ANALYSIS

Opportunities for social innovation services in Latin America & the Caribbean

JULY 2014
About

GSMA Mobile for Development Impact supports the digital empowerment of people in emerging markets through its Mobile for Development resource. It is a central platform of data, analysis and insight used to inform investment and design decisions for mobile services. Our work is freely accessible through support from Omidyar Network and in partnership with The MasterCard Foundation at gsmaintelligence.com/m4d

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Executive Summary

Thanks to widespread and rapid adoption, mobile technology is uniquely positioned to drive economic, environmental and social change at a global scale. Mobile enabled, social innovation services offering users access to services in areas such as employment, health, education and finance will play a significant role in effecting this change. Harnessing mobile network operator (MNO) assets over and above the vital, basic connectivity they offer – assets such as billing relationships with large subscriber bases, marketing channels and distribution networks – will be key to realising the full potential of mobile for commercial and social impact.

While Latin America and the Caribbean has seen significant economic development over the last couple of decades, many people continue to lack access to quality essential services. However, 80% of the population do have access to, or individually own, a mobile phone and the technology offers a channel through which access to financial, utilities, employment, education and other services can be offered to the underserved at scale.

For MNOs in the region, this also presents an opportunity. Declining average revenue per user (ARPU) and subscriber growth means that they will need to find stronger, more innovative strategies. Currently just over 1 in 2 people in the region is a mobile subscriber (53%), with the vast majority of the unconnected in lower-income segments. Future growth for MNOs will rely on providing more value for lower-income consumers and new types of services will be required to acquire these new customers. We believe that these customers will need to see very clearly how paying for mobile services will have a positive benefit on their lives and therefore offer them real value for money.

GSMA Mobile for Development (M4D) Impact is working to help MNOs harness this opportunity and to understand the needs of this customer segment. We work closely with MNO representatives operating in value added services (VAS) at the operational level to support them in developing innovative, commercial VAS that offer users social benefits. We aim to understand better the challenges faced by those working in mobile VAS and how third party providers of social innovation content and services can best work with operators for mutual benefit. Through a survey of 52 MNO representatives, whose remit covered the large majority of Latin America and the Caribbean, we found that:

i. When launching VAS, MNOs are facing a lack of proven business models presented by vendors

ii. MNOs incorporate social and environmental impact into their business decisions but are interested in learning how to do more

iii. MNOs see the opportunity to provide commercial services that also contribute to addressing their countries' socioeconomic challenges

Given the difficulties in discovering commercial opportunities, it is important that Latin American and Caribbean MNOs remain open to innovative opportunities in sectors, such as employment, health and financial access, which they may not have previously considered. There remains significant room for MNO involvement to grow in driving social innovation services.
Mobile: a commercial and social opportunity

The last ten years have seen surging ownership of mobile phones across the world. Mobile has been adopted at unprecedented speed, often meaning that many across the world now have access to mobile before they gain access to other kinds of infrastructure or technology.

As a consequence, mobile is uniquely positioned to drive economic, environmental and social change. This will in part happen through mobile enabled services that create innovative solutions that increase people’s access to health, finance and education. M4D Impact currently tracks around 1800 of these services across emerging markets.

The role of MNOs in driving this change is pivotal. Principally, this is through the provision of the networks that make the above services possible. However, MNOs also bring other resources: they have large customer bases with whom they have a billing relationships, as well extensive marketing and distribution networks. As a consequence, harnessing operators’ assets is fundamental to ensuring that mobile can achieve maximum social and environmental impact.

Recent years have seen a rising level of prosperity across Latin America. Since the turn of the millennium, real wages have increased by 25%, meaning that by 2011 there were more people in the middle class than living in extreme poverty.\(^1\) While inequality has fallen, significant social and economic challenges remain. Roughly 40 per cent of adults remain unbanked, youth unemployment is common,\(^2\) and approximately 31 million people do not have access to the commercial electricity grid.\(^3\) Although the proportion of the population in poverty has fallen, thanks in part to government interventions, 30% are still in poverty and a significant proportion of those who have recently emerged from poverty risk falling back into it due to economic shocks and the effects of climate change.

\(^1\) World Bank, *Shifting Gears to Accelerate Shared Prosperity in Latin America and the Caribbean*


\(^3\) Beyond Coverage: The opportunity for mobile operators to improve access to energy in Latin America, GSMA and Multilateral Investment Fund of the IDB Group. (Accessed 11 July 2014)
Moreover, the burgeoning middle class is demanding more from national infrastructure, putting pressure on health, education and transport systems.\textsuperscript{4} However, 80\% of the population do have access to (through borrowing from family or friends) or individually own a mobile phone\textsuperscript{5} and the technology offers a channel through which commercial mobile VAS can offer a positive social impact to users through enabling access to financial, utility, employment and education services. The growth rate for mobile learning products and services in the region is 32.5 per cent, the second highest regional growth rate in the world\textsuperscript{6} and according to GSMA research, the Latin American mHealth industry could total US$1.6 billion by 2017.

As a result, these social innovation services provide an opportunity for operators seeking growth in a region where unique subscriber penetration (i.e. the number of individuals who actively subscribe to mobile services) is currently at around only 53\%.\textsuperscript{7} Although this demonstrates that there is significant headroom for growth, operators are simultaneously working in an environment where ARPU and subscriber growth are declining (see Fig 2 below). This implies that these markets are entering a more mature phase of development and MNOs will need to find stronger, more innovative strategies to realise this growth potential. They will need to find supplementary sources of revenue, such as value added services, to convert those who do not have access to a mobile, or the significant proportion of the population who borrow phones from family or friends, to unique subscribers.

As growth rates depend on providing more value for lower-income consumer segments, the types of services that are required to acquire these new customers will shift. We believe that these customers will need to see very clearly how paying for mobile services will have a positive benefit on their lives and therefore offer them real value for money.

\textsuperscript{4} World Economic Forum on Latin America Opening Pathways for Shared Progress, April 2014. (Accessed 22 May 2014).
\textsuperscript{5} GSMA M4D Impact analysis
\textsuperscript{6} Ambient Insights; GSMA Connected Living
\textsuperscript{7} GSMA Intelligence, March 2014.
To support Latin American and Caribbean operators in realising both the commercial and social benefits of social innovation services, the GSMA M4D Impact team conducted quantitative and qualitative research followed by an in-person workshop with MNO representatives working in VAS in the region between March and May 2014.8

MNO views on VAS in Latin America and the Caribbean

Key findings

The three key findings of our survey were that, in Latin America and the Caribbean:

i. When launching VAS, MNOs are facing a lack of proven business models presented by vendors

ii. MNOs incorporate social and environmental impact into their business decisions but are interested in learning how to do more

iii. MNOs see the opportunity to provide commercial services that also contribute to addressing their countries’ socioeconomic challenges

i. When launching value added services MNOs are facing a lack of proven business models presented by vendors

Respondents were asked to rank the most important constraints when considering launching new value added services. A lack of innovative ideas was the least important constraint, with the lack of proven business models found to be the most important issue for releasing services. The difficulty, and importance, of finding the business models that

8 If you work in value added services within a mobile operator and are interested in finding more about our VAS workshops then please get in touch at M4Dimpact@gsma.com

Figure 3: ‘In order of importance, which of the following are constraining you from offering new products and services’ (1= least important constraint; 8= most important)

Source: M4D Impact Survey
work is clear. Indeed, this echoes the findings of our previous survey of MNOs from across emerging markets in November of 2013. Given the difficulties in discovering commercial opportunities, it is important that MNOs remain open to innovative opportunities in sectors that they had not previously considered.

**ii. MNOs incorporate social and environmental impact into their business decisions but are interested in learning how to do more**

MNOs across Latin America and the Caribbean have clearly demonstrated an interest in achieving social impact. This can be seen by their involvement in the kinds of initiatives outlined above, but also through extensive CSR programmes run by most of the MNOs in the region. The region also houses examples of world-leading innovation in the mobile industry, such as Telefonica’s Wayra incubator.

The survey revealed that those working within MNOs are confident that their companies are thinking about their social and environmental impact when making everyday business decisions. However, there is an appetite amongst those individuals for their companies to do even more. We asked respondents to compare the extent to which their company already embedded this kind of thinking into their decision making, with their view of where they would like to see their company. On a scale where 1 signified that this was not important to the company and the individual and 6 representing maximum importance, on average, individuals felt that their companies rated at 4.76, with their own view at 5.24. We believe thinking carefully about social impact is something that can supplement, rather than detract from core business.

![Figure 4: The importance of incorporating social and environmental impact into business decision making: company versus individual view (average score)](source: M4D Impact Survey)

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9 The results of which can be found here [The importance of partnerships to mobile operators’ value added services](#)
iii. MNOs see the opportunity to provide commercial services that also contribute to addressing their countries’ socioeconomic challenges

In order to gauge exactly where MNOs felt there was an opportunity to achieve social and commercial impact, we asked respondents to assess a range of areas in terms of the extent to which they felt it was a challenge for their country, and the extent to which they felt those areas represented a commercial opportunity for their company. They were asked to do this on a scale of 1 to 6, where 1 represented a minimal challenge or opportunity and 6 the maximum. Overall, security and education were felt to present the biggest challenges across the region, with education and the mobile internet offering the biggest commercial opportunity.

That MNOs see the biggest commercial opportunity in the mobile internet is unsurprising given the fact that it represents a growing share of their overall revenues. Smartphone penetration in the region is already relatively high, at 20%, and is forecast to rise to 44% by 2017, in part because MNOs have displayed a clear willingness to subsidize handsets. In other areas, M4D Impact already tracks a number of products and services in the sectors listed above. Services in the region currently largely fall into three of the top categories in Figure 6 (above): mobile health (42%) mobile learning and education (24%) and mobile money (19%).

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Figure 5: Relative importance of social challenge/need vs commercial opportunity (where 1 = Not a challenge/need/opportunity and 6 = Major challenge/need/opportunity)
Source: M4D Impact Survey

10 GSMA Mobile Economy: Latin America 2013
More generally, the number of these mobile products and services is a fairly small proportion of the data we track. However, on a ‘per head’ basis, there is significantly more activity than in Asia, albeit considerably less than in Africa (see table 1 below).

<table>
<thead>
<tr>
<th>Region</th>
<th>P &amp; S deployments</th>
<th>P &amp; S per million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>842</td>
<td>0.74</td>
</tr>
<tr>
<td>Asia</td>
<td>569</td>
<td>0.13</td>
</tr>
<tr>
<td>Americas</td>
<td>193</td>
<td>0.31</td>
</tr>
</tbody>
</table>

Table 1: M4D Products and Services (by Region)
Source: GSMA M4D Impact Tracker, June 2014

Significantly, a full 31% of these are led by MNOs, including services across all sectors, with some of the more prominent examples being Tigo’s mobile money service ‘Tigo Pesa’ or the entrepreneurship training platform led by Telefonica, ‘Red UnX’. It should be noted that this figure is slightly lower than the global average, where MNOs lead around 40% of the 1800 products that we track. It is clear that there remains significant room for MNO involvement to grow in these sectors. Social innovation services will be key to engaging consumer segments which are currently underserved by mobile.
Methodology

Data was obtained via an online survey sent to GSMA contacts who worked in mobile VAS. We received 72 applications, of which 52 were from MNOs working in the region. Only MNO responses have been used as part of this analysis. The survey doubled as an application form to attend an in-person workshop focussed on VAS. To enable a mix of both operational and managerial level representatives to attend the workshop, funding to cover travel and accommodation costs was provided by our partners at the MasterCard Foundation and Omidyar Network. In total, 21 MNO representatives were selected via the competitive application process with an external adjudicator. The four-hour workshop took place as part of the GSMA Latin American Plenary #41 in Montevideo in May 2014 and included short presentations, group exercises and discussions.