SCALING USAGE OF MOBILE MONEY TO BOOST FINANCIAL INCLUSION IN MALAWI

SUMMARY ACTION PLAN

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CONTENTS

ACRONYMS

e-wallet	electronic wallet
FSTAP	World Bank Financial Sector Technical Assistance Program
MARCA	Malawi Communications Regulatory Authority
m-money	mobile money
MNO	mobile network operator
MTO	money transfer operator
RBM	Reserve bank of Malawi

EXECUTIVE SUMMARY

This Summary Action Plan proposes a series of interventions that, implemented in sequence, are intended to support the responsible and comprehensive growth of mobile money (m-money) as a vehicle to support the inclusive expansion of financial services to underserved populations in Malawi. The interventions outlined in this plan have been designed with the needs of regulators, government, and key private sector players in mind. They range in scope from structured funding initiatives and technical assistance to capacity-building and tailored pilots.

Current conditions within the Malawian economy have created opportunities to spur the growth of m-money. These opportunities include a large unbanked and under-banked population that demands basic financial services and financial institutions, and mobile network operators (MNOs) with viable m-money products and services to offer this population. Commitment to financial inclusion and coordination among Malawi's progressive Central Bank and donors further contribute to a conducive environment to support growth.

The purpose of this action plan is to provide a framework and proposed activities to support implementation and accelerated growth over time. Implementation of the action plan will be an iterative process involving input from multiple stakeholders, and responsive to changing needs and interest in the operating environment. To support implementation of the action plan, we propose the creation of a Mobile Money Coordinating Group (MMCG). The Reserve Bank of Malawi (RBM), World Bank, and USAID would comprise the group's leadership core; other members would come from key sectors or organizations (e.g., banker's associations).

MMCG's roles and responsibilities would include:

- Champion m-money initiatives, act as a stakeholder convening body, agree on performance targets
- Oversee implementation and management of action plan
- Serve as a repository and clearinghouse for m-money information/data relevant to other stakeholders (e.g., best practices, operational manuals and guidelines, enrollment, market intelligence, or training tools)
- Coordinate additional market research and data analysis activities with qualified local partners
- Identify/leverage existing contract vehicles or projects to support intervention activities or establish new vehicles and projects
- Monitor and report out on progress in the m-money sector

The action plan proposes 11 intervention activities and seven potential pilots. Wherever feasible and appropriate, the action plan has sought to leverage existing partnerships, funding vehicles, government and donor programs, and market operations to avoid the creation of parallel or redundant activities. The plan identifies four catalyst/facilitation categories that offer a comprehensive approach to accelerate m-money adoption and usage:

1. *Funds injection.* Proposed interventions are designed to establish regular automatic injections (e.g., salary payments, conditional cash transfers, stipends, loan disbursement) to provide a consistent, periodic injection of funds into a mobile electronic wallet (e-wallet).

2. *Ecosystem development.* Proposed interventions are desgined to strengthen and expand a network of agents and acceptance points, and establish participating billing and payment entities that can be sustained through guaranteed transaction levels (e.g., salary payment contracts), consumer promotions, and consumer or provider incentives. A thriving m-money ecosystem requires that individuals and business use the e-wallet for a range of transactions.

3. *Stakeholder capacity-building.* Among the proposed interventions are opportunities to provide technical expertise and strengthen stakeholder capacity, particularly among government and private-sector partners.

4. *Enabling regulatory environment.* Proposed interventions are designed to provide technical expertise and capacity-building to regulatory authorizies to help address adoption barriers early and directly to facilitate sector development.

The seven pilots, listed below, are designed to overlap and re-enforce one another, thereby enhancing the potential for a robust m-money ecosystem to take root and expand in Malawi. As described in the action plan, each pilot targets one of five user segments: farmers, civil servants and pensioners, social welfare recipients, laborers/low wage earners, and remittance recipients. Attached with this action plan is a proposed series of specific activities to implement these pilots.

- Pilot 1: Civil Service Salary Payment
- Pilot 2: Cash Transfer Payment for Social Welfare Recipients
- Pilot 3: Agriculture Value Chain Payments
- Pilot 4: Agriculture Voucher Distribution/Redemption
- Pilot 5: Micro Loan Program
- Pilot 6: Internal Residual Spraying Program (Anti-Malaria Activity)
- Pilot 7: In-Country Disbursement of International Remittances

Finally, the action plan proposes the optimal sequencing of activities and pilot interventions to catalyze sector development. Section V presents a detailed list of activities, and Exhibit 4 in Section VI presents the optimal sequence of activities and interventions.

SECTION I. PURPOSE, RATIONALE, AND TARGET SEGMENTS

A. Purpose

The purpose of the action plan is to promote broad uptake and usage of m-money in Malawi, with an emphasis on reaching selected unbanked and under-banked market segments. The action plan identifies barriers and tailors interventions to commercial adoption, and links a range of public and private initiatives into a coordinated and sequenced set of activities.

Mobile payments are an innovative means of payment within the retail payments space. There is broad consensus that, to be successful, m-money initiatives must leverage or create a comprehensive electronic money ecosystem (e.g., end-users, agents, merchants, employers, and other payers with linkages to existing retail payment services). Creating such an ecosystem requires a concentration of resources and the ability to achieve scale in specific locations.

B. Rationale

Electronic money in general and m-money in particular present an opportunity to empower large segments of the population by providing access to finance through open-access ecosystems enabled by mobile telecommunications networks. Positive impacts of an expanded m-money footprint and supporting ecosystem include:

- Increasing the number of participants in the formal financial sector
- Improving transparency as payments and funds transfers go directly from payer to the ultimate recipient
- Improving consumer security as the need for physical currency diminishes
- Reducing transaction costs for a range of payments in the overall economy (e.g., local taxes, utilities, and loans)
- Increased access to and accelerated development of value-added financial services tailored to specific target segments, including secure savings products, credit, and insurance products

C. Target Segments

Though the action plan is designed to accelerate the adoption of m-money broadly, improving the availability of financial services to selected underserved segments is central to the government of Malawi's financial inclusion and poverty alleviation objectives. Specifically, underserved segments would gain greater access to more a convenient and cost-effective transaction channel (to receive and make payments), storage mechanism (for depositing and withdrawing funds), and information tool (to verify account balances and monitor recent transaction activity). The action plan targets the following end-user segments:

Farmers. Agriculture dominates the Malawian economy, with 80 percent of the population living in rural areas and 36 percent of gross domestic product coming from agriculture (85 percent of exports). Bank branch penetration remains low in rural areas, and access to bank services is

extremely limited. Farmers are disproportionally underrepresented in the formal financial sector and can benefit directly from greater access to credit, savings, insurance, and payment products and services. M-money and associated technologies can provide the mechanism to bring this important market segment into the formal financial sector. Specific agricultural value chains under consideration are sugar, tea, dairy, horticulture, tobacco, and maize.

Civil servants and pensioners. Approximately 185,000 civil servants and pensioners receive regular payments from the government. Recent legislation requires that these payments now be made directly into formal bank accounts. Others pensioners receive cash payments from post offices and other government facilities. Though this system is more efficient and transparent from a government perspective, many civil servants and pensioners find it inconvenient because they must travel long distances to bank branches to collect their salaries. Linking formal bank accounts with an m-money account and supporting the development of an agent network to conduct deposits and withdrawals will improve bank account accessibility and expand its utility.

Social welfare recipients. Social welfare recipients are also underrepresented in the formal financial sector. Government and donor-funded programs target poor households, providing small, repetitive conditional and unconditional payments usually made in cash. The Rural Infrastructure Development Program and the Department of Poverty Reduction and Social Protection program are examples of government and nongovernmental institutions directly involved in delivering social welfare payments. Transitioning these cash payments to a mobile mechanism has three primary advantages:

1. Repetitive government/donor m-money payments provide a mechanism for establishing mobile bank accounts for people who were previously unbanked. These accounts are an entry point into the formal financial sector; they can be combined with additive loan and savings products.

2. Direct payments to end-user recipients will improve transparency and security.

3. Transitioning to m-money will improve distribution efficiency and reduce costs for the paying entity.

Laborers/low wage earners. Cash payments are also prevalent in selected industries, particularly commodities such as corn, sugar, tea, and tobacco. Similar to farmers and poor households, individuals in this segment receive repetitive, relatively small cash payments. They also typically lack bank accounts or other formal financial services. Providing a secure, easily accessible mechanism to receive salaries and other payments establishes a solid foundation for further financial inclusion initiatives.

Remittance recipients. International remittances flows to sub-Saharan Africa exceed $30 billion annually, often dwarfing federal direct investment and official development assistance flows. They affect as many as 25 million recipient households and have the potential to significantly reduce poverty and stimulate growth. However, high transaction costs, low levels of financial inclusion and missing markets for remittance-linked financial products have limited the development impact of remittances in the region. While other parts of the globe have been on a decade-long journey making progress on remittance issues, very little has been done in Africa.

SECTION II. STAKEHOLDERS

A variety of stakeholders will play critical roles in supporting and delivering a comprehensive m-money ecosystem in Malawi. These include regulators, service providers, service users, and facilitating organizations. Table 1 below summarizes the roles and responsibilities of selected stakeholders.

To oversee and manage the execution of the action plan, we recommend creating the M-Money Coordinating Group (MMCG to be an integral part of the National Payment Systems Committee. In this way, m-money is placed within a collective framework that addresses issues relating to retail payments. The MMCG will act as a stakeholder consortium and a clearinghouse for research and best practices regarding m-money activities, and will report on progress related to key benchmarks. RBM will convene meetings and discussions throughout the lifecycle of the action plan. The MMCG will consider all action plan outputs, especially recommendations on enhancement of technology platforms, payment system rules, regulations, and other market practices. In this regard, the existing framework will be strengthened to ensure effective collaboration and partnerships between all stakeholders, facilitating the transfer of good practices and promoting sharing of lessons and experiences among stakeholders and from similar foreign and regional projects.

USAID, World Bank, and other international development agencies that may be asked to join this effort will form a core group providing advisory services and technical assistance to support RBM on effective delivery of the action plan. The members of the core group will contribute their international and regional experiences in the focus areas of the action plan and integrate them into initiatives. In addition, the entire action plan will be coordinated with the USAID and World Bank country offices in Malawi.

Table 1. Roles and Responsibilities of Selected Stakeholders

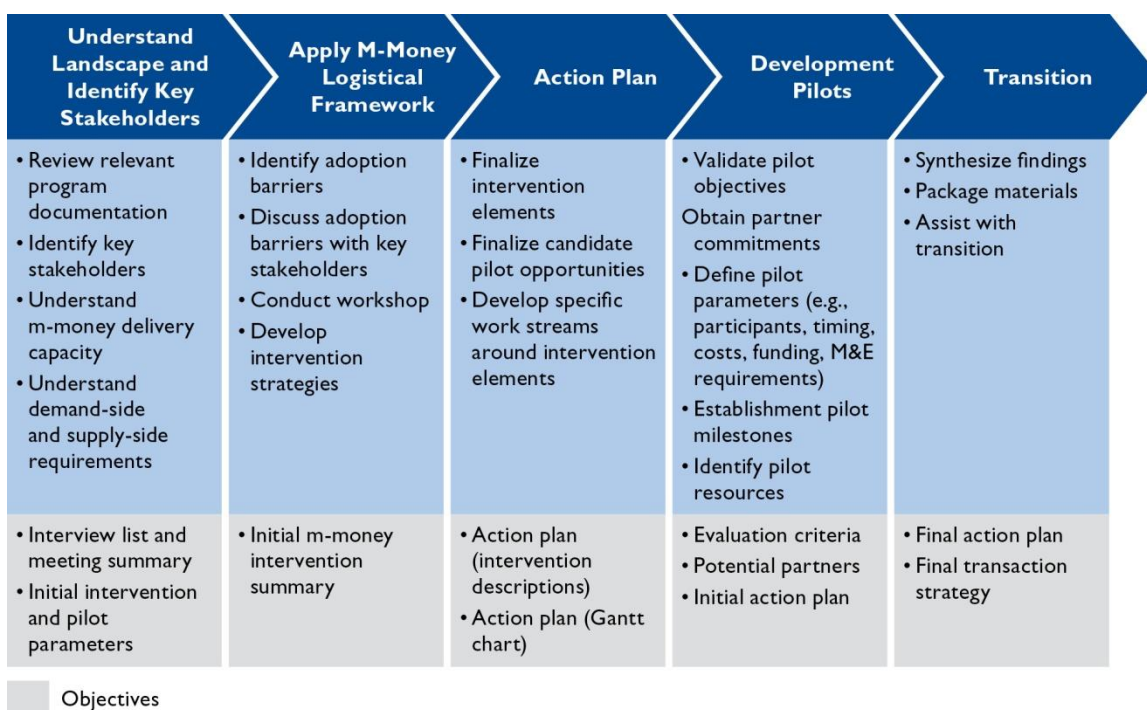| Stakeholder	Roles and Responsibilities
RBM	- Provide an enabling environment for growth and innovation - Identify adoption barriers and issues - Promote interoperability - Protect consumers - Protect against systemic risk - Protect against exclusivity measures and other anticompetitive behavior - Monitor activities - Enforce regulations
Government of Malawi	- Coordinate relevant policies and activities (e.g., financial inclusion strategy) - Encourage adoption of m-money through usage, such as salary payments and social welfare payments - Accept mobile payments for taxes, fees, and services, such as electric utilities and water
Consumer Association of Malawi	- Represent end-user interests - Advocate for specific m-money consumer protection regulations and guidelines - Support public outreach and consumer awareness initiatives

Stakeholder	Roles and Responsibilities
MACRA	• Coordinate and consult with RBM on Subscriber Identity Module (i.e., SIM) registration as it relates to m-money account registration and Know Your Customer requirements • Coordinate and consult with records and information management as it relates to consumer protection • Encourage infrastructure expansion and sharing • Coordinate with RBM as it relates to encouraging interoperability • Coordinate with RBM as it relates to exclusivity measures and other anticompetitive behavior • Enforce regulations • Monitor MNO quality of service requirements
MMCG	• Champion m-money initiatives and agree on performance targets (partner commitments) • Oversee implementation and management of action plan • Serve as a repository and clearinghouse for m-money information/data relevant to other stakeholders (e.g., best practices, operational manuals and guidelines, enrollment, market, or training tools) • Coordinate additional market research and data analysis activities with qualified local partners (e.g., Kadale Consultants) • Identify and leverage existing contract vehicles or projects to support intervention activities or establish new vehicles and projects • Monitor and report out on m-money sector progress
Donors (e.g., World Bank, USAID, European Union, NGOs)	• Establish a core group of m-money and payment system experts to support delivery of related technical assistance • Provide funding for pilots • Encourage adoption of m-money through usage, such as salary payments, cash-for-work payments, business-to-business transactions • Support training and outreach activities • Provide funding for financial literacy and consumer awareness activities
Banks and microfinance institutions (i.e., financial Institutions)	• Provide credit and other financial product expertise • Integrate core banking platforms into the broader m-money ecosystem • Encourage funds distribution and collection through m-money channels • Strengthen consumer grievance systems and resolve complaints promptly • Support public outreach and consumer awareness initiatives • Avoid exclusivity measures and other anticompetitive behavior in merchant-agent networks • Support merchant network development • Support end-user recruitment • Support agent network development • Adhere to standards and regulations • Support interoperability initiatives • Support pilot activities
MNOs	• Provide core connectivity (message transport) for the ecosystem • Provide core m-money platform (either in partnership with financial institutions or through branded m-money products) • Support public outreach and consumer awareness initiatives • Strengthen consumer grievance systems and resolve complaints promptly • Avoid exclusivity measures and other anticompetitive behavior in agency-merchant networks or on core m-money platform and connectivity • Adhere to standards and regulations • Support merchant network development • Support end-user recruitment • Support agent network development • Support integration with core banking platforms • Support interoperability initiatives • Support pilot activities

Stakeholder	Roles and Responsibilities
Businesses (e.g., commodities exporters, agriculture suppliers, distributors, and retailers)	- Acquire understanding of value proposition - Encourage adoption of m-money through usage, such as payments to growers, business-to-business transactions - Support integration with core accounting platforms - Support pilot activities - Adhere to standards and regulations
Cash agents	- Adhere to standards and regulations - Maintain adequate liquidity - Provide broad access to end-users - Avoid exclusivity measures and other anticompetitive behavior in agency-merchant networks
End-users	- Acquire understanding of value proposition - Adhere to Know Your Customer and other registration requirements
Merchants	- Acquire understanding of value proposition - Encourage acceptance and usage of m-money - Support pilot activities in rural areas - Leverage nationwide network of stores - Avoid exclusivity measures and other anticompetitive behavior in merchant-agent networks

SECTION III. METHODOLOGY FOR ACTION PLAN

The action plan was developed by FS Share based on a review of recent m-money initiatives, interviews with key stakeholders conducted by FS Share in October 2011, an analysis of potential latent consumer demand for m-money in Malawi conducted by Kadale Consultants in November 2011, discussion and commentary compiled from a consultative workshop jointly organized by the World Bank and USAID on November 7, 2011 in Lilongwe, and application of a m-money logical framework provided by USAID. The purpose of these activities was to determine service provider and end-user requirements, delivery capabilities, as well as barriers to adoption and usage. Exhibit 1 illustrates the overall action plan development methodology.
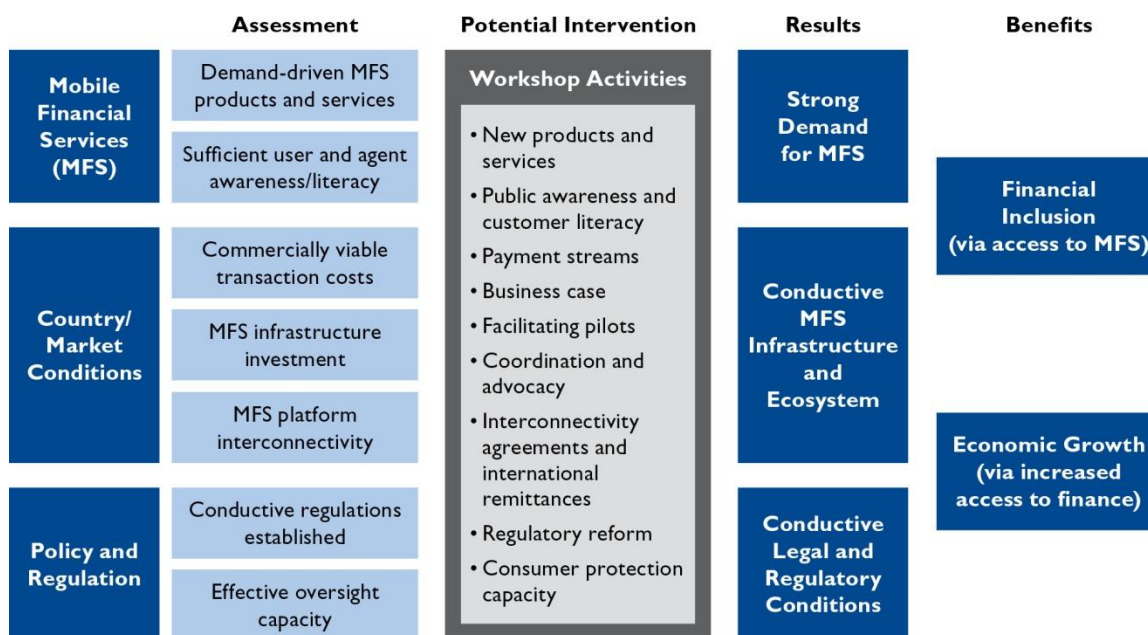
Exhibit 1. Action Plan Development Methodology

Understand Landscape and Identify Key Stakeholders	Apply M-Money Logistical Framework	Action Plan	Development Pilots	Transition
• Review relevant program documentation • Identify key stakeholders • Understand m-money delivery capacity • Understand demand-side and supply-side requirements	• Identify adoption barriers • Discuss adoption barriers with key stakeholders • Conduct workshop • Develop intervention strategies	• Finalize intervention elements • Finalize candidate pilot opportunities • Develop specific work streams around intervention elements	• Validate pilot objectives Obtain partner commitments • Define pilot parameters (e.g., participants, timing, costs, funding, M&E requirements) • Establishment pilot milestones • Identify pilot resources	• Synthesize findings • Package materials • Assist with transition
• Interview list and meeting summary • Initial intervention and pilot parameters	• Initial m-money intervention summary	• Action plan (intervention descriptions) • Action plan (Gantt chart)	• Evaluation criteria • Potential partners • Initial action plan	• Final action plan • Final transaction strategy

☐ Objectives

The m-money logical framework below, provided by USAID, provides a structured approach for assessing the current state of the m-money sector and for identifying and prioritizing required intervention areas. Exhibit 2 (next page) presents the m-money logical framework.

This log frame was used by the M-Money Malawi Consultative Workshop facilitators to guide working group discussions toward the identification of key constraints and possible intervention solutions. Supporting the log frame was a tailored question set that underpinned the framework and enabled working group participants to systematically determine the key issues. Working group questions can be found in Annex A.

Exhibit 2. M-Money Logical Framework

Assessment	Potential Intervention	Results	Benefits

Mobile Financial Services (MFS)
- Demand-driven MFS products and services
- Sufficient user and agent awareness/literacy

Country/ Market Conditions
- Commercially viable transaction costs
- MFS infrastructure investment
- MFS platform interconnectivity

Policy and Regulation
- Conductive regulations established
- Effective oversight capacity

Workshop Activities
- New products and services
- Public awareness and customer literacy
- Payment streams
- Business case
- Facilitating pilots
- Coordination and advocacy
- Interconnectivity agreements and international remittances
- Regulatory reform
- Consumer protection capacity

Results
- Strong Demand for MFS
- Conductive MFS Infrastructure and Ecosystem
- Conductive Legal and Regulatory Conditions

Benefits
- Financial Inclusion (via access to MFS)
- Economic Growth (via increased access to finance)

SECTION IV. OPPORTUNITIES AND CONSTRAINTS TO ACCELERATING M-MONEY

M-money presents significant opportunities for Malawi and has the potential to support a range of economic and policy objectives. There are several factors that support this potential:

- Large unbanked and under-banked populations with a demand for basic financial services
- Financial institutions and MNOs with viable m-money products and services
- Large rural population with transportation challenges, making m-money an efficient payment and transfer mechanism
- Significant cash-based payment streams that are costly and time-consuming to process and administer
- Progressive Central Bank that is committed to expanding financial inclusion and has a positive view of m-money
- Strong donor commitment and solid coordination of effort

The logframe also highlighted several constraints that could inhibit the adoption and usage of m-money in Malawi:

- Low literacy rates, especially financial literacy, make adoption of m-money technology a challenge.
- Relatively low mobile telephone penetration. Though growing rapidly, mobile telephone penetration stands at about 27 percent, well below the Africa average of 40 percent.
- Maintaining cellular network availability and expanding coverage due to limited electrical grid infrastructure and acute fuel shortages
- Predominantly rural population makes establishing and scaling a viable agent network difficult
- Agent liquidity and the ability to "cash out" is a major issue in building trust around m-money and affects the viability of certain pilots
- Low income levels make finding financially viable pricing and business models difficult
- Regulatory uncertainty limit stakeholders' ability to invest resources into m-money programs
- Limited number of individuals with m-money expertise constrains certain stakeholders

# SECTION V. ACTION PLAN SUMMARY AND KEY ELEMENTS

The action plan to accelerate m-money adoption and usage in Malawi includes the following key elements:

- Eliminate regulatory barriers
- Cultivate m-money champions (RBM, donors, private sector)
- Establish financial literacy initiatives that include m-money components
- Mobilize repetitive cash payment streams
- Incentivize broader ecosystem development and product diversification
- Use geographic concentration of activities to enhance intervention and pilot impact

This action plan contains a set of intervention and pilot initiatives designed to promote and expand the use, availability, and utility of m-money through a range of coordinated public and private initiatives. These initiatives focus on overcoming previously identified adoption and usage barriers and incorporate input from stakeholders, donors, and government. Exhibit 3 illustrates the strategy underpinning the action plan.

Exhibit 3. Intervention Strategy
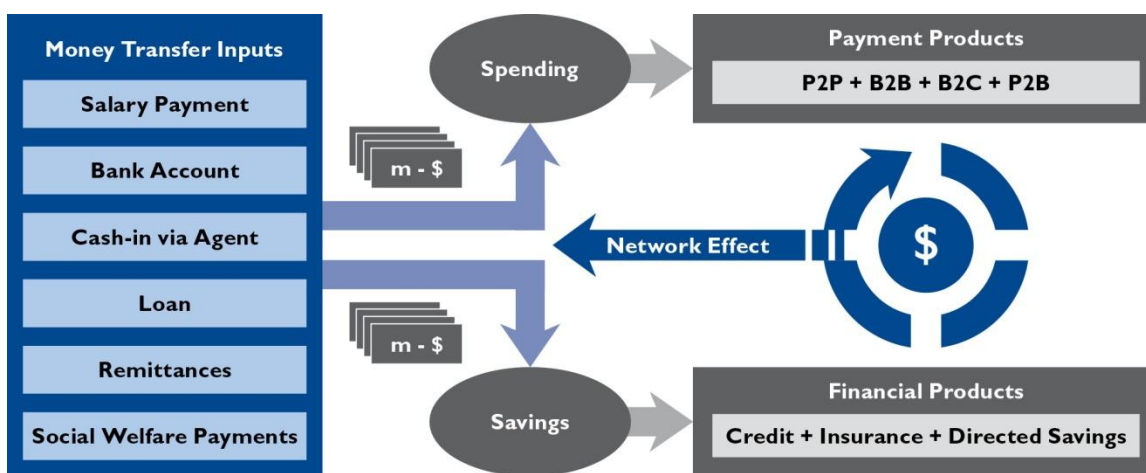
The action plan includes four catalyst/faciliation categories that offer a comprehensive approach to m-money expansion.

Electronic money injection. A robust m-money ecosystem requires the consistent, periodic injection of funds into an e-wallet. Establishing regular electronic money injections (e.g., salary payments, conditional cash transfers, stipends, loan disbursements, and remittances) into a e-wallet is a critical step in expanding usage.

Ecosystem development. A thriving m-money ecosystem requires that individuals and business use the mobile e-wallet for a range of transactions and that, over time, the frequency of 100-percent cash-outs declines. To accomplish this, an expanding network of agents, acceptance

points, and participating billing and payment entities must be established. Supporting this expansion through guaranteed transaction levels (e.g., salary payment contracts), promotions, and incentives is another important piece in the mobile banking expansion puzzle. Early findings from the Malawi m-money demand analysis suggest consumers are willing to use m-money as an alternative across a range of transaction activities, including purchasing airtime and goods, money transfers, cash-in (deposits), cash-out (withdrawals), and bill and loan payments.[1]

Stakeholder capacity-building. Technical expertise and system capacity across a range of m-money ecosystem stakeholders is an important component of a sustainable m-money sector. Establishing a mechanism and focal point whereby stakeholders (e.g., financial institutions, MNOs, and other electronic money issuers, regulators, third-party partners, and end-users) can access m-money expertise and systems support will help ensure that the m-money sector develops with strong commercial and government players.

Enabling regulatory environment. Creating an enabling environment that informs and protects the public is another critical component of a comprehensive m-money action plan. By directly addressing adoption barriers (e.g., consumer awareness and agent availability), donors and the government can help lay the foundation for commercial entities to build useful products and services. From a supply-side perspective, examination of current regulatory requirements and restrictions can also reveal areas where policies are not meeting objectives and may actually inhibit sector development. The use of non-bank entities such as shops, fuel stations, and agro-input dealers as m-money agents and the ability of these entities to operate efficiently and effectively within the Malawian market, for example, should be considered. Prelimenary data collected from the m-money demand analysis reveals a survey respondents are very willing to use these entities to conduct various m-money transactions.[2]

Based on these four catalyst/facilitation categories, the following intervention activities have been identified:

- Public awareness campaign
- Financial literacy training
- Regulatory reform
- Regulatory capacity-building
- Interoperability initiatives
- Sevice provider and agent capacity-building
- Market research and data analysis
- Grant application for new product and service development
- Government-to-person payment programs
- Agricultural value chain payment programs
- In-country disbursement of international remittances

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[1] "Mobile Money Demand Survey – USAID/FS Share Malawi" Kadale Consultants, p.24.
[2] 81.7 percent would be willing to use one of the non-bank agents referenced above to conduct mobile money transactions. From "Mobile Money Demand Survey — USAID/FS Share Malawi" Kadale Consultants, pp.26-27.

A. Public Awareness Campaign

The public awareness campaign is foundational to other intervention activities; it will represent an overall endorsement of the use of m-money for a variety of public and private applications.

The primary objective of the campaign would be to increase understanding, acceptance, and usage of m-money products. Technical assistance to various program entities is required to support the establishment and deployment of an m-money public awareness campaign. It should involve a variety of media and outreach methods, and adapt over time to support specific action plan activities. The pre-pilot launch phase must highlight the existence of m-money services generally, their value to the public, and why they are viable alternatives to existing options. Once specific pilots have been finalized and launched, the campaign will reinforce aspects of m-money that directly relate to specific pilot activities and objectives such as goal- or time-based savings; loan repayment; receiving payments (e.g., salary, pension, and social welfare).

For, advertising, radio, billboards, and other signage (e.g., at bus stops or stations) will likely offer the greatest exposure in Malawi. The campaign should be executed in English and Chichewa, with an emphasis on Chichewa in peri-urban and rural areas. In addition to above-the-line marketing/promotion activities, the campaign should reach out to and leverage organizations whose established presence and credibility within target market segments will help disseminate and amplify campaign messages (e.g., farmers' and workers' clubs and associations)

The campaign would also be part of broader financial literacy initiatives and incorporated into ongoing training and outreach initiatives. Specific m-money providers could build off the public awareness campaign and promote their own m-money products and services.

Table 2 lists potential public awareness campaign intervention mechanisms, sponsors, and recipients.

Table 2. Potential Public Awareness Campaign Interventions

Intervention Mechanism	Potential Sponsor	Potential Recipients
• Technical assistance • Direct funding support	• World Bank Financial Sector Technical Assistance Program (FSTAP)	• Consumer Association of Malawi • RBM • Ministry of Finance • Department of Planning and Coordination

B. Financial Literacy Training

Several sources have indicated that a general lack of understanding of financial products and services and a low level of overall financial literacy in Malawi will inhibit the uptake and use of m-money. A financial literacy program targeting specific market segments may address this constraint. According to the Department for Planning and Coordination, the Malawian government is designing a national financial literacy initiative that involves multiple government departments and programs, as well as international organizations and NGOs. The financial literacy dimension will include activities such as conducting a baseline study on financial literacy and awareness, establishing a national financial literacy network, providing training,

delivering financial education, and conducting a public awareness campaign for the targeted population. Program delivery will take many forms and will leverage existing outreach and training initiatives, particularly agricultural training programs. Delivery will also incorporate ongoing privately funded activities undertaken by the telecommunications and financial sectors (e.g., financial literacy training programs from Opportunity International Bank Malawi).

Table 3 lists potential financial literacy intervention mechanisms, sponsors, and recipients.

Table 3. Potential Financial Literacy Interventions

Intervention Mechanism	Potential Sponsor	Potential Recipients
• Technical assistance • Direct funding support	• World Bank FSTAP program • USAID agricultural programs	• RBM • Department of Planning and Coordination • Agricultural program implementers • Financial institutions • MNOs

C. Regulatory Reform

Members of the MMCG will analyze specific regulatory constraints identified during the M-Money Malawi Consultative Workshop in greater detail and coordinate the m-money initiative. This will be supplemented by any additional insights drawn from recently concluded studies on m-money demand survey, cross-border mobile payments, and remittance market assessments in Malawi. Specific areas identified include agent banking requirements, customer enrollment and Know Your Customer, and registration requirements for cash-in/cash-out agents. It should be noted that RBM has acknowledged these issues and is working to develop appropriate reform mechanisms. Additionally, MACRA believes that it has a role in m-money regulation and anticipates future licenses will specifically address this new product and service. Intervention activities could include additional resources for RBM in order to develop and implement solutions more quickly.

Table 4 lists potential regulatory reform intervention mechanisms, sponsors, and recipients.

Table 4. Potential Regulatory Reform Interventions

Intervention Mechanism	Potential Sponsor	Potential Recipients
• Technical assistance	• World Bank FSTAP program • World Bank Regional Communications Infrastructure Development Program • New regulatory reform programs	• RBM • MACRA

D. Regulatory Capacity-Building

A coordinated donor effort to provide technical support to both RBM and MACRA to develop m-money sector management and supervision capabilities will support regulatory capacity-building. As the m-money sector expands, RBM will require technical expertise to monitor a much larger ecosystem and end-user base. RBM will also need to continually review the

effectiveness of its policies and determine if modifications will be necessary to achieve broader financial inclusion objectives while ensuring the safety and efficiency of retail payment services as a whole. Similarly, MACRA and RBM will require capacity support to enhance coordination on broader sector initiatives. Technical assistance could include best practice analysis, study tours, training, and access to experts and secondments.

Table 5 lists potential regulatory reform intervention mechanisms, sponsors, and recipients.

Table 5. Potential Regulatory Capacity-building Interventions

Intervention Mechanism	Potential Sponsor	Potential Recipients
• Technical assistance	• World Bank FSTAP program • World Bank Regional Communications Infrastructure Development Program • New regulatory reform programs	• RBM • MACRA

E. Interoperability Initiatives

Workshop participants stressed the need for interoperability at the system level coupled with non-exclusive usage of agent networks. The underlying objectives for interoperable systems and non-exclusive agent networks is to enable transactions to take place across multiple bank and MNO platforms, and for end-users to access a broad agent network regardless of service provider. Malawi needs to evaluate benefits and costs associated with m-money interoperability and design guidelines and sunset mechanisms that encourage interoperability and limit exclusivity without removing commercial incentives to develop and deploy services. In this context, this initiative will be undertaken within the existing deliberations and options that will be developed for setting up a shared switch in Malawi under FSTAP. Accordingly, the interoperability initiatives could include:

- Developing and deploying technical solutions based on open standards
- Collaborative development of policies, operating standards, procedures, and rules
- Establishing a standing interoperability working group
- Developing sustainable business models that will include transaction fees sharing mechanisms to balance stakeholder interests

Table 6 lists potential interoperability intervention mechanisms, sponsors, and recipients.

Table 6. Potential Interoperability Interventions

Intervention Mechanism	Potential Sponsor	Potential Recipients
• Interoperability working group • Pilots • Financial incentives for providing interoperability • Grant funds	• World Bank FSTAP program • New interoperability programs	• RBM • Financial institutions • MNOs • Third-party technology providers

F. Market Research and Data Analysis

A number of financial institutions and MNOs have cited significant gaps in market intelligence that often hinder the development, segmentation, pricing, and rollout of new products and services. The emergence of m-money has also created an additional need for targeted research and analysis focused on a new and largely unfamiliar product/service alternative. To meet these needs and help accelerate the development and expansion of m-money, the MMCG will act as the repository for existing data and research, as well as oversee and manage future research projects. Qualified third-party experts (e.g., Kadale Consultants) may be contracted to conduct the actual data collection and analysis.

Existing data and research that will be compiled and made available to financial institutions, MNOs, NGOs, regulators, and other stakeholders include:

- Kadale Consultants reports on financial services access and usage
- Kadale Consultants findings and analysis from the 2011 m-money survey
- USAID/FS Share m-money model

Future research topics or data collection activities could include greater demographic segmentation based on age, gender, residence, and occupation along key money transfer inputs (e.g., remittance recipients, social welfare recipients, and agricultural wage earners) on the following aspects:

- Demand-side surveys to gauge consumer perceptions, preferences, and needs regarding emerging m-money services and linkage to other financial products such as savings, insurance, and credit

- Supply-side surveys to identify additional needs to enhance service capacity and product design/development

Table 7 lists potential market research and data analysis intervention mechanisms, sponsors, and recipients.

Table 7. Potential Market Research and Data Analysis Interventions

Intervention Mechanism	Potential Sponsor	Potential Recipients
• Grant funds • Technical assistance	• World Bank FSTAP program • USAID • European Union • United Nations • M-money stakeholders	• M-money Coordinating Group • Third-party experts

G. Grant Application for M-Money Product and Service Development

In some markets where m-money services have been deployed and achieved scale, most notably Kenya, grants from donor governments and other funding organizations have played a catalytic role in the initial development and launch of those services. Usually made in the form of award

challenges or funds, these grant vehicles can be designed to target specific elements of a product/service or general adoption and usage metrics, including:

- Greater platform functionality
- User interface enhancements
- Creation of value-added services
- Exceeding specific transaction volume thresholds
- Achieving specific client and/or merchant acquisition benchmarks
- Sustained, diversified usage
- Targeted expansion to high cost areas

The timing, structure, and requirements of these grants must be carefully considered, however, against existing market conditions (e.g., the regulatory environment and infrastructure), the state of the m-money sector specifically, and the retail payment systems more generally (i.e., nascent, developing, or mature), and the perceived latent demand of key consumer segments. Careful consideration of these factors will help mitigate some of the potential challenges associated with structuring the grants. In particular, granting organizations should ensure that funds are used to incentivize market behaviors or decisions that would not have occurred in their absence. They should also ensure performance metrics for awarding grants effectively map and support policy objectives, and the award or application process minimizes the potential for "gaming the system."

RBM and the core group will be responsible for assessing which current funding vehicles can be used for these purposes and what additional vehicles are feasible and warranted.

Table 8 lists potential grant application intervention mechanisms, sponsors, and recipients.

Table 8. Potential Grant Application Interventions

Intervention Mechanism	Potential Sponsor	Potential Recipients
• Platform grant • Product and service development grant • Challenge grant	• World Bank FSTAP program • USAID • European Union United Nations	• MNOs • Banks/non-bank financial institutions • Third-party service providers • Technology providers

H. Service Provider and Agent Capacity-Building

Beyond targeted support for product and service development, nascent m-money environments can substantially benefit from capacity-building initiatives designed to provide operational expertise and skill sets to key ecosystem actors. In Malawi, these actors would include service providers and agents. As seen across a variety of markets from Latin America/Caribbean to Southeast Asia, service providers encounter a variety of difficulties vetting, acquiring, and training a network of m-money agents. Additionally, many providers lack the necessary human capital to effectively launch and extend a successful m-money service.

To counteract these difficulties, specific capacity-building support should focus on:

- Developing a vetting framework to effectively assess potential agents
- Mapping m-money agent business cases and value propositions
- Designing and deploying training modules to ensure agents properly understand and can manage their electronic and physical liquidity needs
- Exposing current staff to international best practices and m-money expertise:
    - Client and merchant acquisition
    - Marketing/spend stimulation
    - Platform functionality

Table 9 lists potential ecosystem capacity-building intervention mechanisms, sponsors, and recipients.

Table 9. Service Provider and Agent Capacity-Building

Intervention Mechanism	Potential Sponsor	Potential Recipients
- Technical assistance - Study tours - Secondments	- World Bank - USAID - Global System for Mobile Communications Association's m-money for the unbanked unit - European Union - Gates Foundation	- MNOs - Banks/non-bank financial institutions - Potential agent networks

I. Government-to-Person Payment Programs

Given the Malawian government's recent decision to mandate civil servant salary payments via electronic funds transfer, stakeholders should work to identify and develop requirements for these payments to be disbursed via electronic money and received by beneficiaries in their e-wallets, including other viable retail payment mechanisms supporting end-user needs for cost efficiency, safety, reliability, convenience, and availability. Distributors and recipients of pension payments, social welfare payments, and other repetitive cash payments that could benefit from the use of m-money as a an alternative disbursement channel should also be included.

Table 10 lists potential expand government-to-person payment program intervention mechanisms, sponsors, and recipients.

Table 10. Potential Government-to-Person Payment Interventions

Intervention Mechanism	Potential Sponsor	Potential Recipients
- Pilots - Financial incentives for usage - Contractual/program participation requirements	- Ministry of Finance - Poverty Reduction Strategy Paper - Ministry of Education - Ministry of Health	- Civil servants - Poor households - Rural villages - Loan recipients

J. Agricultural Value Chain Payment Programs

Donors can support the development and execution of selected pilot projects targeting the agricultural sector. These pilots should target multiple actors along value chains associated with major commodities. M-money can be applied in these transactional contexts:

- Distribution of loan funds
- Repayment of loan funds
- Business-to-business transactions across selected agricultural value chains
- Distribution and acceptance of electronic vouchers for agricultural inputs
- Establishment of agent network cash-in/cash-out acceptance points
- Payments to growers, laborers/low wage earners
- Payments from growers, laborers/low wage earners to retailers and merchants (e.g., suppliers of agriculture inputs)

As appropriate, pilots will also include m-money platform integration with participating financial institutions, training, and agent network support, such as a program to encourage and train agriculture input suppliers and farm store proprietors to become m-money agents. The primary purpose of this intervention is to accelerate the extension of financial services in rural areas.

Table 11 lists potential agricultural value chain payment intervention mechanisms, sponsors, and recipients.

Table 11. Potential Agricultural Value Chain Payment Program Interventions

Intervention Mechanism	Potential Sponsor	Potential Recipients
• Pilots • Grants • Loan guarantees and other subsidies	• World Bank agricultural programs • USAID agriculture programs	• Financial institutions (banks/ microfinance institutions) • MNOs • Farm associations • International exporters • Processors • Input suppliers and retailers

K. In-Country Disbursement of International Remittances

Informal estimates from money transfer operators (MTOs) in Malawi put the total annual volume of international remittances at approximately $30 million. These remittance channels represent additional opportunities to inject funds into a nascent m-money ecosystem and demonstrate the broader utility and benefit of such a service. This intervention will focus on enabling the disbursement of international remittances once they arrive in Malawi. Key elements for a successful intervention include:

- Engagement among MTOs and m-money service providers (e.g., MNO- and bank-led) to determine the preferred method and process for disseminating remittance funds directly to an e-wallet enabled recipient
- Sufficient liquidity levels on the part of m-money agents to ensure there are enough convenient cash-out/collection locations
- A well-organized and coordinated effort to identify, mobilize, and enroll pilot participants with e-wallet accounts to ensure they understand how this transaction alternative will work and what the benefits would be for them as recipients

Table 12 (next page) lists potential in-country disbursement of international remittances intervention mechanisms, sponsors, and recipients.

Table 12. Potential In-Country Disbursement of International Remittances Interventions

Intervention Mechanism	Potential Sponsor	Potential Recipients
• Pilots • Grants • Technical Assistance	• World Bank • USAID • Global System for Mobile Communications Association's m-money for the unbanked unit • European Union • Gates Foundation	• MNOs • Banks/non-bank financial institutions • MTOs • Potential agent networks

SECTION VI. ACTION PLAN SEQUENCING

Effective sequencing of interventions and pilots will play a critical role in catalyzing m-money in Malawi. Exhibit 4 illustrates the optimal sequencing of activities. The process should begin with finalizing the implementation strategy and obtaining stakeholder commitment on the implementation of regulatory reforms and support for pilot activities. Financial literacy training should begin early and lay the groundwork for future pilot activities. Interoperability initiatives should also be part of the pre-pilot activities and should be a consensus-building exercise for the sector. Prior to and during pilot launch, public awareness campaigns will play an important, evolving role informing citizens of generic benefits of m-money and sensitizing them to specific pilot activities. Pilot execution should be in line with the sector's m-money delivery capabilities and will require significant coordination. The implementing mechanism for intervention activities is being developed, with the RBM playing a leadership and coordination role.

Exhibit 4. Intervention Sequencing
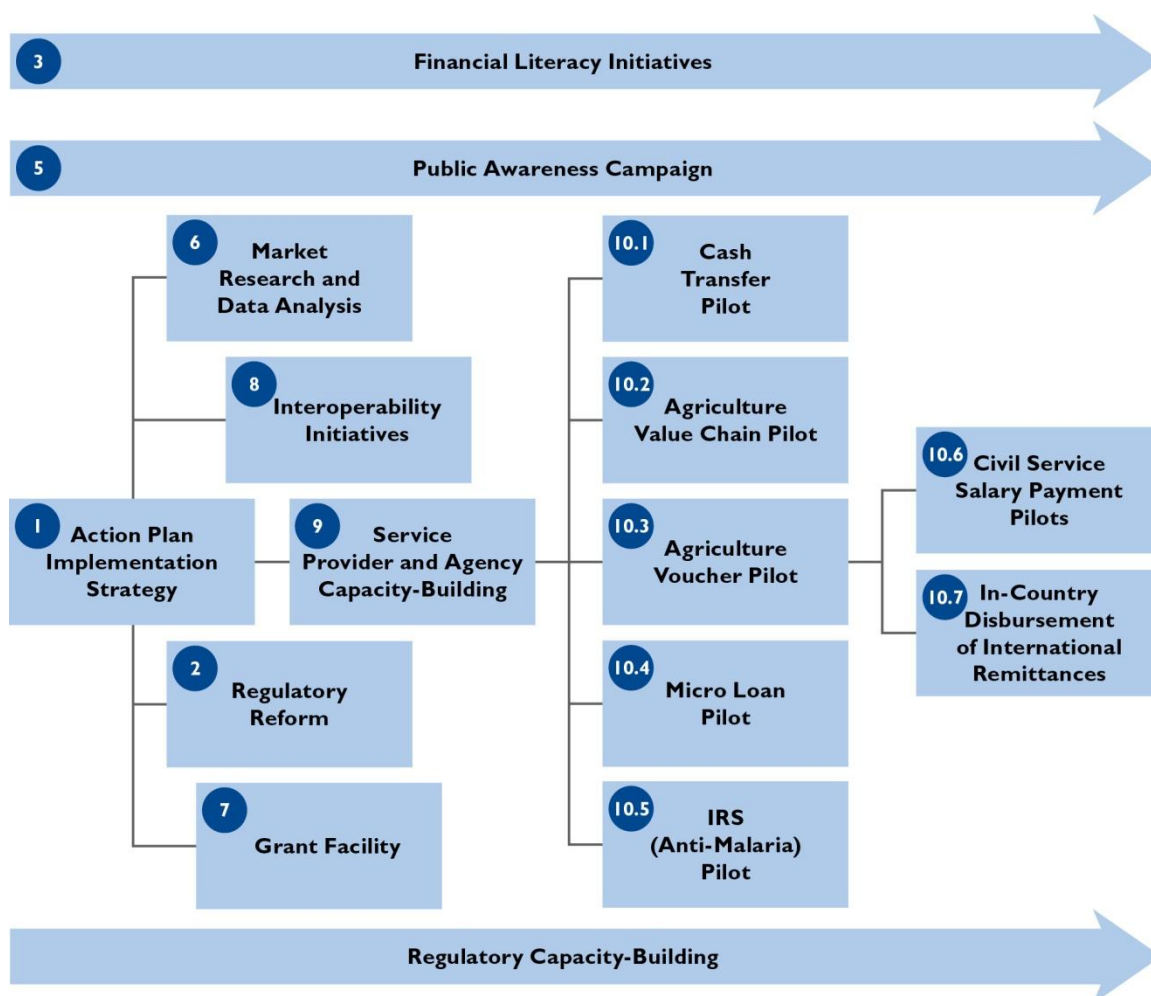
SECTION VII. PILOT OBJECTIVES

Based on an analysis of the sector and stakeholder discussions, it is recommended that multiple m-money pilots be planned and executed. Pilots will focus on delivering a suite of financial services to targeted market segments, including farmers, civil servants, pensioners, social welfare recipients, and laborers/low wage earners. The pilots will serve two primary purposes. First, they will test the efficacy of using m-money for targeted development purposes (e.g., extension of credit) and provide necessary data to inform future policy and program decisions. Second, they will assist in achieving financial inclusion and m-money sector expansion objectives.

The pilots will also examine the benefits of m-money as a mechanism for distributing funds, repaying loans, and making input supply payment. Furthermore, they will examine whether using such a system enhances scalability, reduces fraud, facilitates repayment, promotes financial inclusion, and improves the financial capability of end-users.

Exhibit 5 illustrates the pilot development process highlighting key activities.

Exhibit 5. Pilot Process
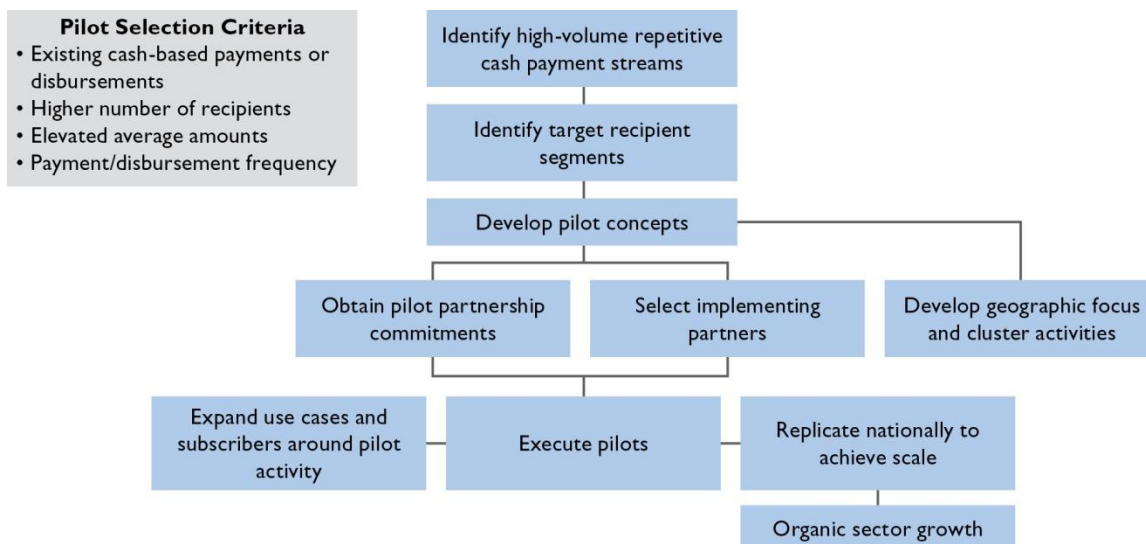
SECTION VIII. PILOT SUMMARIES

The following pilots have been identified and documented:

- Pilot 1: Civil Service Salary Payment
- Pilot 2: Cash Transfer Payment for Social Welfare Recipients
- Pilot 3: Agriculture Value Chain Payment
- Pilot 4: Agriculture Voucher Distribution/Redemption
- Pilot 5: Micro Loan Program
- Pilot 6: Internal Residual Spraying Program (Anti-Malaria)
- Pilot 7: In-Country Disbursement of International Remittances

A. Pilot 1: Civil Service Salary Payment

Pilot 1 targets a portion of the 160,000 civil servants receiving monthly government salaries. It would likely involve teachers and healthcare workers, who comprise the largest segment of the civil service. Other civil servants (e.g., police) could also be considered. The pilot would identify a set of individuals who would establish mobile bank accounts. Participation could be either mandatory or voluntary. Participants would receive training on financial literacy and the mechanics of accessing their accounts. A supporting ecosystem would be located near their place of employment.

The ecosystem would include retail m-money acceptance points and agent cash-out points. The m-money service provider would work with the appropriate ministry to establish payment procedures and account validation and audit parameters. The m-money service provider could either be a bank or an MNO. Depending on the pilot parameters, multiple m-money providers could participate. To encourage electronic usage, friends and family of the employee would also be encouraged to sign up for m-money accounts. Among the use cases available to employees would be bill payment, savings, and person-to-person transfers.

The m-money demand analysis of the Malawian market revealed that 18.4 percent of respondents viewed receiving salary payments unfavorably as a transaction alternative, which might pose a barrier to adoption. Though the reasons for this require additional examination, care should be taken during the public awareness campaign to properly frame and explain the benefits of this use case, and to explain the mobilization and training provided to participant groups during the pilot itself.[3]

B. Pilot 2: Cash Transfer Payments for Social Welfare Recipients

Pilot 2 augments the social welfare payment programs designed to provide supplemental income to poor households. These programs, supported by donor funding (e.g., European Union Poverty

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[3] Specifically, the unfavorable percentage is based on respondents' choice of "probably would not use" or "definitely would not use" for that question. Additionally, 63.9 percent viewed the use case favorably (responding with "definitely would use" or "probably would use"). From "Mobile Money Demand Survey — USAID/FS Share Malawi" Kadale Consultants; p.22-23

Reduction and Social Protection), identify needy households and then make periodic cash payments. The pilot implementer, in conjunction with the appropriate donors and ministries, will identify geographic areas in which to conduct the pilot and a set of participants, to be recruited as part of the normal social welfare program vetting process. Participation can be voluntary or mandatory and could include incentives.

Participants will be trained in the use of m-money and the process for notification and cash-out. The program sponsor will work with the m-money implementer to ensure that sufficient cash-out points (i.e., agents) are available in the selected geographic area. Potential agents will include retail outlets, bank branches, and MNO retail outlets. It is anticipated that post office branches will also be established as a m-money agents, and that the post office would serve as cash-out point of last resort.

C. Pilot 3: Agricultural Value Chain Payments

Pilot 3 is designed to replace cash payments to farmers with convenient and secure electronic m-money payments. Analysis of several agricultural value chains indicates that the transition point between an electronic bank transfer payment and a cash payment occurs at the local level. Local wholesalers buy product from farmers, test the products, provide temporary storage, and transport the product to higher levels of the value chain. Payments to farmers are in cash. The pilot would recruit farmers and wholesalers to participate in the program. An m-money implementing partner would provide participants with m-money accounts.

Training would be provided to participants as part of the financial literacy intervention component, including the mechanics of using an e-wallet and the value of additional financial services, such as credit, that may be more readily available once a formal account is established. A key element of the pilot is establishing a broader m-money ecosystem that could include local retail establishments, agricultural input suppliers, and friends and family. The m-money implementer will work with local entities, such as farm stores and other retail outlets, to establish multiple cash-out locations. This flexibility will empower farmers and limit the degree of control maintained by a single agent.

D. Pilot 4: Agriculture Voucher Distribution/Redemption

Pilot 4 will support direct credit provisioning to farmers and livestock owners based on bundled credit and voucher products implemented through selected retail input outlets in one or more provinces. Proprietors will be trained on the mechanics of voucher acceptance and settlement procedures as part of a special program to train agents. Farmers and livestock owners will be trained on electronic voucher redemption.

Because many electronic vouchers may be presented at participating agriculture retailers on the same day, the end-of-day settlement with the retailer can be based on the aggregated amount transacted. Aggregated or end-of-day settlement transactions would be reconciled with individual vouchers using audit reports generated by the service provider's program dashboard. Agriculture retail outlets affiliated with a large retail chain (e.g., Farmer's World) would be ideal candidates for rapid transition to a fully electronic system.

E. Pilot 5: Micro Loan Program

Pilot 5 piggybacks on existing lending programs and adds an e-wallet component to loan disbursement and repayment processes. The concept is to distribute loan funds to groups or individual m-money accounts. The m-money service provider will establish an agent network located near the loan recipient. Through the development of a local m-money ecosystem, loan recipients can perform m-money use cases, including cash-in and cash-out, peer-to-peer transfers, and merchant purchases. Loan recipients receive short message service (i.e., text) payment reminders each month and can repay their loans directly to the local agent via m-money.

F. Pilot 6: Internal Residual Spraying Program (Anti-Malaria Activity)

Pilot 6 supports a USAID program that is providing protection against malaria through the chemical treatment of sleep nets. Field workers apply chemicals to individual households in designated project districts. These workers are currently paid bi-weekly in cash through a USAID contractor. Working with an m-money provider, the USAID contractor would help establish payment parameters and support the establishment of m-money accounts. Participation would be mandatory. Participants would be trained in the use of m-money and the process for notification and cash-out. The program sponsor will work with the m-money implementer to ensure that sufficient cash-out points (i.e., agents) are available in the selected area. Agents could include retail outlets, bank branches, and MNO retail outlets.

G. Pilot 7: In-Country Disbursement of International Remittances

Pilot 7 is designed to replace cash with e-wallets as the payment instrument at the disbursement point of international remittances in Malawi. Though officially recorded remittances amount to only $1 million, the true size, including unrecorded flows through formal and informal channels, is believed to be larger. Some studies have indicated that more than 20 percent of households receive remittances in Malawi.

For most international MTOs, a cash payout occurs at the domestic level. Domestic agents of MTOs, most of which are located in urban centers, make payments to recipients in cash. The cash payouts overlook the opportunity that exists for financial institutions to deepen their financial relationship with remittance recipients by offering additional products and services. This pilot would recruit and work with MTOs and MNOs/domestic financial institutions. The MTO and domestic implementing partners will work to securely integrate their money transfer and m-money systems, including determining viability and rollout of aspects for using international money transfers to pay for domestic bills (e.g., education and health care), and link remittance recipients to other financial services such as savings or small business loans.

The key element of the pilot, however, is to create cost-efficient channels to disburse remittances that could attract Malawian diaspora to transition from informal to formal channels and send additional money to their friends and family. This would, in turn, enhance the potential to leverage remittance flows for development impact. The cost of sending money to Malawi is relatively expensive and an innovation that removes existing structural barriers will be key to enhancing formal flows. For instance, sending $200 from South Africa to Malawi costs around

18.14 percent; sending the same amount from the United States to Mexico would not cost more than 5 percent.

This pilot will enable an m-money business-to-consumer transaction to send remittance funds from an MTO's e-wallet account to the recipient's e-wallet account. The recipient will then have the option to cash out those funds, utilizing a wider array of access points provided by the participating m-money service provider's agent network, or keep those funds and use them to conduct other transactions, such as a merchant purchase. Participant selection criteria for this pilot would be based on an initial mapping of major remittance corridors and identifying the communities that receive the greatest volume and frequency of remittances. Because the pilot is not directly linked to a specific donor or government-funded program, participation would likely be voluntary. However, the pilot could introduce incentive mechanisms (e.g., discounted rates for physical cash withdrawal or some combination of airtime/e-money bonus) to encourage the using the e-wallet as a collection and cash-out method, as well as to stimulate e-wallet enrollment in selected communities.

ANNEX A. WORKING GROUP QUESTIONS

**Group Consultations: Development of Mobile Money Action Plan
Discussion Questions**

1. **Group One:** *Constraints affecting Demand for Mobile Money in Malawi* (lack of appropriate products, financial literacy, cost and transaction barriers)

    a. Is there a general awareness of mobile money products and services?
    b. Are there existing financial literacy programs which could incorporate mobile money education?
    c. Are new programs needed in order to reach scale?
    d. Will such programs be effective?
    e. Do the current mobile money providers offer the right services to meet unbanked and under banked demand?
    f. Are these services priced correctly?
    g. Are providers incentivized to expand coverage and customers?
    h. Would contracts for salary payments, conditional cash transfer payments, etc. incentivize mobile money providers to expand?
    i. Do current providers have the necessary capacity to deliver on pilots and other development-oriented programs?

Output: Based on group discussion:
*   Identify primary demand constraints
*   Possible intervention activities and other solutions to overcome constraints

2. **Group Two: Infrastructure Constraints to Mobile Money** (ICT, agents, interconnectivity etc)

    a. Does the current payment infrastructure support settlements and bank to bank transfers?
    b. Is mobile coverage sufficient to meet the needs of mobile money users and donor programs?
    c. Are there programs in place to expand both the financial sector and mobile communications infrastructure?
    d. Are there sufficient bank branches, ATMs, and agents to meet current and future mobile money cash out requirements?
    e. Is there a potential pool of mobile money agents (e.g., cash generating businesses) in both urban and rural areas that could be recruited as mobile money service expands?
    f. Are there other factors impacting the development of agent networks?

Output: Based on group discussion:
*   Identify primary infrastructure constraints
*   Possible intervention activities and other solutions to overcome constraints

3. **Group Three: Legal and regulatory Constraints to Mobile Money**

   a. Does the current legal and regulatory environment encourage mobile money development?
   b. Does the current legal and regulatory environment provide sufficient system protections? Are rules around mobile money trust accounts clear and sufficient?
   c. Does the current legal and regulatory environment provide adequate consumer protections?
   d. Does the central bank have sufficient capacity to properly regulate an expanded mobile money sector?
   e. Are there specific policies that hinder the growth of mobile money?
      i. Agent registration – Who can become a cash out agent? Can an agent serve multiple providers?
      ii. Deposit taking – Can non-financial institutions take deposits/pay interest?
      iii. Wallet limits/transaction limits

Output: Based on group discussion:
- Identify primary regulatory constraints
- Possible intervention activities and other solutions to overcome constraints

4. **Group Four: Mobile Money Opportunities**

   a. Are there payment streams that could benefit from mobile money?
   b. Are there mobile money products and services that could be developed and tested (e.g., electronic vouchers, commitment savings products, micro insurance products)
   c. Could mobile money payment histories be used by financial institutions to perform credit scoring and expand lending?

Output: Based on group discussion:
- Identify potential payment streams
- Identify potential new products and services