Strengthening Public Financial Management for Social Protection (SPFMSP) Project

A Research Study

On

Government Payment System for Social Protection in Bangladesh

April 2017

Maxwell Stamp Plc
Dhaka, Bangladesh
Executive Summary

This research on Payment System has been undertaken on the basis of the request of the Finance Division under the demand driven research framework of SPFMSP project.

1. Backdrop

It is being widely acknowledged that direct cash transfers to social protection beneficiaries may be a far more efficient instrument than indirect subsidies and price controls. However, direct cash benefit transfers cannot be effectively undertaken in absence of appropriate payment systems. This research aimed to study the existing payment systems in Bangladesh, bring out and present relevant lessons from global experience in designing improved payment systems, and recommend an appropriate payment system for Bangladesh. Experiences of some countries in terms of developing their payment systems may be more relevant to a particular country than those of other countries. In such a situation, it is important to study in detail the payment system reforms in the countries that offer concrete relevant lessons to be learnt in the context of Bangladesh. Accordingly, this study presents case studies on payment systems in Ireland, South Africa and India.

2. Findings

The findings of the study indicate that currently there are four major methods of payment to the beneficiaries. It includes payment through treasury, payment through general banking system, mobile phone banking and payment through postal system. All the prevalent methods of delivery suffer from challenges on the demand-side as well as on the supply-side, and are generally characterized by weak information systems and lack of adequate accountability structures. Inadequate monitoring along with unsatisfactory beneficiary identification mechanisms often leave scope for duplicate and fraudulent payments. As the current system stands, beneficiaries usually are not given any option to choose a mode of payment suitable to them. For collecting benefits under some social protection schemes beneficiaries have to travel long distance which is way too costly in terms of travel expenses and loss of employment. Therefore, any effective payment solution in the context of Bangladesh needs to empower the beneficiaries to be able to make informed choices, be cost-effective and transparent, and have robust MISs and system-driven budget management and accounting. It also needs to be backed by a modern technology-driven unified coordination and supervision mechanism over all the available modes of payment in the country.

3. Recommendations

Accordingly, the proposed solution (Chapter 3) entails leveraging of modern technology for making efficient and effective delivery of social protection payments.

At the 'demand side', it is recommended that the beneficiaries would be free to choose the mode of receiving the payments from among the approved channels that may range from Bank, Mobile Banking, Mobile Money, to Postal etc. On the other hand, at the 'supply side', the MIS units of the departments will maintain the data of beneficiaries on the platform and formats compatible with SPBMU MIS. To initiate a payroll, the Field Offices will update the list of beneficiaries in their MIS under each scheme along with the beneficiaries’ payment option that shall be verified by the departmental MIS and the corrected data will be automatically and immediately transferred to SPBMU MIS. The SPBMU MIS will validate the data with help of NID database of beneficiaries as well as with the databases of all the other line ministries on a real-time basis and will highlight discrepancy, if any.

After the validation of data by SPBMU and when the payment is due, the concerned DDO will submit claims to the relevant Accounts Office (CAO/DAO/UAO) as is done under the current system for the transfer of benefits to validated beneficiaries. The Accounts Office will in turn, would issue payment instructions / advice to Bangladesh Bank / Sonali Bank for transfer of the entitled benefits to the validated beneficiaries’ accounts as per their preferred mode of receiving the payments.
The proposed system will entail transferring of social protection cash benefits from the Treasury to the beneficiaries’ accounts directly. The National Identity (NID) will provide unique identifiers for beneficiaries. All the bank and post office accounts of beneficiaries will be linked with their NID. NID identification will also serve as ‘know your customer’ (KYC) for opening of bank/post office accounts for beneficiaries. Along with LMs, the SPBMU will regularly monitor the quality of payment services and take appropriate action in case of any observed deficiency in the service delivery. It will also make sure that the beneficiaries are adequately empowered to choose the most suitable options for obtaining their payments. Data will flow from the supply-side to all modes of payment, and backwards, in real time except for places without mobile network/internet connectivity.

LMs will remain responsible for identifying the beneficiaries based on pre-defined eligibility criteria and disbursing funds to the payment service providers. Similarly, accounting and auditing of the disbursed funds will continue to be conducted as per the existing provisions in the rules, while their processes will be more efficient and timely due to better mechanisms of the flow of data.

The report has also provided a long-term vision for a comprehensive, centralised payment system that may not be implementable at this stage. However, the recommendations from the above study may constitute the agenda for a comprehensive costed reform plan to improve social protection payment system as indicated in the National Social Security Strategy (NSSS).

### Dissemination and Way Forward

The findings and recommendations of the research were discussed in a dissemination workshop participated by all the relevant stakeholders. The workshop was broadly in agreement with the findings and recommendations of the study. The workshop also noted that SPFMSP project has been mandated to prepare costed reform plans, and accordingly advised the project to develop the same for implementing those recommendations.

As a way forward the workshop therefore, strongly recommended that a reform plan may be developed for implementation of the system proposed by the study. The reform plan should take into account all the aspects of the payment system including the assessment of requirement in technology, capacities – hardware, software and human resources and design an implementation blueprint. The workshop also recommended the reform plan should initially be piloted on two schemes before rolling out to others. The minutes of the dissemination workshop are placed at Annexure 4. to this report.
### Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>a2i</td>
<td>Access to information</td>
</tr>
<tr>
<td>AUSEO</td>
<td>Assistant Upazila Secondary Education Officer</td>
</tr>
<tr>
<td>BC</td>
<td>Business Correspondent</td>
</tr>
<tr>
<td>BDT</td>
<td>Bangladeshi Taka</td>
</tr>
<tr>
<td>BEFTN</td>
<td>Bangladesh Electronic Fund Transfer Network</td>
</tr>
<tr>
<td>BPO</td>
<td>Branch Post Office</td>
</tr>
<tr>
<td>CAO</td>
<td>Chief Accounts Officer</td>
</tr>
<tr>
<td>CBS</td>
<td>Core Banking System</td>
</tr>
<tr>
<td>CGA</td>
<td>Controller General of Accounts</td>
</tr>
<tr>
<td>CGAP</td>
<td>Consultative Group to Assist the Poor</td>
</tr>
<tr>
<td>CSC</td>
<td>Common Service Centre</td>
</tr>
<tr>
<td>CSMS</td>
<td>Core Subsidy Management System</td>
</tr>
<tr>
<td>DAO</td>
<td>District Accounts Officer</td>
</tr>
<tr>
<td>DBBL</td>
<td>Dutch Bangla Bank Ltd.</td>
</tr>
<tr>
<td>DCA</td>
<td>Divisional Controller of Accounts</td>
</tr>
<tr>
<td>DDO</td>
<td>Drawing &amp; Disbursing Officer</td>
</tr>
<tr>
<td>DIS</td>
<td>Deposit insurance Scheme</td>
</tr>
<tr>
<td>DMR</td>
<td>Disaster Management and Relief</td>
</tr>
<tr>
<td>DSP</td>
<td>Department of Social Protection</td>
</tr>
<tr>
<td>EFT</td>
<td>Electronic Fund Transfer</td>
</tr>
<tr>
<td>EGPP</td>
<td>Employment Generation Programme for the poorest</td>
</tr>
<tr>
<td>EMTS</td>
<td>Electronic Money Transfer Scheme</td>
</tr>
<tr>
<td>EOI</td>
<td>Expression of Interest</td>
</tr>
<tr>
<td>FFWP</td>
<td>Food for Works Programme</td>
</tr>
<tr>
<td>FAO</td>
<td>Food and Agriculture Organisation</td>
</tr>
<tr>
<td>G2P</td>
<td>Government-to-Public</td>
</tr>
<tr>
<td>GBP</td>
<td>British Pound Sterling</td>
</tr>
<tr>
<td>GO</td>
<td>General Order</td>
</tr>
<tr>
<td>HO</td>
<td>Head Office</td>
</tr>
<tr>
<td>HPO</td>
<td>Head Post Office</td>
</tr>
<tr>
<td>HSSP</td>
<td>Higher Secondary Stipend Programme</td>
</tr>
<tr>
<td>HT</td>
<td>Head Teacher</td>
</tr>
<tr>
<td>HQ</td>
<td>Head Quarter</td>
</tr>
<tr>
<td>HWDWA</td>
<td>Husband-Deserted, Widowed and Destitute Women Allowance</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
</tr>
<tr>
<td>INR</td>
<td>Indian Rupees</td>
</tr>
<tr>
<td>JDY</td>
<td>Jan Dhan Yojana</td>
</tr>
<tr>
<td>KYC</td>
<td>Know Your Customer</td>
</tr>
<tr>
<td>MIS</td>
<td>Management Information System</td>
</tr>
<tr>
<td>NEFT</td>
<td>National Electronic Fund Transfer</td>
</tr>
<tr>
<td>NeGP</td>
<td>National e-Governance Plan</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-governmental Organisation</td>
</tr>
<tr>
<td>NID</td>
<td>National Identification Data</td>
</tr>
<tr>
<td>NPCI</td>
<td>National Payment Corporation of India</td>
</tr>
<tr>
<td>NPP</td>
<td>National Payments Plan</td>
</tr>
<tr>
<td>NPS</td>
<td>National Payment System</td>
</tr>
<tr>
<td>NREGP</td>
<td>National Rural Employment Guarantee Programme</td>
</tr>
<tr>
<td>OAA</td>
<td>Old Age Allowance</td>
</tr>
<tr>
<td>PD</td>
<td>Project Director</td>
</tr>
<tr>
<td>PESP</td>
<td>Primary Education Stipend Programme</td>
</tr>
<tr>
<td>PIC</td>
<td>Project Implementation Committee</td>
</tr>
<tr>
<td>POS</td>
<td>Point of Sales</td>
</tr>
<tr>
<td>PPP</td>
<td>Public-Private Partnership</td>
</tr>
<tr>
<td>RBI</td>
<td>Reserve Bank of India</td>
</tr>
<tr>
<td>RTGS</td>
<td>Real Time Gross Settlement</td>
</tr>
<tr>
<td>SARB</td>
<td>South African Reserve Bank</td>
</tr>
<tr>
<td>SGSP</td>
<td>Strengthening Government Social Protection Systems for the Poor</td>
</tr>
<tr>
<td>SCA</td>
<td>Service Centre Agency</td>
</tr>
<tr>
<td>SESP</td>
<td>Secondary Education Stipend Programme</td>
</tr>
<tr>
<td>SESIP</td>
<td>Secondary Education Sector Investment Programme</td>
</tr>
<tr>
<td>SEQAEP</td>
<td>Secondary Education Quality and Access Enhancement Programme</td>
</tr>
<tr>
<td>SPF MSP</td>
<td>Strengthening Public Financial Management for Social Protection</td>
</tr>
<tr>
<td>SPBMU</td>
<td>Social Protection Budget Management Unit</td>
</tr>
<tr>
<td>SPPCU</td>
<td>Social Protection Payment Coordination Unit</td>
</tr>
<tr>
<td>SSNP</td>
<td>Social Safety Net Programmes</td>
</tr>
<tr>
<td>SSP</td>
<td>Social Safety Payment</td>
</tr>
<tr>
<td>SSPF</td>
<td>Social Safety Protection Fund</td>
</tr>
<tr>
<td>SPO</td>
<td>Sub Post Office</td>
</tr>
<tr>
<td>UAO</td>
<td>Upazila Accounts Officer</td>
</tr>
<tr>
<td>UDIC</td>
<td>Upazila Development Information Centre</td>
</tr>
<tr>
<td>Acronym</td>
<td>Description</td>
</tr>
<tr>
<td>---------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td>UEO</td>
<td>Upazila Education Officer</td>
</tr>
<tr>
<td>UIDAI</td>
<td>Unique Identification Authority of India</td>
</tr>
<tr>
<td>UNO</td>
<td>Upazila Nirbahi Officer</td>
</tr>
<tr>
<td>USEO</td>
<td>Upazila Secondary Education Officer</td>
</tr>
<tr>
<td>USSO</td>
<td>Upazila Social Service Officer</td>
</tr>
<tr>
<td>VGD</td>
<td>Vulnerable Group Development</td>
</tr>
<tr>
<td>VLE</td>
<td>Village Level Entrepreneur</td>
</tr>
<tr>
<td>WFP</td>
<td>World Food Programme</td>
</tr>
</tbody>
</table>
Contents

Chapter 1 ................................................................................................................................. 1
Existing Payment Systems for Social Protection Programmes in Bangladesh.............................. 1
1. Introduction ......................................................................................................................... 1
2. Process of Fund Release within the Government .................................................................. 1
3. Payment through Treasury ................................................................................................. 2
   3.1 Advantages of Payment through Treasury Mode ................................................................. 2
   3.2 Limitations of Payment through Treasury Mode ................................................................. 2
4. Payment through Banking System ...................................................................................... 3
   4.1 Payment at Local Bank Branches ...................................................................................... 4
      4.1.1 Advantages ................................................................................................................ 4
      4.1.2 Disadvantages ............................................................................................................ 4
   4.2 Payment through Booths .................................................................................................. 5
      4.2.1 Advantages ................................................................................................................ 5
      4.2.2 Disadvantages ............................................................................................................ 5
   4.3 Agent Banking ................................................................................................................ 6
      4.3.1 Advantages ................................................................................................................ 6
      4.3.2 Disadvantages ............................................................................................................ 6
   4.4 Mobile Phone Banking .................................................................................................... 6
      4.4.1 Advantages ................................................................................................................ 8
      4.4.2 Disadvantages ............................................................................................................ 9
5. Payment through Postal System .......................................................................................... 9
   5.1 Advantages ...................................................................................................................... 10
   5.2 Disadvantages ............................................................................................................... 10
6. Union Digital Information Centres ..................................................................................... 10
7. Conclusion .......................................................................................................................... 10
Chapter 2 .................................................................................................................................. 12
Payment System Reforms: Global Perspective .......................................................................... 12
1. Introduction ......................................................................................................................... 12
2. Payment System Reforms in Emerging Economies .............................................................. 12
3. Experiences from Developed World .................................................................................... 12
4. Focus of Payment System Reforms in Different Countries .................................................. 13
5. Case Studies from Specific Countries .................................................................................. 13
Case Study 1: India .................................................................................................................. 15
   1. Social Protection Payments in India .................................................................................. 15
   2. Social Protection Cash Benefit Transfers ........................................................................ 15
   3. Cash Benefit Transfers through Savings Accounts .......................................................... 15
   4. Issues with the Manual System ....................................................................................... 16
   5. No-Frill Accounts ............................................................................................................. 16
   6. Unique Identification: Aadhaar ........................................................................................ 17
   7. Aadhaar-Enabled Payments .............................................................................................. 17
   8. Mobile Banking ............................................................................................................... 18
9. Immediate Payment Service (IMPS) .......................................................................................................................... 18
10. Public Financial Management System (PFMS) ................................................................................................................ 18
11. National Payments Corporation of India ( NPCI) ............................................................................................................ 19
12. Common Service Centres ................................................................................................................................................ 19
13. Current Options for Payments ....................................................................................................................................... 20
Case Study 2: Ireland ............................................................................................................................................................ 22
1. National Payments Plan ..................................................................................................................................................... 22
2. Cash Benefit Transfers within Social Protection Programmes in Ireland ................................................................. 22
3. Need to Move Towards Cashless Economy .................................................................................................................. 23
4. Innovations in Payment Sector ...................................................................................................................................... 23
5. The Payment Strategy Project (PSP) ............................................................................................................................... 24
7. Harmonisation of Payment Cycles ................................................................................................................................ 24
8. PSP Implementation Strategy ........................................................................................................................................ 25
9. Beneficiary Education and Awareness .......................................................................................................................... 25
Case Study 3: South Africa ...................................................................................................................................................... 26
1. Social Protection in South Africa .................................................................................................................................. 26
2. National Payment System .................................................................................................................................................. 26
3. Payments Association of South Africa (PASA) ................................................................................................................ 27
4. Legal & Regulatory Framework ....................................................................................................................................... 27
5. Conclusion .......................................................................................................................................................................... 28
Chapter 3 .............................................................................................................................................................................. 29
Proposed Solution Architecture ........................................................................................................................................... 29
1. Introduction ........................................................................................................................................................................ 29
2. Desired Elements of a Payment Solution Framework for Bangladesh ............................................................................ 29
3. Payment Solution Architecture ....................................................................................................................................... 29
4. Operational Procedure ...................................................................................................................................................... 31
5. Roles, Responsibilities and Functions of Different Components of the System .......................................................... 32
5.1 Line Ministries/Departments Engaged in Social Protection Cash Transfers .................................................................................. 32
5.2 Social Protection Budget Management Unit (SPBMU) ................................................................................................. 33
5.3 Payment Service providers ........................................................................................................................................... 34
6. Awareness Generation .................................................................................................................................................................... 34
7. Way Forward ......................................................................................................................................................................... 36
Annexure 1 ................................................................................................................................................................................ 37
Annexure 2 ................................................................................................................................................................................ 38
Annexure 3 ................................................................................................................................................................................ 42
Annexure 4 ................................................................................................................................................................................ 43
Annexure 4 A .............................................................................................................................................................................. 51
Annexure 4 B .............................................................................................................................................................................. 55
# List of Figures

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figure 1</td>
<td>Fund Flow from Banks to Beneficiaries</td>
<td>3</td>
</tr>
<tr>
<td>Figure 2</td>
<td>Flow of Information for Validation of Beneficiaries Database</td>
<td>35</td>
</tr>
<tr>
<td>Figure 3</td>
<td>Payment Process</td>
<td>35</td>
</tr>
<tr>
<td>Figure 4</td>
<td>Flow of Information after Payment</td>
<td>36</td>
</tr>
</tbody>
</table>
Chapter 1
Existing Payment Systems for Social Protection Programmes in Bangladesh

1. Introduction

The National Social Security Strategy was rolled out in 2016 by the Government of Bangladesh. One of the key areas highlighted in the strategy was 'Strengthening the Delivery of the National Social Security System'. The strategy prioritizes strengthening payment mechanisms to minimize leakage and to use the Social Security system to promote financial inclusion, in particular among poor and vulnerable families. A key reform to it will be introduced is an initiative to transform the Government to Person (G2P) payment systems so that they promote financial inclusivity and prevent leakages. Therefore, to take forward this initiative, the Finance Division of the Ministry of Finance has been mandated by the NSS to undertake a comprehensive review of current G2P payment mechanisms as well as international experience. In this backdrop the Finance Division had requested the SPF MSP project to perform a research study on ‘Payment System’ and suggest the way forward in line with the priorities of the NSSS.

Acceptability of social protection programmes as an effective tool to reduce poverty is rapidly increasing within policy circles across the globe. At the same time, it is also acknowledged that direct cash transfers to the beneficiaries may be a far more efficient instrument than indirect subsidies and price controls. In fact, some scholars are now strongly advocating direct cash transfers to maintain universal basic incomes and abolish all other social protection programmes. Direct cash benefit transfers, however, cannot be effectively undertaken in absence of appropriate payment systems. It is therefore vitally important for policymakers to make efforts towards creating a payment system that is cost-effective and transparent, and has ability to reach all the citizens of the country however remotely they are located.

This chapter analyses the existing payment systems in Bangladesh. We begin with the fund release process for different departments and agencies of the government of Bangladesh. This is followed by an overview of payment systems currently prevalent in Bangladesh. The strengths of various systems along with the challenges faced are also analysed.

2. Process of Fund Release within the Government

After the enactment of an appropriation bill by the Parliament, Finance Division releases funds for various social protection programmes. In response, the concerned line ministry issues a government order (GO) for release of funds to the Ministry with a copy to the relevant Department/Project Director administering the associated social protection programme/s. The Chief Accounts Officer (CAO) attached to the Ministry endorses the GO to the concerned DCA/DAO/UAO. The concerned Head of Department or the Project Director then withdraws the amount released and initiates the process to disburse it to beneficiaries through the payment system they have formulated. The system is diagrammatically shown below:

\[ \text{Budget} \rightarrow \text{GO from Line Ministry} \rightarrow \text{PD/DDO} \rightarrow \text{CAO} \rightarrow \text{DCA/DAO/UAO}. \]

Ministries use the payment systems that are most appropriate for their operations according to their understanding. Different Ministries follow different modes of payment as they do not talk amongst themselves and such modes have evolved in isolation without consulting other Ministries.

---

1 'Beneficiary' is not deemed to be an appropriate way to describe people and households covered under any social protection programme. We would prefer referring to such people and households as 'clients', 'participants', 'customers' or 'partners' of the programme. However, as the term 'beneficiary' is generally accepted in policy circles in Bangladesh, this reference will be used throughout the report for such people and households.
The existing modes of payment may be categorised in the following broad groups: 1) payment through Treasury, 2) payment through banking system, and 3) payment through postal system. They are examined in the sections that follow.

3. Payment through Treasury

This mode of payment is principally used for making pension payments to the government Civil Service Pensioners. For such payments, Bangladesh Bank acts as Treasury of the government and Sonali Bank acts as agent of Bangladesh Bank. Bangladesh Bank has its headquarters in Dhaka and branches in eight divisional headquarters of the country and in one district headquarter. Sonali Bank has at least one branch in every district and Upazila to facilitate government fund flow. CGA and its subordinate offices, CAOs of line ministries, DCAs at divisional headquarters, DAOs in districts and UAOs in Upazilas authorise withdrawal of money upon being instructed by the legal authority of the specific public fund.

Pensioners receive their pension into their individual accounts at their nearest Sonali Bank branch. A small number of pensioners also draw their pension from Janata Bank and Agrani Bank, the two other state-owned commercial banks. Money paid through the bank is replenished by government on submission of claims. Pension may also be received directly from post offices, CAOs, DCA, DAO or UAO.

For the Food For Work (FFW) programme, funds are withdrawn from Sonali Bank Branch by UNO/Chairman of the Upazila Project Implementation Committee (PIC) on endorsement of claim by UAO. Cash is then directly disbursed to the beneficiaries following the departmental procedure. Wages under the Employment Generation Programme for the Poorest (EGPP) are deposited in the bank accounts of the beneficiaries on a weekly basis with payment day being fixed on Thursday for the work performed on Saturday through Wednesday. Out of an entitlement of BDT 200 per person for a day’s work, an amount of BDT 25 is retained in the bank account of the beneficiary as deposit. This amount can be withdrawn by the beneficiaries in the month of July only.

The following are a list of social protection programmes which use payment through treasury mode to transfer cash to their beneficiaries:

- Civil Service Pensions
- EGPP
- FFW

3.1 Advantages of Payment through Treasury Mode

- Line ministries do not need to spend on commission payment
- Beneficiaries are free to choose their own time for collecting their cash benefits
- Payments are tracked efficiently and accounted for properly

3.2 Limitations of Payment through Treasury Mode

- As branches of Sonali Bank are few and far between in the country, the beneficiaries need to travel long distances to receive their payments.
- Cash disbursement by elected officials or civil servants is fraught with the obvious risks of leakages, rent-seeking, delays in payment, and elite capture of the programmes.
- The new feature added to iBAS++ is capable of transmitting up to Upazila level, but not beyond.
- BEFTN of Bangladesh Bank covers all divisional headquarters but only a few district headquarters. At present, the rest of the country is beyond the reach of Electronic Fund Transfer (ETF) system of Bangladesh Bank. Thus there is delay in the transfer of funds to some districts outside the ambit of BEFTN.
4. Payment through Banking System

Many of the cash benefits under social protection programmes are routed through the banking infrastructure of the country. The following social protection programmes use banking infrastructure to transfer cash benefits to their beneficiaries:

- Primary Education School Stipends Programme (PESP)
- Stipend for Technical Education Program (STEP)
- Old Age Allowance (OAA)
- Freedom Fighters Allowance
- Husband-Deserted, Widowed and Destitute Women Allowance (HWDWA)
- Disability Allowance
- Stipend for Disabled Students
- Wage disbursal under EGPP
- Programme for Improving the Livelihoods of Harijan, Dalit, Bade

In the current situation, line ministries are engaging only with the nationalised banks for cash transfers, although officially there is no such restriction in place. In the existing arrangements, the following six nationalised banks are involved in cash transfers under social protection programmes: Sonali Bank, Rupali Bank, Janata Bank, Agrani Bank, Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank. In some cases, these banks enter into agreements with private sector banks in order to leverage their network and services.

The following is the fund flow pattern of direct cash transfer through the banking system: Budget → GO from Line Ministry → PD/DDO → CAO → Cheque to designated bank.

Beneficiaries are requested to open an account in the nearest branch of the bank designated by the department for cash delivery under a specific social protection programme. Banks transfer the cash to beneficiaries through one of the following three mechanisms: (1) Crediting the amount into the beneficiaries’ accounts, (2) Cash disbursement in bank branches, (3) Cash disbursement from pay booths specifically created for the purpose (See Figure 1). Some banks under specific social protection programmes also outsource the payment to their mobile phone banking partners or agent banking partners.

Figure 1: Fund flow from Banks to Beneficiaries

The sections that follow examine the mechanisms banks use to transfer funds to beneficiaries.
4.1 Payment at Local Bank Branches

The authority managing the social protection programme to be delivered through this method deposits cheques for the requisite amount at the designated bank. The programme beneficiaries are required to open a special category account with a minimum balance of BDT 10/ GBP 0.10. The accounts are used only for the purpose of delivering social protection cash benefits and the vast majority beneficiaries do not use these accounts for any other transactions as they are, in most cases, unaware of these facilities and also do not know how to operate a bank account. Moreover, in some programmes, such as OAA and HDDWWA, the special account holders are barred from using this account for any purpose other than receipt of programme benefits.

Beneficiaries are introduced to banks by the field officials of the concerned department/programme. Payments are made either on quarterly, biannual or annual basis. Bank branches credit the amount into the accounts of beneficiaries on the basis of lists of beneficiaries supplied by the authorised departmental officer. Date of payment is announced in advance and the beneficiaries are made aware of it by the field officials of concerned department and the elected representatives. Beneficiaries personally present themselves at the bank branch and are paid on verification through the concerned field officials.

In case a beneficiary cannot attend the bank branch personally, they can nominate a person to collect the benefits on their behalf on the day of payment. Such nominees however need to be approved by the elected representatives such as their Union Parishad Chairman, Ward Councillor or the concerned social welfare officer.

If some beneficiaries fail to collect their benefit on the payment day, they can collect it on the payment day in the next cycle. They can in fact collect any of their uncollected instalments on any payment day within the same fiscal year. However, any amount remaining undisbursed is returned to the concerned department at the end of the fiscal year.

Old age pensioners and disabled allowance beneficiaries obtain their cash benefits in the aforesaid manner. Freedom fighters, however, have regular savings bank accounts through which they receive their cash entitlements. They can therefore withdraw money on their own convenience after the same is credited in their accounts. In case of Skill and training Enhancement Project (STEP), supported by the World Bank, zero balance accounts are opened. However, if money is not withdrawn within two months it is refunded to the World Bank.

4.1.1 Advantages
- Safe and comfortable for those near to the bank branch;
- Easy identification of beneficiary;
- Payment is made as soon as money is transferred from HQ;
- Easy for reporting, monitoring and accounting;
- Less possibility of fraudulent payment;
- Undisbursed money is returned to HQ as soon as possible.

4.1.2 Disadvantages
- As many as eighty per cent of the nominated bank branches are located in an Upazila HQ or a Union and thus are far away for the vast majority of beneficiaries.
- Beneficiaries have to bear their own travel costs.
- Old people and physically-challenged persons face severe physical hardships while travelling to and from bank. In case of differently-abled persons, the travel costs are even higher as sometimes they cannot use the normal cheaper modes of transport due to their disability. In some cases, they cannot travel alone and need to pay for the travel of their companions.
• Opportunity cost of obtaining the benefits is significant as in most cases the entire day is wasted in the process. In a few cases, the opportunity cost in terms of losing one day's wages along with the travel costs is more than even the benefits beneficiaries receive.

• Beneficiaries need to wait for a long time in a queue with no or inadequate facilities of drinking water, sanitation or seating, etc.

• Such payments also strain the banking services on the days of payment. They severely inconvenience the regular customers of the banks and are highly strenuous for the bank staff.

### 4.2 Payment through Booths

In some social protection programmes, the participating banks are asked by the concerned departments to establish payment booths particularly in the areas where there is no bank branch within a radius of five kilometres of the recipients. Such booths are established in the premises of a public institution on a fixed day and the beneficiaries from the demarcated neighbouring areas are asked to personally receive their payments.

Six state-owned commercial banks, namely, Sonali bank, Rupali bank, Agrani bank, Janata bank, Krishi Bank, and RajshahiKrishiUnnayan Bank are distributing primary education stipends under PESP in each of their allocated areas. All these banks need to establish pay booths in the areas of their stipend delivery jurisdiction. Designated bank officials from the nearest branch travel to the booth locations along with the cash and required documents and are accompanied by the armed guards whenever they are available. They disburse cash to the guardians of the eligible students in the presence of the head teachers of their schools and the concerned UEO/AUEO. Children and their guardians are identified through photographs, which are already in the possession of the bank and the school.

In case some guardians or eligible students are unable to obtain payment through the booth on the day of its functioning, they are asked to collect it from the Upazila branch of the bank. Undisbursed money is returned to the bank's HQ at the end of each quarter. The bank HQ in turn returns undisbursed stipends to the Treasury under intimation to the concerned HoD/PD. Currently, cash payments under PESP and SEQAEP are being made through payment booths.

#### 4.2.1 Advantages

This system of payment was initiated to make payments to the beneficiaries in the absence of any other efficient methods of payments. However, in the current situation it does not offer any advantage over any other payment alternative.

#### 4.2.2 Disadvantages

- The payment booth system causes significant inconvenience to the students and the guardians.
- The beneficiary students miss out on the day's scheduled teaching, as they need to accompany their guardians for obtaining payments. Non-beneficiary students at the schools also suffer as there is practically no teaching on the payment day in such schools. However, in order to minimise teaching loss, the booths are generally organised when the schools have half-days.
- As per the policy of such stipend programmes (and rightly so) most of the guardians receiving payments are women. They sometimes have to wait for almost an entire day to obtain their payment. There is generally no arrangement for meeting their basic needs, such as drinking water, sanitation, and seating while waiting.
- Beneficiaries and their guardians must bear the cost of travel to the booths. Guardians also incur opportunity cost in terms of loss of wages or time to perform household activities.
- As a large number of people get assembled at the payment booths it becomes very difficult for the teachers and bank officials to manage the crowd. Bank officials, school teachers and the UEO interviewed for this report mentioned that they are always fearful that the situation may turn violent and often situations become out of control.
Accessibility to payment booth locations is often difficult and sometimes requires bank officials to cross rivers.
Risks are involved as they carry large sums of cash. Sometimes they are unable to avail services of armed guards.
The bank officials are required to work for considerably longer period on the day of payment than their regular working hours.
Banks need to spend a significant amount in meeting travel costs of the bank officials and the armed guards.

4.3 Agent Banking
As the outreach of banks is very limited in rural areas, the banks have been strategising to improve their reach by appointing agents for locations where they do not have a physical presence. These agents are provided with requisite hardware including biometric devices and are connected with the banks’ central software. These agents are capable of offering the banking services thus obviating the need of establishing bank branches in the unbanked areas.

Banking agents use biometric identification as one of the mandatory fields for KYC. They then make payment after identifying the beneficiaries through their biometrics. As banking agents are engaged in the areas with limited banking infrastructure they reduce the distance to be travelled by the beneficiaries to obtain their payments.

Agent banking is still in nascent stage in Bangladesh and the banks are at different stages of setting up their agent banking networks. However, it is observed that in many cases banks are not able to provide for the requisite staff for overseeing their agent banking operations. Unless this situation is improved, it would be difficult to expand agent banking to the required levels. Currently, Investment component of Vulnerable Group Development (ICVGD) programme is leveraging the agent banking system for cash payments to the beneficiaries. Beneficiaries of other programmes being delivered through mobile phone banking are also eligible to obtain their payments through the banking agent networks.

4.3.1 Advantages
- Agent banking increases the outreach of banks and reduces the distances to be travelled by the beneficiaries to obtain the payment.
- Reduces travel cost and time spent by beneficiaries to collect benefits.
- Use of biometric identification and electronic record keeping reduce risk of leakage.
- As is systemically required the agent banking points are connected with banks’ central servers. This facilitates smooth flow of data downwards as well as upwards.
- This system of payment is capable of addressing much of the constraints faced while making payments at the bank branches or using elected officials/civil servants to disperse cash.

4.3.2 Disadvantages
- It increases the overall cost of cash transfers when compared to the payment at the existing bank branches, as banks need to pay a significant commission amount to the agents. However, it is much cheaper when compared to the requirement of opening of new regular bank branches.

4.4 Mobile Phone Banking
The evolution and spread of mobile phone technology has enabled financial institutions to deliver various financial services to the people residing in unbanked areas. Banks and other financial institutions have been increasingly leveraging mobile phone coverage in Bangladesh to expand their outreach. Recognising the importance of mobile phone technology in delivering financial services to deprived populations, Bangladesh Bank has granted permission to as many as eighteen commercial banks for launching mobile phone banking services.
Dutch Bangla Bank Ltd (DBBL) is the pioneer of full-fledged mobile banking services in the country supported by their core banking solution. It has recently been branded as 'Rocket'. The state-owned Rupali Bank has also initiated mobile banking services under the brand name ‘Sure Cash’. Similarly, Bank Asia has started a mobile service. b-Kash, a subsidiary of BRAC Bank Bangladesh, is making a significant contribution to promoting and popularising mobile phone banking through a number of dealers and agents across the entire country. Their services are however not supported by Core Banking Solution of the BRAC Bank and are therefore not covered by Deposit Insurance Scheme (DIS) of Bangladesh Bank.

In light of the expanded outreach of mobile phone banking, the Higher Secondary Stipend Programme (HSSP) and Secondary Education Stipend Programme (SESP) are now being entirely delivered through this channel (see Box 1). The two programmes have entered into an agreement with a public sector bank, Agrani Bank, for this purpose. As Agrani Bank does not offer mobile phone banking, it has in turn made an arrangement with DBBL to transfer cash to the guardians of the students under the two stipend programmes through its network of partners offering mobile phone banking services across the country. Both HSSP and SESP could have directly entered into an agreement with DBBL but somehow they are under the impression that they could only have such agreements with public sector banks. Bangladesh Bank, however, denied posing any restriction to any government entity in this regard. There is practically no role for Agrani Bank in the whole arrangement but they still receive the fees for rendering the service. Only a portion of these fees are passed to DBBL, which undertakes the entire operation.

**Box 1: Stipend Payment through Mobile Banking**

HSSP was the first programme to use mobile bank facilities. HSSP signed an agreement with Agrani Bank on 07/06/2015 allowing it to use mobile banking to distribute the stipends. Agrani Bank signed an agreement with the Dutch-Bangla Bank Ltd (DBBL) on 23/06/2015 for obtaining their mobile phone bank facilities. A list of stipend recipients, their mobile phone numbers, and their stipend entitlement was handed over to the DBBL through Agrani Bank with copy to USEO. The letter to the Agrani Bank/DBBL mentions the date of fund transfer with a copy to USEO with instructions to supervise the disbursal of stipend amounts to the students. Students are also instructed to forward any complaint about non-receipt of stipend.

Upon receipt of information regarding transfer of stipend money along with a PIN code, the student may withdraw it from the nearest branch of the DBBL, withdraw the amount from an ATM booth of DBBL using their PIN code number, or visit an agent of the DBBL and receive money after showing their phone message and the PIN code. After disbursement is complete, DBBL sends a transaction report to the Agrani Bank. Agrani Bank reconciles its stipend account and sends a reconciliation report to the Project Director of the Programme. The bank is paid only 1% commission for the service provided.

Based on the evident advantage of this model of delivery over payment booths and the payment arrangements at the bank branches, two other cash transfer programmes for students, namely Secondary Education Sector Investment Project (SESIP) and Secondary Education Quality & Access Enhancement Project (SEQAEP), are negotiating with Agrani Bank for cash delivery through DBBL's

---

2As per The Bank Deposit Insurance Act, 2000, membership of DIS is mandatory for all scheduled banks and the branches of foreign banks operating in Bangladesh. Objective of the system is to protect small depositors, enhance public confidence, ensure stability of financial system, increase savings and encourage economic growth. About 85% of the total deposit accounts with banks are covered under insurance and a covered depositor would get her money back up to BDT 100,000 if her bank faces a collapse. Premium rate for DIS is determined on the basis of financial health/CAMELS rating of the bank.

3Although SESIP and SEQAEP currently pay 2.5% of the total amount to be disbursed, SESIP is negotiating with Agrani Bank

---
mobile phone banking network. PESP is contemplating using Rupali Bank’s *Sure Cash* for stipend transfer to beneficiaries.

As per the arrangement of DBBL with their agents, the agents charge 0.9% of the total amount of payment as agency commission. In SEQAEP this commission amount is reimbursed by the project authority. In some other programmes it is borne by DBBL. However, in three programmes the commission is recovered from the beneficiaries. In an ideal system the beneficiary should get the total amount of his entitlement and all the expenses associated with delivery should be borne by the concerned government agency.

Currently, the majority of cash benefits in social protection schemes are distributed either on quarterly, bi-annual, or annual basis. One of the reasons for this is the costs and inconvenience associated with the payments. More frequent payments via more conventional payment methods entail larger expenses. Mobile phone banking and agent banking provide an effective solution to this issue.

It is observed that the success of the mobile delivery arrangement may be in part due to the institutional support provided by the schools in terms of generating awareness and letting the students know that their benefits are ready to be paid. In other cases, it may not be as successful unless such institutional arrangements are created.

Following programmes are currently being delivered through the phone banking mechanisms:

- SESP
- HSSP
- SESIP
- SEQAEP
- PESP

### 4.4.1 Advantages

- This mode of payment improves outreach of banks even more than the agent banking.
- As the requirements for appointing mobile phone banking agents are far less stiff, banks are in position to appoint such agents even in remote areas.
- Minimum amount of time and money spent by beneficiaries to obtain cash payments.
- As the mobile phone banking centres are connected with the banks’ IT systems, speed of flow and reliability of data are not compromised.
- Like agent banking, this system of payment addresses most of the issues associated with payments at bank branches and through payment booths such as inconvenience to beneficiaries, their opportunity loss while obtaining payments, inconvenience to regular bank customers, excessive staff and other costs, and the crowd control issues.
- Cost effective for the supply-side: fees range from 1-2.5% of the total amount to be disbursed.
- Although SESIP and SEQAEP currently pay 2.5% of the total amount to be disbursed, SESIP is negotiating with Agrani Bank for lowering the charge to 1%. Zero cost for the beneficiaries to receive payments from ATM booths or bank branches.
- Currently in conventional methods the payments are effected either on quarterly basis or on half yearly or even yearly basis. One of the reasons for such a situation relates to the costs and inconvenience associated with the payments. More frequent payments would entail even larger expenses. Mobile phone banking and the agent banking provide an effective solution to this issue. Payments can be made more frequently in these modes of payment without incurring additional costs.
4.4.2 Disadvantages

- All stipend recipients may not have mobile phones, and sometimes even the guardians of those students may not have a mobile phone. In such cases, students have to nominate and depend on their neighbours or relatives to access the payment, thus increasing the risk of non-payment or only partial payment and decreasing the likelihood of timely payment.

- Some commission fees charged by agents for mobile transactions are borne by beneficiaries of certain stipend schemes.

- Anecdotical evidence suggests that agents sometimes take advantage of lack of awareness on the part of beneficiaries and extract from them a larger amount than the prescribed commission.

- Due to lack of awareness, inadequate literacy (including technological literacy), students or guardians may fail to read the message and thus may not collect their entitled cash.

- May not be an ideal mode of payments to certain populations, i.e., old age pensioners, as many would not own cell phones and some other vulnerable populations may have lower rates of literacy.

5. Payment through Postal System

The Bangladesh Post Office (BPO) has recently introduced a postal debit card, called ‘Postal Cash Card’. The card is linked with unique NID numbers. A client can obtain a Postal Cash Card by opening an account at a post office or a Post e-Centre. Opening an account involves depositing BDT45/GBP 0.45, filling in a form, submitting three copies of their photographs and a photo copy of their NID. The account must maintain a minimum balance of BDT 45/GBP 0.45 which enables a client to retain the account for five years.

This service is currently available at all post offices including Head Post Offices, Sub Post Offices and Branch Post Offices, and Post e-Centres with the help of Point of Sale (POS) machines and biometric devices.

As many as 8,200 Post e-Centres have already been established across the country. The number is likely to increase to be 8,500 by December 2016. All these centres have been equipped with the requisite equipment for safe, secure and quick cash delivery such as laptop and desktop computers, printers, scanners, photo printers, POS machines, biometric identifiers and modems. The system provides for both PIN-based and biometric identification-based transactions. Biometric identification is capable of undertaking finger print as well as finger vein recognition. BPO has also appointed 124,000 agents for this purpose. Moreover, it has planned to install 1,200 ATM booths by December 2016, which will provide ATM access to over 47,000 postal account/cash card holders.

Some post offices in remote areas are functioning as banking agents. BPO also offers Electronic Money Transfer Scheme (EMTS) to facilitate quick cash delivery. It also facilitates German Red Cross in disbursing cash to beneficiaries located in remote ‘char’ (islet) areas. Currently, BPO has an agreement with Sonali Bank for EMTS and card services, but is expecting to obtain permission from GoB and Bangladesh Bank to become a scheduled bank.

Currently cash transfers for the following programmes are being implemented through Postal Cash Card:

- “Sambhab” (Possible) project of World Bank, 3 upazilas.
- EGPP four upazilas
- Payment of training allowance to marginal farmers under a Food and Agriculture Organization (FAO) programme
- Contract has been signed with the Local Government Division of the Ministry of LGD (LGRD&C-

4In fact, in Bangladesh, you must be 18 or over to own and register a sim card. This means that all students of secondary schools and many students of higher secondary schools cannot own a mobile phone.
local Government Rural development and cooperative) for disbursement of allowances to 600,000 beneficiaries of World Bank financed and LGD supervised Income Support Programme for the Poorest (ISPP) in greater Mymensingh and Rangpur areas. The pilot for this programme has been reportedly successful.

5.1 **Advantages**
- Rural people are familiar with postal savings bank operations as the post offices have been the only agency delivering financial and other services in rural areas for more than a hundred years. Hence it may be acceptable to a wider section of rural population.
- Use of biometric system and POS will ensure safe and reliable disbursement of fund.
- It is not necessary to have network connectivity for the system to function. POS machines are capable of working offline. The data may be synched in when the machine is brought to a place with internet connectivity.
- With its greater outreach than banks and an extensive network of agents being created by the organization, Bangladesh Post Office is capable of expanding this payment system to even remote areas.
- As in the case of mobile phone banking, the service is cost-effective.

5.2 **Disadvantages**
- BPO is suffering from shortage of staff. Unless this problem is addressed, it may be difficult for BPO to run such a payment system smoothly. When interviewed, however, BPO's senior management assured that they would employ required manpower and train them adequately to satisfactorily deliver payment services everywhere in the country.
- BPO employees are generally observed to be lacking in motivation. The organization needs to take effective measures to improve levels of motivation of its people.
- Post offices in remote areas also face challenges due to inadequate arrangements to keep cash securely.
- Anecdotal evidence suggests that postal personnel informally charge the beneficiaries for doorstep delivery of the payment service.

6. **Union Digital Information Centres**
In order to facilitate delivery of services on internet platform to the people in far flung areas and to reduce digital divide in the country Digital Information Centres have been established at all union parishads in the country. This is an initiative of a2i (access to formation) programme of the Prime Minister’s Office. These centres have been equipped by a2i with electronic gadgets including laptop PC’s, scanners, fingerprint identifiers and printers, and have been outsourced to private entrepreneurs. As the Centres have requisite technological capabilities they can act as banking agents or the agents of mobile banking operators. Various banks have already started using some of them as their banking agents and as agents for their mobile phone banking. However, not all the entrepreneurs are found to be suitable for becoming agents by banks. As the initiative is private entrepreneur driven, some centres are not functioning properly and some of them are not even functional at all as is suggested by anecdotal evidence.

7. **Conclusion**
The above analysis indicates that all the prevalent methods of delivery suffer from the challenges on demand-side as well as on the supply-side. Systems of flow of information are very weak with lack of adequate accountability structures. Monitoring of payments face several constraints and thus there is a strong possibility of duplicate and fraudulent payments within some of the current payment systems. Beneficiary identification arrangements too do not seem to be satisfactory.
In the same vein, some systems are excessively taxing for the beneficiaries in terms of travel and opportunity costs. Moreover, one mode of payment, even if convenient for a set of beneficiaries across various social protection programmes, may be extremely inconvenient for other beneficiaries. There is no ‘one size fits all’ option. However, in the existing arrangements the beneficiaries very rarely have a right to choose a mode of payment most suitable to them.

The next chapter describes how different countries have made efforts to address the aforesaid and several other challenges while reforming their payment systems.
Chapter 2
Payment System Reforms: Global Perspective

1. Introduction

Payment systems in different countries of the world have evolved in response to each nation’s unique historical factors, their political environments and the way social protection and G2P payment policies have evolved. Emerging economies have followed different trajectories than the developed world. The next section describes payment system reforms in emerging economies and reform experiences in the developed world. Case studies from three countries, namely, Ireland, South Africa and India form the remaining part of the chapter.

2. Payment System Reforms in Emerging Economies

Reforms in public financial management, more specifically in payment systems, aim to promote social and economic development and better value of money. They also improve administrative efficiencies through increased accountability, enhanced expenditure control and advanced accounting practices. Such reforms, however, face much stiffer challenges in the emerging economies than in the developed world.

In emerging economies, efficiency in budgetary management may be compromised due to disproportionate exercise of power within institutions. In addition, responsibility for allocating resources and monitoring performance may generally be concentrated in a few hands and the process dominated by non-finance professionals. In such a situation, political elites and coalitions may enforce their own agenda and stall any efforts towards introducing transparent and efficient systems. Such economies may also be faced with lower levels of public management capacity, market development, legal effectiveness and environmental stability.

There may be institutional inadequacies in banking and financial systems associated with predominance of informal economy. Lack of centralised financial and contract management structures along with a lack of trained accountants and managers with adequate knowledge and skills to make financial decisions may render budgetary controls very difficult. There are significant pay gaps between public and private sectors that make it very difficult to recruit and retain qualified staff. In many emerging economies performance-based pay to civil servants is still a far cry and seniority structures dominate promotion in bureaucracy.

3. Experiences from Developed World

Developed countries also faced such issues when public financial management reforms were introduced. However, as Verbeeten (2008) points out in case of Netherlands that although behavioural effects mediate effectiveness of the reforms there, defining clear and measurable goals has been positively associated with quantity and quality of performance. Mir and Rahaman (2007) also note that despite initial setbacks resulting from identity clashes between new accounting technologies and old bureaucratic procedures, an Australian government agency successfully transformed itself into a more business-oriented model.

In any case, it may not be appropriate to straightaway implement successful private sector models for delivering public goods as they are provided largely for normative reasons and not for commercial profit. Even in developed countries, studies have pointed out certain negative impacts of such reforms.

---

For example, managers have been reportedly tempted to deliver what is easily measurable rather than what is important in order to achieve policy objectives (Mellett, 1998). They are also observed to take myopic views of costs, failing to link these to revenues or wider socio-economic concerns (Lewis and Stiles, 2004). Reforms may also be questioned in democratic terms, with decisions falling into the hands of unelected managers and accountants (Guthrie et al., 1999). In addition, implementation costs incurred through changes in work methods, information systems, staff training and recruitment may reduce the financial benefits of reforms, while cost-effectiveness considerations can mean fewer public services provided at higher unit costs (Olson et al., 2001).

4. Focus of Payment System Reforms in Different Countries

Depending upon the historical factors, the way social protection policies have evolved and the political environment, the focus of and on payment system reforms may vary among different countries. Although financial inclusion is a general policy goal in all emerging economies, not all the countries have this as an explicit objective for recipients of social protection benefits. Countries such as Mexico, Colombia, Brazil and South Africa give the highest priority to the goals of promoting the dignity of the recipients and maximising additional developmental benefits for recipients. Objectives such as reducing leakage and delivery costs are generally secondary. There is often a trade-off between the secondary objectives with the objectives of higher order. For example, as a result of South Africa and Mexico having set norms for the distance to be travelled by most recipients for collecting their benefits, these countries are now incurring relatively high costs across thinly populated rural areas.

Countries such as Ireland intend to reduce usage of cash and cheques and move towards total e-payments even at the cost of customer convenience, while India, despite being one of the largest cash-using countries in the world, has been striving towards a balance between reducing cash transactions and the convenience of the beneficiaries. Malaysian reforms are more focused towards modernisation of their accounting systems. However, the cross-cutting theme of reforms in all such countries is to strive towards unification of all the existing payment systems that are interconnected and interoperable on an appropriate technology platform.

5. Case Studies from Specific Countries

Policymakers all over the world are seized with the problem of creating payment systems that meet the unique needs and demands of their citizens. Circumstances can be very different in different countries and thus it may not be expedient for one country to follow the exact path another country has followed in developing its payment system— even if it is highly successful. At the same time, it is important to learn from the experiences of the other countries in order to avoid unnecessary efforts to ‘reinvent the wheel’.

Experiences of some countries in terms of developing their payment systems may be more relevant to a particular country than those of other countries. In such a situation it is important to study in detail the payment system reforms in the countries that offer concrete relevant lessons to be learnt in the context of Bangladesh.

Accordingly, this section presents case studies on payment systems in Ireland, South Africa and India. As is the case with Bangladesh, these three countries have well-established social protection programmes. While Ireland and India both are committed to reducing their cash transactions, the.

---

principal purpose of such a move for India is to reduce the extent of black or shadow economy. In Ireland’s case, the primary purpose of such a move is to reduce costs while reducing the extent of shadow economy is of secondary importance. India is therefore urging its citizens to increase usage of cheques\(^{11}\) while Ireland is committed to reducing usage of cash as well as cheques, as both these methods of payment are costly.

In addition, Bangladesh and India share a common history and heritage having been part of the same political entity for a long period of time in the recorded history. Many social, economic and political institutions therefore evolved along the same trajectory in both the countries. It is therefore important to not only understand the payment system that is currently in place but also be aware of the historic contours of its evolution as that may have important lessons for Bangladesh. Along with the efforts of South Africa, the Indian efforts in this regard have also been lauded by CGAP\(^{12}\).

In the cases of South Africa and Ireland, social protection programmes are largely delivered by a single government agency, the Department of Social Development and Department of Social Welfare respectively. Similar to Bangladesh, India’s social protection programmes are implemented via several ministries and departments. This generates additional needs for unification and agglomeration on the supply-side. This challenge gets even more pronounced if implementing agencies are not willing to dilute their control over the programmes they are mandated to implement.

Most importantly, the three case studies offer lessons in three distinct areas of developing and adopting appropriate payment system in the context of Bangladesh. On one hand, Indian experience offers rich information and lessons on how to design various aspects of the payment system and its rationale as evolved historically. On the other hand, Irish experience provides with significant learning on how to implement the payment system reforms systematically, while ensuring that beneficiaries are adequately made aware of the necessity of such reforms, and are made partners and collaborators within the reform process. Case study on South Africa makes us realise the criticality of developing relevant and effective legal and regulatory infrastructure for the payment system reforms to succeed. The three case studies also point towards inevitability of developing centralised platform for effecting all G2P payments while leveraging modern technological advances for establishing such a platform and for delivering the payments to the end beneficiaries.

Against this background the three case studies that follow focus on the areas which offer lessons to inform policy prescriptions for Bangladesh.

---

\(^{11}\) India has recently derecognised its currency notes of INR 500 and 1000 denominations to check cash transactions and reduce the value of black money stashed in the form of these higher denomination currencies. This measure is also expected to increase cheque and electronic transactions.

Case Study 1: India

1. Social Protection Payments in India

The government of India and the state governments in India have been traditionally transferring the cash benefits to beneficiaries through two ways: i) indirect payment of subsidies, for example on cooking fuel such as LPG and kerosene, fertilizers and electricity consumption, and ii) direct cash transfers such as social security pensions, assistance of construction of houses for poor households, and payments of scholarships to the students belonging to Scheduled Caste and Scheduled Tribe communities.

Indirect payments of subsidies were directly made to the service-supplying agencies and served the purpose of keeping prices of these services below normal market prices. An important reason for transferring cash subsidies indirectly concerned with inability of the government agencies to adequately identify the customers of the services and lack of reliable and efficient delivery mechanisms for direct transfers of cash to a large number of people scattered throughout the country. This method of indirect subsidies, however, tends to disproportionately benefit the relatively affluent households, as they are the ones who consume these services in larger quantities. Service suppliers also enjoy a part of the benefits that are intended to be transferred to the end users.

2. Social Protection Cash Benefit Transfers

Direct benefit transfers in India have traditionally been disbursed in the form of cash through either the field staff of concerned government agencies or through post office remittance services (called money orders). Both these mechanisms had obvious well-documented challenges and the beneficiaries reportedly received much less than the intended benefits. There were also significant delays in cash disbursals to the beneficiaries after release of funds. In addition, in the case of disbursal through post offices, the benefit disbursing agencies needed to pay 5% of the entire amount of benefits as money order commission to the post offices.

Most of the direct benefit transfer schemes have major contributions from the central government while the concerned state governments are expected to bear smaller portions of the financial implications of the schemes. This coupled with the delays in disbursal to the end beneficiaries gave rise to a unique situation that further put the beneficiaries at a disadvantage. In India the financial year is counted from 1 April to 31 March. The central government generally releases the last tranche of benefits for a financial year in the last week of March. Due to inefficiencies associated with the delivery systems a large portion of the benefits could not be disbursed before the closure of financial year on 31 March. The undisbursed amount therefore got lapsed and in many cases the deprived beneficiaries either got that instalment of payment very late or did not get it at all.

3. Cash Benefit Transfers through Savings Accounts

Primarily in response to the situation as described above, in 2003 the Postal Department in the state of Gujarat offered to open the savings bank accounts of all the beneficiaries of the programme named ‘Financial Assistance to Widows Below Poverty Line’. In such a situation even if the state government received the central government’s share even on the last day of the financial year, it could issue a single cheque to the general post office of the state and the amount would not be lapsed. The post office in turn would credit the entitled amount in the accounts of the beneficiaries across the state.

This experiment, however, yielded many other positive outcomes. A survey conducted by the post offices to identify the beneficiaries revealed that, out of 130,187 beneficiaries covered under the scheme, 10,353 did not fulfill various eligibility criteria. Such a discovery was only possible due to the
rich information capital local post offices possess on households in their area. As a result, the ineligible
beneficiaries were removed from the scheme and thus the leakage in the scheme could be plugged.

Widows below poverty line are arguably the most vulnerable social group in Indian society. This
experiment allowed them to be financially included through regular savings accounts in their own
names. This was a major improvement as it has been observed that under the previous direct cash
disbursal mechanisms, male relatives were able to access the cash and as a result some women would
only get a part, if any, of their entitled financial assistance. The new arrangement improved the
situation to a great extent as the beneficiaries had a much better control over their entitlement
through their savings accounts. This also significantly improved the information management on the
scheme and the flow of data particularly upwards. The post office continued to charge 5% of the
total amount disbursed as its commission.

Other social protection programmes continued to follow direct cash disbursal models largely due to
inertia of the state governments and a tendency to maintain the status-quo in absence of any
accountability requirements. However, when the National Rural Employment Guarantee Programme
(NREGP) was first introduced in some selected districts in various states of the country, it changed
things as it followed rights-based approach and had different accountability mechanisms. Moreover,
it did not have the historical baggage of direct cash disbursal. The Postal Department offered to make
payment of wages to the labourers through savings accounts opened in their names for this
programme as well. The government of Andhra Pradesh was first to respond and, due to the large
number of beneficiaries of the programme, convinced the Postal Department to reduce its commission
to 2% of the total wage amount disbursed. Other state governments also saw the obvious benefits of
disbursing wages through savings accounts and entered into agreements with the Postal Department
in their states.

4. Issues with the Manual System

Very soon the weaknesses in the NREGP postal payment system started to surface due to the large
volume of additional work that was still being carried out manually. State governments found it very
difficult to obtain information in a timely manner, manage the payments and avoid duplication of
payments. The flow of information was found to be very slow due to the entire operation being
performed manually and there was a shortage of human resources at critical positions.

The state governments started exploring the possibility of using commercial banks for disbursing
NREGP wage as the Postal Department was too slow to computerise its operations, especially in rural
areas. Most of the banks had already computerised their operations and were on core banking
solutions. Thus, despite the fact that post offices are located in the closest proximity of the
beneficiaries among all financial institutions and are more convenient from the point of view of the
beneficiaries, the government agencies started promoting the banks for the payment purpose.

5. No-Frill Accounts

There was however one constraint to be overcome before commercial banks could be effectively
engaged for the purpose. The savings products offered by the banks were far more demanding than
those offered by post offices, particularly in terms of minimum balance in the account and conditions
to be fulfilled for opening an account. The central government addressed this issue by introducing a
zero-balance no-frills account to be operated by all commercial banks under a scheme named,
'Swabhiman'.

Initially, the government aimed to have the scheme cover all households in approximately 73,000
villages with a population of 2,000 or more by 2012, with other habitations to follow soon after. In
2014, the government of India changed the name of the scheme to Jan Dhan Yojana (JDY) and aimed
to cover all the excluded households in the country. Accounts in JDY not only financially include the
so-far-excluded households and thus provide them an access to various financial services but also
pave a way for beneficiaries of all social protection programmes to receive their cash benefits through such accounts in more transparent and less leaky manner.

In addition, the banks were allowed to engage Business Correspondents (BCs) to extend banking services in the areas lacking banking infrastructure. BCs are equipped with requisite hardware and are connected to the Core Banking Systems of the banks. Banks initially started appointing individuals as BCs but soon understood the need to enter into agreements with organised entities such as microfinance institutions and other agencies having widespread networks.

6. Unique Identification: Aadhaar

There was however another pressing issue: the vast majorities of beneficiaries of NREGP and other social protection schemes lacked identification, which made them ineligible to open a bank account. In response to this, the government of India decided to launch an ambitious programme to provide unique identification to all the citizens of the country, irrespective of their age and location. The identity was prescribed to be authenticated by fingerprints of all the fingers, and the photographs of the iris and the face.

For this purpose, the government of India established a statutory authority, namely, Unique Identification Authority of India (UIDAI), in the year 2009, which was headed by an executive with the rank of cabinet minister. UIDAI was initially part of the Planning Commission of India (now NITI Aayog). It is now under the Ministry of Electronics and Information Technology (MeitY). UIDAI is tasked with collecting the biometric and demographic information on residents and issuing the 12-digit unique identification, called Aadhaar, meaning base or foundation in Hindi. Aadhaar was primarily designed to provide identity to a large section of population that had no identification and were therefore suffering from deprivation on multiple counts including the inability to open their bank accounts. It was also realised that such a unique identity for all citizens may address the issue of duplication of payments and allow interoperability of all the financial agencies willing to join the payment system.

7. Aadhaar-Enabled Payments

After Aadhaar was rolled out and a significant number of people got their unique identifications the government of India appointed a Task Force, headed by the Chairman of UIDAI, to recommend methods to directly transfer the subsidies on kerosene, LPG and fertilizers to the consumers. In its interim report submitted in June 2011, the Task Force recommended selling goods at market prices, and reimbursing the subsidy into the bank accounts of beneficiaries. It also recommended setting up of Core Subsidy Management System (CSMS) for the purpose of maintaining bookkeeping information on entitlements and subsidies for all beneficiaries. Such a CSMS would transfer the cash component of subsidies directly and in real-time to the bank accounts of beneficiaries. Beneficiaries would then access these funds through various banking channels such as bank branches, ATMs, business correspondents, internet, and mobile banking. Achieving full financial inclusion was thus pointed out to be critical for direct transfer of subsidies.

The CSMS was recommended to be developed in such a way that it would also provide increased transparency in the movement of goods, levels of stocks, prediction and aggregation of demand, and identification of beneficiaries. It would be able to use analytics to detect fraud and diversion. Beneficiaries would be able to report malpractices to the government directly through a contact centre for grievances, making it possible for the government to react in a timely manner. As the subsidy management systems assume the same configuration under CSMS, integration of all subsidies and entitlements under one umbrella was also considered to be achievable. Government of India accepted the recommendations of the Task Force and subsequently, in September 2011, extended its Terms of Reference to include the development of an Aadhaar-enabled Unified Payment Architecture.


8. Mobile Banking

Guidelines for mobile banking operations were first issued by Reserve Bank of India (RBI) in October 2008, and after undergoing several amendments have been recently circulated by in July 2016. The guidelines provide for transactions up to INR 5000 to be facilitated by banks without end-to-end encryption. They also require the banks to offer network-independent mobile banking. Banks are further permitted to offer mobile banking facility to their customers without any daily cap for transactions involving purchase of goods/services. In case of cash out, the maximum value of such transfers is INR 10,000 per transaction. Currently 190 banks have been permitted to offer mobile banking transactions by RBI. The National Electronic Fund Transfer (NEFT) platform is used for settlement of all interbank mobile banking transactions.

9. Immediate Payment Service (IMPS)

Currently, the majority of interbank mobile fund transfer transactions are channelized through NEFT. Under NEFT, the transactions are processed and settled in batches, hence are not real time. Moreover, the transactions can only be carried out during the working hours of the RTGS system. The IMPS is a service operated by NPCI which provides an instant, 24X7, interbank electronic fund transfer service through mobile phones. Publicly launched on November 22, 2010, this system facilitates customers registered with their banks for this service to use mobile instruments as a channel for interbank fund transfers in a secured manner with immediate confirmation features. Currently 53 commercial banks, and 100 regional rural banks and cooperative banks participate in this scheme. In addition, 24 prepaid payment instrument issuers offer remittance services through IMPS.

10. Public Financial Management System (PFMS)

CSMS has now been integrated into a comprehensive Public Financial Management System being operated through the Controller General of Accounts (CGA), government of India. The system registers implementing agencies and facilitates budget allocation, sanction, bill generation, fund disbursements, accounting, reconciliation, E-payments and beneficiaries' management both at central and sub-state level. Stated objectives of the PFMS are:

- Tracking of funds across the scheme hierarchy
- On line information of bank balances/float
- Minimization of float by 'just-in-time' releases.
- Reduction in borrowings by GOI/state governments - better cash management
- Gross and actual utilization of funds can be known
- Move from post facto accounting to real-time accounting
- Standardise the reports
- To provide a single platform for Payment, Accounting, MIS and DSS for all level of program managers
- Dissemination of relevant information to citizens.
- Enhance transparency, accountability and auditability in public expenditure.

PFMS serves all Centrally Sponsored Schemes, non-plan Schemes and States' Schemes. It offers a single platform for Funds tracking, MIS, DSS, E-payment, Direct Benefit Transfers and Accounting. It is integrated with banks and post offices and offers on-line advice to RBI and transfer of funds to Special Purpose Vehicles. It is integrated with treasuries, can generate utilisation certificates, and can be integrated with any outside departmental systems. It has the capability to function as a Scheme, Budget & Funds Management System. It allows the payments to be made from any level of scheme hierarchy.
11. National Payments Corporation of India (NPCI)

In a simultaneous move, the government of India in coordination with the Reserve Bank of India and Indian Banks Association established National Payment Corporation of India (NPCI) to consolidate and integrate multiple payments systems and processes, and to facilitate an affordable payments mechanism for the common man. NPCI was incorporated in December 2008 and the Certificate of Commencement of Business was issued in April 2009. NPCI has been working to unify various payment systems and has been able to create a unification platform, called Unified Payments Interface (UPI) that leverages trends such as increasing smartphone adoption and deeper penetration of mobile data. UPI is expected to empower users to perform instant push and pull transactions seamlessly which will transform the way people make payments today. UPI is a unique payment solution as the recipient is now empowered to initiate the payment request from a smart phone. It facilitates ‘virtual address’ as a payment identifier for sending and collecting money and works on single click 2 factor authentication. It also provides an option for scheduling push and pull transactions for various purposes like sharing bills among peers. One can use UPI app instead of paying cash on delivery on receipt of product from online shopping websites and can perform miscellaneous expenses like paying utility bills, over the counter payments, barcode (scan and pay) based payments, donations, school fees and other such unique and innovative use cases. It is expected that in about a year-and-a-half, all smartphones will have biometric authentication facility, and the customer then can also execute the transaction using his fingerprints.

NPCI has also launched a pilot project for Bharat Bill Payment System (BBPS) with 26 Bharat Bill Payment Operating Units (BBPOUs). In the first phase, BBPS will cover repetitive payments for everyday utility services such as electricity, water, gas, telephone and Direct-to-Home (DTH) services. It offers interoperable and accessible bill payment service to customers through a network of agents, enabling multiple payment modes, and providing instant confirmation of payment. The System is expected to significantly reduce usage of cash in Indian economy.

12. Common Service Centres

Advent of internet is associated with developing innumerable new services and products that improved human wellbeing substantially. It also revolutionized the way existing products and services were delivered and accessed in terms of efficiency of delivery, quality and reach of the services. Internet is even more relevant in the rural areas of low-income countries such as India, where delivery infrastructure is poor, and economy of scales is not possible due to low population density and large physical distances. In fact, certain services that are taken for granted in urban areas can only be made available cost-effectively in rural areas on internet platform. However, we need a physical network in the villages that can make such an internet platform available to the villagers.

People and policymakers gradually woke up to the potential of such centres in the villages. On the recommendation of National Commission on Farmers, government of India announced to set up rural knowledge centres at village level ‘using modern information and communications technology (ICT)’ in the Union budget for the year 2005-06. In the next Union Budget the government announced launching of National e-Governance Plan (NeGP) and establishing 100,000 common service centres (CSCs) across the country. At that time, even when I was out of India Post I wrote to the policymakers of the India Post to take advantage of the situation, and the money available under the program, to computerize all rural post offices. They could then improve quality of their services, expand basket of their services, and improve their revenues, while significantly increasing participation of rural population in the larger economic space being created in the country. This could have triggered several processes that could have led to an unprecedented rural prosperity and substantial revenues for India Post. Most importantly, there were more than 100,000 rural post offices and India Post was not required to set up any additional physical post office for the purpose.
The government of India for want of any other alternative asked the state governments to contact NGOs working in rural areas to identify the persons in the villages capable of running the CSCs and install the requisite hardware. The hardware was installed but the people running the CSCs were not supported to develop their business plans or to develop collaborations with service providers, including the government agencies, to deliver their services to villagers through CSCs. Most of the NGOs were also not competent to provide such handholding to CSC personnel. A large majority of the people selected to run CSCs did not know how to operate a computer at all; having lived in villages many of them had not even seen a computer beforehand. Needless to say, all such CSCs failed in accomplishing their mission miserably, and the money spent in procuring and installing the hardware was totally wasted.

Based on the reports from the field, the NeGP got the program reviewed through IL&FS which recommended to the government to engage with private sector and resort to public private partnership (PPP) for the purpose. According to the provisions of the proposed PPP the government agencies were required to provide revenue support for establishing the CSCs while the private sector partner (called service centre agency, SCA) was to identify the person to run the CSC (designated as village level entrepreneur, VLE), establish the CSC, develop the business plans for the CSC in such a way the SCA also earned reasonably in the process, and provide for and nurture all the required linkages with public and private service providers. The tenders were called for to select SCAs on the basis of their demand for the lowest amount of revenue support from the government. Some private sector companies recognizing the importance of CSCs, and business potential of the idea, quoted for negative revenue support implying that they were willing to even pay to the government for allowing them to establish CSCs.

The PPP model still seems to be suffering from the teething troubles with both partners making several allegations against the other. Anecdotal evidence suggests that some SCAs charged exorbitant sums from the villagers before appointing them as VLEs on assurances that VLEs would be making good amount of money. This did not happen and the VLEs agitated at several places. SCAs are still struggling to convince various state government departments to route their services through CSCs. VLEs are still agitating, and CSC network is not able to deliver as expected in several states.

In order to streamline the model and achieve the best out of the CSC initiative, the then Department of Electronics and Information Technology (DeitY) initiated a Special Purpose Vehicle (SPV) named CSC e-Governance Services India Ltd. The SPV registered as a company with shareholding from all the SCAs provides a centralised collaborative framework for delivery of services to citizens through CSCs besides ensuring systemic viability and sustainability of the scheme.

13. Current Options for Payments

Various state governments have also established their own versions of CSC networks. All such centres have capabilities to deliver financial services as agents of banks and other financial institutions. Such institutions are increasingly utilising the strength of these networks for financially including the previously excluded population and making Social Protection payments.

India Post has also been able to computerise its rural network of 130,000 post offices while providing micro ATMs to its rural personnel. These micro ATMs have capabilities to work in online as well as in offline mode. The system has biometric verification capabilities, is interoperable with other payment systems and is capable to make Aadhaar-enabled payments.

In order to further expand banking in India Reserve bank of India (RBI) granted banking licences to two entities, IDFC and Bandhan. IDFC is a diversified financial services firm with a special focus on infrastructure financing, while Bandhan is the country’s largest micro lending organisation.

In another move in the same direction RBI granted payment banking licences to 11 entities including India Post. Payment banks are differentiated banks that are allowed to undertake only certain
restricted banking functions. These activities include acceptance of deposits to a limited extent, payments and remittance services, internet banking and functioning as business correspondents of other banks. They can facilitate money transfers and sell insurance and mutual funds. Besides, they can issue ATM/debit cards, but not credit cards.

Such a network of banks, their business correspondents including the common service centres, post offices, and payment banks supported by Aadhaar, PFMS and NPCI provides an efficient platform with much expanded outreach for payment services in India.
Case Study 2: Ireland

1. National Payments Plan

In April 2013, the Central Bank of Ireland launched its National Payments Plan (NPP) with the overall objective of improving the efficiency of the national payments infrastructure by i) reducing the reliance on cash and paper instruments, ii) greater use of electronic alternatives, and iii) enhancing the ability of low-income households to access modern payment methods.

The use of electronic payments is considerably low in Ireland when compared to most other EU countries. Ireland is significantly over-dependent on cash and cheque, and has the highest value of cheques per capita in the EU. Whilst cheque usage has started to decline in anticipation of the removal of cheques, the pace of change is slow compared with other high electronic payment users such as the Netherlands, Finland or Germany. Ireland is the second highest user of ATM cash across Europe on a per capita basis. It has 667 ATMs per million inhabitants while Sweden has only 359 ATMs per million residents. Citizens of Ireland withdraw 60% more cash than the average resident within the EU. For example, on an average a Swedewithdrew the equivalent of only €2,322 from ATMs in the year whereas in Ireland the average per capita ATM withdrawal was approx. €4,375 (Irish Payment Services Organisation Ltd. Industry Statistics, 2012). Situation is however improving as is evident from the data released by BPFI.

2. Cash Benefit Transfers within Social Protection Programmes in Ireland

The Department of Social Protection (DSP) is responsible for the administration of social insurance and social assistance schemes and the delivery of other forms of social support policy in line with its mission. DSP delivers over 70 welfare schemes and services with approximately 87 million individual welfare payments being paid annually. These payments are issued on a daily, weekly, monthly and annual basis, depending on the scheme type. DSP also caters to the households that require emergency and one-off payments to support them in dealing with unforeseen financial situations.

These payments are made through following three distinct mechanisms:

- Payment through the post office network: AnPost\textsuperscript{14} receives an electronic information transfer (EIT) stipulating the amount payable to the DSP beneficiary\textsuperscript{15}. Beneficiaries presentthemselves at a post office, use their Social Welfare Services or Public Services card to confirmthert identity and then receive their payment in cash in full. In the year 2012, this payment method constituted 50% of the all cash paymentsdispersedby DSP.

- Electronic Fund Transfer (EFT): The welfare payment is lodged via DSP’s banking partner directly into an account provided by an institution authorised by the banking and credit union regulators. This mechanism accounted for 42.5% of all the payments made by DSP in 2012.

- Cheques: The beneficiary receives a cheque payment. Cheques are issued manually through the Community Welfare Service and given to the beneficiaries. Cheques are also issued via the central payment systems and sent to the beneficiaries by post. As much as 7.5% of the total payments were being made through cheques in 2012.

The Bank of Ireland acts as the primary banking partner for DSP and facilitates the transfer of funds from DSP to beneficiary accounts wherever feasible.

---

\textsuperscript{14}Ireland postal organisation

\textsuperscript{15}Ireland DSP uses the term ‘customer’ for its benefit recipients. However, this report uses the term ‘beneficiary’ to maintain the uniformity.
3. Need to Move Towards Cashless Economy

It has been estimated that cash and cheques cost the Irish economy €1 billion every year\(^\text{16}\), due to the costs associated with production, administration and security arrangements. Ireland is generally considered to be the slowest amongst northern European countries in settling the accounts payable due to its preference for settlement by cheque. On average, 16.5 cheques per person were written in the year 2012, while the corresponding figure was zero in eight countries in the euro area including Sweden\(^\text{17}\).

DSP plays a significant role in the overall production of cash and cheques in the Irish economy. DSP also incurs more government expenditure than any other department in Ireland. Thus modernising the payment systems for delivering welfare payments will have a significant impact on overall modernisation of all the G2P payment systems across the country.

According to DSP, a shift to electronic payments would speed up payments, reduce the cost of making payments, and improve Ireland’s competitiveness. A rise in electronic payments will lead to a decrease in the volume of transactions in the shadow economy or unrecorded payment activity that is estimated to be equivalent to 13% of Irish GDP. Cash is the most important enabler of the shadow economy given the ease at which it can be used and its attributes of lack of visibility and traceability. DSP estimates that an increase in electronic payments within an economy is a significant driver in reducing the level of transactions in the shadow economy by a ratio of approximately 2:1.

More and more payments being made electronically will reduce the levels of fraudulently altered and counterfeit payments in welfare payments, while providing tangible evidence of the payment having been received.

Delivering welfare payments electronically will provide DSP with greater visibility, management and control of payment–related financial flows. It will also facilitate the DSP in ensuring improved Treasury management, timely flow of information for reconciliation of welfare payments, and management of welfare payments such as stopping a payment, tracking a lost payment, or dealing with a rejected payment.

Such a shift may however reduce the choice of payment mechanisms to beneficiaries, but the government of Ireland is convinced of its benefits and is firmly committed to following through with this strategy.

The strategy envisages e-payments to all the beneficiaries including those who are currently unbanked, and are vulnerable. It also recognises that more than one electronic payment method may be required to meet the needs of all beneficiaries in all payment scenarios. Payment by EFT will enable payment into DSP beneficiary accounts such as bank accounts, credit union accounts and accounts with other financial institutions.

4. Innovations in Payment Sector

The payment sector in Ireland has been evolving in response to shifts in consumer behaviour, requirements of cost-efficiency, developments in technology and changes in the regulatory environment. The sector is witnessing some innovations that are aimed at bringing better value for money, transparency and hosts of other benefits to the DSP beneficiaries. The following are a list of some such payment innovations:

---


\(^\text{17}\)Irish Central Bank, 2013, The usage, cost and usage of pricing in retail payments in Ireland, Central Bank Quarterly Bulletin 02/April 2013.
• **Direct payment into a wider choice of accounts:** This allows DSP to transfer a payment via its banking partner directly to a beneficiary account, such as a bank account, credit union account or an account with other financial institutions. Such accounts typically have associated payment cards through which onward transactions can be made.

• **Pre-paid cards:** These are smart card with an embedded microchip and can be used like any other card at the point of sale. The cards can be loaded remotely with cash by third parties. DSP is offering an option to deliver cash benefits to its beneficiaries through such cards.

• **m-Payments:** Mobile payments were initiated in Ireland in 2014 and immediately became popular with the customers. In the very first year of its inception, more than 20 million payments were made by DSP through this channel in Ireland. DSP is offering a choice to its beneficiaries to receive payments through mobile banking.

• **Near Field Communications (NFC):** NFC or contactless payments, enable the use of mobile phones or cards to pay for goods and services by swiping their devices over a terminal. Contactless or “tapping” transactions make small value payment transactions faster because neither a PIN number nor a signature is needed.

5. **The Payment Strategy Project (PSP)**

PSP was initiated in September 2010 to enable the DSP to continue to modernise welfare payments. This is in coherence with the wider government policies and objectives such as better public services, more effective e-payments, and effective implementation of the NPP. The PSP seeks to achieve universal electronic payments to all the beneficiaries recognising the needs of DSP as well as those of beneficiaries.

There is a belief within DSP that incremental movement towards delivering all welfare payments electronically is a significant opportunity to improve services to beneficiaries, achieve cost efficiencies and contribute to the wider government agenda. PSP endeavours to support all beneficiaries in receiving their welfare payments in a convenient, safe and secure manner. Such beneficiaries also include unbanked beneficiaries, beneficiaries with specific access requirements and beneficiaries with other forms of payment accounts. Such a transition will enable DSP to save significant financial resources, improve financial inclusion and strengthen the mechanisms to control frauds.

Furthermore, DSP's payment modernisation will allow the Department to improve treasury management causing multiple benefits to the State while reducing associated costs.

6. **Standard Bank Account and Public Services Card**

Payment systems reform in Ireland is being principally driven by the Department of Finance. Main tenets of the reform are NPP and the development of a new basic payment account called Standard Bank Account (SBA) and Public Services Card. DSP is working on a cross-government basis to support access to the SBA. However, DSP maintains that introduction of any new payment accounts does not pose any additional costs to beneficiaries.

The DSP has also developed a Public Services Card incorporating the identification features such as a photograph and signature. The card acts as a key for access to public services in general, validating an individual’s identity wherever required.

7. **Harmonisation of Payment Cycles**

DSP is using the opportunity afforded by the process of modernisation of its payment systems to align the regularity of payments and to harmonise payment cycles across various welfare payment schemes. Currently the DSP makes several payment transactions through different payment methods at various points in time. The modernisation process will enable DSP to combine many of these transactions to reduce their number and improve efficiency of payment delivery. There are plans to reduce the time
period of the payment instalments and make fortnightly payments wherever possible. Such a move will help the beneficiaries in maintaining their cash flow while DSP will be able to reduce the payment size for each payment cycle.

8. PSP Implementation Strategy

The implementation strategy of PSP has been planned in three broad stages, called conversion waves.

**Wave 1 (Primary Conversion)** – In the first wave, the beneficiaries with accounts in banks and other financial institutions are being targeted. These beneficiaries, estimated to be about 600,000, are being facilitated to obtain their cash benefits directly through their accounts electronically.

**Wave 2 (Secondary Conversion)** – In the second wave, new methods of electronic payments will be introduced for about 450,000 beneficiaries who do not have regular accounts in banks or financial institutions. This wave will pose stiffer challenges than the first wave as it would involve designing of such methods, procurement of requisite hardware and software and their testing.

**Wave 3 (Final Conversion)** – Final wave would be focused on achieving total conversion to electronic payment. It is likely to face the toughest of challenges and may not be achieved in the short term.

Ahead of the conversion waves, a period of detailed planning and mobilisation took place to ensure a firm foundation for implementation activities. This included the following:

- Detailed planning for the conversion approach;
- Operational procedures needed by schemes to support the conversion approach;
- Working with the Department of Finance with regard to the on-going implementation of the Standard Bank Account;
- Finalising an appropriate procurement plan to deliver a new electronic payment method.

The Department has established a Programme Board responsible for delivering the outcomes of the Payment Strategy. ‘Delivery projects’ have also been established with adequately skilled resources to ensure continuity and consistency between the Payment Strategy and the implementation plan. Cross-cutting teams are in place, which are responsible for delivering specialist skills, information and other assistance to each of the delivery projects. Scheme representatives ensure that the interests of the beneficiaries remain at the centre of the entire programme.

9. Beneficiary Education and Awareness

The Irish government is aware that the progressive move to e-payments will affect the beneficiaries of its social protection programmes. Some beneficiaries will need support to successfully transition to the new payment systems. Such assistance is therefore an essential element of the strategy for shifting towards e-payments. The strategy dictates that the DSP will work with beneficiaries and their representatives for a period of five years and help them overcome whatever difficulty they face in this regard.
Case Study 3: South Africa

1. Social Protection in South Africa

Transition to democratic governance in 1994 paved the way for South Africa to abolish the apartheid and integrate the oppressed black population into the mainstream economy. The South African government’s intent to set right the discriminatory policies that prevailed for half a century gave rise to one of the largest social protection systems in Africa and the world. This system allows about a quarter of the entire population of South Africa to receive some form of social protection benefits. The government of South Africa is firmly committed to the system and is even considering expanding its provisions to offer universal cash assistance to all its citizens under Basic Income Grant (BIG) programme.

The magnitude of the social welfare system in South Africa is evidenced by the rapid increase in beneficiaries from 2,889,443 in April 1997 to 13,114,033 by April 2009. Spending on the social grant system in South Africa accounts for about 3% of its gross domestic product and is projected to rise from ZAR\textsuperscript{18} 118 billion in 2013/14 to ZAR 145 billion by the year 2016\textsuperscript{19}.

Two of the most important objectives of South African Social Security Agency (SASSA) are to deliver innovative and cost-effective services to beneficiaries and potential beneficiaries through multiple access channels, and to pay the right grant to the right person at the right time and place.

2. National Payment System

South African payment system reforms were initiated partly to fulfill the above objectives for social protection delivery. They were however undertaken primarily in response to the global efforts to address risks associated with payment systems and South Africa’s reintegration in the world economy in the early 1990s. In the year 1994, the banking industry of the country pressed upon the South African Reserve Bank (SARB) to embark on a process of modernising the domestic payment system. SARB therefore launched National Payment System (NPS) project in April 1994 as a collaborative effort between the SARB and the banking industry.

The focus during the inception of NPS was to formulate a long-term strategy for the modernisation and development of a domestic payment system. This strategy included establishing a sound legal and regulatory framework within which payments could be governed and managed in an organised fashion. NPS currently manages millions of payments that are made by South African citizens and businesses on a daily basis. South Africans have a wide variety of payment choices ranging from cash to electronic payments such as cards, debit orders, mobile payments and real-time online internet payments. Currently, payments amounting to more than ZAR 350 billion are settled through the NPS every day.

Non-cash payment instruments facilitate the movement of a claim on a financial institution such as the bank of the payer to the bank of the beneficiary. Financial institutions involved need arrangements such as a sound legal framework, clearing rules and appropriate infrastructure to transfer claims in the form of funds between themselves, either on their own behalf or on behalf of their customers. Payment systems are also essential as a key component in ensuring settlement of obligations within the Real Time Line, equities, bond, money market and derivative exchanges. These jointly represent a significant part of the values settled on a daily basis.

NPS however, does not only entail payments made between banks, but encompasses the total payment process. This includes all the systems, mechanisms, institutions, agreements, procedures, rules and laws that come into play from the moment an end-user, using a payment instrument, issues an

\textsuperscript{18} ZAR = 0.074 USD as on 09 November 2016
instruction to pay to another person or a business, to the final interbank settlement of the transaction in the books of the central bank.

Within the South African context, consumers and corporates have a choice of about 18 different payment systems, which jointly form part of the NPS. These payment systems are governed and regulated by PASA and range from low value debit card transactions to high value bond exchange payments. All these payment instructions are eventually settled at the South African Reserve Bank (SARB).

3. Payments Association of South Africa (PASA)

PASA was founded in September 1996. It was subsequently recognised in June 1999 as a payment system management body by the SARB under the provisions of the NPS Act. Although PASA's mandate is derived from the NPS Act, PASA is a self-regulatory body and its governance structure is managed by PASA Council representing the participants in the National Payment System of South Africa. PASA is mandated to develop rules, criteria and governance structures as may be required to carry out its function. Through a strong legal foundation, PASA manages its members' specific payment activities through legal constructs such as payment clearing house (PCH) agreements, PCH clearing rules and service level agreements.

First PASA Constitution was adopted during 1998. PASA's primary focus then was on operational and regulatory matters. PCH agreements were first finalised and implemented in the year 2001 for the ATM, Cheques/Code Line Clearing, EFT debits, EFT credits, Paper credits, Immediate Settlement and ZAPS PCH agreements. The South Africa Payments Association was simultaneously established to focus on payment strategy. This organisation was later incorporated into the Banking Association as the payments strategy division (PayStrat). Visa and MasterCard were authorised as PCH System Operators (PSOs) for the first time in March 2004 but were restricted to debit and credit card transactions.

In the year 2004, the NuPay PCH agreement was established which made provision for card based authenticated debit orders. In 2005, National Credit Act was promulgated as a result of representations from the micro-lending industry which caused certain legislative changes in the NPS Act. Consequently, the new Early Debit Order (EDO) PCH Participant Group was established which was responsible for managing the new Authenticated Early Debit Order (AEDO) and Non-Authenticated Early Debit Order (NAEDO) PCHs. EDO replaced the NuPay PCH. BankservAfrica was appointed as the PCH System Operator.

It was decided to incorporate the PayStrat Division of the Banking Association into PASA in the year 2007. In the same year Real Time Clearing (RTC) PCH agreement was signed. This was the first time that real time interbank transactions were possible other than via SAMOS. The service levels required account to account posting within sixty seconds.

4. Legal & Regulatory Framework

An enabling regulatory environment and robust legal framework are essential for secure and efficient functioning of any payment system. In case of South Africa, the SARB Act mandates SARB to oversee the regulation of the NPS and ensure that the payment system works smoothly and efficiently while benefiting all its stakeholders. The NPS Act mandates the SARB to recognise a Payment System Management Body (PSMB) and organise, manage and regulate the activities of the members participating in the NPS. PASA is currently recognised as the PSMB by the SARB.

PASA's Constitution governs its structure, operations and policies, while PCH agreement provides the legal foundation for participation in the payment system. Specific transaction types and applicable Clearing Rules relevant to each PCH are agreed by the members forming part of a Participant Group (PG). Such transaction types and Clearing Rules form part of PCH agreements among the members of a PG.
The PCH Participant Group (PCH PG) is also responsible for appointing PCH Systems Operator (PSO) for each PCH to facilitate clearing of payment instructions between the banks on authorisation by PASA. The participation of members and the PSO is further managed through adherence to Service Level Agreements (SLAs). Transactions cleared through the PSO are eventually settled at the SARB through the Real Time Gross Settlement (RTGS) system called SAMOS (South African Multiple Options Settlement).

5. Conclusion

Global experiences in payment system reforms suggest that an efficient payment system needs to consist of a unified electronic payment system across all the available modes of payment in the country. Such a system also needs to be founded on a robust legal and regulatory framework, while ensuring greater involvement of the beneficiaries towards its development and its implementation. The three case studies also point towards inevitability of bringing all payment service providers together on a modern technology-driven interoperable platform while developing better coordination among all agencies engaged in social protection cash transfers and enabling them to take advantage of such a platform.

The following chapter presents the details on the recommended solution architecture for an appropriate payment system in the context of Bangladesh. The proposed system incorporates the lessons from Indian experience on how to design various aspects of the payment system, and from Irish experience on how to implement the payment system reforms systematically, while ensuring that beneficiaries are adequately made aware of the necessity of such reforms, and are made partners and collaborators within the reform process. The lessons from South African case study regarding importance of developing relevant and effective legal and regulatory infrastructure for the payment system reforms to succeed have also been duly incorporated while recommending an appropriate payment system for Bangladesh in the next chapter.
Chapter 3
Proposed Solution Architecture

1. Introduction

Based on an understanding of the existing payments systems in Bangladesh and the challenges they are facing at the levels of the supply side, payment service providers and the beneficiaries, and the lessons from global perspectives, this chapter presents a solution architecture, appropriate for the payment system in Bangladesh. We first identify a framework with the attributes and elements such a system should have in context of Bangladesh. This is followed by a description of the system and its components. At the end we also provide a brief description of the duties and roles of different stakeholders including the beneficiaries.

2. Desired Elements of a Payment Solution Framework for Bangladesh

Any effective payment solution in the context of Bangladesh needs to incorporate the following elements and attributes:

- Empowerment of beneficiaries by allowing them to choose modes of payment for receiving the benefits
- Transparency in the administration of the system
- Detection and elimination of ghost beneficiaries, ineligible beneficiaries, and double dipping
- Cost-effectiveness on supply-side as well as on demand-side
- Speedy payments
- Low opportunity costs to beneficiaries
- Easy accessibility for all beneficiaries however remotely they are located
- Flow of data in real time from the supply-side to the payment service providers, and backward, immediately after the payment is effected
- System-driven budget management of all social protection programmes
- System-driven data flow among all stakeholder agencies
- System-driven accounting of disbursements
- Availability of an effective grievance redressal

3. Payment Solution Architecture

The proposed payment system solution aims to incorporate the aforementioned elements within its framework. In particular, it intends to empower the social protection beneficiaries by allowing them to choose the most suitable payment option among all the existing payment mechanisms. It also allows the line ministries (LMs)\(^{20}\) engaged in making social protection payments to utilise all the possible payment channels for such payments, with uniform service conditions and rates across all the social protection programmes.

As we noted in the preceding chapter, the global experiences in payment system reforms suggest that an efficient payment system needs to be backed by a modern technology-driven unified coordination and supervision mechanism over all the available modes of payment in the country. Accordingly, the proposed solution entails leveraging of modern technology for making efficient and effective delivery of social protection payments. The Social Protection Budget Management Unit (SPBMU) within the

---

\(^{20}\)The term line ministry (LM) includes the concerned ministry, and all the departments, directorates and field offices working within the ministry, authorised under delegation of financial powers to make payment from a particular budget head of the Government.
Finance Division will ensure that MIS are adequately designed and developed within all the concerned LMs for efficiently effecting the social protection payments. MIS at the LMs and at SPBMU will be totally compatible with each other and will have capabilities to ‘talk’ with each other in real-time.

The existing system of Chief Accounts Officers (CAOs) responsible for various line ministries and other concerned account offices will be linked with the SPBMU, which will be iBAS++ compatible for receiving the relevant data and information. SPBMU will be provided with human resources with adequate skill sets and in required number.

The SPBMU will coordinate with all the possible payment channels for social protection payments, fix the rates for different modes of payment and prepare model Service Level Agreements (SLAs) to be shared with all the agencies involved in social protection payments. It will also ensure that the payment channels offer the best possible quality of their services at the most reasonable costs across all social protection programmes and are universal across all LMs engaged in social protection payments.

In the existing system, the individual LMs negotiate and enter into contracts with the payment service providers. There is no formal mechanism to consult with the other LMs and learn from the best practices adopted by them. Isolated negotiations with the payment service providers may also result in the service providers offering different service conditions to different LMs, and demand different costs from them for the same service. SPBMU will provide a solution to such a situation by negotiating with the payment service providers. It will constitute committees of the CAOs and other officers from different LMs for negotiating with different payment service providers. Such committees will be adequately assisted by cost accountants and other required resources to enable them to effectively consider all the issues associated with the proposed transactions. The committees will also be provided with the requisite legal assistance for drafting robust Service Level Agreements (SLAs) with the service providers that will be shared with the individual LMs making social protection payments.

Along with such LMs, the SPBMU will regularly monitor the quality of payment services and take appropriate action in case of any observed deficiency in the service delivery. It will also create a conducive environment for the beneficiaries to choose the most suitable options for obtaining their payments.

SPBMU will undertake an extensive exercise to build the capacities of the personnel within the LMs so that they are adequately aware of the services and their conditions as are offered by the payment service providers. Such personnel will also be made aware of the rights of beneficiaries and will be oriented towards beneficiary-centric framework of social protection payments.

SPBMU will also consist of a Monitoring & Evaluation (M&E) unit, which will regularly monitor and evaluate the performance of all the payment mechanisms, and suggest remedial measures to the concerned LM and the payment service providers.

In addition to the public grievance redressal system at the level of LMs, it is desirable to have a centralised public grievance redressal system. Accordingly, the SPBMU will also initiate and manage a unified portal for citizen-centric grievance redressal that will incorporate the best practices of customer care in both public and private sectors. In particular, it will be bi-lingual, in Bangla and in English, accessible through multiple channels (voice, e-mail, letter, fax, mobile) and will be geared to resolve the queries and complaints of the citizens in the shortest possible time. The portal will also have provisions to include additional languages as per the requirements. It will provide a single window to the citizens to air their grievances and suggestions in a simple and accessible manner. It will then coordinate with the concerned LM and the payment providers for adequately and timely redressal of all the grievances lodged on its portal. It may also enlist the help of civil society organisations to receive feedback on all aspects of social protection payments in the country. The LMs and payment service providers will however continue to maintain their own methods of receiving and addressing the grievances and feedback from the members of public on the social protection
programmes managed by them. SPBMU will, however, facilitate LMs to modernise their own grievance redressal mechanisms.

One of the most important responsibilities of SPBMU will be to raise awareness among beneficiaries on various payment alternatives and their rights. Beneficiaries will also be made aware of the provisions for recording their grievances and getting them redressed.

Learning from Indian experience (page 30), it is recommended for the technology platform of the SPBMU to have a module that would allow the policymakers to input business rules into the platform. It would harness the strengths of Information Technology to achieve higher levels of transparency and accountability for all stakeholders. It would also have provisions to be connected to any existing or future on-line transparency portals of the government. Various modules of the payment system residing at the line ministries, SPBMU and the other concerned agencies will be designed in such a way that they provide easy to consume, meaningful and relevant data to all internal and external stakeholders.

4. Operational Procedure

The proposed system will enable all the LMs engaged in making social protection payments to offer option of multiple payment channels to each beneficiary within all of their social protection programmes. As mentioned in the preceding sections, the beneficiaries will have more than one payment method available to them for obtaining their payments. They will however need to choose one of the options and communicate it to the field personnel of the concerned department. They will be adequately supported to make a conscious choice considering their convenience and other relevant factors. The data pertaining to their choice of mode of payment will be captured at the MIS units of the concerned line ministries and the SPBMU. The data on beneficiaries will mandatorily have NID number for each beneficiary.

Learning from the Indian experience on Aadhar-enabled payment system (page 29), it is proposed that NID for beneficiaries will provide unique identifier for this protocol being implemented at the end of line ministries engaged in social protection cash transfers. This will necessitate NID to be location-independent and incorporate a characteristic of a permanent identity number for each citizen. Currently, a change in location requires a citizen to apply for a new NID with a different number. This should, however, not be difficult in view of the added security features and verifications in the new smart NID.

All the bank and post office accounts of beneficiaries are proposed to be linked with their NID. With the availability of demographic and biometric data in the revamped NID (smartcard), NID identification may also serve as KYC for opening of accounts for beneficiaries. Cash disbursement to beneficiaries through any mode of payment will be effected only after demographic and biometric authentication of their identity available on NID database. In case real time, online biometric verification is not possible due to unavailability of internet connectivity, offline verification methods may be devised through local storage of relevant data. In rare cases of beneficiaries where fingerprint and finger vein verification is not possible, payment may be made on the basis of photographic evidence on NID cards. Evidence of such payment may be stored and transmitted in the form of the photograph of beneficiary collecting the payment.

Various stages of the proposed operational procedure are detailed below:

1. The current procedure for selection of beneficiaries will continue. Departments under the LMs will remain to be the custodian of the data on beneficiaries and will be responsible for regularly updating them through their field staff.
2. Beneficiaries will choose the mode of receiving the payments from among the approved channels and will inform accordingly to the field officials of the concerned department. Field staff, with the help of local community organisations and elected officials, will educate the beneficiaries and support them to make appropriate choice for mode (Bank, Mobile Banking,
3. MIS units of the departments will maintain the data of beneficiaries on the platform and formats compatible with SPBMU MIS.

4. Before the start of every payment cycle the Field Offices will update the list of beneficiaries in their MIS under each scheme along with the beneficiaries’ payment option. Department MIS will verify the correctness of the updated data and the corrected data will be automatically and immediately transferred to SPBMU MIS.

5. The SPBMU MIS will validate the data with help of NID database of beneficiaries as well as with the databases of all the other line ministries on a real-time basis.

6. The SPBMU MIS will highlight any discrepancy found in the data. The concerned line ministry will be responsible for addressing all such discrepancies.

7. Once the data is validated by SPBMU and whenever payment under any particular scheme becomes due, the concerned DDO will submit claims to the relevant accounts office (CAO/DAO/UAO) as it is done under the current system for the transfer of benefits to validated beneficiaries.

8. The concerned Accounts Office will check the validated list by accessing SPBMU MIS and accordingly issue payment instructions/advice to Bangladesh Bank/Sonali Bank for transfer of the entitled benefits to the validated beneficiaries’ accounts as per their choice of receiving the payments.

9. Accounting and auditing of the disbursed funds will continue to be conducted as per the existing provisions in the rules.

The proposed procedure will be implemented in a particular scheme only when its beneficiary data is fully digitized and initially it will be piloted for two schemes.

5. Roles, Responsibilities and Functions of Different Components of the System

Different components of the system will have the following roles and responsibilities along with the functions they are expected to perform:

5.1 Line Ministries/Departments Engaged in Social Protection Cash Transfers

1. They will remain to be the custodian of the data on beneficiaries and will be responsible for regularly updating data through their field staff.

2. MIS units at the line ministries will maintain the data on beneficiaries in the platform and formats compatible with that being used by the MIS unit at SPBMU.

3. As shown in the Figure 2, whenever payment under any particular scheme becomes due, the MIS unit at the concerned ministry will share the updated data with the MIS unit at SPBMU.

4. The SPBMU MIS unit will get back to the ministry if they find any discrepancy in the data. The concerned line ministry will be responsible for addressing all such discrepancy to the satisfaction of the SPBMU MIS unit.

5. Once the beneficiaries choose the option of a particular payment channel they will be provided the needed assistance for opening of their accounts with that payment channel. It will be ensured that all the beneficiaries have opened their accounts, and the information on their accounts will be a mandatory field of beneficiary database.

6. The updated database on beneficiaries will then be used by the concerned CAO/DAO/UAO at the line ministries to instruct Bangladesh Bank/Sonali Bank to transfer cash benefits directly in the accounts of the beneficiaries (Figure 3).

7. Accounting and auditing of the disbursed funds will continue to be conducted as per the existing provisions in the rules.

8. As has been achieved in the case of Ireland (page 37), the line ministries will use the systemic
advantage of the new arrangement to firm up the schedule of their payments, and make an effort to make more frequent payments depending upon the fund release schedules.

9. Line ministries will coordinate with the Finance Ministry to ensure that sufficient funds are made available for their social protection programmes in a timely manner.

10. LMs will improve their public grievance redressal mechanisms, and ensure that they allow their beneficiaries to share their grievances through all possible means—postal mail, fax, e-mail, phone and personal meetings.

5.2 Social Protection Budget Management Unit (SPBMU)

1. SPBMU will approve all possible payment service providers for effecting social protection cash payments to beneficiaries and will develop model Service Level Agreements (SLAs) across different modes of payments (banking, mobile money, postal etc.) for use by the line ministries.

2. SPBMU will receive the detailed data on beneficiaries for each payment cycle from the MIS of LMs engaged in social protection cash transfers, and monitor and ensure that payments are timely made to the beneficiaries according to the laid down service conditions.

3. SPBMU will also receive the payment data from all the payment service providers for its detailed study and analysis. It will use this data to address all issues affecting efficient payments and streamline the entire payment operation.

4. SPBMU will ensure that the line ministries are released adequate quantity of funds to timely disburse due amounts to the beneficiaries. Recommendation regarding increasing the frequency of certain social protection payments and regularity of the payments can only be implemented by the line ministries if they receive requisite support from the SPBMU.

5. Although the system presented here does not require any changes in the current legal and regulatory provisions on the subject, SPBMU will take initiative in case any need arises in future for providing more robust legal foundation to the payment system in the country. It will also initiate a process of amending therelevant rules and procedures if such amendments are required to strengthen the payment system in the country.

6. MIS unit at SPBMU will ensure that all the beneficiaries are identified through their unique NID numbers. The child beneficiaries, as in case of student stipend programmes, will also be identified through the NID number of their declared guardians until the time they are included within the scope of NID. Even in existing systems students are identified on the basis of information on their declared guardians (in case of the current delivery mechanism of secondary education stipend programme, the identifier is the cell phone number of the declared guardian). In case of more than one child beneficiary for a particular guardian, the system will be able to identify the beneficiary with the names of the children and NID number of the guardian. It will also be able to verify if all the requirements are met in case of multiple children from the same parents.

7. Secondary and Higher Education Stipend programmes may, however, also use unique identification numbers already developed by the Secondary and Higher Education Directorate in collaboration with BANBEIS. In that case, the SPBMU MIS will ensure that such unique numbers are entered with the details of student beneficiaries in the databases of the concerned stipend programme.

8. SPBMU will provide all the required support to the MIS units of the line ministries engaged in social protection cash transfers in developing their databases and software tools.

9. Before every payment cycle, the corrected data of the LMs will be accessed by the SPBMU MIS for checking it with the help of NID database and the databases of all other LMs for double dipping, ghost beneficiaries and ineligible beneficiaries. Whenever a discrepancy is noticed in the database of any line ministry, the same will immediately be notified to the concerned ministry on a real-time basis. Funds for that particular scheme will be released only when the discrepancy is addressed to the satisfaction of the SPBMU.

10. MIS unit of SPBMU will receive payment data from Bangladesh Bank/Sonali Bank (Figure 4). It will use such data for monitoring of the payments and its analysis for the purpose of improving
the overall design and impact of social protection programmes.

11. It will coordinate with development partners and other agencies engaged in social protection payments for enabling them to use the new payment mechanisms, and take advantage of its resources.

5.3 Payment Service providers

1. Payment service providers will enter into agreements with the relevant LMs engaged in social protection payments on terms and conditions and rates for providing payment services, and ensure their implementation in letter and in spirit.

2. They will then launch an extensive drive to educate the beneficiaries about their services, open relevant accounts of the interested beneficiaries for enabling them to access their social protection payments. NID of the beneficiaries may be used to meet KYC requirements of opening of such accounts.

3. They will develop a system, if such a system does not exist, that enables the beneficiary accounts to receive cash benefit directly from Bangladesh Bank/Sonali Bank.

4. In case transfer to any account is bounced back, the payment service providers will immediately inform the reasons for the same to Bangladesh Bank/Sonali Bank so that timely remedial measures may be taken in such cases (figure 4).

5. They will coordinate with SPBMU and the LMs for addressing all the unforeseen issues and constraints that they face while delivering the payment services.

6. When commercial banks act as service providers, they can effect cash transfers to the beneficiaries through any of the three mechanisms: through their regular accounts that are on Core Banking System (CBS), through their agent points, and through mobile phone banking.

7. Bangladesh Post Office may also offer delivery of cash benefits at the doorsteps of those beneficiaries whose movements are restricted due to disability or for some other reasons. In such cases, the post office will obtain from the beneficiaries in advance their preference to avail such facility.

6. Awareness Generation

As we have seen in case of Irish payment system reforms, spreading awareness about the entire payment system will be of critical importance. All the beneficiaries will be made aware of the choices of modes of payment available to them in their current situation and will be encouraged to make a conscientious choice based on their particular circumstances. Service providers will be encouraged to approach the beneficiaries, apprise them of the advantages of their payment channels and convince them to open their accounts. Thus, the proposed system will aim to maximise the competitiveness among the payment service providers in the interest of beneficiaries. Field personnel of the LMs will, however, assist and guide the beneficiaries to take an informed decision on the choices of payment channel.

Proposed payment system is diagrammatically described below:
Figure 2: Flow of Information for Validation of Beneficiaries Database

Field Offices → Departmental MIS → SPBMU → Accounts Offices

Figure 3: Payment Process

DDOs (Validated Beneficiaries) → CAO/DAO/UAO → BB/Sonali Bank → Beneficiaries A/c (bank, mobile, postal etc.)
7. Way Forward

The recommendations from the above study may constitute the agenda for a comprehensive costed reform plan to improve social protection payment system as indicated in the National Social Security Strategy (NSSS). Dissemination Workshop on the findings and recommendations of this report held recently with participation from all key stakeholders from the government as well from outside the government, has unanimously agreed to the proposed payment system as recommended by this report. The Workshop also resolved that the steps should be taken to implement the recommendations of this report in phases. The Workshop has noted that SPFMSP has been mandated to prepare costed reform plans, and accordingly advised the SPFMSP to develop the same for implementing those recommendations (Annexure 4).

The Workshop also noted that the report has provided a long-term vision for a comprehensive, centralised payment system (Annexure 1), which is not implementable at this stage. However, the Workshop opined that while developing the proposed reform plan, the SPFMSP should keep the above vision in the perspective so that the suggested centralised payment system may be materialised through an evolutionary process.
Annexure 1

Long Term Vision

The long-term vision for payment system in Bangladesh involves establishing of a Central Payment Authority (CPA). The CPA will work through a technology platform that will automate all business processes related to direct transfer of cash benefits through all the modes of payment available in the country. Such a technology platform would be capable of implementing all cash transfers under Social Protection whether periodic or one-time. It would eventually have capabilities to implement all G2P cash transfers electronically.

CPA will be connected with the MIS unit of SPBMU for receiving database on the beneficiaries to be paid, with Bangladesh Bank/Sonali Bank for fund management and instructions for transferring funds to the authorized payment intermediaries, and with the payment service providers for monitoring the disbursal to the beneficiaries. CPA will also be connected with the LMs and the SPBMU for getting policy inputs on social protection programmes, cash disbursal, budget management and other policy instruments. LMs will, however, remain responsible for identifying the beneficiaries based on pre-defined eligibility criteria.

Proposed responsibilities and functions of CPA are indicated below:

- It will provide total accounting solutions to all government stakeholders and meet all accounting needs of the government.
- CPA will be responsible for making all the accounting statements and other compliances for the funds disbursed under its supervision.
- It will also be responsible for making compliance reports etc. to donor agencies in case a particular scheme is supported by a donor agency.
- Data will flow from supply side to all modes of payment and backwards in real time.
- All the beneficiaries will be made aware of the choices of modes of payment available to them in their current situation and be encouraged to make a conscientious choice based on their particular circumstances. Whenever a new mode of payment becomes available to a particular set of beneficiaries they will be made aware of it and encouraged to revise their choice based on whatever mode suits their situation the best.

CPA will ensure that all the payment channels participating in the payment system are interoperable so that a beneficiary can receive her cash benefit at any channel even when she is an account-holder at a different channel.
## Annexure 2
### Recommended Changes and Their Rationale

<table>
<thead>
<tr>
<th>Existing Provision (In Brief)</th>
<th>Issues and Challenges with Existing Provisions</th>
<th>Rationale for Recommending Changes</th>
<th>Recommendations / Suggestions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct payment to beneficiaries through payment booths</td>
<td>Huge inconvenience and opportunity loss for beneficiaries, service delivery very costly, adversely affects the regular services of payment service providers.</td>
<td>Such payment service delivery is highly inefficient and hence needs to be abolished.</td>
<td>Recommended for its discontinuation.</td>
</tr>
<tr>
<td>No coordination among the line ministries engaged in social protection cash transfers</td>
<td>LMs do not learn from the best practices adopted by the other LMs.</td>
<td>Mechanisms need to be in place to ensure close coordination and interaction among all LMs.</td>
<td>It is recommended that SPBMU will play such a role.</td>
</tr>
<tr>
<td>Individual line ministries negotiating with payment service providers in isolation</td>
<td>It amounts to reinventing the wheel. Many LMs also do not have in-house capabilities to conduct such negotiations and develop robust agreements.</td>
<td>An agency with adequate skills and resources needs to conduct such negotiations on behalf of all the LMs.</td>
<td>SPBMU will conduct such negotiations for achieving the best results for LMs and the beneficiaries.</td>
</tr>
<tr>
<td>Payment service providers offering different service conditions to different line ministries and demanding differentiated costs for the same payment service from different ministries</td>
<td>LMs, and consequently, the beneficiaries do not get the best deals, creates confusion at the field among the field personnel of LM as well as the beneficiaries. Some LMs end up having to pay more for a particular payment service than the other LMs.</td>
<td>A common agency needs to negotiate with all the payment service providers to ensure uniform service conditions and fixing the same cost of delivery for a particular payment service for all the LMs.</td>
<td>SPBMU will conduct negotiations to ensure uniform service conditions and the same cost of delivery for a particular payment service for all the LMs.</td>
</tr>
<tr>
<td>Data transfers between line ministries and payment service providers are not efficient</td>
<td>It causes delay in payments to beneficiaries, and delays in reconciliations, accounting and auditing. Opportunity to analyse data for improving the service delivery is also lost.</td>
<td>Data needs to flow online and in real-time from supply side to demand side and vice versa. Such data also needs to be on compatible formats across all the LMs, payment service providers, and other agencies.</td>
<td>SPBMU will support the LMs and advise the payment service providers on development of requisite technology platforms, software tools and MIS for the purpose.</td>
</tr>
<tr>
<td>Provisions to identify duplication in the list of beneficiaries and inclusion of ineligible beneficiaries, and action thereon, are not adequate</td>
<td>Such a situation causes duplicate and fraudulent payments, and inclusion errors.</td>
<td>A modern technology-based system to check duplication of beneficiaries and removal of ineligible beneficiaries needs to be in place. It should be accompanied by a provision in business rules that LMs will not release payments unless the system has satisfactorily conducted all the check and all discrepancies have been removed from the datasets.</td>
<td></td>
</tr>
<tr>
<td>Inadequate usage of newly developed payment channels such as mobile banking and agent banking</td>
<td>This deprives LMs and the beneficiaries of more efficient and cost-effective service delivery opportunities.</td>
<td>It is important to leverage new developments in service delivery for cost-effectiveness and in the interest of beneficiaries.</td>
<td></td>
</tr>
<tr>
<td>No right to beneficiaries to opt for a suitable mode of payment for receiving their cash benefits</td>
<td>The beneficiaries are obliged to obtain their benefits from an already-prescribed payment channel despite availability of much more suitable alternatives for them.</td>
<td>Social protection programmes are for their beneficiaries, and thus need to be implemented in a beneficiary-centric framework. Beneficiaries should be more empowered to</td>
<td></td>
</tr>
<tr>
<td>MIS unit of SPBMU is already entrusted with the task. However, it is recommended here that SPBMU will check the corrected data of beneficiaries before each payment cycle with the help of NID database and the databases of all the other LMs and detect the cases of duplication and ineligible beneficiaries. Funds will not be released for a particular programme until the database for that programme has been sanitised to the satisfaction of SPBMU MIS.</td>
<td>Benefitaries will be made aware of all the payment channels available in their geographical areas. They would then be encouraged to opt for the most suitable channel for receiving</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issue</td>
<td>Description</td>
<td>Recommendation</td>
<td></td>
</tr>
<tr>
<td>-------</td>
<td>-------------</td>
<td>----------------</td>
<td></td>
</tr>
<tr>
<td>No provision for doorstep delivery of payments to the beneficiaries</td>
<td>Beneficiaries with restricted movements due to some disability or other reasons find it difficult to receive their due payments</td>
<td>Such a provision should be provided in as a matter of right in any citizen-centric system</td>
<td></td>
</tr>
<tr>
<td>No linkage with beneficiaries’ NID data</td>
<td>This makes the authentication of beneficiaries’ identities very subjective and makes the system vulnerable to misuse for fraudulent payments.</td>
<td>Online authentication of beneficiaries while obtaining their payments, wherever feasible, is necessary for preventing misuse of the system. Even if online authentication is not possible in real-</td>
<td></td>
</tr>
</tbody>
</table>

It is recommended that Bangladesh Post Office may also offer delivery of cash benefits at the doorsteps of those beneficiaries whose movements are restricted due to disability or for some other reasons. In such cases, the post office will obtain from the beneficiaries in advance their preference to avail such facility.

It is recommended that all the beneficiaries will be identified through their NID, and their databases will mandatorily include the NIDs of all the beneficiaries.

ensure that the programmes are delivered in ways that are most convenient and least taxing for the beneficiaries.

Service providers will be encouraged to approach the beneficiaries and make them aware of the benefits of their payment channels. Once the beneficiaries decide to obtain their payments through a particular payment channel the information in this regard would be recorded in their databases. Whenever a new payment channel is included in the system, all the relevant beneficiaries will be given options to switch over to the new channel if it is feasible for them.

No provision for doorstep delivery of payments to the beneficiaries

Beneficiaries with restricted movements due to some disability or other reasons find it difficult to receive their due payments

Such a provision should be provided in as a matter of right in any citizen-centric system

It is recommended that Bangladesh Post Office may also offer delivery of cash benefits at the doorsteps of those beneficiaries whose movements are restricted due to disability or for some other reasons. In such cases, the post office will obtain from the beneficiaries in advance their preference to avail such facility.

It is recommended that all the beneficiaries will be identified through their NID, and their databases will mandatorily include the NIDs of all the beneficiaries.
| Time, such linkage may enable the agencies to detect instances of fraudulent payments even after the payment has been made. | Public grievance redressal mechanisms are very weak | This situation has obvious consequences of the beneficiaries not being heard adequately and the deficiencies in the services, if any, not being corrected. | It is recommended that the SPBMU will initiate and maintain a unified portal for capturing public grievances and feedback, coordinate with the relevant agencies and the payment service providers so that the grievances are timely and effectively redressed, and feedback received, if any, is given due consideration. The portal will initially be bi-lingual, in Bangla and in English, and will have capabilities to include other languages if such a requirement arises. This will be in addition to the improved public grievance mechanisms adopted by the LMs. |
Annexure 3
List of Documents Consulted for the Research Study

1. Participation Agreement for Higher secondary Stipend Project between the Director General, Directorate of Secondary and Higher Education and Agrani Bank Ltd.
2. Correspondent Agreement for Disbursement of Stipend through mobile Banking between Dutch Bangla Bank Ltd. and Agrani Bank Ltd.
3. Monograph on Higher secondary Stipend Programme by Directorate of Secondary and Higher Secondary Education
4. Development Project Proposal (DPP), Secondary Education Stipend 2nd Phase.
5. Presentation Papers on Primary Education Stipend Project, 3rd Phase
6. Specimen of Stipend withdrawal card under Primary education stipend phase-3
7. Copy of Monthly Progress Report of Primary education Stipend phase-3
8. Statements of SPP Fund Flows as prepared by SPF MSP
10. Monograph: Postal Cash Card: Banking for the Unbanked People
11. Monograph: Post e-Centre – a publication of Bangladesh Post Office
12. Monograph: DBBL Mobile Banking
13. 2nd Revised DPP of Secondary Education Quality and Access Enhancement Project (SEQAEP)
14. DPP of Secondary Education Sector Investment Program (SE SIP)
15. DPP of Secondary Education Stipend Program (SESP)
Annexure 4
Proceedings of Dissemination Workshop
Government of the People’s Republic of Bangladesh
Ministry of Finance
Finance Division
Budget-3 Section

Proceedings of Dissemination Workshop of Research Study Findings on ‘Payment Systems’

Chairperson: Mr. Mohammad Muslim Chowdhury,
Additional Secretary & NPD, SPFMS Project

Date: 2nd March, 2017
Time: 11.00 AM
Venue: Conference Room, Divisional Commissioner, Dhaka Division, Dhaka

Participants: Participant’s list, Annexure-1.

The workshop was inaugurated by Mr. Helal Uddin Ahamad, Divisional Commissioner, Dhaka Division, Dhaka. The workshop was Chaired by Mr. Mohammad Muslim Chowdhury, Additional Secretary & National Project Director (NPD) of the SPFMS project, Finance Division, Ministry of Finance. The participants included officials of the Finance Division, Six Line Ministries, Prime Minister office (a2I), CAOs of Six LMs, Bangladesh Bank, Sonali Bank, few Public and Private sector Banks, Mobile Financial Services, National Identification Project (NID Project), Manusher Jonno Foundation (MJF), Public Expenditure Management Strengthening Program (PEMSP), Strengthening Public Financial Management for Social Protection (SPFMSP) project and UNDP.

In his inaugural speech, Mr. Helal Uddin Ahamad, Divisional Commissioner, Dhaka Division mentioned the importance of payments in the social protection sector and appreciated SPFMS project for conducting a research study for improvement in the payment system. He expressed his best wishes and success to the workshop.

Mr. Manzoor Alam Bhuiyan, Joint Secretary and Executive Director, SPFMS project delivered the welcome address, explained the background on research study and the objectives of the workshop on ‘Payment System’.

Mr. Siddiquur Rahman Choudhury, Team Leader described the different components of the project and mentioned the benefits of an effective payment system

Dr. Kavim V Bhatnagar, Social Protection Economist of the SPFMS project elaborated the need and relevance of an effective payment system as an integral part of the social protection delivery system. He also mentioned that the reform plan as indicated in the National Social Security Strategy (NSSS) requires Finance Division to comprehensively review the payment system for G2P. This study was undertaken in the perspective of the requirement as stipulated by the NSSS.

Anurag Priyadarshee International Consultant and Lead for the study presented the findings of the study along with recommendations. Mr. Sajedul Karim and Mr. Rezauddin Chowdhury, the National Consultants assisted the lead consultant in making the presentation. The slides presented are placed at Annexure 2.
After the presentation, the Chair opened the floor and invited the participants to provide their comments and suggestions. He mentioned that participants should provide their remarks only on findings presented and the proposed payment system recommended by the consultants.

The following individuals participated in the discussion:

**Mr. Aminul Arifeen, SSPS and Mr. Belayet, UNDP**

They referred to the policy support program for the implementation of NSSS. They mentioned that the MIS system where the data must be digitized for each beneficiary for all ministries in order to implement the recommendations. They also wanted to know as to what would be the linkage between iBAS, SPBMU and CPA and their role and responsibilities for an effective coordination. They suggested that a standard could be maintained for all mode of payment, therefore no one would lose or gain and mentioned that Financial Inclusion was very important to be considered along with this model.

**Response:** It was responded by the team of consultants that the suggestions were valid and are already a part of the report. The relationship between entities are also defined in the report and that the issue of financial inclusion too is mentioned in the report.

**Mr. Bapari, Project Director, MoE**

While agreeing with the findings and recommendations, he also shared experiences of program using the mobile banking system. He mentioned that for mobile banking transfers to the beneficiaries, the DBBL used to charge the cost at 2.5%, however, after negotiation with the DBBL the charges are brought down to 1%. He mentioned that for the stipend program a special sim card for the students below the age of 18 was important. Teletalk (Mobile Telephone Company) had agreed to provide sim cards for the student under 18 years. According to him, the experiences show that mobile banking system was very effective for the stipend program.

**Response:** It was responded by the team of consultants that the suggestions were valid and are already a part of the report. The design of the costed reform shall provide for multiple options to the beneficiaries including option of mobile banking and mobile financial services.

**Mr. Mesbaul Haque, Deputy General Manager, Financial Sector Support & Strategic Planning Department, Bangladesh Bank (Central Bank)**

Agreeing to the findings and recommendations of the study, he pointed out that a central database of beneficiaries would be necessary for choosing the mode of payment of their-choice and also to facilitate payment to the accounts of the beneficiaries directly. This would also ensure financial inclusion.

**Response:** The project team agreed that the comments were correct and mentioned that these were already a part of the report. Details shall also be dealt when the proposed reform plans would be developed.

**Mr. Abdul Malek, Ministry of Disaster Management and Relief**

He mentioned that for monthly or quarterly or six monthly basis payment the recommendations for the proposed G2P model may be efficient and effective but wherever the payment is of a very high frequency such as weekly, it could be a challenge. He also mentioned that one of their schemes, EGPP has a provision of weekly payments and showed his concerns as to how it could be addressed if payments are effected through Bank or Mobile Banking.
Response: The suggestions were noted by the team. The costed reforms that shall be designed subsequently to address these concerns.

Mr. Md. Lokman Hossain SESIP (Secondary Education Sector Investment Program), MoE

He mentioned his concern that the stipend can only be received by the Guardian/Parents in their account. Since children below 18 years do not have NID and banking / mobile accounts as per government set rules. He also mentioned that as per government procedures there are limitations to enter into an agreement with the private banks directly for agent banking, as a result the project could not make an arrangement outside the state-owned banks. He also mentioned that it takes time to disburse the money using the private channel as the money is required to be transferred from the Treasury to the state-owned banks and then to private bank.

Response: The suggestions have already been addressed in the report.

Mahmud Reza, Manager AGM, Agrani Bank

He appreciated the recommendations of the study and mentioned that Agrani Bank was upgrading its Banking System and establishing cash out points/ ATM country wide that could be used in the proposed system.

Sheikh Md. Omar Farukh, CAO, MoPME

He agreed with the findings and mentioned that the current system of payment mode was difficult and cumbersome. He also mentioned that sometimes they face challenges such as fund release order issued to the Bank was Taka 50,000, but after disbursement, Bank submitted report for a disbursed amount of Taka 60,000. This was difficult to be adjusted and the whole system of transfer becomes questionable. He therefore, agreed that the study’s recommendations would be useful to overcome all these problems.

Mr. Monir, Bikash

He appreciated the findings and recommendations and mentioned that bKash was interested to work with the government to serve the beneficiaries and interested to organize campaign awareness as mentioned by the NPD to mobilize the beneficiaries.

Mr. Md. Abul Kashem Khan, SEVP & Head of Financial Inclusion Division, DBBL

He appreciated the recommendations of the study and expressed that the precondition of smooth payment was to create customer awareness, issuance of guidelines for the service provider, verifications of correct beneficiary list and timely fund availability. He suggested for designing of a set of guidelines by the Government to create awareness among the beneficiaries about the payment mode and service providers, so that beneficiaries could choose the option most suitable to them.

Response: The team noted the suggestion and agreed to consider it during the stage of designing the proposed costed reform plan.

Mr. Subhash Chandra Das, Chief Financial Officer, Sonali Bank

He welcomed the findings and suggestions of the study and mentioned that it would bring an end to all the pains, currently being experienced by them. He also informed that the Sonali bank shall shortly introduce core banking system to all of their branches.
However, he also mentioned that there are certain regulations of the Bank to transfer money to the individual account holders. For example, at this moment in order to settle any transaction through (Real Time Gross Settlement (RTGS)), the minimum amount should be Taka 1,00,000. Thus while Transactions amount less than Taka 1,00,000 are not settled through RTGS, such stipulations need to be reviewed and addressed.

Ms. Syeda Ferdous Akter, Additional Director & Mr. Rezaur Rahman, Assistant Director of DSS

Both the officials from the DSS mentioned that old age allowance and widow allowance are the two large safety net programs where payment delivered from the Upazila offices through the banks and the monitoring of the payment to the beneficiaries is necessary and priority in the payment system. The beneficiaries should be able to receive the payments on time and money be transferred to the right person. They also mentioned that there may be occasions where many service providers/ cash out points could receive the money but, did not deliver the same to the beneficiaries – that needs to be addressed. They also showed concerns that in case of OAA, the death cases may go unreported and how the transfers could be effected. They mentioned that meanwhile DSS has completed digitization of 29,00,000 beneficiaries out of 52,00,000 beneficiaries.

Response: The team responded that while recertification of deaths and widowhood under OAA and HDDWWS schemes should be the responsibility of the departmental officials, the payment system shall be geared to address these issues in a systemic manner.

Mr. Rezaul Alam, Assistant Director, Maternity Allowance Programme, Department of Women Affairs

While he expressed his satisfaction with the study on the improvement of cash payment system, he suggested that a similar transparent method should be developed for food transfer as in case of VGD.

Response: The consultants informed that the study was focused on payment system for cash transfer and did not cover transfer of food or any other assets.

Mr. Md. Mohshin Kabir, Deputy Program Manager, MJF

Expressing his agreement with the findings and recommendations of the study, he showed his concerns that in certain cases, the benefits did not reach the genuine beneficiaries. It was also found that beneficiaries were not aware about what they were supposed to receive as benefit. He also mentioned that travelling cost of the beneficiaries in some areas was very high in the current system. He also mentioned that there was no recommendation on the grievance redressal mechanism in the presentation.

Response: The team informed that while the issue of selection of beneficiaries as well as wrong persons receiving the benefits was to be dealt by the DSS, the proposed system recommended by the study could help in addressing such wrong payments. The issue of beneficiary awareness in respect of payment system has already been covered in the recommendations of the study. The grievance mechanism on payment system shall only be a sub-component of the overall grievance mechanism and hence cannot be dealt as a stand-alone component of the payment system.

Mr. Tohurul Islam Tutul, Program Coordinator, a2i

He expressed his agreement on the findings and recommendations of the study. He appreciated recommendation for providing the options to beneficiary for choosing the mode of payment such as EFT/ mobile banking/post office etc. could be very effective. He also mentioned that as the proposed
Payment Architecture would be linked to the NID, it would be very effective. He also informed that the GoB has a plan to introduce the NID for children below 18 years of age that would cover almost every child who may be recipient of the stipend program. The a2i also showed its interest in piloting the recommendations on payment system in future.

Response: The consultants informed that the costed reform shall suggest a piloting of at least two schemes where the data of the beneficiaries have been digitized.

Mr. Md. Saiful Islam, Strengthening program, FD

He expressed his agreement on the findings and recommendations of the study. He mentioned that the NID number could also be used as an Account Number.

Response: The consultants noted the suggestions and informed that the report has two parts, one where the recommendations could be taken up at an early stage, say, immediately after the costed reform plans have been designed stage without changing the overall system. The study also shows a long-term vision which can address such suggested reforms.

Mr. Jahangir Alam, Operation Director of NID

He expressed his agreement on the findings and recommendations of the study. He mentioned that a robust MIS system was necessary to validate NID and cross check the beneficiaries list.

Mr. Md. Azizul Alam, Additional Secretary, FD, MoF

He thanked the team for covering entire payment mechanism of the country within short period of time. He mentioned that cross checking of beneficiary with NID is essential at the field level because according to each program guide line selection, checking, cross-checking and maintaining beneficiary list are the responsibility of implementing departments and their offices at districts and upazilas. There are also committees for validation at union, upazila and district levels. He also expressed his concern as to how SPBMU would check and validate the beneficiary list of all Ministries, especially with data of millions of beneficiaries and subsequent back and forth issues. At present, Upazila and District Accounts Offices are involved only in issuance of D-half/pass book in the initial period and all subsequent lifelong payments are made by the departments and the account offices at the field level are not associated with existing beneficiaries. Given the few number of staff and officials in Upazila and District Accounts Offices, monthly payments for the existing and ever increasing beneficiaries will increase huge burden for these offices.

Response: The consultants informed that responsibilities of beneficiary selection, cross-checking, validation will continue according to each program guidelines. According to the proposed system, the validations would be done only at the SPBMU level on a system driven in real time basis so the number of beneficiaries would not be an issue. In the proposed system, the relevant DDO will use the validated data for effecting payments.

Mr. Muslim Chowdhury, NPD

He appreciated the project team for coming out with valuable recommendations through this study that would go a long way in improving the payment system of the social protection benefits of the Government. He agreed with the findings and recommendations of the study.

He appreciated particularly the recommendations for providing the beneficiaries the option to choose the mode in which they want to receive their benefits. He further added that there was a strong need to create awareness among the beneficiaries to select their choice of payment mode.
He also mentioned that in order to market their products, the payment service providers such as banks, mobile financial services, postal cash card etc. will have to create such awareness so that a beneficiary takes an informed decision.

He also pointed out that while the validations for payment shall be effected at the level of SPBMU, the responsibility for selection of beneficiaries, development of database and its maintenance shall continue to be with the Line Ministries. He also mentioned that the use of NID and National Household Database in future will help to identify and provide useful information about beneficiaries.

He also mentioned that the study on payment system should lead to its logical culmination by designing costed reform plans. He suggested that the reform plans should provide for pilot testing the payment system for at least two such schemes where the data has been completely digitized.

Mr. Siddiquur Rahman, Team Leader, SPFMSM

He thanked all the participants for their valuable comments and suggestions on the findings of the study. Those comments will be appropriately addressed by the project team in finalizing the report and while designing the costed reform plans in future. He also mentioned that it was a matter of great satisfaction for the project team to observe that the workshop was in broad agreement with the findings and recommendations of the study. Now it is the time to carry forward this concept for its successful implementation by the Government.

Resolution

1. The workshop thanked the team for presenting study report on payment system and broadly agrees with the findings of the study. The comments and suggestions made by the participants shall be appropriately addressed while finalizing the report on the study.

2. The workshop endorses the payment system proposed by the study and recommends its implementation keeping in conformity with the individual program guidelines in a planned manner. The workshop feels that the proposed system will address many of the current difficulties faced by the beneficiaries and will lead to establishment of a transparent, efficient and beneficiary friendly payment system for cash transfer of social protection benefits.

3. As a way forward, the workshop recommends that a reform plan may be designed for implementation of the proposed payment system architecture as suggested by the study.

4. For implementation of the recommendations, the proposed payment system architecture should be piloted on two schemes.

The workshop was concluded with vote of thanks from the Chair.

(Mohammad Muslim Chowdhury)

Additional Secretary
&
National Project Director, SPFMSM Project.
Copy forwarded for information and necessary action to:

1. Secretary, Ministry of Women and Children Affairs, Bangladesh Secretariat.
2. Secretary, Ministry of Social Welfare, Bangladesh Secretariat.
3. Secretary, Health Services Division, Ministry of Health & Family Welfare.
4. Secretary, Ministry of Disaster Management & Relief, Bangladesh Secretariat.
5. Secretary, Secondary & Higher Education Division, Ministry of Education.
6. Secretary, Ministry of Primary and Mass Education, Bangladesh Secretariat.
7. Secretary, Banks & Financial Institutions Division, Ministry of Finance.
8. Project Director, A2I Project, Prime Minister’s Office.
10. Director General, Directorate of Social Welfare.
11. Director General, Directorate of Women Affairs.
12. General Manager, Bangladesh Bank.
13. Managing Director, Agrani Bank Ltd.
14. Managing Director & CEO.......... 
15. Team Leader, SPFMS Project.
16. Executive Director, SPFMS Project.
17. P.S. to senior Secretary, Finance Division
18. Chief Accounts Officer, .........................Ministry/Division.
19. Mr........................................................

[Signature]
(Mohammad Azad Sallal)
Deputy Secretary
Tel: 9558588
Annexure 4 A
List of Participants
Dissemination Workshop on Payment Study of SPF MSP Project  
At Dhaka Divisional Commissioner’s Meeting Room  
1st floor, Commissioner Building, Segunbagicha, Dhaka

**Participant List**

Date: 02 March 2017

<table>
<thead>
<tr>
<th>Sl. #</th>
<th>Name of Invitee and Address</th>
<th>Name of the Office</th>
<th>Signature</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Muslim Chowdhury, Additional Secretary and National Project Director-SPFMSP (NPD), FD, MoF</td>
<td>Ministry of Finance</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Md. Azizul Alam, Additional Secretary, MoF</td>
<td>MoF</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Dr. Md. Jafar Uddin, Additional Secretary, MoF</td>
<td>MoF</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Md. Habibur Rahman, Joint Secretary, MoF</td>
<td>MoF</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Mahedi Masuduzzaman, Deputy Secretary, MoF</td>
<td>MoF</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Md. Rashidul Amin, Deputy Secretary FD, MoF</td>
<td>MoF</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Manzoor Alam Bhuiyan, Joint Secretary and Executive Director, SPFMSP, MoF</td>
<td>SPBMU</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Md. Ataur Rahman, Deputy Secretary &amp; Deputy Director, SPFMSP, MoF</td>
<td>SPBMU</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Ms. Sayeda Ferdous Akhter, Additional Director (Planning &amp; Development), Department of Social Services</td>
<td>DSS</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Mohammad Rezaur Rahman, Assistant Secretary (Finance), DSS, MoSW</td>
<td>DSS</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Sheikh Fariid, Assistant Director, DSS, MoSW</td>
<td>DSS</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Abu Sayeed Salauddin Mahbub, Project Director, Primary Education Stipend Project-III, Directorate of Primary Education</td>
<td>DPE</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Md. Mahfuzur Rahman, Assistant Director (Finance), Primary Education Stipend Project-III, Directorate of Primary Education</td>
<td>DPE</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Md. Mohiuddin Khan, Additional Secretary, Secondary &amp; Higher Education Division, MoE</td>
<td>MoE</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Farid Ahmed, Assistant Director, Secondary Education Stipend Project (2nd Phase)</td>
<td>DSHE</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Shyama Prashad Bepari, Project Director, Higher Secondary Stipend Project (HSSP), Directorate of Secondary &amp; Higher Education</td>
<td>DSHE</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Md. Lokman Hossain, Project Officer, SESIP</td>
<td>DSHE</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Abdul Malek, Deputy Director (Admin), Department of Disaster Management</td>
<td>DDM</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Md. Jamal Uddin Bhuyan, Assistant Director, Lactating Mother Programme, Department of Women Affairs</td>
<td>DWA</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Rezaul Alam, Assistant Director, Maternity Allowance Programme, Department of Women Affairs</td>
<td>DWA</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Dr. Luke Mukubvu, DFID Governance and Institutional Adviser – PFM and Service Delivery</td>
<td>DFID-PFM</td>
<td></td>
</tr>
<tr>
<td>SL. #</td>
<td>Name of Invitee and Address</td>
<td>Name of the Office</td>
<td>Signature</td>
</tr>
<tr>
<td>------</td>
<td>----------------------------</td>
<td>--------------------</td>
<td>-----------</td>
</tr>
<tr>
<td>22</td>
<td>David Gray</td>
<td>DFID, PFM</td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Farzana Mustafa, Program Manager, DFID</td>
<td>DFID</td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>Shaswatee talucder, Australian High Commission</td>
<td>DFAT-Australia</td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>Mezbaul Haque, Deputy General Manager, Financial Sector Support &amp; Strategic Planning Department, Bangladesh Bank, Motijheel, Dhaka</td>
<td>Bangladesh Bank</td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>Sudhangshu Shekhar Bhadra, Additional Director General (Planning), Bangladesh Post, Dak Bhaban, Dhaka-1000, Bangladesh</td>
<td>BPO</td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>Mr. Zakir Hassan Nur, Deputy Post Master General, Bangladesh Post, Dak Bhaban, Dhaka-1000, Bangladesh</td>
<td>BPO</td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>Md. Joynal Uddin, IT Team Leader, IBAS++, Segunbagicha, Dhaka</td>
<td>IBAS++</td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>Mahmud Reza, Manager, Agrani Bank Ltd., Press Club Branch, Dhaka</td>
<td>Agrani Bank</td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>Md. Abul Kashem Khan, SEVP &amp; Head of Financial Inclusion Division, Dutch Bangla Bank Ltd. (DBBL), Dhaka</td>
<td>DBBL</td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>Md. Tuhurul Hasan, Program Coordinator, Digital Financial Inclusion</td>
<td>PM Office</td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>Mission Director, a2i</td>
<td>PM Office</td>
<td></td>
</tr>
<tr>
<td>33</td>
<td>Subhash Chandra Das, Chief Financial Officer (CFO &amp; GM), Central Sonali Bank, Motijheel, Dhaka</td>
<td>Sonali Bank</td>
<td></td>
</tr>
<tr>
<td>34</td>
<td>Rezaul Karim, Head, Programme Planning and Implementation Support</td>
<td>WFP</td>
<td></td>
</tr>
<tr>
<td>35</td>
<td>Md. Amenuul Arefin, UNDP</td>
<td>UNDP</td>
<td></td>
</tr>
<tr>
<td>36</td>
<td>Mr. Dannel</td>
<td>UNDP</td>
<td></td>
</tr>
<tr>
<td>37</td>
<td>Belayet Hossain, UNDP</td>
<td>UNDP</td>
<td></td>
</tr>
<tr>
<td>38</td>
<td>Md. Baten, Director (Operations), NID, Agargoan, Dhaka</td>
<td>NID</td>
<td></td>
</tr>
<tr>
<td>39</td>
<td>Sumona Sultana, Programme Manager, SGSP, MJF, Dhaka</td>
<td>MJF</td>
<td></td>
</tr>
<tr>
<td>40</td>
<td>Kamal Quadir, Chief Executive Officer, bKash, Shadhinata Tower, Jahangir Gate, Mohakhali, Dhaka</td>
<td>bKash</td>
<td></td>
</tr>
<tr>
<td>41</td>
<td>Dr. Anurag Priyadarshree, International Consultant of Payment Study</td>
<td>Consultant</td>
<td></td>
</tr>
<tr>
<td>42</td>
<td>Syed Sajedul Karim, National Consultant of Payment Study</td>
<td>Consultant</td>
<td></td>
</tr>
<tr>
<td>43</td>
<td>Rezauddin Muhammad Chowdhury, National Consultant of Payment Study</td>
<td>Consultant</td>
<td></td>
</tr>
<tr>
<td>44</td>
<td>Comlink personnel-1</td>
<td>Comlink</td>
<td></td>
</tr>
<tr>
<td>45</td>
<td>Md. Kamrul Alam, Additional CGA (Accounts &amp; Procedure)</td>
<td>CGA office</td>
<td></td>
</tr>
<tr>
<td>46</td>
<td>Taslima Sultana, CAO, MoSW</td>
<td>CAO, MoSW</td>
<td></td>
</tr>
<tr>
<td>47</td>
<td>Sheikh Md. Omar Farukh, CAO, MoPME</td>
<td>CAO, MoPME</td>
<td></td>
</tr>
<tr>
<td>SL. #</td>
<td>Name of Invitee and Address</td>
<td>Name of the Office</td>
<td>Signature</td>
</tr>
<tr>
<td>------</td>
<td>----------------------------</td>
<td>--------------------</td>
<td>-----------</td>
</tr>
<tr>
<td>48</td>
<td>Md. Humayun Kabir, DCAO, MoE</td>
<td>CAO, MoE</td>
<td>2017</td>
</tr>
<tr>
<td>49</td>
<td>Md. Moshiha ul Hasan, CAO, MoHFW</td>
<td>CAO, MoHFW</td>
<td>2017</td>
</tr>
<tr>
<td>50</td>
<td>Pears Begum, CAO, MoDMR</td>
<td>CAO, MoDMR</td>
<td>2017</td>
</tr>
<tr>
<td>51</td>
<td>Zebunnessa Haider, CAO, MoWC</td>
<td>CAO, MoWC</td>
<td>2017</td>
</tr>
<tr>
<td>52</td>
<td>Siddiqur Rahman Choudhury, Team Leader</td>
<td>SPFMS</td>
<td>2017</td>
</tr>
<tr>
<td>53</td>
<td>Treena Watson, Project Coordinator</td>
<td>SPFMS</td>
<td>2017</td>
</tr>
<tr>
<td>54</td>
<td>Dr. Kavim Bhatnagar, Economist</td>
<td>SPFMS</td>
<td>2017</td>
</tr>
<tr>
<td>55</td>
<td>A.K.M Shamsuddin, Social Protection Specialist, MoPME</td>
<td>SPFMS</td>
<td>2017</td>
</tr>
<tr>
<td>56</td>
<td>Rowshan Ara Begum, Social Protection Specialist, MoWC</td>
<td>SPFMS</td>
<td>2017</td>
</tr>
<tr>
<td>57</td>
<td>Md. Shahjahan Miah, Social Protection Specialist, MoDMR</td>
<td>SPFMS</td>
<td>2017</td>
</tr>
<tr>
<td>58</td>
<td>Md. Mozammel Hoque, Social Protection Specialist, MoHFW</td>
<td>SPFMS</td>
<td>2017</td>
</tr>
<tr>
<td>59</td>
<td>Md. Matin Chowdhury, Social Protection Specialist, MoE</td>
<td>SPFMS</td>
<td>2017</td>
</tr>
<tr>
<td>60</td>
<td>Kazi Ariful Huda, Social Protection Specialist, MoSW</td>
<td>SPFMS</td>
<td>2017</td>
</tr>
<tr>
<td>61</td>
<td>Tareq Shalauddin, Communication Specialist</td>
<td>SPFMS</td>
<td>2017</td>
</tr>
<tr>
<td>62</td>
<td>Md. Abdul Hannan, Social Protection Specialist, Cash &amp; Asset Transfer</td>
<td>SPFMS</td>
<td>2017</td>
</tr>
<tr>
<td>63</td>
<td>Naheed Sultana, Social Protection Specialist-Capacity Building</td>
<td>SPFMS</td>
<td>2017</td>
</tr>
<tr>
<td>64</td>
<td>Justus Oguna, MIS Specialist</td>
<td>SPFMS</td>
<td>2017</td>
</tr>
<tr>
<td>65</td>
<td>Arif Hasan, MIS Specialist</td>
<td>SPFMS</td>
<td>2017</td>
</tr>
<tr>
<td>66</td>
<td>Khandker Md. Abu</td>
<td>SPFMS</td>
<td>2017</td>
</tr>
<tr>
<td>67</td>
<td>Bari Momin</td>
<td>SPFMS</td>
<td>2017</td>
</tr>
<tr>
<td>68</td>
<td>Engr. Md. Aynubur Rahman, SSA, CAA Office</td>
<td>SPFMS</td>
<td>2017</td>
</tr>
<tr>
<td>69</td>
<td>M. Arifur Islam, PEMSP, FID</td>
<td>SPFMS</td>
<td>2017</td>
</tr>
<tr>
<td>70</td>
<td>Md. Mizanur Rahman</td>
<td>SPFMS</td>
<td>2017</td>
</tr>
<tr>
<td>71</td>
<td>Md. Atier Rahman</td>
<td>SPFMS</td>
<td>2017</td>
</tr>
<tr>
<td>72</td>
<td>Mohasin Kalam</td>
<td>SPFMS</td>
<td>2017</td>
</tr>
</tbody>
</table>
Annexure 4 B
Presentation at Dissemination Workshop
Research Study on Payment System

Study Commissioned by Strengthening Public Financial Management for Social Protection (SPFMSP)
Backdrop to the Study

• The study was undertaken at the request of the Finance Division in line with the provisions of the National Social Security Strategy.

• The SPF MSP project also has a mandate to contribute towards improvement of the social protection payment system.

• This research project therefore aimed to study the existing payment systems in Bangladesh, cull out and present relevant lessons from global experience in designing improved payment systems, and recommend an appropriate payment system for Bangladesh.
Existing System

• 145 programmes, a majority of which have some component of cash delivery

• The existing modes of payment may be categorised in the three broad groups:
  1) payment through Treasury
  2) payment through banking system (including mobile banking)
  3) payment through postal system.
Payment through Treasury

**Examples:** Civil Service Pensions, Food for Work

**Advantages**
- Beneficiaries are free to choose their own time for collecting their cash benefits
- Payments are tracked efficiently and accounted for properly
- Line ministries do not need to spend on commission payment

**Disadvantages**
- As branches of Sonali Bank are few and far between in the rural areas, the beneficiaries need to travel long distances to receive their payments.
- Cash disbursal by elected officials or civil servants is fraught with the obvious risks of leakages, rent-seeking, delays in payment, and elite capture of the programmes.
- The new feature added to iBAS++ is capable of transmitting up to Upazila level, but not beyond.
Payment through Banking System

Four principal modes:
• Payment at local bank branches
• Through payment booths
• Through agent banking
• Through mobile phone banking

Examples: Primary Education School Stipends Programme (PESP), Stipend for Technical Education Program (STEP), Secondary Education Quality & Access Enhancement Project (SEQAEP), Old Age Allowance (OAA), Freedom Fighters Allowance, Husband-Deserted, Widowed and Destitute Women Allowance (HWDWA), Disability Allowance, Stipend for Disabled Students, Wage disbursal under EGPP, Programme for Improving the Livelihoods of Harijan, Dalit, Bade
Payment through Banking System...contd.

- HQ of designated bank
- Bank branch nearest to beneficiary
- Agent Banking
- Mobile Banking
- Crediting beneficiaries' bank account
- Cash delivery at the bank branch
- Cash delivery at pay booth
Payment at Local Bank Branches

Examples: OAA and HDDWWA, Disability, EGPP, MA, LMA, STEP- Skill and training Enhancement Project

Advantages
• Safe and comfortable for those located near the bank branches
• Easy identification of beneficiaries
• Payment is made as soon as money is credited to the accounts
• Reporting, monitoring and accounting is easier
• Reduced possibility of fraudulent payments
• Undisbursed money is remitted back to the bank HQ as soon as possible
Payment at Local Bank Branches: Disadvantages

• As many as eighty per cent of the nominated bank branches are located in an Upazila HQ or a Union and thus are far away for the vast majority of beneficiaries

• Beneficiaries need to incur substantial travel costs

• Old people and physically-challenged persons face severe hardships while travelling to and from bank

• In case of differently-abled persons, the travel costs are even higher as sometimes they cannot use the normal cheaper modes of transport due to their disability. May also need a companion.

• Significant opportunity cost

• Need to wait for a long time in a queue with no or inadequate facilities of drinking water, sanitation or seating, etc.

• Such payments also strain the banking services on the days of payment.
Payment through Booths

**Examples:** PESP, SEQAEP

**Advantages**
No significant advantage

**Disadvantages**
- Inconvenient to the students and the guardians.
- The beneficiary students miss out on the day’s scheduled teaching
- No arrangement for meeting their basic needs, such as drinking water, sanitation, and seating while waiting.
- Travel costs, opportunity cost
- Inconvenient for the teachers and bank officials
- Accessibility to payment booth locations is often difficult and sometimes requires bank officials to cross rivers.
- Risks of carrying large sums of cash
- Bank officials required to work for considerably longer than their regular working hours.
- Banks need to spend a significant amount in meeting travel costs of the bank officials and the armed guards.
Agent Banking

**Examples:** Investment component of Vulnerable Group Development (ICVGD)

**Advantages**
- Improves the outreach of banks, and reduces the distances to be travelled by the beneficiaries
- Reduces travel cost and time spent by beneficiaries to collect benefits.
- Use of biometric identification and electronic record keeping reduces risk of leakage.
- Connected with banks’ central servers, thus smooth flow of data downwards as well as upwards.
- Capable of addressing much of the constraints faced while making payments at the bank branches or using elected officials/civil servants to disperse cash.

**Disadvantage**
It increases the overall cost of cash transfers when compared to the payment at the existing bank branches, as banks need to pay a significant commission amount to the agents. However, it is much cheaper when compared to the requirement of opening of new regular bank branches.
Mobile Phone Banking

Examples: SESP, HSSP, SESIP (Secondary Education Sector Investment Programme), SEQAE, PESP

Advantages
• Improves outreach of banks even more than the agent banking.
• Requirements for appointing agents less stiff, eligible people even in remote areas.
• Minimal expenditure of time and money for obtaining payments.
• Connected to the banks’ IT systems, speed of data transfer and reliability not compromised.
• Addresses most of the issues associated with other payments channels

Disadvantages
• All stipend recipients may not have mobile phones
• Agents charge fees from beneficiaries in some schemes.
• Anecdotal evidence suggests that agents sometimes charge beneficiaries extra
• Students or guardians may fail to read the message
• May not be an ideal mode of payments to certain populations
Payment through Postal System

**Examples:** Sambhab, EGPP, Payment of training allowance to marginal farmers under an FAO programme, Income Support Programme for the Poorest (ISPP)

**Advantages**
- Familiarity with postal operations, acceptable to wider section of population
- Use of biometric system and POS ensure safe and reliable disbursement of fund.
- POS machines are capable of working offline
- Greater outreach than banks, with additional network of agents being created, this system capable of catering to remote areas
- Cost-effective

**Disadvantages**
- Shortage of staff at post offices
- Employees generally observed to be lacking in motivation
- Cash security issues in remote areas
- Anecdotal evidence suggests that postal personnel informally charge the beneficiaries for doorstep delivery of the payment service
Broad Principles Behind Recommendations

• No reinventing the wheel - Departments to remain custodian of beneficiary data
• Harnessing the existing structures with optimal utilisation of human-ware, hardware and software
• Unified coordination and supervision at the Central Level.
• Use of Information Technology and system driven approaches
• Extensive use of National ID for verification
• Plugging loopholes in existing procedures using systemic approaches
• Supply side strengthening and improved management in terms of economy, efficiency, effectiveness
• Using economies of scale and economies of scope
• Compatible MIS with all LMs being plugged into the SPBMU MIS.
• No changes in existing rules & regulations
Broad Principles Behind Recommendations...contd.

• Direct payment to beneficiary accounts (G2P) without any intermediary
• No withdrawal of funds from the treasury unless there is requirement for disbursement
• Utilisation of all the possible payment channels for such payments, with uniform service conditions and rates across all the social protection programmes for a particular payment channel
• Real time payments and real time monitoring
• Online flow of pre and post payment data
• Centralisation of payment coordination with decentralisation of payment.
• Transparency in payment as well as in cost of transfers
• Convenience of choices and locations for beneficiaries
Advantages to Stakeholders (GoB)

• Finance Division
  • Improved cash flow management with lesser dependence on ways and means
  • No holding of funds allowed to any agency / banks
  • SPBMU to validate correctness of data and genuineness of beneficiaries
  • Intra ministerial and inter ministerial data verification leading to avoidance of double dipping, elimination of leakages and ghost beneficiaries

• Line Ministries and Departments
  • Digitisation of data and improved monitoring of beneficiaries
  • Greater understanding of beneficiaries, their locations, profile and payments

• Accounts Officers
  • Reduction in work load with just one single transfer

• Field Officers and DDOs
  • Reduction in work load – One time data digitisation, subsequently only data updates
Advantages to Stakeholders (Beneficiaries)

• **Beneficiaries**
  • Choice of payment options and receiving points
  • Direct and timely payments to beneficiaries.
  • Government to People (G2P) with money credited directly into the individual accounts
  • Individual accounts to be maintained with banks, agent banking, mobile banking, mobile money, postal cash card accounts etc. promoting financial inclusion
  • Reduction in inconvenience to travel to collect and reduction in time spent on collection
  • Easily accessible for all beneficiaries regardless of how remotely they are located
  • Opportunity cost for collection of benefits, travel cost
  • User friendly and effective grievance redressal mechanism
Proposed Solution

- The proposed solution entails leveraging of modern technology for making efficient and effective delivery of social protection payments.
- The Social Protection Budget Management Unit (SPBMU) within the Finance Division will ensure that MIS are adequately designed and developed within all the concerned LMs for efficiently effecting the social protection payments.
- MIS at SPBMU and at the LMs will be totally compatible with each other and will have capabilities to ‘talk’ with each other in real-time.
- SPBMU will coordinate with all the possible payment channels for social protection payments, fix the rates for different modes of payment, and prepare model Service Level Agreements (SLAs) for use of the LMs in respect of procuring services from the providers.
- Model SLAs should ensure that the payment channels offer the best possible quality of their services at the most reasonable costs across all social protection programmes as well as uniform across all LMs.
- Cost-effective on supply side as well as on demand side
- Technology-driven payments will improve transparency in the administration of the system
- Technology will also facilitate speedy payments
Proposed Solution...contd.

- LMs will empower the beneficiaries to choose the most convenient option from among the available modes of payment
- The data pertaining to their choice of mode of payment will be captured at the MIS units of the Line Ministry and the SPBMU, and will form the basis of transferring money to them
- All the bank and post office accounts of beneficiaries will be linked with their NID
- NID identification will also serve as KYC for opening of accounts for beneficiaries.
- Proposed solution will be implemented only when the data on a particular scheme is digitised.
- Initially the proposed system will be piloted for two schemes (tbd)
Institutional Architecture
Figure 1: Flow of Information for Validation of Beneficiaries Database

- Field Offices
- Departmental MIS
- SPBMU
- Accounts Offices
Figure 2: Payment Process

DDOs (Validated Beneficiaries)

CAO/DAO /UAO

BB/Sonali Bank

Beneficiaries A/c (bank, mobile, postal etc)
Figure 3: Flow of Information after Payment

- BB/Sonali Bank
- Payment Service Providers
- CAO/DAO/UAO
- DDOs
- SPBMU
Long-Term Vision

• Establishment of a Central Payment Authority (CPA)
• It will work through a technology platform that will automate all business processes related to direct transfer of cash benefits through all the modes of payment available in the country
• Such a technology platform would be capable of implementing all cash transfers under Social Protection whether periodic or one-time. It would eventually have capabilities to implement all G2P cash transfers electronically
• CPA will be connected with the MIS unit of SPBMU for receiving database on the beneficiaries to be paid, with Bangladesh Bank/Sonali Bank for fund management and instructions for transferring funds to the authorized payment service providers, and with the payment service providers for monitoring the disbursal to the beneficiaries.
Long-Term Vision...contd.

• CPA will be connected with the Line ministries and SPBMU for getting policy inputs on social protection programmes, cash disbursal, budget management and other policy instruments.
• It will provide total accounting solutions to all government stakeholders and meet all accounting needs of the government.
• Data will flow from supply side to all modes of payment and backwards in real time as far as possible.
• Line Ministries will remain responsible for identifying the beneficiaries based on pre-defined eligibility criteria.
• CPA will be responsible for making all the accounting statements and other compliances for the funds disbursed under its supervision.
• Will also be responsible for making compliance reports etc. to donor agencies in case a particular scheme is supported by a donor agency.
• All the beneficiaries will be made aware of the choices of modes of payment available to them in their current situation and be encouraged to make a conscientious choice based on their particular circumstances. Whenever a new mode of payment becomes available to a particular set of beneficiaries they will be made aware of it and encouraged to revise their choice based on whatever mode suits their situation the best.
Thanks