

**PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.: AB3249

Project Name	Maldives Mobile Banking Project
Region	SOUTH ASIA
Sector	Payment systems, securities clearance and settlement (90%); Banking (10%)
Project ID	P107981
Borrower(s)	Government of Maldives
Implementing Agency	Maldives Monetary Authority
Environment Category	<input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
Date PID Prepared	July 31, 2007
Estimated Date of Appraisal Authorization	November 30, 2007
Estimated Date of Board Approval	February 28, 2008

1. Key development issues and rationale for Bank involvement

The Maldives is a small economy comprising a chain of Indian Ocean islands spread over a distance of 900 kilometers. The total land area is less than 300 square kilometers and covers about 26 geographic atolls. The estimated population in the Maldives is about 300,000 and the country has 1,190 islands, of which 198 are inhabited. Of these islands, only 33 have a land area greater than one square kilometer.

In the 2006, Investment Climate Assessment (ICA) of the Maldives the single largest impediment to private sector development identified was access to finance (66 percent), followed by cost of financing (62 percent). This is rare in South Asian countries where the main critical investment climate impediment is almost always infrastructure.

The lack of basic financial services perpetuates poverty and vulnerability. The banked population in Male' is about 65 percent and about 30 percent in the islands. Most people in the Maldives remain without a safe place to save money, and those working away from their home islands find it expensive and time-consuming to send money to family. Insurance products are unavailable to most in the atolls, and the nearly universal use of cash means that people's basic earnings are vulnerable to loss, theft and natural disasters such as the recent tsunami.

The proposed project has been largely developed by CGAP's Technology Program, which is co-funded by the Bill and Melinda Gates Foundation. It has been undertaken at the express request of the Government of the Maldives after being exposed to similar mobile banking programs in other parts of the world supported by CGAP and the World Bank.

IDA funding for this project is particularly appropriate, given its experimental nature, potential for replication, and national scale. As envisioned, the project would be a world's first in creating a national payment and banking system in which mobile phones and local retail outlets are the main means of making payments and conducting banking. Although this approach remains experimental, particularly at a national scale, it is the approach that is most likely to bring financial services to the doorstep of all people in the Maldives, given the country's challenging geography, thin financial sector regulatory framework, and relatively high mobile penetration. In this sense, the project may be an exemplar for countries with some of the same characteristics in South Asia (e.g. Afghanistan, Bhutan), as well as across Sub-Saharan Africa and other parts of the world.

The project is also a valuable opportunity to collaborate across the Bank Group with IFC, which is an investor in the privately-owned mobile operator, and is helping the MMA develop a national credit bureau.

There is a possibility of retroactive financing or a project preparation facility requested by the Government of Maldives to initiate the preliminary work.

2. Proposed objective(s)

The objective of this project is to reduce the use of cash for payments in the country and also improve potential for universal access to formal financial services through an appropriate regulatory framework for branchless banking, an interoperable retail payment system, and introduction of competition in retail banking and greater access to banking through mobile phones and a network of banking agents on the islands.

3. Preliminary description

The project will involve deploying EFT POS devices to a network of agents across the islands where there is no bank presence and implementing an entirely inter-operable mobile phone payments transaction engine providing mobile payments functionality to consumers and businesses. To process these payments, MMA would set up Maldives Interbank Payments Service (MIPS) that would house a payments transaction engine, and provide agent management services to banks. This entity would initially be housed in MMA, and would eventually be spun out as a separate company, most likely owned by member banks and mobile operators.

The project will also include assistance to banks, non banks and mobile operators to develop products and systems. Given the small population in the Maldives and therefore the limited ability to achieve economies of scale, it is critical that wherever possible the technology investments are shared and standardized in order to manage costs. Banks will be able to differentiate their offerings through innovative product design, customer service and branding but the back office systems will need to be an area of co-operation. It is also proposed that a proportion of the marketing budget is put into a fund to be used as a matching grant for banks or telcos who would like to work with the project to design appropriate products or financial education related to mobile banking.

CGAP intends to focus its support on the technical aspects of the project and also play an active role in the management and monitoring of the design and implementation of all elements of the project through short term and long term consultants.

A portion of CGAP and World Bank funding could be allocated to a challenge fund that would give matching grants to banks or mobile network operators (MNOs) who would like to work with the project to design appropriate products or financial education.

This project is being driven by the Maldives Monetary Authority and the key players will be the banks and the mobile operators. The government would like to increase competition in the retail banking sector in order to encourage improved service levels and greater diversity of products. The banks have articulated their understanding that it would be politically necessary to make an attempt to expand their retail banking business. The MOs have both said that they recognize the need to diversify their revenue streams beyond voice, which is reaching saturation.

4. Safeguard policies that might apply

Based on the nature and scope of the project, it is not anticipated that there will be any adverse environmental impacts. Therefore, there will be no safeguard policies triggered and the project is a Safeguards Category C project. There will be no environmental safeguards analysis or studies undertaken during project preparation.

5. Tentative financing

Source:	(\$m.)
BORROWER/RECIPIENT	0.0
International Development Association (IDA)	3.75
Consultative Group to Assist the Poorest	1.0
Total	4.75

6. Contact point

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