Alternative Payment Systems: Experiences from Lesotho, Nepal and Pakistan

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Overview of the Presentation

Lesotho  
(beginner: considering a switch)

Nepal  
(intermediate: piloted branchless banking)

Pakistan  
(advanced: looking to improve)

Synthesis

What is the next best step after paper based system given characteristics of the country and its social protection programs?
<table>
<thead>
<tr>
<th>Program</th>
<th>Method</th>
<th>Frequency</th>
<th>Amount</th>
<th>Approximate Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>OAP +/-80 000</td>
<td>Manual</td>
<td>Monthly</td>
<td>$35</td>
<td>$2.3/benef.</td>
</tr>
<tr>
<td>PA 15 000</td>
<td>Manual</td>
<td>Quarterly</td>
<td>$25</td>
<td>$2.5/benef.</td>
</tr>
<tr>
<td>CGP 25 000hhs 75 000ovc</td>
<td>Barcode Technology and Automatic Processes</td>
<td>Quarterly</td>
<td>$36 , $60, &amp; $75/ quarter, based on # of children</td>
<td>Avg. $3.5 /HH</td>
</tr>
</tbody>
</table>

**OAP**
Universal

**PA**
Self targeted (under review)

**CGP**
Targeted (PMT & CBT)
# Lesotho: Current Payments and Programs

<table>
<thead>
<tr>
<th>Program</th>
<th>Method</th>
<th>Strengths</th>
<th>Weaknesses</th>
<th>Challenges</th>
</tr>
</thead>
</table>
| OAP     | Manual through payment teams | - Payments made regularly  
- Vast coverage | - Reconciliation done manually  
- Double registration (females)  
- Time consuming  
- Room for errors | High costs for delivery; more expensive in hard to reach areas (insurance and transportation and/or helicopter hire)  
• Payments take place in specified areas, very far for some beneficiaries and have to travel long distances  
• Unpredictable payments  
• No specific ID cards for beneficiaries  
• Risky method of delivery |
| PA      | Manual with payment points (Sub-accountncy) | - Payments made regularly | | |
| CGP     | Payment Points with Barcode Technology and Automatic Processes (G4S and SLB) | - Quick and easy execution and reconciliation  
- Enhanced security  
- Transparency  
- Easy to access payment history  
- Works offline | - Costly  
- Medium coverage | |
## Alternative payments

### Mobile money transfer/ Mobile wallet

<table>
<thead>
<tr>
<th>Objectives of new payment system</th>
<th>Enabling factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>In line with the National Strategic Development Plan (NSDP)</td>
<td>• Mobile network coverage</td>
</tr>
<tr>
<td>• To improve access and flexibility of collection of transfers by beneficiaries;</td>
<td>• Community based agents/vendors</td>
</tr>
<tr>
<td>• To improve reconciliation</td>
<td>• Willingness of mobile companies to assume social responsibility (e.g. provision of free simcards for all beneficiaries)</td>
</tr>
<tr>
<td>• To reduce administrative costs and overall cost effectiveness;</td>
<td></td>
</tr>
<tr>
<td>• Increase access to financial services for beneficiaries</td>
<td></td>
</tr>
<tr>
<td>• Reduce risks in cash management for beneficiaries</td>
<td></td>
</tr>
</tbody>
</table>
Potential Challenges of Alternative Payments

• Difficult to use for older and illiterate beneficiaries
• Liquidity of agents especially in remote areas
• Not easy to authenticate beneficiaries
# Cash Transfer Program

<table>
<thead>
<tr>
<th>Cash Transfer</th>
<th>Eligibility Criteria</th>
<th>Benefit Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Citizen’s Allowance</td>
<td>All Dalits &amp; Karnali residents over 60 years; all others over 70 years</td>
<td>Rs. 500/month</td>
</tr>
<tr>
<td>Medical treatment Allowance</td>
<td>All senior citizens above 70 years</td>
<td>Rs. 2000 per year</td>
</tr>
<tr>
<td>Single Women’s allowance</td>
<td>Widows of all ages and Single women over 60</td>
<td>Rs. 500/month</td>
</tr>
<tr>
<td>Child Grant</td>
<td>All children under 5 years in Karnali and all of Dalit.</td>
<td>Rs. 200 per child per month</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(max 400 per household)</td>
</tr>
<tr>
<td>Disability Grant</td>
<td>Full disability</td>
<td>Rs. 1000/month</td>
</tr>
<tr>
<td></td>
<td>Partial disability</td>
<td>Rs. 300/month</td>
</tr>
<tr>
<td>Endangered Ethnicity Grant</td>
<td>Belong to one of the ten endangered ethnic groups.</td>
<td>Rs. 1,000/month</td>
</tr>
</tbody>
</table>
Budget and Beneficiaries

• Total 2.2 million beneficiaries
• 13 billion Rupees (out of 55.5 billion of total SSN budget (which is 9% of total government expenditure))
  – Senior citizens
    • Karnali (above 60 yrs) : 27855
    • Dalit (above 60 yrs): 234634
    • Others (above 70 yrs) : 688930
  – Single/Widow : 648553
  – Disability : 33578
  – Endangered Ethnicity : 20308
  – Karnali/Dalit Children: 506718
Needs for Alternative Mechanism: Electronic Transfer

Objectives

• Proper record management of beneficiaries
• Elimination of ghost beneficiaries'
• Mitigation of Fraud/irregularities: biometric information of beneficiaries, no cash in hands
• Timely and effective cash delivery
• Assurance of cash transfer to the beneficiaries
• Financial Inclusion/Literacy
Comparison between the two payment systems

In terms of total amount

<table>
<thead>
<tr>
<th>District</th>
<th>Payment through VDCs/Municipalities</th>
<th>Payment through Banking System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banke</td>
<td>51.3</td>
<td>47.05</td>
</tr>
<tr>
<td>Surkhet</td>
<td>51</td>
<td>42.4</td>
</tr>
<tr>
<td>Baglung</td>
<td>57.7</td>
<td>45.3</td>
</tr>
</tbody>
</table>

In terms of no. of beneficiaries

<table>
<thead>
<tr>
<th>District</th>
<th>No. of Beneficiaries in '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banke</td>
<td>28.9</td>
</tr>
<tr>
<td>Surkhet</td>
<td>31</td>
</tr>
<tr>
<td>Baglung</td>
<td>34.9</td>
</tr>
</tbody>
</table>
Major Challenges for electronic transfer

**Geography related challenges**
- Cash management for agents
- Missing connectivity: currently operating in offline mode
- Lack of electricity to charge POS machines

**Capacity related challenges**
- Lack of capable staffs to handle the system in central/local government

**Issues related to payment delivery**
- Readiness of Banking Sectors
- Technical issues related to POS machines
- Difficulties reading fingerprints—method appropriate for this beneficiary group?
- Receipts not provided for voucher payments

**Sustainability of agents**
- Basic qualifications of agents selected & training
- Adequacy of incentives for agents

**Technology:**
- Coverage of mobile network
- Cost of mobile banking
- Data collection & management

**Lack of focus on financial inclusion**
- No distinction between financial literacy and financial inclusion.
- Focus on social protection and delivery of payments – less on financial inclusion.
PAKISTAN

PROGRAM DESCRIPTION
• Currently 5.1 million and will be expanded to 7 million families (42 Million people) identified for SN CTs whereas 4.5 million families are being paid who are poor.
• Average grant per recipient $14 per month

PAYMENT METHODS
• Debit Cards (86.24%)
• Money Order (6.78%)
• Smart Cards (4.12%)
• Mobile Banking (2.76%)

PERFORMANCE
• 3.8 million debit cards for SSN cash transfers in 3 years
• Technology based Grievance Redressal (more than 500 touch points)
Pakistan Enabling Factors for Supporting Electronic Payments

Supportive Environment
• Branchless Banking 2008 and July 2011.
• Level Zero Account Authorized by Central Bank

Innovative Technologies Piloted
• Digitized financial services and payment using Telecoms
• Innovative partnerships between Banks mainly commercial banks

Financial Implications of Regulations
• Financial Inclusion
• Piloting of Financial Literacy

Effective Targeting and Registry
• Adoption of PMT and completion of Poverty Scorecard Census
• Linkage of PSC with National Unique ID
• GPS based National Registry of Poor
Goals of Switching from Paper Based Payments

- **Women Empowerment** - Allowing rural poor women to access formal banking channels for the first time
- **Financial Inclusion** - Allowing the poor population to operate formal accounts for the first time
- **Efficient and Effective Delivery** - Timely, real time and transparent delivery of payments

Advantages of Using Debit Cards for Electronic Payments

- **Cost Effective** – more reasonable than Smart Card and Mobile Phones
- **Objective and Effective** Payments Transfer
- **Flexible and Convenient** - use of both ATM or POS
- **Collaboration** with Telecoms for enhanced coverage
- **Effective Integration**, Real Time Data Reconciliation
- **Efficient Control, Transparency** and Visibility
## Pakistan Remaining Challenges for Supporting Electronic Payments

<table>
<thead>
<tr>
<th>Program Side</th>
<th>• The loss of PINS for ATM use for ultra poor beneficiaries and use of biometrics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory Side</td>
<td>• The Role of banking regulations for ensuring security and reliability in payments</td>
</tr>
<tr>
<td>Supply Side</td>
<td>• Understanding the Perspective of Banks and interoperability of BB accounts</td>
</tr>
<tr>
<td>Demand Side</td>
<td>• Understanding demand for delivery of social sector programs and the poor</td>
</tr>
</tbody>
</table>
Concluding Points

- Agent banking is not always the next best step: Presence of financial infrastructure, geography, readiness of financial sector and penetration of mobile technology will define the best fit payment system.

- Characteristics of ultra poor (e.g. illiteracy) still make alternative payments a challenge.

- Proper financial regulations still have to be developed.

- There are gains beyond just cost efficiency (e.g. elimination of ghost beneficiaries in case of Nepal pilot).