Designing and Implementing Financially Inclusive Payment Arrangements for Social Transfer Programmes
DFID, the Department for International Development: leading the British government’s fight against world poverty. One in five people in the world today, over 1 billion people, live in poverty on less than one dollar a day. In an increasingly interdependent world, many problems – like conflict, crime, pollution, and diseases such as HIV and AIDS – are caused or made worse by poverty. DFID supports long-term programmes to help eliminate the underlying causes of poverty. DFID also responds to emergencies, both natural and man-made. DFID’s work aims to reduce poverty and disease and increase the number of children in school, as part of the internationally agreed UN ‘Millenium Development Goals.’

Foreword

More than 2 billion people in developing countries have no access to financial services such as savings facilities, formal credit or remittances. This makes them more vulnerable to unforeseen events such as severe weather or illness in the family, and makes it harder for them to improve their incomes, build assets, pay for healthcare and education and to link into the wider economy as full economic citizens. Lack of access to financial services for individuals is also bad for their country as a whole, as it can act as a significant constraint on economic growth.

New technology based financial services, such as mobile phone banking or the use of smartcards, have the potential to transform poor people’s access to finance. The dramatic growth in the number of social transfer schemes established throughout the developing world during the course of the last few years has provided an unprecedented opportunity to use new technology payment channels to provide unbanked beneficiaries with access to financial services and also to decrease the operating costs, to improve the security, and to increase the outreach, of such schemes. A growing body of evidence shows that linking the delivery of social transfers with increased access to financial services can increase the social protection impact of social transfer schemes.

This manual builds upon the broad foundations of its sister manual entitled “Designing and Implementing Social Transfer Programmes” published by the Economic Policy Research Institute and funded by DFID. The objective of this manual is to inform governments, donors, NGOs and other policy makers and to facilitate the task of those responsible for new and existing social transfer schemes by providing clear and practical guidance on how financially inclusive payment arrangements may be assessed, designed and implemented.

I very much hope that you find this manual useful and that it will prove to be an important tool in increasing the impact of social transfer schemes throughout the world.

Nemat Shafik, DFID Permanent Secretary
December 2009
Acknowledgements

Our thanks are due to Financial Sector Deepening Trust-Kenya for the cover photograph and to the three reviewers of this manual who provided constructive comments: Craig Kilfoil of ExactConsult (South Africa), Franz Gomez of Fundacion Capital (Peru) and Caroline Pulver (Kenya). Also, to the wide range of DFID head office and country staff who have contributed comments and especially to Anu Bajaj and Angus Kirk who managed this process. Errors and omissions remain our responsibility.

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Acronyms used

ATM Automated Teller Machine
CCT Conditional Cash Transfer
CT Cash Transfer
EU European Union
FSDK Financial Sector Deepening Trust, Kenya
HSN Hunger Safety Net (Kenya)
M&E Monitoring and Evaluation
NREGA National Rural Employment Guarantee Act (India’s large workfare programme)
PIN Personal Identification Number
RFP Request for Proposal
RHVP Regional Hunger & Vulnerability Programme
SRO Senior Responsible Officer
Glossary of terms

*Note that terms in italics in the text are defined in this glossary.*

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Authentication</strong></td>
<td>The process by which a person provides evidence that he/she is who he/she claims to be (e.g. through presentation of an ID, or entry of a biometric or PIN number known only to the person).</td>
</tr>
<tr>
<td><strong>Basic bank account</strong></td>
<td>A bank account, typically with limited functionality or restricted maximum balance or transactions per month and no minimum balance, which is provided as an entry level product by banks. In some countries, banks are required by law to offer basic bank accounts; in others, the banking sector may voluntarily develop an offering of this type.</td>
</tr>
<tr>
<td><strong>Biometric</strong></td>
<td>A method for recognizing a person based on intrinsic physical traits such as a fingerprint.</td>
</tr>
<tr>
<td><strong>Branchless banking</strong></td>
<td>The provision of banking services outside of traditional bank branches enabled by technology, including ATMs and agents using point-of-sale devices and mobile phones.</td>
</tr>
<tr>
<td><strong>(Conditional) Cash Transfer Programme (CT or CCT)</strong></td>
<td>A programme in terms of which regular defined amounts of cash are paid to an eligible beneficiary; this may be conditional on the beneficiary meeting certain standards, or it may be unconditional.</td>
</tr>
<tr>
<td><strong>Financial inclusion</strong></td>
<td>The end state of the goal of all eligible citizens having access to and using a range of affordable, convenient and appropriate financial services.</td>
</tr>
<tr>
<td><strong>Financially inclusive payment arrangements</strong></td>
<td>Means of payment which involve at least the issuance of a store-of-value account into which the payment is made, and in which a balance can be left; and other payments (such as remittances) received or made.</td>
</tr>
<tr>
<td><strong>Know Your Customer (KYC)</strong></td>
<td>A set of rules or procedures, often set by financial regulators, requiring that financial institutions identify their customers and verify key information so as to be able to monitor transaction patterns and detect criminal activity such as money laundering.</td>
</tr>
<tr>
<td><strong>Leakage</strong></td>
<td>Losses arising as the result of (1) payments to ineligible recipients or (2) theft or corruption by parties involved in the process.</td>
</tr>
<tr>
<td><strong>Payment service provider (PSP)</strong></td>
<td>The entity responsible for delivering the social transfer to the recipient.</td>
</tr>
<tr>
<td><strong>Payment instrument</strong></td>
<td>The physical token (such as a card) used by the recipient to initiate an electronic transaction.</td>
</tr>
<tr>
<td><strong>Point of Sale (POS) device</strong></td>
<td>A device, typically at a merchant/agent premises, capable of capturing details from a clients’ card which can be used to generate a transaction.</td>
</tr>
<tr>
<td><strong>Pre-paid account or mobile money account</strong></td>
<td>A type of limited electronic account offered by banks or non-banks including mobile operators in certain countries. It may not be legally or functionally identical to a standard bank account.</td>
</tr>
<tr>
<td><strong>SIM (card)</strong></td>
<td>The subscriber identity module, an electronic chip inside a mobile phone which uniquely identifies the subscriber using that phone.</td>
</tr>
<tr>
<td><strong>Smart card</strong></td>
<td>A plastic card with an embedded computer chip which can operate off line through contact or proximity with certain devices.</td>
</tr>
<tr>
<td><strong>(Electronic) Store-of-value</strong></td>
<td>An account, which may or may not be a bank account, into which and from which funds can be (electronically) transferred and which can hold value.</td>
</tr>
<tr>
<td><strong>Workfare</strong></td>
<td>A type of social transfer programme in which the beneficiaries are required to contribute their manual labour usually for public works in return for a basic wage.</td>
</tr>
</tbody>
</table>
1. Introduction

Social transfer programmes are vital to poor households as regular cash flow is provided to meet basic daily needs. In the past, social transfers have usually been paid out in cash at particular locations, in part because other options for payment were limited: recipients did not have bank accounts and banks did not have branches at locations accessible to them. However, new technology has made it easier to offer accounts for recipients to receive payments, which they can then use safely, conveniently, and affordably at a range of service points including local merchants.

These newer approaches have the benefits not only of reducing the direct costs of administration of social transfer programmes but also the costs incurred by recipients to collect their money. They have also been shown to reduce indirect costs such as loss due to theft and error intrinsic to the cash system (leakage). Even other residents located in the same communities as recipients can benefit from the extension of the financial system.

These benefits were the subject of DFID Social Protection Briefing Note No. 5: Enhanced payment options for social transfer schemes (February 07). In this manual, our purpose is to examine in more detail how to go about using the payment arrangements for social transfer programmes as a stepping stone towards greater financial inclusion.

There is not yet one generally accepted definition of financial inclusion; however, the vision of inclusive finance put forth by the United Nations Capital Development Fund will serve our purposes here more than adequately: it is “access at reasonable cost of all households and enterprises to the range of financial services for which they are bankable including savings, credit, leasing and factoring, mortgages, insurance, pensions, payments and local and international transfers.” Other definitions go further to define and measure the separate dimensions of access, usage and quality of financial services. Any broad definition such as these has to be translated into more specific applications and tailored to fit particular contexts. The goal of this manual is to provide an initial definition and indicate how this can be applied in the process of designing and implementing social transfer programmes.

Greater financial inclusion has been adopted by many donors, governments and NGOs as a worthy goal because of the additional benefits in the lives of poor people. In their recent book, Portfolios of the Poor, Daryl Collins and her co-authors provide a detailed analysis of the cash flows of poor households in Bangladesh, India and South Africa over a one year period. They use the term ‘triple whammy’ to describe the particular plight of the poor which they encountered: low and uncertain cash flows compounded by seriously limited access to formal financial products such as credit, insurance, and savings. The book also explains that, despite their low incomes, the poor strive to save and often require lump sums of cash to meet sudden needs or to support income generating activities.

To manage their livelihoods, they usually have no choice but to become active users of a wide range of ‘informal’ financial services to help them accumulate lump sum balances or access credit. But these informal products are both expensive and unreliable, and their use may worsen rather than alleviate the problems poor people face on a daily basis. A great need exists, therefore, to help the poor gain access to formal financial products which are safer and more affordable, and which can provide a pathway out of poverty by enabling their investment in education and micro-enterprise.

An example from the South African Financial Diaries in Box 1 describes a poor couple who currently receive social transfer payments and who could derive significant benefit from access to basic formal services. In transfer programmes where savings has been offered as an option, such as Oportundides in Mexico, even very poor households have saved as much as 12% of their grant income.

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1 This vision is set out in the so called Blue Book published by the UNCDF in 2005, available via http://www.uncdf.org/english/microfinance/pubs/bluebook/index.php
2 For further discussion on the dimensions of financial inclusion, see BFA 2009b, or CFI 2009 for a specific country example.
Box 1: The face of social transfers and financial exclusion

Sipho and Thandi are a couple with three young children of their own and a niece who lives with them in a rural area of South Africa. Their household income amounts to just under $1 per person per day, of which child care grants from the Government for two of the children every month make up almost four-fifths. In addition, they supplement their income by trying to run a small shop from their house, although their inability to finance stock has restricted this as an income source. Thandi takes on casual work making mud bricks but the income from this source is low and uncertain.

With so little income trying to feed so many mouths, it may seem surprising that they manage to save at all. However, they succeeded in putting aside a quarter of their income every month. Most of this was saved using an informal savings club, to which Thandi belonged with three other people. Around a third of their savings is kept in cash in their house and they managed to keep this money set aside for nearly the entire year of the Financial Diaries study.

They receive the childcare grants in cash each month at a nearby paypoint. Sipho used to have a bank account when he was working at the mines, but he closed it when he was laid off. They could open another account now to receive the grant payments. However, most bank branches are at least a 30 minute taxi ride away, a journey which would cost 5% of their monthly income. It would also require an entire morning, travelling and then waiting in a queue to withdraw their money from the ATM. These expenses, both in time and money quite apart from bank fees, are the main reason why they do not have a bank account at present.

What Sipho and Thandi need at this juncture is a bank account in which they could store their cash safely and access it conveniently and inexpensively. They also would like access to micro credit as a way of generating new income.

Source: This actual example is taken from the South Africa Financial Diaries project: see www.financialdiaries.com for more details.

Purpose of this manual

The purpose of this manual is to provide governments, donors, or NGOs promoting social transfer programmes with clear guidance explaining how to design and implement financially inclusive payment arrangements.

The manual does not address the broader aspects of social transfer programmes, such as designing the targeting mechanisms or administrative processes since these have been addressed elsewhere. Further, this manual does not focus on the question of ‘why financially inclusive arrangements?’ – a question which has also been ably covered elsewhere. Rather, the manual takes as its starting point that the promoters of a social transfer programme are willing to consider a financially inclusive approach to payment but are unsure of what this may mean and whether it will be feasible. Greater financial inclusion is not always achievable within the cost and time parameters of the programme and the circumstances of the recipients. However, the record of results to date argues strongly that it is at least worth considering explicitly in the design or re-design of programmes. Supported by this evidence, this manual outlines a series of steps by which a phased consideration of inclusive payments can be integrated into the design and implementation of payment arrangements.

The emphasis of the manual is on the design phase rather than on implementation. This is because the design issues raise particular questions about what options are available and feasible; while implementation generally follows a more standard process.

3EPRJ’s 2006 Manual Designing and implementing social transfer programmes is the standard text in the field; a revised version is due to appear in 2010
4BFA 2008, Pickens et al 2009
The next section (Section 2: Payment arrangements: context and choices) explains the background of benchmark concepts, role players, and technologies pertaining to “basic” and “advanced” categories of inclusive arrangements. Sections 3 through 5 present guidelines for a programme’s Design (Section 3), Implementation (Section 4), and Monitoring/Evaluation (Section 5). The process is divided into six steps, as shown below in Exhibit 1. In addition, Appendix C summarizes the process in decision tree format. Appendix D lists frequently asked questions relating to payment arrangements and references where these are addressed in the manual.

**Exhibit 1: Payment Arrangements Process**

1. Identify High Level Payment Options
2. Develop Payment Strategy
3. Procure Payment Service Provider (PSP)
4. Contract with PSP
5. Monitor Payment Process
6. Review and Evaluate Outcomes

**2. Payment arrangements: context and choices**

**2.1 Defining financially inclusive arrangements for social transfers**

Most developing countries still lack any formal, specific definition of financial inclusion. However, any country which has financial inclusion as a policy goal is likely to have some conception of what they aspire to achieve. This can serve as a starting point for defining inclusion within the context of the social transfer programmes in that country.

Based on discussions of enhanced payment programmes currently in use in many countries, the manual proposes a definition of financial inclusion at both a basic and an advanced level. The main dimensions of each level, along with indications of how the basic level can be stepped up to an advanced level, are set out in Exhibit 2.
### Exhibit 2: Basic and Advanced Definitions of Financial Inclusion for social transfer programmes

<table>
<thead>
<tr>
<th>Features</th>
<th>Basic level</th>
<th>Advanced level</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Nature of core product</strong></td>
<td>Recipient has a store-of-value in which funds can be held if desired; and from which they can withdraw and make or receive other payments. Usually no regular fee or minimum balance</td>
<td>Recipient has a deposit account with regulated deposit taking institution, which can transact at wider financial service points</td>
</tr>
<tr>
<td><strong>Geographic accessibility</strong></td>
<td>The maximum additional travel time required for a recipient to access cash from the store-of-value (set at country level)</td>
<td>As for basic, but likely with reduced maximum additional travel</td>
</tr>
<tr>
<td><strong>Additional financial products available?</strong></td>
<td>This is desirable but not required at the initial stages; rather that the potential exists for this to happen</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Other aspects</strong></td>
<td>Training provided on issuing the store-of-value account</td>
<td>Additional support linked to choice of additional products</td>
</tr>
<tr>
<td><strong>Consumer protection</strong></td>
<td>Disclosure of fees and terms, and effective basic recourse procedures</td>
<td>Increased measures as needed for added formal services</td>
</tr>
</tbody>
</table>

Source: Based on BFA (2008)

Programme designers face the temptation to over-specify what is provided as a first step. In countries starting from a low base level of financial inclusion, this will result in higher costs or, possibly, financial institutions not being capable of supplying payment services, especially in the demanding circumstances of many social transfer programmes.

As Exhibit 2 indicates, the store-of-value is the fundamental element of financial inclusion. This represents a significant step up from the status quo in most developing countries. In functionality, a store-of-value account is similar to a basic or ‘no frills’ bank account and may in fact be a basic bank account in some countries: the key difference is that the store-of-value account need not be a bank account since it may be issued by a provider which is not a bank.

This broader term is used deliberately here because banking regulation or conventional banking practice often results in bank accounts not being available to poor people. The concept of a store-of-value account, on the other hand, includes alternative product categories such as pre-paid cards or mobile money accounts which have functionality similar to that of bank-issued debit cards, but which may be more feasible for a broader range of providers to offer for low value accounts. This is because these accounts may be subject to lower regulatory requirements and therefore lower costs; and because niche providers may specialize in issuing them. Usually, in social transfer programmes, the store-of-value is made available at no cost to the recipient and the fee paid by the programme to the provider covers the cost of the recipient undertaking a limited number of transactions per month. Within these limits, the store-of-value functions like a free transactional account for the recipient. However, because it is an account to which recipients have ongoing access, they may choose to leave funds in the account until needed, so that it may also function as a limited form of savings account.

Is it safe for unregulated entities to issue stores-of-value? Regulation in some countries does not allow this, in which case the store-of-value available would be restricted to forms of accounts issued by banks. However, regulation in itself does not assure the safety of the underlying funds. Programme designers will need to assess the form and substance of each provider, bank or not, to ensure that the funds of poor customers are not at risk.
Where permitted, a store-of-value issued by an unregulated entity is likely to be subject to various limitations – for example, not being allowed to pay interest or allow more than a certain value of transactions. At the advanced level, it is clearly desirable that either the basic store-of-value become a bank account at a regulated institution or the store-of-value account be able to link to additional products such as savings accounts at banks. The Sekulula account described in Case Study 1 below is an example of an account which achieves an advanced level of inclusion. Recipients receive a basic bank account with a debit card which can be used at a wide range of ATMs and points of sale (POS) on a differentiated fee basis.

**Case Study 1: Sekulula Debit Card, South Africa**

The Sekulula Debit Card is a debit card-linked basic bank account issued by a subsidiary of ABSA Bank, a large commercial bank. The account is targeted specifically at the needs of social grant recipients in South Africa. The Sekulula card meets the criteria suggested for a financially inclusive product, with features including:

- There is no minimum balance requirement or fixed fee to the holder.
- The government welfare agency pays the bank $1.50 per month per account; for this amount, the holder may make two withdrawals per month without charge at the bank’s own ATM’s or merchants.
- The card is also usable at any other bank ATM for fee or VISA Point of sale for an additional fee.
- The account has the capability for other electronic payments to be made.

More than two-thirds of transfer recipients in one South African province have taken up the account. It is now offered in other provinces as well. ABSA actively cross-sells other financial services to the recipient client base; and these accounts are also offered to non-recipient clients as well, thereby improving financial inclusion in the targeted communities.

*Source: BFA (2006,2008)*

In many cases, recipients may never have interacted with the formal financial system before. They need to trust new providers and understand new products so as to be able to use them. This will require conscious allocation of resource and effort, usually by the provider in the early stages, to educate and train recipients as new users of financial services. For example, the Save the Children social transfer programme in Swaziland in 2006 relied on people known and trusted by the recipients and on the use of role-plays by local volunteers to distinguish good and bad use of the grant money to develop an understanding of the product offered. This was not a full course in financial literacy but rather training specific to the required task of encouraging recipients to become users.

There may already be consumer protection measures which apply to financial services including those associated with transfer programmes. These may or may not be appropriate for basic financial services; they may even limit the options of what certain types of providers like banks can offer. However, if there are not existing measures, then the payment arrangements of inclusive programmes should be carefully designed so as to offer effective protection which is proportionate to the risks.

The ultimate goal of financial inclusion is to provide recipients with a choice of suitable financial services: ideally, recipients should be able to choose a provider and nominate the account to which to be paid. However, this requires both that the financial sector perceives recipients as viable

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5There may be other sources of financial assistance for designing and implementing financial literacy programmes: for example, the DFID-funded Financial Education Fund (www.financialeducationfund.org) provides grants for this purpose in Africa.

6A forthcoming CGAP Focus Note by Kate McKee and Laura Brix addresses the question of what constitutes basic consumer protection in financial services in developing countries.
clients so that there are multiple providers, and that programme administrators can handle this complexity. Few developing countries have reached this level which is common (although not yet pervasive) in advanced countries. The financially inclusive approach defined here should be seen as a step closer to the ultimate goal of financial independence for recipients.

2.2 What can be achieved? Comparing cash payments and financially inclusive payment arrangements

Most cash transfer programmes in developing countries today pay the recipient at a defined location (such as a government office or temporary paypoint) at a defined time in the payment cycle, which may be weekly, monthly or bi-monthly. In that place and at that time, a payment official would verify identity (usually by means of a photo identity card, which may be specially issued for this purpose) against a list of eligible recipients, and if there is a match, pay out the full amount in cash.

The current preference for direct cash payments is usually rooted in their apparent convenience and simplicity for the responsible funding agency, although this approach involves trade-offs for the funding agency as well as the recipient. In the past, payment arrangements for social transfer programmes have been an afterthought, so that there has been little time or opportunity to consider the trade-offs more carefully and evaluate alternative approaches.

Even though responsible funding agencies have generally given little thought to the payment arrangements during design, they generally have at least some implicit goals. These include minimizing the cost of payment and reducing the risk of leakage. Often, the time to implement the programme is also a key goal because of the haste to start making payments once design is complete. Designers should also take into account the time and cost incurred by the recipient to travel to the payment location. Travel time can involve a clear trade-off between costs to the funding agency and costs to the recipient.

Exhibit 3 below delineates the four typical characteristics of cash paid programmes. This data can be used as benchmarks for comparison with financially inclusive programmes.

<table>
<thead>
<tr>
<th>Typical Characteristics</th>
<th>Cash Paid Benchmark</th>
<th>Sources From Which the Data is Drawn</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cost per payment</td>
<td>2-13%</td>
<td>See Exhibit 10</td>
</tr>
<tr>
<td>(I) % of transfer</td>
<td>$0.08 - $3.00</td>
<td></td>
</tr>
<tr>
<td>(II) US$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Leakage</td>
<td>4-15%</td>
<td>South Africa; India NREGA</td>
</tr>
<tr>
<td>3. Time to implement</td>
<td>3-12 months</td>
<td>Differs widely depending on local conditions</td>
</tr>
<tr>
<td>4. Time taken by recipient</td>
<td>2-4 hours</td>
<td>South Africa; India</td>
</tr>
</tbody>
</table>

How might inclusive payment arrangements change these benchmarks? Inclusive arrangements have not been operating for longer than three to five years in developing countries. However, a full review of the programmes highlighted in Exhibit 4 below indicates that inclusive arrangements can counteract some of the problems intrinsic to cash payouts by:

- reducing leakage through creating better controls over authentication of recipients and less opportunity for bulk cash to be stolen along the supply chain: evidence from India suggests that this can be reduced to negligible levels; and

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7See for example, RHVP’s Thematic Brief on the Delivery of Social Transfers (2008)
8In one survey, 8% of South African beneficiaries said that they had to pay an official to access their grant. While this is not leakage per se, it points to risks of fraudulent activity around any programme which impose loss on beneficiaries and funders alike.
9Even with a well developed system of paypoints, 25% of South African grant recipients said in a survey that they lost income because of the time taken away from work or business to collect their transfer.
10See BFA (2008) for the fuller description and review.
11This was found by Doug Johnson (2008) in his review of FINO’s payment arrangements.
• reducing the time taken by recipients to access their cash: recipients in a range of inclusive programmes report on the greater convenience, since they are no longer required to come to one specific location at a particular time but are able to access their transfers at their discretion once the funds become available through other channels, which may include merchants or ATMs.

However, it may take more time to implement an inclusive programme if there is not already a suitable network of service points such as banking agents in areas in which recipients live. Further, financially inclusive programmes may not always be cheaper than cash paid programmes, at least in the short to medium run. Cost will vary widely depending on what payment infrastructure needs to be built, on the scale of the programme, and how cost is measured. Over time, however, a well-designed inclusive programme should become cheaper per payment for the funding agency as the discussion of cost in Section 3 will show.

In addition to these considerations, a financially inclusive programme offers other developmental benefit through allowing and even encouraging recipients to gain access to useful financial services such as credit and insurance. In this way, financially inclusive arrangements can enhance the developmental impact of a social transfer programme. To be sure, additional financial services can be and have been added on to cash paid or even in-kind programmes as well: recipients can after all use their cash for any purpose, including repaying loans and paying insurance premiums. However, the advantage of financially inclusive programmes lies in each recipient having a store-of-value: this improves the likelihood of getting access to financial services simply by enabling less expensive transfers to other accounts. As noted earlier, while the option of additional services may not be available at first, having the capability for electronic payments to be made from store-of-value accounts will allow a wider choice of such products to be developed and offered to the recipient over time. Certainly, not all financial services are appropriate for all recipients. Financially inclusive programmes therefore need to consider how to inform recipients so that they can choose wisely and utilize these services to maximum advantage.

Exhibit 4: Summary of payment arrangements at various inclusive programmes

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

Note: * denotes a fuller explanation in a case study or box in this Manual.

12 See for example, BRAC’s IGVGD programme which provides microcredit and training to recipients of a food subsidy programme, described in Hashemi & Rosenberg (2006).
2.3 Defining the role players in social transfer programmes

The front line organization in the delivery of social transfer payments is the payment service provider (PSP). The role played by the PSP is detailed below in Exhibit 5 along with those of other key players.

**Exhibit 5: Payment System Stakeholders**

<table>
<thead>
<tr>
<th>Role Player</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Funding Agency</strong>&lt;br&gt;(Policy, funding, oversight)</td>
<td>Often a government department or specialized 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 other roles below.</td>
</tr>
<tr>
<td><strong>Administrator</strong>&lt;br&gt;(Enrollment, Record Maintenance, Database)</td>
<td>The organization responsible for identification and enrollment of beneficiaries, maintenance of the central register (database) of beneficiaries, answering inquiries and issuing payment instructions. This may be a specialized government agency or outsourced to an implementing agency, typically an NGO.</td>
</tr>
<tr>
<td><strong>Payment service provider (PSP)</strong>&lt;br&gt;(Opening and crediting accounts, Payout process)</td>
<td>The organization contracted to disburse the programme funds to recipients. Providers may take on a variety of different forms such as banks, post offices, mobile network operator or specialized payment firm using a variety of channels and technologies as discussed in the next section.</td>
</tr>
<tr>
<td><strong>Beneficiary</strong></td>
<td>The individual or household intended to benefit from the payment. This term is used throughout this manual, even where a recipient might receive payment.</td>
</tr>
<tr>
<td><strong>Recipient</strong></td>
<td>An individual authorized to receive the payment for the beneficiary.</td>
</tr>
</tbody>
</table>

In some donor supported programmes, additional role players are responsible specifically for monitoring and evaluation, and even for protecting beneficiary rights. Although there are often benefits in specialization, more role players create a more complex programme, thus increasing the need for effective governance.

In particular, the boundaries of the role of the administrator and the payment service provider require clarification. While conceptually the same entity may be able to play both roles, especially for pilot or small scale programmes, the roles are distinct: the administrator is responsible to the funding agency for compiling and maintaining the list of eligible beneficiaries, and for monitoring the implementation during the course of the programme. The payment service provider is responsible for the payout process – literally getting cash to pay points in the case of cash programmes, or opening and crediting the accounts of recipients in the case of financially inclusive programmes, while ensuring that they have access to convenient locations to withdraw (and deposit) cash.

In practice, the administrator will determine eligibility of a beneficiary and will enroll the beneficiary or an associated recipient (where these are different) into the programme. The enrollment process will trigger the issuance by the payment provider of a recognized payment token, such as a card, which the recipient will subsequently use to access cash.

For the regular payment cycle, the administrator will prepare the payment schedule and send this schedule, together with the total funds, to the payment service provider. In preparing the schedule, the administrator may have to check adherence to requirements for *conditional transfer programmes* or quantum of work performed in the calculation of wages due in *workfare programmes*. The administrator will then check the reconciliation of the payments made by the payment provider.

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13Note that we distinguish in Exhibit 5 above and throughout this Manual between “beneficiary” and “recipient”. Recipients are surrogates for beneficiaries who are eligible for the transfer but who are unable to receive it directly: for example, the beneficiaries of a targeted programme may be children but the recipient is usually the parent or guardian. The process of ensuring that recipients attend to the interests of beneficiaries is an important function of the administrator. Usually the payment service provider is responsible only for ensuring that the designated recipient receives the transfer on the basis agreed - in terms of time, location and cost.
and arrange for the payment of agreed fees in terms of the payment contract. Having a different entity in each of these key roles can provide for internal check and balance around the payment process. One key interface between the two roles will be the database of beneficiaries, usually maintained by the administrator. The nature and form of this database will determine the type of interface between administrator and payment provider.

Standard duties of a payment service provider in a financially inclusive programme are outlined below in Box 2. Note that some of these duties may be sub-contracted out to a range of different providers: for example, it is possible that multiple banks could offer stores of value (A); and that for a widespread programme, no one provider can provide adequate access to cash (B) so that a variety of channels is necessary. In this case, there may still be a need for a specialized payment service provider to coordinate across sub-contractors, or else for the administrator to take on this function.

**Box 2: Standard duties of the payment service provider**

A. Provision of a store-of-value issued by defined provider:
   - Specification of characteristics such as functionality and instrument (card or not);
   - Enrollment procedure and cost.

B. Provision of cash access infrastructure:
   - Making payments of social transfers available to recipients by means of distribution points equipped with agreed equipment (such as cash dispensers, computer hardware and software and biometric technology).

C. Adherence to service standards:
   - Crediting payments to accounts in a timely fashion after receipt of schedule;
   - Making cash pay outs using acceptable identification procedures;
   - Putting contingencies in place to ensure that payments are made within agreed number of days, even in event of equipment failure;
   - Meeting agreed service level standards including: average distance traveled to collect payment, average waiting time to receive payment, facilities available at the payment point, response process and times for complaints;
   - Ensuring that after a transaction the recipient will be issued with some form of receipt.

D. Reconciliation and accounting:
   - Ensuring that the periodic payments take place according to the agreed procedure;
   - Issuing a statement of payments made to the administrator at the end of the payout cycle.

E. Customer and official training and support:
   - Overseeing process and standards for educating new recipients and funding agency officials.

**Types of payment service providers**

*There are four main categories of payment service providers.*

- **Branches of state-owned banks or post offices** have been traditional paypoints for government transfers and still remain important providers in some regions (such as the large Caixa Economica Federal in Brazil or Bansefi in Mexico). They often have extensive branch distribution networks; but they may not be oriented to offering financial services to individual customers or beyond the delivery of the social transfer payment. However, many countries no longer have state-owned retail banks available to play this function and the post office may function as a channel but be unable to offer any stores-of-value.
• **Privately owned banks** (such as Opportunity International Bank of Malawi (OIBM) or Standard Bank of Swaziland) may provide a specialized payment service for recipients who become their clients. Some of these banks express interest in social transfers either as a form of corporate social responsibility, which may limit the sustainability of their interest, or linked to the opportunity to obtain other government business. Even if interested, commercial banks may lack the knowledge and the distribution network necessary to serve low income clients. However, there are significant exceptions to this, especially among banks which have a strong background in savings or microfinance such as OIBM, or Equity Bank in Kenya which won the tender to provide financially inclusive payments to recipients of the Hunger Safety Net programme in Kenya.

• **Private companies specializing in social payments.** In response to the expansion of social protection programmes, an increasing number of payment providers specialize in the distribution of government payments. Some are related to banks (such as Allpay, a subsidiary of ABSA bank in Case Study 1 above) or they may be independent of any one financial institution (such as FINO\textsuperscript{14} in India; or Net1\textsuperscript{15} in South Africa). For regulatory reasons, these providers may be required to partner with a bank to offer a store-of-value through the bank; others will create their own store-of-value account directly. Increasingly, these entities compete for business outside of their home jurisdictions, applying tested systems and know-how to the process.

• **Private, for-profit companies whose primary business is not paying social transfers.** Traditional microfinance institutions may serve relatively poor clients with credit but in many countries are not allowed to take deposits or offer any stores-of-value. If they are, they may be considered as potential financially inclusive payment service providers; but even if not, they may be able to offer additional financial services such as micro-credit linked to another payment provider. In addition, companies such as mobile network operators or large retail chains have increasingly entered the business of offering payment services. They often have particular advantages like a widespread service network of agents which enables them to manage some or all aspects of the payment process. For example, the major mobile network operator in Kenya, Safaricom, went so far as to develop prototype arrangements to pay social transfers even for recipients outside of the reach of cell phone reception, although in the end, they did not pursue this opportunity.

2.4 **Overview of technology choices in payment systems:**

New technologies have greatly expanded the reach and reduced the cost of electronic transactions, enabling the increasingly widespread issuance of electronic stores of value and bank accounts.

Note however that it is important to distinguish between financially inclusive arrangements and technology enhanced arrangements: while technology may enhance the ability to be financially inclusive, some programmes use electronic technology such as biometrics to identify clients in ways which are useful for purposes such as reducing leakage, but which are not per se financially inclusive in the sense defined here. This is because they do not involve the issuance of a store-of-value which can be used to do more than receive the payment. On this basis, for example, the DDR programme for paying demobilization allowances to soldiers in DRC described in Case Study 2 was technology enabled and innovative in the use of cell phones and agents, but not financially inclusive.\textsuperscript{16}

\textsuperscript{14}See more information on FINO which currently provides its services mainly in India at http://www.fino.co.in/

\textsuperscript{15}See more information on Net1 which provides payment services to a number of governments in developing countries: http://www.net1.com/home.aspx?ID=1

\textsuperscript{16}See forthcoming Brief from RHVP on “Electronic delivery of social transfers: Lessons learned and opportunities for Africa” by Katharine Vincent (to be available via www.wahenga.net) for a summary.
It should also be kept in mind that advanced technologies may not always be the most appropriate for beneficiaries or the most cost effective for the payment service provider. They may also bring new risks which are not well understood.\(^\text{17}\) Therefore, these technologies should always be considered in the context of who, where, and how much is being paid as defined in following table.

| Who is paid | The profile of the beneficiaries of the programme should determine the selection of technologies and the design of the payments mechanism. For example, illiterate or innumerate people may benefit from biometric authentication within a payment process. The payment of a pension to the elderly or infirm may require the nomination of a recipient to go and collect the payments on the beneficiary’s behalf. Different populations will also have different norms for the distance they normally travel to access services such as education and healthcare. This can be useful information when considering the distribution of payment points. |
| Where transfers are paid | The infrastructure and security status of a location will determine the suitability of various payment mechanisms. For example, in less secure areas the delivery of physical cash may not be prudent while a network of local agents may be a lower risk option. If an area has a mobile network, then cheaper online magnetic stripe cards may be used. In an offline area more expensive satellite communications may be used to create an online link; or offline smart cards can be used as an alternative. |
| How much is paid | The setting of a payment amount is most frequently and appropriately determined by poverty indicators and local prices. However, consideration should also be given to settling on round amounts to facilitate payment. For example, an ATM typically stocks only certain denominations of note; and an agent may be unable to make payments simply because she has run out of change. When using the agency model the payment service provider must give careful consideration to the liquidity available in a payment location to prevent cash shortages. |

2.5 Alternative channels for payment: Branchless Banking

The growth of alternative banking channels to provide financial services has been called \textit{branchless banking} since it relies on the creation and use of channels other than the bank branch.\(^\text{18}\) These include ATMs, but most importantly and relevantly, the use of local merchants as agents for financial transactions such as cash deposits and withdrawals. Deploying a mix of these alternative channels has a dramatic effect on the cost of provision, compared with those of a bank branch. As Exhibit 6 below shows, the capital and operating cost of establishing a new bank branch can be more than a hundred times higher than equipping an existing merchant to be a cash handling agent, utilizing a point of sale device of some type. Capital and operating costs are even less expensive if the agent can use a mobile phone as the transaction device. In either case, the agent is paid a fee for each transaction by the payment service provider.

\(^{17}\)For a detailed review of the risks associated with mobile financial services for example, see Managing the risks of mobile banking technology, available via http://www.finmark.org.za/documents/MBTechnologies_risks.pdf

\(^{18}\)See fuller description of the state of branchless banking worldwide in Ivatury and Mas (2008) on “The Early Experience of Branchless Banking”, CGAP Focus Note 46, available via http://www.cgap.org/p/site/c/template.rc/1.9.2640/
Exhibit 6 Capital and operating expenses of different financial distribution points

<table>
<thead>
<tr>
<th>Channel Costs</th>
<th>Capex $</th>
<th>Direct Opex $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Branch</td>
<td>$200,000</td>
<td>$110,000</td>
</tr>
<tr>
<td>Mobile Branch</td>
<td>$11,585</td>
<td>$6,647</td>
</tr>
<tr>
<td>Fixed ATM</td>
<td>$20,000</td>
<td>$859</td>
</tr>
<tr>
<td>Enhanced Cash Register</td>
<td>$1,500</td>
<td>$700</td>
</tr>
<tr>
<td>Basic Wireless POS</td>
<td>$96</td>
<td>$71</td>
</tr>
<tr>
<td>Mobile Phone</td>
<td>$150</td>
<td>$55</td>
</tr>
</tbody>
</table>

Source: BFA (2006) using norms prevalent in developing countries. Note the log scale on cost which compresses the cost differential.

Each category in the exhibit above is described further below.

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed branch</td>
<td>The use of fixed branches is a viable option if the programme is operating in an area already served by existing bank branches which are happy to serve recipients. However, more remote and rural areas are unlikely to have existing bank branches. The balance may be tipped in favour of opening up a new branch if a large social protection programme is active in the area, so discussions with bank executives may prove useful.</td>
</tr>
<tr>
<td>Mobile branch</td>
<td>Mobile branches are converted vans used to take bank services closer to remote and rural areas. They offer only weekly or monthly visits to communities and may only operate in reasonably secure areas.</td>
</tr>
<tr>
<td>Fixed ATM</td>
<td>A fixed ATM can offer service more cheaply than a teller either at the branch or at locations remote from the branch. However, ATMs require reliable electricity and secure data communications; ATMs which require use of back up generators will have higher operational costs.</td>
</tr>
<tr>
<td>Agent with enhanced cash register</td>
<td>An enhanced cash register is a standard cash register with a built-in point of sale function which can accept card payments and print receipts. The enhanced register would have functionality beyond a simple point of sale device which may increase the appeal to a merchant but also costs more.</td>
</tr>
<tr>
<td>Agent with wireless point of sale (POS) device</td>
<td>Depending on the payment instrument issued (mag stripe or smart card), the requirements and cost of the POS devices at which these can be used will vary. Verification may be possible online in areas where there is mobile network coverage, and offline using a smart card (see below) in areas with no signal. The POS can be charged using batteries or an external power supply. Payout is made by an agent of the payment providers using the cash from their businesses which is later refunded to them.</td>
</tr>
<tr>
<td>Agent with mobile phone</td>
<td>Mobile phones operate only in areas with mobile network coverage. However, recipients may travel to an agent operating a mobile phone channel in an online area if this is not too far or too expensive. Agents may require phones with enhanced capability beyond a basic phone, but the cost is still likely to be cheaper than other devices.</td>
</tr>
</tbody>
</table>

While the use of agents brings clear advantages in terms of lower cost of payment and more convenience for the recipient, it may also bring risks. The behaviour and service offered by agents needs to be monitored by the payment service provider (PSP) which manages the agent network to ensure that they maintain the agreed standards. It may also be necessary for the PSP to provide additional cash to agents in the early stages of new programmes when the cash needs are not yet predictable so that the agent can manage liquidity this is one of the biggest issues in building new
agent networks, as the DDR case (Case Study 2) shows. For social transfer programmes, it is also important to ensure that recipients are not subjected to coercion or undue pressure by the agent to use their cash to buy other goods in the agent's store.

Electronic accounts require the use of a payment instrument at an electronic device to initiate transactions. In debit-card based systems, the client uses a plastic card at a range of devices such as ATMs or POS devices at merchants. Linked in part to the availability of communications above, the cards come in two types:

<table>
<thead>
<tr>
<th>Magnetic stripe (magstripe) cards</th>
<th>A magstripe card is a plastic wallet-sized card which holds identifying information in standard format on a magnetic stripe on the back. These are very common and hence typically very cheap to purchase (30c US or less in bulk).</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smart cards</td>
<td>A smart card is also a plastic card but which contains an embedded computer chip with the capacity to store a range of information, including biometric data about the client, so that a match can be made remotely without going online. The chip also stores balance information so that the card can be used for off-line payment and other transactions. Because of their functionality, these cards are more expensive - typically $3 or more, depending on the technology involved.</td>
</tr>
</tbody>
</table>

The choice of payment instrument plays an important role in the authentication process. It ensures that the person transacting is who he/she claims to be and has the right to transact using the particular instrument. Both magstripe and smart cards allow a client to be authenticated based on two out of three possible factors:

1. what they have (e.g. the card itself);
2. what they know (e.g. a PIN number);
3. who they are (e.g. a biometric).

Two factor authentication is standard for much (although not all) of electronic banking and is much more secure than single factor authentication, such as validation by checking photo identity alone.

A mobile phone may now also be used instead of a card as both an authentication instrument (to identify the client) and a transaction device (to initiate transactions). However, despite rapidly growing mobile coverage (see Box 3), a majority of recipients in low income countries do not yet have mobile phone subscriptions. This is often compensated by the presence of local merchants who have mobile phones and may serve as agents for the recipients. Note that the perceived risks associated with mobile phone banking, while real, can be managed with both technology and operating procedures.19

The default instrument remains the magstripe card because of its cost, although it can only operate in an on-line environment and cannot support biometric authentication. To date among social transfer programmes researched in 2008, few, such as the DDR programme in DRC have used the mobile phone (see Case Study 2), although A Little World in India has also deployed mobile phones for this purpose and there have been recent pilots in Kenya. Over time, the current trend towards increased use of mobile-enabled on-line systems is likely to continue.

Lastly, it is important to track and understand adoption patterns and concerns of low income clients using new forms of technology since it is by no means a given that customers will use new accounts in the way intended, or at all.20

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19 See “Managing the Risk of Mobile Banking Technologies” (Bezuidenhout, S. Johann), FinMark Trust at www.finmark.org.za
20 Studies of the usage of new ‘no frills’ bank accounts in certain districts of India have found that a high proportion of these accounts are not used at all or much after they are opened—see the IFMR paper by Thyagarajan & Venkatesan available via http://ifmr.ac.in/cm/News/Thyagarajan_No%20Frills_Cuddalore.pdf
Case Study 2: Social Transfers via mobile phone, DRC and Kenya

To date, mobile phones have not been widely used as payment devices for social transfers - this is because wireless coverage has not until recently reached rural areas in many places; and because recipients themselves are often too poor to afford their own phone though they may share access to a phone in a household or a village.

One example of a programme which used agents with mobile phones for payouts was the DDR programme in the Democratic Republic of Congo. After initial lump sum payments to some 75,000 retired soldiers at demobilization points, the programme paid monthly demobilization allowances of $25 to soldiers who returned to their far flung home towns and villages, well beyond the reach of the country's very limited financial system. Run by African mobile payment company Celpay, the payment arrangements provided that the recipients could collect their payment through some 8,000 agents who were mainly local airtime vendors in the places where the soldiers lived. The payout was made after the agent identified the recipient and the recipient entered a PIN number into the agent's phone to confirm receipt.

However, a review of the payment arrangements in 2008 (SJ Bezuidenhoudt) found that small merchants outside major urban areas such as Kinshasa had limited cash on hand and were unable to make the payouts. In consequence, payment arrangements shifted to a cash payment delivered using mobile vans deployed by Celpay.

Following the rapid spread of the M-Pesa mobile payment programme in Kenya, there has also been a pilot of a small transfer programme using this method to pay recipients—for example in the remote Kerio Valley. Recipients received a SIM card to use in a shared phone which they could then cash out at an agent which operated from the local police station on market days. A 2008 review found that the mobile transfers were “secure, enabled a quick response, were cost effective, respected people’s choices and empowered communities” although the process of swapping SIM cards led to wear and tear on the phones, and a number of SIM cards were lost. (see Datta et al in Humanitarian Exchange Magazine Issue 40, October 2008 - available via http://www.odihpn.org/report.asp?id=2936)

Box 3: Can social transfer recipients use mobile phones?

Mobile phones are already in use by low income communities: in South Africa, a middle income country, 47% of social transfer recipients had a cell phone in 2007; and in low income Kenya, a national financial survey in 2009 found that even among the financially excluded, who are the poorest group, more than 20% had their own phone; and a further 40% had access to a phone through a family member or friend. All the same, the proportions of people qualifying for social transfers who have secure access to their own phones is still likely to be very low; and swapping SIM cards on a common phone can cause difficulties as an early pilot has shown (see Case Study 2 below). Nonetheless, various experiments have shown that poor people are eager adopters and savvy users of mobile phones: the DFID supported Regional Hunger and Vulnerability Programme (RHVP) in Southern Africa designed a pilot programme in which cell phones were provided to women in Lesotho with similar profiles to beneficiaries of cash transfer programmes. They concluded: “…contrary to the arguments against using cell phones to deliver cash transfers, even illiterate vulnerable people are able to actively embrace the technology and their vulnerability is not increased by providing them with a valuable asset.”21

21 Wahenga Brief No 16, February 2009
3. Design Phase

Step 1: Identifying high-level payment options

Early in the design of a new social transfer programme, promoters of the programme typically form a project team of key people to oversee the design process. This group will be referred to as the Steering Committee. Within this group, one person is likely to be assigned the responsibility for considering delivery of the transfers: we will call that person the senior responsible official (SRO). That person may or may not have had previous experience of payment arrangements.

If not, one of his/her first tasks is to appoint a person with expertise in the design of financial payment systems to lead a short, high-level analysis of feasible payment options. At this early stage of the design process it is important to eliminate unnecessary or inappropriate payment options so that the scope of the project can be accurately calibrated at the outset. Direct cash payment is almost always possible in some form and can therefore be regarded as the default against which the costs and benefits of financially inclusive payments can be compared. The objective of this analysis is to identify the means of transfer payment best suited to meet the specific needs and circumstances of the population under consideration.

This analysis would typically require around 2-3 person weeks, of which at least one week would be in country. The leader of this high level analysis will be working in consultation with the SRO and reporting to the Steering Committee.

The selection of feasible payment options should focus on the following elements:

- **Understanding the programme context:**
  - Objectives: What is the programme intending to accomplish? What is its proposed size and duration? How strong is the interest in, and commitment to, financial inclusion among promoters and in the country in general? The answers to these questions will help to resolve possible tradeoffs about how much energy, cost and effort to place in designing financially inclusive arrangements.
  
  - Budgetary parameters: Based upon their stated objectives and commitment, the promoters of the programme may already have budgetary parameters in mind. If not, budgetary parameters need to be determined at this stage to shape expectations about a range of possible costs for the desired outcomes.
  
  - Timing: Two timeframes matter - the time available before first payment is due, and the duration of the programme. Typically, programmes requiring rapid implementation are shorter term because they are meeting a particular unexpected need. They may also not justify an expensive system because the cost appears too high in relation to the benefits provided. For example, an emergency relief programme will require a rapid implementation that will likely preclude the establishment of a new service infrastructure, like an agent network for cash payment. With longer term programmes, there may be greater opportunity and need to design a payment system that offers better service and more benefits, like extended financial services.

- **Understanding the profile of target beneficiaries & recipients:** Using already available information, a profile should be assembled specifying where the likely beneficiaries are located and what their usage of and attitude towards financial services currently are. In countries in which national financial access studies such as FinScope\(^{22}\) have been completed, up-to-date information may be easy to come by. In countries without existing financial information profiles, piecing together an anecdotal profile may be necessary.

\(^{22}\)For more information see www.finscope.co.za
At this stage, no new primary information would be collected but this exercise would inform the extent to which more information is needed in the next step, including data on the level of general literacy, and financial literacy, among recipients.

- **Assessing available infrastructure:** While state-owned service providers such as post office or state banks may have the widest existing network within rural areas, they may have relatively less outreach than other providers in urban areas. It is therefore necessary to know the likely locations in which beneficiaries are located. Together with recipient profiles, this data will reveal whether there are existing distribution points within their convenient reach. At this stage, this review only need be undertaken at a high level.

Grading of regional conditions by area types; in completing the review, the potential to provide financial service in an area will be based upon a graded consideration of the following factors (summarized in Exhibit 7 below):

- Whether there is a dense enough settlement  (since this will affect the amount of existing cash at merchants in the community);
- Whether mobile data (GPRS) coverage is available (for the reasons explained in Section 2);
- Whether the area is on the electricity grid (since most electronic devices require power or at least recharging, although solar power can be used cost effectively for lower power devices);
- Whether there is a secure environment for the movement and handling of cash (which will affect the ability and cost to move cash into the area as necessary to supplement local liquidity).

### Exhibit 7: Assessment of regional conditions

<table>
<thead>
<tr>
<th>Parameter</th>
<th>A</th>
<th>B</th>
<th>C1</th>
<th>C2</th>
<th>D</th>
<th>E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed settlement?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>On grid electricity available?</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Mobile phone coverage available?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Secure environment?</td>
<td>Yes</td>
<td>Yes</td>
<td>limits</td>
<td>limits</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

*Notes: Fixed Settlement: ‘No’ means transient settlements such as a livestock market which are not permanent.*

The area grading results in the following distinctions:

A. Settlements with a good infrastructure, typically district headquarters
B. Smaller settlements with some infrastructure
C. Smaller settlements with occasional security incidents and divided into;  
   C.1 Limited infrastructure and  
   C.2 No infrastructure  
D. Transient settlements (eg livestock markets) - services optional in these areas; and  
E. Chronically insecure locations where service involving cash handling will be highly risky
Assessing potential payment service providers: This supply side overview is likely to involve desk research of the structure of the region’s retail financial systems as well as several interviews with potential providers. The data gathered will serve to answer the following questions: Which entities have previously provided payment services for social transfers? Or more generally, which financial institutions serve the low end of the market, and with which current products? Are there any international service providers which have indicated their willingness to work in this country?

Identifying show stoppers in the regulatory environment: Several key questions need to be considered here:

- Can non-banks issue stores of value (often called e-money)? If not, this will limit the consideration to banks and other regulated deposit taking entities which, in some countries, may include micro-finance institutions. However, consortia may be formed in which the different roles specified in Section 2.3 are split among different providers.

- Can banks and others operate cash handling agents? If not, this will limit the choice of possible channels.

- Do Know-Your-Customer (KYC) procedures restrict who may open a new account? If so, what is the likelihood that an exemption or a relaxed procedure can be obtained for the purposes of the transfer programme?

The Concept Document

The conclusion of this step will be a report which presents a clear set of feasible high-level options, or perhaps a single option. A re-examination of these options in more detail in the next step will enable a payment strategy to be formulated. If it is not feasible to design a financially inclusive programme, then the concept document should explain the reasons for this and then propose conventional alternatives.

In essence, the concept document should enable the programme’s Steering Committee to:

- decide on the scope of the payment system, particularly whether a financially inclusive programme which meets the promoters expectations and budgetary capacity is feasible; and

- calibrate its expectations and level of resource effort with respect to financial inclusion.

Step 1 Outcome: Agreement by Steering Committee on potential scope for payment arrangements

This decision by the Steering Committee will be informed by a concept document (likely to be 10-15 pages with supporting annexures). The document’s major points of emphasis should include the following:

- Implications of the intended programme payment approach
- Demand side: profile of financial services already used by beneficiaries
- Supply side: potential providers and hurdles (including regulatory issues)
- High-level feasible options for financial inclusion, with some indication of cost range
- Recommendation of how to proceed.

It is possible to skip over this initial step and proceed straight to the commissioning of the full payment strategy on the basis that in any event, some form of payment will be required. However, undertaking this initial analysis in the concept document step will ensure at least that the terms of reference for the strategy step will be more focused and that expectations of the various promoters of the programme can be better managed. If inclusive arrangements are indeed found to be potentially feasible at this stage, then an early decision can be more securely made as to how much time and resource to devote to designing this component.
As Box 4, below, illustrates, even for short term programmes, inclusive arrangements may be feasible but the consequences of different choices (such as the instrument used) need to be well understood by programme promoters upfront.

**Box 4: Short-term transfer programmes**

Can emergency or short term transfer programmes also be financially inclusive? 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 a six month cash transfer programme for famine relief in the Dowa region of the country. Utilizing the smart card technology of Malswitch (supplied by Net1), 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; and while there were some difficulties which required manual over-rides in the early months, the funds were disbursed smoothly. The store-of-value features of the smartcards were, however, never fully utilized 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 smart-card holders also opened accounts at OIBM and continued to use these after the end of the programme at standard bank service points.

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. 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 magstripe 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 mag-strip 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.

**Sources:** Beswick, Claire (2008) “Distributing cash through bank accounts; Save the Children’s experience with drought relief in Swaziland”, available via www.finmark.org.za


**Step 2: Formulating a payment strategy**

Building on the work done at the concept stage, this next step involves the collection of a next level of detailed information in order to motivate a specific approach to payments. The time and resource required for this exercise will depend on how ambitious the programme intends to be with respect to financial inclusion, and the extent to which primary information is already available. The more innovative the programme and the less primary information available, the more time will be required to formulate the appropriate payment strategy.

**Goal**

This step may take 2-4 person months, with a period of at least one person month in country collecting information regardless of the size and scope of the programme. (Appendix A provides a draft terms of reference for this exercise.) In essence, the payment strategy needs to recommend the following:

- Proposed minimum requirements for payment instrument: whether to rule out cash or not; and if not, what standards to set
- Payment parameters
  - Likely cost
  - Time to implement

- Payment providers: Identify those providers with the capability and interest to provide payment services

- Payment process with recommended timelines so that these can be harmonized with the overall programme.

The development of payment strategy depends upon a clear understanding of the pre-determined wider parameters of the overall programme which affect the payment component. Since these factors, (listed in Exhibit 8 below) may not yet have been firmly determined at the concept stage, the greater depth of research required to formulate the payment strategy will likely influence their finalization.

Exhibit 8: Overall programme parameters and their affect on the payment process

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beneficiary eligibility criteria</td>
<td>These will determine the profile of recipients in terms of location, but also in terms of current usage and knowledge of financial services. In addition, other factors such as age will affect the type of identification possible since for example, older people are less likely to have clear fingerprints for biometric authentication; and may be less able to travel themselves hence requiring the capacity to nominate others to collect on their behalf.</td>
</tr>
<tr>
<td>Distribution of beneficiaries</td>
<td>This will determine the extent of the payment arrangements required, affecting capital and operating expenditure.</td>
</tr>
<tr>
<td>Number to be served</td>
<td>Linked to the eligibility criteria above, this number will affect the overall cost as well as cost per payment, and the attractiveness of the programme to larger providers.</td>
</tr>
<tr>
<td>Length of programme</td>
<td>The length will affect the cost of the payment contract and also how much investment is worth undertaking, whether by the programme or the payment provider.</td>
</tr>
<tr>
<td>Frequency of payment</td>
<td>The frequency (weekly for workfare, but typically monthly or bi-monthly for other programmes) will affect the number of payments required and hence the costs.</td>
</tr>
<tr>
<td>Size of each payment</td>
<td>The absolute size will affect liquidity requirements at payout.</td>
</tr>
<tr>
<td>Desired starting time</td>
<td>The lead time to the start of payments will affect how much time there is to deploy new infrastructure (if necessary); note that this parameter may be influenced by the chosen payment strategy and the realistic timeframe to be ready to deploy that strategy.</td>
</tr>
</tbody>
</table>
Components
Building on data contained in the concept document, the strategy development step focuses on three key components of the payment process highlighted in Exhibit 9 below: beneficiaries (the demand side), cash handling infrastructure, and providers (the supply side). Detailed analyses of these three components follow.

Exhibit 9: Components of the social transfer payment strategy

Demand side analysis: Profiling the beneficiaries (and recipients) the programme intends to serve.

Key questions to be answered by research:
What is the age and gender profile of likely recipients?
How financially literate and numerate are they?
How many are already banked?
How many have cell phones or access to cell phones?
Do they already have official identity documents?
Which financial services do they currently use?
What needs for financial services have they expressed?
Where are they located? What are their travel routes and norms (in terms of cost and time)

Ideally, some of these questions will have been answered during the concept stage. However, if the information is not already available, then there is a need to collect it; anecdotal profiles will not suffice to support the full payment strategy.

It is likely that the overall programme design will involve primary survey work, in which case it should include questions pertinent to payment strategy, like those above. However, commissioning primary survey work will involve longer lead times.

Infrastructure analysis

Key questions to be answered by research:
In the areas in which beneficiaries live:
What is the approximate distribution of beneficiaries by distance from nearest town with bank branches?
What type and number of service points (such as ATMs) are already available?
Who provides them?
Do agent networks already exist, e.g. for paying out remittances? If not, are there merchants who could facilitate payments?
What is the extent and depth of the cash economy? (How many businesses are there in the area? Do they have significant excess liquidity?)
What is the security situation both for locals and outsiders?
What is the availability and cost of transport?
What is the state of the road network?
Is there cell phone network coverage and a supply of electricity?
What is the availability of electricity both on grid and alternatives (e.g. how many businesses already have generators or solar power)?
Even when recipients receive an electronic store-of-value from which they can make electronic deductions and use a POS device, they will still require convenient access to points at which they can withdraw cash. Indeed, the experience with basic bank accounts suggests that the withdrawal of cash (via ATM or branch) is the most common transaction type.

Hence, the payment strategy must assess which distribution points are available in the areas in which beneficiaries live. Ideally, this involves mapping the distribution of likely recipients against the geo-located points of current bank branches, ATMs, post offices and other potential service points. In most districts, there will be a core town with some form of financial infrastructure, but it may be a considerable distance away. To recommend a usable and effective payment approach, there needs to be sufficient certainty about how far intended recipients are away from existing or future distribution points at which they can receive payment. Ultimately, setting this parameter will be a key recommendation since it carries major implications for the cost of the programme to both funders and recipients.

Moreover, in areas where adequate infrastructure is not available, updating and expanding the categorization in Exhibit 7 of payment regions according to infrastructure will provide critical input at this stage.

**Provider (supply side) analysis**

**Key questions to be answered by research:**

- Which financial institutions are active in providing accounts at the low end of the market?
- Which institutions have experience of making small payments in the beneficiary areas?
- Are forms of electronic account other than bank accounts allowed by law?
- What requirements are there for clients in opening banks accounts (e.g. anti-money laundering checks), and is there provision for relaxed requirements or exemptions?
- Which international payment providers may show an interest in the programme?

The process of engagement with regulated financial institutions should include more than simply a check on whether they offer basic accounts and have distribution in beneficiary areas. Rather, it should include a discussion with executives at financial institutions which have the potential to show interest. The discussions should identify conditions under which they would consider developing financial services which promote financial inclusion.

If no regulated financial institutions can be found which would be willing or able to offer the service in the designated area, it is still possible that forms of pre-paid account may be allowed or at least not prohibited. These accounts may have very similar functionality to basic bank accounts, except that they are not issued by a bank but by a third party provider which administers them. However, the underlying accounts are usually aggregated into one wholesale account which is deposited with a bank. Accounts like these are widely used for benefit payments in advanced countries like the USA and are typically not subject to the same degree of regulation as bank accounts. However, if an unregulated entity is involved in paying social transfers in this way, it is vital that the payment contract builds in adequate safeguards, such as ringfencing pools of client funds and maintaining a matching wholesale deposit in the banking system, so that any risk of failure leading to loss of client funds is minimized.
**Cost estimation**

Once information is collected about the three core components above, the general outlines of feasible solutions will be clear. These can then be evaluated further to arrive at the most suitable solution(s) in the circumstances. A key criterion of suitability usually relates to cost.

Numerous factors influence the cost of payments in a social transfer programme. These include the following:

- The scope of the payment arrangements - whether paying for cash payout, for a credit transfer to a bank account, or for a bundle including specified transactions on the store-of-value;
- The number of recipients and therefore the number of payments to be made since there are usually economies of scale;
- The length of the programme, which affects the period over which the costs of new infrastructure (if applicable) can be spread;
- The availability of existing infrastructure; and
- The terms by which the payment service provider accesses funds: whether the payment is advanced by the payment service provider and then reclaimed (i.e. the payment service provider has to finance for a defined window often as long as 10-15 days) or pre-paid in which case the provider may have the benefit of the float balance until it is withdrawn.

Because of these differences, it is difficult to make simple comparisons of costs between often very different programmes - for one thing, some are provided by for-profit providers following competitive tender (South Africa, Kenya) and others are provided by state owned entities or at pegged prices which may not reflect actual costs (India). However, this comparison can be done indicatively across a range of social transfer programmes (inclusive and not) as shown in Exhibit 10 below. The main bases of comparison are:

- The absolute cost per payment in US$ terms (which is of course affected by changes in the exchange rate) which typically ranges from $1 to $3 (the NREG number of $0.08 is an artificial exception; see Case Study 3)
- The recurrent payment cost as a percentage of the transfers paid (which is sensitive to the size of the grant) which typically varies from 2-10%.

### Exhibit 10: Costs per Grant Payment Transaction (2007-08)

<table>
<thead>
<tr>
<th>Programme</th>
<th>Amount of Each Grant</th>
<th>Fee per Payment</th>
<th>Fee/Grant</th>
<th>Additional Services Offered &amp; Source</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Local Currency</td>
<td>USS Current</td>
<td>USS Current</td>
<td>%</td>
</tr>
<tr>
<td>Nreg (India)</td>
<td>Rs. 200</td>
<td>4.14</td>
<td>0.08</td>
<td>2 Basic bank account; Johnson (2008) pp.12,19</td>
</tr>
<tr>
<td>DDR (Congo)</td>
<td>N/A</td>
<td>25</td>
<td>2.50</td>
<td>10 None, % fee was negotiated after switch to manual; Bezuidenhoudt (2008)</td>
</tr>
<tr>
<td>Dowa (Malawi)</td>
<td>N/A</td>
<td>10</td>
<td>1.00</td>
<td>10 None - special payment account (CGAP 2007)</td>
</tr>
<tr>
<td>HSN (Kenya)</td>
<td>Ksh2150</td>
<td>27</td>
<td>1.25*</td>
<td>4.4 Basic electronic store-of-value with bunle of free transactions per cycle; functionality to do more.</td>
</tr>
<tr>
<td>Save the Children (Swaziland)</td>
<td>E165</td>
<td>20.6</td>
<td>2.50</td>
<td>13 Basic savings account with special features; Beswick (2008) pp. 14-15</td>
</tr>
<tr>
<td>Sekulula bank account (South Africa)</td>
<td>N/A</td>
<td>--</td>
<td>2.25</td>
<td>3 Basic bank account including 2 free withdrawals per month; functionality of account can do more</td>
</tr>
<tr>
<td>Net 1 Payments South Africa)</td>
<td>N/A</td>
<td>--</td>
<td>3.00**</td>
<td>3.5 Withdrawal at POS, credit &amp; insurance</td>
</tr>
</tbody>
</table>

* in the case of HSN, the programme pays additional fees to the provider as part of location-specific infrastructure subsidies, which amount to an additional $3 per pilot payment cycle during the three year pilot. However, this infrastructure will be of use beyond this period so this cost is excluded.
** varies by province and by year but averages around $3.
These numbers form initial benchmarks against which to consider the costs of a proposed approach. Also, locally available benchmarks could include the cost of making domestic remittances to equivalent areas.

**Fees**

An important design consideration is whether to specify the fee formula for payment arrangements or leave this open for bidders. A standard approach would be to invite proposals for a two part fee, as follows:

- A fixed fee per recipient enrolled (where the cost would relate to the payment instrument issued);
- A fixed fee per transaction cycle, which may include a bundled number of specified transactions (such as two withdrawals and one balance enquiry, beyond which the client must pay extra from their balance).

Typically, these fees would escalate at an agreed annual rate during the contract to compensate for expected inflation.

Separating out the cost of setting up new infrastructure from the ongoing costs of maintaining and transacting using the newly issued accounts may also be of value – especially in the case of financially inclusive programmes which require the creation of new financial service infrastructure. Potential payment providers could be invited to propose a menu of fees which distinguishes the following key cost factors:

- Fixed overhead costs of setting up a new product and programme;
- Semi-fixed costs for establishing each new distribution point which could vary according to the profile of the area (recognizing that it will cost more to set up and service agents or branches in more remote areas) and the nature of the equipment proposed; and
- Variable costs: the regular ongoing cost of maintaining the electronic account with a specified minimum bundle of transactions. (In which case the cost of additional transactions should also be specified in order to consider the possible effects of clients).

Covering fixed and semi-fixed costs may create incentives for providers to start a new programme and to establish new distribution points in underserved areas which may be used by non-recipients and even beyond the life of the programme. Directly comparing and funding these costs may create more transparency. It may also pay off over time after the establishment phase: compared with a simple cash payment option, modeling based on realistic parameters of a financially inclusive pilot programme shows that the cumulative total cost of payment may be cheaper under the menu option within three years or so than the flat fee option. 23

**Leakage**

Box 5 (below) describes the loss of funds which can occur in the administration of the payment system and suggests how to reduce those losses.

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23 See Annex 2 of Pickens et al (2009) for assumptions which support this outcome.
Box 5: What is leakage and how much of a problem is it?

Leakage is the loss to a programme which occurs when, either by fraud or error, funds do not end up in the hands of eligible beneficiaries. Leakage can occur at various stages as follows:

- **At enrolment**
  1. Inclusion error caused by the poor application of the targeting method resulting in ineligible beneficiaries being enrolled in the programme.
  2. Deliberate inclusion by an administrator of ghost beneficiaries at enrolment for the purpose of defrauding the programme.

- **At payment**
  3. Payment made incorrectly to a non-beneficiary through a failure of authentication
  4. Failure of a nominated recipient to give the intended beneficiary the full amount of the payment.

The loss as a result of leakage can be substantial; estimates for conventional programmes range from 4% (South Africa) to 15% (India). These costs could easily be larger than the direct costs of payment and should be considered as part of the total costs of administering the programme: the cheapest payment cost may be associated with high leakage such that the total cost of delivering the programme is high.

For avoiding funds leakage, no system or technology is a substitute for a zealous managerial commitment. However, the choice of payment system can have a material effect on leakage reduction through several channels:

- The use of suitable authentication (such as a biometric) at the time of receipt can substantially cut the number of payments incorrectly made to non-beneficiary. (point 3, above).
- Non-cash systems have fewer vulnerabilities to simple fraud and theft, although no electronic system is immune from fraud and must rely on adequate procedures and controls.

Case Study 3 below illustrates the implementation of an inclusive payment approach for the NREGA workfare programme in the Indian state of Andhra Pradesh which reduced leakage there.

Case Study 3: Delivery of workfare benefits using agents by FINO in Andhra Pradesh, India

The National Rural Employment Guarantee Act (NREGA) was passed in 2005 by the Government of India with the aim of relieving poverty by guaranteeing minimum wage labour for up to 100 days per year to anyone willing to work in locally designed public works projects. To implement NREGA in the Indian province of Andhra Pradesh (AP), a pilot project was conducted in which smartcards were used for wage distribution and, coincidentally, the distribution of the fixed monthly stipends for the social security pension (SSP) programme.

In an attempt to prevent cash leakage, the national government mandated that all NREGA wages be routed through no frills bank accounts, in return for a fixed fee of 2% of the amount paid. However, most banks do not have existing service outlets in the areas close to where NREGA recipients live. Indian IT company FINO has developed a robust technology platform which offers banks the service of engaging directly with their recipient clients through an extensive network of FINO agents, or so called bank correspondents, based in the villages where recipients live. 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 which FINO receives from the bank (1.75% of the amount paid). Evidence collected in the 2008 report by Doug Johnson suggested that the FINO system has been very successful in reducing leakage in the system.
**Other strategic questions to address**

*When should recipients be offered more than one payment option?* Ideally, financially inclusive programmes should offer the recipients the option to choose the issuer of the electronic store-of-value. The fee for service could be paid to whichever entity holds the account, provided that account meets basic norms and standards. This arrangement would enable competition among providers and ultimately better standards of service for the client. However, for most programmes, this degree of choice is both too complex to administer and not feasible, at least at the start. This is especially true in less dense areas which cannot support multiple providers should there be multiple providers willing to perform this role. Even though the payment strategy should be focused on finding practical solutions for a defined period (typically 3-5 years), it should also consider the possibility of how the arrangements may evolve beyond this initial timeframe.

*What are the benefits and risks of proprietary technology?* Some payment providers may establish service points at which only their payment instruments (such as smart cards) can be used. Although such proprietary technology approaches may bring benefits in being robust and tested, they often end up being more expensive. It is generally advisable at least to prefer, if not to require, arrangements which have the capability to integrate into financial systems: it is more likely that these arrangements will endure beyond the life of a particular programme since they could also be used by non-beneficiaries in ways which spread the fixed costs of setting them up and increase financial inclusion in the community as a whole.

*Should a pilot be undertaken?* A pilot programme might be designed to include a restricted number of beneficiaries in a limited geographic area for a defined time period in order to test particular aspects of a programme. The decision whether to have a pilot stage is a more general question for the programme as a whole than for the payment strategy alone. However, if a pilot is undertaken, it is important that the issues and questions specific to the payment process which are being piloted are identified so that these can be reviewed at the appropriate time (see Step 6).

However, apart from a pilot phase for a new programme, it may also be possible and productive to pilot new approaches to payment within established programmes. These would enable better understanding of recipient response and also help the resolution of technology issues without adversely affecting the overall programme.

*Are backup systems necessary?* Because beneficiaries may often rely on the timely receipt of the transfers to survive, it is important that the payment arrangements include adequate backup processes so that even if a particular channel fails in a particular location, an alternative plan is in place. This happened when the technology enabled arrangements of the DDR programme in DRC failed because of a lack of local liquidity, as Case Study 2 related.

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**Step 2 Outcome: an agreed strategy**

This step ends with agreement by the Steering Committee on a payment strategy. The agreed strategy document will set the parameters on:

- The standards for the payment instruments to be used
- The service infrastructure required
- The procurement process to be followed, naming possible or likely payment service providers
- The timeframe to implementation
- The budgetary implications for the programme.
4. Implementation Phase

Step 3: Procurement

The process for engaging potential payment service providers may be determined in large part by the procurement policy and procedures of the programme promoters. The steps to be followed will usually include some form of request for proposal or tender process.

Typically, procurement will involve the following process: an expression of interest phase; an invitation to eligible entities to bid; an evaluation of all compliant bids; and the selection of a preferred bidder. Existing procurement rules may set minimum timeframes for each phase of the process, which will affect the overall roll out plan. Procurement staff should be alerted that the payment service contract in an inclusive programme is typically not a straightforward purchase of a standard service. In fact, the procurement process should encourage a diversity of possible approaches to the defined problem within clear parameters.

This manual cannot describe the complex procurement processes which are often prescribed in large exhaustive manuals and which will vary from institution to institution. Rather, this step focuses on those aspects of the procurement process which are most likely to affect favorably the initiation of a financially inclusive payment programme.

Selection and procurement of suitable providers should begin by addressing several key questions, as follows:

- **Will there be enough response to a request for proposal (RFP)?** This is a function of whether the strategy document has correctly assessed the willingness and ability of potential providers; and whether the tender process is clear and perceived to be fair. In addition, the scale of the programme will affect the level of interest - with only niche providers interested in small or limited duration programmes - as will the financial parameters which signal whether the programme wishes to promote sustainable business or has already chosen a lowest cost provider. Engagement with potential providers before issuing an RFP may help to stimulate interest, even providing additional incentives where necessary as illustrated in Box 6 below. Hosting a bidders’ conference may answer questions and provide additional clarity.

- **What should be the minimum eligibility requirements for a proposal?** It is vital to set these appropriately - not only in terms of the minimum specifications of the payment instrument but also in terms of service providers’ previous experience. These requirements should be clear enough to dismiss unsuitable applications without threat of legal recourse.

- **Should the RFP allow flexibility for a range of approaches, e.g. cash as a fall back option?** The RFP should be explicit about whether one provider (or a consortium) is expected to provide all the services specified or whether, for example, bidders could cover one region only. In general, if a financially inclusive process appears feasible, it is worth specifying the minimum requirements and allowing for a broad range of possible solutions in response. In the event that no suitable proposals are received, a subsequent tender for a cash payment scheme may be invited.

- **How much weight should be assigned to price in the criteria?** In Appendix B, which gives an excerpt from a financially inclusive RFP, price is assigned an overall weighting of 20% in the scoring. This is less than weightings for the service to recipients, the financially inclusive product and the capability to deliver. In general, price is unlikely to be much lower than 20%. The meaning given to each evaluation criteria is important so that evaluation can adequately discriminate among bidders.

- **How should the tender evaluation process be managed?** A tender award committee should include those with a mix of expertise in evaluating complex bids of this type as well as those with an interest in its outcome. For example, if the programme administrator has been appointed by this stage, a representative of that entity could be included in the process.
Box 6: Adding financially inclusive arrangements into the payment system design: Hunger Safety Net Programme, Kenya

DFID Kenya working together with the Government of Kenya mandated the Financial Sector Deepening Trust Kenya (FSDK) to design and manage the payment system for the pilot of the Hunger Safety Net (HSN) programme in the arid and semi-arid areas of Kenya. Not only are these areas a daunting environment for cash distribution, but FSDK’s mandate was to implement a financially inclusive system that offered financial services to the beneficiaries and non-beneficiary local communities.

Because of its expertise in financial service development, FSDK had proposed to DFID that the payment arrangements should be financially inclusive. Concerned that the difficult environment might limit the interest of private providers in bidding, FSDK undertook a two-step process.

First, it set up a challenge fund which provided matching grants on a competitive basis to enable the development of creative prototypes. This process included hosting a well-attended workshop which highlighted international trends and disseminated local research which FSDK had commissioned into financial services used in the areas in which beneficiaries resided. Then a formal tender process started in terms of EU procurement rules. Both winners of challenge fund grants decided in the end not to bid; however, the challenge process raised the awareness of the forthcoming bid. In addition, a bidders’ conference was held and contact maintained with local and international players to ensure that they were well aware of the RFP.

In the end, a sizable number of local and international firms submitted proposals. The formal evaluation criteria for those bids included a sizable weighting on additional financial services available to both recipients and non-recipients. At the end, a local retail bank, Equity Bank, was first ranked, and invited to enter a contract for the pilot.

The design and selection process took almost two years in total; and the implementation, which began in January 2009, continues to be challenging. However, the project demonstrates that financially inclusive payment arrangements are possible even in the most difficult situations.

Step 3 outcome: chosen preferred payment service provider (PSP)

This step results in a clear selection of a preferred provider(s) with whom it is possible to move to contract negotiation.

Step 4: Contract with payment service provider (PSP)

The procurement process will prescribe how to proceed from selecting the preferred bidder in the previous step to signing a contract which will enable the implementation process to commence.

The contract needs to be comprehensive and clear, but also flexible enough to accommodate changes which are likely to materialize in a new roll out.

Key elements needing to be clarified with the provider at the contracting stage are:

- Timing of roll out (since the state of readiness of the other programme components, such as the administrator, would now be clear);
- Project governance mechanisms which nominate responsible people at different levels and provide for efficient escalation of problems;
- Specific reporting requirements and information, which may link to monitoring and evaluation needs – see Step 6.

Step 4 outcome: contracted PSP

This step results in the signature of an agreement with the chosen provider.
5. Monitoring and Evaluation Phase

Step 5: Monitor the enrolment process and payment cycle

On signature of the payment service provider (PSP) contract, the actual implementation process can commence. There are typically two implementation phases: enrolment and payment cycle.

1. **Enrolment phase:** Qualified recipients are enrolled by the PSP for the purpose of payment. They are issued with the payment instrument to be used in the programme and provided with the training necessary to use the instrument. The electronic store-of-value is also opened following the collecting and verification of one or more relevant identity documents from the recipient. PSP staff typically move around in mobile units to defined points in beneficiary communities where recipients are convened by the programme administrator. PSP staff are able to take photographs and issue payment instruments instantly and may be required to demonstrate the usage of the instruments. In countries like Colombia where recipients have been issued with a debit card for the first time, the issuance and training process is done by bank staff in a football stadium at which thousands of beneficiaries convene.

2. **Regular payment cycle:** Once enrolled, the regular payment cycle will ensue.

   - **Generation of payment instructions:** At a predetermined time, the administrator will transfer to the payment service provider an electronic file containing the names and unique identifying numbers of eligible beneficiaries and the amounts due to each. This data has been generated for the programme from the central database.

   - **Depending on the payment arrangements,** the administrator will also make a wire transfer of the aggregate amount to the PSP. The PSP will use the schedule to credit the linked accounts of each recipient electronically. Depending on the arrangements by which recipients can access cash, the PSP may also provide additional cash to the distribution points at the time of month at which payments are made in a community to ensure an adequate supply of cash. Staggering the payment of beneficiaries within a community so that funds become available for different groups at different times of the payment cycle will also facilitate the liquidity requirements and reduce the need to import cash at peak times.

   - **Reconciliation of payments:** The payment provider is required by contract to provide a full reconciliation of all amounts credited. This will include error handling – for example, when an account has been closed or changed.

   - **Payment of fees.** Usually on completion of the payment cycle, the PSP will invoice the administrator for fees due, usually linked to a reconciliation which shows the incidents which generate fees, such as new enrolments or completed payments.

   - **Submission of MIS:** In addition to the basic information necessary to reconcile the amount paid each month in transfers and claimed in fees, the administrator may require additional information to be submitted about recipients, as follows:

     i. the average balances retained on the accounts;
     ii. the average number and type of transactions per month initiated by the beneficiary; and
     iii. the number and type of complaints and customer service queries received.

   - **Customer service:** The PSP will need to have arrangements for providing customer service to attend to queries from recipients and to handle exceptional items such as: the need to replace lost or defective payment instruments; the need to reissue forgotten PIN numbers; and disputes arising about the accounts. Where a basic bank account is provided, the scope of the services is likely to be much wider and will necessitate suitable infrastructure to do this.
Step 5 outcome: Payments are made to all enrolled beneficiaries on a timely basis

- The enrolment process should be coordinated closely with the programme administrator to ensure that only qualified recipients are enrolled as per the rollout timetable.
- The regular payment cycle should include adequate reconciliation of payments as well as timely reporting to programme managers.

Step 6: Monitor and evaluate payment outcomes periodically

Most social transfer programmes will include a formal monitoring and evaluation (M&E) component. This will involve regular reporting, and on a periodic basis, require an independent agency to evaluate the effectiveness of the payment system as well as the impact of the programme on the lives of beneficiaries relative to its defined intent. This type of review is especially important for pilot programmes which have been designed to test certain propositions; but regular review is also important for ongoing programmes. Review should enable adjustments to be made over time in design of the programme in light of both changing beneficiary needs and changing technology.

1. Periodic evaluation of effect of payment arrangements on recipients

The payment arrangements need to be included in the scope of the broader M&E component; or, alternatively, if this is not feasible, payment arrangements should be subject to a separate periodic review in order to assess the effect of financially inclusive arrangements. The latter may be necessary because traditional M&E focuses on the effect on beneficiaries whereas the payment arrangements have the most effect on the recipients who may not be the same people within households. Different questions may need to be asked pertaining to these effects.

In order to determine the impact of diverse types of payment arrangements, it is necessary to implement a randomized control trial by which different payment arrangements (such as cash versus financially inclusive) are used by otherwise similar beneficiaries within a programme. However, this degree of rigor in evaluation is difficult to implement. Instead, periodic surveys of recipients should track their usage of all types of financial instruments both at the outset of the programme and while it is in operation. This can be done by repeated cross-section or a panel-type study with specialized questions about attitudes towards and usage of financial products during the life of the programme.

2. Periodic review of payment strategy in light of new technologies and financial system developments

In view of the rapid technological developments in payment systems, long-term social transfer programmes should periodically review their payment strategies to take into account new applications of technology; evolving regulatory requirements; and new entrants into the service provider field. These reviews should be completed in time to inform new RFPs for payments services.

Review should also inform the strategy to be followed after a particular programme ends. In financially inclusive programmes, recipients would have become accustomed to the use of a formal financial instrument, and providers would be faced with deciding whether and how to continue offering the service without the fees paid by the programme. The willingness of recipients to pay for the service going forward is a true test of its value to them; however, their ability to do so will depend on their income after the programme ends.

Step 6 outcome: update and revised approach

- Information should be collected regarding the financial usage patterns of recipients at the outset and over time, both to understand the effect of financially inclusive arrangements and to enable the updating of the payment strategy.
- The payment strategy should be updated periodically to ensure that it takes into account new approaches, providers and the changing needs of beneficiaries.
**Process Overview**

The overview below summarizes in a timeline format the basic phases described in this manual. The times shown are purely indicative since the steps in the payments process are both sequentially linked and contingent upon the parameters of the wider programme with its particular complexities.

<table>
<thead>
<tr>
<th>Step</th>
<th>Activity</th>
<th>Months</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1 2 3 4 5 6 7 8 9</td>
<td>Financially inclusive arrangements are possible and worth exploring.</td>
</tr>
<tr>
<td>A. Design</td>
<td>Identify high level payment options</td>
<td></td>
<td>Preferred approach is selected with timeline and costs aligned to overall design.</td>
</tr>
<tr>
<td>1</td>
<td>Develop payment strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B. Implementation</td>
<td>Manage the procurement process</td>
<td></td>
<td>Top placed payment services provider is chosen.</td>
</tr>
<tr>
<td>3</td>
<td>Contract with provider</td>
<td></td>
<td>The detailed terms of contract with provider are determined.</td>
</tr>
<tr>
<td>C. Monitoring &amp; Evaluation</td>
<td>Monitor Implementation</td>
<td></td>
<td>Take action if implementation is not in line with plans and standards.</td>
</tr>
<tr>
<td>5</td>
<td>Review outcomes of process</td>
<td></td>
<td>Revise strategy or approach as necessary.</td>
</tr>
</tbody>
</table>
Useful References

On design of social transfer programmes:


EPR (2006) “Designing and Implementing Social Transfer Programmes”, EPR: Cape Town

For a wide range of resource and research materials on social transfer programmes: www.Wahenga.net

On financial inclusion:


On inclusive payment mechanisms:


Pickens, Mark, David Porteous & Sarah Rotman (2009) “Banking the Poor through G2P Payments” forthcoming as Joint CGAP-DFID Focus Note via www.cgap.org


Appendix A: Draft terms of reference for payment strategy development (used in Step 2)

This is a pro-forma terms of reference to procure the advisory services needed to develop a payment strategy for a particular programme. It must be tailored to the programme’s particular needs and conditions.

Objective of assignment:
To develop a payment strategy for the proposed social transfer programme being promoted by government of XYZ.

Background:
The Ministry of ABC of the government of XYZ (in conjunction with XXX donor agency) intends to introduce a social grant programme which will provide regular monthly cash grants to qualifying households (provide further details on programme). Various workstreams have been identified in order to translate this plan into action by 200X. The workstreams are being coordinated by ……(describe project management arrangements).

One workstream is tasked with the design and implementation of appropriate payment arrangements. The Ministry is seeking the assistance of skilled consultants to provide input for the design of the payment mechanisms to give effect to this programme.

Scope:
This project involves the following components:

A. assessing the readiness of State policy, infrastructure, systems, and procedures to implement the payment and administration arrangements required for a social grant transfer programme;

B. collecting relevant and reliable information on (1) potential programme beneficiaries, (2) existing money transfer arrangements in the country, and (3) the financial infrastructure;

C. analyzing the collected information to identify feasible options for grant payment and assess them against the criteria above; and

D. making recommendations on the process required to implement each of the options identified.

Further detail is provided here on each component.

A. Readiness of government
At a minimum, the Government departments that deal with national identification (e.g. births, deaths, citizenship status, etc.), social welfare or social development, and provision of State-run services through dispersed outlets (e.g. Post Banks, community service centres, etc.) should be assessed for the levels of policy harmonization, integration of key systems and data bases, and the operational mode of customer service delivery, especially for the intended target group. Issues to examine should include, inter alia:

- A national ID system
- Compatibility of existing system’s architecture and software with external systems
- Opportunities for cross-servicing for different government departments and functions
- Operational readiness, especially human resources, for service level agreement management, customer service, and ongoing education of the target beneficiaries
- Policy with respect to development of the financial sector
- Regulations for customer due diligence on new customers in financial sector
- The state of these systems will affect the range of options which can be considered
B. Collection of Information  
B1. Profile of beneficiaries

Using existing information, such as census or other data, complete the following profile of current and future potential recipients, as well as the communities within which they are based which may also benefit:

<table>
<thead>
<tr>
<th>Current Recipients if Applicable</th>
<th>Total Eligible Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Age distribution</td>
<td></td>
</tr>
<tr>
<td>B. Gender</td>
<td></td>
</tr>
<tr>
<td>C. Use of formal financial products</td>
<td></td>
</tr>
<tr>
<td>C1. % with bank account</td>
<td></td>
</tr>
<tr>
<td>C2. Attitudes towards banks</td>
<td></td>
</tr>
<tr>
<td>D. Current mechanisms for receiving remittances/ money transfers, including cost thereof</td>
<td></td>
</tr>
<tr>
<td>E. Financial literacy</td>
<td></td>
</tr>
<tr>
<td>F. Location:</td>
<td></td>
</tr>
<tr>
<td>-- by smallest geographic unit available</td>
<td></td>
</tr>
<tr>
<td>-- distance from nearest point with on-line financial system access</td>
<td></td>
</tr>
<tr>
<td>G. Usage/ access to cell phone</td>
<td></td>
</tr>
</tbody>
</table>

B2. Existing money transfer programmes

Low income people are often recipients of substantial flows of person-to-person transfers from family members in other locations, even in foreign countries. These may be formal, such as using money transfer operators, or informal, such as sending money with taxi-drivers. Using existing information, describe the available means used for such transfers, and the advantages and disadvantages (including costs and risks) to the payer and recipient in using such mechanisms. The considerations informing the choice of particular mechanisms will help inform the understanding of recipient preferences, as well as defining their existing experience, against which any new programme will be subjectively benchmarked.

Are there any existing programmes by which small value amounts are paid out by government or other institutions to individuals (e.g. pensions)? If so, describe the mechanics of the programmes.

Finally, how are large amounts of cash moved around the country e.g. between bank branches or to pay wages or suppliers by large corporates or government agencies? How many agencies are there which provide cash in transit services? What is the typical fee profile? Is insurance obtainable for cash-in-transit?

This assessment must also include at least an overview of the suitability, robustness, and appropriateness of data management systems, as follows: the ability for systems to communicate with data bases and systems outside of the provider’s domain; protections for the security and integrity of data (such as back-up provisions, access control, etc.); the online and offline parameters of data sharing and data querying; and reconciliation between financial data and social transfer and personal data.
This section requires collection of the current eligibility requirements, fees and product features of all currently offered bank account products which might be suitable to receive social grants. Depending on the law, other entities such as co-operatives, non banks and even microfinance institutions may also collect deposits and should be considered. This should be prepared in tabular form i.e.

<table>
<thead>
<tr>
<th>Name of product</th>
<th>Bank 1</th>
<th>Bank 2</th>
<th>Non bank finance Institution</th>
<th>MFIs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligibility requirements to open</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum balance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fees:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>--monthly</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>--withdrawal</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>--deposit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No of points where cash can be withdrawn</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Interest paid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**B3.2. Infrastructure**

Information should be collected on the number of bank branches, ATMs, post offices and point of sale devices by region of the country (at the smallest unit available).

**B3.3 Provider strategies**

Through interviews with informed commentators, identify those financial institutions whose strategy and positioning is most likely to interest them in the payment of social grants to account holders. These impressions, as well as the criteria by which such business would be assessed, should be established in interviews with senior representatives from the institutions selected.

The combination of these sources will inform whether a financial inclusive approach is possible.

**C. Analysis**

Using the information gathered in components A and B, prepare a set of the possible feasible options for payment, outlining in each case the assumptions, risks, implications and unknowns around each. A preliminary assessment of each should be produced against the desired objectives above.

**D. Recommendations on process**

Make recommendations on how to proceed to choose and implement one feasible option, taking into account the scale of the proposed programme, and, if a pilot, the possible transition from pilot to full scale rollout.

**Methodology:**

The project will require:

- The collection and analysis of all relevant available in-country data

Comment: providing a list here of available survey material would help to specify the amount of extra work required.

- Interviews with local actors to establish the availability of financial products and infrastructure
- Interaction with the Steering Committee, especially …….
Deliverables:

- A presentation of initial findings following in-country information collection work to test and confirm the approach
- A draft written report (MS Word format), which shall contain the following sections:
  - Beneficiary profile & implications
  - Available financial products and infrastructure & implications
  - Assessment of feasible options for payment
- Recommendations on process

- A final written report within xx weeks of receipt of comments on draft report

Time frame:

The time frame to complete this project will be heavily dependent on the availability of sufficient, accurate information, especially on potential beneficiaries.

Criteria for award of tender:

This project will be awarded to a qualified firm or individual based on the following criteria:

- Relevant experience of both firm and key individuals in the design of social transfer programmes
- Knowledge of the financial sector of the country
- Fee proposal

Proposals to undertake this study should be submitted to (responsible person and contact details) by (date).
Appendix B: Headings and Excerpted Sections from Draft Request for Proposal (RFP) for Payment Service Providers in an Inclusive Programme (Step 3)

These are excerpted from the actual terms of reference referred to in Box 5 for the HSN Programme in Kenya.

1. Background

2. Objectives

The purpose of the payments component is to provide a cost effective, efficient, accessible and secure system for delivery of social protection payments to recipients. A Payments Service Provider (PSP) is sought to undertake this function.

3. Scope of Work

4. Conduct of the Work

The PSP will deliver the social transfers to the recipients in an acceptable form. The roles of administrator and PSP are separated. This separation serves as a fiduciary risk management mechanism. However, the administrator and PSP need to coordinate their activities to ensure smooth enrollment and thereafter delivery of cash payments to recipients and thereby beneficiaries.

4.1 Programme enrollment
4.2 Establishment of payment infrastructure
4.3 Payment enrollment
4.5 Payment amount
4.6 Recipient locations
4.7 Funds flow and reconciliation
4.8 Coordination with other components
4.9 Mechanisms of accountability and fiduciary risk management.

5. Reporting

5.1 Reporting
5.2 Accountabilities and breakpoints

6. Requirements

6.1 Mandatory requirements

The bids must explain clearly how proposed solutions will meet the mandatory requirements set out below:

<table>
<thead>
<tr>
<th>Mandatory Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Store-of-value</strong> - This means that the recipient should have an opportunity to store or save a portion of the grant.</td>
</tr>
<tr>
<td><strong>Auditability</strong> - The payments process must be sufficiently transparent to be auditable. Appropriate records must be kept and payment cycle reports must be made to the administrator. The solution must minimize the risk of losses through fraud, corruption and poor coordination with other operational components.</td>
</tr>
<tr>
<td><strong>Security</strong> - At least two factor authentication is required, e.g. a card with a PIN or a card with a biometric fingerprint.</td>
</tr>
<tr>
<td><strong>Minimum service</strong> - Access of at least two withdrawals and balance checks per payment cycle.</td>
</tr>
<tr>
<td><strong>Financial capacity</strong> - Financial capacity either through balance sheet strength or guarantee to support full recourse for the maximum value of a payment cycle in the event of losses.</td>
</tr>
</tbody>
</table>
6.2 Assessment criteria

### Evaluation Criteria

<table>
<thead>
<tr>
<th>Objective</th>
<th>Description of criteria</th>
<th>Weight (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Ability to deliver payments to beneficiaries/recipient</td>
<td>(a) The degree to which the bidder has the requisite technical and organizational capabilities, the appropriate experience, the capacity and the financial resources to implement the project</td>
<td>25%</td>
</tr>
<tr>
<td></td>
<td>(b) Credible detailed plan</td>
<td></td>
</tr>
<tr>
<td>2. Value to beneficiaries/recipient</td>
<td>(a) Accessibility to beneficiaries/recipient - proximity - availability - speed - suitability - security</td>
<td>25%</td>
</tr>
<tr>
<td>3. Financial Inclusion</td>
<td>(a) Store-of-value account utilized for payments (b) Additional financial services available to beneficiaries/recipient</td>
<td>25%</td>
</tr>
<tr>
<td>4. Price</td>
<td>Cost effectiveness: defined by [the bid matrix provided]</td>
<td>20%</td>
</tr>
<tr>
<td>5. Improve financial access to the general population of non-recipients</td>
<td>(a) Additional financial services available to non-recipients</td>
<td>5%</td>
</tr>
</tbody>
</table>

### 7. Timetable

### 8. Tender Content and Submission Process

The tender submitted must cover the areas set out below.

#### 8.1 Bidder details

#### 8.2 Bidder credentials

- Brief description of Company/Consortium, including activities and areas of operation within country and internationally.

- If a consortium, an explanation of how the consortium will work together, detailing each individual organization’s roles and responsibilities. The annex should include letters confirming participation in the consortium from all members.

- Short biographies of key personnel involved, not longer than half a page (Full CVs may be provided as an annex.)

- Key financials for last three years (Audited financials for last year should be attached as an annex.)

- Relevant track record

#### 8.3 Description of proposed solution

- Outline of overall approach as it relates to the scope of work of this TOR

- Bidders should also demonstrate an understanding of the challenges of working across [relevant regions]: In particular, how does the solution work in areas without electricity and/or GPRS/CDMA? A description of the difference in approach among districts and areas should be included.
• Explicit mention should be made of the districts in which the bidder wishes to operate. The bidder may propose a solution suitable for operation in all districts or only across specific districts. In the case of a rejected district, a brief explanation of the bidder’s decision should be given.

• A full list of proposed locations indicating district and type (if the solution has more than one type) must be included. This list should follow the number of points of presence indicated in the bid price matrix.

• A description of how the solution meets the mandatory requirements

• A description of how the proposal relates to the assessment criteria

8.4 Financial proposal

A detailed financial proposal should be made using specified formats.

8.5 Proposed service level standards

The final service level agreement will be made at the contracting stage. However, for each area of work – registration, establishment of payment infrastructure payment enrolment, updating MIS, use of funds and reporting – the bidder should suggest his own performance standards, e.g., reporting will be made 5 days after payments are made.

8.6 Additional information

8.7 Tender submission

8.8 Deadline for receipt of tender
Appendix C: Decision tree for process

Step 1: Commission a Concept Review

- Are promoters willing to consider financial inclusion?
  - Yes: Assess the reasons why not; there may be a case at least for understanding Step 1; if firm, proceed to Step 2 below.
  - No: Proceed to Step 2 below.

- Are there suitable stores of value accounts already available for likely beneficiaries?
  - Yes: Without issuers and/or suitable locations, it is probably not feasible to be ambitious about inclusion for now at least; proceed to Step 2 with limited scope, or else straight to procurement of a cash only payment service.
  - No: Proceed to Step 2 below.

- In areas where beneficiaries live, are there already locations to draw cash?
  - Yes: A financially inclusive approach may well be feasible; include in the design of Step 2
  - No: Proceed to Step 2 below.

Step 2: Commission payments strategy

- Undertake detailed review, including preliminary costing of feasible options and recommend strategy to steering committee

- Steering committee accepts
  - Yes: Write request for proposal for payment service provider role
  - No: Proceed to Step 3 below.

- Steering committee approves RFP
  - Yes: Proceed to Step 3 below.
  - No: Proceed to Step 3 below.

Step 3: Follow procurement process

- Enough eligible bidders?
  - Yes: Step 4: Contract with first ranked
  - No: Proceed to Step 5 below.

Step 4: Contract with first ranked

Step 5: Monitor implementation

Step 6: Review and evaluate

- Are agreed arrangements adequate?
  - Yes: Proceed to Step 6 below.
  - No: Reconsider strategy; Step 2.
## Appendix D: Frequently asked questions and references

<table>
<thead>
<tr>
<th>Topic/Question</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beneficiaries</strong></td>
<td></td>
</tr>
<tr>
<td>1. What does one need to know about beneficiaries to design effective payment</td>
<td>pp.9, 11, 15,</td>
</tr>
<tr>
<td>arrangements?</td>
<td>19, 23, 24</td>
</tr>
<tr>
<td>2. How can one pay remote beneficiaries in a cost-effective manner?</td>
<td>p.15, 20</td>
</tr>
<tr>
<td>In particular, how does one serve people who are out of cell reception, not</td>
<td></td>
</tr>
<tr>
<td>accessible by road or for whom there is no electrical power available?</td>
<td></td>
</tr>
<tr>
<td>3. What are the risks of providing access to payments through agents/merchants,</td>
<td>pp.16 - 17</td>
</tr>
<tr>
<td>compared to alternative means of payment?</td>
<td></td>
</tr>
<tr>
<td>4. What are acceptable benchmarks for transactions costs (travel cost or time;</td>
<td>pp.10 - 11</td>
</tr>
<tr>
<td>or queuing time) by a beneficiary in the payment process?</td>
<td></td>
</tr>
<tr>
<td><strong>Technology</strong></td>
<td></td>
</tr>
<tr>
<td>5. Which payment technologies are feasible when? e.g. When and how can mobile</td>
<td>pp.16 - 18</td>
</tr>
<tr>
<td>payments help the payment process?</td>
<td></td>
</tr>
<tr>
<td>6. What are the risks involved in using mobile phone technology?</td>
<td>p.16 - 17</td>
</tr>
<tr>
<td><strong>Payment Service Providers</strong></td>
<td></td>
</tr>
<tr>
<td>7. What are the regulatory issues to consider in selecting payment providers?</td>
<td>p. 21</td>
</tr>
<tr>
<td>8. What is the best way to test the interest of formal financial institutions</td>
<td>pp.25, 27, 30</td>
</tr>
<tr>
<td>in social transfer payments?</td>
<td></td>
</tr>
<tr>
<td>What are their possible interests in social transfers?</td>
<td></td>
</tr>
<tr>
<td>9. Who are the international payment providers with an interest and competence</td>
<td>p.14</td>
</tr>
<tr>
<td>in payment processes?</td>
<td></td>
</tr>
<tr>
<td><strong>Costs</strong></td>
<td></td>
</tr>
<tr>
<td>10. How heavily should cost be weighted in the assessment of payment</td>
<td>p.30</td>
</tr>
<tr>
<td>arrangements?</td>
<td></td>
</tr>
<tr>
<td>11. What are cost benchmarks for different sizes and types of social transfer</td>
<td>pp.26 - 27</td>
</tr>
<tr>
<td>programmes?</td>
<td></td>
</tr>
<tr>
<td><strong>Design Process</strong></td>
<td></td>
</tr>
<tr>
<td>12. How long do the payment arrangements take to set up and implement?</td>
<td>pp.10, 19</td>
</tr>
<tr>
<td>13. Can inclusive payment arrangements be used for emergency relief programmes?</td>
<td>pp.11, 19</td>
</tr>
<tr>
<td>14. When and how is it worth piloting the payment arrangements?</td>
<td>p.29</td>
</tr>
<tr>
<td>15. Under what circumstances should the funding agency consider subsidies and</td>
<td>p.27</td>
</tr>
<tr>
<td>flexible pricing regimes to support the extension of financial touch points to</td>
<td></td>
</tr>
<tr>
<td>reach the intended beneficiaries or accomplish financial inclusion?</td>
<td></td>
</tr>
<tr>
<td><strong>Risks</strong></td>
<td></td>
</tr>
<tr>
<td>16. How does one minimize leakage and corruption in the payment arrangements?</td>
<td>pp.27 - 28</td>
</tr>
<tr>
<td>17. What are the typical problems encountered in early stages of implementation</td>
<td>pp.29, 32</td>
</tr>
<tr>
<td>of payment arrangements and what can be done about them?</td>
<td></td>
</tr>
<tr>
<td><strong>Financial Inclusion</strong></td>
<td></td>
</tr>
<tr>
<td>18. Even without enhanced payment arrangements (i.e. with a store-of-value),</td>
<td>p.11</td>
</tr>
<tr>
<td>can social transfer programmes promote financial inclusion?</td>
<td></td>
</tr>
</tbody>
</table>

**Note:** For questions regarding the actual and perceived value of financially inclusive payment systems for beneficiaries/recipients, governments, and financial institutions, please see: Pickens, Mark, David Porteous & Sarah Rotman (2009); “Banking the poor through G2P Payments” forthcoming as a joint CGAP-DFID Focus Note via www.cgap.org