

Chapter 13

Payment arrangements for cash transfers

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The objective of this chapter is to describe the range of payment arrangements that are available for social transfers. In particular, it will examine new possibilities for financially inclusive payment arrangements.

Introduction

Key section message: Cash remains the most common payment arrangement for social transfer programmes in developing countries, but new possibilities for financially inclusive payment arrangements are opening up.

Most social transfer programmes in developing countries today are cash-based. As highlighted in our first report, the payment arrangements of these programmes remain an afterthought for most programme designers.¹

However, there are signs that this is starting to change. Two main forces are driving this change. First, there is mounting evidence that appropriate financial services, such as savings and microcredit, can bring additional benefits to recipients in ways that enhance the developmental benefits of the social transfers (see Box 13.1). The recent book *Portfolios of the Poor* chronicles the monthly use of financial instruments by poor households in three countries to demonstrate that poor people already use a range of financial instruments and that there is strong demand for convenient, safe and affordable financial services.²

Second, the rapid spread and takeup of wireless communications in developing countries has had profound effects on the lives of people, including poor people (see Box 13.2). One effect has been to allow the development of new channels so that financial services can be offered beyond traditional service

Box 13.1: What difference do financial services make to the lives of poor people?

Economists Dupas and Robinson (2008) used rigorous experimental methodology to show that savings enhance the welfare of the poor. Savings accounts were provided to self-employed women in a village in rural Kenya. The accounts paid no interest on deposits, and there were fees for withdrawals. After 4-6 months, those who had opened a savings account had increased their average business investment roughly 40% more than those who had no account. Furthermore, six months after opening the account, the daily private expenditures of the women were around 40% higher than women in the control group who had no account, and the average daily food expenditures were up to 28% higher, suggesting that higher investment led to higher income.

Barrientos and Scott (2008) have suggested that the developmental benefits of social transfers are enhanced when they lead to savings and investment, which may create a long-term pathway out of poverty: financial services such as savings and credit enable the effects of the social transfer to be spread over time so that poor people can invest in human capital (by investing in health and education) and economic capital (by accumulating income-generating assets). Using the example of BRAC's IGVDG programme in Bangladesh (see Hashemi and Rosenberg 2006), they cite the positive benefits which appropriate financial services can bring.

SOURCES: Dupas and Robinson (2009), Barrientos and Scott (2009) and Hashemi and Rosenberg (2006).

points like the bank branch – known as 'branchless' banking – in areas which were previously unviable to serve. Although many recipients of social transfer programmes today do not have their own mobile phones, mobile coverage in developing countries is rising rapidly.³ Today, new delivery mechanisms using local merchants as bank agents and/or using recipients with shared cell phones are enabling even the very poor to access formal financial services.

Enhancing the payment process

Key section message: Today, enhanced payment options can create stepping stones to financial inclusion. This section also introduces key words and issues such as “store-of-value account”, “financial instrument” and “channel”.

Comparing payment arrangements

There are three main approaches towards the payment of social transfers in developing countries today. In order of their prevalence,⁴ they are: 1) cash payment, 2) special purpose transfer accounts and 3) financially inclusive accounts. The latter two approaches are sub-categories of what we previously dubbed 'enhanced' payment approaches,⁵ since it now is important to distinguish more finely within this broad category. The three approaches are contrasted in Figure 13.1 and the comments that follow.

Social transfers paid in cash require that the recipient come to a defined point, such as a post office or other government office, at a particular time to receive the payment. The alternative is to transfer the funds to an account in the name of the recipient. The recipient can then withdraw cash as needed. Clearly, on a cost basis alone, most proponents of social transfer programmes would prefer the latter approach because the cost of an electronic transfer is typically very small, and the

Box 13.2: How are cell phones changing the lives of poor communities?

Researchers have found strong evidence of cell phones' positive impact in reducing transaction costs for small producers and consumers.

For example, phones enable small farmers to collect price data more easily, which means that they can get better prices, and local markets can work more efficiently. In rural West Africa, food producers have traditionally sold their produce only in their local markets because they had no easy way of establishing prices and supply conditions elsewhere. However, recent research by Aker (2008) on grain markets in Niger found that grain traders used cell phones to gather and disseminate information across local grain markets. This reduced the dispersion of prices and also smoothed variations in pricing.

In his research among fishermen in the Indian

state of Kerala, economist Jensen (2007) was able to look beyond the effect of cell phones on pricing to the welfare of those using them. After the introduction of cell phones, fishermen no longer simply brought their catch to the nearest town, but rather called ahead to buyers in several markets before choosing where to land with their catch. Following the adoption of cell phones, the fisherman lost less of their catch as a result of unsold fish at oversupplied markets, and their profits increased as a result. In addition, as the result of more competitive markets, the average price of fish to buyers declined. Jensen concluded that investment in information technologies may have more value for social development purposes than is usually recognised.

SOURCES: Aker et al. (2009) and Jensen (2007).

	Cash paid	Special purpose transfer	Financially inclusive
Payment instrument	Cash	Electronic transfer to a store of value	
Functions of account	N/A	Only withdrawal in one amount	Can withdraw in part; and make and receive other payments
Where cash can be collected	Only at specified pay points	At pay points; and potentially other service points	At range of financial sector service points
When cash can be collected	At specified time	May be specified only for special purpose infrastructure; within time window	At any time at which service points operate

Figure 13.1 Comparing cash payments to other delivery approaches

costs of operating the account and cash withdrawal are shifted to the recipient. However, there have been two constraints to this approach:

1. Most transfer recipients in developing countries do not already have a bank account. In low-income countries, only those in the top fifth of the population typically have bank accounts, and banks have had limited interest in serving very poor. Furthermore, regulations specifying the form of identification necessary to open an account often prohibit the inclusion of very poor people, who usually do not have the requisite formal identification.

2. Even if a transfer recipient does have a bank account, there often are no convenient places to withdraw cash from the account in order to buy the necessities for which the transfer was intended.

Over the past decade, the creation of a special purpose account has been an increasingly common approach in middle-income and wealthy countries. This store of value is usually linked to a card of some form, which is linked to the recipient. The full cost of the account is paid for by the social transfer agency, addressing the first constraint above. Social transfers are paid into special purpose accounts, which are not bank accounts, but stores-of-value whose sole or main purpose is to allow the recipient to withdraw the transfer, usually within a defined time period. The recipient may be able to access the funds at general purpose banking service points such as ATMs or other bank branches. Typically, only in middle-income and relatively urbanised countries like Brazil or Argentina have these existing service points been accessible enough to address the second constraint above: a convenient point of access to withdraw the funds. If there is no existing distribution network in an area, then providers must build new financial service points, whether fixed or mobile. This has been the case in South Africa, where private payment providers supply thousands of special purpose or mobile paypoints, the cost of which must be recovered in the fee paid by the transfer agency.

The special purpose account usually provides no financial services other than the withdrawal of the transfer. For example, the recipient may not leave funds behind in the account as a form of savings, deposit other funds or receive other payments like remittances. These restrictions are the main difference between the special purpose and the financially inclusive approach.

Financial inclusion has become an increasingly important policy goal among developing countries, especially since the UN Year of Microcredit in 2005 drew attention to the positive effects of microcredit, microsavings and microinsurance. Financially inclusive arrangements offer transfer recipients a financial instrument which can be used for purposes beyond that of receiving the payment, such as saving a portion of the transfer by not withdrawing the full amount each month, as well as making or receiving other payments. Indeed, the ability to authorise electronic payments from an account reduces the cost of offering other financial services such as insurance and credit, since the small repayments or premia can be collected electronically rather than in cash.

A basic bank account, or ‘no frills account’ as it is called in India, may constitute a financially inclusive instrument. Increasing numbers of countries require or encourage the banking sector to issue these accounts. However, in many places, regulations apply to the opening of a bank account which may restrict eligibility. For example, “know your customer” rules usually require that banks confirm customers’ identities using documents that poor customers may not have, or verify customers’ addresses, which are often not well defined and not easily verifiable. Even where exemptions are provided from these rules to provide for low risk, low value accounts, the regulation associated with offering banking services, and the structure of banking markets, may make it

unviable or unattractive for banks to offer these services.

Consequently, rather than bank accounts, we use the broader term ‘store-of-value’, which can include a number of different account types. These include pre-paid card and mobile money accounts, which are issued by cell phone companies and other providers. These providers may have cost structures and better distribution, which enable them to offer small store of value accounts on a cost-effective and profitable basis. In all cases where it is legal for non-banks to offer financially inclusive products, it is important that the programmes be managed so as to ensure no risk to the balances of poor recipients held in these accounts.

Financially inclusive options are increasingly being offered in large- and small-scale programmes, as the examples in Figure 13.2 show.

Country and name of programme	Type of programme	Payment approach and instrument	Additional financial services provided
Brazil Bolsa Familia	Large, long-term conditional cash transfer programme (CCT)	Electronic benefit card (magstripe) now migrating to full bank account accessed by debit card	Since 2008: a basic bank account issued by state bank (Caixa)
Mexico Oportunidades	Large, long-term CCT	Cash (75%); bank account (25%)	Savings in bank accounts at state bank (Bansefi)
South Africa Child care grant	Large, long-term unconditional cash transfer (CT)	Cash, pre-paid smart card or debit card account	Savings, credit, insurance offered by some providers (Allpay/ABSA)
Colombia Familias en Accion	Large, long-term CCT	Migrating in 2009 to bank account, accessed by debit card	Savings in basic bank account issued by state bank (Banagrario)
India* NREGA	Large, long-term workfare programme	Smart card used at point of sale of agents	No frills bank account, with savings functionality under design
Kenya* Hunger Safety Net	3 year pilot CT (underway 2009)	Smart card used at point of sale of agents	Electronic store of value with savings functionality issued by private bank (Equity Bank)
Swaziland* Save the Children	Short-term relief (finished)	Magstrip card linked to bank account used at ATMs	Savings in bank account (Standard Bank)

* also described elsewhere in this chapter

SOURCES: BFA (2008) and DFID (2009).

Figure 13.2 Financially inclusive payment approaches in social transfer programmes

Benchmarking payment arrangements

What should programme designers expect from the payment arrangements, and how should expectations differ among the different approaches outlined above?

Figure 13.3 below sets out five key areas in which programmes normally

have explicit or implicit objectives, and compares the delivery approaches based on the evidence to date.

Key objectives of delivery process	Cash paid benchmark	Special purpose transfers	Financially inclusive arrangements
Average time taken by beneficiary to collect (travel and queuing)	2-4 hours	Depends on infrastructure: typically less than 1 hour	<1 hour
Cost per payment cycle	2-15%/ \$1-4	2-15%/ \$1-4	\$1-3
Leakage	4-15%	<2%	<2%
Time to implement	3-6 mos +	Depends on availability of existing service points	Depends on availability of existing service points
Additional financial services provided to recipients	Possible, but not standard or facilitated by payment provider	Possible, but not standard or facilitated by the payment provider	May be offered by the provider; facilitated by lowered costs of transfers

SOURCES: BFA (2008) and DFID (2009).

Figure 13.3 Benchmarking objectives of payment approaches

Clearly, the context and specific arrangements of different programmes vary widely, so the comparison above must be regarded as indicative. However, a few distinguishing features are apparent.

- Special purpose and financially inclusive arrangements tend to reduce the transaction costs for recipients (line 1 in Figure 13.3 above) because they introduce more options to receive money at convenient times and places.
- However, they do not necessarily reduce the cost per payment to the transfer agency (line 2) or the time to implement (line 4). The possible time delay raises the question of whether an inclusive approach can ever be used for short-term or emergency transfer programmes – see Box 13.3. The cost and time to implement will depend on the extent to which existing financial service points can be used. If these are available, it is safe to say that the cost can be reduced substantially relative to cash. However, where new service points have to be built, the cost of this has to be recovered in the fee charged for payment. This suggests that cash paid programmes may be cheaper over the medium term, but not in the long term.

Box 13.3: The experience of short-term programmes: Concern in Malawi and Save the Children in Swaziland

Can non-cash approaches be used for emergency or short-term transfer programmes? The time required for design and implementation of alternatives and the cost involved may outweigh the additional benefits. Nonetheless, the short-term nature alone does not necessarily rule out inclusive options, as these two examples show.

In late 2006, Opportunity International Bank of Malawi (OIBM) administered payouts for the charity Concern Worldwide during a six-month cash transfer programme for famine relief in the Dowa region of Malawi. Using smart card technology, funds deposited at OIBM were paid to each enrolled recipient using fingerprint readers and/or PINs to verify identity. Cash was disbursed from mobile OIBM vans, which circulated around defined paypoints at defined times. While there were some difficulties that required manual overrides in the early months, the funds were disbursed smoothly. The store-of-value features of the smartcards were never fully utilised, however, as recipients moved from one side of the van where their benefit was added to their smart card to the other side where their benefit was paid. And the cost of the smartcards coupled with the transaction fees charged by the technology provider resulted in a total cost that reached almost 23% of the cash distributed. In Malawi, despite having no bank account provided through the transfer system,

some smartcard holders also opened accounts at OIBM and continued to use these after the end of the programme at standard bank service points. See Pearson and Kilfoil (2007) for more detail.

In contrast, a year later, Save the Children in Swaziland contracted with Standard Bank on a six month starvation relief programme that used much less expensive magnetic stripe cards as the payment token. For those recipients who chose to have a bank account, the funds were placed in an individual savings account at Standard Bank. Recipients accessed their cash benefit using their card at the bank's ATMs or at POS devices at Swazi Post locations. Technical difficulties in the deployment of the POS devices and delays in the production of the cards meant the electronic features of the system were not fully employed for almost four months, although cash payments were made in the meanwhile. However, once deployed, the recipient wait-time dropped from 3.5 hours to 1.2 hours. By the end of the programme in Swaziland, 1200 of the 6100 recipients with accounts had saved a small amount of the grant money and about 500 had intentionally saved funds from other income sources. See Beswick (2008) for more detail.

SOURCES: Pearson and Kilfoil (2007) and Beswick (2008).

- Leakage (line 3) is largely a function of the process used to validate the recipient's identity each time a payment is made. Electronic financial transactions require secure forms of authentication, such as biometrics (e.g. finger prints) or PINs; these are therefore common for special purpose or inclusive programmes and reduce the incidence of paying ineligible recipients. In principle, even a cash arrangement could validate each time against a database before paying out, although this is not the norm. With cash programmes, the risk of leakage also increases since local officials or delivery agents can steal cash, whereas it is harder to steal money already transferred into separate accounts.
- Finally, it has always been possible to 'add on' financial services to recipients after they receive a transfer. Indeed, the IGVDG example of BRAC is a case where microcredit and savings are added afterwards. However – with the exception of large-scale integrated service providers

such as BRAC, which itself offers a range of welfare and financial services – it is usually much harder to add financial services after the transfer is received.

Technology-enabled approaches to payment

In the introduction, we identified the spread of technology, especially communications technology, as one of the main drivers enabling financially inclusive approaches. In this section, we discuss more specifically the effect of technology on the choice of financial instruments and the channels where these instruments can be used.

It is important, however, not to confuse a technology-enabled approach with a financially inclusive one: a programme may use technology without necessarily qualifying as inclusive in the terms above. This was the case of the Dowa programme described in Box 13.3. Similarly, it is not necessary to use electronic approaches to be financially inclusive, even though the costs of non-electronic approaches make this less and less likely: for example, a bank may operate passbook savings accounts. These are still encountered in South Asia and parts of Africa, although they are becoming less common.

Technology has had two major effects on the payment process:

- *On the choice of payment instrument:* thanks to the development of biometric technology, fingerprints can be used as identifying devices at the time a transaction is processed. This usually requires recipients to be issued a smart card – a plastic card with an electronic chip on which biometric and other data is recorded in a way that allows certain devices to access and confirm a match to the holder of the card. As discussed above, this has usually reduced leakage. It also carries the additional advantage that the recipient does not have to remember a PIN number to transact – unlike magnetic stripe (Magstripe) cards, which do not have the capability to store that amount of data – and may therefore be easier for those who are not numerate or literate. A further advantage is that the smart card may function offline: the card itself has the capability to store transactions and balances after interacting with a special device without having to communicate with a central server. However, the smart card comes at a cost: the card itself typically costs upwards of \$3, ten times the cost of a typical magstripe card. Further, the majority of existing financial service points like ATMs in most countries do not accept biometric authentication, therefore limiting the recipient only to venues with special reading devices.
- *On the choice of payment location:* the growth of robust and relatively cheap wireless data channels such as GPRS (which is widely available in most developing countries) has enabled financial providers to create networks of agents linked to them in real time. These agents, which may include small rural stores, can then offer to clients the ability to deposit or withdraw cash. Both the customer and the provider have the

Box 13.4: Can cell phones be used to pay social transfers? The experiences of M-Pesa in Kenya and DDR in DRC

The success story of M-Pesa's mobile phone money transfer system is the case most often cited to illustrate this technology's potential to make payments. Safaricom, the Kenyan cell phone company that operates the M-Pesa system, offers a store-of-value account into which a customer can load funds at any of 13 000 agents across the country. Registered users can transfer funds using their cell phone to any other cell phone subscriber or pay bills of various types, including school fees and charitable donations. Mas and Morawczynski (2009) note that six million customers have registered and transferred over US\$1.6 billion since M-Pesa's introduction in March 2007.

Recently, M-Pesa has been used on a trial basis for the payment of a social transfer programme in the Kerio Valley.⁶ Recipients were issued their own SIM card to swap into shared phones on the day of payment, which is done through an M-Pesa agent who sets up in a local police station for the day. According to a recent evaluation, the payment arrangements themselves worked well, but the loss of SIM cards and wear and tear on the shared phones in a rural setting was higher than expected.

One of the key strengths of the M-Pesa programme, its retail agent network, was the

missing ingredient in an unsuccessful, larger-scale attempt to pay demobilised soldiers in the Democratic Republic of the Congo using mobile phones. The DDR demobilisation programme offered demobilised soldiers a chance to return to civilian life with an initial cash payment and then a stipend of US\$25 paid monthly for a year in the home village. The soldiers were not required to have their own cell phones. Payment was to be received via a network of airtime merchants who already had cell phones. They would require the recipient to enter a PIN number into their phone to authenticate their identity before being paid their transfer, for which the agent would be reimbursed. In practice, the system worked well in urban areas where merchants had sufficient funds on hand to pay the benefits. But in rural areas, the merchant agents often had too little cash to pay all the benefits claimed on the day of payment. As a result, the cell phone system was scrapped, and a more conventional delivery truck was employed to provide cash for the monthly payments.

SOURCES: Mas and Morawczynski (2009) and DFID (2009).

comfort that the transaction will be processed immediately, reducing the risk that the agent could defraud the customer or the provider. The agent receives a fee for this service. It is typically much cheaper to rely on the liquidity already in rural and remote areas in the hands of merchants than to ship in cash in large quantities. However, social transfer programmes may introduce liquidity demands beyond the capability of local merchants or agents to pay out – see Boxes 13.4 and 13.5. Consequently, active involvement by the network manager (such as the bank) is often required to help meet demand, until the pattern of withdrawals is understood. In addition, the network manager has the responsibility to oversee the service quality of its agents. The manager needs the capability to monitor various complaints, to prevent agents from overcharging or requiring recipients to buy goods before they can receive cash. While these risks of an agent network must be managed, its benefits for financial inclusion are great because the cost of acquiring and operating an agency from an existing merchant is many times cheaper than setting up a bank branch or ATM.

Box 13.5: How can local agents be used to pay social transfers? The experience of FINO

The use of local agents to pay social transfers is common among large programmes in Brazil, India and South Africa. These programmes do not at present involve the use of mobile phones, but rather equip merchants with specialised point-of-sale devices which can connect to a central server of the payment provider (although in India and South Africa, these terminals can also operate offline) to cater for remote areas without robust communications.

Johnson (2008) studied the experience of one payments approach under the National Rural Employment Guarantee Act (NREGA) in India. This programme guarantees minimum wage labour for up to 100 days per year to anyone willing to work in locally designed public works projects. As a result, weekly wages must be paid to workers based on the work done. This involves major administrative efforts. In an attempt to prevent cash leakage, the government of India mandated

that all NREGA wages be transferred to basic or 'no frills' bank accounts, in return for a fixed fee of 2% of the amount paid. However, most banks did not have existing service outlets in the areas close to where NREGA recipients live. In one state (Andhra Pradesh), IT financial services provider FINO was appointed to operate a network of agents on behalf of banks in the area.

These agents are trained by FINO and equipped with a point-of-sale device, at which recipients are able to withdraw cash in the village at no charge using smart cards issued to them. The agents are paid by FINO out of the fee that FINO receives from the bank. Johnson found that the FINO system had been very successful in reducing leakage in the system, and reported that FINO was considering how to offer other products, such as savings and insurance, through the same agents.

SOURCE: Johnson (2008).

The payment delivery process

Key section message: while it is not always feasible to provide financially inclusive options, programme promoters and funders should intentionally explore inclusive options early in a design or review process.

Role players and stakeholders in the payment process

The following chart (Figure 13.4) identifies the agencies and people who play significant parts in effecting a social transfer payment.

In any programme, the payment service provider may be a separate entity or the same as the programme administrator, at least in small programmes. This combined situation is generally not preferred because of the fiduciary benefits of separating the duties and the specialised competencies involved. The role of the payment provider usually includes the following processes:

1. **Enrolment:** Usually, the programme administrator targets or assesses the eligibility of beneficiaries. Once this is complete, the payment provider has to enrol eligible recipients so they can access their funds. This may involve the issuing of a payment instrument, such as a card. Note that while the administrator deals with beneficiaries as well as recipients (where they are not the same), payment providers deal with recipients only.
2. **Updating of recipient profiles:** The payment provider has to liaise on an ongoing basis with the administrator and the central management information system (MIS) to ensure that the enrolment profile is

Funding agency (Policy, funding, oversight)	Often a government department or specialised agency has primary responsibility for setting up and overseeing a social transfer programme. Funding may come from a government budget or from an external donor. This agency is ultimately responsible for designing the programme and overseeing its implementation. It may also play some of the roles listed below.
Administrator (Enrolment, record maintenance, database)	The organisation responsible for identification and enrolment of beneficiaries, maintenance of the central register (database) of beneficiaries, answering enquiries and issuing payment instructions. This may be a specialised government agency or outsourced to an implementing agency, typically an NGO.
Payment service provider (Opening and crediting accounts, payout process)	The organisation contracted to disburse the programme funds to recipients. Providers may take on a variety of different forms, such as banks, post offices, mobile network operators or specialised payment firms, and use a variety of channels and technologies.
Beneficiary	The individual or household intended to benefit from the payment.
Recipient	An individual authorised to receive the payment for the beneficiary in case the beneficiary is unable to receive the payment directly.

Figure 13.4 Payment system stakeholders

updated for changes in eligibility, such as death or change in status. If conditionalities apply, this must also be informed in a way that allows the provider to adjust the individual payment.

3. **Funds transfers:** The funds are made available by the funding agency to the payment provider on a prearranged time cycle; for non-cash arrangements, the payment provider has to credit the amount to each recipient's account on a timely basis.
4. **Funds' availability to recipient:** The funds are available to the recipient either at a particular place and time, or from a range of places such as ATMs or POS devices.
5. **Funds reconciliation:** The payment provider has to reconcile the amounts paid out or claimed with the amounts paid in advance or claimed in arrears from the fund agency.

A variety of entities can play some or all of these roles. Traditionally, a state-owned retail bank or postal bank has been used on the basis that they have the competence to perform at least some of the functions. However, many countries lack state-owned banks; in some countries, such as Malawi, Swaziland and Kenya (see Boxes 13.3 and 13.5), private banks with an interest in financial inclusion have become involved in the payment arrangements.

Increasingly, companies have emerged that specialise in managing the

overall process, such as Net1 in South Africa or FINO in India. In addition, new generation entrants to financial services, such as mobile payment or “m-payment” companies, have become involved in some capacity, as described in Box 13.3.

The payment process

The DFID manual *Designing and Implementing Financially Inclusive Payment Arrangements for Social Transfer Programmes* (2009) sets out a six-step process for programme promoters or designers, summarised in Figure 13.5. All too often, in the past and even today, the design of the payment arrangements is not considered intentionally; rather, it is a rushed afterthought once the rest of the programme has been designed. One consequence is that there is usually limited opportunity to consider innovative approaches late in the implementation process. Even once a programme is underway, the effectiveness and efficiency of the payment approach should be monitored as new payment options become viable as the result of changing technology – and, indeed, as the circumstances of recipients change. For example, as more recipients have personal cell phone subscriptions, new mobile payment options become possible.

At each step, DFID’s manual outlines considerations as a guide to intentionally addressing financial inclusion. It is also possible to draw on specialist advice at different stages, and corresponding indicative terms of reference are provided as guidelines.

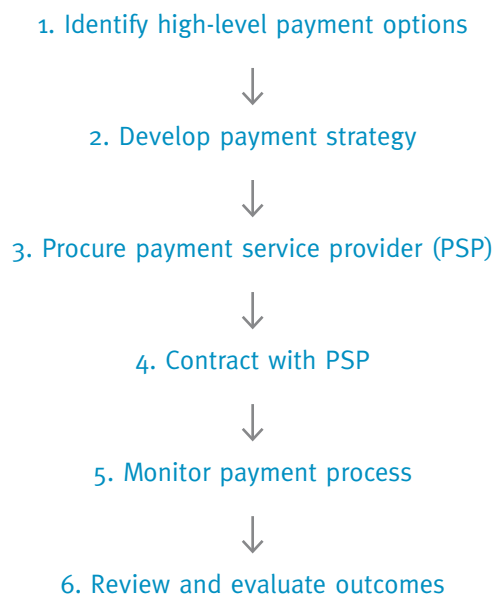


Figure 13.5 Overview of the payment process

There is not the space in this chapter to repeat the details of each step; readers may do this through accessing the manual. However, we provide a short overview here, in particular highlighting the distinction between steps 1 and 2 in the design phase.

Step 1 involves an initial review of the feasibility of introducing financially inclusive arrangements in a particular context. The extent to which this is possible will be shaped by the objectives and scope of the programme itself, as well as the country context for financial services. Conducting such a review at an early stage enables decision-makers to consider up front how to best allocate resources to the payments process, given that a cash-paid option is almost always available in some form. Undertaking this step allows decision-makers to focus resources at the next step.

Step 2 then guides the development of a full payment strategy by (1) profiling the beneficiaries, (2) examining more closely the available infrastructure (including utilities and financial services), and (3) identifying potential service providers. Cost estimations of available distribution channels, the involved technologies, the fee structure and the risk of losing funds during the process (leakage) are included in this step.

Steps 3 and 4 normally require adherence to standard procedures prescribed by the funding agency. These usually include a competitive request for proposal (RFP) process, which leads to a contract with the preferred bidder.

Monitoring the implementation of the funds transfers throughout the payment process (Step 5) is necessary to assure compliance by the service provider and satisfactory receipt of the intended benefit by the beneficiary.

Periodic review of the payment arrangements (Step 6) in an existing programme means returning to the considerations of the second step, and reassessing whether the arrangements are still appropriate. In larger programmes, it is often useful and appropriate to have more than one payment option at the same time: new approaches may be piloted on a sub-group of recipients to test acceptance and robustness. This both serves as a backup and enables evolution towards more effective and sustainable approaches over time.

Conclusion: why payment arrangements matter

Enhanced payment arrangements are increasingly feasible in developing countries. Among these, financially inclusive approaches that offer more and better services to recipients are increasingly being offered. While most of these arrangements are relatively new, so that there is not yet conclusive evidence of their impact, this chapter makes the case that in designing new programmes or reviewing existing ones, promoters should at the very least consider seriously whether enhanced (and preferably, inclusive) arrangements are possible. This

Box 13.6: Intentionally adding inclusive arrangements to design and procurement: the case of the Hunger Safety Net programme in Kenya

The Hunger Safety Net (HSN) programme commenced a pilot for 60,000 families in the remote arid and semi-arid areas of Kenya in January 2009. These areas are already a daunting environment for cash distribution, but the programme promoters went further: HSN built in an explicitly financially inclusive approach to payment, which offered financial services to the beneficiaries and non-beneficiary local communities which had few or no formal financial services.

Because of its expertise in financial service development and links to the donor involved (DFID),

the local resource agency for the financial sector FSD Kenya was appointed to design and oversee the payment process. Concerned that the difficult environment might limit private providers, interest in bidding and the extent to which financially inclusive options were feasible, FSD Kenya undertook a two-step design process.

First, with international microfinance agency CGAP, it set up a challenge fund which provided matching grants on a competitive basis to enable the development of creative prototypes. As part of the process, FSD Kenya convened a well-attended

case rests on the following grounds:⁷

1. *They can reduce overall programme administration costs over time:* Enhanced arrangements usually reduce leakage, the single biggest cost of some programmes. Further, once the service infrastructure is in place, they will be cheaper than cash paid alternatives. This may not be true for small and short-term programmes. However, in any programme of substantial size and of longer duration, it is likely that inclusive options will make financial sense for the programme.
2. *They enhance the impact on beneficiaries:* Use of appropriate financial services will reduce recipients' vulnerability to income shocks and may create a pathway out of poverty through income generation or asset building. In this way, the core developmental purpose of the programme will be enhanced and extended. On the flip side, poorly designed and implemented payment arrangements can have negative effects on the dignity, health and safety of recipients.
3. *They can have wider positive effects for non-beneficiaries:* Social transfers may create the critical mass to sustain financial institutions' interest in new product development for low-income markets, and can extend the financial infrastructure by creating incentives to fund the rollout of new service channels, such as agents. These new products and new channels should be of use to other low-income customers as well.

workshop which highlighted international trends and disseminated research on the financial services needs of people in the targeted areas. Second, because of DFID's involvement as a donor, FSD Kenya was required to conduct a formal tender process in terms of European Union procurement rules. Both winners of challenge fund grants at the first stage decided in the end not to bid; however, the challenge fund process had helped to raise awareness of the process among potential payment providers. In addition, FSD Kenya hosted a bidders' conference and maintained contact with potential local and international

providers to ensure that they were well aware of the request for a proposal. The formal scoring criteria included a sizable weighting on additional financial services available to both recipients and non-recipients in the area. In the end, a sizable number of local and international firms submitted proposals. A large Kenyan retail bank, Equity Bank, was awarded the contract for the pilot.

One year into the pilot, intentional focus is being given to monitoring and review of the payment arrangements, alongside the broader M&E components of the programme.

Endnotes

- 1 Bankable Frontier Associates (2006).
- 2 Collins et al. (2009).
- 3 Aker and Mbiti (2010), page 1.
- 4 Prevalence is measured by the number of social transfer programmes using the approach, not by the number of recipients, since middle-income countries with very large programmes, like Brazil or South Africa, tend to follow special-purpose or inclusive approaches.
- 5 Bankable Frontier Associates (2006).
- 6 See a review of lessons learned in Datta et al. (2008).
- 7 Bankable Frontier Associates (2006), (2008); Pickens et al. (2009).

