The Social Promise of Digital Payments

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Outline

• Introduction: Better Than Cash Alliance
• Davos event and a question
• Four major social benefits of digital money
• Key social challenges and a question
• Action we need to take
The Better Than Cash Alliance:

Governments, Private Sector, and Development Organizations in alliance to create a global movement from cash to electronic payments.

• Billions of dollars in cash payments are made every day in emerging and developing economies for salaries, to suppliers, for pensions and social welfare, relief etc..

• With appropriate digitization of these payments both payee and payer can have great benefits...
Better Than Cash Alliance at Davos

- Prime Minister - Peru
- Minister of Finance – Colombia
- Secretary of Budget and Management – the Philippines
- Executive Director – World Food Programme
- CEO – Mercy Corps
- Chair – SWIFT
- Moderator: Economics Editor of The Economist
Davos event question

What potential social benefit(s) of electronic payments in emerging and developing markets that every panellist mentioned?

A. Financial Inclusion
B. Transparency / Anti-Corruption
C. Cost reduction / Efficiency
D. Increased security
E. All of the above
Four social benefits of digital money - if designed appropriately

• **Financial Inclusion:** can accelerate access to financial services.

• **Transparency:** reduces facilitation payments, increases accountability and tracking, and reduces theft.

• **Cost Savings:** decrease costs of cash or in-kind payments.

• **Security:** typically safer and faster delivery.
Microfinance savings account

Life insurance

Home savings

Cash in hand

Saving with a moneyguard

Rent arrears

Wage advance

Loans to others

Savings held for neighbors

Shopkeeper credit

Remittance to home village

Interest free loan from neighbor

Microfinance loan
Approximately 2.5 billion adults, half of the world’s adult population, lack access to formal financial services.
Argentina decreased government payment leakages with its shift to electronic payment cards. Those who admit to paying bribes to local officials fell from **3.6% to 0.3%**.
Governments can save up to 75% with electronic payment programs.

When Brazil disbursed Bolsa Familia grants through electronic benefit cards, they cut administrative costs from 14.7% to 2.6% of the total grant.

In Mexico, welfare recipients who got paid electronically saved 77% in travel costs in comparison to those paid at central cash depots.
After the 2010 earthquake in Haiti, incidents of theft of cash transfers fell by more than 50%, due to the use of mobile money.
Barriers to maximizing the benefits

Barriers to maximizing the social benefits of digital money across stakeholders include:

A. Building a robust reliable infrastructure, that is standardized and interoperable
B. Regulatory barriers to innovation
C. Staff capacity to implement digital money

What else?
Some additional challenges to maximizing the benefits include:

E. **Govts: Political will** – as there is resistance from vested interests and a need for coordination

F. **Govts & Businesses: Social norms** – trust that money is there; habits about how money is used

G. **Govts & Businesses: Financial education** - to manage complex financial lives

H. **Individuals: Costs** – they need to be affordable

I. **All: Over promising** - this is not a silver bullet for poverty reduction
Action we need to take?

What are the most important actions to maximize the social promise of digital money:

1. Advocacy - to promote the shift to digital payments and ensure appropriate design?
2. Good practice manuals: to identify cash payments and show how to make the shift?
3. Catalytic funding for inclusive processes, peer learning and financial education?
4. All of the above?
How the Better Than Cash Alliance Accelerates the Shift

• Advocacy for shifting government benefits, humanitarian assistance, payroll and supplier payments from cash to electronic payments.

• Provision of policy, technical and financial assistance to identify and implement effective approaches for local market conditions.

• Development of cutting-edge research products, case studies and good practice manuals to drive the shift to electronic payments globally.
Action for members and stakeholders:

- Inclusive building blocks for the financial sector - rules & norms that create incentives for inclusion
- Extensive inclusive infrastructure development
- Business model development – high volume, low margin business - able to reach the majority
- Product design – appropriate (age, gender education), affordable, understandable.
Joining the Better than Cash Alliance

Governments, development organizations, and private sector companies must commit to shifting significant volumes of payments and to sharing their learning. Those which join are then:

1. **Recognized for leadership** in the Better than Cash Alliance publications and media.
2. Invited to **participate in learning opportunities**.
3. Given **access to the latest research and case studies**.
4. Eligible for **technical assistance** and/or funding to support the shift, as appropriate.