

Promoting Financial Inclusion and Minimizing Cash Usage

Insights from Other Countries and Advanced Solutions

Meeting of the National Payment Council
January 31, 2024, Pristina



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Overview of Measures to Develop Digital Payments

Access

Regulation

Encourage innovation across the ecosystem and new entrants to payments infrastructure



Promote a level playing field to avoid crowding out the private sector and to take full advantage of existing product

Flexible, risk-based policies over a one-size-fits-all approach

Infrastructure

Access to internet

Financial accounts

Digital onboarding and digital ID



Acceptance

Government as Role Model

Digitalization of public services – collection and disbursements

Urban mobility using contactless technology



Incentives for Merchants

Installation of POS terminals (acceptance programs)

VAT rebates based on the acceptance of digital payments



Mandates

Mandates to accept digital payments by segments, annual sales etc.



Use

Education & Inclusion

Financial education campaigns contribute to adoption of payment technologies and products



Limits on Cash

Cash payment cap

Tax on cash transactions



Rewards & Lotteries

Income tax reductions and tax rebates for consumers

Cashback programs

Rewarding digital purchases with entering a lottery



VISA

Access

Regulation

Infrastructure Development

Around the World: Regulation

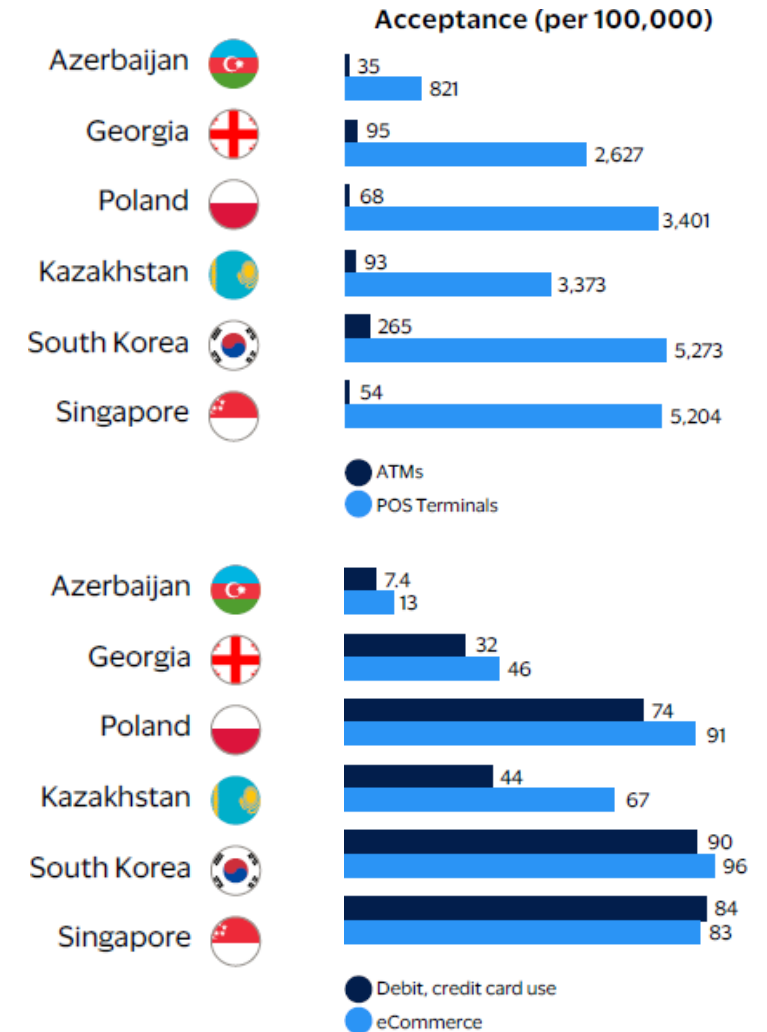
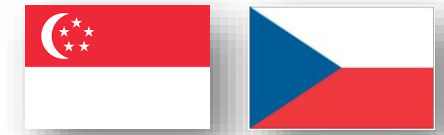
Case study: Singapore, Czech Republic

Thriving Environment

- **Restrictive regulatory policies**, such as absence of e-KYC regulations to onboard merchants, limited ability of fintech and non-bank intermediaries to provide specialized services, data localization, and pricing caps can **hinder growth of electronic payments**.
- Singapore is a good example of a jurisdiction where **regulation has facilitated a vibrant and highly competitive ecosystem**.
- A robust digital and payment infrastructure (high penetration of financial accounts, cell phones, POS) coupled with market-based regulation, **allows entities such as digital banks and fintech startups to thrive**.

Take Full Advantage of Existing Products

- The payment ecosystem has been working for many years to digitize payments, and **many ready-made products are already available**.
- The launch of the **Tap to Phone solution** in the Czech Republic expanded acceptance to merchant segments that were otherwise challenging to reach – over 1,200 taxi drivers signed up in just one week.



Around the World: Infrastructure Development

Case study: Sweden, Mexico



Digital Identity

- An electronic identification system in Sweden, BankID, has a usage rate of 94% among smartphone users. Example of usage areas are **Swish payments, bank login, login to e-government, and access to medical records.**
- It has enabled consumers to authenticate themselves and sign transactions digitally, which has **supported growth of online banking, e-commerce, and mobile payments.**



Financial Accounts

- **Risk-based tiered financial accounts** with simplified know-your-customer (KYC) requirements enabled **innovative product design and improved inclusion** in Mexico.
- Any Mexican can get a debit card quickly and inexpensively via a **Saldazo account**, which is available 24/7 at more than 19,000 OXXO convenience stores across the country. A year after its launch, Saldazo sold over a million accounts.





Acceptance

Government as Role Model
Incentives for Merchants
Mandates

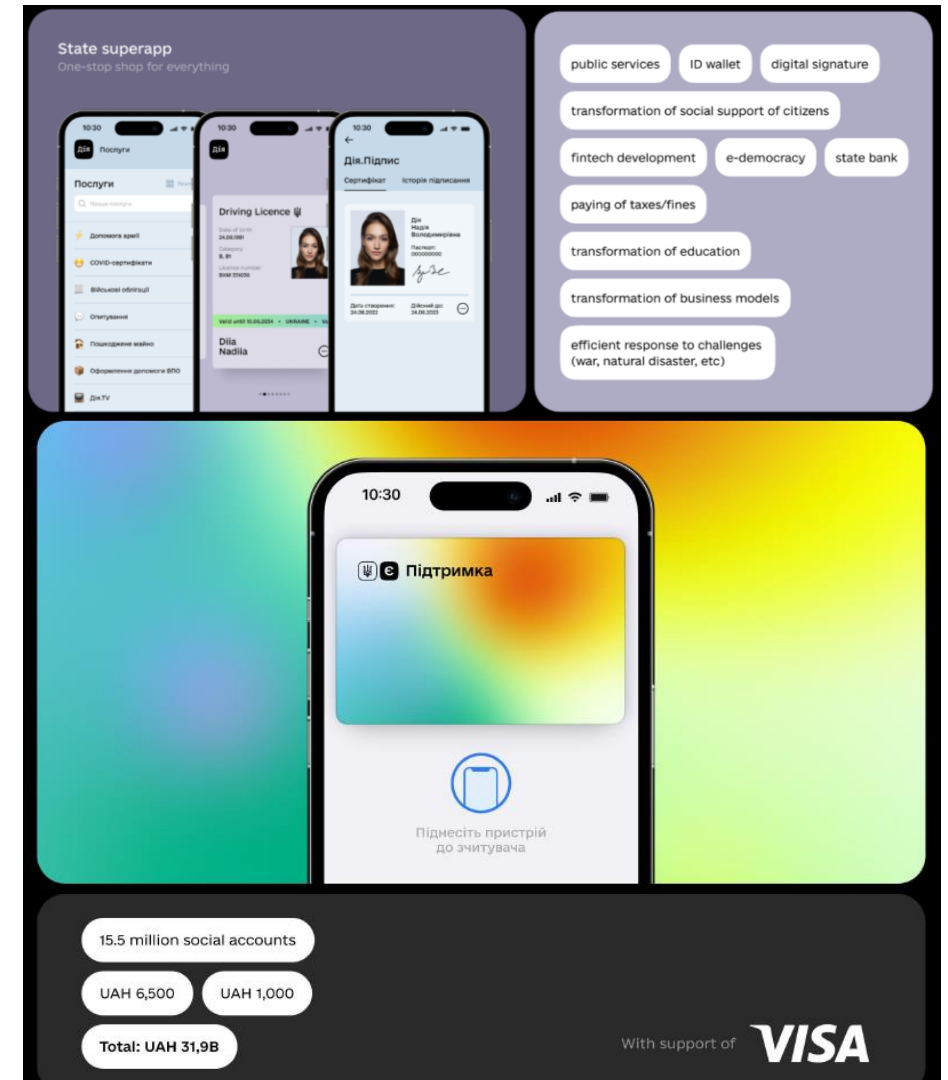
Around the World: Government as Role Model

Case study: Ukraine



e-Government platform "Diia"

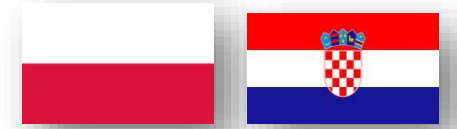
- Diia is a portal and mobile app of e-governance that allows Ukrainian citizens to **access and use more than 120 government services** and digital documents in their smartphones.
- **G2C disbursement programs to digital payment cards** (e.g., social benefits) and **digital collection of all national and sub-national level payments to government** (fines, taxes and government service fees).
- **Diia is evolving to FinTech**, enabling automation and digitalization of all processes, including financial. It promotes swift and straightforward interaction between citizens and the state, fosters the use of digital payments, and builds trust.
- **USAID plans to provide funding** to support the adoption of Diia-like systems worldwide.



Diia in DC | U.S. Agency for International Development ([usa.gov](https://www.usaid.gov))

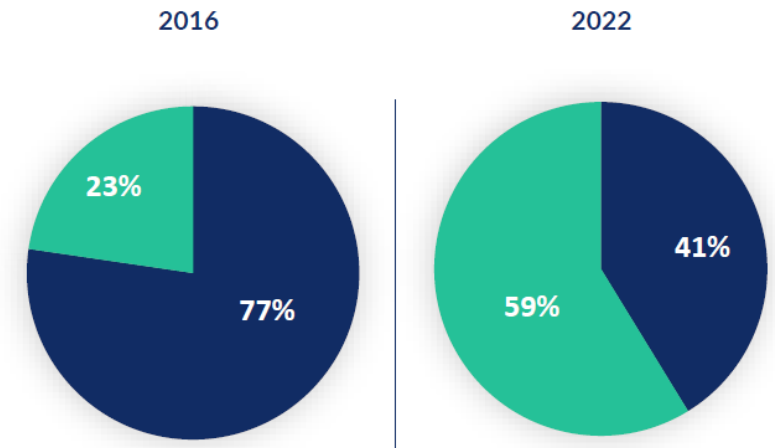
Around the World: Incentives for Merchants – POS infrastructure

Case study: Poland, Croatia



Cashless Poland

- **Effective public-private collaboration** based on the agreement between Ministry of Finance, card schemes and banks.
- **SMEs and public institutions** that participate in the program benefit from a free payment terminal installation and 1 year free of charge cashless payments service (up to certain turnover).
- The program changed the acceptance landscape and **delivered payment infrastructure to the smallest cities and villages** (586k POS terminals deployed within the program until June 2023).
- Financial education efforts resulted in **increased awareness** about the benefits of cashless payments for merchants and consumers.



- Entities not accepting card payments
- Entities accepting card payments

Digital Croatia

- Businesses from SME segments have a chance to receive a **subsidized card acceptance offer** until 2025.
- Merchant in **specific categories (HoReCa sector mainly) and in e-commerce** receive additional support.

Around the World: Incentives for Merchants – VAT rebates

Case study: South Korea, Italy

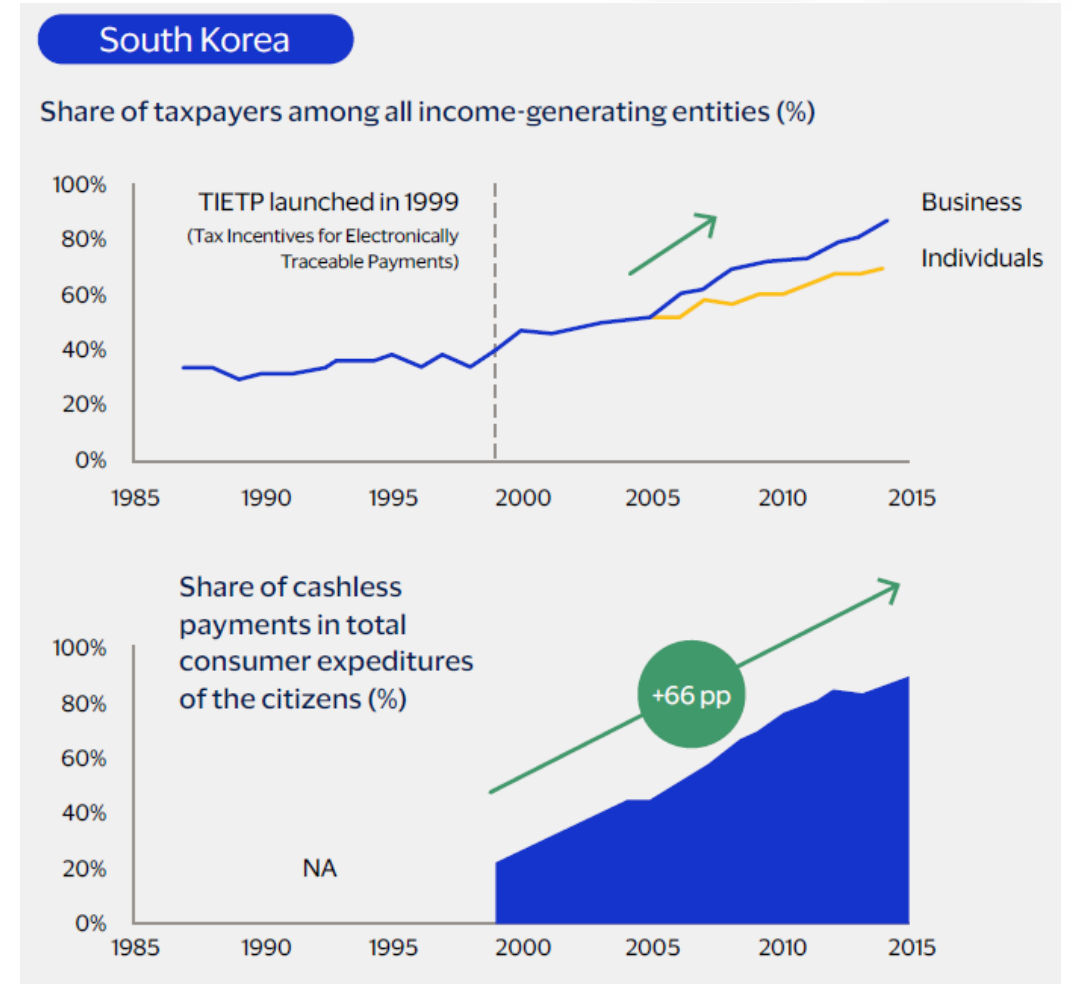


VAT Rebates in South Korea

- Since 1994, South Korea has allowed small business owners to claim a **VAT credit for credit and debit card transactions**.
- In 1999, the **Tax Incentives for Electronically Traceable Payments** initiative was launched, and businesses that accepted card payments became eligible for a 10% tax incentive (rising to up to 30% in 2013).
- Over the next 15 years, the share of electronic payments as a percentage of consumer expenditure **rose by 66%**.

VAT Rebates in Italy

- Small merchants with annual revenues below €400,000 can benefit from a **tax rebate of 30% of acceptance costs** (€4.2 million have been allocated in the public budget for this measure for 2020 and 2021). These measures took effect in July 2020 and were set to run until December 2021.



Around the World: Mandates

Case study: Hungary, Saudi Arabia, Azerbaijan



Acceptance Mandate in Hungary

- All merchants equipped with online cash registers are mandated to accept electronic payments.

Acceptance Mandate in Saudi Arabia

- As part of the Saudi Arabia's "Vision 2030" national strategy, the government included the target of reaching 70% non-cash retail transactions.
- In 2019, started a gradual implementation of full e-payment mandate (first for fuel stations, car repair shops, and grocery stores and then expanded to all commercial retail activities). From 2017 to 2020 number of POS terminals almost doubled.

Acceptance Mandate in Azerbaijan

- Mandatory for retailers with USD 1,160 of monthly turnover to install POS terminals; a monthly cap of USD 17,380 on cash transactions for retailers with an annual turnover exceeding USD 115,840.



VISA

Use

Education & Inclusion
Limits on Cash
Lotteries & Rewards

Around the World: Education & Inclusion

Case study: Australia



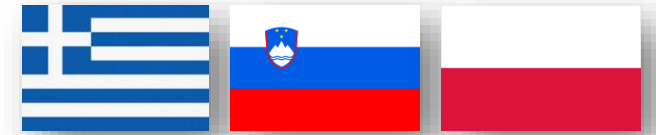
Financial Education

- The Australian Securities and Investments Commission (ASIC) launched a program called **MoneySmart Teaching**. It provides professional development for teachers, quality resources and innovative teaching strategies to **embed consumer and financial literacy into the Australian curriculum**. The program has been highly successful, with a significant increase in financial literacy levels among students who have participated.
- Another example is from Commonwealth Bank of Australia, that launched **Start Smart**, a free, online, financial education program offered to school-aged students across Australia to help them prepare for their futures. Since it was founded in 2007, more than three million students have participated in Start Smart, making it **the largest program of its kind in the world**.



Around the World: Limits on Cash

Case study: Greece, Slovenia, Poland



Cash Payment Cap in Greece

- Following a bank run in 2015, the government **restricted the amount that could be withdrawn from banks to EUR 420 a week**. Despite the relatively quick relaxation of the restrictions, the use of cards and other electronic payments continued their rapid growth. Between 2015 and 2017, the number of transactions with payment cards increased 6-fold, while their transaction value more than tripled. To prevent a weakening of their momentum and **recognizing their potential fiscal benefit**, the Parliament adopted law aimed at promoting the use of digital payments.

Cash Payment Cap in Slovenia

- All businesses must pay any invoice, higher than EUR 50, by payment card or directly to the bank account.

Disincentives for Cash in Poland

- Companies conducting majority of their transactions in a cashless form are entitled to apply for yearly tax allowances and **faster VAT returns (15 days instead of 60)**.



Around the World: Rewards & Lotteries

Case study: Sweden, Uruguay, Italy



Tax Rebates for Consumers in Uruguay

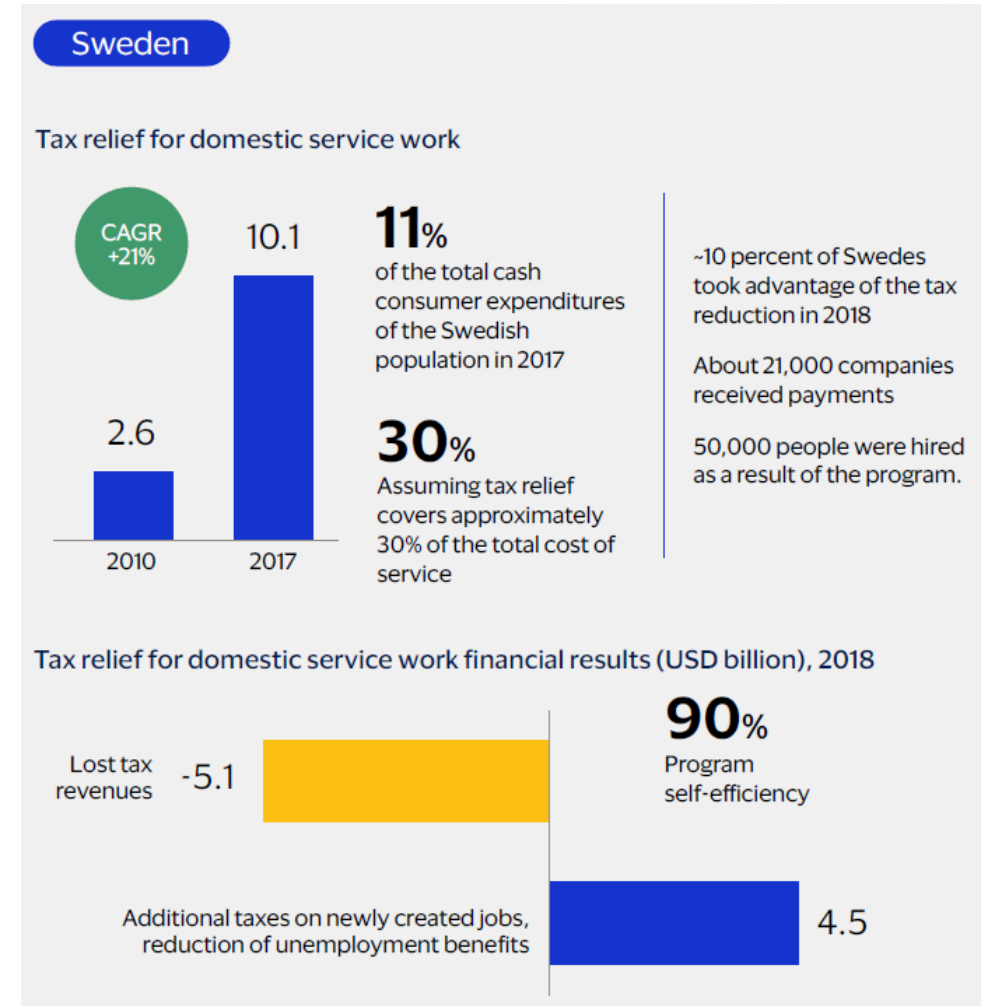
- Diverse types of VAT rebates on credit and debit cards have been used since 2006. In 2014 expanded to all segments as part of a broader push to formalize and foster financial inclusion (customers have been granted a rebate based on VAT in the amount of 2 percentage points). One year into the program the debit card market share more than doubled.

Tax Rebates for Consumers in Sweden

- The Swedish government introduced a mechanism for customers to apply for tax deductions from their contractor (refurbishments, renovations, housekeeping, etc.) who, in turn, applied to the tax authorities for a waiver of up to 50%.

Lottery in Italy

- The government developed a EUR 45 million annual lottery with prizes for consumers who pay with digital payments.





Cashless Campaigns

Italy

Greece

Greece - Government Cashless Plan



Government Driver(s): Advance financial inclusion/digital equity & reduce the informal economy

Lever(s): Tax Incentives, Lottery Program, Government Mandate

Result(s): VAT revenue increased €2 billion

- **Lottery program:** The government started a public lottery program in October 2017, whereby taxpayers automatically qualify to enter a raffle based on their number of electronic transactions.
- **Income tax reduction & cashback programs:** Consumer tax incentives were introduced in January 2017 through a change to the tax code, providing income tax reduction related to digital payments. Individuals qualified for an income tax reduction if they met the following thresholds:
 - 10% of income spent via digital payments for incomes up to EUR 10,000
 - 15% of income spent via digital payments for incomes from EUR 10,000 up to EUR 30,000
 - 20% of income spent via digital payments for incomes exceeding EUR 30,000 (maximum value of spending EUR 30,000 regardless of income level).
- **Government mandate:** In 2015, the government introduced law mandating firms accept digital payments. The law applied a fine of EUR 1,500 for non-compliance. Sole proprietors were added in July 2017.
- **Results:** One of the most successful aspects of the program was the increase in tax revenue, specifically the increase in VAT revenue of EUR 2 billion. In the second half of 2015, 1.8 million debit cards were issued (in a population of 11 million) and POS installation increased by 15%. With regards to minimized informal economic activity, the government reported that 1 in 9 new digital transactions correspond to economic activity that was not declared before.

Italy - Government Cashless Plan



Government Driver(s): Advance financial inclusion/digital equity & reduce the informal economy

Lever(s): Tax Incentives, Lottery Program, Government Mandate

Result(s): Increased card usage should result in €12.5 billion in recovered VAT annually

- **Merchant tax rebates:** Part of the fiscal decree included a tax rebate for merchants that accept electronic payments. Small merchants with annual revenues below EUR 400,000 can benefit from a tax rebate of 30% of acceptance costs. In 2021 and 2022, the tax credit was temporarily increased to 100% of the fee. For the same period, a tax credit in the maximum amount of EUR 160 was introduced for all merchants who purchase or rent a device for accepting electronic payments. In 2022, the tax credit was increased to EUR 320.
- **National lottery:** The government developed a EUR 45 million annual lottery with prizes for consumers who pay with digital payments.
- **Cash disincentives:** In July 2020, the government decreased the threshold for the use of cash from EUR 3,000 to EUR 2,000. Beginning January 1, 2021, that threshold decreased further, to EUR 1,000.
- **Cashback:** In 2021, the cashback program was launched - all people who make more than 50 cashless payments (using an e-wallet or card) within six months receive a refund of 10% of the value of the completed transactions, up to a maximum of 150 euros.
- **Results:** Initial projections were that the government's plan should result in a 32% increase in card transactions per capita by 2025. The increased card usage should result in EUR 12.5 billion in recovered VAT annually. Additional programs were also under consideration including a consumer cashback program for citizens using digital payments.

Key takeaways:

- 1. Visa is devoted to collaboration with Kosovo Government and the Central Bank**
- 2. Leverage infrastructure, products and know-how from market players**
- 3. Focus on access, acceptance and consumer experience to advance digitalization of payments in the country**



Thank you

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