

ADDENDUM TO THE CONCEPT DEVELOPMENT DOCUMENT: MOBILE MONEY FOR THE POOR

Country: Global

Programme Title: **Expansion of Mobile Money for the Poor (MM4P) October 2014- December 2019**

The key outcome of MM4P's intervention is for at least 10-15% of the adult population (ages 15 – 64) to be actively using Digital Financial Services (DFS) in the countries below:

Country	Stage of market development	Adult Population	% active users (90 days)/ adult population	
			March 2014 (Est)	Targets (December 2019)
Laos	Inception	4,318,382	0.0%	10%
Liberia	Inception	2,649,163	1.2%	10%
Malawi	Start-up	10,955,738	2.8%	15%
Nepal	Start-up	20,510,000	0.1%	15%
Benin	Inception	6,509,135	0.2%	12%
Senegal	Expansion	7,621,135	6.8%	20%
Zambia	Start-up	7,651,561	2.4%	15%
Uganda	Expansion	17,761,751	28.7%	50%

Programme Duration: Five years

Anticipated start/end dates: 1 September 2014- 31 August 2019

Management Arrangements: Direct Implementation by UNCDF

Total estimated budget*:

Out of which:

1. Funded Budget: 34,960,750
2. Unfunded budget: 8,316,977

* Total estimated budget includes both programme costs and indirect support costs

Sources of funded budget:

UNCDF	1,866,127
MCF	24,922,250
BMGF	5,801,926
SIDA	1,807,375
DFAT	563,071

UN organizations

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Date & Seal



Acronyms

A2F	Access to Finance Programme (Nepal)
ANA	Agent Network Accelerator
API	Application Programme Interfaces
ARPU	Average Revenue per User
ATL	Above the Line (marketing)
ATM	Automated Teller Machine
AusAID	Australian Agency for International Development
B2P	Business-to-Person (payments)
BB	Branchless Banking
BOL	Bank of Lao PDR
BOU	Bank of Uganda
BMGF	Bill and Melinda Gates Foundation
BTCA	Better than Cash Alliance
BTL	Below the line (marketing)
CBL	Central Bank of Liberia
CGAP	Consultative Group to Assist the Poor
CTA	Country Technical Advisor
DCED	Donors Committee for Enterprise Development
DFID	Department for International Development
DFS	Digital Financial Services
EIB	European Development Bank
EOI	Expression of Interest
EU	European Union
FIPA	Financial Inclusion Practice Area
FSD	Financial Sector Development (DFID)
G2P	Government-to-Person (payments)
GSMA	GSM Association
KM	Knowledge Manager
KYC	Know Your Customer
IC	Investment Committee
IFAD	International Fund for Agriculture and Development
IFC	International Finance Corporation
LDC	Least Developed Country
MAFIPP	Making Access to Finance More Inclusive (Lao PDR)
MCF	MasterCard Foundation
MFI	Microfinance Institution
MFS	Mobile Financial Services
MM4P	Mobile Money for the Poor
MNO	Mobile Network Operator
NO	National Officer
NRB	Nepal Rastra Bank (central bank of Nepal)
OA	Operations Associate
P2P	Person-to-Person (transfer)
PBA	Performance-based Agreement
PFIP	Pacific Financial Inclusion Programme
PM	Programme Manager
POS	Electronic Funds Transfer/Point of Sale Device
PSP	Payment Service Provider
UN	United Nations
RBM	Reserve Bank of Malawi
MoF	Ministry of Finance
RTA	Regional Technical Advisor
Sida	Swedish International Development Agency
TA	Technical Assistance
TAA	Technical Assistance Agreement
TS	Technical Specialist

UNCDF	UN Capital Development Fund
UNDP	United Nations Development Programme
USAID	US Agency for International Development

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Executive Summary

This document is an amendment to the existing MM4P project document, please refer to **Annex I** for details

With support from Australian Government, Department of Foreign Affairs and Trade ("DFAT" formerly AusAid), and the Swedish International Development Cooperation Agency (Sida), UNCDF launched Mobile Money for the Poor (MM4P) in March 2012, a **global thematic initiative to address the opportunities and challenges of implementing branchless banking and mobile money in the Least Developed Countries (LDCs)**.

MM4P's long-term mission is to help low income and rural households in LDCs increase their financial security through appropriate, affordable and secure means to receive, manage and save money through these "digital financial services" (DFS). To do so, its intermediate goal is to help build inclusive digital financial sectors such that a wide range of digital financial services are provided responsibly, and at reasonable cost, by sustainable institutions in a well-regulated environment. **The ultimate beneficiaries are low income customers including women and rural customers.**

UNCDF's approach for connecting poor people to DFS combines a making markets work for the poor approach with UNCDF's traditional operational model of directly supporting the most crucial level – retail service providers. UNCDF

The **theory of change in DFS** markets focuses on making **shifts** between stages of market development (moving from inception to start-up to expansion and eventually a mature and consolidating market). These are coordinated actions which will push DFS from inception to a point where societies become "digital" and the industry is consolidated. Moving from start-up into a solid expansion is proving challenging in most markets. **Therefore the primary focus of MM4P is to help and hasten that shift in the markets until they are firmly in the expansion stage.**

MM4P's approach starts with the (1) **DFS Market Analysis Framework** which defines the range of interventions needed at different levels of a country's DFS ecosystem (i.e. macro, meso, micro, client) to then (2) **invest in interventions in key work streams** (Policy, Provider, Ecosystem and Learning and sharing) that help and hasten the market shift across development stages

MM4P started implementation in four focus countries: Laos, Liberia, Malawi, and Nepal. The programme was initiated with a Project Concept Note with an initial time frame was 2012 through the end of 2016. The concept note envisaged that UNCDF would develop a project document in late 2013 or early 2014 once adequate funds for the programme had been raised.

Expansion of Mobile Money for the Poor (MM4P) 2014-2019

The expansion is planned for a period of five years - from 2014 to 2019 - and builds upon the achievements of the program to date. MM4P intends to:

- **Continue the implementation in Malawi, Liberia, Nepal and Laos through the end of 2019, funds permitting.** This means reaching 15% of the adult population of active users in Malawi and Liberia, as well as 10% in Nepal and Laos.
- **Roll out new MM4P activities in Benin, Senegal, and Zambia from 2014 to 2019:** In partnership with The MasterCard Foundation (MCF), this means reaching 12% of the adult population of active users in Benin, 20% in Senegal and 15% in Zambia¹.
- **Extend operations to Uganda from 2014-2017:** With funding coming from the Bill & Melinda Gates Foundation (BMGF). This means reaching 50% of the adult population of active users.

The total budget for the expansion is 43, 277,726 USD out of which UNCDF has secured funding commitments for 34,960,750 USD and will have to fund raise an additional 8,316,977 USD.

¹ These three countries have been identified based on initial scoping missions. Should conditions change in any of these three countries such that is no longer feasible to proceed, the MM4P technical team will present alternative countries for approval to the MM4P investment committee and the funder, MCF.

Part 1: Situation Analysis

1.1. The Benefits of Digital Financial Services to the Poor

Today there is a significant, and growing, disparity between the number of people that have mobile phones and those that are banked. Almost 42% of the population of the LDCs had access to mobile cellular subscriptions in 2012, up from 34% in 2010². This stands in contrast to the financial services market where access to finance currently serves an average 14% of the population, but growth is stagnant.³ This disparity presents an opportunity.

While cash has its advantages, the prevalence of physical cash has negative effects on the lives of the poor namely due to storage risk, transport costs and psychological barriers to savings. But there is a growing body of evidence suggesting that connecting poor people to digital financial services will generate sizeable welfare benefits for the poor.

- DFS creates important changes in the lives of the poor: relying solely on cash keeps many people excluded from the formal economy, while DFS provides a convenient and safe alternative to informal financial services and cash-based assets⁴.
- DFS is a powerful accelerant towards more inclusive, stable and secure financial sectors. The potential of mobile technology to improve people's lives is growing, as MNOs expand digital connectivity and bring more people into the mobile network. DFS can connect poor people to the formal financial sector, enabling them to become customers and suppliers within the wider economy.
- DFS lowers transaction costs increasing the size and frequency of remittances from a wider network of sources and therefore, the ability to smooth risk⁵.
- DFS make new choices and options available to the customer via mobile phone menus that can offer convenience and save time, such as helping customers save through direct deposits (rather than spending), and other features such as automatic reminders and 'positive default options' that can maximize adoption and usage⁶.
- With DFS, financial flows can be accurately tracked, creating faster yet safer transactions and less corruption and theft⁷.

The welfare impacts of an inclusive digital financial system are best depicted in the figure below⁸.

² UN-OHRLLS, The State of the Last Developed Countries, 2013

³Honohan, Patrick. "Cross Country Variation in Access to Financial Services." Journal of Banking & Finance Volume 32, Issue 11, November 2008, Pages 2493-2500.

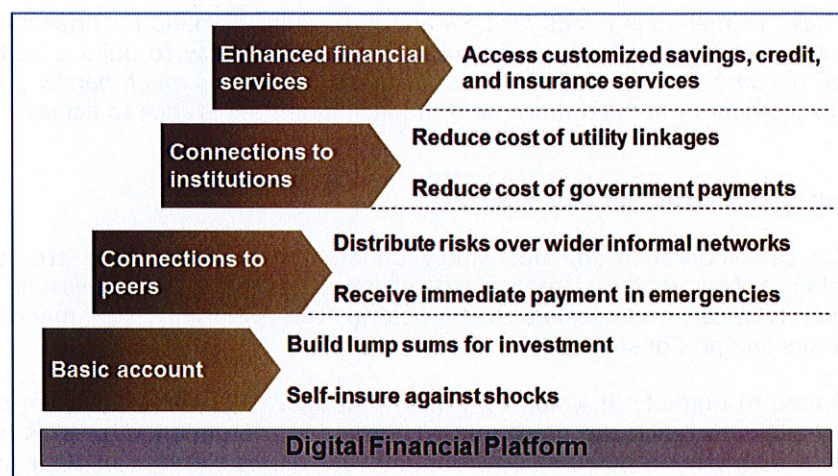
⁴ Claire Pénicaut (2013), "State of the Industry: Results from the 2012 Global Mobile Money Adoption Survey," GSMA, London, UK. Available at <http://gsma.com/mmu>

⁵Jack and Suri. 2014. "Risk Sharing and Transactions Costs: Evidence from Kenya's Mobile Money Revolution." American Economic Review, 104(1): 183-223.

⁶ www.gatesfoundation.org

⁷ Ibid and *Fighting Poverty Profitably, transforming the economics of payments to build sustainable inclusive financial systems*, Bill and Melinda Gates Foundation, Special Report September 2013

⁸ The welfare impact channels of a digital financial system (Source: Radcliffe and Voorhies, Bill and Melinda Gates Foundation, December 2012)



Poor households can experience: (i) access to **basic** stored value **account**; (ii) payment **connections to peers**; (iii) payment **connections to institutions** (utility, governments, enterprises); and, (iv) access to **enhanced financial services**.

1.2. The Challenges of Digital Financial Services

The euphoria of M-Pesa early in the decade led to the hasty launch of over a hundred new services, mostly by MNOs. Most of the new entrants have been stuck in the start-up stage—many for several years—where they do not have enough active agents to attract customers or enough active customers to incentivize agents to offer the service, recently coined as the “**sub-scale trap**.”⁹ After several years with no true success stories other than M-Pesa, there are now a small but growing group of “sprinters” as noted in the GSMA 2012 and 2013 Annual Global Mobile Money Adoption Survey.

In some cases, there is evidence that massive financial investments in marketing, agent expansion and customer activation are sufficient to escape the sub-scale trap, as was done with M-Pesa in Kenya and Tanzania. However there are more examples where large investments did not precipitate the necessary tipping point, including several providers now partnering with UNCDF, as well as examples of sprinters that have leapt forward without significant investment, such as Telsom Zaad in Somalia.¹⁰ New models are also appearing; EasyPaisa in Pakistan is building a successful model around over-the-counter (OTC) transactions. These sprinters also include MNOs that lack a dominant market-share (i.e. Airtel Tanzania) and those outside East Africa and in smaller and difficult markets such as Madagascar and Zimbabwe.

Banks are also beginning to catch up. Equity Bank in Kenya now has 2.3 million customers registered for agency banking after just a few years. Westpac Banking Corporation rolled out its “InStore Banking” in late 2012 across the Pacific. In two years, it now has over 180,000 new savers—42% of which are women—in low-income and rural market segments.¹¹ Added to this is the rapid success of M-Shwari in Kenya, a new banking product offered through a partnership between Safaricom and Commercial Bank of Africa, which has reached six million accounts in just over a year.¹²

1.2.1. The Challenge of the Least Developed Countries (LDCs)

Private companies and other donor agencies have shown less interest in investing in LDCs, which are often perceived to offer a poor business case for DFS. LDCs have higher risks and operating costs with slower

⁹ The sub-scale trap is a “chicken and egg” problem related to active clients and active agents as one is needed to incentive the other. Until providers reach a tipping point, they may find themselves stuck in a no or low growth mode, without adequate service locations to attract clients or adequate clients to keep agents interested. Given the high cost of acquiring clients and agents, this can quickly eat away at operators’ budgets. This is described in Ignacio Mas & Daniel Radcliffe, “Scaling Mobile Money”, Bill & Melinda Gates Foundation, September 2010.

¹⁰ Claire Pénicaut and Fionán McGrath, “Innovative Inclusion: How Telesom ZAAD Brought Mobile Money to Somaliland”, GSMA Mobile Money for the Unbanked

¹¹ From Westpac quarterly reports to PFIP and Microlead.

¹² <http://www.the-star.co.ke/news/article-154167/kenyans-bank-sh200m-m-shwari-daily>

returns. LDC markets have tremendous needs for DFS and high client demand for financial services. Working in LDCs will require looking beyond the M-Pesa model and considering how to build a sector that suits these markets. It is clear that *building a sustainable business in these markets is much harder and more costly than previously thought*. LDC providers will need more time, financing and assistance to achieve success and break-even.

1.3. MM4P's Theory of Change for the DFS Market

The development of the DFS market is still not widely understood because there are so few examples of success. However using a few of the more advanced countries and taking lessons learned from the development of the banking sector, it is possible to characterize the evolution of the market into four stages: Inception, Start-up, Expansion and Consolidation.

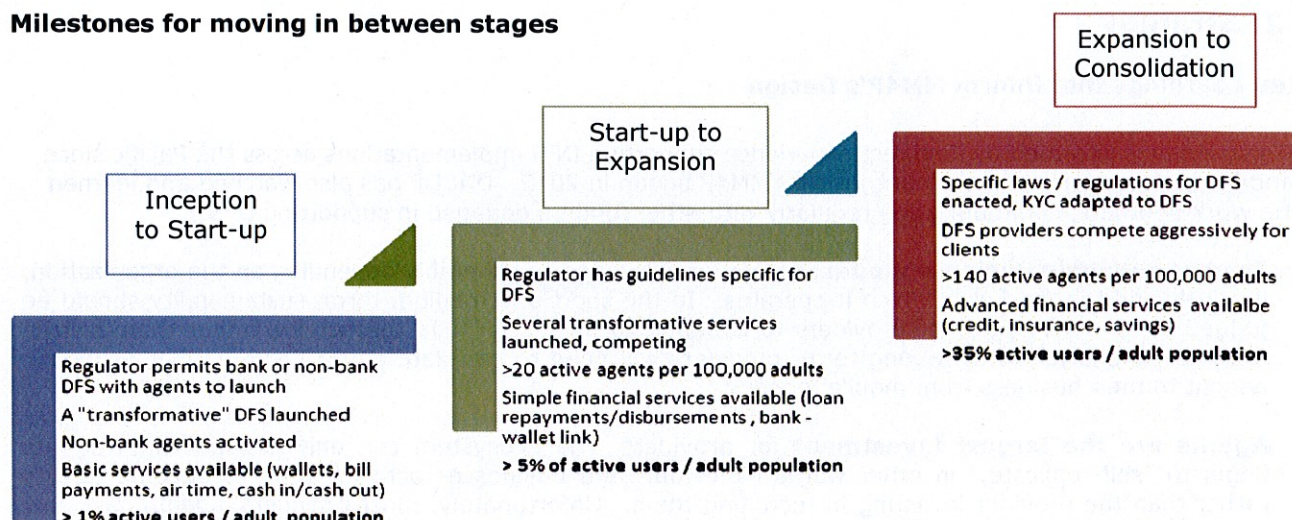
1. **Inception** is limited to markets in which a "transformational" DFS service has yet to be launched (i.e. one that actively seeks to reach the mass market, including the unbanked). This is often due to poor infrastructure or a restrictive regulatory environment, as well as the lack of clear business case, all of which deter providers from trying to reach the unbanked. Moving beyond this period can take several years and concludes when the CEOs of providers are convinced, systems are created, products tested, clients sensitized, and the regulator approves services to be piloted and launched that have the ability to reach the poor. **Of MM4P's current countries, Lao PDR and Nepal are both in this stage, with Nepal set to move into the next phase in the coming months.**
2. **Start-up** is characterized by one or a few DFS providers developing a transformational service, with basic products, available through a network of agents that may achieve a large number of customer registrations, but little customer activity. Moving beyond this period requires providers to find the right balance of active customers and available agents to serve them. It also requires addressing all of the service issues that impede customer adoption. Several markets have been stuck in the start-up stage for 3 – 4 years, unable to activate customers. **Of MM4P's current countries, Malawi and Liberia are both in this stage**
3. **The Expansion** stage is a vital period in which the lead providers begin massive expansion and more decentralized agent management, while new providers enter the market and compete for market share. This concludes when the number of active adult users is moving quickly beyond 5 % of the adult population. By the end of this phase, multiple providers begin to reach profitability, prices are driven down and multilateral arrangements are creating interoperability allowing more new market entrants¹³. **Of the MM4P countries, Uganda is in the early expansion stage and Senegal is on the cusp.**
4. **Consolidation** is when DFS are ubiquitous, with more than 1/3 of the adult population actively using the service. At this point, regulators and market forces push for more agreement and cooperation among providers, including real-time interconnection based on set fees, which enable a wide range of FSPs and other businesses to utilize DFS for their business. A true industry emerges that is strong and increasingly diverse and is guided by clear "rules of the game," and customer protection. Kenya is arguably in this stage even though the virtual monopoly of Safaricom has limited meaningful competition.

The **theory of change** in DFS focuses on making **shifts** between stages of market development, moving from inception to start-up to expansion and eventually a mature and consolidating market. These are coordinated actions which will push DFS from inception to a point where societies become "digital" and the industry is consolidated. Moving from start-up into a solid expansion is proving challenging in most markets.

The timing of the four stages can vary greatly. Ideally, a market would move through the stages to consolidation within eight to ten years. As noted, many countries have remained stuck in the start-up phase for three or more years, and it is difficult to predict the course of such a newly emerging industry. There may also be a significant degree of overlap between stages.

¹³ This percentage (active users (90 days)/ adult population) and the number of active agents (90 days) per 100,000 adults are based on a survey of different DFS markets.

Milestones for moving in between stages



As with most shifts we can assume that:

- Shifts may not be linear; for example new service providers are launching with multiple products rather than one;
- New policies, business models or technologies may alter the course; for example regulatory mandates have great impact and the speed of broadband and smartphone proliferation could dramatically alter an ecosystems development;
- While not all stakeholders need to advance in lockstep, if any is left too far behind, it will delay the shift.

Therefore the primary focus of this MM4P programme is to help and hasten that shift in the markets until these are firmly in the expansion stage.

Part 2: Strategy

2.1. Key Learnings that Inform MM4P's Design

UNCDF's strategy is informed by its direct experience supporting DFS implementations across the Pacific since 2009 and in the four current focus countries that MM4P begun in 2012. UNCDF has also watched and learned from the work of others, communicating regularly with other funders engaged in supporting DFS.

- There is **no single business model for DFS** and it varies considerably depending on the organization, its goals and the market in which it operates. In the short and medium-term, sustainability should be judged on the willingness of providers to continue to offer and build the service rather than a strict break-even analysis. In the long-term, providers will need to calculate and achieve a clear economic benefit to their business from mobile money.
- **Agents are the largest investment** for providers. The ecosystem can only expand when agents begin to "self-replicate," in other words individuals and businesses actively enrol to become agents rather than the provider investing in recruiting them. Unfortunately, most providers' agents have few customers and they fail to offer and promote the service.
- Regulation was once considered the biggest challenge to providers, but that is slowly changing as regulators see the potential for DFS to increase access to financial services. Still, **policy and regulation is** too often viewed as an obstacle to be overcome than **an opportunity** to build the ecosystem.
- **Adoption**, getting customers to use DFS,—is the greatest challenge to DFS development today. There are a number of factors that affect the ability of low income and low-literate users in the LDC contexts to adopt and use DFS. Variations in adoption and intensity of usage are typically caused by a number of parameters including cultural norms¹⁴, household type, pace of uptake, key service adopted, frequency of usage and ease of use¹⁵. Understanding these variations in electronic banking by low-income and low-literate users is critical to developing accurate understandings of impact in these contexts. Some key lessons learned in regard to adoption are:
 - Customers' financial practices are "sticky," even when they are costly or inefficient. People's psychological attachment to physical cash is not easily overcome. Customers need to experience the service directly to appreciate its value and those who have strong habits related to cash need to use that solution several times in relatively quick succession to change their behaviour.
 - Customer awareness can be achieved fairly quickly but does not translate into regular use or trust. "Above the line" promotion has limited impact after the products initial introduction. Clients must witness or experience the person benefits before they will risk trusted habits for an untested service.
 - Customer registration is the best opportunity for providers to win active customers. Registration must be quick and easy and ideally lead to an immediate transaction. Turning customers away, requiring them to return, delaying their registration and failing to activate them lead to a long-term difference in the customers future use of the service.¹⁶
 - Customer experience can "forced" through high volume, top down transactions (e.g. G2P) and become the customer gateway to DFS use, particularly if the providers takes advantage of the high volume payments to identify client behaviours and needs and design services to meet them.
 - Customers assess DFS on both the real and *perceived* convenience and costs of cash rather than to some other competing service (e.g. Western Union or bank transfers). This requires providers to design and market products to compete with cash – not other providers.
 - Most customers aspire to be banked, although the reasons may vary, and most trust banks more than MNOs.

¹⁴ http://www.fsdkenya.org/pdf_documents/14-04-11_Informal_financial_practices&social_networks.pdf

¹⁵ Medhi, Ratan and Toyama, Mobile-Banking Adoption and Usage by Low-Literate, Low-Income Users in the Developing World, Proceedings of the 3rd International Conference on Internationalization, Design and Global Development: Held as Part of HCI International 2009, July 19-24, 2009, San Diego, CA

¹⁶ This was clear from UNCDF's experience in PFIP and has recently been quantified by GSMA. Customers who transact at registration are 26% more likely to be active client and produce 95% higher revenue on average than customers who do not.

- Providers have mostly failed to understand the needs and attitudes of clients locally, assuming demand rather than identifying it. This has led to the replications of standard products from other markets with little success.

As coined by Bankable Frontier Associates, customers will use a service if it is **available, accessible, affordable and reliable**. UNCDF believes that services must also be **appropriate** to the target customer needs and capabilities and the benefits (i.e. the value proposition) must be **understandable**. Otherwise, many customers prefer to remain "stuck" in their current financial practices despite the advantage of using DFS. Getting each of the service criteria to a sufficient level is the key to moving markets to expansion, bringing about the market change.

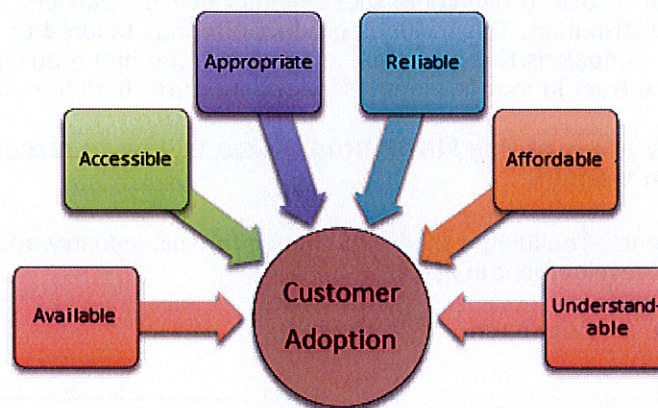


Figure 5: Basic criteria for customer adoption

Reaching women with DFS is a major challenge. However, To reach scale and impact in their operations, mobile money operators cannot ignore women, who represent a substantial business and development opportunity¹⁷: women represent half of the potential customer base in every market.

- In many markets, women are more likely to receive mobile money than send it, while senders tend to be primarily men. This suggests that financially dependent women are a key market segment since they use mobile money to receive transfers from their relatives and social payments from the government or aid organisations.
- Women are active household financial managers with specific wants and needs when it comes to financial management:
 - *Convenience* – Women are time-poor and need financial tools that fit into their busy daily routine.
 - *Reliability* – Women need reliable financial tools that allow them to access money quickly in emergencies.
 - *Security* – Women need to trust the financial tool that is safeguarding their money.
 - *Privacy* – Women feel empowered and independent if they can save and spend their money how they like, without undue demands.

DFS meets many of these criteria, more so than most formal financial services do not always meet these needs, but mobile financial services could have strong appeal for women.

However, penetration of services within this group remains low and there are many barriers that keep women from adopting and using these services, such as:

- Low literacy and education levels – Women tend to be less educated than men in most developing and emerging markets, which is the greatest barrier to adoption.

¹⁷ Claire Pénicaut and Elisa Minischetti, "Reaching half of the market Women and mobile money", GSMA Mobile Money for the Unbanked

- Lack of easy access to mobile money agents – Easy access to a mobile money agent is crucial to women, and uptake and continued use depend on agents being available to help them trust the service.
- Lack of identification documents –open a mobile money account. In other markets, a man's signature is required for women to open an account and make domestic money transfers.⁹ In all cases, the use of tiered KYC can help streamline the registration process and make it easier for women to sign up for the service
- Lack of confidence – The operators interviewed for this publication also indicated that women typically have less confidence in their ability to use mobile money than men and identified this as a potential barrier to uptake of mobile money services.
- Low levels of mobile phone ownership – This remains a challenge in several markets where the digital gap is still prevalent.

Operators can use a number of tactics to overcome these gender-specific barriers, particularly changing their approaches to marketing and distribution. This includes product offerings tailored to the unique financial needs of women; updated marketing campaigns that women can relate to; and hiring quality female agents who help to build women's confidence and trust in mobile money services and turn them into loyal customers.

Therefore one of the priority areas of this MM4P programme will be to promote activities that serve the unique financial needs of women.

These lessons are the cornerstone of building a theory of change for this industry and have been used to refine its ecosystem approach to DFS development in LDCs.

2.2. Translating Lessons into an Approach

Identifying Needs

MM4P uses a **DFS Market Analysis Framework** (summarized in the figure below) to break down the most important areas which linked together form the DFS ecosystem, which include the following:

Market Potential:

- Most LDCs have a population of less than ten million as compared to over 18 million active M-Pesa users in Kenya;
- LDC populations tend to be more dispersed and rural;
- By definition, households have lower per capita income and LDCs have overall lower levels of economic activity;
- LDC economies tend to be more reliant on government and international donors, characterized by more government control and contribution to the economy and less dynamic private sector actors;

Policy and Regulation:

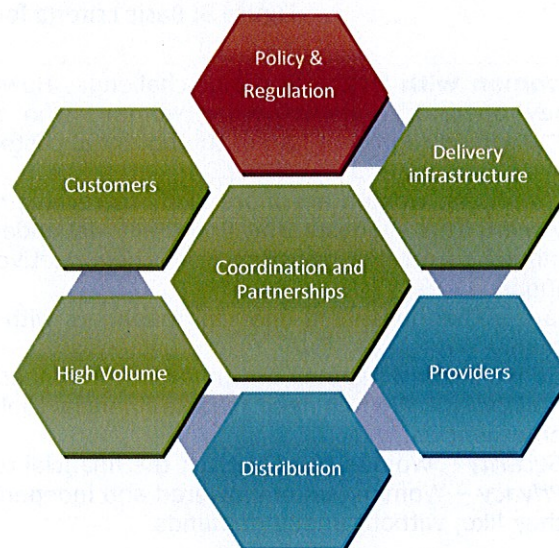
- Policy makers and regulators are understaffed and overburdened;
- Regulations and guidelines are often done as a reaction, without a national payment systems plan.

Delivery infrastructure:

- Physical infrastructure (roads, bridges) is often limited causing difficulty in installing and maintaining electronic infrastructure (cell sites, ATMS, computers);
- There are few, if any, entities with a national network of physical locations (brick and mortar);
- LDCs are more likely to lack national payment systems infrastructure (switches);
- Mobile and data connectivity is lower than other developing countries;

Providers:

- MNOs and banks tend to invest less, seeing less mass market potential;



- Banks may see fewer opportunities for lending and therefore lack incentives to mobilize deposits;

Distribution:

- There are fewer national retail chains as anchors for agent networks;
- Lower transaction levels limit the agent value proposition;
- Agents are further away from bank branches to manage their liquidity.

High Volume:

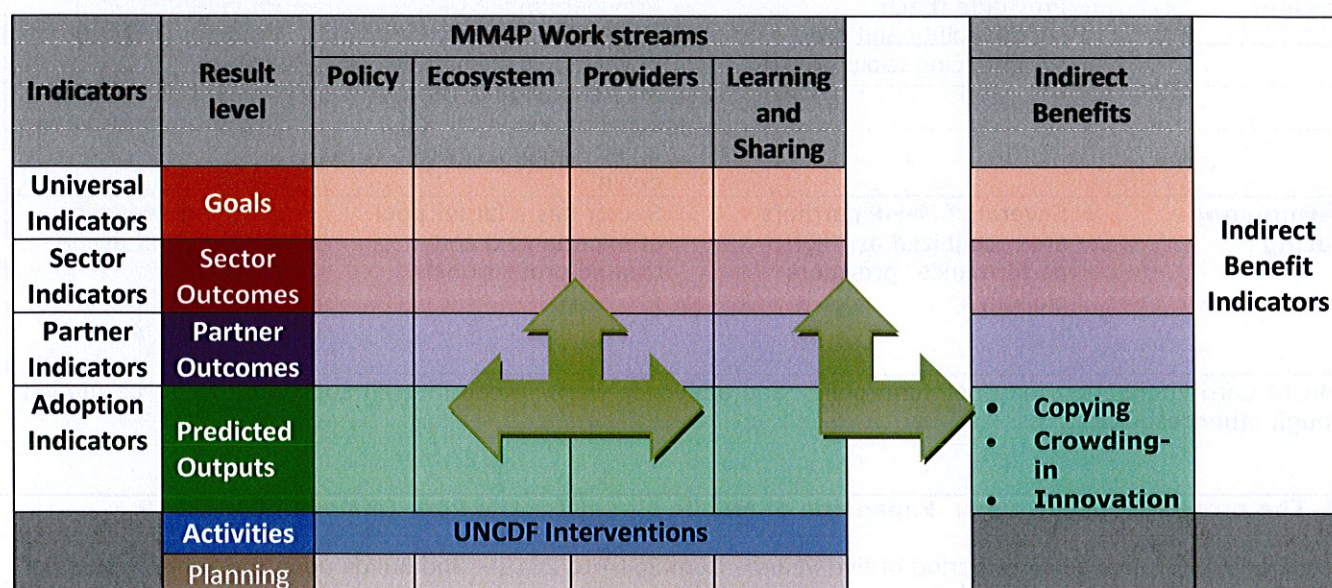
- There are lower volumes of person-to-business (e.g. bill payments);
- There are high volumes of government-to-person and business payments (G2P, G2B) relative to commercial activity;

Customers:

- There are higher dependency ratios, with few earners per households;
- Adult literacy is at 59.6% for LDCs compared to literacy rate of 79.4% for all developing countries,¹⁸ which is linked to lower level of functional literacy, and female literacy is of;
- Fewer adults own mobile phones, relying on friends and family members, particularly women;
- Fewer adults are banked, making DFS a less easily understood concept, particularly women.

Overall market potential will vary from country to country and the extent to which that potential can be reached depends largely on these areas that make up a DFS market. While the success of the market is not necessarily based on the "weakest link," if one aspect of the market is particularly challenging it can slow or limit DFS growth.

In Annex VI, the MM4P Results Chain is included to shown demonstrating how UNCDF can challenging markets form their current state to that of a rapidly expanding market. The MM4P results chain considers a number of outcomes at country level which are divided between (i) the direct results of each of three work streams, (ii) the indirect results that may appear due to market activity outside of the influence of the programme, in terms of growth (of partners, and sector) competition (price and products), behavior of the market players (copying, crowding in and product innovation), and (iii) the lessons learned from both the direct and indirect results of the programme and which MM4P intends to share with the broader community.



2.3. Planned intervention

¹⁸ The Least Developed Countries Report 2011. UNCTAD. http://unctad.org/en/docs/ldc2011_en.pdf More recent report?

To achieve its goal, MM4P focuses on four work streams: **Policy, Provider, Ecosystem and Learning and Sharing.**

Work Stream	Partner Outcomes	Sector Outcomes	Customer Benefits
Policy*	⇒ Regulator is developing and adapting policies for DFS based on the proportional risk ⇒ Regulator engages in proportional, meaningful monitoring of services, including customer protection	⇒ Policies make DFS available, agents accessible and competition for affordable prices	⇒ KYC is appropriate so that services are <i>available</i> ⇒ Policies and regulations provide recourse and protection, so that services are <i>reliable</i> ⇒ Policymakers educate the public on DFS
Ecosystem	⇒ High volume Users drive adoption and usage of DFS ⇒ FSPs and others offering financial services are reaching customers through partnership with DFS providers ⇒ Customers usage reaches breakeven level for providers ⇒ The rate of active and rural Agents is increasing quickly	⇒ Active Agents are multiplying rapidly, including in rural areas, and accessible to the majority of the population ⇒ New businesses/services appropriate for low income clients develop based on DFS	⇒ Density and spread of agents expand to make services <i>accessible</i> ⇒ Improved agent networks make services more <i>reliable</i> ⇒ Products are developed that are <i>appropriate</i> to clients' needs ⇒ Marketing and education, and spread of services make them <i>understandable</i>
Provider	⇒ Providers reach sustainability and are experiencing rapid growth	⇒ Providers make DFS available to the majority of the adult population on a sustainable basis ⇒ Competition is driving quality up and prices down	⇒ Providers make a range of DFS <i>available</i> Competition makes DFS more <i>affordable</i>
Learning and Sharing	⇒ Several of MM4P partners are recognized as "high performance" providers globally	⇒ Sector has a larger pool of experienced and trained professionals	⇒ Learning questions on customer usage are shared ⇒ Impact of DFS on customers is measured

* MasterCard Foundation may not fund policy and advocacy work. Therefore all such work must be funded through other resources.

2.4. The proposed programme: Expansion of Mobile Money for the Poor (MM4P) 2014-2019

The expansion is planned for a period of five years - from 2014 to 2019 – and builds upon the achievements of the initial program. MM4P intends to:

- **Continue the implementation in Malawi, Liberia, Nepal and Laos through the end of 2019, funds permitting.** This means reaching 15% of the adult population of active users in Malawi and Liberia, as well as 10% in Nepal and Laos.
- **Roll out new MM4P activities in Benin, Senegal, and Zambia from 2014 to 2019:** In partnership with The MasterCard Foundation (MCF). This means reaching 12% of the adult population of active users in Benin, 20% in Senegal and 15% in Zambia.

- **Extend operations to Uganda from 2014-2017:** With funding coming from the Bill & Melinda Gates Foundation (BMGF). This means reaching 50% of the adult population of active users.

2.5 Sustainability of results

As noted in its theory of change, entering the DFS expansion stage requires at least 5% of adults to be actively using DFS. **UNCDF believes a minimum of 10% - 15% is the uptake needed for the market to have sufficient momentum to ultimately reach the majority of the adult population¹⁹.** Within this range, research suggests that services begin to expand more quickly providing adequate encouragement for providers to continue and increase investment in expansion.

Measuring sustainability in DFS is not straightforward when discussing providers, namely banks and MNOs. **First, there are no standard definitions** of terms and ratios in the mobile money industry. **Second, many of the financial benefits are indirect**, primarily by keeping customers away from air time resellers or out of bank branches. **Finally, neither MNOs nor banks can easily disaggregate the costs** related to their mobile money offerings as many support structures are shared by other units or services (e.g. voice and data). UNCDF is committed to working with CGAP, GSMA, Gates Foundation and others to develop such standards for measuring sustainability and require its partners to use them.

2.6 Synergies and Integration with other UNCDF programmes

The systematic adoption of DFS can be a key driver of financial inclusion (and access to many other services) in LDCs providing a strong value propositions for clients. In that sense, the contribution of MM4P's expansion to the IF agenda in LDCs could be enormous. The deployment of DFS solutions will support FIPA's programming agenda in the countries concerned, and will be closely articulated and coordinated with FIPA's technical infrastructure at the regional and country level. One of the reasons for the creation of MM4P was the challenge and opportunity that DFS presents to many of UNCDF's country programmes. MM4P's initial choice of four countries was linked to the presence of a UNCDF country programme. However, one of the challenges and risk faced by MM4P and other GTIs has been the unpredictable nature of the country programme infrastructure; the closure of country programmes has delayed and otherwise hindered MM4P in the past two years. While not originally envisioned, MM4P has been investing in joint programme resources with other GTIs to help maintain or introduce a UNCDF inclusive finance presence in those countries. Here are already examples of such coordination: i.e. the national programme manager in Malawi and Nepal are cost-shared and support the broader FIPA's IF approach in country, including MAP's forthcoming diagnostic and programming agenda. The new IF Technical Specialist position in Uganda is also cost-shared with two other GTIs and the staff person concerned is playing the role in-country focal point for FIPA's IF agenda.

In absence of the country programme, MM4P is part of the development of IF country framework documents, such as in Malawi, where both the issues of country sector development and the top thematic issues of relevance to the host country will be articulated within an integrated programme. UNCDF will need to make similar efforts in the expansion countries, all of which lack country programmes. Integration is already established in Asia. In the case of Lao PDR, the MM4P supports the existing MAFIPP programme, providing technical oversight while MAFIPP provides the funding and framework for the intervention. In the case of Nepal, MM4P was used as the \$1 million "cost share" for the new UNNATI/Access to Finance (A24) programme, which provides the framework for its interventions.

A second challenge UNCDF has faced is that MM4P has had limited technical staffing to provide the necessary technical and operational support to implement the range of inter-connected technical assistance activities that need to take place to move the various parts of the ecosystem forward in a coordinated fashion. Proving the ecosystem approach around DFS in LDCs is a major challenge and requires a strong focus and critical mass of resources in each country. As a result there is a large budget planned for each of the countries targeted for expansion as well as the deployment of stronger in-country human resources which will add to the UNCDF country presence, both technical and operational. These country teams described below will have some of their time allocated to support UNCDF IF goals in the country.

¹⁹ This range has been set based on comparative analysis of DFS markets in different stages, including Kenya, Tanzania and MM4P's expansion country, Uganda.

UNCDF is proposing to include a single technical specialist that is primarily dedicated to work on global DF work and work with other UNCDF programmes to provide advice, support and quality assurance on DFS projects to the rest of UNCDF.²⁰ In that respect, the deployment of increased technical capacity by MM4P will help support the vision highlighted in FIPA Business Plan 2014-17 where GTIs, beyond their respective programmatic agendas, also become over time centers of excellence and sources of expertise that can provide technical support to FIPA's general programming in those areas. UNCDF is also in the process of reviewing the work of MM4P and BTCA and will identify how to develop a center of support and expertise for FIPA's overall needs related to DFS. This is a broader undertaking that must also take into consideration other programmes with large DFS portfolios, such as BTCA.

Another important consideration relates to the modalities of engagement and resource mobilization with donors at country level in the countries where MM4P is already active or is planning its expansion. As with other GTIs, in those countries where UNCDF has an on-going national IF program (or is planning one), the engagement with those donors will be led by the FIPA country team (or regional team), in close coordination with MM4P (as well as other GTIs active in that country). This will help ensure that the deployment of MM4P's expertise supports the broader national agenda of that country on financial inclusion and best leverages other aspects of FIPA's interventions in that country. This approach will maintain the flexibility of different options for access and use of those donor resources (i.e. through the on-going national FI program, or through MM4P directly if this is considered the most effective way to support the expansion of DFS in that country).

MM4P has already developed a large web of on-going engagements with a range of existing activities within FIPA. It could be argued that MM4P is well integrated with UNCDF and other UNCDF programmes, reflecting the cross cutting nature of digital financial services as a powerful enabler of financial inclusion.

- **The Better than Cash Alliance (BTCA)** was launched in September 2012 in response to public and private sector demand for more strategic advocacy, research and guidance on digitizing these cash payments. BTCA is an alliance of governments, private sector and development organizations committed to accelerating the shift from cash to electronic payments and is funded by the BMGF, Citi, Ford Foundation, MasterCard, Omidyar Network, USAID and Visa Inc. with UNCDF serving as the secretariat. MM4P and BTCA already collaborate on a number of activities, with MM4P overseeing some BTCA technical assistance partners and BTCA leading the advocacy effort on responsible digital finance. The two programmes are in the process of analyzing how to combine resources and teams, while still preserving the two distinct programmes. A strategic review of both programmes scheduled for Q4 2014 will provide recommendations to that end. Regardless, the expansion of MM4P takes this into consideration, building a technical team that is capable of also working on BTCA projects and looking to BTCA as a partner in its research efforts.
- **Making Access to Finance more Inclusive for Poor People (MAFIPP)** UNCDF has worked jointly with UNDP to support the Bank of Lao and DFAT in broadening access to land, markets and economic services. Under the NIM modality, MAFIPP addresses key issues of capacity and infrastructure at the macro, meso and micro level, improving the policy and regulatory environment while strengthening the financial sector infrastructure as well as the capacity of financial service providers. MM4P has provided technical oversight to the branchless and mobile component of MAFIPP's work, including organizing and conducting workshops, leading study tours, contracting consultants and overseeing their work. MAFIPP's partners are included in MM4P global events. These activities are fully funded by MAFIPP, including some contribution to MM4P staff time.
- **UNNATI/Access 2 Finance:** A2F aims at providing support to financial institutions to improve their technical knowledge in agricultural finance and expand their products and services to rural areas and agricultural activities. This will allow additional 250,000 small holder farmers, and Micro Small Medium Enterprises (MSMEs) out of which at least 55% are women, to actively use appropriate and affordable financial services to support their value chain activities at a national level. This NIM project focuses on seven Eastern Development Region (EDR) districts of Nepal, namely Ilam, Paanchthar, Terhathum, Bhojpur, Dhankuta, Taplejung, and Sankhuwasabha. While awaiting the finalization of MAFIPP, MM4P commenced DF activities with permission and in partnership with the Nepal Rastra Bank (NRB). MM4P agreed to commit \$1 million of its funds to Nepal, providing the necessary cost-share for A2F to be finalized. As of mid-2014, funding of DF activities in Nepal is through both A2F and MM4P, with MM4P

²⁰ Part of the funding sought under the EU's FIPA proposal could be used for that purpose.

providing technical oversight, including organizing workshops, leading study tours, contracting consultants and overseeing their work.

- **Local Governance and Community Development Programme (LGCDP II)** in Nepal was developed to strengthen and improve the local management of vital event registration and social security system in Nepal. The Human Development and Social Protection Pilot (HDSPP) programme consists of quarterly educational cash transfers to a targeted 24,000 beneficiaries administered through a network of 31 bank agents 21 distributed in remote areas of Kanchanhpur and Dadheldura districts, while the SSNP supported similar activities related to the existing cash transfers to the elderly, single women, disabled, endangered ethnicities and child grant in three districts; Surkhet, Banke, and Baglung. Within the pilot period (2012 – 2014), UNCDF helped MOFALD improve internal processes resulting in a more cost effective delivery of electronic cash transfers and managing and administering a payment service provider. MM4P provided the technical input and some funding to this activity and to review the pilot to capture lessons learned. Through this, IF and LD are working together to promote more cashless payments through MoFALD, each funding a portion of this assistance.
- **Making Access Possible (MAP):** Making Access Possible (MAP) is a diagnostic and programmatic framework to support expanding access to financial services for individuals and micro and small businesses. The MAP framework creates the space to convene a wide range of stakeholders around an evidence-based country diagnostic which leads to the development of national financial inclusion roadmaps. MAP is an integrated and holistic diagnostic that shifts beyond the narrow supply-led focus to a broader focus on the financial ecosystem. MM4P contributed to the MAP exercise in Myanmar, providing the DF component. The two programmes are also discussing cooperating more intensely in the SADC region to implement the MAP recommendations in many of those countries, particularly Zambia and Malawi.
- **MicroLead** is a Global initiative to support the development and roll-out of deposit services by regulated financial service providers. Initially funding Greenfields, MicroLead currently works with a variety of financial institutions (banks, cooperatives, MFIs) to build their capacity to reach low income, particularly rural, markets with demand-driven savings products and services being delivered with a financial education component via alternative delivery channels such as branchless banking and mobile money.-Funding under MicroLead has been awarded in 19 countries for 27 projects (working with 36 FSPs) totalling \$42 million. MM4P is already providing some expert input into MicroLead projects that include alternative delivery channels, and has contributed to MicroLead organize learning events. With the addition of MM4P specialists, it will be able to work more closely with the MicroLead team. MicroLead and MM4P co-fund three posts (knowledge management, as well as country based positions in Malawi and Uganda) in combination with other programmes. The programmes are jointly hosting their partners' meeting in 2015.
- **YouthStart**, funded with USD\$12 million in support from the MCF, works with leading institutions in sub-Saharan Africa to test and roll out financial services and training for youth. YouthStart is supporting 12 financial institutions in 8 countries. YouthStart and MM4P have discussed looking at some joint projects, to combine technology and Youth Finance. MicroLead, YouthStart and MM4P also co-fund shared staff (knowledge management, as well as country based positions in Malawi and Uganda)
- **CleanStart** is a Global initiative that aims to create clean pathways for low-income households and micro-entrepreneurs to jump-start their permanent access to modern energy through sustainable financial services, supported by energy supply chains that respond to end-user needs and an enabling policy environment. The UN Capital Development Fund (UNCDF) and UNDP will invest US\$ 26 million over six years (2012-2017) in six countries in Asia and Africa to support at least 2.5 million people to move out of energy poverty. CleanStart and MM4P are both active in Uganda and have agreed to work together on a project to use mobile money for sustainable energy purchases or investment.
- **Pacific Financial Inclusion Programme (PFIP) II** UNCDF, together with UNDP, AusAID and the EU, created the Pacific Financial Inclusion Programme (PFIP) in 2008. The PFIP strategy involves finding new ways of serving hard-to-reach populations, while fostering greater commitment and cooperation to build inclusive financial systems throughout the region. At the core of its efforts is building branchless

²¹ UNCDF and MOFALD partnered with Siddhartha Bank Limited in this effort.

banking platforms that can reach low income and rural households, the vast majority of which are unbanked. MM4P and PFIP II are now working closely together to develop and eventually implement DF strategies in the largest PFIP countries.

2.7 Relationship with the United Nations Development Programme (UNDP)

UNCDF's relationship with UNDP is rooted in the complementarity of the two organizations and aims at greater coherence, effectiveness and increased resource flows. Concerted efforts on the part of both organizations over the past planning period have resulted in strong synergies at the strategic, programmatic and operational level²². UNDP is UNCDF representative at the country level and the Resident Representative is UNCDF's official representative to the government. UNCDF engagement with UNDP in regard to GTIs needs to be from the outset and remain mutually beneficial. Whenever possible, MM4P will make full use of UNDP systems.

At present, the UNCDF CTAs and regional offices are responsible for facilitating the introduction of new GTIs into a new country and working with UNDP to do so, as was done in Liberia, Nepal, Malawi and Uganda. MM4P will be supported by the existing UNCDF national and regional presence in the expansion countries and work with them to ensure the contribution to the UNDAF. At the programmatic level the MM4P will work in cooperation with UNDP in each country for the design of the country strategies, ensuring that programme interventions are complementary to those of UNDP and anchored to the UNDAF.

At present, MM4P team members and shared inclusive finance staff are co-located with UNDP in Malawi and Uganda and it the plan to do so in Zambia and Benin as well.

2.8. Approach to the UN system

As part of the country level UN system, UNCDF is obliged to provide its contributions as part of the UNDAF, which anchors its work in country's own priorities. At the operational level is aligned with the UNDP accountability framework, allowing for differences only when UNCDF policies, processes and instruments are not aligned with those of UNDP. Where possible MM4P will further strengthen UNCDF's partnership with the UN system, with the objective to "Deliver as One" and enhance the impact of coordinated UN agencies interventions in support to national policies and interventions. More specifically MM4P will develop a close cooperation with agencies like UNDP, WFP, and IFAD helping them to transition large scale payment streams from cash to electronic platforms (in the context of the BTCA agenda) as well as further develop an active UN inter-agency dialogue and cooperation on financial inclusion.

MM4P has contributed its DFS Expert Consultant to the UN Mission for Ebola Emergency Response (UNMEER) as well as made its LTA available to UNDP for contracted experts during the emergency.

2.9 Engagement with Host Country Governments

As with other global programmes, UNCDF's Investment Committee does not include host country governments; rather it has proceeded on a basis of an exchange of letters (of "no objection") with the central bank. At the same time, MM4P engages intensely with the host country government, primarily through the central bank and to a lesser degree, the Ministry of Finance (MoF). In its current countries it has dramatically scaled up its work with regulators and policymakers in response to their great need for assistance and important role in enabling DFS market development. For this reason, it has a dedicated work stream in each country to support the relevant government actors. This includes: incorporating DF into financial inclusion strategies, capacity building of policy makers, assistance with supervision. MM4P adjusts the scope of its assistance according to needs and demands of the central bank and MoF, as well as the work of other agencies.

There are also some lessons learned over the past two years that are common across countries in regard to its work with regulators and policy makers:

²² UNCDF strategic framework 2014-2017

- Because DF challenges most regulatory paradigms, most central banks see DF as a priority, whether or not they are explicitly in their financial inclusion or payments systems strategies. An important role for UNCDF is to help incorporate DFS into those key strategies.
- MM4P has noted that governments, particularly the central banks, often lack the capacity and bandwidth to manage DFS and therefore they lack confidence to let providers innovate.
- Larger funders and technical agencies (IFC, World Bank, DFID, KFW, GSMA MMU etc.) often play the lead role in policy reform, but MM4P has found there is a need for more regular interaction and greater support to central banks and ministries of finance than these organizations generally provide. By providing more consistent, on-site support, supporting capacity, UNCDF fulfills an important niche that facilitates these larger funders' in getting their work done.
- There is a great need to provide a forum for sharing information between the government and the private sector on DF. UNCDF is well suited to play this role as it is generally viewed as a neutral actor.

MM4P has identified certain needs areas that seem consistent across LDCs, namely: exposure to other markets; training to understand DFS; incorporating DFS in existing strategies and plans; developing meaningful indicators and monitoring of DFS; identifying potential payment streams for DF. In some countries, direct support is needed to draft policy and regulation. MM4P has also helped start DFS working groups that are led by the central bank, supporting them. In each expansion country, the central bank and MoF were engaged during the scoping mission. This will be followed by discussions with them over UNCDF's intent to support DFS as well as what assistance is required as was done in Uganda. Through those conversations MM4P develops the work stream for support.

At the same time, UNCDF solicits a no objection to commence activities and officially join BTCA. It is best when the CTA/NO or, in their absence, the RTA manages the approval with the government so that they may consider all of UNCDF's programmes, with the MM4P technical staff members or consultants forming a relationship around specific issues. However, as there has been much turnover in UNCDF's country presence, it is also important for MM4P to establish a direct relationship with policy makers through its own technical team. As part of that UNCDF team, MM4P also works with the host country government will agree to facilitate the appropriate inclusion of this intervention into their common country assessments/United Nations development action framework/country programme action plan (CCA/UNDAF/CPAP) at the earliest opportunity.

Should a local steering committee be present, linked to a UNCDF country programme, MM4P will participate as it does in Nepal. However, MM4P will not create a local steering committee just for MM4P activities.

2.10 Mainstream gender considerations

In 2012 UNCDF adopted the Gender Equality and Empowerment of Women (GEEW) Strategy which is to guide the agency in the coming years. UNCDF's own experience shows that women account for approximately 30-35% of registered users for such services, while slightly higher for branchless banking (35-40%). While the cause for lower women's participation has not been researched, discussions with customers and providers suggest that (a) women are less likely to be banked in general, regardless of the type of provider or service; (b) women are more risk averse with their funds and more likely to remain with traditional money management means; (c) women have less money to manage (transfer or spend) as compared with their male counterparts and (d) women are less likely to own a mobile phone. As noted in the Findex Survey, women's use of financial services also varies by culture, country and region. An interesting finding in the Pacific is that women accounted for a significantly higher number of those customers with micro insurance and those who received remittances.²³

The programme will be compliant with UNCDF's Gender Equality and Empowerment of Women (GEEW) Strategy.

At present, MM4P has mainstreamed gender the following ways:

- MM4P will be implemented in accordance with the GEEW. Each Annual strategic review and annual work plan will address gender issues and key indicators disaggregated by gender;
- Scoping mission reports will address legal or regulatory issues that inhibit access to women and rural customers;

²³ Finding is for UNCDF supported programmes.

- MM4P will actively engage with regulators to advocate for the removal of policy or regulatory impediments to women and rural DFS users (except with MasterCard Foundation funds which do not allow for it);
- All requests for direct technical and financial assistance will require information on how women customers will be targeted;
- Targets related to users in TAAs and PBAs will include specific targets for women;
- MM4P to work on including gender and rural as standard indicators tracked by its partners;
- All partners assisted with product design will be required to include specific activities or plans to enrol women customers;
- All market, customer and impact research will be disaggregated by gender and urban/rural;
- Workshops sponsored or co-sponsored by MM4P will make an effort to ensure attendance by women;
- Mid-term evaluation terms of reference will include evaluation of MM4P's performance under GEEW.

2.9 Consumer Protection

MM4P has worked with BTCA on the helping to promote a new dialogue on responsible digital finance, looking at ways in which DFS is distinct from a consumer protection perspective such as the role of agents, customer technology interface, electronic nature of transactions, and the potential application of Big Data. At a programme level, MM4P will continue its participation in this dialogue with BTCA. At the same time, consumer protection is part of its policy work stream at a country level. The exact actions in each country will be determined based on need and stage of development and the partners available. Some core issues around DFS include: transparency, fair treatment, effective recourse, data privacy and protection, and suitable products. MM4P is currently working on including consumer protection as one of its policy work streams.

To date, MM4P has requested all of its partners with an agreement adhere to the [Smart Campaign Client Protection Principles](#). However, these principles are not easily adaptable to mobile money, in particular It will be testing this in the expansion countries. In addition, the GSM Association recently released a [Code of Conduct for Mobile Money Providers](#) which is more suitable for non-banks than the principles of the Smart Campaign, which MM4P will include in its agreements going forward..