



Launch of Payment Flow Diagnosis for Government Payments for Zambia



Agenda

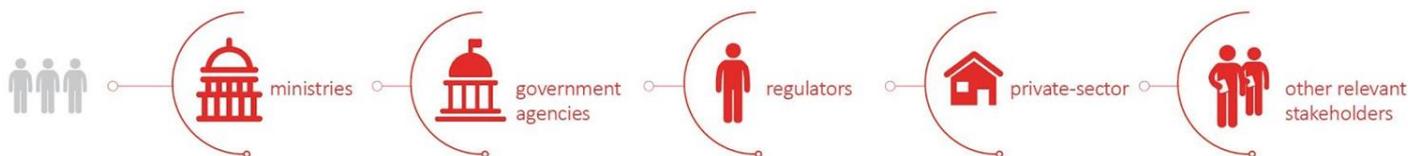
- ✓ Methodology and definitions
- ✓ Base line - key statistics on Zambia
- ✓ What has GRZ done so far?
- ✓ What have other countries done?
- ✓ Barriers to digitization of payments
- ✓ Prospects for digitizing payment flows – 1 & 2
- ✓ Incentives to digitize payments
- ✓ Opportunities to drive digitizing of payments

Methodology and definitions

Number of interviewees:



- ✓ More than 115 interviewees from 22 organizations, comprising of:



Cash: Paper-based authorization

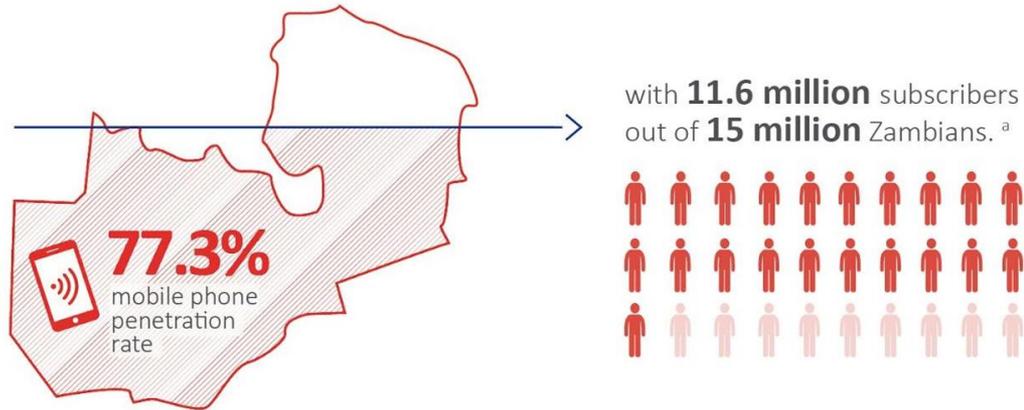
Digital: Initiated using an electronic instrument

DFS: Mobile money account or bank / mfi account that is accessed using an electronic channel i.e. Mobile phone, internet, card, POS,



		PAYEE		
		Government	Business	Person
PAYER	Government	G2G Budget Allocations, Funding	G2B Grants, Payments for goods & services	G2P Welfare programs, salaries, pensions
	Business	B2G Taxes, License fees	B2B Payments for goods and services	B2P Salaries
	Person	P2G Taxes, Utilities, fees	P2B Purchases	P2P Remittances

Base line - key statistics on Zambia



^a ZICTA, 'ICT Survey Report- Households and Individuals', November 2015. Available from <https://www.zicta.zm/Views/Publications/2015ICTSURVEYREPORT.pdf>

Trends in financial inclusion

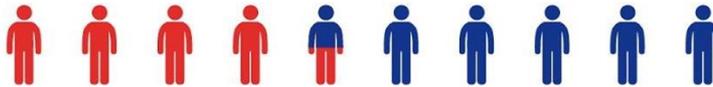


Base line - key statistics on Zambia

86% of Zambians
ready to learn a new
technology



47% of Zambians don't like to carry cash



b InterMedia, 'Consumer Behaviors in Zambia: Analysis and Findings,' February 2016. Available from http://www.intermedia.org/wp-content/uploads/2016/03/zambiaintermedia_consumerbehaviours.pdf



% of adults with active
DFS accounts – **18%****



% of adults with active
mobile money accounts – **8%****



Number of active
agents – **11,025****



Number of ATMs – **998***

DFS Account – Active customer accounts refers to customers that have performed at least one Person to Person payment, bill payment, bulk payment, cash in to account, cash out from account, or airtime top up from account for at least the past 90 days using a digital channel e.g. mobile phone, internet, card or agent

** Source – UNCDF, * Source – Bank of Zambia data

What has GRZ-MOF done so far?



Integrated Financial Management information system (IFMIS)

- ✓ Pilot launched in 2010
- ✓ Centralized record keeping and payment instructions
- ✓ Rolled out to 46 of 52 Ministries.



Treasury Single Account (TSA)

- ✓ Pilot launched 2014
- ✓ Unified control of the GRZ accounts, cash balances and payments
- ✓ Rolled out to 7 MPSAs

National Financial Inclusion Strategy (NFIS)

- ✓ MOF is leading the development of the NFIS

What has GRZ done so far?



Bank of Zambia – National Payments Systems Vision 2013 - 2017

- ✓ Straight-through transaction processing
- ✓ Increased transaction limits for E-money – Q4 2016
- ✓ Reduced limit for value of Cheques and increased limits for Electronic Funds Transfers (EFTs)



ZRA payments – tax collections – Corporate Strategic Plan 2016 - 2018

- ✓ E-payment platform introduced in 2014 to improve efficiency in tax collections.
- ✓ Circular released to support Migration of all payments Q4 2016
- ✓ 13 Banks at migration to digital payments.

Key findings – State of data

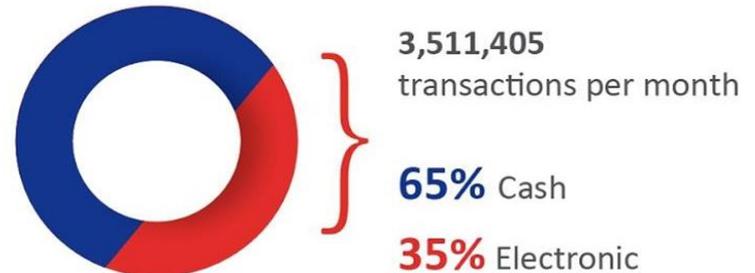
Figure III

Monthly value (total amount) of government payments



Figure II

Monthly volume (number of transactions) of government payments



- ✓ G2G payments largely high-value and via EFTs
- ✓ G2G payments highly digitized but less as it goes from G2B and G2P
- ✓ 3,330 Monthly payments as G2B
- ✓ 98% Payments to suppliers – High value via EFT.

- ✓ 2.3 Million transactions made in Cash.
- ✓ 1.9 Million – School related fees
- ✓ 0.6 Million – Social Cash Transfers
- ✓ P2G payments highest pending as they are high volume and low value.

Key findings – State of data

Figure VI

Government payments by volume compared to business- and person-to-government payments in five countries (2013, 2015 and 2016)

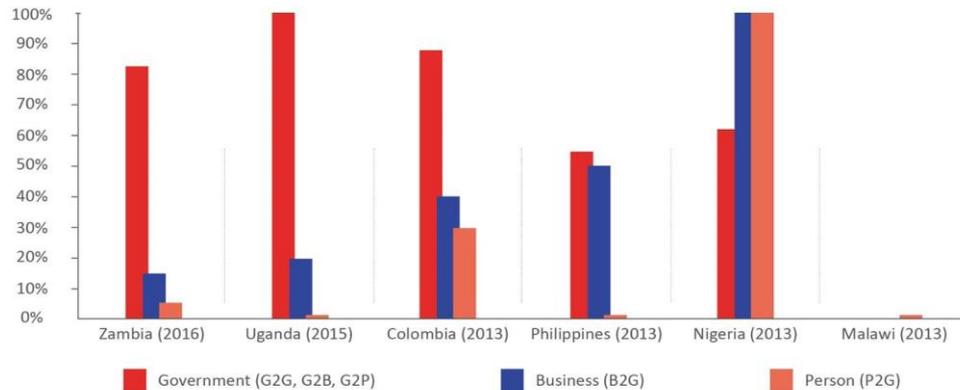
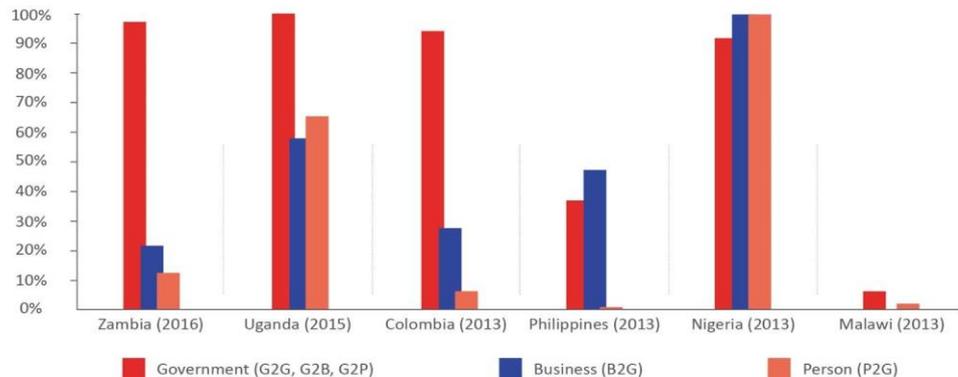


Figure VII

Government payments by value compared to business- and person-to-government payments in five countries (2013, 2015 and 2016)



- ✓ Zambia on par G2G in comparison to 5 other countries
- ✓ On par for G2G, G2B. G2P with Uganda, Columbia, Nigeria
- ✓ Zambia's performance on G2G, G2B, and G2P is better than Philippines and Malawi
- ✓ However, B2G, P2G – performance is mixed
- ✓ Volume vs. Value does have different performance but trend lines remain the same

Global success stories



Cost Savings

- ❑ In Brazil, the 'Bolsa Família' cash transfer program reduced its transaction costs from 14.7% of total payments to 2.6% when it bundled several benefits onto one payment card.
- ❑ In Mexico, a 2013 United Nation's Better Than Cash (BTCA) case study found that the government is saving 3.3% of its total expenditure (\$1.3 billion p.a.) on wages, pensions and social transfers by digitizing and centralizing its payments.
- ❑ In India, a recent study found that the government could save approximately \$22.4 billion yearly by automating its payments programs.



Improved Collaborations

- ❑ In Uganda, the diagnosis led to improved collaboration between the Bank of Uganda, Ministry of Finance and other government agencies like URA, KCCA
- ❑ In the Philippines, the Diagnostic contributed to public dialogue with the private sector in illustrating that the opportunity to digitize was great and has led to significant headway in national interoperability of financial service providers

Speed and Security

- ❑ In Kenya, residents can pay their taxes to Kenya Revenue Authority using Airtel Money's mobile money platform and are no longer required to queue in KRA banking halls to pay their taxes.
- ❑ In Uganda, the diagnosis led to the review of the SCTs after the pilot by the Ministry of Gender and resulted in the review of the pricing and implementation strategy of the programme.

Financial Inclusion

- ❑ In Peru, the government has used the diagnostic to launch reforms focused on sub-national payments digitization for social inclusion.
- ❑ In Colombia, the Diagnostic helped the ecosystem realize that medium and small value payments were largely made in cash, one contributor to financial exclusion.

Barriers to digitization of payments

“We are aware of the barriers: We know this isn’t easy”



- High transaction fees
- Liquidity Management – Agents do not always have sufficient liquidity (cash or efloat) at the right times
- Low levels of customer awareness and protection
- Inability of customers to meet know-your-customer (KYC) requirements
- Need to improve and understand the tendering process
- Inadequate rural reach and unstable network connections
- Absence of a National Financial Switch

Prospects for digitizing payment flows



One-to-many (Bulk Payments)

- ✓ Salaries, Pensions, third party payments – 100% Electronic.
- ✓ 98% Value of Contractor Payments – electronic.
- ✓ *Social Cash Transfers – 121,000 Cash Payments
- ✓ *FISP – 50,600 of 133,000 payments - electronic

Many-to-one (remote bill Payments)

- ✓ *School-related fees – More than 851,000 cash payments
- ✓ *Taxes (MSMEs & Individuals) – 11% of 174,000
- ✓ Fees, fines and licenses – More than 20,600 payments

Bulk payments – how it works



1.

Deposit made into Trust / Escrow Account to enable payer have E-Value in payment account



2.

Payer has E-Value in Payment account. Creates and uploads payment file



3.

List of beneficiaries is uploaded into the bulk payment system showing, name, Unique ID, Reason, Amount



5.

Payment effected via single or multiple channels. i.e. Mobile Phone, Card / bank a/c, POS, E-voucher



4.

File is Reviewed by second (3rd) Authorizer before payment is effected

Bulk payment flows - FISP



- ✓ Ministry of Agriculture begun FISP in 2015 – 600,000 beneficiaries and targeting 1.2M by 2019.
- ✓ Enable Small Holder Farmers (SHF) gain access to subsidized agro-inputs.
- ✓ Payments of K2,000 + K 400 (SHF)
- ✓ Partnered with 5 banks to implement FISP E-Voucher. Visa-enabled card
- ✓ 1.2 Million payments (\$112M) annually.
- ✓ Several challenges during the execution of the e-voucher programme.
- ✓ **MIS – Key challenge as it doesn't capture information on agro-input provider or type of inputs provided**

Bulk payment flows – SCT



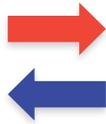
- ✓ Ministry of Community Development start SCT and has planned increase to 500,000 beneficiaries in 105 districts – 2017 Budget.
- ✓ Benefits are received bi-monthly, i.e. K180 and K360 for households based on categories (disabled or non-disabled)
- ✓ **Current Process – MCDSS > bank accounts of District Social Welfare Officers (DSWOs) (2 days) > DSWOs cheques to pay-point managers (2-3 days) > cash cheques at bank branch > Carry cash to pay-points.**
- ✓ Beneficiary cashes out and is required to have an National Registration Card (NRC)
- ✓ Turn around time 7-14 days.
- ✓ **WFP is supporting MCDSS to launch a pilot with ZANACO to pilot digitization of SCT to 34,000 households in 10 districts in 3 provinces.**

Remote bill payments – how it works



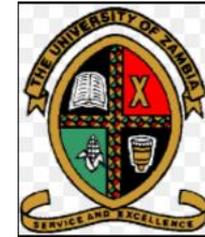
1.

Payments are initiated using various channels. Mobile phone, POS, agent assisted, internet banking



2.

Customer details are verified in the Bill payee Database – Confirmation / verification sent back to customer



3.

Payment is remitted to Payee E-Value and / or Bank account once customer authorizes payment,

Bill payments – School related fees



- ✓ Ministry of General Education reported fees include: Parent Teacher Association (PTA), centre fees, practical subjects fees, lunches
- ✓ 9,609 schools – over 4,000,000 students.
- ✓ Potential 10M transactions annually valued at K 832M (\$86 M)
- ✓ Payments mainly made in cash at institution or bank accounts.
- ✓ Reconciliation and accountability challenges due to physical records management.

Bill payments – Government collections



collections

- ✓ More than 80% of ZRA's collections are digitized. This mainly due to large corporates via Real-Time Gross Settlement (RTGS) / Electronic Funds Transfer (EFT).
- ✓ Government collections include: taxes, license fees, fines
- ✓ 4% of tax payments by individuals are digital.
- ✓ 97% of MSMEs are informal and present a large opportunity for digitizing payments.
- ✓ On-going integration with MMOs to improve tax collections for individuals.
- ✓ Tanzania Revenue Authority (TRA) launched a Revenue Gateway system (RGS) and interface between TRA, Bank of Tanzania , commercial banks and other financial service providers.

Incentives to digitize payments



Government

- ✓ Great Transparency and accountability.
- ✓ Reduced cost of administration / operations
- ✓ Broader tax base and more predictable payments.
- ✓ Improved operational efficiencies
- ✓ Reliable data



Financial Service Providers

- ✓ Revenue from transactions costs.
- ✓ Reduced cost of acquisition / growth of customer and agent networks in remote areas.
- ✓ Development of sustainable profit-sharing models to support project implementation.



Individuals

- ✓ Improved security and reduced risk of fraud.
- ✓ Opportunity to gain access to formal financial solutions
- ✓ Increased convenience for payment to and from the government.
- ✓ Greater confidence in full value of payments

Opportunities for digitizing gov payments



Support the review and improvement of the tendering process for digital payments.

Objective	Support the MCD to review and improve the tendering process for digital payments that can be adopted by other ministries.
Outcomes	<ul style="list-style-type: none">• Review of existing tendering process.• Identification of any improvements to the tendering process that can be adopted by MCD and other ministries.• Develop propositions for the government (payer), private sector (FSP) and beneficiary.
Key Stakeholders	GRZ, MM4P Zambia, Financial service providers.

Opportunities for digitizing gov payments



Support to improve existing G2P and P2G digitization programmes.

Objective	Support MCD, MoGE and MoAG in on-going digitization programmes.
Outcomes	<ul style="list-style-type: none">• Technical assistance to review and recommendation improvement areas of existing digitization programmes.• Understand the challenges of extending financial services to last-mile customers and develop solutions built for the customer.• Pilot tests to implement recommendations digitize SCT payments with partner FSPs,• Develop Scale-up Strategy for future digitization programmes.
Key Stakeholders	GRZ, MM4P Zambia, MCD / MoGE / MoAG, Financial service providers.

Opportunities for digitizing gov payments



Support to develop ministry database infrastructure.

Objective	Support the development and implementation of a “Payments Dashboard” for FISP Program
Outcomes	<ul style="list-style-type: none">• Develop and implement payments dashboard to track farmer activities.• Provide real-time visibility and monitoring of the Programme.• Additional financial solutions for farmers.
Key Stakeholders	MoAG, MM4P Zambia, Financial service providers.

Opportunities for digitizing gov payments



Support for financial interoperability.

Objective	Support the development of rules and implementation of the National Financial Switch (NFS)
Outcomes	<ul style="list-style-type: none">• Support the development of the rules for the NFS in collaboration with BOZ• Support with adopting international best practices of onboarding the various payment channels onto the NFS.• Support on the development of a pricing strategy for the NFS
Key Stakeholders	BOZ, FSDZ, Financial service providers.

How do we capture the opportunity?

OPPORTUNITY

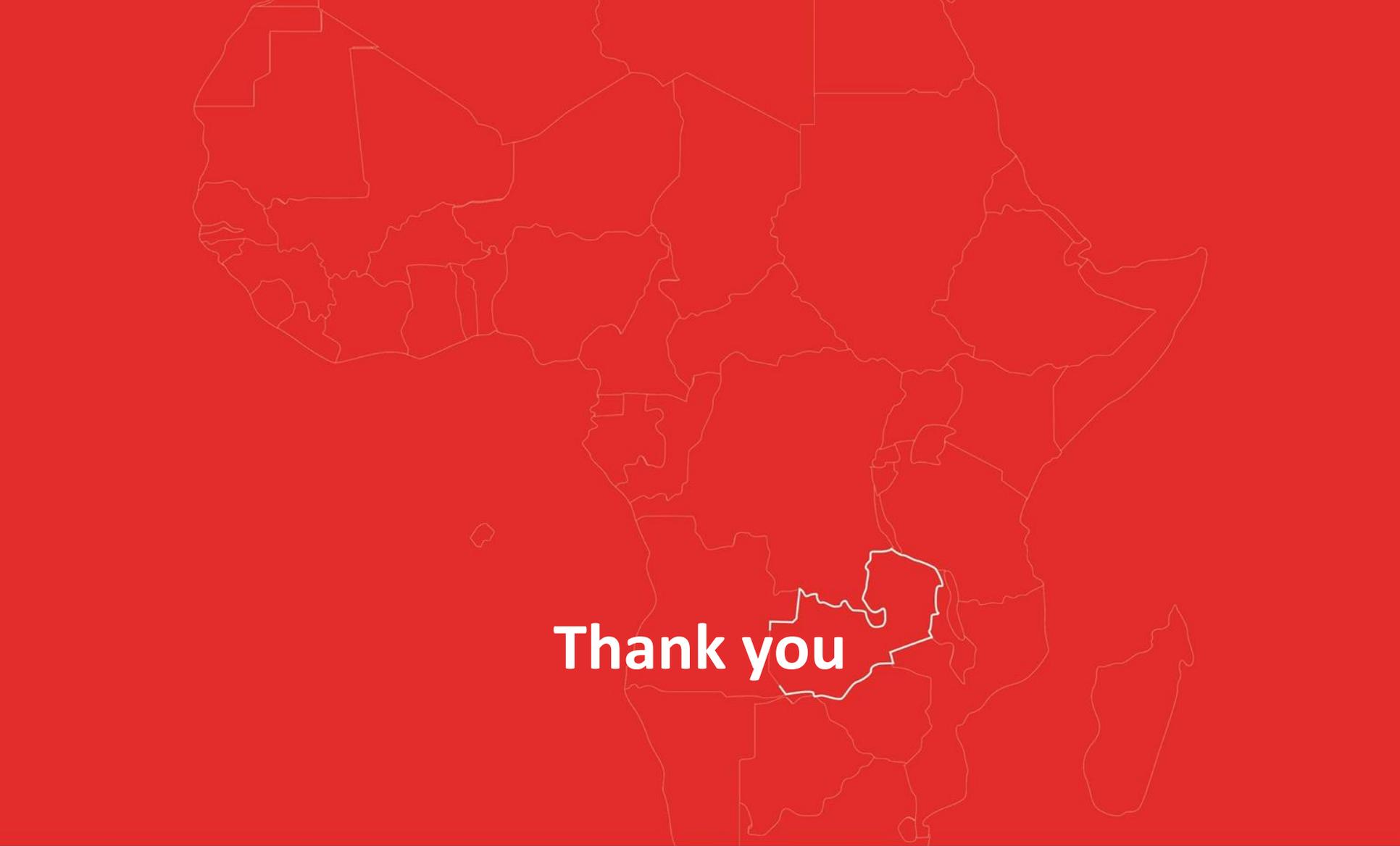


- Address the Barriers - The Ecosystem must work together to:**
 - * Lower transaction costs.*
 - * Create meaningful awareness*
 - * Develop the NFS*

- Leverage TA from Trusted Partners (MM4P, WFP, others) to support the government and private sector in the implementations.**

- Engage Private Sector in robust Public-Private dialogue to understand customer, private sector and government needs**

- Develop partnerships to reduce cost of service delivery in rural areas – “Take a leap of faith”**



Thank you



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