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EXPANDING FINANCIAL INCLUSION IN DEVELOPING REGIONS: ECONOMIC GROWTH THROUGH INNOVATIONS IN MOBILE TECHNOLOGY

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PARTICIPANTS:

Opening Remarks:

STROBE TALBOTT
President, The Brookings Institution

PANEL 1: MOBILE FINANCIAL SERVICES, FINANCIAL INCLUSION AND ECONOMIC GROWTH

Moderator:

MWANGI S. KIMENYI
Director, Africa Growth Initiative
The Brookings Institution

Panelists:

ALFRED HANNIG
Executive Director, Alliance for Financial Inclusion

NJUGUNA S. NDUNG'U
Governor, Central Bank of Kenya

MARIA OTERO
Under Secretary of State for Democracy and Global Affairs
United States Department of State

PANEL 2: SCALING-UP FINANCIAL SERVICE INITIATIVES

Moderator:

JOHN PAGE
Senior Fellow, Global Economy and Development

Panelists:

JAMES BILODEAU
Associate Director, Financial Services Head of Emerging Markets Finance
World Economic Forum USA

MICHAEL JOSEPH
Fellow, World Bank
Former Chief Executive Officer, Safaricom

PERKS LIGOYA
Governor, Reserve Bank of Malawi

CARLOS LOPEZ-MOCTEZUMA
Mexican Banking and Securities Commission (CNBV)
Co-Chair of the AFI Working Group on Mobile Financial Services

DAVID PORTEOUS
Managing Director, Bankable Frontier

PANEL 3: ROLE OF DEVELOPMENT PARTNERS IN MOBILE FINANCIAL SERVICES

Moderator:

SHANTA DEVERAJAN
Chief Economist, Africa Division, World Bank

Panelists:

CLAIRE ALEXANDRE
Senior Program Officer
Bill and Melinda Gates Foundation

DAVID FERRAND
Director
Financial Sector Deepening Trust

PRIYA JAISINGHANI
Senior Advisor
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IAN SOLOMON
U.S. Executive Director to the World Bank

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P R O C E E D I N G S

MR. TALBOTT: Good afternoon, everybody. I'm Strobe Talbott. It's my pleasure to welcome you here to the Brookings Institution this afternoon for what I know is going to be a terrific program.

I think it would be in the spirit of the afternoon if I were to ask everybody in the audience, please, to turn their cell phones on.

(Laughter.)

We, here at Brookings, are a pretty diverse outfit with about a hundred scholars, five research programs, and working in all kinds of different areas, but we have what we call some core priorities and we call them "all Brookings priorities", which means that we expect all five of our research programs to be doing something to contribute to advancement in these areas, and I think it's pertinent to point out that one of our all Brookings priorities is called Growth Through Innovation, and that means economic growth through technological innovation and that of course goes to the very heart of what we're going to be talking about this afternoon because mobile phones, as we all know, are not just a method of communicating with each other, they are also a very powerful force for economic empowerment, or what we're calling in the program today, financial inclusion, and there's no part of the world that more dramatically demonstrates the potential for building on that new technology than Africa, and here we're talking largely about sub-Saharan Africa, of course. In just the first decade of the 21st Century the number of cell phones in that region of the world increased 30-fold, which is to say from 16 million to 500 million cell phones. There are ten times as many cell phones as landline phones in that region and as a result this has not only significantly reduced the cost of communicating, it also has done a great deal to promote economic development, and in particularly, through financial services, and that means providing lower cost access to those services, promoting savings on the part of individuals, bringing money from the informal sector to the formal sector, which of course then means that there's also additional sources for government revenue.

So, it's against that backdrop that we're opening this conference this afternoon on strategies to increase access through cell phones to mobile banking, and we have a terrific group of people to lead us in that discussion. We have representatives from six central banks, from the U.S. government, Maria, we're particularly pleased that you'd be with us today, the World Bank, civil society, the private sector, and foundations.

Now, this program is hosted by the Brookings African

Growth Initiative which is under the leadership of our global economy and development program led by Kemal Dervis. AGI, as we call it here, is, among other things, developing partnerships with six African think tanks and my colleagues at AGI have asked me also to thank our co-organizers of this conference, the Association for Financial Inclusion and the Central Bank of Kenya.

I'm going to now call on Mwangi Kimenyi, who is the director of AGI here at Brookings, the Africa Growth Initiative, and also a senior fellow at the Brookings Institution in the Global Economy and Development Program.

So, Mwangi, over to you.

MR. KIMENYI: Thank you very much, Strobe, for that introduction and also for coming to welcome our guests here at this forum. This shows how Brookings have praised AGI as one of the core programs and focusing on the Brookings priorities, as you have mentioned. And I would like also on behalf of my colleagues at the African Growth Initiative to extend welcome to this forum. I am particularly pleased that we have a lot of colleagues from Africa who are participating, but also from other regions including Europe, Latin America, and also from the U.S. government, we have a lot of participants from the U.S. and foundations, and so we are very pleased to be here today.

We think that as the African Growth Initiative, our focus is growth and we have seen that one of the main sources of growth in the recent years, even when there was the major economic crisis, African countries, particularly those that have adopted these new technologies, were able to continue to maintain a decent level of growth because of these mobile services like Kenya's growth, most of it through the crisis can be attributed to their mobile financial services.

I am, therefore, very grateful that we have a very distinguished panel to discuss these issues of growth here and also very special in several ways, like the Under Secretary, Ms. Maria Otero, we met on several occasions before including actually here some time ago in Washington, but also in Kenya when I was also a director of one of the micro finance institutions. So, it's a great pleasure that we are able to meet again.

And then we have colleagues that I've worked with before who have done very well in terms of this issue of micro -- mobile financial services.

So, the issue of financial inclusion remains critical to the growth of African economies and as President Talbott has observed, (inaudible) sub-Saharan African households have bank accounts, they don't have any bank account, and only about 20 percent according to the recent African Development Bank report have a banking account. But, however, access to financial services, such as savings, money transfers, credit, we know are very important if you are going to talk about growth. For us with the African Growth Initiative, if we are going to talk about growth in Africa, then the issue of financial inclusion must be at the core of what we do and innovations in mobile technologies have provided alternatives to expanding the financial services frontier.

And cell phones, unlike bank accounts, are easy to obtain in many African countries and have the potential to help the once poorest leapfrog into financial inclusion. And we have heard the statistics about the number of people who have cell phones now, even where infrastructure is terrible, you don't have a land line, but you have financial services. And one of the motivations for holding this workshop is that what we have learned from Kenya Mobile Transfer Service, M-PESA, which is my country and which have been involved with Njuguna, the governor, in terms of a bit of research.

As an example, this research grew from 268,000 registered customers in 2007 to over 7 million in July 2009. That is phenomenal growth. So, it is why we want to learn why these can be -- how can we expand these type of services to other countries and generate growth through financial inclusion.

The first panel will focus on mobile financial services, financial inclusion, and economic growth. We have three distinguished panelists to help us kick off the discussion on the link between financial inclusion and economic growth and how mobile financial services are playing this role.

The first panelist is Ms. Maria Otero, the Under Secretary of

State for Democracy and Global Affairs. Ms. Otero is extremely conversant with issues of access to financial services having previously had the position of president and CEO of ASEAN here in the U.S.

Next will be Alfred Hannig, executive director of the Alliance for Financial Inclusion. Alfred is here to discuss some of his experiences with these issues of financial inclusion. This is an international body that has a lot of members, some of them, many of them, from African countries.

The last panelist is Njuguna Ndung'u, the governor of the Central Bank of Kenya, a former colleague of mine at the Kenya Institute for Public Policy Research and Analysis, KIPPRA. The governor, of course, is much senior than me now but I used to sign his check. He will provide highlights of mobile financial services in Kenya.

Thank you very much, and you have all ten minutes, so commence and, again, welcome.

MS. OTERO: Thank you. Thank you so much, Mwangi, and certainly my esteemed panelists. Thank you, Strobe for opening this wonderful institution to address this issue, and it's really very good to be here among many old friends, and actually some of them are old friends, and many of you who have worked on this issue for so many years.

When I left ACCION International almost two years ago, I had spent over two decades witnessing microfinance and I had watched it go from subsidized micro loans to a focus on self sufficiency to an emphasis on savings to a full suite of financial products that could be made available to low-income people. As many of you know, this progress has been really an extra ordinary evolution in this field as it would have been in any other field and more than anything, it was able to really demonstrate the capacity of the poor to be able to become economic actors in their own societies. We know that microfinance banking broke the mold and it did it over 20 years ago and it broke the mold because it really moved away from the long held definition of risk assessment, of traditional collateral, of what it took to think about people as being bankable clients, and now we know, on the basis of that work, that financial inclusion is really the path to economic growth and really the path to greater stability among the poor.

So, we also know, as I mentioned earlier, that the poor can and do save money, and this is very relevant to our talk of mobile banking. So, as we consider these issues, we also need to consider ways in which we can combine these tools that we're talking about with the entrepreneurial spirit of the poor and to be able to, that way, also give them financial access.

So, I think what we are doing today is really, we're posing towards a breaking of the mold again and moving towards, I would say, a different paradigm shift in microfinance, one that is really looking at removing the remote -- all those walls that we have always seen be part of banking to ones which just don't exist anymore and where the clients that used to come to bank, now we see, really, the banks going to the clients.

And we are seeing today that even nonbanks can go to clients and this, of course, is particularly a step that has raised a lot of questions. These are important questions, questions that have to do with oversight, with solvency, with regulation, with consumer protection. I think as we will hear from Governor Ndung'u, these are some of the very important questions that have come up but may really not be stumbling blocks that stop us from doing this work. These are really the starting points that we have.

I believe that all actors involved in this emerging industry, whether they are banks or telecommunication companies or agent networks, all of these can help inform and arrive at answers to the many questions that we have today. There are stakeholder corporations that are essential to success that we know are also present. We have everything from Brookings, we have AFI, who is really speaking, and I have to say that one of the players in this also, which I was so pleased to be able to launch, was the Center for Financial Inclusion at ACCION International, which happened right before I left.

This shift in paradigm, one of the things that I think is important to highlight is how it is that we can look at the role that the government can play in this effort and that's really where I'm going to concentrate my few remarks on.

I want to talk about three areas in particular that the government can play a role in advancing this industry in the direction that we want it to. The first one is as convener, the second one is as regulator and policymaker, and the third one is as a catalyst in this field by putting into place some of these principles itself.

Governments can wear all these different hats and they can really help not only advance but also create scale and mobile money.

When I say that governments can play a role as conveners, I would note that one of the reasons I am here is because Secretary Clinton of the Department of State recognizes the importance of moving this industry forward and ensuring that the political will of governments is really put forth as one of the components and so in trying to do that at least through the U.S. government, it's also very good to point out that there are other members of other U.S. government agencies present here -- from AID, from the White House, from the Department of Defense, from other agencies -- Treasury -- because it's really our collective effort that begins to signify the commitment that we have towards moving forward, financial inclusion, and the importance of money in that.

It's also important to highlight that at all levels of government, the private sector also becomes a very important player, whether it's the presidents of companies or CEOs or really technical experts, and when you combine all those with organizations like Alfred's, we begin to see that you are creating the kind of platforms for exchange, for knowledge sharing, for all the pieces that need to be together.

Let me also touch on this, the very interesting -- well, the significance of the fact that at the G-20 meetings, financial inclusion became one of the themes and one of the major topics that was addressed, which indicates that financial inclusion overall is really on the minds of the heads of state the world over. Now when we think about the thousands -- hundreds of thousands of things that they need to worry about and that they can pay attention to, the fact that financial inclusion has become an important issue and it's rising to become a political imperative, again opens up space for the work that we are doing. So, this is a convenient concept.

The second concept I would talk about is the role the government has to play in playing a proactive role in the promotion of financial inclusion, particularly in fostering, enabling environments through regulation and policy. This is something that has prevailed for a long time, but now as we see it with this new frontier, we can see how we can face the fear of the unknown, of the risk that all of these things can create, and we are in a position where you are really trying to balance the challenge of the objectives of consumer protection on the one hand, of financial stability on the other hand, solvency, as well as innovation and scale on the other hand.

So, trying to bring all these together are factors that create a challenge for all of us. For example, if we look at the introduction of nonbank actors as conduits in financial transactions, we can see the justifiable concerns of regulators. I know that you're going to dig much deeper into this issue in the next day, but clearly, international standards and banking models becomes one of the important issues that's under development and this is precisely where we still have a lot of questions and where a great deal of work needs to be done. And this is where I would encourage the international standard setting bodies that are working on this, like the Financial Action Taskforce, to continue pursuing in this area because you are looking primarily at the solvency of financial systems, but you are also trying to shed light on some of these areas that are still gray and that are still unanswered. All the stakeholders through the industry that are exploring new approaches like know your customer, all these requirements that are going to allow us to really have low barriers and low value banking accounts.

So, these are some of the things the regulators need to look at. And I think as we move also beyond the scope of banking regulators, the government can also help correct the fragmented markets through policy that promotes better tools and better mechanisms. When you look at the way in which the functioning of an economic system takes place, we note that the financial infrastructure, whether it's items like a national ID system or a credit bureau or a ratings system, all of these can be as important to an economy as the physical structure of bridges and roads is to the movement of people in a country. So, we need to make sure that these effective mechanisms for communication among government regulators and policymakers exist, things like telecom oversights for banking supervisors, these are the sort of policy reforms that can create efficiency in the transactions in all directions, whether it's between citizens or governments or constituents or judicial systems, across the board. So, these are some of the areas in which we need to work.

The third area in which governments can play a role is when they themselves are a catalyst and a model for mobile money by moving their own systems into electronic and mobile platforms. This role isn't so much about governments doing more, it's about governments doing it better and doing it right. So as we look at the tools that we have for the 21st Century, we need to upgrade the systems that governments use in order to be able to address this. We're looking at this very closely with the White House and with AID. We're looking that the transferring of government to people payments electronically can really be ways in which governments can lower the barrier for poor citizens to enter the formal financial system. In other words, we also need to get on with the program. And it isn't really just this question of efficiency that we are concerned about. At the heart of this work is the enhanced livelihood of citizens that otherwise would be operating outside of the financial system. We know that mobile money is one way in which we can harness their own potential as economic citizens and move them forward.

Let me show one additional example for you before I close on how it is that we are looking at governments being catalysts. One example of this is a newly started initiative called the Open Government Partnership, which is a unique partnership among governments, civil society, private technology companies. This initiative, which was started and which is headed up by Samantha Power at the White House and myself at the State Department, is a call to all governments to become more transparent and more accountable to their citizens.

So, in this context, we are looking at the use of new technologies, like SMS, open source software, and other ways in which governments can actually communicate with their people and can address issues related to corruption, to the lagging civil participation that we see of people who really don't trust governments. So, for example, governments could use technology to post official salaries on the Internet or on a public forum, or they could go to citizens and have them be able to participate in debates about these issues through text messaging.

The U.S. is sitting on the steering committee of this Open Government Partnership with other nations and we are looking in September to have President Obama come together with the heads of states from up to 80 other countries, which will pledge themselves to these principles of transparency, accountability, and participation, and we see the role of mobile money as a very important part in helping that happen.

So, whether we're doing this in mobile money or in open governance, we're moving in the right direction, we're moving in the direction of incorporating citizens into our economic and political systems and making governments more responsive and more efficient at the same time.

Now, we know that many questions elude us and that we have just begun to really look at this effort, but we have started the conversation and this conversation, many of you have advanced a great deal.

So, let me just say that certainly in my own career I've seen the power of fresh thinking in business of innovation at the bottom of the pyramid, of believing in the ingenuity of people, especially of the poor, of investing in risky ventures has really been the source of the way in which we've moved microfinance to where it is today. I know that the lessons that I'd learned in Lima or in Mumbai or in Accra or in Nairobi, these have guided my discussions when I've been on Wall Street or when I've been working with people who control the capital markets of the world, and they have also been the ones that have underlined my conversations with high level officials, be they in Indonesia or in Nigeria or anywhere else in the world.

So, these are the topics, I think, that can really be the platform for many of the discussions that we have as we move our economies forward. So, I want to wish you the best in this conference as you move this forward and I know that you couldn't be in better hands as you take this on. Thank you.

(Applause.)

MR. KIMENYI: Thank you very much. We will have time for questions later, but I'll ask Alfred now to make --

MR. HANNIG: Yeah, thank you. Strobe Talbott, Mwangi, Maria, Governor, ladies and gentlemen, dear friends, I can only echo what Maria said. This is really exciting to be here and to see so many people in the room who actually we know from many other occasions and still working towards the same objectives, which is, I think, bringing poor people into the financial sector.

Now, I think this conference is in fact about opportunities and I think the first opportunity I would like to mention is the financial crisis and such, because this recent crisis, which actually has its roots in the financial sectors of the developed world, has triggered a fundamental rethinking of the role of governments and central banks in finance. And it has not only resulted in concerted efforts that restore financial stability, but also built momentum for regulatory change, and this, in fact, is the link to financial inclusion because in particular such policies that promote an inclusive, stable, and accessible financial system is very important that financial markets work for the benefit of all.

Now, for those advancing financial inclusion policies this has created opportunities to reinvigorate and drive reforms that foster economic resilience. And Maria mentioned the Global Partnership for Financial Inclusion of the G-20, which I think is a clear reflection of this movement that clearly shows that financial inclusion is on the rise. The G-

20 has taken that very seriously and have come up with a work plan many of us are now working hard to implement. And I would also like to mention that even the creation of AFI, I think, is a clear sign that policy-makers and central bankers from around the world are gathering around this topic. And we now can say that we have 73 countries who have joined us with the belief that most of the innovations, in fact, are already there.

We need a mechanism to share and to replicate what has been done successfully elsewhere. So, this is also, I think, a new model which I would like to mention and this, I think, is the second opportunity that we are actually creating a new model of collaboration under these circumstances.

Now, I don't want to go too deeply into the link between financial inclusion and balance growth. I think a lot has been written. There's a lot of macroeconomic evidence on the issue, but I think it is pretty clear that (inaudible) finance affects growth and poverty alleviation. It makes it more difficult for the poor to accumulate savings and build assets to protect against risks. That's why we need financial inclusion and I think we need to do more research, in fact, to, you know, build the empirical basis and the evidence that shows us the way.

Now, mobile financial services and financial inclusion -- you know, I'm not going to say what the governor is going to say here because he is actually the person who can talk eloquently on these issues, but this is all about dramatic reductions of transaction costs through the use of technology. And it really has the potential to make the provision of pro-poor (phonetic) financial services that in the past has been severely constrained by high costs of what we call brick and mortar banking.

And I actually would like to mention here this CGAP-GSMA Mobile Money Market Sizing Study that estimated in 2009 that there are more than one billion people in developing countries who have mobile phones but no access to formal financial services yet constituting a large group who may become financially included through the channel, and this number would grow up to 1.7 million, actually, by 2012.

Now, what do regulators and policymakers say to all this? And I think here from the AFI network we can report in our member survey that we undertook last year, emerging trends among others include the recognition that the role of policymakers in changing -- and their leadership is very crucial to successful financial inclusion strategies and response and that new technology is very important, but not the only consideration, not the only consideration for developing country policymakers looking to improve access. And another one that the banks have an important role to play in reaching the poor with their services.

Now, as a matter of fact, policy innovations that make use of advanced information and communication technologies are still the exception in developing country policy frameworks and financial strategies, but interaction with AFI members clearly indicate openness to learning, experimentation, and scaling up these technologies.

In the AFI community, in fact, we observe a discernable shift from questioning whether mobile financial services can expand financial inclusion, now on how to implement them in a safe and secure way, so this is clearly a shift. We have stopped discussing whether it is important. I think we are now going deeper and want to find out how to do it in a safe and sound manner. And I think our business has clearly demonstrated that policymakers are leading the way. Most of our grant making goes into the area of banking beyond branches, as we call it, and, again, a large proportion of these grants go to African countries who are also -- some of them represented here today.

Now, but there’s a challenge: market uptake. This is still lagging behind and not only in terms of what we see on the e-payment side, but especially on what we call second generation. And that is where you want to be ambitious because we have seen a tremendous uptake for small payments, money transfers, but we are waiting for more uptake when it comes to second generation which refers to other financial services, which, I think, allows for financial intermediation. And when you look a the growth equation, of course we all know that saving spurs investment, but savings need to be channeled into investment and that’s where intermediation comes in. So, the challenge really for us is how to do it right.

Now, other opportunities, and I think these are crucial, there are two. One is Africa is in a unique position to demonstrate success, and the first opportunity is the high mobile phone coverage. On the African continent, mobile financial services are a hot topic. While in 1999 only 10 percent of Africa's population had access to mobile networks, by 2008, 60 percent of the population could get a signal. This is 477 million people. And by 2012 most villages in Africa will actually have coverage, referring to GSMA data here, and we are just excluding a couple of countries such as Ethiopia, Somalia, Mali, and one more country which is, I think, Chad. So, these four countries are, in fact, not very covered, but all the rest, I think, has full coverage, even on the village level.

Now, let me give you one example. The situation in the BCEAO countries, which is the West African Monetary Union, is quite illustrative of the potential because only approximately 10.4 percent of the population in the eight countries that belong to the BCEAO, which is 93.3 million people, has an account in a formal financial sector where according to the BCEAO, the percentage of adults who use a mobile phone is close to 100 percent. So I think this is a huge potential that, in fact, can be tapped by perhaps relatively small variations of the regulatory framework.

And the other opportunity is openness; openness of policymakers to learning, experimentation, and scaling up of technology enabled financial services. We found in our network that African policymakers are particularly open to discuss, to experiment, to exchange, to learn, to test and see, and Kenya is a very good example but others, I think, are ready to follow, and this is why we want to be ambitious with this conference.

And finally, there is a historic opportunity because we all have the G-20 muscle behind and G-20 is looking for good examples that can be scaled up to the global level. So why not take this conference and make a point, make a statement, and show that it is possible and take it to the next level, and from there, I think, we can achieve a lot more than what has been done in the past.

So we, from AFI, we are looking for a very concrete outcome of this conference, and this outcome could range from (inaudible) activities to very concrete initiatives in Africa to roll out mobile finance regulatory frameworks that are safe and sound, but at the same time help us to be ambitious, help us to grow for second generation, help us to grow for financial intermediation.

Yeah, this is all I have to say and I can see a zero. I hope I'm still on time. Thanks very much.

(Applause.)

Thanks very much for attending this event. We are really grateful and we are very excited about the high level of participation, both in numbers, but also in knowledge of people. I think this is great and I think we are there to take it to the next level. Thank you.

MR. KIMENYI: Thank you. Njuguna?

MR. NDUNG'U: Thank you very much. And you can see that the agency of restraint in terms of keeping time is here. So --

SPEAKER: I have this in front of me.

MR. NDUNG'U: You were only in excess by two minutes.

Anyway, I think I'll focus on a few points just to strengthen the case. Here I'm on a crossroad because I'm a policymaker. And I'm also somewhat excited to talk about financial inclusion being part of the network, Alliance for Financial Inclusion, and also a big part of a public policymaker I have to talk about growth and where we are coming from, but being a regulator I have to also point on those issues.

When we thought about this conference, one of the things was AFI network members from especially African region which should come and perhaps showcase their successes or even the challenges they face in terms of mobile phone financial services and how they can actually leapfrog financial inclusion. And we have thought about financial inclusion in so many diverse ways, and you have listened to all the panelists here talking about the contribution to growth, but the most important thing was also how do you encourage market uptake where it hasn't worked? And, thirdly, how do we link this in terms of the growth initiative -- that is the Africa Growth Initiative, from the Brookings point of view?

So, essentially, these are the issues that we thought about. So, for me, my contribution, I want to make six points just in case the agency of restraint overpowers me and I lose count, but I will make six points. But one of the things I want to start, from a regulator point of view, even if mobile foreign financial services is actually becoming a very important aspect, it's actually working very well to enhance the already existing or even introducing new aspects of financial infrastructure, and we have seen that it is enhancing growth rather than displacing it.

For example, when I look at the Kenyan case, nobody talks about deposit protection and how it actually mitigates risk. We have brought in expanded branch networks so it means that even that platform from our mobile phone has gone even to poor areas of the economy, and those branch networks were not only in urban kind of setting, because that's where we thought -- banks decided to go throughout, even to the rural areas, and they were working very well.

We have microfinance institutions because we have to accept we have segmented markets, and we have to live with these segments of the markets, so essentially the best thing is to come up with vehicles that solve different segments. But then what happens is that mobile phone financial services come in to enhance that and even make them even more cost effective. This way we introduced the Credit Reference Bureau, and that, for us, has been very, very important because it builds the information capital that is required and even it may help us because one of the biggest handicaps in terms of you can put deposits in the banks, but to get a loan you require collateral and even the collateral technology news (phonetic) is so expensive and sometimes not even user friendly. So the bottom line is, we have come up with Credit Reference Bureau so that we can change the collateral technology news.

And finally, now we have now even rolled out agency banking so that we can have agents. All these are, perhaps, some of the (inaudible) of them. Some of the financial infrastructure we have in place, having mobile phones work through them enhances that and reaches out so many. So, for me, that is perhaps the environment we want to look at in African countries we compare experiences and we compare what we really need to do.

The second point I wanted to make for this conference is that financial inclusion has to take root and it has to take roots given the technology that we have. We have taken advantage of technology. I always look at even at advertisements in the radios in Kenya or even in TVs, in the newspapers, that now mobile financial services -- money transfer between UK and Kenya, you can see the amount. Now Western Union is advertising that it is partnering with Safaricom.

So, what it means is that you can send your remittances from the U.S. here, and they are going to hit the mobile phone account somewhere in a small remote village from here, because essentially (inaudible) was there. It's very, very cost effective and has taken root and that is what we are here talking about market uptake. So that's why when we are here we want to ask those countries that are not -- have challenges in terms of implementing these where we can -- or how can we help.

Mobile phones and banks account are creating a (inaudible) kind of operational platform. I used to laugh that multinational banks would visit my office and tell me that you are running a risk here, and I would tell them, no, you are the ones who are running a risk because if you don't integrate this operational framework with your framework, then it's going to be difficult.

Within a period of six months, I could realize that most people had in their own phones that they can operate, they can get into their own bank account in the bank, draw the money to a mobile phone account, and then send the money, so you don't have to visit the bank. But there are some banks even today in Kenya where you still have to visit the bank, withdraw the cash, then go to the agent and do the business. It's going to be very, very expensive. But the most important thing is what I have seen, and especially this year, is that we can use this mobile phone financial service as a platform for implementing public policy.

In the last fiscal year -- the current fiscal year, the Minister for Finance wanted to roll out this micro and small enterprise fund -- revolving fund, but there can only be revolved -- it can only work very well if you provide a platform where you can also pay these funds to these micro enterprises through the mobile phone. But then when we were struggling with that, we were told it has worked. Food subsidies, there are coupons for food coupons, worked very well. They were on a trial basis and so in the next fiscal cycle they are going to be used successfully because those trials were very successful.

For us, when you take that financial inclusion to that level, and those instruments of financial inclusion are being used to actually implement public policy, that success is very, very important; it's self-enhancing. But that point, because I can see now I'm in the middle and the five minutes are gone, is let's say that that point I wanted to make is channels to economic growth, they are various and now depends on how you want to extrapolate it and remove. I've seen so many papers, in fact, several papers that talk about even information flow is very, very important. Coordinating markets and even creating information flow is very, very important. But because I'm a regulator I start from the very simple point of bringing numbers on the table, making people open bank accounts, deposit accounts, is very, very critical, is very, very important.

When I joined the Central Bank in 2007, most of my friends, I see all their faces, I can see, they knew me from academia, even (inaudible) was teaching public finance for PhD students in (inaudible) at one time. I didn't know this world until then, but then I asked the question when I went to the Central Bank, how many bank accounts, deposit accounts, do you have? There are about 4.3 million. And they said, in fact, the surge has been in the last couple of months, perhaps 18 months. What about loans and advance accounts? About half a million accounts for 45 banks and almost 30 million people. You can see that if you don't have numbers, then you can't talk about a market.

But what I can say is that those numbers have increased since then. We have seen those numbers increase from 4.3 million accounts; we are now starting at about 13.3 million accounts in terms of deposit accounts. And that also shows the amount of deposits that have increased in the market. We have moved from about 750 billion shillings to about -- 14 trillion -- no, sorry, 1.4 trillion shillings -- that massive capacity for banks to offer loans was not there. Now it is there. You can see that those needs are very, very positive.

Of course, when you bring numbers to the table then you can now start talking about even the transmission mechanism from a monetary policy, when what you tell people that you can actually access loans in the banking sector for any form of investment, that actually is very, very important.

So, the important story of access is very, very important for us. Access, especially -- and I think Professor Kimenyi mentioned that we were in KIPPRA -- one of the studies that influenced me in KIPPRA was actually poverty and trying to understand poverty, and one of the things that then researchers, Professor Mwangi and others were arguing is that there are characteristics of the poor and there are also factors that drive poverty, but the most important thing is that I found most of them were actually reinforcing each other. A poor household is likely to have had very low, perhaps, attainment of education, or they are not accessible to the markets. Accessible to the markets is a characteristic as well as a factor. So, I had thought that access to financial markets was even more important because the poor can actually build up their assets through savings and credit, and that, for me, was very, very important.

And because now I'm having trouble with the time, let me go into -- there are other studies, I have seen studies, that assure that mobile phone communication reduces such costs and even increases coordination and market efficiency. There is a paper right now, 2010, which is doing its rounds and it's very, very encouraging that we see so many of those and they have come up with so many avenues through which growth is affected. But of course for me I also look at it in terms of employment and massive economic grant being generated.

We have a network of mobile phone operators or mobile phone agents. I think Kenya right now -- they have gone beyond 40,000 and all those are operating mobile phones through different platforms. When I look at the numbers sometimes it's very encouraging. The first, let's not go into the maybe, I saw a newspaper article arguing that it was made for the poor. This was a facility -- mobile phone financial services were made for the poor, the low-income group, but now everybody is taking advantage of it. The rich are taking advantage of it. I say, maybe when you find that it is working, then you can use it wherever you are, but when I look at the average monies that are being transferred or used, they are very, very minimal.

For example, in terms of dollars, so far, per day, pay-in/pay-out total transactions in Kenya per day is about $33 million. Every transaction is an average $32, by the way, and the transactions cost for that is actually 38 cents. And those are the conclusions we have done as of March. So, you can see that it is still very low value and high volume, so it means that even if the rich are also using it, they are also using it to pass through money to the other -- perhaps -- I do pay my workers every week by the mobile phone myself, you can imagine how much money I'm transferring. So, that is very, very important.

So, it means that -- look at it in terms of how many transactions per day and what is the cost of these transactions, and you see the massive economic trends being generated and distributed across people. This is where there was no market.

You know, I used to argue that Africa is a place where there are missing institutions and there are missing markets, and you can see this is a market that was created and all of a sudden it was run by a network of mobile phone agents and you can see the amount of money they are producing.

Finally, on this count, let me say that the story of macro policy is very important and very diverse. We have seen monetary policy framework and we know how they used to work. In African setting, IMF comes in and produces a framework and you have to follow it and all that, but now we have seen pitfalls to it. (Inaudible) you don't need to carry money, it's always in the same (inaudible) transacted, there is pay goods functionality in it. We have seen that because we have allowed space for financial innovation, we have seen that financial innovation has increased tremendously and has also led to a deepening in the market, so it means that for a policymaker like myself who is dealing with monetary policy, I am happy about the transmission mechanism taking place.

The macro picture is actually shaping up very well. It is telling me that since I have done very well to mitigate the risk, of course the market is happy, the uptake is happy, and so it means that the monetary policy framework must change to address these issues.

The fourth point, now I have to be very quick, is that we come here as a showcase to a group of African countries who are also AFI network members and also members from Latin America and Asia who are also AFI members and who would like also to showcase in a developed country like America. What has happened -- we take up some of these technological platforms and they have worked very well, but we also need to ask specific questions to ourselves. We have to ask, why is it that the experiences in terms of mobile phone financial services have worked differently in different levels and even different speeds in different countries? What can we do to enhance their speeds and so that everybody benefits? What explains these differences? Is this the regulatory environment? Is it perhaps the political terrain? Can we come up with a consistency development plan so that we move in tandem, that we benefit? We see the benefits of financial inclusion, how do we take full advantage of that? For us, that is very, very important on top of sharing experiences where it has worked very well and where it hasn't worked very well.

I was very encouraged a few months ago -- sorry, a few years -- one and a half years ago -- we started thinking about agency banking in all of a sudden AFI provided some resources to our Central Bank staff. They visited Brazil and Colombia and realized this is how agency banking is working, and we brought it. Of course, the market for us, the way I work with the Kenyan financial market is to allow consultative process, and then everybody was agreeable except microfinance who voted that, don't introduce agency banking yet until we are firmly on the ground because we are likely to be pushed off. We were not pushed off, but they were enhanced.

Anyway, that is an important story. But then after that, the fifth point I wanted to make is that we need network members, including using the space provided by Brookings to allow us to perhaps (inaudible) the policies and processes that can work and even how we can facilitate how they work. How can we borrow from what the knowledge base is and what we can use to other countries or showcase to other countries that it's working.

And finally I'm very happy because being in Brookings this African Growth Initiative is very, very important because we need to talk about economic activity, we need to talk about growth. But how we talk about growth driven by this is to talk about growth in African countries which is sustainable in some sense. And we have seen that since you can't reverse the development that we have seen in financial inclusion and the stimulus to growth, we need to encourage other countries to be the same right now, and this is the best way we can support public policy for policies that work and that is how we came to formulate ideas about this meeting. We have met, now we want to synthesize the results. Let me stop there because I can go on and on.

MR. KIMENYI: Thank you very much, Njuguna. Well, trying to stop Njuguna when he's talking about economics is like capital punishment.

Very good. I will not ask the panelists questions because we are really pretty much running out of time. We are going to in a little bit the coffee break so we may just have people take their coffee cups and come back, but I will open it up to the floor because the Under Secretary may be leaving at some point, so I will take -- okay, can I make some suggestions about questions? Let's make them very specific and pointed so that we can take many of them, and I will take three at a time. You can refer them to a specific panelist or all the panelists. The lady in front here, then the gentleman over there.

MS. SEGERO: Good afternoon, ladies and gentlemen. My name is Rosemary Segero. I'm the president of Segeros International Group. I own my own business based here in Washington, DC. I'm also president of Hope for Tomorrow, which is a nonprofit organization that focuses on microfinance. Happy to see you Ambassador Maria, your role is (inaudible) at the State Department and women issues and this is why I'm standing. Thank you for this event for mobile phone. It's really, really a wonderful innovation because it helps women that I focus on in the rural areas of Kenya. This is a wonderful innovation and we really support you.

Mr. Governor for the Central Bank, how can we collaborate? Are you going to license us as a business or a nonprofit to service our clients in the rural areas of Kenya? I want to work with you as a woman serving women and young people in Kenya and initially other countries, and say thank you to the Secretary of State for her wonderful work. Thank you.

MR. KIMENYI: Thank you very much. Okay, let's go to another question, the gentleman over there. And again, very specific.

SPEAKER: Hello, my name is Mauricio Liva (phonetic). I'm a junior professional at the World Bank. We see that Sony, the major electronics company, they got hacked into by millions of users, so my question is, what are we doing to make sure that the people's money on the phones are not going to be hacked into? Because just one scare can cause this all to go backwards.

MR. KIMENYI: Very good. The issue of security. Connie at the back? I'm sure you have an (inaudible) account.

SPEAKER: No longer, I'm afraid. I want to follow up on that question and go back a few years with Governor Ndung'u when we talked about his concerns about regulation of M-PESA and the mobile banking and ask you to share with the audience those initial concerns and how they were resolved.

MR. KIMENYI: Okay, I will take one more.

MS. EDWARDS: Sam Edwards from Johns Hopkins School of Advance International Studies. My question is going to interoperability. I know that the Central Bank of Kenya has been dealing with some recent questions about making M-PESA's platform available to competitors and I was wondering if you could speak to some of the challenges with interoperability.

MR. KIMENYI: Michael Joseph (phonetic) is here, by the way, so -- he is here and some of those questions may go to him, but I think this is the transfer of numbers. So, Michael, you answer that question at some point. And a CCK (phonetic) regulator is also here.

MR. NDUNG'U: I will take very briefly, the questions. I think, madam, one of the ways to solve the rural people would be to register microfinance and microfinance in Kenya is allowed to be community-based or nationwide based, the core capital difference, so, if you want to start small, serve a particular targeted region, that would be fine. That's the easiest way to solve that region, and I'm talking from a regulator of financial institution. Microfinance institution that are deposit-taking will be regulated by the Central Bank. So, that is the point of contact or even perhaps the advice I could give you.

I think electronic safety and security is very, very important and I know we came with our director general of Communication Commission of Kenya who can actually talk about this, but let's face it, we cannot run away from security, the safety of the security, and I think that the Kenyan security personnel are very, very important. Whenever I see emails that are not good, in fact, the police are swift -- the CID are swift in that in terms of netting it down, but I think at the end of the day it is those who have developed the systems who have to make sure that those systems are safeguarded.

In the Central Bank I think we have spent more money ensuring security than we have ever done, and even employing IT specialists, even bank supervisors are now required to have IT knowledge. So, essentially we are emphasizing with that, but as you know, any system can be hacked so it's the constant threat being unchecked. You can even employ people to hack the system to see it's own security. So, essentially these are issues that are everyday operational issues that are very, very important.

Regulation of M-PESA and mobile banking, how was it resolved? You know, by the way, at the end of the day when we explained how it worked, it was never a problem. It was never a problem. But we are still required to come up with the regulations because we still don't have a national payment system, one constraint. We have not allowed M-PESA or even any mobile phone financial product to be operated outside the banking platform because outside there we will not have regulations to clamp on it.

So what we do is to make sure that just like even Western Union cannot even operate on its own, it has to operate within a banking sector. We are now -- every transfer of payment, be it goods from pay goods, functionality, or that, it has to be at a banking platform. That way we are in control.

But the ballgame will change when the National Payments Bill is finally passed, made an act, and we can actually use the regulations in that. Then that is the time the ballgame can change because you can allow those units, pay-in/pay-out platforms, to be outside the banking system, but right now they are still contained there.

However, and I'm sure at least David -- there are two Davids -- David Ferrand and [David Porteus] -- from Bankable Frontier and FSD, they will talk about the support they have given us to come up with draft regulations for mobile phone -- especially the agents, the network and all that. We have done that. We call them drafts because we cannot roll them out because they have to have a legal backing. So, essentially we have worked ahead of time to make sure that we are protected right now but even in the future when the system -- the legal framework -- changes, we'll still be there with the regulations which we have consulted to come to conclusion. Maybe, I think, David and David may say something about those. So, we are very happy about that.

Let's come back to interoperability. That one has to rely on -

- there are proprietary rights in every market. If you destroy that, then you destroy the market. So, we have to make sure that the product that you make, you also have a patent to that product. You have rights to that product. It's your technology. We do not limit the space who wants to go into the market and innovate, but once you are an innovator, you have to be protected, and that is where we are.

So, at the end of the day, if everybody agrees that we are all going to the limit of innovation and we can interoperate on the basis of limitations of what we can do, that is fine, but right now you have to protect every investor when he gets into the market with their own products. We have so many products. We have M-PESA, (inaudible), Connect (phonetic), there are so many, but we don't want to bulldoze them into an operating platform which if that is not what they really wish. So, we have to protect the proprietary rights.

MR. KIMENYI: (Off mic.)

MR. CULPEPPER: Thank you. My name is Roy Culpepper. I'm from the Woodrow Wilson Center here in Washington. I just wanted to pick up on a point that Alfred Hannig made in his remarks about intermediation and connect the work that AFI and other people working on innovative finance with the work that's being done in IFC on financing for SMEs. It seems to me that this is the missing piece of the puzzle, that we have to find some way of mobilizing the savings that are coming through this new system intermediating them through the banking system, and lending to SMEs.

As you know, the IFC McKinsey report that was produced for the G-20 identified a financing gap in developing and emerging markets of some $2 trillion plus. That's a huge amount of financing that SMEs are looking for and not getting. So, I'd just appreciate any member of the panel to address this issue. How do you actually use these funds to mobilize them and invest in SMEs? Thank you.

SPEAKER: Good afternoon. I'm (inaudible) with African Development Center. Thanks for the event.

My question would simply be, global payment system is a system that is past due for us in Africa for lack of development, but as we are talking about this digital platform and developing the platform for this premier system, how are we addressing the (inaudible) payment system on the continent of Africa that is not allowed to participate in the global economy? And as we know that 30 percent of the growth of all developed countries now in the digital transaction system, is there anything are we doing to connect this payment system to the virtual payment system? Thank you.

MR. KIMENYI: Thank you. The gentleman over there?

SPEAKER: Yes. Thank you very much for the panel. I'm (inaudible) Joseph, University of Denver. I would like to ask a quick question. We talk about trying to find ways in which to increase the savings account -- saving rate, but we haven't talked much about getting the poor access to credit and that is through lending. And through my visit in Kenya I talked to several people. This is particularly a problem given that many discriminatory policy, in terms of lending to the poor, as well as exorbitant interest rates. I wonder if the governor could talk to that a bit?

SPEAKER: Bruce (inaudible) with Nathan (phonetic) Associates. First, let me just mention that I lived in Kenya back in the days when I used to walk a half mile instead of making a phone call because the phone service was so bad. I'm very impressed on all the innovation that's taken place. But I'm also impressed by how slowly the innovation is catching on in other parts of Africa and I'd just like to get ideas from the panel of what it is that's impeding the spread of this technology in other parts of Africa. Thank you.

MR. KIMENYI: I will ask all the panelists to make a comment (inaudible) (off mic).

MS. OTERO: I think the only -- the one question that I think is important to look at, and you've all been watching this very closely and working on it in a day to day. Now I do global affairs so my knowledge on the ground is more limited, but I certainly would think that one of the factors that would impede this issue from moving forward is, broadly speaking, the political will question of governments that are either not informed enough or that simply only see the risk side to this and are not really playing a role in moving this forward. I think certainly the governor is really an example of how in order for some of these things that are frontier to really move to becoming common practice.

You do require, if you will, champions within governments that have vision and that can move this from ideas into policies and then into practice, and that, I think, is one of the factors that continues to constrain this work.

MR. HANNIG: I can be brief. On the question on SME finance, I think the G-20, in fact, took a comprehensive approach by bringing SME finance and what they call financial inclusion, you know, access, innovative -- or access through innovation subgroup, that was the original name -- I think they tried to bring both together and we are very aware of the IFC work in this field. And I would say that in fact it is interesting to see that the link you are talking about is also necessary to be made when it comes to knowledge sharing and exchange, because we feel that in the SME arena we need similar mechanisms like what we have already in the AFI network and that is that there are innovations.

But we have observed -- I've just come back from Istanbul where there was an SME finance subgroup event of the G-20 and my observation was that in the SME finance group we need to be more proactive to bring these innovations to the daylight. There are some in Palestine on credit registry systems. We have Ghana on collateral registry. They are some of the leaders in this field, but they are not as known as others in this field. I really would like to push a little bit to get also this knowledge to the daylight.

However, I would not be in favor of an argument to push for channeling the funds from the poor to the better off. I mean, that's what intermediation is all about. I think it's the decision of the bank or the financial intermediator and what they are doing is they are transforming the risks and the maturity and the size, and I think they do it based on their risk assessment.

So, I wouldn't be, let's say, too interventionist here, but on the other hand I would really encourage to come up with a broader approach that integrates SME finance and financial inclusion as we see it under the same conceptual approach and I think this is exactly what G-20 is doing at the moment.

MR. KIMENYI: Okay. I would like to argue that after this panel we have -- some of the questions that are coming up, those issues will be dealt with in-depth, particularly the second panel on scaling up. And then there is the final one of the development partners. So they will be discussed in sequence, so I know that the people who we are mentioning their names will be coming up next.

So, I ask Njuguna -- just one minute so that we'll wrap up and then get to the next session.

MR. NDUNG'U: Yeah, actually I wanted to say that when we come to the scaling up we are going to deal with issues of infrastructure and why there are challenges. And there especially will be the point that you made about the G-20. The payment systems are developing and you find that those countries that have adopted, for example, the real time gross settlement and even the G-Pay, government pay systems, they have also adopted the mobile phone kind of technology. So, essentially it is a question of how we develop the payment system.

Equally, access to credit, I think this is when we come to scaling up. Right now there are banks in Kenya who allow you to save through your mobile phone. You can reverse your payments to a savings account and you can get credit through the same platform up to a particular amount of money, but on the basis of just credit history. Essentially, those are there. They are developing and we have numbers to show for that.

So, essentially, these are issues that we are going to look at in the scaling up and even the reasons that we need to run. So I think perhaps it's going to be difficult to overload the first session with other questions, but these are very, very interesting questions because they are the ones that actually lead to the next level that we want to be. We want, by the time we leave Brookings tomorrow, we have some suggestions in terms of how do we move, for each and every country, so that we move in tandem. And secondly, we solve the –- as my friend Paul Cutter (phonetic) used to always like saying, "Live down history" because there's been a very expensive history for growth and even for poverty eradication, we have to live it down by actually coming up with speed of some of these innovations.

Thank you very much.

MR. KIMENYI: Thank you very much, panelists. We really appreciate your participation. Very good. Thank you very much.

Maria has to be leaving, so if we could take coffee and come back quickly for the next session and we move on.

(Recess)

MR. PAGE: I seem to recall that for several questions that the past panel chose not to answer or weren't quite sure what to say, Mwangi promised that this panel would provide the answers. So we do begin the second of the three panels of this afternoon on scaling up mobile financial service initiatives. We have a very distinguished panel of speakers that ranges in experience from the private sector to the central banks, to the regulators, to the NGO community and I think we will indeed have some new and different and possible innovative answers to the questions that people have raised.

My name is John Page. I'm a Senior Fellow here in Global Economy and Development at Brookings, and in the interests of time I won't go through the bios of all of the speakers. We have provided them to you. I will just go down the list and mention what struck me as I looked through the bios and perspectives that we have gathered in the room. Michael Joseph to my immediate right is a fellow at the World Bank which as I was talking to him before the session means he dips in and out of the

World Bank from time to time, but of course for any of us who have ever tried to connect to a cellular network in Africa, he is probably best known and most loved as the former CEO of Safaricom. David Porteous is Managing Director of Bankable Frontier and he spans both the consultancy and NGO worlds in thinking about issues of financial inclusion and financial services in the developing world. My old friend Perks Ligoya is the Governor of the Reserve Bank of Malawi and he then brings then as Njuguna did in the previous session the perspective both of financial sector development and a regulator to the task. Carlos Lopez-Moctezuma is a regulator. He is the Chief of Staff of the President of the Banking and Financial Services Security Commission in the Republic of Mexico. And James Bilodeau is Associate Director for Financial Services and head of Emerging Markets Finance for the World Economic Forum who many of you may recall had their Annual World Economic Forum on Africa in Cape Town last week so they have begun to engage in a wide range of business-government partnerships including some things he's going to talk about today in terms of new financial services in developing countries.

I will now then turn to each of the speakers and ask them for about 5 minutes of comments. I'm sorry to have to ration the time, but we would like to give as much time as possible for you to interact with them and perhaps for them to have a conversation with each other. I'm also told by Michael that he has a transatlantic flight to catch so he's going to have to leave promptly at 4:00 which Mwangi tells me is also my job to make sure that we're done by 4:00. Without further interventions on my part, Michael, the floor is yours.

MR. JOSEPH: Thank you. I won't go back into the history of M-PESA because I think you're all fully aware of it, but I want to talk about where we are going we are going with M-PESA rather than we have come from with M-PESA because I think the research is out there. Let us say that we've been extremely successful with over 15 million active customers, not registered customers but active customers and doing something like 3 million transactions a day moving nearly $700 million a month so it's massive and really, really successful?

Where are we going now? We started out with just pure money transfer. This is purely to fill the need to move money back home and that's how we launched it. It was simple, convenient, very secure and very reliable. We moved on from there to being paying your normal bills, your water bill, your electricity bill, your TV bill, to buying formally buying goods and services at supermarkets where you transact and talk to the till, to buying air time, to going to an ATM and taking money out of an ATM just using a cell phone which is quite interesting to watch, paying wages and social payments.

Then just last year, and this to answer a question that came up from the previous session, just last year in September together with Equity Bank which is a partner with us, we launched mobile savings which allows people to save as little as a $1.40 or 100 shillings to start and open a savings account with 100 shillings with no cost to them and as soon as money goes into the savings account, they start to earn interest and as they put more and more money into the savings account, the interest grows. It was a test to see and I think Maria Otero mentioned that poor people, do they want to save? I made the mistake at a World Bank meeting a couple of months ago which was my first time at the World Bank and I said that poor people want to save and the Managing Director of the World Bank who is from Nigeria was very upset with me and she said poor people do want to save and she's right. We opened this in September of last year and within 3 months we had over 700,000 new savings accounts opened with $35 million in those savings accounts so it goes to show that there is a huge need for savings.

So we're moving on from providing just a mobile money payment system to now financial services and this is something that we've been dreaming about and talking about for a long time, and fortunately in the environment of Kenya we have a regulator that is looking to see how they can provide financial services to poor people without finding regulations why they should not have these financial services and I think this is the key. We don't have regulations at the moment, but we have guidelines and we have a relationship with the Central Bank and this is really key. So we've now to savings. Following that there will be credit where you can give people automatic credit based on their type of history, their length of time as a mobile subscriber and how much they've saved so they can send a simple SMS saying I want to borrow $500 and we can come back and say yes or no. Or we can say you can't have 500, you can have 400. Do you want it? Yes, I do, and send it to them straight away and they can either take it on their M-PESA account or go to an ATM and take it, short-term credit.

Microinsurance is the other thing we've launched where you can buy insurance, ordinary accident insurance first because we introduced life insurance you can just imagine how many people would die the same say so we have to go steady with this. So we've launched accident insurance where you can buy accident insurance by the week, by the month or by the year depending on how much you want to spend, so we're moving on from that.

This is really important, but it's important also to note that mobile money is not an extension of traditional banking in my view. Maybe bankers will disagree with me, but it is a new system of financial services and therefore we have to be open to explore things. We have to be open to explore things such as the challenges of somebody hacking into the system, dealing with the issue of money laundering though I don't know how many people want to do money laundering at $32 a time, and consumer fraud. We have to look at these things, but we have to try them because the benefits far outweigh the negatives. This is what we're seeing now in Kenya and I'm sure that more and more financial services will be offered by the mobile platform particularly government payments which I think is the next big step that we're going to take soon. Thank you.

MR. PAGE: He has the highest premium on finishing on time, but a very good precedent. David, you're next.

MR. PORTEOUS: John, thank you. Maybe this follows well from what Michael had to say which is let's think a bit about what a world looks like beyond scale. If the topic of this panel is about scaling up, what we've just heard from Michael is what starts to happen when you do scale up because Kenya of all countries in the world gives us a picture of what that future looks when you rapidly scale up electronic payment instruments. Suddenly a new world of additional financial services opens up and that's what you're starting to see in Kenya today. The challenge of course is how to get there, how to get to a world which with colleagues like the other David who you'll hear from we've called a cash light world, a world in which electronic payment instruments are persuasive for broad categories of transactions, a world in which for governments as much as for individuals the cost of those transactions comes down dramatically. And it's that kind of goal, that kind of Holy Grail which in a sense we're all pursuing from a policy perspective as much as from a client-centric perspective around mobile financial services.

How do we get there? How do we get to this position beyond scale where suddenly in Kenya it becomes almost automatic for someone to use their electronic instrument not just to send money and then cash it out, but to buy another financial service or to pay a bill or to do something else? I think three things and let me mention them briefly as the platform for some of our discussion here. The first is to get to that place you need to have pervasive cash-handling points. In other words, to get to the place where cash is less important, you need more cash handling and not less. So Kenya has rapidly accelerated its cash-handling network if you include the agents of mobile money schemes, but it's still not there. Its ration of about maybe 70 per 100,000 cash-handling points probably needs to be doubled to get to that kind of takeoff point where people no longer want to cash out because it's so easy that they know they can if they want to. So firstly let's get to the point where cash handling is easy and pervasive.

Secondly, we need to get to the point where everybody, every citizen in the country, has an electronic store of value. It doesn't matter I think whether it's a bank account or whether it's an e-money account or whatever you want to call it, a mobile wallet. It simply matters that it's secure and it simply matters that somebody, preferably some bodies, plural, some institutions have the business incentive to roll out those accounts. That's why basic bank accounts have struggled in many parts of the world. Banks just haven't had the incentive to offer them and that's why the phenomenon of telcos joining this game has been so significant, they have had the business model to roll them out. For banks that's starting to change, and in Kenya today I think it's quite possible that we could go from a situation of maybe point-five electronic stores of value per head of population to more than 1 which is the current average across BRIC countries and that's doubled in the last 5 years. In Kenya we need to see that double in the next 5 years and it seems possible.

Lastly and finally to get to scale what do we need? We need to have payment instruments which are affordable and reliable. That's where I would start perhaps to differ with my esteemed colleague here on the left here Michael, not so much that mobile money is a banking product and I would agree with him that we need to think about it differently certainly when it comes to rules of the game, but mobile money is and always will be a payment product and until we talk about how we integrate the payment instrument into the payment vision, the payment framework of the country, then we don't get to the world of cash light, we won't get to a world in which those payments can be cheap and affordable. We know that the cost of an electronic payment can be as little as 2 or 3 U.S. cents, a credit transfer payment. We need to get to the point where that where that reality of lower cost can be passed on to people if we're break through into this cash light world.

John, that for me would be the challenge of what lies beyond scale, breaking through to a world where some of what we're starting to see in Kenya is the reality and I think if we start to think about some of those underlying points, the cash-handling network, the stores or value and the robust, cheap payment instruments, it's possible not just or Kenya but for all the other countries in this room and beyond.

MR. PAGE: Thank you, David. Governor?

MR. LIGOYA: Thank you, John. Malawi is very new really to renewing all this. We are here mostly to learn, but I'll tell you a few things that already are happening in Malawi. First of all, I'll talk about the regulators' perspective and how you can influence policies that would enhance financial inclusion. In Malawi we have a 5-year development program we call Malawi Growth and Development Strategy. The first one will be coming to an end in 2011, this year, and then we're going into the second one. You'll see that they've prioritized quite a number of areas, infrastructure and other areas. Nowhere in that document does the financial sector come in and I want to insist that if you're talking about infrastructure, you're talking about energy, you're talking about that, I think the entry point in all of this as a catalyst as we heard earlier on is the financial sector and you'd want to see how you would make it as inclusive as possible.

At the very helm of policymaking we have made it as the Central Bank that through the cabinet, through the policymaking bodies, we influence the inclusion of the financial sector as the catalyst for all of the other developments in the other areas. You should be in a country like Malawi and see that 80 percent of the population is rural and then you would want to reach out to those people be it for food subsidies, health, education, fertilizer subsidies, the best I think or the most innovative way is what we are talking about. Malawi has just rolled out a program for paying all civil servants' salaries through the banks. This is to flesh out the issue of ghost workers. There were people who were receiving salaries when they don't exist and this we are talking about would save a lot of public money in that no ghost workers will be there.

One thing that comes to us as a policy issue is the legal framework. You get to people who tell you you can't do banking because you don't have the legal framework, you cannot use e-money because according to the law, paper money is the only legal tender and so on and so forth. Now as the Governor, you want to listen to your lawyer and you want to listen to your Director of National Payments. They may be talking about two different altogether. Who do you listen to? In other words, I want to say it's not always possible to do things the normal way. At times you have to take risks and go ahead with things that you think are helpful. So you make an enemy with one of your directors who says, no, you can't do this and you know that I have to move on with financial inclusion and that's why we are very keen to work with the Brookings Institution and they will be sending us for study tours on study tours to Kenya, to Mexico and other countries and we are glad to be a part of this family. Thank you.

MR. PAGE: Thanks, Perks. Carlos, you come from a very large economy with a complex financial system and I don't envy your task of trying to regulate it, but it would be very interesting I think to hear you talk a little bit about how you do sort of make this marriage that we've been hearing about between if you like the banking system and the payment system, because one in a sense of telecommunications and the other is financial services. So to some extent I think that's really at the heart of the whole regulatory problem.

MR. LOPEZ-MOCTEZUMA: Yes, thank you. And first of all, thank you to the Brookings Institution and the Bank of Kenya for the invitation.

I would like to share not just the experience of Mexico but also the experience that as a co-chair of the Working Group of Mobile Financial Services -- we have had. I would like to mention in these minutes some of the key components that you need in order to enable a regulatory framework for mobile financial services and not only is it a regulatory framework, it should be an ecosystem where all of the private business models can succeed and can provide the most basic financial services that our populations need.

First of all, I agree with the comments of Under Secretary Otero about coordination in government. It's very important because you have many, many aspects that go far beyond the mobile financial arena, and I'm talking about having a unique I.D., a measurement of financial inclusion, subsidies delivered through mobile phones and then the definition of responsibilities among different agencies. At the end this is where the telecom and the financial authorities should agree about who's responsible for what part of mobile financial services regulations.

Second, I would like to mention that another key variable is financial authority supervision. At the end even when telecos are involved and the telecos' regulators should be involved, at the end these is a financial transactions. Then there is the money of the people and if you want to call then banking accounts or not, that's not the matter. The important thing is to have safety of that money that people are using to make payments and to make remittances.

The third variable that is important in this is having enough cash-in, cash-out points for financial transactions. If you don't have that infrastructure that all of us have been talking about, it will be very difficult to provide financial services. Then in order to do so it's very important to develop an agents' regulation and agents' networks around the country to have financial services. Transaction safety is very important too. You have to develop in your framework in the regulations all the security rules in order to provide these financial services and as regulators we should be very careful when we are developing this because it should be a risk-based regulation where you cannot differentiate among technologies and it will be very important to allow different private participants to develop business models in the different countries.

The financial inclusion ladder is very important here. We think that it's not only remittances and not only payments, mobile financial services will help us in our financial ladder if we allow the association of different mobile financial services providers with other financial services institutions to get that second wave of mobile financial services. As Alfred was mentioning in the first session, we would like to have microinsurance, we would like to have microsavings and we would like at the end maybe to have microcredit, but I think it will be important to allow for joint ventures here. Then if as regulators we achieve all these goals, I think we will have more inclusive economies that allow the provision of the basic financial services needed by our populations. Thank you.

MR. PAGE: Thank you, Carlos. Finally, James.

MR. BILODEAU: Thank you. At the World Economic Forum we tried to provide a platform to bring together different stakeholders both public and private sector. With respect to mobile financial services, I think we've been brought here today to serve a couple of purposes. The first is as an aggregator, an aggregator of data. We're about to launch our Mobile Financial Services report tomorrow and we've tried to bring together all the data available in this area of 20 countries. If this were a talk show I would be holding a copy out in front. It's going to be released tomorrow and it would be a PDF and I'm going to gesture wildly to try to create excitement around it.

What we did is thinking about the broader ecosystem of mobile financial services looking from the regulatory environment, to consumer protection, to market competitiveness, to financial empowerment of individuals and of women. If one looks at this broader ecosystem, we tried to pull together data for all of these things for countries and then be able to compare them across countries. As we do this there are some interesting findings that I'd like to share at a very high level and we encourage you to look at our website tomorrow if you'd like to see a little bit more detailed information.

First, we did the first assessment of actual adoption across the 20 countries. This data is presently not available. To do this we looked at digital wallets, the number of subscribers and not active usage because that information is still very difficult to get. If you look at the actual data, there are still very few deployments that have achieved scale. With 98-plus pilots there are only a handful of countries we can see, obviously Kenya, but looking at Ghana, Tanzania, the Philippines, there's some question about usage again versus actually having an account. Second, if we look at those deployments that have achieved scale and you plot it against different factors that seem relevant, as we've heard today, density of agent networks is something that's just a threshold requirement. You look at these deployments and they all have it and you can't get beyond the mechanics of cash-in, cash-out and the second-order effects of trust of an agent in your community. That would appear to be borne out in our data.

If we look a little bit beyond initial adoption of mobile payments, we tried to capture this concept of readiness. If we look at the broad ecosystem and we get beyond targeted payments to thinks like savings, credit and insurance, arguable those other factors that I mentioned, consumer protection, the ability of women to access loans or the competitiveness of the market environment, if we look at those we find other countries that are potentially more ready than some of the initial adopters. If we look at Brazil for instance, even though its agent network isn't enabled for mobile, there have been some very interesting second-order effects in terms of the development of its consumer protection and the degree to which consumers are financially literate or aware of services. So there are potentially interesting less from countries that don't have scale yet for those that do as they try to build out services.

Let me turn to the second thing that I can contribute today. As we bring together our different industries and stakeholders, there are a lot of different players working in this field and I'd like to share some of what we've heard across our different meetings both in Africa, India and elsewhere. First, regarding regulation, at our summit just a couple of weeks ago, the private sector talks a bit about not just how regulation is on the books, but how it's applied. Specifically, some at our meeting referred to a great host of regulation coming through in places like Nigeria, but there are still some issues with implementation so there was a big gap between de jure and de facto regulation. For instance, some were complaining that it's difficult for MNOs to own agents and if they can't, why are they going to invest? So despite having some great regulations on the books, some still feel constrained.

It's also important to think in terms of what some industry participants have called a safe harbor, not just that there are specific regulations, but that they have room to maneuver and have dialogue with regulators so that they feel safe and know that they're not going to get left out in the cold. Incentives are important for regulators as well as for the private sector some in the private sector would argue so that inclusion is something that doesn't necessarily have a home in regulation and should be ideally coupled with some of the prudential and consumer-protection regulations so that a proportional approach to regulation can be taken.

Interoperability. As we started this dialogue with our partners we were wondering whether there would be this ongoing debate about whether regulators should enforce interoperability, whether they should wait, whether it's drugs that they can be proprietary for 7 or 8 years and then suddenly they go generic. The problem is because of network effects and the low margins that it is very difficult to enforce interoperability in a commercially viable way. My final point, as for the private sector, what we hear is interesting is they pushed interoperability aside and asked what can government to provide a stimulus to create a platform, not necessarily mandate a very complex switching system, but to create something along the lines of the internet or what banks co-ops did with credit cards of G-to-P payments to get the stimulus going, maybe take a tender process for private-sector players that would then have virtuous effects and create interoperability in the long run. Thanks.

MR. PAGE: Thank you, James, and thanks to all the panelists for keeping such good time. It does mean that we have about 45 minutes for questions and answers. Something that Mwangi doesn't tell people is that my task as the moderator is that I get to ask the first question. It's not a terribly profound question, but as I was listening to the different perspectives, I thought it might be interesting to hear from each of the panelists what in their view is the single binding constraint to scaling up? What is it that's really preventing the multiplication of the Kenyas across the world and what would you do about it? Let me start with Michael.

MR. JOSEPH: I think it's a number of things, but the key most if you go around various operators in various countries that are right for mobile money or some would say right for mobile money in the right environment of low banking penetration, high mobile penetration, the single biggest thing is lack of courage to launch such a product because the challenge that you have is in order for it to be successful, and what I mean by successful is your question, you can't be successful with 100,000 customers, you have to have millions of customers and therefore you need scale. To be successful you have a chicken-and-egg situation where you need to have lots and lots of patience because the customers or subscribers must feel confident that if they do receive money or they do receive some payment through the mobile money system that they can cash it out. Therefore you need ubiquity and a great geographic spread of agents and that costs money, and you have to do that before you earn any money. I think this is the biggest challenge that we see, having the courage to launch a distribution network before you have enough customers. If you go around and look at the successful or reasonably successful mobile money initiatives, it's where people have said I want to make this happen and I will give it the necessary resources to make it happen. Where they have not given the necessary resources they've said it's just another product in my stable of products and it's been a failure and I think this is the key thing. I think we have to get this message home that the spread of distribution agents is really important, but if the regulators make that very difficult by saying that every one of those distribution agents needs to be treated like a bank, need to be vetted like a bank, need to have tax certificates and everything like that, then you're almost destroyed before you get started.

MR. PORTEOUS: I would agree fully with Michael that it's around the business models for scaling up and really he does deserve commendation for the courage because in hindsight it looks easy for us now, but 4 years ago it probably wasn't that easy to make the commitment.

I would take it one step further though to say that I think in countries, most countries are different from Kenya. They're different from

Kenya because those three elements I was talking about, the cash-handling network, the issuing of the wallet and the actual issuing of the payment instruments, those cannot be combined as easily as they have been in Kenya. In other words, the benefits of scale are felt primarily in Kenya by one institution, the main issuer because of its dominance. In markets that don't have the same degree of dominance, there's a need to allow specialized models to involve. In other words, agent networks that can get to scale but not necessarily issue the wallets, someone else should be able to do that and equally the payment instruments perhaps could be issued by someone who specializes in doing that. If those models are to evolve, that does need a stable regulatory framework and it does need rules of the game so that people are willing to make the investments in each of those legs and then integrate the legs so that benefits can be seen from a specialized model and not only an integrated model as in Kenya.

MR. LIGOYA: Financial literacy. Financial literacy on the part of the regulators, the service providers and the users. For the regulators, some are even scared that when you roll out these programs there will be a lot of money in circulation, a lot more than it is now and that will impact on your monetary policy and all that, excuse my language, but it may all be nonsense in that all that money will end up in the banks. So once they are not told by Uguma (phonetic) or somebody else on the effects of rolling out this and the monetary policy, it could actually be helpful to the running of your monetary policy. So, illiteracy on the part of regulators.

The services providers, not all of them understand the implication of this and maybe teaching them a little more will entice them to get into these systems. For the users, as I say we're running in countries where illiteracy is predominant and you would want to teach the illiterate at least the advantages of using these services and even how to jumble around with your mobile to get your money and all that. All that needs financial literacy. For Malawi we have one big challenge in that we don't have national I.D.s, national identification, as a country. So you go and you present yourself and if you have your cell phone and you flash it around, you'll get your money, but if they ask you where is your I.D., you will not produce that. My main reason is financial literacy. Thank you.

MR. PAGE: Carlos?

MR. LOPEZ-MOCTEZUMA: Yes. I completely agree with the comment that it's very important to have cash-in, cash-out, it's very important to have a way of issuing a very easy-to-open wallet or account in a cell phone and financial literacy is very important too. But I want to talk about another very important issue that is not allowing many countries to scale up mobile financial services and that is that the lack of adequate regulation in the countries. Why? Because the lack of regulation is stopping private players to invest. If we are not able in a country to give certainty to private players, they will not be able to invest in mobile financial business models. I can mention the example of Brazil where Brazil has a very developed cash-in, cash-out network as James mentioned before, but the financial authorities have not issued any regulation about mobile financial services and that has stopped private players to enter into the market. Then for that reason it's very important to develop adequate regulatory frameworks in our countries. Even with that, maybe that won't be enough. You need other variables in order to scale up more financial services, maybe high remittance inflows in a country or local remittance inflows, or maybe you should have dominance as David was mentioning in order to have this network effect and to get critical mass. For that reason we have not seen many countries having the same success than Kenya has had in the last 3 or 4 years. But at the beginning I can say that providing certainty to the private sector would be very, very important.

MR. PAGE: Thanks, Carlos. Last but not least, James.

MR. BILODEAU: Thanks. Certainly as is always a good posture when you're on this side of the panel, I'd like to agree with everything else that was said previously, and certainly regulation and what Carlos has mentioned in the good work that Alfred and AFI are doing is vital and we've been fortunate to work with them and pulling together some general data on regulation that hopefully sheds a little light on how countries are doing across these different areas.

I might bring back the concept of almost a soft touch or a demand-side approach from governments as they try to stimulate the market and overcome some of the initial frictions to building out mobile financial services. So this idea that if governments either through G-to-P payments or tax disbursements or through utilities that they may be associated with can create usage of services, sponsorship, engender trust in users, this can be extremely vital to sort of pushing demand and getting scale. If you think about the essential conundrum that we hear from our private-sector players, it is a network play, it is about scale and we don't surprisingly, and maybe it's people being cordial at a meeting, but you don't hear bank versus MNO so much and people seem to reiterate that through our meetings, but they do say that the margins aren't yet big enough for them to support a major investment in mobile financial services yet.

So the question is how do you get the network effects, how do you get enough value for everyone and then everyone in the ecosystem can do what they do best, if it's cash management for banks, if it's the use of agents and the technology for MNOs, if it's innovators coming up with new ways to either enroll people or make services easier, this is what has to happen. If governments can think about soft-touch ways, ways to stimulate demand, maybe not too prescriptive, I think the e-switch situation in Ghana is very interesting but some in the private sector said it's too prescriptive that banks have to have biometric smart cards, that there's enforced interoperability between ATMs and other things, people in the private sector might say maybe a bit more of a soft touch is required.

MR. PAGE: Thank to you all. I thought those were thoughtful and largely coherent answers to the question which is very interesting given the fact that people come from very different perspectives, from business, from the central bank, from the regulator and from the financial services development side of things. Three big things emerge of course. You need a regulatory environment which makes it possible and attractive for the private sector to engage, you need courage on the part of the private sector to take its first step before in some sense you have achieved scale, and finally you need to have the technology, if you will the infrastructure, in order to make it successful.

On that note the floor is now open for questions. What I'll propose to do is take depending on the length of the question, three to five questions and then ask the panel to respond.

MR. YANOVITCH: I'm Lawrence Yanovitch and I'm with AFI here in Washington. My question was we've heard a lot about how we have had in Kenya this dramatic scale in mobile money services, yet we've been challenged to realize that scale in other countries. Could we imagine in this sort of blue-sky kind of question having some sort of initiative for Africa bring the private/public sectors together, we have a network of AFI central banks, that can really think about how to scale in other countries?

MR. GOLDSTEIN: I'm Peter Goldstein from InterMedia. You mentioned a lot of key potential impediments to scaling up, but the way I always think about this is that this is to a large extent a private-sector product and I'm wondering to what extent it might be expanding as much as expected because it may not be a priority for the mobile operators to the extent that they're making choices about investments and there may be other things that are more promising or of a higher priority and that they may only be viewing this as a way to cut down on churn or as an element to make money in other areas. I wondered if you could comment on that because I think that's the key issue considering we're really talking about product here.

MR. WINOMO: My name is Jordan Winomo (phonetic) and I'm an economist by profession who has just come from the Kenyan environment 5 days ago. I would like to say that the mobile system of transferring money is very popular in Kenya. Why is it popular? It's because it is serving the small financial investor or the small person who at the moment I would say is popular because the banking system unlike in developed countries, when you deposit your money in Kenyan banks, most of them, Barclay's, Kenya Commercial Bank, they charge you for starting -- the money instead of giving you interest like in developed countries. It is the reverse or the other way around. So while it is popular with a small-scale investor because instead of putting his money in the bank and he's charged 300 shillings per month, so -- put 1,000 in 3 months the bank actually -- in mobile phones in fact he can give his money in the mobile phone for 2 or 3 months and he's not being charged any interest. So in fact the small investor is very much happy with the transaction of the mobile transaction and he would rather keep his money in the mobile phone rather than be charged 300 shillings.

So the people who are I think frightened most are the banks because most people want to keep their money in the phone and they are not charged interest. So if the Central Bank Governor can change the system and make our developing country emulate developed countries where when somebody banks money, deposits money, he is given interest instead of being charged for that money kept safely. Therefore I'm saying that the people who are most frightened are the banks because most small investors would prefer to keep their money in mobile phones and they are very happy with Michael Joseph for having introduced the system. Thank you very much.

MR. PAGE: We could take one more question I think.

SPEAKER: A quick question. Garth -- with the Department of Commerce. Could someone speak a little more about collateral technology? This is the credit part of intermediation and it's part of the financial inclusion part too, but collateral technology and how this relates to the technologies and regulatory and supervisory platforms you've been speaking about. Thank you.

MR. PAGE: I think what we'll do then is let the panelists respond to those questions that they think are either of interest to them or where they have a burning desire to give a response and artfully to ignore those things that they probably don't want to respond to.

MR. JOSEPH: I won't to talk about collateral technology as I have no idea what that means, but I'll talk about the first two questions about why have the mobile operators not done it elsewhere and also about this public-private partnership.

Let me just tell you my views on this thing. First of all, mobile operators have three objectives when they introduce mobile money. One is to protect their customers and their loyalty and to churn. If you reduce churn by 50 percent by having a mobile money product like has happened in Kenya today, it pays back immediately so that you don't need to make money on a mobile money service. Secondly, to protect your revenue stream. In Kenya for example we have four operators in Kenya. Three have cut prices to the bone, whereas literally I don't even know what it is in dollars, but it's 1 shilling a minute. Safaricom has not. Safaricom is 3 shillings a minute so that we're three times the price. We have not lost any customers at all even in the era of number portability. We've lost maybe 40,000 customers who have ported out of 18 million. Why? Because of mobile money. Therefore it's not just church reduction but also revenue protection, and thirdly to make money. So those are the three things that add to your bottom line.

If you go into a public-private partnership or even if you go into a bank-led partnership, a bank-led initiative, there the only objection is to get money on the bottom rate, you must make a return on the investment and it's very difficult in any business case right up front to prove that you can make money on mobile money. It's very difficult unless you are so confident that you're going to get scale. When we launched in 2007, our business plan said or my team's business plan said we'd have 350,000 customers in our first year. When I heard this while I was sitting at the launch by the way when I first looked at the business plan which I probably have done beforehand, I said to my team how many customers are you going to have at the end of the year and they said 350,000. I said that's ridiculous. You're going to have a million. And they didn't believe me and I said if you don't have a million then I'll fire you. Then they believed me. So they went off and they got 1.2 million customers and it became viral. So you need that kind of push to make money, and you don't see this coming from regulators getting together or public institutions coming together. This is purely that the mobile operators need to do it. If they don't it in the next 10 years, I will guarantee you in this room, we can come back in 10 years' time and you can challenge me, those operators that have not done it will be moving from the status of being a number one to probably a number four and the guys that did to it who were the number three and possibly the number two will be the number one. That is what's going to happen because the movement for mobile financial services is growing and it will continue to grow.

People are tired as that gentleman of paying high prices to traditional banks where every single transaction must have a fee. Have you not noticed that? You go traditional banks and you cannot do any transaction that doesn't attract a fee. By the way, that fee has got no relationship to the cost of that transaction. Nothing to do with it. It's just how much money can we make from this transaction? Whereas mobile money is a completely different thing. We want to make the fee as low as possible so we can get the volume. That's the difference, therefore I don'ts see this going to a public-private partnership. I see it has to be mobile MNO-led and mobile network-led, but if it's not lead by the mobile operators then the banks will do it and the banks will do it to protect their venue base and not to provide a public service. That's my view on this. It might be controversial, but I will challenge you in 5 years' time and not even 10 years to come back and let's see what happened in the marketplace in the next 5 years and it will be dramatically different.

MR. PORTEOUS: Let me just tackle briefly Lawrence's question, is there a need for a new public-private partnership or initiative to get to scale? I guess I would say I think in this room we have enough examples of different networks that aren't necessarily public-private that are public, AFI for example, and private, GSMA and others that are disseminating lessons. I think where that need exists is at the country level. Where I've seen the most healthy dialogue is in countries which have said the only way to get this right is to have discussions around standards, around what is the future vision of our payment system and how do these parts fit together? Kenya has done that. The Central Bank of Kenya with FSD Kenya and others have had different discussions around scenarios of the future and I think that's played a part in thinking about what that vision looks like for scale. Other countries are thinking about that, but I would encourage that activity at the country level because that's where the action happens and that's where the interests have to manipulated as it were into place.

MR. LIGOYA: I'm not sure about collateral technology. Maybe you referred to trust accounts.

SPEAKER: Registries or just even people being able to -- we know about the use of mobile technology and crop insurance in sub-Saharan Africa, but the ability to -- a cradle for a tool or something that one owns in order to get microcredit.

MR. LIGOYA: I don't think we're yet there. My colleagues can comment there. But I thought what you were talking about is that if for some reason the amount of money for the transaction is lost somehow and you are covered, that we do by the creation of a trust account which is money equivalent to the amount of money that you are transacting so that there is no risk there. But I think your issue is different from what I thought.

MR. LOPEZ-MOCTEZUMA: About collateral technology, I think one thing that we have not seen is how financial services providers can link the deposit side with the credit side. I think those collateral technologies will be developed in the following years now that you have all the information of the clients, you know their patterns for transactions and then more financial services providers will be able to get that information and after some years because I am sure it will take years, we'll start providing microcredit. But I think before microcredit there is microinsurance, there is microsavings, there are other kinds of financial products that are more needed by the population than credit. First you need to have a place where you can put your money safely.

The first question that we go I really like because my translation is how to scale up mobile financial services in Africa and I think it's the topic of the conference. We have not been very successful in having a very easy and understandable regulatory framework for mobile financial services and the private sector has to deal with creating a value proposition for very small transactions that is at the same time profitable, then that's really the point here that it's very difficult for any private institution or a bank to demonstrate that these products can be profitable and it will take many, many years to prove it. Even in Kenya the profitability of this compared with the profitability of their car business that is sending -- or banks that is intermediation has not been seen yet.

MR. BILODEAU: I'd like to respond to Lawrence's question and build a little bit on what David said. If we think about some of the results out of our research, how different countries are is one of the most probably intuitive but I think salient findings. As we talk about public-private partnerships and what needs to be done, it's difficult to come up with a recipe or template for what each country should do. If you think about the competitiveness of the telecom of financial service sectors, they're vastly different across countries. Agent networks in a country like Brazil has an incredible assets which has had benefits that can be exploited so its situation is a little different. Then if you think about alternatives, that's a huge factor so that if people don't have access to anything else then they're more likely to make the jump. So that across all those different things it's very difficult at a level of this meeting or even some of the broader initiatives to address the specifics of a country.

With that said, when one things about public-private partnerships, maybe the approach is that there is a template for how the private sector and the government interacts in each country and if you establish that, just ground rules with a referee be it AFI or the World Bank that can then referee and make sure it it's the private sector or a particular company within the private sector dominating the dialogue, then suddenly this gets really constructive. So even if you think about M-PESA, and I'd be curious to get Michael's comments here, my understanding is that there was a little bit of a safe harbor, that there was a little room for maneuver which was very important in how things developed there. So if you're able to institutionalize that as part of an action plan, that you create this fora in each country that is moderated, creates this dialogue with a little bit more comfort between the different parties involved, does that really push this forward all of a sudden?

MR. PAGE: I have requests from Michael and from Perks for a second round of answers. Michael first and then the Governor.

MR. JOSEPH: I wanted to talk about the credit side and I think this is quite important. I don't think we're years away, Carlos. I think we're months away from providing credit because once a subscriber had begun to save, we have the ability now to look at the amount of savings, the rate of saving and how much they put away every time, we also have their top-up history and also know where they are. We don't need to know what they pretend their address is. We know exactly where they are because with a mobile network you can find out exactly where they're living. When we put that into an algorithm, we can immediately determine the creditworthiness of that particular subscriber, and that's happening now. It's months away from launching. So a subscriber does not have to have collateral. The only collateral he needs to have is his ability to save and frequency of saving and he's spending on air time and how many times he tops up. Once that goes into an algorithm, you can then determine the creditworthiness of that client and you can lend him money instantaneously without any further paperwork. It's just a pure estimate. I once met a banker and I talked to him about this. He said, you must be joking. I want to look my customers in the eye before I lend them money. If you want to look at 15 million customers, be my guest. Then they talk about bad debt. Is there bad debt? It's surprising and probably in this room it's not surprising, but poor people don't have bad debt. We had an a product that we launched a couple of years ago which was giving you immediate credit if you ran out of air time for instance. You could send an SMS and we would grant you immediately 50 shillings of air time credit. Then you had to pay it back the next time when you topped up and we have a fee for it, a considerable for it by the way.

Anyway, the day that we launched this product, 7 million people applied for credit. Seven million. At that time I think we had 12 million customers or something like that. It was crazy. They didn't need the credit in the first most of them, but we have never had any bad debt. So people easily throw away their SIM card and get another SIM card or go to the competitor. It didn't happen. So it goes to show that in an emerging market bad debt is not an issue or not such an issue. Once again I have to say you take some risks. So there is the ability to start to lend money and get into the credit business. This is short-term credit. This is 60-day credit and we're not into the longer-term credit, but that will come. So I don't think we have to worry about them giving the cradle or the shovel or something like this as collateral. The only collateral is the little savings they might have. So now I understand collateral technology.

MR. LIGOYA: I wanted to come back a bit on the issue of whether we has regulators should tell the banks not to charge too much or their services. One will tell you in a liberalized economy you can't do that. There are ways of doing it. You can't tell them you should not charge beyond so much. It's how you do it that would tell them. First of all, the very fact that we're getting M-PESA or the mobile technology payments, it's a challenge to the banks because as you said it, customers are leaving them to go the other way, so that's competition and it's that competition that will tell them to reduce their costs. Otherwise they will have no customers. That's the way to do it.

The second way we did it in Malawi is to ask the banks to be transparent by putting up on the wall if I get a loan today from them, how much interest will I pay and all that so that people know and they are transparent about it. So we came up with a disclosure directive which now the banks are careful. They won't tell you they won't charge individuals different rates because then you can take them up with the regulator and take them to task. So that has helped in general. The rates have come down.

MR. PAGE: We have time for one more round of questions. If this lady has a question now, we can go back to repeat offenders if you will.

MS. SEGERO: Good afternoon. My name is Rosemary Segero. My thanks is to Michael. Michael is at the World Bank. I was at the World Bank that day when we were speaking about mobile phones and thank you for coming again.

What I want to comment on is about the Governor, Mr. Perks. What people lack in Africa is capacity building on financial services because all the organizations, as I see you here you are a big organization going to and from Kenya here every day everywhere from the White House to the local people in Kenya and mobile. Why can't you put money and help the Governor for the Central Bank, the government of Kenya, put money to educate local people to learn more about money? My mother is a rural area. That's why I'm taking my bank in the rural area of Western Kenya. It's called Kakamega (phonetic), but Kenya has 42 tribes, different people speaking different languages. This mobile phone is good. Put money into Kenya's local people and help the Kenyan government to educate people how to receive money so that there is safety and security for the old women. If send $20, the person will go and tell her this is $10. Let them know that is $20 is how much Kenya shillings. So all of you companies, the private and public sectors, put money into Kenyan people in rural areas and especially women to learn more about money capacity building and education and that financial literacy is very, very important. We may say now we may do it, but those rural areas who are using cells phones need to be educated. So all companies going to Kenya, put your money into capacity building, training women and rural areas and all the people on financial literacy. Thank you.

MS. MCRAE: Emily McRae. I'm with SAIS and also with UNDP's Pacific Financial Inclusion Program. My question has to do with a response to one of the responses by Mr. Joseph. If we need at least a million customers for a country to have a scalable operation, what do we say to small countries? Do they not get to have mobile money or is it not going to work for them and it's going to be like corporate charity? A similar question. When you have the small countries, the small companies of the small countries can't really afford the platforms that they are purchasing from M-PESA from Vodafone so they have to reverse-engineer them. When you do that it's not really fair to the original company, but they can't afford it because they don't have the customer base to purchase the original technology. Is there a better option for the small countries?

MS. AMARTEIFIO: My name is Nicole Amarteifio and I'm with the World Bank Africa Region. I'm curious about the consumer. Who's a typical consumer using mobile payments? How do the typical consumer in Kenya differ from the typical consumer in Ghana? What's the optimal user experience? Is there anything unique about consumer behavior? Just more about the consumer. Thanks.

MS. MCELLIGOTT: My name is Kate McElligott from the Grameen Foundation. My question is about growth and scale and have you reached scale in countries other than Kenya, if you're doing so with sort of a monopoly or if the scale is reached through one organization that's reaching everyone. You were talking about the benefits to consumers because it's cheaper than a bank. What happens over time when maybe you could increase rates because people are used to paying a certain price and so you're the only market in town and you can double your prices or triple them? What's the consumer protection especially if your average loan is $32? I was just wondering what you see for the future there.

MR. PAGE: Another good round of questions. We'll ask the respondents to again take whichever ones they want to. WE have about 5 minutes left, so that gives you a sense of how expansive you can be in your answers.

MR. JOSEPH: I said a million customers, but probably it depends on the population size, but I would say that probably small countries would have difficulty in justifying a mobile money platform or a mobile money initiative unless you didn't want to make any money at all, your fee is so high that you can make money from it. So I think it dependent on the size of the country. But if you look at a poor country like Haiti for instance where it's very poor, but mobile money is being successfully launched in Haiti, so I think small countries will have a challenge. The same with the platform. In answer to another question that came from the previous session, I think at some point there will be interoperability of platforms, that it will come in time. It won't come in the next 2 or 3 years because we have to protect our investments, and if you look at the GSMA, it spent 5 years in trying to come up with a mobile money platform and so far has been unsuccessful. So I think it's very difficult to come up with a platform where it can be interoperable, but I think it will come to small countries where they can share or neighboring countries can share one platform. There is no reason why not. That's not a very good answer. I'd just say it might happen or it might not happen.

Typical consumer behavior. This is an interesting question and I'm going to be very quick on this. Consumers are changing their behavior as they learn ore about mobile money and become more comfortable and more confident about using it. When we started M-PESA, when people got sent money they immediately went and cashed it out. The money was in the bank maybe 2 days or something like that. Now the money is staying in the bank longer, maybe 5 days, and people are not cashing the money out but actually using the money to buy goods and services, particularly, and probably you don't have to tell the Governor this or the -- people, but what they're doing is actually buying goods. They're getting the money transferred to them and they're buying goods and services on the side of the road, and they're not actually cashing out. They're just using that as currency. So I told that the Governor that one day he can replace the currency of Kenya with M-PESA. I'm not allowed to say that because it's illegal. But 70 percent of people now are using the money being sent to P-to-P to buy goods.

On consumer protection, there is never going to be a monopoly on mobile money. Even in Kenya where market share is now 75 percent or something like that, every one of the operators has a mobile money product and certainly you could not increase your prices. I think what we have do is we have to bring the prices down to as close to zero as we can get it so I don't see any issue on consumer protection. We're never going to be in monopoly position. I don't think the regulator would permit it.

MR. PORTEOUS: Let me follow on that in terms of the monopoly question. Monopoly may not be a problem at certain parts of the payment value chain and I think the key thing is isolating and identifying those parts. I would put it to you want competition on the issuance of payment instruments as much as possible to drive the price close to the cost. But at the level of the switch, the national infrastructure that ensures the interoperability that Michael has just spoken about and others have asked about, there is a very good argument that that should be a monopoly. There are enormous natural economies of scale there. If you do have that operating as a monopoly, then you want to regulate it differently. You perhaps want different governance arrangements, you might want it to be a not-for-profit entity that's at the switching apex, but that's only one part of the value chain. For the other parts, let's at least try and look at contestable markets for payment instrument issuance, for issuance of the electronic stores of value which are at the heart of what we're doing here.

MR. LIGOYA: Just one comment on the comment by the lady on financial literacy. If you'll remember, that was my reason for Africa not to scale up as fast as we should because of lack of financial literacy. But I'm glad to tell you that I think we have enough support now, a lot of support, be it from the World Bank, AFI and institutions. I've met ladies here who say they're going to Malawi to help us, Elizabeth McGinnis (phonetic), is going to Malawi to help us on financial literacy so that the wheel is there. I think it's for us as countries to move. Thank you.

MR. LOPEZ-MOCTEZUMA: I want to have a comment very fast. I think there are many things that governments can do to scale up mobile financial services. One is G-to-P, government to people, government transfers. I think when you see these types of mobile financial services isolated, maybe they are not profitable but when you bundle them there you can find some profitability and maybe there the role of the government can take an important part in it.

MR. BILODEAU: Given that I think most of the questions that were asked have been answered, I'm going to borrow a tried and true Washington technique and answer the question I would wish to be asked. If we think about how we view financial inclusion or mobile financial services, there is something that we used to refer to in business school called availability bias, that there are things that we naturally feel more attached to or that seem more pressing or that may seen like more of a problem than they are. One thing we've noticed in the work that we did is that the countries that have done better have better data collection and monitoring, a very fundamental finding, that if you're going to improve on something that's not yet defined, you need to know what's happening, whether people are adopt it or what problems might be coming up. There are very risks there, so I guess my final word would be if we can just be sure to look at everything that's relevant to the development of mobile financial services, we've talked about a lot today, and do it in as empirical way as possible, there are a lot of unexpected things that can come up and this is what we keeping hearing our sessions. Even in Africa at the end someone says we can't scale because we don't have reliance on the telecom infrastructure. If an SMS gets dropped, we're in tough shape. So even those issues, technological issues around just quality of service can arise before we even think about customer end-user behavior which is certainly also very important. So just a word that hopefully we can look at the whole spectrum of issues and make sure that we're very targeted in what we address.

MR. PAGE: At this point it only remains for me to thank our five panelists. I think we've had a very rich and stimulating discussion this afternoon. As Mwangi promised, some of the questions that were answered in the first session or asked in the first session were answered in this session and a whole host of new ones have come up, so on we go to the third session. There will be a coffee break and I think the next is scheduled to begin at about 4 o'clock. Thank you all very much, and let's have a round of applause.

MR. DEVERAJAN: Well, good afternoon everybody. Is there an echo here? Yes, I'm Shanta Deverajan. I'm the Chief Economist of the Africa Region at the World Bank. It's my pleasure to moderate this very exciting session on the role of development partners in mobile financial services in what is already a very exciting conference that's preceded us, our sessions. And we have a panel, and I will introduce them individually when I ask them to speak. And they're going to make a few opening remarks, and then we will have a discussion.

But just to put this a little bit in context, I was thinking about this particular session. I mean, I'm sure you've been discussing how mobile financial services in developing countries lead to all sorts of other benefits like financial inclusion, like improved governance, transparency, and the ability to reach people in remote areas as we have in sub-Saharan Africa. Now when you look at the role of development partners, the question is, of course, development partners are very concerned about those issues like inclusion, particularly gender inclusion, or inclusion of people in remote areas or governance or transparency or accountability. And so then the question is, are we as development partners contributing to those goals by the way we intervene in mobile financial services or in some cases -- and I'm going to ask -- I asked the panel in the green room there to be a little edgy -- are we in some cases actually exacerbating the problem by the way we intervene. And I think you can easily see the situation going in either direction. So the question I'm going to put to each of the panelists is really how they see the role of development partners in contributing to the goals that they want to achieve and in contributing to the development of mobile financial services.

So let me start with David Ferrand who's a Director of the Financial Sector Deepening in Kenya, which is a multi-donor program to establish support for the development of financial markets in Kenya. And David has been engaged in pro-poor finance and small and medium enterprises since 1993. So David, your FSD Trust, Financial Sector Deepening Trust, uses a lending methodology that combines microfinance with conventional banking. And so there, I mean, if you're approaching it from two different angles, is there ever a tradeoff or a tension between those two or are they perfect complements?

MR. FERRAND: Thank you very much. My response to that is I can see it upfront going to be very much influenced by the very specific way in which FSD Kenya works. We're entirely, as the name suggests, entirely based within Kenya. Our sole focus is one country. And the question of the tradeoff, I suppose, isn't directly an issue for us because we are purely about financial market development. We don't have responsibility for other areas of governance, of gender equality, and inevitably the way I see things is biased by the market development approach that we take.

And essentially we subscribe to what is often referred to as the "making markets work for the poor" paradigm, and that's all about trying to improve the participation of poor people in markets. And it starts from the premise that efficient and inclusive markets don't simply appear in a social and economic vacuum, but are actually structured in quite complex ways and evolve over time. And we have to respond to that fundamental reality of the way that markets appear and, therefore, our view is -- and certainly my view -- is that the role of donors is to try to identify what are the binding constraints in any market and tackle those constraints without undermining what we're trying to create. And that to me seems to be the fundamental responsibility of donors, that if we're trying to create markets, we've got to be acutely sensitive that they are driven at the heart by private sector actors and donors who can do more harm than good in their interventions.

And I think so to try and unpack that a little bit, I think we need to look at markets at three levels. At the very broadest level we've got the basic institutional framework, the rules of the game, within which mobile financial services and any number of other markets operate. And so we're talking about things like government policy legislation, regulation, supervision, all of which we're fairly comfortable working with. But I think we've also got to be well aware that at the sharp end, it's actually retail financial providers who are delivering the services, from banks and mobile network operators through to microfinance institutions, credit unions, village banks, and savings groups. Those are the people who are actually delivering transactions in the market. One piece that I don't think we should forget about, which I think is very important, is the supporting industry infrastructure, those business service markets which actually support the retail providers. And I think donors basically have a role or can have a role at all three levels because constraints can exist in all of those to creating an efficient market. And so to reiterate the point, I think that too much intervention is almost always worse than too little. Everything we do has to be grounded in the context within which we're working. We need to be patient and long term. Ultimately, donors will not do anything themselves; they're going to be working through partners, and the tools that we need to use should be very much related to the problem we're trying to address in the market circumstances. So that can include everything from technical assistance, research, grants, but right the way through to potentially providing equity, quasi-equity, where the circumstances demand.

So looking down to those three levels, one of the problems I think we face as we're looking into the future is how do you encourage the private sector to get into areas where there isn't just a question of risk going on, the risk that private investors might get from a particular activity, but radical uncertainty, having really no idea whether a market exists there at all. And I think a paradigmatic example of where donors played a good role in helping the private sector bear that uncertainty was actually M-PESA itself. The U.K.'s Department for International Development provided Vodafone with a million-pound grant five or six years ago to tackle the issue. At the time that that grant was made, neither Vodafone nor DFID actually knew what was going to come out of that project. Nobody had any idea. We knew there was something really interesting going on there, but there was no way that Vodafone would go invest significant resources in a context of there being such an uncertainty over what market actually might be out there.

Areas I think in terms of enabling environment, partnering with policymakers, with regulators, I think is a fairly straightforward role, and I don't think I need to add much more to that. At the industry level, an important piece I think which an earlier panelist was talking about from the World Economic Forum, deepening the provision of market information I think is a very important sort of meso-level, industry-level, service which I think donors can support very usefully because it's something that's not going to get easily provided by private markets.

MR. DEVERAJAN: Thanks very much, David, and also thanks for keeping to the time. We then turn to Mark Pickens who is at the -- I can barely see him, okay, there he is. Mark is -- he leads CGAP's work on customer adoption with new banking technologies and advises mobile technology and banking industries on reaching the mass market, so he works at that market development end that David was talking about. But I just want to mention that prior to joining CGAP Mark led an award-winning startup on crowd-sourcing progressive news in New York City and founded a health enterprise which doubled child vaccination rates in rural Madagascar. So Mark, how do you see the role of donors from your side, from the customer adoption point of view?

MR. PICKENS: Thanks very much. I think although there's a lot of excitement around the financial inclusion potential that comes with branchless banking, I think it's useful to take a look back at what's different now than, say, ten or 15 years ago when donors were very involved in the growth of microcredit. And I'm going to make two comments that I hope are going to be blindingly obvious, but actually have very important considerations for how donors act in this area. One is the players are very different today than they were ten or 15 years ago. Whereas you had previously explicitly non-profit microcredit, microfinance institutions that had in their mission to help the poor, or you had for-profit entities like Greenfield microfinance banks but had a specific focus on low-income customers, today we have mobile network operators, banks, technology companies which may not have any explicit focus on this end of the market. In fact, in some of the research that CGAP has done, we've pulled together all the good data we could find on about eight branchless banking services, including M-PESA, but most of the other world leaders and found that about 37 percent of the customers were previously unbanked, meaning that the bulk of customers already had a bank account, were already financially connected before they started using mobile money or some other branchless banking service. So we know that the bulk of customers and the focus of many of the institutions in this space isn't necessarily on low-income, isn't necessarily on the poor. What this means for donors is you're going to have to be able to be willing and capable of interacting with the private sector which sounds very obvious, but that's not actually what a lot of donors are very good at. So it's a bit of soul searching to say who we're good at dealing with or can we become good at doing that by hiring the right people and having not just episodic but continuous dialogue with the private sector.

Another issue, money is not the binding constraint in the branchless banking space that it was in the microcredit space I think in the 1990s. Donors have very much helped start and draw attention to the branchless banking space. What DFID did and FSD Kenya was involved with with M-PESA and the two million pounds or one million pounds that was given to Vodafone, obvious critical. But if we look now, private sector money is pretty much dominating the space in the last couple of years. About 80 percent of the $400 million that have been invested in branchless banking since 2005 are private. It's private debt. It's private equity, and the bulk of that, if we just look at the last two or three years, it's almost all private money.

So what this means is donors that are used to sort of writing big checks and having a big influence through that funding mechanism, I think, are going to have to get a lot more creative about how they deploy their money and not just avoiding replacing private money, but actually figuring out other places where public money is needed. The good thing from the donor's perspective is that so far there's really no easy path to scale for most branchless banking services. They still struggle with regulation, and only about 40 percent of the countries that we've looked at have regulations around using agents. There's uneven customer uptake. We've counted 104 branchless banking implementations that are really live. Of those, 22 have reached the million-customer mark, just registered customers, so four out of five are not even getting to a scale of a million customers that Michael Joseph mentioned in the last panel as sort of being critical for the business model to work.

So the business case is kind of uncertain. I think there are three legitimate targets where there is a case for public subsidy. One is creating open-source IP on common challenges to scale, and this is maybe somewhere that donors with an international focus are really well positioned to do because it's looking across the treetops, across markets, and seeing what the common challenges are pulling out solutions that seem to be working and then disseminating information about that. And it's also transnational. We have -- I think someone on the first panel mentioned that -- I think it was Alfred -- mentioned the standard-setting bodies that are very influential for many of the central banks in the world. Just to mention one, the Financial Action Task Force, has done a lot after 9/11 to define what a high-risk transaction is, but has done very little yet, although I think is beginning to look at this to identify what a low-risk transaction is that would make it easier for low-income people to sign up for and manipulate accounts. So creating open-source IP around what these kinds of solutions look like is definitely a place for donors to be involved.

We could also be influencing more of a quicker, more of and a quicker move towards serving low-income customers. This is very much linked to the question that John Page asked in the previous panel about what's the real binding, the number-one binding constraint that we see. And for me, this is what kind of product and service is going to draw massive response in the marketplace along the lines of what Kenya got. And I think what we -- where donors can -- we should not assume that all these private-sector players actually understand their market or they understand a new set of products for their current customers. I think there's very much a role for donors to be involved in driving consumer insights and experimenting with new products and providing risk capital to do so.

And finally, not all markets look like Kenya. Not all markets have the confluence of factors that Kenya had. In fact, I'd say most do not. And there'll be a role for kick starting markets, and someone in the previous panel asked about, what about smaller countries? You could ask the same question about, what about post-conflict countries? What about countries where you have less of a dominant player than M-PESA and then Safaricom was? And this may be somewhere where donors can use their convening power around G2P payments to sort of build a strong backbone to a business model with a large volume of transactions. Or they may be using prizes and sort of other innovative funding mechanisms to trigger private-sector action like the Gates Foundation and USAID did in Haiti where they put $10 million out and got some pretty strong response from some of the mobile network operators.

So just to sum up, this is a very different space than where donors are maybe used to in the financial inclusion. The players are different. Money isn't really the binding constraint now. They're going to have to be more creative than they have been in the past. And there's at least three different places where they could be putting their money, creating new IP, influencing providers to go down market faster, and kick starting markets that maybe don't have the perfect storm like Kenya did.

MR. DEVERAJAN: Great. Thanks very much. Let me turn now to Claire Alexandre. Claire is a policy expert who works in the program called Financial Services for the Poor at the Bill and Melinda Gates Foundation, and previously she had experience working with Vodafone. Claire, if as Mark said, money is not the binding constraint, what is the role of philanthropic organizations and what do you see the long-term relationship between philanthropic organizations and mobile financial services?

MS. ALEXANDRE: Thank you very much. I think it's great to have now this panel sort of focusing on the role of donor and stressing already as we started this sort of different role that sort of these stakeholders can play and how it has evolved. And maybe before I sort of respond to your question, just stressing the, I would say, the approach that the Bill and Melinda Gates Foundation is taking and the fact that being a family sort of foundation with actually two co-chairs who are ready to take risk really wants the Foundation to actually try with giving room for experimentation maybe in a different way than maybe sort of existing in other organizations. I think really sort of allow us to sometime sort of try things a little bit differently. A lot of the work that the Foundation has done in other sectors whether it's in health or in agriculture is very much, but trying to help develop public goods which so far hasn't been sort of developing in the market. That's the case in health, agriculture, and indeed, why not sort of in the mobile financial services as well.

I think the way we look at mobile financial services and the reason why we are so active in that space is very much because we think that it has the potential to sort of be developed at scale, which is the type of solution we want actually to provide for the poor people, that it can be done in a sustainable way which means we are not trying instead of working with private sectors. So going back to a point that Mark has raised, is how do the donors in general actually work with private sectors? Is that sort of indeed only through grants? And there I would say I agree that it's not only through grants, although I'll come back to this, I think there is an important role sort of to be played here, but it's also, for example, in using our voice. So being able to actually share knowledge that we indeed collect, we and other donors and other partners to actually share experiences not only about what works, but also sometime about what kind of doesn't work. And sometimes I think a role as a convener, so convening powers, making sort of people from different horizons sort of meet can also sort of be quite powerful.

In terms, indeed, of the I would say the funding mechanism, there is no such I think -- the funding aspect is not potentially the most sort of critical aspect in mobile financial services, although I think it's fair to say and we've heard it in the previous discussion, the need to have very heavy investment upfront. To actually go over the sort of issues linked with network effects is very important. So I think we've seen that in a number of attempts to actually roll out mobile financial services, the inability of some players to actually have all these funds ready upfront has been sort of critical. And it's fair to say that in the number of mobile financial services experiments around the world -- I think there's more than a hundred -- very few indeed have sort of led to the rollout that we would like to see or that we've seen in Kenya, of course, but also in the Philippines. So being able as a donor, and that's an area where we are involved, to actually come in and input some of those funds to allow really a sort of growth, the type of growth that we want, I think is one important point. Not only sort of using grants, but also as Mark has said, using a bit more innovative sort of mechanism-like challenges can be important. I think that's what we're doing with USAID in Haiti. There it was interesting to note that we knew that the mobile operators were interested in actually launching the services, but might not be high on their priority lists. So the fact that we could come in with some funding, but using a challenge mechanism to actually let them compete and actually respond to the competitiveness that they had already between them in the market I think was an interesting instrument.

In terms of the other areas where we can sort of be involved, I think there's certainly a dialogue with regulators, and I think the creation of a very specific south-south sort of platform for regulators I think is an interesting one. Innovation as we obviously see comes from the south, so let's give a platform for regulators in the south to learn from each other. Yes, we can also play a role and come in with analysis and technical assistance, which is a bit classic, but helping actually those who have already done it, like Central Bank of Kenya, share I think is very important and also finally funding research.

MR. DEVERAJAN: Thanks very much, Claire. Let me now turn to Priya Jaisinghani. Priya is Senior Advisor at the US. Agency for International Development where she helped build the Agency's Feed the

Future Initiative, which addresses under-nutrition and food insecurity around the world. Before that she was at the Bill and Melinda Gates Foundation, too, so this is a little bit of a revolving door here where she helped to build the $1 billion Global Development Program and led the team responsible for the Foundation's strategy on microfinance. So Priya, having seen the perspective of two different development partners, first of all what are the differences? But secondly, since you did work on microfinance before, do you see any tension in development partners supporting mobile financial services while they're also supporting microfinance initiatives?

MS. JAISINGHANI: Great. Thank you. And thanks for putting on this conference. It's exciting to see this happen. So I guess I'll just say then having started that microfinance program at the Gates Foundation and coming here today at USAID, it's just been such an amazing evolution of this industry and it's really not either-or in my mind. We really took a bold approach to supporting mobile banking and technology-enabled financial services at the Gates Foundation because we realized that there just simply is no other way to reach people and get the majority of the world's poor access to financial services if you're not using a disaggregated, technology-enabled model. So in my mind it's absolutely the way the industry is evolving, and it's not a question of one or the other.

But the field has really evolved to a point where it's not just about financial inclusion or mobile payments. This is really about driving economic growth and bringing people into a formal financial economy in a way that they never were. So this vision of why mobile financial services is just bigger, more ambitious, and I think we heard from the previous panel that that compelling future is just within our grasp, and it's a very bold vision. But it means for bold action on the part of donors, and that's sometimes hard to achieve within our bureaucracies.

In terms of the roles of donors, I do think we all bring institutional strengths to the table and coordinating at a country level is going to be important in terms of defining roles and responsibilities and seeing how each of us can contribute to this revolution that is taking place. I don't disagree with any of the panelists, that there are lots of things we should be doing in terms of investing in foundational aspects of national IDs and helping with rural connectivity and research and playing the role of the learner and convener, understanding how mobile financial services can drive intermediation and economic growth more.

But the aspect I wanted to talk about just today is one of us walking the walk a little bit ourselves, and Claire's smiling because she's heard me say this a million times. But I was recently in a country, and I was trying to convince a Minister of Finance he should really try and pay government salaries and pensions over mobile wallets, which is now possible today in that country. And he looked at me and he said, "Well, how many do you pay?" And I thought, wow, that's a good question. And it turns out there are billions of dollars that donors spend every year in cash transfers, the majority of which -- over 80 percent of which -- are in cash. And I think we really have to look at what we do as not only symbolic and signaling our faith in these new systems, but also as a driver of uptake which everyone recognizes is important. So in a country like Indonesia where 15 million people are getting paid twice a month and they're being paid in cash, can that not be a good user group to drive some critical uptake in the beginning?

So at USAID we're trying to figure out what can we do not only in our programmatic interventions, the funding that we're providing for, building out agent networks for some of the research for technical assistance, but also looking at how we change our contracts and make sure that every grant that we give from now on actually looks at how funding is disbursed. And I think you'll see more action on our part to care not just about how our programs are run and the strategies behind them, but really operationally whether or not we're taking advantage of this new trend in everything we do. So I hope that's something that you'll see from us very soon. Thanks.

MR. DEVERAJAN: Okay. Thanks very much, Priya. Let me then turn to Ian Solomon. Ian is the Executive Director for the United States at the World Bank Group, and as many of you know the U.S. is the largest shareholder. And before that he was Senior Advisor to the

Secretary of Treasury in the U.S. government, and he's previously been Legislative Counsel to Senator Barack Obama as well as Associate Dean at Yale Law School. He has worked in a variety of areas in non-profits as well as for-profits and lived in South Africa during the period of the nonracial democracy. So Ian, in your current incarnation as U.S. E.D. at the World Bank, how do you see the variety of interventions that we do in developing countries as supporting or sometimes contradicting the development of mobile financial services. And let me say it more specifically, what we do -- what we do and you approve -- on financial services, on financial development in general in a country, and how does that work on the mobile financial services side? But also, perhaps picking up on what Priya was saying, meaning if you can use mobile payments, can we push the envelope a bit and say instead of World Bank loans actually going through the government, they can go directly to the public now using mobile financial services?

MR. SOLOMON: Thank you, Shanta, and it's great to be here. Let me first say that the U.S. government is now going all electronic with its payments of federal Social Security benefits, so we are making some progress as the U.S. government. And it is also piloting financial inclusion-friendly approaches to delivering all tax refunds electronically as well, so there is an effort to walk the walk a little bit by the U.S. government.

I think we as donors and development partners need humility and need to do a better job listening to the citizens of the countries in which we're trying to help and learning from experience I think more actively than we sometimes have learned in the past. One of the amazing things to me about mobile technology generally is that we've seen this sort of organic and geometric growth that we as donors often wish for for the things we were trying to push. We wish our interventions would spread the way I think cell phones have spread. And too often I think donors and governments end up trying to push our innovations and fund our products and services that we believe the poor ought to really want. And many times I think we believe in them, whether it's water purification or solar lamps. These are good things, but they haven't been able to generate their own demand and their own distribution the way mobile technology has. And I think we should ask ourselves what is it about cell phones? What is it that let's them succeed and spread generally and largely without government and donors playing a big role? What can we learn from that experience because if we could replicate something, that's what I want to figure out how to replicate because that didn't require us to do very much. Or maybe it did, and that's what I hope to hear about.

And I think we should admit that there's more that we don't know than we do know. How important were donors and development partners in supporting the growth of mobile technology? How important were the governments and the citizens in the countries themselves? And

I'd suggest that we should reflect before we all dive in and talk about what we'd love to bring to the poor, reflect on what actually does make a difference.

I think David asked about binding constraints, and I agree that donors can sometimes do more harm than good. So I think there are four roles as I reflected, four key roles for government and development partners: Infrastructure, information, regulation, and supporting innovation. The first, infrastructure, supporting an enabling infrastructure for these technologies, and the World Bank Group has invested in public-private partnerships to try to basically be the backbone, both the national and also regional backbone, to support mobile technologies. The IFC, the private-sector arm of the World Bank, is supporting the East Africa Submarine System. And IDA and IBRD are doing a regional communications infrastructure, trying to just do the basic infrastructure that can enable the above-ground innovations to take place.

I think the second role for development partners is addressing the market information gaps, and this sounds like this came up earlier today. And not just the gaps for business and private-sector investors or the gaps for us as donors, but also for the governments themselves as they figure out what their role should be in the telecom and financial sectors and also information for civil society. The IFC has developed a mobile money toolkit, trying to provide more information. It has a whole bunch of different sectors looking at best practices for developing agency networks for transfers and payments, looking at how private firms have met some of the distribution challenges for mobile money. They're also working -- the IFC's also working on its advisory services, helping banks, mobile network operators, and third-party providers, to design and implement some different strategies. They're working in India and Viet Nam, South Africa, Papua, New Guinea, again trying to fill this information gap. The U.S. has also worked on the information gap with the G-20 financial inclusion challenge, the SME finance challenge. Let's get more ideas into this space. The challenge was a way they can have a competition to get the best ideas for innovation to promote financial inclusion. A number of ideas were submitted. The Rockefeller Foundation funded the competition. Ashoka's Changemakers administered the competition. And now there's a now a financial inclusion fund that's going to be administered by the IFC to help fund some of these winners, again trying to fill some of the information gap and promote more innovation.

The third role for development partners is supporting appropriate regulation and the right regulatory environments if you want to ensure that mobile money promotes financial inclusion and actually does reach the poor and is done in a way that is safe, sound, and effective for empowering the poor. The involvement of nonfinancial service providers and the use of third-party agents present largely unchartered regulatory and supervisory challenges. So a key concern is the safety and integrity of the system and mobile money has become a global public good that must be safeguarded. Another critical issue is protection of the consumer and ensuring inclusiveness, which may not happen on its own.

I think some of the key questions in this space include whether the funds in the system should be deposited in individual bank accounts or can be pooled by the service provider in their account, whether and how agent networks can be managed and overseen, whether it's safe to allow nonfinancial service providers to manage money at all? Can they handle the anti-money laundering requirements? Can they manage the float in the system? We generally trust financial institutions for better or for worse because they actually have a structure that pays attention. Do the telecoms and other service providers have the same protections? And I think the goal has to be for us to achieve that balance and not be over-heavy handed to achieve the diverse objectives.

And the fourth role for development partners is supporting continued innovation. I think as we learn the lessons from mobile technology, as we learn the lessons from what's worked in Kenya and the Philippines and elsewhere, we should figure out how we as development partners can, with the appropriate humility, help to see and scale these innovations. And that may sometimes involve not interfering and letting ideas themselves immerge and fail and get reborn and have a process of creative destruction rather than trying to dictate it from the top.

So I agree with Mark that donors have to get a lot more creative and learn how to work differently with the private sector and listen more effectively, particularly to the citizens themselves.

MR. DEVERAJAN: Great, excellent, thank you very much. I want to thank all the panelists for very insightful and provocative comments, and I think we now have some time for questions from the audience. You've been patiently listening. So the only rule is that you have to raise your hand to ask a question and identify yourself and use one of the microphones that are being handed around. Okay, the gentleman in the second row, here on the right.

SPEAKER: Thank you. My name is Gettwi (phonetic) from Brookings. Four years ago I attended a conference in Monterrey about horticulture, and being celebrated at the time was how Kenya had in a period of ten years become the second largest flour exporter in the world and conquered the vegetable smut in Europe. And one of the presenters said the reason is easy, there is no Ministry for Horticulture in Kenya. And with that absence of a Minister of Horticulture, there is no donor for horticulture in Kenya. Now I've just been thinking, mobile money has grown without a ministry for mobile money and without a donor for mobile money. The way it has grown, it is not having any problems, and that the private sector and the entrepreneur and the consumer are meeting and already seem to have access to each other. So why do you want to fix it if it's working? I was thinking that maybe donors are necessary where it's not working to tell them it can work, that the experiments in the Philippines and Kenya shows that the risk is mitigated. It has worked, and to help those countries which have more dire need for such financial services than Kenya that look we can send a few of you there to see, make a policy decision to work. But once you get to the moment of saying what role can we have in this, you will start reinventing it so it makes sense to you intellectually, but maybe detrimental to the goals that it was designed to.

MR. DEVERAJAN: Okay, thanks, all the way in the back there, the last row.

SPEAKER: Thank you. Can you -- any of the panelists provide --

MR. DEVERAJAN: Could you identify yourself, please?

MR. DOCKERY: Oh, I'm sorry. I'm Joe Dockery. I'm with Cardno Emerging Markets. You mentioned Haiti and you mentioned some of the work that's been done in Kenya around the founding of M-PESA. Are there other examples that any of you can think of where a donor agency has made a really significant contribution to a kind of game-changing innovation in mobile money?

MR. DEVERAJAN: Why don't we --

SPEAKER: I'm James Aimee (phonetic), formerly with the State Department. Could the panel address the issue of the application of the kinds of things we've been talking about, including mobile money, to poor and underserved populations within developed countries? We had a brief reference to this by Mr. Solomon, I think, but I'd like to hear other comment on that.

MR. DEVERAJAN: Okay, why don't we start with those? Let's see, maybe David, do you want to start on the question of if there's no Ministry for Horticulture, and then maybe there shouldn't be any donors and mobile money?

MR. FERRAND: I really couldn't agree more. My view is as donors and certainly another thing we're doing is if we can't see how we're going to get out of what we're doing, then we shouldn't even start. And by and large, though, if you cannot see the exit route of the donor, then you should not be there if you're talking about trying to support the development of sustainable markets. I think, actually, horticulture in Kenya is a great example where there was a certain amount of risk bearing being done. The right instrument, people like -- apologies for a British example -- but the CDC, Commonwealth Development Corporation, actually did make some quite important investments, but investments -- they were equity investments, very consistent with a private-sector approach. There was not exactly in this case, there wasn't a ministry going in there throwing large amounts of money around because I agree entirely, had that happened, we wouldn't have seen that success story. So it's all to me about this sort of reluctant intervention and thinking first how you get out before you get in.

MR. DEVERAJAN: Any other members? Claire.

MS. ALEXANDRE: I just want to intervene something. I mean I completely agree. I think the intervention should be really in places where there's something to be fixed so to say. Clearly we are at a stage where we know that mobile financial services work so the technology works, it can be integrated into whether it's a mobile operator or a bank, the service proposition makes sense to users. The business model works even if as we've heard previously the sort of pay back takes a bit of time. So it's not a bad sort of showing that it works anymore, it's really about replication, and so it's not anymore about sort of when -- there are needs of offending, just helping small pilots. It's really sort of going to the next stage.

And also agreeing with what David has said seems what's very key. Once we've shown -- and that's certainly part of the Foundation's point of view -- that we could replicate sort of what has happened in Kenya and to a certain extent in the Philippines and what's starting to also develop in Tanzania and Uganda. Once we've shown that it's worked in a few countries then our work in that space is done. So that sort of has to be very clear.

MR. DEVERAJAN: Go ahead.

MS. JAISINGHANI: I'll just say I also completely agree and do, though, believe that we had a really compelling leader in Michael Joseph and Safaricom. And I think he recently came out and said he's spent about $30 million in upfront investment before launching the product. And he believed so much that this is something that can work. I don't know that we're seeing quite the same level of risk taking and energy and effort by others, so if there's ways in which donors can be supportive of mobile operators and banks, we want to be there and should be there.

I think the bigger point that I was trying to make is that we should take advantage of the trend. We should leverage it in the context of our other programs because we know that an electronic payment system of any sort, if it's through a bank or through a mobile wallet, is always better than cash. And because we do so much as donors through cash still, even in places like Kenya, we are losing money and we're increasing opportunities for corruption. So a huge role of ours is just to take advantage of what's already happening.

MR. DEVERAJAN: Ian, could you also take the question about underserved areas in developed countries?

MR. SOLOMON: Sure. I think in the Kenya example, we need to understand why it worked so we can provide good guidance to those places where it hasn't worked. And as we understand why it worked, let's also just make sure we know that it is working. So I think there are still some vulnerabilities, potential vulnerabilities, in the system which we want to be careful we don't replicate vulnerabilities. That could lead to real risks. I heard someone say if you actually had one of the major agents go down in Kenya, you could have public riots if people can't get access to the resources they now think of as their own. So there are --

we do need to have the right balance of ensuring that -- we don't want to get in the way and create hurdles to getting started, but that we do make sure the right consumer protections and the safety and soundness of the system is secure before we start trying to export this or make sure or have it replicated across the continent.

I do think there are applications of what we're learning in Africa for the poorer parts of developed countries for sure. And I think this is a great thing Claire said, innovation happens in the south, and I think we're starting to see this whether it's the work on conditional cash transfers which has been tried out in U.S. cities after showing success in Brazil and Mexico. And I think in the electronic money and different uses of branchless banking can also be successful here in the U.S. So I think the -- one of the things I hope that these sorts of conversations continually do is show how actually we can have north-south, south-north, south-south learning on developing and addressing in some ways very similar challenges that poor people face all around the world.

MR. PICKENS: The moderator asked us to be edgy so let me see if I can interject something that maybe is a little edgy. I wrote down the same thing that David said; don't get in if you don't know how you're going to get out. So we do need to recognize the limitations of donors. But let's on the flip side not fetishize the wisdom of the private sector, the risk taking of the private sector, or the appetite for that. Mobile money and branchless banking in general is not an easy win. I think a lot of people thought it is because they've seen what happened in Kenya and are now realizing that it's not. It takes work. It's a different business than probably any of these guys are in. It fundamentally changes how a bank operates. It takes mobile operators into totally new services. This is not easy. So I definitely agree we need to plot our exit, but I think there's plenty still to do for donors right now. If only -- just take one thing that I'm on very much about these days, which is understanding consumers and turning consumer insights into products that will actually grab a sufficiently large number of customers and who transact sufficiently actively to make the business case work. I'm not sure that we see a lot of product innovation in the mobile money space right now. And just to tell one very quick story, I was conducting a focus group in Uganda last month and asked people to just show me how they save and how do they create discipline for themselves to save up enough money to achieve some of their goals. And a guy showed me his motor bike, and he said, "This is my new motor bike." But I said, "Well, what's so interesting here?" And he said, "Well, I actually cannibalized my old motor bike to get this. What I did was I took bills and I wrapped them in plastic and I have a friend who has some industrial little shop and he gave me some of his resin so I could cover these things and make them completely waterproof and then I dropped them into the gas tank of my last motor bike until I thought I had enough money to buy this new motor bike. And then I had my other friend take the gas tank off and with a torch cut the gas tank in half to get at the money." So this is how bad that guy was willing to go to be able to save -- and it was essentially at a massive negative interest rate on savings, right? I'm going to destroy my gas tank to get a new motor bike. That's an insight that I didn't have. I told it to some other folks there in Uganda. It's what they didn't have, and it starkly illustrates I think some of the things we need to understand better about low-income consumers about what they want, what products will work for them. This is definitely an area that donors could be working in, in addition to the things that my colleagues on the panel have said.

MR. DEVERAJAN: Okay, very good.

MR. FERRAND: Shanta, I don't think we answered the question that was asked about has there been a game-changing innovation as a result of development partners or donors. I think Mark may be best suited to answer that question.

MR. PICKENS: Well, I think any of these guys could probably do that, but the one I might point to is Pakistan. I think there are actually a couple of implementations there by UBL Bank, United Bank Limited, and Telenor that are actually going strong under their own steam now. Really it's the guys in the company there who are driving it, but have had a lot of dialogue with assistance from donors and some of the folks even at this table here.

MR. DEVERAJAN: Let's go to the lady over there. You need a mike and you need to tell us who you are.

MS. EDWARDS: Hi. Sam Edwards, Johns Hopkins program. Safaricom is often talked about as sort of the model for mobile money, but I think we've kind of hit on some of the unique aspects of the Safaricom example. I was wondering how the donors approach countries where there's a number of competitors in the landscape? We often talk about mobile-led models versus bank-led models, but Michael Joseph made a comment when I went up to ask him a question about how if he could do Safaricom over again, what he would actually target -- he would have done a strategic partnership with a bank from the beginning. I was wondering what you saw as the donor role for really sort of enabling those kinds of partnerships?

SPEAKER: Thank you. My name is Steven Modam (phonetic) from Central Bank of Kenya with my governor. I always say that to hear success, success, but really to look at it more like you have a child who is five years old. He's not going to high school. He is not going to university, so we cannot use the word succeeded. It's just we have studied. I would rather use the word we have studied. Now the area that the donor should -- I think the question I wanted to ask you is in all financial systems, the fear is failure and the reason why we have risk-averse behavior. And that's why banks are all reaching 20 percent, and in Africa without due respect to Ethiopia, it's about 4 percent access to finance so it can be that bad not because there's not much trade, but because there's risk aversion. Now the question I may want to pose is that we as regulators should go back and find out whether we are also innovating regulation because one stage innovating and banks are trading -- bank regulators are innovating and let me just pose one question. When you lose financial confidence, the way to foster confidence is no matter to think of what institution you can use to foster confidence. So today in the case of the telco, the confidence we don't even have a deposit protection approach to it. So what I may be thinking for us to scale up is about paying the donor community and the regulator community go back to how can we foster more confidence. Can we think of insurance schemes? Can we think of a prevalent of the FDIC? Can we think of institutions where the donors again can work towards fostering more confidence because this has few financial protests? So I think we need to ask the donors whether there is room for regulatory innovation, not just the product innovation, but the regulatory innovation which can foster more confidence in these instruments. Thank you.

MR. DEVERAJAN: Billy Jack?

MR. JACK: I guess I'm Billy Jack from Georgetown University. There was some healthy skepticism voiced just a few minutes ago by nearly everyone about the limitations of government and the need to constrain government, maybe to not screw things up like a Minister of Horticulture. But there is a role for government often not just to kick start things, but to actually provide things long term to health services, education, et cetera. Is there a role for M-PESA or mobile money to somehow keep the government honest do you think maybe through allowing facilitating the financial empowerment of those clients, the poor, to actually pay for things from the government and, therefore, make the government more accountable to them? Thanks.

MR. DEVERAJAN: One more and I think we can -- back there.

SPEAKER: Hi, Robin Stern (phonetic) from the White House Office of Science and Technology Policy. So my question is I'm really intrigued by the idea that several of you have mentioned about being able to get to the network effect through G2P payments or through donor payments. And the question I would just have is as you think about that, is there a role to play in terms of putting conditions on the types of products or services that are used for those payments that may in any way complement or work alongside a regulatory system, or is that a step too far in terms of thinking about the role that government and/or donors should be playing?

MR. DEVERAJAN: Okay, thanks very much. These are quite wide-ranging questions, so I'm not sure -- maybe I'll start with Priya and see whether you want to take any of them.

MS. JAISINGHANI: Sure. I'll just comment on Billy Jack's question and comment. I actually think this is really exciting because we're coming from -- or many of us are coming from the microfinance world where for decades we were telling governments just stay out. The best thing you can do is nothing. Don't put interest rate caps on. Don't do state lending. Just stay away. And I think what's interesting about mobile money and mobile banking is that there is actually a very proactive, helpful, role governments can play beyond just letting the market run. So in Mexico, using the state descansa stores or post offices, they can use their physical infrastructure and open that up to become agents or they can help with the regulatory environment in bringing the communications and the central bank regulators together to help with this new gray space. And probably most importantly, of course, is in my mind the payments themselves that governments have in the form of salaries and pensions and welfare payments and conditional cash transfers. So there's a very proactive role for governments, which I think is exciting.

On the last question about G2P, I'm not sure if the point was putting conditions on the payments to individuals or us putting conditions on our aid or loans to governments. So maybe you want to --

SPEAKER: (explanation inaudible)

MR. DEVERAJAN: Claire, maybe you -- can you take a stab at this question about the role of government in restoring, in infusing, fostering, confidence in the banking system and maybe Ian as well?

MS. ALEXANDRE: Thank you. No question, that sort of confidence is key. I think as with everything in that space we need to ask ourselves who's in the best place to actually sort of help achieve that. And I think we shouldn't underestimate actually the power of indeed those brands which exist and the way that actually consumers are making choices.

If I may, to make a comment as well on the point relating to which model we should be supporting, I don't think we should be supporting any model, but actually helping create an environment sort of with government, with regulators, where the rules are actually as open as possible, meeting the different sort of policy objectives, of course, whether it's financial integrity, financial stability, efficiency, but then creating rules whereby any players can come in obeying to these rules and then decide which parts they want to play in the market. So it's not, I mean, today for example provide payments, money transfer, or electronic money, why do you have to be a bank and regulator to provide credit for example? There should be -- there could be very well a space where you actually regulate it simply as a payment of this provider. So I think the idea that David had introduced in the previous panel, talking about unbundling of the value chain, so let's talk about sort of cash electronic conversion. Let's talk about sort of issuing of accounts. This, I think, is also very valid, sort of on the regulatory side, allowing sort of different players to come at different levels of the value chain and being regulated simply I think for that role I think is important. And it would seem to me that by allowing this type of, I would say, segmentation of the value chain will help also users to have more choices and hopefully also be sort of more confident in terms of which type of service provider they want to get at. I think so far the experience as we've said is relatively limited in terms of mobile financial services. There doesn't seem to be a lot of evidence that, for example, the need, for example, more insurance of the fund is necessary. I don't think the experience in Kenya so far shows it. We should also remember that -- I mean, in the same way as we use several sort of financial instruments, the poor also use a world financial instrument. They certainly do in the informal sector so there's no reason why they would not do this in the formal sector when they get access to it. So they might want to choose some instruments more or less sophisticated and the question of insurance may come at that time. But I think in terms of where we see the, I would say, mobile financial services at the moment in terms of priority, we don't see that. So, for example, providing insurance of funds seems to be a burning question. I think in many countries we still have the issue of licensing. There's no question that any player coming in that space should be regulated and, for example, also around KYC. So that would be the priority from sort of our point of view.

MR. DEVERAJAN: Okay. Ian, should we have an FDIC for mobile financial services?

MR. SOLOMON: I would say let's talk to the people in the countries using mobile services. I don't think we as donors should insist upon it for them or that we should impose it from the major financial institutions. We should actually -- ideally we want to have the right regulation for the people being regulated, and I think the best role for development partners is let's make sure the process -- if we're innovating regulation, let's make sure it is a process that is transparent. Let's make sure it's a process that actually does have -- we are providing the best practices of other places that have different sorts of regulations. Let's make sure it happens in a way that's kind of open and that all groups can participate appropriately because we all know that some of the places that might decide to innovate on the regulations might not actually be doing it in the best interest of financial inclusion for their poorest. There could be a fair amount of rent seeking going on as well so our responsibility is to kind of -- if it's going to happen and we can provide perhaps compelling examples of where it's gone well, let's make sure that we are supporting sort of openness and transparency in the process. So I think there are very good reasons to have an FDIC. I think for the U.S. experience for traditional savings accounts shows that it is very important to having greater confidence in the system. But I also think any sort of insurance scheme does have its benefits and its costs, and those need to be accepted and resolved in the appropriate political system.

Just a few more points, other questions, I do think that cell phones broadly can be incredibly powerful accountability tools, not just mobile banking. But nothing excites me more than the idea that farmers on the ground can SMS the World Bank and let me know as a shareholder whether or not the resources are going where we think they're going and whether they're having the impact we think they're having. So it's an incredibly important accountability tool that I think we ought to encourage.

With regard to banks and telcos working together, these are two highly regulated sectors where I think you may need, you may require, the convening power of a major donor partner to help bring them in the room to figure out whether or not the telcos and the banks can work and then have partnerships. So I think there's a useful convening role that can be played there.

MR. DEVERAJAN: Okay, and Mark, about the use of mobile financial services and cell phones for accountability.

MR. PICKENS: You know, when I was thinking about Billy's question, I discovered at least in my mind a thread to the other question about conditions on G2P payments and especially the secondary explanation that we got. It came to me as one question of how are we going to see even more innovation around these kinds of payment products by someone other than the original innovator, right? So now that M-PESA exists in the market and is essentially a national payment switch and has just massive usage, who else could innovate around that? And we recently did with David and FSD Kenya a bit of a scoping of the market for just mobile financial service innovation and entrepreneurs in Kenya and found just as one sort of statistic that we couldn't find one VC that was willing to do less than $150,000 in equity. And most of the entrepreneurs that we talked to are looking for like $5,000, $25,000, and so there was this place that commercial capital wasn't ready to go yet in Kenya. And a lot of these guys have really fascinating ideas about what they wanted to do around M-PESA and how they'd connect it up to maternal health or cows or what not. It was just -- it was very fascinating stuff, but a gaping hole in the funding market. And so maybe there's a role there just to support private-sector innovation, but using and connecting back to the G2P angle, saying if we're providing -- as donors are providing the funds for a conditional cash transfer, for example, or a payment to demobilize soldiers or to refugees, do we not have an obligation to get a reasonable bang for our buck out of that and is there a financial inclusion goal that can be layered on top of that which delivers a lasting benefit to the recipients? The payment today, in order to eat today, but a banking account, a savings account, which allows me to manage my money going forward as my life stabilizes again, that to me makes a lot of sense to look for as a donor.

MR. DEVERAJAN: David, you want to respond to any of these?

MR. FERRAND: Thank you. Yes, I'd just pick up again on the whole of the G2P question and Billy's question. I'm just drawing on the experience that we've had in Kenya that certainly government involvement in creating the demand pool by putting payments to the poor, but it could be payments from the poor. I think some of that is a sort of no-brainer, and the example we have is in a G2P of social protection program where we ended up facilitating the payments component and that ended up going through a branchless banking solution, not mobile, but a branchless banking solution which very much depended on mobile technology for its efficacy. But the point about that was it was a no-brainer because it was clearly going to be the cheapest way that the people involved in the scheme -- the government and donors -- were going to get those payments out there.

I think that as we go down the line and the notion of cash light, which we're tentatively talking about in Kenya as a realistic aspiration, we may get to the point where in order to achieve the long-term objectives of driving cash out of the system and ensuring that you don't end up with social exclusion as a consequence, there may be a case where you have to say for a certain proportion of this population, they're not going to be ready consumers on a market basis of mobile or whatever branchless-type banking solution. So I'm being very tentative on this, but I can see in the future when you've gotten to that point where if you like the big push is really possible, that some element of government involvement in order to bring those final people into the system, in order to reap societal-wide benefits, could be justified. So I'm hedging this a little bit because I think it very much depends on the circumstances. It's got to be a realistic prospect, so you're talking about a very significant investment potentially if you want to bring 10 or 20 percent of the population into a system where they're simply not viable consumers on a purely market basis. But I wouldn't say we're quite there at the moment in Kenya, but we are in a position where, frankly, it's just a no-brainer. If you're wanting to make payments out, it just seems to be a heap cheaper doing it that way. We certainly haven't found a better alternative. And, of course, it plays to the transparency piece which is just massive. I mean, that potentially is an inordinately huge potential benefit from going down the cash-light route because it could start to undermine corruption from top to bottom of society, which might be one reason that there could be some people who are not entirely with the program.

MR. DEVERAJAN: Okay, well that's a nice place to conclude I would say. No, this has been an extremely interesting discussion. I want to thank the panelists as well as the audience for their questions. I think we got a good discussion going. There doesn't seem to be that much disagreement. I think we have quite a commonality of views, but some very interesting perspectives on the way forward. So I think this is an emerging area of development partners and mobile financial services and financial inclusion, and I think we've helped to create some of that excitement around it. So I want to thank all the people here and particularly the Brookings Institution for hosting it, and then hand it over to Mwangi for some concluding remarks.

MR. KIMENYI: Thank you very much. This has been a wonderful day and we had a great set of panelists. I think from the start of it we have really discussed a lot of issues. And we are going to continue with some other private panels tomorrow because as you know, Brookings -- we just don't want to talk. We have this issue of these different views, independent views, but also we want to impact. So we would like to come up with an actionable plan to sort of bring more people into this access of financial strategies and broaden in terms of the second generation of mobile financial services. So we'll be continuing tomorrow. We shall have a report sometime soon, which we will be able to access. We hope to continue this. So on behalf of the Brookings Institution and the Africa Growth Initiative, I want to thank you all for participating.

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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