PROGRAMME DOCUMENT
MOBILE MONEY FOR THE POOR
2011-2017

GLOBAL

Programme Title: Mobile Money for the Poor

Programme Outcome: The financial security and opportunities of low-income households are improved by increasing the number low-income households, micro and small enterprises in LDCs that have on-going access to quality, affordable financial services, particularly savings

The outcome by the end of the programme (2017) will be:

- 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 1.4 million with a second generation service

Programme Duration: Five Years

Anticipated start/end dates: December, 2011 – June, 2016
Fund Management Option(s): n/a

Managing or Administrative Agent: UNCDF Execution

Total estimated budget*:	US$27,000,000
Out of which:	
1. Funded Budget:	US$2,550,000
2. Unfunded budget:	US$24,450,000

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

Sources of funded budget:

• UNCDF	US$1,000,000
• AusAID	A$1,500,000
• Donor …	__________

UN organizations	National Coordinating Authorities
David Morrison, Executive Secretary *Signature* **United Nations Capital Development Fund (UNCDF)** *Date & Seal*	*Replace with:* *Name of Head of Partner* *Signature* *Name of Institution* *Date & Seal*
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1 Executive Summary

Financial inclusion requires bringing the financial sector to low income and rural households. The most promising development in decades is the innovative use of mobile phones as a means to do so. Mobile telephony has reached billions and the penetration rate of mobile phone use is growing by more than 20% annual. CGAP and GSMA project that 364 million low-income, unbanked people could use mobile financial services in 2012.[1] The success of M-Pesa in Kenya and G-Cash in the Philippines is undeniable, reaching millions in just a few years and changing the way low income people move money. Also irrefutable is that the list of success stories is not growing as expected.

Several donor agencies have been putting significant resources into mobile money and are admirably documenting their experiences. UNCDF is among those, working to launch mobile money solutions across five countries in the Pacific. Mobile Network Operators (MNOs) and some banks have not waited on public funders to enter this market and there are now nearly 100 deployments across dozens of countries. 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[2] remain shallow, limited primarily to P2P transfer and air time top up served by inadequate agent network. Mobile money operators frequently report experiencing the "sub-scale trap"[3] where the merchant network is not sufficiently extensive and the clients are not adequately informed or motivated to use the service.

Mobile financial service providers and funders now realize that the M-Pesa model worked because it was adapted to Kenya. It is looking increasingly unlikely that "M-Pesa[4] style" mobile money services—based person-to-person (P2P) transfers served through a large, dominant MNO propriety agent network—will achieve success in many LDC markets. What is required instead is helping these providers and others build mobile money systems that include the poor, rather than just a single product or provider. 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, banks and others see these opportunities, incentivize their start and ensure that a third "win" for low-income clients is also an outcome of these partnerships.

A look at global support for mobile money from funders shows a great focus on a handful of countries, few of which are least developed countries (LDCs). **Mobile Money for the Poor**, a new programme proposed by UNCDF in partnership with AusAID, is designed to focus intently on some of the poorer countries where the commercial business case may be marginal, but the needs of the population are great. The goal is to work intently with partners to reach **4 million clients** with a mix of services and delivery methods by providing resources, support, and encouragement. The programme's primary focus is on retail delivery of services, with a special focus on savings and other services that build greater financial security such as insurance and remittances. However, the programme is flexible enough to include market research, knowledge sharing and policy interventions when needed to support the scalability of services.

UNCDF benefits from a global network of technical advisors from its financial inclusion practice area (FIPA) throughout the LDCs. These advisors have established relationships with financial service

[1] Mobile Banking from Concept to Reality. http://www.cgap.org/p/site/c/template.rc/1.26.10806/
[2] Those reported on the GSMA Mobile Money for the Unbaked Deployment Tracker http://www.wirelessintelligence.com/mobile-money/
[3] Mas and Radcliffe. Scaling Mobile Money. Bill & Melinda Gates Foundation. September 2010.
[4] M-Pesa is the product name of a mobile-phone based money transfer service for Vodafone in Kenya

providers and central banks and are well placed to work with the new programme to win support for its aims. It has experience in working through global and regional programmes, including with AusAID, and has a strong track record in working in difficult environments. UNCDF is committed to cooperating and coordinating, in the spirit of a UN agency, and will seek to link its work with other financial and technical supporters of mobile money.

2 Situation Analysis

In most developing countries, financial services are only available to a minority of the population. The majority has no savings accounts, do not receive credit from formal financial institutions and has no insurance policies. They seldom make or receive payments through financial institutions.

An inclusive financial sector is defined as a financial sector that offers a range of financial services to the entire active population of a country. An inclusive financial sector is characterized by[5]:

- Access by all bankable households and enterprises to a full range of financial services at a reasonable cost, including savings, short and long-term credit, mortgages, insurance, pensions, payments, local money transfers, international remittances, leasing and factoring;
- Soundness of institutions, which is maintained through performance monitoring by stakeholders and where required, sound prudential regulation;
- Financial and institutional sustainability as a means of providing access to financial services over time;
- Multiple providers of financial services, wherever feasible, to bring cost-effective alternatives to customers, including sound private, non-profit and public providers.

To realize the vision of financial inclusion, financial services for poor and low-income people and micro and small enterprises should be seen as an important and integral component of the financial sector. This sector should include a continuum of financial institutions, each with its own comparative advantages, and each presenting the market with an emerging business opportunity.

UNCDF is well positioned to support building inclusive financial sectors in Least Developed Countries due to its core competencies and comparative advantages[6] . UNCDF continually evaluates these strengths and will exit areas of work when these comparative advantages no longer apply.

2.1 Global Context

World leaders have pledged to "make poverty history." The Millennium Development Goals (MDGs) set globally-adopted targets for reducing extreme poverty by half by 2015. For over two billion people in the world who live on less than $2 per day,[7] access to financial products and services can directly provide the tools to protect, diversify and increase their sources of income and to make their own economic decisions for the path out of poverty. The level of outreach by the financial sector also correlates strongly with the level of financial, institutional and infrastructure development across countries. Studies have shown that better access to finance not only increases

[5] See "Building Inclusive Financial Sectors for Development" (2006) the 'Blue Book' UNCDF and UNDESA, http://www.uncdf.org/english/microfinance/pubs/bluebook/

[6] UNCDF has consistently ranked among the top tier of CGAP member agencies in the SMART Aid reviews, see http://www.cgap.org/p/site/c/template.rc/1.11.7956/1.26.14034/

[7] World Bank data (2004a) estimates that 2.8 billion people in the world live on less than $2/day. [data used in the MDG indicators]

economic growth, but also helps fight poverty, and reduces income gaps between rich and poor people.[8]

Access to financial services underpins the ability of the poor and low-income people to achieve the MDGs on their own terms in a sustainable way. Financial services enable the poor to increase and diversify incomes, build human, social and economic assets, and to move from everyday survival to planning for the future: they invest in better nutrition, housing, health, and education. Financial services to poor women provide a direct, positive impact on their families, as a majority of the additional income earned is invested in family health, education and nutrition. Numerous impact studies document that the ability to borrow, save, and earn income enhances poor women's confidence, enabling them to better confront systemic gender inequities[9].

Despite positive developments in the area of financial inclusion during the past ten years, many poor and low-income people and micro and small enterprises still lack access to a broad range of financial products and services on a sustainable basis. Currently, over 3 billion people around the world live without access to financial services.[10]

There is broad consensus that the key bottleneck to access to finance is the lack of strong institutions providing a broad range of financial services, especially savings, to serve large numbers of people on a sustainable basis. Other key bottlenecks include:

- Limited engagement of the private sector in expanding access to financial services and developing new financial products and services that serve poor and low-income people and micro and small enterprises.
- Lack of appropriate financial services infrastructure to support financial transactions and increased access to financial products at retail level;
- Lack of enabling policy, legal, and regulatory environments to facilitate and remove constraints to greater access;
- Lack of vision and commitment by policymakers to include the development of inclusive financial sectors as part of their development agenda;11

In addition, specific barriers exist to expansion of basic services. Even regulated financial institutions in many markets see several real and perceived challenges in delivering deposit services to poor people. For many financial institutions, the biggest barrier to providing savings targeted to lower income clients may be perceived or real cost. The LDCs generally suffer from higher costs of service delivery due to poor physical and financial infrastructure, shallow banking systems, dispersed populations, and economic and political instability. Retail banking infrastructure tends to be minimal, leading to significant latent demand for ways to move and save money.

[8] See Finance for All? Policies and Pitfalls in Expanding Access, World Bank, 2007, http://www.worldbank.org/financeforall and Beck, Thorsten, Asli Demirguc-Kunt & Maria Soledad Martinez Peria, "Reaching out: Access to and use of banking services across countries," World Bank, September 2005.

[9] The G8 and CGAP endorsed 11 key principles of microfinance: Key principle 2. www.cgap.org/keyprinciples.html. See also CGAP Donor Brief No. 9, December 2002: Microfinance and the Millennium Development Goals.

[10] Estimates by CGAP

[11] UNCDF & UNDESA, *Blue Book on Building Inclusive Financial Sectors for Development*, May 2006 and CGAP, *Access for All: Building Inclusive Financial Systems,* 2006.

2.2 Mobile Money

LDC Statistics[12]	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

In the past ten years, mobile phones have been introduced as part of the delivery mechanism for financial services. There services range from basic money transfer to a variety of banking and insurance products that can be partially delivered via mobile phone. The most notable successes have occurred in the larger, emerging markets such as Kenya, South Africa and India. We know from M-Pesa in Kenya and a few other examples that mobile money has the potential to reach millions of users in the time it has taken traditional MFIs to reach thousands of clients.

In most LDCs, the number of mobile phone subscribers is rapidly outstripping the current access to finance and offers a potential to reach millions with a safer, more secure way to send and store money. Sharp growth is there for the taking, should mobile network operators succeed in addressing concerns of the unbanked customer; CGAP and GSMA project that 364 million low-income, unbanked people could use mobile financial services in 2012.[13] These projections are based on relatively conservative assumptions about the number of mobile operators who will launch such services and the percent of customers who will use them. The explosive growth of mobile phones underpins the potential opportunity. By 2012, the number of people without a bank account but with a mobile phone is estimated to grow from 1 to 1.7 billion. Across 40 LDCs surveyed by UNCDF, mobile phone penetration was at 25% while access to finance was less than 20%. More striking are the growth rates – with mobile phone penetration growth reaching double digits, growing at a rate of 23% a year, while financial access growth is flat. [14]

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

- Overall economic activity and disposable incomes are lower
- Business and regulatory environments are less developed and less conducive to innovation
- 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.[15] 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, Safaricom'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.

Savings is still the untold story and unexploited opportunity of mobile money deployments. Research in Kenya and the Philippines suggest that clients are increasingly trusting mobile money

[12] 40 LDCs surveyed by UNCDF.
[13] Mobile Banking from Concept to Reality. http://www.cgap.org/p/site/c/template.rc/1.26.10806/
[14] GSM Association. Wireless Intelligence Data Base as of September 2010
[15] Honohan, Patrick. "Cross Country Variation in Access to Financial Services." Journal of Banking & Finance Volume 32, Issue 11, November 2008, Pages 2493-2500.

operators with their savings. While regulatory constraints and adequate client protection are genuine concerns, 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.

2.3 G20, Mobile Money and Inclusive Finance

The G20, a global network of the largest economies in the world, formed a Financial Inclusion Experts Group (FIEG) in the wake of the global financial crisis "to support the safe and sound spread of new modes of financial service delivery capable of reaching the poor and, building on the example of microfinance, will scale up the successful models of small and medium-sized enterprise financing." The FIEG's financial inclusion agenda is divided into two sub-groups: Access through Innovation (ATISG) and SME Finance. The ATISG, co-chaired by Australia, centers its work on innovative methods to improve access to financial services, including the use of mobile phones and other information communication technologies (ICTs). ATISG developed the following nine Principles for Innovative Financial Inclusion:

1. Leadership: Cultivate a broad-based government commitment to financial inclusion to help alleviate poverty.
2. Diversity: Implement policy approaches that promote competition and provide market-based incentives for delivery of sustainable financial access and usage of a broad range of affordable services (savings, credit, payments and transfers, insurance) as well as a diversity of service providers.
3. Innovation: Promote technological and institutional innovation as a means to expand financial system access and usage, including by addressing infrastructure weaknesses
4. Protection: Encourage a comprehensive approach to consumer protection that recognizes the roles of government, providers and consumers.
5. Empowerment: Develop financial literacy and financial capability.
6. Cooperation: Create an institutional environment with clear lines of accountability and co-ordination within government; and also encourage partnerships and direct consultation across government, business and other stakeholders.
7. Knowledge: Utilize improved data to make evidence based policy, measure progress, and consider an incremental "test and learn" approach acceptable to both regulator and service provider.
8. Proportionality: Build a policy and regulatory framework that is proportionate with the risks and benefits involved in such innovative products and services and is based on an understanding of the gaps and barriers in existing regulation.
9. Framework: Consider the following in the regulatory framework, reflecting international standards, national circumstances and support for a competitive landscape: an appropriate, flexible, risk-based Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime; conditions for the use of agents as a customer interface; a clear regulatory regime for electronically stored value; and market-based incentives to achieve the long-term goal of broad interoperability and interconnection.

In other words, while technology offers tremendous opportunities for financial inclusion, the technology must be accompanied by the right products and services, proportionate regulations, consumer protection and education, as well as standards for measurement. Market based incentives for private sector actors, including banks, MNOs and payment service providers (PSPs) are a key part of this approach as is building public-private partnerships to ensure that the lowest income families in the lowest income countries can benefit.

Australia has been a strong leader of this effort and is actively supporting mobile money efforts through AusAID, primarily in the Pacific region.

3 Strategies, including lessons learned and the proposed programme

3.1 Background/context

UNCDF Inclusive Finance area has active projects of approximately $148 million in 23 countries, including 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.

3.1.1 UNCDF Global Programmes

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. MicroLead has worked to bring them into the smaller, poorer, and post-conflict LDCs, such as Timor-Leste, Liberia and Southern Sudan. Recently, through a US$23.5 million grant from The MasterCard Foundation, UNCDF is able to scale-up the MicroLead programme. Similarly, YouthStart, funded with US$12 million in support from MasterCard Foundation, focuses on working with leading institutions in sub-Saharan Africa to test and roll out YouthStart is supporting 12 financial institutions to pilot and roll out sustainable financial services tailored to youth.

UNCDF has had strong success with its global funding mechanisms (MicroLead and YouthStart) because they permit it to identify the best partners and projects globally, allocate (and re-allocate) funds flexibly and share lessons learned across regions. It has also helped introduce partners from one region to another. Mobile Money for the Poor is modeled after these global programmes, while taking UNCDF's own experience with mobile money into account.

3.1.2 Pacific Financial Inclusion Programme[16] and mobile money

UNCDF, AusAID, the EU/ACP Microfinance Framework Programme and UNDP Pacific Center have supported the development of mobile 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

[16] www.pfip.org

platforms.

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

Five mobile money services have been launched in four countries since June 2010.[17] One partner, Digicel, works across five countries, and its service in Vanuatu and PNG is done in partnership with local banks to provide a real-time, bank account-to-m-wallet link for all clients. PFIP has two additional launches pending in two other countries. Should the agreed upon targets be reached, the seven 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 8.5 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 has recently helped link M-PAiSA Fiji with a local insurance company. Finally, preparations are underway to introduce international remittances through mobile phones across four countries. To accomplish all of this, PFIP 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.

3.2 Lessons Learned

3.2.1 Global Lessons

M-Pesa is not easily replicated

Despite its success in Kenya, it is unlikely that "M-Pesa[18] style" mobile money services—based person-to-person (P2P) transfers served through a large, dominant MNO propriety agent network—will achieve success in many LDC markets. As noted by Mas and Radcliffe of the Bill and Melinda 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.

Benefits are there for providers, but not easy to achieve

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. According to CGAP, Mobile network operators stand to earn $7.8 billion in direct and indirect revenues from serving the 364 million clients of 2012 —compelling market opportunity— as well as reduce churn.[19] For banks, the benefits of adding a mobile channel

[17] Vodafone Fiji, Digicel Fiji, Samoa, Tonga, Vanuatu.
[18] M-Pesa is the product name of a mobile-phone based money transfer service for Vodafone in Kenya
[19] Mobile Banking from Concept to Reality. http://www.cgap.org/p/site/c/template.rc/1.26.10806/

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.

Recent deployments are taking off slowly

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.[20] Mobile money operators frequently report experiencing the "sub-scale trap"[21] 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[22] remain shallow, limited primarily to P2P transfer and air time top up served by inadequate agent networks. While "self top up" (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. This brings into question the "best practice" of focusing so heavily on P2P in less densely populated markets at the expense of offering other services.

> ***Lowering the Million Mark***
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> 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.

As noted in recent CGAP and other studies[23], 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.[24] Still, there is a risk that operators will cease to invest in the service, particularly in the expensive agent network. Part of improving the 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.

3.2.2 Product mix is lacking

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).

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[20] Mckay, Claudia and Mark Pickens. *Branchless Banking 2010: Who's Served? At What Price? What's Next?* Focus Note No. 66. CGAP. 2010.

[21] Mas and Radcliffe. Scaling Mobile Money. Bill & Melinda Gates Foundation. September 2010.

[22] Those reported on the GSMA Mobile Money for the Unbaked Deployment Tracker http://www.wirelessintelligence.com/mobile-money/

[23] *Five business case insights on mobile money.* Presentation. CGAP. April 2011.

[24] 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.

3.2.3 PFIP Experience

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 in LDCs, particularly small and geographically dispersed populations and poor infrastructure. However it has strong and growing MNOs 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 have provided 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 supported by PFIP. 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.

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 appropriate and proportionate regulation than those in middle income countries, given the persistent low level of financial inclusion in their countries.[25]

3.3 Strategy

What is needed in the LDCs is a focus on building mobile money systems for the poor, rather than just a single service or provider. 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 work 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

[25] 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.

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.

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. A failure of deployments to date has been taking a "one product suits all" approach with little investigation into how people manage money. There is a need to 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 UNCDF's 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 is 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. The programme will fund interventions based 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 is piloting a new tool, the Financial Inclusion Diagnostic and Framework Tool that it is currently refining with Finmark Trust and CENFRI. 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.
- 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.
- Build a common vision to foster partnership. 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 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.[26] At times this will require marketing ideas to partners, enlisting their help to prove concepts and bringing new partners together. 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. This may at times include providing on-site, full time assistance by experts. Both international

[26] Within the guidance of the UNCDF operations [grant] policies

experience and UNCDF's own work has shown that expert interaction during implementation and frequent monitoring of partners were critical factors in ensuring a projects' success.[27]

- 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. At the same time, the programme may work with multiple organizations in a country, each playing a different role, to avoid concentrating all of its risk with one actor.
- 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. This includes within UNCDF itself. UNCDF has already identified existing UNCDF sector development programmes interested in funding mobile money projects and several MicroLead partners have also expressed interest.

3.4 Programme Description

3.4.1 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.

3.4.2 Geographic Focus

Mobile Money for the Poor will have a global focus, including LDCs in Africa and Asia. However, it will focus intently on five main projects (i.e. in four or five countries or potentially with one or more partners across several countries). UNCDF's initial research developed a ranking based on objectively measurable statistics. A brief analysis of the top twenty-five countries is included in the UNCDF report, *Mobile Money by Numbers*. The methodology of the ranking is explained in this report. This report was shared with CGAP, BMGF, GSMA, AusAID, the EC and MasterCard Foundation for feedback. It is clear that

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

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.
± PFIP countries

[27] 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.

UNCDF needs to further its research to include additional criteria, including:

- Predominance of a single language
- Predominance of single currency
- 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
- 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

Each of these was highlighted by reviewers 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.

Once the programme development begins, the Team Leader will actively develop a pipeline of potential projects. In doing so, s/he will coordinate with other donors active in this area and not work in countries where other mobile money funders are concentrating their efforts.[28]

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.

The scale of the overall programme will be directly linked to its ability to raise adequate resources. With initial funding, it will focus on a few projects that it deems highly scalable or replicable, such as working with a partner that has a regional presence. As with the Pacific Financial Inclusion Programme, Mobile Money for the Poor will be able to scale up as funds permit.

3.4.3 Outputs and related activities

Mobile Money for the Poor will work on four key areas, all of which are needed for both the programme and its partners to succeed.

<u>Output 1:</u> 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.

This is the primary Output for the programme, which will be supported by the other three. The activities will respond to the need of the partners and may involve one or more of the following activities. Several activities will fall under this output including:

- A Mobile Money Fund that can provide grants, loans and/or guarantees to partners. Partners will be selected based on competitive criteria and funds will be for the following purpose:
    - introducing, extending or improving service
    - introducing new products and services

[28] These include Afghanistan, Bangladesh, Haiti, Maldives, Mali, Senegal and Tanzania. This list will be updated at the time of launch.

- building new partnerships

All approved funding will be done through performance-based agreements that include quantitative and qualitative targets. A heavy emphasis will be placed on those that reach women and rural clients.

- Technical Assistance, including both direct technical supports from the programme team as well as that of contracted experts. This may include long-term placement of experts with partners to facilitate the successful implementation of projects.
- Client awareness and protection, either through partners or third parties, to assist in building awareness among client on the best use of services.

UNCDF is aware that the limited funds for the start-up may preclude a global request for applications. Until such time funds are available, the initial projects will be made through a limited solicitation of applications with the concurrence of the programme's investment committee.

Output 2: Market and client research is created and shared to enable policymakers, providers and others to build appropriate products and delivery mechanisms.

As noted, a major shortcoming of most mobile money deployments is failure to understand the needs of clients. Potential assistance will focus on:

- Conduct initial market surveys on mobile money, drawing on the existing tools developed by others, to identify the gaps in the market and the opportunities[29].
- Commission, co-fund 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.
- Review impact and effectiveness of efforts funded.

All research will be conducted to include gender disaggregated data to maintain an emphasis on reaching women with mobile financial services. While most research will be made widely available, UNCDF recognizes that some research may be kept in commercial confidence for a period if it is co-funded or partially executed with a commercial partner.

Output 3: 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.

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 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.

[29] These market surveys will be coordinated with, or integrated into the sector diagnostic surveys that UNCDF will carry out with other stakeholders in preparing its next generation of sector development programmes. As noted, this diagnostic tool is developed with Finmark Trust and CENFRI.

As noted, mobile money in LDCs will depend on successful cooperation between regulators, donor, providers, and other stakeholders. Building a common vision requires building trusting relationships based on a mutual understanding and need. A big part of that is education. Activities will include:

- 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
- Develop and maintain a regulatory inventory related to branchless banking for the focus countries in which the programme is active, identify opportunities and gaps in coordination with others working in regulatory spaceEducate regulators, providers and others through information exchanges and scholarships
- Liaise with host country governments to find opportunities for government to person (G2P) payments that can be channeled through mobile money in at least two projects
- Work with IFAD to develop remittance products in one or more projects
- 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 Sponsoring knowledge sharing events in-country on mobile money
- Conduct workshop with relative UNCDF and UNDP in-country staff on programme initiative and projects
- Coordinate donor efforts, particularly in focus countries, to ensure maximum cooperation and coordination

<u>Output 4:</u> Knowledge shared so that industry has access to local market intelligence and information on global best practices.

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. Activities will include:

- Develop strategy and procedure for knowledge generation and knowledge sharing that includes CGAP, Bill and Melinda Gates Foundation, GSMA and other relevant knowledge builders in the industry.
- Contribute to the global learning agenda by requiring partners to report regularly, participate in evaluations and others' studies.
- Support learning for partners and other key stakeholders that will promote the success of its projects or otherwise contribute to meeting its objectives.
- Develop a regular regime of reporting on activities and results to stakeholders and other interested parties
- Develop and implement a meaningful and appropriate monitoring and evaluation plan, building on the required UNCDF policies and procedures
- 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)
- Develop and maintain a website for the project for promotion and information sharing

3.4.4 Sustainability of results

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," [30]

- 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

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).

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

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.[31] 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.

4 Results Framework

[30] http://technology.cgap.org/2011/04/14/five-business-case-insights-on-mobile-money/
[31] GSMA Mobile Money Deployment Tracker. http://www.wirelessintelligence.com/mobile-money/

Table 1: Results Framework

	Narrative	Indicators	Means of Verification	Assumptions
Development Objective	The financial security and opportunities of low-income households are improved through the use of financial services			• UNCDF secures necessary funding • Access to appropriate financial services improves financial security • Improvement in HH situation can be verified through surveys
Immediate Objective	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.	• MNOs will be required to share client numbers and numbers are reliable. • Increase is reasonably attributable to the programme's activities • Reasonable assumptions can determine if HH are low-income by proxy (i.e. most unbanked are low-income)
Output 1	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.	1. Number of new clients reached and active 2. number of "transformational" clients reached 3. number of clients with a safe, regulated or otherwise secured savings instrument or other second generation services 4. Number of appropriate products developed with programme support Includes information disaggregated by sex and rural/urban.	• Partner quarterly and annual reports • Partner studies or evaluations • UNCDF and other research	• Fund is able to secure permission to fund partners in LDCs from central banks • programme is able to secure adequate funding for a pipeline of promising projects • programme is able to attract strong partners with requisite interest in inclusive finance • Partners implement proposed projects in good faith and reasonable on time • Needed regulatory changes for new products are adapted to suit project requirements • Partners are able to disaggregate reporting by rural areas and female clients
Output 2	Market and client research is created and shared to enable policymakers, providers and others to build appropriate products and delivery mechanisms	1. number of market and client studies supported to inform partners 2. Number of products designed based on quantitative and qualitative market research 3. number of partners that incorporate financial literacy in their delivery 4. number of partners adopting consumer protection principles	• Copies of research reports and surveys • Reports on financial literacy initiatives • Copies of financial literacy materials or services • Quarterly or final partner reports	• Products or services suit client's needs • Clients report ability to use products or services to improve their financial security and/or opportunity • Financial literacy efforts are verifiable

	Narrative	Indicators	Means of Verification	Assumptions
Output 3	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	2. number of policy or regulatory impediments or constraints to partners' projects removed or enabling regulations or policies implemented 3. Volume of funding raised for programme 4. volume of additional resources catalysed through co-funding or parallel funding (partners and other funders) 5. Number of partnerships initiated with government and donor partners that foster new services (G2P, Remittance, Microinsurance)	• Documented policy or regulatory changes • Cost sharing agreements • Agreement budgets • Quarterly IC reports, mid-term and final evaluations	• Policy makers are willing to make changes • AFI is willing to expand partnership to new fund • programme's actions can reasonably be considered to contribute to policymakers actions
Output 4	Knowledge created and shared so that partners and industry have access to local market intelligence and information on global best practices	1. Number of partners reporting according to developing global standards 2. Number of stakeholders participating in knowledge events with programme Support 3. number of studies in which programme partners have participated	• Copies of knowledge products • Invitation and attendance lists of events • Presentations from events • Evaluation forms • On-line & face-2-face (whenever possible) client surveys • Monitor service standards of web manager	• Knowledge products will be acted on by stakeholders • Learning events sponsored or selected are relevant to stakeholders •

5 Management and Coordination Arrangements (Two pages)

Mobile Money for the Poor will follow the Direct Implementation Modality with UNCDF as the implementing agency. UNCDF Financial Inclusion Practice Area (FIPA) will serve as executing agent for the programme.

5.1 Governance

Mobile Money for the Poor will be governed by an investment committee consisting of no more than 7 members including all funders contributing in excess of US$500,000. UNCDF shall be represented by the Director of FIPA and the FIPA Senior Regional Technical Advisors will be invited as observers to the committee. Each funding member providing more than US$500,000 will appoint a representative and alternate to the committee. In addition, one or more expert agency (such as CGAP, GSMA MMU, AFI) will be invited to ensure consistency with their funding efforts.[32] The investment committee is responsible for:

- approving annual work plans and budgets
- monitoring progress toward those plans
- approving all funding agreements
- overseeing mid-term and final evaluations
- facilitating donor coordination

5.2 Management

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.

UNCDF will hire a Senior Advisor and Project Manager (see Job Description, Annex 8) to overseas the programme. The project will be implemented by a small UNCDF team, consisting of the Senior Advisor, Technical Specialist, Knowledge Management Officer and an Administrative/finance Assistant.

- The Senior Advisor will function as the Team Leader and 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 with 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.

[32] The committee will also invite UNCDF's IF Regional Technical Advisors and/or Country Advisors to provide comments on proposed investments in their country. For voting purposes, UNCDF will be represented by the Director, UNCDF FIPA or his designate.

- 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.
- 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.
- Finance, Human Resources, and Fundraising support will be provided by UNCDF headquarters.

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.

The programme will hire the Senior Advisor, Technical Specialist and Project Assistant to start the project. The Knowledge Management Officer will be added as adequate funding is secured. Knowledge management roles will be shared by the programme team and existing UNCDF headquarters staff.

5.3 Host Country Support

While all LDCs are eligible, host countries will be limited to those countries and partners which provide the best opportunities to achieve the programme's outcome. UNCDF field staff will be part of the identification process for projects. Once identified and activities have started, 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.

The administration of this Project shall be governed by UNCDF rules and procedures within the policy context defined by the Executive Board. This project conforms to the provisions of the Standard Basic Assistance Agreement (SBAA) between the host Governments and the United Nations Capital Development Fund. The host-country implementing agencies shall, for the purpose of the SBAA refer to the Government co-operating agency described in the Agreement. In countries that have not yet signed an SBAA with UNCDF, the UNDP SBAA shall apply.

Host country governments that are interested to participate in this programme agree, by signing the programme document, to facilitate the entry of the selected FSPs and expansion of microfinance services in their country. Where constraints emerge to the expansion of services, the host country also agrees to make a best effort to address those constraints. Finally, the host country government agrees to facilitate the appropriate inclusion of the country specific intervention in their CCA/UNDAF/CPAP at the earliest available opportunity.

UNCDF's partner in host countries is the central bank. Host countries, as represented by their central bank, need to provide a "no objection" for each funding proposal of partners in their country. No objections will be sought in advance of concluding performance-based agreements with partners.

5.4 Visibility and Outreach

For all of its knowledge management and promotional materials, Mobile Money for the Poor programme will include AusAID and potentially future funders of the programme, showing both the

AusAID and UNCDF logos. To the extent possible, Mobile Money for the Poor will acknowledge the important role AusAID and other funders play in supporting this important initiative, while ensuring such branding and attribution remains within compliance with UNCDF branding standards and requirements.

6 Fund Management Arrangements

The programme can be financed through partnerships with bilateral donor agencies, multilateral organizations (Multilateral banks and UN agencies) as well as private foundations. The fund management modality will be parallel[33] with standard cost-sharing agreement signed by donor and UNCDF.

UNCDF will programme the funds and manage the activities specified in the Resources and Result Framework (RRF) in line with its established rules and regulations. Direct implementation (DEX) will be the implementation modality for all activities under this programme. The administration of this Programme shall be governed by UNCDF's policies, rules and regulations, as defined in the UNCDF Operations Manual (OM).

UNCDF and AusAID will enter into a Cost-sharing Agreement. This will be the same modality for additional non-UN agency funders of the programme. Annex 1 provides a detailed programme budget.

Mobile Money for the Poor will operated in two stages, both of which include grant components. In response to an initial field research and due diligence, the programme will issue a limited request for assistance (RFA) reflecting the initial focus countries and funds available (approximately US$1 million). At the same time, it will begin developing a pipeline of projects in different focus countries, however issuing a broader RFA will be dependent on the funding the remainder of the programme. The project is designed to accommodate a funding of up to US$27 million, but could be somewhat smaller or larger depending on both demand for assistance and supply of funds.

In all cases, the central banks of the host country of the partner will be requested to provide a "no objection" to the funding.

6.1 Transfer of cash to national Implementing Partners:

UNCDF's standard performance-based agreements (PBAs) will be used for all FSP grant recipients. After reference and data checks (including unqualified financial audit reports), In most cases, larger cash grants, loans or guarantees will require a more thorough due diligence process, including on-site visits to the partners under consideration, to verify the information provided as well as their management and operational abilities to perform according to the anticipated agreement.

Funds will be released in tranches over the life of the funding agreement based on the partners' meeting targets and disbursement conditions in the PBAs. In addition, PBAs with individual FSPs will ensure that FSPs set aside sufficient resources to ensure internal monitoring of the results of the

[33] The parallel funding option is used here even though there is only one participating agency. If in the future other UN agencies choose to participate in this programme, the funding modality can remain parallel or become pooled (with UNCDF as managing agent), pass-through or a combination. The decision to select one or a combination of fund management options for a joint programme should be based on how to achieve the most effective, efficient and timely implementation, and to reduce transaction costs for national partners, donors and UN agencies.

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[1] 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[1] 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

grant. In this way, UNCDF will be able to hold grantees accountable for results and to minimize investments in grantees who do not manage to yield success results with their initial grant funds.

7 Monitoring, Evaluation and Reporting

7.1 Monitoring

The Senior Advisor and team will develop and annual work plan and budget that includes proposed activities by output. The Senior Advisor and team will provide quarterly reports to the Investment Committee that is linked to the Annual Work Plan (AWP).

At the end of each calendar year, the Senior Advisor will provide a strategic review of the programme which also considers changes in the rapidly changing external environment as part of the development of the AWP.

The Investment Committee will meet a minimum of three times per year, either in-person or virtually.

7.2 Evaluation

The programme is subject to an independent mid-term and final evaluation, managed by the UNCDF Evaluation Unit. The evaluation is in compliance with the UNCDF mandatory evaluation requirements in the UNDP Evaluation Policy[34], to which UNCDF is party. Funding for the evaluation is included in the programme's budget. The global evaluation will assess its overall performance, the outputs and outcomes produced against its initial targets, the impact it has brought or would likely to bring about with a focus on the progress toward sustainability of the FSPs, its relevance to assisting UNCDF to achieve the targets of its business plan and management efficiency. The evaluation will be forward looking offering lessons learned and recommendations to improve programme performance. The results of this evaluation will feed into strategic, thematic and outcome evaluations carried out by UNCDF.

In addition, participating FSPs will agree to participate and provide necessary data and collaboration for impact assessment studies that will be carried out as part of the programme's knowledge management agenda. The exact scope and structure of such studies will be determined at program start-up. It is expected that the data available will help derive useful lessons and evidence from the programs funded. It will help assess the full range of changes and impact that can be related to the investments funded, from the expression of client satisfaction to the use of the financial services accessed, as well as evidence of livelihood changes that could reasonably be linked to accessing those financial services.

[34] See: http://www.undp.org/eo/documents/Evaluation-Policy.pdf

Success in carrying out development evaluation requires partnerships in evaluation with national and international actors. In the context of wider efforts to improve the efficiency and added value of the UN's development operations, opportunities for collaboration on evaluations with UNDP and other development partners are now actively sought. Opportunities will be sought for collaboration with programme partners in conducting the evaluations.

7.3 Reporting

Partners receiving funding from the programme will submit quarterly[35] progress reports to the programme on performance against standard indicators and targets as set in the PBAs, as well as a brief summary of activities during the quarter. This will include performance data on financials as well as non-financial services provided. Data reported will depend on the kinds of services provided by the partner.

The baseline for calculating outreach of the programme will be a starting point of zero (0) clients with the measurement based on partners extension of services during the period of engagement with the programme. There is no global benchmarking for mobile money at present. If such develops, partners will be required to report to the benchmarking agency. All partners supported under this programme will be required to report quarterly to UNCDF. When possible and appropriate, partners will use a standard performance reporting format (adapted from GSMA and PFIP), including indicators on gender and rural outreach.

The programme will compile the reports received into a consolidated semi-annual report for the Investment Committee. In countries with UNCDF sector development programmes, reports will also be provided to the local investment committee. The Senior Advisor will provide reporting on an annual basis to the funders and the Executive Board of UNCDF through its Results Oriented Annual Report, and to the UNDP Resident Representative in the countries with investments.

8 Legal Context or Basis of Relationship

UNCDF will obtain a minimum of three LDC government signatures to this programme document that will make this programme effective by government buy-in, which will also facilitate the project's ability to encourage policy changes in favor of mobile money and underserved populations and their access to appropriate and sustainable financial services. In countries where the programme intends on funding partners, the host government as represented by the central bank will be asked to provide its "no objection" to the funding for each proposal. Where constraints emerge to the expansion of services, the host country also agrees to make a best effort to address those constraints. Finally, the host country government agrees to facilitate the appropriate inclusion of the country specific intervention in their CCA/UNDAF/CPAP at the earliest available opportunity.

The programme will conform to the Standard Basic Assistance Agreement (SBAA) between the host governments and UNCDF.UNCDF will act as the executing agency for the funds received for this programme while also acting as the implementing agency for the activities, as specified in the RRF. The administration of this programme shall be governed by UNCDF's rules and procedures.

UNCDF Financial Inclusion Practice Area (FIPA) will serve as executing agent for the programme funds. The Senior Advisor will manage the programme on a daily basis with support to the UNCDF

35 Quarterly reporting would be posted publicly, such as on the MIX Market, should this option become available during the programme.

FIPA regional advisors. Other development partners wishing to make use of these arrangements would be able to do so, under cost-sharing arrangements. Development partners will be able to participate in key decision points in the process based on time, technical capacity and interest.

9 Work plans and budgets

9.1 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.

Action	**Start**	**Finish**	**Responsible/Comment**
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 initial funding partners	Aug-2010	Aug-2011	UNCDF
Present concept paper for internal UNCDF approval	Sep-2010	May-2011	UNCDF
With partners, finalize project document	May-2011	Aug-2011	UNCDF, 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	Dec-2011	On-going	Team, expert consultants, UNCDF field staff
Issue limited EOIs for mobile money projects	Feb- 2012		Team
Vet EOIs, short-list projects and develop appraisals for Investment Committee	Mar-2012	On-going	Team, expert consultants
Approve projects in initial LDCs	May- 2012	Mar – 2014	Team, Investment committee
Train local UNCDF and UNDP staff in project countries	Oct -2011	Oct -2012	Team, expert consultants, during UNCDF annual meeting

9.2 Workplan 2011-2012

2011	2012				Output	Activity	Description	Tasks	Responsible
Q3/4	1	2	3	4					
X	x				1	Hire technical staff	Recruit and hire Team Leader to oversee programme and Technical Specialist to assist in building and managing a portfolio of projects	• Draft Job Descriptions, approve • Advertise and develop shortlist • Conduct interviews and select positions • Facilitate contracts • Provide Orientation training, as needed	UNCDF FIPA, Ops
x	x	x	x	X	1	Investment Committee	Establish an informed and interested investment committee to oversee programme activities and grants	• Identify and recruit non-funder participants • Develop policies and procedures • Convene Investment Committee • Identify meeting venue/regularity	Sr. Advisor/ FIPA
	x	x	x	X	1	MM4P Fund	Develop a flexible, nimble performance-based fund facility that can respond to or promote opportunities to develop mobile money solutions for the poor	• Develop policies and procedures • Finalize reporting document • Set criteria for funding • Develop Expression of Interest/RFA docs • Get IC approval • Issue an initial expression of interest (EOI) to identify the most promising providers and partnerships for mobile money in at least four LDCs • Work with shortlisted applicants to develop full appraisals and provide to the IC review • Conclude performance-based agreements that include targets for women and rural clients • 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.	Sr. Advisor
	x	x	x	X	1	Grantee oversight	Oversee and monitor progress grantees	• Assist UNCDF country staff in regular monitoring • Maintain regular contact to discuss progress • Assist in resolving issues and identifying opportunities • Collect quarterly reports, analyze and provide feedback	Tech. Advisor
	x	x			1	Expert Assistance	Create a roster of experts and identify at least one expert per	• Create roster of experts from UNCDF/UNDP and other databases	Tech. Advisor

2011	2012				Output	Activity	Description	Tasks	Responsible
Q3/4	1	2	3	4					
							region to retain on contract to assist with identification, development and oversight of projects	• Develop retainer contract procurement process • Advertise, receive and vet applicants • Conclude retainer contracts with 3-6 consultants	
				X	1,2,3	G2P	Identify G2P opportunities in focus countries	• Raise awareness on G2P • Identify mass payment opportunities in focus countries • Advocate on G2P with partners, help design projects • Assist Governments in tendering projects	Tech. Advisor/CTA / Experts
			x	X	1,2,3	Remittances	With IFAD, develop remittance links	• Present project to IFAD, identify best means to partner • With partners, identify best remittance corridor opportunities	Sr. Advisor/ RTAs
	x	x	x	X	2	Country mobile money diagnostics	Diagnostics of short-listed countries	• Follow up on leads from UNCDF RTAs, CTAs and country offices • Conduct inventory of all mobile money information in country • Visit countries, conduct gap analysis and regulatory diagnostic • Vet diagnostics with stakeholders • Make diagnostics available to the public	Sr. Advisor/ Tech Advisor/ Experts
			x	X	2	Market demand Research	Commission quantitative and qualitative research on the nature of demand for financial services	• Inventory market research on client demand in focus countries • Work with stakeholders to identify information gaps • Draft TORs for appropriate market studies, highlighting quantitative or qualitative • Commission market studies	Tech Advisor/ Knowledge Mgr.
				X	2	Product Research	Assist partners in conducting quantitative and qualitative research on existing or proposed products	• Identify best product opportunities in focus countries • With partners, identify knowledge gaps related to the product • Develop TORs for product research to inform product design or improvement • With partners, commission research • Analyze results and determine action steps • Share results broadly	Technical Advisor/ Experts
				X	2	Impact Research	On midterm and end of programme look at impact on clients of work	• Develop impact research to IC • Initiate in 2013	Know. Mgr./ Experts
	x	x	x	X	3	Advocacy on regulation	Work with AFI, CGAP and the World Bank in a partnership to work with regulators in project	• Work with AFI to identify key regulators in focus countries • With UNCDF regional/country staff, visit/inform	Sr. Advisor /CTAs

2011	2012				Output	Activity	Description	Tasks	Responsible
Q3/4	1	2	3	4					
							countries to ensure the enabling environment for the mobile money deployments	regulators of programme • Seek no objection for possible projects • identify opportunities and gaps in coordination with others working in regulatory space • Educate regulators, providers and others through information exchanges and scholarships, including on-site visits, workshops, participation in AFI and others' learning events	
	x	x	x		3	Regulatory Inventory	Maintain clear record of current regulation regarding mobile financial services	• In consultation CGAP and AFI, develop inventory data sheet • Review existing work • Identify gaps in knowledge, complete inventory	Sr. Advisor /CTAs
x	x	x	x	X	3	Donor Coordination	Ensure that donors in focus countries are adequately coordinating efforts	• Identify existing coordination mechanisms, both local and international • Present plans to coordinating mechanisms • Assist coordinating bodies in maintaining dialogue on current and planned projects in inclusive finance/mobile money • Share information on projects under consideration with coordination mechanisms • On annual basis, encourage annual review and setting of priorities	Sr Advisor RTAs CTAs
x		x		X	3	UN Capacity Building	Develop UNCDF ability to oversee and develop mobile money	• Provide workshop at regional FIPA meeting • Provide tools to understand and identify opportunities • Identify key staff in focus countries • Identify training opportunities, both international and in-country • Educate other UN agencies on MM possibilities	Sr. Advisor/ Technical Advisor
	x	x	x		4	Knowledge Mgmt. Policy	Develop Knowledge management policy including coordination role with others	• Discuss with major creators of knowledge how best to share information • Propose means to coordinate and utilize existing channels for knowledge sharing • Contribute to the global learning agenda by requiring partners to report regularly, accept evaluations and participate in others' studies. • Support learning for partners and other key stakeholders that will promote the success of its projects or otherwise contribute to meeting its objectives.	Know. Mgr.

2011	2012				Output	Activity	Description	Tasks	Responsible
Q3/4	1	2	3	4					
					4	Monitoring	Monitoring and Evaluation of Programme	• Develop a regular regime of reporting on activities and results to stakeholders and other interested parties • Develop and implement a meaningful and appropriate monitoring and evaluation plan, building on the required UNCDF policies and procedures • Set quarterly reporting with partners • Set semi-annual reporting with IC	Sr. Advisor / Tech. Advisor
					4	Standards Setting	Be part of development of standard creation in mobile money	• 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) • Require partners to report according to global standards, to global benchmarking groups (when possible)	Sr. Advisor
					4	Information Exchanges	Develop informal information exchanges in focus countries	• Hold one information exchange per year in country on mobile money and its uses	Tech. Advisor/ CTAs
					4	Scholarships	Identify and promote scholarships for key stakeholder to attend learning events	• Identify most important learning events • Identify stakeholders who can benefit from attendance • Develop procedure for co-funding	Know. Mgr.
						International For a	Participate directly or through partners in relevant international events	• GSMA MMU • AFI Global Policy Forum • MMT (one per year)	Sr. Advisor
	x	x			4	Visibility	Maintain visibility of the programme and its funders	• Develop market/branding guidelines for programme • Develop and maintain a website for the project for promotion and information sharing • Develop basic materials to promote programme	Know. Mgr.

9.3 Budget

(see Annex 1 for a breakdown by year)

	Description	Total	UNCDF	AusAID	Other
Output 1	**Scalable Projects**				
	Technical Specialist	882,750	-	330,750	396,000
	Analyst	323,750	-	-	250,750
	Relocation	86,000	-	43,000	-
	Consultants	996,000	86,000	-	778,000
	Travel - Team	656,250	-	70,000	470,000
	Grants	15,500,000	-	600,000	14,400,000
	Misc.	-	-	-	-
	Subtotal	**18,444,750**	**86,000**	**1,043,750**	**16,294,750**
Output 2	**Sector and Market Research**				
	Consultants	1,350,000	-	150,000	1,125,000
	Travel - Consultants	270,000	-	35,000	220,000
	Misc.	180,000	-	2,350	167,650
	Subtotal	**1,800,000**	**-**	**187,350**	**1,512,650**
Output 3	**Policy, Advocacy and Coordination**				
	Senior Advisor	1,158,000	446,000	-	467,000
	Relocation	86,000	43,000	-	-
	UNCDF Field Staff	904,000	320,000	-	419,000
	Misc.	223,000	-	-	181,000
	Subtotal	**2,371,000**	**809,000**	**-**	**1,067,000**
Output 4	**Learning, Monitoring and Evaluation**				
	Knowledge Manager	608,500	-	97,500	403,000
	Consultants - M&E	235,000	-	25,000	110,000
	Conferences	381,750	-	-	327,000
	Web/Printing/Publications	204,850	-	22,000	165,600
	Partner Travel	405,980	-	-	344,000
	Subtotal	**1,836,080**	**-**	**144,500**	**1,349,600**
Output 5	**Programme Support**				
	Programme Assistant	202,000	-	30,000	126,000
	Rent	296,920	105,000	-	126,000
	Communication	77,250	-	11,250	48,000
	Misc.	82,000	-	20,000	46,000
	FACADM	1,890,000	-	108,150	1,781,850
	Subtotal	**2,548,170**	**105,000**	**169,400**	**2,127,850**
	Total	**27,000,000**	**1,000,000**	**1,545,000**	**22,351,850**

Signatures[36]:

UN organization(s)	Implementing Partner(s)
Replace with: *Name of Representative* *Signature* *Name of Organization* *Date*	*Replace with:* *Name of Head of Partner* *Signature* *Name of Institution* *Date*

[36] When CSOs/NGOs are designated Implementing Partners, they do not sign this Work Plan. Each participating UN Organization will follow its own procedures in signing Work Plans with CSOs/NGOs.

Annex 1 Detailed Programme Budget

(Attached)