Ehsaas Financial Inclusion Policy

Government of Pakistan

Contents

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This policy has been prepared for use and guidance of Poverty Alleviation and Social Safety Division (PASSD) and its ancillary agencies. PASSD will continue to refine this policy based on lessons leant to make it more robust. Once approved, this Policy will be in the public domain.

Ehsaas Financial Inclusion Policy for poverty reduction

Financial inclusion: global context

Today, close to one-third of adults – 1.7 billion individuals – are excluded from formal financial services, such as savings, payments, insurance, and credit. This exclusion has a significant impact on individuals' abilities to escape poverty. Access to financial products enables greater security, autonomy, and better decision-making. Basic checking accounts enable families to safely secure their funds. Savings accounts make it *easier to save*, which encourages *people to save more*. Women in Nepal who opened an account increased their total assets by 16%.[1] Overall, encouraging a mindset shift towards saving helps households make better decisions related to their well-being. A J-PAL study found that by providing households with a safe lockbox labelled "savings" increased healthcare spending by 66%.[2]

Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs and that are delivered in a responsible and sustainable way (The World Bank). Often access to checking and saving accounts is considered the gateway to financial inclusion; but other products, including payments, credit, insurance and investment products are also important. Furthermore, access is only *the first step* towards achieving financial inclusion.

More completely, financial inclusion includes three dimensions: accessibility, affordability, and usage. It is not about offering access to banking products, but also ensuring that they are offered at the right price and in the right context so that they are realistically available to households. To realize financial inclusion, financial services need to reach everyone who can use them, including disabled, poor, and rural populations. These different segments often have different needs. It is critical to cater to households' different needs to encourage usage and prevent inactive accounts.

Financial inclusion has a critical role in attaining many of the United Nation's Sustainable Development Goals (SDGs). It is an enabler for 7 of the 17 SDGs. Access to financial products and services enables individuals and families to plan for everything from long-term goals to unexpected emergencies. Access to formal credit can help the poor break free from a cycle of debt that perpetuates poverty. Bank accounts can help people make financial transactions more efficiently and safely. Savings, insurance and investment products can help support a better future and enable them to take productive risks.

1 Prina, Silvia. 2013. "Banking the poor via savings accounts: evidence from a field experiment."
2 Dupas, Pascaline and Jonathan Robinson. 2011. "Constraints to Saving for Health Expenditures in Kenya." J-PAL.

Digital finance has significant potential for impact on the financial inclusion agenda. Mobile phones can help financial services reach underserved populations such as the poor who live in rural areas not served by brick and mortar banks. Women in particular have the opportunity to benefit from digitalization. Efforts focused on increasing women's financial inclusion are particularly important due to the multiple gains that would be realized by closing the financial inclusion gender gap. When women control financial assets, they are often more likely than men to invest in the health, education and wellbeing of their families, so increasing women's access to financial products helps improve the lives of women and their families, as well as spurring economic growth.

Financial inclusion in Pakistan

Pakistan is one the global supporters of the Maya Declaration, the Alliance for Financial Inclusion's (AFI) initiative to encourage national commitments to financial inclusion. It is one of 60 countries that has developed a national strategy to realize its targets.[3] The Government of Pakistan adopted the National Financial Inclusion Strategy (NFIS) in May 2015. Pakistan is a top-ranking country in the Global Microscope on Financial Inclusion, ranking third in the 2017 report. Additionally, Pakistan is one of the fastest developing markets for branchless banking in the world.[4] The 100-day Agenda of the government lay special emphasis on financial inclusion in 2018.

There has also been an interest in leveraging government-to-person payments to increase financial inclusion. For instance, following the floods in 2010 and later the internal migrations and displacements, the government worked with private sector banks to issue payment cards to millions of beneficiaries, which they could use to withdraw money at ATMs or use their cards to purchase goods.

Despite progress, significant portion of Pakistan's population continue to be excluded from formal financial systems. Pakistan has one of the largest proportions of financially excluded individuals. Nearly 79% of the adult population does not have access to financial services.[5] Comparatively, the South Asian average of adults who have an account with a formal financial institution is 33%. 66% of the financially excluded are from rural areas and women are overwhelmingly affected, with 57% excluded.[6]
The challenge is even greater when one considers financial products beyond checking or saving accounts. While more than 30% of Pakistani adults borrow money, only 3% borrow from a formal financial institution. Only 7% of adults have pensions and insurance coverage is estimated at 7%. Although Pakistan was an early adopter of microfinance, which has been successful, there are very few financial institutions that serve the majority of the population that is non-elite but is not the appropriate segment for

3 The World Bank. Financial Inclusion. "Financial inclusion is a key enabler to reducing poverty and boosting prosperity." 2 October 2018. https://www.worldbank.org/en/topic/financialinclusion/overview
4 Karandaaz "The Unbanked: A hundred-million question", March 2019 https://karandaaz.com.pk/blog/unbanked-hundred-million-question/
5 Global Fintech Data Bank 2014.
6 The National Financial Inclusion Strategy notes that "The financially included are overwhelmingly male (86%) and predominantly urban (68%)."

microfinance. The lack of financial products for this "missing middle" is complemented by a limited demand for formal financial products and services due to poor financial literacy.

The NFIS envisions that 25% of adult females will have a formal account by 2020, up from 2.9% in 2014. To achieve this goal, it is critical to increase the financial capability, or literacy, amongst the population. Ehsaas is one of the vehicles through which that can be enabled.

Ehsaas and financial inclusion

Ehsaas is the Government's flagship poverty alleviation strategy that aims to expand and reform safety nets, invest in human capital formation and lift people out of poverty. Within its 130+ initiatives, Ehsaas includes several specific programs that can help realize the NFIS' strategic goals and accelerate Pakistan's journey to ensuring all citizens can access financial products and services.

One of the overarching goals articulated in the "Ehsaas Strategy",[7] relates to ***Financial and digital inclusion for 7 million individuals (90% women).*** Ehsaas will deploy cost-saving digital means to reach currently financially excluded and underserved populations with a range of formal financial services suited to their needs. Four digital financial inclusion approaches are currently being used in the framework of Ehsaas.

Ehsaas-Kifalat: One woman one Bank Account Policy

Since 2008, the Benazir Income Support Program (BISP), Pakistan's largest safety net institution has been providing unconditional cash transfers to 5.7 million poor families. Ever-married women identified as eligible based on Proxy Means Testing are provided a stipend of PKR 5,000 on a quarterly basis for consumption smoothening and for the provision of minimum income support. Economic empowerment of women is an important objective of these cash transfers.

Designed under the framework of Ehsaas, Kifalat reforms the un-conditional cash transfer programme of BISP. There are several objectives of the reform, one of which is to transform the "cash out only" operations into a programme that also enables financial and digital inclusion through the "One Woman, One Account" initiative. This reform is predicated on the understanding that digital and financial inclusion will open avenues for women to take better advantage of opportunities offered under the Ehsaas National Poverty Graduation Initiative.[8]

Implementation of this policy is in its final stages. After a ten-month process, spanning January-October, 2019, two partner banks have been selected to implement this project. The financial institutions will launch the payment model during Q2 2019/20. The new BVS-based model will include a full-scale

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7 The Ehsaas Strategy, 2019 http://pass.gov.pk/userfiles1/files/Strategy_Ehsaas_for_online_consultation.pdf
8 Ehsaas National Poverty Graduation Initiative. http://www.ppaf.org.pk/NPGI.html

branchless banking saving accounts for beneficiaries, with the aim of being responsive to the needs of the beneficiaries. The One Woman, One Bank Account program will not be limited to cash transfers but will also seek to ensure access, affordability and usage of full spectrum of financial services including payments, savings, credit, and insurance products.

Another key design of the program is the establishment of 500 digital hubs at the Tehsil level to enable government resources being made available to poor families. These hubs will aim to increase financial literacy through online curricula and also enable women who do not have easy access to mobile devices to access digital financial systems. In designing and undertaking the Kifalat reforms to strengthen BISP, efforts will be made to ensure the payments have the following key features to help ensure that the reforms advance the expected gains for women and their families.[9]

- Direct: payments are made directly into accounts held by beneficiary, who has control over the account, which are registered in their names and to which they have direct access
- Reliable: the amount, frequency, and timing of payments is reliable, and the beneficiary can count on regular communications
- Accessible: accessing the payment is not burdensome in terms of time, convenience, and/or cost for programme participants
- Flexible: the payment options provide choice and control of when and how participants receive the payment, and privacy of transactions
- Secure: data privacy, security and fraud protection is critical, including strong authentication systems so that only the individual can access the money
- Accountable: women are aware of their rights, they are respected by the programme and service providers, and they have the ability to access well-functioning recourse
- Awareness: all women know their payment amount, timing, and frequency and any applicable fees. They know how the system and payment mechanisms are supposed to work and where to go if they face problems
- Recourse: there is a well-organized, adequate, timely and reliable grievance and complaints mechanisms for participants

With the largest current set of beneficiaries, the Kifalat program will become the key contributor to achieving the NFIS goals, by converting BISP beneficiaries from a Limited Mandate Account to a full-scale Branchless Banking Saving Account.

BISP beneficiaries are unique in multiple ways. Tasks like going to a bank or an agent, using an ATM, punching in a PIN code, reading a receipt—are huge hurdles for these women. These women, for the most part, are illiterate and disempowered. Despite well-meaning efforts, the banks and BISP have so far, not been to fully financially include these beneficiaries. BISP has come a long way from Pakistan Post based

9 Enhancing Women's Economic Empowerment Through Digital Cash Transfers - Digitize/Direct/Design: The D3 Criteria. https://www.findevgateway.org/library/enhancing-women%E2%80%99s-economic-empowerment-through-digital-cash-transfers-digitizedirectdesign-0

payments to mobile based to debit cards and recently to biometric verification-based payment model. Through the recently concluded procurement process for selection of FIs to provide services of disbursing BISP Payment to its beneficiaries, BISP has now moved on to a new model of BVS payment and a branchless banking saving account. This growth of BISP was not only to facilitate its beneficiaries but has also been mitigation actions against frauds and embezzlements. These women are also gradually getting used to new technologies being adopted due to some very committed people in BISP, Financial Institutions and in the Pakistan government - determined to make significant improvements.

Bank accounts for informal workers: Mazdoor ka Ehsaas

The Mazdoor ka Ehsaas (compassion for workers) program seeks to improve the lives of informal workers. In Pakistan, there are 27.3 million individuals in the informal sector. Despite the size and scale of this informal sector, a large number of workers are not covered by existing labour legislation. Existing legislative regimes (at the federal and provincial levels) are restrictive. In addition, since an overwhelming majority of enterprises are not registered with authorities it makes it difficult for the government to identify workers in the informal sector and informal workers.

To take stock of this situation, and to extend labour welfare measures to workers in the informal sector (including agriculture workers), Ehsaas set up a Labor Expert Group in May 2019. The group held nine meetings over 3 months and consulted a wide range of stakeholders. Its recommendations outlined in the are wide-ranging.[10] One of these recommendations is relevant to financial inclusion:

"All registered informal sector workers should have bank accounts to receive transfers, including their salaries, pensions and other financial transactions. In addition to the positive effects described above, bank accounts would also assist the implementation of minimum wage rates. The partner bank and partner insurance company may consider the disbursement of benefits to the heirs of active account holders in the event of a registered insured worker's death".

There are multiple benefits associated with implementing a digital payment account system. Chiefly, such an account is a direct way to increase an often-marginalized segment of the population's access to financial services and products. Secondly, this bank account will help ensure informal workers have access to pensions, another key aspect of financial inclusion. Thirdly, it will also enable the government to enforce the minimum wage, providing further protection for informal sector workers. Finally, digital payment accounts also improve the efficiency of the government by making it more effective to delivering benefits to workers through these linked accounts. A similar intervention to digitize wage payments from the government to informal sector workers for a welfare program reduced payment leakages by 40%, which amounted to savings of $38.5 million per annum. This saving was more than nine times the $4 million it costed the government to shift to the new system. As leakages fell, earnings per household increased 24% while fiscal outlays for the government remained the same.

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10 Ehsaas. Report of the Labor Expert Working Group on Social Protection: Recommendations to Implement Mazdoor Ka Ehsaas. In press

Ehsaas is currently in process of implementing this recommendation and will seek partnership of banks to help with information dissemination.

Access to credit

Launched on July 5, 2019, the Government's National Poverty Graduation Initiative combines elements of social mobilization, livelihoods development, with financial inclusion to move households out of extreme poverty and into sustainable graduation. The strategy is to start with social protection but then to move people up the ladder of prosperity, through asset transfers/interest-free loans and links to subsidized loans and microcredit, until they are out of poverty.

Those in destitution/poverty currently falling between 0-40 score on the Poverty Score Card are being provided with interest-free loans combined in some cases with vocational training. For many a small capital injection or loan is enough to help them become economically active. Eligible individuals can take up to three consecutive loans until they graduate beyond the 40 score. Once people graduate beyond the 40 score, they can potentially access either the government's subsidized loans (provided under the *Kamyab Jawan* initiative.[11]) or benefit from the conventional microfinance available across the country. Through these approaches, the government is helping to bring this population into the mainstream of economic development and financial inclusion. NPGI is being rolled out in over 100 districts and will impact 16.28 million people with 50% women, over four years. The initiative also includes youth, persons with disabilities, transgenders, minorities and marginalized communities in lagging districts. Selection of beneficiaries is based on the Poverty Score Card used by the Government. In addition, Ehsaas has also committed to promotion of microfinance banking services through a policy aimed at increasing liquidity and digitization of phone banking services. Furthermore, through the Rural Enterprise Value Chain building initiative, the ecosystem within which the poor can benefit from digital credit opportunities would also be developed.

Creating a microcredit platform for daily wage workers

The poor in Pakistan rely on informal credit facilities to bridge the gap between consumption and expenses. As outlined in the section above, this form of credit is given by loan sharks who charge an exorbitant interest rate. Besides this, Pakistan is also heavily under banked, where majority of the population does not have access to the formal banking channels.

As mobile penetration has increased in the country, opportunities to bring the unbanked into the formal banking sector have opened. Mobile penetration also gives access to the poor and the vulnerable poor to credit facilities and mobile wallets. Microfinance banks and the telecom providers are all getting into the mobile wallet space, which is a virtual bank account linked to a telephone number enabling transactions

[11] https://kamyabjawan.gov.pk/

through the mobile device. With the development of mobile wallets, there is a shift towards providing nano or microloans through mobile technology at the click of a button. Loans can be provided to those outside of the formal banking sector with no credit scores at the touch of a button. Through machine-learning algorithms and artificial intelligence, lending institutes are able to assess credit worthiness of the poor and their ability to payback micro or nano loans. These online platforms can also be used for insurance products to safeguard the poor against catastrophic shocks.

The Ehsaas Solution Challenge initiative will forge public-private partners to provide credit facilities to the unbanked/poor for bridging household consumptions.

How to use these programs to create synergy

These programs, and the others contained within the broader Ehsaas framework, will have a significant impact individually. However, the overall vision of the Ehsaas program is to have an outsized impact on poverty alleviation, by bringing together and coordinating multiple programs and services that target the poor. These services are delivered by multiple government entities at federal and provincial level, and greater coordination will be vital in increasing impact. In the field of financial inclusion, there are five important sources of synergy which will help these programs generate outsized impact:

- **Direct synergy between programs:** many women who benefit from the *Kifalat* accounts will be informal workers themselves or have informal workers in their families. The combination of these two programs thus strengthens their overall integration into the financial system. In addition, women getting accounts under *Kifalat* and others in the informal sector that get accounts as a result of information dissemination under *Mazdoor ka Ehsaas* will be able to take advantage, both of the agriculture value chain digital ecosystem as well as credit opportunities opened up under Ehsaas.
- **Infrastructure:** the tehsil level centers developed through the Kifalat program will provide a potential basis for many other programs within the Ehsaas strategy, which can be leveraged by other initiatives targeting similar populations
- **Cross-program synergies:** understanding the specific beneficiary populations for these programs will help other initiatives target the most in-need beneficiary populations as they develop new strategies
- **Data:** the data which these programs will generate will provide significant benefits to the Ehsaas strategy and other initiatives within the framework. In particular, in will enable planners to identify needs, as well as tracking the impact of specific initiatives in a more rigorous way
- **Private sector integration:** the private sector financial institutions engaged in these two programs are an example of one of the core principles of the Ehsaas strategy – greater private sector partnerships. Their involvement should not be limited to these two programs, but should rather be the stepping stone to their greater engagement in the overall inclusion agenda, developing financial products and services which meet the needs of the “missing middle” in Pakistan
- **Faster Payment System:** Pakistan is implementing a Faster Payment System, which will enable secure, real time digital payments for end users at low or no transaction cost in a simple manner e.g. using aliases such as phone numbers. Faster Payments System is designed to provide complete interoperability between Banks, Branchless accounts, Wallets and other entities to drive high volume

low value payments. This accompanied with the National Payment Strategy will help Pakistan leap frog the physical channel and access point issue that persists, allowing payments to be digitized at a rapid pace, reducing frauds, leakages and improving the efficiency of the financial system. The impact of the Ehsaas financial inclusion approaches will be maximized through this channel