

# The Digitization of Emergency Cash Assistance During COVID-19 in Colombia

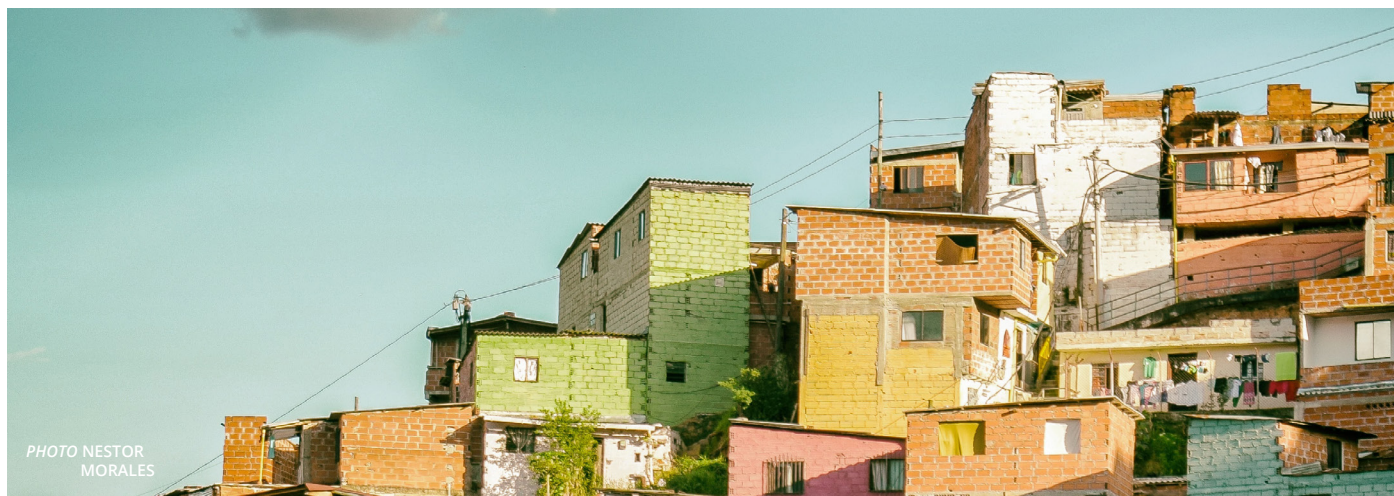


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In March of 2020, the Government of Colombia expanded existing social assistance programs to help shield households from the economic impact of lockdown orders associated with COVID-19. The programs included the launch of *Compensación del IVA*, an unconditional cash transfer (UCT), supported by value-added tax (VAT) revenue, designed to support Colombian households living in extreme poverty. This case study examines the government's rapid deployment of the cash transfer payments via mobile wallets from March to April of 2020. The goal of deploying the funds digitally was to stem COVID-19 infections and distribute benefits quickly. However, beneficiaries faced technological challenges associated with the mobile wallet, and 23 percent of mobile money recipients reported delays or difficulties accessing the transfer (compared to 10 percent of cash recipients). Lessons from the Colombian government's rapid deployment of digital payments and the consequences of the digitized UCT for beneficiaries have important implications for the digitization of emergency cash transfers in response to the COVID-19 pandemic as well as future emergencies.

## Lessons Learned

The *Compensación del IVA* program improved financial health and access to food, enabling beneficiaries to smooth consumption. However, issues related to digital literacy, connectivity, and communication inhibited access to the *Compensación del IVA* for beneficiaries who received the transfer through a mobile wallet as opposed to manually. Deployment of new technology in an environment where the penetration of mobile wallets is low means that users are likely going to face technology adoption challenges. Three important recommendations stem from this lesson:

- » Comprehensive communication campaigns could improve technological and financial literacy.
- » Easily accessible and effective grievance mechanisms should accompany deployment of the new technology to ease some technology adoption challenges.
- » Investment in digital infrastructure, user-friendly regulations, and financial and technological literacy prior to an emergency can create an enabling environment to utilize digital technology in emergency response.

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### IMPLEMENTERS

Department of Social Prosperity

### LOCATION

Colombia

### TIMELINE

Randomized controlled trial - April 2020 to July 2020;  
Qualitative research - October 2020

### BENEFICIARIES

One million beneficiaries of *Compensación del IVA*

### TOPICS

Cash Transfers, Digital Finance, COVID-19



A Davivienda Bank in Medellín, Colombia, 2018  
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## Introduction

The World Bank estimates that 97 million people were forced into poverty due to the COVID-19 pandemic in 2020.<sup>1</sup> Globally, income decreased in 2020 while food prices increased by 14 percent, resulting in many households being unable to meet their nutritional needs.<sup>2</sup> A survey of 40 countries shows that 36 percent of individuals working before the pandemic ceased working by June 2020, and 62 percent of households lost income during the pandemic.<sup>3</sup> Seventy percent of respondents from a survey across 16 LMICs reported a decline in their income and 30 percent reported a decline in employment from 2020 to 2021.<sup>4</sup>

**In Colombia, the unemployment rate in 2020 exceeded 20 percent. Among Colombian households with at least one member of the family working in February 2020, half reported losing employment by May 2020.** Of those who retained employment, 21 percent reported earning less than they did prior to the pandemic. Since the beginning of the pandemic, 68 percent of respondents reported the need to deplete their savings, take out a loan, or skip a loan payment to cover their expenses. Vulnerable groups, including informal workers in Colombia felt these effects more acutely.<sup>5</sup>

Studies find that digitizing government-to-person payments (G2P) for social programs and during emergencies benefits citizens by reducing transaction costs and enabling beneficiaries to respond to shocks.<sup>6</sup> Digital G2P payments

also benefit the government by reducing leakages, enabling the government to disburse benefits quickly, and improving the efficiency of government benefits.<sup>7</sup>

Digital G2P payments were used globally to mitigate the economic consequences of the COVID-19 pandemic and to distribute aid safely. Employment and income had dramatically declined, and many households experienced food insecurity, poor health outcomes, and declines in overall wellbeing. These effects were and still are especially pronounced in low-and middle-income countries (LMICs), where households have few safety nets, including limited savings and access to government social protection programs.

Lessons from the Colombia experience of **distributing cash payments digitally during an emergency have important implications for global COVID-19 relief efforts and digitizing future emergency assistance.** This case study draws from a randomized evaluation conducted by Innovations for Poverty Action (IPA) and led by Juliana Londoño-Vélez and Pablo Querubin,<sup>8</sup> in collaboration with Colombia's Department of National Planning, and related supplemental qualitative research. The evaluation measures the impact of the digital *Compensación del IVA* on financial health and overall wellbeing. Qualitative research by IPA supplemented the randomized evaluation's findings and explores how study participants who received the transfer responded to digital enrollment and disbursement of transfers via e-wallet.<sup>9</sup>

## Targeting

In early March 2020, the first positive COVID-19 case was detected in Colombia. Shortly after, the government of Colombia announced a country-wide lockdown that began on March 24, 2020. Lockdown restrictions included mandatory quarantine, school closures, and airport closures, which disrupted economic activity.

Low-income households were especially vulnerable to these disruptions because many informal occupations cannot be done remotely, and low-income households are less likely to have the means to respond to unexpected shocks.<sup>10</sup> According to a survey conducted by Innovations for Poverty Action (IPA) in June 2020 in Colombia, individuals with informal employment were less likely to maintain their jobs and their pre-COVID-19 income levels than those working formal jobs. Significantly more respondents in the informal sector report that they would be unable to come up with the funds for a 100,000 COP (US\$266) emergency, suggesting an inability to cope with economic shocks.<sup>11</sup>

**To shield low-income households from the economic consequences of the pandemic, the government rolled out *Compensación del IVA*.**\* The *Compensación del IVA* was designed as a fixed cash transfer.

Unlike VAT refunds, which reimburse each household for actual VAT expenditures, this compensation is equal for all eligible households. The Department of Social Prosperity (DSP), the government entity in charge of *Compensación del IVA*, issued three installments of 75,000 pesos (USD\$19) to households between March and July 2020.\*\*

The *Compensación del IVA* targets the most economically vulnerable individuals, specifically those already enrolled in existing social assistance programs, *Familias en Acción* and *Colombia Mayor*. Beneficiaries of these two programs were automatically enrolled in the VAT program. Daviplata, a mobile money application hosted by Banco Davivienda,<sup>†</sup>

sent SMS text messages to eligible households to inform them of the transfer, and individuals were able to check their enrollment status by visiting a government website<sup>‡</sup> and using their national identification number. **A total of one million Colombians across the entire country were enrolled in the program: 700,000 individuals from *Familias en Acción* and 300,000 from *Colombia Mayor*.**

## Distribution via E-wallet

Colombia has high rates of financial inclusion and a promising regulatory environment; however, mobile money penetration is low, and the consumer finance industry is dominated by banks. Eighty percent of Colombian citizens own a financial account while only 5 percent have a mobile money account.<sup>12, 13</sup> Many Colombians also rely on bank agent networks to conduct financial transactions. Through its *Banca de las Oportunidades* program, the government fostered a robust card/POS-based agent network by providing financial incentives to agents to target unbanked communities.<sup>12</sup> Since 2015, there has been at least one banking agent in every municipality in Colombia.<sup>14</sup>

In 2014, Colombia implemented its Financial Inclusion Law to incentivize mobile money usage by expediting the onboarding process for mobile wallets. Digital products are now subject to flexible “Know Your Customer” (KYC) processes for verifying client identity, which typically require less paperwork and administrative effort to onboard new customers compared to prior verification methods. Additionally, new data privacy regulations ensure financial systems and customers’ private information are more secure. Thus, the new financial ecosystem allows for fast, remote onboarding to mobile financial accounts by bank and non-bank actors, a feature leveraged by the Colombian government during the *Compensación del IVA* rollout. Since

◆ Program design captures the details of the program based on the quantitative study which occurred from April, 2020 to July, 2020 and the qualitative study which occurred in October 2020. Thus, this section does not capture any program changes that occurred after October 2020.

\* The government expanded two existing social assistance programs and launched two new cash transfer programs countrywide. The government made additional transfers to beneficiaries of *Familias en Acción*, a conditional cash transfer program, and *Colombia Mayor*, a pension program targeted toward low-income senior citizens. The government rolled out two new unconditional cash transfer programs: *Compensación del IVA*, a value-added tax (VAT) compensation, and *Ingreso Solidario*, an unconditional cash transfer targeting poor households excluded from the other safety net programs.

\*\* The program is ongoing, which means additional transfers have been made since the studies concluded.

† For more information on Daviplata, see [Daviplata site](#); and [YouTube](#).

this law was introduced, digital payments (including mobile money, online transactions, and card-based transactions) have increased by nearly 10 percent with 37 percent of adults reporting making or receiving a digital payment prior to the pandemic in 2017.<sup>15</sup>

Prior to COVID-19, social assistance programs in Colombia mainly issued transfers manually or through the state bank, Banco Agrario. **The *Compensación del IVA* and concurrent emergency response program, Ingreso Solidario, was the government's first attempt at issuing transfers via e-wallet during an emergency.** The government issued digital VAT transfers through Daviplata wallets. If recipients either had existing Daviplata accounts associated with their cellphone number or SIM card, or had enrolled through the application, their payments were sent digitally. Withdrawing money from the mobile account required beneficiaries to generate a code through the app and present it at Banco Davivienda or correspondent locations. While the government pushed for recipients to activate mobile money accounts to receive the transfer, there was an option for manual transactions. Individuals without a Daviplata account registered with Efecty, an offline payment voucher system with shops to cash out payments. Beneficiaries collected cash transfers at designated Efecty agent locations, which include local banks and money transfer agencies, using their national identification.

## Lessons Learned

During emergencies, digitizing social protection has the potential to dramatically improve the timeliness of the transfer and provide needed support to vulnerable groups. However, digitization could impede relief efforts if the technological and financial infrastructure and/or digital literacy of the target population are limited. Digital delivery could also have differential impacts on different groups, especially marginalized or vulnerable populations, so understanding how these individuals receive digitized social assistance is important to ensure the needs of all beneficiaries are addressed.

The Colombia case provides a unique opportunity to explore these issues. Colombia introduced its digital payment system in record time during the COVID-19 pandemic, and the study sample captures individuals who are classified as living in extreme poverty or the poorest quartile of recipients. Additionally, the decision to distribute transfers using mobile wallets, despite low mobile money penetration and acceptance nationwide, offers a unique opportunity to learn about user experience in an environment that is understudied considering the majority of impact evaluations on mobile money exist in countries with robust mobile money penetration.<sup>16, 17, 18</sup>

The randomized evaluation finds that *Compensación del IVA* modestly improved beneficiary wellbeing by meeting



their consumption needs. Delivering the benefit digitally supported beneficiaries' acquisition and use of a mobile wallet. However, qualitative research shows that connectivity issues and beneficiaries' lack of familiarity with the new technology delayed some beneficiaries' access to the transfer. Low acceptance of mobile wallet payments among merchants also forced beneficiaries to immediately cash out their transfers which contradicted the goal of digitization, namely, to minimize in-person contact. Finally, weak grievance mechanisms inhibited beneficiaries' ability to solve their technical issues with the Daviplata app.

## Unconditional cash transfer payments improve welfare.

The pandemic had serious economic consequences for Colombians. Fifty-seven percent of *Compensación del IVA* beneficiaries who worked prior to the pandemic lost employment by June 2020. Fifty-three percent of both beneficiaries and non-beneficiaries cited economic need as the main source of concern resulting from COVID-19. These statistics suggest that beneficiaries needed additional support to smooth consumption and stem the negative effects of lost wages.

**The randomized evaluation finds that the *Compensación del IVA* modestly improved beneficiaries' financial wellbeing.** The evaluation finds that 18 percent of beneficiaries had to sell their belongings to cover necessary expenses compared to 21 percent of non-beneficiaries, and 90 percent of beneficiaries used the transfer to pay for food.

According to interviews, beneficiaries expressed general satisfaction with the program and attest to the helpfulness of the transfer. One beneficiary from rural area Valparaíso affirmed: *“Oh my God, more money. I’m happy! [...] It was a very happy moment, because for me, everything is hard and I have been struggling since I was a child to help my children move forward. Yes ma’am, thanks to the State.”\**

Though a beneficiary from rural area Fortul said that the transfer amount was too modest†: *“Well, on the one hand, good, but on the other hand, it’s normal because—I don’t want to be ungrateful—but often it does not supply what is necessary. And, for example, the transfer is every two months, but the 75,000 pesos is not going to last two months. So then I’m like, well, “something is something, worse is nothing.”\*\**

The evaluation finds that 82 percent of the comparison group and 88 percent of households receiving the transfer supported emergency aid in response to the pandemic and trusted the government to promote citizens’ wellbeing. Recipient households were 7 percent more likely to support emergency assistance, suggesting that the experience of receiving benefits could further boost satisfaction with the government response.

## Mobile wallet users trust digital financial services.

In addition to helping beneficiaries meet their immediate consumption needs, the digital transfers have the potential to engender trust in digital financial services and onboard new users. According to qualitative interviews, some **beneficiaries report positive experiences using the Daviplata platform, verifying the ease with which they were able to open an account and use the application once it was downloaded.** Some participants who received their transfer digitally saw the value in digital money and reported extending their use of the digital platform by checking their account balances, sending and receiving money, recharging their cell phone balance, and topping up other family members’ cell phone balances. One beneficiary

from Fortul stated: *“So, I downloaded it and it seemed very cool because you look at how much you have whenever you want, and to withdraw you select whatever you want to withdraw, and then you go and withdraw it.”\*\*\**

Mobile money enrollment increased over the course of the VAT program with many participants receiving their first transfer via cash and opening a Daviplata account for subsequent transfers. **By November 2020, 75 percent of study beneficiaries received the transfer via Daviplata, up from 32 percent in March.** This was likely due in part to the government’s push for beneficiaries to enroll in the mobile money platform. This trend was reflected on the national level: according to a study by GSMA, over three million users nationwide opened mobile wallet accounts between March and June 2020.<sup>19</sup>

## Beneficiaries lacked adequate information about the transfer and mobile wallet.

Despite its benefits, the transfer caused confusion among some beneficiaries. According to qualitative interviews, some beneficiaries misunderstood the purpose of the *Compensación del IVA* and enrollment criteria for the program, suggesting that important information did not reach all recipients. During interviews with IPA staff, beneficiaries expressed only a superficial understanding of the program, either lacking interest in or questioning the purpose of the program. Program implementers, called Links, confirmed that many beneficiaries only learned of the program and their eligibility for it when they received the first transfer, and while some beneficiaries understood the program to serve vulnerable or low-income households, others suggested that they were selected for the program based on a lottery system.

Confusion about the program extended to the payment amounts. Since the *Compensación del IVA* does not depend on tax status, all households are issued a fixed amount. However, at least five beneficiaries out of 32 interviewed

\* Original quote in Spanish: “Y yo: “Ay Dios mío, más platica”. ¡Yo contenta! [...] Eso fue una felicidad, porque para mí igual todo es duro y me toca rebuscármela desde niña, para sacar a mis niños adelante. Sí señora, gracias al Estado”.

† The transfer was not designed as an income replacement, so the size of the transfer was always meant to supplement other resources and income.

\*\* Original quote in Spanish: “Pues por un lado bien, pero, por otro lado, pues normal porque, no es por ser mal agradecido, sino que muchas veces no supe lo necesario. Y que, por ejemplo, es cada dos meses, pero a uno no le va a durar dos meses los \$75.000. Entonces pues estoy como, bueno, «algo es algo, peor es nada»”.

\*\*\* Original quote in Spanish: “Yo descargué [Daviplata] y me pareció muy bacano, porque uno mira ahí cuánto tiene a la hora que uno quiere mirar. Mira cuánto tiene de saldo, y para retirar uno le deja lo que quiera retirar, y va y lo retira.”



Retired men queuing up to enter a local city bank in times of pandemic in Colombia, 2020.

PHOTO SHUTTERSTOCK

suggested that the *Compensación del IVA* was based on VAT spending and implied that different households received different transfer amounts. One beneficiary from Rosas, a rural area, stated: *"They always tell you: 'the payment is here,' but one doesn't understand. And oftentimes you go to a supermarket to shop, but I don't know how they calculate the VAT. All we know is that we were favored to receive it, they never explain to you why it came or anything."* \*

**Beneficiaries also reported family members, friends, and official channels of communication sharing inaccurate details about the program, especially regarding the delivery channel.** Reports of misinformation included:

- » Daviplata only working with cellular data;
- » The code to withdraw money can only be issued once;
- » The app can only be used to withdraw money and has no other features; and
- » Beneficiaries lose money if it is in the app for too long, and cash-out points only exist at Davivienda ATMs.

Such misperceptions and failure to accurately communicate information about the transfers led to inefficiencies and misuse of the product. For example, one beneficiary from Malambo reported traveling over 30 minutes away to Barranquilla to cash out her transfer at a Davivienda ATM, and another beneficiary traveled from Turbo to Apartadó over an hour away despite cash out points existing in their respective towns.<sup>†</sup>

\* Original quote in Spanish: "El IVA, pues a uno siempre le dicen: "ya llegó el pago", pero uno no entiende. Y de pronto hay veces que uno va a un supermercado y compra, eso sí, no sé cómo le sacan lo del IVA. Solamente supimos que salimos favorecidos de eso, nunca le explican a uno por qué motivo llegó, ni nada."

† In this case, it is important to clarify that the beneficiary cannot read, so she always went to Davivienda accompanied by a daughter who lives near her and helps her claim her subsidies.

## Complications with the technology delayed access to transfers.

Technology adoption challenges delayed access to payments. **Twenty-three percent of mobile money recipients (compared to 10 percent of cash recipients) reported delays or difficulties accessing the transfer, largely citing difficulties with the use of Daviplata.**

Inability to download the Daviplata application or inactive Daviplata accounts impaired beneficiaries' ability to access their transfers according to at least two qualitative interviews. Some beneficiaries reported that they had Daviplata accounts that were opened prior to the assistance programs but inactive at the time of the transfer. Thus, beneficiaries had to work with Daviplata to reopen their account in order to capture the transfer. In rural areas, especially, lack of connectivity also hindered the delivery of the transfer because beneficiaries could not access the payment without internet or a mobile signal. Highlighting such challenges, one beneficiary from Fortul, a rural area, stated: *"The signal here is very bad. There are times when there is no signal at all, like we are living farther than who knows what."* \*

Cashing out payments was also a slower, more costly process for rural beneficiaries. **Rural beneficiaries reported longer travel times to access cash out points, and few accessible cash out points were located in rural communities.**

## Grievance mechanisms were slow and ineffective.

Daviplata's grievance mechanisms were also limited or slow, obstructing beneficiaries' ability to resolve problems with the application. According to qualitative interviews, **some beneficiaries failed to report their problems to Daviplata customer service at all because they did not have information about redress mechanisms. Other beneficiaries who took their technical issues to customer service reported lengthy wait times or inability to establish contact with a Daviplata representative.** Given the learning curve associated with introduction of any new technology, lack of well-developed grievance mechanisms can leach away many of the benefits associated with rapid digital deployment of social benefits.

## Merchants' acceptance of mobile wallet payments was low.

Few merchants accepted mobile money payments. For this reason, many **beneficiaries reported immediately cashing out their mobile transfers in order to use the transfer.** Thus, beneficiaries used Daviplata not as a financial tool but simply an intermediary step to obtaining cash. Interviews reveal that, as a result, beneficiaries experienced long lines to cash out transfers with some waiting up to two hours. Crowding around cash out locations undermined the potential for digitization to limit in-person interactions.

\* Original quote in Spanish: "malísima la señal aquí. Hay ratos que no hay señal de nada, parece que estuviéramos viviendo por allá, más lejos que quién sabe qué".



## Recommendations

Colombia's digital deployment of *Compensación del IVA* provides valuable insights for governments seeking to quickly scale-up digital distribution of social benefits, especially during an emergency. Lessons from this case study suggest that governments should:

**Invest in the digital ecosystem:** Governments should ensure regulations create an enabling environment for mobile money, invest in digital infrastructure, and promote financial and technological literacy prior to emergencies.<sup>20</sup> Colombia's ability to quickly onboard beneficiaries is largely a credit to regulations that relaxed KYC and reduced the requirements associated with opening mobile money accounts. However, limited penetration of digital merchant payments, connectivity issues, and technology adoption challenges obstructed beneficiaries' ability to use mobile money and delayed beneficiaries' access to payments. Specifically, to improve the digital financial ecosystem, the government should:

- i. Create an enabling regulatory environment;
- ii. Increase availability of Check-In Check-Out points, especially in rural areas;
- iii. Increase acceptance of mobile wallets and other digital payments by merchants, especially small and medium-sized enterprises;
- iv. Invest in telecommunications infrastructure to improve mobile network coverage;
- v. Support financial education campaigns in order to encourage beneficiaries to utilize their digital accounts. Such campaigns should address misinformation and serve to build users' trust in digital financial services.

In 2020, the Colombian government created CONPES 4005, a five-year financial inclusion policy, to strengthen Colombia's digital infrastructure and increase the relevance of financial products.<sup>21</sup> Encouraging widespread use of digital financial services is important for creating a culture of mobile money usage. Expanding mobile coverage can ease access to payments, bridge the rural-urban divide and enable consumers and merchants to regularly utilize digital transfers and payments. During the COVID-19 pandemic, many beneficiaries had trouble accessing their accounts or immediately cashed out their transfer, contradicting the goal of digitization to reduce in-person contact. Prior experience with a digital transfer would have eased some of the technology adoption costs associated with a new platform.

**Strengthen communication regarding the program:** Comprehensive communication campaigns that improve technological and financial literacy should accompany the deployment of the new technology.

Information streams including educational materials and program implementers, like Links, should provide clear information to beneficiaries regarding the goal of the program and eligibility criteria. Operationalizing this recommendation means simplifying information for consumption by a broad audience, disseminating information through materials that are widely available and easily accessible, and training program implementers on important information about the program.

**Improve grievance mechanisms:** Grievance mechanisms should be readily available, and methods for accessing these mechanisms should be clearly communicated to beneficiaries. Availability of these channels is especially important for beneficiaries who are most likely to encounter technical problems including older individuals and those living in rural areas.



# Future Research

Future research may endeavor to understand the impacts of digitizing government-to-person payments during emergencies on beneficiaries' wellbeing. Future work may explore near-term and long-term welfare impacts and financial inclusion impacts on beneficiaries.

Considering the vulnerable nature of the target population, it is also important to understand equity consequences. Research should examine if there are differential impacts on certain groups, especially among beneficiaries who may be most prone to experiencing technical challenges, such as rural residents, women, and older people.

Future research may also seek to understand the best program design for emergency social assistance payments. Such research may explore the benefits and challenges associated with transfer modalities



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