



G2PX IN MOZAMBIQUE: A Gradual Transition

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Mozambique employed both digital and cash social assistance payments as part of its COVID-19 response. Direct provision of cell phones and mobile money accounts favored vulnerable groups. However, digital payments under the Post-Emergency Direct Social Assistance Program did not take full advantage of digital and financial capabilities within urban areas, thereby reducing program efficiency.

Context: The urban informal are more ready for digitalized social protection programs, but with uneven access.

Mozambique has a sizeable urban informal sector. In 2018, 36 percent of Mozambicans lived in cities, making the country slightly less urban than SSA overall (40 percent in 2018).² Mozambique's urban population, however, is particularly vulnerable; 77 percent live in slums, as compared to 54 percent for the region as a whole. This vulnerability is due in part to the extent of internal displacement. Of a population of 27.9 million, roughly 789,000 are internally displaced, a result of a series of cyclones and a four-year conflict in the northern province of Cabo-Delgado (Riso Brandon and Zaldivar Chimal 2022). Informal self-employed individuals make up 78 percent of the urban informal sector, a large share when compared to other regional countries, and 73 percent are found in retail trade (Cunningham et al. 2023). Such businesses were at risk to the effects of the pandemic; by June 2020, 67 percent of the urban population was out of work.

Mobile penetration is below average for the region, but somewhat higher in urban areas. Fifty-five percent of Mozambicans reported owning a cell phone in the 2021 Findex Database, as compared to 75 percent in SSA (Demirgüç-Kunt et al. 2021). In 2017, the International

¹ This case study was prepared by Brian Webster, drawing from a background report by Fiorella Riso Brandon and Samantha Zaldivar Chimal referred to as Riso Brandon and Zaldivar Chimal 2022.

² Urban Population (% of Total Population), World Bank, Washington, DC, accessed November 3, 2022, <https://data.worldbank.org/indicator/SP.URB.TOTL.IN.ZS?locations=MZ-ZG>.

Telecommunication Union estimated that cell phone penetration was nearly twice as high in urban areas; 49 percent of urban and 22 percent of rural Mozambicans owned a cell phone.³ The 2021 Findex showed a smaller gap of 56 percent and 54 percent, respectively. Men are also more likely to possess cell phones than women. The Findex indicates ownership rates of 63 percent and 47 percent, respectively. Barriers to use exist for those with phones, as Mozambique’s literacy rate of 61 percent trails SSA overall.⁴

Financial inclusion in Mozambique is also limited, with unequal access to the financial system throughout the country. Forty-nine percent of adults possess a financial account, 6 percent lower than the regional average. Financial inclusion is somewhat greater in urban areas than in rural ones. Forty-two percent of urban adults have financial institution accounts, and 34 percent have mobile money accounts, compared to 37 percent and 27 percent, respectively, in rural areas (Demirgüç-Kunt et al. 2021). The relatively small differences in urban-rural account ownership rates mask geographic divides in financial access, however. Only 44 percent of bairros (urban districts) have access to mobile money agents, and 28 percent have access to banks. Roughly half of the bairros are completely unserved by the financial system (Risso Brandon and Zaldivar Chimal 2022). Women are also less likely to be financially included; 61 percent of males and only 39 percent of females have accounts, a gender gap 10 percentage points larger than the regional average (Demirgüç-Kunt et al. 2021).

Social Protection System: Transitioning to Digital

The Government of Mozambique has tools to identify individuals, but gaps in coverage exist. Roughly one-third of the population lacks a national ID card,⁵ and there is no national ID authority registry. The systems of the Instituto Nacional de Acção Social (INAS, the National Institute of Social Welfare)—the Beneficiary Registration System and the information-management system (e-INAS)—collect and manage beneficiary information, make eligibility determinations, and generate beneficiary lists. The data collected serve as a social registry of candidates and recipients.⁶ Once deemed eligible, beneficiaries are issued ID cards (Risso Brandon and Zaldivar Chimal 2022). These systems gather data, make eligibility determinations, and generate beneficiary lists. Their prepandemic coverage was primarily rural, however.

Prior to the COVID-19 pandemic, social protection programs in Mozambique relied on cash delivered by government officials. There were two primary social protection programs: the Basic Social Subsidy Programme, which provides allowances for the elderly, disabled, and children, and the Productive Social Action Programme, a cash transfer program conditioned on participation in community-based public works. These programs combined covered roughly 2 percent of the population, primarily in rural areas. District authorities determined program beneficiary quotas from each geographic area, and local officials selected candidates for inclusion. INAS local offices (“INAS Delegations”) then validated eligibility information

3 Mozambique: Individuals Who Own a Mobile Cellular Telephone, International Telecommunications Union, Geneva, Switzerland, accessed November 3, 2022, <https://datahub.itu.int/data/?i=20719&e=MOZ&d=location>.

4 Literacy Rate, Adult Total (% of people ages 15 and above), World Bank, Washington, DC, accessed November 3, 2022, <https://data.worldbank.org/indicator/SE.ADT.LITR.ZS?locations=MZ-ZG>.

5 Identification for Development (ID4D) Global Dataset, World Bank, Washington, DC, accessed December 16, 2022, <https://datacatalog.worldbank.org/search/dataset/0040787>.

6 The Beneficiary Registration System (SIB) is used to collect information from the field on potential beneficiaries. The e-INAS system serves as the management information system for Mozambique’s major social protection programs and generates beneficiary lists. See Risso Brandon and Zaldivar Chimal 2022.

through household visits and interviews. The Basic Social Subsidy Programme relied on INAS Delegations to determine eligibility, but the Productive Social Action Programme used e-INAS to perform a proximity means test and make final determinations. These decisions were then communicated through local leaders, and government delegations distributed cash payments to beneficiaries at predesignated times and locations (Risso Brandon and Zaldivar Chimal 2022).

The COVID-19 pandemic motivated the expansion of transfer payments under the existing Post-Emergency Direct Social Assistance (PASD-PE) Program, which utilized cash and digital payments. Under PASD-PE, there was both a vertical and horizontal expansion. For the former, the INAS systems were used to identify existing candidates that would receive a top-up. For the latter, to increase coverage in urban areas, at-risk communities were identified through a geotargeting poverty map. Within selected communities, local leaders then chose beneficiaries. At prescheduled events, new beneficiaries were enrolled into the emergency program. Those in areas where digital payments would be used were issued a phone and a SIM card, and an agent assisted with opening a mobile money account. Payments were then directed into these accounts through the government’s automated platform (the Sistema de Pagamentos Automatizado, or SPA, which allows for digital payments through both wallets and bank accounts), with agents relied on for cash-out. Measures were also taken to ensure that recipients were not affected by withdrawal fees. For beneficiaries who didn’t receive their payment through mobile money accounts, cash was dispersed by government officials (Risso Brandon and Zaldivar Chimal 2022).

The Government of Mozambique has taken action that could facilitate the incorporation of traditional banks into its social protection delivery as payment service providers. The Law for Bank Accounts, approved in October 2022, lowers the minimum age for bank account ownership and eases KYC requirements for opening simplified bank accounts to serve low-income customers better.

PASD-PE’s Successes in Serving the Urban Informal Sector

THE EXPANSION OF PASD-PE WAS RELATIVELY SUCCESSFUL.

Roughly 800,000 people were reached by the program’s COVID-19 response, approximately two-thirds of whom were women. This expansion has been lower than the intended 1.7 million beneficiary expansion (1.1 million new beneficiaries, 0.6 million existing beneficiaries with additional benefits), but still large in absolute size and occurring mainly among urban members of the informal sector. By March 2023, over 200,000 beneficiaries were paid digitally (Risso Brandon and Zaldivar Chimal 2022). Survey evidence from sampled provinces indicates that recipients preferred digital delivery of benefits to cash. Of all beneficiaries polled in a recent study, a 58 percent majority favored payments into mobile wallets, versus 34 percent who preferred cash. Among those who actually received transfers into a mobile wallet, however, 73 percent preferred digital payments.⁷

⁷ These results were generated from a phone survey administered between June 2021 and October 2022 to 1,936 beneficiaries living in Cabo Delgado, Maputo Cidade, Maputo Provincia, and Zambezia. See World Bank, Forthcoming.

EFFICIENCY IN SCREENING AND REGISTERING INDIVIDUALS WAS IMPROVED WITHOUT SACRIFICING ACCURACY.

PASD-PE used an accelerated process to identify potential beneficiaries that eliminated verification interviews by the central government. The urban informal may be at a disadvantage when program targeting and screening rely on government officials and site visits. The density of urban areas and frequent changes in community membership weaken social cohesion (Avalos et al. 2021), making identification of potential beneficiaries through local knowledge more challenging. This dynamism also works against site visitations, which can take time to arrange. Under the Productive Social Action Programme, the screening of candidates submitted by local officials through normal processes could take up to three months (Risso Brandon and Zaldivar Chimal 2022). Eliminating this step under emergency protocols enhanced the flexibility of the process, allowing for faster identification, with the resulting selection of beneficiaries roughly in line with the intended targets. The use of local leaders, however, combined with a lack of detailed communication regarding eligibility criteria, may have created misunderstandings and grievances in the targeted urban areas.

ONBOARDING FOR DIGITAL PAYMENTS UNDER PASD-PE FAVORED MARGINALIZED POPULATIONS.

Although urban areas of Mozambique have better access to digital G2P building blocks than rural areas, access is not universal. Mobile penetration rates are higher in cities, yet roughly half of individuals in urban areas do not own their own phone. A similar proportion lacks financial accounts, partly due to uneven geographic coverage of financial services. Where financial services are available, KYC requirements presented an additional barrier to access. Prior to the October 2022 legislation, opening a bank account in Mozambique required an official ID document, a national tax ID, proof of residence, and documentation of income (Risso Brandon and Zaldivar Chimal 2022). These requirements were likely to be especially burdensome for the most vulnerable populations, including the country's urban informal. High costs of living and unstable economic conditions frequently compel the urban informal to change residence, making documentation more challenging. This is particularly true of internal migrants, a great concern given displacement within Mozambique (Avalos et al. 2021). Informal businesses are unregistered by definition and so lack documentation to open bank accounts.

The onboarding process for digital payments enabled greater access to the excluded. Distributing phones to beneficiaries ensured independent ownership of their device. Easing KYC requirements for mobile money accounts used in G2P payments overcame financial exclusion to an extent. Mozambique's central bank provided "comfort letters" to FSPs stating that INAS cards issued to beneficiaries were sufficient to open accounts for G2P payments, facilitating the inclusion of under-documented beneficiaries (Risso Brandon and Zaldivar Chimal 2022).

Women were especially likely to benefit from direct provision measures. The gap between men and women in mobile phone and financial account ownership in Mozambique is measurable, putting women at disproportionate risk of exclusion. Within SSA, ID ownership is generally lower for women as well (Gelb, Mukherjee, and Navis 2020). The risk of exclusion is likely heightened for women within the informal sector, as they are more likely to perform lower-productivity or unpaid work, making cell phone and mobile account ownership that much harder to attain (Cunningham et al. 2023). Issuing phones to recipients for digital G2P payments under PASD-PE explicitly addressed these constraints.

Disadvantages of PASD-PE for the Urban Informal Sector

TARGETING OF URBAN COMMUNITIES WAS HAMPERED BY OUT-OF-DATE INFORMATION.

Urban communities in need of assistance were identified with a poverty map built on satellite imagery and 2017 census data. With broad coverage of urban areas, the map was intended to be capable of identifying vulnerable communities on a granular block-by-block level. Yet in some cases, government officials found on inspection that the neighborhoods or informal settlements selected had improved in economic standing since the data had been collected, or no longer existed, a reflection of the dynamism of the urban informal sector.

THE DIGITAL PAYMENT PROCESS COULD HAVE BUILT MORE EFFICIENTLY ON EXISTING DIGITAL POTENTIAL IN URBAN AREAS.

Cell phones were distributed in all cases, regardless of beneficiaries' access to a phone. This policy was instituted despite disproportionate cell phone ownership in urban areas. In many instances, beneficiaries presented a phone at registration but were issued another phone specifically for receiving transfers. This was a deliberate decision by the program to avoid potential difficulties that could arise from several people sharing a cell phone. The decision came at a significant cost. Valued at \$10 per phone, the purchase of cell phones, especially for those who already owned one, imposed a potentially unnecessary expense on the program. Furthermore, the procurement of phones required time; complications in shipping and import processes added to delays.

Similarly, existing financial accounts were not used when PASD-PE expanded into urban areas. While not universal, financial account ownership is more prevalent in urban areas of Mozambique. Approximately 40,000 beneficiaries of the social protection expansion had existing mobile money accounts that could have been utilized. Yet under the program, beneficiaries who were paid digitally were required to open new mobile money accounts with M-Pesa agents to receive transfers. For those without accounts, the potential for positive spillovers from becoming financially included were limited, as these accounts only allowed for receiving, withdrawing, and transferring the grants. Additionally, the sole reliance on mobile money agents did not account for geographic differences in financial access, as traditional banks have a greater presence in some urban areas of Mozambique compared to agents (Risso Brandon and Zaldivar Chimal 2022).

LOCAL AGENT NETWORKS WERE AT TIMES UNDERDEVELOPED.

While the average distance to a mobile money agent in Mozambique is 10 minutes, only 44 percent of the country's 1,717 bairros are served by the agent network (Risso Brandon and Zaldivar Chimal 2022). In some urban areas, the combination of a sparse agent network and dense population caused crowding when payments were issued, despite beneficiaries having the ability to withdraw at their own convenience. Staggered payments were instituted, which can reduce crowding by limiting the number of recipients seeking immediate cash-out at any one time, but this measure was not always effective due to deficient communication.



Looking Forward

Mozambique should continue to transition from cash to digital G2P payments, ideally under a comprehensive strategy, as digital G2P is more efficient and is preferred by the majority of recipients. The government, however, could make better use of existing digital assets by not issuing cell phones to beneficiaries regardless of prior ownership. Such actions will reduce program costs and could thereby potentially create space to include a greater number of beneficiaries. Similarly, allowing recipients to use existing mobile money accounts would leverage financial tools they are already familiar with and see value in.

A digital readiness score is a potential tool for evaluating the ability of a community to adopt digital G2P payments. Explored in an effort to identify areas of Mozambique most adaptable to digital G2P, the readiness score is an index measuring the extent to which key infrastructure exists. Ranging between zero and five, points were assigned for factors such as the presence of at least one bank branch or ATM, the presence of at least one mobile money agent, or mobile network coverage of at least 70 percent (Risso Brandon and Zaldivar Chimal 2022). Such a score could be used to prioritize areas for G2P payment digitization or, alternatively, to identify gaps in necessary infrastructure that need to be addressed.

The government should consider improving the functionality of accounts created for G2P payments as well. Financial inclusion in Mozambique trails the region, increasing the importance of accounts created for vulnerable individuals to receive transfers. The potential benefits of financial inclusion through digital G2P are limited, however, when accounts can be used only to receive government grants and withdraw or transfer funds. The government could consider improving the functionality of the mobile money accounts created for G2P payments. The government could weigh leveraging the new Law for Bank Accounts as well by also using basic banks accounts for G2P payments, as these allow their owners to make deposits in addition to withdrawals and transfers.

The government could also take measures to improve beneficiary access to financial points of service. An improved digital payment ecosystem would diversify the types of payments accessible to beneficiaries. Fostering a deeply imbedded digital payment ecosystem, however, takes years to accomplish and involves policies beyond the strict purview of G2P payments (Gelb, Mukherjee, and Webster 2022). More immediately, agents could be better incentivized to serve bairros with little or no access to the financial system. Greater access to agents could better facilitate the staggering of G2P payments as well.



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