The Opportunities and Challenges of Digitizing Government-to-Person Payments

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This paper reviews evidence on the benefits and challenges faced by governments migrating from cash to digital (electronic) government-to-person (G2P) payments. When supported by an appropriate consumer financial protection framework, digital payments enable confidential and convenient financial services, which can be especially important for women. By shifting government wages and social transfers into accounts, governments can lead by example. Digitizing G2P payments has the potential to dramatically reduce costs, increase efficiency and transparency, and help recipients build familiarity with digital payments. Digital wage and social transfer payments can also provide the on-ramp to financial inclusion and in many cases the first account that the recipient has in her own name and under her control. However, digitizing G2P payments is not without its challenges. Most importantly, digitization may require significant up-front investments in building an adequate physical payment infrastructure that is able to process such payments, as well as a financial identification system and a consumer protection and education framework to ensure that recipients have safe, reliable, and affordable access to the digital payment system. JEL codes: D14, G28, O16

More than 100 million poor people worldwide receive a government-to-person (G2P) payment (Demirgüç-Kunt et al. 2015). This includes, for example, government wages, government transfer payments (such as pensions, social benefits, and unemployment benefits), and tax refunds. While it is estimated that 90 percent of high-income countries make their G2P payments “mostly electronically”, over half of developing countries make their G2P payment in the form of cash or...
paper-based payments such as checks (World Bank 2012a). Furthermore, 19 percent of adults report receiving a wage or social transfer payment from their government and 28 percent of recipients report receiving such payments in cash, including 39 percent of recipients in developing countries (Demirgüç-Kunt et al. 2015). As a result, governments, businesses, and individuals are bearing the often high cost of cash payments—costs associated with disbursing and receiving cash, the greater probability of “leakage” (fraud and corruption), and the higher incidence of associated crime.

Digital or electronic G2P payments can take different forms. Examples include direct deposits into bank accounts, transfers to pre-paid or stored-value cards that work as a virtual account, or mobile money transfers which may or may not be linked to a mobile money account. Depending on the type of digital payments, recipients can access the funds through an automated teller machine (ATM), at point-of-sale (POS) terminals, banking or mobile money agents, or other means.

One reason many governments still make their G2P payments mostly in cash or paper-based forms is that their digital payments infrastructure might be underdeveloped or have limited coverage in non-urban areas. However, innovations in technology and financial business models, such as mobile money service accounts and agent banking (which use mobile and/or Internet connections to provide real-time financial services), are expanding the reach of the electronic payments infrastructure in many countries. This in turn makes it increasingly feasible to digitize payments.

Governments play a pivotal role when it comes to digitizing payments in an economy. By shifting government wages and social transfers into accounts, governments can lead by example and play a catalytic role in building a digital payments infrastructure and ecosystem where all kinds of payments—including private-sector wages, payments for the sale of agricultural goods, utility bills, school fees, remittances, and everyday purchases—are done digitally. Governments also have an essential role to play in creating an enabling regulatory environment and promoting consumer protection and education to facilitate the shift to digital payments beyond government payments.

In this paper, we review the body of research that has emerged on digital G2P payments and suggest steps that governments can take to hasten the use of digital payments. The second section reviews the benefits for governments and recipients when government wages and social transfer payments are shifted from cash into accounts. Shifting to digital payments has many potential benefits, including lower costs, improved delivery speed, increased transparency, enhanced security, higher financial inclusion, and increased levels of women’s economic empowerment. The third section explores the challenges that countries around the world face as they look to shift their payments from cash into accounts—and the role governments can play in promoting a digital payments ecosystem. Putting in place a robust
system of digital payments requires significant physical infrastructure. The literature also shows that one cannot ignore the human element: new users of digital payments need to be educated on how to withdraw and send payments safely and cost-effectively, as well as on the benefits and risk of other financial services they might be offered (such as credit and insurance). Unless users can use the services comfortably and have confidence that financial service providers can be trusted, recipients of electronic payments will withdraw their payments and save the money and transact in cash—thereby losing the potential benefits of financial inclusion.2 The last section concludes.

Benefits of Digital G2P Payments

Shifting to digital G2P payments has many potential benefits, for both senders (governments) and receivers (persons): it can improve the efficiency of making payments by lowering the cost of disbursing and receiving them, and by increasing the speed of payments. Digitalization can increase the transparency of payments, and thus reduce the likelihood of leakage between the sender and receiver. Further, digitalization can enhance the security of payments and thus lower the incidence of associated crime. Shifting to digital payments can also provide an important first entry point into the formal financial system. Furthermore, by increasing the privacy of payments and increasing control over the funds received, shifting to digital payments can contribute to women’s economic empowerment.

Lower Costs for Governments

Shifting from cash to digital payments can lead to significant cost savings in the long term. The potential cost savings are especially striking when considering large-scale payments from government to people, such as government wage or social transfer payments. A rigorous evaluation of a social transfer program in Niger has shown that the variable cost of administering social transfer is 20 percent lower by mobile transfer than by manual cash distribution (Aker et al. 2013). In South Africa, the cost of disbursing social grants in 2011 by payment card was one-third that of manual cash disbursement (R13.50 compared to R35.92; Consultative Group to Assist the Poor 2011b). And in Mexico, a study estimates that the Mexican government’s shift to digital payments (which began in 1997) trimmed its spending on wages, pensions, and social welfare by 3.3 percent annually, or nearly $1.3 billion (Babatz 2013). The savings in Mexico are estimated to be primarily due to reduced losses due to unauthorized or incorrect payment. There are also some savings due to interest earned by not needing to deposit funds in advance of payments or to pay banks fees for distributing cash payments.
Lower Costs for Recipients

Shifting to digital payments can also result in direct cost savings for recipients. Recipients of cash payments for government wages or transfers (especially in rural areas) often have to travel a considerable distance to designated locations such as a government office or bank branch, either of which may only be available in a regional capital, in order to receive their payments. This can result in significant travel time and travel expenses, and is further costly in terms of lost wages or income forgone while traveling and waiting to collect a payment. In the past, recipients of digital payments may have needed to incur the cost and time to travel equally far distances to a bank branch to cash-out their electronic payment. However, technological innovations have made it possible to bring cash-out points ever closer to recipients in the form of ATMs, merchant point-of-sale (POS) terminals, and banking or mobile money agents. Increasingly, recipients can reduce the need to travel to a cash-out point altogether by making electronic payments directly from their accounts, such as using a card or phone to make retail and person-to-person payments, or paying bills or making purchases using a phone or over the Internet.

A randomized control trial in Niger, for example, found that administering social transfers by mobile transfer reduced the cost to recipients of collecting the transfer to one-quarter of the cost of collecting the manual cash transfer by reducing overall travel and wait time. Recipients of mobile transfers traveled shorter distances and waited for shorter periods of time to cash-out their electronic government transfer payments. For example, travel time to a cash-out point was reduced by 40 minutes, compared to manual cash distribution, plus an additional three hours wait time, on average, to receive a manual cash transfer. Based on average agricultural wages, the time savings attributable to the digital transfer channel for each payment translated into an amount large enough to feed a family of five for a day (Aker et al. 2013).

Improved Speed and Timely Delivery

In contrast to cash payments that travel at the speed of their carrier, digital G2P payments can be virtually instantaneous, regardless of whether the sender and receiver are in the same town or district. In digital form, government assistance payments in times of disaster can be made without delay when the need is greatest. For example, an analysis of several NGO programs in Haiti following the earthquake in 2010 found that mobile money payments were faster and safer than traditional physical cash delivery or voucher programs (Dalberg 2012). In addition, the Liberian government was able to quickly pay thousands of Ebola workers, often
working in rural and afflicted areas, by opening accounts for health workers and making payments digitally (Better Than Cash Alliance 2015).

Increased Transparency and Reduced Leakage

Digitizing G2P payments can also increase transparency and ensure that people receive wage or social transfer payments in full—and that only those eligible to receive payments do so. Given the fungibility and transactional anonymity of cash, cash payments are subject to “leakage” (payments that do not reach the recipient in full) and “ghost” (fake) recipients, particularly in the context of government transfers. By moving toward digital G2P payments, the traceability of the payment process is improved. First, recipients have digital records of the amount of the payments they are to receive, and the number of potential leakage points is lessened by reducing the number of people a payment needs to go through to reach the recipient. Second, digital payments generally require more stringent identification documentation of recipients to comply with documentation requirements for financial service providers, making it harder for ghost recipients to remain undetected.

Evidence from India shows that making social security pension (SSP) payments digitally via payment cards, compared to manual cash payout at the village level by a government official, results in a 1.8 percentage point lower incidence of bribe demands for obtaining the payment (compared to an incidence of 3.8 percentage points for manual cash payments, which results in a 47 percent reduction) and the incidence of ghost recipients fell by 1.1 percentage points (Muralidharan, Niehaus, and Sukhtankar 2014). Similarly, evidence from Argentina shows that depositing social transfer payments under the Plan Jefes program, a large national anti-poverty program, directly into an account instead of manual cash payout significantly reduced the demand for kickbacks from individuals or organizations that helped recipients into the program. When payments were made in cash, 4 percent of recipients reported paying kickbacks—after payments were digitized and made directly the percentage dropped to just 0.03 percent (Duryea and Schargrodsky, 2008).

Increased Security and Lower Crime

Recipients of G2P payments in cash often not only have to travel considerable distances to receive their payments, but are also particularly vulnerable to street crime once they carry the cash due to its transactional anonymity. While security is a concern when traveling with any large amount of cash, this concern is especially salient for regular cash payments, such as wage or social transfer payments that are received at publicly known points in time. Evidence from the United States
shows that when the federal government introduced the Electronic Benefit Transfer (EBT) in the mid-1990s, and thus switched from delivering social cash transfers by paper checks, which needed to be cashed, to electronic debit cards, the overall crime rate over the next 20 years was reduced by almost 10 percent as a direct result. This corresponded to 47 fewer crimes per 100,000 people per county per month as a direct result of switching welfare benefits from cash to credit (Wright et al. 2014).

When payments are received into accounts they can also be held more securely than manual cash payments. Recipients can store the payments in their accounts until needed and cash out smaller amounts at their convenience or make direct purchases using POS terminals in stores or directly transfer funds onwards to pay bills—assuming a digital payments infrastructure exists that makes this possible and convenient.

Increased Financial Inclusion

Another benefit of shifting G2P payments from cash into accounts is increased financial inclusion—which is broadly defined as both access to and use of appropriate, affordable, and accessible financial services. Empirical evidence at the micro and macro level shows that inclusive financial systems are an important component to economic and social progress on the development agenda (see Karlan and Morduch 2010; Cull et al. 2014; Beck 2015; Demirgüç-Kunt, Klapper, and Singer 2017 for overviews). Worldwide, 62 percent of adults have an account either at a financial institution or through a mobile money provider according to data from the 2014 Global Findex database (Demirgüç–Kunt et al. 2015). But while account ownership is nearly universal in high-income economies, with 94 percent of adults reporting having an account, only 54 percent of adults in developing economies report having an account at either a bank or other financial institution, or with a mobile money service provider. For women in developing countries, the situation is worse: Only 50 percent reported having an account, compared to 59 percent of men. And less than half (46 percent) of adults living in the poorest 40 percent of households within economies in developing countries have an account. Globally, 2 billion adults do not have an account.

Without access to the formal financial system, women, poor people, small businesses, and otherwise excluded people must rely on their own (limited) informal and semiformal savings and borrowing to finance educational, entrepreneurial, and other investments, thus making it harder to alleviate income inequality and spur broad-based economic growth. However, those who are excluded from the formal financial system are likely to be recipients of payments—including government wages and government-sponsored social transfers.
Digitizing G2P payments and shifting them into accounts presents an opportunity to expand account ownership among the unbanked. Shifting the payment of government wages from cash into accounts could increase the number of adults with an account by up to 35 million worldwide. Doing the same for government transfers could increase the number with an account by up to 130 million. Overall, digitizing G2P payments could increase the number of adults with an account by up to 160 million by bringing into the financial system the 8 percent of unbanked adults worldwide who receive either government wages or transfers only in cash. Indeed, digitizing G2P payments is a proven way to expand account ownership: in developing economies, about one-third of adults who received a government wage or transfer payment into an account in 2014 said they opened their first account specifically for that purpose. Overall, 5 percent of banked adults in developing countries opened their first account to receive public-sector wage payments or social benefits transfers (Demirgüç-Kunt et al. 2015).

Moreover, data for 123 countries show that digital payments that reduce the cost and increase the convenience of financial transactions may expand the pool of eligible account users and encourage existing account holders to use their accounts with greater frequency and for the purpose of saving (Allen et al. 2016). Studies in Mexico and Nepal show that following the provision of accounts to poor households, new account holders continued to deposit and maintain balances in their accounts, which led to a significant increase in household savings (Aportela 1999; and Prina 2012). From Mexico, there is also evidence that accounts opened through a social transfer program increased the frequency of remittances received through formal payment channels (Masino and Niño-Zarazúa 2014). Further, the randomized introduction of mobile money in rural Mozambique led to the substitution of mobile money for informal savings (Batista and Vicente 2013). However, payments into an account do not automatically translate into account use. As discussed in the next section, experience with social transfer programs in Brazil, Colombia, and Mexico has shown that recipients are unlikely to automatically use bank accounts for more than withdrawing benefits (Bold, Porteous, and Rotman 2012).

Increased Women’s Economic Empowerment

Evidence suggests that digitizing G2P payments might be especially valuable to women, who benefit from the greater confidentiality and control such payments offer, and can contribute to their economic empowerment within their households. In contrast to cash payments, the arrival of a digital payment is often private information that allows the recipient to conceal the payment, at least temporarily, from other household members or friends who may place demands on the use of the
money. Sociocultural norms and other factors might prevent women from controlling their own money and assets. But payments into an account make it harder for family and friends to access the funds and thus might give recipients greater control and agency with regard to how the money will be used. From the social cash transfer program in Niger, for instance, there is evidence that greater privacy and control of mobile transfers, compared to manual cash transfers, shifts intra-household decision-making in favor of women, that is, the recipients of the social cash transfer (Aker et al. 2013). A large body of empirical literature suggests that income in the hands of women, compared to men, is associated with improvements in children’s health and larger shares of household spending on nutritious food, healthcare, and housing (for an overview, see Duflo 2012).

The Challenges of Digitizing Payments—and What Governments Can Do

The benefits of digital payments go well beyond convenience: if provided efficiently and effectively, they can transform the financial lives of those who use them. But digitizing G2P payments is not without challenges. These challenges include making up-front investments in payments systems infrastructure, taking steps to guarantee a reliable and consistent digital payments experience, ensuring the regulatory framework conducive to building a digital payments ecosystem, and ensuring that recipients understand how digital payments work and can be accessed. It is also important to educate new digital payments recipients on the basic interactions involved in a digital payments system—using and remembering personal identification numbers (PINs), understanding how to access the payments, and knowing what to do when something goes wrong. The challenges also include fostering a digital payments ecosystem beyond G2P payments to reap the full benefits of digitizing G2P payments. And finally, digitizing G2P payments depends on the political will to do so.

An electronic payments system will not be effective, and could even have adverse effects, if it does not work well. Payment delays, network outages, or working with agent networks in which liquidity is a problem can undermine an entire electronic transfer program, as recipients fail to trust or understand the new system. A reliable payments system also needs to have effective safeguards in place to protect against fraud and data security breaches.

Governments, the private sector, and the international development community all have important roles in making digital payments systems more efficient and more accessible to low-income consumers. But governments play a pivotal role when it comes to digitizing payments in an economy. By shifting G2P payments into accounts, governments can play a catalytic role in building a cost-effective,
sustainable digital payments ecosystem. This is particularly relevant in countries where this has been a challenge due to low population density and low incomes. Governments can also help facilitate the shift to digital payments beyond government payments by creating an enabling legal and regulatory environment, improving identification, and promoting consumer education and protection.

The benefits of digitizing government payments must of course be weighed against the potential costs of the improvements to the payments infrastructure necessary to do so. But innovations in technology and business models in the financial sector in recent years continue to reduce the costs digitizing payments and provide private sector solutions for cash-out points.

The Digital Payments Ecosystem

More than 2 billion adults worldwide, in both developed and developing countries, are unbanked. Of this group, the majority is not excluded by choice; rather, cost, distance, documentation requirements, and other variables make it challenging or impossible to access banking services (Demirgüç-Kunt et al. 2015). Governments can encourage the expansion of account ownership and usage and the growth of digital payments by leading by example. The sheer volume of government payments, from salaries to pensions and social cash transfers, has the potential to add significant volumes of transactions to financial service providers. Electronic G2P payments could not only increase the number of adults with a new account, but also increase usage of existing accounts. About 270 million adults around the world receive government wage or transfer payments in cash according to data from the 2014 Global Findex database, including 110 million adults who already have an account (Demirgüç-Kunt et al. 2015). By shifting payments from cash into accounts, governments can make a critical contribution to the commercial viability of financial infrastructure in currently underserved areas such as rural locations, and can help reach especially low-income individuals. For instance, the financial and private sector might be incentivized to invest in POS networks that would allow government recipients to store money in their account and conveniently make payments directly using their debit card. This does not mean that governments will necessarily provide these digital payments directly by themselves. Rather, in partnering with private-sector payment service providers, governments can help jump start the expansion of the digital payments infrastructure.

Digital payments can take different forms. Examples include direct deposits into bank accounts, payment cards, and mobile payments. It is important for governments to carefully consider which type of digital payment channel is best suited for any particular case; this depends on a number of context- and country-specific factors including broad economic, demographic, and policy environment factors (Faz

Klapper and Singer
and Moser 2013). For instance, in developed countries with advanced and broadly-used banking systems, digital payments by direct deposit into bank accounts are already common. In developing countries with more rudimentary financial systems that provide services to a limited segment of the population, and often primarily in urban areas, digital payment channels based on payment cards or mobile transfers may be more suitable.

The optimal digital payment channel may also vary within a country or within a specific payment type. For example, Brazil’s cash transfer program, Bolsa Família, which makes payments to more than 13 million families, allows recipients to choose whether to receive the cash transfer by payment cards, by direct deposit into a no-frills bank account, or, in rare circumstances, in the form of a manual cash payment (Consultative Group to Assist the Poor 2011a).

Shifting government payments into accounts is an important first step, but as long as digital payments are cashed out immediately upon receipt, their contribution toward financial inclusion, building a digital payments system, and reaping the full benefits of moving beyond a cash-based payments system will be limited. Only by building a digital payment ecosystem that encourages recipients to keep funds digitally by offering store-of-value or savings functionality, direct payment for purchases at POS terminals, and bill payment functionality will the full benefits of moving payments into accounts be realized. But payments into an account do not automatically translate into the use of accounts. Experience with social transfer programs in Brazil, Colombia, and Mexico has shown that recipients are unlikely to automatically use bank accounts for more than withdrawing benefits (Bold, Porteous, and Rotman 2012). This may be due to a lack of knowledge that the payment is not lost if not withdrawn in full, unfamiliarity with formal financial products and the benefits associated with them, uncertainty over whether there are costs associated with the use of the account, or a lack of trust in banks to keep funds safe. Realizing the full potential benefits of electronic payments via increased usage of payments and savings thus depends on products that allow for those uses, as well as on clear communication regarding these features.

Ensuring that government payment recipients can use the funds to easily and conveniently make digital payments to, and receive digital payments from, the many parties that they deal with financially—merchants, friends and family, employers, schools, utilities companies—will be key in building a digital payment ecosystem. Making digital payments cost effective and sustainable, especially for low-income and rural populations, will require leveraging a number of different technologies including mobile phones, ATMs, POS terminals, and online services. No one provider or sector can justify an investment in all of these elements or handle the contractual requirements of dealing with so many players. Rather, multiple players must be able to interconnect where necessary to provide individuals with a wide range of services, and must be able to do so on fair and equitable cost and access terms.
An additional benefit of building such a digital payment ecosystem is that the cash-out constraint will gradually lessen. This will be especially important in rural areas that are typically net-recipients of social transfer payments and where cash-management issues are a considerable challenge (Faz and Moser 2013; Bold, Porteous, and Rotman 2012).

The Physical Payments Infrastructure

National payments systems and the accompanying financial infrastructure are the backbone of digital payments. While digital G2P payments can be more cost effective in the long term, building an adequate physical infrastructure for reliable experiences with digital payments can require significant up-front investments (World Bank 2012b). Countries with advanced and broadly used payment and banking systems might already have a physical infrastructure in place to process digital payments. But in developing countries with more rudimentary payments systems and where such infrastructure is concentrated in urban areas, developing an adequate payment infrastructure, including a physical network, to deliver digital payments to all corners of the country is a significant challenge. These difficulties are often underestimated, as a study documenting the experience of digitizing G2P payments in four low-income countries (Haiti, Kenya, Uganda, and the Philippines) shows (Zimmerman, Bohling, and Rotman Parker 2014).

The high cost of traditional brick-and-mortar bank branches often concentrates financial access points in urban areas where higher population density and often more affluent customers make them profitable. However, in recent years, innovations such as mobile financial services and agent banking are increasingly providing ways to reach even rural and low-income individuals in a sustainable and cost-effective manner, making access to financial services through ATMs or POS terminals viable even in small communities. Furthermore, leveraging and modernizing existing infrastructure such as post offices can also provide new opportunities to reach financially underserved communities.

While the widespread use of mobile phones in developing countries seemingly suggests it would be easy to provide digital payments by mobile transfer even in countries with the most rudimentary banking systems, widespread mobile phone use is not sufficient. Reliable payments into mobile money accounts face significant infrastructure challenges. The lack of reliable electricity supply with which to power mobile phones, cell towers, and payments system IT infrastructure and limitations in mobile data network coverage are major obstacles to the expansion of digital financial services in rural areas. Even Kenya, which is well-regarded for its mobile money infrastructure, was unable to make a mobile money-based solution for a social transfer payment work from 2010 to 2012 due to network connectivity issues, and instead resorted to disbursing the transfer payments into accounts.
with debit cards issued by a financial institution (Zimmerman, Bohling, and Rotman Parker 2014).

Providing physical access to cash-in and cash-out points and ensuring sufficient liquidity at access points, including in rural areas, is one of the key challenges in moving toward digital payments. Even in a digital payments environment, cash-out points are a critical feature. While recipients of digital payments ideally keep their funds digitally and make purchases and pay bills electronically, the reality is that many countries, especially developing countries, still have a ways to go to become economies where digital payments are accepted for everyday purchases at local retail stores and markets. As a digital ecosystem evolves and allows recipients of digital payments to stay digital by making digital payments, cash-out constraints will lessen. However, in the meantime most people need to be able to cash-out at least part of the payments they receive; thus, people will look for a reliable cash-out experience, and financial systems will need to deliver one. Indeed, a reliable cash-out experience is key to the success of digital payments (Kendall and Voorhies 2014). Building an infrastructure that provides a reliable cash-out experience, however, remains a significant challenge, especially in rural areas that are typically net-recipients of government wage and transfer payments.

Digital Financial Identification

Central to financial transactions is the ability of financial service providers to accurately identify individuals, which is typically done via government-issued identification documents. In 2014, more than 2 billion people worldwide did not have any formal identification (Demirgüç-Kunt et al. 2015). Yet to open a bank or mobile money account or to make or receive most digital financial transactions—including government payments—customers generally need to submit relevant documents like government-issued identity cards or birth certificates.

Governments can create a biometric (digital) financial identification system to establish identity for customers who lack traditional paper documentation such as birth certificates. Biometric technology might also be leveraged to overcome the lower levels of technical adoption and literacy among government transfer recipients. For example, a thumbprint or retina scan might replace the need to remember long PIN numbers.

The Legal and Regulatory Environment

For the private sector to be able to provide digital payments solutions and contribute to building a digital ecosystem, it needs the space to develop innovative payment products. This means a regulatory environment that recognizes the contributions of all financial sector players, including non-banks such as payment
services providers and mobile network operators, which can play an important role in reaching traditionally financially underserved segments of the population such as the poor and those living in rural areas. Providing a clear and functional legal and regulatory framework for these new players is important to ensure both a level playing field between the different actors in the digital payment space and adequate protection of consumer funds. To that end, regulators have to define, among other things, who can provide financial services and act as an agent. Regulators also must find the appropriate balance between promoting interoperability and letting the market decide to foster a digital payments ecosystem. Regulators must also coordinate with each other, especially across complementary sectors such as financial services and telecommunications.

Financial Consumer Protection and Education

Consumer education is an important part of ensuring that recipients of digital G2P payments become familiar with digital payment systems and feel comfortable with the payment process and financial instrument. This includes understanding the program, payment process, payment conditionality (if applicable), and recourse mechanisms. If recipients do not understand how the program works or if payments are inconsistent, recipients will lose trust in the system.

Low-income recipients and those living in remote areas might not be familiar or comfortable with using a digital payment system. This is especially a challenge for social cash transfer programs that by definition often target the poorest segments of the population. Assuring basic financial literacy is necessary; for example, recipients should be educated about accessing and cashing-out their payment, using and remembering their PINs, understanding how much money they should receive at each payout period and how fees (if any) are incurred, and knowing what to do if something goes wrong (Zimmerman, Bohling, and Rotman Parker 2014).

Addressing these challenges is necessary for effective product adoption. A study of a government cash transfer program to low-income women in Pakistan illustrates some of the challenges that come with making digital payments to a population that is, for the most part, illiterate. Initially, many recipients did not understand the cash-out process at the banking agent, nor were they able to use an ATM on their own to withdraw payments due to insufficient communication and a product design that was not tailored to the needs of the recipients. Subsequent education efforts focusing on how to use the digital payment product, and adjustments in the design of the product, eventually led to an increase in the understanding and use of the product (West and Lehrer 2014). It needs to be stressed that the onus is also on providers of financial services, including the private sector, to design digital payment solutions that are tailored to the needs of individuals and are easy to understand.
Digitizing payments can bring people into the formal financial system for the first time and give them potential access to a range of financial products, which might be complex or bundled products, raising the associated risks for consumer segments with weaker financial capability. There are also significant issues concerning fraudulent, misleading, and unfair commercial practices, and consumers require the right to dispute any unauthorized transaction. Data privacy and security are important issues to be raised, and governments should safeguard personal information against loss or theft. Consumers should have access to appropriate—that is, independent, impartial, and free—redress mechanisms.

Political Economy Issues

Last but not least, political economy issues might present a significant challenge when it comes to shifting G2P payments from cash into accounts. A system that is hard to track, is less private, and entails the use of transitionally anonymous cash creates opportunities for individuals at every step of the money transfer to skim off some of the funds. Those benefitting from cash payments may thus work to obstruct the shift to digital G2P payments.

Conclusion

This paper reviews evidence on the benefits and challenges of governments migrating from cash to digital (electronic) payments. Digitizing G2P payments has the potential to dramatically reduce costs, increase efficiency and transparency, and help recipients build familiarity with digital payments. Doing so is not without challenges and may require significant up-front investments in building an adequate physical payment infrastructure and providing consumer education. But when supported by an appropriate financial consumer protection framework, digital payments enable confidential and convenient financial services, which can be especially important for women. Migrating to electronic G2P payments offers an opportunity to rapidly scale up access to financial services and provides an on-ramp to financial inclusion, and in many cases, leads to the first account that the recipient has in her own name and under her control.

Notes

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1. A traditional bank account to hold the underlying balance is generally not necessary (World Bank 2012b).
2. For additional information, see the “Payment Aspects of Financial Inclusion (PAFI)” taskforce report on how payment systems and services promote financial inclusion efforts (Bank of International Settlements and World Bank Group 2016).
3. This comes at the potential risk that recipients might also withhold funds from which the entire household is entitled to benefit, such as in the case of certain social transfer payments.

References


