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MGCS D KENYA

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# PAYMENTS SYSTEMS FOR SOCIAL TRANSFERS

# OUTLINE

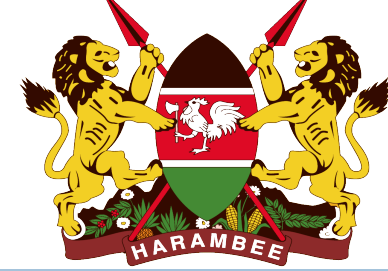
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- Introduction.
- What makes a good payment system.
- Delivery instruments and types .
- Distributing agencies.
- Key considerations in payment systems.
- Payment process
- Kenya social transfers examples.

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# Introduction

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## Payment systems for cash transfers

Most social transfers in Africa today are cash –based Payment system that ensure the designated benefits get to the entitled beneficiaries on time .

In social transfers effective payment system are seen as critical to the timelines and reliability of transfers ,as well as to the smooth functioning of the programme.

Over the years social programmes, financial institutions ,IT innovators have developed a wide range of strategies for delivering social transfers.





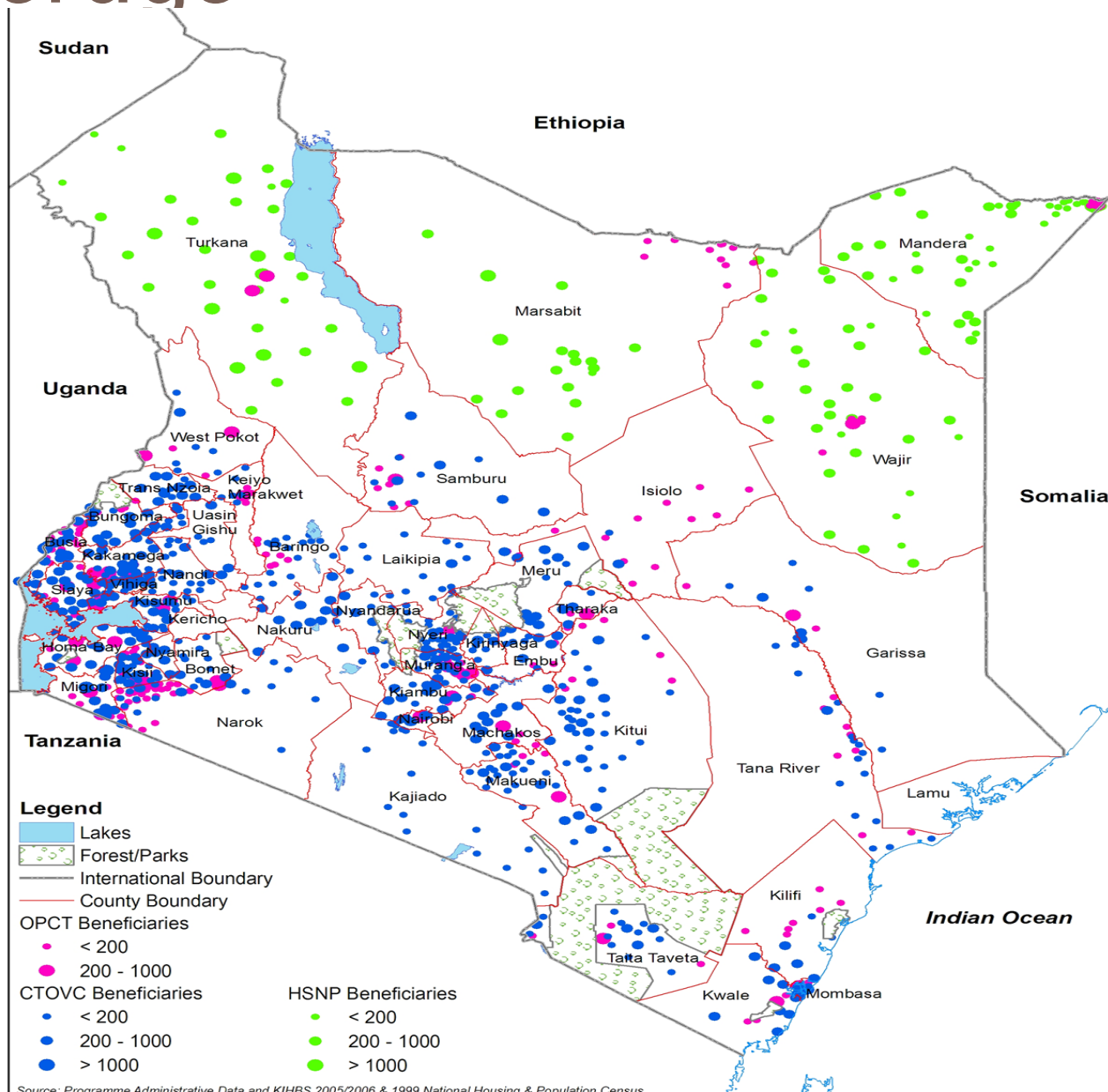
# introduction

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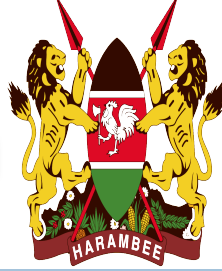
- Payment systems profoundly affects development impact of Social Cash Transfers
- Real or 'net' value of transfer received
  - Travel and time costs, illegal 'charges', risk of theft
  - Potential use of fund
    - Low frequency/high payment vs. high frequency/low payment
    - These two streams can lead to completely different use of funds and thus impact positively or negatively.

# Coverage

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# What Makes a good payment system



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## • Developed around organizational readiness

- At the onset of a programme two key decisions must be made
  - TYPE OF DELIVERY SYSTEM
  - AGENCY FOR MAKING PAYMENTS
- and*
- aligned with vision, mission, and strategic plan,
- anticipated and desired change identified,
- resources available to begin development,
- active organizational champion,
- stakeholder support,
- clear ownership over the payment system.
- Specialization .(Bank, post office etc)



# TYPE OF DELIVERY INSTRUMENTS

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- Type of delivery instruments( direct cash payments, vouchers, electronic transfer)depends on a variety of factors including programme approach, duration, available technology infrastructure, local capacity and cost. Higher cost less money available for beneficiaries.
- In recent years several programmes have introduced electronic delivery mechanisms.
- Some programmes prefer combination of electronic and direct cash transfer



# Delivery instruments

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- ❑ **Cash distribution** is most commonly used. Requirements –payment list (payroll). Common with small number of beneficiaries. Common during pilot stages.
- ❑ **Payment vouchers are typically** pieces of papers that can be exchanged for goods or cash. –They cannot be transferred electronically and incur printing and distribution costs and falsification.
- ❑ **Electronic cash transfers** are effective and more secure. Less target for theft, eliminates intermediaries, delays in payments and charge seeking behaviour. May be more costly at the start.





# TYPES OF ELECTRONIC CT

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## Types of **Electronic cash transfers**

- **Debit** cards-Have a magnetic strip that contains information about the beneficiaries.
- **Smart** cards-Are disposable cards that contains a electronic chip that can hold a large amount of user information. Do not require a bank account since the information is embedded in the card.
- **Cell** phones-contains an embedded smart card that is connected to branchless bank ,POS or other telephone. Visit to the authorized agent is necessary. (Kenya M PESA and ZAP are examples)

# PAYMENTS PROCESS EVOLUTION

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# DELIVERING PAYMENTS TO SICK HOUSEHOLD

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# AGENCY /POST OFFICE

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# POST OFFICE MODEL

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# POS DEVICE AND CASH PAYMENTS

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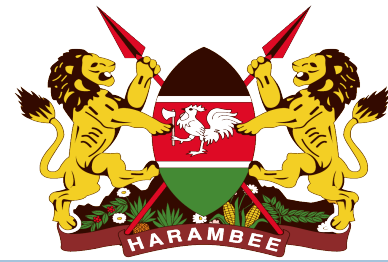
# DISTRIBUTING AGENCIES



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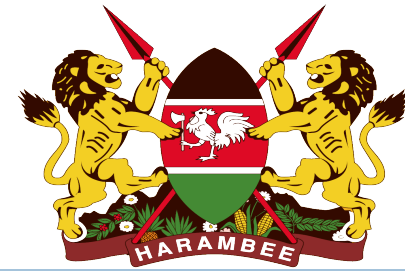
- ❑ State Banks or Public banks
- ❑ Post offices
- ❑ Mobile banks
- ❑ Mobile phones service providers(M-PESA,ZAP)
- ❑ ATMs
- ❑ Retail shops/Stores.
- ❑ Public agencies ( Government treasuries OR NGOs)
- ❑ POS-Point of sale devices –are computerized retail payments systems that replace cash or human registers.  
Has a barcode reader

# Key considerations



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- ❑ **Need to do studies** before deciding on a payment system in order to review among other items –options, technologies, costs, timing and legal implications / procurement
- ❑ **Frequency of payments and schedule** will influence the choice of delivery instruments and agency employed.
- ❑ **Cost**-Automated transfers may be costly and difficult to set up if a delivery infrastructure is not in place .
- ❑ **Beneficiaries Education**-Illiteracy /Limited education and exposure to banking may impede their understanding of payments mechanism .It is important to include financial education .



# Key considerations CONT

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- **Distributing agency**-Use of more than one payment agency can improve user service, lower cost and avoid monopolistic capture .
- **Independent organizations**-Organizations with some degree of experience and less government control can be effective in delivering cash transfers, particularly in remote areas.
- **Reconciliation**-Payments should be reconciled by reviewing and adjusting balance sheets to match beneficiaries payments with the financial statement of the distributing agency. This is key element of internal control .
- **Distance** –Payments systems should be designed to minimise time and cost for the beneficiaries to collect their payments .

# Key considerations CONT



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- **Transparency and audit standards**-Cash delivery should meet these standards .Programmes should establish cost effective control procedures including spot checks.





# Payments delivery process

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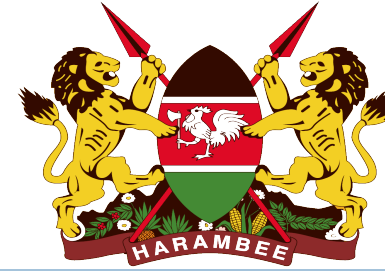
## PAYMENT SYSTEM ROLE PLAYERS/STAKEHOLDERS

In any programme PSP may be a separate entity or the same in small programmes. This combined situation is not usually preferred because of fiduciary risks and specialized competencies involved.

PSP roles usually includes;

- |  |                                 |
|--|---------------------------------|
| <input type="checkbox"/> Enrolment       | Updating of information         |
| <input type="checkbox"/> Funds transfers | Funds availability to recipient |
| <input type="checkbox"/> Reconciliation  |                                 |

# PAYMENT PROCESS



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Identify high level payment options

Develop payment strategy

Procure payment service provider (PSP)

Contract with PSP

Monitor payment process

Review and evaluate outcomes

# PAYMENT PROCESS CONT.

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## **1. Identify high level option**

An initial feasibility study can be used to consider and evaluate the following items: ( Understand program context, Understand profile of target beneficiaries & recipients, Assess available infrastructure and Assess potential payment service providers)

**2. Develop payment strategy** -(Demand side, infrastructure available and the potential providers)

**3. Procure payment service provider (PSP)**

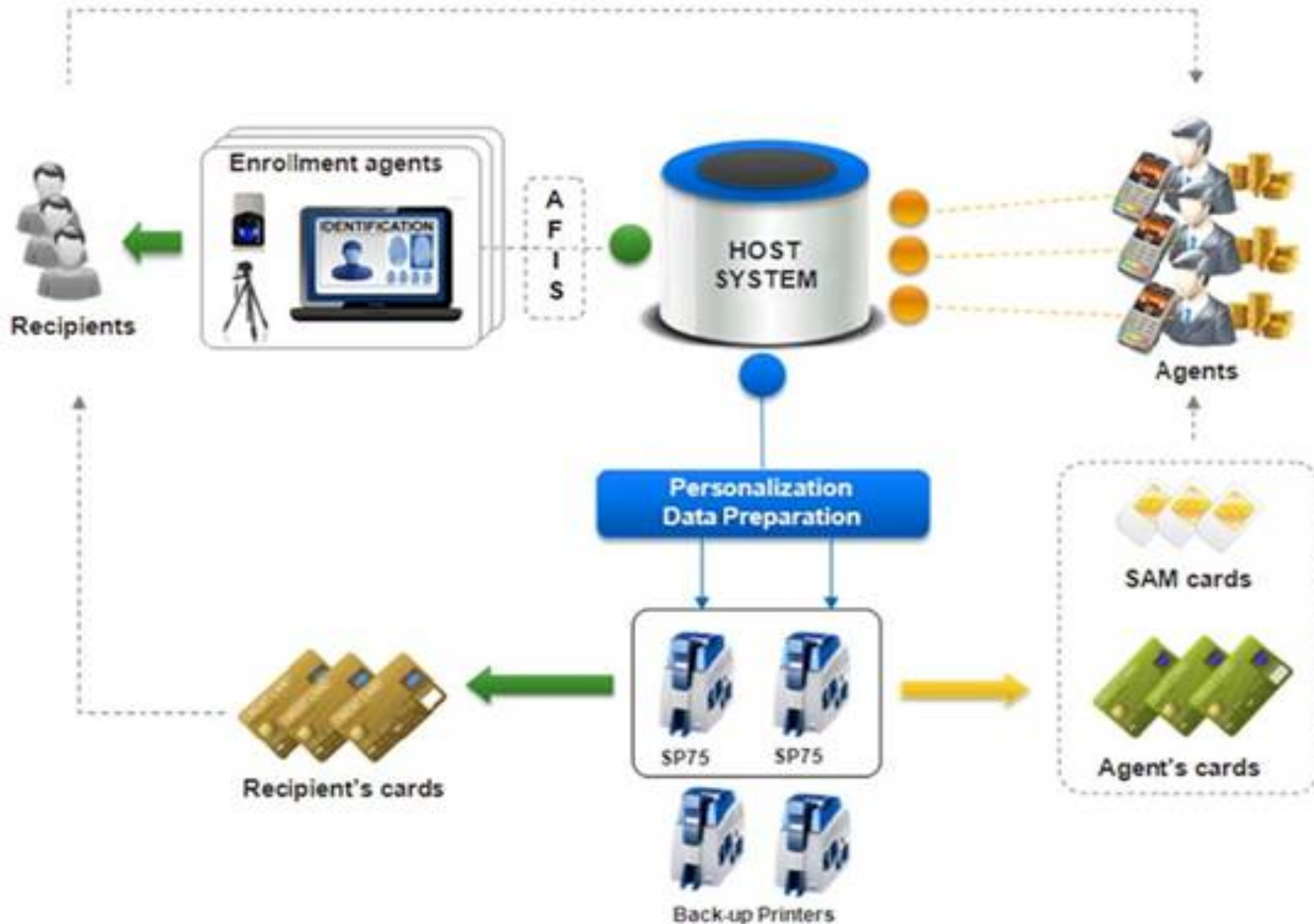
# PAYMENT PROCESS CONT.

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- 4. Contract with PSP-** competitive Request for proposals and adherence to standard procedures prescribed in the contract e.g. reconciliation and refunds.
  - 5. Monitor payment process-** this is done through out the implementation process.
  - 6. Review and evaluate outcomes-** Periodic review
- In larger programmes it is important to have more than one payments provider.**

# SOLUTION ARCHITECTURE

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# SOCIAL CASH TRANSFERS IN KENYA

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PROGRAMMES	COVERAGE	FINDING AGENCIES	PAYMENTS AGENCIES	TRANSFER METHOD
CT-OVC	150,000HH	GOK/DFID/ WB/UNICEF	TREASURIES,PCK,BA NK/AGENCY	CASH ,BIOMET RIC
HNSP	69,000HH	DFID	BANK/AGENCIES	BIOMETRIC
OPCT	33,000HH	GOK	TREASURIES/PCK	CASH
DISABILITY GRANT	2100 HH	GOK	PCK	CASH
URBAN FOOD SUBSIDY	10,000 HH	GOK/WFP/ OXFAM/ CONCERN	PCK	CASH



**Invest in the institution  
and not the activity.**

**Thank you/Asante sana/Obrigado**