



Advancing financial access for the world's poor

# ***Social Cash Transfers and Financial Inclusion: Evidence from Four Countries***

**March 21, 2012**

# Social Cash Transfers and Financial Inclusion: Evidence from Four Countries

## South Africa's Social Security Agency

- Various unconditional transfers reaching 9 million recipients (30% of population)
- Various payments methods: prepaid smart cards and magstripe cards linked to account

## Mexico's Oportunidades

- CCT program started in 1997 reaching 6 million households (20% of population)
- Bansefi has various payment mechanisms, including cash, magstripe cards linked to accounts, smart cards

## Colombia's Familias en Accion

- CCT program reaching 2.4 million families (11% of population)
- 1.8 million interest-bearing savings accounts opened by Banco Agrario

## Brazil's Bolsa Familia

- CCT program reaching 12.9 million families (30% of population)
- 2 million recipients receive grants into simplified current account accessible via magstripe card

# Updated Payments Categorization

## Physical Cash

- Must make withdrawal in full usually at a particular time and location

Not Electronic

## Limited Purpose Instrument

Functionality restricted in one or more ways:

- Cannot store funds indefinitely
- Cannot access funds outside dedicated infrastructure
- Cannot deposit additional funds

Electronic

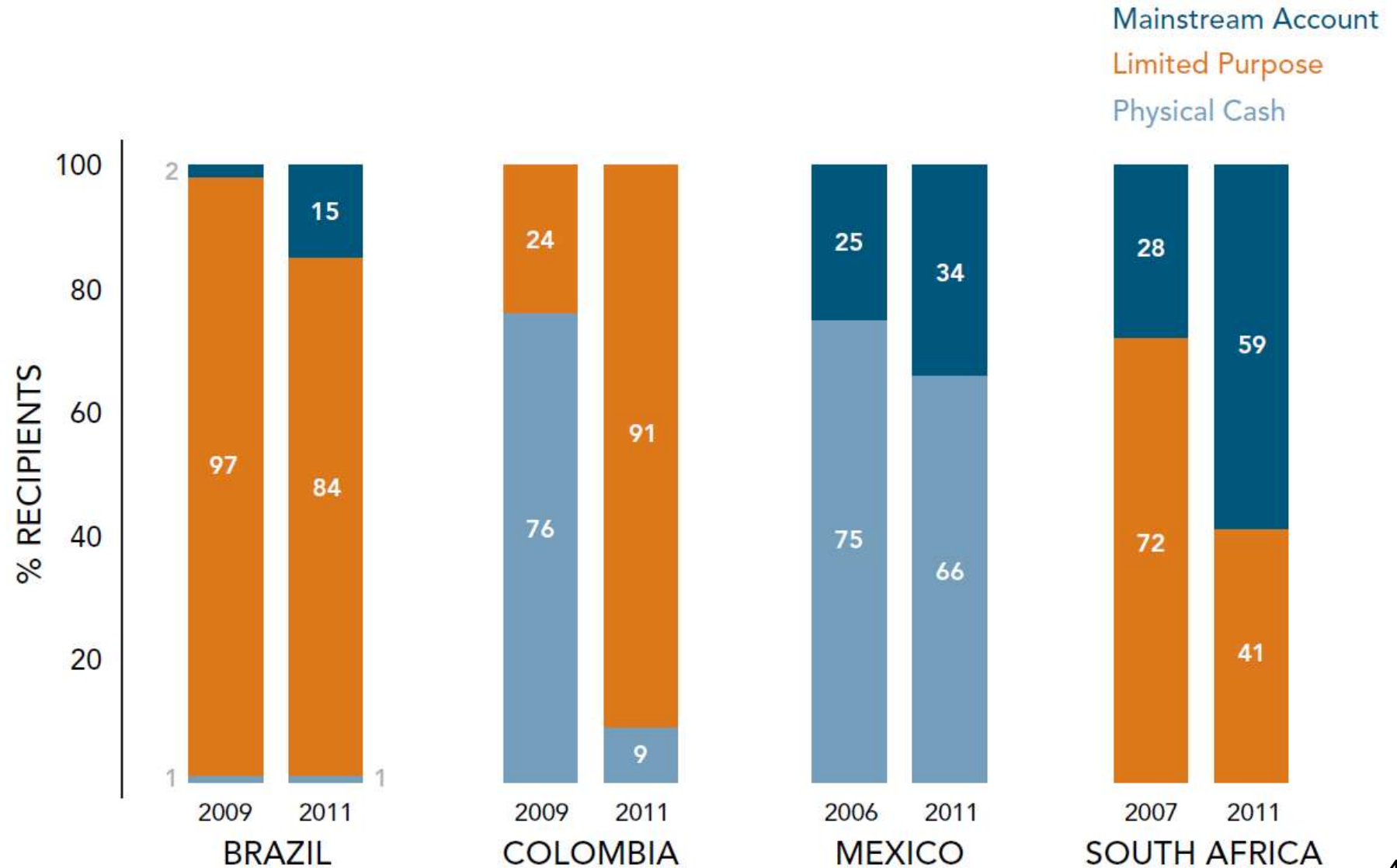
## Mainstream Financial Account

Functionality permits all of the following:

- Can store funds indefinitely
- Can access funds through mainstream financial infrastructure
- Can deposit additional funds

Electronic

# Changes over time towards electronic payments



# Sought to address key questions from previous Focus Note

- 1. For government:** Is building inclusive financial services into social transfer programs affordable for the social program?
  - COST
- 2. For recipients:** Will poor recipients use financial services if these are offered to them?
  - USAGE
- 3. For providers:** Can financial institutions offer financially inclusive services to G2P payment recipients on a profitable basis?
  - BUSINESS CASE

# Government Costs

	BRAZIL	COLOMBIA	MEXICO	SOUTH AFRICA
Average grant per recipient	\$71.0	\$55.1	\$118.2	\$144.7
Average cost per payment	\$0.84	\$6.24	\$2.52	\$3.50
As % of average grant	1.2%	11.3%	2.1%	2.4%

Cash payment	N/A	\$5.20 <sup>a</sup>	\$2.35	N/A
Limited purpose payment	\$0.88	\$6.24	N/A	\$4.46
Mainstream financial account	\$0.60	N/A	\$2.84	\$2.03 or \$0.10 <sup>b</sup>

Rate used in conversion:

1 USD= (15 August 2011)	1.62 BRL	1784.5 COP	12.4 MXN	7.2 ZAR
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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.

# Government Costs: per country

## Brazil

- MDS pays Caixa a fee that is 31% lower (\$0.88 compared to \$0.60) for a recipient with a mainstream Caixa Facil account than for a limited-purpose Social Card
- MDS saves 5.8% of cost of payments by having 15% of banked recipients. If all payments shifted to Caixa Facil, MDS would save 31.5%.

## South Africa

- SASSA also pays a fee that is 54% lower (\$4.46 compared to \$2.03) for a recipient with a mainstream financial account
- Payments made into bank account of recipient's choice, bulk electronic transfer costs 10c.
- If SASSA receives reports for reconciliation, benchmark is \$2.03.

## Colombia

- Electronic payments are not cheaper than cash
- Fee paid to sole bidder Banco Agrario is \$6.24 USD, a substantial increase from previous cash payment fee of \$5.20.
- High price reflected the short term nature of the initial contract and bank's need to upgrade its system, issue millions of debit cards, capture biometric information and build a new merchant network.

## Mexico

- Payments into mainstream financial accounts are slightly more expensive than cash payments (\$2.84 compared to \$2.35).
- Gov. set norms for distance recipients should have to travel to collect payments, resulting in higher costs across thinly populated areas.
- In 2010, President directed all G2P disbursements to electronic means by end of 2012.

# Government Costs: main takeaways

- **Case of Brazil & South Africa:**
  - Evidence shows that move from cash to electronic payments can be less expensive for the programs
  - Evidence shows that it may be cheaper to use mainstream financial accounts from the start, rather than get stuck in limited purpose, closed loop systems
- **Case of Colombia & Mexico:** Evidence shows that cost per payment increases if upfront development of new distribution network is included
- **Case of Colombia:** Limited purpose instruments should be implemented in a way that makes it possible to easily transition to mainstream financial accounts later



# Recipient Usage

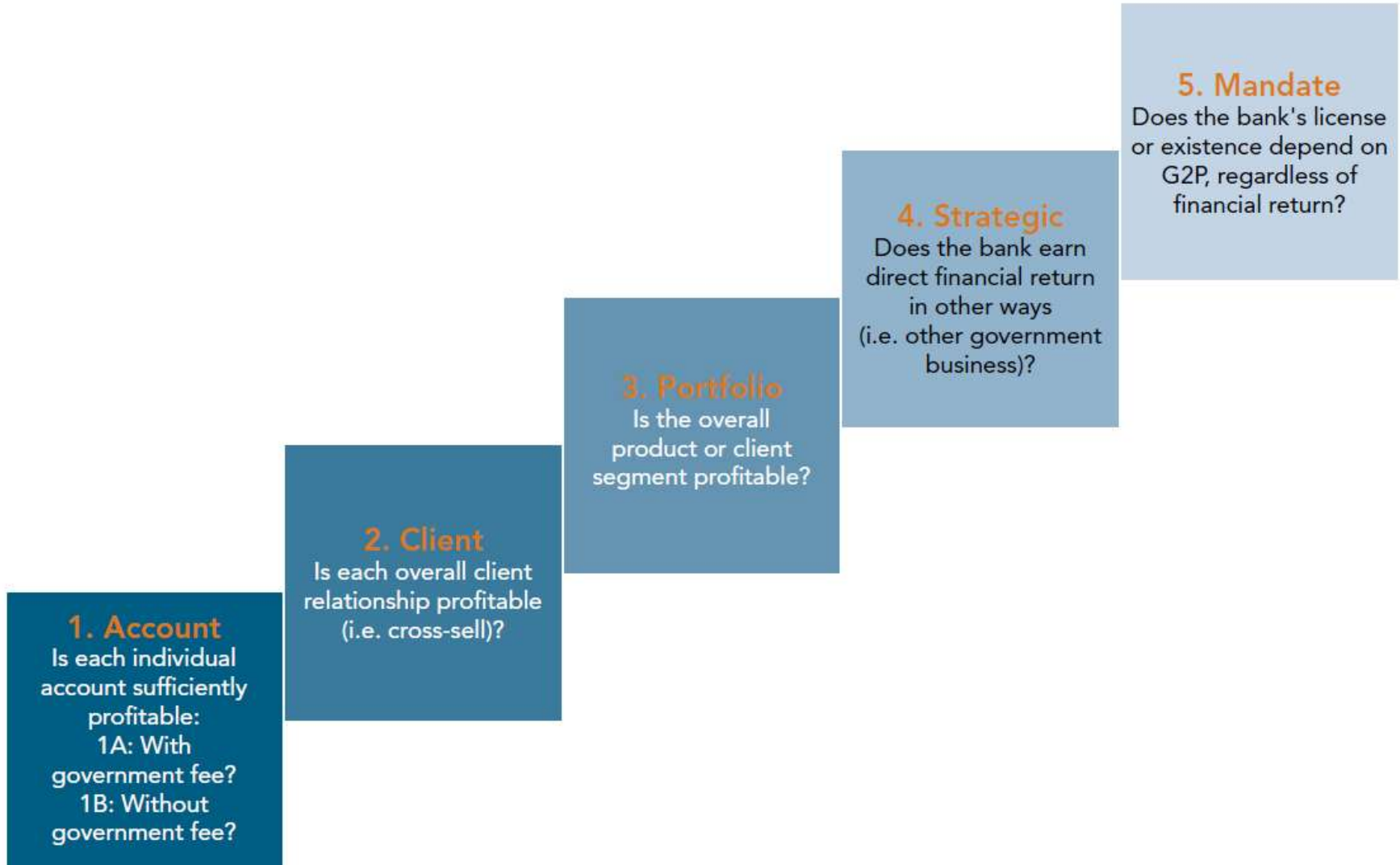
## Evidence from research

- Recipients welcome convenience of electronic payments over cash.
- Few recipients automatically use new bank account to save or for much else beyond withdrawing benefits.

## How to adjust our thinking

- It will take time for entrenched behavior patterns to change; and it will require clear, consistent communication.
- Early expectations about rapid and automatic take up of financial services, especially savings, need to be recalibrated.
- Main benefit to recipients from inclusive accounts may come from simply serving as a gateway to formal financial sector.

# Business Case for Providers



# Business Case for Providers: average balance needed

## Illustrative Financial Model: informed from 4 country experiences

### Revenue

Average balance \$10-15

Interest recognized 5%

**Transaction fees** Rare

### Fixed costs

Opening cost \$10

Monthly maintenance \$0.75

Dormancy rate 20-40%

### Variable costs

Transaction pattern 1 withdrawal; 2 balance inquiries

Unitary cost of each transaction \$0.25-\$3

Fee income of \$0.97 per month is needed for bank to break even on account.

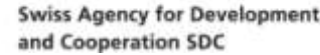
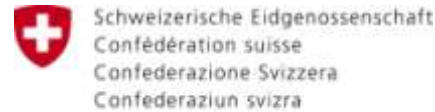
# Business Case for Providers: main takeaways

- Business case depends on receiving a regular fee from government. If this fee is at an adequate level, the business case can be attractive.
- Without fee, business case is challenging. Governments cannot assume that banks get sufficient revenue from interest on float or from cross-selling.
- In time, a combination of increasing balances, more customer-initiated payment transactions and cross-selling may support a stronger business case.
- An efficient widespread agent distribution network is key factor in reducing cost of opening accounts and servicing client transactions.

# Overall Focus Note Conclusions

1. Design payment arrangements to integrate with other payment channels - path most likely to reduce cost and improve efficiency.
2. Even under-utilized accounts may be stepping stones to greater financial inclusion provided they are mainstreamed into country's payment system.
3. Early expectations about rapid and automatic take up of financial services, especially of savings, need to be recalibrated.
4. Banks can sustain business case based on a regular government fee; where banks have to build new channels, it will be more viable if these channels can service the greater population.

Don't maroon recipients in high-cost "dead-end" solutions. Build on and support development of country's general retail payment system. Social 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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