POLICY BRIEF

Landscaping Financial Inclusion and Its Linkages with Social Protection in Africa

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In Sub-Saharan Africa, the number of core social protection programmes has grown from 25 in 2000 to 245 in 2012, and real expenditure has more than tripled from 1995 to 2011, representing a powerful political commitment to investment in social protection. Many African governments and their development partners and civil society counterparts increasingly view financial inclusion as a complementary approach to expanding social protection in order to not only tackle poverty, vulnerability, inequality and social exclusion, but also to broadly promote developmental impacts that contribute to inclusive human development and equitable economic growth.

As the centre of social protection strategy-building has shifted from social ministries to economic institutions within governments in Africa (including finance ministries and planning commissions), policy-makers have elevated their expectations on the developmental impact of social protection programmes. This transition has emerged in light of an evolving evidence base that demonstrates how social protection can synergise with other policy sectors in order to build human capital, strengthen livelihoods engagement, generate local economy multipliers and reinforce social inclusion.

This brief presents an introduction to research produced by the Economic Policy Research Institute in partnership with The MasterCard Foundation and aimed at strengthening the evidence base surrounding financial inclusion strategies linked to social protection programmes. The report develops case studies of eight African countries: Ethiopia, Ghana, Kenya, Malawi, Rwanda, Tanzania, Uganda and Zambia. (For a copy of the full report, please email gcu@epri.org.za or visit www.epri.org.za.)

The analysis of the case studies identifies four important common patterns:

- Increasingly, governments in Africa are piloting and adopting financially inclusive mechanisms for delivering social protection benefits, investing in technologies with significant fixed systems-related expenditures but which generate substantial long-term cost efficiencies while improving delivery reliability. The early lessons of success from these countries, and an already rich evidence base on similar interventions globally, can inform future innovation.

- Policy-makers view financial inclusion as a cross-cutting innovation that can expand the developmental impact of social protection programmes—especially those that involve direct transfers of benefits to households and individuals. Every country in the study is at least piloting a social protection-linked financial inclusion initiative. Financial inclusion strengthens the policy case for scaling up joint programming.
- The inter-sectoral nature of social protection creates natural opportunities to build linkages not only with financial inclusion policies but also with other sectors of social and economic policy, particularly with human capital initiatives and livelihoods interventions. This inter-sectorality opens the space for policy-makers to build comprehensive systems to deliver social protection, broaden financial inclusion and provide for more developmental opportunities.
- Nevertheless, both technical and political factors sometimes create supply-side barriers impeding financial inclusion's potential to expand the developmental impact of social protection programmes. The relatively high cost of providing access to the poorest and most vulnerable households, often located in the most remote parts of the nation, interacts with typically weak infrastructure, creating technical challenges. Also, despite significant country-specific progress towards an enabling environment for financial inclusion, national regulatory frameworks sometimes exacerbate barriers to entry and dampen innovation. These barriers may make it difficult for the suppliers of financial services to effectively respond to the growing policy-maker demand for financial inclusion mechanisms to expand social protection's development impact.

Tackling these barriers and better enabling the broad-based policy-maker demand for financial inclusion linkages with social protection require policies and interventions that:

- Support an enabling policy and regulatory environment that encourages the introduction of innovative but secure financial services that can, among other objectives, enrich options for social protection delivery systems;
- Ensure social protection linkages with financial inclusion mechanisms support both the business models of financial institutions and the developmental opportunities of beneficiary households;
- Strengthen competition policy and consumer protection mechanisms to ensure that the private sector works effectively to deliver supportive sand productive financial mechanisms accessible to low-income households; and
- Develop cross-sectoral evidence-building and financing mechanisms that enable lessons of national and global experience to inform more integrated and comprehensive policy responses linking financial inclusion, social protection and other complementary sectors.