

## **Concept Note**

### **Mobile Money for the Poor**

## **Organization Introduction**

UNCDF is the UN's capital investment agency for the world's 48 least developed countries (LDCs)<sup>1</sup>. It creates new opportunities for poor people and their communities by increasing access to microfinance and investment capital. UNCDF focuses on Africa and the poorest countries of Asia, with a special commitment to countries emerging from conflict or crisis. It provides seed capital – grants and loans – and technical support to help microfinance institutions (MFIs) reach increased numbers of poor households and small businesses and to help local governments finance the capital investments – water systems, feeder roads, schools, irrigation schemes – that will improve poor peoples' lives.

UNCDF works to enlarge peoples' choices: it believes that poor people and communities should take decisions about their own development. UNCDF's expertise in microfinance and local development is shaping new responses to food insecurity, climate change and other challenges and its programmes help empower women – over 50% of the clients of UNCDF-supported microfinance institutions are women. UNCDF works in challenging environments – remote rural areas, countries emerging from conflict – and paves the way for others to follow. Its programmes are designed to catalyze larger investment flows from the private sector, development partners and national governments, to achieve significant impact on the Millennium Development Goals. Special focus is placed on Goal 1: *Eradicate Extreme Poverty and Hunger*, Goal 3: *Promote Gender Equality and Empower Women* and Goal 7: *Ensure Environmental Sustainability*. All UNCDF support is provided via national systems, in accordance with the Paris Principles.

Established by the General Assembly in 1966 and with headquarters in New York, UNCDF is an autonomous UN organization affiliated with UNDP. UNCDF has a strong presence on the ground with substantial in-house technical expertise and a results-based management approach. Please see Annex B for an organization diagram of UNCDF Financial Inclusion Practice Area (FIPA) structure at headquarters, regional and country level.

## **Strategic opportunity**

Mobile Money for the Poor is an LDC-focused, global, technical assistance and funding facility to develop scalable and/or replicable mobile money solutions<sup>2</sup> for the unbanked. Through Mobile Money for the Poor, UNCDF's goal will be to reach at least four million mobile money users in

<sup>1</sup> The definition of LDC definition can be found at <http://www.unohrrls.org/en/ldc/related/59/>.

<sup>2</sup> Mobile money refers to financial service solutions delivered via the mobile phone or other branchless means, either by a bank, MNO or other party

LDCs through its partners, of which 1.4 million will have been previously unbanked<sup>3</sup>. Two million of the users will have access to “second generation” service, such as savings or remittances, in addition to the typical “first generation” domestic money transfer service. The programme will focus intently on 4-5 countries that have the potential to be highly scalable and/or may be transferable or replicable in other countries. It will carefully document its experiences, and those of its partners, and contribute its lessons learned to the global community by making its information available to thought leaders in branchless banking, including Consultative Group to Assist the Poorest (CGAP), Alliance for Financial Inclusion (AFI) Bill & Melinda Gates Foundation (Gates Foundation), GSMA<sup>4</sup> and others.

## Why Mobile Money for LDCs?

LDCs present particular challenges for financial inclusion initiatives and mobile money providers to reach scale.

LDC Statistics	2009
Population (mean in '000)	9,998
Mobile Penetration (mean)	32.6%
GDP Per Capita (mean)	\$497
Financial Services Access (average)	14%
Ease of Doing Business (avg. out of 183)	151

- Overall economic activity and disposable incomes are lower
- Business and regulatory environments are less developed and less conducive
- Physical, technological and financial infrastructure is underdeveloped

On average only 14% of the adult population in LDC's has access to financial services and growth is stagnant.<sup>5</sup> In contrast, UNCDF estimates that some 33% had access to mobile telephony in 2009, growing at a rate of 23% per year, suggesting that current penetration of now close to 40%.<sup>6</sup> Using the burgeoning mobile networks and building upon people's comfort with using phones, there is an opportunity to increase people's access to needed financial services.

M-Pesa, Vodafone's well-known mobile-phone based banking service in Kenya, has demonstrated how successful mobile payment systems can be under the right conditions. Based on M-Pesa's success, many operators, primarily mobile network operators (MNOs), have already entered LDCs with mobile money services, limited mostly to domestic transfers and airtime top up. However, many of these entries have had fairly shallow penetration, with a low number of active clients and transactions.

## The Challenges

### *Replicating M-Pesa's success is unlikely*

Despite its success in Kenya, it is unlikely that “M-Pesa<sup>7</sup> style” mobile money services—based person-to-person (P2P) transfers served through a large, dominant MNO propriety agent

<sup>3</sup> Unbanked is defined as those who do not currently have access to a bank account in licensed or legally registered institution, i.e. bank, licensed MFI, credit union, etc.

<sup>4</sup> The GSMA represents the interests of mobile operators worldwide. It spans 219 countries, nearly 800 of the world's mobile operators, as well as more than 200 companies in the broader mobile ecosystem.

<sup>5</sup> Hohohan, Patrick. “Cross Country Variation in Access to Financial Services.” Journal of Banking & Finance Volume 32, Issue 11, November 2008, Pages 2493-2500.

<sup>6</sup> GSM Association. Wireless Intelligence Data Base as of September 2010

<sup>7</sup> M-Pesa is the product name of a mobile-phone based money transfer service for Vodafone in Kenya

network—will achieve success in many LDC markets. As noted by Mas and Radcliffe of the Gates Foundation, few developing countries have the population base, economic activity, the urban-rural family connections or the reasonably extensive bank infrastructure as Kenya has. This is doubly true of LDCs. Further, few MNOs have the penetration rates, market dominance or the millions to spend as did Safaricom.

Still, the rush to deploy continues as MNOs, and to a lesser degree banks, see mobile money as a critical service to remain competitive. There is some justification for this. The utility of mobile money in a MNO's overall voice business (reducing cost of air time sold and perceived reductions in voice-user churn) does motivate MNOs. For banks, the benefits of adding a mobile channel offers a lower cost means to serve their existing client base. The “must have” and “cost reduction” factors provide an adequate incentive to offer mobile money, but not a sufficient incentive to invest in developing a product mix and executing a roll-out that can reach the unbanked.

### ***Slower road to profitability means less incentive to invest***

There have been a wave of recent mobile money deployments in many countries, including LDCs, but growth in use of mobile money services—particularly in the first year—has failed to live up to expectations.<sup>8</sup> Mobile money operators frequently report experiencing the “sub-scale trap”<sup>9</sup> where the merchant network is not sufficiently extensive and the clients are not adequately informed or motivated to use the service. Many operators launched rather quickly, failing to invest the time, money or effort in the service or the distribution network up front. The vast majority of reported deployments<sup>10</sup> remain shallow, limited primarily to P2P transfer and air time top up served by inadequate agent networks. While “self top” (client direct purchase of air time from an m-wallet) up can be quite lucrative for MNOs offering the service, domestic money transfer is one of the highest cost services for a mobile money operator because it leads to intensive use of cash agents. Incentivizing agents usually requires paying most, if not all, of the commission on cash transactions to the agents, leaving very little for the operator.

As noted in recent CGAP and other studies<sup>11</sup>, MNO deployments of mobile money generally take more than three—and most likely five or more—years to break even. In LDC markets with smaller numbers of active mobile users, it may take even longer.

To date the market has not seen MNOs withdrawing from the business. Most will likely maintain some type of mobile money service provided they are experiencing modest indirect gains from increased stickiness and the savings from airtime top up.<sup>12</sup> Still, there is a risk that operators will cease to invest in the service, particularly in the expensive agent network. Part of improving the

<sup>8</sup> McKay, Claudia and Mark Pickens. *Branchless Banking 2010: Who's Served? At What Price? What's Next?* Focus Note No. 66. CGAP. 2010.

<sup>9</sup> Mas and Radcliffe. *Scaling Mobile Money*. Bill & Melinda Gates Foundation. September 2010.

<sup>10</sup> Those reported on the GSMA Mobile Money for the Unbanked Deployment Tracker <http://www.wirelessintelligence.com/mobile-money/>

<sup>11</sup> *Five business case insights on mobile money*. Presentation. CGAP. April 2011.

<sup>12</sup> Airtime top up is when clients top up their air time by transferring funds directly from their m-wallet. This cuts out the air time resellers and can save MNOs anywhere from 5%-15% on the cost of goods (airtime) sold. Research is showing that this is an early and important incentive for MNOs offering mobile money.

business proposition in these countries is to get subscribers to use the service by offering a greater range of services to clients beyond money transfer. If mobile money is to scale up and reach down to the poor in most LDCs, it will take greater incentives than present.

### ***No one-size-fits all product solution***

It is unlikely that a uniform, pure mobile money transfer model or product mix will emerge that is suitable for LDCs; the demand for services from low-income users will vary in different environments. There is a great need for operators to develop a broader product mix and diverse revenue stream that generates transaction volumes not completely dependent on a cash transaction. Planned savings, insurance, international remittances, small purchases, loan repayments and even public transportation are examples of services that could provide increasing average revenue per customer (ARPU).

### ***An example of diverse product development:***

*Finding an easy means to pay for public transport might be popular in Papua New Guinea (PNG) where public motor vehicles are notoriously crime-ridden, whereas a Zambian family may wish to save part of its international remittance payments from a mine worker in South Africa to pay for a new home.*

## **An opportunity for UNCDF and its partners**

UNCDF's own experience in the Pacific demonstrates both the challenges and the potential of mobile money for extending financial inclusion in LDCs. The Pacific region faces many of the typical challenges for inclusive finance efforts, particularly small and geographically dispersed populations and poor infrastructure. However it has strong and growing mobile network operators and several strong international banks with a presence throughout the region. The MNO-led deployments succeeded in attracting very rapid subscription rates, but they are quickly discovering the limitations of the "P2P + Proprietary Agent Network" model. The slogan "send money home," has yet to attract the hoped-for usage, even though the mobile money products are cheaper than their alternatives. As is typical of LDCs, the Pacific economies tend to be more "top down," with government payroll and payments, large companies' payroll and purchases (mostly commodities), and international remittances playing a key role in household incomes. Pacific MNOs have already added bill pay services, are actively pursuing government and private sector bulk payments, and are forming alliances with banks, MFIs, post offices and others to expand their agent network. In some cases, the MNOs are considering a "white label" platform, allowing banks and others to utilize the platform for their own client base under their own brand name. Finally, all are actively pursuing partnerships for international remittances. This area shows particular promise as the cost of remittances in the Pacific averages 18-20%, not including the additional costs incurred to travel to the nearest city to collect them. This type of product and business model experimentation is happening in many other countries as well.

Banks have also entered this market. Two of the three major banks the Pacific offer short message services (SMS) or "texting" services. By design, these SMS banking services were intended to reduce lines at ATMs and bank branches rather than reach new, unbanked clients. However all three Pacific banks are considering ways to use this service in combination in a more aggressive way to reach the unbanked.

*The task now is to determine whether branchless banking deployments (whether mobile-led, bank-led or otherwise) can scale in country where the factors that contributed to M-Pesa's success are absent.*

Ignacio Mas and Daniel Radcliffe

Throughout all of this, the local central banks in the Pacific have been tremendously supportive of all mobile money efforts. Despite their lack of resources, Pacific central banks recognize the unique opportunity for mobile money to reach the unbanked. UNCDF believes that central banks in LDCs are perhaps more sympathetic to the need for permissive regulation than those in middle income countries, given the persistent low level of financial inclusion in their countries.<sup>13</sup>

### ***A Role for Mobile Money for the Poor***

A focus on building mobile money systems for the poor, rather than just a single service or provider, is what is needed in LDCs. A range of second generation products is needed if mobile money services are to generate enough volume to be sustainable. Such product development will have to come from a good understanding of the market and negotiating “win-win” partnerships, often between previously unrelated companies and industries. The role of funders such as UNCDF and its partners is to help MNOs and banks see these opportunities, incentivize their start and ensure that a third “win” for low-income clients is also an outcome.

Mobile Money for the Poor will do so by working with the main providers of mobile money services and helping them to build partnerships for delivery, both public and private, to reduce the cost of setting up agent networks. It will also invest in product developments that benefit the provider, partner and client. Particular attention will be given to savings services backed by regulated institutions and other instruments that provide financial security to the poor, such as remittances, insurance, cash transfers, emergency loans and relief. This will require engagement with donors and regulators in each host country, a role that UNCDF is well-positioned to play given its presence throughout the LDCs.

#### ***Lowering the Million Mark***

The CEO of Safaricom, Sir Michael Joseph, has commented that it takes a million active subscribers for mobile money to be sustainable. (Brookings Institute, May 2011). This is worthy of note given the success of M-Pesa. The consequence of this statement is that most LDCs with an average population of less than ten million are unlikely to see sustainable mobile money services. It is a challenge for funders of mobile money to lower the million mark. Regional initiatives, greater product offerings and different agency models may all be part of a “less than a million” strategy.

Partnerships are the core of this proposed initiative. In all of its inclusive finance efforts, UNCDF has worked closely with the private sector, enabling them to do what they do best by helping them understand the opportunity with the mass market and incentivizing them to provide appropriate services through initial financial support to reduce initial investment costs, as well as technical support and learning from initiatives elsewhere. UNCDF has also played a major role in facilitating partnerships, using its close relationship with central banks and its partners to coordinate create linkages and bring various stakeholders to create the “win-win-win” scenario.

<sup>13</sup> In addition to the Pacific Financial Inclusion Programme’s (PFIP) experience, a Brookings Institution/Alliance for Financial Inclusion event in May 2011 included six LDC central bankers who voiced openness to finding regulatory solutions that are enabling.

## Proposed Outputs

Mobile Money for the Poor's targets reaching at least four million mobile money users in LDCs, of which 1.4 million will have been previously unbanked and two million will have access to a service other than domestic money transfer. UNCDF will strive for the providers of these services to be growing at a rate of at least 25% per annum so that after ten years they will have reached 10 million users.

Indicator	5 Years	10 Years
Number of subscribers	4,000,000	10,000,000
Number of unbanked subscribers	1,400,000	3,500,000
Number with second generation product or service	2,000,000	7,500,000
Average saving balance per active user	\$15	\$25
Total savings in system	60,000,000	250,000,000
Cost of Subsidy	27,000,000	27,000,000
Cost per acquired client	\$7	\$3
Cost per \$ in savings	\$0.45	\$0.11

### *Need and Target Group*

The target group of this programme is the financially excluded and underserved populations in the LDCs. With sub-Saharan Africa remaining the least financially inclusive region of the world, Mobile Money for the Poor will be largely focused on African LDCs. At the same time, Mobile Money for the Poor will also continue UNCDF's work in the Asia-Pacific region.<sup>14</sup> By setting targets for reaching the previously unbanked, Mobile Money for the Poor will ensure that it reaches low-income households.

UNCDF will seek to partner with other funders to capitalize, develop and oversee Mobile Money for the Poor, which will combine technical assistance and grant (or loan) funding, and knowledge generation and sharing for partners seeking to implement or expand mobile money solutions. The fund will carefully choose from opportunities in LDCs to maximize the chances of success and avoid any duplication of other funding efforts. To this end, it will invite CGAP and the GSMA Mobile Money for the Unbanked (GSMA MMU) initiative on its investment committee in addition to its funders. It will also seek to facilitate the necessary policy environment for the mobile money providers in partnership with CGAP and AFI.

<sup>14</sup> Mobile Money for the Poor may consider working in non-LDCs with funds other than those from UNCDF, or if the non-LDC work is linked to a regional initiative that includes LDCs.



**Ranking of top 25 LDCs in which to focus resources**

1. **Rwanda**
2. Angola
3. Liberia
4. Senegal\*
5. Bangladesh\*
6. The Gambia
7. Maldives\*
8. Zambia
9. Benin
10. **Nepal**
11. **Bhutan**
12. Lesotho
13. **Vanuatu**
14. Togo
15. **Malawi**
16. Sudan
17. Niger
18. Yemen
19. Mozambique
20. Cambodia
21. Tanzania\*
22. Mali\*
23. Mauritania
24. Madagascar
25. Solomon Islands

\*other donors have significant on-going work in these countries, and would thus not be the focus of this fund unless the partnership brought added value

**Bold** indicates countries in which UNCDF is currently engaged in discussions on supporting mobile money

A description of the top 10 is included in *Mobile Money by Numbers*.

**Geographic Scope**

Mobile Money for the Poor will focus its resources intently on 4-6 LDCs, including at least one in Asia and the Pacific, to be selected based on the best opportunities.<sup>15</sup> The countries will be chosen on the basis of the best project designs submitted and developed with the strongest partners. It will take approximately 12 months to finalize project designs for the selected projects. In addition, the programme team will provide advice to UNCDF programmes and partners in other LDCs, providing discreet technical assistance and funding for projects with a strong potential to succeed.

UNCDF's initial research for this project used statistics to develop a ranking based on objectively measurable indicators. Each country was assessed on thirteen categories deemed relevant to the successful introduction of mobile money discussed below. The categories fall into three sets of criteria: the market potential, current or possible providers and the enabling environment. The categories were chosen because they are objectively verifiable and information is available from public sources:

1. political stability
2. economic stability
3. ease of doing business
4. transparency
5. population
6. urban population percentage
7. GDP per capita
8. expected MNO penetration in one year
9. MNO penetration growth rate
10. the largest MNOs market share in each country
11. financial services access
12. international remittances per capita
13. whether or not UNCDF Inclusive Finance currently has projects running in the country

A brief analysis of the top 25 countries is included in the UNCDF report [available on request], *Mobile Money by Numbers* (see box, above.) This report was shared with CGAP, the Gates Foundation, GSMA MMU, AusAID, the European Union (EU) and MasterCard

Foundation for feedback. UNCDF will further its research to include additional criteria, including:

- Predominance of a single language
- Predominance of single currency

<sup>15</sup> Mobile Money for Poor will also reserve some funds for discreet small-scale funding to existing partners of UNCDF programmes, including MicroLead, YouthStart and country programmes should there be worthwhile opportunities.

- Ease of opening bank accounts (know your customer and customer due diligence requirements)
- Existing e-banking infrastructure (ATMs, point of sale devices)
- Existing rural bank branch networks/Presence of cash in/cash out points in rural areas
- Flexibility of central bank
- Capability of central bank
- Reliability of mobile telephony
- Competitiveness and relative cost (to consumer) of mobile telephony
- Affordability of street and radio advertising

Reviewers highlighted each of these as key issues linked to the success of mobile money. UNCDF conducted initial surveys of UNCDF staff on these issues but needs to broaden the survey group to achieve a balanced opinion.

## Methodology and Approach

Mobile Money for the Poor will be similar to other UNCDF global funds, which permit it to identify the best partners and projects globally, allocate (and re-allocate) funds flexibly and share lessons learned across regions. As with MicroLead and YouthStart, Mobile Money for the Poor will work with existing providers in developing countries, most likely financial institutions and MNOs. Given the newness of mobile money, it will consider not only those with a proven track record in mobile money (of which there are few), but also those with significant potential.<sup>16</sup> In some countries Mobile Money for the Poor may work directly with multiple partners, which are part of a single initiative, such as a financial institution and an agent network manager. UNCDF expects that its partners will already have a country presence and Mobile Money for the Poor's role is to broaden, deepen or otherwise improve their current service.

Mobile Money for the Poor will strongly weigh regional synergies, selecting partners that have, or can develop a regional presence or else network across several countries so that work in one LDC may be replicated in neighboring countries.

Finally, all efforts must be clearly grounded in the facts on the ground. In all LDCs in which UNCDF operates, it conducts an assessment of the financial sector to determine the gaps at the macro, meso and micro levels.

### *UNCDF's Global Programme Methodology*

- At the global level UNCDF identifies the best projects. It works with high quality developing country providers with proven experience to help them expand or enter into a country. It allocates funds through grants, loans or guarantees according to potential and proven performance and holds partners accountable through performance – based agreements and global monitoring and reporting.
- At a regional level (Asia, West Africa, East Africa), UNCDF gives preference to partners with a regional presence and/or ambitions and uses regional bodies for advocacy and policy. It utilizes its regional UNCDF Advisors and other technical specialists to identify, share, and replicate lessons learned and experiences across several countries.
- At the country level UNCDF starts by doing an assessment of the financial sector and determining the gaps at the macro, meso and micro level to set priorities. It then works with partners to implement projects, offering timely advice, technical support and oversight of global funds to ensure that partner-funded projects achieve their outcomes.

<sup>16</sup> This might include agent network managers that are new to mobile money, but otherwise have strong distribution capabilities.



Mobile money projects will be grounded in these findings and the plan for engagement will need to address these gaps as they relate to mobile money. All efforts require clearly defined projects at the country level, with funding linked to the achievement of quantitative and qualitative targets. UNCDF's global and regional programmes rely on its in-country, inclusive finance staff, as well as UNDP country office staff, to understand local context, serve as the liaison with local stakeholders, help to monitor results, identify problems in implementation and report back on important issues. This on-the-ground presence sets it apart from the other donor funds involved in mobile money.

## Mobile Money for the Poor's approach

Mobile Money for the Poor's approach will be toward building a mobile money system in a set of countries through building and investing in partnerships and approaches that are appropriate for the specific environment and that contribute to making finance more inclusive.

- Understand demand. Develop an understanding of the local economic and business environment, as well as the needs of low-income households. To do so, Mobile Money for the Poor will draw on its existing knowledge of markets from its inclusive finance sector development programmes, others' research, and if necessary, fund demand-side market research. Tools such as Financial Diaries and FinScope provide excellent client information and can be used by mobile money providers. At the same time, smaller more targeted market research may also be required for mobile money. A critical part of market research is investigating attitudes and perceptions of clients as well as general financial competency. Doing so can help inform product and delivery design as well as the key messages needed to convince clients to use the mobile money services.
- Understand supply and its constraints. Base interventions on analysis of all levels of the sector (macro, meso, micro and client) and an understanding of the current gaps in the market as they relate to mobile money and then regularly update the gap analysis. UNCDF has its own tool, the Financial Inclusion Diagnostic and Framework Tool that it is currently refining with Finmark Trust. Mobile Money for the Poor will use existing diagnostic tools, such as the CGAP Branchless Banking Diagnostic Template and surveys done by others, including the World Bank, GSMA and AFI. In all cases it will share these with other stakeholders.
- Build a Vision. Engage early and regularly with all stakeholders, including MNOs, banks, MFIs and policy makers, at both the national and regional level, to build a common vision and trust, and then help construct a road map for how to achieve that vision. This will be done through stakeholder workshops, smaller exchanges and individual meetings to educate participants on what has and has not worked elsewhere and how the financial sector gaps in the country can be addressed. This is particularly needed in LDCs, which require all actors to work together for a

### *Mobile Savers*

Savings is still the untold story of mobile money deployments. Research in Kenya and the Philippines suggest that clients are increasingly trusting mobile money operators with their savings. While regulatory constraints are a genuine concern, the level of stored value permitted on many of these systems is consistent with the savings needs of users, enabling them to accumulate and use necessary sums. It is important for all donors to work closely with AFI, CGAP and others to tell this story and ensure that mobile money platforms can become safe, accessible and affordable places for poor people to save.

mobile money system to succeed. It is also a challenge when the MNOs involved are intensely competitive and unaccustomed to the transparency required of banks by regulators.

- Be both demand-driven and market leading. Initially rank and prioritize responses to the expression of interest, then identify opportunities as they arise and respond quickly to requests for information, technical expertise and discreet funding.<sup>17</sup> At times this will require marketing ideas to partners, enlisting their help to prove concepts and bringing new partners together.
- Be a partner, not just a funder. Most mobile money operators are new actors in inclusive finance, and traditional microfinance providers are newcomers to mobile money. UNCDF has found that the interactive project design phase is required to bring the necessary expertise. Mobile Money for the Poor's role will go beyond simply accepting and approving proposals; it will proactively seek out the best partners and partnerships and make its staff and outside experts available as "de facto" advisors to get the best projects possible. While it will not interfere in the implementation, it will get involved in the design of new products and delivery mechanisms for poor households. UNCDF's own experience suggests that regular, expert interaction during implementation and frequent monitoring of partners were critical factors in ensuring a projects' success.<sup>18</sup>
- Take and Share Risk. Mobile Money for the Poor must be willing to consider higher risk projects if the potential reward appears adequate and the project design acknowledges and addresses the risks. To manage its risk will require partners to share risks and costs and demonstrate a clear management commitment to the activities proposed.
- Engage policymakers early and regularly. Policy, legal and regulatory issues can have a major impact on mobile money. UNCDF has found it is important to engage policymakers early on, informing them of its work and getting their advice and consent in order to win acceptance. Fortunately, UNCDF has strong relationships with central banks through its sector programmes in the countries where it operates. It has also formed a partnership with AFI and works closely with CGAP and others to develop the necessary policy and regulatory environment for its projects to succeed.
- Coordinate, Collaborate and Co-fund. Mobile Money for the Poor will work closely with all other funders involved in this area. It will not only coordinate with others, but actively seek collaboration on projects and co-funding parts of larger initiatives where beneficial.

<sup>17</sup> Within the limits of the UNDP and UNCDF procurement policies

<sup>18</sup> Rosenberg, Rich. Aid Effectiveness in Microfinance: Evaluating Microcredit Projects of the World Bank and the United Nations Development Programme. CGAP Focus Note. 35. April 2006.

### Applying Aid Effectiveness Principles

CGAP has worked diligently to identify the core requirements for providing effective assistance to microfinance. While its five elements of effectiveness and nine SmartAid<sup>1</sup> indicators address the agency level, several of them are relevant for projects and shall apply to Mobile Money for the Poor, namely:

- A policy and strategy that is in line with good practice and based on capabilities and constraints;
- A designated specialist who is responsible for technical quality assurance through the project cycle;
- Investment in human resources;
- Tracking and reporting on performance indicators;
- Use of performance based contracts;
- Available systems and resources for knowledge management;
- Active and regular engagement with regional and country level stakeholders;
- Engagement with private sector actors;
- Utilizing instruments for the local financial markets, to incentivize but not distort the market.

UNCDF has been recognized by CGAP's SmartAid Index<sup>1</sup> for Microfinance as ranking in the top quartile of rated microfinance funders due to its clear strategy, flexible instruments, systems and tools for accountability, as well as having skilled staff in both headquarters and the field.

## Mission, Outcome, Objectives and Activities

### *Mission*

Mobile Money for the Poor's mission is to help develop and implement mobile money solutions that reach low-income households and microenterprise in LDCs, giving them access to affordable, safe means to manage money, increasing their financial security, and to demonstrate how such services can be scaled up or replicated sustainably in very low-income countries.

This mission requires Mobile Money for the Poor not only to look for the projects with the greatest chance of financial success, but also to work on projects that have the greatest potential to improve the lives of the poor. If done properly, Mobile Money for the Poor can catalyze further investment by other public and private investors into mobile money services in LDCs.

### *Outputs and related activities*

Output 1: Scalable and replicable mobile money projects created that deliver appropriate financial services to low-income persons, small and microenterprises, including women and those in rural and remote areas.

- 1.1. Recruit and hire Team Leader to oversee programme and Technical Specialist to assist in building and managing a portfolio of projects
- 1.2. Develop a flexible, nimble performance-based fund facility that can respond to or promote opportunities to develop mobile money solutions for the poor
- 1.3. Establish an informed and interested investment committee to oversee programme activities and grants
- 1.4. Create a roster of experts and identify at least one expert per region to retain on contract to assist with identification, development and oversight of projects
- 1.5. Begin working shortlisted countries to conduct and/or update diagnostics on financial sector gaps and mobile money
- 1.6. Issue an initial expression of interest (EOI) to identify the most promising providers and partnerships for mobile money in at least four LDCs to provide funding and technical assistance to take the mobile money services to scale

- 1.7. Work with shortlisted applicants to develop full appraisals and provide to the Investment Committee for review
- 1.8. With approved projects, conclude performance-based agreements that include targets for women and rural clients with identified partners and support and monitor them so that they achieve on-time results
- 1.9. Manage regular reporting and reviews or evaluations of partners to track results and document lessons learned
- 1.10. Respond to new opportunities as they arise after the initial EOI, evaluating the value for money relative to prior investments, and develop new or expanded projects for Investment Committee consideration.

**Output 2:** Relevant policy makers, donors and other stakeholders supported and empowered to make decisions and take coordinated action and allocate resources to enable partners to achieve their targets

- 2.1. Market programme and prepare proposals to secure funding adequate necessary to achieve project goals, comply with all reporting requirements
- 2.2. Develop and maintain a regulatory inventory related to branchless banking for countries in which the programme is active, identify opportunities and gaps in coordination with others working in regulatory space
- 2.3. Conduct workshop with relative UNCDF and UNDP in-country staff on programme initiative and projects
- 2.4. Work with AFI, CGAP and the World Bank in a partnership to work with regulators in project countries to ensure the enabling environment for the mobile money deployments, including on-site visits, workshops, participation in AFI and others' learning events
- 2.5. Engage regulators in discussion of planned projects and secure a "no objection" for grants from central banks of countries in which the programme has partners
- 2.6. Participate with central bank stakeholders in AFI and other policy related events and support policymakers to attend knowledge events

### ***A Role for Remittances***

The World Bank estimates that global remittances are a US\$375bn market, with 75% flowing into developing markets. The importance of remittances for LDCs varies by country, but remittance flows could play an important role in capitalizing a mobile money ecosystem. Greater disclosure, competition and technology are bringing a reduction in remittance costs globally, but some transfers into some LDCs can still cost as much as 25% for sums under US\$100. These are the costs to the sender. It does not include the "in-kind" costs to the recipient such as paying extra fees or travel expenses to collect the funds.

The major factors in high costs are

- lack of competition
- lack of price disclosure
- high remittance service provider (RSP) fees
- paying agent commissions
- high foreign exchange fees, particularly on "exotic" currencies

Greater disclosure through websites such as [www.sendmoneypacific.org](http://www.sendmoneypacific.org) and greater competition from new electronic channels is bringing down costs, but RSP and agent commissions remain high, not to mention the cost to recipients of traveling (or paying) to receive their funds. There are early attempts at linking RSPs and mobile money providers or bypassing RSPs altogether. Mobile Money for the Poor will actively seek to test innovative and lower cost remittance solutions as part of its project. In doing so, it will cooperate with the [IFAD Financing Facility for Remittances](#), to which UNCDF is a contributor and member of the steering committee, and seek to link relevant IFAD's remittance partners to its mobile money partners.

- 2.7. Liaise with local governments to find opportunities for government to person (G2P) payments that can be channeled through mobile money in at least two projects
- 2.8. Work with IFAD to develop remittance products in one or more projects
- 2.9. Work with the relevant UN development and relief agencies globally and in the chosen LDCs to encourage delivery of services via the mobile money channel

**Output 3:** Market and client research and education is embedded in projects that enable households to take full advantage of services to improve their financial security and build economic opportunities

- 3.1. Commission or help shape quantitative and qualitative demand research to help identify low-income clients' needs and competence, as well as their attitudes and perceptions about financial services and eBanking services.
- 3.2. Assist in identifying and educating potential partners in reaching and educating low-income clients, and assist in building partnerships, including public-private partnerships, to reach the poor
- 3.3. Raise awareness among partners on level of competency of clients, provide the means to include financial competency in product delivery and ensure that all funded project address the issue
- 3.4. Conduct studies on the effectiveness of financial competency efforts as part of the learning agenda

*As an investor, UNCDF concentrates its own resources in the areas of greatest need and opportunity at the macro, meso or micro levels, after taking due account of the comparative advantages of others. This often means that it focuses on what often remains as the largest constraint: lack of retail capacity.*

**Output 4:** Knowledge shared so that industry has access to local market intelligence and information on global best practices

- 4.1. Recruit and hire Knowledge Management Associate to develop knowledge generation and sharing plan
- 4.2. Develop strategy and procedure for knowledge generation and knowledge sharing that includes CGAP, Gates Foundation, GSMA and other relevant knowledge builders in the industry
- 4.3. Conduct or commission case studies on funded projects to widely share lessons learned
- 4.4. Develop and implement a meaningful and appropriate monitoring and evaluation plan, building on the required UNCDF policies and procedures
- 4.5. Assist to develop and utilize industry best practices in regard to definitions and standards for reporting on mobile money outreach and sustainability, cooperate with any efforts to establish global reporting database (e.g. Mix Market or GSMA)
- 4.6. Develop and maintain a website for the project for promotion and information sharing
- 4.7. Develop a regular regime of reporting on activities and results to stakeholders and other interested parties



## Sustainability, Scalability and Replicability

The sustainability of mobile money services needs to be measured differently than that of traditional microfinance or mobile services. As noted in CGAP's "Five business case insights on mobile money,"<sup>19</sup>

- Mobile money contribution may be small compared to MNO total revenue, but could be important for future revenue growth
- Mobile money success is highly dependent on the voice customer base
- Direct profit from mobile money depends on the growth of "electronic-only" transactions
- There are indirect benefits (i.e. reduced cost of goods sold from self-top up) from mobile money that play an important role early on and become significant when mobile money reaches scale
- Capturing long-term profits beyond domestic P2P, they will need to adjust pricing downward to capture the larger business and government payments; this will require sacrificing revenue per transaction in the short-term for future higher volumes

*Financial inclusion is universal access, at a reasonable cost, to a broad range of financial services provided by a diversity of sound and sustainable institutions*

CGAP also estimates that few deployments are on track to reach break-even in three years, the standard set by M-Pesa, although many may do so in five.

Measuring sustainability in mobile money is not straightforward. First, there are no standard definitions of terms and ratios in the mobile money industry.

UNCDF is committed to working with CGAP, GSMA, Gates Foundation and others to develop such standards and require its partners to use them. Second, many of the financial benefits are indirect, primarily by keeping clients 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).

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. A good role for donors is to work in the medium-term to help discover long-term profit models that include appropriate financial services for the mass market, not just the middle class market.

While sustainability is still in question, scalability and replicability are not. It is estimated that mobile money may reach some 200 million subscribers by 2015 and there are already some 113 deployments with 88 more planned as of May 2011.<sup>20</sup> Presumably many of these initiatives have been undertaken with the assumption that there is a sound business case for offering these services. A significant part of the knowledge generation agenda will be around understanding, documenting and disseminating the business case.

<sup>19</sup> <http://technology.cgap.org/2011/04/14/five-business-case-insights-on-mobile-money/>

<sup>20</sup> GSMA Mobile Money Deployment Tracker. <http://www.wirelessintelligence.com/mobile-money/>



### *Justification and Types of Subsidies*

UNCDF believes that some subsidy is appropriate to augment and catalyze private sector investment to enter or expand in a challenging market.<sup>21</sup> Using public or charitable funds to support private sector endeavours must be done smartly, particularly when working with MNOs and financial institutions that may be multi-billion dollar corporations. Microfinance practitioners have recognized for decades that their efforts required private sector, for-profit approaches if they were to be truly sustainable. This started with applying for-profit approaches, which led to the growing commercialization of microfinance. Inclusive Finance recognizes the imperative of working with the private sector rather than marginalizing microfinance to a specialized industry.

#### Government as a Partner

Government can be an important catalyst for mobile money's success in reaching the poor. There are increasingly strong arguments that government disbursement programs (G2P) can play a vital role for sustaining economic growth.<sup>26</sup> CGAP estimates that 170 million poor people receive regular payments from their governments, far more than the 99 million or so with an active micro-loan worldwide. G2P payments encompass not only conditional cash transfers, well-known for their poverty reduction effects, but other social benefits, payouts, pensions, and wages.

*The Mobile Financial Services Development Report 2011.*  
World Economic Forum

There are several strong cases to be made for subsidies for mobile money, including the following:

- Offsetting high costs to entry. The business model for mobile money services is still a work in progress and involves significant risk and high start-up costs. Technology platforms, hardware and modifications costs begin around US\$1 million and continue to rise over time. Marketing a broad-based P2P service is hugely expensive and gains are unlikely until variable costs (agent fees)

outweigh fixed costs (technology and marketing). M-Pesa's estimated cost to acquire a subscriber is \$5—a huge investment when newer deployments are only seeing 20-40% of subscribers actively using the services and generating new revenue.<sup>22</sup>

- Avoiding or overcoming the sub-scale trap. Mobile money works best when enrollment and agents grow quickly to avoid the “chicken and egg” problem as described by Mas and Radcliffe<sup>23</sup>. Without risk sharing, mobile money operators may pursue a “take it slow” approach, which may leave the service stuck without adequate service locations to attract clients or adequate clients to keep agents. Given the high cost of acquiring clients and agents, this can quickly eat away at operators' budgets.
- Prioritizing the smaller and difficult markets. Most assistance and attention have been given to operations in middle income countries and the largest most stable LDCs. Regional operators understandably invest in the easiest countries first, leaving the smaller and more challenging countries until last.<sup>24</sup> The new deployments in the Pacific and other smaller countries in Africa are too young to assess the sustainability of smaller

<sup>21</sup> See <http://www.uncdf.org/english/microfinance/index.php> Key Principles for UNCDF's work on the promotion of inclusive financial sectors

<sup>22</sup> Presentation at MMT Africa Conference, 2010, by Michael Joseph, CEO Safaricom.

<sup>23</sup> Scaling Mobile Money. Ignacio Mas & Daniel Radcliffe. Bill & Melinda Gates Foundation. September 2010.

<sup>24</sup> As an example, Vodafone Fiji was a low priority for Vodafone's global mobile money efforts. Donor funding enabled Vodafone Fiji to develop and launch its own service, hiring its own technical support.

operations, but it is hoped that they may provide an example of how a global or regional actor can make mobile money work. What is clear so far is that these deployments provide an opportunity to explore building volume through G2P and business to person (B2P or the opposite, P2B) services, given the major role of government and business, rather than private citizens, in moving money in smaller economies. There is also scope for looking at multi-country initiatives with a single project to achieve economies of scale for start up and fixed operating costs.

- Influencing the outcomes. Perhaps most important argument for subsidies for mobile money is that donor funding can also lead to a greater focus on poor, vulnerable and rural households, women and youth. As noted above, most mobile money operators are not familiar with inclusive finance or necessarily committed to it. Subsidies are part of accessing a greater partnership to influence when, how and how well operators implement mobile money for the poor. Donor involvement can also lead to greater transparency and standards, and facilitate great consumer protection. As a new industry, this will help objectively evaluate that success of mobile money services, financial or otherwise, and the benefits to clients.

### ***Learning and Knowledge Sharing***

A challenge for mobile money funders is that the technology and the industry are changing and adapting daily, making it one of the most innovative businesses in the world today. As a result it is important for the programme and its partners to be continuously learning, informing its decisions from the most recent research and ensuring that its experiences contribute to the global learning agenda. Mobile Money for the Poorest has included Knowledge Generation and Sharing as one of its four outputs to ensure that it commits the necessary time and resources to the learning agenda. Its approach to this objective is to:

- Fill knowledge gaps related to market demand and supply to inform its partners and others, preferably in partnership with others, and make the knowledge widely available to all stakeholders.
- Support learning for partners and other key stakeholders that will promote the success of its projects or otherwise contribute to meeting its objectives.
- Contribute to the global learning agenda by requiring partners to report regularly, accept evaluations and participate in others' studies.

Mobile Money for the Poor will also develop a modest, dedicated website as portal to share information about its work, including all of its knowledge products.

As a relatively small funder, UNCDF must remain focused on its strength – which is supporting retail providers in difficult environments. UNCDF recognizes its limitations as research organization. Gates Foundation, GSMA MMU, CGAP and others have been conducting valuable research and supporting mobile money projects globally to determine how to find fertile ground for mobile money deployments. UNCDF will work with these partners to take these lessons learned to LDCs. UNCDF will also require its partners to participate in studies conducted by these organizations to further global research and understanding of mobile money.

As always, UNCDF is committed to analyze its work, requiring independent mid-term and final evaluations of its projects in addition to documenting and publicizing the lessons learned on how to scale up outreach.

## Budget and Timeline

### Preliminary Budget

<u>Summary Budget</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Total</u>
Programme and Field Staff	747,000	847,000	874,000	904,000	879,000	4,251,000
Travel	105,000	140,000	145,000	150,000	116,250	656,250
Consultants & Research	545,000	1,090,000	700,000	410,000	274,000	3,019,000
Office & Administration	76,250	88,000	97,000	95,000	99,920	456,170
Knowledge Sharing	325,000	185,000	285,600	198,000	233,980	1,227,580
Grants	2,000,000	5,000,000	5,000,000	3,000,000	500,000	15,500,000
UNCDF Overhead (7%)	<u>315,000</u>	<u>700,000</u>	<u>700,000</u>	<u>175,000</u>	-	<u>1,890,000</u>
<b>Total</b>	<b>4,113,250</b>	<b>8,050,000</b>	<b>7,801,600</b>	<b>4,932,000</b>	<b>2,103,150</b>	<b>27,000,000</b>
Funding Plan	4,500,000	10,000,000	10,000,000	2,500,000	-	27,000,000

UNCDF believes that seed funding of US\$4.5 million is required to initiate Mobile Money for the Poor. This will enable it to commence operations, build a pipeline of projects and commence work in at least two LDCs. UNCDF has committed \$1 million of its core funding to the project for 2011-2012.

### *Initial Timeline for Start-Up*

Mobile Money for the Poor will be a five year programme, commencing in late 2011/early 2012 and continuing until the end of 2016.

<u>Action</u>	<u>Start</u>	<u>Finish</u>	<u>Responsible/Comment</u>
Complete research, identify short-list of LDCs for investigation of projects	Mar-2010	Aug-2010	UNCDF
Discuss concept with PFIP Investment Committee, potential partners, CGAP, GSMA and others	May-2010	June-2011	UNCDF
Identify funding partners	Aug-2010	Aug-2011	UNCDF
Present concept paper for internal UNCDF approval	Sep-2010	May-2011	UNCDF

Action	Start	Finish	Responsible/Comment
With partners, finalize project document	May-2011	Aug-2011	UNCDF, CGAP, Funding Partners
Activate investment committee, recruit Team Leader and Technical Specialist, Identify and contract experts	Sep-2011	Dec-2011	UNCDF, Funding Partners, CGAP, GSMA MMU,
Conduct in-country research in select LDCs, conduct local awareness workshop, identify potential projects	Oct-2011	On-going	Team, expert consultants, UNCDF field staff
Issue EOIs for mobile money projects	Jan- 2012		Team
Vet EOIs, short-list projects and develop appraisals for Investment Committee	Feb-2012	On-going	Team, expert consultants
Approve projects in at least five LDCs	Mar- 2012	Mar – 2014	Team, Investment committee
Train local UNCDF and UNDP staff in project countries	Oct -2011	Oct -2011	Team, expert consultants, during UNCDF annual meeting

## Partners

### *Funding Partners*

UNCDF is prepared to commit USD \$ 1 million of its core resources to initiate Mobile Money for the Poor. In addition, UNCDF will be committing the time of its technical and management headquarters, regional and country infrastructure. UNCDF is in discussions with AusAID to support this initiative. In the coming months, UNCDF will also submit a proposal to the European Union/Africa, Caribbean and Pacific Microfinance Framework Programme. These three can provide the amount necessary to start up the fund and build a pipeline of projects. Potential funding partners may include the range of UNCDF's current donors. Several have been approached, including the EU, MasterCard Foundation and the Gates Foundation. These funders, as well as others, have expressed interest in assessing the proposed pipeline of projects once Mobile Money for the Poor has been established. The programme will also seek to collaborate with its existing UNCDF projects, co-funding where possible.

### *Other partners*

UNCDF has identified a number of other partners critical to the programme's success. These include:

- Gates Foundation – as a thought leader and investor in mobile money globally – to be part of their research, knowledge sharing and advocacy
- CGAP – to work closely with their leading technology programme, strong research agenda, and policy advisory services
- GSMA MMU – to participate in their research, knowledge sharing, policy advice
- AFI – to be a participant and supporter of their policy and advocacy work, and to link government partners to their South-South learning
- UNCDF financial service provider partners –to provide a pool of over 80 financial service providers and microfinance networks, including MicroLead and the PFIP partners to link to mobile money solutions
- UNDP – with its network of country offices as well as its global initiative in G2P services

- IFAD – with its global remittance facility to see projects that link remittance flows to mobile money
- ILO - with its microinsurance facility to look for opportunities to link their microinsurance initiatives to mobile money
- Other UN agencies – Such as UN World Food Programme and UNICEF that work on mass payment issues for emergencies, conditional cash transfer and payments for other purposes

It is worth noting that UNCDF has proven particularly adept at working with new or emerging players which reflects its willingness and ability to take risk on emerging institutions to as well as its willingness to inviting and encouraging other, larger funders to step in. With all of its projects, it will seek to keep such potential funders involved and encourage their involvement as early as possible.

## **Oversight, Management, Monitoring and Evaluation**

Mobile Money for the Poor will be governed by an investment committee, consisting of contributing donors, as well as CGAP and GSMA MMU to ensure consistency with their funding efforts.<sup>25</sup> The investment committee is responsible for approving annual work plans and budgets, monitoring progress toward those plans, and approving all funding agreements. UNCDF will be responsible for day-to-day oversight of the programme and ensuring that all operations are conducted in compliance with the UNCDF Operations Manual and other policies. Mobile Money for the Poor will draw on UNCDF and UNDP human resource, finance and administration units for its basic services.

The project will be implemented by a small UNCDF team, consisting of a Team Leader, Technical Specialist, Knowledge Management Officer and an Administrative/finance Assistant. The team will draw on the UNCDF field resources and two or three expert consultants for technical implementation.

- The Team Leader will be an expert in financial inclusion with experience in mobile money, familiar with UNCDF policies and procedures and responsible for the overall technical implementation and project management, including planning, fundraising, donor coordination and support to the investment committee. He or she will also work closely with all AFI members on needed policy and advocacy efforts and to set the research agenda.
- The Technical Specialist will have direct experience in mobile money systems development and deployment and will share the responsibility for identifying potential projects, developing project appraisals and monitoring implementation. The specialist will also oversee the work of expert consultants.
- The Knowledge Management Officer will manage the implementation of the research agenda, oversee research and learning events, networking and reporting, as well as overall coordination with UNCDF field staff.

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<sup>25</sup> The committee will also include UNCDF's IF Regional Technical Advisors and invite Country Advisors to participate in decision-making related to their country.

- The Project Assistant will facilitate all administration, procurement, and finance activities, acting as primary liaison with UNCDF operations. Finance and administrative support would be provided by UNCDF headquarters and/or regional centers, with local logistical support provided by UNDP country offices.

The team will draw on a small group of international experts on mobile money deployment and policy. The role of the experts will be to provide timely technical input and advice to partners, both implementers and policy makers. The experts will also work with the team to identify projects, foster partnerships and develop appraisals and help monitor progress and provide advice during implementation.

UNCDF and/or UNDP field staff in the relevant countries will be trained to monitor progress, identify problems and ensure on-time reporting. They will also facilitate any local research as well as dialogue and agreements between local partners.

## Relevant Experience

UNCDF Inclusive Finance area has active projects of approximately \$148 million in 23 countries, two global facilities (MicroLead, YouthStart), through which it supports over 80 financial service providers to reach the poor. These partners include for-profit and non-profit organizations, banks and non-bank financial institutions, and more recently, MNOs and information technology firms. In keeping with best practices, the inclusive finance area takes a financial sector development approach and concentrates its technical and financial resources in the areas of greatest need and opportunity at the macro, meso or micro levels, after taking due account the work of other funders. This often means that it focuses on what often remains as the largest constraint—the lack of retail capacity. UNCDF funds retail financial service providers and others through grants, loans or loan guarantees. UNCDF also partners with the global IFAD Remittance Facility and ILO Microinsurance Facility to bring these services to the LDCs.

In 2009, UNCDF launched the global MicroLead programme with the Gates Foundation to invest in bringing strong deposit taking microfinance institutions to underserved LDCs. MicroLead is a US\$26 million fund designed to bring leading microfinance institutions and other financial service providers from developing countries and enabling them to expand their operations regionally and globally. Based on proven business models these market leaders have shown they can rapidly scale-up their operations in new countries and offer a variety of products and services to a large number of poor families and small firms. Their entry into new markets also inspires domestic MFIs to improve their business practices resulting in an overall acceleration of access to financial services. While acting as an excellent example of South-South cooperation, at present most of these MFI market leaders are focusing their expansion primarily on non-LDC large market countries. MicroLead has worked to bring them into the smaller, poorer, and post-conflict LDCs, such as Timor-Leste, Liberia and Southern Sudan.

### *Pacific Financial Inclusion Programme<sup>26</sup> and mobile money*

UNCDF, AusAID, the EU and UNDP Pacific Center have supported the development of mobile

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<sup>26</sup> [www.pfip.org](http://www.pfip.org)



money in its regional, multi-donor PFIP. PFIP is managed by UNCDF and has taken a holistic approach to catalyzing the development of mobile money in the Pacific by providing market research, sharing global learning on branchless banking and fostering strategic operating partnerships. At the same time it has provided performance-based grants to six partners, including banks, government agencies, MNOs and IT firms to build and use mobile money platforms.

Five mobile money services have been launched in four countries since June 2010. One partner, Digicel, has also launched its service in Samoa and Tonga. Its service in Vanuatu is done in partnership with a local bank with a rural branch network—also a PFIP partner—and provides a real-time, bank account-to-m-wallet link for all clients. This PFIP pilot was launched less than a year after it was first piloted by M-Pesa and Equity Bank. PFIP has three additional launches pending in two other countries. One will include a “white label” project in which an MFI partner of PFIP will link its 100,000 account holders to an m-wallet, but using the platform of an MNO. Should the agreed upon targets be reached, the six deployments will have reached 1.5 million subscribers by the end of 2012, of which 35% will be previously unbanked. While these numbers seem modest compared to launches in African countries, the combined population of the target countries is approximately 8 million, of which less than one million have bank accounts.

Throughout its project, PFIP has also worked closely with potential users of the service to help the providers build a critical mass of clients and agents fairly quickly. As noted it worked directly with the largest MFI in PNG and largest bank in Vanuatu to link them to MNOs. It has also provided technical support to the post offices in Fiji and PNG to help them develop a strategy to become a mobile money agent. It is now seeking to link an MNO and a large global commercial bank and another with a local insurance company. Perhaps most importantly, it has worked closely with the central banks in all countries in the region, providing them direct technical advice, linking them to experts with AFI and CGAP.

In the first roll out country, Fiji, the two supported MNOs have managed to enroll over 200,000 subscribers out of a total population of 900,000 in just two months; approximately 30% of these subscribers reported that they lacked bank accounts. One MNO, Digicel has been supported across the regional and has launched services in four countries using one mobile money “prep” team based in Fiji.

### ***The advantages of UNCDF’s involvement***

The initial findings suggest that there is room for a donor such as UNCDF to promote mobile money expansion in some of the more difficult markets in the world. Some of the strengths UNCDF brings to this endeavor are:

- Flexible grants and loan instruments that can be deployed quickly without minimum or maximum limits and with commercial, non-profit or government entities
- Long-term perspective and “patient” capital that is disbursed according to performance rather than internal disbursement pressure

- A strong field presence of technical staff at the national and regional levels, positioned to facilitate and maintain a consultative and partnership building process, identify the key transaction drivers to build volume
- Regular communication with local central banks, and other ministries relevant to branchless banking through UNCDF's own inclusive finance programmes as well as the UNDP and its network of country offices throughout the world
- Business processes, including managing global or regionally competitive requests for applications
- Appetite for measured risks
- Use of performance-based agreements and quarterly performance monitoring to ensure accountability of partners
- A strong track record in donor collaboration and coordination on the national, regional and global level
- Proven stewardship of other donors funds via standard cost-sharing mechanisms and strong partnerships with funders
- Ability to work across a range of actors as a neutral broker and the potential to leverage the work of other UN development and relief agencies

## Annex A: List of Acronyms

ADB	Asia Development Bank
AFI	Alliance for Financial Inclusion
ARPU	average revenue per customer
AusAID	Australia Assistance for International Development
BPNG	Bank of Papua New Guinea
B2P	Business to person (payments)
CGAP	Consultative Group to Assist the Poverty
DMM	Digicel Mobile Money
DSW	Department of Social Welfare, Fiji
EC	European Commission
EOI	Expression of interest
EU	European Union
EU/ACP	European Union/Africa, Caribbean and Pacific Microfinance Programme
FIPA	UNCDF's Financial Inclusion Practice Area
FSPs	Financial Services Providers
FSSA	Financial Services Sector Assessment
Gates Foundation	Bill and Melinda Gates Foundation
G2P	Government to person (payments)
GDP	Gross Domestic Products
GNI	Gross National Income
GSMA MMU	GSM Association Mobile Money for the Unbanked
IC	Investment Committee
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
ILO	International Labour Organization
LDC	Least Developed Country
MFI	Microfinance Institution
MNO	Mobile network operator
PFIP	Pacific Financial Inclusion Programme
PNG	Papua New Guinea
POS	Point of sale device
P2P	Person to person (payments)
RBF	Reserve Bank of Fiji
RSP	Remittance service provider
UNCDF	UN Capital Development Fund
UNDP	United Nations Development Programme
UNDP CO	UNDP Country Offices

## Annex B: Organizational Diagram of UNCDF Financial Inclusion Practice Area Structure and Mobile Money for the Poor

2011 UNCDF Financial Inclusion Staff			
FIPA Management Team	FIPA Regional Technical Managers	Programme	Country Technical Advisor/ Programme Manager/Technical Service Provider/National Expert
Henri Dommel, Director		KM	Hanadi Tutunji
		MicroLead	Pamela Eser
		Policy Advisor	Beth Porter
		Programme Officer	Eric Dietz
		<b>Mobile Money</b>	To Be Recruited
		Remittances Pilot	N/A
		Microinsurance Pilot	N/A
John Tucker, Deputy Director		Pacific	Jeff Liew
		Papua New Guinea	Joep Roest
		Timor Leste	Marcella Willis
			Ongoing recruitment
		Nepal	Ana Klincic Andrews
		Laos	Ongoing recruitment
		YouthStart	Maria Elvera Perdomo
Feisal Hussein, Asia Senior Regional Technical Advisor	Tillman Bruett, Regional Technical Advisor	Togo	Koffi Mally
		Sierra Leone	TSP AYANI
		Burkina Faso	Ongoing recruitment
		Liberia	Said Attoumane Abdoul Anziz
		Senegal	Cheick Sadibou Ly
		Niger	Mbaye Diouf
	Alimata Sanogo-Touré Regional Technical Advisor		Issaka Hachimou
		CAR	Dominique Malo
	Madina Diop-Assouman, Regional Technical Advisor	Chad	To Be Recruited
		Mozambique	Oumou Vanhoorebeke
Fodé Ndiaye, WCA Senior Regional Technical Advisor	Mathieu Soglonou, Regional Technical Advisor	DRC	Ongoing recruitment
			Stephane Amani
	Clément Wounou Regional Technical Advisor		TSP Frankfurt School of Management
Makarimi Adéchoubou, SEA Senior Regional Technical Advisor	Issa Barro, Regional Technical Advisor		

2011 UNCDF Financial Inclusion Staff			
FIPA Management Team	FIPA Regional Technical Managers	Programme	Country Technical Advisor/ Programme Manager/Technical Service Provider/National Expert
	Erick Tengna Sile, Regional Technical Advisor	Madagascar	Ongoing recruitment Rafanoharana Bakoly Tiana
		Malawi	Ongoing recruitment
		Lesotho	Ongoing recruitment
		Rwanda	Amani Mbale
		Comoros	Prosper Houenou Comlani Fofo
		Southern Sudan	TSP SSMDf

Mobile Money for the Poor Proposed Staffing Structure	
Staffing	Responsibility
Senior Advisor and Programme Manager	<ul style="list-style-type: none"> <li>Recruit, train and manage team</li> <li>Develop strategy, plans, budgets and reporting</li> <li>Manage budgets and fundraising</li> <li>Act as primary liaison with policymakers</li> <li>Prospect and develop technical projects</li> <li>Provide direct technical assistance to partners</li> <li>Develop technical TORs and oversee retainer consultants</li> <li>Secretary for Investment Committee</li> <li>Provide UNCDF corporate support</li> </ul>
Technical Specialist	<ul style="list-style-type: none"> <li>Prospect and develop projects</li> <li>Provide direct technical assistance to partners</li> <li>Develop technical TORs and oversee technical consultancies</li> <li>Develop and manage monitoring and evaluation of partners</li> <li>Train and manage UNCDF field staff</li> <li>Conduct field research</li> <li>Contribute to UNCDF and donor reporting</li> </ul>
Knowledge Management Associate	<ul style="list-style-type: none"> <li>Develop knowledge management strategy and implementation</li> <li>Develop and manage website</li> <li>Liaise with knowledge sharing partners</li> <li>Develop KM TORs and oversee KM consultancies</li> <li>Organize and manage knowledge sharing scholarships</li> <li>Organize and manage knowledge sharing events</li> <li>Manage UNCDF and donor reporting</li> </ul>
Assistant	<ul style="list-style-type: none"> <li>Manage office and procurement of equipment and office</li> <li>Manage all travel team and partners, travel reimbursement, monitoring submission of reports and payment</li> <li>Manage all logistics for events</li> <li>Create purchase orders and facilitate payments to vendors and grantees via Atlas</li> <li>Assisting in timely processing of payments to staff, partners and vendors</li> <li>Present information on the status of financial resources as required</li> <li>Prepare bank documents, e.g. T/T. and assist in banking runs for events</li> <li>Present information/reports for identification of areas for support and interventions.</li> </ul>

<b>Mobile Money for the Poor Proposed Staffing Structure</b>	
<b>Staffing</b>	<b>Responsibility</b>
<b>Part-Time Internal Support</b>	
UNCDF Finance /Admin/HR	<ul style="list-style-type: none"> <li>• Assist with recruitment of team</li> <li>• Manage payroll, benefits for staff</li> <li>• Establish projects in system, allocate funds</li> <li>• Implement global reporting</li> </ul>
UNCDF Senior Regional Technical Advisors	<ul style="list-style-type: none"> <li>• Assist in identifying projects</li> <li>• Assist in advocacy and policy work</li> </ul>
UNCDF Country Technical Advisors/Specialists	<ul style="list-style-type: none"> <li>• Maintain daily contact with partners, assist in daily oversight</li> <li>• Assist in organizing field missions of team and consultants</li> <li>• Assist in collecting technical information and regular reporting</li> <li>• Provide independent updates on relevant issues</li> </ul>
<b>External Support</b>	
Retainer Consultants	<ul style="list-style-type: none"> <li>• Conduct and update country diagnostics</li> <li>• Assist in evaluations of partners</li> <li>• Assist in training UNCDF and partner staff</li> <li>• Provide direct technical support on project implementation</li> <li>• Maintain regular contact with projects, reporting back to team</li> </ul>



## Annex C Logical Framework

	Narrative	Indicators	Means of Verification	Assumptions
<b>Development Objective</b>	The financial security and opportunities of low-income households are improved through the use of financial services			<ul style="list-style-type: none"> <li>• UNCDF secures necessary funding</li> <li>• Access to appropriate financial services improves financial security</li> <li>• Improvement in HH situation can be verified through surveys</li> </ul>
<b>Immediate Objective</b>	To increase the number low-income households, micro and small enterprises in LDCs that have on-going access to quality, affordable financial services, particularly savings	Four million additional individuals and/or small and microenterprises in the LDCs have access to one or more appropriate financial services through branchless banking through by the end of 2017, including 1.2 million that were previously unbanked and 2 1.4 million with a second generation service	Partners report the increase in accounts, track unbanked new subscribers and new products adapted by existing clients related to programme support.	<ul style="list-style-type: none"> <li>• MNOs will be required to share client numbers and numbers are reliable.</li> <li>• Increase is reasonably attributable to the programme's activities</li> <li>• Reasonable assumptions can determine if HH are low-income by proxy (i.e. most unbanked are low-income)</li> </ul>
<b>Output 1</b>	Scalable and replicable projects created that deliver appropriate financial services to low-income persons, small and microenterprises, including women and those in rural and remote areas.	<ol style="list-style-type: none"> <li>1. Number of new clients reached and active</li> <li>2. number of “transformational” clients reached</li> <li>3. number of clients with a safe, regulated or otherwise secured savings instrument or other second generation services</li> <li>4. number of clients with a new, appropriate product or service</li> <li>5. Number of appropriate products</li> </ol> <p>Includes information</p>	<ul style="list-style-type: none"> <li>• Partner quarterly and annual reports</li> <li>• Partner studies or evaluations</li> <li>• UNCDF and other research</li> </ul>	<ul style="list-style-type: none"> <li>• Fund is able to secure permission to fund partners in LDCs from central banks</li> <li>• programme is able to secure adequate funding for a pipeline of promising projects</li> <li>• programme is able to attract strong partners with requisite interest in inclusive finance</li> <li>• Partners implement proposed projects in good faith and reasonable on time</li> <li>• Needed regulatory changes for new products are adapted to suit project requirements</li> <li>• Partners are able to</li> </ul>

	<b>Narrative</b>	<b>Indicators</b>	<b>Means of Verification</b>	<b>Assumptions</b>
		disaggregated by sex and rural/urban.		disaggregate reporting by rural areas and female clients
<b>Output 2</b>	Relevant policy makers, donors and other stakeholders are supported and empowered to make decisions and take coordinated action and allocate resources to enable partners to achieve their targets	<ol style="list-style-type: none"> <li>1. number of policy or regulatory impediments or constraints to partners' projects removed or enabling regulations or policies implemented</li> <li>2. Volume of funding raised for programme</li> <li>3. volume of additional resources catalyzed through co-funding or parallel funding (partners and other funders)</li> <li>4. Number of partnerships initiated and developed that foster G2P, Remittance, Microinsurance of other new services delivered via mobile money</li> </ol>	<ul style="list-style-type: none"> <li>• Documented policy or regulatory changes</li> <li>• Cost sharing agreements</li> <li>• Agreement budgets</li> <li>• Quarterly IC reports, mid-term and final evaluations</li> </ul>	<ul style="list-style-type: none"> <li>• Policy makers are willing to make changes</li> <li>• AFI is willing to expand partnership to new fund</li> <li>• programme's actions can reasonably be considered to contribute to policymakers actions</li> </ul>
<b>Output 3</b>	Market and client research and education is embedded in projects that enable households to take full advantage of services to improve their financial security and build economic opportunities	<ol style="list-style-type: none"> <li>1. number of market and client studies supported to inform partners</li> <li>2. Number of products designed based on quantitative and qualitative market research</li> <li>3. number of partners that incorporate financial literacy in their delivery</li> <li>4. number of financial literacy products or initiatives introduced</li> </ol>	<ul style="list-style-type: none"> <li>• Copies of research reports and surveys</li> <li>• Reports on financial literacy initiatives</li> <li>• Copies of financial literacy materials or services</li> <li>• Quarterly or final partner reports</li> </ul>	<ul style="list-style-type: none"> <li>• Products or services suit client's needs</li> <li>• Clients report ability to use products or services to improve their financial security and/or opportunity</li> <li>• Financial literacy efforts are verifiable</li> </ul>
<b>Output 4</b>	Knowledge created and	1. number of knowledge	• Copies of knowledge	• Knowledge products will be

	<b>Narrative</b>	<b>Indicators</b>	<b>Means of Verification</b>	<b>Assumptions</b>
	shared so that partners and industry have access to local market intelligence and information on global best practices	products tailored to meet the needs of stakeholders 2. number of stakeholders participating in knowledge events with programme Support 3. number of studies in which programme partners have participated	products <ul style="list-style-type: none"> <li>• Invitation and attendance lists of events</li> <li>• Presentations from events</li> <li>• Evaluation forms</li> <li>• On-line &amp; face-2-face (whenever possible) client surveys</li> <li>• Monitor service standards of web manager</li> </ul>	acted on by stakeholders <ul style="list-style-type: none"> <li>• Learning events sponsored or selected are relevant to stakeholders</li> </ul>

## Annex D Risk Assessment

Risk/threat	Comment/mitigation	Impact*	Prob.*
Legal/Regulatory	There is high level of legal uncertainty around mobile money services as regulations remain in development. Regulation in Asia, as well as some African countries, remains fairly restrictive for agent banking and mobile banking. Regulatory impact will be a key factor in all funding decisions. In all cases, the programme will engage regulators and seek their “no objection” to all funded projects. UNCDF has a close relationship with the central bank in most countries in which it operates. It has also forged strong partnership with AFI to bring global experience to its central bank colleagues. The programme will also send regulators to learning events, as needed, and/or conducting them locally.	H	M
Partner Capacity	Even large mobile money partners frequently lack and fail to recognize the technical capacity necessary to support mobile money, which can greatly impact the quality and success of the service. To address this, an interactive project design phase is used to both educate partners and identify the technical capacity needed, both in-house and contracted, and help fund it. There are a limited number of available experts in this field and UNCDF will use its funding partners to identify qualified consultants.	H	M
Cost overruns	Mobile money is expensive. Deployments are expensive and costs rise the longer it takes for operators to reach scale. The cost of marketing is particularly difficult to anticipate and control. Operators and funders need to find the right balance between funding enough to scale quickly and funding too much with little marginal return. The programme needs to work carefully with partners to anticipate these costs and show some willingness to help cover legitimate cost overruns. Most importantly the programme must ensure that there is strong support for the project at the highest level (CEO and Board), which is the best guarantee that companies will continue to fund the operations when faced with rising costs.	M	M
Market acceptance and critical mass	It is still too early to determine if the acceptance by clients of mobile money is relatively uniform, or if some markets prove to be unaccepting. In LDC markets, it is important to address this two ways. First, conduct quality quantitative and qualitative research that looks at client needs, behaviors and attitudes. Incorporate a strong, grass roots (below the line) marketing and education campaign for clients to build demand and acceptance for the service. At the same time, projects should focus on bulk payments including G2P, Bill pay and others that over time bring more and more users to experience the product.	H	M
Funding	The programme will begin with an initial amount of core funding of \$4.5 million to facilitate funding. Should it fail to raise funds in a timely basis, it will be unable to meet its goals. UNCDF has already been in discussion with other funders to meet this goal. It will also be imperative that the programme Team build a pipeline of quality, dynamic projects that encourage more funders to	H	L/M

Risk/threat	Comment/mitigation	Impact*	Prob.*
Key Personnel	<p>support Mobile Money for the Poor.</p> <p>The team must remain fairly small to be cost effective. At the same time it must include highly qualified people. UNCDF will pay special attention to recruiting the right mix of team members that can manage the technical and programmatic issues. It will conduct a global recruiting exercise at the necessary pay scale to attract strong team members. It will also recruit two to three expert consultants on 100 day/year retainer contracts to ensure strong technical support in the start-up phase.</p>	M	L
Risk of failure to achieve objective			M