Case Study 3: Bangladesh – Modernising G2P payments

Government-to-person (G2P) payments, including social transfers and wage or pension payments, are common in most economies. By directing payments to specific financial institutions, G2P payments are often leveraged by governments to drive use of formal bank accounts by those at the base of the economy. In more recent years, several governments have begun digitising G2P payments to improve efficiency, reduce leakage and promote greater acceptance and use of digital financial products and services among the poor. Recent studies have highlighted that the opportunity for G2P payments to be a significant driver of financial inclusion and to enhance the welfare of the poor can be expanded by giving recipients greater control over how they receive and withdraw payments.

Government response

As part of its economy-wide strategy to digitise, the government of Bangladesh has been actively taking steps to use digital channels for its payments. A 2016 review of the government's highest-volume G2P payment schemes found that payments were mainly made in cash, which is vulnerable to leakage and inefficiency, and distributed using closed-loop solutions that offered little or no choice to recipients (Baur-Yazbeck and Roest 2019). Access to Information (A2i), a cross-government agency tasked with advancing digital technology-led solutions for government services, has played a prominent role in efforts to digitise government payment flows and has led to the development of a new integrated payments structure.

A crucial part of A2i's vision is that giving citizens the freedom to choose how and where they make and receive payments from the government could reinforce broader goals such as interoperability, competition among providers and more inclusive open systems. To achieve this, in 2016 A2i and its partners undertook a detailed systems design process that used the existing payments infrastructure. They began building a new centralised architecture capable of servicing multiple G2P payment programs. By 2019 A2i had begun piloting aspects of its new payments system, which was designed to enable customers to choose between seven different providers (Baur-Yazbeck and Roest 2019).

Program impact

Several benefits flow from enabling customers to choose providers that best serve their needs. As highlighted by Baur-Yazbeck et al. (2019), these include customers not needing to open multiple accounts, customers being able to select providers least likely to charge unofficial fees, and women being able to choose providers that they feel most comfortable dealing with. Importantly, by enabling choice, governments can shift provider incentives towards winning customer loyalty, leading to overall better service and competition in the market. Governments could also reap benefits from this model, including reduced costs, because it enables the use of existing infrastructure from many providers rather than a single proprietary network, and it minimises the need to procure the services of individual providers.

While the full results of the A2i pilot programs in Bangladesh are still emerging, some early lessons from their experience that other governments might consider include:

- A customer-centric approach is crucial for success. Identify the shortcomings of current G2P payment services from the perspective of citizens and find solutions to enhance their experience.

- Distribution is key to enhancing value. Consider how easy is it for customers to access their benefits, e.g. distances to access points etc.

- The need for more effective G2P payment services has never been more clear. The Covid-19 crisis has seen governments everywhere scrambling to find ways of pumping liquidity into institutions to keep economies afloat. By establishing a central architecture, governments can then easily integrate

new programs to enhance services and distribute rapid payments more effectively during times of crisis.

- A central architecture creates an important "on-ramp" for providers to take part in the digital economy. Governments will need to consider which institutions are allowed to operate in the system, including state-owned banks, commercial banks, fintechs and other providers.

- Governments need to consider the structure of incentives for private providers to become part of the network. One trade-off of expanding choice is that participation by profit-seeking providers may potentially increase costs to either governments or customers. It is expected that governments will address this in different ways and establish models suited to their local contexts.