

## Making the Case for Mobile Money: A Look at Social Cash Transfers for Development

This “FIELD Brief” is the nineteenth in a series produced by the Financial Integration, Economic Leveraging and Broad-Based Dissemination (FIELD)-Support Program. This brief discusses the nature of cash transfers and how mobile money can facilitate the process for more positive outcomes. This FIELD Brief was written by Chris Statham, a Tanzania-based consultant for FHI 360.

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### What are Cash Transfers

Social cash transfers are direct and regular (often monthly) resource transfers to individuals or households with a goal of reducing vulnerability and/or increasing consumption. Depending on how they are structured, as a tool for social protection, cash transfers can be expected to produce effects linked to a range of outcomes such as greater food security, financial stability, increased school attendance, or even reduction in HIV incidence. Cash transfers are often aimed at a combination of positive outcomes, for

example: reduction of HIV incidence through increased school attendance for at-risk youth. The outcomes expected by the cash transfers can either be explicit, by making the cash transfer “conditional” or implicit, with the cash transfer being “unconditional.” Each is discussed below.

**Conditional Cash Transfers (CCTs)** are those that require participants to engage in specific behaviors as a condition of continued eligibility (above and beyond other attributes or eligibility criteria, such as poverty status). These conditions can be seen as intended to overcome “market failures” that affect access to or utilization of services that are critical for long-term development, for example, lack of attendance in schools, or insufficient utilization of health services, such as vaccines or testing for sexually transmitted diseases. With CCTs, two effects can be expected: an “income effect,” given the influx of cash from the actual transfer, plus a “price effect” from the conditionality, which may generate increased demand for services that would not have existed. The “price effect” is clearly a distinguishing factor between the impact of CCTs and Unconditional Cash Transfers (UCTs), discussed below. It is also important to note that when participants fall out of compliance with a CCT condition, they become ineligible for the cash transfer. If non-compliance is associated with increased risk—such as dropping out of school—then households may be denied a cash transfer precisely at the time when they need it most.

**Unconditional Cash Transfers (UCTs)** are a more straightforward intervention. Participants are deemed to be eligible based on fairly objective criteria (such as age and/or poverty status) that can be verified independently or identified through a participatory process. The effects from UCTs are generally due to the impact of cash transfers on disposable income. Not only does the boost in income increase consumption (especially for basic goods/services), but the predictable nature of the transfer helps reduce risk exposure and facilitate investment in activities with higher perceived risk (such as income generation) or delayed returns (such as education). Importantly, UCTs continue to supply transfers after the onset of a shock, which is frequently when external support is most needed to prevent a downward spiral into riskier behavior and/or further social marginalization.

Regardless of the intended outcomes and whether conditions are set or not, there is another critical secondary benefit of social cash transfers, intentional or not, which is increasing financial inclusion for the targeted population. The mode of operational channel for disbursement of the funds can have a greater impact on financial inclusion in the long run.

### Operational Channels for Cash Transfer Disbursal

There are a range of options when it comes to disbursing cash. With recent advances in technology, some are newer than others, however each presents its own pros and cons. Table I below outlines some of the benefits and drawbacks of four different types of transfers:

**Table I. Assessing various channels for cash transfers disbursals**

CHANNEL	PROS	CONS
<b>Manual Cash Disbursals</b> (physical cash distributed on-site to each individual)	<ul style="list-style-type: none"> <li>• Have funds at point of delivery</li> <li>• Visible / tangible</li> <li>• Point of contact with recipient on each disbursal</li> </ul>	<ul style="list-style-type: none"> <li>• Theft and fraud opportunities</li> <li>• High operational costs</li> <li>• Data entry slows reporting mechanism</li> </ul>
<b>Mobile Money Transfer</b> (through a service such as Mpesa)	<ul style="list-style-type: none"> <li>• Low operational costs</li> <li>• Recipients do not need to be in formal financial sector</li> <li>• Quick management reports</li> </ul>	<ul style="list-style-type: none"> <li>• Limited or no mobile network coverage</li> <li>• Lack of Mobile Money Agents</li> <li>• Mandatory withdrawal fees</li> </ul>
<b>Point of Sale (POS), with smartcard</b> (similar to ATM, but a movable device that is utilized by the project)	<ul style="list-style-type: none"> <li>• Recipients may, or may not be in formal financial sector</li> <li>• Can collect biometric data</li> <li>• Security of money</li> </ul>	<ul style="list-style-type: none"> <li>• Limited to interaction points at POS agents</li> <li>• Cost of hardware and software</li> <li>• Liquidity and availability of POS agents</li> </ul>
<b>Bank Transfer</b> (electronic bank transfer from the project to the recipient)	<ul style="list-style-type: none"> <li>• Easy to transfer</li> <li>• Inclusion with other financial services</li> <li>• Security of funds</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of target participants being formally included at time of registration</li> <li>• Access to bank branch (distance)</li> <li>• Associated bank fees</li> </ul>

### Operational Issues to Consider When Deciding on Which Channel to Use

While each channel has pros and cons, there are also a number of operational issues that need to be taken into account. Table 2 below outlines some of these key issues, particularly convenience to the recipient and ensuring security of the funds being transferred.

**Table 2. Other factors to consider regarding disbursement methods**

Transfer method	Convenience for receiver	Security of transfer	Cost-effectiveness of implementation	Ease of Implementation (inc. minimal requirement of technical skills)	Minimized Operational costs
<b>Manual Cash Disbursement</b>	<b>HIGH</b>	<b>LOW</b>	<b>LOW</b>	<b>HIGH</b>	<b>LOW</b>
<b>Mobile Money Transfer</b>	<b>HIGH</b>	<b>HIGH</b>	<b>HIGH</b>	<b>MODERATE</b>	<b>MODERATE</b>
<b>Point of Sale (POS) with smartcard</b>	<b>MODERATE</b>	<b>HIGH</b>	<b>LOW</b>	<b>LOW</b>	<b>HIGH</b>
<b>Bank transfer</b>	<b>LOW</b>	<b>HIGH</b>	<b>HIGH</b>	<b>LOW</b>	<b>HIGH</b>

An example of the comparison of cash transfer operations was an initiative as part of a series of social protection programs following a devastating drought in Niger.<sup>1</sup> In the program, one third of targeted villages received a monthly cash transfer via “Zap” (i.e. mobile money transfer), one third received manual cash transfers, and the remaining third received manual cash transfers plus a mobile phone. Findings of this study include:

- Zap delivery mechanism significantly reduced the variable distribution costs for the implementing agency and program recipients’ costs of obtaining the cash transfer.
- Households in Zap villages used their cash transfer to purchase a more diverse set of goods, had higher diet diversity, depleted fewer assets and grew more types of crops, especially marginal cash crops grown by women.
- Potential mechanisms underlying these results are the lower costs and greater privacy of receiving the cash transfer via Zap, as well as changes in intra household decision making

The paper concluded that mobile money transfers could be a cost effective means of providing cash transfers for remote rural populations, especially those with limited infrastructure.

## Why Use Mobile Money

In general, organizations are moving away from manual cash transfers due to the high operational costs, security costs to counter theft by those delegated to disburse the funds, and for fraud with manual disbursements, both within the organization’s offices and field operations. Going “electronic” offers a number of benefits:

1. Reduced capital and operational expenditures
2. Increased outreach
3. Reduced cash handling: costs, theft and fraud
4. Back end and administration savings
5. Transparent and traceable audit trail
6. Quicker and more accurate management reports

<sup>1</sup> Jenny Aker et al. 2011. “Zap It to Me: The Short-Term Impacts of a Mobile Cash Transfer Program.” CGD Working Paper 268. Washington, D.C.: Center for Global Development. <http://www.cgdev.org/content/publications/detail/1425470>

A combination of the above can lead to greater financial inclusion and indeed the development of a whole financial sector, as was found in “Social Cash Transfers and Financial Inclusion: Evidence from Four Countries.”<sup>2</sup> This CGAP Focus Note presents evidence gained from a comprehensive study of four countries—Brazil, Colombia, Mexico and South Africa—on social cash transfer payments. The study focused on the experiences of 1) governments, 2) recipients, and 3) providers of financial services, collecting information from each group. It makes a distinction between three main approaches to making social cash transfer payments in the four countries. These are cash, limited-purpose instrument, and a mainstream financial account. Findings of the study included:

- Move from cash to electronic payments need not be more expensive
- Recipients welcome the convenience of electronic payment methods to access cash over previous arrangements where cash was distributed at a particular time and place
- Offering accounts to pay social cash transfers can be profitable and sustainable for banks at the individual account level as long as government fees at a reasonable level are factored in

The report recommends that a well-designed social cash transfer payment strategy should build on and support the development of the country's general retail payment system. The social cash transfer program can then help in the transition from cash to electronic and to more fully inclusive formal financial services.

## How Mobile Money Transfers Work

Mobile Money Transfers (MMT) enable an organization to electronically disburse bulk funds through a Mobile Network Operator (MNO) and its MMT platform to a number of recipients via their mobile phone. MMT allows an organization to disburse a large amount of transfers at very low cost per transaction, and allows the recipient to decide whether they want to cash out their balance or maintain it in their “mobile wallet” as an informal savings mechanism. There are two fundamental components of disbursing mobile money transfers that need to work hand in hand:

1. The **sending** of money by the donor/organization, using “e-money;” and
  2. The **receiving** of funds by the recipient who must “cash out” their funds at a Mobile Money Agent.
- Each of these is explained further below and outlined in Figure 2.

### Sending Money

To disburse cash transfers using Mobile Money an organization purchases electronic money (“e-money”) by depositing funds (via a bank transfer from its bank account) into an MNO’s MMT Trust Account (for example Mpesa in Kenya). The MNO then credits the organization’s MMT “wallet” to the same amount that the organization deposited.

### Mobile Money vs. e-Banking

E- Banking comprises of a number of channels – ATMs, mobile (SIM) banking, Internet banking and Point of Sale devices. For the recipient of the cash transfer, there is need for them to be existing bank account holders. As cash transfers are designed for the “Bottom of the Pyramid,” many will be financially excluded, especially from formal financial institutions which offer the above channels. On the other hand Mobile Money does not require the recipient being “financially included,” but just that they have a SIM card, with which they have a registered mobile money wallet.

<sup>2</sup> Bold, Chris, David Porteous, and Sarah Rotman. 2012. “Social Cash Transfers and Financial Inclusion: Evidence from Four Countries .” Focus Note 77. Washington, D.C.: CGAP, February.

The disbursing organization can then upload a file usually using an online web-based platform containing the mobile numbers of the intended recipients and cash transfer amount. E-money is then transferred from organization's wallet to recipient's wallet. When that happens, the recipient receives a confirmation SMS alerting them of the deposit, and the organization gets a report of all e-money disbursed.

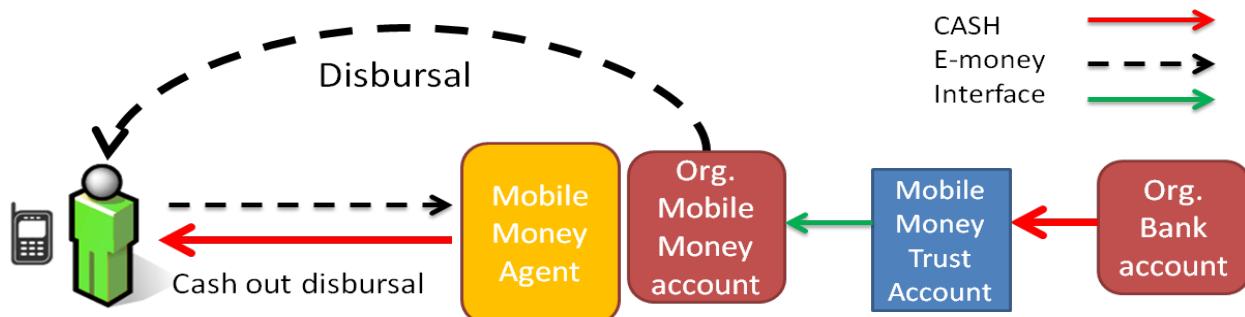
### Receiving Funds

Upon notification, the recipient may then "cash out" their e-money by accessing a Mobile Money Agent. These agents are generally independent entrepreneurs who operate as a Mobile Money Agent as a side-business, and generate revenue by charging a withdrawal fee for every time a recipient cashes out. Because the recipient does not have to cash out this fee need not be prohibitive for the recipient, while remaining profitable for the agent. Operating at the village/local level, in Kenya and Tanzania there are an estimated 20 times as many mobile money agents as there are bank branches and ATMs combined.

A mobile money agent, or "Wakala," in rural Tanzania for MMT M-PESA.



Figure 1. Cash Disbursals: How they work through Mobile Money



The amount of mobile money in the whole "ecosystem" (personal wallets, agent wallets, etc.) is always equal to the balance in the trust account. That is one of the reasons why mobile money is regulated by the Financial Services regulator; mobile money is considered as a saving. When "purchasing" mobile money or making a deposit, the remaining physical cash and mobile money combined will equal the original total balance. Mobile money would appear as a liquid or current asset on an organization's balance sheet.

### Implementing Mobile Money

To use Mobile Money for cash transfers, there are a number of operational issues that need to be considered when planning the implementation.

## **Conduct A Feasibility Study:**

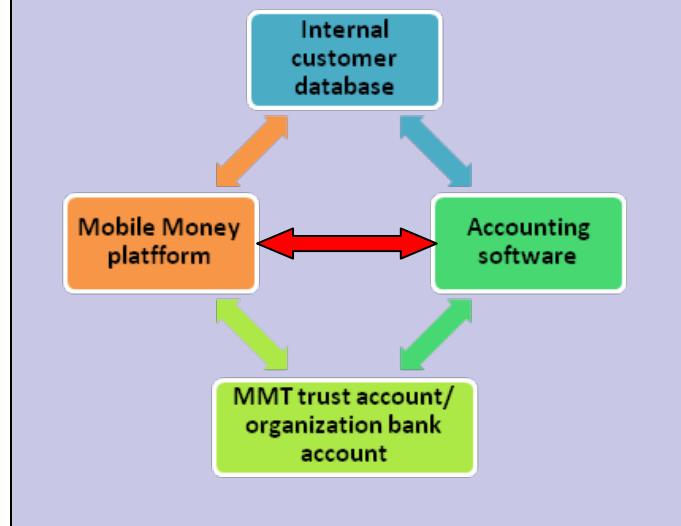
This should include a close look at:

1. Scale of mobile money usage and awareness in both general public and target population
2. Functionality of mobile money web platform (to be able to make disbursals)
3. Agent coverage
4. Network (signal) coverage
5. All associated operational costs and fees of using mobile money i.e. transfer fee, withdrawal fee and other fees (if applicable)

## **Project Implementation Plan**

1. Development of mobile money specific procedures manuals
  - a. Internal audit
  - b. Reconciliation and accounting
  - c. Job description modification for all – roles and responsibilities
  - d. Escalation procedure to mobile money operator
  - e. Purchase of e-money
  - f. Disbursal procedure (maker / checker)
  - g. Monitoring and Evaluation
2. Mapping of:
  - a. Target population
  - b. Agent coverage
  - c. Network coverage
3. Mobile money operator relationship
  - a. Head office
    - i. Associated fees
    - ii. Procedures of crediting and debiting e-money account
    - iii. Know Your Customer & Anti Money Laundering (KYCAML) policies
    - iv. SIM card availability and registration process
    - v. Website services operations and training
    - vi. Co-branding of marketing materials
    - vii. Co-training of staff and recipients – especially financial literacy
  - b. Agents
    - i. If not enough agents – how do you work with agent aggregators to get more agents into the locality where target population live?
    - ii. Standards and codes of conduct of agents
    - iii. Sufficient cash liquidity, for when recipients cash out their transfers
4. Monitoring and Evaluation
  - a. Staff and recipient feedback
  - b. Daily, weekly, monthly reports - Field to head office, and vice versa

**Figure 2. “Four Cornerstones” of a successful mobile money program.**



By completing the above activities, it will be possible to connect the “four cornerstones” of successful mobile money implementation, and in doing so, will achieve the desired transparent audit trail.