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DELIVERING SOCIAL TRANSFERS

Introduction

One of the most significant challenges facing any social transfer programme is how to deliver the transfer to the intended beneficiaries - many of whom may live in remote areas - without fraud, corruption or other abuse, and at an affordable cost.

From public to private sector delivery

Historically, in southern Africa, social transfers - predominantly food but also agricultural inputs - have been physically delivered either directly to the beneficiary, or to the nearest clinic or school. These delivery systems are typically government coordinated and NGO implemented. While large fertiliser companies, grain importers and private hauliers have benefited, parts of the delivery processes are subject to inefficiency and corruption, with the result that the full amount of the transfers does not always reach the intended beneficiaries.

Alternative delivery mechanisms rely on using the private retail sector for distribution. Malawi, for example, has piloted a number of successful voucher-based schemes for the delivery of food, inputs or as a proxy for cash through the retail network - and such voucher-based programmes have a good record of success in the cash crop sector. Several countries are currently investigating outsourcing the delivery of comprehensive social transfer programmes to the private sector, including the Lesotho and Swaziland old age pensions, the Mozambique food subsidies programme (PSA), and the Malawi fertiliser subsidy scheme.

Two concerns are often raised about the potential for a greater role of the private sector in the delivery of social transfers; but both of these can be contested:

- The first is **coverage**. There may be countries (or parts of countries) where retail outlets do not operate efficiently - and of course in such areas physical delivery may remain the only option - but these are fewer than might be expected. Lesotho and Swaziland for example have relatively good networks of private retail outlets which serve even the most remote mountain areas. In Malawi, a country not immediately recognised as having a sophisticated retail network, a study commissioned by DFID in 2001 showed that 85% of the population was within 20 km of a retail outlet belonging to one of the country's five major retail chains (that is, even apart from the small independent operators and traders).
- The second concern is the **capacity** of the retail network to perform. There is often scepticism in government circles about the notion that market liberalisation and private sector development can foster food security. However, the successful operation of the wheat market in Zambia or the maize market in southern Mozambique demonstrates that, when a conducive operating environment and proper regulations are supported by the government, private enterprises can and do function to the benefit of both

producers and consumers. If they are given the right incentives and are involved in the design and planning of social transfer delivery systems, the private sector will become willing participants.

From vouchers to cash and beyond

Cash is being more widely promoted as a social transfer, especially where such programmes have wider objectives. It is far less bulky than other types of transfers (such as food or fertiliser) and thus much easier to deliver. However, secure delivery of cash has traditionally presented problems in southern Africa; and current delivery systems, while pointing a clear way forward, nonetheless present certain difficulties and disadvantages.

- **Local banks** have proved appropriate for more urbanised settings (as in Swaziland's public assistance programme); and for urban recipients within a predominantly rural environment (as in Zambia's Kalomo and Chipata cash transfer programmes); but they may be inappropriate in more remote rural areas.
- **Mobile banking** may be a more effective way to reach remote recipients, and has been used effectively by NGOs in Mozambique and Malawi, but it is expensive when the client base is thin, and might also not have sufficient flexibility in timing.



Source: Concern Worldwide

- The use of local **money-transfer companies** can be exploited (as in Somalia, for example, where traditional remittance mechanisms were used to distribute cash payments), but this requires the pre-existence of such systems and a good understanding of local context.
- **Direct payments** by an implementing agency are also possible, for example through NGOs, as in Zambezia, Mozambique; through post offices, as in the case of Lesotho's old age pension; or through retailers, as with a number of voucher schemes for food and agricultural inputs, in Zimbabwe, Malawi and elsewhere. But creating new infrastructure is administratively intensive and requires advance orders of money from banks; there are security risks of cash-in-transit heists; and the difficulty of verifying the entitlement rights of beneficiaries can lead to corruption and fraud.

Emerging technology

As the potential for corruption is a major obstacle to successful cash transfers, innovative delivery mechanisms need to be identified in conjunction with private sector partners. New information and communications technologies (ICTs) are breaking down the barriers to delivering small amounts of cash to large numbers of people. This is manifesting itself in a number of areas: for example in fingerprint recognition, smartcards, cell phones and 3G networks, which together overcome the twin problems of beneficiary identification and secure transfers to remote areas.

In terms of **beneficiary identification**, smartcard technology provides the means to store incontrovertible biometric identifiers (such as fingerprint data) together with a range of financial accounts (or "wallets") for individual cash entitlements. These wallets can be topped up remotely at regular intervals, for example to pay welfare benefits or old age pensions, or to transfer rights to medical treatments such as ARVs, or even to give access to physical entitlements such as agricultural inputs ... or food aid!

What is a smartcard?

A **smartcard** is the same size as a credit card or cell-phone top-up card. But, unlike these, it has an integrated circuit (or chip) that carries all necessary functions and information on the card - it does not therefore require access to a remote database at the time of a transaction. When inserted into a reader the chip makes contact with electrical connectors that can read the stored information, and write information back. When used for social transfers, each beneficiary is issued with a smartcard that contains information on their entitlement to a grant. It may also contain additional identification data such as biometric fingerprinting. The cash transfer is assigned to the chip remotely. When the beneficiaries insert the smartcards into a reader, for example at a bank, post office, or retail outlet, the chip shows that they can collect their cash (or use it to make purchases). Details of the delivery of each transfer are able to be tracked in real time from the donor to the beneficiary.

In terms of **extending the reach** of secure transfers, improved communications and innovative approaches are making "branchless banking" a reality, allowing the delivery of basic financial services to even the remotest of rural areas, with retailers and even individual traders acting as banking agents.

In South Africa, Namibia and Botswana, social pensions are already being paid through smartcards. Each recipient has a smartcard with his or her fingerprints recorded. Each month, the pension is transferred electronically to the card account, and the beneficiary can access the funds either through conventional banking infrastructure, or through mobile ATMs, or through simple point-of-sale terminals in

retail shops - even street-traders and village merchants are now clubbing together to share the use of such low-cost terminals, further extending the reach of the financial sector.

Such systems are highly **secure** (because of the biometric identification), very **flexible** (because recipients can spend or withdraw money when and where they desire), and much **safer** than conventional cash delivery. They also provide benefits and incentives to the retailers involved, which encourages them to offer a wider range of financial services, which in turn stimulates the local economy and creates a virtuous spiral of development. Smartcards themselves also offer a much wider range of potential applications within a country - from national identity cards to voter registration, and from medical history to tax records. Where these can be leveraged, the incremental cost of using them for making cash transfers to the poorest is negligible.

Looking ahead

While smartcards have enormous potential to overcome the need for expensive delivery infrastructure and leakages of payments to the wrong beneficiaries, in the long term it may be cell phones that provide the best promise for cash transfers. They are much smarter than smartcards: they can be activated/ deactivated remotely; they have a screen which can show information (such as a credit balance); they have a keyboard (eg for entering a PIN code); and, of course, they can communicate (eg to be topped up with stored credit from an online bank account without having to go near an ATM). Although this system requires extensive network coverage, distribution of phones and access to electricity, these factors could potentially be offset by the rapidly falling costs of handsets, and the rapidly expanding network coverage. It is therefore likely that universal mobile phone access will provide the platform for national social transfer systems within the next decade. A recent African development is the M-Pesa in Kenya: the mobile operator allows subscribers to send cash to other phone users via SMS as well as keep an amount of cash in a "virtual account" on their handsets. This new venture has the potential to revolutionise banking in Kenya and elsewhere.

In conclusion

New technologies mean that the difficulties associated with delivering social transfers are rapidly being overcome. Innovative delivery mechanisms, leveraging the private sector and the significant potential of mobile banking, are being developed that reduce the risk to the implementing agency when transporting and distributing the transfer, ensure efficient distribution to beneficiaries, and reduce the management loads on implementing agents.