

TECHNICAL COOPERATION ABSTRACT

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); Félix Gonzalez (IFD/CMF); Lorena Cano (IFD/CMF); Enrique Iglesias (IFD/CMF); and Cecilia Bernedo (IFD/CMF).
Date of TC Abstract authorization:	October, 2014
TC Taxonomy	Research & Dissemination (RD)
Donors providing funding:	Broadband Special Program (BBD)
Beneficiary	Public sector entities, private sector financial service providers, and citizens of the countries impacted by efforts.
Executing Agency and contact name:	Inter-American Development Bank, Capital Markets and Financial Institutions Division (IFD/CMF), Antonio Garcia Zaballos (antonioagar@iadb.org)
IDB Funding Requested:	US\$ 600,000
Local counterpart funding	None
Disbursement period:	24 months (18 months execution period)
Required start date:	January 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 directional guidelines and roadmaps to governments to foster government digital payments in order to advance on their financial inclusion indicators, drive efficiencies, improve transparency, and realize cost savings for the poor and less connected communities. This objective translates into a detailed and comprehensive assessment of the current delivery mechanisms for government payments and collections at the national level. In particular, the assessment will evaluate the following areas of government payments and collections at the national level:

(i) Government-to-People (G2P) payments: social benefits, conditional cash transfers, etc; and (ii) Government-to-Business (G2B) payments: government procurement of goods and services. Additional payment flows, such as subsidies to businesses, may be evaluated as appropriate based upon demand, available funds and/or other factors. This project will strengthen fiscal transparency and support government solutions to facilitate access to information. In addition, this TC will be complementary to the TC under preparation “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. Moreover, this project will take into consideration the findings from the TC “Using Broadband to Enhance Financial Inclusion” (RG-T2442), which focuses on promoting the development and use of web-based systems of financial service delivery in Latin America and the Caribbean. Such operation will harmonize and complement this project (RG-T2550), raising awareness of the potential of web-based systems on financial service providers and public sector policy makers.

- 2.2 **Justification.** Broadband and other Information and Communication Technologies (ICT) are enablers of economic and social development. Financial inclusion is one of the drivers through which broadband consolidates its impact on economic growth.¹ 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%.² 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.³ The macro impact relies on its contribution to a broad range of economic and social sectors. Broadband and ICTs have the potential to foster and transform government payments.
- 2.3 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. 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. Third, ICT technologies can enhance the limited competition in the target markets by facilitating the entry of more financials service providers.
- 2.4 In this context, numerous governments around the world are evaluating how to improve efficiency and transparency for various types of government payments. Adoption of *electronic payment instruments* is emerging as an appropriate and promising approach

¹ Andrianaivo, Mihasonirina and Kpodar, Kangni (2011), “ICT, Financial Inclusion, and Growth: Evidence from African Countries”, IMF Working Paper, April 2011.

² World Bank (2009).

³ García-Zaballos, Antonio and López-Rivas, Rubén (2012), “Governmental Control on Socio-Economic Impact of Broadband in LAC Countries”, IADB Technical Note, November 2012.

to improving government payment programs. The key challenge for governments is how to identify, structure, and implement the appropriate solutions that will not only improve efficiency and transparency of the payment process but will also increase the convenience and security for final users and recipients of these payments.

- 2.5 Improvements in government payment programs through electronic payments 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 payments 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.
- 2.6 Despite the efforts of LAC governments in the last decade to improve socioeconomic conditions for the poor through Conditional Cash Transfer programs –some of which are through financial instruments, e.g., using debit cards or bank accounts as in the case of Brazil, Argentina, Colombia, Ecuador, Jamaica, Mexico, Paraguay and Panama⁴– financial inclusion remains short in most Latin America countries notwithstanding that 21% of LAC population (roughly 129 million beneficiaries⁵) receive conditional 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), but only 6.5% has saved at a financial institution in the past year.⁶ Moreover, women are more at risk of being excluded from the financial system. In Latin America, only 35% of women have account in a formal institution, compared with 44% of men.⁷

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 for financial inclusion.** This assessment would include a high level analysis of government payments that can be leveraged to engage with the

⁴ Cecchini, Simone and Madariaga, Aldo (2011), “Conditional Cash Transfer Programmes: The recent experience in Latin America and the Caribbean”, Cuadernos de la CEPAL 95.

⁵ Stampini, Marco and Tornarolli, Leopoldo (2012), “The Growth of Conditional Cash Transfers in Latin America and the Caribbean: Did they go too far?” IZA Policy Paper, November 2012.

⁶ Rojas-Suares, Liliana and Amado, Maria Alejandra (2014), “Understanding Latin America’s Financial Inclusion Gap”, Center for Global Development Working Paper, May 2014.

⁷ Global Findex Database, 2011. Available at: www.worldbank.org/globalfindex.

selected governments, in order to foster improvement and modernization through broadband and other ICT ecosystems for payment and financial services.

- 3.3 **Activity 1.1: evaluation of government payments and technology applications.** This comprehensive study will include (i) the description of the project approach and a clear 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), (ii) detailed findings of the analysis for each government payment area and identify suitable technology-applications payment alternatives, (iii) policy recommendations for the financial and communication sectors, as well as regulatory agencies⁸. Moreover, this analysis will take in consideration both the electronic payments and financial integrity agenda in each country, exploring whether and how these two issues are related. The aim for this analysis will be to select one country from each country cluster (CAN, CCB, CID, CSC). Countries will be prioritized based upon 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 for all government payments areas and ICT solutions to be leveraged as a reference and example of the achievable potential improvements to which the countries should aspire.
- 3.5 **Component 2 - Elaboration of a holistic framework to guide governments to address the challenges associated with the effective development of financial inclusion programs through broadband and ICT solutions.** This component will finance the following activities:
- 3.6 **Activity 2.1: Definition of reference framework.** This activity will (i) define the reference scope regarding government digital payments and the broadband ecosystem for financial services, keeping in mind the specific and local constraints; and (ii) identify suitable electronic payment alternatives to improve efficiency, transparency, and financial inclusion. 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 technology - applications for financial inclusion to present and engage with senior stakeholders from the government and relevant (public and private) agencies.
- 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

⁸ 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).

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 - Financial inclusion application and innovative payment technologies.** This activity will finance the design of a pilot project and its impact evaluation in one of the country selected.
- 3.10 **Activity 4.1: design and implementation of the pilot project.** Due to the disadvantage of women in the financial system, the implementation of this project will have special focus on women receiving social benefits and/or conditional cash transfers from the government, as well as women entrepreneurs from the country selected.
- 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.** A final document will be prepared on 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 at conference(s), in which the public sector and private sector participants in the overall program will also conduct presentations on the lessons learned from their respective roles. Dissemination material will be produced to transmit the main lesson learned to other countries in LAC.

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: No. of citations in national government strategic documents	Countries making progress in their government digital payments Indicator: 50% of the countries in which the team has provided supports 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 current delivery mechanisms for government payments at the national level 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 countries selected Indicator: No. of citations in national government strategic documents	
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 focused on women receiving social benefits and entrepreneurs	Enhanced capacity to implement government digital payment programs Indicator: Number of women 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	Increase knowledge about government digital payments among key stakeholders from the public and private sector Indicator: video and conference	

IV. BUDGET

Table 3.2: Indicative Budget

Item	Total (US\$)
Component 1: Assessment of government payments at the national level	125,000
Component 2: Elaboration of a holistic framework to guide governments to address the challenges associated with the effective development of financial inclusion programs	135,000
Component 3: Develop a roadmap and governance model for the proposed recommendations	100,000
Component 4: Financial inclusion pilot application and impact evaluation	190,000
Component 5: Lessons learned and dissemination	50,000
Total budget	600,000

V. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 5.1 **Execution.** Considering that the project is regional and needs interactions with governments of the Region, the executing agency will be the Inter-American Development Bank, through Capital Markets and Financial Institutions Division (IFD/CMF). In that sense, it is expected that the Bank will play a catalytic role in facilitating the success of interaction among partners.

VI. PROJECT RISKS AND ISSUES

- 6.1 **Potential lack of involvement.** Given that active participation and commitment from governments and private company necessary for the success of the 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) direct contacts of the project team with key actors 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 information 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 the current TC revolves around a study, there are no social or environmental risks associated with it. This operation is classified as a Category "C" according to the classification toolkit of the Bank (see link: [IDBdocs# 39184321](#)).