

ACCELERATING G2P PAYMENT DIGITIZATION

Lessons from the Field

PROLOGUE

Social protection programs help government to alleviate poverty and reduce inequality. As a result, budgetary allocations of Social Safety Net Programs have grown in absolute terms as well as a share of GDP, from 1.3 percent of GDP in 1998 to 2.53 percent in FY2018-19. SSNPs now account for 13.81% of government's total spending and reflects the high priority accorded by Government to this aspect of the social development policy. There are at present 140+ SSN programmes being administrated in the country by 23 Ministries and Divisions. Over a five-year period, there has been substantial expansion in the coverage of safety nets and cash transfer programs.



Direct Cash Transfer Programs in Bangladesh

Government payments are still heavily reliant on cash. The inherent costs associated with direct cash payments such as the administrative cost of payment and the risk of leakage was overlooked by the administration. Moreover, the time and cost incurred by the recipient to travel to the payment location should also be taken into account. Travel time can involve a clear trade-off between costs to the funding agency and costs to the recipient. There is also frequent aggravation at the point of payment collection on part of the recipients.

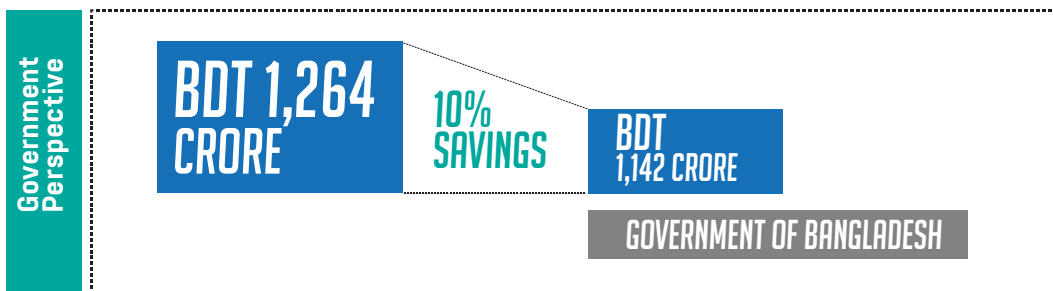
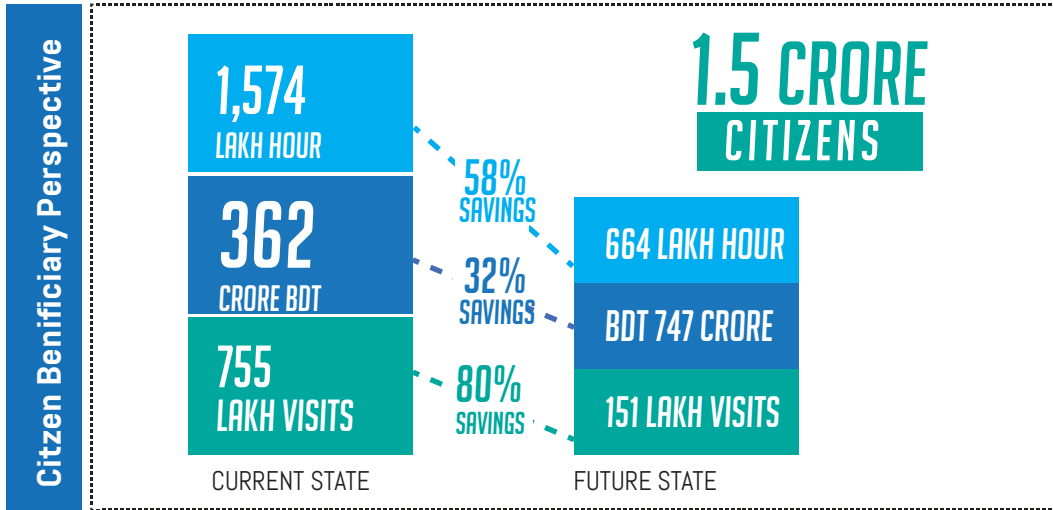
The amount of cash transfers is usually very small (less than USD 7 in most cases). A study conducted by a2i revealed that 14% (USD 1) of the total cash transfer is lost in travel costs for the recipients. This is excluding the opportunity cost of the travel time, which is usually the wages forgone for the hours of work missed. As the beneficiaries are extremely poor and in most cases are hourly wage earners or unemployed, the travel time and lost wages adds to the vulnerability of the beneficiaries.



Digital payments directly contribute to financial inclusion. Studies show that broader access and usage of financial services can reduce income inequality, boost job creation, accelerate consumption, increase investments in human capital, and directly help poor people manage risk and absorb financial shocks.

Use cases around the world have shown that the rapid expansion of digital payments can foster financial inclusion. Moving from cash-based to digital payments has the potential benefits of making payments more efficient by lowering the cost of disbursing and receiving payments; increasing individuals' risk management capacity; increasing the privacy of payments; increasing control over the funds received; increasing the security of payments and reducing the incidence of crimes associated with them; increasing the transparency of payments, and thus making it less likely for there to be leakage between the sender and receiver; increasing the speed of payments; and providing a first entry point into the formal financial system.

A study conducted by a2i in collaboration with Pi Strategy revealed that there are significant opportunities for cost saving both from government and consumer sides through digitization of social safety net programs. The study showed that digitization of G2P payments regarding SSN allowances could save up to \$15 million annually for the government. A Time-Cost-Visit analysis suggests it could save up to 91 million hours, \$20 million in costs and 604 million visits for the allowance recipients annually.



Assessment Study

At the outset of the project, it is a prerequisite to analyze the local context to translate the customer's need in order to come up with apt interventions to address existing challenges and pain points. As the markets are evolving rapidly in recent times, an up-to-date study was required to assess the current state and readiness of the beneficiary group.

A2i has conducted a National Survey on Cash Transfer System under the Social Safety Net (SSN) Program to assess merits and demerits of existing cash transfer system and to understand the role of an easier and faster mechanism of digital payments for social safety net allowance receivers.

Study Objectives & Methodology

Objectives



- ASSESS THE SOCIO-ECONOMIC STATUS of the allowance receivers
- IDENTIFY CHALLENGES beneficiaries are facing in the existing system
- ANALYZE THE READINESS of the beneficiaries to adapt digital payment



Study Methodology



Target Group

3116 respondents from 110 cluster including beneficiaries and field officials of 18 major SSNPs



Location

40 districts under SSNP coverage



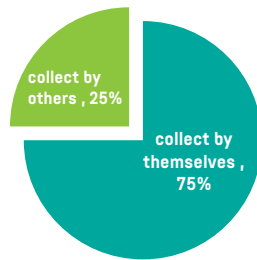
Primary Data

SAMPLE SURVEY with FACE2FACE interviews using semi-structured questionnaires, FOCUS GROUP DISCUSSIONS and KEY INFORMANT INTERVIEWS with beneficiaries and field officials of SSN Programs.

Key Observations

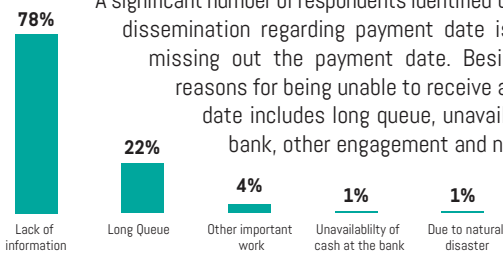
Allowance Collection by Recipients

It has been observed that the majority of the recipients collect their allowance by themselves. However, the rest depends on others to collect their allowance largely due to their physical incapability, illness in case of elderly people and incapability to handle cash in case of young recipients.



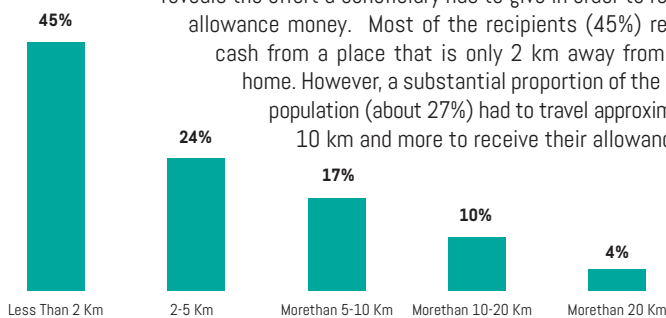
Reasons of Incapability to Receive Allowance on Payment Date

A significant number of respondents identified that lack of information dissemination regarding payment date is the key reason for missing out the payment date. Besides, there are other reasons for being unable to receive allowance on payment date includes long queue, unavailability of cash at the bank, other engagement and natural disasters.



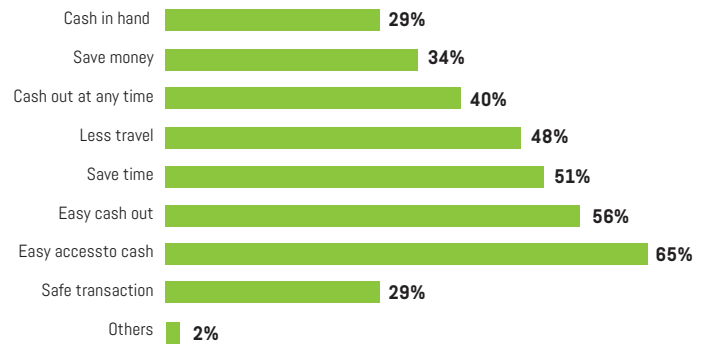
Distance of Cash Out Point

The distance of cash receiving point from beneficiaries' home reveals the effort a beneficiary has to give in order to receive allowance money. Most of the recipients (45%) receive cash from a place that is only 2 km away from their home. However, a substantial proportion of the study population (about 27%) had to travel approximately 10 km and more to receive their allowance.



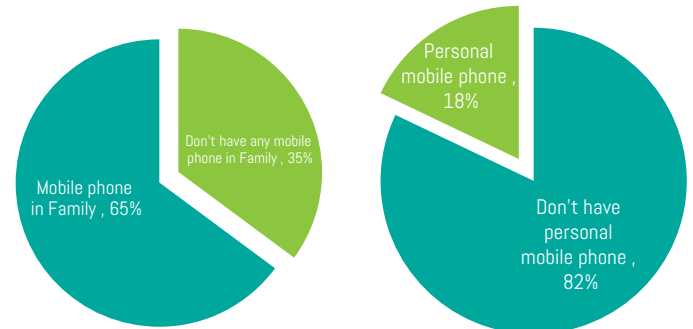
Advantages of Payment Digitization

Easy access to cash, easy cash out and less travel time, among other advantages, are the standout features of digitization of payment stream pointed out by the respondents of the study. Other advantages of digital payments are any time cash out, save money and comparatively safe mode of transactions.



Access of Mobile Phone

Accessibility, usage, and ownership of mobile phone have significantly increased in recent times. However, that is not the case among the beneficiary group as 35% of the households of the respondents do not have access to a mobile phone within their family. Among the respondents of the study, only 18% of recipients have their own mobile phone.



The study looked into the demographics of beneficiaries, mobile penetration rate, pain points in the current manual payment process. It attempted to reveal the present state of the beneficiaries and to some extent their capability to adapt to existing digital financial services. Based on the findings of the study, a pilot program was designed for the beneficiaries of SSN payments considering their current state and capacity. The study suggested, a significant paradigm shift is in progress as some beneficiaries are even willing to pay a service charge to avail improved service delivery. Beneficiaries preferring convenience and security over cash is the evidence of changed perception and indication of the transformation of their status quo. It is presumed that beneficiaries, in time, will be more able to adapt with more advanced technology and accustomed to innovative digital financial services.

Piloting of Social Safety Net Program

In light of the challenges of direct cash transfers, the a2i Programme with the support from Bill & Melinda Gates Foundation, facilitated the piloting of electronic social safety net payments as part of the government's overarching plan to digitize all G2P payments to achieve affordable, more efficient, and appropriate inclusive financial services for all. The key objective of the pilot is to come up with feasible solutions for digital payments of Social Safety Net Programs through current practices and scenario analysis and testing the possible solutions.

Objectives of the Pilot Phase

- To analyse the current practice and process of Social Safety Net (SSN) payment and identify the intervention area;
- To test electronic beneficiary management system through NID verification;
- To test direct transfer mechanism from government treasury to beneficiary account
- To identify the necessary technical and policy issues for digital payment system;
- To identify the potential business case for financial service providers for digital SSN payments

Pilot Coverage

109 UNIONS | 11 UPAZILLAS | 4 DISTRICTS

The areas were selected in consultation with the Department of Social Services (DSS) based on geographical diversity, rural and urban combination, socio-economic condition, and strength of field offices to manage the pilot.

Types of Allowance

Three Social Safety Net (SSN) programs of the Department of Social Services (DSS) considered for G2P payment during the pilot phase of the project. The programs are:

OLD AGE ALLOWANCE

ALLOWANCE FOR WIDOWED, DESERTED & DESTITUTE WOMEN

ALLOWANCE FOR FINANCIALLY INSOLVENT DISABLED

Under the pilot areas total **129,487 BENEFICIARIES** including **83,338 OLD AGED**, **19,734 DISABLED** and **26,415 WIDOWS** are receiving allowance from Department of Social Services.

Selection of Financial Service Providers

Three private commercial banks have been included in the pilot phase for creating electronic bank account of the beneficiaries and payment process. Banks have provided these services through their agent bank service. Banks were selected based on the following criteria

- Have an agent banking operation
- Available infrastructure and human resource at the district and sub-district level
- Presence of agent points at the union level
- Previous experience in Social Safety Net payments, and
- Technology readiness to deal with this unbanked and unserved people

Pilot Phase at a Glance

4 INCEPTION WORKSHOP ORGANIZED

10 CAPACITY DEVELOPMENT PROGRAM ORGANIZED

50 AWARENESS CAMPAIGN ORGANIZED

122,730 BENEFICIARIES REGISTERED

119,595 ELECTRONIC ACCOUNT CREATED

115,088 ELECTRONIC FUND TRANSFERRED

- 312 Field administration and public representative were sensitized on digital G2P payments
- 281 Social Safety Net Program staffs were trained for new digital payment system
- Partnerships created among 3 government ministries, 2 development organizations and 3 private commercial banks for implementation of the digital payments system
- 5000 beneficiaries were educated about the new payment system through awareness campaigns
- 109 cash out point established in 11 sub-districts of the pilot locations

5 STEP APPROACH

in Social Safety Net Payment Digitization

1 Inception Workshop

Field administration and public representatives were sensitized on digital G2P payments

In the pilot phase, a total of four (4) inception workshops have been organized on G2P payment digitization for the awareness, support and cooperation from the local district and sub-district social service officials.

These inception workshops provided an amazing platform to field administration (district and sub-district level), local public representatives and media to inform and familiarize about the new payment process and associated technology for the digital payment of Social Safety Net Program in Bangladesh. The platform also enabled participants to provide their feedbacks to efficiently implement the process.



The key recommendation proposed in these workshops is that effective coordination is required between filed administrations, local public representatives and related ministry/department officials for successful implementation payment digitization.

3 Awareness Program for Beneficiaries

Beneficiaries were educated about the digital payment system through awareness campaigns

Majority of the beneficiaries of the Social Safety Net Programs are from an underserved, vulnerable and marginalized pro-poor community. Besides, an overwhelming number of the beneficiaries are illiterate and have no practical concept about the newly introduced digital payment architecture. Awareness campaign for beneficiaries was designed and organized to create awareness among the beneficiaries about the benefits of digital SSN payment as well as to encourage them to be present during their enrollment process. Upazilla DSS officials conducted the campaign along with the support of local public representatives and local government administration.

One of the key objectives of the campaign is to aware the beneficiaries about their right and ownership of the allowance.



Payment disbursed through cash-out points in the pilot locations

Finally, the digitization process ends with payment disbursement through accessible cash out point at the doorsteps of the beneficiaries. To attain the objective of bringing the service at the nearest place, the pilot phase of the project has established 109 bio-metrics enabled cash out point in 109 pilot unions and 11 sub-districts to ensure at least 1 cash out point in each of the union in collaboration with financial service providers.

2 Capacity Development for Field Officers & Staff



Social safety net program staff were trained for new digital payment system

Field officials, who are managing the SSN program and payment at the grassroots level, are the key component for successful implementation of digital SSN payments. Therefore, to capacitate and prepare SSN field officials with hands-on training about the digital process and to enhance their understanding of digital payment and associated technologies, the project organized several training programs. A total of ten (10) training programs have been successfully organized to cover all the pilot locations. The participants of these capacity development training programs include Deputy Directors, Officers, Union Social Workers, Technical Instructors, Data Entry Operators from concerned department/ministry and representatives from nominated banks.

During the training session, participants proactively learned about the new payment process and associated technologies. The newly implemented digital payment architecture is considerably advanced to them compared to the existing system. Participants were engaged in different group work and prepared a detailed plan for beneficiary enrollment, beneficiary verification, and bank account opening to implement in their respective areas.

The fundamental challenge often faced by field officials is their limited capacity and exposure to technology. The advanced digital payment system is entirely new and heavily reliant on technology. Therefore, the training session requires more emphasis on technological orientation.

4 Beneficiary Validation, Enrollment & Electronic Account Creation

Beneficiaries were validated and enrolled in Allowance management system before opening electronic accounts with financial service providers

The next phase of the digitization process is the validation and enrollment of the beneficiaries as well as electronic account creation. A prototype version of an allowance management system has been developed through creating an electronic database through NID verification of the beneficiaries. However, the key objective of developing a prototype version is to understand the process, identify different challenges and risk factors of creating an electronic database, NID verification, and payroll management for each beneficiary group. Based on the experience of the pilot phase, a full-fledged version of integrated Allowance Management System linked with the NID server, Banking System and Government treasury will be developed to implement on the scale-up phases of the digitization process.

The pilot phase has successfully enrolled each beneficiary uniquely through NID verification into the electronic allowance management system for identification of beneficiaries in later stages. Besides, electronic bank accounts of the beneficiaries have been opened on the same day by the respective financial service provider.

Major observations identified during this phase include the nonexistence of some beneficiaries, which could be attributed as ghost beneficiaries as well as actual beneficiaries without NID cards. Internet connectivity is another challenge at the rural areas as due to the low bandwidth it was difficult to manage beneficiary enrolment within the stipulated timeframe.

5 Digital Payment Disbursement

Cash-out points were established at the union level, the lowest tier of Bangladesh Government, to ensure optimum convenience for the beneficiaries with by lowering travel time and distance and any time cash withdrawal prefer-

Beneficiary Profiles



Basic Information

Name: Tibbot

Age: 40

Occupation: Sells cigarettes and betel leaf (Paan) in front of his house

Education: No formal education

1

SSN Eligibility Criteria

- Must be a permanent resident of the concerned area
- Persons with annual income of less TK 36,000 (thirty-six thousand)
- 6 years above, all kinds of persons with disabilities should be considered for payment of allowance
- Must be elected by the selection committee

Pain points / Issues

- He can't move without the assistance of his family members. Thus, it is difficult for him to come to the digital center for during the disbursement
- Regardless of how sick Tibbot is, he needs to come by himself to collect the allowance

Personal profile

- He lives with his wife and children and solely dependent on them
- He tries to sell betel leaf and cigarettes with the help of his wife and earns less than TK 3000 per month

Self-efficacy

- Willingness to try new modes of SSN Payment
Low -----▲----- High
- Cognitive ability to use new modes of SSN Payment
Low -----▲----- High

Expectations & Way Forward

- Tibbot prefers the digital system as it much more efficient than the last one but hopes the government will add an option of receiving the allowance from home
- He desires for an alternative source of income



Basic Information

Name: Rumila Begum

Age: 70

Occupation: Unemployed

Education: No formal education

2

SSN Eligibility Criteria

- Must be a permanent resident of the concerned area
- Must have birth registration/ NID
- The minimum age for male is 65 and for women the minimum age is 62 years
- The average income of candidate will be up to TK 10,000 per annum
- Must be elected by the selection committee

Pain points / Issues

- She did not face any issue during enrollment
- She faced problems during fingerprint authentication as the machine initially did not read her fingerprint
- The elasticity of the skin of her thumbs decreased with the age and the consumption of betel leaf made the prints difficult to capture

Personal profile

- She lives alone with a caretaker, has 9 children who sends her money every month through MFS
- Since she does not know how to operate MFS, the caretaker aid her in receiving the money and cash-out process

Self-efficacy

- Willingness to try new modes of SSN Payment
Low -----▲----- High
- Cognitive ability to use new modes of SSN Payment
Low -----▲----- High

Expectations & Way Forward

- She prefers the digital payment and hopes that it will continue to be smooth, efficient and time-saving.
- She wants more clarity on the process & Grievance Redressal Mechanism in the new disbursement process.



Findings from Pilot Phase

Beneficiary database is not up-to-date

A database of the beneficiary group of Social Safety Net Program has been maintained by the Upazilla Social Service Office. However, in most of the cases, it was found that their database is manual and not up-to-date.

Digitization provides utmost convenience

Throughout the pilot phase, the potential benefits of digital payments were evident. Beneficiaries were able to withdraw their allowance anywhere from their nearest union level cash out point at their convenient time.

There is lack of awareness among beneficiaries

One of the major findings during the pilot phase is the lack of effective information dissemination among the beneficiaries. As a result, beneficiaries often deprived of their allowance in many ways given the overall lack of awareness. Beneficiaries, to some extent, heavily rely on others for collection of their allowance. This dependency among beneficiaries lessening the ownership of their allowance and enabling the scope for leakages by the opportunists.

Proper grievance redressal mechanism is missing

The presence of a responsible authority to rapidly address complaints raised by SSN beneficiaries is a prior requirement to digitize such government payment stream that deals with a large number of beneficiaries.

Integrated validation system is imperative

Digital payment is largely dependent on accurate data and accessibility for all the concerned authorities. An interoperable and standardized platform for validation and data sharing is essential to enable multiple parties e.g. Bangladesh Bank, Finance Division to work together.

Account opening procedure is tedious

It takes considerable time to open an account by the financial service providers due to the existing manual KYC system. Thus, beneficiaries as well as FSPs confronted several complexities during the creation of electronic account.

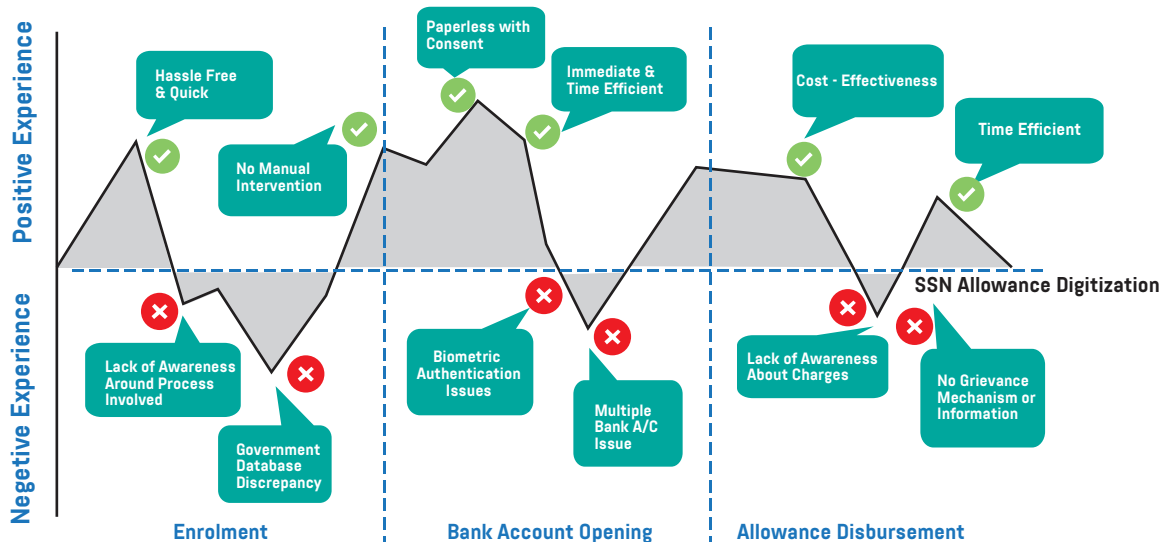
Cash management is a hassle for the agent

An agent typically deals with a large amount of cash during the fund disbursement phase which typically lasts 1-3 days when nearly 70% of the beneficiaries withdraw their allowance. Therefore, at that time, cash handling turns out to be a major complication for them.

Technological expertise among the field officials are not adequate

A majority of the field officials of SSN programs are not competent enough to cope with advanced technologies associated with payment digitization. Their inadequate capacity to deal with ICT equipment and infrastructure is a major hindrance towards implementing payment digitization.

Beneficiary Experience

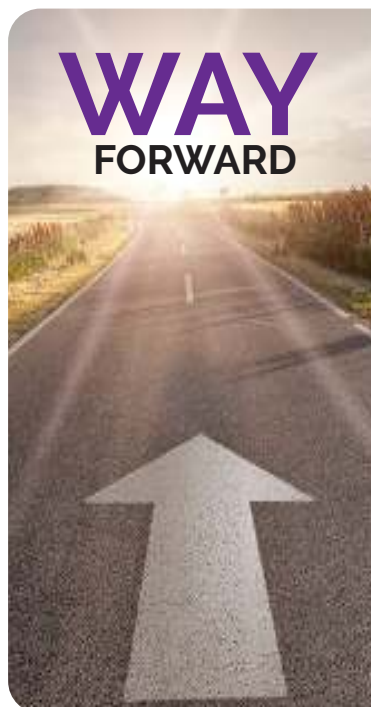


From MicroSave Consulting Study



Recommendations

- NID, the most common and reliable identification instrument, could be used for different steps of Social Safety Net Payment digitization like Beneficiary Validation, Account Opening & Payment Disbursement will significantly reduce complexities in the process
- Interoperability among different Financial Service Providers will be the key to bring the services at the doorsteps of the citizens
- An easily accessible and simplistic grievance redressal mechanism is needed to be implemented for SSN beneficiaries
- A system-level integration is required between FSPs and the MIS of different ministries for data sharing and reporting
- Union Digital Centers could be utilized to ensure common services like application, MIS data entry, data validation and grievance filing by all SSN payment implemented ministries
- A uniform service charge/fee/commission structure, as well as common service standard for FSPs, will ensure standardized service for SSN beneficiaries.



WAY FORWARD

Digitization of KYC

eKYC is a completely automated online intervention to verify users' identity instantly. The process is paper-less which is much easier that saves time & money. Moreover, eKYC enables all records and data to be stored in online permanently. Any misuse or illegal activity can be traced back to the individuals involved in such usage of services.

Incentive for UDC agents

Presently, UDC agents are not getting any incentives for providing SSN payment services to beneficiaries. Small percentage of commission can be considered to provide to the UDC agents for a sustainable model.

Effective communication strategy for beneficiaries

Communication should clearly convey the benefits of digitization and increase the awareness of beneficiaries on the digitized system. Different materials should be devised for targeted beneficiaries to ensure that all of them are well-informed.

Exploring more withdrawal options

In the scaleup phases, multiple withdrawal options including MFS should be provided for the beneficiaries. While many of the G2P beneficiaries are not capable enough to withdraw allowance without any assistance, some of them are well accustomed to use mobile money account by themselves on a regular basis.

Up-to-date database

SSN officials must ensure updated database and avoid data discrepancies. They can also avail assistance from the financial service providers if required.



a2i - innovate for all

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