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FOCUS NOTE

Social Cash Transfers and Financial Inclusion: Evidence from Four Countries

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In a number of countries, two separate, but potentially complementary policy agendas have emerged in the past five years: governments have sought to increase the use of electronic means for government payments and to promote greater financial inclusion. While the two agendas have by no means converged yet, in practice they have often been translated into a single headline objective: to increase the proportion of recipients of government social cash transfers who receive payment directly into a bank account.

The CGAP and DFID paper "Banking the Poor via G2P Payments" (Pickens, Porteous, and Rotman 2009) argued that this convergence held great potential to achieve several benefits. On the one hand, electronic payments were seen as likely to reduce the cost of payment for government and make delivery more convenient for recipients, compared to the prevalent cash-based schemes, which require recipients to be in a particular place at a particular time to receive payment. On the other hand, a bank account was seen as the portal into the wider world of formal financial services, such as savings, insurance, and credit. Using these services appropriately would enhance developmental benefits from social cash transfer schemes. There was clear evidence that social grant recipients saved out of their grant, often using informal means, even though the reasons for this were not fully understood.[1] Some early evidence even suggested that once recipients had a formal bank account, they would use it as the vehicle for their savings.[2] It was expected that banks would find it easier to cross-sell other types of useful financial services once recipients had a bank account from which electronic payments could be deducted and in which cash flow patterns could be recorded and analyzed.

Or so the story went. But in discussing the early experiences in government-to-person (G2P) payments, Pickens, Porteous, and Rotman raised several key questions, including the following:

- *For government—Is building inclusive financial services into social cash transfer programs affordable for the social programs?* On the basis of hypothetical modeling, the authors proposed that it should become cheaper over time once infrastructure was built.
- *For recipients—Will poor recipients use financial services if these are offered to them?* Based on general patterns of use by low-income households, the authors tentatively suggested yes, provided the services fulfilled the recipients' needs and preferences.
- *For providers—Can financial institutions offer financially inclusive services to G2P payment recipients on a profitable basis?* The authors had no conclusive evidence but suggested that branchless banking[3] was likely to be an important part of the solution by lowering transaction costs.

Now, more than two years after "Banking the Poor via G2P Payments" was published, we take another look at these questions through the lens of subsequent experience. To build an evidence base for our reassessment of these questions, we selected four countries that have pursued these twin objectives—electronic government payments and financial inclusion—at scale, albeit in different ways and to different extents. These countries—Brazil, Colombia, Mexico, and South Africa—are all large, middle-income countries with relatively well-developed financial infrastructure in urban areas (see Table 1 for country backgrounds). Their regulators have also taken steps to permit branchless banking through nonbank

1 "Across a range of transfer programs in low and middle income countries, studies indicate that an important proportion of beneficiary households save a small fraction of the transfer.… There are important knowledge gaps as regards the motivation behind this savings" Barrientos (2008:30).
2 Early research indicated that as much as 12 percent of the Oportunidades grant, the Mexican conditional cash transfer program, was retained in a bank account when this option was offered (Bankable Frontier Associates 2008).
3 Branchless banking is the delivery of financial services outside conventional bank branches, using agents or other third-party intermediaries as the principal interface with customers, and relying on technologies, such as card-reading point-of-sale terminals and mobile phones, to transmit transaction details.

Table 1. Country Backgrounds

	Brazil	Colombia	Mexico	South Africa
Population (in millions)	193	46	109	50
GNI per capita (US$ PPP)	10,920	9,000	15,010	10,280
% banked	43*	62	25*	63
Bank branches and ATMs/100,000 people	122	40	54	63
Are banks allowed to use agents for deposits and payments?	Yes	Yes	Yes	Yes
Are KYC procedures tiered for low-value accounts?	Yes	Yes	Yes	Yes

Sources: Population, GNI: World Bank (2010); Branches/ATMs: World Bank (2009); % banked: Colombia—Asobancaria (2011); South Africa—FinScope 2010. * Brazil, Mexico: No authoritative numbers exist yet; these estimates are from FAI (2009). Regulation: CGAP (2010a, 2010b, 2010c, and 2010d).

agents[4] and also to facilitate the opening of low-value bank accounts[5] by using tiers for the requirements of know your customer (KYC)[6] procedures.

This evidence base does not allow us to speak to the situation of low-income countries, which often have less financial infrastructure, smaller populations, and a weaker enabling environment. But it does permit us to address the questions above in situations with enough experience and sufficient numbers of people in the schemes to be able to draw conclusions. All four countries have large, established social cash transfer programs that reach millions of poor households. In Brazil and South Africa, they provide income to households accounting for almost a third of the entire population. Table 2 shows that these programs collectively touch some 30 million recipients, accounting for over a sixth of the 170 million poor people identified in "Banking the Poor via G2P Payments" as recipients of G2P payments. In all four programs, social cash transfer agencies have expressed a desire to move away from expensive cash-based payments, and by and large, they have made substantial progress. In most of the programs, the majority of recipients is now paid electronically whereas a decade or less ago, only a relatively small minority of recipients were paid electronically.

This Focus Note presents the evidence gained from a comprehensive study of these four countries to revisit the key questions asked in "Banking the Poor via G2P Payments." Our research focused on the experiences of governments, recipients, and providers, collecting information from each group.

For governments, we conducted structured interviews with policy makers and agency staff who are responsible for the social cash transfer programs in each country. These interviews sought, inter alia, to understand how interviewees weighted the twin agendas, whether financial inclusion was a strategic priority, and if so, why. We conducted in-depth interviews and focus groups with recipients in each of the countries to understand their experiences of having financial services linked to their transfers and their use of these services.[7] Insights from these focus groups together with information from other recent surveys[8] helped us to form as full a picture as possible of the factors that affect use patterns of recipients as clients of financial service providers. Finally, to understand the views of providers, we met with senior

4 Agents are any third-party entities, often merchants or small stores, acting on behalf of a bank or other financial services provider in its dealings with customers, most notably withdrawing or depositing cash. CGAP analysis shows that agent channels can reduce the cost of providing services to clients, for example, by 51 percent for withdrawal transactions done at an agent compared to those done at a teller window, based on data from four Mexican and Colombian banks. At present, however, only 40 percent of countries permit banks to contract agents (CGAP and World Bank 2010).

5 Low-value bank accounts, or basic accounts, are a class of accounts with features designed to serve the needs of low-income customers; the definition of features such as pricing may be set by regulation or voluntarily by banks.

6 KYC refers to a set of due diligence measures undertaken by a financial institution, including policies and procedures, to identify a customer and the motivations behind his or her financial activity. It is a key component of anti-money laundering and combating the financing of terrorism regimes (Chatain et al. 2011).

7 Except Mexico where we were able to draw on other recent survey evidence as shown in the Annex A.

8 Some surveys were conducted by IADB whom we thank for sharing these with us. In the case of Mexico, we were able to draw on a recent survey of Oportunidades recipients as part of the Gateway Financial Innovations for Savings (GAFIS) project. GAFIS, a project of Rockefeller Philanthropy Advisors and funded by the Bill & Melinda Gates Foundation, seeks to promote useful savings behavior among poor households by leveraging certain "gateway-type" products or cash flows that may support the development of small savings by regulated deposit-taking institutions.

Table 2. Snapshot of Programs

	Brazil	Colombia	Mexico	South Africa
Program name	Bolsa Familia	Familias en Accion	Oportunidades	Child Care, Old Age Pension
Government ministry responsible	Social Development and Combating Hunger Ministry (MDS)	Presidency	Social Development Ministry (Sedesol)	Social Development Ministry
Government agency responsible[a]	MDS	Accion Social	Oportunidades Agency	South African Social Security Agency (SASSA)
Year started	Revamped 2003	2000	1997	Child Care: 1998; Old Age: 1928
Target beneficiaries	Families in extreme poverty with children and pregnant or breastfeeding women	Extreme poor in rural and urban areas; displaced people and indigenous people	Families in poverty with grants focusing on two main components: nutrition and school education	Child Care: children younger than 18; Old Age: adults older than 60
Conditionality[b]	Yes	Yes	Yes	No
Number of households/recipients	12.9 million households (May 2011)	2.4 million households (December 2010)	5.8 million families (December 2010)	9 million recipients[c] (April 2010)
% of population covered in country	30	11	20	30

Source: CGAP research

a. Note that the agency is often separate from the government department that is responsible for overseeing it.

b. Conditionality refers to the requirement that the beneficiary meet defined conditions (usually such as attending school or visiting health clinics) to qualify for the full payment.

c. SASSA typically reports the means of payment in terms of the number of beneficiaries (15 million), not recipients.

management of the major payment providers. In the three Latin American countries, these were large state-owned banks that are the exclusive providers. In South Africa, we focused on two large private commercial banks that currently offer inclusive products to transfer recipients with the expressed intent to do more. With these players, we sought to calibrate how, if at all, they framed the business case on the basis of actual experiences of offering financial services to recipients.

Before we can compare evidence systematically across the countries, we first revisit the categorization of payment approaches and assess which ones can be considered financially inclusive. We will then consider the evidence from each group—government agencies, recipients, and banks—and finally we will draw some conclusions.

Comparing Payment Approaches

Three main approaches to making social cash transfer payments can be distinguished in these countries: cash, limited-purpose instrument, and mainstream financial account.

Cash. The beneficiary has to appear at a particular payment point, often at a particular time, to receive her payment. In this case there is no store of value created for the individual and hence no way for her to leave some value for later use.

Limited-purpose instrument. These instruments transfer the grant to (at least) a notional account earmarked for the recipient. This virtual or actual earmarking enables more choice of times and locations at which the recipient can withdraw the funds. Nonetheless, the functionality of this account is restricted in one or more ways:

- Accumulation—The funds cannot be stored indefinitely; if not withdrawn in a defined window, the program may reclaim the unused funds
- Convenience—Funds may be withdrawn only at dedicated infrastructure, i.e., at agents or cash points that are specifically established for this purpose only (and that, therefore, nonrecipients cannot use)
- Additional uses—No additional funds may be deposited into this account from other sources

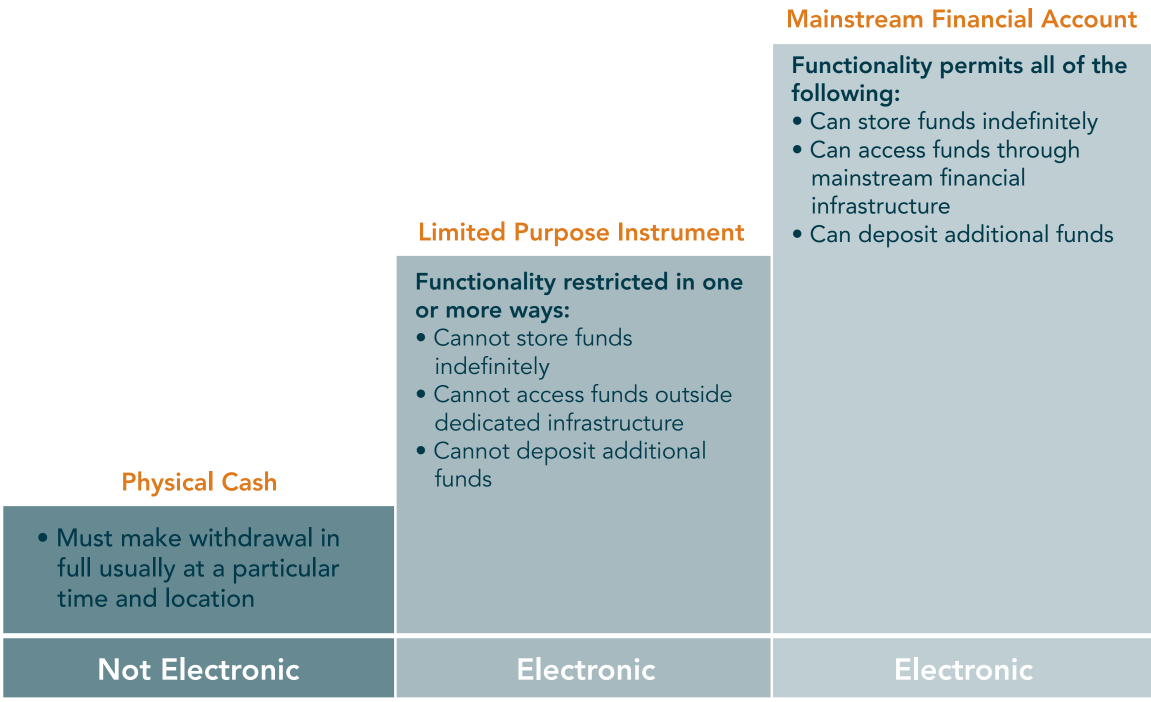
Mainstream financial account. These accounts have none of the limitations of limited-purpose instruments and are usually bank accounts that are available to nontransfer recipients as well. The recipient benefits from the same functionality as any other user of such an account.

These approaches are summarized in Figure 1. Note that the restriction of the word "cash" to the first category may seem misleading. The latter two categories still typically result in the recipient withdrawing benefits in cash. But the options and choices provided with the payment instrument widen as one moves from the left of the diagram ("physical cash") toward the right as the other two categories involve an electronic payment rather than simply the handover of cash.

This three-part distinction is useful because it enables us to differentiate a variety of limited-purpose instruments in the middle category that have evolved specifically to meet the needs of social cash transfer programs. For example, the main payment instruments used by programs such as Bolsa Familia (Social Card) and Oportunidades require that funds unclaimed within a defined period (such as 60 days) be returned to the government as a means of reducing waste. This type of claw back is often not legally allowed in a mainstream bank account unless the holder preauthorizes it. Similarly, some programs (various schemes in South Africa and Oportunidades) have preferred or required biometric authentication of recipients on the basis that it reduces fraud.[9] However, the equipment needed to read fingerprints or other biometrics is not widely used in the general retail payment systems of any of these countries. Hence if biometric authentication is required for every transaction, the G2P payment instrument is restricted to special infrastructure created for this purpose alone, which tends to be expensive to deploy. The use of biometrics is discussed in more detail in Box 1.

A mainstream financial account by its nature may lack some of the specific controls that social cash transfer agencies have themselves specified (such as payment reconciliation, proof of life, etc.). This

Figure 1: Payment Categorizations



9 This has the potential to reduce fraud because the physical existence of the recipient is proven at every collection, rather than the use of a personal identification number, which could be used by a third party.

Box 1: Biometric Information and Social Cash Transfers

Biometric identifiers can be used as an alternative to personal identification numbers (PINs) to authenticate an electronic transaction. Several types of biometric information are now available for this purpose, including voice patterns, iris scans, fingerprints, and facial recognition with varying levels of precision. In the four countries studied, only biometric fingerprints were being used by some recipients.

Using biometrics is attractive because, in theory at least, it is very difficult to defraud and it dispenses with the need for a PIN, which can be hard for a recipient to remember. The lure is further increased by solutions that work offline—outside the range of mobile network coverage—by using smart cards that are able to store biometric data on an embedded chip. Special point of sale devices (POS) are able to compare an individual's fingerprint with the information held on the card even in the absence of a connection to a main database.

Net1 in South Africa has gone further in the use of biometric identifiers than any other payment provider and has deployed 2,500 POS and automated teller machines (ATMs) that require a fingerprint before a payment is authorized. Banco Agrario in Colombia captured beneficiary biometric information at the time of account opening at considerable cost. It is unclear why the bank captured this information since it does not currently use the information to authenticate transactions and has no plans to roll out biometric readers to the 2,500 Assenda merchants at which payments can be collected.

In Mexico, Bansefi intends to make payments to 80 percent of Oportunidades beneficiaries by mid-2012 via a smart card that will hold biometric fingerprint information. Caixa in Brazil is piloting in the northeast region the collection and use of digital fingerprints to authenticate POS withdrawals. Since fingerprints are being checked online against a central database, cards are not needed, which Caixa hopes will reduce costs.

A lack of universally accepted biometric standards (which exist for magnetic stripe cards) and stubbornly high costs may explain why these solutions have not yet become part of countries' mainstream financial infrastructure. The rapid growth of widespread mobile data links has also reduced the need for solutions that work offline, in urban areas at least, and has opened the path for greater use of mainstream financial infrastructure. But as costs come down and technology becomes more robust, biometrics may become more and more mainstreamed into a country's financial infrastructure and, therefore, could bring significant benefits as they are integrated into social protection programs (Gelb and Decker 2011).

tension between broader inclusion and the specific requirements of social cash transfer programs is an important aspect of the current dynamic unfolding as the agencies choose their payment strategies.

Applying the three-part categorization to the four countries in our study (see Table 3) is easy in some cases and less so in others.[10] In Brazil, a small portion (1 percent) of Bolsa Familia recipients is paid in cash, while 84 percent use the limited-purpose Social Card from which they must withdraw the benefit within 60 days and onto which they cannot deposit additional funds. The remaining 15 percent are paid into a mainstream Caixa Facil bank account, the same account that is used by 10 million non-Bolsa Familia recipients.

In Mexico, 66 percent of recipients are still paid in cash, while 34 percent are paid into mainstream financial accounts. Of these, 16 percent are paid via magnetic-stripe cards linked to Bansefi no-frills interest-bearing savings accounts (Debicuenta). Payments through Debicuenta accounts are offered only to recipients in areas (mostly urban) where there is bank infrastructure since payments are made online from any point in the country's national payments network. Twelve percent are paid via smart cards linked to Bansefi prepaid noninterest bearing no-frills accounts. This modality is used where there is limited payment and communication infrastructure since it enables offline transactions. The remaining 6 percent are paid into fully transactional Bansefi savings accounts, but are accessible only at Bansefi branches with no accompanying card (this is being phased out as a payment mechanism).

In South Africa, the Sekulula account offered by AllPay, a subsidiary of ABSA Bank, is a specialized debit card-linked bank account that can be used as widely as any debit card in the country. The recipient can also deposit funds into the account, suggesting a mainstream financial account.

10 Annex B provides the basis for the assignment of instruments to the three categories shown in Table 3 for each country.

Table 3: Current Payment Approaches

	Brazil	Colombia	Mexico	South Africa
Frequency of Payment	Monthly	Bi-monthly	Bi-monthly	Monthly
Payment Provider	Caixa Economica Federal (state-owned bank)	Banco Agrario (state-owned bank)	Bansefi (state-owned bank)[a]	Any bank or specific payment providers in different provinces: Net1, Empilweni, and AllPay (subsidiary of ABSA Bank)
Physical Cash	1%	9%	66%	0%
Limited-Purpose Instrument	84% Magnetic-stripe debit card (Social Card) whereby funds must be withdrawn within 60 days at Caixa agents or various ATM networks and no additional funds can be deposited	91% Magnetic-stripe debit card that can be used only at Assenda merchants and ATMs	0%	41% Specific payment providers that offer store-of-value via smart cards, but no additional fund deposits and use only at dedicated pay points
Mainstream Financial Account	15% Caixa Facil basic bank account with magnetic-stripe card	0%	34% 16%—Bansefi savings account with magnetic-stripe card (Debicuenta) 12%—Bansefi prepaid account with smart card 6%—Bansefi passbook account[b]	59% Mainstream bank accounts; Sekulula account (offered by AllPay) with magnetic-stripe card as default option in certain provinces

Source: CGAP research.

a. In 2011, state communications agency Telecomm was still involved as a direct payment provider. But Oportunidades is in the process of consolidating its payments previously made through several agencies, including Telecomm, so that all payments will be made in 2012 through Bansefi, which then subcontracts with other networks, including Telecomm, to affect payout.

b. These cash payments into accounts are being phased out.

Special dormancy rules require that if the grant deposit is untouched after 90 days, the bank has to return the funds to SASSA. If only part of the grant is withdrawn, the dormancy rule does not apply, making it possible to save part of the grant for longer than 90 days. Fifty-nine percent of beneficiaries receive their payments either through Sekulula accounts or through accounts at the bank of their choice (see Box 2 on South Africa allowing recipients this choice). By contrast, 41 percent of payments are made through smart card-linked accounts of the major nonbank payment providers (namely Net1), whereby the cards can be used only in their own closed-loop infrastructure to withdraw cash or buy at specified retail agent locations.[11]

In Colombia, 91 percent of Familias en Accion recipients receive their grants into a Banco Agrario basic bank account that is accessed via a magnetic-stripe debit card. However, this card can be used only at Banco Agrario ATMs and at merchants specifically recruited by its partner Assenda.[12] If Assenda connects its agents to the local card switches[13] to enable Familias en Accion recipients to use mainstream financial infrastructure, then Colombia would immediately have the highest percentage of recipients among the four

11 South Africa classifies this group as cash payments, but they are not cash payments according to the classifications presented in this paper. For the sake of comparability with the other countries studied here, we classify this group as limited-purpose instruments as defined in our payments categorizations.

12 Assenda is a large private logistics company active throughout Colombia; it allied with Banco Agrario in the 2008 Accion Social tender and is responsible for the distribution network for Familias en Accion payments.

13 A switch is a software that routes electronic transactions from one provider to another and may provide additional services to participants, including reconciliation and settlement of resulting obligations.

Box 2: South Africa's Opt-Out Option

South Africa alone out of these four countries offers recipients an opt-out option whereby any recipient may nominate an account at any bank into which to be paid rather than be paid by the contracted payment provider in each province. Once the recipient makes this election, SASSA makes an electronic transfer each month to this account at minimal cost to the agency. The recipient then incurs all costs associated with using the account (which may be free in the case of basic bank accounts up to a set limit of transactions), and the bank in general receives no fee from the government. If recipients do not exercise this election, they are required to enroll with the payment provider appointed in their province, which in some cases may offer a range of options as to when or where to access cash from a limited-purpose instrument. The payment providers are paid fees usually based on each payment made.

This opt-out option means that any bank could in theory choose to market its account to G2P payment recipients and persuade them to exercise their option. This opens the payment market to competition, although in practice relatively few recipients made this switch. Clearly, existing payment providers have little incentive to facilitate a smooth transition for recipients since this reduces their fee. So recipients risk delays and take on the costs in time and effort to make the switch in addition to transacting typically on a fee-per-use basis on the account.

However, two things have changed this scenario. The large South African banks launched the Mzansi basic accounts in 2003, which set no minimum balance or maintenance fee and provided a limited number of free transactions. A large number of accounts have since been opened, of which 29 percent of new accounts in 2010 alone were opened by social cash transfer recipients to receive grants at low or no cost, according to a 2010 FinScope brochure.

SASSA has also experimented with a subsidized variant of the opt-out model, offering to pay banks a fee per month for each account into which recipients are paid. This fee, typically around $2, is still substantially less than the fee paid by SASSA to the contracted payment providers. For the bank, the regular fee income of $2 per month makes a substantial difference to the business case of offering small accounts. This approach was tried on a limited basis in one province with two private banks, and since 2009, SASSA actively sought to promote this option in a deal with state-owned Postbank during delays in the tendering process for new payment providers. One of the existing payment providers that lost revenue as a result of this subsidized opt-out model sued SASSA to block this approach, but the Supreme Court ruled in SASSA's favor in 2011.

countries offering mainstream financial accounts to G2P payment recipients.

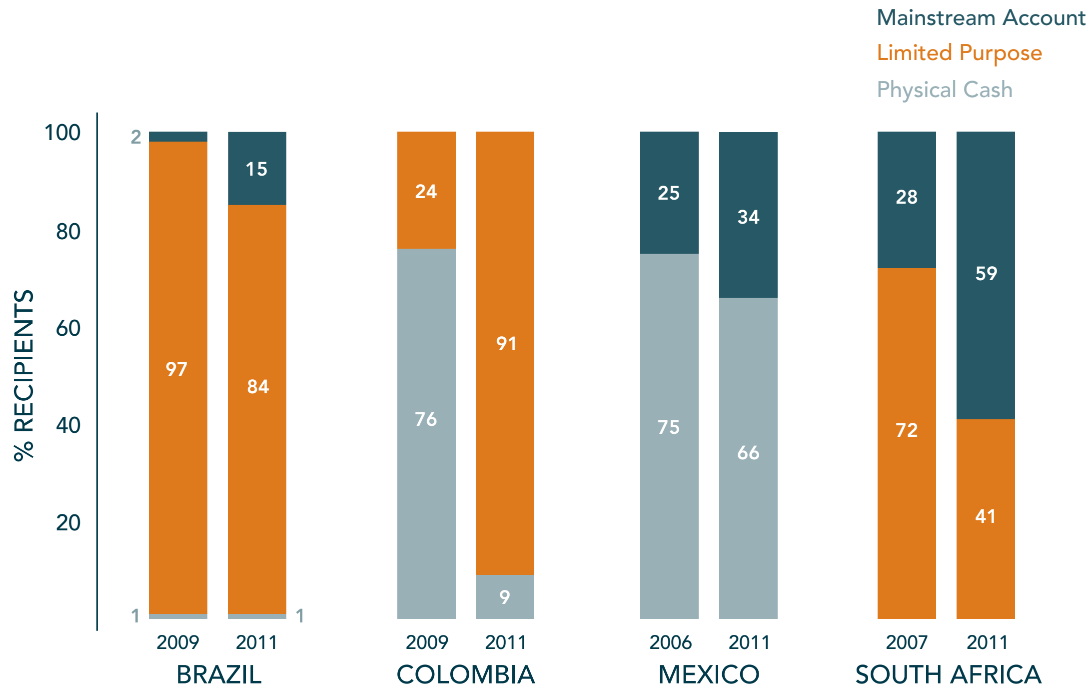
The important point here is that limited-purpose instruments are not necessarily subpar solutions that should be avoided or discouraged. Rather, they should be deployed in such a way that they can more easily be converted into mainstream accounts (as is the case in Colombia) instead of keeping G2P payment recipients closed off from the mainstream financial infrastructure (as is the case in Net1's closed-loop card system in South Africa).

By mid-2012, only a small minority of recipients in these four countries will still be paid in physical cash, which was the only suitable option until recently. The speed, as well as the scale, of the move toward electronic payments in these countries has been striking (see Figure 2), none more so than in Colombia, which in little over two years has witnessed a massive enrollment drive, taking the proportion paid into bank accounts from around 24 percent in 2009 to 91 percent by 2011. While most recipients in South Africa have had limited-purpose instruments for a decade or more, the proportion paid into mainstream financial accounts has doubled in four years. Brazil introduced electronic payments using the limited-purpose Social Card only in 2003, replacing cash completely, and started explicitly paying benefits into mainstream Caixa Facil accounts, widely used by Brazilians who are not Bolsa Familia recipients, only in 2009. Two years later, 15 percent of recipients are paid this way. Mexican agencies are slowly reducing the percent of Oportunidades recipients that are paid in cash and increasing the percent paid into mainstream financial accounts, now at 34 percent.

In light of this new categorization of current approaches, the definition of a financially inclusive payment arrangement needs to be carefully considered. The UK's Department for International Development (2009) proposed that the mere presence of a store of value was sufficient for the payment approach to qualify as financially inclusive. If that cut-off is applied to these countries, then

Figure 2: Changes over Time toward Electronic Payments

% recipients paid by each payment mechanism



all beneficiaries other than those paid in physical cash would be considered financially included. The description of the restrictions placed on limited-purpose instruments makes clear, however, that while these accounts are specifically designed for social payments, in general they cannot be considered fully financially inclusive. After all, some do not allow leaving funds behind or depositing other funds (i.e., savings), or allow for any additional uses beyond receiving the grant at a restricted number or type of pay points. Often they are simply convenient ways of cashing out, but nothing more. The previous definition seems no longer adequate to address the emerging reality of how these limited-purpose instruments are used or their limitations in advancing broad-based financial inclusion. However, limited-purpose instruments may be stepping stones toward the fuller notion of financial inclusion offered by mainstream financial accounts if they are designed from the outset so that the features that characterize this broader group can be added over time.

The limitations of this category of instruments do not imply that they should not be used, nor do they diminish their benefits over pure cash for both government and recipients. Rather it emphasizes that the aim of financial inclusion is to increase the options for recipients and to mainstream them into the financial sector, not isolate them in a restricted "dead end" that offers only or mainly cash-out functionality. After all, the goal of financial inclusion is to include, not isolate.

Against this setting, we can consider the new evidence that begins to answer the questions posed from the perspective of the three key groups involved: governments, recipients, and providers.

Government Objectives and Outcomes

Consistent with their mandate, the social assistance agencies in these four countries prioritize their objectives with respect to the payment of benefits in a remarkably similar way: almost all weigh most highly the goals of promoting the dignity of the recipients and maximizing additional developmental benefits for recipients. Objectives such as reducing leakage and delivery costs are generally secondary. There is often a trade-off between the secondary objectives with the higher order ones. For example, South Africa

Table 4: Country Financial Inclusion Policies

	Brazil	Colombia	Mexico	South Africa
Is promoting financial inclusion official policy?	Yes	Yes	Yes	Yes
Agency responsible for coordinating or promoting	Banco Central do Brasil	Banca de las Oportunidades (BdO)[a]	Ministry of Finance	National Treasury
Definition of financial inclusion	"To provide access to financial services tailored to the needs of the population"[b]	None , but BdO's objective is "to promote access to financial services fostering social equity"[c]	"Access and use of a portfolio of financial products and services for the majority of adult population with clear and concise information attending the growing demand under an appropriate regulatory framework"[d]	None, but financial inclusion is one of four pillars to financial sector policy described in a recent policy document[e]

a. Unique among these countries, Colombia's presidency established BdO as a specialized agency to promote greater access to financial services through facilitation of policy changes and targeted subsidy programs.
b. Banco Central do Brasil (2010).
c. http://www.bancadelasoportunidades.gov.co/portal/default.aspx
d. This is the definition used by prudential regulator Comisión Nacional Bancaria y de Valores (CNBV). http://www.cnbv.gob.mx/Prensa/Paginas/inclusionfinanciera.aspx
e. National Treasury (2011).

and Mexico set norms for the distance most recipients should have to travel to collect payments, and as a result, end up paying relatively high costs across thinly populated rural areas. But at the same time in these countries, other parts of government have recently placed greater pressure on social programs to reduce delivery costs. In 2010, the Mexican president directed all government agencies to work with the Ministry of Finance to transition all G2P disbursements to electronic means by December 2012. While the initial impetus for the directive was to reduce costs and waste, other objectives, such as financial inclusion and the promotion of socioeconomic welfare, have also become key focuses of the Mexican government as a whole (Fletcher School and Bankable Frontier Associates 2011).

Financial inclusion has become a general policy goal in all four countries in recent years (see Table 4). The concept is not yet defined clearly even though some countries have started to adopt explicit targets.[14] The responsible agencies are generally financial regulators or finance ministries, not social ministries.

The attitudes of the social cash transfer agencies toward financial inclusion as a policy goal vary quite widely, even within the same agency. Indeed, financial inclusion is not an explicit goal of the social agencies in most of the countries, even though the objective is sometimes recognized in indirect ways.[15] For some agencies, it is only a matter of time before the formal objective of increasing financial inclusion is added. Others show ambivalence toward the goal, or at least toward promoting savings, because of an apparent contradiction with their very reason for existence—namely, to increase consumption of essential products. They also argue that the positive impact of financial inclusion has yet to be demonstrated, at least at the level of rigor that social agencies have come to expect for their

14 In South Africa, for example, the Minister of Finance has publicly stated the goal of raising the percentage banked from current levels of 63 percent to 70 percent by 2013 as a particular expression of financial inclusion. http://m.news24.com/fin24/Economy/Gordhan-Banks-must-be-more-inclusive-20110823

15 For example, although SASSA's strategy document in South Africa makes no explicit reference to financial inclusion, it does aim to increase the proportion paid electronically to 70 percent by 2014, and its recent request for proposals for payment services mentions the desire to move away from "primitive payment methods" toward financially inclusive approaches.

Table 5: Cost of Payment to Government Agencies across Countries

	Brazil	Colombia	Mexico	South Africa
Average grant per recipient	$71.0	$55.1	$118.2	$144.7
Weighted average fee per payment	$0.84	$6.24	$2.52	$3.50
As % of average grant	1.2	11.3	2.1	2.4
Cost by type of instrument:				
Cash payment	N/A	$5.20[a]	$2.35	N/A
Limited-purpose instrument	$0.88	$6.24	N/A	$4.46
Mainstream financial account	$0.60	N/A	$2.84	$2.03 or 0.10[b]
Rate used in conversion:				
1 USD = (15 August 2011)	1.62 BRL	1784.5 COP	12.4 MXN	7.2 ZAR

Source: CGAP research.

a. Under previous contract; included for comparison only since current contract has no cash payment as defined.

b. $0.10 is the fee paid by SASSA to make a bulk electronic transfer into client bank accounts via the Automated Clearing Bureau; the recipient then pays any costs associated with using the account directly.

programs.[16] Only in two of the four countries did the social cash transfer agencies strongly agree with the statement that "the benefits of financial inclusion for social cash transfer recipients have been proven and are widely accepted in our agency."

Notwithstanding ambivalence toward financial inclusion, social cash transfer agencies generally agreed that electronic payments are cheaper than cash, and they had a sense of inevitability about the move toward inclusion. All countries agreed with the statement that "within 10 years, all recipients will be paid into their bank accounts." Most agencies also do not believe that introducing this electronic dimension to social cash transfers adds complexity to their work. At this level, these social agencies have not found that financially inclusive approaches are prohibitively expensive for them.

But are electronic approaches in fact cheaper? Table 5 compares the cost by type of payment across the countries. As mentioned earlier, standardized comparisons of cost are not easy because of different grant sizes and varying frequency of payment, let alone fluctuating currency values. In particular, averages conceal the range of different approaches involved, and the services bundled as part of a fee for offering a bank account vary widely.

Notwithstanding Colombia as an outlier, the costs of payment in these large programs vary between 1.2 percent and 2.4 percent of the grant size, which is nonetheless a sizable share (often around 40 percent) of total program administrative expenses. These averages conceal considerable variation in underlying approaches. For example, limited-purpose instruments in South Africa cost as much as $4.46 each, compared with $2.03 each for subsidized bank accounts. The move from limited-purpose instruments toward mainstream financial accounts may reduce costs further. In South Africa, if a recipient elects payment into a bank account of her choice, the cost to SASSA drops to the negligible rate of a bulk electronic transfer ($0.10); the recipient must then bear the full costs of account use. However, the costs are not necessarily simply transferred to recipients since there is no cost to use a defined basic bundle of transactions per month on a basic bank account. On most mainstream bank accounts, SASSA receives no specialized reports for reconciliation

16 For example, most of these agencies have subjected their programs to extensive randomized controlled trials to test their impact, whereas there are few comparable studies on the impact of financial services on individuals.

purposes and can impose no dormancy rules to recover uncollected payments. To receive these additional services and cover a basic bundle of transactions by the recipient, SASSA is willing to pay a fee to the bank of $2.03 per month (see Box 2). The new tender in South Africa sets a maximum price level close to this benchmark as the maximum overall price per payment that SASSA is willing to pay going forward.

In Brazil, MDS pays Caixa a fee that is 31 percent lower ($0.88 compared to $0.60) for a recipient with a mainstream Caixa Facil account than for a limited-purpose Social Card. In South Africa, SASSA also pays a fee that is 54 percent lower ($4.46 compared to $2.03) for a recipient with a mainstream financial account. In Colombia, electronic payments are not cheaper than cash. The fee originally established in the 2009 Accion Social payment tender won by the sole bidder Union Temporal (a partnership of state bank Banco Agrario with private logistics company Assenda) was in fact $8.90 per bi-monthly payment.[17] This was a substantial increase on the previous cash payment fee of $5.20. However, this high price reflected both the short-term nature of the initial contract (two years) and the bank's need to upgrade its system, issue millions of debit cards, capture biometric information, and build a new merchant network through Assenda (see Box 1). Likewise in Mexico, payments into mainstream financial accounts are slightly more expensive than cash payments ($2.84 compared to $2.35).

This analysis of costs leads to two conclusions. First, where the payment arrangements use existing financial infrastructure, such as agents and ATMs in Brazil and South Africa, the cost of making payments into bank accounts will be lower than payments by cash or limited-purpose instruments. This is because the fixed costs of providing basic bank accounts can be spread across a larger client group beyond G2P payment recipients alone. However, if new special-purpose infrastructure must be created to pay transfers, then the cost will likely be higher, especially if the investment has to be recovered within short contract periods.

Second, the tendering process, including how requirements are specified and how competitive a tender is, has a vital bearing on instrument and price. As Table 6 shows, only Colombia and South Africa tender out the payment service to banks and specialized contractors. But both countries have struggled to formulate and execute tenders that achieve their objectives. After a one-year extension to the current contract negotiated in 2011, Accion Social will issue a new national tender in 2012. SASSA closed a long awaited new tender in mid-2011 after a previous tender was cancelled, leading to legal action. The success of a tendering process depends to a certain extent on market development in terms of potential for competition and local market participation.

However, the difficulties experienced with tendering in these two countries should not lead to a general conclusion that tendering this type of contract is too complex to be undertaken successfully. On the contrary, the contestability created by tendering may be vital in ensuring good service to recipients and reasonable prices to government in the long run, although Caixa appears to be an exception to this rule. Even though Caixa does not have the pressure of having to retender,[18] it operates under a strict set of performance standards that specify penalties for nonperformance. MDS renegotiates pricing and terms with Caixa biannually. The stability of a long-term contract has enabled Caixa to take a long-term view of the development of channels and products. In Mexico, while not required by law, the government has chosen recently to centralize its transfer payments via Bansefi through negotiation rather than by tender.

Specialized financial agencies can assist social agencies in the complex task of designing and

17 Note that this was negotiated down to $6.24 reflected in Table 5 in March 2011 for the one-year contract extension period.

18 The 2009 change in law that allowed payments to be made into basic bank accounts did not explicitly limit these to Caixa accounts, but MDS has as yet made no moves to enable other banks to be considered.

Table 6: Procurement Approach

	Brazil	Colombia	Mexico	South Africa
Basis of awarding contract	Law mandates that Bolsa Familia payments be made by Caixa	Tendered process, but with only one proposal received in 2009	No tender or legal requirement, but chosen by the Oportunidades Board	Tendered process
Date of most recent tender/contract	No tender, but terms of contract renegotiated periodically.	Contract signed in February 2009; extended until end of 2011.	Different contracts exist but intent is to enter into a single contract with Bansefi, which in turn will contract with other providers.	Provincial contracts inherited by SASSA in 2006; attempts to award a new tender in 2008 failed. New tender issued in 2011; short list announced in October.
Inclusion focus of recent tender/contract	No explicit financial inclusion mandate, but Bolsa Familia encourages recipients to receive their grants through basic accounts.	Strong financial inclusion policy under the influence of BdO.	Financial inclusion is a recognized priority. All government payments to be made electronically by December 2012.	New SASSA tender includes financial inclusion as an explicit objective, although not in scoring.
Recipient choice of instrument	Yes. Recipients can choose to receive their payments via the Social Card or into a Caixa Facil account.	Yes. Cash payments can be made when there is a resistance to accounts.	No. Recipients are not able to elect their payment method.	Yes. By regulation, recipients can elect to be paid into bank accounts or use specific payment providers by province.
Recipient choice of financial provider	No	No	No	Yes. Recipients may choose any bank (but may lose the bundle of free transactions depending on choice of bank and account).

Source: CGAP research.

implementing successful tenders. Colombia's Banca de las Oportunidades has played this role supporting Accion Social. Any government embarking on ambitious plans for financial inclusion would do well to put in place the mechanisms to support its social agencies, whether from within government or outside.

Tendered payment contracts by their nature imply a fixed choice of providers by the social agency for a set period of time, limiting the recipient choice of provider. While three of the four programs offer recipients some measure of choice among types of payment instruments, only South Africa offers recipients the choice of financial provider through an opt-out provision (see Box 2).

In conclusion, when social payments make use of existing widespread payment infrastructure, there is clear evidence that electronic payments can be cheaper for the program. However, when they rely on expensive, closed-loop infrastructure set up only to pay out cash to program recipients, they remain expensive and can impede the transition toward a mainstream financial account that can be widely used. There is a risk that social cash transfer programs get caught in a position where it is hard to transition beyond this point to enable recipients to access a full range of financial services.

Client Views and Behavior

To understand how recipients perceived, experienced, and used the financial services available to them, we drew on qualitative research using focus groups and detailed interviews with more than 400 recipients. We also analyzed recent quantitative survey data available from the Inter-American Development Bank (IADB) and the GAFIS Project in some countries (see Annex A for a summary of the data sources used).

There are important differences across these countries in terms of how long recipients have been using electronic payments (longer in Brazil and South Africa, for example) and the extent to which the grant constituted the main source of household income, which affects the flows and instruments needed in a household's financial portfolio. However, we found striking similarities across all of them.

First, recipients uniformly value the greater convenience associated with electronic payments compared with the alternative of cash. In the words of one Familias en Accion recipient who, like most others, had been switched from cash to electronic payment only in the past two years:

"You had to wait for the day when it was your turn and stand in huge lines, not now.... There were people sleeping, saving their place in line because it was with a token. You stayed up really late. Not now, with the card; wherever I am I go and collect there."

A survey of Familias en Accion beneficiaries by Centro de Estudios Sobre el Desarrollo Económico (CEDE), a research center at the University of the Andes in Colombia, went further to quantify transaction costs for beneficiaries across different payment instruments and different channels. This showed that while the average recipient travel time to a bank or ATM to receive payment was similar (around half an hour), the travel time to one of the agents set up by Banco Agrario and Assenda was significantly shorter (20 minutes on average). While Familias en Accion recipients reported waiting as long as four to five hours to receive a cash payment previously (whether via a bank or specific meeting site), this was reduced to an hour at an ATM, and typically less at a supermarket or store (14–40 minutes). Travel time to Caixa agents was also low among focus group participants in Brazil, although wait times at certain agents could sometimes be long. Table 7 summarizes these attributes of the current recipient experience with the means of electronic payments.

Second, G2P payment recipients—like poor people in general—can and indeed do save, even though it is not easy to do so with many competing immediate demands on their low incomes. Overwhelmingly, however, they do not save in the bank accounts opened to receive transfers, even when the account features or program rules allow them to do so. Almost all recipients reported nearly always withdrawing the whole grant amount at once. The savings were instead held in other, usually informal instruments, ranging from hiding money in the house to participating in informal savings groups.[19]

Since savings in the new account was such an important expectation of the inclusive programs, the reasons why this was not happening were probed in depth. In a number of cases where recipients had been transitioned to a mainstream financial account, they were simply not aware of the features of the new account. In one case, the majority of recipients of a new card were unaware that it was linked to a bank account. In another case in Brazil the recipients were unaware of the functionality of the account. When a focus group facilitator asked if anyone had ever used the card to make a purchase at the supermarket, one Bolsa Familia recipient responded in surprise, "Can you do that?" This lack of awareness usually resulted

19 CGAP research; Maldonaldo and Tejerina (2010); Collins, et al. (2009).

Table 7: Comparing the Recipient Experience

	Brazil	Colombia	Mexico	South Africa
Time spent travelling to collect	In most cases, less than 30 minutes walking, but some rural recipients must travel several hours or make overnight journeys	Urban beneficiaries typically travel for 5–10 minutes; those from rural areas and very small municipalities sometimes travel 1–2 hours	Generally, less than 30 minutes walking	Bank/supermarket: Depends on location of beneficiary; can range from 5 minutes to 2 hours Specific payment providers: Usually within walking distance of 5–30 minutes
Waiting time	ATM: 0–10 minutes Agent or branch: Depends on congestion—5 minutes to 2 hours	No waiting some days; consensus that lines are much shorter now than before[a]	Wait times range from 30 minutes to several hours. Cash and agent distributions tend to take the longest	Bank: 5 minutes to 2 hours, depending on lines at cashier and ATM Specific payment providers: Several hours Supermarket: 5 minutes
Financial costs to use service to withdraw government payment	None	None	None	Bank: Depends on bank and ATM chosen by beneficiary. Supermarket: None, though often required to spend 20% in store Specific payment providers: None
Additional financial services used/ preferred	Saving in the house Installment credit for asset purchases Credit from shops for food and medicine Informal borrowing from family and friends Lottery prizes	Saving in the house Saving with a trusted person (money guard) Purchasing items on credit from local shops	Saving in the house Installment credit (often informal) for asset purchases Saving and credit from savings and credit associations Rotating savings clubs	Saving in the house Savings clubs Funeral plans and burial societies Informal borrowing from friends and family Purchasing items on credit from local shops

Sources: Focus group discussions with beneficiaries, IADB and GAFIS research

a. According to Maldonaldo and Tejerina (2010), recipients saved only nine minutes on average in travel time following the transition to bank accounts, but they saved 15 percent of travel costs and importantly, cut the waiting time from five hours on average to half an hour.

from a lack of clear, consistent communication efforts from the social cash transfer programs.

Perhaps more significantly than lack of understanding, many recipients expressed fears that saving a portion of their grant could lead to losing the benefits on the grounds that they did not need them. As a result, a few recipients saved in accounts at other banks where they would not be visible to social agencies. Recipients' confusion and concerns on this issue reflect conflicted attitudes and policies in many social cash transfer agencies. Even though there was no attempt to disallow or discourage savings, at least for those with mainstream bank accounts, there was also little clear, consistent communication to this effect. One significant exception was the pilot program to Promote a Culture of Savings among Poor Families (PPCA) in Colombia, which specifically encouraged a selected group of recipients to save their benefits using different approaches, such as lotteries, for enhanced return and specific financial education (see Box 3). The pilot had been running for only nine months at the time the focus groups convened, so it is too early to draw firm insights despite some encouraging signs.

Box 3: Savings Incentives and Colombia

BdO is the Colombian government agency explicitly charged with promoting financial inclusion in the country. As an extension of its mandate, BdO launched a PPCA pilot program in 2010, working with Accion Social. PPCA uses a range of interventions to encourage formal, liquid savings among 49,350 Familias en Accion beneficiaries in 12 municipalities. The goals of PPCA are to increase savings accumulation in liquid assets and rebalance beneficiary portfolios by shifting some savings from informal to formal instruments.

Municipalities participating in the program were divided into one control and three experimental groups, which were provided with three distinct treatments:

- Financial education provided to beneficiaries through six monthly workshops using a methodology adopted from Microfinance Opportunities specifically for PPCA
- A savings incentive in the form of a municipal-level lottery offered to all beneficiaries with bank accounts, in which winners would be drawn three times per year and would receive 10 times their account balances as a reward for saving
- Both financial education and the savings incentives

While it is too early to fully judge the results of PPCA, the participants of focus groups conducted as part of this research were selected from PPCA participants who were considered most likely to be financially active. We found that the adjustment to electronic payments had been relatively rapid, that the need for support for card use was reduced, and that these members were more likely to consider other types of financial services.

Apart from misunderstanding about whether savings was allowed, recipients showed high levels of confusion and anxiety about bank fees, even though in most cases no fees were due at the low levels of transactions undertaken.[20] However, fee menus are often complex—some banks charged fixed fees on ATM withdrawals, others charged fixed fees as well as percentage fees, and in Mexico a foreign ATM fee is first deducted and then refunded later. Some recipients reported unexpected reductions in their balances as a result of making more balance enquiries than the fee-free threshold allowed. Repeated balance checking is common, usually out of anxiety to confirm that the money is still there. An important product feature for encouraging a transition to formal savings may in fact be to allow unlimited balance enquiries initially while trust is built, especially since the cost to the bank of a balance enquiry as a pure electronic transaction is low.

Even as customers come to understand and trust the payment of benefits into their accounts, it may be that basic bank accounts lack the product features that actively encourage poor people to save. For example, the very convenience of the account as a payment instrument undercuts its value as a commitment device from which it is hard to remove money to protect a balance for specified purposes. Having one single account does not allow the kind of "mental accounting" that is common—for example, allocating savings balances for a range of distinct purposes. To address this, perhaps a separate savings "sub-account" could be added to the basic transactional offering. In addition, adding convenient access to balance information and transfers via mobile phone, as is being contemplated in Brazil, would likely be attractive to clients.

These findings support experience from elsewhere in the world that being able to test a new account, check the balance frequently, and get answers to questions quickly and easily are critical factors in building comfort and trust among first-time users of financial services (Zollmann and Collins 2010).

Therefore, even when offered a basic bank account (which may have appealing features as a payment device), poor people are unlikely to use this vehicle to save without additional incentives or product features. If fostering savings behavior is a priority, there needs to be a concerted effort behind it. But the resources needed to promote this would have to be weighed against other program priorities.

Even if there is very limited savings in the new accounts, this does not undermine the potential value of having the account for other purposes, such as making transfers or purchases. But it does recalibrate expectations about how these accounts are in fact used. Recipients in most of these countries use a range of other financial services, especially credit and sometimes insurance. In countries like Brazil and Mexico, where microinsurance and microcredit have been offered to recipients, the

20 Basic accounts like Caixa Facil and Mzansi permit a certain number of free transactions per month.

take-up to date has been relatively muted, although the offerings are recent and have not been widely promoted. Recipients in the Colombia PPCA pilot who received special financial education about their account were more likely to consider and take up formal insurance as an additional financial service. With the appropriate design and support, the basic bank account can become the first step of integration into the formal financial system and, therefore, of greater social inclusion.

Overall the availability of inclusive accounts is too new in most countries to draw strong conclusions about the reasons for the limited use patterns observed so far. Many factors are at work, including a lack of awareness of account features and a fear of being disqualified for being able to save. Recipients may also have concerns about the design of the accounts. It will take time for long established behavior patterns to change; changing this behavior will require clear, consistent communication from government programs and simpler, better designed products from providers. Even if it takes time for use patterns to emerge, the move toward the mainstream payment infrastructure should be encouraged. As recipients become familiar with their options, they may start to explore and use additional financial products. This has important implications for providers.

Provider Proposition

Is there a business case for banks and other providers to offer services to social cash transfer recipients? The answer to this question requires some definition of the term "business case" since it is often used loosely.

A legitimate business case can be built for an entity to provide a service at one or more of five distinct levels as shown in Figure 3. The most demanding level is the first (the individual account), that is, the requirement that each account be sufficiently profitable on its own. If profitability holds at that level, it will hold at higher levels, too.

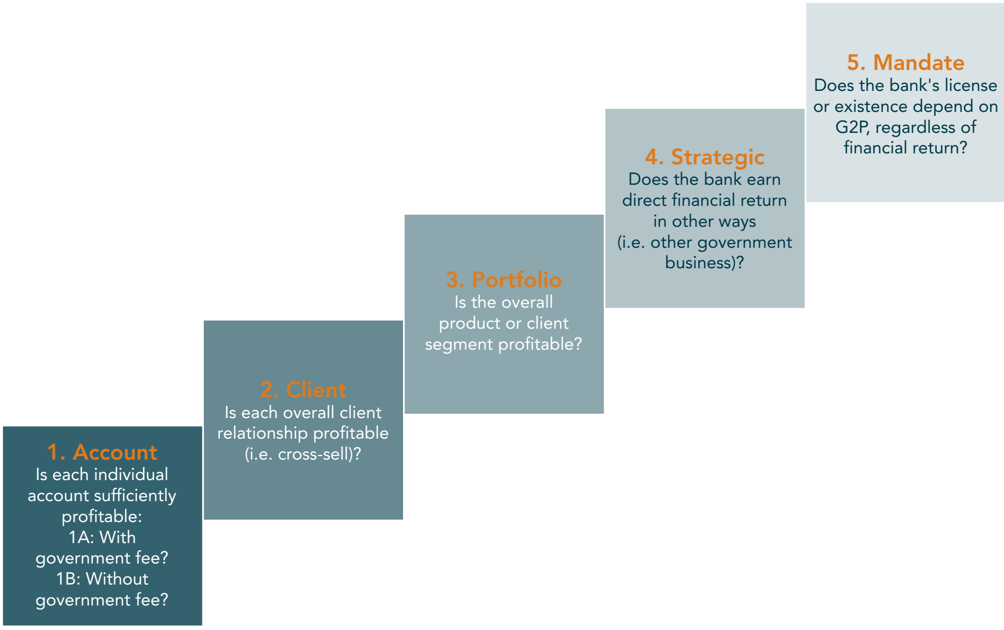
Even within the account level, the G2P case requires the distinction between profitability with and without the effect of any fee the government agency may pay. The distinction is important if we are to ask the more demanding question of whether there is a business case for a basic bank account in the absence of the fee. Circumstances may arise in which, for example, the bank loses the government contract and hence the fee. If the business case without the government fee were not sufficient, the bank would have no incentive to keep these accounts open unless the business case could be justified at another level. Of course, account-level profitability does not depend only on fees paid by the account holder. For example, companies may pay a fee to banks for facilitating electronic transactions, such as bill payments, because it reduces their need to handle cash. The distinction with G2P payments is that the size of the fee is usually much higher relative to other income on the account and usually depends on a single source contract with the government.

The business case at the second level (the client) can be justified by cross-selling more profitable services (such as credit or insurance) to a client that compensates for the loss on the basic account into which payments are made.[21] The third level (the portfolio) looks for positive value of a client segment as a whole even if each client or account is itself not profitable. At this level, there may be additional benefits to consider. For example, the value of a large number of small retail savings deposits may enhance the liquidity profile of a bank and hence translate into lower overall costs of funding. The fourth level (strategic) brings into consideration revenues that may arise from other lines of business as a result of pursuing a particular line of business with the government. For example, providing basic bank accounts (even at a loss) may enable a bank to score more highly in competing for lucrative government funding or account mandates. It is also possible that while a particular line of business is loss making, it provides a foundation for other lines of business that may become profitable.

Finally, especially in the G2P context, it is important to acknowledge a fifth level business case

21 Westley and Martin (2010) found that the business case for small savings accounts can be found at this level, based on data from two small to mid-sized banks that serve low-income people, but not specifically G2P payment recipients.

Figure 3: The Five Levels of Business Case



(mandate), which is less defined and measurable than the preceding levels but may nonetheless be important for banks. As closely regulated entities, their operation depends ultimately on state regulation enabling their activities. The willingness of regulators to allow banks to operate freely in some areas of business may depend on an implicit social contract that they undertake loss-making but politically important business. This may be seen as strategic corporate social responsibility, but is still different from the lower level concept of strategically or tactically giving away small accounts. State-owned banks may be legally required to provide these services whether the financial return is positive or negative.

Making the business case at level 1 (accounts) for social cash transfers is notoriously difficult in the absence of government fees. Most of the banks interviewed in this study claimed to have a clear understanding of the business case of offering bank accounts to G2P payment recipients. Brazil's Caixa, which offers 12 million basic bank accounts (only 2 million of which are to Bolsa Familia recipients), claims to be able to make a small profit in the absence of government fees, not on each individual recipient account but for its basic account offering as a whole (i.e., level 3) as a result of its massive economies of scale and the use of its pre-existing low-cost payment infrastructure (see Box 4). For all the banks, the business case at the account level for social cash transfer recipients depends on receiving a regular fee from government (level 1A). This fee makes the business case attractive to them. Most of the banks interviewed, however, allowed that if savings balances grew over time, the level 2 business case would become attractive in the absence of fees. There is reason to believe that this may be possible: Caixa reported that average balances in Caixa Facil accounts had grown by 17 percent per year in recent years.

To provide a better idea of the average balance that needs to be held in each account to make them profitable in the absence of government fees, we have constructed an illustrative financial model. While most of the banks interviewed did provide perspectives on some or all of their cost structures, this information is sensitive and cannot be publically disclosed. Therefore, we have constructed a generic model using indicative levels of cost informed by, but not limited to, the experiences across these countries, which are summarized in Table 8.

For the basic accounts typically in use in these countries, revenue other than the fee from government is limited to the value of the savings float. Most recipients use less than the free transaction bundle so there is very low or no transactional income. Therefore, float interest alone

Box 4: The Effect of Using Branchless Channels

If recipients use expensive channels, such as branches or other banks' ATMs, the cost of serving them can increase significantly. Branchless channels therefore matter for the business case in this environment because the cost per transaction (and the cost of account opening) is typically much lower in these channels. All the banks interviewed stressed the importance of branchless delivery models to their business case for low-value accounts.

Figure B4-A shows a typical range of unitary channel costs, supporting other observations that transactions at branchless channels like agents may be 10 times cheaper than branch transactions. For this reason, Caixa has specifically sought to promote branchless transactions with great success: 86 percent of Caixa Social Card recipients are paid via 25,000 retail agents or 11,000 lottery stores, which are part of Caixa's large agent footprint across the country.

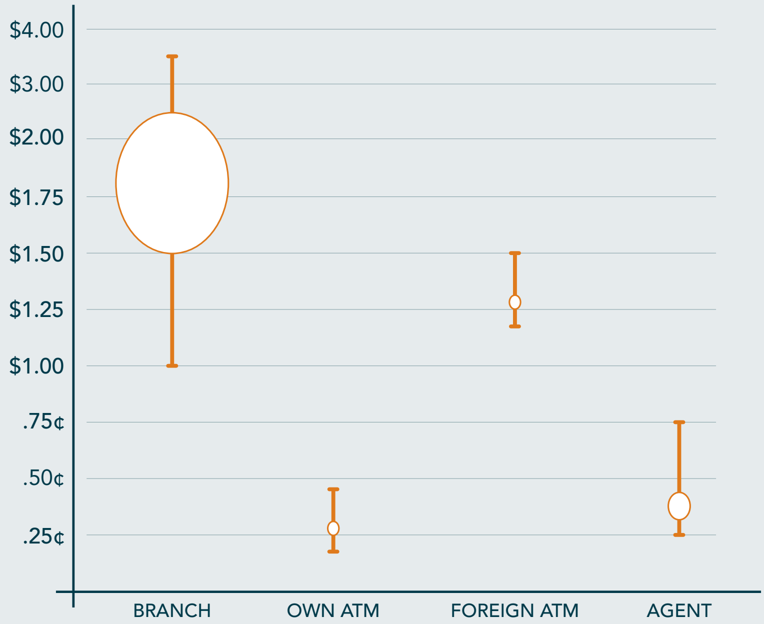
The use of agents matters for another reason as well. Recipients are more likely to use transactional channels frequently when they are convenient and trustworthy, as the focus group research showed. A widespread convenient agent network may be more likely to generate additional transactions over time, and therefore additional revenue, than a bank branch with restricted hours or an ATM network that does not take deposits or dispense small values. Because the cost to the bank of these agents is lower, the transactions can be priced more affordably to the recipients as well.

However, setting up a widespread agent channel involves substantial investment. For most of the banks, Caixa excluded, operating an agent network is relatively new. In Colombia, Banco Agrario's partner Assenda has been responsible for setting up a network of 2,500 merchants at which recipients can withdraw benefits; they can also make withdrawals at Banco Agrario's branch and ATM network. It is estimated that one in six recipients presently uses this new channel. Mexico changed regulations to allow the appointment of agents only in 2009. Bansefi has over the past two years installed POS devices in 2,000 stores that are part of the government-owned Diconsa rural store network to pay out transfers. In South Africa, Sekulula account holders can make withdrawals at any POS that accepts Visa Electron cards, including large retail chains. Even the limited-purpose smart card instruments issued by Net1 can be used at some 2,500 retail locations specifically acquired for this purpose; 4.6 million grants per quarter (a third of Net1's total) were paid via POS, according to the 2010 Net1 annual filing.

Apart from the initial set-up costs, these banks have also found that maintaining an agent network requires considerable ongoing attention. Banks must provide training and support to agent staff and ensure that agents adhere to rules, such as not encouraging clients to split transactions to earn more fees or requiring them to spend their cash in the store. In addition, the special features of social cash transfers may place great liquidity strains on agent networks since agents need extra cash on hand to support peak withdrawals concentrated at particular times of the month. This can lead to agents or the bank incurring extra costs to collect and store additional cash for these times. Caixa is contractually required by MDS to ensure that there is adequate liquidity at agents or else provide other options in the area. Careful design to stagger payments can make a big difference in agent model development. To help its agents manage liquidity, Caixa has established a schedule whereby different beneficiaries can collect their payments at different times over the month.

G2P can in fact play an important part in enabling the development of agent channels for wider use in the country as a whole, making the business case work at a higher level. See Box 5 for an example.

Figure B4-A: Typical Channel Costs
Showing typical range and high-low



Sources: CGAP (2010a, 2010b, 2010c, 2010d), Kumar (2011), and Bankable Frontier Associates data for other banks at low end of market.

must cover the fixed costs of the account. Using the norms from the ranges indicated in Table 8, assuming an account-opening cost of $10, amortized over three years, and a monthly maintenance charge of $0.75 per month, then the account must generate just over $1 each month to break even. If the internal float interest is 5 percent p.a., this account must hold an average balance of $246. This level is much higher than the typical balances of $10–$15 found in G2P payment recipient bank accounts. To restate this from a different perspective, at the current average level of balances, fee income of $0.97 per month is needed for the bank to break even on the account. If the cost of taking on a recipient as a new customer were paid separately by the program, the typical ongoing fee necessary to achieve break even would fall to slightly below $0.69 per month.

While most banks expressed the belief that their low-segment retail business could become profitable at the client level (level 2) over time, few undertook widespread or targeted cross-selling of other services that would increase revenue from each client. This was reflected in the client-side feedback, which showed limited awareness of these other services. Caixa appears to have gone furthest to date among the providers considered: 40 percent of Bolsa Familia clients use at least one other product of the bank. Caixa Facil clients (who include but go well beyond Bolsa Familia recipients) use 1.5 Caixa products on average; these extra products generate a substantial portion of total client income. Caixa has launched microinsurance and microcredit offerings specifically targeted at Bolsa Familia recipients. Take-up is still low, and Caixa is considering other ways to promote use.

In Mexico, a life microinsurance product was introduced to Oportunidades households in 2010. Coverage of $3,500 was offered in exchange for a premium of $1.75 deducted bi-monthly from the accounts to which the grants are paid. Since 2009, another program called Premiahorro has offered matched savings prizes to beneficiaries in small municipalities who retained a balance in the account for a set period. Overall, 15 percent of Bansefi-paid recipients use another product of the bank, mainly due to Premiahorro.

Banco Agrario in Colombia was able to determine that a small fraction of new Familias en Accion account

Table 8: Business Case Drivers at Account Level

Driver	Key Assumptions	Indicative range G2P payment recipients
A. Revenue		
Average balance	Customer choice, may be subject to a minimum to keep account open, although not for basic accounts	$10–$20
Interest recognized	Internal bank treasury rate (usually equivalent to risk-free return on 3–6 month Treasury Bills)	5%
Transaction fees	Whether there is use above the free threshold of typically 2–4 transactions per month	Rare
B. Fixed costs per account		
Opening cost	Existence of simplified KYC; nature of instrument issued (magnetic stripe vs. chip); done by agent or bank staff	$6–$25
Monthly maintenance	Bank internal cost allocation model, often strongly linked to whether hosted on a special platform or not (hence system costs and licensing fees)	$0.5–$1 per month
Dormancy rate	Affects whether costs are allocated and must be recovered over smaller base; G2P accounts typically not dormant as other basic accounts[a]	20–40% (basic accounts in general, lower with regular G2P)
C. Variable costs		
Transaction pattern	Customer choice, influenced by convenience, pricing, and incentives	1 withdrawal; 2 balance enquiries
Unitary cost of each transaction	Bank internal costing model	$0.25–$3

Source: CGAP research.

a. Note that dormancy is typically measured by these banks as the number of client-initiated transactions within a preceding period of 6 to 12 months. Receiving a transfer means that the recipient at least withdraws the cash monthly or bi-monthly, unlike accounts without such regular inflow.

holders already had some account at the bank, and subsegments of recipients have been selected for special programs to save. Early evidence (as described in Box 3) suggests that clients do respond positively to these incentives, but the business case without external support and assistance is not clear.

In general, across the countries researched, there is not yet sufficient cross-selling of other financial products to recipients to make the business case at level 2 look significantly different from the business case at level 1. The client typically has only the G2P account, so the account and client levels are effectively the same. The examples above, however, show that these banks are experimenting with new product lines to the same customer base. To cross-sell successfully, banks will require a much better understanding of the additional financial service needs of this segment beyond payments. Few of the banks in this sample have yet undertaken the level of targeted market research that would support targeted cross-selling, although several indicated that they intend to do so.

At the portfolio level (level 3), only a few of these banks consider recipients as a distinct market segment on which profitability is measured holistically, let alone identify subsegments within it. This reflects a number of different factors, including the newness of the client base and the shortage of analytical capability in some cases. Some struggle even to distinguish recipients clearly from other basic account holders, which is essential to considering the segment as a whole. The providers in these countries are all large banks. Because the total quantum of deposits mobilized through recipients' accounts is small in value, it is not easy to attribute additional value as a diversified source of retail funding for banks compared to other retail depositors who typically have much higher account balances. This makes it difficult for us to accurately comment on profitability at this level with any confidence.

In the case of the Latin American state-owned banks, the strategic business case for social cash transfers (level 4) may be indistinguishable from their general mandate to do government business (level 5), except that changing government priorities may alter the strength of the strategic case from time to time. For example, while Caixa has long held the exclusive legal mandate to pay Bolsa Familia, the government of President Dilma Roussef has explicitly asked how Caixa can contribute toward the new national anti-poverty strategy Brazil sem Miseria (Brazil without Misery) launched in 2011. For all banks, the strategic business case for G2P may rest not only on the ability of the provider to generate income from other parts of government as a result of social cash transfers (i.e., increasing their chances of winning other more lucrative business from other ministries). The transfer program may also enable other strategic objectives of the bank to be achieved, for example, through accelerating and supporting the growth of a viable agent network. This has already been the case in these four countries to some extent; a further example is given in Box 5.

Overall, the business case for accounts of social cash transfer recipients still depends on receiving a regular fee from government. Therefore, in the short term at least, governments need to continue paying these fees and not assume that banks can get sufficient revenue from the float or from cross-selling. With time, as client use increases, the business case at the client level will strengthen. Branchless channels, such as agent networks, remain critical to reducing the costs of servicing this G2P client segment.

Conclusions

Evidence from the recent experience of these four large programs enables us to provide firmer answers to the main questions originally posed in the 2009 "Banking the Poor via G2P Payments."

First, there is sufficient evidence that the move from cash to electronic payments need not be more expensive. The four focus countries of our research fall into two groups in this regard. The first group—Brazil and South Africa—has found this beyond doubt. The experiences in Brazil and South Africa suggest that it is less expensive for social programs in countries like these to move all the way to mainstream financial accounts from the start, rather than risk getting stuck with limited-purpose, closed-loop systems that will likely be not only more expensive over time but also often "dead ends" for financial inclusion. The payment approach

Box 5: The Business Case for Branchless Banking

Regulators in most countries determine whether agents can be used to perform banking functions, such as cash-in, cash-out services and account opening. By deciding what can be done by agents, regulators can substantially affect the business case for banks to use agents. In all four countries, regulators have sought to enable agent models to develop. Modified KYC procedures on low-value accounts allow these accounts to be opened outside a branch, which reduces the cost of opening.

The relatively high costs of acquiring and managing new agent networks mean, however, that not all banks will want to set up their own agent channel. In addition to working for the bank, the business case must also work for the agent. The agent needs sufficient transaction volume to generate enough commissions for the extra effort and cost to be worthwhile, but not so many transactions that core business is negatively affected. While branchless banking can enable the business case for G2P, it is also possible that G2P can enable branchless banking in a country by creating a ready stream of transactions that supports the business case for new agents. These agents can also offer services to other customers over time.

Outside of these countries, Pakistan offers an example where the rollout of new payment approaches for a large social cash transfer scheme—the Benazir Income Support Programme—is helping to support the deployment of agents by a large bank, UBL. In a CGAP case study,[a] UBL explains that the business case for undertaking a range of social cash transfer payments rests less on the payments themselves than on the fact that the revenues received and shared with agents have created critical mass in this new channel in a shorter time frame than would otherwise be possible.

Among the four countries considered, Brazil's Caixa is already a demonstration of this. Early agent network development was driven by the need to build the channel for social cash transfers, but these agents can also be used by other Caixa clients. Assenda's agent network may become part of the mainstream financial infrastructure over time. In Mexico, too, some of Bansefi's agents may in the future be able to service other clients of the bank.

a. http://www.cgap.org/gm/document-1.9.50409/CGAP_UBL_case_study_Jan_2011.pdf

should use mainstream payment instruments and infrastructure as much as possible so that recipients benefit from investments that have already been made, or are planned during the lifetime of the program, for the bank's other customers. The use of limited-purpose instruments, on the other hand, forces the program to bear the whole cost of deploying special payment infrastructure, often over a relatively short time frame.

In the second group of countries—Mexico and Colombia—appropriate ATM or agent networks did not exist initially. Costs per payment therefore rose as a result of the need to build new distribution networks. As long as social agencies procure payment providers through periodic contracts using limited-purpose instruments that require dedicated infrastructure to be set up each time, costs per payment will likely not decrease over time. Costs are more likely to decrease over time if programs ensure that their payment strategy aligns with national policy and strategy for retail payments system development and supports the development of channels that can be used for multiple purposes—not just for withdrawing social cash transfers. To be sure, limited-purpose instruments may offer additional features attractive to social agencies, such as extra reporting or implementing dormancy rules on unclaimed benefits, but the value of these features should be carefully assessed against the potential long-term costs. At the very least, limited-purpose instruments should be implemented in a way that makes it possible to easily transition to mainstream financial accounts later. Colombia's approach holds promise in this regard.

It is telling that even among our small sample size of four middle-income countries, two distinct groups emerge between those that had strong, existing infrastructure (Brazil and South Africa) and those that did not (Mexico and Colombia). In yet another category are low-income countries that have even weaker and less developed payment infrastructure than those found in our sample. To be true to the research, our conclusions and recommendations can be drawn only from the evidence itself. Yet more research is needed on emerging lessons from low-income countries.

Second, recipients in all four of the countries studied clearly welcome the convenience of electronic payment methods to access cash over previous arrangements where cash was distributed at a particular time and place. However, demand-side analysis showed that few, if any, recipients automatically use their new bank account to save, or indeed for much else beyond withdrawing their benefits. There is widespread confusion among some about the existence of the account and among others about the functionality. Recipients widely share concerns that leaving savings in the account will disqualify them from future benefits. To overcome these concerns, social cash transfer agencies have to ensure clear, consistent communication, possibly combined with additional incentives. Banks also have a role in clear messages to their new clients to change behavior over time. Colombia's experience so far provides the basis to hope that this change can happen, but it also shows that it may require the specific resources and focus brought by a specialized financial agency like BdO, which is beyond what is normally found in a social agency.

Even if not yet fully used, the mere existence of a mainstream financial account at least creates the potential for recipients to use other financial services (beyond savings) over time, unlike the more limited-purpose options. It is clear, however, that early expectations about rapid and automatic take up of financial services, especially of savings, need to be recalibrated. The shift toward inclusive approaches is still at an early stage for most of these programs.

Third, it is clear that offering accounts through which to pay social cash transfers can be profitable and sustainable for banks at the individual account level as long as government fees at a reasonable level are factored in. In most cases the fees that banks require to cover their costs are less than what other specialized payment service providers have charged. Without these fees, the business case for providing small balance accounts rests on achieving huge economies of scale, using low-cost channels like agents to squeeze every element of cost to a minimum, and over time, providing additional services to the same clients to generate more revenue. For this to happen, it will be necessary to use mainstream financial accounts that can be issued at greater scale and can use mainstream financial channels to transact.

Because of the needs and requirements of social agencies, there remains a risk that the attractions of limited-purpose instruments will maroon recipients in high-cost "dead-end" solutions. A well-designed social cash transfer payment strategy should build on and support the development of the country's general retail payment system. In this way the social cash transfer program can function as a stepping stone in the move from cash to electronic and on to fully inclusive formal financial services.

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Annex A. Sources of Client Data

	Brazil	Colombia	Mexico	South Africa
Qualitative data generated for this project	7 focus groups totaling 49 people plus 12 in-depth interviews in 4 different types of settings in 1 state (RJ)	8 focus groups totaling 74 people and 5 in-depth interviews in 4 municipalities that are part of PPCA		10 focus groups totaling 100 people in 3 urban and 5 rural communities
Other qualitative data			IADB: 16 focus groups of 10 people each, plus 18 in-depth interviews (2010)	South African financial diaries and diaries refresh data (2009)
Quantitative data		IADB survey performed by CEDE in 6 cities (2010); BdO (2010): Baseline for PPCA	GAFIS (2011): nationwide survey of 830 Oportunidades recipients who received payment via Diconsa stores	

Annex B: Categories of Payment Instrument

	Brazil			Colombia		Mexico				South Africa		
Payment instrument	Cash	Social Card	Caixa Facil	Cash	Banco Agrario	Telecomm/ mobile pay points[a]	Debicuenta account	Prepaid account	Passbook savings account	Specific payment service providers	Sekulula	General bank account
1 Is there a store of value in name of recipient? *If NO, then considered cash*	NO	YES	YES	NO	YES	NO	YES	YES	YES	YES	YES	YES
2a Can the recipient store funds (save) on the account indefinitely?		NO	YES		YES		YES	YES[b]	YES	NO	YES[c]	YES
2b Can the recipient deposit additional funds into the account?		NO	YES		YES		YES	YES	YES	NO	YES	YES
2c Can the recipient access cash at points (ATM, POS) other than those specifically set up for the program? *If any of the above are NO, then considered limited purpose* *If all of the above are YES, then considered mainstream financial account*		YES	YES		NO[d]		YES	YES	YES[e]	NO	YES	YES
Categorization resulting	Cash	Limited purpose	Mainstream account	Cash	Limited purpose	Cash	Mainstream account	Mainstream account	Mainstream account	Limited purpose	Mainstream account	Mainstream account
% in category	1	15	84	9	91	66	16	12	6	41	11	48
By category summary (%):												
Cash		1		9			66					
Limited purpose		15		91							41	
Mainstream financial account		84					34				59	

NOTES
a. "Mobile" here does not refer to cellular, but rather to a moving (not fixed) pay point.
b. While the Oportunidades program requires a withdrawal first before a redeposit into the account, the functionality of the card and the account allows for funds to be stored indefinitely.
c. SASSA rules provide for a claw back if at least some of the transfer is not withdrawn within the specified period; however, part of the transfer and other funds may be left indefinitely.
d. Banco Agrario account holders can use their cards only at Assenda merchants, which do not yet accept other debit cards, and at Banco Agrario ATMs. Therefore they are classified as limited purpose, although the functionality exists to make these acceptance points general purpose by connecting to the local card switches.
e. Bansefi's old passbook savings accounts for recipients, now being phased out, did not offer ATM cards hence could not access ATMs or POS; they were open to the general public and were fully functional at Bansefi branches hence they are categorized as mainstream accounts.

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