



# *General Guidelines for the Development of Government Payment Programs*

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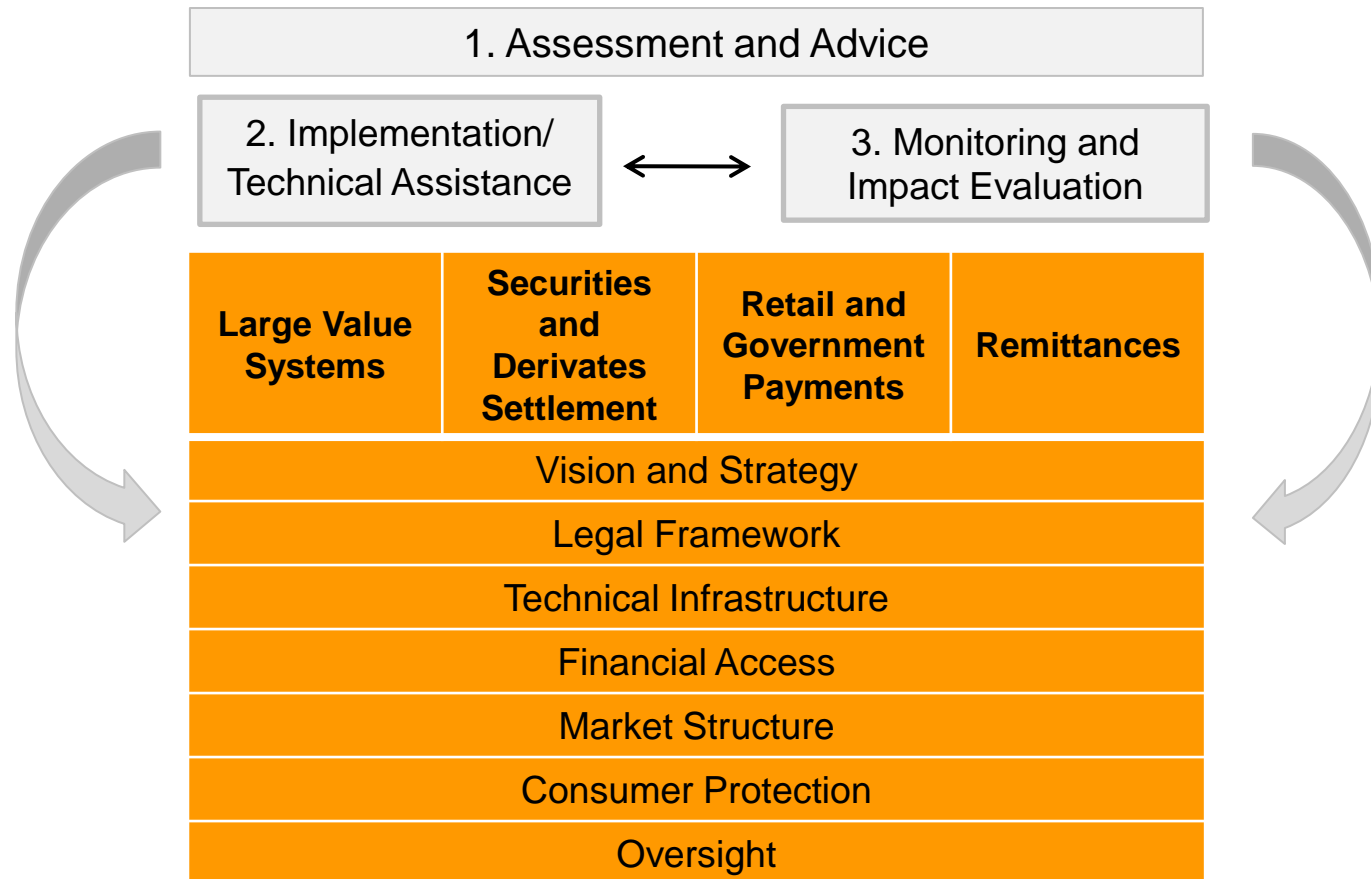


# *Agenda*

- Introduction to the Payment Systems Development Group
- Overview of Government Payments
- Designing an effective payment system for G2P payments
  - ✓ The challenges
  - ✓ Key considerations
- Overview of World Bank IAG Guidelines for developing Government payment programs

# PSDG Methodology

A modular approach to improve national payment systems based on these accepted International Principles and Standards



# *The Importance of Government Payments to the National Payment System*

Large Scale government payments projects encourage **coordination** and **cooperation** between financial service providers and government authorities to develop efficient business processes for delivery of payment solutions

Government payments can play an important role in promoting **financial inclusion** by extending non-cash, electronic payment instruments to the unbanked

Role of **Central Bank** as an Overseer and fiscal agent of the Government

The use of non-cash, electronic payment instruments for government payments may significantly improve **cost savings** at all levels of national economy

Scale and importance of government payments can play an important role in promoting growth and innovation in a country's retail **payment infrastructure**

# ***Roles of Government in Promoting Electronic Payments***

## Provider of electronic payment service

- Critical payments infrastructure (TSA, RTGS system, ACH, etc.)

## Facilitator of payment services

- Develop public policy objectives to promote electronic payments
- Partnership with FIs to facilitate strategic initiatives (SEPA, etc.)

## Payment systems policy – oversight and regulatory function

- Oversee payment systems and FIs to ensure policy goals are met
- Develop appropriate regulatory framework for payment systems

## User of electronic payments

- Use electronic payment instruments for G2G, G2B, B2G/P2G and G2P

# Types of Government Payments

## **G2G**

Government to  
Government Payments  
[Transfers]

- Domestic intra-governmental payments
- Examples: payments made by one government agency to another government agency for budgetary or operational purposes

## **G2P / G2B**

Government to Person  
and Government to  
Business Payments  
[Expenditures]

- Examples: Conditional cash transfers
- Social benefits including disaster relief assistance
- Income tax refunds
- Pension and social security (transfer payments)
- Payroll and incentives
- Procurement of goods and services
- Corporate tax refunds
- Sales Tax/VAT refunds
- Disbursement of loans or business assistance

## **P2G / B2G**

Payments to Government  
by Persons and  
Businesses  
[Collections]

- Examples: income , sales and VAT tax payments
- Social security/pension contributions
- Automotive costs – tolls, fines, tickets
- Fees for government services, e.g. company registration

## Government Payments Electronic Processing of Government Payments

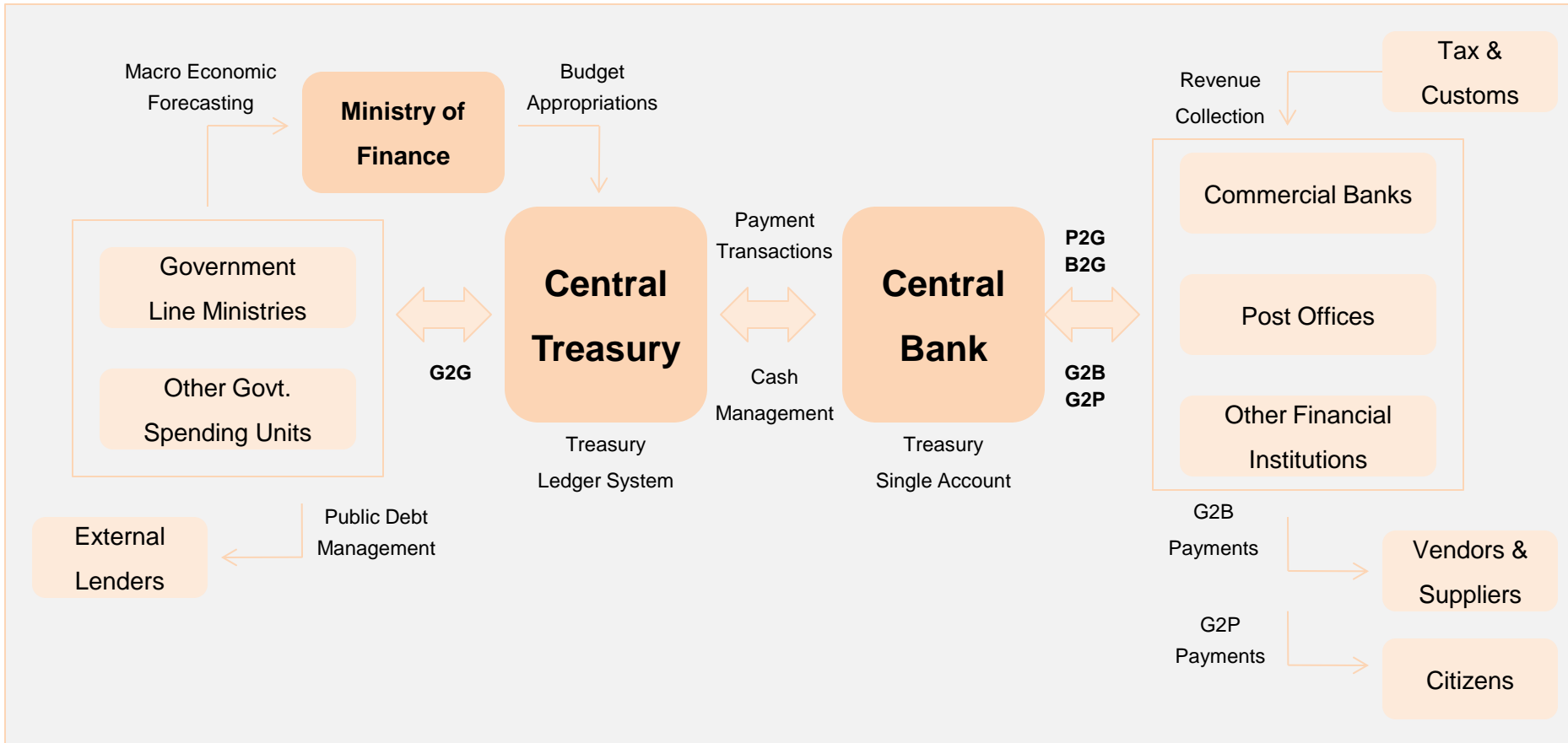
	Mainly cash	Mainly paper-based payment instruments- cheques, payment orders	Mainly electronic payment instruments such as payment cards, electronic funds transfers, etc.
<i>Government to person payments</i>			
Public sector salaries	11%	24%	76%
Pensions and transfer payments	14%	26%	67%
Cash transfers and social benefits	22%	31%	52%
<i>Person to government payments</i>			
Taxes	40%	48%	44%
Utility payments	55%	33%	42%
Payment for services, etc.	54%	35%	34%
<i>Government to business payments</i>			
Procurement of goods and services	2%	50%	61%
Tax refunds	2%	49%	50%
<i>Business to government payments</i>			
Taxes	11%	58%	57%
Utilities	16%	53%	50%
Benefits transfers	9%	52%	46%

## ***Key Drivers in Use of Electronic Payments by Governments***

- Current economic environment requiring governments to reduce transaction costs and improve efficiency for all types of payments and collections
- Most governments are placing emphasis on control & compliance to control fraud and leakages
- Unique government regulatory & reporting requirements are forcing choice of payment instruments – electronic payments mandated for certain types of payments
- Government requirements are driving the need for design and implementation of innovative “solutions” by financial institutions



# A conceptual model for Government Payments that includes all payment types



## ***G2P Payments – Traditional Approaches***

### **Cash Transfers and Social Benefits**

- One time or recurring
- May be conditional
- Recipients unbanked or financially underserved
- Cash/paper based payments costly, inefficient and susceptible to fraud

- Card based products
- EFT Credit Transfers

### **Government Pensions and Payroll**

- Recurring
- Recipients may have existing bank accounts
- Cash/paper based payments costly, inefficient and susceptible to fraud

- Payroll and pension cards
- EFT Credit Transfers
- Central treasury account

### **Emergency Relief Assistance**

- One time
- Recipients unbanked or lack of access to bank acct
- Cash/paper based payments costly, inefficient and susceptible to fraud

- Single use prepaid cards
- Mobile/wireless ATMs to supplement card usage

## Overview of Electronic Payment Instruments

Payment Instruments	Payment Needs Satisfied	Required Industry Infrastructure	Required Institutional capabilities
<b>Credit and debit cards</b>	Real-time payments, Face to face , online and remote purchase transactions; recurring bill payments	ATM and EFT POS networks. Credit bureaus. Rules and standards for inter-operability, dispute resolution and consumer protection	<i>Debit cards:</i> Centralized account management. Access to ATM and POS networks. <i>Credit cards:</i> Real-time transaction authorization and monitoring systems. Access to EFTPOS networks. Credit appraisal and credit risk management
<b>EFT Based products – credit and debit transfers, wire transfers</b>	Deferred payments, Person to person including cross border remittances, limited purchase transaction, bill payments	Interbank clearing and settlement network including rules and standards	Centralized account management. Electronic channels: Telephone, Internet. Mobile and others
<b>Prepaid/Stored value cards</b>	Real-time payments, Face to face , online and remote purchase transactions; recurring bill payments; receive salaries and government entitlements (G2P), limited P2P including cross border remittances	ATM and EFT POS networks. Rules and standards for inter-operability, dispute resolution and consumer protection	Access to ATM and POS networks. Real-time transaction authorization and monitoring systems
<b>Mobile payments and e-commerce (virtual wallets)</b>	Real-time payments, Person to person including cross border remittances, utility bill payment, micro-payments and purchase transaction capability	Enabling legal framework. Merchant / Agent network Linkages with existing inter-bank and payment card networks.	Interface mobile payment infrastructure with banking accounts (savings or credit) or create a prepaid product. Ability to service far-flung merchant/agent network

## ***G2P Value Chain – Stakeholders and their objectives***

National public policy goals

- Safety and cost efficiency in payments
- Financial inclusion
- Access to payments infrastructure
- Consumer protection

Central Bank, MoF and Treasury

- Framework contracts with FIs
- Centralized account management (Treasury Accounts)
- Centralized clearing and settlement arrangements

Government agencies

- Lower processing costs for G2P payments
- Reduced incidence of fraud and leakages
- Cost effective, safe access to payment services for program recipients

G2P recipients

- Safety, cost efficiency and control over funds
- Convenient access, reliability of payment method
- Prestige associated with using electronic payments

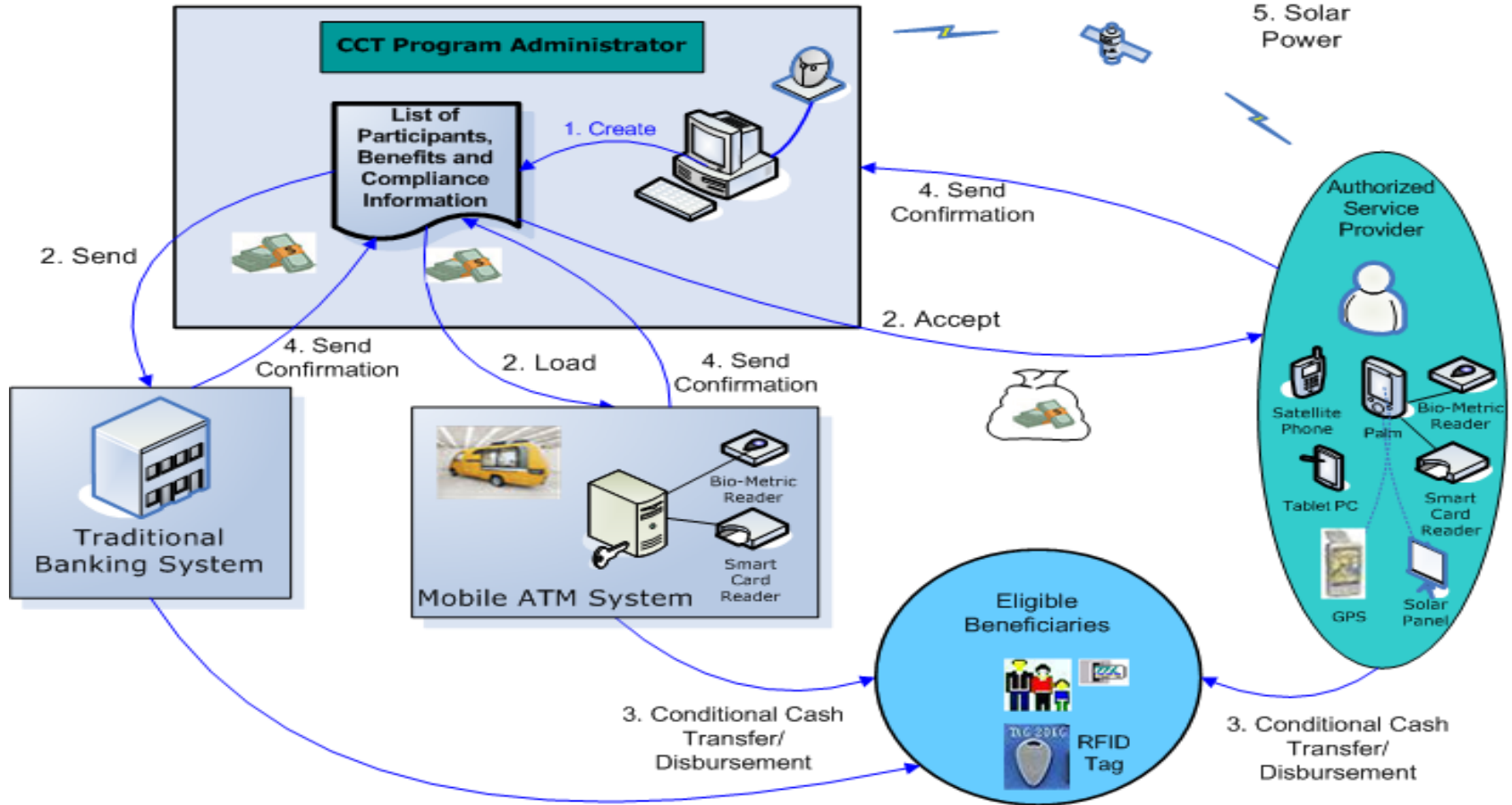
## Challenges with adoption of Electronic Payments for G2P payments



## ***Typical Steps in Migrating G2P Payments to Electronic Means***

- Review and streamline the entire process chain
- Review suitability of disbursement options and chose payment service providers
- Initiate efforts to expand access to payment services for the target segments and enhancements to payment services
- Build linkages between Government systems and Payment Systems
- Establish timeline for transition and establish a time-frame from completely migrating to electronic payment.
- Sustained Campaign and Program to shift beneficiaries from Cash and Cheques to Electronic means – typical migration period is over 5 years

# Benefits Distribution Process Flow



## ***Why Do We Need Guidelines for Government Payments?***

- Absence of universally accepted guidelines that provide public authorities and payment service providers with an overarching framework for design and implementation of government payment reforms
- The World Bank stepped in to fill this gap. In consultation with the International Advisory Group for Government Payments (IAG), the WB developed the “General Guidelines for the Development of Government Payments Programs”. These are currently in a consultation phase, and will be published in June 2012
- Guidelines and NOT Principles or Rules:
  - Guidelines facilitate coordination amongst stakeholders within payments value chain on a “framework based approach”
  - Allow flexibility in implementation approaches
  - Broad based framework for guiding program implementations derived from international good practices
  - Not prescriptive in nature but give provisional guidance to governments and other stakeholders to address key areas of uncertainty during implementation process including a rapidly changing payments landscape
- The key focus is on the efficiency in government payment processes and flows that utilize country’s domestic payments infrastructure



## *Public Policy Goals for Government Payment Programs*

- Payments and collections made as part of existing or new government payment programs should support the sound, efficient and transparent management of public financial resources. Government payment programs should therefore be **safe, reliable, and cost-effective**
- The modernization of government payment programs should be used as an opportunity to **accelerate the development of the national payments system**
- Taking advantage of their nature and aggregate magnitude, government payment programs should be leveraged wherever possible to promote the fulfillment of **other developmental goals**, in particular, financial inclusion

## ***The General Guidelines***

### **A. Safety, Efficiency and Transparency:**

- **Guideline 1: Ensure proper program governance and risk management:** *governance arrangements should ensure accountability, transparency, and effectiveness in managing the risks associated with government payment programs*
- **Guideline 2: Review and streamline treasury processes, then work on their automation:** *the treasury should devote extensive efforts to identifying all relevant needs with regard to improved safety, efficiency and transparency*
- **Guideline 3: Take full advantage of electronic payment methods:** *the extensive use of electronic payments in government payment programs can reduce costs, leakage, and improve transparency and traceability*
- **Guideline 4: Create appropriate organizational arrangements to foster the continuous development of government payment programs:** *the national treasury/ministry of finance and the central bank should engage in collaborative schemes among them and with other stakeholders to identify additional improvement opportunities for government payments and, eventually, facilitate their implementation*

## *The General Guidelines*

### **B. Legal and Regulatory:**

- **Guideline 5: An appropriate legal framework with specific applicability to government payment programs can further underpin their safe and efficient operation:** laws and/or regulations that provide clarity and certainty to the various parties involved, and that promote effectiveness and transparency in the execution of programs should be enacted/approved
- **Guideline 6: Laws and regulations on payment instruments and systems, competition and consumer protection can also have an important bearing on government payment programs:** the relevant legal pieces should support sound and fair practices in the market place, and be flexible enough to accommodate innovations

## ***The General Guidelines***

### **C. Payment Systems Infrastructure:**

- **Guideline 7: An appropriate payments infrastructure should be in place:** *the potential to obtain substantial benefits from migrating government expenditures and collections to electronic payments relies on there being the required payments infrastructures to process such payments safely, efficiently and at a reasonable cost*
- **Guideline 8: Maximize the potential of the available infrastructures through interoperability and widespread usage:** *payment service providers being able to channel their payment operations through any of the key mainstream infrastructures promotes efficiency, network expansion, and a level playing field for all players*

## ***The General Guidelines***

### **D. Cooperation and Partnerships to Leverage Government Payment Programs:**

- **General Guideline 9: Adopt a strategic approach to the development of government payment programs:** *the reforming of government payment programs has the potential to trigger the development of a robust payments infrastructure, which in turn will support the safe and efficient processing of government payments*
- **General Guideline 10: Leverage on government payment programs to promote financial inclusion:** *the large volume of payments issued by governments, as well as the nature of some specific programs like social spending programs, represents an opportunity to promote or facilitate financial inclusion on a large scale*

## ***Conclusions***

### ***Key considerations in designing G2P payments system***

- Pay attention to entire process:
  - Enrolment, verification, entitlement validation, payment, usage of payment instrument
- Where possible leverage existing payment systems
- Enable co-existence of multiple payment mechanisms
- Consider end-beneficiaries interests