



South Africa

SASSA Grant Distribution

Raising Returns and Efficiency from Social Protection



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Executive Summary

This document is the result of the work undertaken in the Raising Returns and Efficiency from Social Protection FinMark Trust project in partnership with the UNDP and UNCDF, with a particular focus on the grant distribution system in South Africa.

In the execution of the work international trends and other country examples of social assistance programme distribution were studied, with relevant lessons extracted for use in South Africa. The current South African grant distribution situation was assessed, incorporating the views of the current major stakeholders, supported by relevant analyses of data from the providers of the grants and usage data from the recipients of the grants, the latter using FinScope data. In-field observations were conducted at cash distribution points and at service points where grant recipients can access their grants. These insights and observations further informed the proposal of what should be done in South Africa.

The views and capabilities of the stakeholders in the South African grant distribution space were obtained and assessed in terms of what might be required to advance the impact of grants. This included the policymaker and main regulatory bodies, a civil advocacy organisation, industry representative bodies, financial service providers, payment operators and providers and technology service providers, including FinTechs. The most pertinent conclusions were that the major service providers have very limited interest and involvement in the grant distribution market, that the South African payment system is moving towards the type of retail payments that could have an impact at community level but it still has some way to go to actualize such payments and that the newer financial service and technology providers are still focused on establishing themselves in the market with limited capacity to engage this market. Even so, it was clear that the availability and use of technology is not the constraining factor in taking grant payments forward.

The view that emerged from these assessments is that the way in which to move grant distribution towards greater impact is through the establishment, promotion and support of inclusive digital payment ecosystems at community level. Given the state of the industry, this should be undertaken with a number of different service providers and tested in a proof-of-concept phase in a number of communities prior to any decision to take this nationally. The eventual roll-out, if pursued, should coincide with the more inclusive type of payment systems currently being pursued by the financial services industry.

It was clear that there are very few international examples to draw on and that, if successful, the proposed digital ecosystem for South African grant distribution and other payments will provide valuable learnings to the international community.

The view that emerged from these assessments is that the way in which to move grant distribution towards greater impact is through the establishment, promotion and support of inclusive digital payment ecosystems at community level.



Background

This document is the result of the work undertaken in the Raising Returns and Efficiency from Social Protection FinMark Trust project, with a particular focus on the grant distribution system in South Africa. The project is a collaborative effort between FinMark Trust (FMT), UNDP, UNCDF, the Department of Social Development and the National Treasury. The work was informed by the project objectives to foster inclusive growth and lower poverty, by improving the efficiency and increasing the impact of social grant payments¹.

The South African grant distribution system is one of the most extensive programmes in the world. Globally, 2,3% of the world's population receive grants/social assistance at any stage, while in South Africa nearly 19% of the population receive grants, resulting in more than 40% of South African households benefitting from the grant system. It is therefore imperative that the impact of these grants is maximised in order to achieve the desired social benefit mentioned above. To date the grant system has benefitted millions of poor and marginalised South Africans in terms of alleviating the effects of poverty. However, the stubbornly high poverty and unemployment levels require impact beyond just poverty alleviation, hence the drive for inclusive economic growth.

The work was done with the SASSA mandate "to ensure the provision of comprehensive social security services against vulnerability and poverty within the constitutional and legislative framework"² in mind. The focus on the distribution system for grants took cognisance of Vision 2025³, the Reserve Bank of South Africa's strategy for the development of the national payment system. In particular the goals of financial inclusion, flexibility and cost-effectiveness were pertinent.

In this study insights from international research and experiences in other countries in the distribution aspects of their social assistance programmes were obtained, the situation in South Africa vis-à-vis social grant distribution and use was assessed and the views and insights from local stakeholders and potential stakeholders were obtained. These insights and assessments were used to formulate an approach to deepen the impact of social grants, keeping in mind the objective to change the reliance on the existing cash distribution system.

1 Raising Returns and Efficiency from Social Protection, FMT 2019. Internal document

2 <https://www.sassa.gov.za/Pages/Our-Mandate-and-Objectives.aspx>

3 The National Payment System Framework and Strategy - Vision 2025, SARB 2018. [https://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem\(NPS\)/Documents/Overview/Vision%202025.pdf](https://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem(NPS)/Documents/Overview/Vision%202025.pdf)



1. Insights from International Research and Experiences

1.1 International research and guidelines

Globally, more developing countries are initiating social assistance programmes, while those with such programmes in place are expanding the programmes and increasing the scope of such programmes.

As more resources are allocated to social assistance programmes, there is an increasing focus on the impact of the programmes. The World Bank⁴ summarises impact evaluations on social safety net programmes in sub-Saharan Africa and highlights the spill-over effect on local economies with a study undertaken in seven countries. In all the countries studied in this report the income multiplier of the distributed assistance programme was well in excess of one, indicating a positive impact on the local economies in excess of the value of the social assistance received. It follows that if the effect of the social assistance payments is maximised the effect on the local economy will be significant, in effect using the social assistance payments as a lever for generating additional economic benefit.

The use of digital payments is now widely accepted as the most cost-efficient, transparent and sustainable solution to the transfer of social assistance payments. To achieve these advantages, many countries in the developing world are dealing with two challenges to take digital payments forward:

- Establishing a central registry to identify and administer recipients and to initiate the transfers
- The actual digitisation of the payments, i.e. finding and using the appropriate market participants to implement digital payments of the assistance money.

Since neither of these challenges are straightforward to achieve, most social assistance payments in the developing world are still done in cash. The UNDP⁵ noted that half of the African programmes still distributes social assistance payments in cash. However, the situation is changing fast and moving to the digital payment of the assistance cash amounts.

Where countries have digitised payments, the expected benefits are indeed accruing, but not without some challenges. In many cases the lack of formal banking and payment infrastructure prompted the use of banking agents, typically small merchants and mobile network operator agents. This type of distribution enables digitisation but has encountered some issues:

- The financial capability of the recipients
- Finding and keeping distribution agents (the churn in such agents is quite high)
- Liquidity at agents, particularly at times when monies become available.

Where countries have digitised payments, the expected benefits are indeed accruing, but not without some challenges.

4 The State of Social Safety Nets 2018, World Bank Group 2018. <https://openknowledge.worldbank.org/handle/10986/29115>

5 The State of Social Assistance in Africa report, UNDP 2019. <https://www.africa.undp.org/content/rba/en/home/library/reports/the-state-of-social-assistance-in-africa-report.html>

ETHIOPIA

The Ethiopian Productive Safety Net Programme (PSNP) is the largest programme in Ethiopia providing direct social assistance. It is a well-established programme and has been in operation for a number of years. The number of recipients vary over time, depending on the need. A core of 8 million individuals receive continuing assistance, with the figure expanding by about 2 million to a total of 10 million when circumstances require additional assistance. Ethiopia has an adult population of close on 60 million, to put this in context. The PSNP has traditionally been cash-based, with a cascading of funds down from federal to regional to district (woreda) and then to municipal (kebele) level, where the funds are then distributed.

Over the last few years the Ethiopian government has been trying to find digital solutions and have piloted a biometric-based solution as well as a mobile-based solution for the PNSP. Regulations in Ethiopia preclude the provision of “pure” mobile money, so the mobile solution is based on a wallet that has to be offered by a bank, MFI or SACCO in conjunction with an ordinary bank account. As commercial banks’ networks are concentrated in urban areas and as SACCOs (present in rural areas) are not in a position to offer digital services, this meant that recipients in rural areas (the majority of the population) had to open accounts at MFIs (or agents of MFIs) and then received a mobile wallet as part of the account opening. These wallets are then credited (at municipal level) each month and recipients can go to a branch of their MFI or an agent of that MFI to receive cash. The mobile wallet (and associated bank account) functionality is operationalised through one platform (across MFIs) offered by a FinTech company. This provides a level of interoperability for recipients, as the Ethiopian NPS only supports ATM interoperability at present.

According to an independent study conducted in 2019⁶ an estimated 75% of recipients strongly prefer the digital payments, with a reported increased propensity to save attached to this preference. Some of the agents (typically small merchants) also reported some use of the mobile wallet to purchase goods from their stores, albeit it to a limited extent. These are very positive aspects, but concerning issues also emerged:

- The agents experienced liquidity issues on the days when the money becomes available
- Agent turnover was a major issue for MFIs, with a direct effect on service provisioning to the recipients. This appears to be the result of the relatively low compensation that agents receive, making the provision of the service not economically viable for them.
- Many recipients are digitally illiterate and the agent has to enter the PIN for any cash withdrawal. Although there was a level of trust that allowed this, it is an untenable situation given the intention to roll this out to the whole country.

The biometric pilot is continuing, but has apparently been hampered by costs, distrust from recipients and technology instability.

Although there are many issues to address in Ethiopia to make this work, the results are encouraging if the issue of client literacy can be overcome.



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6 The Role of e-payment on Productive safety net Programme (PSNP) Implementation Performance in Ethiopia – Blen Tenaw 2019. <https://www.semanticscholar.org/paper/The-Role-of-e-payment-on-Productive-safety-net-in-Tenaw/eda0c54f9d682150f43d164510bf1ce7081ce156>

INDIA

India has over the last few years put the infrastructure in place to do digital social assistance payments safely and efficiently⁷.

The infrastructure consists of four elements:

- The national *Jan Dhan Yojana* bank account, which has been opened for hundreds of millions of Indian nationalities.
- The national identity system, incorporating biometrics on the *Aadhar* card, which in turn is linked to the individual's bank account
- Linking of the *Aadhar* card and bank account to an individual's mobile phone number, thereby creating a trinity of enabled fund access and financial participation and inclusion capacity.
- The Bharat Interface for Money (BHIM), is a mobile app developed and overseen by the National Payments Corporation of India (NPCI) to facilitate digital payments directly through banks. BHIM is based on the Unified Payment Interface (UPI), enabling interoperability through the participation of all payment service providers. The BHIM transactions are positioned to be affordable, but have transactional limits in place.

This infrastructure has been used to digitise the distribution of a range of state social support programmes, replacing cash distribution and in-kind distribution with digital payments. Agreements are in place with scores of banks to support the scheme. A single national agency coordinates the activity of state departments, including the social assistance programmes from various state agencies, resulting in a relatively unified approach. A MicroSave Consulting⁸ report on the assessment of the overall scheme highlighted some pertinent issues:

- *The importance of pilot testing and independent assessment of those pilots:* Their view is that it is important to conduct trials and to adjust the programmes if necessary. Pilot testing aids in the understanding of the advantages to authorities and of the convenience and cost implications for beneficiaries.
- *Incentive and commissions for stakeholders:* A sustainable incentive and commission structure for participants along the entire value chain is essential. This helps motivate everyone in the delivery channel to implement these schemes.
- *Availability of last-mile payment infrastructure:* In the absence of an extensive digital payment ecosystem, it is important to have an accessible last-mile network to withdraw cash for direct benefit transfer programmes to succeed. To aid access to the bank accounts, 126 000 *Bank Mitras* (banking agents) were established to support account holders.
- *Extending the range of digital payment possibilities to give account holders a choice.* NPCI, an umbrella organisation for all retail payment systems in India, has launched several new payment initiatives, including immediate payment solutions (fast payments), QR-based payments and mobile payments.

Despite these developments, the majority of the recipients of social assistance still withdraw their grant amount in cash. There are indications that there is a slow increase in the frequency of use of mobile money accounts in India, but these developments point to the fact that on-going support and incentives are required to move from cash to digital and that such a change takes time.



India has over the last few years put the infrastructure in place to do digital social assistance payments safely and efficiently

7 Implementing social protection strategies; OECD 2019. https://www.oecd.org/dev/inclusivesocietiesanddevelopment/Lessons_learned_Implementing_social_protection_strategies.pdf

8 Lessons from the Digitisation of Government to Person (G2P) Programmes in India; MicroSave Consulting 2018. <https://www.microsave.net/2018/06/06/lessons-from-the-digitisation-of-government-to-person-g2p-programmes-in-india/>

COLOMBIA

Colombia's conditional cash transfer programme, *Familias en Acción*, provides support to poor households on the condition that their children attend school and adhere to specific preventive healthcare measures. It is similar in nature to the Brazilian *Bolsa Familia* programme described above, but it does have a financial inclusion, i.e. a deepening of financial service usage, dimension.

Deciding to reduce the use of physical cash distribution and to support the national financial inclusion agenda, *Familias en Acción* introduced prepaid cards (debit cards) linked to savings accounts in 2007. The vast majority of recipients (91 percent or 2 million individuals) received their cash transfers through these savings accounts.

Enrolment into the programme is conducted by the agency, who then issues payment instructions based on the fulfilment of the required condition. One bank, Banco Agrario, provides the accounts, with the debit card, for the recipients.

Recipients can access their grant at Banco Agrario branches and ATMs, Servibanca ATMs (Servibanca is a national ATM provider in Colombia) and at specific merchants. In branches recipients only have to provide identity and then do a withdrawal using card and PIN. Recipients are not required to access their funds on any specific day. The beneficiaries' accounts are exempted from financial transaction tax. They have the benefit of two free withdrawals and one free balance enquiry per month. Cash payments have not been completely phased out, with a small percentage of recipients still receiving cash.

Some of the experiences of Banco Agrario in this scheme are worth noting:

- Lack of liquidity at banking agents and at ATMS in the first few days after grant money becomes available. Since all grants are paid on the same day, there is a significant spike in demand following the payment day.
- The actual need and financial capability associated with formal savings amongst grant recipients appear to be neither well understood nor properly addressed. The evidence suggests that most beneficiaries withdraw the full amount of the transfer when it is deposited.
- Due to the high demand on and directly after payment days, Banco Agrario had to provide cash to agents in armoured vehicles, with associated high operational costs and no additional benefit to the bank.
- Connectivity and usage problems. The network experienced connectivity problems from time-to-time, leading to a lack of service provisioning. There were also ongoing instances of recipients lacking the knowledge to use the system effectively. This points to insufficient engagement and support of the recipients.



Colombia's conditional cash transfer programme, Familias en Acción, provides support to poor households on the condition that their children attend school and adhere to specific preventive healthcare measures.

KENYA

Kenya's Hunger Safety Net Programmeme (HSNP) is an unconditional cash transfer programmeme targeting the poor population in the northern part of Kenya. It is a relatively small programme with less than 100 000 households. It is administered as a public-private partnership, with the programmeme teaming up with Equity Bank to administer and distribute the transfer programme.

Beneficiaries are registered with the HSNP and issued with a savings accounts and an associated debit card. The transfer amount is deposited into the account on the designated payment date. Equity Bank is responsible for ensuring that recipients have access to the cash transfer. This is achieved by allowing recipients to use their debit cards at Equity's payment agents within their location, by accessing funds at ATMs and by accessing their funds at any Equity branch. The Equity agents (merchants) are equipped with solar powered point-of-sale (POS) devices with fingerprint identification. The POS devices are connected via the cellular network. The agents receive a small commission for this service. Recipients can designate another person to receive the cash transfer money on their behalf by registering an extra person in the fingerprint registry. This reduces the need for infirm recipients to physically travel to payment points.

Some of the identified issues were:

- Distance to pay-points: Since there are only a few merchants who meet the requirements to become an agent, distance to pay-points was the most commonly identified complaint. The reach of ATMs and bank branches into rural areas is also limited, exacerbating the problem.
- A lack of liquidity was experienced by most merchants on payment days. This required cash to be made available to such merchants to meet the demand. In addition, the physical set-up with small merchants is not conducive to handling large numbers of recipient, leading to inefficiencies and poor service.
- There were multiple instances of dubious practices at banking agents, requiring investigation by the authorities

The government of Kenya has recognised these problems (and similar problems with other schemes) and have put measures in place to reduce the negative effects of the direct transfer of cash benefits. The aim is to use a multiple-bank delivery mechanism under which benefits could be withdrawn at different commercial banks, thereby overcoming regional infrastructural disparities. These banks would receive the appropriate amount of money from the Central Bank of Kenya. These developments will also help to address service issues and liquidity problems. It has been agreed with the service providers that all participating banks or agents will be within a 6 km radius of all beneficiaries, reducing the major delivery issue when dealing with a single bank.

IVORY COAST

The IFC and the World Bank assisted the Ivory Coast to follow a structured approach to plan the road to digitalisation of the national safety net programme. The four-stage process to get to a pilot implementation was as follows:

- 1. Assessing potential payment channels and analysing beneficiary needs.**
- 2. Selecting a payment service provider**

The factors that were taken into account were:

- Cost of the transfer
- The ability to monitor payments effectively
- Accessibility in rural areas
- Security for beneficiaries
- Ease of use for beneficiaries
- The development impact of the mechanism (financial inclusion)
- Accessibility to recipients lacking ID documents
- The long-term sustainability of the service provisioning



Kenya's Hunger Safety Net Programmeme (HSNP) is an unconditional cash transfer programmeme targeting the poor population in the northern part of Kenya.



The IFC and the World Bank assisted the Ivory Coast to follow a structured approach to plan the road to digitalisation of the national safety net programme.



The ministry overseeing the safety net programme opted to use a mobile money-based payment mechanism to deliver transfers. This decision was primarily based on the programme's objective of providing financial services to previously unbanked beneficiaries, leading to their inclusion in the formal financial sector over time.

3. Structuring the required training and knowledge transfer for beneficiaries.

This had to take into account limited literacy and low levels of financial knowledge, as well as the reality that the use of financial services is not necessarily the end-goal of some beneficiaries. The training methods relied on visual aids to prepare and equip beneficiaries to deal with the digital distribution.

4. Preparation for scaling-up

This involved considering:

- whether a single service provider can realistically meet the needs of all beneficiaries or whether the scheme should be broadened to allow multiple service provider
- whether changes to financial service regulations are required to improve services to beneficiaries
- whether agency networks (for the mobile money operators) are sufficient
- what measurement and oversight would be necessary to monitor service provisioning?

The recommendations focussed on accessibility, usability and user support and the sustainability of the solution through appropriate incentives for the mobile money operators and the agents. It advocated a multi-provider approach post the pilot implementation phase to enable recipients to choose a service options.

Box 1: Lessons for deepening the impact of grant payments in South Africa from Section 2

Digitisation of social assistance payments is the major theme at the moment in emerging economies for social assistance payments. Payments are made into either bank accounts, with payment cards to enable access, or in some instances to mobile money accounts.

- The change from cash transfers to digital transfers requires support and targeted interventions. Financial and digital literacy challenges are present in virtually all cases
- Most recipients convert to cash-in-hand when money becomes available. Using banking agents (in some form or another) is a commonly used means to support digital distribution and the conversion to cash, but there are concerns:
 - » Liquidity issues
 - » Service and reliability issues
- There are very few examples, and of very limited scope, of the successful use of the recipient accounts for everyday use

Only some social assistance programmes have a developmental or inclusive objective, other than poverty alleviation. In all country examples examined this objective is in a nascent phase. There are therefore no proven models that could be utilised in South Africa.



2. The South African Situation

2.1 Grant distribution

The South African Social Security Agency (SASSA) has the constitutional mandate to administer and pay social assistance to all eligible citizens in South Africa. The programme makes provision for income support for the older persons, people with disabilities, children and social relief of distress to individuals and households which experience sudden destitution.

According to the latest available SASSA annual report (2018-2019), 17 811 745 grants were distributed at the end of March 2019. As can be seen from Table 1, child support grants and old age grants constitute the majority of the grants. It should be noted that the number of grants is steadily increasing year-on-year, with the latest reported increase 1,7%. According to the annual report 30,8% of individuals in the country were receiving social assistance in 2017, with the percentage of households receiving social grant assistance standing at 43,8%.

Table 1: Grant Distribution by Type of Grant 2018-2019

Grant Type	Number of Grants	Total Value (R 000 000)	Individual Grant Value (2019 values in R)
Old Age Grant	3 553 317	70 635	1 780
War Veteran Grant	92	2 391	1 800
Disability Grant	1 048 255	22 021	1 780
Foster Child Grant	386 019	5 114	1 000
Care Dependency Grant	150 001	3 068	1 780
Child Support Grant	12 452 072	60 611	430
Grant in Aid	221 989	840	490
Social Relief of Distress	443 687	416	
Total	18 255 432	162 709	

(Source: SASSA Annual Report 2018-2019)

Most grant recipients (about 8 million of the 11 million individual recipients) have Postbank accounts. These accounts are specific SASSA accounts and excludes certain transactions, notably any EFT credits other than the SASSA credit and no debit orders, including no “standing” airtime purchases. The experience with the previous service providers of multiple and some dubious deductions should be avoided resulted in these restrictions on the use of the account. However, these restrictions may well be contributing factors to the accounts being largely restricted to cash-in-cash-out and not being used for other transactions.



The South African Social Security Agency (SASSA) has the constitutional mandate to administer and pay social assistance to all eligible citizens in South Africa.



The transactions and costs are (these were for 2018 – no more up-to-date information available on the Postbank website):

Table 2: Postbank SASSA Accounts 2018

Postbank account rule	Transaction fee
Minimum account balance	Zero
Monthly service/ledger fee	Free
Deposits	Free - Only SASSA EFT grants allowed
Cash withdrawal at SA Post Office branch	1st Withdrawal per month is free, thereafter R 3.48 + (amount withdrawn *0.68%) + R 0.17
Retail merchants' purchases	Free
Cash withdrawals at retail merchants	3 Free cash withdrawals per month, thereafter R1.50 per withdrawal
Purchases and cash back combinations at retail merchants	Free
Replacement Card	1st Replacement per annum is free, thereafter R26.00
Full Statement (for a maximum period of 3 months) at SA Post Office branches	1st Statement per month is free, thereafter R5.00 per statement
Mini Statement at SA Post Office branches	Free
Balance enquiry at SA Post Office branch or retail merchants (per enquiry)	1st Balance enquiry per month is free, thereafter R 1.60
Unsuccessful/Rejected transaction – any customer related reason	R 1.60
PIN Resets/changes at SASSA office	Free
PIN Reset at SA Post Office branches	1st Pin reset per annum is free, thereafter R3.00 per pin reset
ATM withdrawal (all are not-on-us)	R 3.48 + (amount withdrawn *0.68%) + R 0.17
ATM balance enquiry	1st Balance enquiry per month is free, thereafter R 1.60
Rejected transactions: ATM	R 1.60

(Source: <https://www.postbank.co.za/Ratesfees/Transactional/sassacardfees.html>)

2.2 Distribution points where cash can be accessed

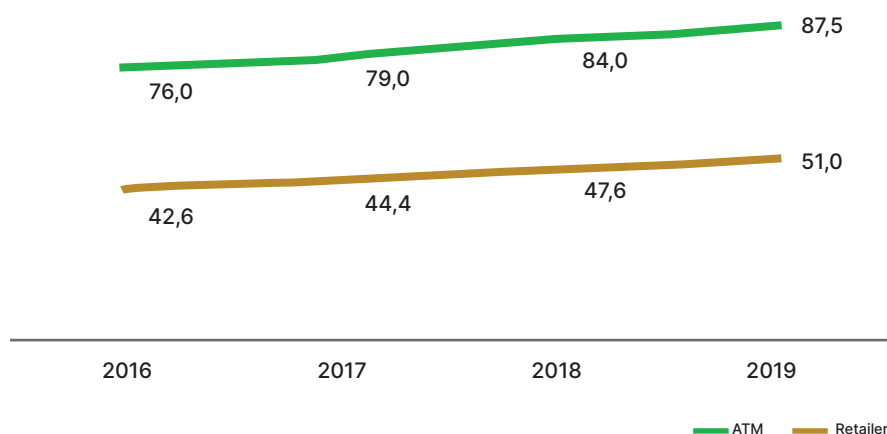
SASSA grant recipients can access the cash transferred into their accounts at all Post Office outlets, all ATMs, at selected retailers (mostly Checkers/Shoprite and the Pick n Pay group) and cash distribution points. Grant recipients with non-Postbank accounts can of course use the infrastructure of their selected bank.

Most of the recipients use ATMs to draw cash (often the full amount of the grant), with the participating retailers being used extensively as well. According to SASSA, most of the value being withdrawn happens at ATMs (about 85%), followed by retailers and then Postbank and other bank branches and then cash distribution points.



Graph 1 depicts the percentage of grant recipients in the FinScope South Africa surveys stating that they used ATMs and retailers (note that these are not mutually exclusive as one recipient could use multiple means to get their cash). Postbank (and other bank branches) were also mentioned, but less than 10 % of respondents claimed to use the branch networks. The use of these branches is declining over time.

Graph 1: Use of ATMs and Retailers for Cash



(Source: FinScope surveys 2016 – 2019)

The SASSA and Post Office cash pay point footprints are as follows, based on the latest SASSA Quarterly review given to the Parliamentary Standing Committee (as at January 2020):

Table 3: Cash pay point and SASSA support distribution

	KZN	NW	EC	WC	Gauteng	Mpumalanga	Limpopo	NC	FS	National
Cash Pay points	600	72	11	357	440	38	174	37	11	1,740
SASSA Service Points	134	95	218	244	42	87	93	131	119	1,163

(Source: <https://pmg.org.za/committee-meeting/29835/?via=cte-menu>)

Cash distribution points are used where there are no defined service points available in or near the communities in which recipients live, implying no Post Offices, no ATMs or no participating retailers in the vicinity. Typically, there are no POS infrastructure at all in such communities, with some exceptions, e.g. where there are petrol stations on a nearby regional road. The cash distribution is undertaken by the Post Office, in community halls or similar infrastructures in the community. Cash is transported to the cash distribution points by specialised service providers, who also provide armed protection during the cash distribution process. Post Office cashiers from Post Office branches in the area then undertake the cash distribution, verifying the recipients and obtaining the amount to be distributed from the Postbank system.

The observations during visits to cash distribution points during a few days of actual operation are given in Annexure 1.

Bank branches, predominantly Postbank branches are declining in use, with less than 10% of recipients using branches to get cash.



2.3 The view from SASSA

The approximately 11 million recipients can use any bank to receive their grants. The split per bank (showing the major account providers) are as follows, based on the same report as above:

Table 4: SASSA grant recipient account distribution

Bank	Number of Accounts
Postbank	8,108,725
Grindrod Bank (EasyPay accounts)	976,030
Capitec Bank	790,185
FNB	388,342
Nedbank	338,984
Absa Bank	294,680
Standard Bank	246,746
Other banks	116,774
Total	11,260,466

(Source: <https://pmg.org.za/committee-meeting/29835/?via=cte-menu>)

The “other banks”, including the new banks, have very few accounts, with the “big four” being relatively slow to move into this market. The Post Office is the service provider and has an agreement with the Postbank, which is why the Postbank is the main account provider.

The SocPen system, dating back to the previous century, is still used to administer the payments and generates a pay-file every month. It should be kept in mind that many countries are still in a phase to establish a similar function in their own jurisdiction, so the SocPen system has served (and continues to do so) a solid purpose. National Treasury acts as “banker” for the grant money and transfers the funds into the banking system. The funds are available on the 1st of every month, except if the 1st falls on a weekend – then the grants are available on the Friday preceding the weekend. In addition to the service points mentioned, there are also 1 740 cash distribution points provided by the Post Office, serving about 200 000 recipients. SASSA views these cash distribution points as providing only a basic service at best.

SASSA stated that most of the total grant amount (about 85%) are withdrawn in the first 5 days of the month, with the full amount typically withdrawn when it becomes available.

The card being used (with the Postbank accounts) is a VISA debit card and hence usable everywhere. If a withdrawal is made at a retailer, the retailer receives about R1 per transaction. If the transaction servicing can be made viable for retailers, then this model could possibly be adjusted/extended.

SASSA stated that most of the total grant amount (about 85%) are withdrawn in the first 5 days of the month, with the full amount typically withdrawn when it becomes available.



SASSA was of the opinion that mobile payments on their own will not be effective in replacing cash, as that would require significant behavioural change. The view is that child support grant recipients may be convinced to use digital channels, but the older people probably still prefer biometric (not PIN). If this is in fact the case, it would make the use of the cards in other environments, e.g. spaza shops, difficult to accommodate. There is apparently still the fear amongst some (maybe many) recipients that "if I don't use all the money then I shall lose the grant". This is not the case, but this perception remains ingrained. There is a view that cooperative banks might be helpful and there is one in the Northwest province that provides bank accounts for grant recipients. However, that cooperative banks and other cooperative financial institutions have very limited technological capability to serve recipients directly.

SASSA has been experiencing operational issues with the Post Office in terms of the grant distribution. The system (the component dealing with the grant recipients at least) is not stable and the reconciliations are not done properly. To further complicate matters there appear to be syndicates at work changing account numbers from those registered for grant recipients. SASSA has now introduced (from their side) the "account verification" function and that has helped to limit this type of fraud. The transaction key management, used in encrypting messages, have also been compromised within Postbank, requiring all issued cards to be replaced.



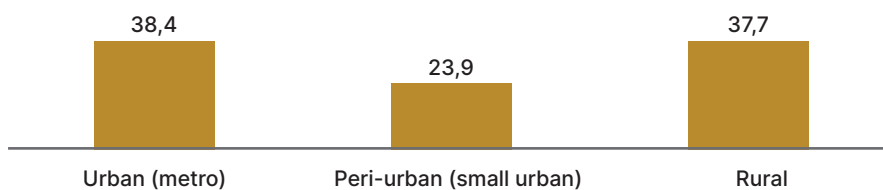
3. Quantitative Insights into Recipient's Profiles and behaviour



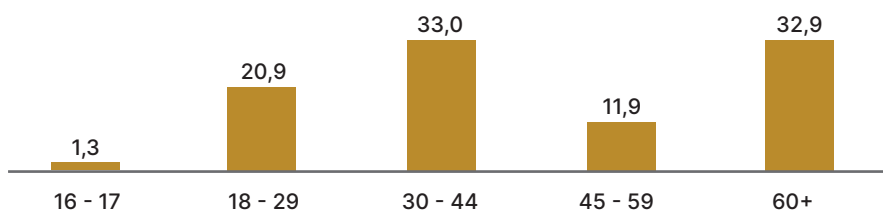
Understanding¹⁰ the way in which grant recipients receive and use their grants, what the profiles are of recipients displaying particular engagement patterns and what are emerging trends in the use of the grants is important. This understanding should guide the solutions aimed at improving the impact of the grants.

Most grant recipients are women (80,4%). This is not the result of a deliberate gender bias as in Brazil, it is a consequence of the gender balance in the target groups receiving grants. Recipients are from all provinces and areas, with the rural recipients just slightly less than urban recipients – see Graph 2. The age distribution of recipients belies the popular belief that older recipients are decreasing in importance. In fact, the opposite is true, with the actual profile reflecting the age groups of child grant recipients and old age grant recipients – see Graph 3.

Graph 2: % Grant recipients in categories 2019



Graph 3: % Grant recipients in age categories 2019

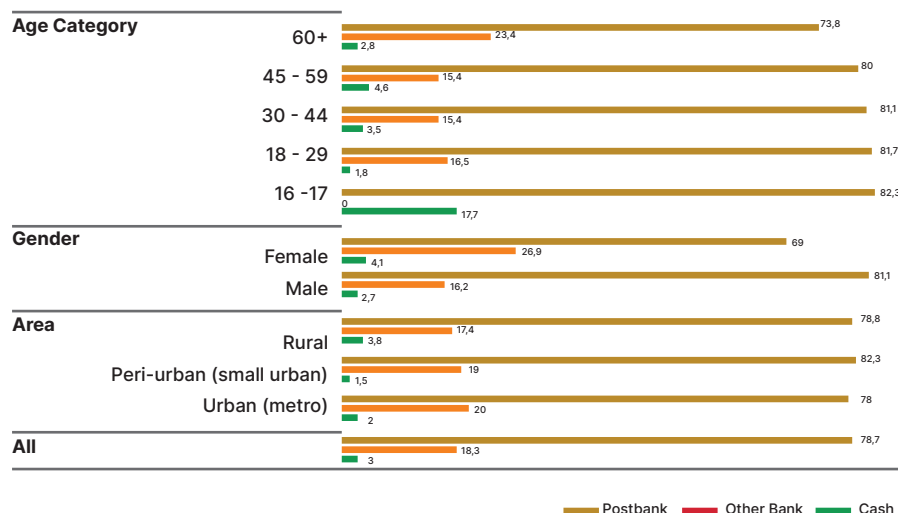


10 Please note that all the information in this section, including the information contained in the graphs and tables, have been obtained from the FinScope South Africa surveys from 2016 to 2019.



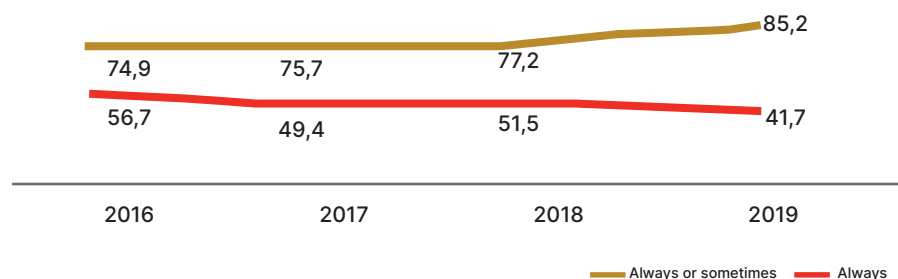
In Graph 4 the distribution, showing age categories, gender and area categories are given for the use of Postbank accounts, other bank accounts and cash. Postbank accounts dominate, but with significant use of other bank accounts, especially amongst older and female recipients.

Graph 4: Means through which grants are paid - 2019



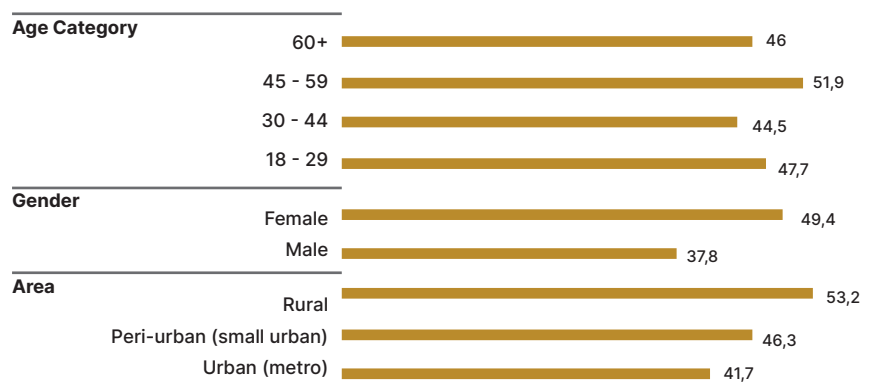
Graph 5 depicts the extent to which recipients report that they withdraw the full amount of the grant at the earliest opportunity. The vast majority (85,2% in 2019) did the cash-in-cash-out always or at least sometimes, but the “always” group shows an encouraging decline over the 4 years analysed, although it is still quite high.

Graph 5: Account used as postbox

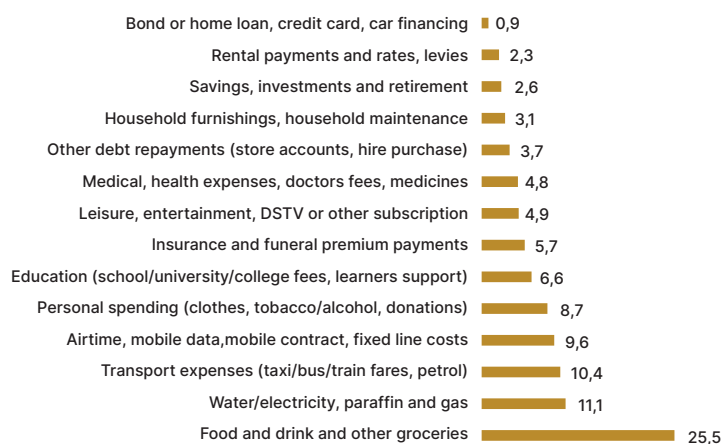


The use of the account as a postbox account is most prevalent among Postbank SASSA account holders (Graph 6 below), with 86,09% using the accounts in that way. It is quite high for Grindrod account holders (EasyPay accounts), probably since these accounts were seen as “SASSA accounts” under the previous service providers. Where grant recipients use other bank accounts, this percentage drops to 75% (still very high though).

Graph 6: Demographic profile of recipients always withdrawing full amount (%)



Graph 7: % Spend Grant recipients 2019



Graph 7 shows the average spend per category of the grants, as reported by the recipients.

As can be expected, most of the money is being spent on household and everyday necessities. There is significant spend on airtime and related costs, while one can deduce that most of the spend can be/are being conducted locally, with local authorities or with formal service providers. Most of the associated payments could be done digitally, if the this can be enabled in an inclusive manner.

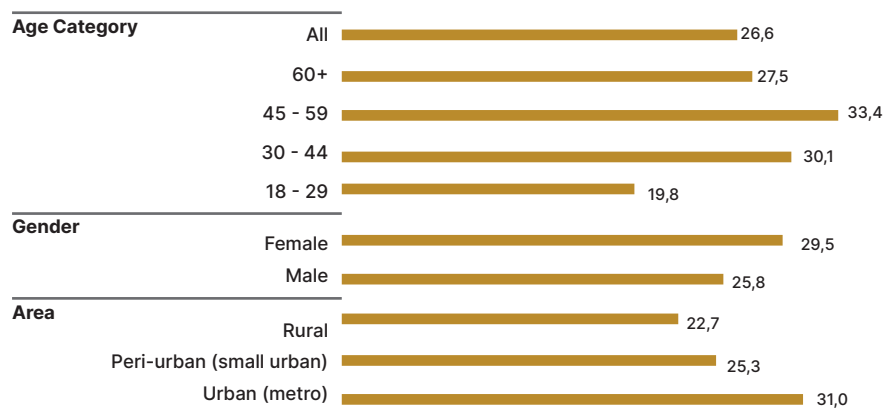
The data in Table 5 explore this further. Some recipients are already engaging digital transactions (card and EFT), but the incidence is fairly low and the frequency typically monthly, especially “card swipe” transactions. The frequency may well coincide with the monthly household shopping cycle.



Table 5: Use of Digital Payments by Recipients

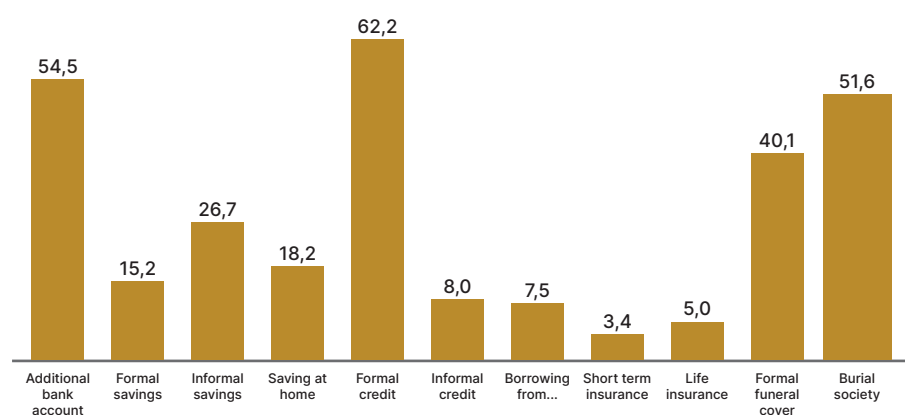
	% of Recipients	% Monthly
Card swipes	26,6	76,4
Buy airtime with bank account	12,0	61,4
EFT to another account/bill	8,8	61,4

Graph 7: Demographic profile of card swipe users 2019



Analysing the profile of card swipe users an encouraging picture emerges. Graph 7 shows that all age categories and recipients in all areas use card swipes. In fact, older recipients use card swipes slightly more than the average recipient while even rural recipients, where the opportunity for swiping could be less than elsewhere, are using this means of payment.

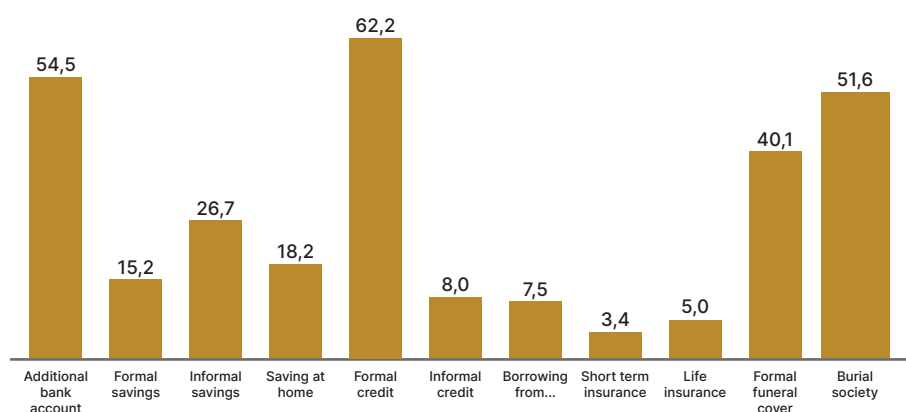
Graph 8: Recipients' other financial products 2019 (%)



Graph 8 shows the reported take-up of other financial services by grant recipients. This is dominated by formal credit (62,2% of recipients), funeral plans (with burial societies and formal funeral cover) and using another bank account. When available data from the previous years are included, the biggest increases are informal savings and savings at home, apart from the increase in formal borrowing.

Anecdotally (from SASSA officials at the cash distribution sites) the borrowing is mostly done by younger recipients who easily fall into the debt trap of having to borrow more to service loans. One can therefore conclude that the existing provision of financial services are not adequately meeting the needs of grant recipients, with the possible exception of funeral plans (although there are indications of overselling there).

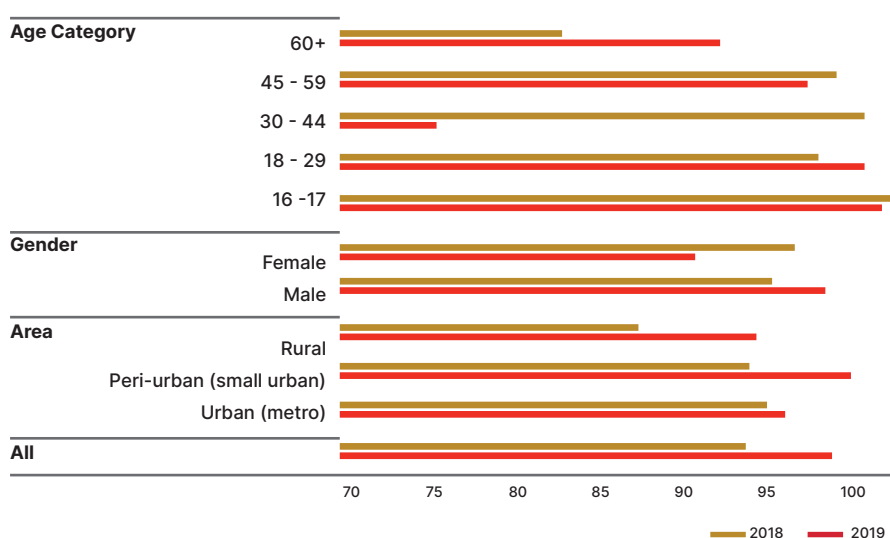
Graph 9: Level of "I trust" grant recipients 2018



Graph 9 reflects the percentage of grant recipients who indicated that they trust the various classes of service providers shown. Banks and mobile operators are "leading the pack", which bodes well for trust in mobile payments should these be made available.

In general, recipients' responses indicate that the bank accounts that they do they regard as value for money and are suitable for their needs. However, there seems to be an issue with disclosure as recipients have a problem with experiencing fees that they did not expect.

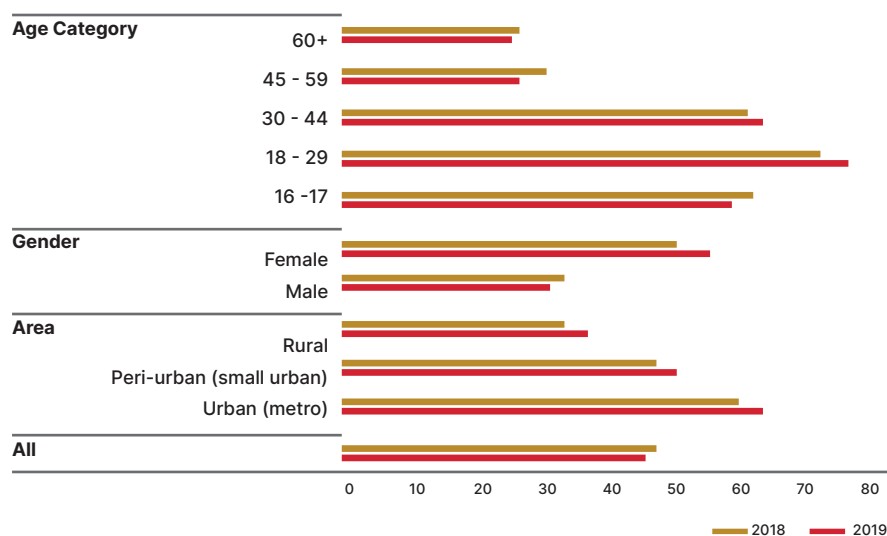
Graph 10: Mobile Phone Penetration Grant Recipients



Graphs 10 and 11 give the penetration of mobile phones (both smart phones and feature phones) in the grant recipient market. As can be seen from Graph 10, mobile phone penetration is approaching 95% amongst grant recipients, with even older recipients being close to 90%. Interestingly enough, there is a slightly higher penetration amongst rural recipients than amongst urban recipients.

Graph 11 shows the penetration of smart phones only. Here the penetration is significantly lower at just below 45%. The penetration is most pronounced amongst younger and urban recipients, as could be expected.

Graph 11: Smart Phone Penetration Grant Recipients



Box 2: Implications for deepening the impact of grant payments in South Africa from Sections 3 and 4

- Recipients transact in cash, since the environment in which they operate is a cash-based economy.
- Most recipients do not use the accounts that they do have as store-of-value mechanisms, as the full amount is withdrawn. This is detrimental to the recipient and the other parties involved in the transactions. Local merchants are caught in the cash-trap of high cost with no opportunity to build up a digital payments profile.
- Relying on a single service provider for grant distribution is operationally risky.
- Although the current service provider allows other transactional service providers, the position held is a de facto default. Any operational issue with the service provider reflects directly on the quality of service to recipients.
- The financial services needs of grant recipients are largely not met, therefore a different model of service provisioning is required.

This is evidenced by the accounts not being used to the advantage of the recipients and the relatively high (and increasing) usage of informal savings. In the one instance where formal services are being used (lending), there is evidence of overexposure that is not to the advantage of recipients.

- Most grant recipients, including older and rural recipients, use mobile phones. Although not being used extensively, digital payments are used by all age groups.

This creates the opportunity to explore the greater use of digital payments to increase impact through beneficial use.



4. Views from the Policymaker, Regulators and Civil Advocacy Organisation

4.1 National Treasury

The engagement with National Treasury explored the synergy between the possible extension of digital payments in communities with SASSA grant recipients and the Financial Inclusion Policy from Treasury. The support for any regulatory flexibility to enable this was also explored.

The Financial Inclusion Policy does put forward the deepening of the beneficial use of transaction products and the need for digital payment ecosystems as goals to improve the impact of financial services. In principle, therefore, National Treasury supports the direction foreseen regarding SASSA payments. Naturally, such digital payment ecosystems should enable all members of the community to participate, not just the grant recipients.

National Treasury has not taken a policy view that is specific to grant recipients yet. However, Treasury will support a process in the inter-regulatory space to consider regulatory support if this is required for a proof of concept and national roll-out.

4.2 National Payment Systems Department

The discussion with the National Payment Systems Department (NPSD) was intended to explore support for extending digital payments to accommodate SASSA grant recipient, including cash recipients, and to identify ways in which regulatory constraints can be handled in a proof-of-concept in which grant recipients will.

NPSD did make reference to work being done by PASA to reinvigorate the support for immediate (fast) payments in the retail space, given the market failure of the Real-time Clearing (RTC) payment system. They further referred to the work being done by BankservAfrica in terms of the Rapid Payments concept.

Some of the staff members advanced the argument that cash is not a problem, since the recipients want and prefer cash. The problem is therefore simply for the service provider (the Post Office in the current scenario) to find ways to get cash into communities where it is needed (i.e. communities without access to cash-dispensing infrastructure) in a cheaper manner. The argument that stokvels are largely based on cash contributions was advanced as one of the reasons why a cash supply must be maintained. The view was put forward that the communities in which SASSA grant recipients receive cash will never use digital transactions in the use of the grants and that any effort to establish a digital ecosystem is bound to fail. This view seemingly ignores the systemic impact of continuing cash reliance, as it would restrict such communities to participating in an inefficient and increasingly constrained cash economy, trapping them in a circle of poverty.

It was however agreed that it would be worth the effort to explore a limited scope proof-of-concept. In this proof-of-concept the use of mobile payments could be explored, as well as the use of existing payment types, particularly card payments. These mobile payments should ideally include push transactability (i.e. the payer initiates and controls the payment, not the merchant/recipient). Immediate (or near-immediate) availability of funds is required to give recipients the same ability to use the money received as they would have had had it been a cash transaction. Furthermore, merchants and other recipients should have the ability to use the funds received digitally, i.e. they should be able to buy from their suppliers

The discussion with the National Payment Systems Department (NPSD) was intended to explore support for extending digital payments to accommodate SASSA grant recipient, including cash recipients, and to identify ways in which regulatory constraints can be handled in a proof-of-concept in which grant recipients will.



and service providers in a digital fashion, including at least card transactions. Although the ultimate aim would be to use interoperable mobile payments, the proof-of-concept could be done as a closed-loop system, since interoperability for mobile payments have not been established as yet. Ongoing support and financial education will have to form part of any effort, as the transition from cash to digital will require active support and reinforcement within the community. This would require the role of agents, including non-bank agents, to be considered and some guidelines will have to be agreed.

It was agreed that a concept note will be provided (see Annexure 4) and that the NPSD will table this at the inter-regulatory discussion forum, where the Financial Sector Conduct Authority and the Financial Intelligence Centre are both present. The NPSD was of the view that support from National Treasury, in their capacity as policymaker for financial inclusion, would be helpful.

4.3 Financial Sector Conduct Authority

The discussion focussed on the possible proposal to establish a proof-of-concept in a few communities and what would be required to do so in a responsible manner. The suggestion was that this should be primarily viewed as a FinTech pilot, since it would involve digital payments. There was acceptance that the levels of financial capability in the communities and the measures that should be considered to protect the market would need regulatory input and guidance. The FSCA expressed support for taking this forward for consideration in the inter-regulatory forum.

4.4 The Black Sash

The Black Sash is an established human rights organisation advocating for social justice in South Africa. Their focus is on social security and social protection and they have a lengthy involvement in the monitoring and advocacy on behalf of social grant recipients. In their role as social monitor their views are respected by many role players in the social grant space, although they are not a statutory regulator.

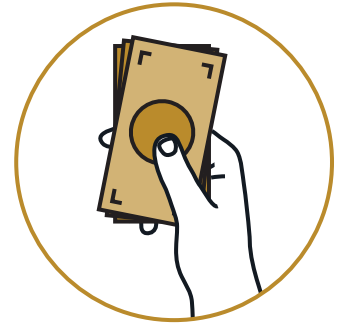
From their vantage point the position vis-à-vis the recipients have improved with the transition from the CPS contract to the Post Office, mainly because there are no more “illegal” deductions, as they term it. The grant recipients’ data is also not available to other service providers, thereby restricting inappropriate selling of other products and services. The flip side of this is of course that it also inhibits the offering of beneficial products to grant recipients.

Their main concerns relate to the general quality of service delivery (see the section on SASSA where this aspect is also mentioned) and the reduction in and service quality at cash distribution points. The number of these points reduced from about 10 000 prior to the Post Office contract to a current agreed number of 1 740. Not all of these are serviced on a monthly basis, with the latest reported figure being 1 621. They cited distance to the cash delivery points, non-delivery or late delivery of cash, instability of network connections and of the Post Office (presumably Postbank) system and inadequate premises as the main negative aspects of the cash delivery programme. Their view is that recipients have been negatively affected and, particularly in rural areas, are incurring additional transport costs to reach the cash points.

The Black Sash is aware of the possibility of enabling and supporting digital, especially mobile, use of the grant account. They do not see that as a viable replacement for cash but seemed to think that it could play some role. Their preferred solution is to reinstate the cash distribution points as per the CPS contract (but with a different service provider), or to convince the banks to extend their physical cash access infrastructure (ATMs and POS devices with cash-back) into the areas where there are cash distribution points. Their main argument is that recipients expect cash and that they operate in a cash system.



5. Views from Financial Service Providers and Financial Organisations



5.1 Banking Association of South Africa (BASA)

The BASA approach as outlined consisted primarily of the view that the cash distribution “problem” is a Post Office problem, not a market problem. This is very similar to the view of some of the NPSD staff mentioned above. The recipients have no problem receiving cash, according to them. Even if it is a problem, then the problem can be allowed to “die out”, as, again according to them, most of the cash recipients are old-age grant recipients and hence the problem will naturally disappear. They are of the view that the child grant recipients all have phones and all will convert to mobile banking/money with ease.

This view seemed to:

- completely ignore the systemic problem with the continued use of cash;
- be callous regarding the dignity of social grant recipients; and
- seems to ignore in the reality of low-income people’s lives and what is required to get people to start using digital (mobile) payments.

Mention was made of “pockets of activity” from some of the major banks in the low-income payments market, but no detail was provided.

It is interesting to note that the number old age grants are growing at a rate of 3,3% per annum, as compared to child support grants that are growing at 1,7% per annum (over the last 5 years). Old age recipients constitute 33% of all recipients (although only 20,1% of grants) and this percentage is likely to increase over time. This has the implication that dismissing the issue of old age grant recipients as something that will disappear as contrary to reality.

It seemed clear from this interaction that BASA does not view the issue as important and do not wish to play any role in finding and supporting a solution.

5.2 Payment Association of South Africa (PASA)

PASA presented and discussed their so-called “Project Future”, which is the case for fast payments (i.e. real-time or near real-time value for retail credit transfers). The first attempt to establish such a capability in the South African National Payment System (NPS) is well over a decade old and was dubbed Real-time Clearing payments. Primarily due to the banks positioning this as a large business/corporate payment (instead of a retail payment) and pricing it accordingly, this product was and largely continue to be a market failure. Project Future aims to correct this situation and to significantly extend the use of such a payment service to include multiple means of identification of both payer and payee. Amongst many other possible use cases, this would make mobile-to-mobile payments and QR payments (using QR codes to identify retailers for digital payments) interoperable realities in the NPS. There appeared to be an understanding in BankservAfrica that such a payment capability is required to begin addressing the issue of cash use in the informal economy. This of course also requires that such payments should be offered at costs that are orders of magnitude lower than existing retail payment systems, especially card-based systems.

The possibilities inherent in this anticipated development holds significant promise for the beneficial and sustainable development in the low-value payment space. It will provide the basic infrastructure to enable small merchants (spaza shops and similar), as well as small-



scale farmers, to accept and use digital payments. The probable timing of Project Future implementation will not assist pilot implementations in the short term for SASSA recipients. However, if the pilots in the proof-of-concept phase of this initiative are structured in accordance with the objectives and service design principles of Project Future, then this initiative could very easily be incorporated into the implementation of this development, when this becomes a reality.

5.3 BankservAfrica

BankservAfrica is the primary payment systems operator in South Africa, with a focus on extending their services into the rest of Africa, particularly SADC. Although BankservAfrica is not an FSP as such, it is the operational enabler of interoperable payment systems in South Africa. Its operational capability therefore directly influences what FSPs can offer in the interoperable payment space.

BankservAfrica is in the process to establish and enable a Rapid Payment System. This payment stream is designed to make funds available immediately to the payment recipient, the requirement that was identified above in PASA's Project Future to enable digital payments to start competing with cash in the system. The project is currently in a requirement gathering phase, with the requirements definition and RFP phase in April 2020 and the appointment of technology providers by the middle of the year, subject to the buy-in of the major shareholders (the four major banks). The development and testing cycle will probably last until Q3 in 2021.

The system is essentially an account-to-account funds transfer service, with features that are aimed at vastly improving the usability and benefit of existing funds transfer systems.

The system as foreseen consists of three components:

- A funds transfer system with immediate availability of funds for the receiver
- A proxy resolution service. This will enable the use of attributes, other than the account number itself, to identify the store of value(s) to be used in the transfer, e.g. mobile phone numbers.
- A request-to-pay service, which will allow merchants (payment recipients) to request a payment from a buyer. This could involve the use of a QR code or a mobile request, to be authorised by the payer.

Use of the service by payment service providers will be enabled through standard application programming interfaces (APIs).

The success of this endeavour is largely dependent on regulatory changes that will allow payment providers (other than banks) to operate directly in the market (and have access to the clearing system). This will require a regulatory view that will decouple the provision of a store-of-value from the provision of payment services.

The BankservAfrica team is well aware of the need to consider such a payment system from a systemic perspective, particularly in the informal/community-based markets. Significant support, digital enabling and user support will be required over a period of time, but the results could be of major significance from a developmental perspective.

This development can be viewed as the first (and probably the major) manifestation of PASA's Project Future, although the BankservAfrica project was not a consequence of that process. From a SASSA payments and digital payment use perspective, this development is of major significance. The duration to an implementation-ready state (probably at least 18 months away at the time of compiling this report) is of course a consideration, as is the necessity for broader engagement at community level to create the digital ecosystem that could begin to transform those communities.



5.4 Postbank

The Postbank operationalises most of the elements in the contract between the Post Office and SASSA. Around 8 million grant recipients have Postbank accounts, as mentioned above. Postbank also has around 5 million non-SASSA account holders.

There are approximately 300,000 cash recipients, but this figure is declining. At the takeover of the contract from CPS there were about 10,000 cash distribution points, but this has been reduced to about 1,600 as at January 2020. This point was also raised by the Black Sash. CPS is still active in the market and utilises their biometric enabled mobile ATMs, but this is not part of the SASSA contract – they simply act as an ATM service provider. The cost of cash distribution exceeds the revenue from SASSA (it appears to be about R50 per transaction) received for the cash distribution service, putting the Post Office in a disadvantageous position.

The SASSA recipient client base is maintained and supported on a separate back-office IT system from the IT system used for their other clients. They refer to the SASSA system as the grant distribution system (GDS). The other Postbank clients are supported on an Oracle Flexcube system. The Postbank acknowledged that the GDS is not stable and that there are delivery problems. In addition to this the entire SASSA card base have to be replaced, as the security has been compromised (as noted earlier). This card replacement will be a major focus in 2020.

The intention is to upgrade the Postbank's IT system completely, starting in the current financial year. The upgrade will be done in two phases:

- Establish a new "vanilla" implementation of the Flexcube system, utilising the latest version of this software. Configure this version for the SASSA requirements and convert the whole SASSA base to this system. This will then replace the current GDS system. This new version will have the functionality to do card management and merchant (retailer) management. This will enable the Postbank to acquire retailers, including micro retailers.
- Extend the configuration to enable all existing Postbank products and services and convert the existing Postbank base onto the same platform. This will then consolidate the current two systems into a single system.

The intention is further to enhance the capabilities of the Postbank system by introducing:

- Postbank ATMs. It is the intention to have 400-450 operational in the first year and to use the existing network of branches plus the ATMs to provide an alternative to the shrinking physical footprint of South African banks.
- Enter the merchant acquiring space – with card-based POS functionality. The focus will initially be to provide this where the banks are not currently focussed.
- Implement digital capability for Postbank clients, including SASSA recipients. This will include Internet banking and mobile banking.
- Consider mobile money as a product offering, potentially in conjunction with the mobile network operators.

These anticipated developments support a number of viable and game-changing alternatives to the current grant distribution system, including alternatives to cash distribution points. If these capability enhancements are done from a systemic perspective, with support from communities, the payments industry and other stakeholders, it could be a major lever to reduce the reliance on cash and improve the quality of lives of vulnerable grant recipients.



5.5 Absa Bank

Absa used to be quite active in the grant space, but since a single contract has been awarded by SASSA, first to CPS and currently to the Post Office, the focus has all but disappeared. The perception (based on the single supplier contract) is that “the business has been given to the Post Office and Postbank” and that there is very little commercial room to engage in. This approach is evidenced in the relatively small number of SASSA grant recipients with Absa account.

In Absa’s view a digital payments ecosystem is required in the communities if recipients are not going to have the same access to cash as they currently have. A proof-of-concept would be useful to identify payment and usage issues before any roll-out is contemplated. Near-field communication (NFC or tap-and-go) could play a role in such an initiative, as could the rapid payments initiative of BankservAfrica and PASA.

Absa used to have a focus on developing SME’s, including informal enterprises, but this focus has waned in the last year to 18 months, mainly due to an increased focus on cost reduction and weathering the worsening economic landscape in South Africa.

5.6 Standard Bank

Standard Bank has an interest in enabling payments in the low-value market, but this is focussed primarily on the rest of the continent, not on South Africa. Their views on the SASSA grant market are similar to those of Absa, with the biggest hurdle in South Africa the (contractual) dominant position of the Post Office. They are actively developing the payments market in South Africa, but this appears to be mainly aimed at the middle and upper market, with developments like SnapScan (QR codes through a smart phone but card-based). They are of the view that any payment development in South Africa requires interoperability and that, in turn, requires an investment in shared infrastructure and systems to support the payments. That has not happened to the required extent in South Africa in recent years.

In the rest of Africa, the Standard Bank efforts are focussed on developing agent networks to assist in extending transactability, but they have found that although this does hold promise, it is far from a simple task. Issues around agent churn, telecommunication network reliability and agent liquidity are all complicating factors. This experience echoes the issues identified in Section 2 of this report.

Standard Bank does not have transactional services at present that could be considered as part of the solution for SASSA grant recipients.

5.7 Tyme Bank

Tyme Bank views itself as innovative and “knowing the low-income market”. Their operation is seemingly running well with registered users increasing steadily (activity is an issue though), with a low-cost basis and mobile functionality as part of their offering. Of the approximately 1 million registered users 23% are using the product (on a 30 day-basis). Active account users do, on average, 8 transactions per month. This experience is in line with what is experienced in many African countries, with high take-up and low usage levels, but with active customers using the product on a consistent basis. They have been hampered by not having USSD mobile functionality and not offering remittances (local) as a service.

Their current focus is on increasing savings amongst their users. Only about 8% of their users are saving and they aim to increase this significantly. Interest is viewed as a major driver – they offer up to 10% interest, depending on balance and length of time the balance is maintained.



In general, their offering is amongst the most affordable in the market, with a fairly generous awards programme in place as an incentive to increase use, particularly at Pick n Pay, their main distribution partner. They hope to reach break-even within 3 years from the launch, i.e. by 2022.

They will have an interest in supporting SASSA payments, but this would appear to be mainly from an account acquisition perspective. They currently have no interest in micro enterprises (excluding most merchants and small-scale farmers), but their basic mobile payment service could be useful (it is closed loop). However, they do not have a developed sense of the social importance of grant recipients nor an understanding of what is required to establish an inclusive digital payment ecosystem at community level. They do not currently offer a call centre as a central support mechanism.

Currently very few Tyme Bank accounts are being used as grant recipient accounts.

5.8 Wizzit

Wizzit essentially has two operations:

- An extension of Grobank (formerly the Bank of Athens) – offering basic transactional and savings accounts with mobile functionality
- A technology service provider that provides mobile capability to existing financial service providers, either as a licensed user or as software as a service (SaaS), i.e. offering cloud-based services to financial service providers. In this capacity it is a FinTech, although it existed as such long before the term was coined.

As an extension of Grobank they lost most of their client base of approximately 400 000 users when their FICA processes were deemed to be “too risky”. They have been building up slowly and currently have a client base of approximately 20 000 users, mostly (documented) foreign individuals. They do not have a call centre, but they do have a central contact centre that responds to text messages.

In their capacity as a FinTech they have been in discussion with the Postbank to provide mobile functionality to their client base. This led to a contract in 2019, but this has not been taken further. Their capability extends to mobile payments (closed loop) and merchant acquiring. They have enabled tap-and-go (NFC capability) on a smart phone, so card purchases are also possible without the need for a card-reading POS device. This capability would be available to all card holders, as they have an agreement in place with Absa Bank to process (acquire) the out-of-loop transactions. In addition to this, they have USSD capability to enable mobile payments on feature phones as well.

Wizzit, as a FinTech, provides a number of possibilities for SASSA recipients. The technology has been deployed in a number of countries, so it should be robust. What is required is a number of partners, particularly financial services provider holding the transactional account (Postbank is the “natural” choice) and active presence in the community. In addition, some regulatory guidance from the Financial Intelligence Centre might be necessary to enable electronic verification for account opening, particularly for small merchants and other service providers. This requirement is not unique to Wizzit, as it would be required for any solution.



5.9 Cooperative Banking Association

Exploratory discussions were held with the management of the agency. The cooperative sector is quite small, with cooperative banks serving less than 30 000 members nationally. However, cooperative financial institutions (CFIs) are community-based and are therefore potentially of significant importance in supporting efforts to create digital ecosystems in communities.

The CBDA also hosted and operated a back-office system, providing a central administrative and information system for participating cooperative banks. This system is apparently no longer operational.

The idea of a CFI (or a series of CFIs) playing a role in the community to influence small merchants and farmers to accept and use digital payments was discussed. There was general support for such a move, but it was pointed out that CFIs are straining under the current economic situation. However, if pilots are foreseen in a proof-of-concept then support from a few CFIs would be a possibility. The lack of certainty about the viability of a central back-office and system for the sector is of some concern. It could constrain the role that these organisations may play in digitisation, although such a role is still possible even without a central system for CFIs.

Box 3: Implications for deepening the impact of grant payments in South Africa from sections 5 and 6

- The major financial service providers have little interest or involvement in the grant distribution space. This is echoed in the wider financial services industry as well.
- The newer banks and their associated technology providers are still focussing on establishing themselves in the market and have limited capacity to engage the grant recipient market.
- The payments industry is adjusting to establish payments that would be beneficial in the low-end market, but it will take a few years to get to full availability of these payments.
- The regulatory framework needs to be adjusted to enable different classes of service providers. Although this is not in place yet, there is a willingness to consider developments now in controlled trials/pilots.
- The technology as such is not the problem in the low-value market, the business case and models for engaging this market are.



6. Views from Technology Service Providers



6.1 Direct Transact

Direct Transact is an established South African technology service provider, primarily in the transactional space, although it also has offerings in the financial services space. Its client base has been expanding from South Africa into the rest of Africa and Europe, providing Platform as a Service (PaaS), transaction infrastructure and FinTech solutions.

The company has significant ability to develop solutions around its existing set of services. This was the approach mooted in the discussions about taking SASSA recipients into a digital payment space. The proposed approach centred around hosting all the accounts in their environment. As Direct Transact is a technology provider, the accounts will have to be hosted on behalf of a registered financial service provider, like a bank. To this Direct Transact will then add mobile payments capability (catering for both feature phones and smart phones) and card-enable the accounts as needed. In essence this will create a closed-loop payment system within the Direct Transact-supported base. Account holders will be able to use the rest of the financial system through card- and EFT-based transactions. Such an approach can then be implemented as a proof-of-concept in selected communities.

While Direct Transact has the ability to establish and manage the technology to enable such an environment, thus type of approach has a number of negative implications:

- It will require significant upfront software development, with an associated cost.
- It will require SASSA recipients to open accounts at the bank being associated with this scheme. The same is true for any other banked clients in the communities – they will also have to open such accounts if they do not already hold an account at that bank.
- The scaling up of this solution to include more communities will require further significant system development. The solution will have to be extended to include all possible financial service providers, which will not be a trivial task.

There are some positives as well:

- Since it is a closed-loop system there is no “cost of interoperability”, hence the transactional cost to the end-user should be reduced, compared to a fully interoperable system with switching and interchange costs.
- Information (and control) of the flow of transactions will be available on the whole system.
- Incorporating other entities (wholesalers, other financial service providers, etc.) is purely an operational issue, as the flow of transactions from the closed loop to the national payment system will utilise existing capabilities.

This approach, while technically viable, will probably fall short on overall cost and on market acceptance.

6.2 Providers of Software as a Service (SaaS)

Rather than acquiring and running software from a technology service provider, the major mobile payment providers are increasingly considering the software as a service (SaaS) option. SaaS is a software distribution model in which a third-party provider hosts applications and makes them available to customers over the Internet. It is one of the categories of cloud computing. The total cost of operating is typically significantly less with such a model, but it requires integration from the service providers with the SaaS applications, typically using application programming interfaces (APIs).



The major mobile payment SaaS vendors are:

- **Huawei (China)**
This provider's services are used by a number of major service providers, including bKash in Bangladesh. It enables deposits, transfers, merchant payments, bill payments, salary and cash transfer payments, remittances and account services on all phones.
- **Comviva (India)**
Comviva offers a full suite of mobile payments (*mobiquity*) to multiple market segments, with a merchant management and payment suite. The *mobiquity* services includes integrating payments, identity, loyalty, mobile marketing, location and social features, leveraging different technologies.
- **Obopay (India)**
Obopay offers a full range of mobile payment solutions, including mobile wallets, cardless ATM usage, airtime purchases, merchant payments, savings accounts and group savings schemes, P2P transfers, international remittances and open or closed-loop card systems.

6.3 Bluecode Digital Payment Service Provider

Bluecode is a European-based FinTech, operating in the digital payment space. Their approach is different from some of the other FinTechs, in that the aim is not to disintermediate banks. They provide mobile functionality for other financial service providers, essentially as a person-to-business payments enabler.

Their offering enables a mobile payment ecosystem, offering instant payments, domestic and cross-border remittances and the functionality of a full card scheme, but without any cards. The Bluecode application resides in the bank's channel through a software development kit. It enables the merchant acquiring (and management), thus enabling the digital payment ecosystem.

Retailers will integrate the Bluecode application into their service through an app on any Android or iOS (Apple) device. As retailers become more sophisticated and start using POS devices, the Bluecode application can integrate via an API into the POS system. As the cost of entry-level smart phones, particularly Android phones, have been coming down, such an approach extends the market for digital payments significantly.

The Bluecode environment is claimed to be as secure as any card environment, with the actual data of the transaction never used by the Bluecode application. A secure token is generated and this is used in the processing of the transaction. The application is relatively versatile, enabling push and pull transactions, barcode and QR-code initiated transactions as well as directly using the token number. The environment caters for both feature phones via USSD and for smart phones via an app on the phone.

What the environment does not cater for is the acceptance of cards at the merchant, if the merchant is not already POS-enabled. This limitation will restrict the appeal for merchants, as only those customers who are customers of a bank that using Bluecode functionality will be able to transact digitally. It would be necessary to extend Bluecode functionality to also accept EMV card transactions and to manage these transactions from the perspective of the retailer. If this can be achieved then this capability holds significant promise.



6.4 MTN MoMo service

MTN South Africa is in the process of launching their latest entry into the “mobile money” space in South Africa, MTN MoMo. This follows two previous attempts, done in conjunction with banks, to launch a mobile payments capability as part of a bank account offering. Neither of the previous attempts were commercially successful.

The MoMo environment exists in a few African countries already, notably in Eswatini, where it is offered as a mobile money product and where it has been very successful, at least in terms of penetration (take-up), but with low usage. It must be noted that it enjoyed a monopoly in the mobile money space there for quite a while. The South African offering is similar, but the product is aimed at all mobile phone users, not just MTN users. MTN users will have some advantage, in that they will get advantageous access to MTN services and products (discounted airtime, for example) which will not be available to other users. The client accounts will be managed by MTN, with Ubank holding what they term a “escrow” account, although it is simply the control account holding the net funds. MTN claimed that they have consulted all regulators, but the oversight over client acquisition is unclear (FICA or RICA?). The MTN MoMo approach is also quite different from MTN's previous attempts and from Vodacom's M-Pesa attempts, in that the (in essence) MTN accounts are seemingly not backed by a bank account on a one-to-one basis. In the ordinary course of events this would require specific agreement (at least on a non-objection basis) from the prudential regulator and from the NPSD. MTN has not responded to repeated requests for verification of this aspect.

The registration (the take-up process) for the product is handled by MTN and uses biometrics, including a voiceprint and/or facial recognition. This is done in addition to the identification of the client. The voiceprint part allows feature phones to be used securely as well. The plan from MTN is to launch the product offering airtime and pre-paid electricity purchases only, with discounts and loyalty schemes under consideration.

Their approach to the issue of SASSA cash grant recipients is to use the MoMo account in conjunction with the Postbank account, enabling the client to select how much of the grant money will be kept digitally in the MoMo account. This amount will then be used to purchase airtime and pre-paid electricity during the month. Cash-outs, if required, can be done at MTN MoMo agents. Over time more functionality, including merchant payments, will be added and allow SASSA recipients to gradually move to more complete digital use of their grants.

This approach is interesting, if indeed it proceeds as sketched. The use by any mobile phone user is a definite plus, as is the gradual move to more inclusive digital payments. However, the seemingly rather involved on-boarding for the additional account, the lack of addressing the major transactional needs of SASSA recipients in the initial offer and the lack of on-the-ground support significantly increases the risk of limited use and even non take-up.

6.5 VISA South Africa

The discussion with VISA centred around VISA's interest in the SASSA recipient market and whether VISA see value in extending digital payment capability into this market.

The VISA response can be summarised as follows:

- Any extension of digital payments into SASSA recipient environments are only considered with card payment rails (card processing standards) in mind.
- The amount of disposable income available to SASSA grant recipients do not warrant the extension of any digital payment capability into this environment.



- The view was that the cost of cash transactions is less than the cost of digital transactions and that users will therefore be in a worse position with digital transactions.
- There is a distrust in digital transactions in this environment and therefore there will be little or no use of such transactions, should these be available.
- The only way to increase the impact of social grants is to increase the amount of cash distributed to grant recipients.
- VISA is only involved, albeit indirectly, in the SASSA payment distribution (the Postbank cards are VISA branded) because it is a government initiative.
- They questioned the high cost of cash because the banks are still involved in the cash business.

The VISA representatives displayed no insight or interest in the systemic impact of social grants or of the digitisation of the use of such grants. They questioned the benefit of “going digital”, disputing that it would, as a consequence of digital enablement, enable some members of digitally enabled communities to use other financial services.

The comments from VISA South Africa appear to be in direct contradiction to VISA International's view that the provision of digital transactions to the underserved is a key enabler in the goal of universal financial access. VISA's international support for such initiatives and their direct involvement in many countries speak to an active interest in improving services for the lower end of the market. This is seemingly not reflected in South Africa.

Box 5: Implications for deepening the impact of grant payments in South Africa from section 7

- The technology exists to change the way in which grant recipients obtain and use their funds
- The possibility exists to extend the use of digital payments in communities without relying on card-based infrastructure
- There is not a dominant market participant at the moment that can easily implement digital payments at community level. The establishment of a more inclusive payment capability at community level will require a number of service providers working together.



7. Possible solutions

7.1 General observations and requirements

The most promising way to raise returns on the South African social grant distribution is by digitising the use of the grant funds through establishing and supporting digital payment ecosystems in communities, for the use and benefit of all community members. A digital payment system will lead to enterprises in the community being able to participate in the digital economy and financial service providers and FinTechs extending the offering of digital financial services into communities.

The use of cash is the dominant reality at the moment and users will have to be convinced of the improved utility of using digital payments. This process will take time and require dedicated interventions and support, during which cash will have to be available to serve users' needs.

Establishing a digital payment ecosystem at community level will have the effect that:

- Grant recipients will be able to use their recipient account as and when required, thereby using the advantages of the store-of-value of the account – increasing safety and the control of the funds.
- For those recipients with the need and in a position to use other financial services, the digital payment capability of the recipient account will improve the access to such services. The grant account's digital payment capability will therefore become a more efficient on-ramp to other required services, compared to the use of cash for the same purpose. It will also enable financial service provisioning to "go digital".
- The use of digital payment services will enable recipients of such funds to become participants in the digital economy, with the associated benefits. This is probably the biggest single contribution that the digitisation of payments in the communities in which grant recipients live can bring. It will enable:
 - » Such recipients, typically small merchants, to reduce their reliance on cash, reducing the cost of handling cash and improving the security of their businesses.
 - » Use the account into which they receive funds to ease their on-ramping into other financial services.
 - » Build up a payment profile that could provide vital information to FSPs in the assessment of credit for these merchants. Such merchants typically can provide very little if anything in terms of loan collateral and do not have a credit history, making it well-nigh impossible for FSPs to perform a credit assessment. The digital payment profile provides an efficient way to overcome this to a large extent.
 - » Enable the merchants to pay their suppliers and service providers digitally, providing a more efficient and safer trading environment.

In short, the digital use of the grant account can become the key unlocking the potential of inclusive digital payment ecosystem at community level, leading to digitally enabled inclusive economic growth.

To achieve this state there are a number of prerequisites:

- All community members should have the opportunity to participate in the digital payment ecosystem. Transaction volumes are necessary to establish digital payments as the predominant means of payment in the community.
- The digital payments should be available for use immediately after receipt, in the same way that cash is available for use. If the funds becomes available on a delayed basis then the recipients of payments will be at an disadvantage compared to cash receipts and the acceptance of digital payments is unlikely to become prevalent.

The most promising way to raise returns on the South African social grant distribution is by digitising the use of the grant funds through establishing and supporting digital payment ecosystems in communities, for the use and benefit of all community members.



- The issue of financial capability will have to be addressed. This requires engagement with the community over a period of time by a trusted person or entity, in essence becoming the local champion for digital payments. Once-off awareness campaigns and the obligatory flyers will not be sufficient. These champions will have to engage the local merchant and service provider community as well, since the acceptance of digital payments hinges on their ongoing support.
- The use and acceptance of digital payments by the up-stream providers of goods and services are required. Technically this should be less of a problem than establishing digital payments in communities, as these enterprises are typically already in a position to receive (and make) digital payments. However, ensuring that local merchants and such service providers meet each other's requirements will require active coordination. The champions should be in a position to support this as well.
- The transactional cost for these digital transactions, especially the in-community transactions, should be as low as possible. This requires that the FSPs and technology providers involved will have to focus on all elements of the service offering to remove or reduce all costs as far as possible.
- Community member should be enabled to use their digital payment capability outside the community as well. Similarly, non-community members should be able to perform digital payments in the community as well.
- The payments services need to be designed with the user in mind. This requires, inter alia, that:
 - » The use of the payment service should be as frictionless as possible. Easy to use, consistent across applications, using interactions that the users may have used in other situations.
 - » Meet the needs of the users, in terms of their payment requirements and means of payment.
 - » User on-boarding, i.e. opening of accounts and registering for payment services if required, should be done in the community. This may require working with the regulators to ensure that on-boarding processes are compliant with AML/CTF requirements, as this will have to be done via agents. These agents could consist of the champions mentioned above, but could also be different entities working in conjunction with the champions.
- There will have to be engagement with other financial service providers and the providers of financial infrastructure to ensure that additional, digitally enabled and payment-data-informed solutions are designed and implemented, in line with the requirements of the various sectors of the community.

Some alternative approaches to achieve the digital payment ecosystem are described in the following sections.

7.2 Approach 1: Rely on industry developments in the payment industry

The industry is moving towards providing more appropriate interoperable digital transactions in the low-value payment space, creating the possibility of using this payments architecture in the communities where grant recipients reside. Such an approach will have the advantage that already-developed solutions can be used to digitise payments at community level. Supporting and the championing the use of digital payments systems in community will be required, as community members will face the changes and uncertainties of a new digital transactional environment.

The industry is moving towards providing more appropriate interoperable digital transactions in the low-value payment space, creating the possibility of using this payments architecture in the communities where grant recipients reside.



The developments mentioned above in the sections on PASA (Project Future) and BankservAfrica (Faster Payments) would be very relevant for inclusive digital payment ecosystems at community level. Once fully developed and deployed these initiatives should enable direct and immediate user-to-user transactions, using a variety of attributes to initiate and receive payments, e.g. mobile numbers, identity numbers and account numbers, among others. Certainly from the operator's perspective (BankservAfrica) there is an appreciation that the cost of providing such transactions should be significantly lower than what is the case currently with most retail payment systems.

The concern with this approach relates to the time that it will take to operationalise the current plans (probably at least 2 years) and the market engagement strategies of the current, particularly the major, payment service providers (the major banks). The timeframe to practical use is simply too long. There is also no guarantee that the major participants will be willing to extend their market engagement to the communities where there is currently little or no formal payment infrastructure, particularly at a cost-to-end-user that is sufficiently attractive to promote take-up and use.

This approach does not address the need for banking agents (the champions mentioned above), so these will have to be established specifically for these communities.

It is not recommended that a proof-of-concept adopts this approach.

7.3 Approach 2: Rely on mobile financial services to establish the necessary solutions and market enablement

Given the promise of mobile transactions in terms of cost-to-end-user and ease-of-use (if designed appropriately), it is a possibility to consider introducing pure mobile transactability in communities to establish the digital payments ecosystem.

As noted above MTN is already engaged in its MTN MoMo project, while it has been mooted in the market that Vodacom may well re-enter the market as well. It would therefore be theoretically possible to engage one or both of these providers to provide payment services in the communities. The promise of low cost transactions and user incentives are promising.

From a regulatory perspective, unless there are specific regulatory exemptions/adjustments, a regulated FSP will still be required to provide the store of value for the grant distribution. This will then require either an FSP to provide an account in conjunction with the mobile operator, or integration with the Postbank to offer an integrated mobile and bank account. This will invariably increase the cost of the service and make the on-boarding process potentially somewhat complex.

The risk associated with this is that both MTN and Vodacom are essentially acting as start-ups in this space. Although this may appear to be counter-intuitive, given the market strength of MTN and Vodacom, it should be kept in mind that both these enterprises have tried and failed twice to establish a mobile money-type of service in South Africa. There successes are in the rest of Africa, not in South Africa. There are consequently considerable operational and market acceptance risks associated with both of these. It should also be noted that, at least in MTN's case, there will be a reliance on MTN agents as banking agents. There may well be an insufficient distribution of such agents, while the possibility of an inherent service bias at these agents (towards their own customer base) may complicate service provisioning. Experience in the rest of Africa in terms of agency churn (agents switching in and out of financial service provisioning) may well be a further complicating factor.

It is not recommended that a pure mobile-only approach is followed in any proof-of-concept.

Given the promise of mobile transactions in terms of cost-to-end-user and ease-of-use (if designed appropriately), it is a possibility to consider introducing pure mobile transactability in communities to establish the digital payments ecosystem.



7.4 Approach 3: Use a pragmatic approach - involving a range of service providers

Given the many different aspects that have to be addressed in establishing an inclusive digital payment ecosystem at community level, it is recommended that a “basket” of service providers are used. Some of the major financial service providers may well be in a position to deal with all or most aspects, but the demonstrated lack of interest in the low-end market requires the use of other service providers and opens up the possibility of using best-of-breed service providers. At community level, it is proposed that mobile payments are used to conduct every-day business, with the use of card payments enabled through NFC (tap-and-go) in the communities and relying on the existing card-infrastructure outside communities.

This approach will also lead to a reduction in the requirement for cash in the communities. The larger retail enterprises in the communities should be positioned (technically enabled with a sustainable financial model) to provide some cash to particularly grant recipients, but it is important that this should not be seen or used as a substitute for cash distribution by the existing (or future) service provider. It is an extension of cash availability with definite limitations on value, not a substitute for cash distribution.

In the payments context the services mentioned above include:

1. A provider of a store-of-value
2. A provider of mobile payment services
3. An acquirer (transaction acquirer) of small merchants – spaza shops and shebeens. This acquirer must also enable card payments in the community (especially for non-community members transacting in the community).
4. A service provider acting as champion and digital payment advocate and coordinator
5. Financial service agents, particularly providing on-boarding and first-level support to users. Initially this will relate to account and payment services, but in time it will extend to other financial services as well.
6. Possible further providers of content for financial literacy and product knowledge, either working directly or in conjunction with the champion(s)
7. A provider of cash distribution for grant recipients where the lack of access-to-cash infrastructure requires this., at least in the initial phase

Some service providers may be able to offer more than one component, but this need not be the case either. As can be seen, it is not recommended that the provision of cash for grant recipients is terminated. It should continue and then be reassessed in terms of the outcome of the proof-of-concept (see section 9 below).

As the digital payment ecosystem matures, additional service providers should join the ecosystem to enrich the service offering at local level. It is essential that the ecosystem is used for all G2P.G2B and all P2G/B2G payments.

A key aspect to be addressed is for informal retailers and service providers to use digital payments without this implying that they have to formalise their businesses to do so.

Given the many different aspects that have to be addressed in establishing an inclusive digital payment ecosystem at community level, it is recommended that a “basket” of service providers are used.

Box 6: Summary of proposed solution and the approach to deepen the impact of grant payments

Establish inclusive digital payment ecosystems in communities.

- This requires on-going support in community to effect the change, with champions and banking agents in community
- Use mobile payments in community and card payments to transact with other users and service providers
- Retain cash distribution for the moment and use the digital payment system to reduce the reliance on cash. Use local retailers to provide limited access to cash and then terminate cash distribution points.

Extend the digital payment ecosystem into a digital financial system

- Establish the needs in the community
- Involve other FSPs to provide basket of services digitally
- Enable other service providers to use the payment profiles of retailers in the community to inform these services

Structure a proof-of-concept to test the validity of the approach and allow for changes

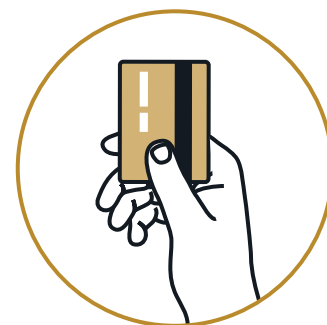
- Select a group of service providers to enable the required services and monitor their performance
- Undertake the proof-of-concept in conjunction with the regulatory authorities to ensure regulatory compliance and possible adjustments
- Monitor the proof-of-concepts in terms of market acceptance and impact to establish whether a national roll-out could be undertaken

National roll-out

- Interoperability of the mobile payments is a prerequisite for national roll-out
- Ensure that the digital service provisioning converge and influence industry developments
- It should be open to all FSPs committed to digital service provisioning
- Involvement of other government departments and entities
- Ensure that informal traders and service providers are encouraged to use fusing digital payments



8. Next steps and Implementation approach



The proposal is to test (pilot) the solution as outlined in 8.4 above. As there are many unknowns in such an implementation, it should be treated as a proof-of-concept, it is testing which aspects works, how it should be adjusted and what combination of service providers (in as far as it can be incorporated in a pilot) works best. At the conclusion of the proof-of-concept a decision to proceed on a wider basis and with which service providers can then be taken, or it may be concluded that a different approach is required.

To get an indication of the replicability of the solution, it is proposed that a few areas are chosen, across a number of provinces and reflecting different levels of basic infrastructure development. It is important to get a sense of the effect on digitisation of rural vs. urban vs. peri-urban, the level of economic activity in the communities and the proximity to other amenities. At least one of the areas selected should have a current cash distribution point, so that the acceptability of such a solution in those communities can be assessed. It might not be possible to comprehensively test cultural differences in the acceptance and use of digital payment ecosystems in a proof-of-concept, but it is an important attribute that should be kept in mind. It is suggested that 3 – 5 areas are selected, in conjunction with the relevant stakeholders.

The regulatory concept note that was sent to the regulators (Annexure 3) should be pursued in the inert-regulatory space to reach greater clarity on what is possible and how areas of risk should be managed within a proof-of-concept.

It is further proposed that, should the decision be to proceed with a proof-of-concept, that at least a request for information (RFI) process is followed, preferable a request for proposal (RFP). There are service providers and the technology is available, but it is necessary to select those providers that are committed to the market at a reasonable cost. It is equally important that for both the proof-of-concept and for the hope-for national roll-out a fair and open-to-all approach was followed. In this process the requirements as outlined (and amended where necessary) in Annexure 4 should be communicated and verified.

The proof-of-concept needs be managed on a dedicated basis for the duration of such a project, which should include the inception phase (3 – 4 months), the mobilization phase (2 – 3 months), the actual proof-of-concept (about 6 months) and the assessment phase (about 1 month). Some of these times can overlap, with an estimated total duration of about 1 year (from inception to final decision). For this purpose, a dedicated project manager, with logistical support, is required.

It is necessary to test the efficacy and commitment of different types of champions. There may well be more possibilities, but at least some CFIs and in-community leaders should be included in the proof-of-concept. These champions will require support in terms of messaging and content to be shared with community members, for which service providers should be canvassed via a further RFI/RFP process. The training and monitoring of these champions, especially if they also act as banking agents, need careful design and implementation, by both the FSP involved and the mobile payments provider.

The reality of the current banking profile of grant recipients requires, ideally, that the Postbank is the FSP providing the store-of-value (the Postbank account). This will enable the majority of existing SASSA grant recipients (and all cash-distribution recipients) to participate in the digital payment capabilities being set up without having to open yet another account. Since mobile interoperability is not present in the South African payment system, the FSP providing the accounts and acquiring the merchants will have to be the same entity, in effect creating a closed-loop mobile payment system. Any card-based transactions in



the community (preferably using NFC capability on phones) could be entertained and then acquired by a service provide equipped to process such transactions.

As mentioned, some local retailers could be enabled to do cash-out as well, but not as a preplacement for cash distribution. It is proposed that withdrawal limits are agreed with such retailers and a mutually acceptable financial arrangement is agreed between the FSP (and mobile payments provided) and the retailers.

In the course of the proof-of-concept it would be advantageous if an FSP (or more than one) could be involved in loan provisioning for retailers and other service providers in the communities, using the digital payment profile of such retailers as a part of their credit assessment. It would be ideal if CFIs could be involved in this, but the digital capability of such CFIs will be a significant hurdle. If this approach to loan provisioning proves to be viable (or at least promising), then negotiations to make such data available to other interested credit providers should be entered into. SACCRA might be the best-placed organisation in which to do this. The use of such data should be carefully defined and agreed though. The use of this information is important for loan providers, but the quality and dignity of such service provisioning is as important to the sustainability of such an initiative as the loan provisioning itself is.

Should the proof-of-concept yield positive results, then the approach should be extended nationwide. In this phase, consideration should be given to:

- Interoperability of the mobile payments. This should ideally be done as part of the industry's payment system development but making sure that the needs of the communities are adequately catered for in such developments. The responsibility to ensure that this is the case would be with the FSPs involved, with the mobile payment provider.
- National champions & banking agents. It will probably be a remaining feature of these community-based digital payment ecosystems that different types of champions and agents will have to be utilised. However, identifying a national, or "default" class of service provider or providers in this context will be advantageous to wider roll-out. The role of local authorities should be considered in this context.
- Incorporating more FSPs. It is of critical importance to make sure that the system can accommodate additional service providers in all areas. Not only will this give community members choice (which is a crucial element in minimizing market abuse), it will give other service providers the opportunity to participate in this opportunity and to deepen the service provisioning beyond what is initially foreseen.
- Reducing and then hopefully eliminating cash by
 - » Using Postbank infrastructure. This will be dependent on the actual Postbank roll-out of ATMs and the willingness to deploy these in areas where there is no infrastructure at present. It is their stated intention to do so, but the reality of revenue flows might be a constraining factor.
 - » Extending capabilities of in-community merchants (always limited)
 - » Deepening the digital payment ecosystem by involving preferably all service providers using payments in the community.
- Incorporating a full set of financial services, digitally enabled, to serve the communities. In this context the beneficial use of the payments data profiles and the use of the agents and champions should be considered.
- Involving authorities at all levels of government that are engaged in payments and/or collections and ensuring that these are enabled in the digital payment ecosystem already created.

It is proposed that withdrawal limits are agreed with such retailers and a mutually acceptable financial arrangement is agreed between the FSP (and mobile payments provided) and the retailers.



As can be deduced from the proposal the issue of cash distribution is viewed in conjunction with the deployment and support for the digital payment ecosystems. This will reduce the requirement for cash distribution over time but will not remove it immediately. If viewed in isolation, then there are three ways in which cash distribution can be improved:

- Improve the distribution of cash through the use of technology, particularly mobile ATMs with biometric capability. Given the general relative decline in cash and the move to digital payments, this would appear to require an investment with dubious returns.
- Exert pressure on the banks and major payment infrastructure providers to extend their footprint into areas that are currently underserved. Given the contraction of physical points-of-presence by most of the banks this is not likely to meet with any success.
- Go the banking agent route, i.e. use local merchants as cash distribution agents. The level of economic activity and the cash available in those communities will mean that the problems experienced in the developing world with banking agents providing cash-out to grant recipients will probably be even more severe than in other countries.

It is therefore proposed that establishing digital payment ecosystems in communities should be used as the lever to reduce the reliance on cash. If this reaches a point where digital payments become the norm, cash distribution points could be discontinued, with local merchants providing limited access to cash. When this point is reached, then it is recommended that staggered payments are introduced (i.e. payments throughout the month) in order to reduce the possibility of merchants facing liquidity problems. The limit on withdrawal amounts and staggered payments should make this a viable proposition.



Annexures

Annexure 1 – Observations at cash distribution points

Digwale Cash Distribution Point

This cash distribution point is in the southern part of the Limpopo province in a rural area with some peri-urban characteristics (clusters of retail outlets evident, with POS devices and connectivity, reasonable evidence of public transport and tarred main roads). The actual distribution takes place in a community hall, with a palisade fence around the perimeter.

As it is typical with these distribution occurrences, the area adjacent to the entrance to the community hall area, is set up as a marketplace. Most vendors either have or used vehicles (bakkies) to get to the venue and then “set up shop”, about 40 in all. The goods on offer included fresh vegetables, basic household items and clothes (pre-owned), but also quite a number with bric-a-brac, foodstuffs of dubious nutritional value and with a few financial service providers (funeral plan providers) in evidence. This is a self-organised marketplace, with no intervention from either SASSA or the Post Office. No vendors are allowed in the community hall area though – there are security guards (hired by the Post Office) present at the entrance.

The distribution point serves 6 villages in the area, with about 750 recipients in total. Recipients do not have to come to the point, they can collect their grant at any point where the service is offered, e.g. at the nearest Post Office outlet. On the day of observation, the point served 733 recipients.

According to SASSA (there were 2 SASSA officials present) the process usually takes about 4 hours, starting at 08:00. However, it was clear that this is an optimistic view, as the cash van (Fidelity Guards) only arrived at 08:30 on the day of observation, after which preparation for the individual cash dispensing commenced. The seven Post Office “tellers” each have to receive and verify their initial cash amount (carried in laptop bags), with a senior Post Office person supervising and “keeping tally”. The dispensing stations are then set up, with a connected laptop, fingerprint reader and card readers and small printer.

The dispensing started at 09:00 and was quite efficient under the circumstances. A community member oversees entrance into the hall – first preference to the disability recipients, then the old age grant recipients and then the child support grant recipients. Not all the recipients are there at the start of the process – it appeared that about 300 were there. The others arrive during the course of the morning, For each recipient the SASSA card is read, a fingerprint is verified, the “system” indicates the amount to be disbursed and this is the amount is then counted from the laptop bag, a receipt is printed with two copies and the amount is then counted (again) for the recipient and the cash and one copy of the receipt handed over. For old age grant recipients, the process takes just over a minute, with child support recipients’ dispensing taking about 40 seconds (smaller amounts and fingerprints are read easier). On the day of observation there was power failure for more than an hour when the dispensing reverted to a manual system which appeared quite inefficient, as could be expected. The Post Office system also “went off-line” for close on an hour, during which no dispensing took place. This extended the distribution well into the afternoon (it completed at 14:45) and the second cash distribution point scheduled for that day had to be informed that distribution will only take place in a week’s time, i.e. after the usual cycle is finished.

According to the recipients who were willing to engage they were happy with the Post Office process, particularly the fact that there were “no shortages” (i.e. no deductions) and no other services as part of the process. Some have funeral policies, that they either pay in cash or via debit order. It was not clear what account they used for the debit order. Some admitted to having loans, but they seem to refer to “town” (Siyabuswa) where they go to get loans.



According to the SASSA officials this refers to Finbond Bank (a mutual bank) branch.

About 15-20% of the recipients (mostly but not only old-age grant recipients) recounted the grant money after having received the money from the Post Office teller. One can assume that these recipients will be particularly resistant to receiving the grant in anything but the cash. There did not appear to be any issue from these recipients about handling cash – it is the way in which they conduct their financial lives. It was noticeable that a few recipients (probably less than 50%) did stop in the marketplace to purchase some goods, but many did not. These transactions were all in cash.

There are retail shops in the vicinity, about 15 kms away, where there are POS devices and card transactions are possible. Somewhat further away there were ATMs visible as well. However, in the villages as such there are no formal shops and no payments infrastructure.

Metsemadiba Cash Distribution Point

This cash distribution point is in a similar area to the one described at Digwale, although slightly more remote. It serves a single community with about 500 grant recipients. On the day of observation, the point handled 530 recipients. The cash distribution takes place in a private hall, rented by the Post Office. It has a perimeter fence with security guards at the entrance to the area.

As with Digwale a marketplace was set up next to the hall area, very similar to the one described above, but a bit smaller. Here the funeral plan providers were more visible – there were at least two with “a stall”, actively engaging the recipients. It appeared that there were more vendors selling goods of doubtful value, but the majority were offering everyday items. All transactions done in cash only. In this case the nearest point (shop) with POs functionality appeared to be about 20 kms away.

Security at this venue seemed even more tenuous than at Digwale, with a single armed security guard (the security guards at the entry point are not armed). In fact, it was stated that in the previous month there was an armed robbery at the venue, with the cash taken from the security van.

The same process was followed as at Digwale, with a community member organising the recipients from disability grants to old age grants to child support grants in order of receiving the grant money. There appeared to be a higher percentage of people who were reliant on someone else to initiate and complete the transaction (except for the fingerprint). It was estimated that about 10% of the disability and old age grant recipients were materially assisted, typically by a much younger family member (late teens/early twenties). There was also a marginally higher percentage recounting the cash received, about 20%. In this instance child support grant recipients did not engage in this recounting.

The process was similar to that at Digwale, with a few people taking longer (still less than two minutes), but with the child support grant recipients being served even quicker – down to 25 seconds for some recipients. Overall, the time taken to serve a recipient is less than one minute. The recipients were all served by 10:30 (started at 08:00). Here there were no interruptions and the process ran smoothly until completion.



Of the recipients who were willing to interact a similar view as that at Digwale merged. They were in general satisfied with the service and clearly appreciated the Post Office staff a great deal more than presumably the CPS staff who served them previously. In terms of additional products, funeral plans again featured, with particularly the younger recipients mentioning loans. It was confirmed by the SASSA official that this was again mostly from Finbond, with an indication that some of the recipients take out multiple loans (also from informal providers) and get into difficulty. Saving money was not mentioned, although that might have been because of a concern with the SASSA officials present (the perception that unless the money is used in total, they may lose the grant still seems to be prevalent).

The use of the market outside the venue seemed to be more impulse buying than using the vendor' products as a "substantial" monthly purchase. This could be practical as well, as particularly the older recipients might find it difficult to get some of the bulkier items home. The market started to disassemble itself before the last recipients were served. Since these were child grant recipients, the assumption can be made that these recipients shave less use for the goods in the marketplace.



Annexure 2 – Observations at Post Offices and retailers

A number of Post Offices and retail stores (Checkers and Shoprite) were observed on the 31st of December 2019.

It was noticeable that the Post Offices were used to a far greater extent than the retailers. Although the queues were not long (between 10 and 15 people), there was a constant flow of people during the few hours of operation. The recipients, without exception, withdrew the full amount of the grant. The process was efficient, but it took slightly longer than the process at the cash distribution point. This could be ascribed to the layout (more protected) of the teller stations in the branch, as opposed to the open interaction at the cash distribution point. The recipients did not really wish to interact but seemed satisfied with the service. It appeared as if the majority made their way home, rather than purchasing items at the surrounding stores.

There were less people at the retailers than at the Post Office branches, which could have been a result of the time of the year. Recipients are served at one teller only (the requirement for a fingerprint reader seemingly the biggest issue). The process was slower than at the Post Office outlets, but still only about two minutes. Here some of the recipients (not all) did purchase some goods, after they received the grant money. There was no observed attempt to either use the card or being informed by the teller that a card purchase could be made. The recipients all seemed satisfied with the service received.



Annexure 3 – Concept Note for National Payment Systems Department and other regulators

The text of the concept note sent to the regulators:

1. Background

The South African Government administers one of the most extensive social security grant systems in the world. The programme directly assists more than 11 million people and benefits more than 40% of South African households. There can be very little doubt that this programme is responsible for alleviating some of the effects of poverty in the country.

Over the last few decades the South African Social Security Agency (SASSA), the statutory body responsible for the administration of the grant distribution system, has increased the use of bank accounts to distribute funds digitally. This has had positive effects on the cost of the administering the system and reducing fraud, while increasing the dignity of recipients. This is a crucial development lever that can be utilised to increase the impact of social grants in the country.

With this aim of increased social impact in mind, the UNDP, in conjunction with the Department of Social Development, SASSA and National Treasury launched a project with FinMark Trust to examine ways in which the payment of grants be improved towards his goal.

The objective of the project is twofold:

- Finding alternative(s) to cash distribution
- Positioning these alternatives(s) to benefit all grant recipients towards greater impact.

2. The Current Situation

Currently, all grant recipients utilise some bank account, the majority with Postbank accounts. However, very few of the recipients use these accounts in a beneficial manner as a store-of-value from which they can make payments as needed and, if possible, access other financial services. About 300 000 recipients receive their funds at cash distribution points provided by the South African Post Office, while most of the other recipients withdraw all the funds once available. They can access the grant funds at Post Office outlets, ATMs and at participating retailers.

The consequence of this reality is that the benefits of the grants, both to the recipient and to the communities in which these recipients reside, is limited to the use of the cash. This restricts the communities' ability to participate in the efficiencies and advantages of the digital economy and is likely to have an effect on continuing the poverty levels of recipients, although the recipients are of course still better off with the grants than without.

The recipients using cash distribution points do so because there are no points of transaction where they can access their funds within or near their communities. The points are manned once a month and require the recipient be physically present to receive the cash.

3. Possible Solutions

The most appropriate way in which the benefits of the current grant distribution system can be improved is to increase the impact of the use of the account used for the receipt of the grant funds. This will be of direct benefit to the recipient in terms of only accessing funds when required and using the account to a greater extent as a budgeting control mechanism.

The effect on the community will flow from this use, in that small and micro merchants, and other service providers, can be paid digitally. This in turn will reduce their risk of holding and dealing in cash, while enabling them to build a payment profile that could give them better access to other financial services, notably to credit. Receiving digital payments necessitates that these merchants and service providers are able to use such funds digitally as well with their suppliers of goods and services. Digital use of the grant recipient account therefore forms the starting point of an inclusive digital payment ecosystem at community level.



For such an ecosystem to be viable it is necessary that as many members of the communities can and do participate in the digital environment. Community members who are not grant recipients should therefore be able to participate in the payment system as well, both as payers and as recipients. This will require these community members to either use the accounts that they already hold or being assisted to open accounts for the purpose of participating in the payment ecosystem. Furthermore, the upstream use of digital payments to enable payment recipients in the community to use received digitally with their suppliers outside the community will have to be incorporated and actively supported.

Whilst the cost of enabling a mobile payment system is more appealing than the cost of a card-based system, the reality of the penetration of card-based accounts (and hence payments) in the country, requires that some consideration will have to be given to enabling card-based transactions as well in this ecosystem. The preference will be for mobile payments though.

Mobile payments in South Africa are not yet interoperable, so the establishment of an inclusive digital payment ecosystem will best be handled, at least in the initial phase, as having the characteristics of a closed-loop system. It is probably practical that the acquiring of the transactions in the community is managed by one provider. The system will however not operate in isolation, as the acceptance and use of cards will render the system as a whole part of the national payment system.

It should be noted that the initial implementation of such a digital payment capability is not premised on the disappearance of cash. Rather, the aim is to reduce the use of cash and to move to a situation where the access to cash from the grants is not necessary on a single day. It is accepted that the move to reduced cash will take a considerable period and that the achievement of cashless environments should probably not be piloted in environments that are currently part of the cash economy.

4. Regulatory Considerations

The approach described in section 3 above requires a number of role players. Since there are many aspects that will have to be examined and adjusted during an implementation, it is foreseen that the initial phase will be a controlled proof of concept, involving a limited number of communities, probably 3 or 4. The selected communities will include areas currently served by cash distribution points.

The role players that are foreseen consist of a financial service provider offering a store of value, an enabler of mobile transactability, a transaction acquiring service provider and an entity or entities providing support in the community, as well as the financial service providers of all the community members who already hold transactional accounts. Either the store of value provider or the enabler of mobile transactability could also be the transaction acquiring service provider, but that need not necessarily be the case.

In this scenario there are some regulatory considerations:

- The entities supporting the initiative in the communities will be a key component of the ecosystem. To achieve a change in payment habits will require significant and on-going advocacy, training and support. These entities will also have to act as agents for the service providers, in that they will have to open accounts where required, register and enable merchants and provide service awareness and training to community members. In all likelihood the Postbank should ideally be one of the providers of the store of value, since that is the situation at the moment and it would be advantageous to use the accounts that at least grant recipients already have, rather than a scheme in which they have to open new accounts. The provider of the mobile services (this will not be Postbank for the foreseeable future, as Postbank do not offer mobile services at present) might equally require these entities to do some on-boarding of clients onto the mobile



transactability. **It is therefore necessary that these entities are allowed to act as agents for the Postbank (or other store of value service providers) and the mobile payments service provider. The possibility of using cooperative financial institutions/banks for this role** do exist and should therefore be kept in mind.

- The on-boarding of clients, either opening new accounts or registering for the mobile payments service, will have to be done in-field. Such on-boarding will therefore have to be done with the facilities and client information that is available at the point of on-boarding. **Consideration to what would be deemed acceptable in terms of ANL/CFT requirements is therefore necessary.**
- All indications are that both grant recipients and other community members have had very little exposure to the use of formal financial services, especially digital financial services. As mentioned above it will therefore be necessary to engage with community members and explain the service and provide ongoing support. **Any regulatory guidelines covering the market engagement aspect** would be helpful to ensure an informative proof of concept that is fair to all users and would provide information on the scaling-up of the initiative if successful.
- Since a controlled proof of concept is envisaged, it would be possible to structure information about aspects of the operation for review and consideration. Any views on **what type of information would be useful to regulators** would be helpful.

It would assist if any other issues not mentioned above of regulatory interest could be identified and communicated.

The issue of the biometric verification of recipients will be taken up with SASSA, as that is strictly speaking not a payments issue *per se*.



Annexure 4 – High-level functional description of the requirements for a digital payment system

The ideal situation will be the provision of mobile payment functionality to an existing store-of-value, held at a regulated FSP. In other words, the solution should ideally not include the hosting of the store-of-value account, even if that is done on behalf of an FSP. Rather, an interface between the mobile platform and the banking system of the FSP will be required.

The high-level business functions required should include:

- Administrative functions, specifically the registering and authorising the functionality of agents. Care should be taken that the use of this function is safeguarded from abuse.
- On-boarding existing account holders of the FSP onto the mobile platform, essentially identifying the client and verifying the account and linking a mobile number to the account. The verification should ideally be done programmatically.
- On-boarding clients for the FSP remotely, through the mobile application. It is anticipated that this will not involve “paper copies”. Where the client is a SASSA grant recipient, a secure on-line notification to SASSA should be provided to ensure that the grants are paid into the recipients’ account. Account maintenance functions, including the closure of accounts, should also be provided. Control measures need to be in place for maintenance functions changing the profile of the account, e.g. changing the mobile number associated with the account.
- Merchant management should be included. This should include on-boarding the merchant (account opening and “registering” as a merchant), providing the merchant with QR payment receipt capability and enabling the merchant to provide cash-in and cash-out functionality. Not all merchants may need or require card payment capability, but where a merchant do require this it should be provided as well. Such card payment capability should be enabled through at least NFC capability, provided on the merchants’ handset and should comply with card payment security standards.
- Mobile payments capability, including:
 - » Person-to-person payments. Essentially these will be account-to-account transfers, but the mobile number associated with account should be available as a proxy to initiate payments, i.e. the recipient will be identified via the phone number. This should be available to all clients in the “loop”.
 - » “Family” transfers: Where there is a need to pay certain individuals (typically family members) on a regular basis, this should be simplified via names or a similarly easy-to-use identification, possibly with a transaction limit. These will be a specific instance of a P2P payment.
 - » Request-to-pay, available to registered merchants. In this case the recipient (i.e. the merchant) will initiate the payment, but the payer will authorise the payment on his/her device.
 - » Payment via QR codes (at merchants). As an alternative to P2P or request-to-pay transactions, payment via QR codes at merchants offering this would be useful.
 - » Domestic transfers (remittances). Where the recipient of intended funds is not part of the “loop” (i.e. a registered mobile user with an FSP account), the transfer of funds should still be enabled, essentially as a remittance. Access to the funds can then be enabled through a unique code made available to the recipient (ideally via SMS). These remittances should operate in a manner similar to the “cash send” functionality employed by some banks, but the physical access will require the use of registered merchants in the system and, if feasible, ATMs or tellers of participating banks/Postbank.
 - » Mobile payment of to pre-paid services, specifically airtime/data and electricity.
 - » Mobile payment of any bills. This could either be handled in the mobile platform or consist of mobile access to bill payment functionality at the FSP, should such functionality exist.
 - » Transfers to other accounts (outside the “loop”). These will of necessity have to be done as account-to-account transfers, either at the FSP if both accounts are held there, or as interbank transactions (through the FSP).



- » These transactions (and any other transactions provided) should be fully secured from point-of-origination to transaction finalisation. Full transparency of the transaction flows is required to enable information availability of all aspects of the transaction flows.
- Basic account access functionality is also required:
 - » Balance information
 - » Statements/transaction history information
 - » Beneficiary management (either at the FSP if provided or on the mobile platform).
 - » Profile management (limits, addresses if applicable, etc.)

General and important principles:

- The mobile functionalities described have to be available for both smart phones and feature phones. While some functionality may require a smart phone, these instances should be limited and, wherever possible, an alternative should be available on the feature phone.
- The transfer of funds (whether a P2P, a request-to-pay, payment of pre-paid services, transfer to accounts in the same FSP (and preferably at other FSPs as well if costs are not prohibitive) should be done in real-time or at worst in near real-time.
- It is imperative that transaction costs are as low as digitally possible. The transactions compete directly with cash transactions and, as is well-known, the perception amongst users is that cash transactions are “free”. It is not the case of course, but that is the perception.
- Users should be kept informed of all transactions and changes on their account and platform via SMS. Costs of this should be minimised as far as possible.
- Although only mobile numbers are mentioned as proxies, the mobile platform should ideally cater for additional proxies as well. Whilst this will be the case for merchants offering QR payment capability, it should also include (or at least make provision for) additional classes as well, specifically but not limited to identity numbers.



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