HOW TO MAXIMIZE THE DEVELOPMENT IMPACT OF SOCIAL PROTECTION POLICIES IN AFRICA? THE ROLE OF FINANCIAL DEVELOPMENT

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Conditional cash transfer programmes (CCTPs) are now at the centre of the debate on social protection policies. To date the emphasis has been on “conditional”, while, in this paper, we stress “cash”. This paper highlights the thus far largely-neglected relationship between CCTPs and financial development. Our hypothesis is that CCTPs benefit from being implemented in countries concerned about financial development, while financial sector deepening occurs in countries that have opted for CCTPs. CCTPs can improve access to financial services, which may lower banking account fees, which, in turn, drive financial deepening, improve access to finance and lower the costs, and increase the efficiency of CCTPs delivery. Albeit intuitive, these links are still largely unexplored. The objective of this policy paper is to demonstrate the extent of this neglect, articulate the main mechanisms and channels, and distil lessons for future policy and research.
1. Introduction

In the last decade or so, substantial innovations have taken place in the way social protection policies are designed and implemented. As their overall objective is to help the poor to escape from poverty permanently, concerns about the development impact of such interventions are becoming increasingly important (Hanlon, Barrientos and Hulme, 2010).

Among social protection policies, conditional cash transfer programmes (hereafter CCTPs) are undoubtedly one of the most important innovations. CCTPs are designed to achieve broad development objectives. The most innovative aspects of these programmes that have received attention so far are: (a) that these transfers are often paid in cash (as opposed to “in kind”), (b) that they are finely targeted (usually to the ultra poor and, especially, to women in households with children), (c) that they have an explicit poverty reduction objective (they aim at alleviating poverty in the short-run through the transfers themselves, and to alleviate long-run poverty by linking the receipt of such transfers to investments in human capital), (d) that they have an explicit conditionality component (the receipt of further transfers is often conditional on, for instance, school attendance and visits to health centres), and (e) that they contain in their design a very strong ex-post evaluation component. One innovative component of CCTPs that has received scant attention in the literature is their potential to foster financial inclusion.1

This paper tries to re-address this imbalance. In our view, financial development is still a largely-neglected factor in explaining the success of CCTPs. Indeed, there has been a generalised lack of attention and interest in its potential role. In this paper, we review the existing evidence on financial development in low income countries and advance the idea that cash transfers, through the formal financial sector, may be an important channel to boost financial development and thus potentially reconcile equity and efficiency concerns.

Our thinking is, in large part, inspired by one of the most successful CCTPs, the Brazilian Bolsa Família programme. One central delivery instrument in Bolsa Família has been electronic benefit cards. In this, as in other successful programmes around the world, the beneficiaries, mainly women, have their benefits paid periodically into their bank account, which is controlled through a dedicated ATM system (Bourguignon et al. 2003). Our idea is that the way in which these benefits are transferred (or paid) matters considerably, and deserves further attention from both academicians and policy-makers.

Our hypothesis is as follows. The financial sector can play a central role in maximising the development impact and the effective delivery of social protection policies. This is because appropriate financial sector policies enable transparent, cost-effective and well-targeted social transfers. In addition, the implementation of social transfers through the formal financial sector can create positive and substantial spill-overs on financial development itself.

The view which we take is that there is a largely-unexplored virtuous cycle of CCTP and financial development. CCTP can improve access to financial services, which, in turn, can shore up financial deepening, which may lower transaction costs in the financial sector (for example, by lowering the ratio of banking fees to GDP per capita). Cheaper banking services are not only one way of improving access to finance and of fostering financial inclusion, but they may also help to support CCTPs by making their delivery cheaper and more transparent.2 Figure 1 provides a simple, schematic view of these ideas.

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1 One telling example is that The World Bank has recently produced a comprehensive (almost 400 pages), detailed and authoritative assessment of CCTPs (Fiszbein and Schady 2009), which does not provide a detailed discussion of financial inclusion or financial access matters.

2 It is clear that there are important political economy issues permeating these decisions. We decided to ignore them in this paper so as to focus on the mechanisms themselves. See Campos and Coricelli (2010) for a fuller discussion.
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Figure 1. The Thus Far Neglected Virtuous Cycle of Conditional Cash Transfer Programmes and Financial Development

The qualifiers above are useful because they highlight key policy areas. CCTPs can improve financial inclusion if the delivery or payment of the benefits is done through the formal banking system (as opposed to a more common way of paying persons in cash in person). Financial inclusion can shore up financial deepening if, for instance, bank regulations relax branching constraints and allow (or lower the costs) for the operation of mobile phone-based banking systems. Financial deepening can lower banking costs, but policy-makers have to focus on the ways in which these cost reductions are actually passed on to low-income consumers (by, for instance, subsidising basic banking accounts.) These lower costs of formal financial services can clearly improve access. They are also likely to reduce the implementation costs of CCTPs, thereby expanding their potential effectiveness.

Although there is increasing attention to the relationship between social transfers and financial inclusion, the impact of social transfers on financial access has not featured as a central aspect of social safety-net design in sub-Saharan Africa (or elsewhere for that matter). Not surprisingly, it has also not featured in the evaluations of these programmes. We have tried to find empirical evidence of this cycle of CCTP-reinforcing financial development and vice-versa. It is a telling situation: the financial inclusion studies do not try to encompass transfers (CCTPs), while the CCTPs evaluation datasets tend not to include information on the use (access) of formal or informal financial services. This makes a direct test of our working hypothesis not possible within the confines of this project, because this would clearly require original data collection.

In terms of the financial inclusion and access literature, there has been a lot of recent work among which we emphasise the detailed surveys carried out in 14 sub-
Saharan African countries for the Finscope Project. These datasets provide a very detailed picture of the main features of (and barriers to) access to a whole range of financial services and institutions, both formal and informal. Yet, examining the questionnaires from these surveys, we find that they do not inquire as to whether the respondent or household actually received any transfers from the government (let alone, if they are part of a CCTP). Similarly, the in-built evaluative work of CCTPs is based upon detailed surveys. For the present paper, we searched the existing CCTP datasets for any that would include information on both access and use of formal financial services. We find that these are, indeed, very few. One that does is the Evaluation Dataset for the Red de Protección Social (RPS) Programme for Nicaragua. We find extensive information about the actual transfers and some, more limited, information about financial development. Unfortunately, the latter information is not about access to simple financial services (whether or not the household could use a basic banking account), but, instead, whether the household had obtained a bank loan. It is therefore not surprising that one finds no support for a systematic relationship between participation in the CCTP and financial inclusion measured in this way. Moreover, the fact that the Programme was targeted at rural households and that, in the rural areas, bank branches were not widely available, certainly did not help.

One main lesson from this search is the renewed conviction that the link between CCTPs and financial development has received insufficient attention to date. In the discussion about the effects of CCTPs, there is almost no mention that these can have a positive impact on financial development. On the growing work on access to finance, we find no debate about the role that social protection policies, in general, and CCTPs, in particular, can potentially play. Examining the vast body of evaluation datasets of CCTPs, we find little thinking about the possibility that financial inclusion can be an important outcome of CCTPs. Thus, econometric evidence on the effects of cash transfers on financial behaviour is not yet widely-available and should feature as a high priority in both future research and on the policy agenda.

The paper is organised as follows: Section 2 spells out the key conceptual links which we identify between social transfers and financial development; Section 3 discusses financial development in sub-Saharan Africa, and argues that financial deepening is, indeed, taking place. This is, in no small part, due to technological and regulatory innovations regarding mobile-phone banking. This is important. If financial sectors have not reached a minimal level of development, this will restrict the potential beneficial spill-overs from CCTPs. We argue that sub-Saharan Africa has made great strides of late and is approaching such a critical level; Section 4 discusses some of the main issues, benefits and difficulties in using the formal financial sector to maximise the developmental impact of CCTPs in sub-Saharan Africa; finally, Section 5 concludes and presents the overall policy-implications and specific policy-areas that should be considered carefully in order for the virtuous cycle between CCTPs and financial development to be set in motion.

2. The links between social transfers and financial development: Some analytical issues

In a world of perfect financial markets, there would be no role for social transfers, as the economy would achieve a first best, Pareto-optimal equilibrium. In the real world, thus, without perfect financial markets, social transfers may have a welfare-improving role and help achieve equity objectives. The different attitudes towards the benefits of social

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3 More information at: http://www.finscope.co.za/

4 Notice that, although the most studied CCTPs are those implemented from Mexico (PROGRESA/Oportunidades) and in Brazil (Bolsa Família), we decided not to pursue these cases vigorously because the levels of financial development in these two countries are well beyond that of any sub-Saharan African countries, arguably with the mild exception of South Africa. We are now re-considering this decision.

5 The dataset, documentation and questionnaire is available at: http://www.ifpri.org/dataset/nicaragua.
transfers are linked to the different weight attributed to equity versus efficiency implications.

In their seminal paper, Galor and Zeira (1993) show that, in an inter-generational model with imperfect financial markets, households tend to under-invest in human capital. In such a context, social transfers, which imply some re-distribution of income, may be welfare improving once they increase investment in human capital. Thus, equity and efficiency would not necessarily conflict.

Inter-generational models are not necessary to derive results which indicate the positive effects of social transfers on efficiency. Atkeson and Kehoe (1996) developed a model not only with decisions to move on occupations with different productivities, but also different risks in terms of expected returns. Under certain conditions regarding preferences and technologies, social transfers may improve efficiency and allow people to move to higher productivity, and to riskier, activities.

For our purposes, this literature is relevant because it reminds us that the evaluation of social transfers depends on the assessment of the financial frictions in the economy. Social transfers and financial development are thus often treated as simply substitutes. However, if one could design social transfers programmes that lead to financial development, then there could be a virtuous circle that will ultimately reduce the need for social transfers. This is the point which we stress in this paper.

One possible reason why the link between social transfers and financial development has received little attention so far is that the financial sector is too under-developed in most sub-Saharan countries, and, moreover, that the poor are usually disconnected from the financial sector. We argue that the complementarities between safety-nets and financial development are particularly relevant precisely in countries with poorly-developed financial markets and for the poor. Complementarities may work, both in the area of insurance against shocks to income, as well as for the possibility of exiting from the status of poverty. We must consider that the poor are often subject to severe shocks to their income flow. This is due to the fact that not only incomes flows to the poor are low, but also that they are highly irregular. Cash benefits can help because they provide a regular income flow. However, cash transfers represent a small proportion of income of the poor, about, at most, 20 percent. If financial services allow the poor to save part of the social transfers efficiently, these can be cumulated and consumed when needed. This is a relevant insurance mechanism associated with cash transfers, which, in order to be operational, requires financial institutions that allow temporary savings to CCTPs recipients. Informal channels, of course, play such a role, but at very high costs. Such insurance mechanisms could also be effective in allowing poor households to undertake risky activities and investments in human capital which may help the poor to exit from the status of extreme poverty. These are some forms of complementarities which we believe to be crucial in countries with under-developed financial sectors and with very poor households, which usually are without access to financial services.

3. Financial development and financial inclusion in Sub-Saharan Africa

The level of financial development in Sub-Saharan Africa remains low compared to other regions. Considering one measure of financial depth across the world, namely, the ratio of liquid liabilities of the banking system over GDP, one finds that most sub-Saharan countries are at the bottom of the list.

However, it is important to also look at the dynamics, not only at the levels. Indeed, although the levels remain low, there has been significant progress in the degree of financial development in sub-Saharan Africa. Figure 2 contains the evolution during the period 1995-2007 of three measures of financial depth: liquid liabilities, bank deposits and private credit. They all reveal a significant upward trend after 2000.
This is associated with the global process of abundant liquidity, which brought relevant inflows of foreign capital also into sub-Saharan countries. Nevertheless, the data signal a remarkable process of increasing financial deepening, rooted in significant changes in several African countries. A further significant development that should also be noted is the concomitant increase in inter-African capital flows, with the best-known example probably being that of South African firms increasingly investing across the continent.

Data on overall financial depth give a partial picture of the evolution of the actual access to finance of households and firms. Indeed, a large proportion of households do not have access to formal financial services in sub-Saharan Africa (Figure 3).

**Figure 3: Access to Financial Services by Households across the Globe**

Note: Data are for 2003–04 and indicate the share of households with access to a financial account.
This is not surprising if one considers that the cost of accessing the formal financial sector, by keeping, for instance, a checking account is still prohibitive in sub-Saharan countries. Information and research on the access to finance is still in its infancy. Using a new dataset from surveys collected by Finscope, Honohan and King (2009) analyse the determinants of access and its impact on the income of individuals in low income countries in Africa. Focusing on the determinants, two results are particularly relevant for our purposes. First, they find that the diffusion of mobile phones has had a significant and large impact on access to financial services. This result suggests that technological change, through higher penetration of mobile phones allows African countries to increase access to finance rather quickly. Low-cost mobile phone technology makes it easy to develop a branchless financial sector which supports the access to payment and financial services of populations living in remote areas.

Second, Honohan and King (2009) also find that trust in banks is a key determinant of financial access. Lack of trust in banks is a major obstacle for financial access and financial development in low-income African countries. As discussed below, we argue that the provision of social transfers through the financial sector may help to increase the trust of (poor) people in banks.

Moreover, as forcefully argued by Collins et al. (2009), the low financial access of the poor is largely due to inefficient supply, especially to the lack of appropriate financial products for the poor. Interestingly, and not surprisingly, the same point is made by a McKinsey report, which focuses on the potential for the market expansion of finance in poor countries (McKinsey, 2008).

In summary, it is hardly disputable that sub-Saharan countries are characterised by under-developed financial sectors and by comparatively very low degrees of access to formal financial services. This lack of financial infrastructure may be considered an important barrier for implementing social policy through cash transfers through the financial sector. However, technological change (especially mobile phones) and the potential beneficial effect of cash transfers helping to raise trust in banks, suggest that the implementation of cash transfers via the financial sector may also yield significant development effects in sub-Saharan Africa. Finally, linking financial inclusion to social transfers may help to identify the appropriate financial products for the poor.

3.1. The Key features of financial inclusion of the poor in sub-Saharan Africa

The importance of financial inclusion for the poor has been stressed in recent literature (Banerjee and Duflo, 2007, Collins et al., 2009). For the issue discussed in this paper, namely, the links between social transfers and financial aspects, two areas of financial inclusion are particularly relevant: one is savings behaviour, while the other is the payment technology. These are, indeed, two of the key areas that affect the ability of poor household to face the potentially devastating effects of volatility, erratic behaviour, of their income and adverse shocks.

With regard to savings, financial inclusion can increase savings by providing a safer opportunity for storing cash, and thus reduce the risk of the losses associated with holding cash. According to several empirical studies, savings significantly increase productive investments by the poor, in particular, by women (Dupas and Robinson 2008). It stands out that the fact of having a savings account has a powerful effect on saving behaviour (Bynner and Paxton, 2001). Therefore, the effects of financial inclusion on savings, and thus investment, may be non-linear, as the opportunity of keeping money in safe accounts is likely to change saving behaviour significantly. As noted above, even when opportunities for storage of cash exist in the informal sector, such opportunities carry a much higher effective (risk-adjusted) cost than accounts in the formal sector.

The second aspect relates to payment technologies. Irrespective of the savings behaviour over a time interval, the access to payment technologies, such as debit cards and electronic transfers, can significantly reduce transaction costs.
3.2. Obstacles to developing financial inclusion of the poor in sub-Saharan Africa

Despite some consensus on the large benefits of financial inclusion, the vast majority of the poor remain excluded from formal financial sectors. One simple explanation could be that financial services are a simple, and increasing, function of income. This is supposed to hold both across countries and across income groups within countries. This interpretation emphasises demand side factors. There is much evidence that countries with lower income per capita tend to have lower access to the banking sector. Furthermore, the access of the poor appears particularly difficult. Indeed, countries with larger shares of poor people within the overall population also tend to have lower bank penetration (Demirgüç-Kunt and Levine 2008). Another structural obstacle to access to finance is associated with geographical factors, such as distance from branches. This can be proxied by population density, which is positively correlated with access to the banking sector.

Notwithstanding the relevance of these structural factors, the demand side explanation is clearly incomplete. Indeed, the presence of large informal financial sectors in low income countries, and the fact that such informal sectors are widely used by the poor, reveals that the main obstacles may have to do with supply side factors (see Collins et al., 2009).

Some structural difficulties, such as low population density, large distance to reach rural areas, and the cost of setting up branch networks, may be overcome through technological innovations, such as the use of electronic payment cards, mobile phones, POS (point of sale) terminal and the use of networks of retail stores in order to carry out financial transactions. Furthermore, supplying cheap and appropriate accounts is fundamental in order to include the poor in the banking system. The provision and promotion of basic accounts for people who previously did not bank their money is growing around the world, but still remains very limited (CGAP 2009).

However, in sub-Saharan Africa only South Africa offers such accounts. The Mzansi accounts in South Africa are, indeed, considered to be a successful example to be extended to other countries.

Our view is that the provision of social transfers, conditional and unconditional cash transfers, through the formal financial sector may be an important channel for boosting financial inclusion of the poor.

4. Cash transfers and financial development: Lessons for Sub-Saharan Africa

Social transfers, especially cash transfers, conditional and not, can be considered as a channel to minimise adverse shocks which lead to income reduction and decreasing investments in human and physical capital, by forcing extreme decisions, such as cutting assets, taking children out of school, borrowing at huge costs, etc. As shown in Section 2, many of the potentially beneficial effects of social transfers arise, in large part, from imperfections in financial markets. It is by now recognised that poverty does not imply a lack of financial transactions. On the contrary, Collins et al. (2009) have convincingly demonstrated that financial management is a crucial activity for poor households. In fact, the relevance of financial management can be seen as being higher in poor, rather than in rich, households. To appreciate this view, it is fundamental to distinguish asset-liability positions at the end of the year (or, in any event, at rather long intervals) with within-period transactions. Indeed, over, say, one year, poor households would display zero asset position (in fact, close to zero savings) and zero debt. This is to be expected for households earning an income which is barely sufficient for subsistence. However, at several intervals during the year, poor households will resort to many financial transactions, both on the savings and on the debt side. Indeed, income for the poor is typically highly volatile, as household members work irregularly and thus income flows are highly irregular. It is, therefore, extremely important to be able to save income for
the periods in which no income accrues to the households, or to be able to borrow when there is no income in that period. Moreover, as Collins et al. (2009) argue, all these financial transactions tend to occur in the informal financial sector. Savings, for instance, take the form of deposits of money with neighbours in order to ensure that it does not get consumed by the family. Loans also come from neighbours, relatives or other members of the community. A key feature of these transactions, which make up for the informal financial sector, is that they are highly inefficient. Indeed, the risk of holding cash or depositing it with neighbours is very high, as thefts can be common and neighbours may face cash constraints at a given point in time and thus spend the money received from their neighbours. In the language of financial markets, we would define such a situation as one characterised by high “liquidity risk” and poor contract enforcement.

On the credit side, it is reported that lending rates for the poor in the informal sector are very high. The reason is that, for a household facing the alternative of not eating or not being able to buy medicine, the return on the loan is huge. One additional aspect related to financial development that is also often overlooked in the analysis of cash transfers is that one of their potential benefits is the fact that they provide a regular source of income, irrespective of the size of the transfer. Such regular flows permit households to plan spending and other economic decisions.

Hence, financial inclusion may lead to large welfare gains. If effecting cash transfers through the financial sector leads to higher financial inclusion, then the benefits of social transfers may be sharply enhanced. So far, only a small proportion of government to person payments (G2P), which include social transfers, is channelled through bank payments (Figure 3).

**Figure 4 Countries that offer G2P through bank accounts**

At the aggregate level, one can also note a positive association between the diffusion of retail payment systems and the relevance of payments through banks in the Government-to-person payments. These, of course, are mutually re-inforcing.

The link between cash transfers and financial inclusion has been argued so far in connection with the reduced implementation costs. Especially when implemented through mobile phone banking or electronic cards used through access at retail stores, the use of the financial sector as a payment channel for cash transfers has been considered a powerful mechanism to reduce implementation costs. Indeed, the scope for corruption (payments to those who do not have the rights, multiple transfers to the same people, etc.) is reduced when payments are effected through electronic cards or mobile banking. In addition, fixed costs and personnel costs are also reduced. One might also think that such links would facilitate remittance flows. Last, but not least, there are also important
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fiscal implications. The use of formal financial sector tools to deliver conditional cash transfers to the poor matters. This may help alleviate budgetary pressures by delivering transfers in a more cost-effective, feasible and sustainable manner. Indeed, one might consider that administration costs can more easily be “sunk” by the financial system (public and private banks) than by the bureaucracy.

Here, we focus on an additional implication of the implementation of social transfers through the financial sector, namely, the impact on financial inclusion. The idea is that financial inclusion of the poor is a key aspect of poverty reduction and offers a potential exit from poverty. The financial inclusion of the poor has proven an extremely difficult task; using cash transfers through the financial sector may provide a significant channel for increasing financial inclusion, by reducing existing barriers.

The key issue is whether the implementation of cash transfers through the financial sector can, indeed, foster financial inclusion, and, in addition, through what channels.

“Inclusive” payment accounts

The experience of Brazil is highly relevant (Bourguignon et al., 2003). Brazil introduced a large scale transformation of electronic benefit-cards into inclusive accounts (conta facil), which are not constrained to the benefit payments, but can be used as a normal basic checking account.

Information

The use of benefit accounts economises on search and information costs for banks. Moreover, banks can market other financial products to the recipients of cash transfers.

Trust in banks

Receiving social benefits at the bank may help recipients in building trust in the banking sector. However, this may be rather ineffective. Perhaps, governments can provide special deposit insurance arrangements for banks participating in the payments of cash transfers.

Sharing infrastructure costs

Unfortunately, there is little evidence on the positive spill-over on financial inclusion of cash transfers channelled through the financial sector.

A survey on the Argentinean experience illustrates some of these points (Duryea and Schargrodsky 2008). First, they find that the recipients were very satisfied with the switch to electronic payments. At the same time, the survey indicates no effect on financial behaviour on the part of the recipients, in terms of either savings or debts. The survey reveals that the nature of the account explains such a lack of effects on financial inclusion. Second, note that the account, as in other programmes, can be used exclusively for receiving benefit payments. Saving decisions cannot be easily changed because the benefits deposited in the account have to be spent rather quickly, otherwise they will be withdrawn by the government. Finally, the case of Argentina may be a good example of a lack of trust in banks as the recipients have little incentive to extend their relationship with the bank beyond the withdrawal of cash from the benefit account.

More generally, if the cash transfers are not intended to modify the costs of opening a regular banking account, do not improve information and trust in banks, it is not surprising that the recipients of cash transfers through dedicated bank accounts do not change their savings behaviour and financial behaviour. Seira (2010) presents some preliminary evidence on the positive effect on savings behaviour by the poor, who are provided with bank accounts through the cash transfers within the Opportunidades programme in Mexico.

In several countries, policy-makers are becoming more sensitive about the importance of using cash transfers as a way to foster financial inclusion. Particularly important are the experiences in Kenya, Zambia and Brazil. However, it seems that the positive attitude by governments in these countries is associated to the active pressure
exerted by the financial institutions involved, be they private or public (as in the case of Caixa in Brazil). The pressure from these institutions signals that they see business opportunities from attracting the recipients of benefit accounts into their banking activities. One wonders whether international financial institutions could also use aid flows more effectively in order to have an important role to play in this regard.

5. Conclusions and policy implications

The aim of this paper was to highlight one aspect of CCTPs, which has received, in our view rather mistakenly, little to no attention thus far, namely, the mutually re-inforcing relationship between financial development and cash transfer programmes. More specifically, our objective was threefold: to show that the idea of a CCTP-financial inclusion nexus is supported by economic models; to show that, although, in practice, this idea would require a minimum critical, or threshold, level of financial development, the evidence points to the fact that sub-Saharan Africa is fast approaching such a level; and to discuss the array of policy issues identified by the CCTP literature that one may face if the virtuous cycle between CCTPs and financial development is to be set in motion in Africa.

We provided a detailed rationale for this relationship and, we believe, a rather intuitive one. Unfortunately, and despite an extensive search, we failed to gather quantitative evidence regarding the nature, strength and about both the economic and statistical significance of these effects. In this paper, we have shown that the vast and sophisticated CCTPs and financial inclusion literature still have to communicate and bridge this very important issue. Future CCTPs questionnaires should ask about financial inclusion and, conversely, access to finance surveys should examine whether respondents receive any type of government transfers. We think the link between financial inclusion and CCTP is intuitive, incorporating it to existing questionnaires should not be costly, and we believe this can provide truly valuable and novel policy lessons.

One alternative, of course, is to try to administer a tailor-made survey. This is a possibility that is worth considering because doing so would help us to try to anticipate some of the main potential barriers to the success of the CCTP-financial inclusion nexus, and, consequently, better understand a series of crucial design issues of the CCTP programmes themselves (assuming that this, to foster financial inclusion, becomes one of the stated objective of CCTPs). But what would these barriers and related policies be?

One important aspect of policy-design that may be relevant regards the various reasons for reluctance in using financial services. This is interesting because it highlights the possibility of complementary policy actions. For example, one can imagine a situation in which the level of trust in financial institutions is very low among the poor. This can be because the formal financial institutions have traditionally targeted the rich and the very rich, or, say, because mobile banks are new financial institutions that need time and repeated transactions for a sufficient level of trust to be obtained. If this is a key barrier, than education campaigns on radio and TV could be a valuable tactic that governments could support, or even run themselves.

Another barrier that could be important refers to issues of access to financial services. If branching regulations are restrictive, governments have a role to play in relaxing them in order to improve access in rural areas, for example. Access can also be an important issue for branchless banking. Consider the case of internet banking in which phone lines, wireless and internet infrastructure and a relatively-expensive computer would be required.

Another potentially important barrier is the cost of actually using financial services (not simply of accessing them). Although there is incipient evidence which suggests that mobile or branchless banking tends to be cheaper than traditional or branch-based banks, the difference seems to be considerably smaller than what was initially thought. The evidence suggests that mobile banking is around 20% cheaper than traditional banking. Governments can assist in various ways, namely, they can directly subsidise the provision of basic branchless accounts, they can provide the telecommunications and computing infrastructure needed for the system to operate, and they can provide...
incentives for private firms to install the required infrastructure themselves (for example, by favourable tax treatment for investments and depreciation).

One last issue which we think might play a role in this respect is the possibility that non-optimal (excessive or insufficient) financial inclusion might undermine the CCTP targeting and monitoring activities, and maybe even challenge its poverty-related, core objectives. Consider that one reason for the face-to-face, in person, arrangements for the payment of the transfers is to minimise leakages, theft, abuse and fraud. With financial deepening, these potential problems do not necessarily disappear (actually, they may even become more serious and widespread). A similar type of concern would be the case of a private bank that receives support from the government to provide basic bank accounts. Such a bank will have an incentive to lock-in customers in this type of account (for example, by not offering possibilities for upgrading) in order to maintain the flow of government subsidies. Policies that circumvent these types of issues would then be needed.


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