

**AN OVERVIEW OF THE G2P PAYMENTS SECTOR IN PAKISTAN**



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## INTRODUCTION

Pakistan is on the path to digitizing a large share of its government flows to people. The country serves as an example of how public and private institutions together can move a country towards a digital financially inclusive system. Government and public actors have created the enabling environment and provided seed funding, while private actors are developing the infrastructure and services and developing a long-term business case. The initial efforts to distribute social cash transfers electronically have now been expanded to include a wider variety of government flows. In fact, social cash transfer programs constitute about 11% of total government payments, while salaries make up 68% and pensions 21%. Among social cash transfers, the Benazir Income Support Programme (BISP) represents the largest in terms of number of beneficiaries and volume of payments. CGAP estimates that if things keep moving forward, as they have in recent years, within 5 years over 75% of government flows could be digitized.

The digitization of government flows builds in part on the progress made by the industry and the regulators to grow the branchless banking industry.<sup>1</sup> This industry has been moving at a steady pace in Pakistan over the last few years. More than 1.8 million branchless banking accounts have been opened and there are more than 31,000 agents in almost 90% of Pakistan's districts processing more than 10.4 million transactions monthly. Six more banks have recently obtained approval for branchless banking activities and are carrying out pilots.<sup>2</sup> Going forward, there is interest from the banking sector to design suitable products linked to digital government flows.

This report provides an overview of the government-to-person (G2P) payments sector in Pakistan, highlighting the progression of payment mechanisms and the ways in which the growing branchless banking industry has facilitated this. While some level of detail on schemes, providers and monetary flows are included, the broader aim is to provide an overview of the digitization of the government flows and to explain the role of both public and private actors. The report has three sections: (1) Status of branchless banking in Pakistan, where we highlight key deployments and the role of regulators and donors; (2) Overview of G2P payment schemes, where we detail the flows and implementations involved in both social cash transfers and government employee salaries and pensions and provide a brief history of those flows; and (3) Challenges and opportunities in digitizing government flows, where we briefly discuss key lessons from the Pakistani experience.

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<sup>1</sup> The delivery of financial services outside conventional bank branches, using agents and other third-party intermediaries as the principal interface with customers, and relying on technologies, such as card-reading point-of-sale terminals and mobile phones, to transmit transaction details.

<sup>2</sup> State Bank of Pakistan Branchless Banking Newsletter July - September 2012. Available at: <http://www.sbp.org.pk/publications/acd/BranchlessBanking-Jul-Sep-2012.pdf>

## **1. STATUS OF BRANCHLESS BANKING IN PAKISTAN**

Over the past three years, following the creation of regulation in 2008, several branchless banking businesses have been established. The leaders in the market include Omni and EasyPaisa but as shown in Table 1, two new services (MobiCash and Timepey) have just launched and two more businesses are running live pilots. All of the four mobile network operators and some of the largest banks are expected to launch a branchless banking service in the next year. The central bank gives branchless banking licenses only to banks, but has supported and encouraged a range of business model arrangements. Three mobile network operators now own microfinance banks. Two banks are independently pursuing telco-agnostic models, while two other banks have struck exclusive partnerships with mobile network operators. In addition, leading microfinance banks like Tameer, Khushhali and Kashf plan to expand outreach even more rapidly than before through less expensive branchless banking channels instead of through the traditional branch model. As a result, significant growth is expected in the branchless banking sector.

Almost all these services are involved in digitizing government flows via branchless channels. Three of the commercial banks pursuing branchless banking financial services (United Bank Limited, Habib Bank Limited and Bank Alfalah Limited) are making transfers to BISP beneficiaries, in addition to Tameer Microfinance Bank. The mobile network operator Zong and Askari Bank are looking to distribute salaries and pensions to Army soldiers. These services and others are further detailed in subsequent sections.

It is worth noting that although most branchless banking services are involved in digitizing government flows, none of them base their business case solely on these flows. Government flows are seen as one of a range of services that businesses are pursuing. Banks see G2P as one of many opportunities to grow their branchless banking business. G2P payments, for example, provide additional revenue to their agent networks, particularly in rural areas. This supports the build out of the infrastructure necessary to sustain a branchless banking business that reaches not only beneficiaries, but other banking customers as well. Increasing competition in an active branchless banking sector is also pushing banks to participate in various G2P schemes as most feel they cannot afford to stay out.

**Table 1: Status of Branchless Banking Deployments in Pakistan**

<b>Deployment</b>	<b>Status</b>	<b>Involvement in digitizing G2P flows</b>
(1) EasyPaisa: Telenor Pakistan and Tameer Microfinance Bank own and operate EasyPaisa.	Launched in 2010. Telenor bought a 51% stake in Tameer Microfinance Bank and launched EasyPaisa. The business has over 22,000 agent locations and processes over 7 million transactions per month.	Disbursing pensions for EOBI, as well as BISP government cash transfers
(2) Omni: United Bank Limited operates this service	Launched in 2010. Omni is a telco-agnostic service and operates over 8,000 agents and processes over 4.5 million transactions per month.	One of the original banks involved in government cash transfer payments, including BISP
(3) MobiCash: Mobilink and Waseela Microfinance Bank	Launched in November 2012. Mobilink is the largest mobile network operator.	None at this stage
(4) Habib Bank Limited (HBL)	Pilot (as of 2012 Q3). HBL is the largest commercial bank with the largest branch footprint.	Disbursing BISP government cash transfers
(5) Timepey: Zong and Askari Bank	Launched in November 2012.	Askari Bank is disbursing Army salaries and pensions
(6) Ufone and Rozegar Microfinance Bank	Planned for Q1 2013	None at this stage
(7) Monet, Warid and Bank Alfalah: All three companies have common ownership.	Planned for Q1 2013	Bank Alfalah is disbursing BISP government cash transfers
(8) Dubai Islamic Bank	Piloting services	None at this stage
(9) Meezan Bank	Planning stage	None at this stage

## Government Enablers

The **State Bank of Pakistan (SBP)** has played an important role in the evolution of G2P payment systems. The SBP created branchless banking regulations in 2008 that led to private sector investment through different business models. It is the implementing agency for the DFID-funded Financial Inclusion Program (FIP) that includes the Financial Innovation Challenge Fund (FICF). Launched in May 2011, FICF aims to foster innovations, test new markets, lower cost of delivery, enable more efficient systems and procedures, and provide new ways of meeting unmet demand for financial services. The first round of the Fund has focused on G2P payments. Thirteen applications were initially submitted, eight of which were invited to submit full proposals. Of these, six projects<sup>3</sup> were recently approved for grant funding. SBP has hosted two branchless banking conferences in 2010 and 2011, the second one of which was dedicated to highlighting G2P business and partnership opportunities.<sup>4</sup>

The SBP also has launched a National Financial Literacy Program to promote financial literacy among the general public at the national level. The program delivers knowledge about basic financial concepts such as budgeting, savings, investments, debt management, financial products and branchless banking. In the pilot phase 47,800 direct beneficiaries were targeted against the planned 45,000 beneficiaries. After the pilot evaluation, the program will be scaled up to target a larger number of beneficiaries across the country.<sup>5</sup> On a more operational level, the SBP has given approval to banks to open accounts for BISP beneficiaries without going through the normal account opening process of NADRA verification, thereby eliminating the Rs. 35 (\$0.35) NADRA fee.<sup>6</sup>

The **National Database and Registration Authority (NADRA)** is a federal department responsible for issuing identification cards (CNIC) to all citizens 18 years and older based on a biometric database. It plays an important role in verifying customer information at the time of bank account opening, charging a Rs. 35 fee per verification. NADRA is getting involved in other financial services as well. It recently launched a chip-based version of the national ID card. NADRA intends to use the new cards as part of a system to pay Zakat payments in Sindh Province. NADRA aims to handle the entire process from verification, registration, issuance of cards to the enablement of the cash withdrawal mechanism.

Unlike most other countries, the telecom industry regulator in Pakistan, the **Pakistan Telecommunication Authority (PTA)**, has been closely involved in branchless banking regulation. In 2011, the PTA signed a memorandum of understanding with the SBP to jointly develop regulations related to interoperability issues in branchless banking. PTA and SBP in partnership are following a managed approach to interoperability to avoid the risks that “intervening now” or “doing nothing until problems arise” might bring. This in turn has created confidence within banks and mobile network operators who continue to invest in the growth of the branchless banking sector. The PTA is also

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<sup>3</sup> The six projects awarded grant funding are: (1) NADRA; (2) Punjab Pension Fund; (3) BISP; (4) Askari Commercial Bank; (5) Employees Old Age Benefit Institution; (6) United Bank Limited.

<sup>4</sup> See <http://www.sbp.org.pk/mfd/g2p.htm>

<sup>5</sup> [www.financialeducation.pk](http://www.financialeducation.pk)

<sup>6</sup> Exchange rate of 1 USD = 97.75 PKR, as of January 24, 2013.

evaluating the merits of issuing specific guidance to the industry on the use of telecom channels (SMS, USSD, etc.) for branchless banking services. This guidance could have implications for how banks involved in G2P can continue to offer such services via a mobile channel.

### **Role of Donors**

The **World Bank Social Protection Unit** has several programs that support the evolution of social cash transfer payment systems. They will soon complete a study of BISP beneficiaries that analyzes the different segments among this large customer base. They are also partnering with the Pakistan Microfinance Network to develop training modules for BISP beneficiaries on financial literacy. Both of these resources will be helpful to banks as they seek to provide additional services beyond the payment delivery itself.

**DFID** has funded the Financial Inclusion Program, as mentioned above, to support the spread of financial services throughout the market. In addition to the Financial Innovation Challenge Fund, there are several other components of FIP: the Institutional Strengthening Fund, the Microfinance Credit Guarantee Facility and the Credit Guarantee Scheme for Small and Rural Enterprises. Technical Assistance is also included in this program.

The **Bill and Melinda Gates Foundation's Financial Services Program (FSP)** continues to play an active role in the development of the branchless banking industry in Pakistan. The FSP has provided grant funding to both EasyPaisa and UBL's Omni service. In both cases, funds are being used by the providers to develop more account-based services which should have implications for creating financial services for G2P recipients.

## **2. OVERVIEW OF G2P PAYMENT SCHEMES**

G2P payment schemes are organized into three categories: (a) social cash transfers, (b) government salaries and (c) government pensions. The payment schemes examined in this report include social cash transfers, salaries and pension schemes administered by central government agencies, and also an additional provincial scheme managed by the Government of the Punjab, the largest province in the country. Annual payments under these schemes amount to \$9.3 billion, of which salaries (federal and provincial) make up \$6.3 billion or 68%. Pensions amount to approximately \$1.9 billion, or 21%, followed by social cash transfer programs at \$1.1 billion, or 11% of total G2P flows.

G2P payments are beginning to be made more and more directly into individual bank accounts, replacing delivery in cash via the Post Office or over-the-counter (OTC) at the National Bank of Pakistan (NBP) offices. As branchless banking has become more widespread over the last few years and in response to the increasing prevalence of agent-based banking services, the Government of Pakistan has begun to administer a growing number of social protection and compensation payments via these channels. Most if not all of the schemes featured in Table 2 are currently looking into digitizing their payments and using these payments as a platform to deliver a broader set of financial services, including

savings, bill payments and transfers. Below we provide an overview of the major G2P payment schemes in these three categories and the path they have taken in their transition from cash to electronic payments and to bank accounts.

**Table 2: Annual G2P Flow Estimates**

	Num of beneficiaries	Avg periodic pmt (US\$)	Total periodic pmt (US\$)	Total yearly pmt (US\$)	Pmt frequency	Pmt instrument %Cash/%Electronic <sup>(1)</sup>
<b>Social Protection Cash Transfer Programs</b>						
BISP core	5,000,000	10	51,150,895	613,810,742	Monthly	70%/30%
CDCP (Watan Card) - 3pmts total	2,000,000	205	409,207,161	409,207,161	3 pmts (3 yrs)	0%/100%
BUM UNICEF child support program	12,000	6	73,657	883,887	Monthly	100%/0%
<b>Total</b>	<b>7,012,000</b>	-	<b>460,431,714</b>	<b>1,023,901,790</b>	-	
<b>Government Payroll</b>						
AGPR Salaries	210,000	225	47,263,427	567,161,125	Monthly	0%/100%
Army Jawans & JCOs Salaries	1,100,000	220	241,943,734	2,903,324,808	Monthly	100%/0%
Punjab Prov Salaries	900,000	261	235,069,697	2,820,836,360	Monthly	0%/100%
<b>Total</b>	<b>2,210,000</b>	-	<b>524,276,858</b>	<b>6,291,322,294</b>	-	
<b>Pensions</b>						
AGPR Pensions	206,761	134	27,621,483	331,457,801	Monthly	100%/0%
Army Jawans & JCOs Pensions	1,000,000	66	66,496,164	797,953,964	Monthly	100%/0%
EOBI Pensions	400,000	37	14,731,458	176,777,494	Monthly	94%/6%
Punjab Prov Pensions	436,995	100	43,637,384	523,648,612	Monthly	100%/0%
Navy Pensions	39,216	66	2,607,714	31,292,563	Monthly	100%/0%
Airforce Pensions	93,102	66	6,190,926	74,291,110	Monthly	100%/0%
Frontier Constabulary Pensions	61,722	66	4,104,276	49,251,315	Monthly	100%/0%
<b>Total</b>	<b>2,237,796</b>	-	<b>165,389,405</b>	<b>1,984,672,857</b>	-	100%/0%
<b>TOTAL G2P PAYMENTS</b>	<b>11,459,796</b>		<b>1,150,097,976</b>	<b>9,299,896,941</b>	-	
<b>Donor Payroll</b>						
WHO Polio Salaries	200,000	307	61,381,074	736,572,890	Monthly	100%/0%

(1) Electronic refers to either a payment into a limited mandate account or a full bank account

Sources: Interviews with relevant stakeholders; government websites.

### **Social Cash Transfer Programs**

The **Benazir Income Support Programme (BISP)** represents the largest social cash transfer program in the country. Started in 2008 with an initial allocation of Rs. 34 billion (\$347 million), the program aimed to cover 3.5 million women living below the poverty line. The short term objectives of the program were to cushion the adverse impacts of the food, fuel and financial crisis on the very poor. The allocation for the last fiscal year was Rs. 70 billion (\$716 million) to expand coverage to 5 million families, constituting almost 15% of the entire population.<sup>7</sup> Enrolled women are paid Rs. 1000 (\$10) per month to be used for their families.

<sup>7</sup> www.bisp.gov.pk

Aside from providing supplemental income to low-income families, BISP's goal is to promote women's empowerment and eventually have women graduate from their dependency on cash assistance. As such, BISP has designed several special initiatives targeting sub-segments of the BISP beneficiary population to achieve this goal. *Waseela-e-Haq* provides randomly selected BISP beneficiaries with a Rs. 30,000 (\$306) loan to establish a business mutually identified with BISP officials. *Waseela-e-Rozgar* is a vocational and technical training initiative, and *Waseela-e-Sehat* provides beneficiary families with health insurance for up to Rs. 25,000 (\$255) per year and life insurance coverage of Rs. 100,000 (\$1,025) upon death. BISP is currently piloting this product with the state insurance company in one district. Finally, *Waseela-Taleem* is a conditional cash transfer initiative paying Rs. 200 (\$2) monthly per child, up to 3 children per household. The program plans to start its initial pilot by early 2013.

While not the main focus of this note, it is worth mentioning that significant progress has been made on the targeting policy of BISP. Approximately 1.7 million former families that had been previously chosen by local politicians have been removed from the program as a result of the implementation of a poverty scorecard for targeting purposes. Eliminating beneficiaries from such entitlement programs is a huge undertaking, and quite unprecedented for any government program with vested interests.

There has been a rapid progression in the way BISP payments have been made. From 2008 when it started, payments were made using the traditional government payment method via Pakistan Post money orders. Starting in early 2010, BISP experimented with several new payment instruments: first with NADRA-customized smart cards (Benazir Smart Card), later with mobile phones, and currently with magstripe debit cards (Benazir Debit Card - BDC). Both the smart card and the mobile phone pilots were small in scale. In fact, UBL was the only bank to respond to the initial BISP RFP and began making smart card payments to BISP beneficiaries later in 2010. The mobile pilot presented different challenges. The prohibitive cost of providing BISP beneficiaries with a mobile phone made this option unattractive for banks. Many of the handsets were reported lost or damaged after only the first payment. While some payments are still being made through these two mechanisms, they are both gradually being phased out.

The latest payment mechanism begun in February 2012 has transitioned to six banks issuing magstripe debit cards (BDC) linked to some form of account, which varies by bank. The original allocation from BISP was to four banks for approximately 5 million BISP beneficiaries (1.5 million for United Bank Limited; 1.3 million for Habib Bank Limited; 1.2 million for Bank Alfalah; 1.1 million for Tameer Microfinance Bank). Later in the process, Summit Bank and Sindh Bank were allocated an additional 280,000 beneficiaries. Since making this switch in February 2012, about 700,000 cards have been distributed to beneficiaries disbursing Rs. 2.1 billion (\$21 million).

The nature of the "account" linked to the debit card varies by bank. In principle there is a 180-day limit for funds to be withdrawn for BISP. In practice, however, this limit is not being enforced and no funds are being returned or reclaimed if left in the account. Several banks are now beginning to transition the Benazir Debit Card to Level 0 branchless banking accounts, facilitated by the waiver of the NADRA verification fee.



For **United Bank Limited (UBL)**, the G2P business has been critical to the development of its agent network, especially in providing revenue potential for rural agents. Specifically, it has helped UBL establish agents in areas where it would not otherwise have gone, and then to build its branchless banking Omni business around this. In urban areas, it has allowed UBL to reward high-performing agents with more transactions. UBL is eager to transition its BISP beneficiaries to Level 0 accounts and to incentivize usage. Early observations show that OTC payments have increased in BISP areas, perhaps indicating that beneficiaries are sending money and carrying out other transactions beyond just the monthly withdrawals.

**Habib Bank Limited (HBL)** offers a prepaid account (not a full Know Your Customer [KYC] account) that for now only allows withdrawals (no deposits). HBL will soon be launching its branchless banking service, but in the meantime payments are currently made through 600 POS devices in its 1,462 branches, causing considerable congestion in many BISP payment areas. Its branchless banking business will enable HBL to move the prepaid accounts to branchless banking Level 0 accounts so beneficiaries can make additional deposits if desired.

**Bank Alfalah** offers virtual accounts, not recorded on the core banking system of the bank. But the bank is interested in transitioning these accounts to simplified accounts. It also issues beneficiaries a white label 1LINK<sup>8</sup> branded card, as opposed to Visa or MasterCard. Experience to date shows that 63% of payments are made at ATMs and 37% at agents. In the future, Bank Alfalah wants to transition from card payments to mobile payments, and it is working with Ufone to distribute SIM cards to beneficiaries. Surprisingly, Bank Alfalah reports that 90% of beneficiaries already seem to have a mobile number, so the bank is asking the beneficiaries to switch to Ufone so that they can begin to send SMS messages alerting them when their payment is ready.

**Tameer Microfinance Bank** opens regular Tameer bank accounts for beneficiaries that sit on its management information system (MIS). Distribution is made through 1LINK ATMs and through EasyPaisa agents with POS machines. Agents make 80% of the payments, to which Tameer passes on 1% of the 3% commission received from BISP. Strategically, it is important for Tameer to get into the G2P game, and along the way it helps the bank create its branchless banking ecosystem.

While there have been various payment methods experimented with over the past several years, a few of which have caused confusion among the private sector and the beneficiaries (i.e. the mobile pilot), BISP overall has established and followed good practices in its payment schemes. Under the new debit card system, banks are paid a 3% fee under a 2-year contract, which was arrived at through a consultative process with the banks and reflects global standards of appropriate fees to pay such payment providers. Looking to appropriately leverage the existing infrastructure in place, each of these banks has been assigned distinct districts. Even though most BISP beneficiaries still have limited mandate accounts that only allow for withdrawals, banks are starting to convert these into Level 0 accounts with added functionality (i.e. allowing deposits).

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<sup>8</sup> 1LINK is the largest switch in Pakistan.

BISP also requested SBP approval for ATM fees to be waived so that beneficiaries would not have to pay any additional fee to use this channel. This means that even banks outside of the main six which are not involved in making BISP payments must give away free transactions if beneficiaries use their ATMs for withdrawals. The volume of these types of transactions is likely low, but it shows BISP's commitment to facilitate ease of payment for beneficiaries.

Most recently, BISP has won a grant under from the FIP Financial Innovation Challenge Fund to work with Tameer Microfinance Bank and Bank Alfalah in six districts offering savings accounts to BISP beneficiaries. These accounts require a minimum balance of Rs. 5000 (\$50) and will pay 6% interest on the balance. Plans for this project are still being finalized.

Beyond BISP, most of the early experimentation with non-cash based payment schemes originated within the social protection space. Emergency situations such as the 2009 internally-displaced-persons (IDP) crisis in the Swat valley and the devastating floods of 2010 led international relief and government agencies to consider more effective and secure payment mechanisms that would deliver immediate cash assistance to the affected population.<sup>9</sup>

The **Citizen Damage Compensation Program (CDCP)** is a cash transfer program initiated by the government in response to the floods in 2010. The implementation authority for CDCP is the Cabinet Division, while NADRA is the technical implementing agency managing field operations. The first phase of this program (initially called the National Disaster Relief Program – NDRP) was fully government funded and made a one-time payment of Rs. 20,000 (\$204) by issuing 2 million prepaid Visa-branded “Watan” cards. The program was later extended to deliver two additional payments of Rs. 20,000 to each recipient in a second phase totaling \$409 million per payment period. Since launching the second phase in August 2011, 80% of the beneficiaries have received the first installment and the program is now preparing to begin the disbursements of the second installment. Delivered by banks UBL, HBL and Alfalah, beneficiaries under this program now have access to full bank accounts where they can transact. UBL has been involved in G2P longer than any other bank starting with the IDP payments from the World Food Program in 2009 delivered through Visa debit cards. It was the first bank to start making CDCP flood victim payments through the Watan card in 2010. A timeline documenting the major developments in the G2P payment space can be found in Table 3.

**Bait-ul-Mal** is a large federal social assistance program established in 1992 through an Act of Parliament. While it is a federal program, each province has its own provincial management system, with 4,000 total staff throughout the country. Bait-ul-Mal supports a long list of programs that focus on hunger, health, education, and self-employment.

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<sup>9</sup> Refer to CGAP's "Case Study: United Bank Limited Supports Cash Transfer Payments" [http://www.cgap.org/gm/document-1.9.50409/CGAP\\_UBL\\_case\\_study\\_Jan\\_2011.pdf](http://www.cgap.org/gm/document-1.9.50409/CGAP_UBL_case_study_Jan_2011.pdf) for further details on the 2009 IDP crisis payments and a full history of UBL's G2P business.

The only direct cash transfer program under Bait-ul-Mal is the Child Support Programme, a CCT started with the World Bank in 2005 and now administered by UNICEF. The program has delivered Rs. 86 million (\$883,000) to 12,000 beneficiaries<sup>10</sup> in order to promote primary school education and reduce the dropout ratio in districts heavily affected by conflict in 2009 and floods in 2010. Payments are currently delivered in cash via the Post Office, but the agency is looking into using biometric smart cards in the future. Bait-ul-Mal previously administered another cash transfer program that paid Rs. 3,000 (\$30) per month to low-income women, but with the implementation of BISP which pays Rs. 1,000 (\$10) per month, this particular Bait-ul-Mal program was closed. In total around 2.5 million beneficiaries are reached through Bait-ul-Mal programs annually. The main funding source is the Government of Pakistan, and while in the past the funding was around Rs. 5 billion (\$51.1 million) per year, this last fiscal year saw it decrease to Rs. 2 billion (\$20.4 million).

**Zakat** is an obligatory Muslim tithe collected annually by the state. On the first day of Ramadan, an automatic deduction of 2.5% is made from all bank accounts having a balance of Rs. 51,086 (\$522) or more. These funds make up the annual Zakat budget of around Rs. 2 billion (\$20.4 million).<sup>11</sup> Provinces distribute this money through local Zakat committees for specific projects.

**Table 3: Timeline - Major G2P and Branchless Banking events**

Key:

- G2P-specific events
- General branchless banking events

2007		● UBL launches Orion mobile wallet
2008		● State Bank of Pakistan (SBP) publishes branchless banking guidelines enabling use of agents by banks
2009	July	● WFP and UBL pilot “cash for food and work” program for IDPs, using a Visa prepaid magstripe card (limited mandate account)
	Sept	● UBL receives pilot approval for branchless banking using agents
	Oct	● Telenor/Tameer Bank launch EasyPaiza
2010	Feb	● Launch of 2 <sup>nd</sup> WFP/UBL pilot for IDPs, using a plastic number card with 1LINK number (Level 1 accounts)
	April	● UBL launches Omni agent banking platform
	April	● SBP organizes first Branchless Banking conference to showcase state of industry and catalyze investments and product innovation
	July	● UBL launches BISP Benazir Smart Card pilot in four districts
	Aug	● Widespread floods affect 20 million people in four provinces

<sup>10</sup> [www.pbm.gov.pk](http://www.pbm.gov.pk)

<sup>11</sup> <http://www.nation.com.pk/pakistan-news-newspaper-daily-english-online/business/30-Jul-2012/over-rs-2b-zakat-deducted-from-bank-accounts>

	Sept	<ul style="list-style-type: none"> <li>• National Disaster Relief Program - now called Citizen Damage Compensation Program - launches Watan cards to deliver cash transfers to flood-affected population. UBL starts payments followed by HBL and Bank Alfalah.</li> </ul>
2011	May	<ul style="list-style-type: none"> <li>• SBP organizes second Branchless Banking conference to discuss opportunities, synergies and challenges in automating G2P payments</li> <li>• Financial Innovation Challenge Fund launches Round One of the program on G2P payments</li> </ul>
	Aug	<ul style="list-style-type: none"> <li>• Second payment is disbursed to flood-affected population via Watan cards</li> </ul>
	Sept	<ul style="list-style-type: none"> <li>• BISP initiates mobile pilot with several banks</li> </ul>
2012	Jan	<ul style="list-style-type: none"> <li>• EOBI pensioners eligible to claim benefits through EasyPaisa</li> </ul>
	Feb	<ul style="list-style-type: none"> <li>• Banks initiate magstripe card pilot for BISP beneficiaries</li> </ul>
	July	<ul style="list-style-type: none"> <li>• SBP, World Bank and Pakistan Microfinance Network launch financial literacy program for BISP beneficiaries</li> <li>• FICF announces the 6 winners of the G2P grants</li> </ul>
	Nov	<ul style="list-style-type: none"> <li>• Mobilink and Waseela Microfinance Bank launch MobiCash</li> <li>• Zong and Askari Bank launch Timepey</li> </ul>

### **Government Salaries and Pensions**

Government salaries and pensions are paid at both the federal and provincial level. Most salary payments are made through banks, while pension payments are made in cash through the National Bank of Pakistan. The following schemes are all in the process of digitizing their payments to varying extents.

The **Accountant General Pakistan Revenues (AGPR)** is responsible for the centralized accounting and reporting of federal transactions. In particular it processes salary and pension payments for all federal-level employees, save those of the armed forces and railways and autonomous bodies such as the State Bank of Pakistan. AGPR disburses around \$567 million to approximately 210,000 federal employees and \$331 million to approximately 200,000 pensioners every year<sup>12</sup>.

The armed forces are composed of the Army, Navy, Air Force and the Frontier Constabulary. The Army alone distributes \$2.9 billion to 1.1 million Army officers and \$797 million to 1.0 million pensioners. Askari Bank's close ties with the Army have given it the potential opportunity to enter the G2P space by making Army salary and pension payments. All armed forces pensions are currently being paid in cash via a pension payment order at an NBP branch. While salary payments are more likely to be paid into bank accounts, many of payments are made to junior officers who are less likely to have a bank account.

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<sup>12</sup> [www.agpr.gov.pk](http://www.agpr.gov.pk)

To help facilitate a switch to electronic payments, Askari just launched its branchless banking service Timepey in partnership with Zong. Part of Zong's airtime distribution will be used for agents. Negotiations are still ongoing with the Army to transition its payment mechanism, but as an extra incentive the bank will not charge any fee to make these payments. Askari sees this as an opportunity to earn float and bring in new customers. Its plan is to offer Level 0 or Level 1 branchless banking accounts with interest.

The **Employees' Old-Age Benefits Institution (EOBI)** is the social pension provider for private sector retirees. There are four main schemes offered: the Old Age Pension for men over 60 years old and women over 55 years old; the Survivor's Pension for widows and their children; the Invalidity Pension for people with disabilities; and the Old Age grant as a one-time payment for those who have not contributed for the mandatory 15 years. EOBI began in 1976 through the EOBI Act covering any employee with a minimum wage of Rs. 1000. The law changed in 1986 making it mandatory for any company with ten or more employees regardless of the minimum wage amount. In 2006 it changed again to apply to companies with 20 or more employees and then again in 2008 to include companies with five or more employees. EOBI is therefore voluntary for any company with less than five employees. According to these guidelines, EOBI should reach about 12 million workers. In practice, however, EOBI currently covers only about 5 million people: 4.5 million who are presently contributing and 0.4 million who are presently collecting. A federally-administered agency, EOBI currently disburses a total of \$176 million annually to pensioners currently collecting. The challenge is to convince both the employers and employees to register and contribute (5% and 1% respectively). The minimum pension payment following 15 years of contribution is Rs. 3,600 (\$36), increased from Rs. 3,000 (\$30) in January 2012.

The National Bank of Pakistan has been responsible for making EOBI payments up until the recent addition of EasyPaisa in January 2012, where payments can now be cashed out at 400 agent locations (although pensioners can still use National Bank if they choose). EOBI decided to make the payment switch to offer more convenience to the pensioners who can use cards, mobiles or OTC, and also to facilitate easier reconciliation with their MIS. Reconciliation has always been difficult with the NBP, whereas EasyPaisa is able to integrate their MIS with that of EOBI's for fast reconciliation following each payment. Payment through the National Bank is simply a cash payout, whereas there is the potential for some store of value with the EasyPaisa solution. Pensioners also have the option of choosing to withdraw cash or to use the value to pay utility bills, purchase air tickets, make loan repayments, buy airtime or transfer money. As of November 2012, EasyPaisa is serving 25,000 pensioners, of which about 2,400 use the mobile account to receive their payments (with the rest using OTC payments). Withdrawals need to be made by pensioners at least every six months. Time will tell how EasyPaisa can be leveraged as a vehicle for financial inclusion by pensioners.

Each of the provinces is responsible for disbursements to its provincial government employees and retirees. The **Government of the Punjab**, for example, pays salaries worth \$2.8 billion annually to 900,000 employees and pays out pensions worth \$523 million to approximately 437,000 pensioners. Pensioners currently receive their payments manually in cash via the NBP or the Treasury Office. But the

Government of the Punjab has recently received a FIP Financial Innovation Challenge Fund grant to innovate on the pension payment mechanism. Through the grant, they will pilot payments made directly into the bank accounts of pensioners of Lahore District. Most of these pensioners do not have a bank account, so they will open bank accounts at the bank of their choice to receive their pension payments directly into their account. In the current system, no fees are paid to the National Bank, neither do they earn on float since the bank pays upfront and then gets reimbursed by the Government of the Punjab. Under the new scheme, banks will be paid up front, providing them with the potential to earn on the float, although they will still not receive a fee for making the payment.

### **3. CHALLENGES AND OPPORTUNITIES IN DIGITIZING GOVERNMENT FLOWS**

#### **CHALLENGES**

1. As with any government program, the future of BISP is closely associated with the future of the current government. Questions arise regarding what will happen to the program after the elections in 2013. If elected, will the opposition keep the program, but simply change the name (as was the case in Mexico with Progresas becoming Oportunidades)? There are also concerns about certain aspects of the way the program is administered, with some being uncomfortable with the unconditionality of payments. Yet most everyone seems to agree that despite these various concerns, both political and programmatic, the overall benefits of the program are hard to dispute.
2. As a payment service provider, the business case for the banks seems to be clear. A fee of 3% is in line with global best practices, and none of the banks appear to be struggling to breakeven at this rate. Aside from the initial upfront float of 30 days prior to the first payment, banks don't receive subsequent funds far enough in advance to earn substantial revenue on the float, nor do the beneficiaries keep a balance long enough to contribute. So the 3% fee is the foundation of the revenue model for banks, and for now it appears to be sufficient. The business case for banks becomes a challenge, however, when they expand from simply being the payment service provider to being the banker of the beneficiaries. Further investment in product development, agent rollout, and marketing among BISP beneficiaries will only be a priority for banks if they see some return on investment at some point in the future. This potential earning is currently unclear.
3. The uncertainty of the bank business case is closely tied to the lack of understanding of G2P beneficiaries as potential banking customers. In this regard, the challenge is for the government, banks and donors to identify different beneficiary segments, to understand their current financial needs, and to focus on appropriate solutions that can be met by new products and services. The offer of a Level 0 bank account to BISP beneficiaries in and of itself will not guarantee any uptake or usage by beneficiaries unless a concerted effort is made to educate and adapt the offering to the various customer segments among the large and diverse G2P beneficiary group.

#### **OPPORTUNITIES**

1. A strong enabling environment for the proliferation of financially-inclusive G2P payments has been created by various government stakeholders and international donors. The State Bank of Pakistan has gradually reduced the KYC requirements for low-balance accounts, facilitating account openings for new beneficiaries. It has also waived the NADRA KYC verification fee for beneficiaries transitioning from a limited mandate account to a branchless banking Level 0 account. Furthermore, SBP, in partnership with the Pakistan Telecommunications Authority, is following a managed approach to interoperability to avoid the risks that “intervening now” or “doing nothing until problems arise” might bring. This in turn has created confidence within banks and mobile network operators who continue to invest in the growth of the branchless banking sector.
2. BISP has created a sensible operating environment for the participating banks under the new magstripe card payment mechanism. Even though beneficiaries technically have a 180-day limit for removing funds from their accounts, in practice BISP has not been enforcing this limit. In working with banks, BISP negotiated a 3% fee for the delivery of payments, right in line with international benchmarks of 2-3%. It has also created a competition-free situation between banks by allocating distinct provinces to each according to their footprint.
3. The banks clearly see G2P as a key opportunity to grow their branchless banking business. This is important because as the branchless banking sector develops, so too the G2P payments sector can benefit. Government fees to banks for making BISP payments become a sort of subsidy to banks to establish agent locations in places that would normally be too expensive to set up in the early phases of their branchless banking rollout. This not only allows G2P payments to be made more efficiently, but it also allows other banking customers in these areas to benefit from the expanding branchless banking infrastructure. In addition, there is a huge potential to tap the growing volume of utility bill payments over these channels.
4. There is widespread interest and support to understand beneficiaries’ financial lives and needs. Among the donors, the World Bank is completing a beneficiary assessment of the Watan cards and BISP payments that should provide initial insight into how these payment mechanisms are perceived and accepted by beneficiaries themselves. The World Bank is also launching a training module on financial literacy for social transfer recipients administered by the Pakistan Microfinance Network. Among the banks, there is interest in moving beyond simply making payments to identifying different customer segments among BISP beneficiaries and establishing a banking relationship.

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