

GOVERNMENT PAYMENTS AND THEIR ROLE IN ADVANCING FINANCIAL INCLUSION



Committee on Payments and
Market Infrastructures

BANK FOR INTERNATIONAL SETTLEMENTS

PAYMENT
ASPECTS OF
FINANCIAL
INCLUSION



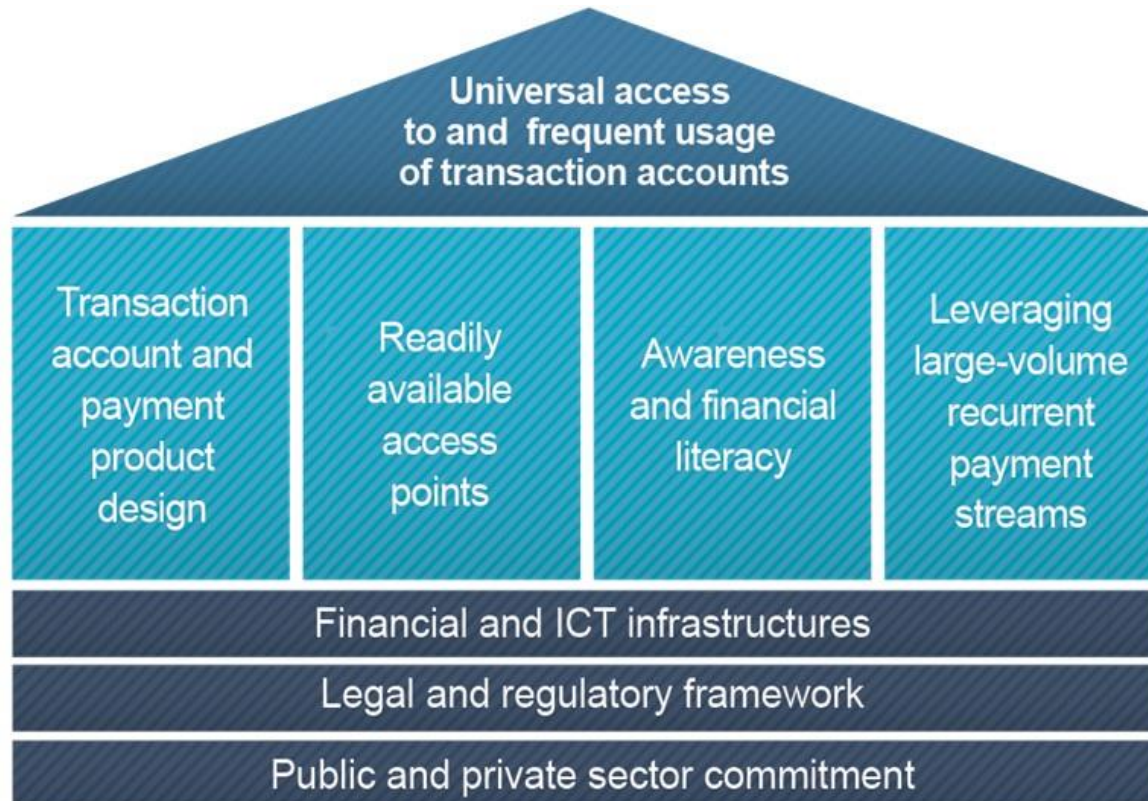
WORLD BANK GROUP
Finance & Markets

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Kuala Lumpur, Malaysia

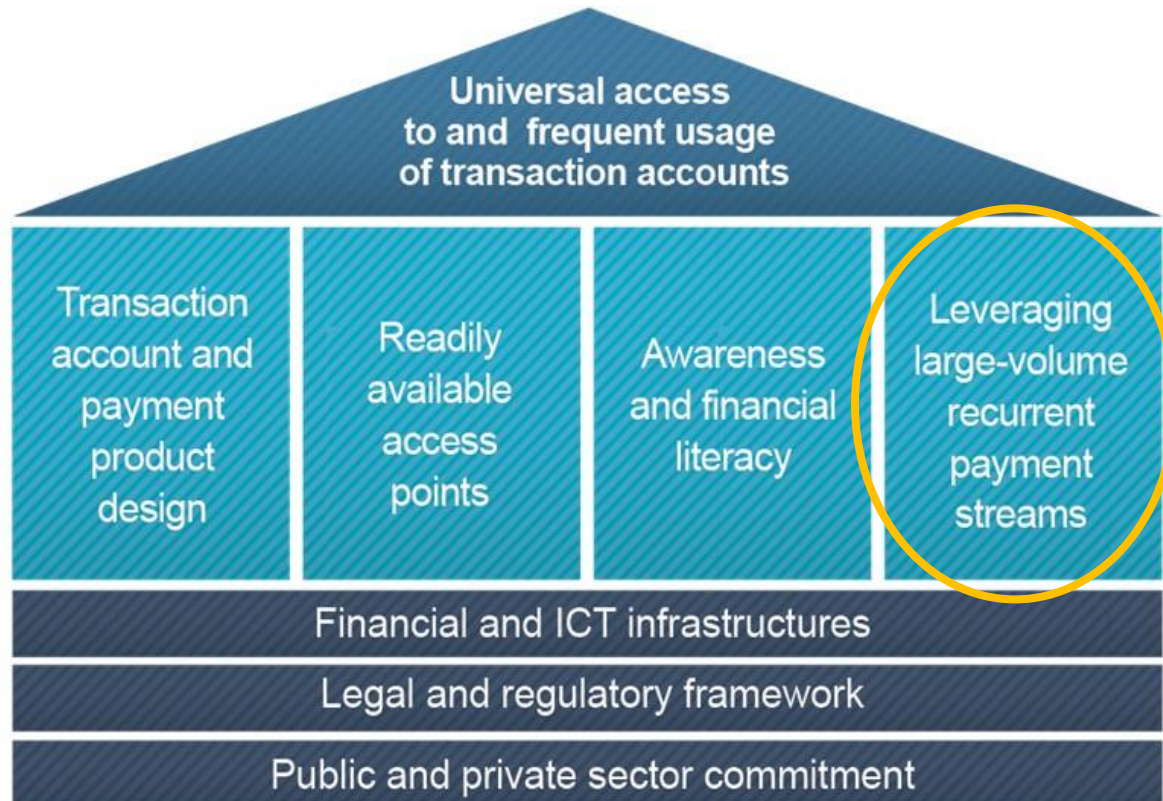
PREVIOUS REFERENCES TO GOVERNMENT PAYMENTS IN WBG REPORTS AND METHODOLOGIES

- **Government Payments have been assessed by the WBG PSDG since the late 1990s as part of the Western Hemisphere Payments Forum**
 - **Back then, the main focus of these assessments was on efficiency: migration to automated processing, reducing use of checks, integration of government payments to the national payments infrastructures, etc.**
- **The 2012 World Bank Guidelines for the Development of Government Payment Programs:**
 - General Guideline 10. Leverage on government payment programs to promote financial inclusion: “The large volume of payments issued by governments, as well as the nature of some specific programs like social spending programs, represents an opportunity to promote or facilitate financial inclusion on a large scale”.***

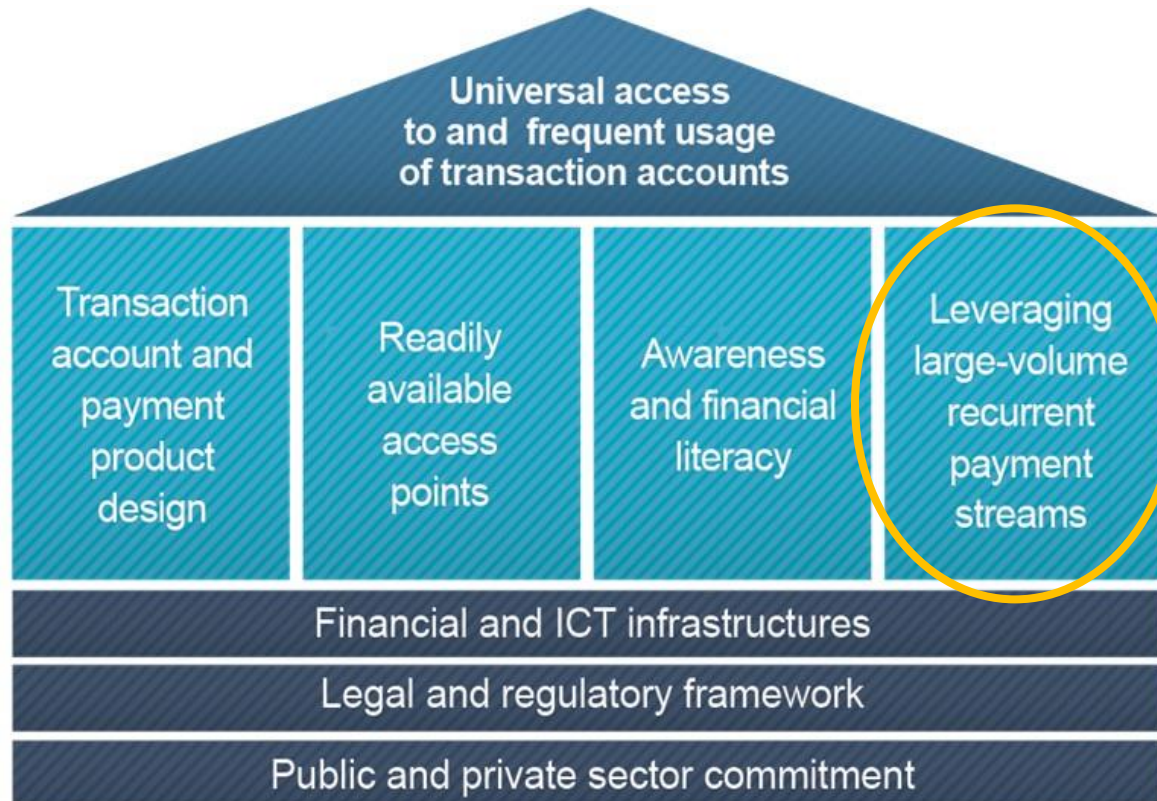
CPMI-WBG “PAYMENT ASPECTS OF FINANCIAL INCLUSION”



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- Gov. payments
- Bill payments
- Public transit system payments
- Employee payrolls
- Remittances

CPMI-WBG “PAYMENT ASPECTS OF FINANCIAL INCLUSION”

“...Government payment programmes, especially benefit programmes, have the potential to directly advance financial inclusion by providing transaction accounts, and also by stimulating greater investment in the infrastructures and networks necessary to support those accounts. It is in the context of these aspects that government payments have received the most attention as a potential conduit for financial inclusion.”

“However, given the sheer magnitude of government payments, regardless of whether financial inclusion is an explicit goal or not, a switch from cash and paper-based payments to electronic payments mechanisms for government transactions offers the potential to support the deepening of national retail payment systems. This potential structural impact can, in turn, strengthen the enabling environment for improved access to and usage of transaction accounts.”

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- **For the WBG PSDG, “Government payments” refers to all the various disbursements and collections that are made by the government within its territory:**
 - **Payrolls of civil servants and other government employees (e.g. teachers)**
 - **Payments to vendors/suppliers**
 - **Social protection/assistance programs that entail a disbursement in legal tender by the government**
 - **Contributory pensions and other benefits payable in legal tender**
 - **Collections of taxes, customs duties, and other mandatory fiscal contributions**
 - **Collections of social security contributions**
 - **In some cases, the government owns and runs public utilities and is therefore a major biller**

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The channeling of these payments to the accounts of beneficiaries is still far from being a generalized practice

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 - Many social assistance programs that are paid via accounts rely on a single payment service provider, often using non-mainstream payment products such as certain prepaid cards and others with limited/restricted functionalities and/or limited acceptance
 - Payrolls and pensions are generally delivered via mainstream accounts, but the provider of such accounts is very often selected by the government or social security institution and NOT by the beneficiary

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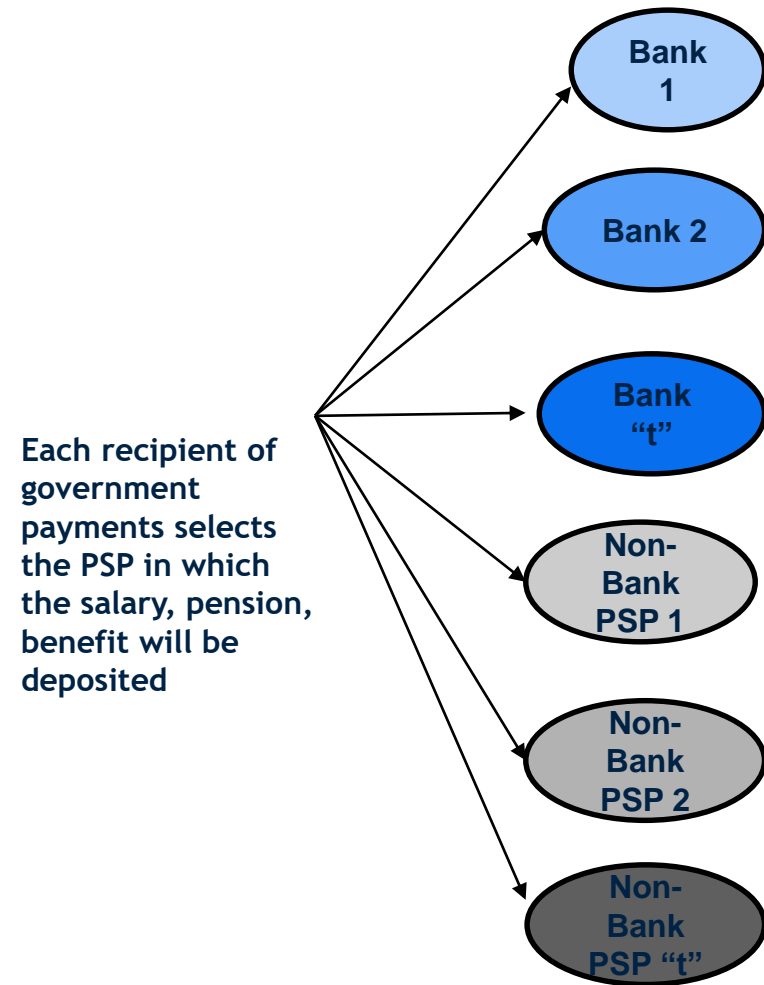
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 - The beneficiary to choose the entity in which he/she wants his/her funds (salary, pension, benefit, etc.) to be credited
 - PSDG field research shows that the recipients of government payments that are able to select the payment service provider of their choice are significantly more prone to keeping their account over time, keeping some funds in the account and to trying the accounts' digital functionalities

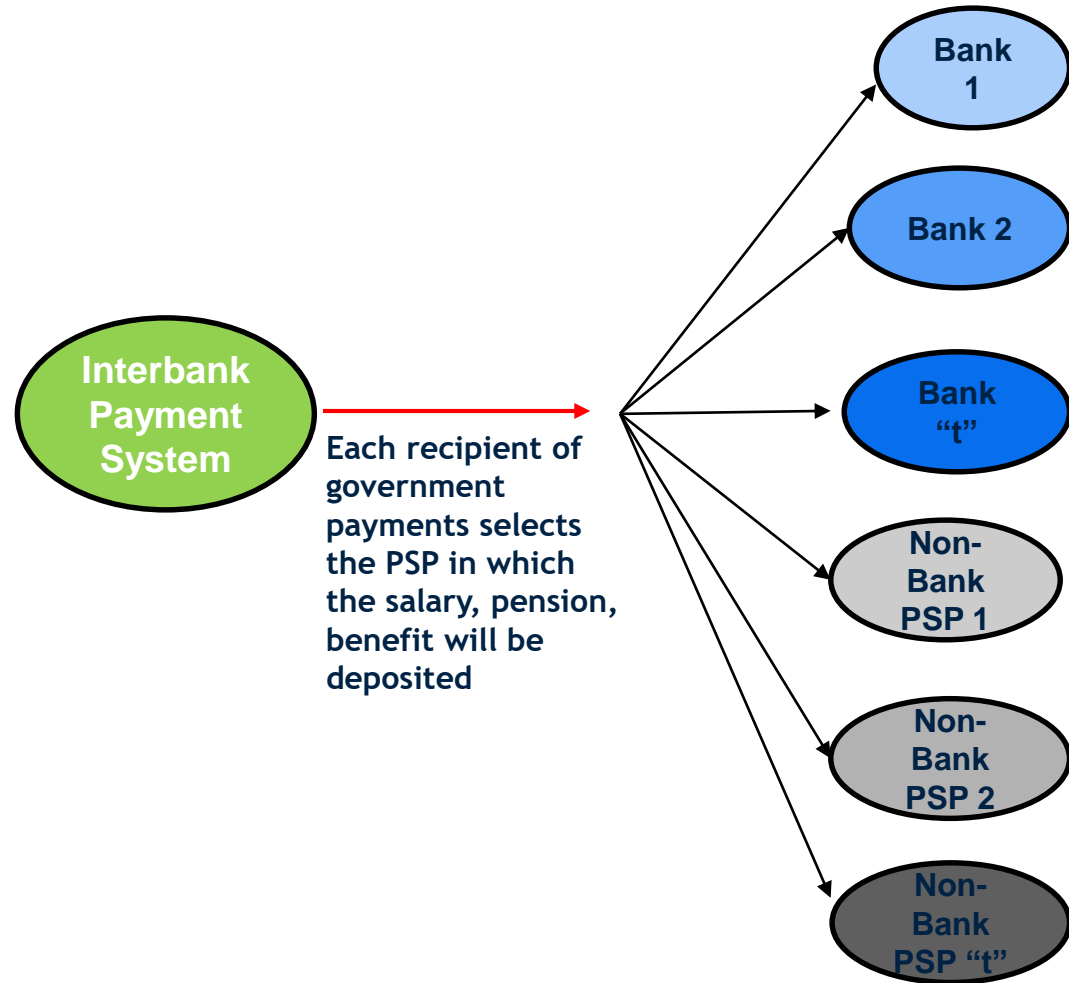
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- Also, an individual or a household might be a beneficiary of more than one social assistance program (e.g. poverty alleviation, old age, education). There should be no reason not to use the same account for crediting the benefits of all applicable programs.

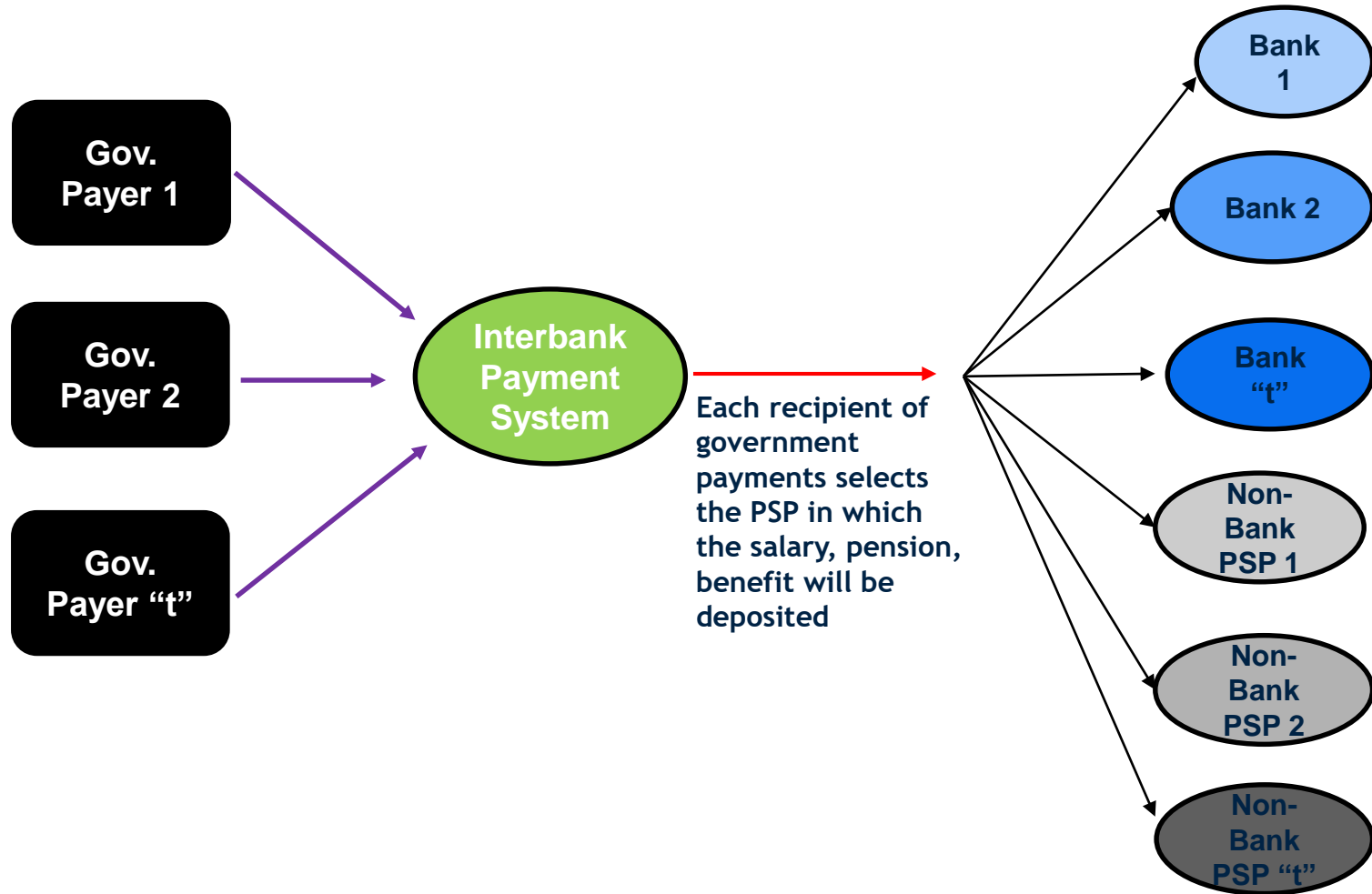
AN “OPEN” MODEL FOR GOVERNMENT PAYMENTS



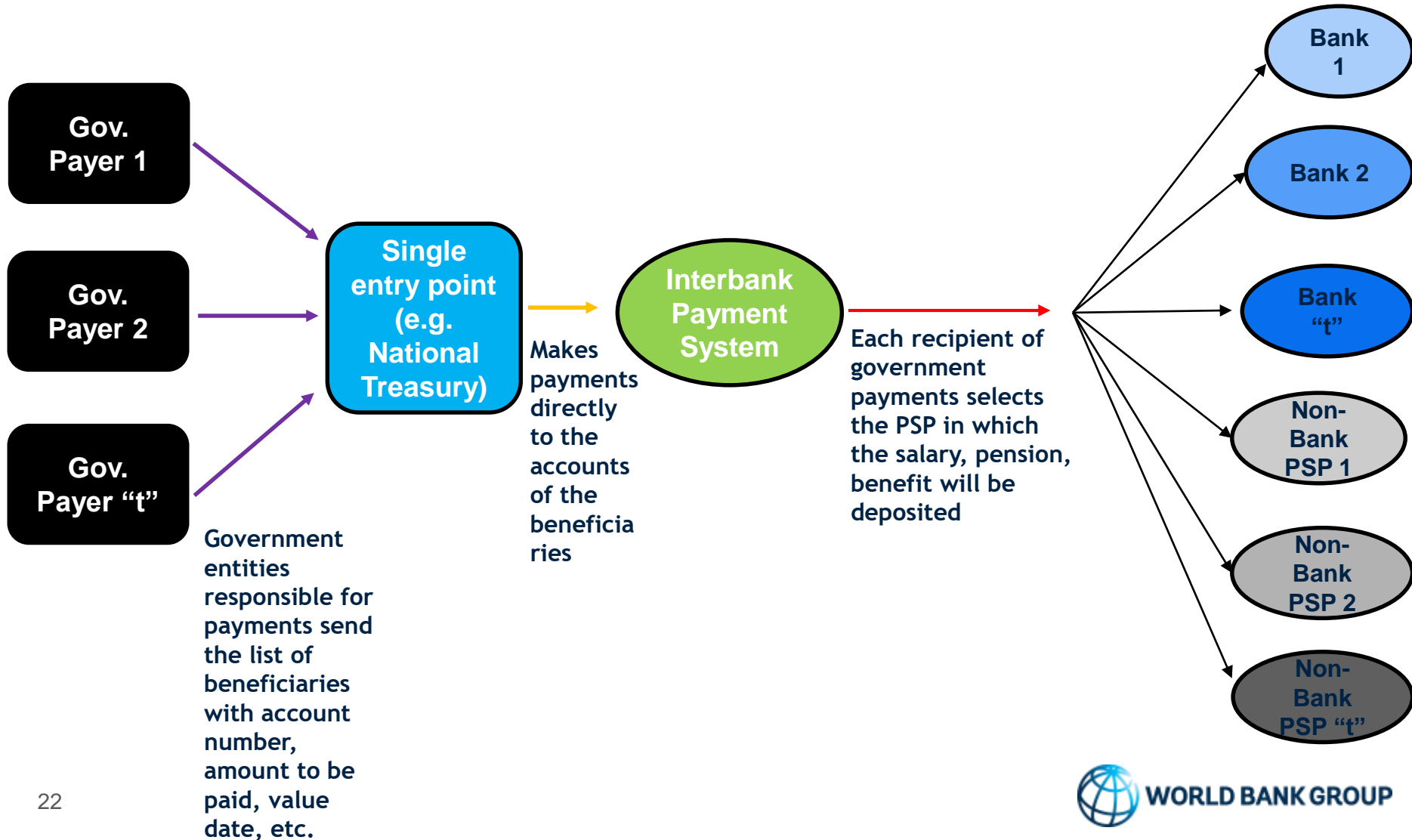
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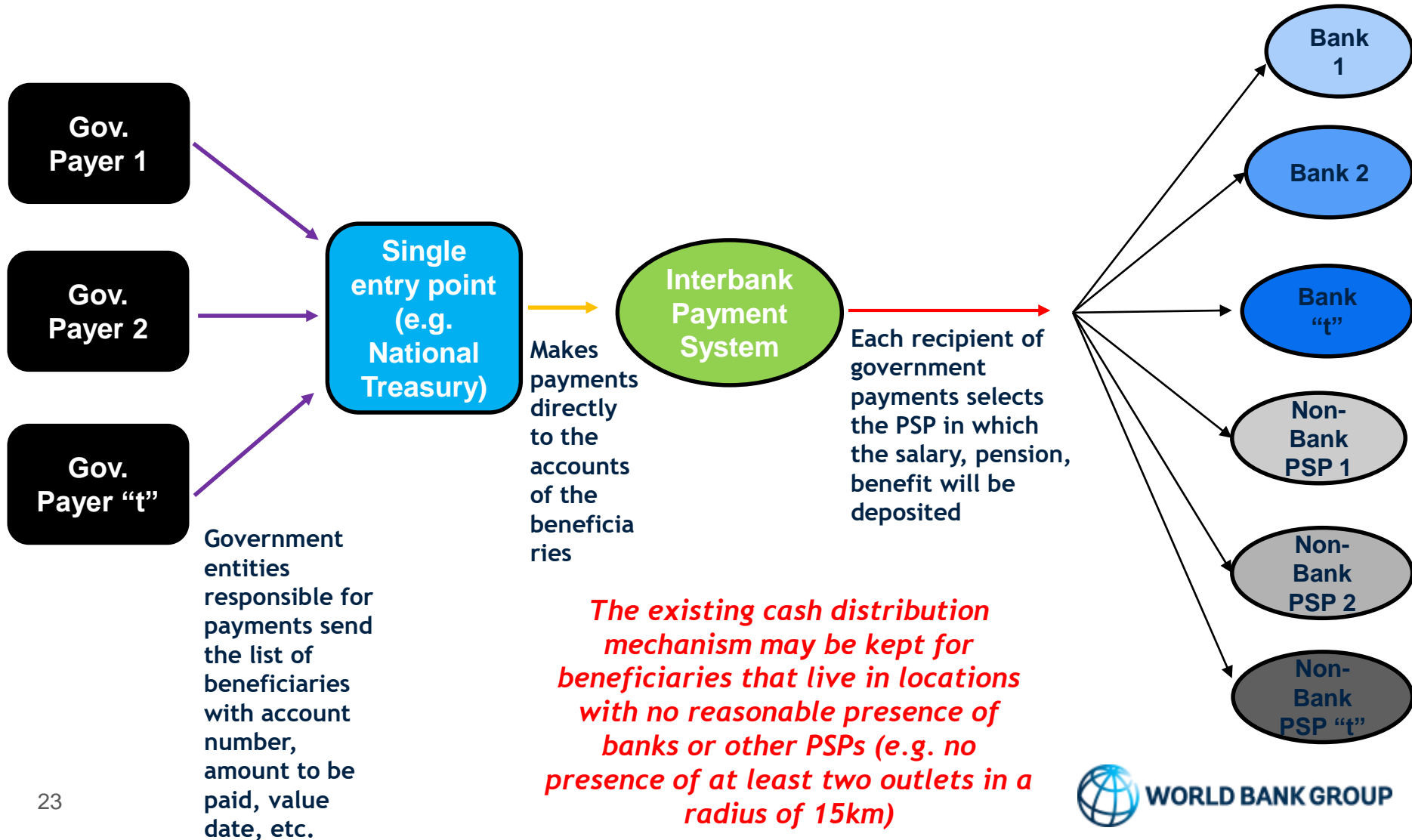
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- **Need for a product with features and pricing that fit the needs of the various types of recipients of government payments**
- **“Basic payment accounts” are often a good (and necessary) solution, especially for beneficiaries of social assistance programs targeting poverty alleviation**
 - **A minimum set of services provided at little cost**
 - **No minimum monthly average balance, or a very low one**
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 - **But, basic payment accounts should still be a mainstream product that preserves the “value proposition” of accounts, such as multi-purpose digital payment capabilities**

OTHER WAYS TO ENHANCE THE VALUE PROPOSITION FOR ACCOUNTHOLDERS? A ROLE FOR BILL PAYMENTS?

- **Some (few) governments are testing the idea of offering recipients of social assistance program benefits the possibility of having the payment of some essential services (water & sanitation, electricity) being debited from their new accounts automatically**
 - **Offering incentives, such as discounts or other forms of “rewards”, especially if the utilities are owned by the government itself**
 - **Increasing awareness to accountholders that they could also save time and money by not having to go physically to the premises of the biller (or its agents) to make their payment**
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 - **Aligning billing payment cycles with the payment cycle of social assistance programs**
- **The feasibility of these types of efforts is yet to be confirmed, case-by-case**
 - **Accountholders want to have full control over the funds in their accounts... Incentives would have to be significant enough to change behavior**

THE NEW FRONTIER: GOVERNMENT PAYMENTS AT THE SUBNATIONAL LEVEL

- In many countries, subnational governments operate their own social assistance programs, have their own payroll and social insurance system
 - This especially the case in a federal republic with autonomous states/provinces and/or municipalities

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- In many countries, subnational governments operate their own social assistance programs, have their own payroll and social insurance system
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- Migration of government payments from cash to electronic deposit to account seems to be much less advanced when it comes to such subnational governments
 - The WBG has some concrete evidence on this when it comes to social assistance programs. Less so for local payrolls and pension systems
 - This is due to the fact that, for the most part, government payments at the subnational levels have not been subject to in-depth analyses as efforts have focused on payments by the federal/national/central government



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Thank you!