

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

PERU

ELECTRONIC PAYMENTS ECOSYSTEM

(PE-M1106)

DONORS MEMORANDUM

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PROJECT SUMMARY

ELECTRONIC PAYMENTS ECOSYSTEM (PE-M1106)

Over the past decade, Peru has made gains in delivering financial services to traditionally excluded segments. However, only 29% of adults¹ have a savings account with a financial intermediary, and only 51% of the country's districts are part of the financial system. Mobile phones have achieved excellent market penetration, favoring the development of a massive, mobile-phone-based channel. As of June 2014, Peru had more than 30.5 million mobile phone lines in service.²

Since 2014, at the initiative of the Asociación de Bancos del Perú [Peruvian Bank Association] (ASBANC), an electronic money³ platform has been in development to enable the financial system to serve unserved and underserved sectors without needing to establish a physical presence. This initiative, known as “Modelo Perú” [Peru Model], has a target of reaching 5 million users by 2020, at least 2.1 million of them frequent users. This project is expected to have reached one million users by the time it ends. The Centro de Estudios Financieros [Financial Research Center] (CEFI), an entity that ASBANC created to fulfill its financial inclusion objectives, is implementing this initiative. The project will contribute to financial inclusion in Peru by developing an electronic payments ecosystem. The platform is expected to have an impact by lowering costs for financial services and expanding access to financial services for the population that is currently unserved.

The MIF will support two lines of action: (i) develop capacity and education aimed at financial inclusion and use of the channel for end users; and (ii) promote the use of electronic payment methods in public and private transaction chains. A new company, Pagos Digitales Peruanos, is being created to manage the mobile payments platform. CEFI will be the majority shareholder with 51% and electronic money issuers⁴ that will use the platform will own the remainder.

The project will provide lessons about how to develop mobile payments ecosystems as part of financial inclusion strategies in the region. It will also generate evidence for establishing criteria and methodologies to successfully encourage payment chains to stop using cash and migrate to electronic transactions. This can be shared with other countries in the region. The project is

¹ Little Data Book on Financial Inclusion, World Bank, 2015.

² Peru's total population: 30.8 million (2014). Source: Instituto Nacional de Estadística e Informática [National Statistics and Informatics Institute] (INEI).

³ Electronic money, pursuant to Act 29985 (Article 2): “[...] is a monetary value represented by a credit that can be redeemed from its issuer, and (a) is stored electronically; (b) is accepted as a payment method by institutions or persons others than the issuer; (c) is issued for a value equal to the funds received; (d) is convertible into cash according to the nominal monetary value that the owner has available; and (e) does not constitute a deposit or generate interest.”

⁴ A majority of these are financial institutions, including banks and microfinance institutions.

an innovative, unique solution compared with other models worldwide. This is a private sector initiative involving more than 30 electronic money issuers⁵ that have come together and invested in developing a single technology platform designed for interoperability between issuers and telecommunications companies.

⁵ According to Peruvian regulations, an electronic money issuer can be a bank or another institution that requests authorization from the Superintendency of Banks and Insurance to conduct operations with electronic money.

ANNEXES

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ABBREVIATIONS

ASBANC	Asociación de Bancos del Perú [Peruvian Bank Association]
CEFI	Centro de Estudios Financieros [Financial Research Center]
CMAC	Caja Municipal de Ahorro y Crédito [Municipal Savings and Loan Institution]
CRF	Corporate Results Framework
P2P	Person-to-person
PCU	Project Coordination Unit
PDP	Pagos Digitales Peruanos
TOR	Terms of reference
SBS	Superintendencia de Banca, Seguros y AFPs [Superintendency of Banks, Insurance, and Pension Funds]
SMS	Short Message Service
USSD	Unstructured Supplementary Services Data

**PERU
ELECTRONIC PAYMENTS ECOSYSTEM
(PE-M1106)**

EXECUTIVE SUMMARY

Country and geographic location:	Peru (nationwide)		
Executing agency:	Centro de Estudios Financieros [Financial Research Center] (CEFI)		
Access area:	Access to financial services		
Agenda:	Savings, payments, and loans for low-income individuals		
Direct beneficiaries:	1 million persons with an electronic money account.		
Indirect beneficiaries:	Companies or organizations with large-scale distribution and social programs that can disburse and collect payments through the platform. Financial institutions that will develop a new channel to reach new customers at a lower cost.		
Financing:	Technical cooperation:	US\$1,000,000	51%
	Total MIF contribution	US\$1,000,000	
	Counterpart:	US\$ 942,000	49%
	Total project budget	US\$1,942,000	100%
Execution and disbursement period:	36 months for execution and 42 months for disbursements.		
Special contractual clauses:	Conditions precedent to the first disbursement: (i) presentation, to the Bank's satisfaction, of the annual work plan for the first year of execution.		
Environmental and social impact review:	This operation has been pre-assessed and classified pursuant to the requirements of the IDB's Environment and Safeguards Compliance Policy (OP-703). Given the limited impacts and risks, it is proposed that this be classified as a Category "C" operation.		
Unit responsible for disbursement:	Country Office in Peru.		

I. BACKGROUND AND RATIONALE

A. Diagnosis of the problem to be addressed

- 1.1 **Limited use of financial services.** Despite Peru's significant gains in delivering financial services to traditionally excluded segments, there is very little use in the population in general and in particular the low-income population of electronic payment methods, such as credit, debit, and prepaid cards. This generates inefficiencies and costs, both for families and for the economy in general, like the cost of transporting cash and the time spent waiting to make payments in cash that could be made electronically.
- 1.2 The low level of use of electronic methods is partly due to the limited access to channels, which is improving but is still insufficient; between 2000 and 2013, the number of service outlets (such as branches, ATMs, and correspondent agents) per 100,000 adults increased from 13 to 150, and the number of districts in which the financial system had a presence rose from 451 (25% of districts) to 954. However, the financial system is not present in 49% of the country's districts, particularly in rural and high-poverty areas.
- 1.3 Another reason for the scant use of electronic payment methods is that opening traditional bank accounts, to which payment methods are typically connected, has little appeal to the low-income population. For example, documentation requirements, the need to visit a bank branch, and account maintenance fees discourage the use of bank accounts and the debit cards associated with them. These constraints decrease in the case of electronic money.
- 1.4 Therefore, the public sector has been developing legislation and practices that favor financial inclusion, such as a law and regulations for electronic money usage, accounts with simplified opening procedures, and bringing beneficiaries of social transfers (G2P) into the banking system. This, coupled with the regulation of bank correspondents, makes for an environment conducive to financial inclusion—which is also demonstrated by Peru having obtained its highest ranking in Microscope. Based on the aforementioned legislation, there have been advances in implementing simpler procedures for opening simplified electronic money accounts, for intermediary financial institutions to comply with prevention and anti-money-laundering policies, and for the creation of electronic money issuers. In addition, several projects are underway, like Tu dinero móvil (from Movistar and MasterCard), CMAC móvil, and Modelo Perú [Peru Model] (the inclusive mobile payment platform that this project supports). Along these lines, the legislation promotes the development of an electronic payments ecosystem. The Superintendencia de Banca, Seguros y AFPs [Superintendency of Banks, Insurance, and Pension Funds] (SBS) has been working with the private sector to modify the regulation in order to facilitate the development of this ecosystem while at the same time prioritizing consumer protection.

1.5 Despite the initiatives mentioned, mobile payments are not yet widely available in Peru, mainly because of the following factors:

- a. *User demand for mobile payment services.* The target population (the unbanked) is unfamiliar with the use and advantages of this channel. Therefore, a program is needed to help them understand what those advantages are (cost, security, and access) and how to use the channel (Component 1). In addition, social programs or entities that distribute or collect cash from this population do not offer electronic payment services that encourage their use. This will be addressed by developing inclusive business partnerships with institutions that can offer this channel to their users (Component 2).
- b. *Business demand for mobile payment services.* Very few businesses accept electronic payments because this sector is still wary of replacing cash. This is true all over the country, but particularly in rural and remote areas, where there is less access to financial services and point-of-sale systems.
- c. *Technological development of the mobile channel.* Until now, there was no technology platform that enabled people to make these types of transactions quickly and easily. Previous initiatives to develop a mobile banking channel were isolated and individual, with little or no interoperability with other entities, and therefore were used very little and not widely accepted.
- d. *Regulatory framework.* While there have been many advances on regulatory issues in Peru,⁶ there are still opportunities for improvement in the regulatory framework to make this transaction system widely available, since there was no platform and payments ecosystem that would allow for specific rules and regulations to be adapted.

B. Beneficiaries

1.6 The priority beneficiaries for Modelo Perú are persons without access to the financial system (the unbanked)—over 10 million persons whose situation is as follows: 76% are in the three lowest-income quintiles; 97% have completed high school or less. Among them are persons currently receiving some type of government subsidy (Juntos, Beca 18, and Fondo de Inclusión Social Energético [Social Inclusion Energy Fund]). The majority of beneficiaries are expected to be in the 891 districts without a physical access point to formal financial services.

1.7 Most of the platform's potential users will be: (i) individuals with monthly income below \$640; (ii) individuals and small businesses that use cash for their transactions, such as informal businesses and freelance technical

⁶ Peru's regulatory framework establishes the potential for banks and specialized companies to issue electronic deposits, which can be open and accessible from mobile phones.

- workers; (iii) social program beneficiaries; and (iv) low-income individuals facing high transaction costs to send and receive payments, including for wages, national and international remittances, and purchases of goods and services.
- 1.8 The project will support adoption of the channel among two specific groups of the excluded population: women and youths who are beneficiaries of the government's social programs. Moreover, the project will support adoption of the channel through social programs and entities (business partnerships), giving priority to those that have a more inclusive impact.
- 1.9 As far as end users, by 2020 the project expects to have 5 million registered clients and 2.1 million active clients (who conduct an average of eight monetary transactions and four lookup transactions per month). By the end of the three-year project, the project expects to have 2 million clients with approximately 800,000 active clients.
- C. Contributions to the MIF's mandate, the Access Framework, and the IDB's strategy**
- 1.10 The project is aligned with the MIF's Mandate because it seeks to reduce poverty through development of the region's private sector. It will benefit people living in poverty and vulnerable populations.⁷ In addition, it is aligned with the objectives of the MIF's "Savings, Payments, and New Distribution Channels" agenda, which promotes access to and use of savings accounts at formal financial institutions through the adaptation of products and alternative channels to increase access to financial services for the unbanked.
- 1.11 **Connection with the agenda.** The project fits within the Savings, Payments, and New Distribution Channels agenda, and will specifically help: (i) reduce operating costs and increase the convenience of making small payments from person to person, business to person, and government to person, among others, through electronic transactions via mobile phones; (ii) improve the quality and variety of digital financial services available to low-income individuals; and (iii) test a mobile phone channel as a means of offering financial education to populations that the financial sector traditionally has not served. To that end, the project supports the following agenda indicators: (1) monthly travel time to conduct financial transactions (CRF 310401); (2) individual's savings level (CRF 310300); and (3) opening of electronic money accounts (CRF 210500).
- 1.12 This project expects to help close the following knowledge gaps: (i) how to develop an innovative, high-impact financial education model for electronic money that targets individual users, includes content, channels,

⁷ Those at risk of falling into poverty.

and teaching methodology, and can be scaled up at a low cost; (ii) how to scale up the use of electronic money among the population; and (iii) how to develop criteria and methodologies on successfully encouraging payment chains to stop using cash and migrate to electronic transactions (including standard business agreements by sector to include digital payments and prioritization criteria by sector for these business agreements).

- 1.13 **Cooperation with the IDB Group.** The project is consistent with the Bank's Country Strategy with Peru (2012-2016) in that it intervenes in rural areas by promoting access to financing mechanisms for the maintenance and sustainable use of natural resources (paragraph 3.12). Moreover, the financial inclusion that the project pursues fits within the National Social Development and Inclusion Strategy "Incluir para Crecer" [Include to Grow], which will guide the Peruvian government's actions on social development through 2016. That strategy has financial inclusion as one of its five pillars, and seeks to increase autonomy regarding income generation and financial inclusion processes.

II. OBJECTIVES AND COMPONENTS

A. Objectives

- 2.1 The impact objective is to contribute to financial inclusion for those traditionally unserved and underserved by financial services, by reducing the cost and time associated with financial transactions and improving the variety and quality of the financial services to which they have access. The outcome objective is to support the development of an electronic payments ecosystem as a financial inclusion tool, through a mobile payments platform that is interoperable, scalable, and affordable for the low-income population. The goal is for new clients, payment chains, payment-collection chains, and acceptance networks to try, accept, and use this new channel.

B. Description of the model/solution/intervention

- 2.2 Modelo Perú includes the following essential comprehensive elements or lines of action: (i) develop skills and education for financial inclusion for end user segments who can take advantage of the benefits of a mobile payment method, such as women who receive government payments and youth on scholarships; and (ii) complete business partnerships with various transaction chains (public and private) in order to support adoption of the new payment method among initial user groups.

Complementarily to the two lines of work that the MIF will support, the Centro de Estudios Financieros [Financial Research Center] (CEFI) will partner with other actors to develop the ecosystem in order to: (a) improve the regulatory framework (in partnership with the SBS); and (b) develop the technology platform (in partnership with Ericsson).

A new company, Pagos Digitales Peruanos (PDP), is being created⁸ to manage the platform and services. CEFI will be the majority shareholder with 51%, and electronic money issuers (including financial institutions) that will use the platform will own the remainder.

2.3 **The following indicators will be used to measure the impact:** (i) reduction in the time used to conduct financial transactions; (ii) increase in the average savings balance; and (iii) reduction in transaction and transportation costs for making payments.

2.4 **The following indicators will be used to measure the outcomes:** (i) number of electronic money accounts open; (ii) number of clients who actively use their accounts; (iii) average number of transactions; (iv) number of correspondent agents who use the platform; and (v) transactions that the agents conduct.

C. Components

Component 1: Education for financial inclusion and use of the channel (MIF: US\$516,900; counterpart: US\$18,000)

2.5 The *objective of this component* is to identify the education needed to achieve financial inclusion and use of the channel. Based on that, strategies will be designed to facilitate the entry of the excluded segments into the electronic payments ecosystem, which will include offering financial education, setting up physical access points (correspondent agents), and providing ongoing user support (call center). Three targeted implementations will serve to identify the needs associated with financial education and the use of electronic money, and to develop broad strategies for priority groups. Therefore, it will be necessary to work with users (targeted implementations of financial education and use of the channel), correspondent agents (the users' physical counterpart), and the user call center (customer support phone center).

2.6 *This component will include the following activities:* (i) design and targeted implementation of financial education via a mobile channel,⁹ for 40,000 women beneficiaries of conditional transfers (Juntos) in several of the country's regions; (ii) design and targeted implementation of in-person financial education, for 10,000 women beneficiaries of Juntos in Piura; (iii) design and targeted implementation of financial education via intranet, for 7,000 youths from the Beca 18 program;¹⁰ (iv) expansion of Beca 18's financial education module to other educational institutions;

⁸ Articles of incorporation are already available. Legal documents for incorporation were filed with the Public Registry, and the process should be completed by 20 June 2015.

⁹ The initial plan is to send SMS messages, but eventually they can also be sent via smartphones.

¹⁰ Beca 18 is a state program that assists economically disadvantaged youths who do well academically to attend and complete technical training or college programs.

(v) development of a financial education scalability plan¹¹ for CEFI, based on experiences from the three targeted implementations; (vi) training of correspondent agents to use and promote the electronic wallet; and (vii) training and evaluation of the user call center.¹²

- 2.7 ***The component's activity indicators*** include: (i) three targeted implementations of education for financial inclusion designed, executed, and evaluated; (ii) 57,000 people received education for financial inclusion and to use the electronic wallet; (iii) a scalability plan for financial education for inclusion and to use the electronic wallet; (iv) 3,000 agents trained to use and promote the electronic wallet; (v) 60 call center employees trained to serve customers; and (vi) case-by-case guide for the call center developed.

Component 2: Inclusive business partnerships (MIF: US\$195,900; counterpart: US\$543,000)

- 2.8 The ***objective of this component*** is to identify opportunities to adopt mobile payments to replace the use of cash in various businesses and payment chains, generating operational efficiencies, increasing formalization, and expanding coverage. It will generate a methodology and a prioritization strategy for chains or businesses with a greater impact on the development of the electronic payments ecosystem.
- 2.9 ***This component will include the following main activities:*** (i) development of prioritization criteria for sectors/industries and public and private programs; (ii) development and negotiation of inclusive business agreements to create acceptance networks; (iii) implementation and monitoring of business agreements; (iv) adaptation and adjustment of the technology platform and connectivity with partners; (v) training of partners and end users of the business agreement value chain in the use of the electronic wallet; (vi) performance assessment of the agreements and their impact on indicators; and (vii) development of a manual for assessment and implementation of inclusive business agreements, with annexes by sector and case, based on reviewing the initial criteria applied and the performance of the agreements implemented.
- 2.10 The component's ***activity indicators*** include: (i) prioritization criteria defined; (ii) 15 inclusive business agreements developed, with at least 10 of them implemented; (iii) 15 agreements evaluated;¹³ (iv) 10 additional

¹¹ Strategy and tools for a massive financial education program on use of the electronic wallet. The scalability plan must be defined, shared with issuers, approved by PDP's board, and disseminated.

¹² Training in financial tutoring will include a case-by-case guide, and staff training and evaluation.

¹³ What will be analyzed are the number of transactions generated, the adoption curve, costs for companies and users, communication mechanisms, number of users, and the customer experience.

agreements underway; and (v) manual to implement inclusive business partnerships in order to develop the electronic payments ecosystem.

Component 3: Knowledge and dissemination (MIF: US\$53,400; counterpart: US\$51,600)

- 2.11 The objective of this component is to compile and disseminate project experiences to make Modelo Perú and its lessons known to other Latin American and Caribbean countries interested in developing electronic money ecosystems and platforms. To that end, during execution, knowledge management activities will be supplemented with the SBS's activities¹⁴ to learn fully from the electronic money model.
- 2.12 The project's strategic audiences are the participants in mobile payment ecosystems in Latin America and the Caribbean, including:
 - a. Governments, particularly entities in charge of social programs and financial system oversight, interested in improving access and financial inclusion for their populations, as well as increasing the efficiency of payment disbursements for their social programs (through the case study and through events and meetings with associations).
 - b. Providers of financial services and payment methods, and issuers of electronic money (current and potential) interested in making their services widely available and decreasing their transaction costs, and in the advantages and lessons of interoperability as a key piece of the model (through events or workshops that show advances with participants and outcomes obtained).
 - c. Financial institutions interested in including a new group of clients and in their education, and reducing transaction costs (through platform reports that show behavioral information for groups of new clients).
 - d. The mass consumption industry, to share lessons and promote interest and participation in the electronic payments ecosystem as a tool to expand their operations and client base and lower the risk of existing operations by decreasing the handling of cash (through events that show the gains for current participants and outcomes obtained, in terms of efficiency and growth).
- 2.13 Therefore, the following activities will be conducted: (i) a short study and infographics, which can be disseminated: (a) digitally by CEFI, PDP, ASBANC, and the MIF, and (b) at Latin American and Caribbean bank

¹⁴ The SBS is conducting an impact assessment study with the World Bank on macroindicators of financial inclusion, in which electronic money represents an access and inclusion channel, and that evaluates other elements of inclusion. This project's case study can benefit from analysis elements of the SBS study, as regards general statistics on financial inclusion in Peru and the use of various channels.

association events and other outside events; (ii) organization of at least two events to share lessons¹⁵ with the industry in Peru and promote the ecosystem's growth by adding new business partners; (iii) participation in at least three national and three international outside events to share lessons from developing the ecosystem; and (iv) annual update of the project fact sheet (MIF-provided template), which includes basic project information, challenges, intervention strategy, and outcomes.

- 2.14 The component's **activity indicators** include: (i) a short case study and infographics about developing an electronic payments ecosystem; (ii) at least two project-organized events to share lessons learned; and (iii) participation in three national and three international outside events to share lessons learned from Modelo Perú.

D. Project governance and execution mechanism

- 2.15 The Project Coordination Unit (PCU) will operate from CEFI and will consist of the following: the Manager of CEFI and ASBANC, who will act as Project Director and legal representative for the institution, and who will be ultimately responsible for approval of procurement processes; a Project Coordinator; and an Accounting Administrative Assistant.
- 2.16 The PCU will operate based on an annual work plan and follow the schedules and plans defined in this memorandum and the annexes. To carry out the project comprehensively, the PCU may hire consulting services and purchase other goods and services, for which it will follow applicable policies and procedures established in Bank and IDB/MIF rules.
- 2.17 During the first six months of the operation, a project advisory council will be formed, which will include the Manager of CEFI and ASBANC, the Manager of PDP, and a MIF representative, in order to ensure the involvement of the top level of CEFI and ASBANC in the project's strategic management. The advisory council will meet at least once every six months to review the semiannual progress reports.

E. Sustainability

- 2.18 The project will base its sustainability on the creation of a payment platform, which will operate as an independent company that generates revenue and is expected to break even in the third year (Verify with forecast). The participation of CEFI and banks in the new company will ensure that its services are relevant to the financial sector. A year before execution is complete, there will be a **sustainability workshop** with all the interested parties, in order to identify the measures needed to ensure that the project continues once funding runs out.

¹⁵ Initial plans are to have one event to share lessons learned regarding scalability of financial education and another for lessons learned and opportunities in

F. Lessons learned from the MIF and other institutions regarding project design

- 2.19 The MIF gained knowledge on the subject of mobile financial services mainly through three calls for proposals for the regional program on technologies for financial inclusion, RG-M1155 (www.tec-in.org), which identified more than 10 MIF mobile financial services projects that are currently in execution. Based on those experiences, this project incorporates the following lessons: (i) include financial education that trains people to use specific financial products; (ii) emphasize a clear value proposition for the product, meaning, do not assume that clients will adopt the product unless they find an immediate use (therefore, it is important to find business linkages during phase one); (iii) recognize the importance of the agent¹⁶ as a main player who can generate traction for financial services, provide technical support for use of the products, and become the main seller of mobile financial services when the product is launched; (iv) develop a product cost strategy that stimulates the creation of an ecosystem, for example, without fees for deposits; (v) develop a simple, intuitive product that is customized for the target population; (vi) consider the possibility of aggregating services (for example, national remittances or bill payments) that generate more transactions and traction for the product; and (vii) customize the product's marketing strategy for target markets.

G. MIF additionality

- 2.20 **Nonfinancial additionality.** MIF support for the project will provide technical experience in implementing financial education activities in a large number of financial inclusion projects involving financial education to raise client awareness about savings. The project will also benefit from the MIF's knowledge of financial education for remittance recipients. In addition, the MIF's participation will assist in accelerating adoption of the channel, particularly among women and youths (with the latter being early adopters).
- 2.21 The project will benefit from: (i) the MIF's experience on financial inclusion, providing lessons from other interventions to help this channel focus on financial inclusion; (ii) the MIF's reputation, as an asset for deploying the model in cooperation with other institutions; (iii) development of a learning process, beyond project and channel operations, to systematize the creation of an electronic payments ecosystem and then take it to other places in the region; and (iv) the presence of a strategic partner who can look at this development from an outside perspective that is more strategic and focuses on inclusion.

¹⁶ A bank agent is someone in a small business who conducts in-person transactions pursuant to banking regulations, such as opening accounts and making deposits and withdrawals. See Correspondent Banking and Financial Inclusion, MIF, 2013.

- 2.22 **Financial additionality.** Modelo Perú is the largest initiative for Peru's financial industry, and it needs the MIF's support to decrease risk factors regarding deployment and implementation. Thanks to initiatives organized by the MIF or with its contributions, the electronic money project has access to a broad network of contacts and a variety of experiences and lessons. Modelo Perú shares with the MIF an interest in developing an initiative that benefits poor and low-income families, businesspersons, and other actors in society, with a special emphasis on the first.
- 2.23 There is financial additionality in the MIF's support because the electronic payments platform that ASBANC is implementing has limited financing for financial education activities and the promotion of commercial pilots, given that contributions have focused on platform development (hardware and software).

H. Outcome

- 2.24 The intended outcome for the project is the development of an inclusive electronic financial services ecosystem. The following indicators will be used to measure the outcome (as of month 36):
- a. An electronic payments ecosystem functioning in Peru (CRF 450600)
 - b. Electronic money accounts open (CRF 210500): one million
 - c. Electronic money accounts being actively used¹⁷ (CRF 160101 and 210400): 400,000
 - d. Number of companies, institutions, and programs that joined the ecosystem as disbursement agents or payment collectors: 20
 - e. Number of registered correspondent agents operating¹⁸ in the platform: 1,500
 - f. Number of institutions that receive knowledge products that the project generates (CRF 150100): 400
- 2.25 The indicators for opening and use of accounts can be segmented by sex, geographic location (urban/rural), and age. Subgroups of clients, such as beneficiaries of social programs, will also be monitored. A qualitative analysis for specific groups will be conducted in order to

¹⁷ At least one transaction every 90 days. There will also be an analysis of the active use of accounts by monitoring the indicator on the average number of transactions per month per electronic wallet account, broken down by transaction type: replenishment, deposit, withdrawal, P2P, service payment, and transfer to and from savings account.

¹⁸ There will also be monitoring and analysis of the transactions that agents conduct, including amounts of cash in and cash out, average number of transactions, and number of accounts opened.

determine the reasons for accepting the service, identify user profiles, identify perceptions of the service, and measure financial understanding.

I. Impact

- 2.26 The impact objective is to improve financial inclusion for those traditionally unserved and underserved by financial services, by reducing costs, improving the variety and quality of financial services that they can access, improving the access and use of additional financial services, and providing time savings. A positive impact is expected to be achieved in the following indicators:
- a. Travel time devoted to making payments in cash or conducting financial transactions, which people can then use for their business or personal lives (CRF 310401)
 - b. People's savings level (CRF 211100 and 310300)
 - c. Transaction and transportation costs to conduct financial transactions
 - d. Decrease in the risk of handling cash
- 2.27 Information about these impacts will mainly be collected through the sample survey of the first people opening electronic wallets.

J. Systemic impact

- 2.28 The project is expected to help develop the ecosystem, and for key public and private players to have adopted and be using the electronic money platform to make payments and conduct other financial transactions (CRF 450300). It is also expected to support the creation of a variety of payment methods and acceptance networks that both individuals and businesses use broadly. This will be achieved by creating a less expensive, more affordable payment method for persons to conduct their daily activities, and adopting nontraditional payment methods that are secure and do not entail additional costs for users, thus providing new management capacity to small businesses.
- 2.29 Some businesses are expected to come closer to the formal sector of the economy, since they will have a more orderly system to purchase and sell. As far as social benefit programs, the project will facilitate systemic control of benefit distribution, contributing to the operational efficiency of different entities.
- 2.30 Creating an electronic payment ecosystem using mobile phones will help build the financial capacity of excluded populations, the community, and younger generations. Building financial capacity and self-confidence are essential to developing activities that further financial inclusion for this segment.
- 2.31 Success indicators of systemic impact include: (i) the number of persons who use electronic money payments and the level of transactions; and

(ii) the number of disbursement agents, payment collectors, and acceptance networks that are part of the ecosystem and their level of transactions. Systemic impact indicators on financial inclusion should also evaluate the geographic location, sex, and income level of active users, as well as the characteristics of partners that are disbursement agents, payment collectors, and acceptance networks regarding the financial inclusion services they provide to target segments of the population.

III. MONITORING AND EVALUATION STRATEGY

- 3.1 **Baseline.** A sample survey of the persons who open the first electronic money accounts¹⁹ will be conducted to gather initial information about the impact and outcome indicators proposed in the logical framework. It will compile information on the transaction costs of making payments and initial access and use of financial products and services. For indicators that the PDP platform monitors, the baseline is 0.
- 3.2 The sample survey will be supplemented with focus groups in order to gather qualitative information related to impact and outcome indicators from end users and correspondent agents.
- 3.3 **Monitoring.** Indicators will be monitored on an annual basis with a *sample survey* and semiannually through the technology platform. The platform will provide monitoring and analysis of all transactions and will produce reports about the frequency and volume of transactions, as well as other variables relevant to the analysis. Activities will be monitored using administrative records from CEFI and PDP. The executing agency will send Project Status Reports every six months to the MIF, using its report template.
- 3.4 **Evaluation.** Halfway through the project, there will be a midterm review focused on the intervention strategy, with an analysis of implementation processes and project performance, and of which components or activities need to be modified in order to achieve the objectives. At the end of the project, there will be an impact and outcome assessment using a final survey similar to the one conducted as a baseline, to compare the situation of electronic wallet users, particularly regarding the decrease in their transaction costs for making payments.
- 3.5 The content and delivery method of trainings that are part of Component 2, financial education, will also be evaluated. This will include an analysis of their effectiveness as tools to increase financial knowledge among the targeted populations (women and youths) and to promote the use of the electronic wallet as a payment method.

¹⁹ It is estimated that the sample could include the first 20,000 users.

- 3.6 There are no plans to conduct an impact assessment. However, it should be possible to evaluate and measure changes in users' quality of life through impact indicators such as time involved, costs, savings, and risks.
- 3.7 **Closing workshop.** Thirty-three months into the project, the executing agency will hold a **closing workshop** to evaluate with other participants the outcomes and disseminate lessons learned and best practices.

IV. COST AND FINANCING

- 4.1 The project will have a total cost of US\$1,942,000, of which US\$1 million (51%) will be provided by the MIF and US\$942,000 (49%) by the counterpart. The execution period will last 36 months and the disbursement period, 42 months.

	MIF	Counterpart	Total
Project components			
Component 1: Capacities for financial inclusion	516,900	18,000	534,900
Component 2: Inclusive payment chains	195,900	543,000	738,900
Component 3: Knowledge and dissemination	53,400	51,600	105,000
Execution and supervision components			
Executing agency / administrative	100,800	269,400	370,200
Midterm review	15,000		15,000
Final review	15,000		15,000
Ex post reviews	20,000		20,000
Contingencies	23,000	60,000	83,000
Subtotal	940,000	942,000	1,882,000
% of financing	51%	49%	
Impact assessment account (5%)	50,000		50,000
Agenda account	10,000		10,000
Grand total	1,000,000	942,000	1,942,000

V. EXECUTING AGENCY

- 5.1 The Centro de Estudios Financieros [Financial Research Center] CEFI will be the project's executing agency and will sign the agreement with the Bank. CEFI, an organization created in 2012, belongs to ASBANC and its objective is to ensure financial education in the country. CEFI is in charge of developing the electronic money platform Modelo Perú. It will provide services to user financial institutions through Pagos Digitales Peruanos (PDP) (51% of which will be owned by CEFI and 49% by banking and nonbanking financial institutions in the country and one electronic money issuer). CEFI will be responsible for initial activities to develop the electronic money ecosystem, focused on financial education. It will also

- act as a liaison with public and private sector institutions in order to jointly carry out activities that increase financial inclusion. CEFI is aware that during the first years, the project will aim to recover costs until it achieves financial sustainability (according to assumptions, this would be in year 4).
- 5.2 CEFI currently has a US\$5 million budget to implement the Modelo Perú initiative: US\$2.7 million for the initial technology investment, US\$1.3 million for integration with issuers, and US\$1 million for financial education activities and developing inclusive business partnerships. Asociación de Bancos del Perú [Peruvian Bank Association] (ASBANC) provided these funds. In addition, CEFI has an annual budget of approximately US\$900,000 for its regular operations, which is also provided by ASBANC.
 - 5.3 The project connects directly with CEFI's mission, since it will promote financial inclusion by developing a new transaction channel that uses electronic money. This objective arises both from the commitment of participating financial institutions and from CEFI's strategic plan.
 - 5.4 ASBANC was created in June 1967 to represent its member banks and participate in decisions that affect the sector. The association also cooperates with the country's supervisory, regulatory, and representative authorities to analyze problems related to the financial sector, seeking to achieve solutions that, within the framework of free enterprise principles and maintaining monetary stability, help develop an efficient, modern financial system. To date, ASBANC represents 16 member banks and 7 associate-member financial institutions (6 are financial firms; 1 is a mutual fund administrator). It channels proposals from its Technical Committees to applicable national and international agencies.
 - 5.5 CEFI also has support from Peruvian and international institutions to develop Modelo Perú, including: (i) work in coordination with SBS on regulatory issues related to Modelo Perú; (ii) a business agreement with Ericsson to develop the technology platform; and (iii) partnerships on specific issues, such as Glenbrook Inc. for advice on designing a new institution; the Bill & Melinda Gates Foundation and the Better Than Cash Alliance for support on technology development issues; GRADE and IPE for help identifying impact indicators; and the World Bank, through the SBS, for support in financing an external strategy to monitor and evaluate the impact on financial inclusion.
 - 5.6 CEFI will establish an executing unit and the structure necessary to conduct activities and administer project resources. It will be responsible for sending project status reports to the Bank regarding project implementation. Details about the structure of the executing unit and status reports requirements are in Annex VII in the technical files for this operation.

VI. RISKS

- 6.1 Risk associated with ***critical modifications to government programs***. The project includes disbursements for government benefit programs. Changes in the disbursement process (amounts, frequency, number of users, and more) would affect the capacity of the cash-in and cash-out points of the ecosystem and the acceptance network, generating mismatches and a need for adjustments. Likelihood of occurrence: low. Mitigation: Work will be done, in parallel, with other private and public institutions that are disbursement agents, payment collectors, and acceptance networks, to make the ecosystem dynamic and widely available.
- 6.2 ***Technology and communication systems*** risks.²⁰ Communications failures (SMS, USSD, data, etc.) might alter transaction execution time, causing mistrust among users and/or generating automatically returned payments due to failed transactions. Likelihood of occurrence: low. Mitigation: PDP has a specialized team for technology issues, and Ericsson is in charge and provides guarantees and security protocols for the platform's operation.
- 6.3 ***Reputation and fraud*** risks. Having fraud in any part of the ecosystem might affect the development of activities and have an impact on the reputation of the initiative and participating institutions. Likelihood of occurrence: low. Mitigation: Joint work is underway with the SBS, which protects transparency and user security.
- 6.4 ***Product*** risks. People might be resistant to getting into the habit of using electronic money. Mitigation: As part of Component 1, the project includes targeted implementations that will provide an understanding of the motivations behind use and generate a financial education strategy for the adoption and use of the channel.
- 6.5 ***Regulatory*** risks. Current regulations align with the promotion and development of channels that favor financial inclusion and expanded access to financial services for the population, particularly those excluded most, as long as the system's security and transparency are protected. While there are regulations that allow for this project's development, the challenges are the issues that could be undefined and might come up during platform implementation and operation, especially those involving security and transparency, which are a priority for the supervisor. Mitigation: The development and implementation of Modelo Perú began already and will continue in close coordination with the SBS.

²⁰ A related point is that in periurban and rural areas, the service that telecommunications companies provide is often of poor quality for calls, SMS, and data; in fact, customers are used to slow SMS service.

VII. ENVIRONMENTAL AND SOCIAL EFFECTS

- 7.1 The project will have no adverse environmental impacts. Its social impacts will be positive, given that it will expand access to financial services for low-income individuals by developing a new electronic money mobile channel, which will decrease risk and lower the cost of handling cash. This has been classified as a Category “C” operation.

VIII. FULFILLMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS

- 8.1 **Results-based disbursements and fiduciary arrangements.** The executing agency will adhere to the standard MIF results-based disbursement, procurement, and financial management arrangements specified in Annex VIII, as well as other specific special arrangements for this operation.

IX. ACCESS TO INFORMATION AND INTELLECTUAL PROPERTY

- 9.1 **Access to information.** Project information is not confidential.
- 9.2 **Intellectual property.** The IDB will hold all intellectual property rights related to this project. Upon CEFI's request, the IDB may grant it a free, nonexclusive license for noncommercial purposes and for an indefinite period, for the use of the aforementioned copyrights, patents, and other intellectual property rights that the IDB owns. CEFI will ensure that all contracts signed with consultants during project execution include provisions that assign to the IDB all copyrights, patents, and other intellectual property rights.