

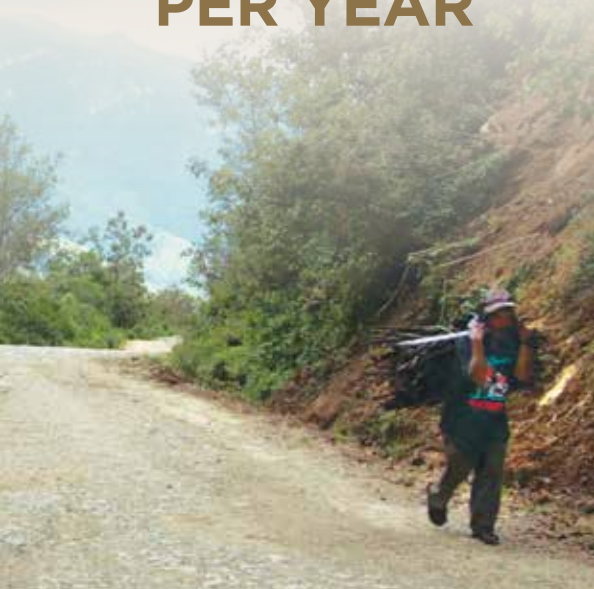
Sustained Effort, Saving Billions:

Lessons from the Mexican Government's Shift to Electronic Payments



By digitizing and centralizing its payments the Mexican government has saved

**US\$ 1.27
BILLION
PER YEAR**



Why Mexico transitioned to electronic payments

In the mid-1990s, federal government spending in Mexico was highly decentralized:

- Dependencias had one or more accounts at commercial banks;
- Tesofe maintained accounts at these same banks;
- When Dependencias requested their budgetary appropriations, Tesofe transferred the money — within the banks — from its accounts into those of the Dependencias, where it sat until being disbursed.

The process provided ample opportunity for delay and confusion:

- Dependencias had to hand-deliver the paperwork showing they were entitled to the transfer;
- Tesofe had wide discretion on the timing to execute transfers;
- Tesofe had no means to assess whether the money was spent as authorized; and
- There were no centralized guidelines outlining the remuneration banks had to offer the Dependencias in return for keeping the float in their accounts prior to disbursement.

TERMS TO KNOW

Dependencias: Federal government agencies

Tesofe: *Tesorería de la Federación* — Treasury Department, within the Ministry of Finance

How Mexico transitioned to electronic payments

The change process had both technical and political elements

- The Ministry of Finance, led by the Tesofe team, met with the Dependencias to understand the wide range of payment and record-keeping methods and then led the in-house development of a single, centralized IT platform;
- Tesofe negotiated with Dependencias and their commercial bank partners, using the pressure of government mandates, particularly the Budget Decree of 2010, establishing a deadline to make payments electronically

Scale of the transition

Half of Mexican federal government salaries, and nearly all pensions are now paid electronically and centrally (more may be paid electronically but not centrally). Social cash transfer programmes have been the hardest payments to centralize, largely because of the low levels of financial infrastructure and inclusion in rural areas and among the poor.

Cost savings

- The Mexican Government has saved **MXN \$17 billion (US\$ 1.27 billion)** per year or 3.3 percent of total expenditure on salaries, pensions and social transfer programmes;
- The government saved money by not paying banks fees for transactions; by holding onto the funds until the day of the payments, and therefore earning more interest on that money; and by reducing unauthorized or incorrect payments.

Key Lessons

- 1 A government decree is helpful in creating momentum, but the effort must be sustained by senior political and technical champions over time.
- 2 Having the legal and technical infrastructure in place before shifting is critical to a coordinated effort.
- 3 Shifting in stages rather than all types of payments at once worked in the Mexican context, and could prove successful in other contexts.
- 4 Focusing on creating both a centralized and digital payments platform may deliver benefits and efficiency, as it did for Mexico.
- 5 Not everyone benefits from the shift. Identifying the winners and losers in advance so as to design appropriate incentives is a key part of a successful change strategy.
- 6 Carefully designed incentives to shift have helped to persuade end-recipients.
- 7 While financial inclusion goals didn't drive the shift, they are important outcomes of the digitization of social benefits and rural payments.



About the Better Than Cash Alliance

The Better Than Cash Alliance partners with governments, the development community and the private sector to empower people by shifting from cash to electronic payments. The Better Than Cash Alliance is funded by the Bill & Melinda Gates Foundation, Citi, Ford Foundation, MasterCard, Omidyar Network, USAID and Visa Inc. The UN Capital Development Fund serves as the secretariat.

To learn more, visit betterthancash.org, follow @BetterThan_Cash and subscribe for news at info@betterthancash.org.