

UNITED NATIONS CAPITAL DEVELOPMENT FUND (UNCDF)
Better Than Cash Alliance (BTCA)
Digitizing Peruvian Government Payments: Actionable Study

REQUEST FOR APPLICATIONS
Deadline for submission: Friday 27th of November at 17.00 EST

1. INTRODUCTION TO THIS REQUEST FOR APPLICATIONS

a) Purpose of the RFA

The purpose of this request for applications (RFA) is to help the Peruvian Government address the challenges of how to most effectively digitize government payments¹ in the country and provide a roadmap with recommendations. The expected result is a published study that identifies government payment flows, prioritizes the path to digitization, and provides specific recommendations for action on the way forward to accelerate digitization of government payments and further inclusive growth in Peru.

This research aims to reveal insights around Government flows of cash in Peru; at both the national and sub-national level; a priority ranking of payments to digitize in order to increase its efficiency and transparency and drive financial inclusion; along with barriers and opportunities for digitization; indicating how to digitize priority payments and specific actionable steps (e.g., a mix of payments channels and instruments across programs and within programs, action plan, potential cooperation/partnerships required between the government, private sector, and different players in the digital payments ecosystem); and opportunities to bring the private sector to participate in the digitization of those payment programs.

The final outputs and deliverables of the study are considered a public good. Thus, all the outputs and deliverables will be placed in the public domain after appropriate consultation with the intent that they can and should be freely and widely used by other parties.

b) Timing

Applications should be returned to the Better Than Cash Alliance Secretariat **by email** no later than midnight on **November 27th 2015 Eastern Standard Time (GMT -5)**.

It is anticipated that negotiations and grant signing will commence within 3 to 4 weeks of application submission.

Also, the deadline to submit consultations is November 13th 2015 Eastern Standard Time.

The overall duration of the study should be not more than four months. Expected date of full

¹ G2P or Government-to-person, P2G or Person-to-government, B2G Business-to-government, and G2B Government-to-business

completion is April 7, 2016. Final presentation to key stakeholders is expected to take place between March and April 2016 with engagement in active dialogue throughout the process. Main stakeholders are comprised of: the Ministry of Economy and Finance, Central Bank, State Bank, Ministry of Development and Social Inclusion, Regulator, Ministry of Education, Ministry of Health, and Association of Banks.

c) Contact

Please contact Sonia.arenaza@uncdf.org to request the complete electronic version of this RFA.

Applications and any consultation about this RFA should be submitted via email at Sonia.arenaza@uncdf.org; copying in (cc) ruth.goodwin-groen@uncdf.org and mia.overall@uncdf.org Please include in the subject line of the email: Digitizing Government payments in Peru.

d) Responses

All queries and submitted applications will be acknowledged. FAQs will be shared with all applicants via email.

2. ORGANIZATION CONTEXT AND BACKGROUND INFORMATION

a) Organization Context

UNCDF is the UN's capital investment agency for the world's 48 least developed countries. It creates new opportunities for poor people and their communities by increasing access to microfinance and investment capital. UNCDF focuses on Africa and the poorest countries of Asia, with a special commitment to countries emerging from conflict or crisis. It provides seed capital – grants and loans – and technical support to help microfinance institutions reach more poor households and small businesses, and local governments finance the capital investments – water systems, feeder roads, schools, irrigation schemes – that will improve poor peoples' lives. UNCDF programmes help to empower women, and are designed to catalyze larger capital flows from the private sector, national governments and development partners, for maximum impact toward the Millennium Development Goals.

The **Better Than Cash Alliance** is a partnership of governments, private sector and international organizations that accelerates the transition from cash to digital payments in order to reduce poverty and drive inclusive growth.

The Better Than Cash Alliance partners with governments, companies, and international organizations that are the key drivers behind the transition to make digital payments widely available by:

1. Advocating for the transition from cash to digital payments in a way that advances financial inclusion and promotes responsible digital finance.
2. Conducting research and sharing the experiences of our members to inform strategies for making the transition.

3. Catalyzing the development of inclusive digital payments ecosystems in member countries to reduce costs, increase transparency, advance financial inclusion— particularly for women— and drive inclusive growth.

b) Background Information about Peruvian Government Payments

Governments can be prime movers and play a catalytic role in supporting the evolution of a robust inclusive digital ecosystem and in moving the digital agenda toward financial inclusion. Government payments are important to any developed or developing country. This relative importance is usually measured as a percentage of government expenditures and/or tax collections. Those ratios range between 15% and 45% of a country's GDP². Payments also vary based on who is the payer and who is the payee (See table below). The evolution of innovative technology-led business models and solutions place governments in a unique scenario to face current economic environment requirements of efficient and effective inclusive growth and development.

Payer	Payee		
	Government	Private Sector	Person
Government	G2G Budgetary Allocations, Funding of Programs	G2B Grants, Payments for Goods and Services	G2P Welfare Programs, Salaries, Pensions
Private Sector	B2G Taxes, Fees for Licenses and Permits	B2B Payments for Goods and Services in Value Chains	B2P Salaries and Benefits
Development Partner	D2G Taxes	D2B Payment for Goods and Services	D2P Cash Transfers
Person	P2G Taxes, Utilities	P2B Purchases	P2P Remittances, Gifts

Source: Payment Grid (BTCA, 2012)

Digital platforms and digital payments provide governments an opportunity to increase their efficiency and outreach, improve transparency and traceability, decrease costs, and stop leakages. It can also facilitate the provision of value-added services through safe financial access, serve as a conduit to integrate the informal sector, increase the privacy of payments, and potentially increase control people have over the funds they receive. Moreover, digital payments have the potential to be the first entry point into the financial system.

G2P payments such as public sector salaries, pension and social transfers, conditional cash transfers, and subsidies; P2G payments such as taxes, social security and pension contributions, utility payments, fees for government services (e.g., licenses, national identification documents, passport, automotive fees/fines); G2B payments such as procurement of goods and services; and B2G such as taxes, business license, and contributions due to their scale and size turn the government into a critical link in the digital payments value chain.

² http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/General_Guidelines_Govt_Payment_Aug2012.pdf#page=51

Peru is at the forefront of many initiatives to foster innovative financial inclusion. For example, in July 2015, the country's National Strategy for Financial Inclusion (ENIF) was enacted. This strategy, led by the Multi-sectorial Committee on Financial Inclusion, has seven key action lines –payments³, savings, financing, insurance, vulnerable population, financial education, and consumer protection. In the coming months, BIM, the mobile money platform of “Modelo Peru⁴”, will be launched. This innovative interoperable digital payments platform, led by the Peruvian Banker's Association (ASBANC), aims to provide access to financial services to anyone with a mobile phone.

In 2014, for the seventh year in a row, Peru took the number one spot in the Global Microscope's ranking that assesses the regulatory ecosystem for financial inclusion. Also, some instruments to spur financial inclusion aimed to bank the underserved / unbanked population are the law to regulate the characteristics and issuance of basic accounts (2010) and the electronic money law (2014).

Despite those efforts, 77% of the number of payments in Peru are done in cash, only 29% of the adults have access to a bank account, 12.3% of adults save money in a financial institution, 13% have a credit in a financial institution, and 1.2% of the population have used an account to receive government transfers (Global Findex, 2014⁵). The supply of financial services is still concentrated in urban areas. The country has around 40,000 banking agents and more than 10 million debit cards for a population of approximately 31 million. Vulnerable populations spend sometimes more than three hours in average to reach a brick and mortar bank branch (SBS, 2012).

The Peruvian government has several government payments streams. To name a few, on government-to-person: subsidy for lactation of ESSALUD, payments to schools for annual maintenance, payments to health care workers, Beca 18, Juntos, and Pension 65; and on person-to-government: national identification card fee, citizen taxes, and co-payment of the integral health insurance program.

To better understand what specific payment streams the Peruvian government could digitize, this project will identify those payments, cluster and prioritize them based on their impact on financial/social inclusion, flows of money, frequency of payments, beneficiaries, geographic coverage, synergies with other initiatives, ease of transition, participant's agencies internal readiness, participation of the private sector, and propose a roadmap and recommendations for their digitization. (See BTCA Toolkit⁶, How to prioritize where to start as reference)

c) Related work by BTCA and ongoing efforts in digital payments across geographies

The Better Than Cash Alliance has prepared a series of **Country Studies** in Nigeria⁷, Philippines⁸, Colombia⁹, Malawi¹⁰ and **Toolkits** for business¹¹, governments¹², development partners¹³, ecosystem

³ Payments action line is comprised of digital payment services, government payments, and remittances

⁴ BTCA has committed resources to ensure the success of Bim, the mobile money platform. BTCA provided a number of experts in building inclusive digital finance ecosystems to support the development and launch of the platform with the key actors in the ecosystem. A key contribution has been supporting the development of engagement strategies based on lessons learned from other programs around the world.

⁵ <http://datatopics.worldbank.org/financialinclusion/country/peru>

⁶ <https://www.betterthancash.org/tools-research/toolkits/government/readiness-engagement/prioritizing>

⁷ <https://www.betterthancash.org/tools-research/case-studies/country-diagnostic-nigeria>

diagnostics¹⁴, and payments measurement¹⁵ to help different stakeholders in their shift towards electronic payments.

Also, there is increasing evidence that digital payments support governments to reduce costs, increase transparency, speed and security, and facilitate people access to financial services to further financial inclusion and economic development:

- Mexico: the government is saving approximately 3.3% of its total expenditure on wages, pensions and social transfers by digitizing and centralizing its payments¹⁶. Also, a study assessed the impact of the electronic payment system of Mexico's Oportunidades programme and shows that accounts opened to receive social transfers led to increased frequency of receiving remittances also through formal channels¹⁷.
- Brazil, Bolsa Familia: this social welfare program, created in 2003, switched to electronic benefit cards issued by the state-owned financial institution and uses an agent network. This digitization has helped to reduce administrative costs almost seven folds, from 14.7 to 2.6¹⁸
- India: the Indian government could save approximately \$22.4 billion yearly by automating its payments programs¹⁹. Also, a recent study found that making social security payments digitally results in a 47% reduction in the incidence of bribe demands compared with cash payments²⁰.
- Colombia, Banca de las Oportunidades: social transfer paid into a mobile wallet through a PPP, Banco Davivienda. 91% of recipients of the 'Familias en Accion' cash transfer program are paid into a basic bank account linked to debit cards²¹.
- Kenya: Kenyans can pay their taxes using their mobile phones thanks to a partnership between Airtel and the Kenya Revenue Authority (KRA). Airtel Money customers can pay their taxes via the mobile money platform and no longer have to queue in KRA banking halls to pay their taxes²². Previously in 2012, the KRA offered Kenyans the ability to renew their driving licenses using mobile money.
- Nepal: as part of its commitment to digitizing payments, Nepal is planning to build a new system to digitize tax collection and social security allowances. Additionally, a targeted women's economic empowerment initiative will help increase the financial independence of women by enhancing access to economic resources such as digital financial services.
- United States: a recent study has found that moving from cash and check to electronic benefit

⁸ <https://www.betterthancash.org/tools-research/case-studies/country-diagnostic-the-philippines>

⁹ <https://www.betterthancash.org/tools-research/case-studies/country-diagnostic-colombia>

¹⁰ <https://www.betterthancash.org/tools-research/case-studies/country-diagnostic-malawi>

¹¹ <https://www.betterthancash.org/tools-research/toolkits/business>

¹² <https://www.betterthancash.org/tools-research/toolkits/government>

¹³ <https://www.betterthancash.org/tools-research/toolkits/development-partners>

¹⁴ <https://www.betterthancash.org/tools-research/toolkits/ecosystem-diagnostics>

¹⁵ <https://www.betterthancash.org/tools-research/toolkits/payments-measurement>

¹⁶ <http://betterthancash.org/wp-content/uploads/2013/12/Highlight-English1.pdf>

¹⁷ http://www.wider.unu.edu/publications/working-papers/2014/en_GB/wp2014-034/

¹⁸ <http://siteresources.worldbank.org/INTLACREGTOPLABSOCPRO/Resources/BRBolsaFamiliaDiscussionPaper.pdf>

¹⁹ McKinsey. "The Benefits to Governments of Connecting Low-Income Households to an e-Payments System: An analysis in India".

²⁰ <http://www.nber.org/papers/w19999.pdf>

²¹ CGAP. "Social Cash Transfers and Financial Inclusion" Evidence from Four Countries.

²² <http://www.itwebafrica.com/mobile/309-kenya/233676-taxes-payable-by-mobile-money-in-kenya>

payments is associated with a 10% reduction of the crime rate²³.

- Impact on economic growth: A study by Moody's Analytics that looked at the impact of increased card penetration on the private consumption of 56 countries over five years and found that digital payments leads to an increase in GDP of between 0.3% (developed countries) and 0.8% (emerging countries)²⁴.

It is expected that this study leverages on related studies/researches undertaken at the same time in Peru.

3. SCOPE OF EXPECTED OUTPUTS AND DELIVERABLES

BTCA is seeking applications from qualified technical partners (e.g., commercial for profit consulting firm, educational, or non-for profit organization) to work on an actionable study to find out what government payment use cases the Peruvian government could digitize. This study should deep dive into those use cases and provide a roadmap and specific recommendations on how to digitize those payments. It should also reference BTCA's *Country Diagnostics* and *Toolkits* and such as How to plan a shift to electronic payments for government, How to conduct a country diagnostic, and *Country Diagnostics*²⁵.

The expected outputs and deliverables are:

- Assessment of government payment norms:** A robust analytical approach for undertaking a stocktake and analysis of government payment norms and provide recommendations on improvements indicating opportunity, priority, impact, critical success factors, and actors involved in the improvement. It will include norms that affect the flow of cash and involves –but not restricted to– the following government organizations: Peruvian State Bank (Banco de la Nacion or BN), Ministry of Economy and Finance (MEF), and Central Bank (BCR).
- A mapping and detailing of government payment streams:** This mapping of G2P or Government-to-person, P2G or Person-to-government, B2G Business-to-government, and G2B Government-to-business will be performed at a national and sub-national level. Some of the payments at the national levels are, for example, conditional cash transfers, subsidies, salaries, and pensions. This mapping matrix may include –but not restricted to– sectorial level, name of program, government agency participants or that administers the program, other agencies/stakeholders involved, starting date, frequency, volume of transfer, last mile payments provider, payment method(s)/ channel(s)²⁶, barriers for digitization, opportunities for digitization, current process for delivering payments, adoption process, funding source, average cost per transfer, lessons learned, etc. G2P payments could also include target population/recipients, average amount transferred, conditionality of the program, number of

²³ <http://www.nber.org/digest/jul14/w19996.html>

²⁴ <https://www.betterthancash.org/tools-research/resources/the-impact-of-electronic-payments-on-economic-growth>

²⁵ <https://www.betterthancash.org/tools-research/toolkits>, <https://www.betterthancash.org/tools-research/case-studies#filters>

²⁶ Payment channels can vary from program to program and also within a program, e.g., In Brazil, Bolsa Familia transfers money by three channels, smart cards, basic bank accounts, or cash. (CGAP, 2011)

registered recipients, number of paid recipients.

- c) **Prioritization of government payments:** this involves a framework for prioritization and a ranking of priority payment streams for digitization, as follows:
- a. Framework for prioritization that includes the criteria the government could use to cluster and then prioritize its payments. This criteria could include elements such as impact on financial/social inclusion, flows of money, frequency of payments, beneficiaries, geographic coverage, synergies with other initiatives, participation of the private sector, participant actors, etc.;
 - b. Identification of payments that could be of easier and quicker transition (e.g., adoption by recipient/payers, payments performed electronically) and have a convenient and simplified process;
 - c. Ranking of the payment streams the government can potentially digitize. This ranking should also include –but not restricted to- an identification of participating actors and assessment of their participation and responsibility, deep dive into the opportunities and barriers for digitization of those payment streams (e.g., policy, modification or enforcement of norms, process improvement, etc.), and critical success factors for their digitization.

d) Road map and recommendations of the top three or four payment streams the government selects (from the raking above) to deep dive, this involves:

It is expected that the Peruvian Government will be actively involved in the discussions of the road map and so will be ready to implement the recommendations that result from this deep dive.

- a. Cash flows and a process mapping of selected payments;
 - b. Actionable steps with specific recommendations of options for digitization and how to digitize those payment streams. These recommendations for improvement could be either policy, regulation, and partnership, etc., or process those payments should follow to transition to digital transfers;
 - c. Cost and benefit analysis of options for digitization;
 - d. Identification of potential strategic partners, as for example opportunities for cooperation/partnerships/alliance between the government, private sector, and different players in the digital payments ecosystem, identification of champions to move the process forward; opportunities to bring the private sector to participate in the digitization of those payment programs;
 - e. For G2P programs, provide insights on how to avoid consumers cashing out everything after they receive (social) government transfers²⁷
- e) Identify opportunities the government has to leverage current digital payments initiatives in the country (e.g., mobile platforms, electronic identification initiatives)

²⁷ <http://www.slideshare.net/CGAP/designing-products-for-g2p-recipients-through-financial-diaries-and-ethnographic-research-in-brazil>
<http://www.cgap.org/publications/electronic-g2p-payments-evidence-four-lower-income-countries>

C. AGREEMENT PARAMETERS

a) *Outputs and deliverables*

The outputs and deliverables of the study are considered a public good. Thus, all the outputs and deliverables will be placed in the public domain with the intent that they can and should be freely and widely used by other parties.

b) *Duration*

The technical partner is expected to sign a **Performance Base Financing (Grant) Agreement** with UNCDF on the 18th of December (see Annex 2 for a sample of our legal language in this regard. Applicants not familiar with UNCDF agreements are encouraged to request a sample from sonia.arenaza@uncdf.org prior to submission of application). The overall duration should be not more than four months. Expected date of full completion is April 7, 2016. Final presentation to key stakeholders is expected to take place between March and April 2016.

c) *Agreement size*

Up to US\$150,000 for the actionable study on how to digitize government payments in Peru. Applicants should provide budgets indicating how they would allocate costs to produce high quality expected results with their technical approach.

d) *Language*

The deliverables, as well as any and all related correspondence exchanged by the organization and UNCDF, shall be written in English and Spanish.

D. APPLICATION REQUIREMENTS

a) *Minimum qualification criteria*

- Any type of organization (commercial for profit firms, educational institutions, and non-profit organizations) is eligible to compete
- Having successfully conducted similar assignments at a country or regional level such as on digitization of government payments, electronic payments, financial and social inclusion, and digital financial services with excellent results
- The organization should demonstrate experience and deep understanding of public sector decision making process, public financial management, working reform process with governments in digital payments, digital finance, government payments, electronic money, and/or financial inclusion
- Provide written confirmation (Annex 1) that the organization has reviewed the UNCDF Grant Agreement template (available upon request), is prepared to sign it **by December 18th**, without revision to standard language
- Submit a complete application
- Excellence in technical writing and fluency in speaking in both English and Spanish
- Evidence of high quality of documentation, packaging, and disseminating technical knowledge

- in both English and Spanish to a wide range of audiences
 - Have confirmed human resources to cover all planned/required activities
- b) Other requirements and qualifications**
- Experience working with high level government, private sector and international organisations preferred
 - Experience working in developing and emergence countries, in Latin American countries (e.g., Peru) preferred
 - Demonstrated excellence in research, analytical, and field implementation capacity
- c) Structure of the Application**
- The application should follow the template provided in Annex 1: *Submission Format*
 - Only applications that follow the **Submission Format** and include all the necessary documentation will be accepted
- d) Submission of the Application**
- Applications and any consultation about this RFA should be submitted via email at Sonia.arenaza@uncdf.org; copying in (cc) ruth.goodwin-groen@uncdf.org and mia.overall@uncdf.org
 - The subject line of the email should be: Digitizing Government payments in Peru
 - The **deadline** to submit the applications is **November 27th 2015**