeholders are namely: Safaricom Management; Mobile Money Transfer Service Providers; the government.
Safaricom Management: Safaricom management should offer intensive public education to convince various stakeholders that mobile money transfer is as secure as other conventional money transfer channels. The company should also design packages to cater to people depending on their social, economic and geographical positions.

Mobile Money Transfer Service Providers: Mobile money transfer service providers should deploy services primed to encourage and exploit national growth in order to gain faith from governments. They should also elaborate mobile international money transfer operations to government authorities.

The government: The government through the ministry of information and communication should come up with policies that are geared towards creation of a favorable environment for mobile money transfer. It should also ensure that these policies are able to regulate against excesses of mobile money transfer to ensure that clients' security and privacy rights are safeguarded.
References


Section A: Background Information

1. Sex
   a) Male [____]
   b) Female [____]

2. Age
   a) 21-25 [____]
   b) 26-30 [____]
   c) 31-above [____]

3. Working Experience in the company
   a) 1-4 Years [____]
   b) 5 Years and Above [____]
Section B: Effectiveness of M-PESA International Money Transfer Service

4a. Since the introduction of international money transfer service by M-PESA, what has been the customer turnout level?

a) Extremely High [___]
b) Very High [___]
c) Somewhat High [___]
d) Not very High [___]
e) Very Low [___]

b. In general, has introduction of international money transfer service by M-PESA been effective in any way?

a) Yes [___]
b) No [___]

c. If YES, please indicate in what ways it has been effective


Section C: Challenges Facing M-PESA International Money Transfer Service

5a. Are there challenges facing M-PESA international money transfer service?

a) Yes [___]
b) No [___]
b. If YES, How frequent are these challenges encountered?

   a) Very often [___]
   b) Often [___]
   c) Sometimes [___]
   d) Never [___]

b. Please indicate what these challenges are

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

b. Please indicate what these challenges are

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

b. Can these challenges be solved?

   a) Yes [___]
   b) No [___]

d. If YES, what are some of the ways in which challenges facing M-PESA international money transfer service can be solved?

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________