Chapter 13 Designing Mobile Remittance Services in Developing Countries

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In this chapter, we illustrate how the STOF model can be applied to analyze business models, using an SMS-based service that is deployed in a developing country, i.e. Smart Padala in the Philippines. In addition, we use the STOF method to design a business model for the introduction of a remittance service in Haiti. Remittances are understood as transfers of money from one person to another, in practice most transfers are by foreign workers to their home countries.

13.1 Mobile Services in Latin America

The exponential growth of mobile communication in developing countries provides the potential for a wide range of services. Although some may believe that mobile services remain the preserve of the relatively wealthy, people living in developing countries, despite the fact that they have little income, use mobile services mainly in the form of prepaid subscription and through handset sharing. In developing countries, in contrast to Western industrialized countries, wireless telephony and applications are not used as complementary functionalities, but rather as a substitute for traditional telephony.

To provide an indication of recent developments in the mobile market of developing countries, in 1996 Latin America had six million mobile subscribers, a number that increased to 118 million by 2003, and to 171 million by 2005 (GSMA/IFC). Eighty percent of mobile services are used on a prepaid basis. The average revenue per user (ARPU) is less than US$ 20 per month. Operators offer low-cost handsets with limited functionalities to lower-income subscribers (Rojas, 2005), providing basic mobile telephony, while more affluent customer segments have access to data-enabled value-added services based on GPRS/EDGE.
Although Latin America appears to be the fastest growing region in the world with regard to the Internet, there are several obstacles to its development. Due to the relatively low income levels, many people have no access to a telephone, and even fewer people can afford a computer. Computer literacy is relatively low and Internet access is still comparatively expensive. Most users access the Internet via public terminals or at work (ECLAC, 2003). Compared to Western Industrialized societies, Internet use lags behind by several years. As a consequence, the development of e-commerce in developing countries has been slow, in part because of low credit card penetration and a poor infrastructure.

It is expected that developing countries will bypass traditional e-commerce models and that they are leading when it comes to the adoption of mobile services. Obviously, there already are developing countries that have successfully introduced mobile commerce, for example in the form of mobile remittance. In this chapter, we focus on the design of business models for mobile remittance services in developing countries. Although the conditions discussed in Sandy and Bouwman (2006), which include regulation, technological innovations and market-related issues, are important to the success of mobile services, they lie beyond the scope of this chapter. As a starting point for understanding the relevant issues of developing countries, we analyze an example of a successful mobile remittance service called Smart Padala, which has been deployed in the Philippines since 2004.

13.2 Smart Padala

The aim of our analysis of the Smart Padala business model, which is based on reports and Internet sources (GSMA/IFC, World Resources Institute, Smart), is to identify the issues that are characteristic of mobile services in developing countries.

13.2.1 Service Domain

Smart Padala is an SMS-service that has been provided since 2004 by Smart Communications, the Philippines’ leading wireless services provider providing a range of m-commerce services. Globe Telecom, the country’s second largest mobile operator, offers a similar service known as G-Cash, which was also launched in 2004.