



**SCOPING REPORT
ON THE PAYMENT OF
SOCIAL TRANSFERS
THROUGH THE FINANCIAL SYSTEM**

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Executive Summary

Millions of poor households already receive regular social grants from their governments....

Social transfer schemes already provide regular cash grants to millions of poor households in developed and developing countries. Countries such as Mexico, Brazil, Bangladesh and South Africa all operate large scale social transfer programs. The targeting and poverty impact of these schemes has been well documented. As a result of the positive evidence to date, other countries are designing or proposing to introduce social transfer schemes focusing on needy groups.

..but policy makers often ignore the payment arrangements of social transfer schemes.

Once a new scheme is designed, there is often great pressure to implement it fast. Other than a desire to keep cost low and to manage the risks of fraud, policy makers often regard the payment arrangements as an afterthought. The existence of state-owned infrastructure which handles cash and can make payments often makes this element of the process seem easy.

The payment process may cost 2-4% of grants paid, often making up half or more of total administrative costs.

The payment arrangements constitute a substantial portion of the total administrative costs of any scheme: while costs will vary considerably with the scale and density of targeted recipients in urban and rural areas, larger schemes typically spend 2-4% of total grants on payout, which may be half of the total administrative budget. The cost alone justifies closer attention to the design and structure of this element.

The payment arrangements can enhance the development impact of social transfers through the intentional addition of appropriate financial services for grant beneficiaries

Apart from cost, the payment arrangements for social transfer schemes may also affect the opportunities of recipients to access improved, appropriate financial services. These may be 'added on' after payment or 'added in' to the payment process itself. There is increasing evidence that access to appropriate financial services helps poor households, both by creating opportunities for income generation and asset accumulation, as well as by reducing vulnerability to risk. Poor households often depend substantially on receiving remittances and other person-to-person transfers from family members. The payment arrangements for a social transfer scheme (which may be dubbed 'G2P') may also enhance the ability for transfer recipients to receive these private transfers more safely and cost-effectively.

Even non-beneficiaries may also benefit from enhanced payment arrangements which encourage the development of appropriate financial products and the deployment of improved financial infrastructure

In addition to the additional direct benefits to grant recipients, there may be indirect benefits: increased access to financial services has been shown to lead to faster economic growth, and reduced income inequality.

Apart from these macro-level additional benefits, cash transfer schemes may encourage financial providers to develop appropriate basic banking products, such as basic transaction accounts and micro-credit. They

may also incentivize financial providers to deploy new financial infrastructure, such as point of sale devices in merchant premises, from which cash can be withdrawn. By guaranteeing a revenue stream to providers who pay beneficiaries using these products and infrastructure, the state reduces the risks to providers of these deployments. Non-beneficiaries may also then be able to access these new products via the new infrastructure.

This report provides an introduction to the options & issues surrounding payment of social transfers; and then sets out a structured approach to integrate the design of the payment arrangements into the overall

Payment arrangement can be categorized into 'pull' and 'push' mechanisms

'Pull' mechanisms are most common in developing countries. There has been a strong recent drive towards 'Push' mechanisms in developed countries

There is no one mechanism which is best in all circumstances; indeed, a combination may be both feasible and desirable

This report categorizes the options and discusses the issues involved in the design of enhanced payment arrangements for social transfer schemes. Enhanced payment arrangements are those which intentionally offer additional financial services to beneficiaries, with a view to wider development impact. The report is intended to provide a primer for those involved in the consideration and design of social transfer schemes. Section 4 of the report sets out a structured approach to the payments component of the broader design process. Annexures to the report provide additional material to support this process, including terms of reference for the exploration of feasible payment options, output from a financial model which costs the options, and a process diagram.

Typically, payment of social transfers takes place either via:

- a *'pull' mechanism*, where the recipient is required to come to a particular place, usually at a particular time, to receive full payment in cash; or
- a *'push' mechanism*, where the funds are transferred electronically into a recipient's bank account, from which the recipient can access the cash via usual banking infrastructure.

'Pull' mechanisms are most common in developing countries due to the shortage of suitable and affordable banking products; and the lack of existing financial infrastructure through which to access cash in the areas in which beneficiaries live. Usually, a beneficiary will collect cash via the existing infrastructure of a state bank (Mexico, Brazil, Bangladesh), or at a paypoint established by a private contractor (South Africa). 'Push' mechanisms are now common for the payment of social benefits in developed countries such as the UK and US, where banking infrastructure is already pervasive and more recipients are already banked. However, the move towards push mechanisms has often been slower than expected, and even controversial in some cases.

The choice of the best payment mechanism will be influenced by the objectives set for the payment arrangements and country-specific factors. It is quite likely that a scheme may combine both mechanisms;

indeed, making provision for both mechanisms, and a range within each, is often desirable to build flexibility into the arrangements over time.

Appropriate financial services, can be ‘added on’ to social transfer schemes; or ‘added in’ through the design of appropriate instruments for the payment itself

There are two main ways in which social transfer schemes can make additional financial services available to beneficiaries. These are:

- a. *Add on* approaches whereby other financial services, such as micro credit and savings, are provided after payment of the transfers but in association or proximity to the payment; or
- b. *Add in* new products and infrastructure which extend the reach of the financial sector.

There are successful examples of adding on microsavings and microcredit to grant programmes for the destitute, such as IGVDG in Bangladesh

Microcredit and savings products have been *added on* to transfer schemes either by the grants program directly or through linkages to credit and technical support from a microfinance entity (MFI). Microcredit may support the ‘graduation’ of some beneficiaries into greater or full reliance on income generating activity. Officially sanctioned or facilitated linkages to other financial services must be considered with care so that lenders do not offer forms and amounts of credit which are unsustainable. The report cites several examples, with particular reference to the IGVDG programme successfully operated by BRAC, a large Bangladeshi microfinance institution. Participants in this programme have been required to save out of each grant; they then receive training and access microloans on preferential terms to start income generation projects. Two-thirds have graduated to mainstream microcredit programmes offered by BRAC.

There are also successful examples of add in approaches whereby basic bank accounts have been developed specifically for beneficiaries, such as the Sekulula Card in South Africa

Add in schemes have typically involved banks in the development of new transaction products, such as basic debit card accounts. Even if the ongoing maintenance of the account is subsidized, the cost may still be lower than for cash payment. Beneficiaries are often open to this approach because of the additional benefits such as sending and receiving remittances more easily and safely. However, *add in* options require widespread access to points at which cash can be withdrawn—whether Automatic Teller Machines (ATM) or point of sale (POS) devices at merchants—and some level of financial literacy from the beneficiaries. In South Africa, ABSA Bank developed the Sekulula Account in 2003 specifically as a card-based basic bank account for grant recipients, initially in one province. The maintenance cost of the account, including a basic number of free transactions per month, is paid by the grants agency, since it is cheaper than the alternative of cash payment. Two-thirds of recipients in this province had by 2005 switched from cash payment (‘pull’ mechanism) to receiving their grant directly into their

Sekulula account. Sekulula accounts are now offered to non-recipients as well.

New technology will expand payment options in future. The payment arrangements should be designed to benefit from, and even to accelerate, these developments.

The introduction of new technology, especially the spread of wireless communications, is likely to substantially change the available choices and costs of making payments in the years to come. The payment arrangements of social transfer schemes should be designed to evolve so as to benefit from these changes. Well designed payment arrangements may also help to accelerate the introduction of new payment technologies in developing countries.

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Section 1: Introduction

Payment arrangements for social transfer schemes are often regarded as an afterthought; this may result in lost opportunities for wider developmental impact

Cash transfer schemes are increasingly viewed by governments and donors as an effective way of addressing extreme poverty. Empirical research has demonstrated the positive impact on poor and vulnerable households of some of the older schemes in countries like Mexico, Brazil and South Africa.¹ Vital aspects of scheme design, such as their affordability to the state and the means of targeting of beneficiaries, have been well researched. However, there has been much less research to date into the most effective mechanisms of payment of these schemes.² This reflects a common view that the payment mechanism is easy to design and implement, at least compared with other components, hence is regarded an after-thought.

However, there are several good reasons to pay attention to the payment arrangements from the beginning, part of the core design of a social transfer scheme.

First, the direct cost of payment may be as high as 2-4% of the grants paid, depending on the size of the grants and the number of recipients and their geographic distribution. The financial cost may be higher still as result of fraud and losses associated with weak payment processes. There may also be reputational costs to the grant-making agency if the mode of payment brings risk or inconvenience to large numbers of recipients—for example, if the timing of payouts is unreliable; or at a lower level, if recipients have to wait in line for long periods with limited facilities.

Without explicit attention, the costs of payment—direct and indirect, intended and unintended—may be much higher than expected. The other reasons for paying attention to the payment arrangements relate to the potential additional developmental impact which a transfer scheme may have.

Second, the mode of payment of social transfers will have an effect on the recipient's opportunity to access other financial services. It is now well established that poor households are, by necessity, active managers of the money they have; and that appropriate financial services, such as micro credit and micro savings, can provide a path out of poverty through income generation and asset accumulation. By offering access to lump sums of money when needed, financial services such as micro savings or micro insurance may also reduce the risk of destitution.³ Safer, more affordable and efficient means of

¹ See for example, useful summaries in the DFID Social Protection Briefing Note Series Nos 2 & 3, available via <http://www.dfid.gov.uk/pubs/>

² For example, in a comprehensive document on "The Design and Implementation of Social Transfer Schemes", Stephen Tabor spends two pages (out of forty) on the issue of building administrative capacity to implement the programs, in which he notes 'common institutional problems' including excessive costs, delays in processing and fragmentation of policy making and administration (2002:37).

³ One of the best expositions of these benefits and needs is to be found in Rutherford, S (2000) *The Poor and their Money*, OUP.

making and receiving small payments—whether private aids flows in the form of person-to-person (P2P) remittances, or public flows from government-to-person (G2P) in the form of social transfers—can make a material difference in the vulnerability and livelihoods of very poor people.

Third, the mode of payment may be designed to improve access for non-beneficiaries as well. Social transfer schemes often target beneficiaries in poorer areas which may have poor financial infrastructure. If there are sufficient recipients, the payment arrangements may help to cover the cost, or reduce the risk, of deploying new infrastructure in an area, from which other community members may also benefit. In this way, they may contribute to expanding the outreach of the financial sector in a sustainable way. There is also growing empirical evidence which shows that greater financial development leads to higher economic growth; and that the pattern of growth may also be more equal.⁴

In short, therefore, careful consideration of the options may at very least transform the payment mechanisms from being a sunk cost component of the scheme into a potential source of benefits at micro level (for beneficiaries) and at wider levels (both for the surrounding communities, and even the financial system and growth overall). Enhanced payment options may also reduce the total direct cost of making payments over time relative to pure cash payment options.

This report is the outcome of an initial scoping study commissioned by DFID London. Its objective is to inform those responsible for the design and monitoring of social transfer schemes at country level of the options which exist, and to discuss the considerations involved in each. The report then goes in (in Section 4) to outline a structured process for the design and implementation of enhanced payment strategies as part of overall social transfer scheme design. Various tools which support this process, such as draft terms of reference and a costing model, are provided in the Annexures.

The study was based on a short scan of the mechanisms in existence in various developing countries. These are mainly middle income countries with sizeable, well documented schemes such as Brazil, Colombia, Mexico and South Africa; but also a low income country, Bangladesh, which has large scale social transfer schemes as well as a rich microfinance sector. This scan was undertaken in order to extract lessons about existing options and processes which are used to inform the approach recommended in this report.

In most developing countries today, payment in cash at defined payment points (which will be termed a ‘pull’ approach) is still the dominant practice. The report discusses the benefits of considering enhanced payment approaches where the

Drawing on a scan of existing schemes in developing countries, this report documents options and lists considerations for enhancing the payment mechanisms of social transfer schemes

⁴ See for example, Beck et al (2004) on “Finance, Inequality and Poverty: Cross Country Evidence”, available via http://econ.worldbank.org/external/default/main?pagePK=64165259&piPK=64165421&menuPK=64166093&theSitePK=469372&entityID=000112742_20040723123757

recipient accesses her or his grant directly through the financial sector, and in other ways which also unlock access to financial services.

In some countries, it may not be possible to offer enhanced payment options at the outset of a social transfer scheme since the financial sector is not able to provide the products required. Even in these cases, any scheme should include the scope and even incentives for the payment arrangements to evolve over time. The report proposes a process for developing an enhanced payments strategy which will ensure that the payment aspects are at least considered in the design or review of any scheme.

At the outset, some common nomenclature is required (alongside a glossary of acronyms and terminology in Annexure F). The report will use the term 'beneficiary' to mean an individual who qualifies to receive a social transfer or grant; and the term 'recipient' to mean the person who actually receives the cash. Hence the recipient may also be the beneficiary, or may receive on behalf of the beneficiary. This distinction is particularly important in schemes which target children as beneficiaries, since one adult may be the recipient of several grants on behalf of qualifying beneficiaries. This affects the number of payments to be made; and also the legal and capacity profile of the person to whom the money is paid.

The report is structured as follows. Section 2 describes the two main methods of payment of social transfers, using examples in various countries, obtained through interviews and secondary sources. Section 3 then considers two approaches to the enhancement of the payment options through added financial services. Section 4 proposes a process through which an enhanced payment strategy may be developed and implemented, with various supporting annexures. Section 5 concludes.

Section 2: Payment arrangements in existing social transfer schemes

2.1 Objectives for the payment mechanism

Often, social transfer schemes have limited or unclear objectives for their payment mechanisms. Considering the menu of possible objectives in the light of overall scheme goals is a good starting point.

Designing a new social transfer scheme is a complex process, involving many considerations, and often, many stakeholders. In this process, the payment arrangements to get cash into the hands of the recipients are often an afterthought—an administrative procedure which can be outsourced to some agency with suitable infrastructure. Consequently, while a social transfer scheme may have very clearly specified social development objectives, there are often no clear objectives for the payment arrangements. Where they exist, payment-related objectives may be limited to minimizing the cost to the grant agency; or being ready to start up in as short a time as possible.

There is in fact a wider menu of objectives which may be achieved through the payment mechanism, aligned with the overall objectives for a social transfer scheme. These objectives may include:

- (i) *Minimizing the cost*—but to whom? In addition to the grant agency, the recipient will also incur costs (in time and possibly, transport cost) as a result of the mechanism chosen, and the balance here should be considered;
- (ii) *Minimizing the risks involved*—again whether to the agency (e.g. loss through fraud and corruption) or to the recipient (e.g. loss through robbery as the result of payment of cash in a known location at a regular time);
- (iii) *Maximizing the dignity of the recipient* (e.g. through considering the facilities available in the places of payment—if long waits are involved, are the facilities adequate to provide toilets and shelter from harsh weather?)
- (iv) *Reducing time to implement* at the outset
- (v) *Enhancing the ability to scale up* (for example, if it is expected that the scheme will roll out over time to new areas or categories of beneficiary)
- (vi) *Providing additional financial services* to the beneficiary (e.g. the opportunity to save a portion of the grant, or access certain types of credit when needed)
- (vii) *Providing opportunities for non-beneficiaries* to improve their access to financial services.

Each local context will add its own specific objectives. There is often tension between the objectives: for example, increasing paypoint standards (iii above) may mean higher cost of payment (i); or considering enhanced financial services (vi) may delay the start of a scheme (iv). A weighting of payment objectives, in alignment with the overall objectives of the scheme, will help to steer the payment design process through considering these tradeoffs.

In reality, many schemes face considerable pressure to startup quickly in environments—such as rural areas—where the financial infrastructure in developing countries is very limited. Delaying a scheme so that enhanced

options can be considered may not be feasible, or indeed desirable. Even when there is pressure to implement fast, it is still worth considering up front how the weightings of objectives may change over time: for example, once a scheme has gone 'live', is there still the opportunity to re-assess the weighting of objectives for the payment arrangements, and accordingly, re-assess how additional or alternative arrangements may evolve?

Whether or not the objectives are clarified upfront by the grant agency, it is certain that the way in which the payment arrangements are evaluated by others will evolve. Most importantly, the recipients themselves (and as a result, their public representatives) will start to place more emphasis on the quality of service (waiting time and facilities at paypoints) as the receipt of the grant itself is taken as given. Scandals or incidents around payouts can trigger strong pressure to change arrangements quickly: for example, several elderly people have died in line waiting for payouts in winter in rural parts of South Africa. Box 1 further describes how payment objectives have evolved in that country with a large scale scheme where numbers of recipients have trebled from 2.6 million in 1994 to over 8 million in 2006 (with 11 million beneficiaries in total).

One key principle to clarify upfront is whether recipients will be allowed to choose their own preferred arrangement for payment from a set of available options; and at which intervals they may change their choice. While allowing choice may bring complexity and may not be possible at the outset, it may create flexibility in the payment arrangements since people may migrate to better options as they become available.

Nonetheless, even when the principle of recipient choice is established from the outset, migration to apparently better options is still not certain: once a payment mechanism has been established, patterns of recipient behaviour may quickly become engrained. In South Africa, for example, informal markets spring up on payment days outside or around grant paypoints, offering a range of goods and the opportunity for social interaction to grant recipients. Consequently, it may be harder than expected to change arrangements over time. It is therefore all the more important that possible migration paths are considered upfront. Without this, the grant agency may be locked into more expensive and less efficient payment arrangements, long after more cost effective options become available.

All of these are reasons why it is important to consider the payment arrangements upfront and as part of the core design of a social transfer scheme, rather than as an afterthought.

The payment arrangements are in fact only one aspect of the administration of a social transfer scheme, which also involves other important processes including:

- Enrolment of new beneficiaries
- Maintenance of central data base of beneficiaries
- Resolution of queries

- Checking of conditionality where applicable.

Efficient payment requires that these other processes are also efficient, and well coordinated. However, usually the entities, whether public or private, which undertake the payment functions are usually not able or willing to perform these other services. For this reason, the entire grant administration process can rarely be fully outsourced. This may bring some comfort to governments which wish to ensure that their own agencies are prominent in the delivery of the grants. The payment aspect of the delivery process itself is usually the one most amenable to outsourcing because it can be standardized; and because government agencies in developing countries are seldom well placed to manage efficiently the risks involved in the distribution of large volumes of cash.



Box 1: Evolving payment objectives and arrangements: South Africa

The Department of Social Development in post-apartheid South Africa inherited a large state transfer scheme in the form of a non-contributory state pension scheme. This was substantially revamped in the mid to late 1990's and massively extended through the introduction of unconditional child care grants which now reach 7 million beneficiaries through 4 million recipients who are parents or guardians of the children. Within the nationally financed scheme, state level departments were responsible for deciding on the payment arrangements. This was done by tender, resulting in two large private sector payment contractors, one closely associated to a large bank, winning the early contracts. Concerns over inefficiencies due to the fragmentation of state level contracts as well as rising incidence of fraud uncovered at local level have led to the recentralization of the payments function at national level. This should ensure common standards and accountability throughout the payment process.

The Social Security Agency Act of 2004 has provided for the creation of a new statutory agency, the SA Social Security Agency (SASSA). SASSA is mandated to "act as the sole agent that will ensure efficient and effective management, administration and payment of social assistance" as existing provincial level contracts expire. SASSA is due to become operational in 2006 (see www.sassa.gov.za). It is also expected to publish national level tenders for the payment of social grants.

In mid 2005, the Minister of Social Development announced that the new agency would explore the migration of more beneficiaries to payment through commercial bank and Postbank accounts. The reasons given relate to reducing costs and fraud, as well as increasing the choice of beneficiaries and increasing their access to other financial services.⁵ One stated target has been to have 50% of beneficiaries banked by 2008. At the current level of 21% reflected in Table 1, there is still a way to go.

⁵ See full press release at <http://www.welfare.gov.za/media/2005/june/sassa.htm>

2.2 Push and pull approaches

There are essentially two main approaches to the payment of social transfers.

'Pull' approaches entail the 'pulling' of the recipient to a pay point at which the full grant is paid across in cash after identification

In *'pull' approaches*, the full cash grant is made available at a defined point, usually at a particular time. These are so called because the recipient is 'pulled' to the paypoint to receive the money. The paypoints are usually include branches of state-owned financial institutions (such as state-owned retail banks, telecom companies or the post office), though they may also include locations established or manned by private payment contractors or banks, as Table 1 below shows. The paypoints may either be multipurpose (e.g. a bank branch) or dedicated (set up at a place only for this purpose); and fixed or mobile, where a vehicle is used to establish temporarily the presence necessary for payment at a remote spot. If the payment process involves an automated process for confirming identity (e.g. the production of a smart card and a biometric imprint), then electricity will be required and if not available, a generator will have to be carried; if the process requires real time confirmation of eligibility against a central data (to minimize fraud), then communications will also be required.

Figure 1: Pull approaches at work

Mexico—Oportunidades, paid in Bansefi branches



South Africa: Mobile paypoint in a rural area



In *'push' approaches*, the grant is credited ('pushed') electronically to a bank account in the name of the recipient or beneficiary, and the recipient is able to

'Push' approaches credit the account of the recipient, and enable her to access cash as needed at conventional financial infrastructure

access the funds at her or his choice at conventional or specialized financial infrastructure. The financial infrastructure may include bank (or post office/postbank) branches, automated teller machines (ATMs) or point of sale (POS) machines located at merchants from whom the beneficiary may request 'cash back'. The payment instrument is usually a plastic card with magnetic stripe or in some cases, with a chip (i.e. a smart card) containing for example biometric identifiers. The card may be linked only to an account accessible via the issuing bank (i.e. a proprietary bank card) or may be accessible more widely via a card network such as VISA. Wireless POS devices are now available which do not depend on the fixed line infrastructure; and in some places, the cell phone itself is becoming a device for financial transactions.

There are in fact many similarities in the payment process under each approach: in each case, a recipient must identify herself or himself by some accepted method (whether card + PIN/ biometric, or manual inspection of an official identification document); the payer must verify the amount which the recipient is entitled to (whether by looking up automatically on a database or manually consulting records); and then the payment must be transacted. New technology can be used in both approaches: in a pull environment, the dedicated paypoint may in fact have equipment very similar in function to a conventional ATM from which the cash is paid out after swiping a card and presenting a biometric (fingerprint) for authentication of identity.

The core differences between the two approaches are therefore:

- whether the grant is necessarily paid in full in cash (if so, it is a 'push'; if not, a store of value in the name of the beneficiary is required for the balance, hence 'pull'); and
- whether the recipient is able to access the funds at a range of locations at times of her or his choosing (if so, it is a push strategy, whereas pull brings the person to a specific payment point usually at a particular time).

Table 1 below shows that, while both approaches are in use in developing countries today, the pull approaches are most common. This is no surprise: if bank accounts are not accessible or affordable for small balance holders, and/or if financial infrastructure is not easily accessible to the recipients, conventional push approaches may not be feasible. However, it is also clear from Table 1 that both approaches may co-exist as in Mexico and South Africa today.

Table 1: Comparison of payment approaches in use

Country	Bangladesh	Brazil	Colombia	Mexico	South Africa
Social transfer scheme	IGVGD	Bolsa Familia	Families in Action	Oportunidades	Old age pension; child support grants
Nature of beneficiaries	Destitute rural women	Qualifying households with children	Qualifying households with children	Qualifying households with children	Elderly and children under 14 on means tested basis
No of beneficiaries/ recipients	292 200	8.7 million	500,000 eligible, 301,000 paid	5 million	9.2 million beneficiaries; 6.5 million recipients
Amount/ Nature of grant	30kg of wheat per month to destitute women	Average \$30 per student per month conditional on attendance at school and participation in health care	\$6 or \$12 per child per month to mothers if children attend school and preventative health care	\$104 per elementary student; \$177 for high school, conditional on attendance record and health checkups	Old age: \$140 per month; Child support: \$30 per child per month Means tested but unconditional
Frequency	Monthly	Monthly	Bi Monthly	Bi monthly	Monthly
Payment method	In kind (wheat); transportation cost paid	Paid by state bank (Caixa)	Pull: 100% over the counter at 7 banks (mainly state, but also private)	Pull: 75% (telco & Bansefi) Push: 25% into bank accounts at Bansefi (20%), linked credit unions/ cajas (3%) and private bank BBVA (2%)	Pull: 79%, via 3 private payment contractors Push: 21% into bank accounts, at private banks (14%) and state Postbank (7%)
Total cost to deliver	12% overall		Per payment via state bank: \$1.74 + 5 day float	Cost of payments only: 2.4% of grants Total operational costs: 5.6% Average cost to pay one grant: \$1.80 (2005 figures)	Cost of payment/ grants: 3.6% (2006/7 projected); Total cost: 6.3% Average cost to pay cash \$4; Monthly subsidy of basic bank account: \$2 (non cash)
Added financial services	Required to save via interest earning passbook		NA	Available linked to account offerings at cajas and bank; Savings account in	Available via bank accounts; and also on some pull offers (insurance and

	account at BRAC, an MFI, and can receive microloans at 15% on certain conditions			which amounts may be deposited for good grades;	microloans)
Source	Ahmed 2005		La Faurie and Velasquez (2004)	Interviews; Rawlings 2004; Analisis de Costos del programa Oportunidades, 2006	SASSA data and interviews

Exchange rates as at 5/06, used in Table 1 and elsewhere in report for conversions: 1 US\$= 2.3 BRL (Brazilian Reals); 11.1 MXP (Mexican Peso); 6 SA Rand (ZAR); 69 Bangladesh Taka.



Developed countries have moved to 'Push' approaches to pay social benefits in recent years, using existing financial infrastructure to reduce cost

Developed countries have wrestled with changing their approaches to the payment of social benefits in recent years. Both the US and UK have required recipients to move from a pull to a push approach. Benefits were previously paid by mailing cheques to beneficiaries which they could cash at a bank or post office. However, by a prescribed date, recipients were required to have opened a bank account into which the benefit would be paid electronically.

To assist the transition, the US Treasury developed standards for the type of bank account (Electronic Transfer Account/ETA) into which benefits could be paid; and offered a one time subsidy of \$12.60 to cover the costs of opening such accounts so that they would be attractive for banks to offer. In practice, few ETA accounts have been opened to date and most benefits are now paid using pre-paid cards.

Pre-paid cards are a special type of push solution, since they offer a low cost type of account (usually without being regulated or insured in the same way as regular bank accounts) which can be accessed through the same infrastructure that bank-based card products use, like ATMs and points of sale. In the UK, commercial banks have developed a basic bank account offering suitable for the receipt of benefits, although the take up of these has also been slower than expected. Banks have also contributed to the development of the Post Office Card Account Scheme, which offers a more limited type of basic bank account.⁶

Section 3.3 will show how some developing countries have also sought to encourage 'push' options through offering incentives to banks to develop products appropriate to grant recipients. However, the biggest difference between developed and developing countries in this context is that in the former, the financial infrastructure already exists and is accessible, through which beneficiaries can cash their benefits. Grant agencies in developed countries can substantially reduce their costs of payment by moving to 'push' approaches, because the cost to beneficiaries of using the existing financial infrastructure is spread across a much wider base of existing users. Even then, the fees payable by beneficiaries in some US states to withdraw their cash at certain ATMs have generated some controversy.⁷ Where there is a need to create new financial infrastructure to access the financial system, as in many developing countries and certainly in more rural areas, the 'push' proposition is more complex since it must provide for the extension of infrastructure at the same time as providing the means by which recipients can access the infrastructure. The ways to do this are considered in Section 3.3.

Within each of these two main categories of approach, the payment arrangements may differ considerably. Table 2 assesses each approach in general terms against the possible menu of objectives introduced earlier.

⁶ For more information and links, see http://www.affordablehousinginstitute.org/blogs/bankable/2005/07/social_transfer.html

⁷ See for example, recent article reporting that Colorado beneficiaries have paid more than \$1.8m in ATM fees to access benefits in the past two years.



Table 2: Evaluation of approaches against objectives

Objectives	Pull approaches	Push approaches
A. Minimize transaction costs:		
-To grant agency	Will depend on the extent to which existing multipurpose infrastructure is used	Will depend on extent to which the cost of new banking infrastructure and products requires initial or ongoing subsidy; certainly, the basic electronic payment transaction is very cheap (depending on scale, may range from close to 0 to 50c US)
-To beneficiary	Will depend on how accessible the paypoints are, and how much time is required on average to receive pay out on the designated day	Will depend on how accessible and affordable the financial infrastructure is
B. Maximize security/integrity		
-To grant agency	Security costs associated with concentrated cash payout are high (often a quarter of payment contractor cost); and risk of fraud with cash	Some risks are reduced by transference to the banking sector; but banking sector and local merchants have to manage risk of liquidity/ fraud etc.
-To beneficiary	Risk of theft at paypoint or after payday may be higher	Usual risks of losing card or unauthorized access to account
C. Time to implement	Will depend on extent to which existing infrastructure is available	Will depend on extent to which existing infrastructure is available
D. Scalability	Will depend on existing or new infrastructure	Scales better within covered areas since electronic transfers are easy to do; and demand for cash may be better distributed over time than at fixed paypoint
E. Additional financial services to beneficiary e.g. micro savings	May be added on ex post i.e. having deposit facilities at or near paypoint where cash can be deposited	May be easily integrated into the basic product offered
F. Improving financial access for non-beneficiaries	As a by-product, may attract sufficient densities of people to paypoints to make service more viable	Increased access may be promoted through the infrastructure and products created for recipients being usable by others as well

The cost comparison in row A of the table above requires further explanation, since cost to the agency is usually the most measurable factor, and therefore often the most heavily weighted objective. In a developing country environment,



both payment approaches are likely to require the creation of new infrastructure which makes cash accessible to recipients. The deployment of new infrastructure involves large fixed costs, which must be funded by the entity deploying the infrastructure out of the revenue stream expected to flow from it.

If the payment arrangements are designed only to cater for recipients, as in the pull approach, then the cost of transfers will reflect the fixed cost spread across the recipient base. If however, the infrastructure can also be used by non-recipients for transactions, then the cost per transaction is spread across a potentially larger base. This is the basis of the argument that costs per transaction may be lower, at least in time, under push options.

In row F of the Table, both approaches could lead to financial services being offered to non-recipients. In pull approaches, a critical mass of people may be drawn to paypoints on payday, and this may make it more viable for other financial service providers, such as microlenders, to co-locate there on these days, serving others as well. Push approaches require the intentional design of basic financial products to serve recipients. As will be discussed in Section 3.3, the same products are likely also to meet the needs of non-recipients. The critical mass of recipients, and the willingness of the grant agency to pay to distribute grants to them, may make it more viable to develop these products, and the infrastructure to support them. In this way, push options are more likely to result in new products and infrastructure which can serve non-recipients as well.

2.3 Lessons for government

A range of lessons can be drawn from the experience of implementing the payment arrangements for social transfer schemes in the countries considered.

In most cases, a range of options may have to be offered to accommodate different beneficiaries. Allowing beneficiary choice of payment mechanism can create potential for the mechanism to evolve over time.

First, the range of circumstances, ages and locations of beneficiaries usually requires a range of payment choices—at least for larger schemes and over time (South Africa, Mexico). Many schemes offer the choice of payment options to the recipient, although in many cases, recipients may be unaware of their choice. Furthermore, beneficiary attitudes towards payment options may be hard to change once entrenched (South Africa). Often, the push towards ‘push’ payment arrangements has come from grants agencies which have a strong incentive to reduce their costs in this way. However, without proper design and consideration of the situation of recipients, the costs ‘saved’ by the agency are simply transferred to the recipient, who may be unable or unwilling to bear them, and will resist the change (some in USA, UK) unless the broader benefits are made clear.

While the use of existing state-owned entities as paymasters may appear to be less expensive in the short to medium run, it may not be sustainable in the long run: for example, most payments in Bangladesh are currently done through state-owned banks, but government policy to close loss generating public sector bank

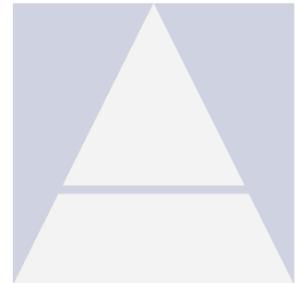


branches is likely to force more reliance on other options in future.⁸ This is another way of saying that the payment arrangements must be sustainable to the paying entity, whether it is publicly or privately owned.

The setting of norms and standards associated with the payment process has a major effect both on reputation risk to the grant agency and on the cost of payment: the absence of such norms or the lack of adherence to them can generate political consequences; and standards, such as the maximum number of recipients per paypoint, or the required facilities, have a crucial effect on cost (South Africa).

Because payment options are complex, grant agency staff alone are unlikely to be able to consider enhanced options without support. There is great value in involving an interdisciplinary team including financial sector specialists upfront; and similarly, in engaging financial policy makers and regulators early where there may be large scale impacts on the financial system (Colombia and others).⁹

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⁸ Ahmed 2005:37

⁹ La Faurie and Velasquez



Section 3: Options for enhancing financial service aspects of social transfer payments

If the objectives for the payment process include adding financial services to enhance the developmental impact of the scheme at whatever level (the recipient, the associated community and/or the financial system as a whole), then there are two main approaches to achieving this:

- 'add on' approaches, where additional financial services are provided to recipients after the grant is paid; and
- 'add in' approaches, where the means of grant payment becomes a financial product platform such as a bank account.

These approaches are not exclusive: some services, like micro-credit, can be 'added on' by the recipient even if her grant is paid into a new type of bank account. The essential distinction is the level and nature of integration between the provision of financial services and the social grant process.

However, before considering these or any approaches, it is necessary to understand the needs and attitudes of recipients with respect to financial services: this is a key insight from the development of microfinance in the past two decades.

3.1 Client attitudes

Successful microfinance institutions (MFIs) have developed products which respond to their customers' needs. Microfinance customers include low income individuals and households across a broad range of geographies. Despite their diversity, they share the common characteristics of being very aware of :

- *Total transaction costs*: these include the transport cost and time of getting to a payment point, and of waiting to access cash; often, the product with the higher marked price (or interest rate) is chosen because it requires less time and is a better proposition all in;¹⁰
- *Risk*: the poorer the customer, the more vulnerable to the risk that a payment does not arrive or cannot be accessed on time. Therefore, poor clients can be very conservative with respect to the adoption of new products, since their lives, sometimes literally, depend on the access to cash through the scheme.¹¹

These two factors seem to cut in different directions: the first—total transaction costs—suggests that options which make payment more convenient would be

Successful microfinance schemes have shown two key factors which poorer clients consider in using their products:

- *The total transactions cost, including the time taken to access a product; and*
- *The risk, including the risk of not being able to access a product.*

¹⁰ SA recipient surveys show that the average recipient took 37 minutes to get to a paypoint (more in more rural provinces) and that 73% walked (Citizen Surveys 2004: 27/28). In Bangladesh, IGVGD recipients traveled on average for 1.3kms/17 minutes, at a negligible average cost (Ahmed 2005:34). In Zambia, the requirement of having to travel up to 15 kms to a payment point in a very rural area was viewed as too onerous (Schubert 2005:13). In addition to travel, in SA, 42% spent longer than 2 hours between arriving at the paypoint and receiving payment (p29).

¹¹ In South Africa, this risk aversion manifested in elderly people queuing at paypoints well before they opened to ensure that they were first to receive the cash, in case anything went wrong with the process that day or the cash ran out, even though this entailed long and arduous waits when the actual risk of not receiving payment was usually very small.



preferred, such as withdrawing cash from an ATM on a regular trip to a market town, rather than standing in line at a paypoint in a remote location. The second factor—risk aversion—may mean that people may prefer to stay with what they know, which in most cases is cash payment.

However, there is no general indication that grant recipients are opposed to trustworthy new products. For example, in Bangladesh, Ahmed notes that, despite low levels of literacy (only 1 in 8 of the IGVGD recipients could write their own address), the majority favoured collection of their grants from an unmanned machine, such as an ATM, in a distribution centre, as opposed to the present system of cash payment over the counter.¹²

Despite their poverty, recipients may in fact be quite similar to the general population in their attitudes to financial services. Table 3 uses financial survey data to compare the profile of the two major groups of grant recipients in South Africa (i. the elderly and ii. the guardians of child care beneficiaries, who are the recipients of these grants and usually younger than 34) with the rest of the population.

Table 3: SA Grant recipients compared

Category→	Old age pensioners	Child care grants	Non-grant recipients
1. Attitudes			
1a. You would rather deal face to face	65%	57%	57%
1b. You don't trust informal associations	46%	40%	48%
1c. You agree that banks take advantage of poor people	24%	24%	23%
2. Locations			
2a. There is a bank nearby	27%	16%	35%
2b. Time taken to get to nearest grocery store: 30 mins or more	18%	18%	13%
3. Banked status			
Currently banked	41%	22%	52%

Source: FinScope 2004 various

The table above shows that the beneficiary groupings (pensioners and child care grant recipients) are indeed less likely to be banked than other adults (line 3). However, this is not primarily because they have more negative attitudes towards banks: the recipients show no higher distrust of banks than average (line 1c) or towards face-to-face dealing (1a), other than among the elderly who do prefer it. However, the elderly are very similar to the rest of the population in their views

¹² Ahmed (2005:24,35)



towards informal financial services, such as rotating savings clubs or burial societies (1b).

The groups do differ in terms of their location: recipients are much less likely than others to say that there is a bank nearby (2a), although most have a grocery store at least within 30 minutes' travel time (2b) where they may buy food and other goods, using their grant money.

If payment schemes are to offer enhanced financial services, the needs and attitudes of the recipients must be well understood. If the services are to have wider benefit for non-recipients as well, then the differences (and similarities) between them and recipients must also be established.

3.2 Add on approaches

'Add on' approaches involve the provision of additional financial services such as microsavings or microcredit to recipients which they can access after receiving grants.

Most beneficiaries in most transfer schemes spend much of their grant on basic necessities such as food or clothing. However, many may desire to save a small portion for expected or unexpected events requiring larger lump sums; and some may have entrepreneurial skills and opportunities which can be enhanced or accelerated through access to microcredit. There is evidence both of savings behavior and entrepreneurial behavior of recipients: for example, the Zambian pilot social transfer scheme to 1000 households in Kalomo district found that some made use of a rotating savings fund and others invested in seed and small animals which could generate income.¹³ In the SA survey of beneficiaries, 17% reported that, as one of their top three uses of the grant, they made regular contributions to burial societies, a kind of insurance/ savings mechanism which pays out on death of a family member to cover the expenses of the funeral.¹⁴ Access to credit or savings may enable poor households to generate income or accumulate assets so that they graduate from dependence on the grants alone as their only or main source of income.

The regular cash flow of grant recipients may also make them an attractive target for lenders who may use irresponsible marketing techniques to lead to unsustainable indebtedness. Not all savings products are appropriate either—informal savings scheme have been shown to lead to a high incidence of loss of depositor money; and low returns may mean that the real value of savings is lost over time. Similarly, insurance products may be over-sold or mis-sold—for example, expensive products offering little benefit may be offered to elderly recipients. However, the potential for exploitation always exists in cash transfer schemes, and not only in the realm of inappropriate financial products being sold to recipients.

A policy question for 'add in' approaches is whether the grant agency should provide financial services itself or via linkages to particular products or providers, and if so, to which.

¹³ Schubert (2005: 2)

¹⁴ Citizen Surveys (2004: 13)



In most cases, a grant agency itself is poorly equipped to be a financial service provider; to do so risks greatly confuse the two different roles involved. If the agency therefore chooses to facilitate linkages to providers, their reputation and capability as well as nature of the financial service offered should first be considered. Facilitation may involve little more than allowing providers to distribute marketing material at paypoints, or it may extend further, as a recent CGAP Focus Note has identified.¹⁵

In it, Hashemi & Rosenberg outline two models by which microfinance products are provided to grant recipients:

- Where the grant agency, typically an NGO in their sample, provides or requires the financial services itself—for example, RMP in Bangladesh or CRIMP in Malawi require forced savings; or the agency may provide training which better enables recipients to approach local MFIs;
- Where the MFI is directly involved in the delivery of the program, as in the case of IGVGD in Bangladesh where a large MFI provides savings facilities and access to very small tailored microloans, which help grant-assisted households to access more conventional services at the end of the program (see Box 2).

From the experience of such add in programs to date, the Focus Note draws the following lessons:

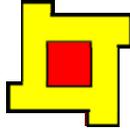
- It is generally better to start with offering recipients micro savings, rather than micro credit;
- Lending programs attached to grants are generally better when managed by credit specialist organizations such as MFIs, although separately from their normal lending programs so that they can be tailored in size, length and simplicity to the poorer client profile;
- It is important not to confuse messages on the different nature of grants and loans in a way which weakens the credit discipline of borrowers;
- Not all grant recipients are micro entrepreneurs or can become good MFI clients, but through early engagement with grant recipients on a low risk basis, MFIs may “identify enterprising participants for graduation to MFIs services”.

Tailored add on programmes may therefore help at least some grant recipients to build a track record and to acquire the necessary skills and disciplines which will reduce dependence on grants over time. The Focus Note concludes, “While there are no guarantees that everyone who successfully moves through these programs will graduate to microfinance, properly structured support programs hold great potential as a pathway to microfinance” (p.6).

¹⁵ Focus Note No. 34, Hashemi & Rosenberg.



Although successful add on services have been tailored to the needs of recipients, if this results in specialized MFIs and providers establishing a presence in communities in which grant recipients reside, they may also be able to serve the needs of non-recipients with more conventional financial products.



Box 2: IGVD in Bangladesh

The Income Generation for Vulnerable Groups Development (IGVD) program targets destitute rural women, to whom the government provides free grain for 18 months. A specialized unit of BRAC, one of the largest MFIs in Bangladesh, organizes recipients into groups, assists in the collection of microsavings and the provision of training in how to start income generation projects. After receiving training, the women can access a microloan, much smaller than the usual BRAC loan, with which they can purchase stock or equipment to start income generating projects. The full cost of these loans is subsidized with grants.

Reviews to date show great impact: nearly two thirds of 1.6m participants in the program have 'graduated' to become normal microfinance clients of BRAC.

This is a successful case where 'add on' microfinance activities assist in beneficiaries' transition from dependence on social grants.

Source: CGAP (2006:5)

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3.3 Add in approaches

'Add in' approaches to the payment of social transfers involve the use of a payment instrument such as a bank account or stored value card, which itself integrates the user/recipient into the financial system. Rather than simply being paid out in full each time, the recipient can decide when and how much of her or his regular grant to withdraw in cash, and how much to leave as savings. As a result of having the account, she or he is more likely to be offered other financial services, since the instalments or premia for these services can be collected cost effectively from the account in electronic format; and since the electronic record of cash flows through the bank account could be the basis of assessing credit worthiness.

The ultimate vision of add in approaches is that all recipients have a basic transaction account, which is credited monthly. At no or low cost, they can withdraw cash from their account at accessible locations; and they are offered a range of suitable additional microfinancial services, such as savings, insurance and credit facilities. All the same caveats about appropriate and inappropriate financial services made above apply here too.

There are usually two obstacles to the development of these approaches:

'Add in' approaches involve the design of a payment instrument which itself encourages integration of recipients into the financial system



- *The cost and features of the account product itself:* the charges on standard bank accounts are often too high relative to the grant amount; and there may be minimum balance requirements which rule out grant recipients.
- *The inadequacy of the financial infrastructure:* there are too few places at which cash can be withdrawn from the account.

Both obstacles must be overcome in tandem: if there is an appropriate account product, it is of limited value unless the recipient is able to withdraw cash easily to make payments. Conversely, it may be uneconomic to deploy new infrastructure unless the volumes of transactions are high enough. How to overcome each obstacle is considered in turn.

3.3.1 Developing new bank account products

A transactional bank account suitable for social transfer recipients would usually need to have features such as:

- No minimum balance required to keep the account open;
- No initial fee and low or no monthly charges (which would deplete small savings balances remaining);
- The ability to receive (and preferably make) other transfers electronically, such as person to person remittances (which are often an important part of poor household income).

These are features which are likely to be appealing not only to transfer recipients but also to low income people in general. However, accounts with these features are often not available since financial institutions find them to be unprofitable: they incur costs in opening and maintaining all accounts, and if balances and transaction volume are low, they make little revenue. For example, depending on the size of the bank and nature of the product, it may cost \$10 or more to open a card-based account; and \$1 per month just to maintain the account. To be viable when no initial or monthly charges are allowed, these fixed costs must be recovered from the flow of expected transaction revenue and the additional interest income which financial institutions may earn from balances left in the account ('the float'). Because social transfers are usually small, the financial institution may expect little revenue from the float; and there may be relatively few transactions per account on a monthly basis. Therefore, either the fee per transaction must be set high enough to be viable; or the cost of the account must be subsidized in some form.

The case for subsidy is often based on the view that, in addition to reducing the cost of social transfers, access to a basic bank account is a 'merit good'. If so, then the case is strengthened for supporting the design of an account which may be used by others as well. In practice, a variety of approaches has been taken to the subsidization of basic bank accounts:

- Cross subsidization via a state-owned financial institution which offers accounts to the broader population from which it can make money to



cover the costs of very small accounts (as in Mexico with Bansefi or Brazil with Caixa, and SA to some extent with Postbank);

- Upfront subsidy per account opened to reduce the initial negative cash flow to the banking institution involved, as in the US described earlier; or
- Ongoing subsidy per account per month, which is usually linked to a certain basic number of free transactions. This is the basis of the ABSA Sekulula product in SA (see Box 3).

Most product development incurs fixed costs for the product provider. The subsidy arrangements for grant recipients may support the development of basic transactional products which also meet the needs of non-recipients. While non-recipients will not receive any direct subsidy and will have to pay fees for the account and/or for transactions, the account may nonetheless meet their needs and the financial institution may be more willing to offer it to them since the fixed development costs have been recovered through the recipient client base. The Sekulula card product has evolved in this way from being offered to grant recipients only to being open to others as well.



Box 3: Sekulula Card

The Sekulula Debit Card is a basic transaction bank account product targeted specifically at the needs of social grant recipients in South Africa. The product was developed by Allpay Consolidated Investments (Pty) Ltd, a subsidiary of ABSA Bank which specializes in cash payment of grants. It was first offered in 2003 to recipients in one province (Gauteng), which is predominantly urban, but is now available in other, more rural provinces as well.

The Sekulula account has no minimum balance requirement. Instead of paying around \$4 per cash payout, the Social Security Agency pays Allpay \$2.25 per month for the maintenance of the account. This fee includes two free withdrawals per month at ABSA ATM's or usage at POS with merchants with whom ABSA has a direct relationship. Thereafter, fees are charged. The card can be used at any VISA merchant or bank ATM but fees are levied for use of other banks' infrastructure.

Recipients are offered the opportunity to open Sekulula accounts remotely at Allpay paypoints. By mid 2005, nearly 500 000 people, or two-thirds of grant recipients in the province, had chosen this option. Allpay also actively considers cross selling other financial services to its recipient client base; and has extended the offering to non-recipient clients as well. These clients are required to pay the equivalent monthly fee, which is covered by the Social Security Agency for recipients.

Note that, while Sekulula is the most used bank account product in South Africa tailored for grant recipients, the state-owned Postbank and several other banks have developed similar basic accounts offerings for the payment of social grants.

See case study available via:

http://www.corporate.visa.com/md/dl/documents/downloads/modernisation/me-south_africa_sekulula.pdf



In most countries, only licensed banks are allowed to offer accounts with this type of transaction functionality, since this may involve interfacing with the systems of other institutions. However, pre-paid accounts may be an exception: in some countries, non-bank entities may issue pre-paid accounts, avoiding some of the general fixed costs associated with a bank account. These accounts share some of the features of a basic bank account, but typically have fewer—for example, paying no interest on credit balances and with no opportunity to deposit cash into the account, since the card is loaded by a credit transfer. Pre-paid accounts are popular among unbanked people in some countries (such as US) because they are simple and may be cheap to use. However, non-bank pre-paid cards may also have disadvantages including:

- The balances may not be as secure as in a bank, depending on the nature of the scheme;
- The accounts may not include access to other financial products;
- It may not be possible to use wider financial infrastructure, such as point of sale solutions established by banks which are members of a card association (such as VISA or Mastercard).

An important question in designing product specifications is the attitudes and aspirations of recipients towards bank accounts. Where these have been polled in existing schemes, the response has often been positive. For example, a 2004 survey of recipients in SA found that half of unbanked recipients declared themselves likely or very likely to use a free bank account, if offered. Withdrawals (87%) and savings (52%) were the most common uses to be made of the account.¹⁶ In Bangladesh, 75% of IGVGD respondents showed interest in opening a bank account.¹⁷ If in a specific country, formal financial institutions were widely distrusted by recipients, this would be an important factor in the design of add-in approaches.

A further consideration is whether recipients can meet the regulatory requirements to open a bank account. In line with international standards for anti-money laundering and combating the financing of terrorism (AML-CFT), local regulations often require banks to verify the identity and physical address of a new account holder.¹⁸ This may not be possible for recipients who live in rural or informal areas. However, the grant agency may approach the financial regulators to seek an exemption for low value accounts to for recipients and others with low income. General exemptions for low value accounts below certain balance and transaction thresholds have now been passed in countries such as Brazil, India and South Africa. If the desire to pay grant recipients strengthens the case for such a general exemption, then financial access for non-recipients will also have been facilitated.

¹⁶ Citizen Surveys 2004: 15-16

¹⁷ Ahmed 2005: Table 4.9

¹⁸ For more background on how Anti-Money Laundering Laws may affect access to financial services, and examples of exemptions, see CGAP Focus Note 29 by Isern et al (2005), available via http://www.cgap.org/docs/FocusNote_29.html



3.3.2 Improving the financial infrastructure

In most developing countries, it is likely that a majority of transfer recipients will live in areas where there is little or no existing financial infrastructure. Retail financial infrastructure comprises those points of contact between clients and the financial system, whether via bank branch, ATMs or point of sale devices in merchants' premises. At these points of contact, a range of financial transactions may be undertaken as shown in Table 4 below. If grants are paid into bank accounts, then recipients must be able to withdraw cash at accessible points.

To operate these points of presence usually requires supporting infrastructure, such as:

- Electricity, although smaller devices such as some point of sale terminals, may operate on rechargeable battery or even solar power; and
- On-line communication to the place where the account is hosted; however, hybrid options exist which do not require on-line capacity for every transaction but go on-line to update balances every n'th transaction, reducing both the cost and the reliance on stable telecoms. To operate devices which can handle larger volumes of transactions (such as a monthly payout process in an area) effectively, enhanced communications such as V-SAT, GPRS or broad-band wireless (3-G) are required.

In many developing countries, neither reliable electricity nor communications is reliably present outside of urban areas. This will limit possible options for extending the financial infrastructure. However, the growth of wireless coverage has increased greatly the availability of on-line communications, although the cost and reliability (bandwidth for always-on services like GPRS or 3-G) may be an issue.

Table 4: Cash access points

Point of presence	Transactions possible			Fixed cost of equipment
	Account opened	Cash withdrawals	Cash deposits/payments accepted	
Fixed branch	Yes	Yes	Yes	Highly variable, depending on security features, level of finish
Mobile branch	Likely	Yes	Yes	Vehicle cost plus linked machinery (ATM like)
ATM	No	Yes	Depends on ATM and bank	Depends on functionality and security: typically \$10 000 upwards (less for basic, non-deposit taking)
Merchant with point of sale terminal	Possible for some remote opening products	Yes	Depends—often no, Brazil: yes; Can pay for goods purchased in store	\$500 upwards depending on functionality (wireless, printer, etc)



Table 4 also gives an indication of the fixed costs associated with each option. In many developing countries, it may not be viable to set up new bank branches, or even deploy ATMs because of the high upfront cost, in addition to running costs, which cannot be recovered out of fee revenue which customers can afford to pay.

To reduce the costs of financial infrastructure, it is necessary to piggy back on other cash handling businesses, such as local merchants who already have cash in their tills. The point of sale technology necessary to enable financial transactions such as withdrawals from bank accounts is much cheaper to deploy than, say, ATM technology but the result is similar: the merchant becomes a manned ATM. In addition, such an arrangement may bring additional benefits to a merchant such as:

- Reducing the amount of cash held in the till, which may be stolen;
- Greater spend in the store by those who withdraw cash there;
- Receiving some fee income on the transaction.

However, the merchant would usually be required to buy or lease the equipment, and the pay for the communications required, which would constitute an additional fixed monthly cost to him or her.

M-banking models are being piloted in which a mobile phone is used to access a bank account. These are still at a relatively early stage, however.

Banking by mobile phone also holds the prospect of reducing these costs further, since the phone itself may function as a kind of point of sale device for initiating financial transactions. The technology is available and models using this approach now exist, usually at a small scale. By using the mobile phone to transfer money to a merchant with a cell phone registered for the service, a customer may be enabled to get cash back without the merchant needing to buy or lease a separate point of sale device.¹⁹ This approach clearly has great potential: additional fixed costs at merchant level are removed, making it more viable for more and smaller merchants; and cell phone usage even among the poor is clearly growing. Today, 20% of IGVDG recipients report having used a mobile phone.²⁰ Similarly, in South Africa, 28% of grant recipients report access to a mobile phone.²¹

However, since it is likely that the majority of grant recipients today would not have a cell phone, and since most of the mobile banking models are at relatively early stage, any social transfer scheme starting in the next five years is unlikely to be able to rely solely or mainly on this approach. Nonetheless, payments via mobile phone are likely to be part of the future. Grant agencies should monitor developments in this area, and consider piloting m-banking approaches when sufficient recipients use mobile phones.

¹⁹ See for example the Vodafone M-Pesa m-banking pilot in Kenya, funded in part through DFID's Financial Deepening Challenge Fund: see <http://www.financialdeepening.org/default.asp?id=40&ver=1>

²⁰ For more information on the potential of mobile phones to be used in making payments see Bankable Frontier Associates LLC (2006) "The Enabling Environment for Mobile Phone Banking in Africa", DFID.

²¹ FinScope 2004, for pensioners and child card grant recipients only.



For the present, specialized point of sale terminals are available which can be deployed at participating merchants, even in remote areas. These terminals may even be enhanced to offer other features, such as integration with a cash register which could offer other benefits to the small merchant. Enhanced cash registers like these must be robust enough to survive harsh operating conditions and require minimum maintenance.

In addition to being viable for the merchant, a new point-of-sale infrastructure must be viable to the financial institution with the relationship with the merchant, called the acquirer. Setting up and running a network of merchants involves fixed costs to the acquirer, which is usually a bank or third party solution provider linked to a bank or bank card association.

In the face of substantial fixed costs of creating a new network, the viability of acquiring depends largely on the volume of transactions expected and the fee per transaction. For cash back transactions, as opposed to the purchase of goods, the acquiring institution typically does not receive any fee from the merchant paying the cash; hence, the transaction must be paid for by the client. The more clients who can use the same infrastructure, the higher the likely volume of transactions, and the more viable the network is likely to be. Basic limited infrastructure may not in fact require large volumes, as indicated in Box 4 below which compares the breakeven volumes at different fee levels.

Social grant schemes typically involve a critical mass of users in each targeted location. This critical mass may provide sufficient assurance that there will be an adequate revenue stream for private providers to risk the deployment of new infrastructure. However, since social transfer schemes are often paid in a particular place at a particular time of month, the peaks in demand for cash withdrawals are likely to be too much for any small merchant to service—at least not until the peaks are foreseeable, and he can manage his cash liquidity in store appropriately. If the peak demand for cash is too high, a small merchant may also balk at taking the security risk of fetching and holding the necessary cash at his risk until it is paid out. It may be necessary initially for the acquiring bank to provide special support to merchants and clients through mobile units, until the demand has stabilized; and it may be necessary even to spread the dates on which credits are made to accounts in the same area to relieve the cash spikes.

Grant schemes may bring a critical mass of recipients in an area which may justify the deployment of new fixed cost infrastructure. This infrastructure may also service non-recipients

Box 4: Costs and volumes for illustrative purposes

The deployment of electronic financial infrastructure is associated with high fixed or semi-fixed costs, and usually low variable costs per transaction. Table 5 below uses very generalized assumptions to compare the relative magnitude of fixed costs for four different types of infrastructure. Note that the actual costs (and availability) of any element could vary widely in a given situation, based inter alia on volumes, exchange rates, taxes and interest rates, hence each would have to be carefully researched before reaching any conclusions. Note also that the functionality associated with, say, a mobile branch dedicated to financial transactions, is not the same as a POS device at a merchant, so that simple cost comparison is not sufficient.



Table 5: Fixed costs for different financial infrastructure

Method	Capex	Lease cost	Commu nications	Direct servicing	Total Direct Cost	Overhead cost	Total Fixed Cost
	\$	\$pm	\$pm	\$pm	\$pm	\$pm	\$pm
		2	3	4		5	
1. Mobile branch	\$110,000	\$3,347	\$300	\$3,000	\$6,647	\$1,662	\$8,309
2. Fixed ATM	\$20,000	\$609	\$100	\$150	\$859	\$215	\$1,073
3. Enhanced cash register	\$1,500	\$140	\$50	\$0	\$190	\$48	\$238
4. Basic wireless POS	\$700	\$70	\$50	\$0	\$120	\$30	\$150

Notes:

1. Assumes simple 4X4 vehicle with equivalent of 1 ATM; larger special purpose vehicles cost much more.
2. Assumes 4 year, full maintenance lease with no residual at 20%p.a. NACM for 1 & 2
3. Assumes GPRS connection adequate for volumes for 3,4
4. For mobile branch, includes car fuel + driver, teller & security person;
ATM: includes restocking, consumables; no rent
5. Overhead: assumes simple 25% markup on direct cost for cost of management & oversight

Using the fixed cost numbers from above, the breakeven number of transactions can then easily be calculated under two assumptions about the fee to the provider:

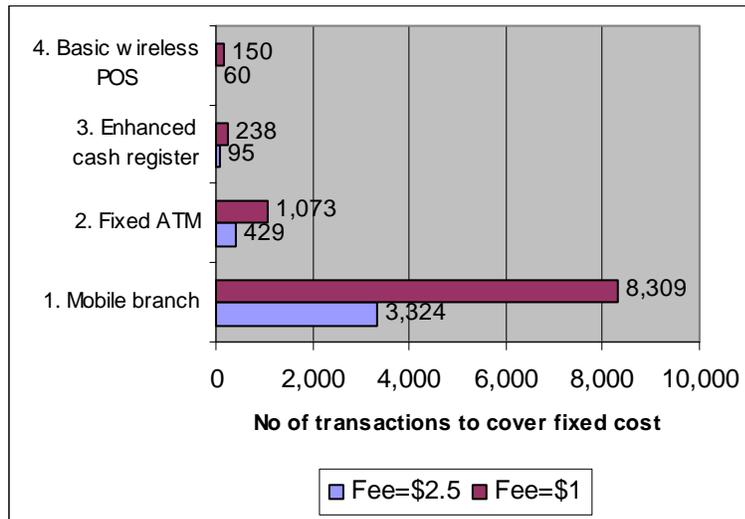
- o \$2.50 per cash transaction (assuming this to be the reference figure for dedicated cash 'pull' methods)
- o \$1 per transaction (the VISA default level ATM withdrawal fee i.e. the fee level at which the service may be attractive to non-recipients as well.

Figure 2 below shows this comparison. The lower column shows the number of cash equivalent transactions per unit of infrastructure which would be required for this infrastructure to cover its fixed costs, on these assumptions. While transfer schemes may be willing to pay up to the equivalent of this fee (since they would have to pay it anyway in the absence of the 'push' alternative), the cost would most likely prevent non-recipients from using it. If the fee were lower (\$1 in the example), there would need to be much higher usage to break even; the likelihood that non-recipients could and would use the infrastructure would have to be factored into any negotiation of fees to the transfer scheme.

To increase volume further, it is desirable that points of sale be inter-operable: that is, be usable by other account holders who are part of a general arrangement among banks which issue accounts. The largest inter-operable international networks are offered by bank card associations such as VISA or Mastercard. VISA has been associated with the development of innovative solutions in this area, such as the Sekulula card, which may be used on all VISA branded infrastructure. Domestic banks may also cooperate to create their own domestic standards for accepting transactions from each other's clients.



Figure 2: Transactions required per month to breakeven



The development of new, cheaper financial infrastructure carries widespread potential benefits therefore:

- For beneficiaries, who can have convenient access to cash;
- For non-beneficiaries who may also use the infrastructure for transactions including remittances;
- For local merchants who may generate additional fee income or sales revenue; and
- For the merchant's bank, which may profit from the relationship; and even
- For the grant agency, since the cost of paying a transfer will decrease compared with cash transfer.

However, in practice, few developing countries yet have widespread robust networks of banking correspondents or agents. Sometimes, changes in laws are necessary to enable this.²² Brazil is a country which has followed this approach, with spectacular results: as a result of the rapid diffusion of correspondent relationships by public and private banks, the percentage of Brazilian municipalities without any financial point of presence decreased from 29% in 2000 to 0% by 2003.²³ These points of presence are used by social grant recipients and non-recipients alike to receive and deposit cash, and to make payments.

In most countries, further research and experimentation is required in order to design a robust process for ensuring that the financial infrastructure will support grants payment via bank account.

²² See forthcoming CGAP Occasional paper by Lyman et al on approaches to branchless banking

²³ For more on the Brazilian approach to bank agents, see a World Bank Working paper No.85 by Kumar et al (2006).



Section 4: The Process of Designing & Implementing an Enhanced Payment Strategy

This section describes how an enhanced payment strategy may be developed as part of a simple five step process, linked to the overall design and implementation of a social grants scheme. Annexures provide supporting material in the form of flowcharts, printouts of spreadsheet models and draft terms of reference for undertaking this process. The reader without a specific interest in the design process may wish to skip directly to the conclusion which follows.

This process is suggested as an alternative to the common approaches of either:

- Awarding the payment contract to a state-owned entity such as a Postbank at what appears to be a reasonable price on the basis that (i) this is the quickest option, and (ii) at least no private agency is being enriched through the process; or
- Tendering the contract by inviting competitive bids from public and private sector.

Neither option is likely in itself to yield an enhanced payment solution. A state-owned entity may or may not have the appropriate infrastructure for broader outreach; and may or may not be the cheapest option.²⁴ Public tenders tend to attract bids from entities proposing ‘pull’ approaches, since these are known and easier to specify; and also easier to evaluate and award.

The proposed process is likely to take longer initially than proceeding directly with a simple payment tender. If undertaken in parallel with other design aspects of a new social transfer scheme, it still may not affect the overall timing to launch the scheme. Even if it does delay the start of the scheme, however, the time taken to develop a strategy is likely to pay off through lower cost bids received in response to a more clearly specified and competitive tender.

Step 1: Clarify payment objectives

This first step may seem obvious but, as discussed earlier, is easy to overlook in all the complexity of designing a new scheme, and especially if the scheme is designed primarily by staff from a social welfare agency, supported by technical advisors from one discipline such as social development only.

While one department such as the Social Welfare Department should be and normally is responsible for the scheme overall, the payment arrangements are likely to involve a range of government departments and even regulators. For example, the Treasury and Central Bank are likely to have an interest in aspects

An enhanced payment strategy requires a structured approach to collection of information and analysis

A sub-committee of the overall social transfer scheme steering committee which can recommend on payment objectives and strategies

²⁴ La Faurie and Velasquez (2004) report that in Colombia, the state bank with the largest distribution network was not the cheapest provider of payment services there.



affecting the payment system, or even the overall issue of financial inclusion, which has risen in priority in many countries. The Home Affairs or equivalent department may be responsible for issuing identification documents and for maintaining a database of citizens. All of the government agencies with an interest in the payment arrangements should be identified upfront.

The process of design and implementation of any scheme will vary considerably by national context. Usually, a core steering group (or possibly one responsible official) will have decision making power over design features. The question of what the objectives should be for the payment arrangements in the context of the overall scheme should first be raised here. This group may not be well placed to decide the issue without further input; hence, it is often advisable to create the mandate to convene a sub-committee which is responsible for recommending on the payment aspects. Responsible officials from the affected entities listed above could be invited to join this group.

The menu of possible objectives in Table 1 provides a starting point for discussion of possible objectives. The parameters of the trade-offs among objectives (cost and time versus enhanced aspects, for example) should be discussed in principle. The sub-committee could discuss and develop a weighted initial menu of payment objectives to propose to the steering group for initial endorsement. This creates a starting point for the design process.

However, the range of objectives finally chosen is likely to be shaped by more information on the feasibility and cost of additional options. Therefore, the payments sub-committee should propose a timeframe (and budget where necessary) in which to develop a strategy to achieve the initial objectives. This may include recommendations to change the final weightings based on what is possible.

Step 2: Scope the feasible alternatives

The next step requires some detailed work to collect the information necessary to identify and analyse the feasible payment alternatives—both now and in the future.

Annexure A provides a generic terms of reference for this work. The work starts with the initial weighted objectives developed in Step 1, and then proceeds to evaluate the possible options. The outcome is a report recommending payment strategy which can be discussed by the payments sub-group, and then recommended to the steering group.

The time and effort required at this stage is a function of:

- The availability of relevant primary data, especially on the profile and distribution of recipients and on the available financial infrastructure;

Clarifying feasible options—now and in the future—requires information on recipients, their communities and on the financial sector



- The weighting given to the development of enhanced options.

Most social transfer schemes will have to access or collect data on the profile of intended beneficiaries. The critical issue for the payment arrangements is whether this information covers recipients (i.e. those who will actually receive the payment, who may be guardians in the case of child support programs) where they are not the same as beneficiaries; and whether it covers their financial service usage, needs and preferences. If the scheme also seeks to improve access for non-beneficiaries in surrounding communities, then a profile of these people and their usage and needs will also be important.

If this information is readily available, then the analysis work may be completed relatively quickly. If not, a decision must be made as to the cost-benefit of initiating primary data collection exercises via surveys. It is worth noting that various national household surveys are underway in developing countries, which seek to establish a profile of needs and usage.²⁵

The decision tree in Annexure C depicts a sequential process which may be followed to isolate the groups reachable by different payment approaches.

Note that some options may require regulatory exemptions or special approvals to be possible: these should be noted; and the case for obtaining these could be discussed with the relevant member of the payments sub-committee.

Step 3: Agree on a strategy

By investigating and recommending feasible options, the report from Step 2 will provide the basis for deciding on a payments strategy.

This should be debated by the payments group, before being recommended to the steering group.

Core elements of a payments strategy include:

- Whether recipients should or could be offered a choice of payment approach;
- Which approach/es are to be implemented—initially and over time;
 - If over time, how the evolution is to be managed;
- Whether or not a pilot approach will be followed first, or alongside a main rollout;
 - If so, what specifically is being tested in the pilot and how will this affect the way forward from then?
- The timing implications for the payment component to be ready;
- The likely cost implications, including:

A payments strategy should address the aspects highlighted in this section

²⁵ See for example FinScope, which is overseeing surveys in 8 African countries in 2006—www.finscopeafrica.com.



- Likely payment cost parameters, using general benchmarks (the tender will determine specific costs)²⁶
- The need for special subsidy if any of providers to achieve desired objectives
- The adequate resourcing of a tender process.
- How the tender process will be managed, including:
 - What exactly will be tendered?
 - How many providers are desired—one or more than one? If more than one, how many can be managed?
 - Responsibility for managing the tender process at Step 4 and the subsequent contract management process.
- Capacity to implement the payment strategy, including:
 - Who within the main grant agency should be responsible for the payment arrangements over time?
 - What capacity is necessary for this function, especially if extended beyond recipients only?

Step 4: Manage tender process

The process of tendering for the provision of payment services to recipients may be simple or complex, depending on factors such as:

- How specific the tender is: are tenders sought to implement one chosen approach or to invite different approaches?
- The government laws and regulations pertaining to tender processes
- How valuable the contracts are—even a relatively small scheme paying say, US\$50m per annum in grants, may be worth \$1-2m or more in fees to providers who pay the grants.

A tender to provide cash payment services for a pilot scheme for a defined period only may be issued and awarded relatively quickly. However, if the tender is very general and large, considerable effort may be required both to engage with potential tenderers to ensure a good response, and to evaluate the responses adequately.²⁷

The tender process may be prescribed by law or practice but would typically include the following steps:

- *Preparation of tender documentation:* once the content has been defined in terms of the strategy, this may require collaboration with other state agencies such as lawyers or procurement boards. The more relevant research and information on the profile of recipients which can be

Payments contracts can be valuable and the tender process need to be properly specified and managed to attract a good response

²⁶ To assist this latter analysis, a basic Excel spreadsheet has been prepared as part of the project. The spreadsheet projects the total payment costs of a range of payment approaches, based on assumptions about the underlying transaction profile. An example of the input sheet and key outputs is shown in Annexure B.

²⁷ LaFaurie and Velasquez provide a useful summary of the process of engagement in Colombia which 26 banks were invited to show interest; ten responded positively. Following a selection process based on a number of considerations, negotiations commenced with a major state bank to finalize a fee basis, whereafter a further 6 private banks were also contracted to expand the coverage beyond what the one bank alone could provide.



provided out of the report from Step 2, the easier tenderers may find it to respond.

- *The publicizing of the tender:* the strategy arising from Step 2 should have identified all likely providers, including foreign firms or agencies. It is important to inform them in a timely fashion.
- *A process of engagement with tenderers:* especially if creative responses are sought from tenderers, there is a need to provide time and opportunity for them to engage with the responsible agency on a basis which is fair to all tenderers.
- *A multi-round process:* the tender process may include rounds of tendering to establish who is really interested to compete, by refining the grounds of competition at each stage. A multi-round process may improve the pricing of the ultimate outcome, but is more complex to manage and may deter bidders because of the time involved. It is therefore only worth doing for larger, longer term contracts. If procurement law and practice does not prohibit this, it may also be possible to encourage partnerships among tenderers with complementary skills during a multi-round process in order to get more suitable final bids.
- *An evaluation process:* the evaluation committee may require independent technical support, depending on the complexity and the value of the tender.
- *Negotiation leading to contract.* These could be time consuming, especially if the tender was very general. The time and resources to undertake this must be built in since no provider is likely to incur the costs of commencing implementation until the contract is signed.

Step 5: Ongoing payment strategy monitoring and development

Even after the initial payments arrangements have been implemented, the overall strategy must be monitored and updated over time by the grants agency. This work should be differentiated from the ongoing operational functions of managing payment, such as arranging and reconciling all transfers on a regular basis. These can be a major part of the work flow of the agency, and may 'crowd out' the capacity of the agency to undertake the more strategic work of monitoring and reviewing. Over time, an updated strategy is likely to pay off in lower costs and greater efficiency. For this reason alone, the agency's budget should provide resources for the strategic payments function as well.

The initial strategy should remain relevant by following developments in technology and business models in the financial sector, and indeed, changes in the preferences and needs of recipients. The mandate to undertake an active process of monitoring and evaluating available payment arrangements should be incorporated into the function of a senior official in the agency.

Questions about payment arrangements—about how recipients view present approaches and possible future alternatives—should be built into the periodic

Updating strategy in the light of changes in technology and recipients preferences requires a strategic capacity to be built in the grants agency

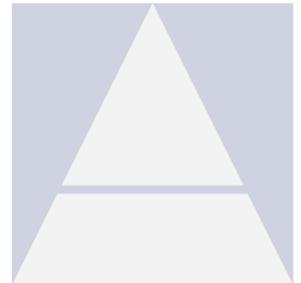


surveys of beneficiaries which are usually undertaken as part of monitoring overall impact.

Based on a regular scan of new options for payment created by new technology, new approaches could be piloted with defined groups of beneficiaries over time. If successful, the new approaches could then be offered more generally.

The payment advisory group, convened to consider the design, could become an ongoing advisory group, convened at intervals to consider new developments and possibilities.

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Section 5. Conclusion

The design, implementation, oversight and monitoring of the payment mechanisms is a core aspect of the overall impact of social transfer schemes

The spread of cash social transfer schemes in developing countries creates great opportunities not only to reduce the absolute poverty of beneficiary households, but also to expand the financial services accessible to them and to others in their communities. Expanding the financial service offerings linked to social grant payments will enhance the developmental impact of the grant scheme both for recipients and, potentially, for the national financial system as a whole.

This report has argued that there is little to be lost and much to be gained by developing an enhanced payment strategy as part of the design process for a new scheme, or as part of the review of an existing scheme. However, this requires an intentional approach on the part of the main grant agency, so that the payment mechanism is considered as potentially a core aspect of the scheme, rather than an administrative afterthought.

The realities of limited infrastructure and the weakness of the financial sector in many developing countries mean that cash payment, or ‘pull’, approaches are the most viable starting point for many. Even then, other financial services can be added on, through engagement with providers, MFIs and banks. Pull arrangements should be designed with the ability to evolve into push options over time, as the transfer schemes grow and their recipients’ preferences change. The needs of non-recipients should also be considered, since they too may benefit at no additional cost to the scheme. At very least, the payment arrangements should be flexible enough to allow for pilot testing of alternative or new approaches over time with smaller groups of recipients.

The payment of social transfers should be considered as a special case of a broader category of financial transaction: a remittance from government to person (‘G2P’)

The ongoing diffusion of new technology, combined with increasing competition in retail banking in many countries, will reduce the cost of push options over time. Basic financial services should become more feasible for providers to offer, and also more attractive to recipients. A key lesson from the development of microfinance products over the past two decades is that clients respond well when their needs are understood and well served. In this respect, the payment arrangements of a transfer scheme should be seen as a special case of a broader category of financial services—that of payments. A social transfer is a remittance from government to an individual (G2P), which has its legitimate place alongside person-to-person transfers (P2P) through domestic and international remittances as a means of channeling resources to poor households. Indeed, this report has argued that arrangements to improve G2P payments may also facilitate safer, cheaper facilities for P2P to targeted recipients by extending the coverage of the financial infrastructure.

Seen in this light, the payment arrangements for social transfer schemes may evolve into more cost effective, useful instruments which also extend the reach of the financial sector as a whole.



Annexure A: Terms of reference for country/ case studies

This is a proforma TOR which can be used to procure assistance for Step 2 of the process outlined in Section 4

This is a pro-forma terms of reference which can be tailored by country officers in order to procure the services necessary to advise on payment strategy in a particular location.

Objective of assignment: to advise the government of XYZ on feasible mechanisms for the payment of a proposed social grants scheme.

Background:

The Ministry of ABC of the government of XYZ in conjunction with DFID and other aid agencies intends to introduce a social grant scheme which will provide regular monthly cash grants to qualifying households (provide further details on scheme). Various workstreams have been identified in order to translate this plan into action by 200X. The workstreams are being coordinated by(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 scheme in order to achieve the following weighted set of objectives:

Objective:

Weighting
%:

Minimize transaction cost:

- to grant agency
- to client

Maximize security and integrity of the process:

- for grant agency
- for client

Ability to scale the desired option over time

Time and cost to set up the initial scheme

Ability to add other services for beneficiaries

Secondary benefits achieved:

e.g. access of non-beneficiaries to the financial system

Note: if such weighted objectives have not yet been prepared, they could be defined as an initial deliverable for this project. This will require the consultants to work with the identified decision makers, identify trade-offs if any. This will extend the time required for the project, but it is essential to have a clear mandate for the payment workstream in order for the work outlined here to lead to meaningful results.



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 scheme;
- B. collecting relevant and reliable information on (a) potential scheme beneficiaries, (b) existing money transfer arrangements in the country, and (c) the financial infrastructure;
- C. analyzing the collected information to identify feasible options for grant payment, and assess them against the criteria above;
- D. making recommendations on the process required to implement each of the options identified.

Further detail is provided here on each component.

A. State Readiness

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*:

- o A national ID system
- o Compatibility of existing systems architecture and software with external systems
- o Opportunities for cross-servicing for different government departments and functions
- o Operational readiness, especially human resources, for service level agreement management, customer service, and ongoing education of the target beneficiaries
- o Policy with respect to development of the financial sector.
- o Regulations for customer due diligence on new customers in financial sector
- o 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, who may also benefit:

	Current recipients if applicable	Total Eligible population
A. Age distribution		



B. Gender		
C. Use of formal financial products C1. % with bank account C2. Attitudes towards banks		
D. Current mechanisms for receiving remittances/ money transfers, including cost thereof		
E. Literacy		
F. Location: -- by smallest geographic unit available -- distance from nearest: Point with on-line financial system access		
G. Usage/ access to cell phone		

B2. Existing money transfer schemes

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 scheme will be subjectively benchmarked.

Are there any existing schemes 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 schemes.

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. This must include 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.

B3. Financial infrastructure & products

B3.1 Transaction account products

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, NBFIs and even MFIs may also collect deposits and should be considered.

This should be prepared in tabular form i.e.

	Bank 1	Bank 2	Non bank finance Institution	MFIs
Name of product				
Eligibility requirements to open				
Minimum balance				
Fees: --monthly --withdrawal --deposit				
No of points where cash can be withdrawn				
% Interest paid				

See a fuller example of how bank product offerings in a market may be compared at: http://cgap.org/savings/mexico_assessment.html#5

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 undertaking interviews with informed commentators, identify those banking 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 an option to pay using a push strategy 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 (pilot) scheme, and the possible transition from pilot to full scale rollout.

Methodology:

The project will require:

- the collection and analysis of all available in-country data
- Comment: providing a list here of available survey material would help to specify the amount of extra work required.
- the undertaking of primary survey work in the following areas, if applicable
- interviews with local actors to establish the availability of financial products and infrastructure
- interaction with the overall scheme project team, 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, in the country.

Criteria for award of tender:

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

- Relevant experience in design of social assistance schemes of both firm and key individuals on the project
- 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).



Annexure B: Spreadsheet model for projecting payment costs of scheme

Purpose of spreadsheet:

1. Estimate total cost to pay scheme as % of payout under different mixes of payment options
2. Estimate value of payment contract to different providers

Note yellow cells denote input cells; blue cells are calculated automatically and should not be changed

1. Assumptions	Time invariant	Year 1	Year 2	Year 3	Year 4	Year 5
1.1 Macro						
Base currency	KSh					
Foreign currency	\$					
Rate per base unit	67					
Inflation rate		5%	5%	5%	5%	5%
Interest rate on interbank deposits		8%	8%	8%	8%	8%
Discount rate		15%	15%	15%	15%	15%
1.2 Social grant scheme						
Number of qualifying beneficiaries		10,000	25,000	50,000	100,000	200,000
Number of recipients		9,000	22,500	45,000	90,000	180,000
Average grant per beneficiary		2500	2625	2756	2894	3039
Inflation adjusted: Y or N	Y					
Frequency of payout	Monthly					
Total grants paid per annum	KSh	300,000,000	787,500,000	1,653,750,000	3,472,875,000	7,293,037,500
1.3 Payment arrangements						
% of recipients paid by:		100%	100%	100%	100%	100%
(a) Bank account transfer		50%	50%	50%	50%	50%
(b) Cash		50%	50%	50%	50%	50%
(c) Other1						
(d) Other2						
Numbers of recipients		9,000	22,500	45,000	90,000	180,000



Bank account transfer	4,500	11,250	22,500	45,000	90,000
Cash	4,500	11,250	22,500	45,000	90,000
Other1	0	0	0	0	0
Other2	0	0	0	0	0

1.3 (a) Bank account paid

% of new beneficiaries currently banked	Each year	10	10	10	10	10
New bank accounts opened	p.a.	4,050	6,075	10,125	20,250	40,500

Scheme cost: Bank push approach

Cost of each bank transfer	KSh	20	21	22	23	24
Inflation adjusted: Y or N	Y					
Monthly account subsidy	KSh	150	158	165	174	182
Inflation adjusted: Y or N	Y					
Total cost to scheme p.a.	KSh	9,180,000	24,097,500	50,604,750	106,269,975	223,166,948

Recipient cost:

Av. no of withdrawals per month	KSh	1.5	1.5	1.5	1.5	1.5
Cost per withdrawal from bank	KSh	0	0	0	0	0
Inflation adjusted: Y or N	Y					
Time to get to bank	Hrs	1	1	1	1	1
Shadow cost of time--recipient	KSh/hr	10	11	11	12	12
Inflation adjusted: Y or N	Y					
Travel cost to get to bank	KSh	10	11	11	12	12
Inflation adjusted: Y or N	Y					
Total cost paid by recipients p.a.	KSh	1,080,000	2,835,000	5,953,500	12,502,350	26,254,935

Cost/ benefit to bank:

New account opening cost	KSh	200	210	221	232	243
Inflation adjusted: Y or N	Y					
Cost to bank per withdrawal	KSh	45	47	50	52	55
Inflation adjusted: Y or N	Y					
Average balance in account/ month	KSh	625	656	689	724	760
Bank revenue p.a.	KSh	990,000	2,598,750	5,457,375	11,460,488	24,067,024
Value of float	KSh	225,000	590,625	1,240,313	2,604,656	5,469,778
Fees earned--scheme	KSh	765,000	2,008,125	4,217,063	8,855,831	18,597,246
Fees earned--client	KSh	0	0	0	0	0
Costs to bank p.a.	KSh	1,113,750	2,073,094	3,906,984	8,204,667	17,229,801



New account opening cost	KSh	810,000	1,275,750	2,232,563	4,688,381	9,845,601
Cost of withdrawals	KSh	303,750	797,344	1,674,422	3,516,286	7,384,200
Net revenue to bank	KSh	-123,750	525,656	1,550,391	3,255,820	6,837,223
Discounted	KSh	-123,750	446,808	1,120,157	1,999,481	3,569,073
Length of contract	Yrs	5				
NPV of contract	KSh	7,011,769				

1.3 (b) Cash paid

Maximum no of beneficiaries per paypoint		1000	1000	1000	1000	1000
Number of paypoints required		5	11	23	45	90
Number of existing paypoints		0	5	7	12	23
Number of new paypoints required		5	7	12	23	45

Scheme cost: Cash pull

Fee: as % of grant	%					
Fee per recipient: fixed per transaction	KSh	200	210	221	232	243
Inflation adjusted: Y or N	Y					
Total cost to scheme per annum	KSh	10,800,000	28,350,000	59,535,000	125,023,500	262,549,350
Recipient cost:						
Time to get to paypoint & receive cash	Hrs pm	2	2	2	2	2
Travel cost to get to paypoint	KSh	10	11	11	12	12
Total cost to recipients p.a.	KSh	1,620,000	4,252,500	8,930,250	18,753,525	39,382,403

Provider revenue and cost

No of days float on payments	Days	5	5	5	5	5
Return on float	KSh	333,333	875,000	1,837,500	3,858,750	8,103,375
Total revenue--provider	KSh	11,133,333	29,225,000	61,372,500	128,882,250	270,652,725
Fee Revenue to provider p.a.	KSh	10,800,000	28,350,000	59,535,000	125,023,500	262,549,350
Cost per paypoint--set up	KSh	1,400,000	1,470,000	1,543,500	1,620,675	1,701,709
Cost per paypoint--monthly	KSh	100,000	105,000	110,250	115,763	121,551
Inflation adjusted: Y or N	Y					
Paypoint costs p.a.	KSh	11,700,000	23,415,000	47,517,750	98,976,938	207,851,569
Overhead cost: as % of running cost	%	25	25	25	25	25
Overhead cost p.a	KSh	2,925,000	5,853,750	11,879,438	24,744,234	51,962,892



Total cost--provider p.a.	KSh	14,625,000	29,268,750	59,397,188	123,721,172	259,814,461
Net revenue to provider	KSh	-3,491,667	-43,750	1,975,313	5,161,078	10,838,264
Discounted	KSh	-3,491,667	-37,188	1,427,163	3,169,547	5,657,642
Length of contract	Yrs	5				
NPV of contract	KSh	6,725,498				

MODEL OUTPUT SHEET--foreign currency

	<u>Unit</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
OVERALL SCHEME						
No of beneficiaries	No	10,000	25,000	50,000	100,000	200,000
No of recipients	No	9,000	22,500	45,000	90,000	180,000
Total value of grants paid p.a.	\$	4,477,612	11,753,731	24,682,836	51,833,955	108,851,306
Payment methodology:						
(a) Pull: bank accounts	No	4,500	11,250	22,500	45,000	90,000
(b) Pull: Cash paid	No	4,500	11,250	22,500	45,000	90,000
(c) Other	No	0	0	0	0	0
(d) Other	No	0	0	0	0	0
PAYMENT COSTS						
a. Paid by scheme:	\$	298,209	782,799	1,643,877	3,452,141	7,249,497
--To bank	\$	137,015	359,664	755,295	1,586,119	3,330,850
--To cash provider	\$	161,194	423,134	888,582	1,866,022	3,918,647
--To other	\$					
--To other	\$					
Payment cost/ Grants paid	%	6.66	6.7	6.7	6.7	6.7
Average cost per recipient per month	\$	2.8	2.9	3.0	3.2	3.4
Average cost--banked	\$	2.5	2.7	2.8	2.9	3.1
Average cost--cash paid	\$	3.0	3.1	3.3	3.5	3.6
B. Paid by beneficiaries						
--Cost per bank paid recipient per month	\$	0.30	0.31	0.33	0.35	0.36
--Cost per cash paid recipient per month	\$	0.45	0.47	0.49	0.52	0.54



C. NPV net contract revenue to providers

Bank	\$	104,653
Cash provider	\$	100,381

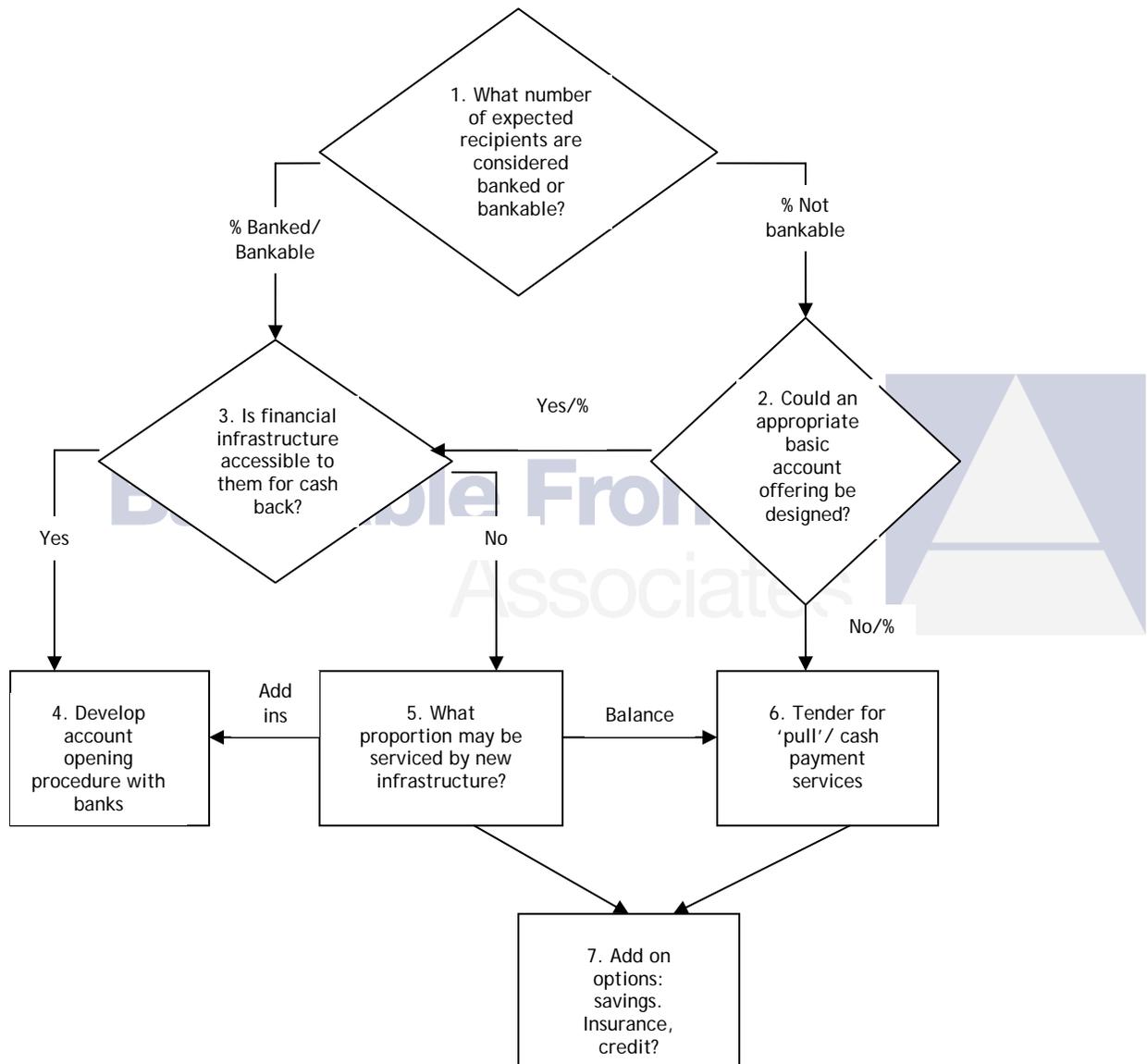
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Annexure C: Decision Tree on developing enhanced payment strategies

This decision tree aims to guide the identification of the segments of the targeted recipient population, to whom different payment solutions may apply. The numbers in each box refer to notes below



1. *What proportion of recipients are currently banked or bankable on current eligibility criteria?*
This requires a profile of intended recipients (note: not beneficiaries) to be compared against a profile of current eligibility requirements for basic transaction bank accounts, including fees and minimum balance requirements. The minimum balance in the account is



unlikely to be more than a fraction of the social transfer amount in most cases, although it may accumulate for some; and cost of withdrawals relative to grant amount.

2. *Could a basic account offering be developed?* This step involves setting the criteria for a basic bank account for recipients. This may include criteria such as
 - a. must be able to receive electronic credit,
 - b. cash accessible via
 - c. no minimum balance,
 - d. cost of 2 withdrawals per month not more than \$X.

Then, engagement with banks with a retail presence and/or strategic interest in the low end of the retail market should seek to establish the basis on which a bank or a group of banks, would offer such an account. The business case would be linked to the likely account numbers and fee revenue possible, as well as possible strategic benefits (e.g. in positioning with government) which the bank may receive, relative to additional costs involved. This engagement would also help to frame the need and case, if any, for subsidy of the 'add in' offering at stage 5 below.

Note that the needs of unbanked non-recipients should also be considered since they may also benefit from new product offerings, and their demand may make new products and infrastructure more viable.

3. *Is financial infrastructure accessible for cash back?* The location of likely recipients must be assessed relative to the location of financial infrastructure (branch, ATM, POS, mobile branch) through which cash can be accessed. To judge this, some norm should be set in terms of maximum distance (in travel time, cost and/or physical distance) from a defined infrastructure point; or in terms of maximum number per paypoint.
4. *Develop account opening procedures with banks:* For the recipients who are currently eligible and for whom infrastructure is accessible, it is then necessary to work with the banks who will offer the product to define how they will be informed about this payment option; how account details will be captured for existing account holders and how new accounts will be opened for eligible but non-current clients.
5. *What proportion may be served by new infrastructure?:* this revolves around the joint rollout of an appropriate basic account offering (existing or new) and of the infrastructure to access cash back in particular. The cost of the scheme must be funded by the fee paid by the grant agency for creating or maintaining this payments channel. The fee could be based on:
 - a. *Account opening:* a one off fee to cover initial costs, which may be linked to sign up.
 - b. *Account maintenance:* an ongoing regular fee, which would usually include a minimum number of bundled transactions such as two withdrawals.

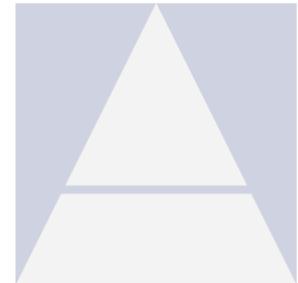
If the high initial fixed costs of infrastructure make the account based option unviable based on grants payments alone, and if there are additional potential benefits to non-beneficiaries



who may also use the infrastructure, there may be a case for some additional initial subsidy to providers to develop these options.

6. *Tender for 'pull' cash payment systems:* This process should at least lead to a clearer sense of how many people in which locations need to be served by 'pull' options. The cost per payment may be compared with the possible subsidy in 5 above.
7. *Investigate add on options:* whether banked or not, additional financial service offerings may be investigated, based on the profile and needs of recipients. Being banked through add on options may lead to automatic cross selling of other products such as savings, insurance or credit. However, as noted in Section 3, the desirability of and need for other financial services must be considered carefully.

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Annexure D: Key references

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Annexure E: Contacts

Entity	Name	Contact
1. Mexico		
Local correspondent	Alex Barocio	Alexmeni2000@yahoo.com
Oportunidades	Virginia Bello Mendez	Virginia@oportunidades.gob.mx
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2. Brazil		
Ministry	Mr Bruno Camara, Special Advisor to Minister	bruno.camara@mds.gov.br
Caixa		
3. South Africa		
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Allpay	Dirk Kotze, MD	dirkko@absa.co.za
SA Post Office	Dibuseng Mamabolo, Manager: Pensions	Dibuseng.mamabolo@postoffice.co.za
4. Other		
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CGAP	Syed Hashemi, Lauren Johnson	shashemi@worldbank.org



Annexure F: Glossary

ABSA	A large retail bank in South Africa
Add in	Where the payment itself involves provision of a financial service
Add on	Financial services which are provided after the cash grant is paid
ATM	Automated teller Machine
G2P	Government-to-person as in G2P payment i.e. social transfer
GPRS	General Packet Radio Service, known as 2.5G, a step between current 2G cellular services used mainly for voice and 3G, always on broadband cellular connection
IGVGD	Large social transfer scheme in Bangladesh (see Box 2)
MFI	Microfinance institution
P2P	Person-to-person
POS	Point of sale, a device usually located in a merchant capable of reading a card and executing an electronic financial transactions
'Pull'	Approach to payment whereby recipient is required to come to defined paypoint usually at a defined time to access funds
'Push'	Approach to payment whereby funds are credited to the recipient's account to be accessed through financial infrastructure
VISA	International payment card association
V-SAT	Satellite communication system, used to link remote branches

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