

ERSA Research Brief

The private sector has a role to play in cash transfers programmes in Africa

Sheshangai Kaniki

Arguments for greater participation by the private sector in growth-boosting and poverty-reducing initiatives in Africa are intensifying with the mounting fear that the Millennium Development Goals will not be met. In “The Private Sector and Cash Transfers in Africa”, (ERSA Working Paper No. 80), Sheshangai Kaniki argues that the private sector has a pivotal role to play in cash transfer programmes – national social protection frameworks that traditionally have fallen within the realm of government policy tools. He examines three possible avenues for the private sector involvement in cash transfer programmes in Africa: through the financial sector’s payment mechanism, via business taxes, and through companies corporate social responsibility (CSR) programmes.

The economic rationale for private sector involvement in cash transfers takes account of the criticism that these programmes lead to dependency, or that they are subject to abuse. Kaniki cites evidence that, when implemented correctly, cash transfers are effective in redistributing income to lower income groups. They also contribute to the nutrition status, health and education of the recipients, and to the human capital levels of the economy

Kaniki argues that the safety net provided by these effects is essential to improving the investment climate, without which risk taking and innovation by the private sector is not possible. In short, businesses’ involvement in well-designed cash transfer programmes generate positive feedback for the private sector.


The author stresses, though, that cash transfers are in no way a complete solution to the complex solutions facing the continent.

Cash transfer programmes that make business sense

The paying of taxes is one vital way in which the private sector participates in pro-poor cash transfer programmes run by governments. Kaniki points out that better tax revenue performance ensures the long-term sustainability of these programmes, while reducing dependency on donor support.

He calls on policy makers to simplify tax systems as a means to boost revenue collection. In addition, corruption must be tackled to support the efficiency of the tax system and to promote a stable investment climate. More broadly, economic growth and private sector development must be encouraged through business-friendly initiatives such as reducing the costs of starting a business and easing access to credit.

Companies’ actions under the banner of corporate social responsibility contribute to poverty reduction; these could be harnessed into cash transfer programmes. CSR is a relatively new and underdeveloped concept in Africa, though, but Kaniki regards this as an opportunity: Governments have a window of



opportunity to steer the CSR agenda in line with national poverty eradication programmes, which would include cash transfers.

It is up to governments to provide clear mechanisms for CSR programmes. Ideally, they could establish a common fund, so that the private sector can contribute to national cash transfer programmes. Kaniki explains that, for this to be successful, it is essential to raise awareness of how cash transfers are aligned to the objectives of CSR.

The private sector could also be drawn into the cash transfer system by providing the delivery mechanism for the payments. In particular, it could ensure that payments of cash transfers are regular, secure, predictable and convenient. But, for this to work, the financial sector would need to improve non-bank delivery methods and increase its still-limited penetration in African countries. There are additional challenges to delivery mechanisms: payments could be made through ATMs, but these remain limited in Africa due to the high input costs. Mobile banking must also still see much development before it becomes a completely viable delivery mechanism. And, although mobile branches can enhance access, they, too, are expensive to set up.

Kaniki concludes that the role cash transfers play in alleviating poverty is becoming increasingly important. Cash transfers are crucial in building human capital, and this in turn is vital for the long-term development of the private sector. But Kaniki says that although the private sector's role in cash transfers can be beneficial, there is a need for greater Africa-focused research, which is still lacking.
