



DECEMBER 2020

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Rapid Response for Social Payments During COVID-19

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Acknowledgments

CFI conducted this work as part of our partnerships with the Mastercard Center for Inclusive Growth and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. The author would like to thank the following for their valuable input on and suggestions for this brief: Ivo Jenik and Mehmet Kerse of CGAP, and Denise Dias, an independent financial regulatory and supervisory consultant.

The aim of this policy note is to examine steps taken by policymakers to rapidly distribute social payments to millions of people whose livelihoods were impacted by COVID-19. This is the second in a series of policy notes that will analyze data collected on policy responses by international bodies and engage in direct consultation with in-country stakeholders to assess the impact of policies, both in the short-term and long-term, on low-income customers and the financial providers that serve them.





Introduction

As countries around the world grapple with the devastating economic impact of the COVID-19 pandemic, governments have turned to supplemental cash transfers as a key policy instrument to offset the loss of income. These measures include a range of approaches, from wage subsidies to extended unemployment support and a variety of social welfare payments. There's also been a push to extend payments¹ outside the usual social protection mechanisms, to ensure that all eligible low-income people and small businesses are reached. Given ongoing concerns about fraud and theft, not to mention cash handling during this health crisis, most efforts have focused on digital payments. According to World Bank estimates, 340 cash transfer measures—digital and non-digital—were taken across 156 countries by mid-September,² and government-led social assistance payments in response to COVID-19 have globally benefited 1.8 billion people, including 1.1 billion new social assistance payments recipients.³

Those countries with well-developed social protection systems, payments infrastructure, and wide access to digital financial services have fared much better in getting these payments out quickly, but even they have struggled to rapidly open accounts for their more vulnerable populations. Policy actions to encourage use of digital accounts such as e-money have included raising transaction and balance limits along with reducing or removing transaction fees. Some countries have also declared cash-in/cash-out (CICO) points essential services, but it's unclear whether “essential services” extends to account opening or how many of these points even conduct account opening in addition to CICO. These measures are all helpful in promoting digital account usage, but largely only impact current digital account holders, leaving those without accounts of any kind at risk of being overlooked.⁴

While the wholesale digitization of government payments, government IDs, and government registries (social protection, salaries, pensions, tax, etc.) is a large undertaking over many years, and is beyond the scope of this brief, the COVID-19 crisis has forced policymakers to find innovative ways to deliver rapid support payments to those most in need.⁵ A critical aspect of getting this emergency aid out is the ability to quickly identify and onboard eligible recipients who don't already have transaction accounts, and distribute the payments as soon as possible.

The Center for Financial Inclusion (CFI), as part of its partnership with the Mastercard Center for Inclusive Growth and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, explored what governments are doing to enable rapid payments to those without existing accounts. **This paper reviews three of the measures being taken to speed up payment distribution,⁶ specifically: quick identification of eligible recipients, simplification of customer due diligence (CDD) rules for rapid account opening, and greater use of alternative channels such as mobile apps, post offices, and nonbank financial institutions (NBFIs) like microfinance institutions (MFIs) and cooperatives to distribute payments, directly or in conjunction with payment service providers (PSPs).** Note that this analysis is based on a snapshot in time and just a selection of examples undertaken due to COVID-19, and that governments and industry stakeholders are constantly evolving in how they handle the ongoing challenges of the COVID-19 crisis. A common theme throughout, though, is the ability and willingness of policymakers to be nimble and innovative as they design solutions for these challenging times.

1

Rapid Identification of Eligible Recipients

Countries with well-established social protection schemes have existing databases to work from when determining eligible beneficiaries for social payments under COVID-19. However, many database rolls can be limited in scope, out of date, or present other impediments to use, such as being based in different government ministries with varying rules around access. What's more, the COVID-19 crisis has impacted many people beyond those on social welfare rolls, especially small and medium enterprises (SMEs) and informal workers, as well as many previously employed workers, all of whom suddenly find themselves without income.

In order to quickly determine who's eligible for COVID-19 support payments, governments have had to be innovative in tapping into all available existing information, whether publicly or privately owned. Primary efforts include starting with current beneficiary and employer rolls, then moving onto recent voter registration lists, and mobile cellular customer records, including location data.

Current Beneficiary and Employment Rolls

The obvious starting point for most governments is the existing social protection lists they use for a variety of welfare benefits. While these lists ostensibly provide up-to-date information, one challenge with using them is that they are usually based only on the requirements of the ministry or municipality that collects the information. For example, the department that focuses on maternal and child health will only have lists of recent mothers and families of young children. Another department list may focus only on old-age pensioners in a particular jurisdiction.

Being able to provide comprehensive social welfare payments for a nationwide crisis situation like COVID-19 requires the ability to incorporate all these lists, verify eligibility in a timely fashion and check for duplicates, as well as compare against lists of recently deceased. This work is far more complicated than it sounds, even for the most sophisticated of governments.

Integrating multiple government databases is not a trivial undertaking, and often includes further challenges around privacy and data protection. In many cases, authorities choose to start with those beneficiary rolls most relevant to low-income social welfare support and work out from there using a variety of tools to help existing beneficiaries more easily receive the new payments or help non-beneficiaries sign up. The **State Bank of Pakistan**, for example, transformed the eligibility review process for the government's social relief program, Ehsaas Emergency Cash, from an in-person process to a remote process, allowing residents to send an SMS to Ehsaas to confirm available social benefit funds. Individuals could then collect cash from biometrically-enabled branchless banking operations and biometrically-enabled ATMs.⁷

In **Jordan**, after the government announced a cash transfer program for informal workers impacted by the COVID-19 crisis, the **Central Bank of Jordan** (CBJ) relaxed its regulations to allow for online account opening with simplified know-your-customer (KYC) requirements.⁸ Workers apply through a webpage and are required to provide information including: prior participation as beneficiary in the Bread Subsidy Compensation program, national ID number, national ID card number, and mobile

phone number. (Refugees are able to use their UNHCR IDs for account opening.) The applicant information is verified via the new National Unified Registry (NUR), and the payment arrangement is based on the delivery of cash transfers through e-wallets, which can be opened with any of the seven licensed PSPs, all of which interoperate through the CBJ's JoMoPay switch. Beneficiaries without e-wallets are contacted through an interactive SMS and are requested to choose among the listed PSPs to open an e-wallet. Upon selection, the government sends each PSP a list of the beneficiaries that have selected them, and PSPs must assist beneficiaries in the process to open their e-wallet. By mid-May, more than 470K households had opened e-wallets,⁹ with more than 70 percent active.¹⁰

In **Bangladesh**, the government announced disbursement programs for the poor and wage protection for garment workers in late March and early April, with no clear way to send funds to individuals. **Bangladesh Bank** allowed government disbursement program information to be used to open permanent accounts on behalf of customers, mostly through mobile money operator bKash, postal transfer operator Nagad, bank payment system Rocket, or direct bank transfer.¹¹ The central bank also permitted the creation of accounts for ready-made garment (RMG) workers based on their employment record, given the low rates of digital IDs or other means to confirm their identity among the predominantly female group.

Voter Rolls

Some countries took advantage of recent **voter registration campaigns** to verify recipients for support payments. In April, the Government of **Togo** established the Novissi cash transfer scheme, “to support eligible Togolese citizens in the informal sector whose daily income has been disrupted by the Coronavirus crisis.” Novissi provides monthly financial aid via mobile money to the most vulnerable individuals and families throughout the duration of the state of

health emergency. (The program was recently extended beyond the emergency lockdown period but amended to focus on certain regions.) Because Togo does not have a strong national ID system, they took advantage of a recent voter registration campaign to verify the identity of eligible recipients.

To sign up, beneficiaries had to dial *855# on their mobile phone, respond to the prompts filling in their information including voter registration number, and submit their application. The government chose this USSD channel to ensure that recipients who lacked internet access could still apply for the funds. By the end of August, the program had 1.4 million Togolese citizens registered, about 38 percent of the voting population, with 581,000 approved beneficiaries, of which 65 percent were women.¹² Notably, women beneficiaries received about 15 percent more funds than men, on the basis that the funds were more likely to support entire households.¹³

Timor-Leste was also able to take advantage of its voter registration system, which had high sign-up rates after a recent election. While direct authentication with the voter database, as happened in Togo, was not possible, checks for duplicates and erroneous number structures helped reduce potential errors and fraud. Combined with demographic data that had been collected at the village level and digitized, this provided a reasonable starting point for the government teams to go out using software on tablets with prepopulated data and issue cash payments (with social distancing). While not ideal, the digitization of the processes at each step, including grievance redressal, increased transparency and appears to have limited fraud. Out of 310,000 households, complaints were filed by about 12,000 or 4 percent.¹⁴ (The payments themselves were made in cash by the government teams, so while the information used to identify beneficiaries was not used for onboarding for a transaction account, it certainly could have been had there been a PSP with suitable agent coverage.)

Mobile SIM Data

Several countries tapped into mobile cellular registration data, both SIM data alone as well as mobile money registration, for identifying eligible beneficiaries. **Zimbabwe** took advantage of its 90 percent mobile money penetration¹⁵ to make payments directly to the e-wallets of all phone numbers mapped to areas targeted for support payments. This approach gave them the additional advantage of tracking payment behaviors in real time so that the impact of the transfer was easier to monitor. According to

the World Bank, several countries, including Bangladesh, Nigeria, and the Democratic Republic of Congo are currently considering a similar approach of using mobile network-based geographical tracking in the context of the COVID-19 pandemic.¹⁶ For example, **Nigeria** partnered with mobile network operators to identify vulnerable informal workers in urban areas through airtime purchase patterns.¹⁷ While the combination of mobile ID and location data allows for innovative mapping and monitoring, it also opens up interesting privacy questions.

Key Takeaways:

The first step in getting support out to populations in need is identifying those populations, along with ascertaining eligibility. In emergency situations like COVID-19, where virtually everyone is affected, it's arguably more important to err on the side of over-inclusion rather than exclusion. Some of the key takeaways here are the following:

Access to beneficiary rolls is an important step in the onboarding process, and governments have been innovative in how they use available rolls, while still addressing privacy concerns.

There are many restrictions on accessing various government beneficiary databases outside of the relevant ministry for good reasons, such as privacy and security concerns. In some cases, restrictions on accessing the information reflects the desire to recover costs incurred in the collection of the data; e.g., voter registration campaigns, where those departments insist on getting paid for sharing the information. Whatever the reasons, the examples noted in this paper highlight how governments have been able to overcome impediments and put in place policies around sharing government database records for legitimate purposes. Given the likelihood of recurring and more frequent

public crises, it is prudent that governments put in place mechanisms to expedite and secure such data sharing, especially under emergency situations. This should also include collaboration with humanitarian organizations, especially those focused on refugees. The use of technology such as distributed ledgers on blockchain could support those efforts.

Partnering with the private sector, especially employers and mobile network operators, is critical to identifying those populations who find themselves in need but don't normally appear in government beneficiary rolls. In most emerging markets, a substantial portion of workers are employed in just a handful of industries that have experienced sudden shutdowns, such as garment factories or tourism. The uncertainty around how long the crisis would last, and the fact that many of these workers don't typically participate in social welfare systems and may not even know how to apply for them, meant that these groups risked being ignored in the early days of the pandemic. Governments need to think about putting standard outreach systems in place in important employment sectors.

2

Simplified Due Diligence for Rapid Account Opening

The challenges associated with opening transaction accounts for low-income customers are well known, ranging from low literacy levels and distrust of banks to poor infrastructure and uneven availability of identification documents. There is also detailed research into the unique challenges facing specific populations, such as women,¹⁸ youth,¹⁹ and migrants.²⁰ A key factor that has faced scrutiny in this discussion is the requirement for stringent customer due diligence (CDD), including know-your-customer (KYC), anti-money laundering (AML), and other verification protocols, in order to open accounts.

The Financial Action Task Force²¹ (FATF), the global watchdog for this issue, has acknowledged the challenges these requirements can pose to financial inclusion,²² and in recent years has clarified their rules to corroborate the concept of a risk-based approach (RBA) to CDD procedures, such as tiered and/or simplified CDD (SDD). They reiterated this guidance as it relates to government assistance during the COVID-19 pandemic.²³ Beyond FATF, however, it's important that national regulators clearly articulate the adequacy of SDD measures, to assure FSPs in their jurisdictions what the expectations are for rapid onboarding for emergency transfers, and remove any uncertainty around the compliance requirements for CDD.

Many jurisdictions have used the flexibility allowed by their CDD regulations to speed up COVID-19 support payments, often via use of mobile phone SIM registration and remote onboarding. According to mobile industry association GSMA, at least seven countries²⁴ instituted additional flexible KYC rules for mobile money, while the World Bank notes ten new countries that have implemented flexible KYC and remote account opening as of August 2020.²⁵ In some of the cases noted by the World Bank, the authorities have allowed eKYC procedures, including digital submission of documents with subsequent follow-up, sometimes called deferred KYC. Regulators in many countries were also able to use SDD measures to open accounts specifically for COVID-19 payments by using data provided by the government agency responsible for social assistance,²⁶ voter roll data, and employment records. In many cases, countries used a combination of all these measures. It is unclear if, or for how long, regulators will allow the use of SDD account opening procedures post-COVID-19, but there is potential to make them permanent in certain low-risk situations.

BOX 1**What is Simplified (Customer) Due Diligence (SDD)?**

When opening an account with a new customer, financial institutions are expected to first establish and verify that customer's identity to evaluate any potential money laundering or terrorist financing risks. This expectation is prescribed in the financial regulations and is a condition of a financial institution's licensing requirements, which cover, amongst other things, having appropriate CDD rules and processes as covered under FATF Recommendation 10, including ongoing due diligence and monitoring. A standard CDD process would include the following steps:

- 1. Data Collection:** Full name; residential address; contact information; date and place of birth; nationality; gender; marital status; occupation and source of income; government-issued ID number; specimen signature; parental consent form (where the individual is a minor).
- 2. Verification:** Verify the information collected from the customer to ensure accuracy and legitimacy, usually via government-issued documents. Examples include: Government-issued photo identification card; government-issued passport; tax/utility bill to prove residential address; pay stubs; business profile issued by a government regulator for business entities; certificate of incorporation from a country's official company register, articles of association, or memorandum of association.
- 3. Name screening:** Check to determine if a customer is known to be of heightened risk and thereby posing a risk to the financial institution. Typically, this includes customers that are considered: Politically Exposed Persons (PEPs), criminals, terrorist-sanctioned individuals, etc.
- 4. Determine risk level, open account, and conduct ongoing monitoring and recordkeeping.**

Simplified Due Diligence (SDD) can be applied to customers who are determined to pose lower risk for money laundering or terrorist financing. SDD is based on FATF's "risk-based approach (RBA)," which allows FSPs to base their CDD assessment on the level of risk of each customer. It enables them to focus their resources and take enhanced measures in situations where the risks are higher, apply simplified measures where the risks are lower, and exempt low-risk activities. The RBA has been further developed and elaborated in recent years, in recognition of the importance of financial inclusion goals and the negative impacts of derisking behavior (where banks, mostly in developed markets, choose to close accounts to avoid, rather than manage, risk; derisking has had a particularly devastating impact on maintaining the flow of global remittances.)

In recognition of the fact that many people, especially in emerging markets, lack the standard government-issued ID or residential address documents, governments are increasingly allowing the use of other identity information for opening low-value accounts. Examples of such proxy IDs include SIM registration, voter registration, government databases, and employment IDs. SDD also allows for delayed or deferred identification, reduced frequency of identification updates, and limited monitoring and data collection. Many markets have established "tiered KYC" levels, whereby customers can open basic, low-value accounts with minimal ID, but if they wish to conduct higher value transactions, they are required to provide higher levels of CDD information.

Sources: International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation: The FATF Recommendations." FATF. <https://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202012.pdf>

"Risk-Based Approach." FATF. [https://www.fatf-gafi.org/documents/riskbasedapproach/?hf=10&b=0&s=desc\(fatf_releasedate\)](https://www.fatf-gafi.org/documents/riskbasedapproach/?hf=10&b=0&s=desc(fatf_releasedate))

"Rapid Account Opening in a Pandemic." CGAP, July 2020. <https://www.cgap.org/research/covid-19-briefing/rapid-account-opening-pandemic>.

Mobile SIM as ID

Given the prevalence of mobile phones, most countries have included mobile SIM information in their onboarding efforts, including the use of **SIM registration data** alone for opening an account. For example, the **Bank of Ghana** expanded its tiered KYC to allow mobile phone subscribers to reuse their SIM card registration to open the lowest tier of e-money accounts, called Minimum KYC accounts.²⁷ Like many countries, the Bank also eliminated fees on e-money transactions up to USD\$17, not including cash-out, while transaction and maximum account balance limits have been raised across the board, with both limits for Minimum KYC accounts increased by 50 percent.

In **Egypt**, the central bank had already established an eKYC program in January 2020, just prior to the pandemic. The system allows customers to open bank accounts electronically, without having to visit a bank branch or speak to an agent.²⁸ A customer submits their national ID number along with their mobile phone number to the telecommunications authority, which then confirms to the bank the information match for the mobile SIM registration. It's interesting to note that in this case, it's the telecommunications authority who is conducting the verification, rather than the FSP.

Employment Records

In **Bangladesh**, **Bangladesh Bank** allowed government disbursement program information to be used to open permanent accounts on behalf of customers.²⁹ The central bank also permitted the creation of accounts for ready-made garment (RMG) workers based on their employment record, given the low rates of digital IDs or other means to confirm their identity among the predominantly female group. By using private data sources in combination with, or in lieu of, verification from government databases to verify an identity, Bangladesh created an instance of collaborative CDD, albeit temporary. The RMG accounts will still need verification at a later date, though this has yet to be formalized.³⁰

Remote and/or Deferred CDD

Many countries opted for **remote onboarding** and **deferred KYC** procedures for COVID-19 payments, allowing people to immediately open accounts and giving them a period of time in which to follow up with the necessary documentation. In the case of **Pakistan** noted earlier, the Ehsaas Emergency Cash transfers are usually made after biometric verification of each beneficiary through the National Database and Registration Authority of Pakistan (NADRA). However, in recognition that some beneficiaries experience problems with the biometric system, and that NADRA offices are closed during the pandemic, the government suspended the need for biometric confirmation, opening a web portal for residents to handle applications and resolve any issues.³¹

In **West Africa**, the Central Bank of West African States (**BCEAO**) created remote onboarding for a basic (Tier 1) mobile money account (via USSD text messaging or voice) or a standard e-money account (via voice or smartphone). In this case, BCEAO has enabled a deferred KYC requirement for Tier 1 and Tier 2 accounts, creating a three-month window for in-person due diligence verification after the end of the COVID-19 crisis. Overall, 8 million new accounts were opened during the COVID-19 crisis. Senegal, Cote d'Ivoire and Mali were the largest contributors to the growth, with 4.7 million new accounts. The majority of the new accounts were opened remotely, as most agent locations had been shuttered. The BCEAO aims to keep these new accounts active after the current crisis has lapsed. If customers are not able or willing to provide an in-person identification, their Tier 2 accounts will be downgraded to Tier 1. As for the new Tier 1 accounts, the BCEAO aims to maintain those as is, though providers may encourage customers to further formalize the accounts. The BCEAO is evaluating which of the crisis-based temporary provisions they will make permanent, and are considering a permanent addition of an eKYC after the pandemic.³²

The **Central Bank of the Philippines** (BSP) also allowed temporary relaxation of CDD requirements to facilitate delivery of welfare funds.³³ Specifically, they eased the requirement for the presentation of a valid ID document for customer onboarding and transactions during the quarantine period. The measure was adopted to facilitate the delivery of welfare funds to identified beneficiaries who have no valid ID documentation or transactional account with any FSP. The BSP relaxed the CDD requirements because the accounts involved are considered low-risk, but also imposed some restrictions to minimize AML risks.³⁴

Morocco's Central Bank, Bank Al-Maghrib, temporarily simplified account opening procedures during the pandemic, allowing anyone to open a basic payment account, capped at USD\$555, without going to the branch. Based on a client's mobile phone number and digitized national ID card, the new rules deferred KYC procedures for such basic accounts. Al Barid Bank, a subsidiary of Morocco Post, and its payment institution subsidiary Barid Cash took advantage of this opportunity to open up new accounts for recipients of emergency support funds aimed at low-income people. Grants ranging from USD\$90 to USD\$130 per month were disbursed in April and May, and beneficiaries could collect their funds at any financial service provider (FSP) within the country. As G2P recipients visited Barid Cash outlets to collect their grants, the bank incentivized them to open mobile payment accounts and thus shift from cash to account-based government transfers.³⁵

Most countries used **combinations of national ID, government registry, and national payments systems infrastructure** to enable rapid onboarding. In **Thailand**, the government uses its interoperable payments system, PromptPay, which allows pandemic funds to be sent to a recipient's ID-linked bank account,

much like India does. For the past few years, the Thai government has had a policy that all G2P payments (e.g., all welfare and tax returns) must go through PromptPay, which provides free instant transfers. Payments are directed to the bank account or e-wallet that is linked to the national ID number. For people who do not have a bank account, some banks are making it easier to open bank accounts through ATMs, using the national ID. (While the PromptPay system also links to mobile numbers, allowing for personal transfers via mobile number alone, government social transfer programs require use of the national ID number.) For verification purposes, authorities use a code on the back of recipients' national ID card in a similar way to how online credit card transactions use the code on the signature panel to authenticate the holder. The applicants are then notified as to whether they were accepted or rejected.³⁶

Finally, some countries recognized the need to allow for **sharing a single SIM number amongst several people**, given the realities of low mobile penetration in some populations. In **Namibia**, authorities implemented a very flexible onboarding process for issuing Emergency Income Grants of USD\$45 to those in need during the pandemic. Applicants needed a mobile number and a national ID number and applied by texting "EIG" to a specific number to start the registration process. After the approval of the application by the ministry, applicants received a token from the bank they selected in the application process. Recognizing that some individuals, or even families, might not have their own mobile phones, the government permitted up to ten applications to be submitted through a single SIM, with each application distinguished by its unique ID number.³⁷ It's not clear whether the beneficiaries now have basic transaction accounts or were merely given one-time-use tokens, but it could be an interesting approach to quickly opening basic transaction accounts for emergency G2P payments.

TABLE 1 EXAMPLES OF SIMPLIFIED DUE DILIGENCE FOR COVID-19 PAYMENTS

	TIERED KYC VIA SIM REGISTRATION DATA AND/OR NATIONAL ID	ALTERNATIVE BENEFICIARY ROLLS OR EMPLOYMENT RECORDS	REMOTE ONBOARDING AND/OR EKYC	DEFERRED CDD
DESCRIPTION	Ability to use mobile SIM information alone for low-value/low-risk account opening, with or without National ID data.	Usage of government ministry databases to identify and onboard users. Examples include voter registration lists and social protection registries.	No in-person requirement for account opening. Typically involves an app, website, phone or text/ USSD, utilizing some combination of ID, biometric and SIM data.	Allowance for full CDD to be conducted at a later date. Often combined with Remote Onboarding.
SAMPLE COUNTRIES	<ul style="list-style-type: none"> ↗ Ghana ↗ Zimbabwe ↗ Namibia 	<ul style="list-style-type: none"> ↗ Togo ↗ Timor-Leste ↗ Jordan ↗ Bangladesh 	<ul style="list-style-type: none"> ↗ Pakistan ↗ Egypt 	<ul style="list-style-type: none"> ↗ West Africa ↗ Philippines ↗ Pakistan ↗ Morocco ↗ Russia

Key Takeaways:

Onboarding of underserved clients is a challenge to governments, large employers, humanitarian organizations, and FSPs alike. The traditional costs to conduct onboarding are often too high for FSPs to justify for low-income intermittent users, especially those lacking standard ID documentation. While governments are certainly aware of the benefits of digital financial infrastructure and are embarking on their own long-term programs, especially around ID and interoperable payments systems, the unique challenges of the COVID-19 pandemic have crystalized the urgency of being able to rapidly reach all members of society by some means of digital financial services, for the benefit of both recipients and for governments to manage future crises. Waiting for the long-term infrastructure programs to be completed is no longer sufficient to meet today's challenges. A few of the key takeaways we've seen so far in this current crisis are the following:

While flexible policy has been at the heart of remote and rapid onboarding, collaboration and dialogue have been a critical part of the success. Interactive decision-making between government authorities, regulators, FSPs, and PSPs has been critical for timely adoption of rapid onboarding programs to ensure that financial support reaches those in need as fast as possible.

Where a country lacks the necessary digital infrastructure, **working with the private sector to take advantage of existing capabilities has been the most expedient way forward.**

This has been especially relevant to overcome shortcomings in digital ID infrastructure. The use of SIM registration data is a prime example of collaboration between social protection, financial, and telecommunication authorities that has been critical in this pandemic. It's also been important that financial regulators provide regulatory clarity and certainty for FSPs regarding compliance of rapid onboarding processes with CDD rules.

Opening new transaction accounts for emergency social transfers should not come at a cost to recipients. For many low-income and unbanked people, issues of trust and cost are big impediments to opening and using accounts, particularly when they perceive the use of cash to be free. In emergency situations where policymakers have chosen to use digital financial transfers to achieve social and economic goals, governments should opt to pay any fees associated with opening those accounts and using them to withdraw the funds. For how long the government assumes responsibility for those costs is a more complex issue, but for purposes of achieving immediate goals, it is essential that the emergency digital transfer comes at no cost to beneficiaries.

3

Use of Alternative Channels — Fintech, Postal Networks, and NBFIs — for Delivering Payments

In addition to relaxed SDD procedures, several jurisdictions have looked to new channels to quickly onboard beneficiaries and distribute social transfers, from mobile apps and websites to postal networks and non-bank financial institutions (NBFIs). The phenomenal growth of fintech, especially mobile banking apps, along with near-universal mobile penetration in many areas, has given governments and FSPs the tools they need to rapidly create new digital onboarding mechanisms. Meanwhile, for many unbanked users, especially those in rural areas, the proximity and familiarity of the post office and retail agents are more convenient and less intimidating environments for opening transaction accounts for the first time. Governments and FSPs have long explored using the broad reach of post offices for facilitating digital financial services, but progress in this regard has generally been slow for a variety of legal, bureaucratic, and cost reasons (see Box 2). However, the COVID-19 crisis has spurred action on this front which will hopefully continue.

Another critical avenue for reaching the unbanked in rural areas is via NBFIs, especially MFIs, such as cooperatives and credit unions. In most emerging markets, clients of these type of FSPs don't usually have commercial bank accounts, and their accounts may not be supervised by the same regulators as the banking system. They may fall under the oversight of a separate regulator whose specific remit is NBFIs. Crucially, these NBFI accounts are rarely connected to the greater national payment system, which makes difficult their inclusion in G2P payment mechanisms. But the NBFI's presence in rural areas and amongst the neediest segments of society makes them critical partners for government in emergency situations.

BOX 2

The Post Office as Financial Services Provider

Worldwide, post offices (POs) have long been involved in the provision of financial services, from bill payments and money transfers to savings accounts. According to a Universal Postal Union (UPU) study, postal operators now provide some 1.5 billion people worldwide with access to basic financial services across 663,000 physical contact points. The fact that postal networks have branches in virtually all jurisdictions, especially rural areas, has made them particularly attractive for reaching low-income and rural populations who aren't otherwise served by banks. As the issue of financial inclusion, especially digital financial inclusion, gained prominence amongst global policymakers in recent years, the role of the post office in facilitating access to financial services has taken on even greater significance.

Progress in utilizing the post office for digital financial inclusion has been slower than anticipated, however, for a variety of reasons: the need for massive investments in digital infrastructure; the sometimes conflicting budgetary pressures facing POs (e.g., the fees the PO receives for delivering cash to pensioners can make up a significant portion of annual revenue); and possible legal and regulatory limitations (as most POs fall under the Ministries of Posts & Telecommunications, not financial regulators, they are prohibited from offering some financial services, such as credit). In the meantime, there have been many initiatives to utilize the PO network to perform CICO and agent services for other FSPs, with mixed results.

Source: "Financial Services." Universal Postal Union. <https://www.upu.int/en/Universal-Postal-Union/Activities/Financial-Services>.

In some countries, governments turned to NBFIs to help identify recipients and quickly distribute badly needed support payments, while many NBFIs themselves developed digital channels to safely interact with their clients and enable them to conduct more remote transactions. Some NBFIs opted to collaborate with PSPs (bank and non-bank) to facilitate opening transaction accounts for their clients, but this wasn't the norm with most of the digitization programs reviewed. According to a recent CGAP analysis, about 29 percent of the MFIs they surveyed opened up new digital channels to their customers, although it's unclear whether those new channels allow for transfers outside the MFI.³⁸

There have also been concerted efforts to expand CICO networks for MFIs to make it easier for recipients to obtain their funds without having to travel. However, it is still apparent that MFIs and other NBFIs are not being utilized as broadly as they can be for emergency outreach and payments, nor are they putting as much effort as they could into helping onboard their clients to transaction accounts that can be used outside the NBFI. According to a recent survey by WOCCU, while many of their member credit unions are embarking upon digitization programs, including shared platforms between the members, only a handful so far—Australia, Brazil, Estonia, Kenya and Malawi—are linked to their national payments system, while the Philippines (NATCCO and PFCCO) is negotiating linkage of their shared payments platform to the national payments system.³⁹

Apps and Websites

One of the more ambitious examples of rapidly bringing on new beneficiaries by using alternative channels is the “coronavoucher,” **Brazil's** social assistance program aimed at informal workers, consisting of three payments of USD\$109 deposited into a Caixa Econômica Federal digital bank account, accessible only through an app the bank created specifically for this purpose (those without a mobile phone could apply via the associated website).⁴⁰ Those already registered in Brazil's Cadastro Unico (a database for social payment schemes) didn't

have to do anything to receive the payments. All others had to apply through the Caixa Auxilio Emergencial mobile app, with all mobile network operators making use of the application available at no cost to recipients, with or without mobile data plans. As of June 2020, Caixa had opened 40 million new accounts, 50 percent of which were for previously unbanked people. In addition to the Caixa program, the state of Sao Paulo created its own program for food aid for students by utilizing a payment service provider, PicPay. Students self-onboard with the PicPay app by providing their name, national ID (CPF), and date of birth. A photo of the new user's ID card is then validated against a real-time photo selfie.⁴¹ PicPay had opened 3 million new accounts in April overall, six times higher than their normal rate of onboarding, reaching 20 million accounts by early May.⁴²

Post Offices

In **Madagascar**, the government put in place a COVID-19-related cash transfer program called Tosika Fomena, aimed at vulnerable households. Potential households register themselves, and final beneficiaries are approved and verified by their respective municipalities. The payments, worth USD\$25, are made via the Madagascar postal system's (Paositra Malagasy) cash transfer service called Paositra Money, and can be retrieved at any PO upon presentation of a national ID.⁴³ The national ID and a mobile number is sufficient to open the Paositra Money e-wallet, which can then be used to send and receive money as well as pay some types of bills.

There are also multiple examples of countries using post offices to facilitate access to existing accounts or access social welfare payments, including COVID-19 support. While not explicitly involving onboarding of new clients, the enhanced use of the postal network during this pandemic has demonstrated the value it can provide in future emergencies, especially when combined with fintech solutions. For example, in **India**, the post office has enabled people to get their funds delivered to their homes during the COVID-19 crisis, whether they have a postal bank account or not. By downloading the India

Post Payment Bank app, the user is able to withdraw funds from any bank account and have it delivered via the PO, either at the post office branch itself or having the postman deliver it to their home,⁴⁴ as well as pay bills. Postmen are equipped with AePS (Aadhar-enabled payment system) handheld devices and can verify the account holder's biometric immediately. This service has been particularly valuable to people in rural and underserved areas, saving users the need to travel to distant bank branches or ATMs.

Similarly, the **South African Post Office** (SAPO) rolled out 10,000 cashless ATMs in rural shops to allow users to access their social security (SASSA) payments, including COVID-19-related grants, without having to travel to urban centers. In addition to accessing social grants, customers are able to use cashless ATMs to purchase pre-paid electricity and pre-paid airtime, and pay municipality bills as well as other bills. Other transactions that can be performed on the ATMs include insurance activations and payments, money transfers, ticketing, transport solutions and balance inquiries. Users insert their SASSA card and PIN into the ATM and specify an amount to be debited, at which point the ATM will print out two slips, one each for the customer and the merchant, confirming the debit. The customer then hands the slip to the merchant in exchange for cash or goods.⁴⁵

NBFIs

In **Bangladesh**, BRAC started out providing food aid, then cash, to its neediest clients during the COVID-19 crisis, but quickly realized that they needed to switch to digital cash transfers, for a host of social distancing and privacy reasons. They therefore turned to the use of the country's most prominent mobile money wallet, bKash, as a means of delivering aid to their clients. They opened mobile wallet accounts for all the clients who had their own mobile numbers and, for those who didn't, especially women, they allowed the use of a trusted family member's wallet. Despite some initial glitches, the use of the mobile wallets for the transfers was a success, and BRAC soon added other services onto the wallets, including savings refunds, insurance,

and loan repayment. This trend went beyond BRAC, as well—in the months of April and May alone, over 7 million mobile wallets were opened in Bangladesh, as the government transferred its support payments to this digital channel and many factories chose to pay salaries via the bKash mobile wallet.⁴⁶

In **Ecuador**, the government implemented a social transfer program aimed at vulnerable households not covered by existing social protection programs, utilizing cooperatives as well as banks to distribute the funds. Unlike cooperatives in most countries, many of Ecuador's cooperatives are connected to the national interbank payment system. For regular G2P transfers, the government uses this system to make a direct deposit into the beneficiary account. However, for the COVID-19 pandemic, they decided to use over-the-counter (OTC) disbursements for those not included in existing social protection schemes. Once the ministry identifies the beneficiaries, they transfer their data (name, ID number, and amount to be paid) to a transactional platform, created specifically to facilitate these transfers, called “switch concentrador.” In this case, cooperatives are connected to “concentradores” which can be a big cooperative (second tier) or a payment infrastructure that already provides them services. They act as the point of disbursement for money orders made by the government, channeled and dispersed through the “concentradores.”

Seven institutions are connected to this platform and each of them has a network of financial institutions (211 in total) delivering the emergency payment. The payment process starts with the person calling or accessing the ministry website to verify their eligibility. To ease the process, beneficiaries are assigned a place and day of payment according to their address and the last number of their ID. This information is provided via text message or via a dedicated phone line. The last number of the beneficiary ID defines a range of days when they can claim the payment. For example, if their ID finishes in 1, they could claim the transfer on the 1st, 11th, or 21st day of the month.⁴⁷

As part of this effort, the regulator for financial cooperatives also relaxed the requirements for operating agent networks and onboarding agents to allow CICO networks to expand. The financial sector regulators also enabled non-FSPs, such as pharmacies and grocery stores, to become cash-out agents for the government's COVID-19 social assistance payments.⁴⁸ While the government has been innovative in its use of the cooperatives in distributing these payments, it's a bit puzzling that they didn't take it one step further and open transaction accounts for the recipients when they had the chance.

In **Myanmar**, the government has been supporting vulnerable households under the government's COVID-19 Economic Relief Plan via local digital platforms such as Wave Money and OnePay. Digital transfer options were also extended to social security payments, loans for farmers, emergency funds for garment workers, and financial relief for street vendors. In its effort to expand digital financial services capabilities as a part of the newly-launched Myanmar National Payments Strategy,⁴⁹ in April 2020, the Central Bank of Myanmar launched a tender for the creation of a national real-time retail payments system, as well as a QR-code generation and repository system. There are also ongoing efforts to tighten legislation governing the sector to improve regulation of the cashless payment system.⁵⁰

In parallel with these efforts, the United Nations Capital Development Fund (UNCDF) is conducting a pilot project to integrate MFIs into their own interoperable real-time payments network, which may then be linked into the National Payment Switch.⁵¹ Being part of an interoperable payments system will allow MFI clients to not only transact more easily with each other, but to also be immediately included in any future government support programs.

In some markets, the government has unfortunately appeared to let domestic political concerns affect their support payment strategies. In Brazil, state-owned Caixa Economica Federal has traditionally been the conduit for all government payments. When the COVID-19 pandemic hit, Banco Central do Brasil allowed fintechs, like digital banks Nubank and Banco Inter, to also distribute COVID-19 support payments, which they started doing early in the pandemic. Then in early May, the Brazilian president vetoed the allowance of fintechs to distribute government support payments.⁵² Since then, Caixa has rapidly developed its own digital banking capabilities, and as of October had announced plans for an IPO of its new digital bank.⁵³

Key Takeaways:

The importance of the retail payments system has been increasingly recognized over the last decade as part of global financial inclusion efforts. The COVID-19 pandemic has further amplified the need to be able to reach all people in times of extreme need. Countries around the world are embarking on broad payment system expansion and interoperability programs, which will take time. But in the meantime, it is obvious that banks alone cannot reach all those in need using existing bank branches.

Taking advantage of all existing FSPs, both banks and non-banks, to support social transfers is critical to a rapid emergency response, as is an openness to utilizing appropriate fintech solutions. This is especially important in rural areas and for reaching otherwise vulnerable populations. Non-bank PSPs—especially mobile money operators and, in some cases, retail outlets—typically have broad rural networks of agents serving the community. MFIs and NBFIs like credit unions and cooperatives also

have extensive reach into these hard-to-reach communities, and yet are too often overlooked as conduits for government programs. This may partly be due to the fact that they often fall under different regulatory regimes, they rarely connect into national payment infrastructures and, as smaller players, they face their own challenges around governance, liquidity, and digitization. Nonetheless, the potential value they bring by virtue of their extensive links into underserved communities should be seized upon by governments as they cope with not just this current pandemic, but as part of planning for any future emergencies. Some immediate takeaways include the following:

Policymakers and regulators should look to utilize all available channels to reach people, and they must be innovative in how they do so. Examples of alternative channels include mobile and web-based apps, postal networks, and prominent retail chains. Providing timely support where beneficiaries live, rather than just where bank branches exist, is imperative during emergency situations, especially in lockdown situations where public health is a concern.

Partnering with the private sector, especially app developers and mobile network operators, to enable rapid app development and distribution is an important and highly influential means of quickly reaching citizens. Rather than treat each situation as a one-off event, **government should institute ongoing cooperation agreements with key fintech app developers and MNOs** to react quickly to events as necessary. These agreements should also include provisions for blocking fake apps that appear to mimic emergency aid apps, as occurred in Brazil.⁵⁴

Postal systems worldwide play a key role in reaching out to rural, underserved populations, but are often overlooked when digital financial infrastructure investment decisions are made. There are many varied and valid reasons for that, but governments should recognize the role that post offices can play in emergency situations and **establish an official G2P financial services role for post offices.** How this is achieved will vary depending on jurisdiction and market situation, but examples can include: the ability to open a free or low-cost basic account at any post office; the requirement that all banks and mobile money operators must be able to transfer funds to such accounts through full interoperability or enable the post office to act as an agent for their own accounts; and that there be some form of cash-in/cash-out (CICO) capability at each post office.

MFIs and NBFIs can play a critical role in onboarding low-income users for social transfers. As they also face their own challenges in digitization of their operations and creating digital channels to their clients, it likely makes sense for them to work together with established PSPs, both bank and non-bank, to create basic transaction accounts for their clients, as BRAC did with bKash in Bangladesh. **Policymakers and regulators should actively encourage and expand such partnerships between NBFIs and PSPs such as mobile money operators.**

The COVID-19 crisis has reiterated the need for NBFIs to speed up their own digitization programs, and these efforts should not occur in a vacuum. The fact that most NBFIs are not linked into the national payment system has limited their abilities to support their clients in conjunction with government efforts. **Policymakers and regulators should ensure that NBFi accounts are interoperable with the rest of the country's national payment system.**



The Path Forward

Experience has shown that cash transfers, preferably digital, are usually the most efficient means of helping those in need. Identifying eligible recipients and onboarding them is both a straightforward as well as complex undertaking, made much more difficult when trying to reach rural, underserved populations in a short period of time. While countries have made impressive progress over the last decade in expanding financial inclusion and broadening the reach of digital financial services, the COVID-19 pandemic has magnified the remaining gaps and weaknesses in reaching those most in need. Global support programs exist to support national initiatives, like the World Bank's ID4D,⁵⁵ G2PX⁵⁶ and Social Protection⁵⁷ programs, as well as groups like the UN's Better Than Cash Alliance.⁵⁸ These programs will take time, though, and in the meantime there are issues and initiatives that national governments should consider as they plan for future—inevitable—emergency situations.

This pandemic has demonstrated the potential value of universal access to basic accounts that can be opened under SDD measures and at no initial cost to the customer. An important question to consider for future emergency situations: Should all members of society as a matter of course be able to open accounts immediately and remotely for receipt of government emergency payments? FSPs and

regulators alike need to closely monitor the fraud and KYC/AML implications of the SDD measures instituted during the pandemic. But so far, the available evidence has shown little to worry about in terms of widespread problems, and several jurisdictions are considering making the SDD measures permanent for low-risk accounts. Any usage beyond government payments should be subject to the usual risk-based CDD, but the opening of a basic, low-risk transaction account can and should be as easy as possible. As to who would incur the cost of opening these accounts and who would cover the cost of maintenance, this is a topic that requires the attention of policymakers. It may be more cost effective for governments to ensure that every person under their jurisdiction has a transaction account than to incur the cost of rapidly onboarding people during a crisis.

Some governments have already opened such accounts, such as India's PMJDY⁵⁹ accounts, while others are beginning to move in this direction. Indonesia's Ministry of Social Affairs (MoSA) started opening Basic Savings Accounts (BSAs) in 2017 for all beneficiaries of their PKH social welfare program, as well as Bantuan Pangan Non-Tunai (BPNT), the non-cash food assistance program.⁶⁰ Adding new beneficiaries to the country's COVID-19 support program was made that much easier because many people were already a part of these two programs and held BSAs.

The pandemic has also flagged the importance of clear, consistent government communication and policy responses. Like many aspects of the COVID-19 crisis, communications have been a critical aspect of program success or failure. In some countries, for example, unclear messaging on how to apply for or access funds has led to overcrowding at government offices or state banks, forcing those offices to close and leading to public turmoil or even rioting. In other situations, poor communications have contributed to confusion about whether funds have been deposited into accounts or whether those accounts are even active.⁶¹

Clear, ongoing dialogue and interactive decision-making between government ministries, regulators, and FSPs – especially PSPs – have proven vital to ensuring quick action on rapid onboarding programs. Governments already have established emergency protocols with telecommunications and power companies. How can governments put in place formal emergency mechanisms to engage all relevant ministries and private sector actors, especially payment service providers, for any future crisis situations?

While many countries used creative ways to address the identification and verification of beneficiaries, how can countries put in place mechanisms to lessen this administrative hurdle for future crises? One approach is to loosen impediments to the sharing of various government beneficiary databases, but there is much to understand around data privacy and security, and it is unclear whether this approach is the answer. Government ministries have invested time and money in creating various databases around their departments and beneficiaries, and governments worldwide are investing in digital ID infrastructure, which will take time to fully implement. The examples noted in this paper highlight how governments have been able to overcome data sharing restrictions and put in place policies around sharing government database records for legitimate purposes across government.

Given the likelihood of recurring and more frequent public crises, it is prudent that governments begin the longer term dialogue and investment needed to address governance of data sharing. This would include rules, regulations, and security procedures, especially under emergency situations.

What are the mechanisms that governments can use to expedite infrastructure partnerships with the private sector? The cases highlighted in this paper show that when digital infrastructure is in place, especially around digital payments, ID, mobile communications, and government databases, governments are able to quickly and more adequately respond to crises. Where government doesn't yet have the necessary infrastructure, partnerships with industry allow them to leverage existing capabilities and information sharing.

The use of mobile SIM registration is a prime example of collaboration to address shortcomings in existing ID infrastructure. It's especially important that regulators be involved in these discussions, as well, to allow for regulatory clarity and certainty for FSPs, whether bank or non-bank. Partnering with industry, especially app developers and mobile network operators, to enable rapid app development and distribution has proven to be a highly influential means of quickly reaching citizens.

Rather than treating each situation as a one-off event, one approach is for governments to institute ongoing cooperation agreements with MNOs and other private/public sector actors to react quickly to events as necessary. One example of this type of cooperation is the raising of transaction and balance limits, along with waiving of fees, for mobile money accounts to encourage greater usage of these digital accounts. This does raise issues around competition, especially when paying a company to quickly create something, say an app, on behalf of the government. How can governments enable collaboration in a way that does not provide an unfair competitive advantage to one provider?

Governments must consider how they reach beneficiaries who are not digitally connected and may never be. The cases in this paper highlighted usage of alternative distribution channels through institutions such as post offices and NBFIs. These players already serve low-income people, often via some combination of cash and digital means. Those beneficiaries who only want to deal in cash must continue to be accommodated, but that doesn't mean that the institutions they use must also deal only in cash. The further that government can push out the digitization of payments, especially to the "last mile," the more efficient and expedient the delivery system can be made before it's transferred back to cash for final delivery.

More work will be needed to ensure that these players are included in the national payment system so that service delivery is seamlessly integrated into government payment mechanisms. This will require investments in infrastructure and regulations, both issues that take time to address. How can governments incentivize these providers to invest in their own digitization to prepare for the next crisis? What regulatory reforms are needed to enable interoperability between NBFIs, post offices and the national payment system? These and many other questions should be addressed prior to the next crisis.

The COVID-19 crisis has demonstrated the importance of dialogue, innovation, and flexibility on the part of governments and private sector players alike. At the same time, it's important to acknowledge that distributing funds during an emergency situation can be fraught with risk if not well organized. These risks are not just institutional, they also extend to beneficiaries: Consumer protection in financial services is a broad topic that is becoming even more complicated with the rapid growth of digitization and increasingly sophisticated means of data use, fraud, and discrimination. While **it's early days to be assessing the consumer protection repercussions around COVID-19 support payments and rapid onboarding, this issue must be assessed for evaluation of the how the systems worked, or didn't, and what needs to be adjusted for future crises.** Some hypotheses we'll be looking at in a future note include: improper use of ID and other personal data, forcing digital accounts on people who don't want them and not giving them an easy option to cancel those accounts, and making sure that there are clear communications around account information, customer recourse channels, and fraud reporting.



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