



COVID-19 G2P Cash-Transfer Payments Country Brief: COLOMBIA


COVID-19 Cash Transfer Response Measures

The objective of this brief is to highlight the role of cash transfers and digital distribution as a part of COVID-19 response in Colombia. Economic and social disruptions due to COVID-19, in addition to health risks, represent imminent threat to the social protection gains obtained over the last decade. Social protection programs targeting vulnerable households (Familias en Acción) cover more than 2.6 million households, while programs targeting the low-income elderly (Colombia Mayor) and vulnerable youth (Jovenes en Acción) reach 270K and 1.7 million individuals, respectively. While 90% of Familias en Acción beneficiaries received transfers in basic bank accounts issued by Banco Agrario (the State-owned agricultural bank), financial inclusion is limited due to reduced interoperability and restricted access to savings accounts and other financial products. Jovenes en Acción and Colombia Mayor rely almost entirely on cash disbursement through money order outlets.

An innovative new program to response to COVID-19 and targeting informal workers, Ingreso Solidario, utilizes recent regulatory modernization supportive of digital financial services to offer the transfer through bank accounts and mobile wallets. As of May 12, 2020, Colombian authorities have been able to reach 1.6 million families through more than 20 financial institutions with the Ingreso Solidario program. In addition, authorities launched a VAT refund program targeting low-income households and vulnerable elderly delivered electronically. This marks an important early achievement regarding leveraging financial sector regulation and infrastructure to scale-up emergency cash transfers to respond to COVID-19. In doing so these programs also aim to promote financial inclusion.

The Government has deployed a comprehensive social response to protect the poor and vulnerable aiming to further consolidate the CCTs schemes and provide rapid income compensation for households

¹ Engagement on this topic is co-led by the Social Protection and Jobs and the Finance, Competitiveness, and Innovation Global Practices. The G2P emergency cash transfer payment solution in Colombia is evolving in real time. This note includes information as of May 15, 2020. It was written by a team comprised of Luz Rodriguez (Social Protection Specialist), Peter McConaghy (Financial Sector Specialist), and Guillermo Galicia Rabadan (Extended-Term Consultant).



in poverty or vulnerability. The response included: (i) extraordinary payments through existing programs (*Jovenes en Acción* – COP 356,000/US\$91/recipient; *Familias en Acción* – COP145,000/US\$37/hh and *Colombia Mayor* – COP 80,000/US\$20/recipient)²; (ii) acceleration of the implementation of the VAT refund program (originally planned as a pilot for 100,000 families but expanded to one million) targeted to households who are recipients of cash transfer programs (COP 78,454/US\$20/recipient); and (iii) implementation of *Ingreso Solidario*, a new unconditional cash transfer program (COP 320,000 /\$80/hh) targeted to three million vulnerable households not registered for other social programs.

A key innovation surrounding *Ingreso Solidario* is its use of the financial sector to promote digital deployment (via bank accounts and mobile wallets). It also incorporates tiered and remote customer onboarding, data sharing protocols, and leverages recent regulatory modernization towards non-bank payment service provision.³ The type of account that is used for the program is a simplified account with balance and transaction limits. Data that must be provided for opening simplified accounts include type of ID, ID number, place and date of issue, full name of account holder, and place and date of birth. A regulatory modification (Decree 518 of 2020) allowed for the exchange of information between Mobile Network Operators (MNOs), banks, and the Government (safeguarded and for the implementation of the program). These characteristics support the program's dual mandate of addressing immediate consumption needs and financial inclusion. The government saw a unique opportunity for leveraging bank and fintech delivery for low-value emergency payments, including the promotion of account-based deposits. The program design intends to minimize agglomeration and risks to public health, and both improving government efficiency and customer experience.

COVID-19 response in Colombia marks an inflection point for Colombia and the future of cash programming. Prior to the crisis a vast majority, 90% of beneficiaries of *Familias en Acción* and *Jovenes en Acción* had some interface with the formal financial sector. Beneficiaries received their payments in basic bank accounts issued by Banco Agrario (a State-Owned Bank). Cash out was done using closed-loop debit cards that cannot be used outside of Banco Agrario's branches and ATMs. The remaining 10% received cash-based payments that can be collected at bank branches. For *Colombia Mayor*, 100 percent of beneficiaries received over-the-counter (OTC) payments (*giros*) delivered in money order companies. There is ample scope to improve digital delivery and use of interoperable payment systems to improve efficiency, safety, and financial inclusion outcomes. The crisis response represents an unprecedented push for financial inclusion of the poor in Colombia.


Registration and Eligibility Determination for New Programs

For more than two decades the Identification System of Potential Beneficiaries (Sisbén) has been the main targeting instrument for social programs in Colombia.⁴ As of March 2020, the Sisbén social registry contained validated information for more than 39,4 million people, equivalent to approximately 78% of Colombia's population. Despite the challenges faced in maintaining updated and accurate information, Sisbén remains a well-functioning and widely used, with 21 social programs using it for targeting. In 2017 the Government initiated a comprehensive census sweep (Sisbén IV), aiming to improve the quality and

² Exchange rate of US\$1=COP 3,923 valid May 15, 2020; hh = households

³ Building on Law 1735 of 2014 on Financial Inclusion that enables a simplified financial license for entities specializing in electronic deposits and payments (SEDPEs) to capture public money in electronic demand deposits.

⁴ Sisbén is defined by Decree 441 of 2017 as “an instrument of social policy, for targeting social spending, which uses statistical and technical tools that allow the population to be identified and ordered, for the selection and allocation of subsidies and benefits from entities and programs, based on the socio-economic conditions registered therein”.



timeliness of the information in the registry while making it less vulnerable to manipulation and fraud (per Conpes 3877/2017).⁵ Sisbén IV also moves from a semi-static to a dynamic social registry, which will be integrated with a number of other databases for real-time information sharing. As of May 2020, these reforms were not yet complete meaning the government was still relying on Sisbén III.

To identify the beneficiaries of *Ingreso Solidario* the Government has embarked on an ambitious process to consolidate an expanded master database composed of data from Sisbén III and IV registries, which has then been cross-referenced with other existing beneficiary registries (from the largest cash transfers programs) and with administrative records from other public entities (including the civil registry, social security, and financial sector supervisor –*Superintendencia Financiera de Colombia* - SFC. This master database has for the first time made it possible to identify low-income and vulnerable households not currently receiving benefits, serving as the foundation for the new program.⁶ Hence individuals do not have to apply for the benefits since the government contacts them individually, mainly through SMS messages.

Ingreso Solidario is utilizing an innovative identification approach towards digital deployment. The government is making an unprecedented effort to ensure that a large share of the beneficiaries received their transfers into existing accounts or accounts that can be opened remotely and using a simplified customer due diligence process. For this, they created a process to identify beneficiaries with and without accounts. This was done by cross-referencing the expanded master database with information from the SFC and from mobile network operators.

Payments Arrangements

EXISTING PROGRAMS

The payment arrangements for the existing programs are as follows:

- The additional payments under *Familias en Acción* used existing mechanisms, which include payments through accounts and debit cards issued by Banco Agrario, as well as money orders. However, Banco Agrario managed to add additional payment points at grocery stores and money order outlets aiming to avoid agglomerations.
- The additional payment of the *Jovenes en Acción* Program was delivered through the regular channels which include cash dispersion in money order outlets and incorporated *Daviplata* electronic wallets from Davivienda (a commercial bank), which have been used previously as a delivery mechanism for this program. This was complemented with OTC payments at money order payment points.
- *Colombia Mayor* kept the existing OTC payment delivery mechanism through money order companies. In order to avoid risks for senior citizens, the government introduced a procedure to allow that the benefit is collected by other family member (with a written authorization and copies of ID documents).

⁵The National Council for Political and Economic Policy, El Consejo Nacional de Política Económica y Social (CONPES), was created by law in 1958 and is the ultimate authority on national planning and plays a key role in economic and social development in Colombia.

⁶ In order to be able to collect the necessary additional information, the GOC authorized public and private organizations to share administrative information. Both private and public entities receiving private information are mandated to ensure they use any such data and information only for the purposes established in Decree 518, 2020 and will be required to adopt the necessary measures to guarantee their security, restricted circulation and confidentiality.

- For the implementation of the VAT refund program, targeted to households that are beneficiaries of *Familias en Acción* and *Colombia Mayor*, the government negotiated an additional contract with Davivienda to deliver the money through electronic deposits via *Daviplata*.

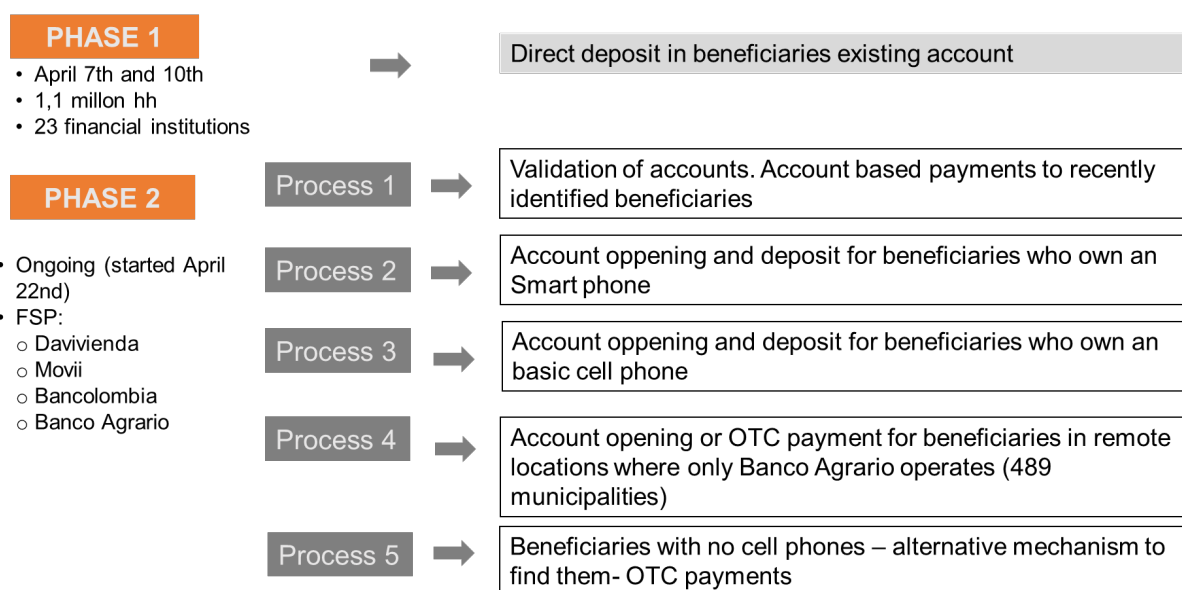
NEW PROGRAM: INGRESO SOLIDARIO

For *Ingreso Solidario*, the payment arrangements work as follows:

Phase one of the program has already implemented and reached close to 1.6 million families. The government made account-based payments for those beneficiaries who already owned a bank account through more than 20 financial institutions.

Under phase two of the program, which is currently under development, the government is working in collaboration with banks to identify beneficiaries without a bank account. Beneficiaries are contacted by the banks through a SMS and requested to remotely open accounts with simplified customer due diligence through mobile wallets and mobile banking solutions offered by banks and SEDPEs. Mobile solutions are available for smartphones and feature phones, and operation of wallets and mobile banking can be carried out without data plans. The payment will be deposited in the simplified accounts and beneficiaries will be able to use the functionalities of the mobile applications including person to person transfers, payment of services, such as public services, and cash-outs by obtaining OTPs through the apps. Phase two of the program is expected to reach close to 1,900,000 households who previously did not have access to the formal financial systems (see Figure 1). Beneficiaries located in remote areas will be reached through Banco Agrario branches. Authorities are in the process of designing an identification and payment mechanism for beneficiaries without a cellphone (see Figure 1).

FIGURE 1. PHASES IN PAYMENT PROCESS OF INGRESO SOLIDARIO



Source: DNP and URF, Colombia (April 2020)



Lessons

The implementation of *Ingreso Solidario's* second phase will constitute a significant innovation in the delivery of social protection that not only mitigates public health risks but also sets the basis for deepening financial inclusion. This process also incorporates simplified and remote customer onboarding, data sharing protocols, and leverages recent regulatory modernization towards non-bank payment service provision. Some key lessons include:

- **Social registry rapid expansion:** The government developed an expanded master database for crisis response cash payments, by cross-referencing SISBEN and other existing beneficiary registries with administrative records from public entities, to identify potential low-income and vulnerable households currently not registered for social programs in its existing SISBEN database and benefit them with *Ingreso Solidario*. The expanded master database contains information on 43 million individuals, an increase of more than 3.5 million additional households as compared with the existing database.
- **Hospitable Enabling Environment for Digital Financial Services.** *Ingreso Solidario* second phase will leverage Colombia's existing regulatory framework for e-money providers, notably Law 1735 establishing SEDPEs services implemented in 2015. The program also leverages the framework for simplified accounts, which recently change their denomination to Low Value Deposit (Under Decree 222 of 2020), and that can be opened remotely and with simplified customer due diligence. These accounts have transactional and balance limits.
- **Regulatory action required to promote financial inclusion.** Among other key considerations for the implementation of the program, that also required regulatory reform, was the exchange of information between Mobile Network Operators (MNOs), banks, and the Government to identify active accounts on the financial system as well as to identify users of mobile phones and types of hardware (4G, 3G, 2G). The regulatory modification reflects on Decree 518 of 2020, which allows the exchange of information (The decree clearly establishes that exchanged information must be safeguarded and only used for the implementation of the program).
- **Implementation Complexity and the Digital Divide.** *Ingreso Solidario* implementation is expected to show that due to previous efforts in building a more enabling payments' ecosystem, the crisis became an opportunity for the Government to push financial inclusion using non-traditional payment channels. However, the implementation of these kind of measures requires a thoughtful analysis of the recipients, including financial literacy levels, access to technology and telecommunication services and detail communication with different stakeholders. It is also important to differentiate solutions by the type of financial and telecommunications infrastructure available in each region where recipients are located, while in many cases digital payments solutions seem to be an ideal in some cases available infrastructure would only allow to deliver cash. These were aspects recognized by the Colombian authorities, which led them to tailor specific solutions for different segments of recipients.
- **Importance of Troubleshooting and Addressing Operational Pain-points.** Early implementation (early April) suggested operational issues around technological deployment, identification, and eligibility, for example recipients receiving SMS notification that they were eligible for the program when they were not and individuals being unable to confirm eligibility relevant public databased. These issues were quickly addressed and coupled with communication efforts to reduce distrust amongst beneficiaries and ensure operational continuity.