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The Private Sector and Cash Transfers in Africa

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Abstract

There is growing emphasis on the role played by the private sector in alleviating poverty in Africa. At the same time, greater focus is being placed on cash transfers as a poverty alleviation tool. This paper provides an economic rationale for private sector involvement in the provision of cash transfers. Previous research has focused on how the financial sector can provide payment solutions. In addition to payment mechanisms, the paper examines other avenues through which the private sector can contribute to cash transfer programmes – business taxes and Corporate Social Responsibility (CSR). Reducing corruption in tax administration and an enabling investment climate are essential if business taxes are to be a sustainable financing source for cash transfers. Governments can incorporate CSR into national policies and strategies which identify cash transfers as a poverty alleviation instrument. Cell phone banking, mobile branches, Point of sale (POS) technology and low cost banking are increasing access to financial services by the poor. These financial innovations can be used to make cash transfer payments.

1 Introduction

Increasing emphasis is being placed on the role that the private sector can play in alleviating poverty in developing countries[1]. Private sector development is viewed not only as a means of boosting economic growth, but also as a way of improving the living standards of the poor. For Africa, finding ways to enhance the role of the private sector in poverty alleviation is critical. At the current rate of progress most of Africa will fail to meet the Millennium Development Goals (MDGs). In particular, only a handful of countries are likely to achieve the goal of halving poverty by 2015 (Economic Commission for Africa, 2005).

Cash transfers refer to non-contributory payments of money provided by government or non-governmental organisations with the aim of reducing poverty and economic vulnerability (Samson et al, 2006). There is growing focus on the role that cash transfers can play in the fight against poverty in Africa. For example countries such as Lesotho, Malawi, Kenya and Zambia have recently introduced cash transfer programmes aimed at different target groups. These cash transfers are viewed as an integral part of a national social protection framework.[2] According to the World Bank (2003) in the absence of adequate social protection instruments, the MDGs will not be achieved. Therefore, cash transfers can play a critical role in enhancing the likelihood that African countries will achieve the MDG targets.

Countries in Southern Africa – South Africa, Botswana, Namibia and Mauritius – have well established cash transfer systems. These vary from country to country in terms of target groups and the amount paid. The main beneficiaries are the elderly, Orphans and Vulnerable Children (OVCs) and People with Disabilities (PWDs). Despite large differences in the size of the transfers,

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[1] See for example DFID (2005).

[2] See for example Government of Ghana (2007).

important impacts on poverty and gains in terms of human capital development are registered.[3] Limited research exists on the role played by the private sector in providing cash transfers in Africa. This is mainly because the use of cash transfers is itself still in its infancy in the region. It is also due to the fact that providing cash transfers is primarily the responsibility of governments and donors. Existing research on the role of the private sector – for example, DFID (2006) - has focused on how the financial sector can provide payments solutions. However, there are other important ways in which the private sector can contribute to strengthening the impact of cash transfers on poverty. There is also an absence of studies that provide an economic basis for the private sector's role in providing cash transfers.

The rest of the paper is organised as follows. Section 2 provides an economic rationale for private sector involvement in cash transfers. The different roles that the private sector plays (or has the potential to play) in providing cash transfers are discussed in section 3. Conclusions are drawn in section 4.

2 Economic Rationale for Private Sector Involvement in Providing Cash Transfers

It is important to situate the role of the private sector within the broader economic rationale for cash transfers. Cash transfers should be linked to the role the private sector plays in generating wealth and creating employment. In the absence of this link it may be difficult to motivate and sustain private sector involvement in the area of cash transfers. This is critical in light of one of the arguments against cash transfers – that they are 'handouts' that lead to dependency.

Cash transfers have the potential to make a meaningful contribution to the development of human capital. Cash transfers contribute to the nutrition, health and education status of beneficiaries. Greater productivity and innovation in the private sector cannot take place without increasing the stock of human capital. Edmonds (2004) finds that the old age pension in South Africa leads to a reduction in child labour and an increase in school attendance. Education has 2 main positive impacts on the private sector. First, it contributes to the skill base required for a productive workforce and for a cadre of entrepreneurs. Second, it enhances earnings, positively impacting the demand for goods and services produced by the private sector.

Good nutrition reinforces the positive effects of education. For example, providing university students from poor families with bursaries to cover basic needs such as food is likely to enhance educational attainment. This will have a positive effect on the contribution they eventually make in the workplace. This linkage is recognised by corporations that give bursaries for tertiary education to students from poor backgrounds.

It is important to start the process of human capital development at an early stage. Duflo (2003) finds that South African girls living with grandmothers receiving the old age pension have better weight for height and height for age indicators. The benefits of human capital development will be maximised if it is viewed as a process that gives returns in the medium to long term. At the same time, the potential benefits to the private sector accrue over an extended period. Although cash transfers have the potential to contribute to human capital development, they can only do so in an environment where education, health and other social services are in place. It is essential to view cash transfers as only one component of an effective human capital development strategy.

One criticism against cash transfers is that they are subject to abuse by the recipients. Misuse of cash transfers would undermine the human capital development benefits that can accrue from these resources. However, the limited evidence on cash transfer programmes in Africa suggests that these resources are being used responsibly. For example, the Orphans and Vulnerable Children (OVC) cash transfer in Kenya is being used mainly on items such as school uniforms, food and

[3] Devereux et al (2005) and Devereux (2006) provide a summary of cash transfer programmes in Southern Africa.

medical care (Government of Kenya, 2007). In Lesotho, on average 61% of the old age pension is spent on purchasing more food, particularly animal based protein, milk and sugar (Institute of Southern African Studies, 2006). Approximately 60% of pensioners in Lesotho live with young people attending school or college. The pension money is used to purchase uniforms, books and stationery.

A more immediate impact of cash transfers is the increase in the recipients' disposable income. According to de Koker et al (2006), in the absence of cash transfers 78% of cash transfer recipients in South Africa would have no regular income. In Zambia cash transfers are used mainly to buy basic commodities such as maize and vegetables (Wietler, 2007). Given the objective of cash transfers in most African countries– poverty relief through income support – basic commodities are the main expenditure items for cash transfers. This stimulates private sector activity as demand for these commodities increases. In areas with a lack of retailers new micro enterprises can be established to fill the gap.

Davies and Davey (2008) assess the impact on the local economy of an emergency cash transfer in rural Malawi. Using a social accounting matrix methodology, they find substantial benefits to the regional economy as a whole. Their results show that multiplier estimates are in the range of 2.02 to 2.45. The impacts are most notable for small farmers and small businesses, which is where the purchases of poor households are concentrated.

Empirical evidence suggests that inequality negatively affects economic growth in poor countries (Barro, 2000). Inequality can lead to social upheavals that undermine the protection of property rights. As a result, private sector investment will be discouraged. Cash transfers are an effective means of redistributing income from higher income groups to lower income groups. For example, Soares et al (2006) find that the old age pension and the disability grant of the Bolsa Familia Programme in Brazil contributed 28% to the reduction in the Gini coefficient between 1995 and 2004. Cash transfers paid by the government in South Africa have a significant impact on inequality, reducing the Gini coefficient from 0.80 to 0.73 (Statistics South Africa, 2008). This 7% reduction is found to be significant at the 95% confidence level. Heady et al (2001) use household data on 13 European Union (EU) states to investigate the impact of cash transfers on inequality. A positive impact is found for all countries, particularly those that spend a larger share of their GDP on cash transfers. Thus, cash transfers are among programmes that have the potential to reduce inequality and promote a more conducive environment for private sector activity in developing and developed countries.

Risk taking is essential for innovation within the private sector. Without a safety net risk taking can remain at low levels, curbing the expansion of the private sector into new areas. Cash transfers provide a safety that has the potential to encourage the private sector to take high risk-high return investments. Dollar and Kraay (2004) argue that social protection can alleviate the negative impacts of trade openness, enhancing the benefits of growth accruing to the poor. Some evidence of this potential impact is found in the agricultural sector. According to Standing (2007), European history shows that old-age pensions played a significant role in modernising agriculture by stimulating risk-taking innovation. Similarly, Barrientos and Lloyd-Sherlock (2002) argue that pensions in Brazil played a critical role in moving households from subsistence to surplus agriculture.

Sustainable poverty alleviation programmes require a high level of national ownership. Although donor organisations currently have a keen interest in funding cash transfers in Africa, this can change substantially in a short period of time. African countries that have managed to sustain cash transfer programmes in the medium to long run – for example, Mauritius and South Africa - are those that have relied on domestic resources. In order to maximise the domestic capacity to finance poverty alleviation programmes, strategies to enhance the contribution of the private sector are necessary. When considering the economic impacts of cash transfers it is important to note that these resources have an opportunity cost. Failure to acknowledge this can lead to an overstatement of the benefits of cash transfers. For firms engaged in productive activities, the forgone output resulting from channelling resources to cash transfers cannot be ignored. As will be seen in later sections, this paper is not advocating that private firms make cash transfers part of their core business. Rather,

emphasis is placed on the fact that cash transfers are a meaningful way of strengthening what firms are already doing through paying taxes and Corporate Social Responsibility (CSR).

An economic case can be made for cash transfers both at the micro level and the macro level. Although the evidence base is growing, having more evidence that is based on African experience will strengthen the case for cash transfers on the continent. Nevertheless, it has been shown that the potential benefits to the private include the growth in human capital, the increase in disposable income, the more conducive investment climate due to lower inequality and the ability to engage in riskier, more profitable opportunities.

If well designed and carefully implemented, cash transfer programmes are good for private sector development in African countries. In advocating for cash transfers, it is critical to underscore the fact that no substitute exists for sustained economic growth as a means of working through the private sector to address poverty and inequality. While cash transfers can promote growth and address poverty and inequality through various channels, they are in no way a panacea to the complex challenges facing Africa.

3 Private Sector Role in Providing Cash Transfers

This section discusses the specific avenues through which the private sector can contribute to the provision of cash transfers. Three main roles – paying business taxes, CSR and providing payment mechanisms – are examined.

3.1 Business Taxes

The private sector in several African countries is making an important contribution towards providing cash transfers through business taxes. The amount of business tax collected will depend mainly on the tax base (which is in turn determined by the size of the formal private sector), the tax rate and the efficiency of revenue collection. Gupta (2007) finds that GDP per capita and trade openness are important determinants of revenue performance in developing countries. He also finds that corruption and the share of agriculture have a significant negative impact on revenue performance. In order to get an accurate measure of taxes paid by the private sector it is necessary to go beyond corporate taxes (The World Bank and PricewaterhouseCoopers, 2007). Corporate taxes are typically a small proportion of total taxes paid by firms. Other taxes include property and property transfer taxes; dividend, capital gains and financial transactions taxes; social contributions and labour taxes; and vehicle and road taxes. This broader and more accurate concept of business taxes is referred to as the Total Tax Rate (TTR).[4] This is an important concept in light of tax reform across many developing countries that emphasises a reduction in corporate taxation.

The collection of taxes has a significant impact on the ability of governments to finance pro-poor programmes such as cash transfers. Better revenue performance provides greater certainty about the long-term sustainability of these programmes and reduces dependency on donor support. In South Africa revenue collected through the tax system is the only source used to finance the national cash transfer system. There has been a rapid increase in the annual allocations in recent years as shown by Chart 1. This has made it possible for the cash transfer system to play a significant role in poverty alleviation (Samson et al, 2004).

Simplifying the tax system is an integral part of increasing government revenue collection. In addition, reducing the number of taxes and addressing corruption are critical to enhancing the efficiency of the tax system. According to the World Bank and PricewaterhouseCoopers (2007) 65 countries – mainly from the developing world – have improved their tax systems in the last 3 years.

[4] TTR is the amount of all taxes and mandatory contributions borne by the business as a percentage of all commercial profits (The World Bank and PricewaterhouseCoopers, 2007).

Table 1 shows indicators that measure the ease of paying taxes in a number of African countries. The indicators were collected as part of the World Bank Doing Business project for 178 developed and developing countries. There is substantial variation across the countries. For example, Botswana is ranked as having the 14th easiest tax payment system while the Central Africa Republic ranked at 175 has one of the most difficult systems. The number of tax payments and time to comply is negatively correlated with ease of paying taxes.

Economic growth that is led by private sector development is essential if business taxes are to be a sustainable resource base for cash transfer programmes. Macroeconomic stability, improved access to credit, and reducing the cost of starting a business are some of the key requirements for ensuring that the tax contribution of the private sector is enhanced and sustained in the long term. It is encouraging to observe that the average growth rate of 5.4% achieved by Africa in the last decade is equivalent to the growth rate obtained by the rest of the world (World Bank, 2007). Table 2 shows that African countries with cash transfer programmes registered positive growth in 2007 and are expected to do so in 2008. Positive growth in the medium to long run is critical for the sustainability of cash transfer programmes in these countries.

African countries can expect to continue registering positive economic growth due to the significant reforms undertaken to improve the investment climate. In November 2007 the International Finance Corporation (IFC) and the World Bank awarded five countries - Ghana, Kenya, Mozambique, Burkina Faso, and Mauritius - the top Doing Business Reformers' Club honours in Sub-Saharan Africa (IFC and World Bank, 2007). These countries were recognised for implementing 3 or more reforms in the last year that made it easier for businesses to function and play a role in economic development. Recognition was also given to countries implementing 2 reforms such as Lesotho and South Africa.

A number of countries recognised for undertaking reforms to improve the investment climate have cash transfer programmes. The reform process will enhance the tax contribution of the private sector to pro-poor programmes such as cash transfers. Strengthening the investment climate is critical for the sustainability of domestically funded poverty alleviation initiatives.

3.2 Corporate Social Responsibility

Corporations are placing greater emphasis on directly contributing to poverty alleviation through Corporate Social Responsibility (CSR). Although there is no single definition of CSR, it is a concept that focuses on looking beyond maximising share holder wealth as the only reason for corporations to exist. A useful way to motivate CSR is to view it in the context of social contract theory (Donaldson and Dunfee, 1994, 1999). Under this social contract, society expects corporations to undertake activities that will address socio-economic challenges. Corporate bodies operate in an environment where social, political, ethical and environmental issues play a significant role in society. Linked to the social contract theory is the idea that corporations have to undertake activities to legitimise their existence (Moir, 2001).

Although financial performance in not the primary goal of CSR, it is not inconsistent with profitability. For example, Burke and Logsdon (1996) argue that CSR can create strategic benefits for firms by giving them visibility in the community. According to Sen and Bhattacharya (2001) consumers' personal support for CSR issues can affect spending patterns. Social screening is increasingly used as a criterion for investing in firms (Pava and Krausz, 1996).

However, empirical evidence on the relationship between CSR and firm financial performance is inconclusive. Waddock and Graves (1997) find evidence of causality running in both directions. CSR positively affects profitability and at the same time profitability has a positive impact on CSR, consistent with the view that CSR is more likely when slack resources are available. McGuire et al (1988) find that causality is more likely to run from profitability to CSR. Their results show that CSR is more closely related to prior stock performance than to subsequent performance. McWilliams and Siegel (2000) find no impact of CSR on firm performance once Research and Development (R&D)

is included as an explanatory variable.

While CSR is a fairly well established aspect of business in developed countries, it is a relatively new concept in African countries. For example, according to Kivuitu et al (2005) CSR is in its infancy in Kenya and Zambia. With the exception of South Africa, most countries in Africa have very little experience with CSR.[5] However, the limited availability of public resources in the majority of African countries implies that CSR has the potential to play a significant role in realising the objectives of poverty alleviation tools such as cash transfer programmes. The fact that CSR is still a developing area in Africa is a distinct advantage. It means that governments have a window of opportunity to steer the CSR agenda in line with national poverty eradication programmes, including cash transfers.

Given that CSR is a fairly underdeveloped in Africa, documentation of CSR activities is extremely limited. Table 3 shows the key focus areas of CSR in a number of African countries. There are clear similarities in the focus areas of CSR in the 4 countries. This is reflective of the common socio-economic challenges facing African countries. It also indicates that there is some alignment of CSR to national developmental challenges. Kenya is highly prone to drought, undermining the food security of a large proportion of the population. South Africa has a large population of Orphans and Vulnerable Children (OVCs) due to the HIV/AIDS epidemic.

Cash transfers are already playing an important role at the national level in some of the focus areas being pursued by the private sector. For example, child grants are being used to reach OVCs in Kenya and South Africa. At the same time, some countries are moving towards greater reliance on cash transfers to address national challenges that have been prioritised by the private sector. In Kenya, DFID has committed £120 million to finance safety nets and social protection over a ten year period. Approximately two-thirds of this will be used to provide cash transfers to people in drought affected areas.[6] Notably, cash transfers are a single instrument that can be used to meet the multiple objectives of CSR. A transfer to a poor household can bring immediate poverty relief, improve access to health care and education, and enhance food security.

According to the Commission for Africa (2004) CSR will be more effective by avoiding the project-based approach to development and by aligning itself to the activities of national governments. ABSA, one of South Africa's largest banks states that partnering with the government has led to a greater impact of its activities aimed at the poor.[7] Trialogue (2007) finds that over two-thirds of corporations surveyed in South Africa select their focus areas by aligning CSR activities to government priorities. For example, about 29% of CSR spending on social development in South Africa is directed at OVCs. This implies that the private sector could channel part of its CSR spending directly towards government programmes rather than initiate its own. This can only be done effectively if government provides a clear mechanism for doing so. A possible approach is to incorporate CSR into the national policies and strategies that identify cash transfers as an instrument.

African countries are developing national social protection policies and strategies as a means of addressing poverty and vulnerability. Cash transfers are amongst the most important instruments identified in these national documents.[8] CSR can be included as one of the funding mechanisms for cash transfers. This can be done by establishing a common fund for the private sector to contribute towards the national cash transfer programmes. Governments may decide to set mandatory contributions for the common fund. For example, in South Africa government is proposing that companies spend 1.5% of their after-tax profit on CSR (Trialogue, 2007). It is important that a consultative process between governments and the private sector is pursued in setting any targets for CSR spending. Otherwise, a high probability of non-compliance by the private sector can be expected.

[5] According to Trialogue (2007) CSR spending in South Africa in 2006 was R2.04 billion (approximately US$0.3 billion).

[6] DFID (2007).

[7] ABSA (2007).

[8] See for example Government of Ghana (2007).

More effective linking of CSR to cash transfers will take place if the private sector appreciates the benefits of these programmes. It is essential to raise awareness about how the impacts of cash transfers are aligned to the objectives of CSR. Recognition for supporting national cash transfer programmes can encourage participation in the common fund.

3.3 Delivery Mechanisms

According to Beck et al (2004) a negative relationship exists between financial development on one hand, and poverty and inequality on the other. These authors find that financial development has a positive impact on the incomes of the poor. A limitation of their study is that it does not demonstrate the channels through which this happens. One way in which the financial system can be used to boost the incomes of the poor is to deliver cash transfers. However, as Beck et al (2007) find, the penetration of the formal financial sector in developing countries is very limited. Increasing this penetration and developing non-bank delivery methods are important ways of tackling poverty.

The delivery method used for cash transfers is an important component in ensuring that payments are regular, secure, predictable and convenient. These qualities are essential if cash transfers are to meet their objectives. Irregular and unpredictable payments compromise the ability of poor households to plan their expenditure. An insecure environment exposes the recipients to crime that can lead to the loss of their transfers. Convenience is important in order to reduce the transactions cost of obtaining the transfers. For example, transport costs incurred from travelling to a pay point can significantly erode the value of the transfer.

Poverty in Africa is generally concentrated in rural areas. One possible route through which the private sector can deliver cash transfers is through the banking sector. Greater bank penetration means a higher likelihood that recipients in remote areas will receive their transfers via the formal financial system. Table 4 shows bank branch and ATM penetration in several African countries. Geographic branch (ATM) penetration is the number of branches (ATMs) per 1,000 square kilometres. Demographic branch (ATM) penetration is the number of branches (ATMs) per 100, 000 people. A comparison is made with Latin America, where cash transfer programmes are used extensively as a means of addressing poverty and developing human capital.

With the exception of Mauritius and South Africa, bank penetration in Africa is low compared to Latin America. Although demographic penetration is high in countries with small populations (Botswana and Namibia), low geographic penetration means that the majority of those living in rural areas cannot receive cash transfers through the banking system. Porteous (2007a) finds that living too far from the bank is a reason for not banking across a group of 7 East and Southern African countries. In the short to medium term non-bank delivery methods will be required.

Payment systems can be classified into 2 approaches referred to as the 'pull' approach and the 'push' approach (DFID, 2006). Under the pull approach the whole cash transfer is paid out at a particular point. The approach derives its name from the fact that beneficiaries are 'pulled' to a central location to receive their transfers. Depending on where the pay point is located transaction costs incurred by recipients can be substantial. For example, considerable time and money can be spent on travelling. If pay points are serving a large number of people long waiting periods may be required in order to receive payment. However, the relatively higher bank penetration in Latin America reduces the transaction costs associated with the pull approach.

In contrast, under the 'push' approach cash transfers are credited into the accounts of beneficiaries. In this case the money is 'pushed' to the beneficiaries. The push method can provide greater convenience than the pull method. It has the potential to be safer if recipients can make purchases electronically. However, typical bank charges found across African countries can significantly reduce the value of cash transfers. Table 5 shows the payment methods being used by cash transfer programmes in Africa and Latin America. Only Mauritius uses the push method as the main delivery mechanism. Mauritius has by far the highest geographic penetration – both branch and ATM - according to Table 4. Although the level of bank penetration is significantly higher in Latin America

compared to Africa, it is not sufficient for the push mechanism to be extensively used. With the exception of South Africa, the other African countries rely entirely on the pull mechanism. The private sector has the comparative advantage to undertake financial innovation that makes use of existing technology to improve access to financial services by the poor. Finding ways of using these innovations to pay cash transfers will enhance the poverty reduction impact of the private sector. Cell phone banking (also referred to as mobile banking) is currently one of the most promising innovations.

According to Porteous (2007a) the ATM network in African countries has remained limited because of high set-up costs. However, the rapid expansion of wireless coverage makes it possible to provide financial services at a much lower cost. Mobile banking is still at an early stage of development. In Africa, mobile banking is most highly developed in South Africa. There are approximately 500,000 users of this service. Currently, the majority of those using cell phone banking are already banked. The potential for cell phone banking to reach the unbanked in Africa can be assessed by examining Table 6.

With the exception of Tanzania, the countries with lower bank penetration (see Table 4) have a larger proportion of adults owning cell phones than having bank accounts. This suggests that cell phone coverage is higher than bank coverage in these countries. Cell phone coverage is greater in the higher income countries – Botswana, Namibia and South Africa. Table 4 shows that cell phones are used by a large number of unbanked people. Porteous (2007a) states that there are 20 million unbanked people with cell phones in the 7 countries, representing close to a third of the total number of unbanked people in these countries. These are lower income people and thus potential beneficiaries of cash transfers. Cell phone banking demonstrates how 2 industries – the mobile phone industry and the banking industry – can collaborate to improve access to financial services to low income groups. This has the potential to extend the coverage of cash transfer payments and to improve on existing payment mechanisms. Although millions of poor people in Africa have cell phones, coverage is far from being exhaustive implying that mobile banking may not be an immediate option for the extensive delivery of cash transfers. However, as costs continue to fall, cell phone usage amongst the poor will increase.

Other innovations are the use of mobile branches and point of sale (POS) technology. Mobile branches can be used to deliver cash transfers to remote areas. Mobile branches can address some of the limitations of the pull approach, yet are clearly subject to some of them. According to DFID (2006) a mobile branch must conduct a very large number of transactions in order to break even. This implies that long waiting periods to receive the transfer are likely. In addition, mobile branches have high start up costs.

The coverage of POS technology depends on the network of merchants at which recipients can receive their transfers. The fixed cost of establishing the POS terminals is borne by a financial institution, usually a bank or a service provider linked to a bank. POS terminals are fairly portable and can be erected at identified merchants in remote areas, increasing the penetration of financial services. An advantage of POS technology is that it has significantly lowers fixed and transaction costs compared to mobile branches (DFID, 2006).

A drawback of POS technology is that it requires merchants to have large cash reserves at the time that the cash transfers are paid. Small merchants may not have sufficient cash to meet demand. The risk of holding large volumes of cash may also deter merchants from delivering cash transfers. The bank providing the POS technology can ease the liquidity constraints and partner with merchants to find security solutions.

The provision of low-cost banking is also an important means through which the private sector can contribute to the delivery of cash transfers. The innovations discussed above are meant to by-pass the problem of low bank penetration. However, these technologies cannot perform some key intermediary functions including savings mobilisation, channelling resources to the most productive investments and risk diversification. If demand is sufficient low cost banking may lead to the expansion of the current banking infrastructure.

In South Africa a low cost account called the Mzansi account was introduced in November 2004. Porteous (2007b) reports that 1.2 million new Mzansi accounts belong to people who were previously unbanked. The introduction of the Mzansi account is the main reason why as of 2006 South Africa had more banked people than unbanked people. Porteous (2007b) states that the likelihood of being unemployed and of living in informal dwellings is significantly higher for Mzansi account holders compared to non-Mzansi account holders. This demonstrates that low cost banking can effectively be used to incorporate previously unbanked low income groups. This increases the relevance of the banking infrastructure as a means of paying cash transfers.

4 Summary and Conclusions

The private sector is being called upon to play a greater role in addressing poverty in Africa. At the same time, there is increasing emphasis on the role of cash transfers as a poverty alleviation tool. This paper examined what role the private sector can play in providing cash transfers in Africa. An economic rationale for this role was provided. Although the evidence base is growing, there is a need for more Africa-focused empirical research to strengthen the economic case for cash transfers on the continent. While previous research has focused on delivery mechanisms, this paper takes a broader view of this role. An additional 2 channels – business taxes and CSR – are examined.

Cash transfers contribute to the building of human capital that is essential for the long-term development of the private sector. The demand for basic commodities is increased when the incomes of poor households are raised. By reducing inequality, cash transfers can play a part in improving the investment climate. In addition, cash transfers provide a safety net that allows the private sector to engage in high risk-high return activities.

Business taxes are a significant source of revenue for pro-poor programmes such as cash transfers. Developing countries have undertaken important tax reform in recent years. This has led to a lessening of corporate taxes and a reduction in red tape. Reducing corruption is essential for improved revenue performance. In addition, creating an enabling investment climate is essential for the private sector activity and growth needed to generate the revenue that can sustain national cash transfer programmes.

Most African countries have limited experience with CSR. This means that governments have the opportunity to contribute to the CSR agenda and link it with national objectives and programmes. The countries covered in this paper are already aligning their CSR activities to national developmental challenges. Some of the focus areas of CSR are currently being addressed by cash transfer programmes at the national level. Governments can link the CSR agenda to national policies and strategies that identify cash transfers as an instrument. As part of this process a common private sector fund for cash transfers can be established.

The limited banking penetration in Africa means that banks are playing a very limited role in delivering cash transfers to the poor. Progress is being made in developing other delivery mechanisms. Cell phone banking has the potential to significantly increase access to financial services by the poor. Mobile branches and POS technology are also being used to enhance access. These technologies can be used to make payments of cash transfers. Evidence from South Africa suggests that providing low cost banking is an effective way of reaching those who are not banked. In addition to the intermediary function that low cost banking provides, it can also be a means of delivering cash transfers.

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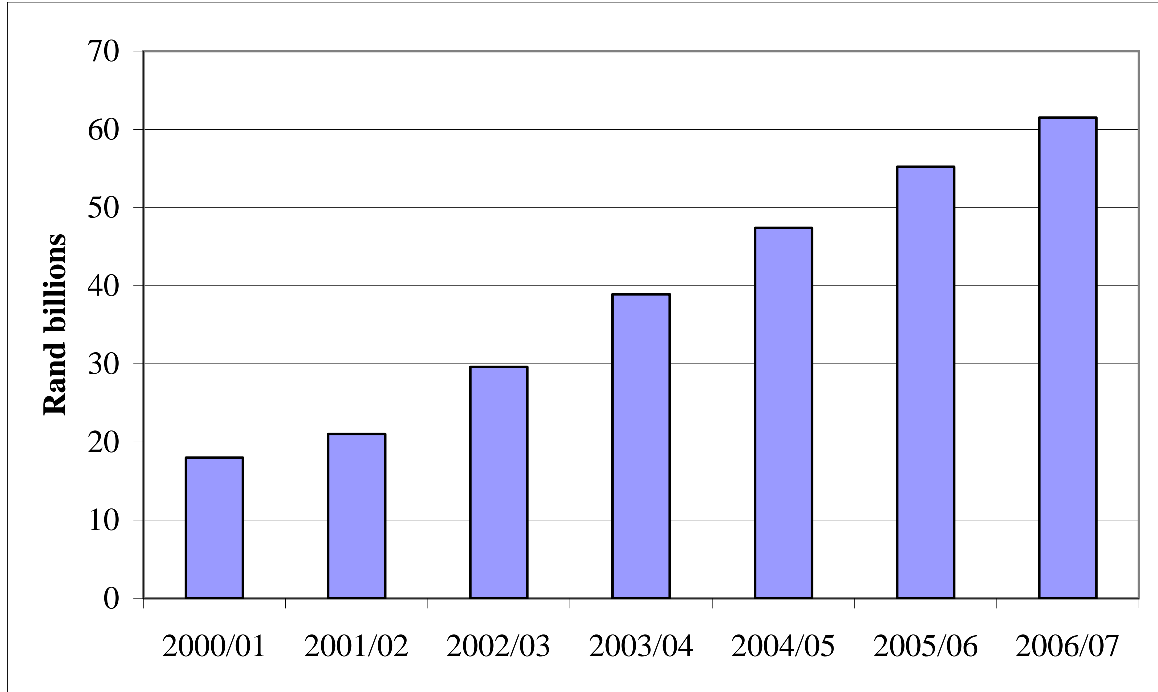
Chart 1: Government Spending on the National Cash Transfer Programme in South Africa



Source: National Treasury of South Africa

Table 1: Ease of Paying Taxes in Selected African Countries

	Ease of Paying Taxes	Tax Payments	Time to Comply (Hours per year)
Botswana	14	46	39
Cameroon	166	122	175
Central Africa Republic	175	153	154
Kenya	154	122	150
Lesotho	49	58	128
Senegal	164	160	163
South Africa	61	24	131
Uganda	55	93	85

Source: World Bank and PricewaterhouseCoopers (2007)
Note: The tax payments indicator captures the total number of taxes and contributions paid, the method used to effect payment, the frequency of payment and the number of agencies involved.

Table 2: Real GDP Growth Rates (estimates) in Countries with Cash Transfers, 2007 and 2008

	2007	2008
Botswana	5.0	5.2
Lesotho	4.9	5.2
Kenya	6.4	6.5
Malawi	5.5	5.2
Mauritius	4.7	4.7
South Africa	4.7	4.2
Zambia	6.0	6.2

Source: IMF (2007)

Table 3: CSR Focus Areas in Selected African Countries

Country	CSR Focus Areas
Kenya	Health&HIV/AIDS, Education&Training, Orphans&Vulnerable Children, Agriculture&Food Security
Nigeria	Education&Skills Development, Healthcare, Infrastructure Development, Sports&Culture, Poverty Alleviation
South Africa	Education&Training, Job Creation&Enterprise Development, Health&HIV/AIDS, Social Development
Zambia	Education, Health, Orphans&Vulnerable Children, Arts&Culture

Source: Trialogue (2007), Amaeshi et al (2006), Kivuitu et al (2005).

Table 4: Bank and ATM Penetration in African and Latin American Countries

Country	Geographic Branch Penetration	Demographic Branch Penetration	Geographic ATM Penetration	Demographic ATM Penetration
Botswana	0.11	3.77	0.27	9.00
Ethiopia	0.28	0.41	-	-
Ghana	1.43	1.60	-	-
Kenya	0.77	1.38	0.56	9.38
Mauritius	71.92	11.92	133.00	22.04
Namibia	0.11	4.47	0.30	12.11
Nigeria	2.41	1.62	-	-
South Africa	2.22	5.99	6.49	17.50
Tanzania	0.23	0.57	0.07	0.17
Uganda	0.67	0.53	0.90	0.70
Zambia	0.21	1.52	0.09	0.65
Brazil	3.05	14.59	3.72	17.82
Colombia	3.74	8.74	4.10	9.60
Ecuador	4.38	9.30	2.97	6.32
Mexico	4.09	7.63	8.91	16.63

Source: Beck et al (2007)

Table 5: Payment Mechanisms in African and Latin American Cash Transfer Programmes

Country	Programme	Payment method
Brazil	Bolsa Familia	100% pull. Electronic transfer by a government bank, Caixa Econômica Federal. Money Collected using a debit card through a national bank network.
Colombia	Families in Action	100% pull. Over the counter at 7 mainly state-owned banks.
Kenya	OVC Cash Transfer	100% pull. Community level pay point. Payments are made through district treasuries and local post offices.
Malawi	Child Support Grant	100% pull. Community level pay point, usually a school.
Mauritius	Child Allowance	100% push. Paid into bank accounts of caregivers.
Mexico	Opportunidades	75% pull through development finance institutions and 25% push into bank accounts.
South Africa	Child Support Grant	79% pull through service providers at community level pay point. 21% push through private banks and the state Postbank.
Zambia	Pilot Cash Transfer Scheme	100% pull. Community level pay point. Schools and health centres are used.

Sources: Brazil Ministry of Social Development (2006), DFID (2006), Gopee (2006), Government of Kenya (2007), Schubert (2006), South Africa Social Security Agency (2007), Zulu and Schüring (2007).

Table 6: Unbanked People with Access to a Cell Phone

	Botswana	Namibia	South Africa	Kenya	Tanzania	Uganda	Zambia
% of total adult population banked	44.4	53.4	53.9	17.4	14.8	18.3	14.5
% of total adult population owning/accessing cell phones	34.0	36.0	53.9	26.0	14.0	26.0	17.0
% of unbanked people owning/accessing cell phones	17.0	7.0	31.0	17.0	9.0	41.0	9.0
Number of unbanked people owning/accessing cell phones	187,117	80,080	9,651,786	3,099,478	1,901,863	5,400,686	486,590

Source: Porteous (2007a)