

TECHNICAL COOPERATION DOCUMENT

I. BASIC INFORMATION

Country/Region:	Regional
TC Name:	Development of Guidelines and Roadmap on Government Digital Payments to Foster Financial Inclusion.
TC Number:	RG-T2550
Team Leader/Members:	Antonio García-Zaballos (IFD/CMF), Team Leader; Sylvia Gabriela Andrade (IFD/CMF); María Elisa Arango (LEG/SGO); Félix Gonzalez (IFD/CMF); Lorena Cano (IFD/CMF); Enrique Iglesias (IFD/CMF); Luis Tejerina (SPH,CHO); and Cecilia Bernedo (IFD/CMF).
Date of TC Abstract authorization:	March 16, 2015
TC Taxonomy	Research and Dissemination (RD)
Donors providing funding:	Transparency Fund (AAF)
Beneficiary	Public sector entities, private sector financial service providers, and citizens of the countries impacted by efforts.
Executing Agency:	Inter-American Development Bank, through the Capital Markets and Financial Institutions Division (IFD/CMF)
IDB Funding Requested:	US\$600,000
Local counterpart funding	N/A
Disbursement period:	24 months (Execution period:18 months)
Required start date:	May, 2015
Types of consultants:	Firms and individuals
Prepared by Unit:	IFD/CMF
Unit of Disbursement Responsibility:	IFD/CMF
TC Included in Country Strategy	No
TC included in CPD	No
GCI-9 Sector Priority:	Institutions for Growth and Social Equity

II. OBJECTIVE AND JUSTIFICATION

- 2.1 **Objectives.** The objective of this TC is to provide an ecosystem that supports digital government payments, providing a comprehensive assessment, directional guidelines and roadmaps to the governments, in order to advance on financial inclusion. It will commensurately drive efficiencies in these payments and improve fiscal transparency, as well as realize cost savings for the poor and less connected communities.
- 2.2 This TC will be complementary to other financial inclusion TCs, including: “Digital Finance 2025: Institutions and Innovation for Financial Inclusion in LAC” (RG-T2506), which supports the identification, design of financial regulatory frameworks and institutional structures to promote supply and demand of digital finance services; “Using Broadband to Enhance Financial Inclusion” (RG-T2442), which is being funded by the Broadband Special Program

and focuses on promoting the development and use of web-based systems of financial service delivery in Latin America and the Caribbean; and “Support Program for the Development of Comprehensive Strategies for Financial Inclusion” (RG-T2305), which main objective is to assist countries develop and implement comprehensive public sector/private sector financial inclusion initiatives. In particular, RG-T2442 will complement this TC by raising awareness of the potential of web-based systems on financial service providers and public sector policy makers, and providing a comprehensive study of the potential of broadband solutions to enhance financial inclusion. This TC will take this study in consideration to bring the necessary elements to provide an ecosystem to support digital payments.

- 2.3 **Justification.** Broadband and other Information and Communication Technologies (ICT) are enablers of economic and social development. ICT technologies can boost economic development enhancing the national competitiveness and job creation. In addition, they facilitate greater economic and social inclusion. It has been estimated that a 10% growth of broadband penetration could raise Gross Domestic Product (GDP) of high-income countries by 1.21% and that of lower income countries by 1.38%.¹ In particular, in the Latin American and the Caribbean (LAC) Region, it is estimated that an increase of 10% in broadband penetration, on average, is expected to be associated with a 3.2% increase in GDP; a 2.6% rise in productivity and a net generation of more than 67,000 jobs.²
- 2.4 Financial inclusion is one of the drivers through which ICT consolidates its impact on economic growth.³ The potential of broadband and other ICTs to improve financial inclusion comes from their ability to address the key factors limiting financial inclusion. First, they can dramatically reduce the very high operational costs of providing financial services. For instance, Asobancaria, the Colombian Bank Association, calculated that a financial transaction using internet or cell phone can cost a financial institution less than US\$0.05 dollar compared to over US\$2 dollars in a bank branch or US\$0.05 dollar in an ATM machine⁴. Second, the transaction costs for clients can be much lower, as ICT networks, in particular mobile telephone networks, are available 24/7 and in most LAC countries cover the vast majority of the population. In this way, users will be beneficiated from the reduction of conducting transactions in financial institutions’ facilities of. Third, ICT technologies can enhance the limited competition in the target markets by facilitating the entry of more financials service providers.
- 2.5 One of the ways that broadband and other ICTs can support financial inclusion is through the greater use of electronic payments in government programs. The payments involved, mainly those directed to low income households and firms, can provide initial access to financial services and the potential to use these services to lessen vulnerability and increase income. Also, they may provide the mass of transactions (or scale) necessary to make different business models for financial inclusion viable.

¹ World Bank (2009).

² García-Zaballos, Antonio and López-Rivas, Rubén (2012), “Governmental Control on Socio-Economic Impact of Broadband in LAC Countries”, IADB Technical Note, November 2012.

³ Andrianaivo, Mihasonirina and Kpodar, Kangni (2011), “ICT, Financial Inclusion, and Growth: Evidence from African Countries”, IMF Working Paper, April 2011.

⁴ Asobancaria (Colombian Banking Association), mimeo, 2011.

- 2.6 In general, improvements in government payment programs through electronic payment instruments can lead to higher levels of efficiency, safety, and transparency and can have a significant impact on the economy as a whole. Furthermore, electronic payments have a significant potential to reduce informal payments, as well as leakage of resources and instance of fraud. Likewise, due to their scale and nature, government payment programs can also become an effective tool in the pursuit of other social objectives, such as the strengthening of Small and Medium Enterprises (SME), modernization of the national payments system or improvement on access to modern financial products for certain population segments or, to some extent, the creation of synergies in other social and economic sectors facilitating and speeding up processes.
- 2.7 Numerous governments around the world are evaluating how to improve efficiency and transparency for various types of government payments, as well as obtain financial inclusion objectives. The key challenge for governments is how to identify, structure, and implement the appropriate solutions that will improve efficiency and transparency of the payment process, increase the convenience and security for final users and recipients of these payments, and advance in financial inclusion. As experience demonstrate, even where e-payment systems, particularly mobile money, already seem robust, these inherently complex cash transfer schemes will always be challenging to design and implement⁵. In this context, we must evaluate different payment models and their ecosystems.
- 2.8 For example, regarding Government-to-People payments (G2P), LAC governments in the last decade have looked to improve the efficiency of Conditional Cash Transfer programs⁶ through the use of financial instruments, such as debit cards or bank accounts. These efforts, while providing a first step towards greater financial inclusion by gaining initial access to the formal financial system, have not had an effect of improving the use of these financial instruments and hence financial inclusion as a whole remains elusive. Recent research⁷ has found that, in the case of the cash transfers in four middle-income countries, building inclusive financial services can be affordable to the government and profitable to the payment service provider if the government pays adequate fees, but recipients were not quick to adopt the services and use them for personal needs beyond receiving the transfers. For instance, in Brazil the percentage of adults that have an account at a formal financial institution is 60% (the highest), but only 10% has saved at a financial institution in the past year; while in Nicaragua the percentage of adults that have an account at a formal financial institution is 14% (the lowest), and only 6.5% has saved at a financial institution in the past year.⁸ Moreover, women are more at risk of being excluded from the financial system. In Latin America, only 35% of women have an account in a formal financial institution, compared with 44% of men.⁹ There are significant disparities on gender in the financial

⁵ Electronic G2P Payments: Evidence from Four Lower-Income Countries, CGAP. 2014

⁶ For example, Brazil, Argentina, Colombia, Ecuador, Jamaica, Mexico, Honduras, Paraguay and Panama. In all, 21% of LAC population (roughly 129 million beneficiaries) receives conditional transfers. Cecchini, Simone and Madariaga, Aldo (2011), "Conditional Cash Transfer Programmes: The recent experience in Latin America and the Caribbean", Cuadernos de la CEPAL 95.

⁷ Social Cash Transfers and Financial Inclusion: Evidence from Four Countries", CGAP, 2012.

⁸ Rojas-Suares, Liliana and Amado, Maria Alejandra (2014), "Understanding Latin America's Financial Inclusion Gap", Center for Global Development Working Paper, May 2014.

⁹ Global Findex Database, 2011. Available at: www.worldbank.org/globalfindex.

system, for instance, in a low income economy, 27% of men report having an account at a formal institution, while only 20% of women have one.

- 2.9 The expected result of this technical cooperation is to develop an ecosystem¹⁰ that supports digital government payments in order to advance on their financial inclusion indicators.

III. DESCRIPTION OF ACTIVITIES/ COMPONENTS AND BUDGET

- 3.1 The activities included in this TC will be structured around the following components:
- 3.2 **Component 1: Assessment of government payments at the national level and the broadband ecosystem.** This assessment would include a high level analysis of government payments that can be leveraged to engage with selected governments, in order to foster improvement and modernization through broadband and other ICT ecosystems, under the overall objective of financial inclusion. It will include a detailed and comprehensive assessment of the delivery mechanisms for government payments and collections at the national level currently in place. In particular, the assessment may evaluate the following areas of government payments and collections at the national level: (i) Government-to-People (G2P) payments, for example salaries, pensions, welfare benefits, subsidies and conditional cash transfers (CCTs); (ii) Government-to-Business (G2B) payments, primarily government procurement of goods and services; and (iii) People-to-Government (P2G) payments, such as taxes, utility bills and loan repayments. Additional payment flows, such as subsidies to businesses, may be evaluated as appropriate based upon demand, available funds and/or other factors.
- 3.3 **Activity 1.1: evaluation of government payments and technology applications.** This study will include: (i) the description of the project approach and a definition of the methodology to identify gaps and weakness in existing processes for government payment programs (including stakeholder analysis and management and functional review of sectorial institutions and “fitness for purpose” to deliver the national policy vision) that have the potential to advance financial inclusion, (ii) detailed findings of the analysis for each government payment area and identify suitable technology-applications as payment alternatives, and (iii) policy recommendations for the financial and communication sectors, as well as regulatory agencies¹¹. This analysis will take in consideration both the electronic payments regulations and financial inclusion policies in each selected country, and will have a particular emphasis in promoting solutions for rural areas where connectivity and financial inclusion gaps are highest. Up to four countries from the LAC Region will be analyzed, based on available funding, demand, level of ministerial support, readiness to implement recommendations, and other key factors.
- 3.4 **Activity 1.2: undertake good practices study.** This study will be based on “good-practices” from experiences in other countries (ex. Kenya- Africa, Korea-Asia, and Spain-Europe) for all

¹⁰ Ecosystem includes both the digital ecosystem as the financial ecosystem

¹¹ To undertake this analysis the consultants should take into account two knowledge products that have been developed by the broadband team: (1) the broadband development index (IDBA); and (2) the infrastructure maps (www.iadb.org/digiLAC).

government payments areas and ICT solutions to be leveraged as a reference and example of the achievable potential improvements to which countries should aspire. Also, it will consider the obstacles encountered in various CCT programs in LAC countries, particularly Colombia and Mexico, where experience shows that setting up a successful network of agents in rural areas to disburse G2Ps electronically and offer a set of adequate and affordable financial products can be very challenging undertaking.¹²

- 3.5 **Component 2 - Development of a holistic framework to guide governments to address the challenges associated with the effective development of financial inclusion programs through electronic government payments.** This component will finance the following activities:
- 3.6 **Activity 2.1: Definition of reference framework.** This activity will (i) define the reference framework regarding how government digital payments and the broadband and financial ecosystems can advance effective financial inclusion and what are the institutional, infrastructure and regulatory factors that should be considered; and (ii) identify suitable electronic payment alternatives. To identify the gaps in LAC countries compared to the ideal scenario, specific goals will be established for each of the variables in the assessment in component 1.
- 3.7 **Activity 2.2: design of technical recommendations.** This strategy will include the key findings, conclusions and suitable recommendations on a framework for financial inclusion through government digital payments by strengthening the broadband and financial ecosystems to present and engage with senior stakeholders from the government and relevant (public and private) agencies. These recommendations should consider the need to balance the interests of government (efficiency and transparency), the financial service and ICT providers (business case), and the beneficiaries of the payments (less transaction costs and value proposition).
- 3.8 **Component 3 - Development of a roadmap and governance model on government digital payments for the proposed recommendations.** This component will finance the development of a roadmap with strategic findings, and a governance model for the recommendations provided in component 1 and component 2. This activity will provide an illustration of the project including the key findings and benefits, and responsibilities of stakeholders involved to enhance government digital payments.
- 3.9 **Component 4 – Pilot project on innovative payment ecosystem and financial inclusion.** This activity will finance the design and implementation of a pilot project utilizing the roadmap and model designed in component 3 and its impact evaluation in one of the countries. The selection of the country to implement the pilot will consider the level of ministerial/government support to implement recommendations and results, as well as the institutional feasibility.
- 3.10 **Activity 4.1: design and implementation of the pilot project.** The pilot project will prioritize technical recommendations focused on payments and financial inclusion in rural areas,

¹² Preventing the Digital Trail from Going Cold: Lessons from Mexico. CGAP, 2014.

where, as mentioned above, connectivity and financial inclusion is more elusive. In this context, the project will focus on women receiving social benefits and/or conditional cash transfers from the government, as well as women entrepreneurs from the selected country.

- 3.11. **Activity 4.2: impact evaluation of pilot project.** This activity will finance an impact evaluation considering a baseline and monitoring line for the analysis.
- 3.12. **Component 5 - Lessons learned and dissemination.** This activity will finance the final paper with the analysis, comparison, recommendations, and conclusions of the application. The final paper will provide the baseline content for the development of any other country guidelines. The results of this paper will be presented by the Project Team at conference(s)--financed with this component--where public sector and private sector participants in the overall program will also conduct presentations on the lessons learned from their respective roles. This activity will also finance the production of =dissemination material allowing to share the main lessons learned with other countries in LAC. Moreover, the project team will hold conference calls with beneficiary countries to follow-up with the state of development of the recommendations provided during the dissemination event(s) and/or in the dissemination material.

Table 3.1 Result Framework Matrix

Area	Activities	Output	Immediate Outcome	Intermediate Outcome
TC level				Pillar level
Government payments and technology applications for financial inclusion.	Assessment of government payments and technology applications at the national level and the broadband ecosystem.	Evaluation of government payments in 4 IDB borrowing countries along with the methodology for the assessment. Indicator: Report on the evaluation and methodology of government payments.	Increased awareness and understanding of government digital payments to foster financial inclusion. Indicator: Number of citations in national government strategic documents. Number of visits to public information portals.	Countries making progress in their government digital payments. Indicator: 50% of the beneficiary countries are improving their financial inclusion indicators for the poor and less connected communities. Source: National level reports, IDB technical notes.
	Undertake good practices study.	Good practices study. Indicator: Report on good practices.		
Financial inclusion programs through broadband and ICT solutions.	Elaboration of a holistic framework to guide governments to address the challenges associated with the effective development of financial inclusion programs.	Detailed and comprehensive assessment of the delivery mechanisms for government payments at the national level currently in place Indicator: Report explaining the ideal case scenario and identify payment alternatives and technical recommendations for the countries selected.	Implementation of a financial inclusion program at the national level using broadband and other ICT solutions. Indicator: Percentage of beneficiaries on electronic payment programs.	
Transparency and access to information on government digital payments.	Development of a roadmap and governance model on government digital payments.	Roadmap and governance model for the implementation of the recommendations and strategic findings Indicator: Roadmap and governance model	Improvement in the level of transparency on government digital payments in the 4 selected countries. Indicator: Number of citations in national government strategic documents. Number of access to information requests	
Financial inclusion application and innovative payment technologies.	Finance the design of a pilot project, and impact evaluation.	Design and implementation of the pilot project, and impact evaluation Indicator: Pilot project implemented.	Enhanced capacity to implement government digital payment programs. Indicator: Number of beneficiaries of the pilot project.	
Knowledge creation and dissemination.	Lessons learned and dissemination.	Report explaining the TC's results Indicator: Video and dissemination event to communicate the results and conclusions.	Increased knowledge re government digital payments among key stakeholders from the public and private sector. Indicator: Video and conference.	

IV. BUDGET

Table 3.2: Indicative Budget (US\$)

Item	Description	Total
Component 1: Assessment of government payments at the national level.	Report on the evaluation and methodology of government payments. Report on good practices	125,000
Component 2: Development of a holistic framework to guide governments to address the challenges associated with the effective development of financial inclusion programs.	Report explaining the ideal case scenario and identifying payment alternatives and technical recommendations for the selected countries.	135,000
Component 3: Development of a roadmap and governance model for the proposed recommendations.	Roadmap and governance model.	100,000
Component 4: Financial inclusion pilot application and impact evaluation.	Pilot project focused on women receiving social benefits and entrepreneurs.	220,000
Component 5: Lessons learned and dissemination.	Video and dissemination of the results and conclusions	20,000
Total budget		600,000

- 4.1 The total amount needed to achieve the expected outputs by main components for this operation is US\$600,000. The Bank's Transparency Fund (AAF) will be financing the activities of this operation.

V. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 5.1 **Execution.** Considering the project's research and dissemination nature, the Inter-American Development Bank, through Capital Markets and Financial Institutions Division (IFD/CMF), will serve as executing agency. The project will involve the coordination of several institutions not only from the telecom sector, but also from the financial sector from different countries in the Region, and the Bank will serve as a regional coordinator. In that sense, it is expected that the Bank will play a catalytic role in facilitating the success of interaction among partners. The Project Team Leader will obtain a non-objection letter from the official liaison entity in each applicable country, prior to the initiation of any physical activities or pilot in such country. Furthermore, the project team will be responsible for each of the products and activities in the project. The Bank will contract individual consultants, consulting firms and/or non-consulting services in accordance with applicable Bank policies and procedures.
- 5.2 **Reporting, monitoring and evaluation.** The Project Team will prepare monitoring reports every six months and a final evaluation to measure progress and/or end results. The project team will share all such monitoring, reports, and /or final evaluations with the Technical Secretary of the Transparency Fund.

VI. MAJOR ISSUES

- 6.1 **Potential lack of involvement.** Active participation and commitment from governments and the private sector are necessary for the success of this project. It could take time and effort to motivate the beneficiary governments in the project. To ensure effective

demand the risk will be mitigated by: (i) the project team's direct contact with key players in countries where market developments are most favorable, (ii) contacts with other organizations involved in this area, such as Master Card; and (iii) the dissemination of the results of the project through the broadband program meeting opportunities in the region.

VII. EXCEPTIONS TO BANK POLICY

- 7.1 There are no exceptions to Bank policy.

VIII. ENVIRONMENTAL AND SOCIAL CLASSIFICATION

- 8.1 Given that this TC focuses on a study, there are no social or environmental risks associated with it. This operation is classified as a Category "C" according to the Environment and Safeguards Compliance Policy (OP-703) (See: [Safeguard Policy Filter Report and Safeguard Screening Form](#)).

Required Annexes:

- Annex I: [Terms of Reference \(ToR\)](#)
- Annex II: [Procurement Plan](#)


**DEVELOPMENT OF GUIDELINES AND ROADMAP ON GOVERNMENT DIGITAL
PAYMENTS TO FOSTER FINANCIAL INCLUSION**

RG-T2550


CERTIFICATION

I hereby certify that this operation was approved for financing under the Transparency Trust Fund (AAF) through a communication dated March 24, 2015 and signed by Alejandro Stamoglou (ORP/GCM). Also, I certify that resources from said fund are available for up to US\$600,000 in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of four (4) calendar months counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.


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Sonia M. Rivera
Chief
Grants and Cofinancing Management Unit
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Date

Approved: 

Jose Antonio Ketterer
Division Chief
Capital Markets and Financial Institutions Division
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APPROVAL



Date