Money or Power? Financial Infrastructure and Optimal Policy

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During times of crisis, do people prefer cash or in-kind transfers, and why? To study this, we ran surveys with more than 2,000 respondents across two separate contexts: urban Kenya and urban Ghana.

Introduction

Many countries expanded social programs in response to the Covid-19 pandemic. While some countries expanded cash transfer programs, others lowered or postponed payments for utilities and other common services, such as electricity, water, transport, and mobile money services. While in-kind transfers constrain what recipients can consume, they may be preferable over cash if they circumvent savings constraints or reduce transaction costs, especially when transfers are infra-marginal; but they may also be chosen for non-economic reasons, like private interests, political economy considerations, and paternalism. This study asks: during times of crisis, do people in developing countries prefer cash or in-kind transfers and why?

Data and Methodology

Two of the most common forms of government pandemic social protection programs are pre-paid electricity credit and mobile money transfers. To compare demand for mobile money (equivalent to cash where mobile money is accepted) and pre-paid electricity credit, we surveyed more than 2,000 adults across two comparable contexts in Africa: urban Ghana and urban Kenya.

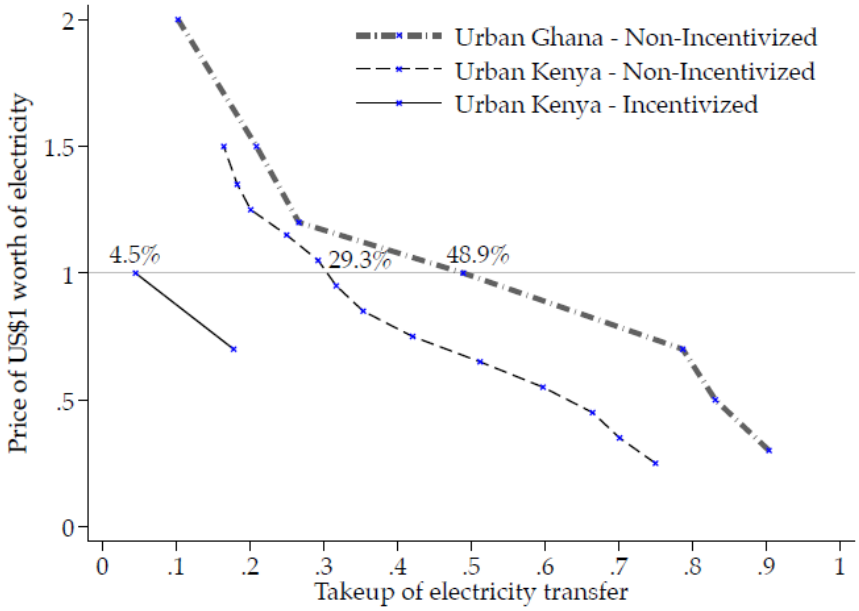
Urban Kenya and Ghana appear comparable across many dimensions. According to data from World Development Indicators and the Demographic and Health Surveys, 94% and 91% of urban residents in Ghana and Kenya have access to electricity; 98% and 99% progress to secondary school; and there are 1.3 and 1.0 mobile cellular subscriptions per capita, respectively. Furthermore, 92% and 94% of households in urban Ghana and Kenya own a mobile phone; 73% and 74% own a radio; 17% and 16% own a bicycle; and 7% and 6% own a motorcycle.

Findings

We find a large and significant gap in preferences between these two settings, as illustrated by Figure 1. In urban Kenya, 95% of respondents in an incentivised experiment prefer mobile money, and many are willing to

forego significant value to receive mobile money rather than an electricity transfer. In Accra, the capital of Ghana, just 50% prefer mobile money over pre-paid electricity of the same value in a hypothetical scenario, and many would forego significant value to receive electricity. Socioeconomic and survey characteristics contribute to this gap, but a large difference persists even when controlling for these.

Figure 1



Conclusion and Policy Implications

A leading explanation for differences in preferences is the difference in mobile money infrastructure between Kenya and Ghana. In Kenya, 97% of households have at least one mobile money account, 75% of adults regularly use mobile money, and mobile money is almost universally accepted for commercial transactions (Suri et al. 2021). In contrast, only 39% of adults in Ghana have a mobile money account (Bank of Ghana 2019). Moreover, the 2009 integration of the payment system of Kenya Power (Kenya's utility) with Safaricom significantly lowered the transaction costs of buying electricity (Safaricom 2019). In Ghana most consumers must physically visit a vendor to purchase electricity credit. Cash transfers disbursed as mobile money can thus be used more flexibly in Kenya than in Ghana. These results suggest that the optimal form of government transfers (mobile money or electricity credits) will depend on a country's financial transactions infrastructure.

Moving Forward

Financial infrastructure is changing in many countries, in particular with rapidly increasing usage of mobile money. As a result, optimal means of providing support during crises may increasingly tend towards mobile money transfers. At the same time, mobile money penetration may remain low in some communities—including those with low financial literacy, those where intended recipients lack the technological know-how or are too poor to own a cellphone or afford transactions fees. In these contexts, in-kind transfers may remain preferred.

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