



EXECUTIVE SUMMARY

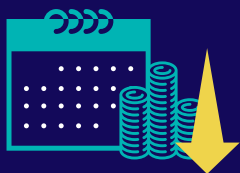
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Accelerators to an Inclusive Digital Payments Ecosystem



By **2025** IN EMERGING ECONOMIES
DIGITAL FINANCE
HAS THE POTENTIAL TO:

Boost
GDP by
\$3.7
Trillion



Reduce public
spending "leakage" by

\$110

Billion a year



Create

95 Million

new formal jobs



1.6 Billion

unbanked people would gain access to
financial services; of this total, more than

50% would be women, and

45% would come from the bottom
of the income pyramid

ACCELERATORS REPORT

Many governments have already realized major benefits by digitizing payments. Yet these successes also raise important questions. Why are so many developing and emerging countries only in the early stages of their journey to cashless? Why haven't successes been rolled out more widely?

The reality is that despite the evidence about what creating digital economies means, until now there hasn't been a coherent and tailorable framework available to governments and companies about how to realize these gains. This is partly because knowledge about digital payments has been highly fragmented. The lack of a broad and cohesive analytical framework has prevented governments and companies from leveraging the experiences of other markets and players to implement digital payments most effectively.

This paper addresses this gap. It reviews 25 countries where digitization has had great impact and reveals 10 tangible steps, or "accelerators," that governments and companies can take to build inclusive digital economies.

Not every accelerator needs to be implemented to ensure success, and indeed the most suitable will depend on the contexts and conditions prevailing in the given market. However, in these accelerators, policymakers and business leaders now have a guiding map charted by others who have successfully travelled further along the path to an inclusive digital economy.

Accelerators

1

Promote merchant acceptance infrastructure



2

Leverage existing networks or platforms to deliver digital payment products and services



3

Establish a shared digital infrastructure for players



4

Establish interoperability



5

Develop a unique identification program



6

**Digitize
routine use
cases**



7

**Digitize
government and
corporate payments**



8

**Digitize
government receipts**



9

**Establish regulation that
promotes innovation in the
digital payments ecosystem while
promoting responsible practices**



10

**Implement policies that
incentivize and improve the
convenience of digital payments**



EXECUTIVE SUMMARY

An extensive body of knowledge has emerged detailing how digital payments can improve lives at the individual, community, and national levels. A range of studies have demonstrated that moving from cash to digital payments can boost productivity and economic growth, improve transparency, increase tax revenues, expand financial inclusion, and open up new economic opportunities, particularly for women and disadvantaged communities. G20 leaders and the Committee on Payments and Market Infrastructure have also respectively developed principles for digital financial inclusion and payment aspects of financial inclusion.

However, to date this knowledge on the benefits of payments and the principles, remains fragmented and lacks a broader cohesive analytical framework that applies to companies as well as governments. Consequently, many stakeholders still struggle to understand what further actions can be taken to promote cashless economies. Many of these actions require coordination among a mix of players: national and subnational governments, central bank authorities, banks, telecommunication companies, retailers and other businesses, and consumers. Unfortunately, the lack of a coherent analytical framework prevents stakeholders from learning from the experience of other markets.

This study aims to address these challenges by integrating into one single, cohesive analytical framework the existing body of knowledge on digitizing payments, capturing the full range of actions available to drive forward digitization. This study identifies 10 of the most effective methods of accelerating the transition from cash to digital payments — called “accelerators” in this study. The study also provides specific action points that stakeholders can utilize to help put these accelerators to work, driving digital payments and building inclusive digital payments ecosystems.

DIGITAL PAYMENTS “ACCELERATORS”

Digital payments accelerators are activities that have demonstrated their strong impact in promoting a digital payments ecosystem. Understanding these accelerators can improve coordination and collaboration across markets, and help participants decide the best options for increasing usage and adoption of digital payments in their market. However, countries need not incorporate all 10 accelerators to have a successful journey toward a cashless economy, and there are various ways that countries can execute on each accelerator.

The 10 accelerators identified in this study are summarized below and explained in detail in the body of this study.



Promote merchant acceptance infrastructure

Promoting merchant acceptance infrastructure across Micro, Small, and Medium Enterprises (MSMEs) has the potential to deepen usage among both consumers and large players higher in the value chain (P2B, B2B). However, creating a compelling business case for going digital is often necessary to onboard merchants. Sweden's government incentivized banks in the 1990s to invest in acceptance infrastructure and usage. As a result, today even portions of the homeless population use digital payments, exemplifying the ubiquity of acceptance infrastructure across Swedish society.



Leverage existing networks or platforms to deliver digital payment products and services

Leveraging existing networks can help to quickly extend digital payment services to far-reaching user bases (P2B, P2P, P2G). Utilizing existing resources can also improve the business case for moving into the digital payments market, reducing the cost and time associated with establishing agent networks and marketing to new users. In China, when Tencent adopted digital payments, it leveraged the success and strong user base of its social network product WeChat, enabling it to compete against dominant player Alipay. Between 2014 and 2015, Tencent's market share in digital payments doubled to 20%.



Establish a shared digital infrastructure for players

Shared digital infrastructure, such as open Application Program Interfaces (APIs) and data exchange solutions, can reduce barriers to entry and promote innovation. Estonia's X-Road is a data exchange layer that connects 939 public and private institutions, and offers 1,723 services. It is estimated to have produced efficiencies equivalent to 2.8 million work hours in 2014.

TANZANIA


 Trimmed US
\$175 million
in annual revenue leakages and
could boost GDP by up to US
\$1.8 billion.

INDIA

India saved US **\$2 billion** after digitizing
fuel subsidies reduced
payment leakages.



PAKISTAN

 In Pakistan, the value
of mobile money
transactions increased
225% in just three
quarters between 2014 and
2015 following interoperability.

4

Establish interoperability

Interoperability in a digital payments ecosystem reduces barriers that confine digital transactions to a single payment platform. In this way, interoperability increases the potential channels for users to transact digitally, as their choice of a digital payment product or service can be more widely accepted. Establishing interoperability requires a significant level of collaboration among participants. Accounting for market contexts like the level of fragmentation is a key factor in driving interoperability. In Tanzania, fragmented market share among four players created a need for interoperability to increase transaction volumes. After putting in place measures to deliver interoperability, Tanzania saw a 3.5 times increase in the value of off-network transactions.

5

Develop a unique identification program

Grounding an identification system in a centralized database that both public and private sector players can access to verify identities can drive digital payments and financial inclusion. Consumer protection frameworks are essential to ensure adequate privacy, security, and data control. The Indian government developed the Aadhaar system which provides a unique identification number supported by biometric data to more than 1 billion of India's 1.2 billion people. A wide variety of public and private sector entities can authenticate the identity of Aadhaar holders, as ecosystem participants can access Aadhaar's centralized database for verification purposes.

6

Digitize routine use cases

Identifying and digitizing use cases that individuals and companies frequently use for transactions (P2B, P2P, B2B, and B2P) can increase comfort with digital payments and increase digital transaction volumes. Pay-as-you-go (PAYG) energy provides access to reliable, efficient, and affordable solar energy. Digitizing payments for this use case also promotes comfort with digital payments. In Rwanda, Mobisol found that customers were active users of mobile money, making 1.7 transactions per month using the PAYG system, well above the industry benchmark of one transaction every 90 days.

7

Digitize government and corporate payments

Digitizing government and corporate payments (G2P, G2B, B2B, and B2P) is a potentially powerful way to advance a digital payments ecosystem. Pioneering programs in this area show the importance of considering the existing financial ecosystem when digitizing government and corporate payments. Brazil digitized G2P payments through its Bolsa Familia Program (BFP) which merged multiple pre-existing conditional cash transfer (CCT) programs into one electronic benefit card (EBC) linked to bank accounts at Brazil's state-owned bank. This saved the government 31% in transaction costs, while ensuring that the poorest households in Brazil — the one-quarter of the population receiving BFP payments — had access to a bank account. In addition, a well-functioning inclusive digital payments ecosystem can help companies identify and digitize relevant payment flows that will drive efficiencies and reduce costs in their operations.

MEXICO



As a result of installing

20,000

point-of-sale devices,
Mexico experienced a

17% growth rate in this
type of transactions between
2014 and 2015.

URUGUAY

The Government of Uruguay
reduced digital payment taxes
leading to a

7x increase in debit card
transactions from before the
introduction of tax incentives.

NIGERIA

After setting the Cashless
Nigeria policy mandate,
the volume of digital
payments increased

14%

year over year between
2012 and 2015.



Digitize government receipts

Digitizing government receipts (P2G, B2G) promotes comfort with digital payments among individuals and businesses and improves efficiencies. In digitizing government receipts, governments can collaborate with private sector players to access important technical capabilities. P2G and B2G initiatives are most successful when governments take into consideration the existing financial ecosystem. In Tanzania, the digitization of B2G payments at the Port of Dar es Salaam enabled the government to trim US \$175 million in annual revenue leakages and boost its GDP by up to US \$1.8 billion by reducing inefficiencies.



Establish regulation that promotes innovation in the digital payments ecosystem while promoting responsible practices

Regulation evolves most effectively when regulators and policymakers understand the gaps and barriers of existing regulation, leverage stakeholder consultations, and collaborate closely when developing or updating regulations. Sri Lanka's 2005 regulation relating to digital payments did not promote registration or active usage of eZ Pay, a mobile banking service. Following a 2012 revision that addressed earlier shortcomings, the relaunched service has enjoyed considerable success, with 2.2 million subscribers at the time of this report.



Implement policies that incentivize and improve the convenience of digital payments

Many countries are putting in place measures to encourage or require government entities, private businesses, and individuals to shift away from cash, sometimes in the form of policies that disincentivize cash usage. However, accounting for the appetite and infrastructure for digital payments present in an ecosystem is important to ensure an appropriate pace of digitization. For example, Sweden's policies permitting businesses and banks to refuse cash are appropriate for a country in which only 2% of transactions take place in cash, but such a policy in a more cash-heavy country may exclude portions of the population.

This study also arrives at key learnings about how to execute these accelerators most effectively. Specifically, catering to market context, investing adequately in implementation, and carefully researching customer behavior are three critical steps to effectively putting in place the accelerators identified in this study. These factors are frequently preconditions for unlocking the value of an accelerator itself.

Given the complexity associated with the volume of options available to participants in an ecosystem, a toolkit accompanies this study to help policymakers and other stakeholders navigate accelerators in a way that is most appropriate to their market contexts. This toolkit is intended to help governments, businesses, and development partners on their journeys to digitize payments.

The Better Than Cash Alliance Research Series

Our case study and country diagnostic series seeks to highlight specific examples of shifts from cash to digital payments by governments, companies, and international organizations. Each case study and country diagnostic aims to provide insights for a wide audience on the factors that have helped or hindered the digitization process, and also present key results and benefits of the transition away from cash. We hope that readers will be able to adapt the lessons from these cases to their own contexts and local conditions.

Acknowledgments

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About The Better Than Cash Alliance

The Better Than Cash Alliance is a global partnership of governments, companies, and international organizations that accelerates the transition from cash to digital payments in order to reduce poverty and drive inclusive growth. Based at the United Nations Capital Development Fund (UNCDF), the Alliance has over 50 members, works closely with other global organizations, and is an implementing partner for the G20 Global Partnership for Financial Inclusion.

BILL & MELINDA
GATES foundation

