

Paraguay taking the lead in mobile financial services in LATAM

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An e-wallet launched in 2008, which allows to transfer e-money via SMS, has reached a market coverage similar to that of the traditional financial system

Paraguay is a small landlocked country in South America which has experienced a high economic dynamism in recent years driven by the agricultural sector. However, this growth has not permeated all segments of society, particularly rural areas where it is estimated that 30% of the population lives in poverty and with little access to financial services. Indeed, Paraguay used to have one of the lowest penetration of financial services in Latin America. In 2014, only 23% of Paraguayans had a bank account, less than half of the average reported in Latin America. However, thanks to the efforts made by the government and the private sector to actively promote financial inclusion this situation has changed in the recent years.

In 2008, taking advantage of the high mobile penetration in the country, and its significant market share, the telecom company TIGO launched an e-wallet product, which was later re-designed to an over-the-counter model, giving the user the option to approach to an agent point of sale to send e-money directly to another user via SMSs.

More than one million active users

Not only the paperless subscription through the mobile was key for its success, but also the wide network of agents and its adequate liquidity management meant for a similar penetration of the traditional financial system in less than a decade since its launch, reaching 1.25 million active users by 2015¹ (aprox. 27% of adult population). The impact was greater than anticipated. While the platform was first envisioned to direct money from urban centers to rural areas, following the growth in the agricultural sector, money started to flow in both directions.

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At the same time, the government developed a National Financial Inclusion Strategy to reduce poverty and promote economic growth. Under this framework, the central bank simplified regulation for opening a basic savings account and issued guidelines for non-bank entities to service electronic payments and microcredits. As a result, out of 55 countries, Paraguay boasts the 3rd position for regulation and supervision for financial inclusion and 7th – for regulation of electronic payments².

Challenge: to promote savings

¹ “El caso de Tigo Money y el Proyecto Última Milla en Paraguay: una estrategia colaborativa para la inclusión”, Pablo García Arabéhéty, Claudia Gutiérrez, Francisco Demichelis, Lukas Keller.

² Global Microscope 2016, EIU.

Given the favorable regulatory environment, TIGO completed alliances with two large banks focused on BoP to support its business model, which not only provide funding to the platform agents, but also expand their loan offer coverage oriented to unattended markets, using the platform to disburse loans and receive payments.

With other telecom companies joining this innovation, in 2017 Paraguay boasted 11,250 electronic payment entities (vs 1,400 ATMs in the country), which constitutes the greatest growth of the continent in terms of financial inclusion.

Nevertheless, the country still faces the challenge of migrating away from the over-the-counter model, where the user does not have incentives to store money, to a true e-wallet model, where the platform is used for savings. For this purpose, TIGO is already working to educate the market with simple, but effective, messaging.

Regulation is also helping in this regard, as balances above USD560 must be kept in formal bank accounts. Therefore, more banks are interested to use TIGO's platform to capture savings, to expand their coverage and to make BoP financing more efficient.