Payment Mechanisms, Experiences & Tools

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October 30th, 2019
Social Safety Nets and Delivery Course
Introduction & Trends

Luz Stella Rodriguez
A. Veronica Lopez
Social Safety Nets Core Course 2019
Role of Payments in Social Protection

Assess Potential Demand

Enroll

- Eligibility & Enrollment Decisions
- Determine Benefits & Service Package
- Notification & Onboarding

Provide

- Benefits and/or Services

Monitor & Manage

Recurring Cycle

- Beneficiaries
- Grievances
- Compliance
- Exit Decisions
- Notifications
- Case Outcomes

Payments

Re-Assess
Payments are a key component of SP programs

Globally, more than half of social assistance programs are delivered as monetary transfers/cash benefits.

Despite the volume of G2P, still payments to the vulnerable populations are not fully digital. Social protection programs have been digitizing their payments and now is time to shift the paradigm.

It is crucial to understand payments design, administration and provision.
Assess Enabling Environment

i. Institutional Arrangements
ii. Finance & Banking Regulatory Framework
iii. Payments Provision Coverage
iv. Mobile & Broadband Infrastructure
v. ID (KYC)
vi. Payment Systems (interoperability)
Determine Payments Approach

G2P payment is digitized...

Getting money from the provider to the recipient is not always digitized.

Closed-loop and restricted mechanisms may limit opportunities for use and empowerment.

A different payment mechanism per program leads to inefficiencies for users and programs.

...the government-provider transfer is digitized...

Provider X

Recipient

...but due to a variety of legal and infrastructure challenges, recipient still receives cash and may spend significant time and/or money to access funds.
• **Direct benefit transfer:** Benefit is transferred to bank accounts, mobile wallets, or any other transaction account of a recipient.

• **Through a Financial Service Provider (FSP) as intermediary:** Benefits are distributed over the counter (OTC) to recipients in cash or near cash.

• **In-House:** Benefits are distributed to recipients by ministry agents in the form of cash or electronic.
Determine Payments Approach

Frequency of SA payments varies per type of program and evolves with time

<table>
<thead>
<tr>
<th>Country</th>
<th>Program</th>
<th>2009</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>Bolsa Familia</td>
<td>Monthly</td>
<td>Monthly</td>
</tr>
<tr>
<td>Chile</td>
<td>Subsidio Unico Familiar</td>
<td>Monthly</td>
<td>Monthly</td>
</tr>
<tr>
<td>China</td>
<td>Minimum Livelihood Guarantee</td>
<td>Monthly</td>
<td>Monthly</td>
</tr>
<tr>
<td>Colombia</td>
<td>Familias en Accion</td>
<td>Bi-monthly</td>
<td>Bi-monthly</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>Solidaridad</td>
<td>Bi-monthly</td>
<td>Monthly</td>
</tr>
<tr>
<td>India</td>
<td>NREGA</td>
<td>Monthly</td>
<td>Bi-weekly</td>
</tr>
<tr>
<td>Jamaica</td>
<td>PATH</td>
<td>Bi-monthly</td>
<td>Bi-monthly</td>
</tr>
<tr>
<td>Mexico*</td>
<td>Prospera</td>
<td>Bi-monthly</td>
<td>Bi-monthly</td>
</tr>
<tr>
<td>Pakistan</td>
<td>BISP</td>
<td>Monthly</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Peru</td>
<td>Juntos</td>
<td>Monthly</td>
<td>Bi-monthly</td>
</tr>
<tr>
<td>Philippines</td>
<td>4P</td>
<td>Monthly</td>
<td>Bi-monthly</td>
</tr>
<tr>
<td>Zambia</td>
<td>Social Cash Transfer Scheme</td>
<td>Monthly</td>
<td>Bi-monthly</td>
</tr>
</tbody>
</table>

**Average Number of Payments**

- **CCT**: Monthly
- **Public Works**: Bi-monthly
- **Social Pensions**: Quarterly
- **UCT**: Other

Determine Procurement or Contracting Approach

<table>
<thead>
<tr>
<th>Service Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Bank (Private)</td>
<td>17%</td>
</tr>
<tr>
<td>Commercial Bank (State Owned)</td>
<td>30%</td>
</tr>
<tr>
<td>Mobile Money Providers</td>
<td>8%</td>
</tr>
<tr>
<td>Post Office</td>
<td>14%</td>
</tr>
<tr>
<td>Other Non-Bank Financial Institution</td>
<td>7%</td>
</tr>
<tr>
<td>N/A</td>
<td>24%</td>
</tr>
</tbody>
</table>

Percentage FSPs in Inventory

---

Countries offer more than one payment service modality

<table>
<thead>
<tr>
<th>Payment Service Providers</th>
<th>Payment Instruments</th>
<th>Cost per Transfer</th>
<th>Volume per Transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Jamaica - PATH</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jamaica Post</td>
<td>Cheque</td>
<td>US$ 0.39</td>
<td>81% of transfers</td>
</tr>
<tr>
<td>National Commercial Bank of Jamaica</td>
<td>ATM Card</td>
<td>US$ 0.08</td>
<td>14% of transfers</td>
</tr>
<tr>
<td>PayMaster or Grace Kennedy Bill Express</td>
<td>In cash via Remittance Services Agents</td>
<td>US$ 0.75</td>
<td>5% of transfers</td>
</tr>
<tr>
<td><strong>Pakistan - BISP</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pakistan Post</td>
<td>Cheque</td>
<td>US$ 0.30</td>
<td>1% of transfers</td>
</tr>
<tr>
<td>6 Commercial Banks</td>
<td>ATM Card</td>
<td>US$ 0.28</td>
<td>38% of transfers</td>
</tr>
<tr>
<td>6 Commercial Banks</td>
<td>Biometric</td>
<td>US$ 0.28</td>
<td>61% of transfers</td>
</tr>
</tbody>
</table>

Ecosystem
The relevance of the financial ecosystem
Financial inclusion and women’s economic empowerment require, at minimum, an account in the recipient’s own name – to create financial history and access.

A regulated account in one’s own name…. allows for day-to-day transactions (bill payments, P2P, etc.), which generates a transaction history… setting the stage for access to savings, loans, and insurance when needed.

G2P payments which are Digitized, Directed to an account, and Designed for women provide a foundation for women’s economic empowerment by improving access to income and assets, and ensure that women benefit from economic gains.*

*Gates D3 Framework for Women’s Economic Empowerment
Ultimately, we want to move from an emphasis on fiscal management moving from (a) to (b) to and emphasis on low cost, convenient and financially inclusive G2P payments (c).
Identifying the authorities and role the authorities play

<table>
<thead>
<tr>
<th>Financial sector regulators; Regulations pertaining to payment services in their responsibilities</th>
<th>• Usually the central bank/ monetary authority; normally also tasked with the responsibility of payment systems</th>
</tr>
</thead>
</table>
| The Treasury and line ministries with the responsibility of Government payment | • line ministries (collect taxes, fees, etc.)  
• Ministry tasked with social benefits/ financial inclusion |
| Other stake holders | • Banks/ non-banks – reach and access  
• NGOs |
To do so, we need to identify barriers.

We know that it's possible to reduce the cost of G2P payments for recipients and to increase financial inclusion through digital payments, so why isn't it being done this way?

- Lack of coordination across government, G2P vision
- Financial inclusion and women’s economic empowerment are not stated objectives for Government
- Legal and regulatory constraints
- Infrastructure constraints
- Lack of clarity on who should pay to address ecosystem constraints (government, private sector, state-owned banks?)
- Internal resistance, potentially from middle management who may be benefitting from the status quo.
...and enhance collaboration with those who can address these barrier.

<table>
<thead>
<tr>
<th>Enabling laws and regulations</th>
<th>Infrastructure</th>
<th>Program design</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Foundation (non-payments)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• National ID</td>
<td>• Telecom density</td>
<td>• Registration</td>
</tr>
<tr>
<td>• Data protection</td>
<td>• Connectivity</td>
<td>• Eligibility determination</td>
</tr>
<tr>
<td>• Cyber security</td>
<td>• Identification and authentication</td>
<td>• Awareness</td>
</tr>
<tr>
<td>• Telecom</td>
<td>• Power network</td>
<td>• Redressal</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Payment System</strong></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Bank/ non-bank PSPs</td>
<td>• Availability of payment systems and access points</td>
<td>• Frequency of payments</td>
</tr>
<tr>
<td>• KYC requirements</td>
<td>• Population with an account</td>
<td>• Authentication methods</td>
</tr>
<tr>
<td>• Basic/ tiered accounts</td>
<td>• Single treasury a/c (Govt.)</td>
<td>• DBT into account</td>
</tr>
<tr>
<td>• Interoperability of touch points (POS, ATMs, agents)</td>
<td>• Interoperable PS (e.g. infrastructure like NPCI)</td>
<td>• Payment modalities</td>
</tr>
</tbody>
</table>

- In order to move towards the optimal arrangement
  - collaborate across multiple areas including infrastructure providers
  - high level government commitment and support
Overcoming challenges requires placing G2P in broader digital financial ecosystem

Payment Streams

Infrastructure

Providers

Recipient

Usage

G2P

B2P

Aid

ICT

National ID

Social Registry

Payments Switch

Post Office

Banks

Telcos

MFIs

Non-Banks

CICO\(^2\) Network

P2P: Domestic and international Remittances

School Fees

Health Payments

Savings

Insurance

Merchant payments

E-Commerce

KYC Verification and Authentication

Communication and Redress

Needs and Goals

Regulations and Norms

Non-bank licenses, agency banking, data protection and privacy, risk-based KYC, etc.
Why SP should know on the overall payment eco system?

- Facilitate government payments/receipt
- Deciding on the options that could be considered – benefiting all in the payment chain
- Facilitate in the objective of financial inclusion
And aspire to

Leverage on the payment services already in the market

Not worry about contracting services
Thank you

nramteke@worldbank.org

www.worldbank.org/paymentsystems
Country cases
Payment Solution Model for Cash Transfer Program in Kenya

John Gachigi, BA, MA, HSC
Head, Social Assistance Unit
Background Information

- Population (2017 estimate): 46.6 Million
  - 36.1% living below the overall poverty line
  - 32.0% living below the food poverty line
  - 8.6% experiencing hardcore / extreme poverty
Objectives of Cash Transfer Program

• To provide regular and predictable cash transfers to poor and vulnerable households

• To build households capacity to live a life of dignity and exploit their human potential

• To provide households in income security
Inua Jamii Cash Transfer Programs in Kenya

- Funded 100% by government, with technical support from WB and DP
- Targeted for poor and vulnerable households
- Universal pension program for 70+
- Coverage is 1.33 million HHs
- Annual budget is 320 million USD
Rationale of Account Based Payment Systems

Based on principles of choice, flexibility, access, affordability and financial inclusion.

Ensure the designated benefits get to the entitled beneficiaries on time.

Utilization of two-factor authentication process in identifying beneficiaries for enhanced security.

Proximity of payments to their locations, ability to save and withdraw from several outlets.
Evolution of Cash Transfers Payment Systems in Kenya

- **2007-2010**: Field Officer Deliver CT
- **2010-2012**: Postal Corporation
- **2012-2017**: Virtual Bank Account – Card Based
- **2018–to-date**: Full Bank Account – Choice of Multiple PSP
Multiple Payment Service Providers (Banks)
Contract Management

• Three year contracts based on performance
• Competitive based on accounts opened
• Negotiated standard pricing, agreed standard charges such as
  ➢ No monthly fees,
  ➢ Two free withdrawals per cycle,
  ➢ Free first debit card and mobile banking enabled
  ➢ Bio enabled debit card
• Harmonized exit and entry dates
Service Level Agreements

• Beneficiary is treated with dignity
• Maximum travel distance to pay points for beneficiaries reduced
• Free 1st debit card
• Agents set up
• Reduced Que time
• Complaints and dispute resolution mechanism established
# Benefits and Improved Service Delivery

<table>
<thead>
<tr>
<th>Government</th>
<th>Beneficiaries</th>
<th>PSPs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost efficiencies</td>
<td>Choice</td>
<td>New business opportunity</td>
</tr>
<tr>
<td>Economies of scale</td>
<td>Once in a year to switch PSP</td>
<td>Agent outlets</td>
</tr>
<tr>
<td>Digitizing govt payments</td>
<td>Improved proximity</td>
<td>Deepening financial access</td>
</tr>
<tr>
<td>Enhancing Inclusion</td>
<td>Free account</td>
<td>Partnership with Government</td>
</tr>
<tr>
<td>Competition</td>
<td>Savings</td>
<td>Service to community</td>
</tr>
<tr>
<td>Consolidation &amp; harmonization</td>
<td>Access to mobile banking</td>
<td></td>
</tr>
<tr>
<td>Single Procurement</td>
<td>Continuous payments</td>
<td></td>
</tr>
</tbody>
</table>
Critical Success Factors

• Communication, sensitization and training at beneficiary level
• Mobilization of beneficiaries as per account opening plan
• Setting biometric standards in Kenya
• Opportunity for beneficiaries to switch service provider once in a year
• Interoperability at biometrics level at all pay points within 18 months
Successful Milestones

- Digitalization of payment solutions
- Timely achievements of payment model DLIs – 90%
- Cleaning of payroll to eradicate deceased beneficiaries through proof of live and bios
- Real time reconciliation on credits and payments
- Savings value through bank accounts leading to productive investment
ASANTENI SANA
Putting G2P Digital Payments in Practice: Jordan’s Digital Payments Pilot

Amr Moubarak, Kinley Salmon, Karol Karpinski, Harish Natarajan, Cristobal Cano, Anastasiya Denisova, Ghada Ismail, Rada Naji, Khalid Moheyddeen, Peter McConaghy, Oscar Lindow, Kareem Sadik, Riad Katkhoda, Natasha Frosina, and Rana Alrefaya.

- Social Safety Nets Core Course
- October 30, 2019
Key Elements of Selected Payment Mechanism

Robust Payment Mechanisms for Social Protection requires 3 Rs:

- **Right Beneficiary**
- **Right Benefit**
- **Right time**

Financially Inclusive Payments Mechanism should include 3 key features:

- Account ownership (in beneficiary name)...
- ...transactions (bill payments, P2P, etc.), which generates a transaction history...
- ...setting the stage for access to savings, loans, and insurance when needed including options for credit reporting
Identifying Key Stakeholders and Roles Played in Making the Switch to Digital Payments

Financial sector regulators:
Central Bank of Jordan
- Passed Basic Bank Account law
- Regulation mandating digital payments for all new NAF beneficiaries
- Required waiver of transfer for social assistance

Line ministries responsible for delivery of Government Payments:
- Financial Inclusion Strategy (including Basic Bank accounts)
- NAF endorsed financially inclusive digital payments and submitted to cabinet
- Ministry of Information and Telecommunication mandate for modernization of Post Offices (on-going)
- Interoperability (on-going)

Other stakeholders:
- UN Agencies Providing Technical Assistance
- Bank
- Mobile Payments Switch
- Others
[screen shot of video here pls]
Steps taken for administration of a robust payments’ pilot

1. Select locality for pilot
2. Select payment instruments’ and channels’ to be piloted
3. Develop payments manual and validate with stakeholders
4. Select beneficiaries and target date for the switch
5. Ensure coordination among stakeholders on selected payment method and date of start of pilot
6. Launch communication campaign and awareness sessions
7. Implement modality for creation of payment list
8. Administer payment on pilot payment list
9. Administer payment reconciliation
Jerash Payments Pilot

- GoJ and NAF saw piloting as a critical step for national roll-out and the digitization of the current beneficiary caseload
- Pilot would test both e-Wallets and BBAs.
- Design and implementation included: NAF, Central Bank of Jordan (CBJ), the World Bank (WB), and the World Food Programme (WFP).

- Jerash medium sized urban town
- 1,100 households selected in central district
- 2 Banks participated (Jordan Islamic Bank, Cairo Amman Bank)
- 1 Mobile Money provider participated (Dinarak)
- Design completed March 2019
- Payment in April
- End-line in June
Awareness sessions – what was most helpful?

<table>
<thead>
<tr>
<th>Information</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Verbal Information</td>
<td>94%</td>
</tr>
<tr>
<td>Printed Materials on SBAs</td>
<td>64%</td>
</tr>
<tr>
<td>Printed Materials on E-Wallet</td>
<td>57%</td>
</tr>
</tbody>
</table>

“There was a rumor during the sessions: banks will deduct 15 JDs from the transfer value every reload, I didn’t have time to check whether its right or wrong, I was terrified, so I registered with Dinarak”

— Male FGD participant

They told me I have to do an e-wallet because I was illiterate

— Female FGD participant

Satisfaction level

“At the first reload, I went to the exchange place very early because I thought the process is going to take time, then I realized that its easy. The staff are very helpful.”

— Male FGD participant

“Now! [with the new payment modality] there is no partial treatment. All beneficiaries are treated equally like other clients. We are all treated alike.”

— Female FGD participant explaining what she means by the fact
Key Results (2 of 2)

Digital Payments vs. Cash
- Distance to Redemption Point (KM): Baseline mean = 2, Endline mean = 17
- Total Time Spent to Redeem Assistance (Min): Baseline mean = 68, Endline mean = 138
- Transportation Time (Min): Baseline mean = 55
- Waiting Time at Redemption Point (Min): Baseline mean = 31

Additional Transaction Cost?
- Food Expenditure Share: Baseline mean = 63%, Endline mean = 37%

Across both digital payment options
- Mobile Connectivity Expenditure Share: Baseline mean = 16%
- Distance to Redemption Point (KM): Baseline mean = 17, 17
- Total Time Spent to Redeem Assistance (Min): Baseline mean = 70
- Transportation Time (Min): Baseline mean = 35
- Walking Time at Redemption Point (Min): Baseline mean = 16
## Digital Payments Roll-out

<table>
<thead>
<tr>
<th>3 Payment Service Providers</th>
<th>3 Payment Instruments</th>
<th>Cost per Transfer</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jordan Post (phased out)</td>
<td>Cash (phased out)</td>
<td>US $1.40</td>
<td>100% of cash transfers</td>
</tr>
<tr>
<td>All Jordanian Banks</td>
<td>ATM Card</td>
<td>US $0.00</td>
<td>67% of transfers</td>
</tr>
<tr>
<td>All PSPs</td>
<td>Mobile Money (cash out)</td>
<td>US $1.05</td>
<td>33% of transfers</td>
</tr>
</tbody>
</table>

**Jordan Digital Payments**

- Account ownership (in beneficiary name)...
- ...transactions (bill payments, P2P, etc.), which generates a transaction history...
- ...setting the stage for access to savings, loans, and insurance when needed, including options for credit reporting

(1) Piloting is Key

Assess Enabling Environment → Assess available payment instruments and channels → Pilot → Procurement Approach, Contractual Approach or Regulatory Requirements → Payment Administration, Provision → Reconciliation

(2) Take a Phased Approach – While tying to the Mast

• Be clear about the current payment challenge
• Keep options simple
• Beware of political economy / and utilize it smartly
• Pilot key design aspects
• Build a case around evidence generated for roll-out
• Clarify factors that led to selected option and implications of political economy challenges
• Take a phased approach in terms of (i) regions, (ii) payment options, (iii) services, (iv) use of technology, (v) modernization of aspects of payment system
The Future of G2P Payments: Expanding Customer Choice in Zambia

Social Safety Nets Core Course

October 30, 2019

Ioana Botea
Program and Context

Girls’ Education and Women’s Empowerment and Livelihoods (GEWEL)

• Launched in 2016, with the goal to provide livelihoods support for women and access to secondary education for disadvantaged girls in extremely poor households
• ~100,000 beneficiaries (22,000 girls and 75,000 women) by 2020, in half the districts nationwide
• G2P payments through its women’s livelihoods component that includes a productive grant transfer of USD 225

Key challenges:
• Zambia is one of the most sparsely populated countries
• No single payment provider with national coverage
• Limited information about location and accessibility of financial access points

Solution:

→ Innovative, multi-provider and choice-based digital payment system
Key Choice #1: Digital Payments

• **Risks:** A cash delivery system was not considered appropriate given the larger transfer amounts.

• **Opportunities:**
  • Financial inclusion had increased from 37.3% in 2009 to 59.3% in 2015
  • Use of electronic money transfer services had more than doubled, from 15.5% in 2009 to 36.8% in 2015
  • Active mobile money agent networks grew by over 70 percent in 2015
  • # digital financial service providers increased from 10 in 2015 to 18 in 2018
Key Choice #1: Digital Payments

Nevertheless, designing the payment system was challenging:

➢ Commercial bank outlets were strongly concentrated in urban areas
➢ Zambia’s post offices (ZamPost) and mobile money providers had better rural outreach but did not cover the country uniformly

<table>
<thead>
<tr>
<th>Service provider</th>
<th>Total (2015)</th>
<th>Total (2017)</th>
<th>% of adults</th>
<th>median distance (km)</th>
<th>% of poor adults</th>
<th>median distance (km)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile money agent</td>
<td>3239</td>
<td>5096</td>
<td>70</td>
<td>1</td>
<td>69</td>
<td>3</td>
</tr>
<tr>
<td>Banking agent</td>
<td>n/a</td>
<td>1097</td>
<td>50</td>
<td>3</td>
<td>55</td>
<td>12</td>
</tr>
<tr>
<td>ATM</td>
<td>464</td>
<td>n/a</td>
<td>29</td>
<td>1</td>
<td>23</td>
<td>5</td>
</tr>
<tr>
<td>Bank branch</td>
<td>404</td>
<td>n/a</td>
<td>22</td>
<td>8</td>
<td>22</td>
<td>15</td>
</tr>
<tr>
<td>SACCO</td>
<td>n/a</td>
<td>505</td>
<td>10</td>
<td>8</td>
<td>14</td>
<td>13</td>
</tr>
</tbody>
</table>

→ Multiple providers needed to reach beneficiaries reasonably close to cash-out points
Key Choice #2: Beneficiary Choice

Procuring multiple providers for different geographic zones presented new challenges:

- Procurement of PSPs had not worked well in Zambia
- Allocating different regions to providers could reinforce monopolies
- Financial access point proximity and accessibility couldn’t be determined at the district level
Lufwanyama District

Mushingashi is 85 miles from Kitwe
In “the middle of nowhere” is a Natsave branch.
Lufwanyama District

In "the middle of nowhere" is a Natsave branch
Who would have known that in “the middle of nowhere” there is a Natsave branch?
The beneficiaries!

→ Agreement that an innovative solution was needed and that the people were best positioned to know which providers to use were the beneficiaries themselves
Key Choice #3: Payment Top-Ups

GRZ sought to build a system that empowered beneficiaries to make decisions for themselves and that would offer incentives to multiple providers to deliver:

**Transfer fee top-up**

- Rather than contract providers, the model relied on topping-up each payment with the amount of the cash-out fees charged by providers
- Highest fee charged in the market was applied – ZMW 50 (USD 4.14), equaling 5 percent of transfer value

**Travel rebate**

- Flat rate of ZMW 50 that was estimated to cover transportation costs for a round-trip journey to a financial access point for most beneficiaries
Key Choice #4: Own Payment Platform

Without a reliable interoperable payments system, MCDSS had to build a workaround that allowed it to initiate payments with multiple providers directly.

Mobile wallet
Commercial bank account
Post office account
Main innovations

• **Choice empowers beneficiaries:** During enrolment, beneficiaries choose the provider and account where they prefer to receive payments, promoting their agency and financial inclusion.

• **More money to the beneficiaries:** They get a top-up to cover withdrawal fees, which is pegged to the most expensive fee in the market and hence incentivizes the beneficiaries to seek a provider with lower fees. A travel rebate is also included.

• **Leverage private sector solutions:** Enabling beneficiaries to make informed choices about their payment stimulates competition.

• **Scalability and transferability:** It can be readily adopted by other G2P programs in Zambia, including SCT.
Thank You
Remuneration options

Social Safety Nets Core Course 2019
The Future of G2P Payments

G2P Delivery Remuneration Options
Silvia Baur-Yazbeck
G2P delivery comes with costs to the financial system and customers

**GOVERNMENT (sender)**

**FINANCIAL SYSTEM (providers*)**

- Interchange fees
- Account opening
- Account maintenance
- Cash management
- Agent commissions
- Physical infrastructure
- Payment instruments

**CUSTOMER (recipient)**

- Cash out fees
- Informal fees
- Travel costs
- Time/opportunity cost

*Can also include other payment and point-of-sale service providers such as MNOs, retailers, e-commerce, post offices, etc.*
Programs have options for **WHO** they pay

Pay payments switch or aggregator

Pay financial services provider (FSP)*

Pay recipients

*Can also include other payment and point-of-sale service providers such as MNOs, retailers, e-commerce, post offices, etc.
How can fees be structured?
Programs have options for **HOW** to pay switches/aggregators

**Fees are set by payments scheme**

- **If flat amount per transfer**
  May result less costly to transfer payments in two stages:
  1. Bulk transfer from treasury/program to account at FSP
  2. FSP makes internal transfers into individual recipient accounts

- **If set percentage of transfer value**
  Fees are the same whether transfers are done in bulk or individually
  More efficient to make direct transfers to recipients
Programs have options for **HOW to pay FSPs**

**Setting fees**
- No fee
- FSP can hold and earn on float
- Flat amount per transfer
- Set percentage of transfer value
- Tiered fee based on access point location

**Other considerations**
- Fees can be paid upon payment to account, or upon cash-out
- Fees may involve limited number of free withdrawals for recipients
Pay FSPs: Setting incentives for better service

Not remunerating FSPs, or offering float are problematic
• Does not incentivize good service
• Incentivizes slow delivery
• Offering float deprives national treasury of interest/float revenue, or opaquely transfers that to state-owned banks

Instead, reward efficiency and encourage geographic reach
• Program can pay differentiated fee to encourage expansion to underserved areas or specialized service for vulnerable recipients

Example: Tiered fee model
Kenya’s Inua Jamii program remunerates FSPs based on access point remoteness. Tiers were defined based on the Central Bank’s ‘remoteness scale’.

![Fee vs Distance to access point graph]

-Zone A
- Zone B
- Zone C
Programs have options for **HOW to pay recipients**

**Empower recipients to compare fees and choose the best option**
- Instead of paying FSPs to provide free cash-outs, you can top-up payments with the amount of the market’s highest cash-out fee.

**Recipients’ location should not disadvantage them**
- Recipients in very remote locations that are too expensive for FSPs to serve may be given a transport rebate.
Let recipients make the choice

- Convenience means something different for each recipient – it depends on an individual’s circumstances. Sometimes the preference may be to travel a little further and pay a lower cash-out fee (maybe because the travel has other purposes as well); some may prefer to pay a higher fee for being able to get their cash close to home.

- To make choice work, recipients need to be informed about their options (i.e., providers, products, access points, service fees, etc.)
Country Examples
## Country examples: How remuneration has driven incentives

<table>
<thead>
<tr>
<th>Options</th>
<th>Kenya – Inua Jamii</th>
<th>Zambia - GEWEL</th>
<th>India – PMJDY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Providers used</strong></td>
<td>4 FSPs</td>
<td>7 FSPs</td>
<td>145 FSPs</td>
</tr>
<tr>
<td><strong>Pay switch/ aggregator</strong></td>
<td>Flat fee per bulk transfer paid to EFTN</td>
<td>Flat fee per bulk transfer paid to EFTN</td>
<td>Switching fees paid by FSPs</td>
</tr>
<tr>
<td><strong>Pay provider</strong></td>
<td>Tiered percentage of transfer value</td>
<td>n.a.</td>
<td>Percentage of transfer value.</td>
</tr>
<tr>
<td><strong>Pay customer</strong></td>
<td>n.a.</td>
<td>Flat withdrawal fee and flat travel cost rebate</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

### Incentives created

- **FSPs compete** over recipient business, including in remote areas.
- Resulted in increased **reliability**, **convenience** and **service quality**, and **lower access costs**.

- **FSPs compete** over recipient business. Some expanded access points into remote areas.
- Resulted in increased **reliability**, **convenience** and **service quality**, and **lower access costs**.

- Many new accounts have been opened. **FSPs and agents don’t see business case** in serving recipient customers.
- Resulted in **mediocre service**. Little **expansion** into remote areas.
Thank you

To learn more, please visit
www.cgap.org

For questions, please reach out
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Available resources for payments work