LEVERAGING PUBLIC PRIVATE PARTNERSHIPS FOR FINANCIAL INCLUSION

The private sector is seen as a potential source of the expertise, efficiency, and capital needed to improve and expand a range of products and services. As governments around the world seek ways to financially include their citizens and visitors, they are finding that full inclusion means engaging with the private sector (MNO, MTO, Technology providers, banks, and merchants). These public-private partnerships are critical to enhance products and services that come about through innovation.

Public-Private Partnerships are uniquely positioned to drive innovation and deliver financial empowerment: they can provide the resources necessary to address broader societal challenges in a more systematic and sustainable manner than Public or Private sector entities alone. At the core of a successful partnership between the Public and Private Sectors is a mutually-beneficial relationship. Governments benefit through the reduction in costs and slippage in the disbursements of pay and social benefits. Private sector entities benefit from the ability to create new revenue streams with new consumers. For underserved citizens, such partnerships deliver a better, more transparent system that ensures they receive the payment they are owed, on time and in full. This can drive real wealth creation and lay the foundation for a more efficient and fair financial services ecosystem for the benefit of all.

Two and a half billion people – half of the world’s adult population – lack access to credit, insurance, savings and other formal financial services.¹ This is caused by a number of factors, but a fundamental hurdle to extending financial inclusion to the underserved is the high cost of delivering traditional banking solutions. From ensuring there is physical infrastructure in place to providing low-cost deposit account access, traditional banking is often not an effective option for many.

In countries where the financial payments infrastructure is underdeveloped, the introduction of a government electronic disbursement scheme via a Public-Private partnership may serve to spark the growth of a broader payments ecosystem that benefits all. As such, governments are increasingly acting as catalysts of financial inclusion. As the single largest payer to underbanked citizens,² they do so directly by migrating government payroll and benefits disbursements to formal financial accounts and indirectly via regulations that drive Private sector investments and adoption of electronic transactions. This transition has the added benefit of helping to realize significant efficiencies. In Brazil, for example, switching to electronic benefit cards helped reduce the administrative costs of Bolsa Familia (Brazil’s social welfare program) nearly seven-fold, from 14.7% to 2.6% of grant value disbursed.³ Overall, CGAP estimated that switching from cash to electronic delivery via agent network generates ~40% in savings per transaction – cost savings that can be used to serve the poor.⁴

In addition to driving efficiencies and lowering costs, financial inclusion can drive economic growth. Moody’s Analytics studied the correlation between payment card usage and GDP growth, and estimates that every 1.00% increase in card usage would produce an annual increase of 0.06% in consumption and a 0.03% increase in GDP.⁵

¹ https://mckinseyonsociety.com/half-the-world-is-unbanked/
² WEF, Galvanizing Support: The Role of Government in Advancing Adoption of Mobile Financial Services, 2012; CGAP, Banking the Poor via G2P Payments, 2009
⁵ Moody's Analytics, The Impact of Electronic Payments on Economic Growth. February 2013
However, it can be challenging for a Private sector entity to achieve this without a Public-entity partner due to an inability to create sufficient revenue to offset the investment and ongoing operating costs provides little incentive for investment. A successful Public-Private Partnership provides an opportunity to develop innovative solutions and build a profitable model to distribute financial products to underserved consumers.

Several initiatives across the globe showcase an alternative paradigm for financial inclusion, one that leverages innovative technologies such as prepaid accounts, mobile banking platforms, agent banking networks, and mobile POS acceptance points. These projects are most cost-effective compared to traditional financial services and can drive down costs, but only when they operate at scale — a scale that government initiatives have and that is difficult for the Private sector to achieve on its own. The more transactions that can be captured electronically, the more the model economics make sense for all players, by driving innovation and lowering costs for the consumer. An ideal solution – yet to be developed - will be a single electronic payment product that consumers can leave their house with and use throughout the day, without having to take cash out of their pocket. This account could be easily funded by all sources of income, from social security to state benefits to payroll to cash. It would also serve as the start of a savings account, the one source for paying rent and utility and phone bills and the foundation for a credit history when those payments are made on time.

For underserved consumers, a Public Private Partnership that delivers electronic disbursement of payments can improve transparency while providing greater convenience, sense of dignity and security. In Argentina, the percentage of social benefits recipients who said they paid a bribe to local officials to access their benefit dropped from 3.6% to 0.3% after the Ministry of Social Development moved to an electronic benefits card - an estimated additional US$11MM now gets into the hands of intended recipients. They can also drive wealth creation by ensuring the consumer is paid what they are owed. For example, when the government in Afghanistan switched from cash to electronic m-payments for its national police force, some employees thought that they had received a nearly 30 percent raise since they were paid the correct amount for the first time.

Effective Public-Private Partnerships can be enabled through mandates both at a federal and state level. For example, in the U.S., the Treasury is paying federal benefits through electronic payments and the UAE has mandated the Wage Protection System which is an initiative to safeguard payment of workers' wages via transfers through selected financial institutions, regulated by the government. They can also be enabled by engaging through state-owned entities in developing the necessary ecosystem, such as in the case of Mexico. In both models, Public-Private Partnerships break down barriers that prevent the excluded population from participating in the financial system, improving financial education and providing access to a range of quality financial services.

Public-Private Partnerships are central to successful Financial Inclusion, delivering the right model of know-how, capital and experience with scale and reach. On one hand, Private sector companies can provide the groundbreaking technologies, understanding of consumer dynamics, experience in multi-

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7 Mobile Money, USAID, October 9, 2011
partner arrangements and the capital required to build a lower-cost banking model. On the other hand, the Public sector provides the scale and the long-term commitment necessary to warrant large upfront investments by Private sector players, while at the same time enforcing regulations that ensure payment systems are equitable and sustainable in the long run.

No single stakeholder can drive financial inclusion alone or deliver the full set of solutions. As catalysts for change, it’s essential for Public and Private sector entities to work together and we need the government to be a partner for all players.

Given this premise, what actions in your opinion should we take to accelerate Public-Partnership Partnerships in the service of financial inclusion?

- What examples best illustrate the potential success – or the potential pitfalls – of Public-Private Partnerships in Financial Inclusion? What are the key success factors in developing or structuring viable Public-Private Partnerships to achieve financial empowerment that goes beyond simple inclusion?
- What obstacles does the Public sector face in implementing financial inclusion solutions, and where is the Private sector best suited to remove those obstacles?
- How can NGOs successfully engage both Private and Public sectors to galvanize and sustain financial inclusion projects?
- What are examples of regulations that have allowed an open environment for Public-Private partnerships?
- How do we balance political, financial and regulatory challenges?