

Cell Phones Bring Financial Services to the Unbanked

Building Trust in Rural Communities is Key to Success

By Lee Babcock

Author Thomas Friedman predicted that access to technology would be one of the “flattening” forces that would level the global economic playing field. For those at the base of the economic pyramid, like farmers in low-income countries, this prediction is proving to be true. Information and communication technology is offering opportunities and solutions at every link along the agricultural value chain, even among smallholders. In addition to communication, ICT facilitates financial services, credit reporting, traceability, farmer organization and other practices that can help lift smallholder farmers out of poverty.

This is especially true of cell phones. As mobile network operators (MNOs) and banks in Africa, Asia and elsewhere see the potential of cell phones, they are looking for better ways to reach the rural farmers who are a growing cell-phone market. This is where ACIDI/VOCA, with its long-standing links with farming cooperatives, value chain actors and rural communities, can play a key role and help the unbanked and underbanked access the finance they desperately need.

Widespread Cell Phone Use Makes Finance Mobile

The United States relies on long-established infrastructure (telephone landlines, ubiquitous bank branches and ATMs, reliable electricity and constant internet connectivity) to move money. In the rural communities in which ACIDI/VOCA works, however, most people do not even have bank accounts, depending instead on cash transactions. This means that conducting everyday business like buying inputs, paying school fees, etc., requires traveling long distances with cash, which is both time consuming and risky.

Many people in these same communities are using the declining cost and increased capacity of cell phones to leapfrog into the future of banking, information dissemination, social networking and more.

Second generation (2G) mobile phone penetration overall in low-income countries was estimated to be 68 percent by the end of 2010. In Africa penetration was estimated at 41 percent, indicating significant growth potential there.¹ Meanwhile, as smartphone 3G platforms decrease in cost, their use will grow and increase the range of applications that can be tapped for development.

This expansion of cell phone use has given farmers access to mobile money transfer, a platform developed by MNOs to allow people to move money electronically, and is increasing the financial inclusion of the unbanked and underbanked. In 2010, in emerging markets there were 133 million mobile money subscribers making \$25 billion in transactions.²

Long-distance Transactions Made Easy and Safe

The term “mobile finance” encompasses mobile money and branchless banking (mobile banking). Mobile money describes storing money and making payments to others using a cell phone, where value can be stored in an “m-wallet.”

For example, a farmer loads money into his m-wallet by going to a registered agent, such as a local input provider who also serves as the village mobile-money network agent. The farmer gives the agent cash, and she provides him with a code that,

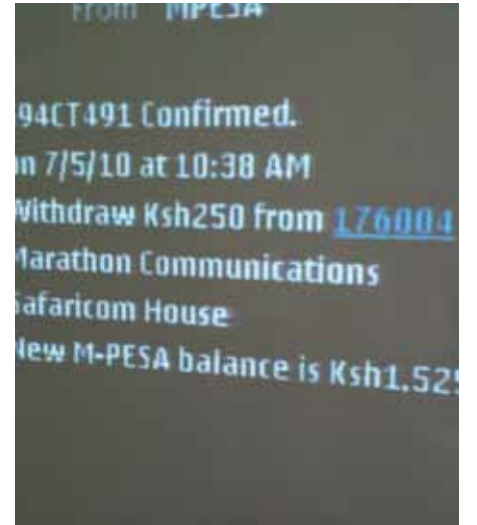
when entered, confirms the value of his deposit and the total balance in his m-wallet. The farmer then can use this secure mobile money platform to transfer funds to a vendor’s m-wallet. The vendor, in turn, can either keep the funds in her m-wallet for further transactions or go to an agent to convert it to cash.

MNOs in Africa and Southeast Asia such as MTN, Vodacom and Bharti Airtel have created these mobile money platforms to accommodate bill and vendor payments, domestic and international remittances, and more.

Mobile money has already proven to be a cost-effective and scalable tool to allow the poor to make payments without spending time and resources and incurring risks traveling long distances with cash. By 2015, mobile money subscribers in emerging markets are expected to grow to 709 million with \$215 billion in transactions.³

Banks Seek a Piece of the Action

As MNOs have expanded the use of mobile money platforms, banks have sought to play a bigger role. Joint ventures between MNOs and banks have led to the development of branchless banking services. The initial use of branchless banking often begins when mobile money users transfer value from an m-wallet into savings or microsavings accounts that



Photos, from left to right:

An Ethiopian farmer checks her cell phone while in the field. Cell phones allow rural residents to connect to services like banking that are traditionally difficult to access.

A unique agent ID number identifies a registered network agent, allowing a user to access M-PESA, the main mobile money system in Kenya.

A text message confirms a successful transaction.

pay interest. Besides being convenient, such accounts help establish a user's documented financial identity—something every financial institution needs to assess risk. Savings accounts can also serve to guarantee credit products, which reduces risk to the financial institution. Reduced risk increases the supply of credit and results in lower fees for borrowers.

Credit applicants will still go to a brick-and-mortar financial institution (e.g., banks, microfinance institutions, savings and credit cooperatives, etc.) to apply for credit products. Once approved, loan disbursements by the financial institution and repayments by the borrower can be handled conveniently and safely using cell phones, saving rural customers hours or days of travel.

Mobile money transfer and branchless banking can be inexpensive and convenient for the MNOs, the financial institutions and smallholder farmers—if the subscriber base is wide enough to offset the razor-thin profitability of small transaction fees. But establishing this subscriber base is a challenge for national or international companies with no ties to rural communities.

ACDI/VOCA Provides Links to Rural Communities

A few highly visible attempts to set up mobile finance agent networks in rural areas failed be-

cause farmers did not know and trust the MNOs or financial institutions or understand the benefits of the tools they offered. The banks, MNOs and other stakeholders have realized they must align themselves with entities the farmers trust, either indigenous ones or NGOs like ACDI/VOCA with well-established networks and good reputations in rural communities.

With its grassroots approaches, ACDI/VOCA is in a strong position to identify, develop and train local businesses that could serve as cash-in/cash-out mobile-finance agents. These agents might be input suppliers, cooperatives, storage warehouses, schools, pharmacies, community centers, kiosks or other local entities that farmers know and trust. Working with MNOs, financial institutions and donors, ACDI/VOCA can provide training to agents on financial literacy, financial and liquidity management, customer service, etc. We can also increase subscribers in targeted value chains and communities by promoting financial literacy and greater understanding of how mobile finance works.

A Business Model that Works for the Poor

The use of cell phones and other ICTs is a consumer trend that can play a catalytic role in reducing food insecurity and including the rural poor in economic growth. ACDI/VOCA is working with international and in-country banks and with ICT firms such

as BrainHoney, Esoko, Intel, Movirtu, MVCommerce, OpenRevolution, ScoringAg, SlimTrader and TechnoBrain to develop business models that can eventually reach the 2.5 billion unbanked⁴ adults living in low-income countries.

Given the volume of mobile financial activity expected by 2015, it is imperative that we learn how to harness this potential. The reach of telecommunications is a powerful "utility" for off-the-grid rural communities, many of which have no other service utilities. Our challenge will be to ensure that the continued growth of mobile finance and other tools includes smallholders and other value chain participants with whom we work and is consistent with our mission to promote economic opportunity.

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1. International Telecommunications Union. The World in 2010: ICT Facts and Figures. <http://www.itu.int/ITU-D/ict/statistics>
2. Berg Insight (May 2011). Mobile Money in Emerging Markets. http://www.berginsight.com/News.aspx?m_m=6
3. Ibid.
4. Boston Consulting Group (April, 2011). Socio-Economic Impact of Mobile Financial Services. <http://www.telenor.com>