

# Banking the Poor via G2P Payments

**G**overnments make regular payments to at least 170 million poor people worldwide—far more than the 99 million or so who have active microloans.<sup>1</sup> In this Focus Note, we look at government-to-person (G2P) payments, which include social transfers as well as wage and pension payments. With appropriate experimentation, these payments have the potential to become a vehicle for extending financial inclusion and improving the welfare of poor people. Yet in most countries, far fewer than one-quarter of G2P payments to the poor land in a financially inclusive account—i.e., one that enables recipients to store G2P payments and other funds until they wish to access them and make or receive payments from other people in the financial system, and one that is accessible, in terms of cost and distance.

Providing poor G2P recipients with financial services could strengthen the development impact of G2P payments. A growing body of evidence shows that financial services enable poor people to better withstand shocks, build assets, and link into the wider economy as fuller economic citizens.<sup>2</sup>

So far, the potential for G2P payments to increase poor people's access to and use of financial services is largely untapped. However, pioneering programs in Brazil, India, Mexico, and South Africa are providing financial services to poor G2P recipients. The evidence that is emerging indicates that poor recipients of G2P payments will use financial services if these are offered to them. Further, although financial institutions are skeptical about the business case for serving poor people, these institutions can increase their chances for success by using cost-effective delivery channels, achieving scale quickly, and developing quality products that serve the needs of poor people.

Branchless banking channels—mobile phones or card-based solutions, often with merchants acting

as cash-handling agents—will likely play a prominent role. In fact, using branchless banking approaches to deliver financial services to poor recipients of G2P payments can be cheaper than using traditional payment arrangements (such as tellers in banks), as an example in the Focus Note will illustrate.

Not all G2P programs should incorporate access to financial services. But in many countries there is a good case for governments to experiment with this concept. Rigorous evaluation is needed to add to the growing body of knowledge and to inform future investment decisions.

The first section of this Focus Note reviews the state of G2P payments today, including how we arrived at a figure of at least 170 million poor G2P recipients and a country example (Colombia) showing that several types of G2P payments reach the poor. The second section looks at the early experience with providing financial services to poor G2P recipients. We find that 45 percent of G2P programs launched in the past 10 years use an electronic payment mechanism that creates a foundation on which a financially inclusive account can be offered. Examples where this is already being done (Brazil, India, and South Africa) are discussed. The third section deals with five common concerns of policy makers and social development program managers. Recommendations to government, the financial industry, and donors are summarized in the conclusion.

## Reach of G2P Payments Today

G2P payments reach poor people primarily through two channels: (i) social transfers and (ii) payments to current and retired workers. Based on available data, we estimate a minimum of 170 million poor people receive a regular G2P payment globally. Box 1 describes the methodology used.

1 We detail the methodology used to arrive at the figure of 170 million recipients in the first section. The figure of 99 million active microloans comes from the Microfinance Information Exchange (MIX). See Gonzalez (2008), which merges data from MIX, the Microcredit Summit Campaign, and the Inter-American Development Bank.

2 See *inter alia* Dupas and Robinson (2008); Ssewamala, Alicea, Bannon, and Ismayilova (2008); Chen and Snodgrass (2001); Sherraden (1991).

### Box 1: Counting Poor G2P Recipients

Several sources were used to construct the estimate of 170.1 million poor G2P recipients worldwide. We identified 49 social transfer programs delivering conditional, unconditional, and workfare payments to 124.6 million recipients in 33 countries (see Annex 1). Some data were sourced directly from government ministries and entities involved in the delivery of the payments. This was the case with Argentina, Brazil, Colombia, India, Kenya, Malawi, and South Africa. We also consulted published studies, including Fiszbein and Schady (2009), which gives an excellent review of conditional cash transfer programs, Chen et al. (2008), Duryea and Schargrosky (2007), and Zimmerman and Moury (2009).

The ILO's LABORSTA database counts 227 million public sector employees in 138 developing and emerging market countries. We conservatively estimated 1 in 10 to be low-income, with an equal number of low-income retirees. This yields 45.5 million low-income people receiving a regular wage or pension from their government.

This is not a complete counting, not least because existing G2P schemes are growing and new ones are planned.

G2P payments and social safety net (SSN) initiatives overlap (see Figure 1). Both target poor people with programs aimed at boosting consumption and reducing vulnerability. However, a large part of SSN outlays often go to noncash support, such as food distribution (e.g., school feeding programs), targeted price subsidies (e.g., India's Public Distribution System, which sells US\$3.1 billion in subsidized basic foodstuffs via 478,000 Fair Price Shops), and fee waivers for essential services, such as health and education.<sup>3</sup> We do not include these noncash benefits in the definition of G2P payments.

Social transfers are a widespread type of G2P payment and an increasingly important part of the

poverty reduction toolkit (Fiszbein and Schady 2009). More than 60 countries have a social transfer scheme.<sup>4</sup> Among them, conditional cash transfers (CCTs) have garnered the most attention. CCT programs make regular payments to poor people on the condition that recipients make investments in health and education—for example enrolling and keeping children in school, or ensuring they are vaccinated. Recently, CCTs have received international donor support<sup>5</sup> and have been the subject of several new studies (Fiszbein and Schady 2009, Zimmerman and Moury 2009).

The attention given to CCTs overshadows two other types of social transfers that also reach many poor people. Unconditional transfers consist of cash grants with means testing to ensure funds go to the intended recipients, but without extra requirements on recipient behavior. As an example, China's *Di Bao* Minimum Livelihood Guarantee Scheme pays a monthly stipend to 22 million poor people to bring their incomes up to the poverty line (Chen, Ravallion, and Wang 2008).

Workfare programs create jobs to alleviate unemployment and help smooth income (del Ninno, Subbarao, and Milazzo 2009). India's National Rural Employment Guarantee Scheme made payments to 45 million poor people working on rural construction programs during fiscal year 2008–2009 (Ministry of Rural Development 2009). Bangladesh has also launched a program guaranteeing 100 days of employment for the poor each year (Reuters, 15 September 2008).

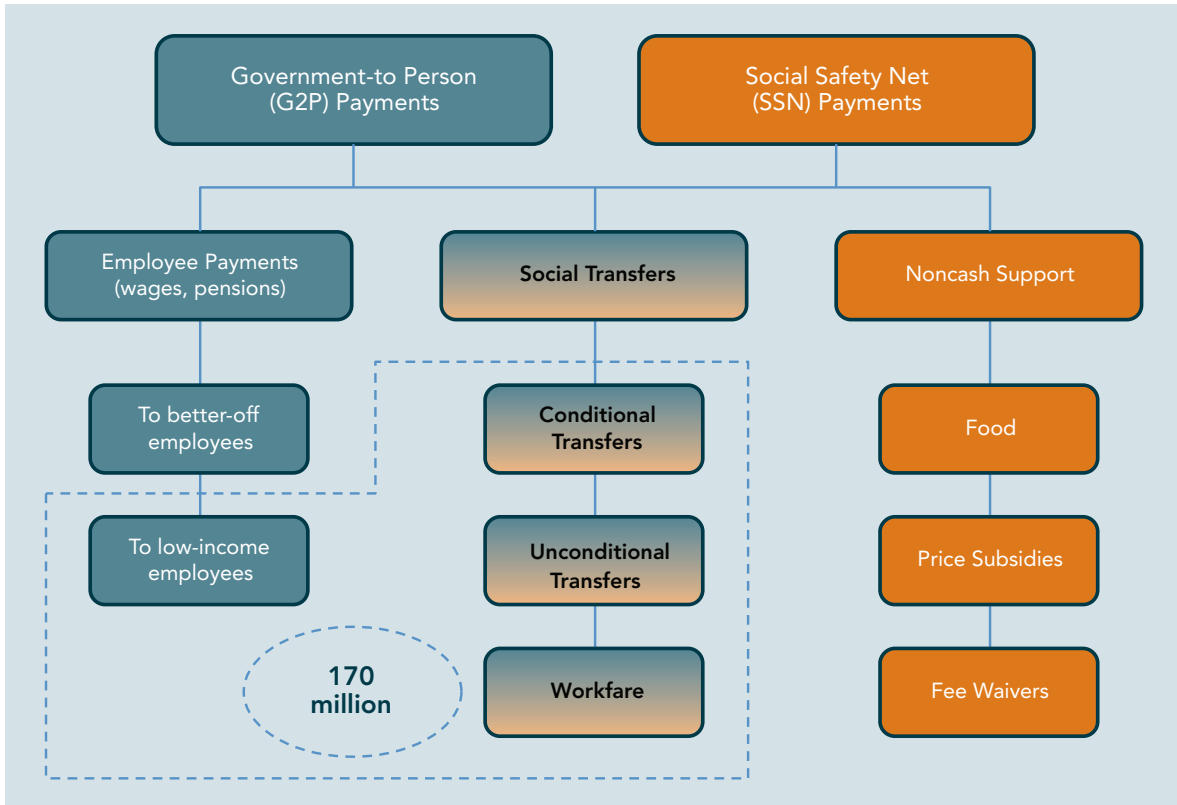
The opportunity to link unbanked people to financial services extends beyond social transfers to wages and pensions. The rosters of public sector employees worldwide include tens of millions of lower income citizens who likely are unbanked. In Malawi, for example, less than one-quarter of government workers are paid via bank accounts (Ministry of Finance, DFID, and FinMark Trust 2009). The rest receive their wages

<sup>3</sup> For data on food subsidies in India see Planning Commission (2008).

<sup>4</sup> World Bank (2009a) based on responses from 120 World Bank country teams. CGAP was able to gather details of 49, presented in Annex 1.

<sup>5</sup> The World Bank plans to dedicate US\$4.49 billion to support SSN programs in the next three years, a six-fold increase (World Bank 2009a). The United Kingdom's Department for International Development (DFID) has pledged GBP 200 million for a global social protection fund (DFID 2009). The Inter-American Development Bank is providing US\$600 million to help ramp up Mexico's successful social transfer program, Oportunidades (<http://www.egovmonitor.com/node/25748>).

Figure 1. Focus for Financial Inclusion



in cash, at some cost to government to arrange for large amounts of cash to be available on paydays. Lower income workers could be targeted by gearing eligibility to the value of wages—for example, limiting participation to those earning 25 percent of the average government wage or, more simply, selecting the bottom one-fifth or one-tenth of workers with the smallest salaries.

When all G2P flows—social transfers and payments to workers—are combined, the number and value of payments are substantial. Colombia provides a fairly typical example (see Table 1). Colombia’s central government makes regular G2P payments of more than US\$16 billion annually to 7.6 million citizens, or nearly one-quarter of the country’s 30 million adults. Familias en Acción—the country’s main CCT program—is sizeable by global standards, paying out US\$800 million annually to 1.5 million recipients. But in Colombia, it accounts for just one in five G2P

recipients and less than half of the value transferred to poor people via G2P payments.

Colombia’s unconditional social security program for low-income workers with children (Cajas de Compensación Familiar) reaches 2.5 times more people than Familias en Acción. Government wage and pension schemes also reach lower income citizens. By value, the US\$11.7 billion in wages paid annually by Colombia’s central government dwarfs other G2P flows. If just one-tenth of wages (i.e., US\$1.17 billion) go to lower income workers, the flow would exceed the US\$792 million paid out by Familias en Acción each year.

In most developing countries, as in Colombia, a variety of G2P flows offers an opportunity to extend banking services to poor people. However, the potential to do so is largely untapped, except for a few early examples, which we describe in the next section.

**Table 1: G2P Flows in Colombia**

G2P flow	Recipient	Average payment (US\$)	Frequency	Payment mechanism	Number of recipients	Annual value (US\$)
Social Security (Cajas de Compensación Familiar)	Low-income workers, with children under age 18	7	Monthly	Various: larger cities use prepaid debit cards	3.9 mil	339 mil
CCT (Familias en Acción)	Households under poverty line	88	Every two months	Bank branches (62%), prepaid debit cards (22%), mobile branches and other (16%)	1.5 mil	792 mil
Wages (Central Government)	Employees	497	Twice per month	Various	985,602	11.76 bil
Public Pensions	Retired workers	400	Monthly	Bank accounts (50%), paid in cash at bank branches (50%)	800,440	3.84 bil
Old-Age Pension (Prosperar)	Elderly poor	57	Every two months	Various	380,961	130 mil
<b>TOTAL</b>					<b>7,567,003</b>	<b>16.86 bil</b>

Sources: Interviews conducted in Colombia by CGAP consultant Beatriz Marulanda with Acción Social, ASOCAJAS, Dirección General del Presupuesto Público Nacional, and Dirección de Seguridad Social in the Ministry of Finance.

## Banking Poor G2P Recipients: The Early Experience

An increasing number of governments are switching to electronic delivery of G2P payments because using cash presents security and transaction cost concerns for government and recipient alike. Electronic delivery itself does not advance financial inclusion, but it does create the basis to deliver financial services to recipients via branchless banking channels, such as debit cards and mobile phones. The number of G2P programs tapping into this opportunity is small, but growing, and includes some large G2P programs in Brazil, India, and South Africa.

Figure 2 shows 40 social transfer programs launched in the past decade for which we have detailed data. Almost half (45 percent) feature electronic delivery of G2P payments. The mode of electronic delivery varies and can include direct deposit into an entry-level savings account, a simplified or basic account that the government mandates financial institutions to offer, and even a pooled account where the financial institution holds all recipients' funds in a

single account. In all cases, the common element is that funds are electronically transferred from the government into a financial institution. This marks a departure from the historical norm where transfers were paid out in person, requiring the recipient to be at a specific location on a specific date (which for recipients was often inconvenient, time consuming, and sometimes costly).

Upgrading payment mechanisms can substantially reduce the cost to government. In Brazil, switching to electronic benefit cards issued by a state-owned financial institution helped cut the administrative cost of delivering millions of Bolsa Familia grants nearly seven-fold, from 14.7 percent to 2.6 percent of grant value disbursed (Lindert et al. 2007).<sup>6</sup> The South African Social Security Administration (SASSA) saw its costs of delivering social transfers drop 62 percent (to less than US\$2 per payment) after moving to bank accounts offered by the private banking sector (Bankable Frontier Associates 2006).<sup>7</sup>

Switching to electronic delivery also can reduce "leakage" (fraud and corruption) by establishing

<sup>6</sup> Consolidating several social benefits into one payment accounts for a portion of the savings seen by Bolsa Familia.

<sup>7</sup> Figures updated to reflect current exchange rates.

**Figure 2: Social Transfer Programs Launched (1999–2009)**

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
China		Colombia	Argentina	Brazil	Bangladesh	Cambodia	Bolivia	Haiti	Burkina Faso	Bangladesh
	Jamaica	Bangladesh	Ecuador	Kenya	Colombia	DRC	Indonesia	Guatemala	Kenya	
	Turkey	Cambodia	Mexico	Pakistan	Dominican Republic	Malawi	Swaziland	Nigeria	Pakistan	
		Chile	Zambia	Peru	El Salvador	Pakistan	Yemen	Philippines		
					India	Panama				
					Peru	Paraguay				

a unique identifier for recipients and putting the payment instrument directly into the hands of recipients. Personal identification numbers (PINs) or fingerprints can reduce some kinds of fraud, particularly paying out to the wrong individual or paying more than once. However, if recipients are fraudulently registered in the first place, a unique identifier will not root out this kind of leakage, which amounts to 6–15 percent of benefits in developed economies and is likely to be at least as prevalent in developing countries (World Bank 2007).

When payments are made directly to instruments controlled by recipients, such as debit cards or mobile phones, the opportunities for corruption are reduced. In Argentina, the percentage of Jefes participants who said they paid a bribe to local officials to access their benefit dropped from 3.6 percent to 0.3 percent after the Ministry of Social Development moved to an electronic benefits card (Duryea and Schargrodsky 2007). This means an estimated US\$10.7 million gets into the hands of intended recipients—low-income families.<sup>8</sup> To provide some context, US\$10.7 million is equal to 15 months of fees that the government pays Banco de la Nacion to deliver Jefes grants.

While moving to electronic delivery typically cuts costs and leakage for the government, it also lays a foundation for offering recipients a financially inclusive account. Delivering a G2P payment electronically requires a “landing spot” where funds

will be deposited and later collected by the recipient. Further, if funds are delivered into the account electronically, outbound electronic transactions can also be enabled.

These two features—safe storage of funds and transactional capability—are basic requirements of a financially inclusive account. A third—accessibility—can be achieved via branchless banking. Poor recipients need to be able to access their accounts in ways that are cost effective (e.g., cost for transport) and not time consuming. Branchless banking can enable financial institutions to operate service points in places where bank branches are not feasible. Thus, when we refer in this Focus Note to “financial inclusion” or a “financially inclusive” product, we mean accounts that offer savings and transactions that are accessible to recipients. Accounts provided by nonbanks, such as mobile phone companies that offer mobile phone based wallets, could meet this standard, in addition to banks.

As governments increasingly switch to delivering G2P payments electronically, they also are creating the opportunity to deliver financial services to the same recipients. However, financial inclusion is far from an automatic outcome of electronic delivery alone.

A lot must change to make most financial products truly accessible to poor people. Poor people cannot afford the transaction charges, monthly ledger fees,

<sup>8</sup> Assumes typical bribe of US\$10, or one-quarter of the average Jefes grant.

and “threshold costs” of minimum balances to open and maintain an account (Deshpande 2006). Getting to a bank branch to make a transaction often incurs yet another cost, particularly for the majority of poor people who reside in rural areas. A recent survey of 139 central banks shows the average developing country has two rural bank branches per 100,000 rural inhabitants (CGAP 2009). The same study also found that proof of address is required in more than half of all countries to open a bank account. It often is difficult for poor people to show proof of address because they may live in informal settlements or may not possess land titles or utility bills to show where they live. Bank accounts need to be affordable, accessible, and easy to obtain.

Electronic benefit cards issued by a number of social transfer programs are routinely designed with limited functionality for the recipient. Governments want to promote immediate consumption of grant funds to bolster living standards and to recover unclaimed funds. The electronic debit card featured in Argentina’s Jefes y Jefas de Hogar program is reloadable only by the government. Benefit funds must be drawn within two months or they are lost.<sup>9</sup> Brazil’s Bolsa Familia program began with a similar electronic benefit card from which recipients can make a free withdrawal of grant funds, but to which they cannot deposit money. Funds left on the card after three months are returned to the government.<sup>10</sup> Cards like these have limited utility as a savings mechanism for recipients and cannot be considered “financially inclusive” (though, with some changes, they might become so).

Though still a minority among social transfer programs, a growing number of countries are offering financially inclusive banking options. Of the social transfer programs started in the past five years that use electronic delivery, half are financially inclusive.<sup>11</sup> These financially inclusive pioneers use branchless banking channels. Electronic delivery is paired with cash-handling agents or widely distributed automatic

teller machine (ATM) networks to control costs for the financial institution and to make services convenient and affordable to recipients. Examples of this can be found in South Africa, India, and Brazil.

In South Africa, one-quarter of the country’s more than 9 million G2P recipients have their government payments electronically transferred into a financially inclusive bank account (SASSA 2008). The Sekulula card is a debit card-based account offered by the country’s largest bank, Absa, and is specifically designed for social transfer recipients. It has no minimum balance requirement, permits two free withdrawals a month, and includes a debit card that can be used at Visa merchants. Absa reports 742,000 Sekulula account holders as of January 2009 (Barclays 2009). In addition, nonbank payment service company Net1 offers smartcard-based accounts, through which it processed more than 12 million social welfare payments in the quarter ended March 2009. Net1 clients can use the card to save, purchase, and transfer (Net1 2009).

India’s National Rural Employment Guarantee Act (NREGA) offers poor people living in rural areas up to 100 days of work annually. More than 45 million people received a payment under NREGA in 2008 (Ministry of Rural Development 2009). Recipients can choose from four ways to receive payment: post office savings account, bank account, village officials, and in Andhra Pradesh state, electronic prepaid account accessed via smartcards issued by two technology firms, FINO and A Little World. Recipients using FINO can withdraw NREGA payments at agents in 20 to 60 minutes, including travel and wait time. This is twice as fast as the time recipients take to make withdrawals from the post office and 10 times faster than making a withdrawal from a bank branch (Johnson 2008). Both FINO and A Little World products can be operated as financially inclusive accounts.

In Brazil, Caixa Economica is migrating 12.4 million Bolsa Familia recipients from electronic benefit cards

9 CGAP interviews with Ministry of Social Development (Argentina) and Banco de la Nacion, September 2008. See also Duryea and Schargrodsky (2007).

10 CGAP interviews with Ministry of Social Development (Brazil).

11 Author analysis based on review of social transfer programs launched in the past five years.

to conta facile (easy account), a financially inclusive account that includes a Visa-branded debit card that can be used at more than 20,000 ATMs, stores accepting debit purchases, and merchants acting as agents of the bank for bill payments, deposits, and withdrawals. As of October 2009, the bank has converted 2 million recipients to conta facile. Caixa also has experimented with offering insurance to conta facile holders, is considering microloans, and has developed a financial literacy program for new account holders.<sup>12</sup>

These cases are promising. Globally, however, fewer than one in four G2P recipients gets a payment in a financially inclusive account. The opportunity to do more, and reach more poor people, is great.

## Addressing Doubts and Concerns

It is far from certain that policy makers and managers of social transfer, payroll, and other G2P programs will take up the opportunity. Historically, government officials responsible for G2P programs have focused on ensuring on-time payment to intended recipients with the lowest price and losses to corruption and fraud. The policy goal is to boost immediate consumption in recipient households. Financial inclusion is at best a secondary interest and often is greeted with some skepticism. Five questions are commonly raised:

1. Will financial services boost social protection for poor households?
2. Will poor G2P recipients use financial services if such services are offered to them?
3. Is building financial services into G2P programs prohibitively expensive to government?
4. Can financial institutions offer inclusive financial services on a profitable basis?
5. Can a government procurement process lead to a financially inclusive option?

A growing body of experience sheds light on these topics. We deal with each in turn.

## Financial services can strengthen social protection for poor households

There is growing interest in the social protection value of making G2P payments to poor members of society. But the record so far suggests complementary investments are needed to boost the overall impact of G2P payments. Providing financial services to G2P payment recipients could be precisely such an investment. Using a financially inclusive account can help poor people weather socioeconomic shocks, build productive assets, and become less economically isolated.

The impact of social transfer payments is increasingly well-documented. Some programs report dramatic results. Several CCT schemes that require recipients to take certain actions to advance health and education for their families have been particularly successful. Brazil's Bolsa Familia program reaches 12.4 million households—a quarter of the country's population. It accounts for 20 percent of the reduction in inequality in recent years and has led to a marked jump in school enrollment (Lindert et al. 2007). Recent studies also have shown that Mexico's Oportunidades program not only has reduced poverty, but also has encouraged behavior change—health visits increased by 18 percent in areas with program recipients compared to other areas (Barrientos 2008).

Such results are not yet typical. A recent World Bank study finds the impact of most CCT programs is typically more limited (Fiszbein and Schady 2009). On balance, CCTs yield a modest impact on years of schooling completed, ambiguous results on child height for age, and no measurable impact on learning outcomes for children. Other G2P programs are likely to have similar social impact, and possibly less because they do not require behavior change as CCTs do. Fiszbein and Schady conclude that complementary actions are needed to amplify impact on the lives of the poor.

There is considerable debate over the claim that financial services (e.g., microcredit) raise incomes and

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<sup>12</sup> CGAP interviews with Caixa Economica and Ministry of Social Development (Brazil).



lift people out of poverty. But whether or not savings and credit help people escape poverty, poor people value formal financial instruments highly because they help them to cope with poverty.

Access to finance has been shown to help poor people better withstand shocks and build assets. The first element of a financially inclusive account—savings—helps poor people deal with unexpected jolts to household budgets caused by illness, loss of employment, and natural or manmade crises. Generally, poor people respond with one of three strategies. They offset a drop in income or jump in expenses by doing without something else. Looking at 13 countries, Banerjee and Duflo (2006) found the most common choices poor families make are to eat less and to take children out of school. Doing so may help bridge the short-term income gap, but has consequences for education and health performance. A second strategy is to sell an asset that, if livestock, land, or tools, actually undercuts future productivity and income (Banerjee and Duflo 2006).<sup>13</sup> Alternatively, poor people smooth the “bump” in consumption by drawing down on savings or by borrowing sums they will repay later. Given a choice, most poor people prefer using financial instruments to manage shocks, rather than going without or selling assets. Quality instruments often are not available to poor people. But they use what is available to an extent that may be surprising.

A growing body of evidence shows poor people are sophisticated money managers. Collins, Morduch, Rutherford, and Ruthven (2009) found that poor families in Bangladesh and South Africa use 10 different instruments over the course of a year, 8 in India. Some instruments are offered by formal institutions, but many are informal instruments, such as the mattress and money guards for saving, borrowing, and lending among family and with money lenders, remittances to and from family, and some traditional forms of insurance. No family

studied used fewer than four financial instruments, and even the very poorest held both savings and debt of some type. The average family pushed more than US\$1,000 through both formal and informal financial instruments yearly.<sup>14</sup> Poor people usually want more formal instruments. Informal options can be quite flexible, but their big disadvantage tends to be unreliability.

Even the poorest people have funds to manage. Banerjee and Duflo (2006) found that after meeting nutritional needs, people living on less than US\$1 per day still have 22 to 44 percent of household income for other purposes. They invest in housing, health, education, self-employment, and social and religious events and often require planning to build up what for them are sizeable sums of money. They look for financial instruments that can help them manage their funds to these ends.

Savings is also a proven route to acquiring productive assets, and it has knock-on effects of increased labor market performance, occupational status, and intergenerational effects. In a randomized control trial, Dupas and Robinson (2008) show that women who have access to a savings account increase their level of productive investment by 40 percent after six months, compared with women in a control group.

Ownership of assets triggers an “asset effect.” Assets connect people to a more hopeful future, give cause for long-term planning, support entrepreneurial appetite, and raise the owner’s standing in the eyes of family, friends, and neighbors. According to Sherraden (1991), “People think and behave differently when they are accumulating assets, and the world responds to them differently as well.”<sup>15</sup>

Ssewamala et al. (2008) document a program in which youth savings accounts were offered to AIDS-orphaned adolescents in Uganda. The increase in savings was accompanied by improved expectations

13 Banerjee and Duflo used data from 15 surveys in 13 countries with 22,545 individuals living on less than US\$2 per day, including a subsample of 7,481 “extremely poor” who live on less than US\$1 per day.

14 Collins et al. tracked income and expenses for 300 poor families over more than a year in Bangladesh, India, and South Africa. These “financial diaries” are one of the most detailed pictures of poor people’s financial behavior available.

15 See also Bynner and Paxton (2001). Their research found the presence of a savings account is adequate to trigger a change in saving behavior.



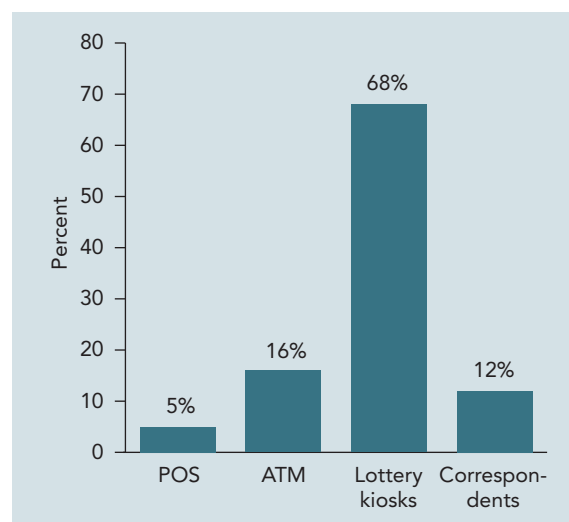
about the future and changed behavior. Participants showed a significant increase in educational plans (88 percent to 96 percent), compared to other youth who showed a decrease (93 percent to 83 percent); and they improved their HIV prevention attitude scores compared to other youth. Similar studies have shown that women who use and control savings instruments display a substantial increase in a cluster of positive behaviors—confidence, assertiveness, initiative—that can be bundled together as “empowerment.”

To this point we mostly have focused on the first element in a financially inclusive account—the savings instrument. The ability to transact electronically has a different kind of value. It deepens and broadens connections to the formal economy and brings a sense of economic citizenship.

For poor people, transactions are typically done in cash and face-to-face. Major transaction costs and security risks with cash often limit commerce geographically and in the number of people with whom it is feasible to transact. To be sure, some poor people go to great lengths to move money considerable distances to family, friends, and business partners. But for most, their economic sphere is local, informal, and limited. The ability to send money to others electronically reduces the risks and costs involved with cash and enables more and deeper monetary connections to the wider economy, whether payments to and from suppliers and buyers, wages from an employer, or payments made to and from government.

Being connected to the economy carries with it the possibility of more fully participating in the benefits of economic growth, which is the single most powerful force for poverty alleviation (World Bank 2009b). Policies promoting economic growth also are more likely to help reduce poverty if they are accompanied by policies that expand opportunities for poor people (Barrientos 2009), such as access to financial services. Policy makers and social program managers also may find that efforts to connect poor people to the broader economy help answer some of the critiques levied against social transfers as handouts or creating dependency.

**Figure 3. Bolsa Familia Grants, by Delivery Channel**



Source: Feltrim (2006), updated in CGAP interview with Caixa Economica.

### Poor G2P recipients will use financial services ... if good quality is offered

Though G2P recipients often have limited schooling and little exposure to banking, this has not been an insurmountable barrier to them using electronic infrastructures. As shown in Figure 3, 84 percent of Brazil’s 12.4 million Bolsa Familia recipients withdraw benefits using their electronic benefit card at one of 13,000 lottery kiosks, correspondents, or point-of-sale (POS) equipped merchants acting as agents of Caixa Economica, the bank that holds the grant delivery contract.<sup>16</sup> In 2004, when cards were first issued to Bolsa Familia recipients, only 24 percent said using the card was “easy” or “very easy”. One year later, the number increased to 96 percent (Vaitsman and Paes-Sousa 2007).

In Argentina, one year after switching to debit cards, 87 percent of 1.5 million Jefes y Jefas de Hogar participants judged the new system to be an improvement on the old method of dispensing cash via local officials. This is not surprising—the card-based system saves them time and money. The average time spent on payment days in travel to a withdrawal

<sup>16</sup> Feltrim (2006), updated in CGAP interview with Caixa Economica.

point and queuing dropped from 255 minutes to 41 minutes. And the percentage of recipients who could walk to a location to receive their money increased by 49 percent, because ATMs are widely available (Duryea and Schargrodsy 2007).

In South Africa, where ATMs historically have not been located in rural and low-income areas, Net1 has established a network of several thousand merchants equipped with POS terminals. More than a third of government grants disbursed by Net1 were withdrawn at a POS terminal in the quarter ended March 2009, more than double the rate in mid-2005 (Net1 2009, Net1 2005).

Electronic delivery channels are unlikely to be a long-term obstacle to inclusive finance for poor people. The obstacle may be financial products that are not useful to poor people. India provides instructive evidence that poor people, like more wealthy people, will refuse to use poor quality services. Approximately 85 percent of so-called no frills accounts (a basic bank account) opened by NREGA recipients are dormant (Ramji 2009). A closer look reveals this to be a rational choice made by recipients. The average recipient spends the equivalent of a half day's wages and an entire day of travel to reach a bank branch and make a transaction. Further, financial institution staff typically provide little or no explanation about how the account works. Not surprisingly, few recipients know that they can do more than receive their NREGA payment.

Yet 96 percent of the same individuals say they are regularly saving at home through informal means. This strongly suggests that they demand savings services and would be likely to use their bank account for more than transactions if it were affordable and convenient and the terms were clear to them. The financial products on offer in social transfer programs in other countries often have the same weakness.

Performance is better in programs that incorporate thoughtfully designed financial services. Few programs meet this standard. However, evidence indicates that a meaningful portion of poor G2P recipients are likely to use financial services when

they are offered to them, provided these services meet their needs.

- In Brazil, Caixa Economica reports strong uptake of *conta facile* (easy accounts) by 2 million Bolsa Familia recipients, who can access it via one of more than 20,000 touch points in the country, including POS-equipped merchants who handle deposits and withdrawals, ATMs, and branches.
- In Malawi, Opportunity International Bank of Malawi (OIBM) reports that 45 percent of recipients enrolled in the Dowa Emergency Cash Transfer scheme, which ended in 2007, are still using their bank account more than two years later.<sup>17</sup>
- In Mexico, Oportunidades recipients are offered a full savings account in Bansefi, a state-owned bank, and more than 1.5 million have elected to use it (or 30 percent among 5 million total recipients). A randomized control experiment shows these households saved an average of 12 percent of their government grant, with subsequent investments leading to a 35 percent increase in consumption after five years in the program (Gertler et al. 2006).
- In South Africa, Net1 has offered loans to social grant recipients since 1999, with the total portfolio reaching a high of US\$13.5 million. It also offers debit purchases at POS terminals at merchants, through which the company processed US\$276 million in purchases in the first quarter of 2009, a portion of which was generated by social transfer recipients using Net1-issued smartcards (Net1 2009).

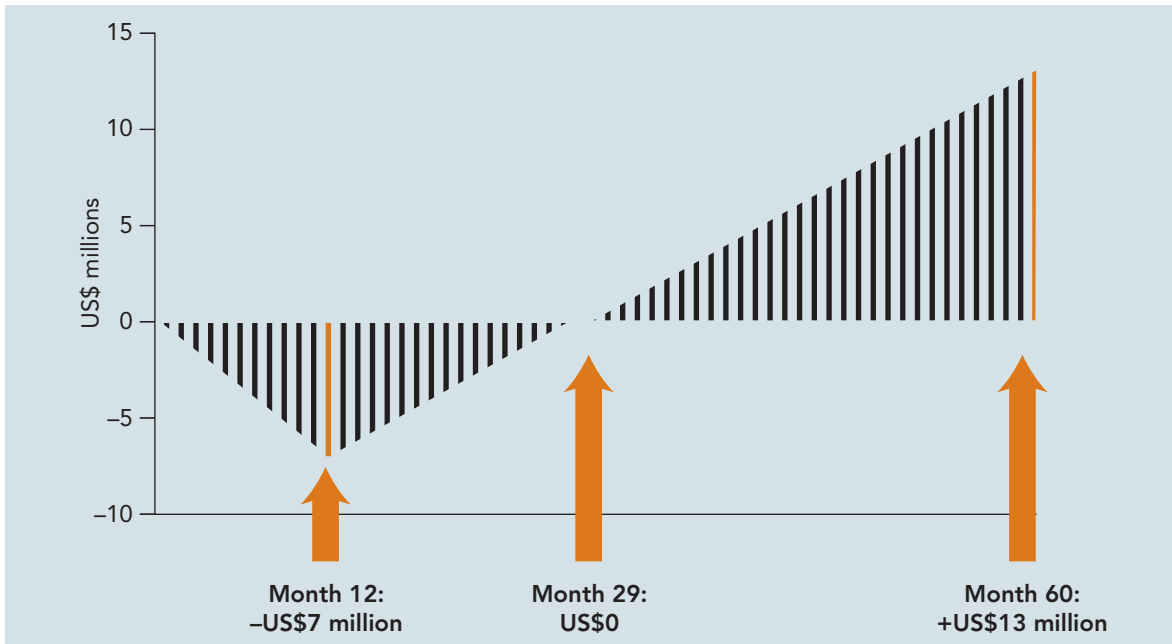
### **Financially inclusive options may be cheaper than traditional payment arrangements**

Providing financial services to recipients need not be an expensive choice. In fact, a financially inclusive option that uses branchless banking channels could be cheaper over the medium term than traditional ways of making G2P payments.

Figure 4 shows the cost savings to government that could result from switching from paying a G2P grant

<sup>17</sup> CGAP interview with OIBM staff.

**Figure 4. Branchless Banking 11 Percent Cheaper Than Traditional Payment Arrangement**



in cash over the counter at a bank teller window to delivering the payment electronically into a financially inclusive account accessible via agents equipped with POS terminals. The scenario is for a hypothetical social transfer program that pays monthly US\$40 grants to 1 million recipients.

Over five years, the government would save US\$12.6 million (10.5 percent). Figure 4 reflects the cumulative net difference between the costs of the branchless program versus cash payment over time. The savings continues to accrue to government over time. After 20 years, the government will have saved US\$87.6 million (18.3 percent). See Annex 2 for additional details that readers may use as benchmarks when calculating potential cost savings in their own country.

The scenario illustrated in Figure 4 is based on relatively conservative calculations that contain several assumptions. To avoid overestimating the cost of traditional payment arrangements, we use the lowest cost for a teller window transaction quoted to the authors during research (US\$2). To avoid overstating cost savings from switching to new

payment arrangements, we average the government's cost of electronic delivery from six different social transfer programs in Argentina, Brazil, Colombia, India, Mexico, and South Africa. We assume the price in each of these instances is an economically sustainable one that covers at least the marginal costs incurred by the banks in question. This may include, for example, the cost of inward and outward bound electronic transactions and a proportionate share of central expenses, such as headquarter building costs (but not branches, since G2P recipients would use agents), senior bank management, asset and liability management, insurance, etc.

Based on this, most of the government's fee would go to the bank's expense of building the branchless banking infrastructure. To reflect an agent network that reaches even remote areas of the country with smaller populations, we assumed each agent would serve only 100 people per month, far fewer than agents in Kenya and Brazil (who are mostly urban) serve.

Data from existing programs are difficult to find. In many countries, information about the cost of

previous payment arrangements is not available, making it difficult to compare previous and current programs. Financial institutions often do not have accurate data on their costs per transaction or by channel; they may know their costs only in general terms. Where data are available, financial institutions and governments are often wary about sharing it.

However, it is not difficult to see how a financially inclusive account could be cheaper than traditional arrangements. Generally, two factors can make branchless banking a cost-effective way to deliver G2P payments:

1. A physical bank branch is relatively expensive to establish and maintain; branchless alternatives can undercut them on cost. By branchless, we mean a combination of (i) retail establishments engaged by financial institutions as agents who handle withdrawals and deposits in a certain locale (often where there is no bank branch or ATM) and (ii) an electronic instrument to carry data about transactions, so recipients' accounts are updated in real time. Debit cards and POS terminals are popular. An increasing number of providers are considering using mobile phones. In this scenario, branchless banking is 20.5 percent cheaper than a bank branch (this is probably a conservative estimate).<sup>18</sup>
2. The cost savings from moving from bank branches to branchless channels more than covers the cost of building branchless channels. However, setting up agent networks and distributing POS terminals and cards do carry a cost. In the scenario illustrated in Figure 4, it cost US\$12 million to build a branchless channel where no infrastructure previously exists. But in most countries, POS terminals are already used by banks. Cards will still need to be issued to G2P recipients and agents identified and trained. These upfront costs can be offset over time by per payment savings. In this scenario, the breakeven point is 29 months.

### **The business case may be attractive for financial institutions**

As previously described, delivering G2P payments electronically implies creating for each recipient a store-of-value account where funds can be held for some period, and connecting that account to an electronic payment system. With these elements in place, it becomes possible to expand the account into a financially inclusive one that the recipient can use to save and to transact outgoing as well as incoming payments. Let us suppose (i) governments are convinced that G2P recipients will benefit from access to financial services, (ii) recipients will use them if offered, and (iii) an electronic infrastructure for payments is able to reach remote areas and may cost less than current G2P distribution. In these circumstances, governments may be willing to subsidize the creation of the infrastructure and to pay ongoing costs of distribution. But when it comes to adding savings and payments services, governments will probably expect banks and other financial institutions to bear those costs, and to recoup them from fee revenues or interest margins. Will banks be skeptical about the economics of that business?

In an increasing number of countries (including Brazil, Kenya, and South Africa), financial institutions are eager to bid on the right to deliver G2P payments. Most are attracted by the prospect of a dependable, recurring source of income in the form of fees paid by the government. But financial institutions are largely skeptical about providing poor recipients with more than a way to withdraw payments. They often design deliberately limited products to ring-fence costs. For example, cards may be used at ATMs, but not at teller windows; recipients may not be able to make deposits; there may be no debit function for enabling in-person purchases at merchants or transfer capability for remote payments. Products like these are not financially inclusive.

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<sup>18</sup> CGAP estimated the channel cost to deliver basic banking services to poor people via branchless banking to be, on average, 50 percent cheaper than through traditional banking infrastructure (Mas and Ivatury 2008). The scenario devised here incorporates fees paid to the bank to process the transaction, accounting for most of the difference between the two estimates.

**Table 2: Fixed Monthly Costs of Financial Infrastructure (US\$)**

Channel	Monthly capex allocation	Monthly direct costs	Monthly overhead costs	Monthly transactions to breakeven	5-year cost to operate
Mobile branch	1,833	6,647	1,662	10,142	608,525
Fixed ATM	333	859	215	1,407	84,425
Agent	12	120	30	162	9,700

Sources: Bankable Frontier Associates (2006), updated to 2009 prices. Calculations assume the bank receives a fee of US\$1 per transaction.

Until recently governments have rarely asked financial institutions to add such services. But as governments seek to promote basic accounts, financial institutions need to look closely at three levers that could improve the business case: (i) cost-effective delivery channels, (ii) large scale, and (iii) appropriate products for low-income users.

### Branchless banking can provide low-cost delivery channels

Though banks own and operate the payment systems in most countries, existing service points are often few in number and not widely distributed. Zambia, for example, has 223 branches and 295 ATMs (Langhan, Mackay, and Kilfoil 2008), equal to one service point per 20,135 people. Most of these service points are concentrated in a few Zambian cities and towns. Governments are likely to be interested in improving accessibility and lowering cost for G2P recipients. In contrast, the financial institution's main focus will be on finding alternative channels that reduce its own cost. Branchless banking channels may be able to meet both objectives.

Table 2 shows the number of transactions required per month to cover the capital expenditures and monthly costs for ATMs, agents, and mobile branches.<sup>19</sup> Each option can be economical, but the utilization required is dramatically different. A mobile branch requires 63 times more transactions for the provider to break even on its operation. Using an agent costs a fraction of the cost to operate a mobile branch over five years. The cost differential varies by country. In

Pakistan, Tameer Bank discovered that the capital and operating costs for an agent are 76 times less than for its microfinance branches in the first year, and 89 times cheaper over five years.<sup>20</sup> Because they are so much cheaper, agents can operate in locales with far fewer users. In 2001–2005, banks in Brazil used agents to expand across the country, with a service point in all of the country's 5,567 municipalities. In one quarter of municipalities, the only service point is a bank agent (Feltrim 2006).

Agent networks can be established quite quickly. In Kenya, the largest mobile phone network (Safaricom) has established more than 11,000 agents across the country for its M-PESA service, a mobile-phone-based wallet that enables users to send and receive money transfers. Since its launch in March 2007, more than 7.5 million people—or one in every four Kenyan adults—have signed up. M-PESA owes a large part of its popularity to the rapid rollout and ubiquity of its agent network across the country (Morawczynski and Pickens 2009). By comparison, Kenyan banks have just one-third as many branches and ATMs, largely concentrated in cities (FSD Kenya 2009).

Agents comprise one part of a branchless banking system; a means of transacting electronically is the other half. Financial institutions increasingly make use of wireless networks to connect their infrastructure. According to the GSM Association (the trade association for the global communications industry), more than 80 percent of the world's population is now within mobile coverage, and there are more than 4 billion mobile subscriptions, with 80 percent of

<sup>19</sup> Mobile branches are essentially mobile ATMs mounted on a vehicle, sometimes paired with teller kiosks. They enable infrastructure to be physically ported to unserved locations, but their upfront cost is not always less than that of the cheapest fixed branches in some countries. Service expenses for mobile branches also can be considerable.

<sup>20</sup> CGAP analysis with Tameer Microfinance Bank staff, 2008.

new connections in emerging markets. But few G2P programs have made use of the actual mobile phone as the last mile device in the hands of customers, simply because few G2P recipients own mobile phones yet.

Using a card at a POS network is still the most common way of connecting G2P recipients to their payment, and potentially to a financially inclusive account. One key decision for those designing G2P programs is whether to use a smartcard with a built-in chip or a more typical debit card with a magnetic strip. Smartcards hold far more data than an ordinary debit card. A smartcard can carry information about a customer's account (e.g., current balance, entire transaction history), identity (e.g., a fingerprint), and other data (e.g., health records). Users do not need to be electronically connected to a central server if they use a POS terminal that can read smartcards. Instead, they can operate completely offline and still use a unique identifier (in this case, a fingerprint).

With these characteristics, smartcards can reach recipients who live in areas without mobile coverage, and they can provide a high level of certainty regarding user identity. Using fingerprints as unique identifiers means that illiterate people can use smartcards to make transactions. Further, the ability to load other kinds of data onto the card can extend the use of smartcards beyond banking.

The added functionality does come with added costs. Smartcards can be up to five times more expensive than magnetic strip cards, and chip-reading POS terminals twice as expensive as terminals for magnetic strip cards (Pearson and Kilfoil 2007). Though several G2P programs use smartcards, most of these programs do not avail themselves of the primary advantages of smartcards over PIN-authorized magnetic strip cards. In particular, very few use offline capabilities, and as mobile networks expand their coverage, fewer people are living "off the grid." In Kenya, for example, the main mobile network—Safaricom—claims its signal reaches 85 percent of the population.<sup>21</sup>

The higher upfront costs of smartcards and chip-reading POS terminals can swamp smaller G2P programs in added costs. Again, a comparison to magnetic strip cards is useful. For its *Jefes y Jefas de Hogar* program, Argentina's Ministry of Social Development pays US\$1.02 when each magnetic strip debit card is issued and US\$0.47 for each payment.<sup>22</sup> By contrast, Opportunity International Bank of Malawi saw substantially higher costs: US\$5 per smartcard and US\$2 for each of the five payments made during the food emergency. According to Pearson and Kilfoil (2007), the high costs emanated from the choice of a proprietary smartcard system that had more capability than was required for the immediate job at hand and relatively few (10,000) recipients and payments (five) over which to spread the costs. The direct cost of payment accounted for 1.33 percent of the grant amount in Argentina, but a whopping 23 percent in Malawi,<sup>23</sup> unsustainably high for large-scale schemes. The lesson here isn't to avoid biometrics and smartcards altogether, but to carefully analyze whether the added cost is justified by actual need for the extra capability.

Finally, we come to customer education. In Colombia, banks delivering *Familias en Accion* unexpectedly found that using prepaid cards cost twice as much (US\$4.9) as making transactions at branch teller windows (US\$2.5) (Marulanda 2008). Banco Popular's social payments program had to replace clients' prepaid cards five times as often as the bank's prepaid Visa cards for wage payments. Poor customer education was one of the prime reasons for these increased expenses. Some clients had laminated their debit cards—making them unusable—because they were told that the magnetic strip should be protected. Further, because cards were not personalized, they needed to be reissued whenever PINs were lost—this occurred more frequently than anticipated. These examples underscore how important it is to educate customers on how to use their cards so that G2P electronic delivery options are well-executed and competitive with, if not cheaper than, branch-based transactions.

21 [www.safaricom.co.ke](http://www.safaricom.co.ke).

22 CGAP interviews with Ministry of Social Development (Argentina), Banco de la Nacion and Link.

23 Based on full card costs amortized over the same 10-month period and five payments.

## Drive for large scale

In a low-margin business like payments processing, achieving large volumes is critical to profitability. In India, FINO's smartcard solution is used by banks to deliver workfare payments under NREGA in Andhra Pradesh. The government pays the bank a percentage fee of funds delivered, of which FINO receives a share. Because the daily wage and fee rate are fixed, the aggregate fees are driven by the number of days of work the government assigns to program participants. FINO's investment payback period would be cut from nine years to less than four if NREGA increased the scale of the program by doubling the number of days of work paid (Johnson 2008).

Three factors make a G2P flow more suitable to getting to adequate scale faster than other types of retail banking businesses (see Table 3). First, G2P schemes often have large numbers of recipients. SASSA delivers child grants to more than 8 million poor recipients, representing 22 percent of households in the country (SASSA 2008). Brazil's Bolsa Familia program makes conditional grants to one-quarter of the country's households (Lindert et al. 2007). The lower boundary of what is "big enough" varies, but certainly some G2P programs are too small to be directly profitable for most financial institutions.<sup>24</sup> The Cambodia Education Sector Support Program makes payments to just 3,850 people annually, for example.

Second, G2P flows that are high in relation to recipient income and consumption may be more likely to stay in the account for some time. In turn, they may conduct more fee-generating transactions, and the balances can be intermediated to earn interest on the float. This assumes, however, that financial institutions are not mandated to provide all or most transactions on a cost-free basis to G2P recipients. Doing so undercuts the business case and typically turns financial institution participation into an effort to curry favor with authorities. Payment size can vary dramatically among G2P programs, from US\$9

**Table 3: G2P Flows Suitable for Pairing with Basic Banking**

Feature	Rationale
Large number of recipients	Scale needed to attract and retain interest of financial institutions
Large payments, relative to recipient income	Greater potential for float revenue
Frequent schedule of payments, not scheduled to end in short term	Recurring stream of payments generates dependable fee income for financial institutions  Promise of future payments encourages recipients to use and become familiar with the account

Source: Authors.

annually in Burkina Faso's Orphan and Vulnerable Children (OVC) program, to US\$636 in Mexico's Oportunidades program.

Third, more frequent payments accelerate scale for the provider. Some G2P programs make payments only infrequently. Programa de Asignacion Familiar in Honduras delivers grants just twice per year, for example. A stream of regular payments generates dependable fee income for financial institutions. The promise of recurring payments also encourages G2P recipients to become familiar with how to use their account.

## Develop products geared to low-income users

Recent experience shows that relatively simple changes to account policies, design, and marketing can make banking products more attractive to poor people. The Mzansi account in South Africa is a specially designed entry-level account with savings and transactional functionality. More than 6 million accounts have been opened, predominantly by the intended customer segment of previously unbanked,

<sup>24</sup> Banks may still elect to get involved in smaller programs to raise their standing in the eyes of the government and public, or to experiment with serving lower end customers on a manageably small scale.



low-income citizens. There has been some dormancy in one-third of the accounts, but banks' original concern that Mzansi might cannibalize revenue from other more lucrative transactional products for higher income segments has proven largely unfounded (Bankable Frontier Associates 2009).

It makes sense to focus on the ability to accumulate savings: higher balances will increase float income for the bank and potentially allow users to make more payment transactions from their account. Generally, poor savers care about safety, liquidity, and convenience far more than they do about price. At the same time, some savers want illiquid products that help them with financial discipline.

In West Africa, many low-income people use roving deposit (susu) collectors who visit clients daily to collect a fixed amount, returning savings at month's end, less one day's deposit as a fee (Deshpande 2006). The implied negative interest rate—more than 30 percent a year—is powerful evidence of some preference for illiquidity, at least from some people. In the Philippines, clients of rural banks were offered a commitment savings product that locks away clients' money until their balance reaches a preset amount (e.g., enough money to build a new roof) or until a future date of the clients' choosing (e.g., school fees). Those who selected the product (roughly one in four) increased their savings balance by 337 percent in one year (Ashraf, Karlan, and Yin 2006).

Quantifying the opportunity to cross-sell other financial products and services would also firm up the business case for financial institutions. The evidence on this front is far from comprehensive, but examples point toward positive potential. In South Africa, banks have managed to sell at least one additional product to 11 percent of clients with Mzansi accounts, many of whom are also G2P recipients (Bankable Frontier Associates 2009). Another indication comes from research conducted by Brazil's Ministry of Social Development, which says the demand for microloans is 1 million annually among the 12.4 million

households participating in Bolsa Familia.<sup>25</sup> Banco do Brasil, a state-owned bank, also is eager to pursue the opportunity. In South Africa, Net1 has joined with consumer lenders to offer loans to recipients of SASSA grants.<sup>26</sup>

### Organizing a successful tender process

Where financial inclusion is a policy objective in G2P programs, it is usually because of the influence of an entity with the standing to place the topic on the agenda. Brazil's Ministry of Social Development has been crucial in sparking the shift from limited electronic benefit cards to real accounts for 2 million recipients. In Kenya, the nongovernmental Financial Sector Deepening Trust (FSD Kenya) has played a similar role in the decision of DFID and the government to require bidders to offer savings accounts to recipients of Hunger Safety Net (HSN) grants. This is one role international donors may be able to play (see Box 2).

Even if policy makers and social program managers become convinced of the value of offering financial services to G2P recipients, challenges still remain on financing the expense and constructing the most appropriate tender process for the government. Kenya's example in particular illustrates the value of providing donor funds under conditions that give the recipient an incentive to put its service delivery on a sustainable footing within a reasonable time period. There is a lively debate about using such subsidies in agriculture, specifically how to structure price supports for fertilizer, seeds, and other inputs in a way that increases the availability of food in the short run, without dampening the development of better functioning markets that will stimulate rural development in the long run.<sup>27</sup> Such subsidies also have become increasingly popular in microfinance as an alternative to open-ended, long-term donor grants.

Developing the infrastructure to deliver basic banking to G2P recipients is a good candidate for receiving

25 CGAP interview with Ministry of Social Development (Brazil).

26 The high interest rates accompanying the loans have been questioned and point to a role for authorities in ensuring G2P recipients receive adequate protections as consumers.

27 See, for example, Dorward, et al. (2008).

### Box 2: Role for International Donors

Donors are increasingly present at the creation of new G2P programs as advisers and co-funders. Multilateral financial institutions, bilateral aid agencies, and private foundations are increasingly acquiring expertise and cross-country perspective. Donors are also ramping up their financial commitments to new G2P programs or helping to expand existing ones.

Donors can support national governments considering a financially inclusive banking option for G2P recipients. A forthcoming manual (DFID 2009) will help to frame the process of how to do this. Donors can help government counterparts evaluate the pros and cons by exposing them to other countries' experiences. Donors also could

support challenge funds to encourage more innovative solutions than might otherwise be fielded. Donors also might be involved in designing effective financial literacy campaigns for G2P recipients, many of whom are new to the formal financial system.

Rigorous evaluation mechanisms are needed to strengthen the evidence base. More research is needed to track how G2P recipients use financial services when offered to them and to document the social protection value from financial inclusion. The business opportunity for banks needs to be understood better, so that policy makers can structure incentives in ways that produce sustainable solutions.

this kind of subsidy. The rationale is straightforward. Most countries lack banking infrastructure with wide enough distribution to enable poor G2P recipients to access services affordably and conveniently. A large-scale build-out of service points is needed. On its own, the private sector has not provided a scaled-up solution in most cases. Even with the opportunity to recoup the cost of the build-out over a number of years, financial institutions may still judge a large up-front outlay of their own funds as too risky, or simply less attractive than the risk-return profile of alternative ways of spending their money, such as investing in new or improved services for current customers.

An appropriate approach to subsidizing infrastructure would separate the cost of basic banking for G2P recipients into two components:

- The up-front cost of establishing initial infrastructure in areas in which recipients live, which varies according to the other basic infrastructure (the availability and reliability of the electricity and data communications grids, the security issues around cash carrying).
- The on-going cost of maintaining an account for a defined number of basic transactions per month for each recipient.

FSD Kenya adopted this approach in the payments tender for the HSN program launched in January 2009. Because it was not known how many recipients would be in each location, payment providers were invited to quote an amount for establishing the necessary payment infrastructure separate from the fee to provide an account to each recipient on an ongoing basis. This amount could vary according to the infrastructure in the areas. The alternative was inviting single fee bids in which providers would have to carry the uncertainty over how much new infrastructure was needed in each area. This would likely have substantially inflated the single fee estimates. On this basis, Kenya's largest retail bank by number of customers—Equity Bank—found it attractive to bid on the contract to deliver grants to some of the country's poorest citizens in one of the most remote areas—the arid north. This region, which is the size of the United Kingdom, is beset by bandits and contains just seven bank branches and only a fraction of the total population. The pilot—aimed at 60,000 recipients—will run for three years. If successful, it will be scaled up to reach more than 1 million food insecure families.

In some countries, the major state-owned retail bank or post office network is seen as the only trusted option for widespread delivery of cash transfers. Even

though private financial providers may have been less interested than public providers in the past, the position is increasingly changing, as with the case of Equity Bank in Kenya and Absa in South Africa. Some private providers—such as South Africa’s Net1 and India’s FINO, which already pay millions of recipients regularly—specialize in government transfers. Even in countries with substantial state-owned retail financial institutions, such as Colombia, South Africa, and Kenya, the social transfer agency often has chosen to have an open tender to ensure that it gets the best deal.

While introducing competition for social transfers payment is generally a good thing, the tender process must be set up and managed very carefully to ensure it delivers the social transfer efficiently and increases financial inclusion. The tender process is not always easy or quick to manage, especially if local government procurement processes are overlaid with the additional complexity of external donor procurement rules.

Tender design issues include the following:

- *What is the scope of the required services?* This will affect which institutions can bid. For example, the Kenya HSN program explicitly required that tenderers be able to provide an electronic store of value from which recipients could withdraw their funds as needed. But the designers did not specify that the store of value had to be an account in a bank, meaning that mobile network operators with mobile-based financial services also could apply. Several did, including domestic and international ones. Geographic requirements are also important considerations. In Colombia, the 2008 tender to undertake payments for Familias En Accion required that all tenderers service both urban and rural areas at one price per payment. Private banks felt unable to respond and did not tender, leaving a state-owned bank as the only initial respondent.
- *Who is able and likely to respond?* Setting the requirements too high or too low can dramatically change the level of responses to a tender. For example, SASSA’s tender to procure payment services required that tenderers be able to fund the payments in advance and then claim reimbursement afterwards. While this reimbursement approach reduced the risk to

government of improper payments, it meant that only a handful of providers were large enough to prefinance the large payout amounts. In the case of the Kenya HSN program, FSD Kenya actively publicized the tender. When it was feared that only conventional solutions would be proposed, FSD Kenya and CGAP designed a challenge fund to support experimentation and prototyping of more innovative potential solutions.

- *Is the size of the pot big enough to attract serious attention?* In the case of Kenya’s HSN program, the relatively small size of the pilot (60,000 people) caught the attention of some major players, but failed to sustain the interest of others, including one of the country’s largest mobile network operators. Smaller nonbanks may find G2P payments more attractive than big institutions. FINO calculates it could earn a sizable US\$125 million in revenue if it captured all NREGA payouts in India (Johnson 2008). However, FINO’s bank partner, State Bank of India, may see this as paltry: US\$125 million would equal 1 percent of the bank’s 2007–2008 gross revenue (State Bank of India 2008). A large bank may well be unlikely to develop a solution of its own for such a return, but it is more than sufficient to attract the attention of smaller firms.

## Conclusion

Linking basic banking to G2P payments may not be appropriate everywhere—we have argued that some G2P programs are *not* well-suited to doing so. But this Focus Note also argues that there are many instances where linking basic banking to G2P payments may be appropriate. At least 170 million poor people worldwide receive a regular payment from their government, and many could be provided financial services. The time is ripe to further explore this opportunity.

Well-designed use of G2P payments to advance financial inclusion should lower costs to government, including leakage, and improve social impact. However, many G2P payment programs operating today were designed to address one narrow concern: transferring payments from a specific government program into the hands of recipients. Decisions often are driven by urgency to find the fastest way to deliver the first round of payments (particularly when a program is announced with much public

fanfare). Program managers often want simple-to-manage arrangements. Minimizing upfront costs lessens the need for burdensome (and potentially unsuccessful) appeals to keepers of the public purse strings. The choice of who handles the payments, and how they are delivered, often can be dominated by these legitimate, but short-term, objectives. However, policy makers and social program managers can subsequently find themselves locked into arrangements that may be more expensive than anticipated over time, are inconvenient for recipients, and deliver little more than a government payment.

There are longer term benefits—namely, greater social impact and reduced cost and leakage—that could

come from devising new payment arrangements that use branchless banking channels to deliver a financially inclusive account for recipients. Governments should give special attention to devising G2P programs in ways that will make them attractive to financial service providers. Programs should have enough recipients and large enough payments to attract interest and permit efficiency. The requirements and conditions placed on financial service providers should be reasonable. To help with start-up costs and encourage innovation, performance-based upfront subsidies may be in order. Financial service providers should look for ways to take advantage of branchless banking channels, move quickly to scale, and craft products that fit the needs of G2P recipients.

## ANNEX 1: SUMMARY OF SOCIAL TRANSFER SCHEMES

Table A-1. 48 Social Transfer Schemes in 34 Countries

Country	Program	Recipients	Minimum Annual Benefit (US\$)	Conditional
Argentina	Programa Familias	504,784	495	Y
Argentina	Jefes y Jefas de Hogar	1,500,000	576	N
Bangladesh	100 Day Employment Program	2,000,000	15	N
Bangladesh	Reaching Out-of-School Children	500,000	17	Y
Bangladesh	Primary Education Stipend Program	5,300,000	17	Y
Bangladesh	Female Secondary School Assistance Program	723,864	26	Y
Bolivia	Juancito Pinto	1,200,000	28	Y
Burkina Faso	Orphan and Vulnerable Children	3,250	9	Y
Brazil	Bolsa Familia	12,400,000	468	Y
Cambodia	Cambodia Education Sector Support Project	3,850	60	Y
Cambodia	Japan Fund for Poverty Reduction Girls Scholarship	4,185	45	Y
Chile	Chile Solidario	268,000	162	Y
Chile	Subsidio Unitario Familiar	1,200,000	122	Y
China	Minimum Livelihood Guarantee Scheme	22,000,000	68	N
Colombia	Familias en Accion	1,500,000	88	Y
Colombia	Social Security (Cajas de Compensación Familiar)	3,900,000	7	N
Colombia	Old age pension (Prospera)	380,961	342	N
Colombia	Subsidio Condicionado a la Asistencia Escolar–Bogotá	10,000	360	Y
DRC	Demobilization scheme	100,000	410	Y
Dominican Republic	Solidaridad	461,446	283	Y
Ecuador	Bono de Desarrollo Humano	1,060,416	318	Y
El Salvador	Red Solidaria	100,000	90	Y
Guatemala	Mi Familia Progresá	250,000	480	Y
Haiti	Chemen Lavi Miyo	150	350	N
Honduras	Programa de Asignación Familiar	240,000	113	Y
Indonesia	Keluarga Harapan	745,371	239	Y
India	National Rural Employment Guarantee Act	45,112,792	53	N
Jamaica	Program of Advancement through Health and Education	300,000	44	Y
Kenya	Hunger Safety Net	60,000	162	N
Kenya	Cash Transfers for Orphans and Vulnerable Children	12,500	78	Y
Malawi	Dowa Emergency Cash Transfer	10,161	60	N
Mexico	Jóvenes con Oportunidades	330,000	57	Y
Mexico	Oportunidades	5,000,000	636	Y
Nigeria	Care of the Poor	36,000	121	Y
Pakistan	Benazir Income Support Program	2,200,000	4	N
Pakistan	Child Support Program	13,265	30	Y
Pakistan	Punjab Education Sector Reform Program/Punjab Female School Stipend Program	455,259	30	Y
Panama	Red de Oportunidades	70,000	300	Y
Paraguay	Tekoporã/PROPAIS II	19,800	107	Y
Peru	Juntos	453,823	401	Y
Peru	PCA	48,000	147	Y
Philippines	Pantawid Pamilyang Pilipino Program	700,000	202	Y
South Africa	Child Support Grant	8,893,999	364	N
South Africa	Old Age Grant	2,309,679	128	N
South Africa	Disability Grant	1,377,466	128	N
Swaziland	STC Emergency Transfer Program	6,223	273	N
Turkey	Social Risk Mitigation Project	855,906	306	Y
Yemen	Basic Education Development Project	10,000	35	Y
Zambia	Social Cash Transfer Scheme	8,200	114	Y

Notes: This list is not exhaustive. Details are not available for all social transfer schemes—existing ones are growing and new programs are being launched. Data were gathered from a range of sources: (i) Fiszbein and Schady (2009) (a primary source for data on many CCT programs in the list); (ii) interviews conducted by CGAP consultant Beatriz Marulanda with banks and government ministries in Colombia; (iii) CGAP staff interviews with Ministry of Social Development (Argentina), Ministry of Social

Launch	Payment Frequency	Payment Channel
2002	Monthly	Direct deposit to electronic benefit card accessible at Banco de la Nacion ATMs
2002	Monthly	Direct deposit to electronic benefit card accessible at Banco de la Nacion ATMs
2009	Monthly	Cash at government offices
2004	2x / year	Direct deposit to beneficiary's bank account
2002	Quarterly	Direct deposit to beneficiary's bank account
1994	2x / year	Direct deposit to beneficiary's bank account
2006	Annually	Army hands out cash at schools
2008	Quarterly	Cash at village committee against HIV/AIDS
2003	Monthly	Direct deposit to electronic benefit card accessible at agents or Caixa Economica ATMs
2005	3x / year	Cash at school ceremonies
2002	3x / year	Cash at school ceremonies
2002	Monthly	Cash at National Social Security Institute service centers or payment points
1981	Monthly	Cash at National Social Security Institute service centers or payment points
1999	Monthly	Direct deposit to bank account, or over the counter at bank, credit union, post office
2001	Bi-monthly	Cash at branches, mobile branches, and direct deposit onto electronic benefit cards issued by Ban Agrario
1949	Monthly	Direct deposit to electronic benefit cards and in cash at branches
1949	Bi-monthly	Direct deposit to electronic benefit cards and in cash at branches
2005	Bi-monthly	Direct deposit to bank account
2006	Monthly	Direct deposit to mobile wallet accessible at agents and payment locations
2005	Bi-monthly	Direct deposit to electronic benefit cards usable at certain stores for approved purchases
2003	Monthly	Cash at branches of Banred or the National Agricultural Bank
2005	Bi-monthly	Cash at payment posts managed by a commercial bank
2008	Bi-monthly	Cash at BanRural bank branches
2007	Once	Asset transfer
1998	2x / year	Vouchers cashed at branch offices of BANHCAFE
2007	Quarterly	Cash at post office
2005	Monthly	Direct deposit to account accessible at agent or in cash at post office, bank, or local officials
2001	Bi-monthly	Checks disbursed through post offices; electronic debit cards
2009	Bi-monthly	Direct deposit to Equity Bank savings account accessible at ATMs and POS-equipped agents
2004	Bi-monthly	Cash at district treasury or post offices
2006	Bi-monthly	Direct deposit to OIBM account accessible at mobile branch
2003	Monthly	Direct deposit to BANSEFI savings account
1997	Bi-monthly	Cash at payment points and direct deposit to beneficiary's BANSEFI savings account
2008	Monthly	Cash at microfinance institutions and community banks
2009	Monthly	Via post office, pilot with smartcards
2006	Quarterly	Cash at post office
2004	Quarterly	Postal money order
2006	Bi-monthly	Cash at post offices and commercial banks
2006	Bi-monthly	Cash at mobile cashier
2005	Monthly	Direct deposit to bank account at Banco de la Nacion
2004	Monthly	Direct deposit into recipient account at rural caja
2008	Monthly	Cash at Land Bank of the Philippines
1998	Monthly	Direct deposit to accounts with Net1 and Absa, or in cash
1928	Monthly	Direct deposit to accounts with Net1 and Absa, or in cash
1998	Monthly	Direct deposit to accounts with Net1 and Absa, or in cash
2007	Monthly	Direct deposit to Standard Bank accounts accessible at POS at Swazi Post and Standard Bank ATMs
2001	Bi-monthly	Cash at banks and, in locales with no branches, post offices
2007	Quarterly	Cash at parent meetings in school
2003	Monthly	Cash at payment points

Development (Brazil), Concern International and OIBM (Malawi); (iv) Bankable Frontier Associates (2008); (v) Chen, Ravallion, and Wang (2008); (vi) Devereux and Jere (2008); (vii) Langan, Mackay, and Kilfoil (2008); (viii) Ministry of Rural Development (2009); (ix) Pearson and Kilfoil (2007); (x) SASSA (2008); (xi) Trivelli (2008); and (xii) Zimmerman and Moury (2009). Minimum annual benefit was calculated for a single child per recipient household and, where applicable, other minimum criteria. Note that some of these programs were short term and have concluded.

## ANNEX 2: Potential Savings to Government from New Payment Arrangements

Table A-2 shows how we constructed a scenario in which a government switches from paying G2P grants in cash over the counter in bank branches to delivering payments into a financially inclusive account accessed via branchless banking at POS-equipped agents. In this scenario, the total cost savings amount to US\$12.6 million over five years, or 10.5 percent cheaper.

**Table A-2. Calculating Savings to Government**

Line	Item	Value	Notes
1	Recipients	1,000,000	
2	Payments/year	12	
3	Cost/recipient/month via traditional arrangement (US\$)	2.00	Lowest cost quoted among programs studied
4	Cost/recipient/month via electronic delivery	1.59	Average of six social transfer programs in Argentina, Brazil, Colombia, India, Mexico, and South Africa
5(a)	Clients/POS terminal/month	100	Selected to conservatively depict a nationwide agent network that reaches deep into rural areas and that might begin only with G2P recipients
5(b)	Cost per POS terminal (US\$)	400	Assumes preferential pricing justified by bulk order with single manufacturer
5(c)	Total cost for POS terminals (US\$)	4,000,000	Line 1 divided by line 5(a) times line 5(b)
5(d)	Cost per debit card (US\$)	2.00	Prevailing price in multiple countries
5(e)	Cost to replace recipient cards 1x every five years (US\$)	2.00	Prevailing price in multiple countries
5(f)	Total cost of cards (US\$)	4,000,000	Line 5(d) plus line 5(e) times line 1
5(g)	Cost to identify, train and set-up one agent (US\$)	400	Average among CGAP technology program partners where data available
5(h)	Number of agents	10,000	Line 1 divided by line 5(a) (Hypothetical for nationwide coverage)
5(i)	Total cost to create agent network (US\$)	4,000,000	Line 5(g) times line 5(h)
5(k)	Total up-front investment (US\$)	12,000,000	Line 5(c) plus line 5(f) plus line 5(i)
5(l)	Cost/recipient/month to put branchless banking infrastructure into place (US\$)	1.00	Line 5(k) divided by line 1 divided by line 2. Amortizes cost of POS terminals, cards and agents over first 12 months
6(a)	Monthly cost of delivery via traditional arrangement (US\$)	2,000,000	Line 1 times line 3
6 (b)	Total cost of delivery via traditional arrangement over five years (US\$)	120,000,000	Line 6(a) times 60 months for 5 year program
7(a)	Cost of upfront infrastructure (US\$)	12,000,000	Line 1 times line 5(l) times 12 months
7(b)	Cost/recipient to deliver grant via branchless banking over five years	95,400,000	Line 1 times line 2 times 5 years times line 4
7 (c)	Total cost of delivery via new arrangement over five years (US\$)	107,400,000	Line 7(a) plus line 7(b)
8	TOTAL COST SAVINGS (US\$)	12,600,000	Line 6(b) minus line 7(c)
9	TOTAL COST SAVINGS (%)	10.5	Line 8 divided by line 6(b). Ratio by which new payment arrangement is cheaper than traditional



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