

G2P and Digital Financial Inclusion

Reflections on Progress and Recommendations for the Future

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Table of Contents

Table of Contents	2
Authors and Acknowledgements	3
Acronyms	4
Executive Summary	5
Background and Context	11
Key Success Factors	14
Key Findings	18
Conclusions	41
Recommendations	42
References	44

Authors and Acknowledgements

Limestone Analytics

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Acronyms

A2i	Access to Information Program
BTCA	Better than Cash Alliance
CGAP	Consultative Group to Assist the Poorest
CICO	Cash-in/Cash-out
COVID	Coronavirus Disease
DBT	Direct Benefit Transfers
DFS	Digital Financial Services
FI	Financial Inclusion
FINDEX	Global Financial Inclusion Database
FSDK	Financial Sector Deepening, Kenya
FSP	Financial Services for the Poor
FSPs	Financial Service Providers
GDP	Gross Domestic Product
G2P	Government-to-Person
GSMA	Global System for Mobile Communications Association
ID	Identity Document
IFC	International Finance Corporation
IFMR	Institute for Financial Management and Research
KPI	Key Performance Indicators
KYC	Know Your Customer
MMRI	Mobile Money Regulatory Index
MGNREGS	Mahatma Gandhi National Rural Employment Guarantee Act
MSC	MicroSave Consulting
MSME	Micro, Small and Medium Enterprise
PPA	Public Procurement Act
RCT	Randomized Control Trial

Executive Summary

Project Background

Since 2010, the Bill & Melinda Gates Foundation Financial Services for the Poor (FSP) team has supported programs that advance digitized Government-to-Person (G2P) payment programs as a means of expanding the financial inclusion of unbanked people, particularly women.

Underlying this programming are the hypotheses that because of its scale and the high rates of poverty amongst G2P recipients, advancing digitized G2P programming in a manner that aligns with financial inclusion objectives would:

- Increase access to finance for unbanked women leading to greater usage and their economic empowerment;
- Stimulate a market response and increased investment in rural areas by financial service providers eager to expand their customer base, and create transaction volumes in poor and rural areas that will help make DFS financially viable in these areas;
- Encourage the expansion of financial inclusion enabling regulations and policies.

This stocktaking report examines the issues surrounding digitized G2P and financial inclusion and how these underlying hypotheses have been proven true. First, the stocktake explores the discourse around digitized G2P and whether funders have evolved their G2P programming to be more financial inclusion friendly. It then examines the evidence base related to the underlying hypotheses. The experience of six of the FSP's focus countries and the impact of the COVID-19 pandemic are highlighted: Bangladesh, Kenya, India, Indonesia, Nigeria, and Pakistan. Finally, the report offers future programming recommendations relevant to the Foundation and other development partners with a financial inclusion agenda. These findings and recommendations are based on interviews with FSP staff, partners and thought leaders and a review of Gates Foundation documents and gray and academic literature related to G2P programming.

Key Findings

Increasing Digitization of G2P Payments

Over the past decade, there has been a substantive shift from cash-based to digital G2P payments, which has been accelerated by the COVID-19 pandemic. In 2009, CGAP estimated that approximately 170 million poor people received G2P transfers. Only 25 percent of them received them via a bank account or through non-cash payment instruments issued by banks or other financial institutions (Pickens, Porteous and Rotman, 2009). The 2017 Findex data finds that 39 percent of G2P recipients in low-income

countries received their funds digitally. According to the World Bank survey of Government payment systems, electronic instruments are by far the most widely used methods for G2P payments. Only one country of thirteen surveyed in Sub-Saharan Africa and one of six surveyed in East Asia do not plan on shifting to electronic payments (World Bank, 2020a).

The COVID-19 pandemic saw digital G2P payments triple as countries sought to rapidly expand and deepen the social protection support they provide their citizens. The G2Px estimates that the total number of new social assistance beneficiaries is well over a billion (900 million if India is excluded) (G2Px, 2020). The full extent of this trend will be seen in the upcoming Findex survey to be released in 2022.

Differing Perspectives on G2P Digitization

Two different communities are supporting the digitization of government payments, the financial inclusion (FI) community and the G2P/social protection community, each with its own objectives and perspectives. There are important tensions between these two perspectives.

- **Governments implementing G2P programs and some of the program funders view digitization as a cost-effective way of delivering G2P funds directly to beneficiaries, but it risks exclusion for those without access to mobile technology or low levels of digital literacy.** For governments and development practitioners, digitized G2P reduces delivery costs, increases transparency, reduces leakage, and leads to overall efficiency gains and fiscal savings. Digitization can also support effective targeting and help to quickly lead to greater resilience and wellbeing. But there are concerns about digital payments not reaching the poorest and most marginalized populations due to poorly developed cash access points, poor digital infrastructure, low levels of financial and digital literacy and limited access to mobile phones. To overcome these risks, some programs have distributed free phones (Ehsaas in Pakistan) or found other ways to deliver cash directly to households without mobile phones (Colombia).
- **The financial inclusion (FI) community views digital G2P as an effective entry-point for including the unbanked into the formal financial system and to drive empowerment, livelihoods, and wellbeing through access and usage of financial services (referred to here as Financial Inclusion-Friendly G2P).** A Financial Inclusion-friendly approach requires that the underlying mechanics for digital payments delivery are in place, from ID to registries to Cash-In Cash-Out (CICO) networks. It then means that these underlying mechanics function effectively and reliably, and that low-income people have a choice regarding where and how they receive, use, and withdraw their payments and accounts. Ideally, this approach would facilitate the development of different financial services to meet the needs of the G2P recipient.
- **Establishing FI-Friendly G2P where the recipient can use their account for other financial services is inherently more complex and takes longer than simple**

digitized G2P transfers as it requires the engagement and alignment of a greater variety of stakeholders including different parts of the government, funders and the financial services community. There are a number of key success factors that must be in place for FI-Friendly G2P to flourish, involving characteristics of the G2P program, the digital financial services ecosystem and the nature of G2P recipients. The size and scale of the program is critical in whether or not it can be leveraged as an on-ramp for financial inclusion. In cases where there is a push for FI-Friendly G2P, such as in Indonesia, informants noted the importance of a whole of government approach and the effective engagement and alignment of the donor community. In cases with less effective approaches, such as Pakistan, informants also noted the divergence of views about how best to digitize G2P programs. These divergent perspectives are also found within funder organizations such as the World Bank and the wider international development community.

Benefits of FI-Friendly G2P Digitization

Women and households benefit from digitized G2P. They likely benefit more from FI-Friendly G2P, but further research is needed to quantify these benefits to help make a case for the FI-Friendly approach to the social protection community. A robust evidence base shows that G2P transfers, when directed into accounts of women, have substantive benefits, including increased bargaining power, increased autonomy on how funds are spent, increased wages, greater mobility and an improved sense of privacy. The evidence further suggests a broader set of outcomes related to health and nutrition, when women receive funds directly. This includes improvements in children's health and larger shares of household spending on nutritious food, healthcare, and housing.

Even where the G2P program does not have an explicit FI objective, beneficiaries often use their funds for savings, particularly in the context of recurrent crises indicating a latent demand for financial services and furthering the case for FI-Friendly G2P. Recent evaluations of safety net programs indicate impacts on increased savings, improved creditworthiness, and reduced debt (Bowen et.al, 2020).

FI-Friendly G2P Digitization, Financial Inclusion and Women's Economic Empowerment

While there is clear evidence that digitized G2P is promoting access for marginalized women, the FI gender gap persists. According to the Findex (2017), globally, over 80 million women opened their first account to receive G2P payments but there continues to be a nine percentage point gender gap in account ownership that has remained since 2011 (Demirguc-Kunt et al., 2018). Across the six countries of interest, the gender gap varies significantly and, in some cases, such as Bangladesh, Nigeria and Pakistan, has been getting worse over the course of multiple Findex surveys. Updated Findex data to be released in early 2022 will provide more insights.

Access to accounts does not always translate into usage. Several studies show that recipients cash out their transfers after receiving them, even if these transfers are paid into fully functional accounts. For example, research by Women's World Banking in Indonesia finds that 91 percent of the account usage by G2P recipients is to withdraw cash shortly after it enters the account. Usage is hindered by a lack of awareness by beneficiaries, financial literacy challenges, system downtime, and a lack of effort by the government and private sector to drive engagement with these accounts, so women feel motivated and empowered to use them. Effective G2P program design and communications are critical for beneficiaries to understand how they can use the account.

Market and Regulatory Responses to FI-Friendly G2P Digitization

Digitized G2P has not yet led to a market response, and substantive business case challenges are a key barrier to meaningful account usage. Most financial service providers participating in G2P programming are generating little or no revenue. The set-up and operational costs of such participation are high, and the timeframe to break-even is long. The commissions offered by the government to participating FSPs, do not consider the full costs associated with setting up, and running, a government payments scheme, which are significantly higher in rural and underserved areas. FSPs bear most of these costs. The choice-based model, which is critical to FI-Friendly G2P design, further weakens the business case. As a result of the weak business case, FSPs are less likely to invest in effective onboarding, literacy training, and product development to drive engagement and usage on the accounts, limiting their effectiveness and potential for impact. The government should work with the private sector to design incentive schemes that consider the full range of these costs, encouraging FSPs to support not only account opening but also other activities that drive engagement and effective usage.

While the number of Cash-In Cash-Out points (CICO) has increased, there is a lack of evidence that it was caused by increased digitized G2P. Some anecdotal evidence suggests that during the pandemic, countries like Ecuador doubled the number of cash-out points in rural areas to effectively respond to the crises and quickly roll out social benefits (Davidovic et al., 2020). GSMA (2020) also found a 14% year-on-year increase in registered agents in 2020, the highest in three years. In addition, some countries, such as India, Kenya and Pakistan, declared CICOs essential services (Boakye-Adjei, 2020). What is not clear from the data is how much of that increase can be attributed directly to increased G2P payments and how this affected rural agent registration in particular. Additional research is needed to fill this gap, which could be paired with experimentation to test out strategies, and incentive schemes, to encourage the private sector and government to invest in maintaining, and perhaps even growing, the pandemic-induced rural agent network.

Digitized G2P may have helped to stimulate a more FI-Friendly regulatory environment in some countries, but regulatory barriers remain. Prior to COVID, outside of India, the expansion of digitized G2P has not led to a more FI-Friendly regulatory environment. COVID has helped to make a case for G2P digitization, and it has advanced discussions

regarding how best to advance digitized G2P in a whole-of-government approach that ensures integration with government financial management systems. The Alliance for Financial Inclusion COVID-19 Policy Response Dashboard highlights a number of key regulatory shifts taken during COVID, including a relaxation of Know Your Customer (KYC) rules and the reduction of fees in Kenya and Pakistan. Further work is required to address the further continued regulatory barriers to FI-Friendly G2P, such as the exclusion of non-bank financial institutions in the program in Indonesia.

Recommendations for Advancing FI-Friendly G2P

As the financial inclusion community reflects upon the past decade of work and explores new areas of work for the next decade, there is an opportunity to take advantage of the advances and heightened interest in digitized G2P that have occurred over the past two years as a result of COVID. Of particular focus should be to continue to make a case for the benefits of FI-Friendly G2P and to deepen understanding of the business case.

Research

- **Continue to expand the evidence base on why FI-Friendly G2P can deliver more benefits than regular G2P programs.** FI-Friendly G2P is likely to have greater spillover effects regarding inclusion and empowerment. Greater evidence is needed on the market benefits and the expansion of CICO. Building this evidence base could help make the case to key stakeholders for increased investments.
- **Expand learning agendas to focus on wider infrastructure, regulatory and business case issues, household impact, and women's economic empowerment.** There are evidence gaps related to whether digitized G2P has expanded CICO points into rural areas and how that translated to increased access, usage, inclusion and empowerment. Learning agendas of donors in the financial inclusion area should include additional research to cover the business case and other underlying infrastructure issues.
- **Share current and future learnings, particularly on the how of FI-Friendly G2P across geographies, partners, and communities.** Due to COVID, there is considerable demand across the donor and practitioner community for best practice guidance on FI-Friendly approaches to G2P. More specifically, there is demand for the learnings generated by the various stakeholders and donors' past research and investment initiatives. This learning could also be packaged in a manner that speaks to the G2P/social protection community to help make a case for FI-Friendly G2P.

Technical Assistance and Piloting

- **Experiment with incentive structures to understand the drivers of sustainability for FSPs in terms of CICO, product offerings, and digital and financial literacy and communicate these findings to governments.** There is significant work to be done

to understand the drivers of sustainability and a viable business case for financial services providers to engage in G2P programs. Additional research with partner providers could help to uncover the cost drivers and pathways to sustainability. Such research findings should be communicated to the government to help in the design of effective incentive schemes that can motivate the private sector to not only participate in G2P programming but also invest in onboarding, customer literacy, and effective product design for the recipients of transfers.

Incentive schemes should be linked to a broader set of measurable or performance-based outcomes that encourage FSPs, and their agents, to effectively educate clients on the benefits of, for example, saving a portion of their benefits. This would require a substantive investment in financial literacy training for beneficiaries, which would need to be incentivized by a government or donor, with clear financial inclusion targets.

- **Expand support for other payment streams to drive usage and advance sustainability, especially amongst women.** There are a variety of digitized payment streams that benefit women. Expanding payment streams will also drive usage and sustainability in the overall financial system. Payment streams of interest to financial inclusion donors could include other government subsidies such as cooking gas in India, education payments, resilience payments and agriculture payments.

Engagement

- **Expand engagement with the G2P/social protection community to share the benefits of FI-Friendly G2P digitization.** Financial inclusion donors have an important voice in advancing an FI-Friendly approach to digitization. Engaging with other bilateral funders and practitioners in the social protection community to raise awareness of the additional benefits that can result from this approach could be critical to advancing financial inclusion goals and objectives.

Background and Context

Background and Purpose

The Bill & Melinda Gates Foundation Financial Services for the Poor (FSP) team has two main goals:

- By 2030, 80% of adults worldwide and 60% of sub \$2/day adults have and actively use a digital account to make payments and to access additional products beyond P2P.
- By 2030, the gender gap in usage has been eliminated.

In 2010, the FSP team theorized that digitized Government-to-Person (G2P)¹ payments could be an effective on-ramp for financial inclusion for the remaining unbanked populations, particularly women. Digitizing social protection payments in a manner that directs the payments to women's accounts will become a compelling use case for individuals to open and learn to use basic payment accounts. As most G2P programs targeted the sub \$2/day population and many of these programs were targeted directly at women, digitizing, and integrating the program payments into the formal financial system could help to expand financial inclusion. Research at the time was highlighting the benefits of social protection transfers in terms of education and health outcomes and the expansion of large-scale G2P programs such as Bolsa Familia in Brazil has shown the opportunities for expanding financial inclusion through G2P (Dias, 2011).

In addition to creating access for disadvantaged populations, it was also expected that the digitization of G2P programs would motivate financial sector providers to expand or improve services to rural populations and low-income people. Digitized G2P would help to increase high-level support and mobilize resources for financial inclusion enabling regulation and pro-poor payment infrastructure. By digitizing G2P programs and integrating them into the formal financial system, not only would there be a rapid expansion of financial inclusion for disadvantaged groups, but it would also lead to a deepening of financial inclusion for these groups because of market or regulatory responses.

The FSP usage team commissioned Limestone Analytics to take stock of the evidence, and contextual shifts related to G2P and financial inclusion, to surface lessons learned and to provide guidance on how the financial inclusion community should best engage and focus its investments on G2P for the next 3-5 years. Specifically, this stocktaking will

¹ For the purposes of this project G2P referred to direct financial transfers from governments to citizens in the form of social protection programs for the poor, emergency relief programs such as for COVID and pensions. It does not include wage payments for civil servants.

evaluate to what extent its initial hypotheses about G2P have proven true. This includes examining:

- If G2P has created DFS access for unbanked people, particularly women, has this access been translated into usage?
- If G2P has motivated financial sector providers to expand or improve services to rural populations and low-income people?
- If G2P has increased high-level support and mobilized resources for financial inclusion, enabling regulation, and pro-poor payment infrastructure?

Throughout, the report will also answer a series of secondary questions, including:

- How is digitization progressing, and what can we learn about the timelines required for change at the access, usage, and system level? How has COVID-19 affected these trends and shifts in the ecosystem?
- Are there key changes in the ecosystem (such as other drivers of DFS usage) that appear to have significant effects on the G2P outcomes?
- Do we know if G2P digitization is done in a way that advances financial inclusion leads to better outcomes than standard G2P digitization?

Methodology

As outlined in the inception report, the Limestone team, collaboratively with Mathematica, a learning partner for the Bill & Melinda Gates Foundation FSP team on advancing women's economic empowerment through DFS, conducted key informant interviews and document reviews as the primary source of data for this stocktake.

Data Sources



120

Documents Reviewed
(87 referenced)



38

Key Informants
(including 13 staff)



157

Projects reviewed
(33 FSP, 124 World Bank)

Analytical Approach

Analytical Approach: Document Review



Grey and academic literature were scanned for key themes pertaining to the stocktake and served as a method of triangulation against findings generated through staff and thought leader interviews. Therefore, while the documents are not synthesized here systematically, they are referenced periodically to illustrate or triangulate findings.

Analytical Approach: Project Document Review



33 FSP documents were analyzed to examine their approach, activities and theory of change.

Analytical Approach: Key Informant Interviews - Thought Leaders, Staff, and Partners



To analyze the KII data, a framework and codes were developed as part of the qualitative analysis. These codes map to the different components of the framework. Recorded interviews were uploaded to the otter.ai application and subsequently transcribed. Transcripts were reviewed for clarity and then tagged according to the framework. Common responses were grouped together to derive implications for the performance of country cases.

Key Success Factors

Framework Linking Digitized G2P Programs, Financial Inclusion, and Impact

Based on our review of the literature and experience in certain countries, we have developed a list of key success factors for FI-Friendly G2P systems and how these systems can offer a pathway for digital financial inclusion, and economic empowerment for disadvantaged groups, particularly for women.

While digitized, appropriately designed G2P programs can be effective tools for financial inclusion, this is not always the case. A variety of factors can help or hinder this impact.

We have grouped these factors into three broad categories.

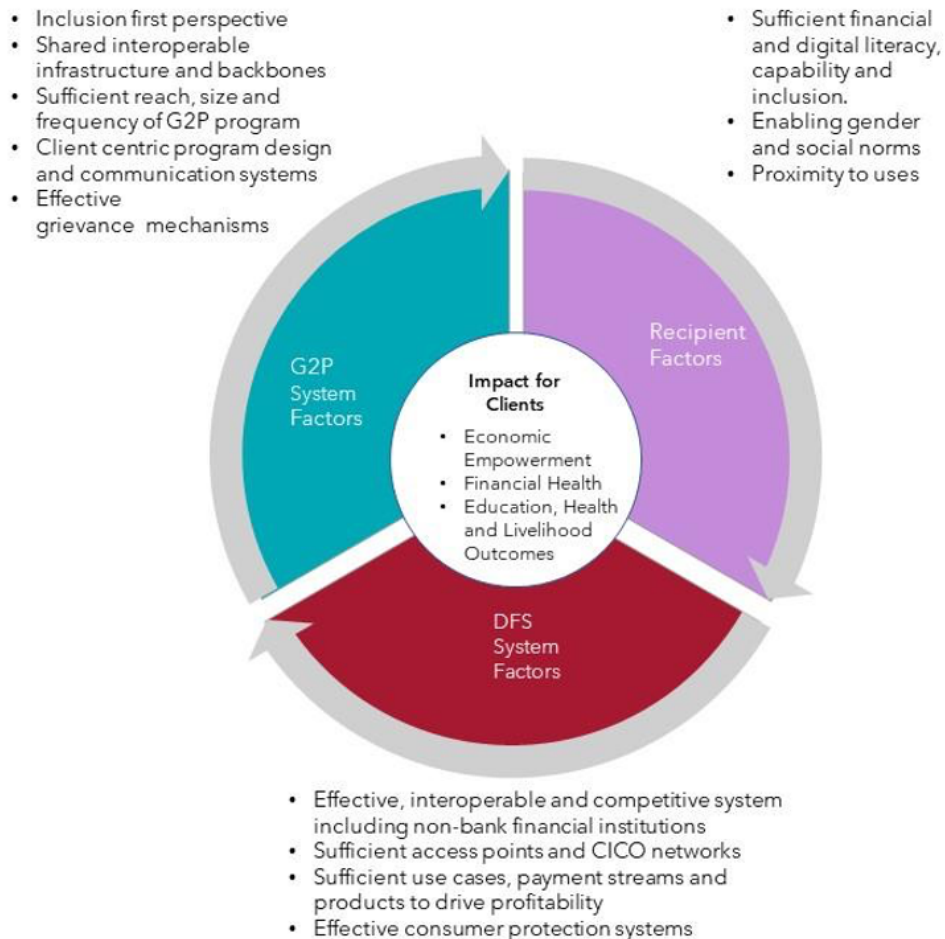


Figure 1. Key Success Factors

Factors Relating to the G2P System

G2P can include a wide array of payment streams including payment of civil servant salaries digitally, payment subsidies for essential goods such as food or fuel, and publicly funded welfare, pension, and social protection programs. For the purposes of this analysis, the focus is mostly on **social protection programs**², but other payment streams like subsidies will also be examined. The social protection programs are designed to provide essential support to low-income households, although it is important to note that digitizing social protection payments share many of the challenges and underlying infrastructure and processes required to digitize all G2P programs and that developing this infrastructure is best done through a whole of government approach rather than just focusing on digitizing the social protection program.

Social protection programs themselves are very **diverse in terms of size, scale, frequency and volumes of payment and approach to targeting**. As many social protection programs target the poorest, it is important to note that the diversity of programs increased with the COVID-19 pandemic emergency relief programs, which often reached a slightly better-off group of recipients. The relative coverage of the program is also important as the coverage in some African countries is much lower than in the Asian countries in our case studies. Also relevant is the timing of the program and whether the expectation is that the support will be a permanent safety net, along the lines of universal basic income, or shorter term, as is the case with COVID relief programs. The perceived length of time of the program will shift the likelihood of any market response in terms of new products developed for recipients. The use of a standard infrastructure such as a consistent social registry, and standard ID systems are also critical. Another element is whether the program includes a graduation component, which could include additional livelihood and financial services support, with the expectation that recipients will eventually graduate from the program. Key design features such as ensuring that women are the beneficiaries and effective communications are all critical in ensuring that G2P programs are effective on-ramps for financial inclusion.

In addition to the program itself, there is a diversity of approaches to **how that program fits within the overall government payment and financial management systems**, and there is a supportive regulatory environment. Best practices identified by G2Px, and others have highlighted the importance of shared interoperable infrastructure, a centralized ID system, and integration of the social protection payment system into the overall public financial management system of the country.

Furthermore, there are elements of the underlying **perspectives** of the social protection program which can impact how well G2P can be an on-ramp for financial inclusion. Several key informants noted that **many social protection programs and social protection practitioners focus on targeting and reducing corruption and costs**. The desire to reduce

² For the purposes of this report, G2P and social protection programs will be used interchangeably.

corruption in cash social protection systems was a key driver of digitizing several social protection programs, including NREGA in India (Gelb et al., 2020). While this is an important component of social protection programs, several informants noted that **this approach frames the success of the program to focus on a reduction in the amount of funds lost and ghost recipients removed from the rolls**. Financial inclusion, on the other hand, is about expanding access to financial services and several informants questioned whether there is a fundamentally different perspective on these two approaches and whether discussing these issues is critical to developing financial inclusion-friendly social protection programs.

It is important to note that factors related to the G2P system are often developed by social protection/G2P practitioners, who may not take a financial inclusion-friendly approach to digitized G2P.

Factors Relating to the Digital Financial Services System

Financial inclusion requires that everyone, including the disadvantaged, have access to savings, credit insurance and payment systems that are accessible, reliable, valuable, affordable, and sustainable. The second area of complexity determining how well G2P programs can be an effective on-ramp for financial inclusion for disadvantaged populations is the nature of the financial services system and how it interacts with the relevant G2P programs. Some key factors include the size and depth of the financial services system, including the number of digital financial services providers and their associated Cash-in Cash-out (CICO) networks access points. The level of interoperability within the system and the use of underlying infrastructure such as ID to support faster Know Your Customer (KYC) assessment and onboarding can also play a significant role in helping to leverage G2P programs as a means of expanding financial inclusion. Similarly, the inclusion of Non-Bank Financial Institutions in the program can further help to expand its reach (Gelb et al., 2020). Greater competition in the market, as well as ensuring beneficiaries have a choice in terms of which provider, are also critical factors. Finally, ensuring that effective consumer protection systems are in place to address any challenges is also critical.

Factors Relating to the G2P Recipient

Finally, there are various factors on the recipient end that can affect whether G2P can be an effective on-ramp for financial inclusion. Issues related to gender and the social norms surrounding women's ability to access their payments vary significantly, with social norms in some countries limiting women's ability to engage with CICO points. Other critical factors include financial and digital literacy levels, access to mobile phones, location, and proximity to CICO points. Finally, age, ability, and poverty are important factors in determining how well a digitized G2P program can lead to greater financial inclusion. Several informants highlighted the challenges of digitized pensions as a challenge given the lower levels of digital literacy amongst older populations.

Together, these factors interact and help determine the likelihood of success of a G2P program leading to greater financial inclusion and, ultimately, greater economic empowerment for disadvantaged groups, particularly women. In cases where G2P has not led to meaningful financial inclusion, it is likely because of a failure or limitation in one of these areas. All three of these areas and, importantly, all three sets of stakeholders involved may need to be engaged to advance FI-Friendly G2P.

Key Findings

G2P Digitization is Progressing

Over the past decade, G2P payments have been increasingly digitizing. In 2009, CGAP estimated that approximately 170 million poor people received G2P transfers and only 25 percent of them received them via a bank account or through non-cash payment instruments issued by banks or other financial institutions (Pickens, Porteous and Rotman, 2009). Using a smaller data set tracking 84 Social Protection programs in 43 countries covering 174 million beneficiaries found that the number of beneficiaries receiving their payments electronically had grown from 25 percent in 2009 to 62 percent by 2012 (Zimmerman, Ravi, and Tosh 2012). Similarly, Gronbach (2020) finds an increase in the use of electronic payment instruments such as bank transfers, card-based payments, and mobile money in most of the programs in Africa. According to the World Bank, electronic instruments are by far the most widely used methods for G2P payments. Only one country of thirteen surveyed in Sub-Saharan Africa and one of six surveyed in East Asia do not plan on shifting to electronic payments (World Bank, 2020a). The 2017 Findex data finds that 39 percent of G2P recipients in low-income countries received their funds digitally (World Bank, 2017). The World Bank estimates that if governments digitized their payments to individuals, the number of account owners could rise by 100 million globally. (Pazarbasioglu et al., 2020).

Much of the drive to digitize G2P programs stemmed from a desire to reduce leakage and save on delivery costs. In India, there is strong evidence that various forms of digitization improve the functioning of social protection programs while reducing corruption and leakage (Banerjee et al., 2020). The cost savings can be large, as in the case of Brazil's Bolsa Familia program, where the government saved administrative costs by consolidating SP programs and switching to e-payments: the administrative costs were reduced from 14.7 percent to 2.6 percent of the value of the grants disbursed (Cirasino et al., 2012). Pickens, Porteous and Rotman (2009) find that the delivery cost of cash transfers fell by 62 percent when it was introduced in an account-based system. Similar estimates by the World Bank found that the Indian Government could save approximately 1 percent of GDP annually through digitization.

G2P payment systems are evolving to increase choice and flexibility. Social protection practitioners characterize the evolution of G2P Payments as moving from a 1.0 version, where a single program provides funds managed by a single provider with beneficiaries receiving payments in cash to a more recent 4.0, where there are many programs under one common platform that can connect to the provider of choice. Beneficiaries can choose the provider for each program and the transfers are virtual, deposited into a mobile money or bank account (World Bank, 2020b).

The trend towards digitization has been boosted by the rapid expansion of G2P support programs resulting from the COVID-19 pandemic. The COVID pandemic saw an increase in both the expansion of digitized G2P programs as countries sought to expand and deepen their support. The volume of G2P payments increased because of expanding existing social protection programs both horizontally (by extending coverage) and vertically (by increasing the amount provided) and by establishing new programs. The G2Px estimates that the total number of new social assistance beneficiaries is well over a billion (900 million if India is excluded) (Palacios, 2020). In 2021, across a sample of 58 low- and middle-income countries, 62 percent of them transferred funds from 89 different social protection programs into fully functional accounts. Another 25 percent of countries have used limited purpose accounts (Hanna and Olken, 2021). In another analysis of 58 systems, digitized payment systems were found to be a faster mechanism in distributing emergency relief (Beazley, Bischler and Doyle, 2021).

While the trend towards digitizing G2P is clear, not all cases of digitization are happening in a way that drives financial inclusion. In addition, 15 out of 58 countries examined sought greater efficiency by leveraging digital methods of payment that do not enter an account. This payment method allows for simplified delivery through a one-time password with no onboarding needed, as an account is not created. This approach does not provide a gateway to other financial services such as savings, transfers and digital payments which can deepen financial inclusion and improve beneficiaries' welfare (Hanna and Olken, 2021). In addition, at least 55 programs across 35 countries in the World Bank database of country social protection responses to COVID-19 are continuing to use cash as a means of delivering their support.

Testing Underlying Hypotheses

A key component of the terms of reference for the project is to test the underlying hypotheses behind the shift to digitized G2P as an on-ramp for financial inclusion. The team thoroughly explored these hypotheses across the different countries through our desk research and key informant interviews. We have established a rating of how well the hypotheses hold overall and in specific countries.



Hypothesis holds based on research



Some components of the hypothesis held



Hypothesis did not hold







Has Digitized G2P Created DFS Access for Unbanked People, Particularly Women?

Ingoing Hypotheses

Underlying the shift to leveraging digitized G2P as a mechanism for advancing DFS access for the unbanked, particularly women, is a series of underlying hypotheses. These included:

- **Addresses the gender gap and leads to women's economic empowerment:** The relatively predictable income stream can be directed towards female recipients, and this would provide pathways for empowerment and reduce the gender gap in financial inclusion.
- **Aggregation:** Payments are highly concentrated and therefore amenable to digitization at scale.
- **Market size:** G2P programs on average, reach 25% of the population, providing the opportunity to expand access and potentially greater usage.
- **Address an acute need/problem:** By digitizing payments, they are more likely to be in the correct amount, better timelier, suffer from reduced leakage, and be more transparent for the recipient.
- **A high potential opportunity for account creation and onboarding:** G2P programs often focus disproportionately on poor people and women, who are likely to be unbanked.
- **Potential for repeat usage and habit forming:** G2P programs are usually recurring payments so by enrolling in a G2P program, participants will get used to the key elements of digital finance, such as engaging with agents to cash out.

Table 1. Summary of Assessment of Ingoing Hypotheses

Hypothesis	Assessment	High Level Findings
Gender Gap/WEE		<ul style="list-style-type: none"> G2P facilitates access to financial accounts for women, but does not always translate to usage or inclusion. Gender gap continues to persist.
Aggregation		<ul style="list-style-type: none"> G2P programs are highly diverse. Many G2P programs use parallel systems for onboarding. Shared infrastructure (registries) is critical to get to scale
Market Size		<ul style="list-style-type: none"> The market size of G2P programs vary significantly. Programs in Asian countries are usually much larger than those in Africa (Kenya and Nigeria) Expansion of G2P with COVID expanded market size in some geographies but there are concerns about the fiscal impact of these expenditures.
Onboarding Potential		<ul style="list-style-type: none"> Mixed findings and continent on the design of the program and underlying infrastructure (India). Issue of claw-backs highlights the importance of financial literacy of program participants. Business case for FSPs also plays a critical factor.
Addresses Needs		<ul style="list-style-type: none"> Broadly holds with the shift to digitization but contingent on the key success factors in the analytical framework, particularly program design and DFS ecosystem.
Repeat Usage		<ul style="list-style-type: none"> Some repeat usage but the frequency is often too low for habit formation. Some evidence of extensive use of third parties (security guards, CICO agents, others) to support usage. G2P program design is critical to support repeat usage.

Gender Gap and WEE

Although G2P has undoubtedly facilitated access to a critical mass of women in the developing world, it has not yet led to increased usage or meaningful financial inclusion.

But even without increased usage or meaningful inclusion, women still benefit, and are economically empowered from having access to the account. There is also inconclusive and sometimes contradictory, evidence that digitized G2P programming has reduced the gender gap in financial inclusion.

G2P facilitates access to financial accounts for women. According to the 2017 Findex, 80 million women opened an account for the first time to receive G2P payments. This number has undoubtedly increased since the COVID-19 pandemic. Globally, there is a consensus, and ample evidence, to suggest that G2P is a powerful tool to onboard women to use financial accounts digitally for the first time. Evidence shows that receiving a government transfer increases the probability of financial inclusion by 31 percent (Navis et al., 2020).

The gender gap persists, even with facilitated access. While the financial inclusion of women in developing countries is increasing, there is a persistent 9 percentage point gender gap in account ownership that has remained since 2011 (Findex, 2017). Across the six countries of interest, the gender gap varies significantly and, in some cases, such as Bangladesh, Nigeria and Pakistan, has been getting worse throughout multiple Findex surveys. As noted above, there are a variety of reasons why the gender gap is increasing in some countries despite increased investments in G2P. Updated Findex data to be released in early 2022 will provide more insights.



Figure 2. Account Ownership Gender Gap

Key design elements in G2P programming facilitate access for women. Program design is a critical factor in whether, or not digitized G2P is a key driver of women's financial inclusion. As noted by G2Px, there are several cases where bias continues to direct the transfers to the head of the household (World Bank Group, 2021). Research by CGD also finds that only 17 percent of COVID response programs are gender-sensitive (Gelb and Mukherjee, 2020).

Demand-side barriers to access include women's limited bargaining power, competing time constraints, social norms, lower levels of assets for collateral and lack of formal ID (Holloway, Niazi and Rouse, 2017). Gendered social norms related to paid and unpaid work and women's role in the economy also limit women's engagement in the economy (GSMA, 2019).

Lower rates of mobile phone ownership are cited as a particular barrier with the GSMA noting a 15 percent gender gap in mobile phone ownership in Sub-Saharan Africa with only 69% of women across sub-Saharan Africa personally owning a mobile phone. In terms of use, recent research based on 18 countries states that, at a global level, men represent 65% of customers, they handle 80% of loan volume and 75% of deposits (Global Banking Alliance for Women, 2018).

On the supply side, challenges include a lack of effective product offerings and gender-insensitive designs. In addition, the legal and regulatory barriers include the account opening requirements that disadvantage women, the barriers to obtaining formal identification as well as the lack of a gender-inclusive credit reporting system. These norms also shape the behavior of market actors such as Financial Service Providers (FSPs), policymakers, and supporting infrastructure providers and could lead to an inequitable G2P system that does not work for women (Burjorjee et al., 2017).

Evidence shows that women benefit from accessing G2P transfers directly. In India, research on the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGS) workfare program found that depositing G2P payments into a woman's account rather than her husband's account led to an increase in labor force participation, as women's control over resources improved their bargaining position to break through restrictive social norms (Field et. al, 2016). Further evidence suggests that women directly receiving the transfers were more likely to make household purchases and experienced greater physical mobility (Field et al., 2016).

Digitization of G2P payments provides women with confidentiality, allowing women to conceal the payment, at least temporarily, from household members and friends. This decreases the demands on their money and increases autonomy on how the resources are spent (Klapper and Singer, 2017). Finally, a substantive body of empirical evidence suggests that income, when directed to women, is associated with improvements in children's health

and larger shares of household spending on nutritious food, healthcare, and housing (Duflo, 2012).

Increased access often does not translate into usage. In Indonesia, for example, research by Women's World Banking has shown that 91% of the account usage is limited to cash withdrawals, not long after receiving the G2P fund in their account. Research from Pakistan and Colombia showed that G2P payments did not result in an increase in the uptake and usage of a formal financial service, even if that option was presented to G2P beneficiaries (Stuart, 2016). This demonstrates that it is not sufficient to provide only access to the accounts of women, but there must be efforts to drive engagement with these accounts so that women feel motivated and empowered to use them and get the full benefits of having a formal financial account (Moorena et al., 2020).

Usage is hindered for various reasons. The G2P systems do not always work effectively when implemented. For example, ample network downtime caused challenges for beneficiaries to withdraw their funds. Once networks were up and running effectively, withdrawals were made immediately to avoid future access issues (Stuart, 2016).

Several studies also point to a lack of awareness on behalf of beneficiaries regarding additional use cases for the accounts. In Indonesia, for example, 82 percent of recipients made a full withdrawal from their account, even though the account could be used for savings. Thirty-nine percent of recipients did not know that their account could be used for savings, and 31 percent reported that they were aware of the account but did not know how to use it (Theis et al., 2020).

Few financial service providers have invested in effectively promoting existing products, or developing new and relevant ones, for G2P recipients. As a result, research indicates that there was a general perception among G2P participants that financial service providers delivering the payments did not offer products that were suitable for them because of their high costs (fees and interest rates) or because they were out of reach for someone of their socio-economic status (Stuart, 2016).

Aggregation

The theory behind the aggregation hypothesis was that payments are highly concentrated and, therefore, amenable to digitization at scale. We find that this hypothesis holds somewhat but varies significantly by country. **Many countries have a variety of different G2P programs with differing coverage and targeting systems.** A database of Social Protection responses to COVID finds that there are a significant number of social protection programs in the countries of interest and that this number has increased during COVID.

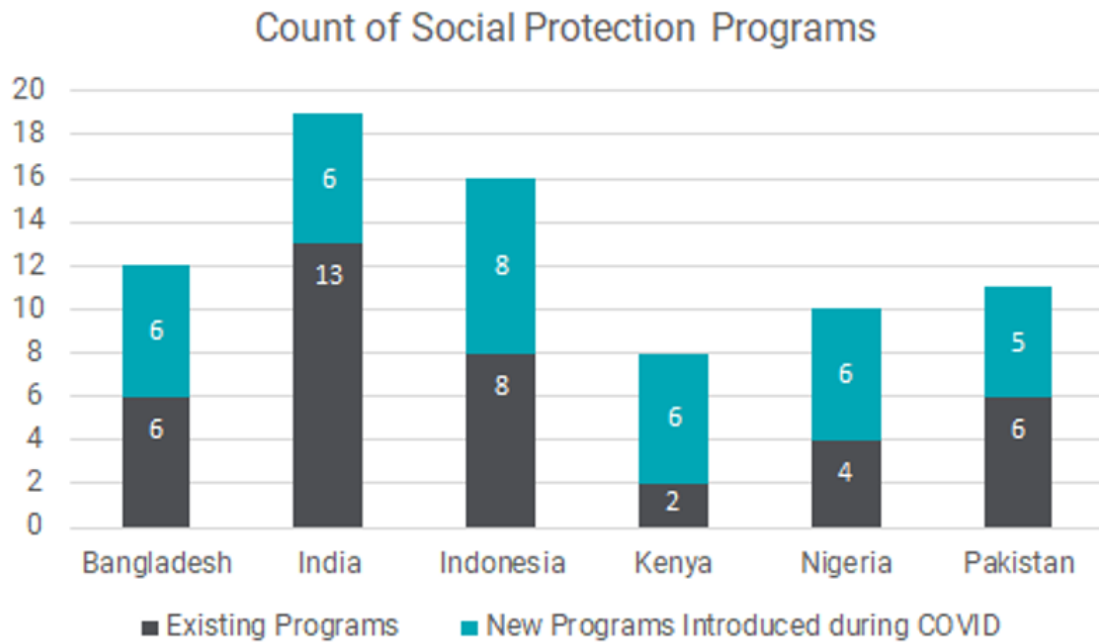


Figure 2. Count of Social Protection Programs

In India, CGD has highlighted a variety of different government payment and support schemes (Gelb and Mukherjee, 2020). In cases where there is an effective infrastructure, such as a broad social registry and a shared mechanism for transferring funds, having multiple programs does not necessarily pose a significant problem for aggregation. However, where these multiple programs have different approaches to registration, there is likely a loss of efficiency and limitations to the use of digitized G2P as a pathway for financial inclusion.

Market Size

The Market Size hypothesis is based on the idea that G2P programs on average, reach 25% of the population, providing the opportunity to expand access and potentially deepen usage. There is an expectation that G2P programs reach at least a quarter of the population, which provides a significant opportunity to expand access. **G2P program coverage varies significantly.** Outside of Ethiopia, the coverage of G2P programs in Africa remains very small, and the opportunity to leverage G2P programs to scale financial inclusion in Africa remains limited.

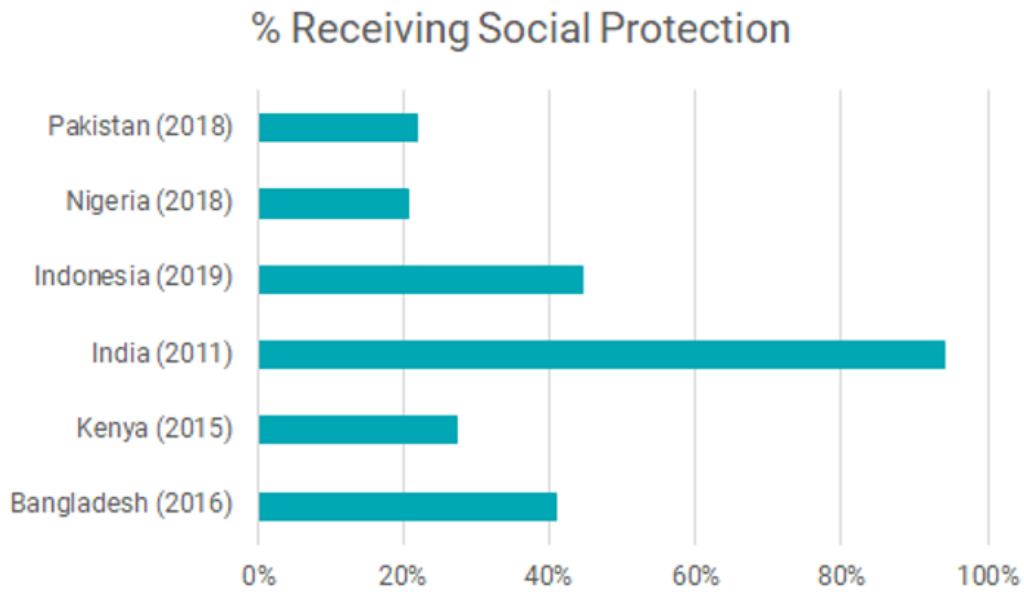


Figure 3. Aspire Database, World Bank

Using the Aspire database from the World Bank and focusing on the year with the most recently available data, the coverage amongst the six countries varies significantly from a low of around 20 percent in Nigeria and Pakistan to a high of 94 percent in India.

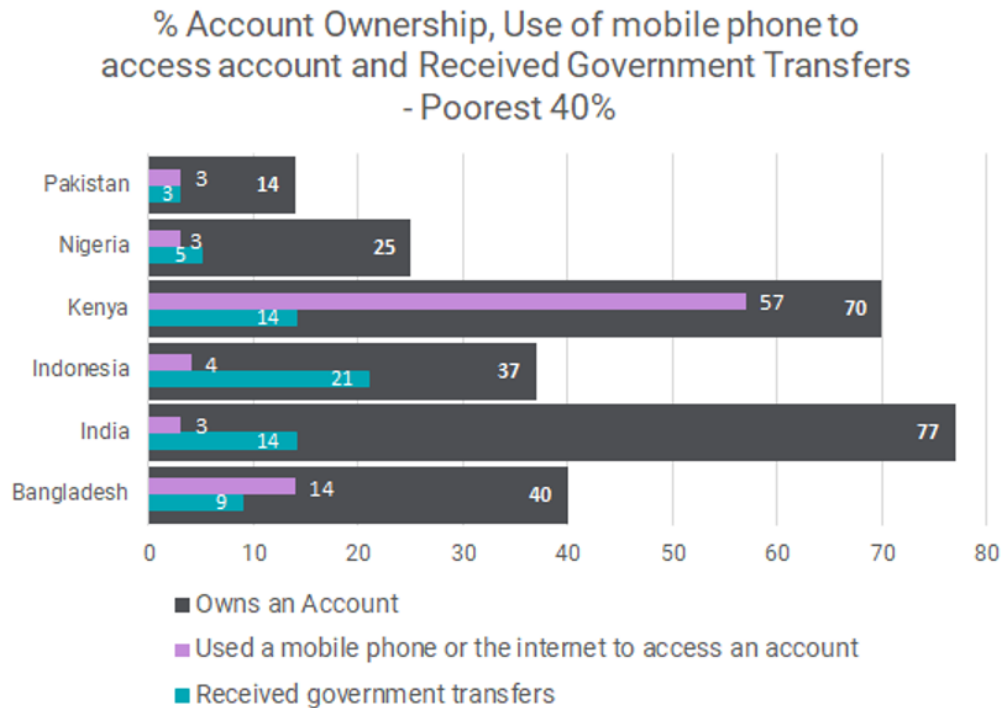


Figure 4. Findex Database (2017), World Bank

Using data from the 2017 Findex for the poorest 40 percent of respondents (who are most likely to be G2P recipients) across the six countries, the scale of digitized G2P differs. Of particular interest is the significant difference in account ownership ranging from 14 percent in Pakistan to 77 percent in India. Of also interest is the low level of mobile phone usage to access the account outside of Kenya. Finally, the self-reported receipt of government transfers amongst the poorest 40 percent ranges significantly, indicating that while a large percentage of the population may be receiving G2P, the numbers that were reporting receiving funds directly into their accounts was much lower at the time of the FINDEX survey in 2017.

However, G2P programs are expanding significantly as a result of COVID which creates an important opportunity. In many developing countries, the scale of these payments is unprecedented; in Argentina, Pakistan and Peru, new programs cover one-third of their populations; in the Philippines, more than 70 percent of households will receive emergency transfers (Una et al., 2020).

Onboarding Potential

Digitizing G2P was also thought to provide a significant opportunity for account creation and onboarding of new clients for FSPs given that G2P programs disproportionately focus on poor people and women who are likely to be unbanked. Overall we find that this hypothesis holds but is contingent on some of the key success factors. In particular, the design of the G2P program, the availability of existing infrastructure and factors related to recipient capabilities.

Digital and financial literacy are critical to onboarding and usage, as are effective communications from the financial services partner as well as the G2P program. Key areas of focus for digital financial literacy include knowledge of digital financial products and services, awareness of digital risks, including online fraud and overborrowing, digital financial risk control related to securing PINs and knowledge of consumers' rights and redress (World Bank, 2020a).

Designing to address literacy levels is also important. Morduch et. al. (2020) through an RCT found that the adoption of mobile banking technologies in Bangladesh was constrained by the use of English-language menus. The intervention included teaching the basic steps and protocols, providing hands-on practice, sending transfers five times to establish a degree of comfort, and sharing translations of menus into Bangla (Bengali). The nature of the service and the use of English made the technology intimidating to villagers with limited education. Still, the experiment shows that the barriers were not insurmountable. For "ultra-poor" villagers receiving remittances, the technology was a major help. Active users of BKash sent larger remittances home (relative to the control group), an increase of about 26%, both in value and as a fraction of the monthly income of migrants. As a result, extreme poverty fell in rural households in the treatment group. This

provides concrete evidence on the need and subsequent benefits of capacity building of beneficiaries to maximize the benefit of digital financial services.

G2P program design is also critical to effective FSP onboarding. There are challenges related to the claw-back clauses in G2P programs, such as those in Indonesia highlight the importance of financial literacy and program communications amongst low-income women (Theis et. al., 2020).

There are potential opportunities for overlapping onboarding initiatives between the G2P program and the financial service providers. Training on G2P is more effective when delivered by people who are trusted, so involving field workers hired by the G2P program to deliver services on the ground or G2P community leaders are examples of ways to build trust (Berfond et al., 2021). Several informants also highlighted the opportunity to leverage G2P registration to provide opportunities for onboarding for FSPs.

Leveraging standard IDs and simplified KYC can help to reduce the costs of onboarding. In some cases, such as in India, the government support for the underlying infrastructure to support low-cost KYC significantly helped to reduce onboarding costs for FSPs (Gelb et al., 2020). Several informants noted that the costs to onboarding G2P recipients remain high for FSPs, and in cases where there is not sufficient volume or value of payments, it is not an attractive investment.

Digitized G2P Address an Acute Need/Problem

By digitizing payments, the hypothesis holds that the payments are likely to be in the **correct amount, timely manner, suffer from reduced leakage, and be more transparent for the recipient.** This hypothesis broadly holds as shown by COVID. However, as noted above, many households continue to cash out their payments immediately.

There are clear benefits to digital delivery for the recipient, but it is contingent on cash-out infrastructure and making agent networks sustainable remains a challenge. In Niger, a randomized control trial compared the impact of manual with mobile cash transfers, finding that mobile payments increased household diet diversity and meals per day for children due to time savings and shifts in intra-household bargaining power (Aker, 2016) the cost of collecting the transfer to one-quarter of what it was to collect manually due to reduced travel and wait times. In contrast, Cenfri found that in multiple African countries, because of a lack of cash-out infrastructure, travel and opportunity costs incurred by digital-payment recipients amounted to significant costs (Gray, Saunders and Peter, 2017).

In conclusion, the first set of hypotheses related to digitized G2P providing access broadly holds, but effective usage remains a challenge. In addition, how well the impact chain between digitized G2P leads to financial inclusion, leading to women's economic

empowerment, is contingent on the key success factors identified above. Finally, the business case for effective onboarding and financial literacy remains a challenge.

Has G2P Motivated Financial Sector Providers to Expand or Improve Services to Rural Populations and Low-income People?

The stocktaking found inconclusive evidence that G2P has motivated FSPs to expand and improve services to underserved and low-income segments. This is mainly because the business case for FSPs to offer G2P is still unclear. The setup and operational costs for running G2P programming are significant. The FSPs choosing to engage in this type of programming take a long-term view when assessing the potential return on their investment.





The recent focus on facilitating choice for beneficiaries could further weaken the business case, especially in the hardest-to-reach areas, where setup and operational costs are significant.

Governments have a critical role in designing appropriate schemes to incentivize improved access and service for rural markets. However, there continues to be a gap in evidence around best practices in designing effective incentive schemes.

Ingoing Hypotheses

- **Certainty of opportunity:** From a regulatory perspective, this is a low-risk opportunity for FSPs, government programs likely to be sustained over time
- **Volume/value of payments:** Attractive because of the repeated/high-volume nature, often X% of overall government budget
- **Number of customers and ease of onboarding; stickiness/churn reduction:** G2P could serve as a way to subsidize and organize account onboarding for the most vulnerable (i.e., customers or areas that may not be included through the normal marketing and onboarding activities)
- **Incentivizing improved access and service for rural markets:** G2P digitization (and the support from the government) will motivate FSPs to build and sustain expansion certainty of opportunity in rural CICO, better products/services for low-income people generally

Table 2. Summary of Assessment of Ingoing Hypotheses

Hypothesis	Assessment	High Level Findings
Certainty of Opportunity		<ul style="list-style-type: none"> The certainty of opportunity for FSPs to engage in G2P programming is still unclear. Most FSPs continue to generate little or no revenue from G2P programming. Many banks continued to participate in these programs, either because they were mandated to do so by the government or because they saw these programs as part of a broader CSR initiative.
Volume/Value of Payments		<ul style="list-style-type: none"> There is not sufficient evidence to confirm that the high volume and value of payments is enough to create a tangible opportunity for FSPs to participate in G2P programming. This is mostly due to the low frequency of payments and sometimes the temporary nature of the G2P programming.
Number of Customers/ Ease of Onboarding		<ul style="list-style-type: none"> The business case for G2P continues to be weak. As such, it is not only the number of customers, but also the frequency of payments, and the design of incentive schemes by the government that will determine how effectively the most vulnerable are onboarded and served by FSPs responsible for payment disbursement as part of broader G2P programming.
Incentivizing Improved Access for Rural Households		<ul style="list-style-type: none"> The evidence strongly suggests that incentivizing improved access and service for rural markets will motivate FSPs to build and sustain expansion in under-served areas. What is not clear, however, is what incentive schemes are most impactful, and how best to design these schemes to drive access in the hardest-to-reach areas, across the entire value chain of payments, and how to incentivize the usage of accounts.

Certainty of Opportunity

The certainty of opportunity for FSPs to engage in G2P programming is still unclear. A bank interviewed during the stocktaking process confirmed that FSPs generated little or no revenue from G2P programming. The bank clarified that it took them over five years to break even after investing in the setup and operationalization of G2P programming. The

bank also spoke of the irregularity of incentive payments from the government. These lagged government payments further weakened the business case for participation in G2P programming.

Bank KPIs are often incongruent with activity required by G2P programming, especially at the local level. For example, one of the main revenue generators for banks is mobilizing deposits. Local staff like branch managers, who often have KPIs set around deposit mobilization, are not always effectively incentivized to prioritize cash out activities required by G2P programming. This means that FSPs need to effectively incentivize all levels of the organization to effectively participate in this programming and update their own incentive schemes. Governments must give them a good reason to do so by ensuring that incentive payments are high enough and paid on time.

Even with these challenges around the business case, many banks continued to participate in these programs, either because they were mandated to do so by the government or because they saw these programs as part of a broader CSR initiative and wanted to give back to the communities in which they operated.

The upfront costs of setting up these programs are significant. FSPs often need to invest in expanding their infrastructure and personnel into areas where they have limited or no presence. This means a significant increase in their operational costs, including training. Clients also need to be onboarded and trained on how to use the accounts. Recourse and customer support mechanisms also need to be strengthened. Additional investments also need to be made to comply with G2P programming requirements. For example, in Kenya, banks had to invest in biometric-enabled point-of-sale devices (POS) for their agents to participate (McKay et al., 2020).

Many FSPs took a long-term view when assessing the business case or had other reasons for participating in the G2P programs. A study in Kenya by the Financial Sector Deepening, Kenya (FSDK) revealed that some banks were motivated by long-term brand enhancement rather than short, or medium-term profits. Banks also saw an opportunity to boost their brands and reputations in Kenya, as being part of a government program was considered prestigious (McKay et al., 2020).

To incentivize FSPs to disburse these payments, many governments have developed incentive schemes for FSP partners. Ample evidence suggests that without these schemes, the account-level business case would be very difficult to sustain. Evidence from MicroSave Consulting (MSC) in India also suggests that if these schemes are not effectively designed and fees are set too low, they can have severe consequences on the government's ability to implement these programs, especially in rural areas. In the early days of Direct Benefit Transfers (DBT) in India, banks experienced substantive attrition by their agents (also known as business correspondents), who claimed to be hugely disappointed with the minimal commissions paid for facilitating payouts to beneficiaries (Wright et al., 2013).

Volume/Value of Payments

At this stage, there is not sufficient evidence to confirm that the high volume, and value, of payments, is enough to create a tangible opportunity for FSPs to participate in G2P programming. This is mostly due to the low frequency of payments and sometimes the temporary nature of the G2P programming.

In Kenya, for example, one of the biggest challenges cited by banks was the unevenness of the payment schedule, which created an unpredictable income stream for banks. Another challenge frequently cited in Kenya was the relatively short duration of the contract (three years), which was not enough time to break even and recoup large upfront investments needed to operationalize the G2P programming, especially in hard-to-reach areas. The duration, stipulated in the Public Procurement Act, is being re-visited (McKay et al., 2020). The Kenyan bank recommended a duration of at least five years, which is the timeframe that is required to break even from the upfront investments.

One critical mechanism to expand volumes, and frequency of payments, is for the government to incorporate as many payment streams as possible into their G2P programming. This was the case in India, where the government transfers benefits, pensions, and salaries into the accounts of beneficiaries. There has also been a recent shift to also transition in-kind subsidies, such as petroleum, fertilizer, grains, and cooking gas, into cash subsidies that flow directly into the accounts of recipients. With the expansion of use cases for transfers, the business case for FSPs expanding into rural areas will become clearer.

Number of Customers

In theory, G2P programming does reach the most vulnerable areas and segments and supports client onboarding, but this comes at a substantive cost for FSPs, as will be described below. Given these substantive costs, it is not only the number of customers, but also the frequency of payments, the design of incentive schemes by the government that will determine how effectively the most vulnerable are onboarded and served by FSPs responsible for payment disbursement as part of broader G2P programming.

In an ideal programmatic design, beneficiaries should be given a choice in selecting which FSP they use to collect their benefits and should have the option to switch providers if, and when they decide to do so. This means that multiple FSPs will need to be positioned to serve vulnerable and excluded clients. **However, our interviews revealed that the choice-model substantially weakens the business case for FSP participation in G2P programming.** Introducing competition, especially into areas that are hard to serve, limits the revenue generation opportunities for providers but still requires a significant upfront investment in getting the programming off the ground. Additional analysis is required to understand the unintended consequences of the choice model.

Incentivizing Improved Access in Rural Areas

The evidence strongly suggests that incentivizing improved access and service for rural markets will motivate FSPs to build and sustain expansion in under-served areas. What is not clear, however, is what incentive schemes are most impactful, and how best to design these schemes to drive access in the hardest-to-reach areas across the entire value chain of payments, and how to incentivize the usage of accounts.

The bank interviewed noted that incentive schemes should consider the significant upfront investment that FSPs need to make to get the G2P programming up and running. This is especially the case in a choice-based model where several FSPs are investing heavily to increase their presence in under-served areas and low-income areas where there will be competition which limits opportunities for revenue generation.

Much of the evidence is also focused on incentive schemes for the FSP, and corresponding agents that facilitate the cash out transactions. However, as G2P programming expands to other sectors like agriculture, incentive schemes become more complex and have to be designed across an entire value chain. In India, for example, the success of the fertilizer program, which was part of the government's broader DBT scheme, was severely threatened when fertilizer dealers and retailers were not effectively incentivized to sell the fertilizers after the shift from in-kind to cash transfers (Giri et al., 2018).

How and how much governments pay providers can be an important lever in shifting provider behavior. Pricing can be used to incentivize good customer service and expand access in remote areas through higher fees (McKay, 2020). In Kenya, for example, the government paid the banks on a three-tier commission structure. The levels were based on three zones: urban, semi-urban and rural. The zones were based on a detailed analysis of several factors: population density, economic activity, and distance from the branch. Remuneration to banks and agents was highest in rural areas, followed by semi-urban and urban. A similar approach was also taken in India to incentivize FSPs to invest effectively in rural expansion.

There is also limited knowledge related to how to design the incentive schemes to drive other types of outcomes, especially related to the effective usage of these accounts. Most G2P accounts today continue to be used by beneficiaries to cash out. Incentive schemes could be linked to a broader set of measurable or performance-based outcomes that encourage FSPs, and their agents, to effectively educate clients on the benefits of, for example, saving a portion of their benefits. This would require a substantive investment in financial literacy training for beneficiaries, which would need to be incentivized by a government or donor, with clear financial inclusion targets.

It is not clear whether digitized G2P has increased the number of CICO agents in rural areas. Some anecdotal evidence suggests that during the pandemic, countries like Ecuador doubled the number of cash-out points in rural areas, to effectively respond to the crises,

and quickly and effectively roll out social benefits. G2P payments did help to increase the number of customers and they faced liquidity challenges which were further hampered by lockdown restrictions. Research by Microsave (2021) found that CICO agents faced a reduction in income and increased cost of operations as a result of the pandemic. It is unclear whether these cash-out points will remain sustainable once the social benefits are reduced or stopped altogether. and that transfers. Additional research and experimentation is required in this area.

What GSMA evidence also suggests is that 2020 saw the highest increase in the number of registered agents, with a 14% year-on-year growth rate. A significant portion of these is in rural areas, although the exact number was not noted in the report and could not be extracted from publicly available GSMA data. GSMA did suggest, however, that this increase was partially due to an increase in government benefits but did not provide any specific data points that directly attributed the increase in benefits to expanded rural agents.

In conclusion, the second set of hypotheses related to market response to G2P does not hold, and there are significant gaps in the evidence base. Further work is needed to understand the underlying cost drivers from the FSP perspective and to innovate with new payment and subsidy models to help to grow the market.



Has G2P Increased High-level Support and Mobilized Resources for Financial Inclusion, Enabling Regulation, and Pro-poor Payment Infrastructure?

Ingoing Hypotheses

- **Creates pressure for enabling regulations and pro-poor infrastructure:** Implementation of G2P would motivate more enabling regulations (i.e., KYC) and digital ID, increase investment in platforms for fund transfer, interoperability, etc.
- **Engages a government leader champion and/or legislation:** Can create buy-in and support from heads of state or influential ministries (i.e., Ministry of Finance, Social Welfare) for financial inclusion and a strong DFS ecosystem.

Findings

Table 3. Summary of Assessment of Ingoing Hypotheses

Hypothesis	Assessment	High Level Findings
Creates Pressure for Enabling Regulations		<ul style="list-style-type: none"> • G2P programs can encourage support for effective infrastructure but there is some evidence that effective infrastructure leads to more effective G2P programs. • COVID scale-up helped to advance these discussions and there have been some loosening of e-KYC rules as a result of COVID. • In some cases, CICOs have been classified as essential services as a result of COVID and the need to deliver G2P programs.
Engages a government leader champion and/or legislation		<ul style="list-style-type: none"> • G2P programs have helped to advance the discussions on digital access and financial delivery systems, particularly as a result of COVID. • A whole of government approach is preferred for scaling G2P systems and ensuring full integration into the government public financial management systems. • Unclear where financial inclusion sits as a priority within governments.

Creates Pressure for Enabling Regulations and Pro-poor Infrastructure

Enabling regulation is shown to be associated with greater financial inclusion. Research by Chen and Divanbeigi (2019) finds that individuals are more likely to have an account at a financial institution in countries that adhere to a higher number of good regulatory practices. Klapper et al. (2021) find that the likelihood of owning an account is higher in countries with better consumer protection regulations. They also find that the likelihood of formal savings (conditional on having an account) is higher in countries where there is regulation on limiting the maintenance fees for current or savings accounts banks and in countries that introduce special tax incentives for saving schemes as part of efforts to promote financial inclusion.

Digital G2P has been shown to help drive regulatory reform and investment in infrastructure, but not everywhere. The desire to digitize G2P programs was instrumental in driving through the underlying regulatory reforms and investment in infrastructure in India (Gelb, Mukherjee, and Navis, 2020). India seems to have been the exception pre-covid. In other countries, the G2P program is evolving and there are clear lessons learned between jurisdictions and from previous experience to inform improved programming.

Indonesia’s G2P 4.0, which seeks to build a more modern, interoperable G2P program that advances financial inclusion, is a clear example of this (Moorena et al., 2020).

Assessments of the existing regulatory status amongst the six countries on the GSMA regulatory index between 2018-2020 find they have broadly similar performance and are generally becoming more financial inclusion-enabling. The GSMA has established a Mobile Money Regulatory Index that categorizes regulations across six dimensions (authorization, consumer protection, know your customer requirements and agent networks) covering 26 indicators. The Index conducts a nuanced analysis of the regulation by quantitatively examining the impact of various indicators on regulation allowing for a deeper analysis of regulatory enablers.

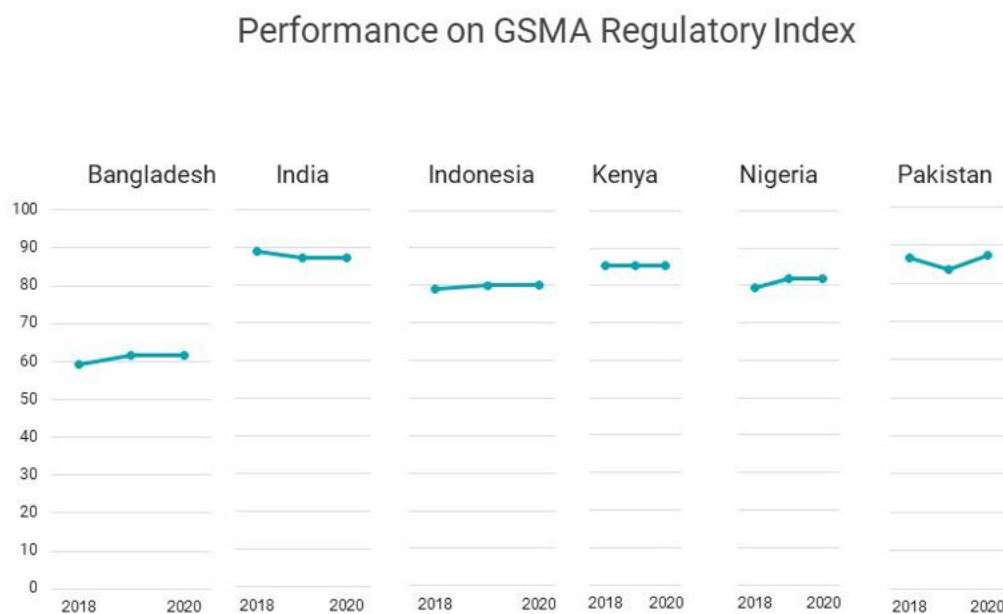


Figure 5. Comparative Analysis of GSMA Regulatory Index

There remain legal barriers to women’s financial inclusion and empowerment that also need to be addressed for digitized G2P to lead to WEE. According to the World Bank’s Women, Business and the Law database, there are seven countries globally where women cannot open bank accounts in the same way as men, and 115 countries where women cannot run a business in the same way as men. Addressing these laws is critical to enhancing the ability of digitized G2P to advance women’s economic empowerment via greater financial inclusion (World Bank, 2020a).

The COVID pandemic has heightened the push for regulatory reforms and countries with early investments in infrastructure have paid off. In a review of 58 national responses to COVID, Beazley, Marzi, and Stellar (2021) found that national ID coverage and higher levels of financial and technological inclusion facilitated faster payments. The use of digital solutions allowed for a rapid and safe scale-up of programs and encouraged the use

of digital solutions for those who can access them can also allow limited human resources to be diverted to support those who would otherwise be excluded due to their lack of digital access, who are also often the most vulnerable.

Driven by the pandemic, some countries are making rapid investments in digital infrastructure and declaring CICO agents to be essential services. Countries that are fairly advanced in regulatory reforms can fast-track the entry of new players (e.g., money issuer licensing to mobile network operators) with adequate regulatory frameworks and enabling interoperability (World Bank, 2021). Informants noted that KYC regulations in Kenya have been simplified as part of the pandemic response. Rapid digitization could lead to greater exclusion for those who do not have access to technology. In addition, effective redress mechanisms should be implemented (Rutkowski et al., 2020). The pandemic also led to CICO agents being declared an essential service in, India, but this was not at all universal.

The rapid expansion of COVID-related digitized G2P raises risks of exclusion and highlights the need for a renewed focus on responsible digitization. In addition to enhancing financial and digital literacy and G2P communications, ensuring effective consumer protection systems for financial services providers and redress mechanisms for G2P programs are critical for a safe scale-up of G2P programs.

Engages a Government Leader Champion and/or Legislation

Underlying the hypothesis that digitized G2P can advance financial inclusion is that by engaging a government leader or champion, it can create buy-in and support from heads of state or influential ministries (i.e., Ministry of Finance, Social Welfare) for financial inclusion and a strong DFS ecosystem. Based on discussions with thought leaders, partners, and staff, the findings on this hypothesis are mixed, although COVID is encouraging greater centralization.

Advancing financial inclusion-friendly digitized G2P programs highlights the importance of taking a whole of government approach. India was regularly cited as the exemplar country that drove an effective whole of government approach to implement the underlying infrastructure. Other countries, such as Pakistan and Kenya were cited in interviews as areas where the differing perspectives related to the targeting approach to G2P and the inclusive approach to financial inclusion differ. Key challenges cited by informants include the lack of coordination across government Ministries and differing visions for G2P, financial inclusion, and women's economic empowerment as reasons why the financial inclusion-friendly approach to G2P is not more widespread. Gentili et al. (2021) advocate for a whole of government approach to digitizing G2P as a means of increasing the likelihood that it will scale, sustain, and best serve beneficiaries.

COVID and the rapid scale-up of G2P have helped to shift the discourse related to a whole of government approach and the benefits of investments in underlying

infrastructure. Interviews with technical assistance provider partners noted the increasing demand for a whole of government approach to support the digitization of G2P and to do so in a financial inclusion-friendly way. In addition to ensuring effective investments in the underlying infrastructure, there is an increasing focus on ensuring that G2P programs are fully integrated into governments' public financial management systems. There is an increasing consensus around the benefits of using Single Treasury Accounts to ensure they are effectively managed (Cangiano, Gelb, and Goodwin-Groen, 2019).

Advancing Financial Inclusion-Friendly G2P

One of the challenges of advancing an FI-Friendly approach to G2P programs is that it requires engagement with governments as well as external funders of G2P programs. As noted in the key success factors above, one of the challenges highlighted by several informants is the different perspectives on G2P programs and whether they should be leveraged as an entry point for financial inclusion. Several informants noted that the viewpoint of the social protection sector highlighted the siloed nature of donor organizations and the low level of awareness of how G2P programs could be an on-ramp for financial inclusion. More importantly, the perspectives of inclusion vs targeting were highlighted by many thought leaders as a potential barrier. As one thought leader noted:

“There is a fundamental ideological difference between those of us who care about inclusion and everyone being part of the economy, and those who are focused on social protection, who are focused on the poorest receiving and on targeting, and they will invest huge resources on targeting. G2P is on-ramp when it's focused on inclusion, yes, but when it's focused on targeting, no, that's the simple answer.”

Thought Leader

G2P Program Funders

As many G2P programs in developing countries are supported by donor funding, engaging with these donors can be an important lever to help ensure that those programs adopt a financial inclusion-friendly approach. The World Bank is a particularly important donor given its size and scale of engagement in the social protection sector. The table below shows the largest funders of social protection programs as per the OECD Development Assistance Committee Donor statistics database.

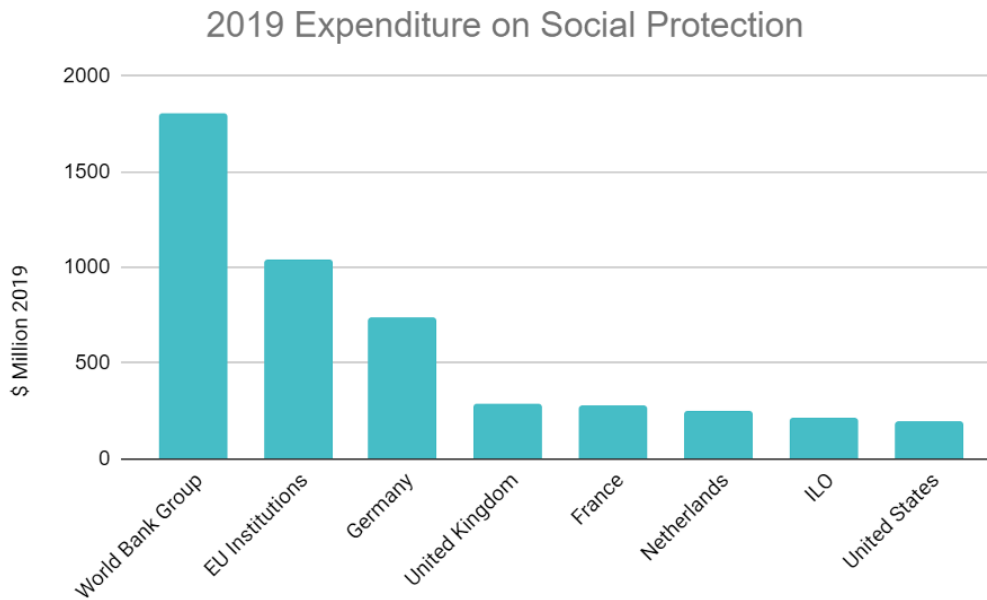


Figure 6. Expenditure on Social Protection Programs

The COVID pandemic has increased global donor interest in how to advance social protection systems quickly and effectively through digitization. However, a review of social protection literature on the donor hub (www.socialprotection.org) finds that **the financial inclusion-friendly approach remains far from universal amongst Social Protection/G2P funders**. The COVID pandemic scale-up highlighted the importance of having an effective infrastructure in place prior to scaling to rapidly reach households in need. There is increasing focus in the social protection community on adaptive social protection as a means of addressing future shocks such as climate change-driven emergencies. Finally, there is growing discourse in the development community related to a universal basic income and that a broader inclusive approach to social protection is more effective than a targeted approach.

Measuring the Impact and Future Research Opportunities

While financial inclusion is an important pathway to financial health and poverty alleviation, there is a case to take a broader perspective of impact outcomes to include the impacts of G2P programs themselves. There is a robust base of evidence that makes clear that providing direct funds to poor households can reduce poverty, and improve health, education outcomes, and resilience outcomes (Bastagli et al, 2016). Borga and D'Ambrosio (2021) find that receiving social protection payments reduces the incidence and intensity of multidimensional poverty in India and Ethiopia. They find positive short-term impact on asset formation, livestock holding, and some living standard indicators, and these positive impacts are sustained even in the medium and longer-term. There are also several RCTs in Africa and Asia with different partners providing strong evidence of digitized G2P to be beneficial for welfare particularly for women, through increased

bargaining power, inter and intra-household decision making, better livelihoods, increased consumption, and increased expenditure on children's education.

However, there is limited evidence comparing the benefits of FI-Friendly digitized G2P and standard digitized G2P to examine the marginal impact of the former and tease out the pathways to impact. This research question is important to create pathways for higher and meaningful impact outcomes for women as well as drive the conversation for a financial inclusion-friendly G2P approach to the social protection program stakeholders. FSP should explore opportunities for natural experiments or specific research to measure the additional impact of FI-Friendly G2P from household wellbeing and women's economic empowerment perspective. This evidence will then need to be packaged and framed for a government stakeholder and social protection funder audience.

Conclusions

This stocktaking has shown the trends over the past decade in advancing a Financial Inclusion-Friendly approach to digitized G2P through significant investments and engagement in different countries. The COVID pandemic has highlighted the importance of having effective financial and digital infrastructure in place in order to rapidly scale up G2P payments to a wider group of beneficiaries in the face of an unprecedented shock.

There is a significant body of work, both research and investment lessons, and effective relationships to build upon for the next ten years of investments into G2P as part of a broader financial inclusion agenda. As much of the groundwork related to why digitize G2P payments has been addressed, the next phase of FI-Friendly G2P will involve further work on addressing the challenges that prevent the key success factors from taking hold. This includes continuing the important work on supporting the infrastructure required for FI-Friendly G2P with trusted partners. It also involves focusing on improving the business case for financial services providers through innovations and incentives. Also, it will be important to address the issues that can drive usage including onboarding and financial literacy issues, continuing to expand rural infrastructure such as CICO, and helping to provide other options for digital funds including additional payment streams and financial products.

In addition, by sharing lessons learned from this significant body of work with a wider community and packaging it in a manner that speaks to both governments and the G2P community can help to drive further impact. Critical in this is further research on the marginal impact on wellbeing, empowerment, and poverty of an FI-Friendly approach to G2P digitization.

Recommendations

As the financial inclusion community reflects upon the past decade of work and explores new areas of work for the next decade, there is an opportunity to take advantage of the advances and heightened interest in digitized G2P that have occurred over the past two years as a result of COVID. Of particular focus should be to continue to make the case for the benefits of FI-Friendly G2P and to deepen understanding of the business case.

Research

- **Continue to expand the evidence base on why FI-Friendly G2P can deliver more benefits than regular G2P programs.** FI-Friendly G2P is likely to have greater spillover effects regarding inclusion and empowerment. Greater evidence is needed on the market benefits and the expansion of CICO. Building this evidence base could help make the case to key stakeholders for increased investments.
- **Expand learning agendas to focus on wider infrastructure, regulatory and business case issues, household impact, and women's economic empowerment.** There are evidence gaps related to whether digitized G2P has expanded CICO points into rural areas and how that translated to increased access, usage, inclusion and empowerment. Learning agendas of donors in the financial inclusion area should include additional research to cover the business case and other underlying infrastructure issues.
- **Share current and future learnings, particularly on the how of FI-Friendly G2P across geographies, partners, and communities.** Due to COVID, there is considerable demand across the donor and practitioner community for best practice guidance on FI-Friendly approaches to G2P. More specifically, there is demand for the learnings generated by the various stakeholders and donors' past research and investment initiatives. This learning could also be packaged in a manner that speaks to the G2P/social protection community to help make a case for FI-Friendly G2P.

Technical Assistance and Piloting

- **Experiment with incentive structures to understand the drivers of sustainability for FSPs in terms of CICO, product offerings, and digital and financial literacy and communicate these findings to governments.** There is significant work to be done to understand the drivers of sustainability and a viable business case for financial services providers to engage in G2P programs. Additional research with partner providers could help to uncover the cost drivers and pathways to sustainability. Such research findings should be communicated to the government to help in the design of effective incentive schemes that can motivate the private sector to not

only participate in G2P programming but also invest in onboarding, customer literacy, and effective product design for the recipients of transfers.

Incentive schemes should be linked to a broader set of measurable or performance-based outcomes that encourage FSPs, and their agents, to effectively educate clients on the benefits of, for example, saving a portion of their benefits. This would require a substantive investment in financial literacy training for beneficiaries, which would need to be incentivized by a government or donor, with clear financial inclusion targets.

- **Expand support for other payment streams to drive usage and advance sustainability, especially amongst women.** There are a variety of digitized payment streams that benefit women. Expanding payment streams will also drive usage and sustainability in the overall financial system. Payment streams of interest to financial inclusion donors could include other government subsidies such as cooking gas in India, education payments, resilience payments and agriculture payments.

Engagement

- **Expand engagement with the G2P/social protection community to share the benefits of FI-Friendly G2P digitization.** Financial inclusion donors have an important voice in advancing an FI-Friendly approach to digitization. Engaging with other bilateral funders and practitioners in the social protection community to raise awareness of the additional benefits that can result from this approach could be critical to advancing financial inclusion goals and objectives.

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