



## Yemen Transition 2.0: **M-Floos: A Game Changer?**

*By : Rafat Al-Akhali*

*June 2016*

## About DeepRoot

DeepRoot is a boutique consulting firm passionate about Yemen's development. We aim to achieve our vision by helping international development actors, the private sector, local civil society organizations and the Yemeni Government anchor their interventions in a deep understanding of Yemen's national and local contexts, and international best practices.

Our theory is simple, international best practices and experiences are necessary and important but unless they are refined by a deep understanding of the realities in Yemen, they will not produce the results that the country needs. We help our clients by researching and engaging stakeholders at all levels, analysing their needs and interests and advising on policy and project design and implementation.

To learn more about DeepRoot, please visit us at: [www.deeproot.consulting](http://www.deeproot.consulting)

### About the Author

Rafat Al-Akhali is a partner at DeepRoot Consulting. He served as Minister of Youth and Sports in Yemen from November 2014 to September 2015. Prior to his appointment as Minister, Rafat was leading the policy reforms team at the Executive Bureau for Acceleration of Aid Absorption and Support for Policy Reforms. He is a non-resident fellow at the Rafik Hariri Center for the Middle East at the Atlantic Council, and was selected in 2015 as a Young Global Leader by the World Economic Forum.

## Introduction

With only 6% above the age of 15 having bank accounts (2% for women), and less than two commercial bank branches per 100,000 adults, Yemen ranks as the second worst country in the world in financial inclusion as measured by the Global Financial Inclusion Index 2014 (Global Findex).<sup>1</sup> This was before the current conflict that started in early 2015, and caused around 30 to 40 percent of all bank branches in the country to shut down.<sup>2</sup>

But now there is a potential game changer being introduced in the country: M-floos, a mobile money service that has the potential to disrupt the financial sector in Yemen and have ripple effects in other sectors. Al-Kuraimi Islamic Microfinance Bank (KIMB) is introducing the M-floos service to capitalize on the wide penetration of mobile phone subscriptions in Yemen, estimated at 17.1 million subscriptions in 2014 (an astounding penetration rate given that adult population above the age of 15 in Yemen is estimated at 15.7 million).

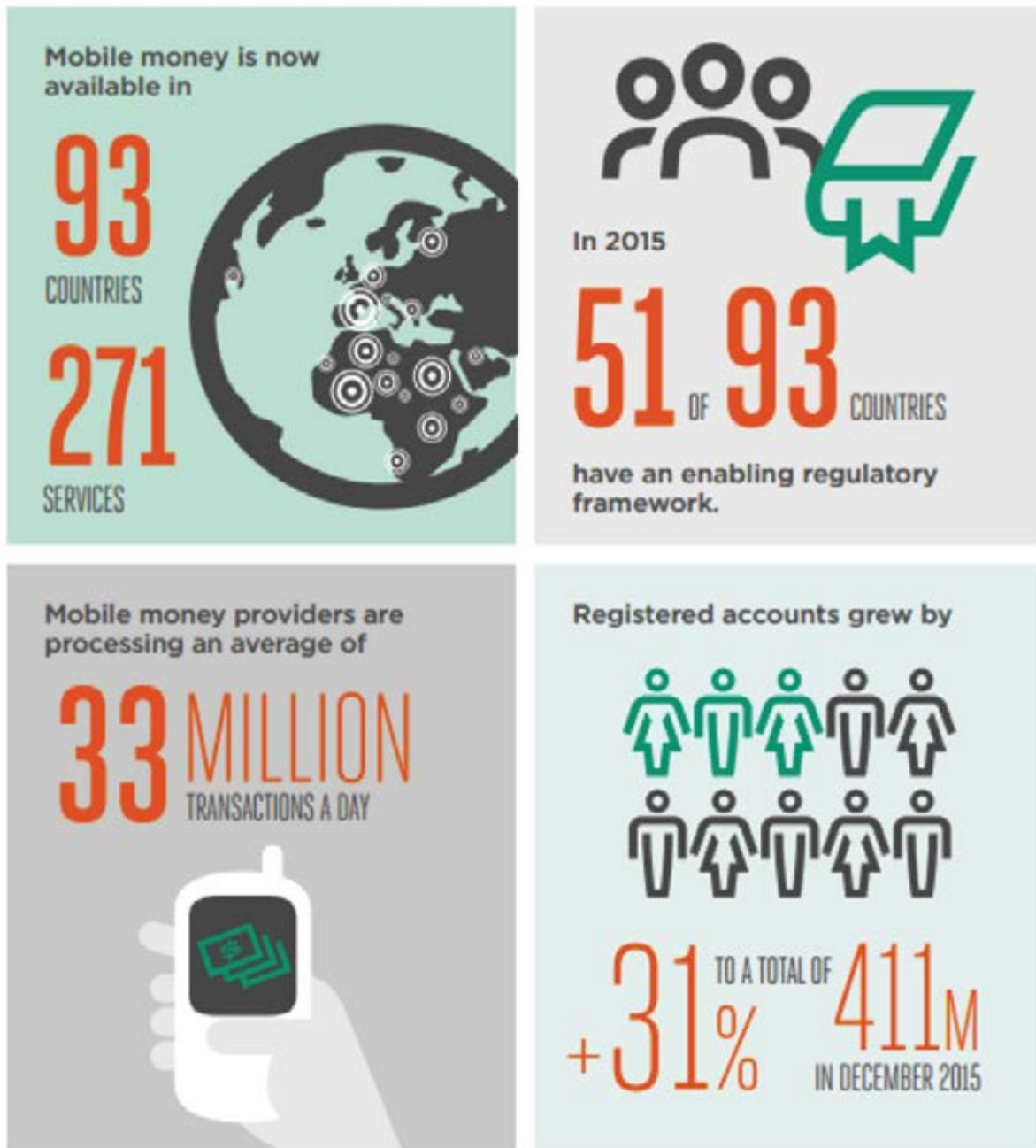
As initial plans and assessments for the post-conflict recovery phase in Yemen are beginning to shape up, DeepRoot is publishing a series of papers and blogs titled "Yemen Transition 2.0" in an attempt to inform the discourse and contribute towards a more successful post-conflict transition. This short paper will present an overview of mobile money and how it has transformed economies and cultures in developing countries around the world, and provide the background and current status of introducing the M-floos service in Yemen. The paper will then analyze the potential uses of mobile money in Yemen especially in the post-conflict recovery period.

## What is Mobile Money?

Mobile money is "a network infrastructure for storing and moving money that facilitates the exchange of cash and electronic value between various actors including clients, businesses, the government, and financial service providers".<sup>3</sup> It has been increasingly one of the main tools of financial inclusion efforts over the past decade among the mainstream development community, and seen as a key innovation capable of bringing about development and improving livelihoods.<sup>4</sup>

Although mobile money was first introduced in the Philippines in the early 2000s, it was M-Pesa's launch in Kenya in 2007 that put mobile money services on the map. The success and impact of M-Pesa (the name of the mobile money service operated by Safaricom, a subsidiary of Vodafone) in Kenya paved the way for the proliferation of similar services around the world. As of 2015, there were 271 mobile money services operating across 93 countries, reaching more than 411 million people according to the Global Mobile Systems Association (GMSA).<sup>5</sup>





**Source:** Groupe Speciale Mobile (2015)

Financial services delivered over mobile devices circumvent the need for having a bank account, and provide the advantages of banking to people who have long been dismissed as “unbankable”. These services include deposit/withdrawal of earnings, transfer of money to friends and family, opening and managing savings accounts, and even obtaining insurance coverage for their businesses. For the majority of the population in Yemen who live so far off the economic grid, the availability of mobile technology can lift the burden of cash dependency and open a door to their integration in the mainstream economy.

Mobile money has had transformative effects in some countries. In Kenya and Tanzania, more adults have mobile money accounts than bank accounts. Rwanda and Ghana are following a similar trajectory albeit at a slower pace than Kenya and Tanzania.<sup>6</sup>

## Regulating Mobile Money in Yemen

Regulatory frameworks have a significant impact on the introduction and development of mobile money services in any country. At a high-level, there are two types of models to regulate mobile money services: a bank-led model where banks are the ones licensed to provide the service, and a mixed or open model where any provider including mobile operators is able to provide mobile money services directly, provided they obtained the necessary licences.

In Yemen, the regulatory discussions were led by the Central Bank of Yemen (CBY). By December 2014, following almost two years of reviews, consultations, and discussions with all stakeholders, the CBY reached a conclusion to go with a bank-led model, and issued a circular number 11/2014 to regulate mobile money services. A discussion of which model would be more effective in Yemen is beyond the scope of this paper, but it is sufficient to note that the current regulation by a circular (and not a law) provides flexibility in adjustments to the regulatory framework going forward. In an interview with DeepRoot, Mansour Rageh (Acting Manager for Islamic and Specialists Banks at CBY) confirmed that the CBY will be evaluating the results closely and making any necessary adjustments to the regulatory framework.

## Al-Kuraimi and M-floos

Al-Kuraimi Islamic Microfinance Bank ( KIMB ) was established in 2010 with substantial support from the social fund for Development ( SFD ). KIMB aspires to make all financial and banking services accessible to every person in Yemen and to raise the standard of living of the individual and the community so citizens can participate in the economic and social development of the country. By May 2015, KIMB had over 100 branches serving more than 6,561 borrowers and more than 500,000 savings clients.<sup>7</sup> Prior to KIMB's establishment, Al-Kuraimi company offered currency exchange and money transfer in all governorates across Yemen since its establishment in 1995.

Al-Kuraimi was one of the handful of market leaders awaiting the establishment of a regulatory framework to begin offering mobile money services in Yemen. According to Yusof Al-Kuraimi, KIMB started preparing the requirements for obtaining the license in January 2015, and made the application in June 2015. The company received the initial license from CBY in December 2015. From December 2015 until May 2016, KIMB continued the final development and internal testing of the system and the model, and the system is planned to shortly begin piloting in a limited number of locations across Yemen in preparation for the full launch. CBY is expected to grant the final approval and full license once it confirms that the pilot is implemented successfully.

**“It is worth noting that all the steps for launching M-floos took place during the worst armed conflict that Yemen witnessed in recent history.”**

## Successful Donor Technical Assistance

The launch of mobile money services in Yemen is not only a case study of regulatory leadership and visionary entrepreneurship in Yemen during the conflict, but also an example of successful technical assistance by donor agencies. Organizations such as the Consultative Group to Assist the Poor (CGAP), World Bank, United States Agency for International Development (USAID), German International Development Agency GIZ, and the Alliance for Financial Inclusion (AFI) provided invaluable technical support to the CBY throughout the process of developing the regulatory framework for mobile money services in Yemen. Mr. Al-Kuraimi explained in his interview with DeepRoot how much they benefitted from the support of the International Finance Corporation (IFC). IFC provided KIMB with experts and invited it to a number of international mobile money exhibitions and conferences which allowed the company to build enough competence to launch its own system.

### **“Key factors for a successful donor technical assistance:**

- 1. Targeting an existing need.**
- 2. Working with a reliable local partner.**
- 3. Providing top quality field experts.”**

Three important factors contributed to the success of the donor technical assistance to mobile money services in Yemen:

1. The assistance was not donor driven but was largely responding to an existing need: CBY was actively exploring ways to increase financial inclusion and KIMB was actively engaged in launching a new service,
2. Donors’ technical assistance was provided to strong institutional partners: CBY is considered one of the few strong public institutions in Yemen that maintained its capacity even during the conflict, and is one of the leading national private sector companies with a clear strategic vision and strong values guiding their work, and
3. Technical assistance was provided by donor agencies with strong experience in the field, and the experts/consultants provided were of top quality, which is not always the case in Yemen as the difficult security situation sometimes limits the quality of experts/consultants willing to take assignments in the country.

## Potential Applications for Mobile Money Services

In addition to the default financial services of personal deposit/withdrawal of money (known as cash-in/cash-out), transfers between family and friends (Person-to-Person or P2P transfers), and payment of utility and other bills, the introduction of mobile money services in Yemen can open the door for many other applications such as:

**1. Humanitarian cash transfers:** The report of the High Level Panel on Humanitarian Cash Transfers convened by DFID concluded that cash transfers are more efficient, cheaper to deliver, and more flexible than in-kind aid<sup>8</sup>. Mobile money services will make it much easier to directly reach populations in need that live in isolated rural areas, and will open the door for innovative approaches such as the work done by [Givewell.org](http://Givewell.org).



Source: Overseas Development Institute (2015)

**2. Savings accounts:** Mobile money services can help people with low incomes to have secure and convenient savings facilities: 10 million dedicated mobile savings accounts have been opened worldwide by 2014<sup>9</sup>. Some operators, such as Airtel Uganda, have also launched services that allow savings groups to store their group's cash as mobile money.

**3. Mobile insurance:** There were 100 mobile insurance services around the world with sustainable commercial and partnership models that issued 17 million policies by end of 2014. Life coverage is the most common mobile insurance product, accounting for 88.1% of all mobile insurance policies issued up to 2014<sup>9</sup>. Other mobile insurance services include health insurance, accident coverage, and agricultural insurance.

Low-income people who are vulnerable to financial shocks that can have devastating long-term consequences find mobile insurance very appealing. However, traditional insurance providers have fixed cost structures that make it unfeasible to sell and administer low-value policies. The low cost of distribution for mobile insurance makes serving low-income individuals more economically attractive and sustainable.

**4. Salary payments:** Mobile salary payments has the potential for improving transparency, accountability, and efficiency of payroll payments. For example, in 2009 the Afghani telecom provider "Roshan" launched the M-Paisa Mobile Salary Payment (MSP) service that enabled the central government to directly pay the salaries of the Afghan National Police officers with mobile money instead of cash. The results? Costs dropped by 10% because it

eliminated payments to “ghost” (non-existent) officers, and the existing police officers thought they had received a 30% salary increase because the new service bypassed all middlemen who used to skim some of the cash from the officers’ salaries.<sup>10</sup> MSP has now expanded and is also used by private companies with major documented direct and indirect cost-savings to the employers.<sup>11</sup>

**5.Mobile Credit:** Although Microfinance Institutions (MFIs) have made progress in addressing the credit needs of low-income individuals since their introduction in Yemen, physical constraints and high operating costs are still limiting their reach and flexibility. The launch of mobile money services opens the door to the eventual introduction of mobile credit services, which are now available in 20 countries globally.<sup>12</sup> Mobile Network Operators data, and sometimes mobile money transactional data, can now be combined with credit-scoring algorithms to determine customers' creditworthiness. These combinational credit scoring models have delivered better results for credit providers. For example, Safaricom states that non-performing loans make up just 2.2% of the total loans made by its M-Shwari credit service, compared to an average figure for Kenya in 2013 of 4.9%.<sup>12</sup>

**In conclusion,** the launch of mobile money services in Yemen is a welcome development that requires close attention and support from Yemeni regulators and international donors, as it has the potential for transforming the lives of the majority of Yemenis especially those living in poverty and financial exclusion.



## References

- <sup>1</sup> Financial Inclusion Data / Global Findex: Yemen, Rep. (n.d.). Retrieved May 27, 2016, from <http://datatopics.worldbank.org/financialinclusion/country/yemen,-rep>.
- <sup>2</sup> Alliance for Financial Inclusion. (2015, August 7). Cashing in on mobility. Retrieved May 27, 2016, from <http://www.afi-global.org/news/2015/8/07/cashing-mobility>
- <sup>3</sup> Kindall, J., Machoka, P., Veniard, C., & Maurer, B. (2012, June). An Emerging Platform: From Money Transfer System to Mobile Money Ecosystem. Retrieved May 27, 2016, from <http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2012/06/ssrnid1830704.pdf>
- <sup>4</sup> Iazzolino, G. (2015). Following Mobile Money in Somaliland. Retrieved May 27, 2016, from [http://reliefweb.int/sites/reliefweb.int/files/resources/Following Mobile Money in Somaliland and by Gianluca Iazzolino - RVI Rift Valley Forum Research Paper 4 \(2015\).pdf](http://reliefweb.int/sites/reliefweb.int/files/resources/Following%20Mobile%20Money%20in%20Somaliland%20by%20Gianluca%20Iazzolino%20-%20RVI%20Rift%20Valley%20Forum%20Research%20Paper%204%20(2015).pdf)
- <sup>5</sup> 2015 State of the Industry Report Mobile Money. (2016, February). Retrieved May 27, 2016, from [http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2016/02/SOTIR\\_2015-Executive-Summary.pdf](http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2016/02/SOTIR_2015-Executive-Summary.pdf)
- <sup>6</sup> The Consultative Group to Assist the Poor. (n.d.). Financial Inclusion Insights: Mobile Money Momentum in Four African Countries. Retrieved May 27, 2016, from <http://www.cgap.org/sites/default/files/publications/multimedia/cgap/index.html>
- <sup>7</sup> Yemen Microfinance Network. (2015, August). Microfinance in Yemen: Hopes vs. Reality. Retrieved May 27, 2016, from [http://yemennetwork.org/en/wp-content/uploads/2015/08/Microfinance-in-Yemen-Impact-of-War\\_-YMN-July-20151.pdf](http://yemennetwork.org/en/wp-content/uploads/2015/08/Microfinance-in-Yemen-Impact-of-War_-YMN-July-20151.pdf)
- <sup>8</sup> High level panel on humanitarian cash transfers. (2015, September). Scaling up humanitarian cash transfers. Retrieved May 27, 2016, from <https://www.odi.org/opinion/9878-info-graphic-humanitarian-cash-transfers-crisis-aid>
- <sup>9</sup> 2014 State of the Industry Mobile Financial Services for the Unbanked. Retrieved May 27, 2016, from <https://www.gsmaintelligence.com/research/?file=8d7e56071f00f28571cae54f7673181d&download>
- <sup>10</sup> Heinrich, E. (2013, March 2). How Afghanistan Is on the Leading Edge of a Tech Revolution. Retrieved May 27, 2016, from <http://world.time.com/2013/03/02/how-afghanistan-is-on-the-leading-edge-of-a-tech-revolution/>
- <sup>11</sup> Blumenstock, D., Callen, D., & Ghani, T. (2013, November). Mobile Salary Payments in Afghanistan: Policy Implications and Lessons Learned. Retrieved May 27, 2016, from [http://pedl.cepr.org/sites/default/files/Blumenstock\\_Callen\\_Ghani\\_WhitePaper.pdf](http://pedl.cepr.org/sites/default/files/Blumenstock_Callen_Ghani_WhitePaper.pdf)
- <sup>12</sup> 2014 State of the Industry Mobile Financial Services for the Unbanked. Retrieved May 27, 2016, from <https://www.gsmaintelligence.com/research/?file=8d7e56071f00f28571cae54f7673181d&download>



RESEARCH . ANALYSIS . ADVISORY

Almisbahi Roundabout,  
Hadda Street, Sana'a  
Republic Of Yemen ,  
Tel : 967 1 454 416  
P . O BOX: 16155  
Info@deeproot.consulting

[WWW.DEEPROOT.CONSULTING](http://WWW.DEEPROOT.CONSULTING)