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Economic Cooperation**

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Session 3

Government Payment Guidelines - International Advisory Group for Government Payments

Submitted by: World Bank



**APEC Financial Inclusion Working Group
Meeting
Bangkok, Thailand
21-22 July 2011**

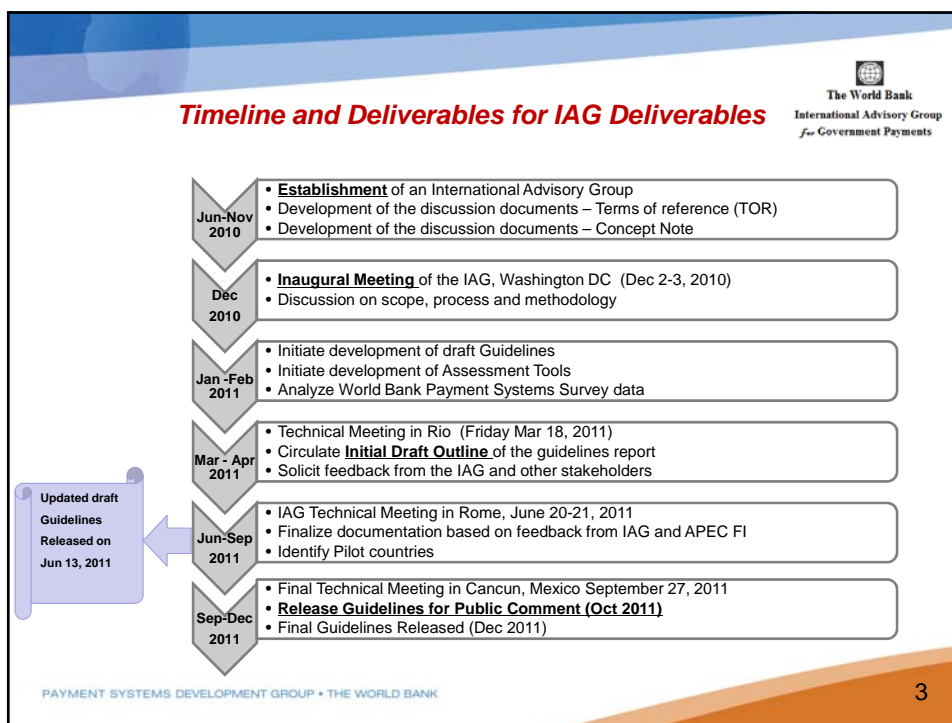


International Advisory Group (IAG) for Government Payments
(under the auspices of the World Bank)

- Made up of representatives from multilateral agencies, national authorities and private sector entities – WBG, IMF, BIS, USA, Mexico, Brazil, Russia, Italy, the Philippines, Azerbaijan, Saudi Arabia, India, Australia, South Africa, Turkey, WSBI, AFI, MasterCard, Visa, etc.
- Lead international effort to develop comprehensive guidelines for government payment programs including tools and assessment methodologies for planning and implementation of reforms
- Core Deliverables of the IAG include
 - **Analysis and synthesis of existing materials**, expertise and quantitative data to extrapolate a set of good practices
 - **Executing multi-stakeholder consultations** through various technical meetings held in a transparent and inclusive manner to build consensus and to ensure quality of report
 - **Guidelines developed by the World Bank team** with inputs from IAG members
 - **Relevant assessment tools and methodologies** for conducting diagnostics of the mechanisms for government payment programs

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Why do we need guidelines for government payments?

- Absence of universally accepted guidelines that provide public authorities and payment service providers with an overarching framework for design and implementation of government payment reforms
- Guidelines and NOT Principles or Rules:
 - Guidelines facilitate coordination amongst stakeholders within payments value chain on a “framework based approach”
 - Allow flexibility in implementation approaches
 - Broad based framework for guiding program implementations derived from international good practices
 - Not prescriptive in nature but give provisional guidance to governments and other stakeholders to address key areas of uncertainty during implementation process including a rapidly changing payments landscape
- The key focus is on the efficiency in government payment processes and flows that utilize country’s domestic payments infrastructure

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Government Payment Guidelines

GG1: legal and regulatory environment. *Government payments should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions*

Validity of electronic payments should be legally recognized; Central bank should play a key role in promoting reforms of government payments; Sound regulations for new and innovating retail payment instruments should be enacted; Appropriate legal and regulatory framework that promotes integrity and certainty of payments and minimizes fraud and risk should be enacted; Sound public finance; Adequate consumer protections including information disclosures and legal recourse

GG2: payment systems infrastructure. *Improvements to payment systems infrastructure that has the potential to increase the efficiency of government payment programs should be encouraged*

Organization and implementation of treasury systems; Adoption of common standards for interoperability within the payment infrastructure should be promoted; Automated and centralized account management systems should be implemented where appropriate; Using bank and non-bank financial services entities to provide payment services efficiently should be promoted; Adequate levels of automation should be adopted for government payment programs

GG3: risk management. *Government payment programs should manage risk through comprehensive planning and monitoring*

GG4: market structure and competition. *Competitive market conditions, including appropriate access to domestic payment infrastructures, should be fostered*

GG5: governance and transparency. *Government payment programs should be transparent and accountable*

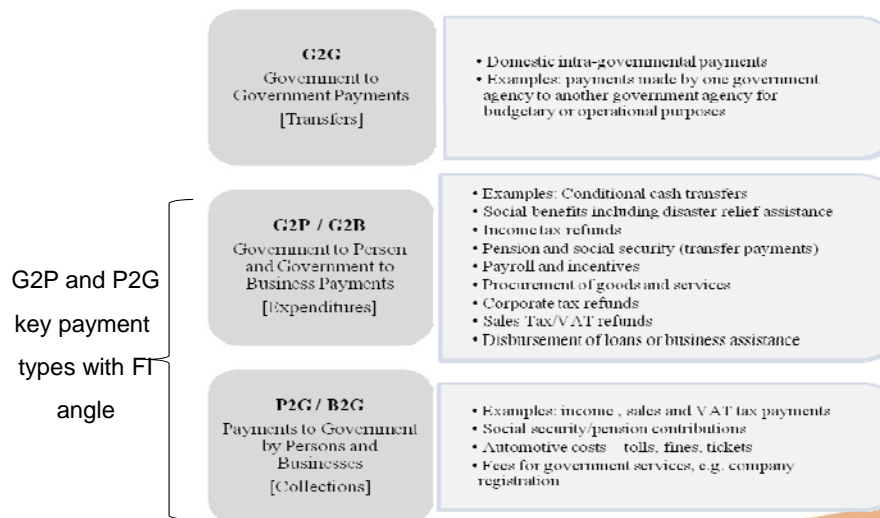
GG6: cooperation and partnership. *Cooperative ecosystem within the government authorities and with those within the payment industry should be fostered*

GG7: financial inclusion. *Government payment programs should incorporate adequate measures to promote financial inclusion*

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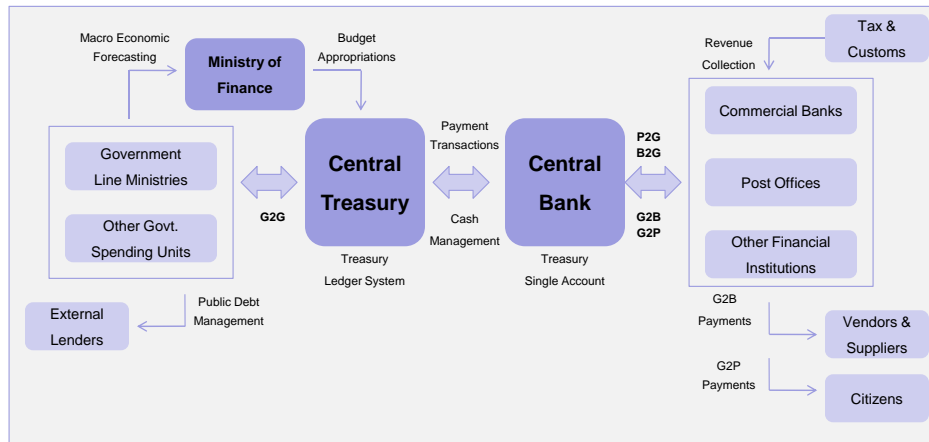
Types of Government Payments Considered within the Guidelines



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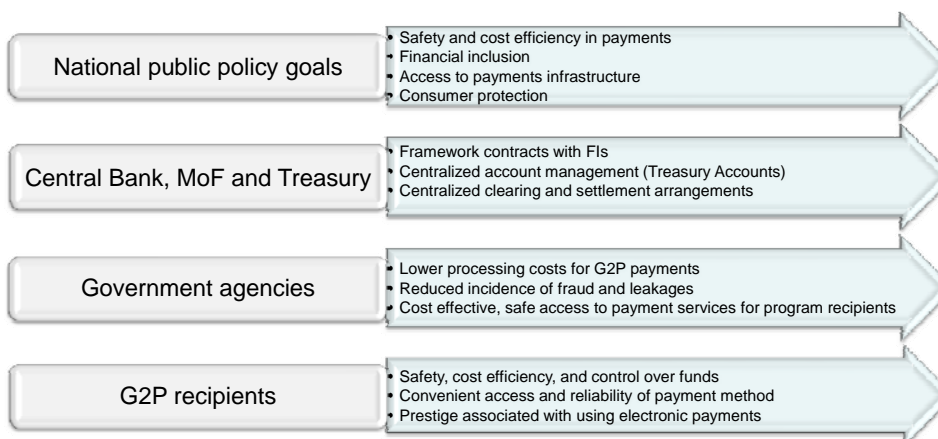
A Conceptual Model for Government Payments that Includes All Payment Types



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G2P Payments Value Chain



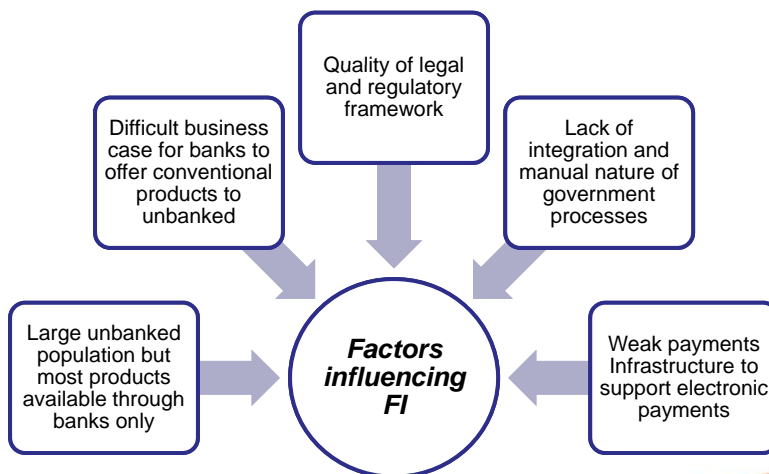
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Opportunities for Promoting Financial Inclusion through G2P Payments

Financial inclusion is defined as availability of basic financial products to meet payments, savings, credit, insurance and investment needs of the members of a society at a reasonable cost

- Approximately 155 million people worldwide receive some form of G2P payments – only 25% receive through a bank account or electronic payment instrument
- Broad based provision of electronic payments to financially excluded addresses public policy goals as well as provides tremendous savings to the governments
- A recent study by McKinsey showed that the Indian government could save INR 1000 billion or USD 22 billion annually (1.6% of GDP) if all of its government payments were converted to electronic payment instruments
- Access to payment services paves way for access to broader financial services including loans, deposits and credits, etc. which promotes financial inclusion at the country level

Challenges in Promoting Financial Inclusion



Guidelines for Financial Inclusion

- Financial Inclusion added as a **stated goal** in national public policy agenda with backing at the highest political levels
 - ❖ Measurable goals and objectives, e.g., xx% to be financially included by a certain timeframe
 - ❖ Tracking and reporting of objectives and making relevant updates to policy goals
- Coordination and cooperation on policy objectives for financial inclusion and access to payment services including addressing any policy tradeoffs between Central Bank, MoF, Treasury and those of line ministries
- Appropriate legal and regulatory framework that allows broader participation of payment service providers (FIs, non-banks FIs, TPPs, post office, etc.) and a broad range of payment mechanisms involving conventional and innovative payment instruments
- Fair process for selection of payment service providers including fair terms for recipients (pricing and service levels)
- Adequate consumer adoption and financial literacy measures to support faster adoption of non-cash payments

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