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IGNACIO MAS

Guest Post: Micro e-payments and Low-Cost Schooling in Kenya

Editor's note: This is the first entry of a two-part series focused on the promise of mobile payments, contributed by Ignacio Mas from the Financial Services for the Poor Program at the Bill and Melinda Gates Foundation.

Bridge International Academies is a new for-profit primary school franchise with big plans. It aims to build and manage low-cost schools, the kind that cost $4 per kid per month. And it hopes to build lots of them, ramping up eventually to one new school launched per day, first in Kenya, then elsewhere in Africa. Since its founding in 2007, it has opened 12 schools in Nairobi, through which they are testing their assumptions and refining their model.

To meet these admirably ambitious plans, they need to operate a very tight business model. Bridge International Academies works on a franchise-like model, in which school headmasters are engaged in a profit sharing relationship, with a high degree of standardization. They have developed highly detailed construction plans with simplified diagrams for how to build and assemble the school, allowing them to use standard supply contracts and relatively unskilled local construction labor, resulting in a cost of less than $1800 per classroom. They need to focus maniacally on automating their processes and developing systems for all aspects of their business, including in curriculum development and teaching. And to protect their revenue stream, they need to ensure that only students that are paid up each month remain in the class.

One thing Bridge International Academies co-founder Phil Frei doesn't want to handle is cash. He doesn't want school managers collecting cash from parents, as this creates logistical problems (how to keep the cash safe in the school, how to collect the cash from the schools) and raises trust issues (are school managers collecting side-payments, are teachers reporting accurately which parents are paid up). Equally, he wants to be able to pay all suppliers centrally against budgets his system has checked rather than from petty cash pots in each school.

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Bridge is fortunate to have started up operations in a country where two players have developed an extensive retail payments and banking infrastructure that allows him to be an entirely cashless business. All payments coming in from parents or going out to suppliers or staff must be made either through the M-PESA or the Equity Bank account of Bridge International Academies. Centralizing all payments transactions facilitates record-keeping, minimizes errors and provides real-time access to data on the business. Bridge International Academies has developed an automated system whereby school managers use text messages to request or deny payments to staff and suppliers without ever handling the money themselves, which implies much greater security and lower rates of malfeasance.

Phil would like M-PESA to be cheaper. After all, the standard M-PESA mobile payment charge adds 7% (25 US cents) to the monthly fee per student. But he figures that paying 7% of top line revenue to eliminate cash from his business is still a better deal than developing a cash collection system. He'd also like the M-PESA interface to integrate more easily into his accounting and operations software, so there is seamless handling of transaction records across his business. Safaricom hasn't published Application Programming Interfaces (APIs) on M-PESA, so Bridge International Academies has had to develop its own interface to the M-PESA website. Electronic payments are indeed a natural entry-point for business management software.

The example of Bridge International illustrates how electronic payment mechanisms, provided they are convenient, cheap and secure enough, can propel new business models which in turn can make serious inroads in the delivery of products and services at the base of the pyramid.

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