Abstract

Cash transfers have proliferated in the past decade as key policy instruments to tackle vulnerability and inequality. Payment mechanisms (PMs), the backbone of cash transfers, are the channels through which cash travels from the funding source to the hands of beneficiaries. In theory, the harmonization of payment flows in PMs with other program processes is critical to delivering the right benefit to the right people at the right time while minimizing costs. In reality, however, PMs tend to remain disconnected, rendering payments inefficient and plagued by error, fraud and corruption. In recent years, program operators, financial institutions and technology innovators have developed strategies for streamlining payment flows. These innovations, if properly integrated into program management through a Management Information System (MIS) and supported by rigorous outreach, can not only promote efficiency and transparency but also ensure effectiveness. This paper provides a framework for integrating PMs within program management. It walks the reader through seven basic steps to process payments. It does so by articulating the flow of beneficiary information and funds from the point of beneficiary enrollment to payment reconciliation and grievance redress. It also looks at the framework through the lenses of different cash transfer interventions and the cases of Kenya, Rwanda and Mexico. The paper concludes that to execute successful PMs it is key to (i) integrate payments within an MIS; (ii) adopt a cost-effective mix of traditional and technology instruments suitable to the country’s context in the short and long run; (iii) decentralize the control and accountability of service provision across government levels; (iv) understand the capacity and incentives of stakeholders; (v) provide manuals, training and information to key players; and (vi) enforce payment parameters and penalize their violation.
Improving Payment Mechanisms in Cash-Based Safety Net Programs

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Annika Kjellgren, and Rodrigo Quintana
August 2013

ABSTRACT

Cash transfers have proliferated in the past decade as key policy instruments to tackle vulnerability and inequality. Payment mechanisms (PMs), the backbone of cash transfers, are the channels through which cash travels from the funding source to the hands of beneficiaries. In theory, the harmonization of payment flows in PMs with other program processes is critical to delivering the right benefit to the right people at the right time while minimizing costs. In reality, however, PMs tend to remain disconnected, rendering payments inefficient and plagued by error, fraud and corruption. In recent years, program operators, financial institutions and technology innovators have developed strategies for streamlining payment flows. These innovations, if properly integrated into program management through a Management Information System (MIS) and supported by rigorous outreach, can not only promote efficiency and transparency but also ensure effectiveness. This paper provides a framework for integrating PMs within program management. It walks the reader through seven basic steps to process payments. It does so by articulating the flow of beneficiary information and funds from the point of beneficiary enrollment to payment reconciliation and grievance redress. It also looks at the framework through the lenses of different cash transfer interventions and the cases of Kenya, Rwanda and Mexico. The paper concludes that to execute successful PMs it is key to (i) integrate payments within an MIS; (ii) adopt a cost-effective mix of traditional and technology instruments suitable to the country's context in the short and long run; (iii) decentralize the control and accountability of service provision across government levels; (iv) understand the capacity and incentives of stakeholders; (v) provide manuals, training and information to key players; and (vi) enforce payment parameters and penalize their violation.

JEL Classification: I31, I38, M15

Keywords: cash transfers, payments, payment mechanisms, payment agencies, agents, payment instruments, recipients.
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The final responsibility of any remaining errors and omissions rests with the authors.
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<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>ATM</td>
<td>Automated Teller Machines</td>
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<tr>
<td>BISP</td>
<td>Benazir Income Support Program (Pakistan)</td>
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<td>BF</td>
<td>Bolsa Familia (Brazil)</td>
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<tr>
<td>CCT</td>
<td>Conditional Cash Transfer</td>
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<td>CDC</td>
<td>Community Development Councils or Committees</td>
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<td>CGAP</td>
<td>Consultative Group to Assist the Poor</td>
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<td>CNIC</td>
<td>Computerized National Identity Card (Pakistan)</td>
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<td>CSO</td>
<td>Civil Society Organizations</td>
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<td>CT-OVC</td>
<td>Cash Transfer for Orphans and Vulnerable Children (Kenya)</td>
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<td>DFID</td>
<td>Department for International Development (UK)</td>
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<td>EFC</td>
<td>Error, Fraud and Corruption</td>
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<td>FA</td>
<td>Familias en Acción (Colombia)</td>
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<td>FINO</td>
<td>Financial Inclusion and Network Operations</td>
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<td>FP</td>
<td>Facilitating Partners (Afghanistan)</td>
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<td>HNSP</td>
<td>Hunger Safety Net Program (Kenya)</td>
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<td>IAGGP</td>
<td>International Advisory Group for Government Payments</td>
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<td>ID</td>
<td>Identification</td>
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<td>JADF</td>
<td>Joint Action Development Forum</td>
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<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
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<td>MFI</td>
<td>Micro Finance Institutions</td>
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<td>MGCSD</td>
<td>Ministry of Gender, Children and Social Devt. (Kenya)</td>
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<td>MINALOC</td>
<td>Ministry of Local Development (Rwanda)</td>
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<tr>
<td>MIS</td>
<td>Management Information System</td>
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<td>MOU</td>
<td>Memorandum of Understanding</td>
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<td>NADRA</td>
<td>National Database and Registration Authority (Pakistan)</td>
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<td>NGO</td>
<td>Non-Governmental Organization</td>
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<tr>
<td>NREGA</td>
<td>National Rural Employment Guarantee Act (India)</td>
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<td>PIN</td>
<td>Personal Identification Number</td>
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<tr>
<td>PESP</td>
<td>Primary Education Stipend Program (Bangladesh)</td>
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<td>PCK</td>
<td>Postal Corporation of Kenya</td>
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<td>POS</td>
<td>Points of Sale</td>
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<td>POP</td>
<td>Point of Payment</td>
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<td>PM</td>
<td>Payment Mechanisms</td>
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<td>PSNP</td>
<td>Productive Safety Nets Program (Ethiopia)</td>
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<td>PWP</td>
<td>Public Works Program</td>
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<td>RLDSF</td>
<td>Rwanda Local Development Support Fund</td>
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<td>RMP</td>
<td>Rural Maintenance Program (Bangladesh)</td>
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<td>SACCO</td>
<td>Savings and Credit Cooperative (Rwanda)</td>
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<tr>
<td>SEDESOL</td>
<td>Secretaría de Desarrollo Social (Mexico)</td>
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<td>SIDA</td>
<td>Swedish International Development Agency</td>
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<tr>
<td>SIM</td>
<td>Subscriber Identity Module</td>
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<td>SMS</td>
<td>Short Message Services</td>
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<td>SSAAT</td>
<td>Society for Social Audit, Accountability and Transparency</td>
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<td>SSN</td>
<td>Social Safety Nets</td>
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<tr>
<td>UCT</td>
<td>Unconditional Cash Transfer</td>
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<td>UNICEF</td>
<td>United Nation’s Children Fund</td>
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<tr>
<td>VUP</td>
<td>Vision 2020 Umurenge Program (Rwanda)</td>
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I. INTRODUCTION

There has been a rapid expansion of cash-based Social Safety Net (SSN) programs in recent years. Cash transfers have gradually emerged to replace or complement cost-inefficient in-kind transfers as key policy instruments to reduce vulnerability. It is estimated that today nearly 170 million poor people in the world receive cash payments (IAGGP 2011), with more than 120 programs taking place in Africa alone in the last decade (Garcia and Moore 2012).

Cash transfers are intended to provide poor and vulnerable groups with an income guarantee to smooth consumption and protect them against unpredictable calamities. These can only achieve so if the correct amount of benefits is delivered to the right beneficiaries at the right time, while minimizing program administrative costs and transaction costs to recipients. As Subbarao et al. (1997) note, a safety net delayed is a safety net denied.

Building payments mechanisms, the channels through which cash is delivered to intended recipients, presents many challenges. “Once a [cash-transfer] scheme is designed, there is often great pressure to implement it fast” (Bankable Frontier Associates, 2006, p.2) and keep investment costs low. This may encourage the adoption of traditional PMs that are easy to deploy but may prove more expensive in the long run as fraud, corruption, and bribery⁠¹ misdirect resources. Moreover, delivering many small payments at fixed times in sparsely populated areas to often illiterate households who lack official identification cards can prove challenging. And transporting funds and reconciling payments in infrastructure-poor can be very cost-ineffective (Gallaher 2005). Consequently intended recipients often do not receive payments on time, travel long distances and stand in long queues to collect

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⁠¹ In South Africa, for instance, 8 percent of recipients of a Government grant recognized they had to bribe officials to collect benefits (DFID 2009).
payments. Recipients can also end up collecting partial payments that require repeat visits and filing complaints.

**Although a number of SSN programs are introducing technology-enhanced elements to address these challenges, some issues still remain.** In some PMs technology now allows funds to be wired or loaded electronically to a recipient’s account, which can be accessed through cards and cell phones at flexible times and at various payment points (Bankable Frontier Associates, 2006).² These types of PMs, however, require the engagement of financial and/or private sector institutions, with which governments may have little experience dealing. These stakeholders not only require the right business case³ but also the right legal environment – not always in palace – to serve intended beneficiaries usually outside the regular client base. Additionally, although technology can help handling large number of actors, transactions and funds within compressed timetables, coordinating the management of funds and beneficiary data between governments and private bodies remains challenging. Implementation on the ground often proves far more difficult that it initially seems.

**The purpose of this paper is to provide practical guidance to SSN program on how to design and implement PMs.** Despite the vast literature on the potential opportunities of innovative PMs, the technical knowledge on how to design and implement them is still scant (CGAP 2012; IAGGP 2011; DFID 2009; Grosh et al. 2008; RHVP 2007; BFA 2006; Gallaher 2005; and Ahmed 2005). Previous work that reviews alternative payment options is not sufficiently anchored around program implementation. The paper attempts to fill this methodological gap by providing a general framework for the integration of payments within overall SSN program management, weaving payment processes and controls into

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² In Argentina’s public works program *Jefes y Jefas de Hogar*, the proportion of recipients that reported paying bribes to payment agents decreased from 3.6 to 0.3 percent after an electronic payment option was introduced (Duryea and Schargrodsky 2008).
³ For a clear explanation of different level of business case see CGAP 2012.
SSN program design. Looking through the lenses of this framework, the cases of Kenya, Mexico and Rwanda are illustrated. Kenya’s cash-transfer program illustrates how to introduce and transition to various payment mechanisms as program matures. Mexico’s cash-transfer program shows how to leverage existing infrastructure of state and private entities to ensure widespread coverage and highlights the importance of a sophisticated MIS system. Finally, the Rwanda’s cash-transfer programs illustrates the importance of broad political commitment to implement best practices and leveraging parallel government initiatives, such the introduction of a new bank law and the expansion of local SACCOs to extend financial services in country.

The main conclusion is that successful PM use appropriate methodologies that are integrated within all business processes of a program. These include: registration, enrollment, requirement compliance, and grievance mechanisms. Most importantly, when designing PMs, managers must take into account:

- The characteristics of programs, the parameters of payments and the needs of the recipients.
- All traditional and technology-advanced alternative instruments available to best serve program objectives, considering program length, budget, context, and recipient needs.
- The availability (or the design) of an integrated Management Information System (MIS) covering all separate but interrelated program processes including registration, enrollment, requirement compliance, PMs, and grievances.

This paper is organized as follows: Section I provides a general overview of payment mechanisms (PMs), including a review of core principles, basic steps of a payment flow and

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4 For additional information and to address broader issues related to government payment programs beyond the scope of SSN, please refer to the World Bank’s General Guidelines for the Development of Government Payment Programs, which provides a systematic set of references in assessing payment challenges for (i) government-to-government payments; (ii) person/business-to-government payments; and (iii) government to person/business payments.
key stakeholders. Section II reviews customized implementation considerations for designing PMs in different program interventions. Section III highlights the accountability and monitoring considerations of payments while section IV provides guidance on key elements of feasibility assessments to implement payments. Section V addresses additional considerations that will help implement the success of the PM once the feasibility study has fully informed program design. Annexes describe how the theory is put into practice by illustrating three case studies (Kenya, Rwanda and Mexico) and comparing the costs and benefits of different payment modalities.
II. OVERVIEW OF PAYMENT MECHANISMS

2.1. OBJECTIVES OF PAYMENTS MECHANISMS

Payment mechanisms can have two sets of objectives:

- To ensure that the designated amount of benefits are delivered predictably to entitled recipients

- To reduce administrative costs and beneficiary transaction costs and to minimize potential errors, fraud and corruption (EFC) throughout the payment cycle.

An additional program objective is to provide beneficiaries with access to financial services (i.e. savings, loans, remittances, etc) to link them into the wider economy.\(^5\)

2.2. CORE PRINCIPLES OF PAYMENT MECHANISMS

Even though the choice of PM varies depending on the context, local capacity, and available budget, every PM should satisfy four core principles (Grosh et. al 2008):

- **Reliability**: Recipients receive complete payments on time. This reduces the opportunity cost of complaining and collecting payments again, and helps predict availability of transfers to plan for expenditures, insure against shocks, and so on.

- **Accountability and transparency**: Every fund transaction is recorded, tracked and reconciled from beginning to end. Program operators also explain the benefit formula to recipients and walk them through the payment process - including complaint mechanisms -, thus increasing program confidence and minimizing leakage of funds.

- **Accessibility**: Payments are delivered close to the recipient’s residence, considering the needs of individuals with low literacy and stigma. The payment points are safe and accessible at a low cost, and recipients are not kept waiting in long queues.

\(^5\) For further research regarding financial inclusion and access to banking for the world’s poor, please visit [www.cgap.org](http://www.cgap.org), [www.bankablefrontier.com](http://www.bankablefrontier.com), and [http://www.iadb.org/en/topics/social-protection/publications,1911.html](http://www.iadb.org/en/topics/social-protection/publications,1911.html)
• **Efficiency and affordability:** Recipient expenses and program administrative costs and investments towards efficiency must be affordable in the short and long run. The more it is spent on costs, the less money will be transferred to recipients.

### 2.3. THE BASIC SEVEN-STEP PAYMENT FLOW

The basic seven-step payment flow illustrates the key stakeholders and the seven processing steps required for making effective payments, regardless of program- or country context. Steps 1 – 2 inform the payment planning and steps 3 - 7 comprise the payment cycle. Together they form the overall PM. The basic seven-step payment flow provides the framework for the discussions around stakeholders’ roles and alternative PM options for program interventions. Additionally, it places the recipient at the forefront of PM design process, as illustrated in the hypothetical example of a beneficiary receiving a transfer in **Box 1** below. The following discuss the stakeholders and payment steps in detail. This framework will guide the choices made at each step, including what stakeholders to engage, what processing options to adopt, and how to link the information flows through each step.
Box 1. The Basic Seven-Step Payment Flow Illustrated In A Public Works Program

- **Step 1:** Mrs. Shah requests participation in a government-run public works program (PWP) in her village. She fills out a request form in a registration station handled by the local government office. Her request is sent to the PWP’s governing agency, where it is reviewed and processed.

- **Step 2:** Once approved, the program’s administrative office (governing agency) registers her as a program participant in the PWP’s database, providing her program ID and payment instrument.

- **Step 3:** She then participates in the PWP in her village. A sheet with her participation (i.e. hours worked) is validated at village-level, which is then reported back to the administrative office.

- **Step 4:** Her participation is recorded and her name appears on the list of participants that is sent to the state bank (payment agency), contracted by the governing agency to pay her entitled wage.

- **Step 5:** Mrs. Shah presents her payment instrument to a local vendor (payment agent), contracted by the state bank to handle individual payments. The vendor verifies her identity by requesting her payment instrument and some form of verification. Shortly thereafter, the vendor hands her cash in the amount equal to her eligible PWP wage. Both the vendor and Mrs. Shah keep a record of the transaction.

- **Step 6:** After Mrs. Shah collects her cash the record of her cash transaction is verified between the vendor and state bank. Once completed, the bank reimburses the vendor for the cash payout and sends the record of cash collection to the program’s administrative office. This in turn reconciles Mrs. Shah’s personal account to double-check the received amount matches her entitled wage.

- **Step 7:** On a few occasions, however, Mrs. Shah only receives part of her entitled wage from the vendor. Mrs. Shah, fully informed of her rights under the PWP, files a complaint at the local NGO that is contracted by the governing agency to ensure accountability (complaints and appeals mechanism). Following a proper review, the complaint of Mrs. Shah is heard and she receives full compensation.
2.4. STAKEHOLDERS
The payment process through which cash moves – physically or electronically – from the funding agency\(^6\) to recipients involves multiple stakeholders and varying procedures. These stakeholders and procedures require a legal and regulatory framework with clear policies to serve customers outside the regular client base – recipients without official identification (ID), with accounts that do not require minimum deposits and only receive small transfers (IAGGP 2011). Such framework should be consistent not only with program objectives – transfer cash – but also with the incentives of stakeholders (for more on incentives see section V. Feasibility Assessment and CGAP 2012). Before designing a PM, managers must identify stakeholders and their interests that drive their involvement in payments.

Typical PM stakeholders include:
- **Governing stakeholders** involve central and decentralized governing agencies and program administrators that oversee the design and implementation of programs. They are mainly concerned about the ease of delivery, reliability and overall cost.
- **Payment stakeholders** include private or state agencies and/or agents (intermediaries) that process and ensure the timeliness, frequency and security of transfers. Their main interest is to keep costs low, which in turn affect their profitability.
- **Beneficiaries and recipients stakeholders** are end receivers of transfers. They normally seek convenience, reliability and accessibility.
- **Control and accountability stakeholders** ensure that the payment process is reviewed, effective, and improved whenever necessary. Their duty is to trace and track payment delivery to redress complaints, improve the payment flow, and hold the governing and payment stakeholders accountable.

\(^6\) Entity that provides the actual financing for the program. It can be a development partner or a finance ministry. Funds for a specific program can go via the governing agency or directly to the payment agency. In this paper, the funding source is not included in the basic payment flow framework, but it is noted that this flow of funds needs to be aligned with the above-described PM to ensure that the actual cash resources are available at time of request by recipients, regardless of PM used. For further guidance on various funding source arrangements, please refer to the World Bank's General Guidelines for the Development of Government Payment Programs.
2.4.1. GOVERNING STAKEHOLDERS
Some cash-based SSN programs are implemented by a combination of central, administrative and decentralized agencies. These are often different from the funding agency, such as the Ministry of Finance or Treasury, or a development partner.

2.4.1.1. CENTRAL GOVERNING AGENCY
The central governing agency can be either the central government or a non-government agency in charge of coordinating the program implementation. When a central government agency is the implementing agency, a Ministry or an agency that has the specific mandate for reducing poverty (e.g. Ministry of Social Development, Social Investment Funds) will typically oversee the SSN program. Whether a government or non-governmental, the central agency plays a catalyst role in the design and management of the payment process by:

- Setting benefit levels
- Establishing the eligibility criteria and making the final decision in the selection of beneficiaries
- Making budget decisions to ensure proper funding of implementation requirements and resource allocation to different payment stakeholders
- Overseeing and ensuring issuance of proper program identification
- Establishing grievance and redress venues
- Overseeing overall program implementation and progress, and development of an integrated MIS

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7 While the issuance of an ID can be outsourced to another stakeholder (such as a civil registry or a bank that will issue a smart card), the ultimate responsibility to ensure that each individual beneficiary receives proper identification to request and receive its entitled cash transfer lies with the governing agency.
2.4.1.2. ADMINISTRATIVE AGENCY

The administration of a SSN program is typically the responsibility of a core team or committee within the central governing agency. For example, in Mexico’s *Oportunidades* program, the Technical Committee of the National Coordination Unit of the Secretary of Social Development is responsible for delineating, interpreting and coordinating the delivery of cash transfers with payment agencies (for details, see Mexico case study). The administration can also be outsourced to non-government agency, such as an NGO with experience and knowledge of implementation of social policies. For example, Save the Children carried out the first emergency relief program in Swaziland involving the distribution of cash through bank accounts and post offices, with funding from DFID (Beswick 2008).

The main role of the administrative agency in the payment process is to:

- Oversee the processing of the identification and enrollment of beneficiaries (which is often done on decentralized and/or community-levels)
- Maintain and update a registry of enrolled beneficiaries
- Consolidate the processing of program compliance requirements (when applicable)
- Approve, submit and reconcile payment orders as well as set payment schedules
- Negotiate contract terms (when outsourced to a payment agency) and ensure issuance of payment instruments
- Generate and submit list of recipients and payment orders to funding and payment agencies
- Process records and generate reports of the payment conciliation

2.4.1.3. DECENTRALIZED GOVERNING AGENCY

While the administrative and technical aspects of PMs often remain with the central and/or administrative agency, the operational aspects of a PM are often decentralized.

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8 Also see Section V ‘Additional Considerations’ under ‘Contracting Payment Agencies’. 
Decentralized agencies often serve as an operational liaison between central governing agency and the recipients since they are closer to the beneficiaries and the communities where they reside. A decentralized agency can therefore address day-to-day payment concerns. While it often remains under the guidance of the central governing agency, it provides an important channel of feedback on program implementation, accuracy and transparency for program management.\(^9\)

Other stakeholders, such as civil society organizations (CSOs), can play a key role alongside, or instead of, the decentralized governing agency in reaching remote areas. In some districts covered by Afghanistan’s CCT pilot, NGOs or Facilitating Partners (FP) train Community Development Councils (CDCs) representatives to collect payments from a bank branch on behalf of a group of recipients. FPs are also present when the representative distribute the payment and signs a payment sheet to verify that the correct payment was made to the right recipient.

Other institutional arrangements are also possible. In Pakistan’s Cash Disbursement for Internally Displaced Persons Program, for example, the National Database and Registration Authority (NADRA), a central corporate body created under the Ministry of Interior with autonomy to operate independently, was tasked to coordinate the PM. For this end, NADRA signed an agreement with United Bank Limited (a commercial bank) to make cash disbursement through ATMs using Visa debit cards (NADRA 2009).

\(^9\) For instance, in Bangladesh’s PESP, the headmaster along with School Management Committee prepares and sends a copy of the final beneficiary list to the Upazila Education Office (i.e. decentralized agency). The Assistant Upazila Education Officer prepares, in parallel, a payment order for his or her beneficiaries of control and also sends it to the Upazila Education Officer for approval. After approval, both list and payment order are sent to the Project Implementation Unit (i.e. centralized agency) and the Bank (payment agency) (Ahmed 2005).
2.4.2. **PAYMENT STAKEHOLDERS & INSTRUMENTS**

2.4.3. *Form of instrument*  *Intermediary*  *Funds Coordinator*

*Payment stakeholders* include all payment agencies and agents involved in a payment cycle – i.e. money flows from the funding source account to the hand of the recipient. *Instruments* include the means that enables recipients to receive their cash transfer.

During a payment cycle, money flows as follows. Once money becomes available from the funding agency\(^{10}\), the *government agency* instructs the transfers of funds directly or via the governing agency to a *payment agency* (funds coordinator). Then, the funds pass through a *payment agent* (intermediary), who makes the cash transfer to the recipient after requesting an identification and/or means of payment (*payment instrument*).

2.4.2.1. **PAYMENT AGENCY**

\(^{10}\) As previously noted, related and interlinked flow of funds, ensuring that the money flows from its *funding* agency [i.e. a development partner or a finance ministry] to the *payment* agency, via treasury accounts or other financial arrangements, are not considered here. However, this flow of funds needs to be aligned with the above-described PM to ensure that the actual cash resources are available at time of request by recipients, regardless of PM used. For further guidance on various funding source arrangements, please refer to the World Bank’s *General Guidelines for the Development of Government Payment Programs*. 

12
The payment agency is the entity responsible for coordinating the mobilization of resources and infrastructure to ensure cash transfers reach the hands of recipients. The funds can come from the funding source or via the governing agency. For each payment cycle, the payment agency typically receives instructions from the governing agency, usually the administrative agency, on how what amounts and methods to distribute payments to recipients within a specific timeframe. This process is usually stipulated in a Memorandum of Understanding (MoU) or contract between the administrative and payment agencies.

The main tasks of the payment agency include (DFID 2009):

- Deployment of equipment (cash dispensers, computer hardware and software, etc.) to facilitate recipient identification and accreditation and recording of transactions
- Provision of safeguards to ensure timeliness of payment delivery
- Respect of service standards, including waiting time to collect payments
- Issuance of payment instruments to recipients, when applicable
- Transfers of funds to payment agents
- Preparation of progress reports to allow for reconciliation of payments

A payment agency should preferably have some level of expertise in providing goods and (financial) services and setting up networks of payment points. Additionally, choosing the most suitable payment agency depends on its geographical coverage and the program’s preferred payment instrument. For example, if the program pilots a CCT using cell phones, a telecommunications firm will probably hold a better competitive advantage over the national postal office even though the latter may have better coverage.

Type of payment agencies:

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11 While the issuance of a payment instrument, such as a smart card, can be outsourced to a payment agent, the ultimate responsibility for ensuring that all recipients receive their entitled payment instrument/identification, hence its entitled payment, resides with the governing agency. Any cost related to such issuance should be negotiated. Types of payment instruments are explained later in this section.
**State & Private Banks:** Headquarters of corporations chartered and regulated by the state, whose primary business is, at the basis, receiving demand deposits and making loans. Brazil, Mexico and Colombia contracted their state banks – *Caixa, Bansefi and Banagrario* respectively - to coordinate the payments arrangements of their CCT programs. State banks usually have a wide coverage in rural locations. Kenya, Malawi and Swaziland, on the other hand, have used commercial banks, (Equity Bank, Opportunity International Bank of Malawi, and Standard Bank respectively) (DFID 2009).

**State Agencies:** Head offices of government agencies (e.g. national social security) and post offices that have widely dispersed facilities across a country. In Eastern Europe, social security insurance facilities are commonly used to deliver social pensions. In India’s Andhra Pradesh state, NREGA’s benefits canoptionally be distributed through savings accounts in over 150,000 post offices (Johnson 2008). In Pakistan, the government initially distributed *Benazir Income Support Programme’s* (BISP) benefits using post offices.

**Private Non-Bank Vendors:** NGOs, retail chains, microfinance institutions, and telecommunication providers, and other private vendors those are independent from the state. This is the case, for example, of Financial Inclusion and Network Operations (FINO), which provides financial services to the Government of India to make social transfers (DFID 2009). Given their independent nature and incentive to maximize profit, private non-bank vendor may need to be monitored to minimize malpractices. For example, a local vendor acting as an intermediary (payment agent) may put pressure on the recipient to buy products in the store as a (perceived or explicit) condition for delivering payments.

The payment agency’s premises can be used to collect payments, as it is commonly the case of pension transfers in Easter Europe. However, recipients usually access their transfers through payment agents at points of payments, as explained next.
A payment agent\textsuperscript{12} is the intermediary that delivers the payment to the recipient at a particular point of payment\textsuperscript{13} (POP). It could be a storekeeper at a local shop, a human teller or automated teller machine (ATM) at a branch, a mobile cash point/bank, or any intermediary from which recipients can collect entitlements. Payment agents must have access to the accounts created for recipients and hold sufficient resources to disburse entitlements\textsuperscript{14}. For example, a government might contract the national postal service to distribute cash via its extended network of local postal offices (see Annex on Kenya). In this case, the local post office is a POP and the local postal service man/woman a payment agent.

The existence of most payment agents largely depends on whether financial regulation allows agents to process a certain set of transactions on behalf of payment agencies (Johnson 2008). In some cases, payment agents receive resources through wire transfer from the payment agency. In other cases, agents carry their own money and keep records of transactions to get reimbursed. However, the latter approach relies on the liquidity of the payment agent, who may have limited cash at time of payment request, putting the timeliness of the PM at risk. Moreover, a payment agent can use either paper-based tools or automated tools to record and transmit transaction information on- and off-line as described in the following section. The POP should be as close as possible to where the recipient resides to minimize transaction costs. Examples of POPs include:

\textsuperscript{12} In the literature, payment agent is also referred as business correspondent (BC).
\textsuperscript{13} A POP is the venue where payment agents deliver cash transfers to recipients. It is also referred in the literature to as cash-out point and payment location.
\textsuperscript{14} Please see further details of type of ‘financial accounts’ under section ‘instruments’ or refer to Glossary.
State and private venues: These can include state or private bank branches or local post offices, public or private schools, local vendor stores (such as lottery shops), government agencies and NGOs. In Kenya’s CT-OVC program, transfers are handled through the Postal Corporation of Kenya. In Rwanda’s Vision 2020 Umurenge program, cash transfers are made through either Banque Populaire or Savings and Credit Cooperatives (SACCOs) [also see Annex].

Mobile Cash Points: Bank-employed tellers or hired agents deployed temporarily with cash on armor-plated trucks to make transfers in areas outside the normal perimeter covered by bank offices/branches or other fixed venues.

Mobile cash points are often considered effective in reaching recipients in remote areas for short-term programs. While mobile cash points would simply just ensure distribution of cash, mobile banks could offer other bank-related services. Although more far-reaching than fixed financial premises, mobile cash points may incur high administrative costs when serving unpopulated areas with infrequent payments. However, these may be the only option to lower beneficiaries’ transaction costs in remote areas.

In the Democratic Republic of Congo’s demobilization program, vans loaded with money were deployed around urban areas to deliver cash since small merchants could not meet liquidity demand (RHVP 2007). In South Africa, a mobile payment site was placed nearby beneficiaries’ homes because bank branches were located at least 30 minutes away and required public transportation (DFID 2009).

Type of payment agents:
Payment agents at different types of POPs could use a variety of different ways to verify and deliver the cash to beneficiaries. Traditional ways include verification by some type of paper identification (see section below) whereby cash is paid in full at a specific point of time. When payment agents are using technology-enhanced means to verify a beneficiary’s
identity, three different types of technology could be used: (i) magnetic stripe cards, (ii) smart cards, and (iii) mobile phones. These agents could include (i) Automatic Teller Machines (ATMs); (ii) agents with Point of Sale (POS) devices; or (iii) agent with mobile phones.\(^{15}\)

**Automatic Teller Machines (ATMs):**

Computerized devices that act as non-human/virtual interfaces between individuals and their accounts. These normally grant customers 24-hour access to financial transactions in a public space without the need for a human teller. ATMs can operate as cash dispensers only (to withdraw money) or full-fledge dispenser, allowing for other financial transactions (e.g. deposits).

ATMs can either be portable stand-alone units located at payment agency’s facilities or mobile units that can be incorporated into vehicles. These always require a personal identification number (PIN) to authenticate the recipient’s ownership of the account (Gallaher 2005). For example, the introduction of ATMs was well received by 50 percent of the recipients in a survey of the *Jefes and Jefas de Hogar* program in Argentina since these were widely available throughout the country (DFID 2010).

**Agent with Point of Sale (POS) devices:** A POS device is often referred in the literature to as cashier machine or card readers, although not all POS can use smart card technology. To authorize a payment, agents use POS devices with computerized systems and built-in barcode scanner, chip readers or magnetic stripe slot or biometric scanners for capturing and validating information of a recipient account from its magnetic stripe or smart card.

\(^{15}\)This section is closely linked to the section below on ‘instruments’.

<table>
<thead>
<tr>
<th>Table 1. Private Cost Ranges of ATMs and Cards</th>
</tr>
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<tbody>
<tr>
<td><strong>Transportation cost</strong></td>
</tr>
<tr>
<td>US$0.47 – US$3.1</td>
</tr>
<tr>
<td>Cards at agents with POS</td>
</tr>
</tbody>
</table>

*Source: Extracted from Cost/Benefit Annex*
Some POS devices can work offline, while others require online connectivity. For example, a POS device can “read” a magnetic stripe card that requires online connectivity to access account information or a smart card that contains an embedded microprocessor or chip which can encode account information offline. See section below for further details.

In case the recipient presents a magnetic stripe card, the payment agent swipes its magnetic stripe in the built-in magnetic reader slot of the POS device. The recipient always needs to confirm the ownership of the magnetic stripe card by inputting a verification code or fingerprint (like in the picture). If ownership is confirmed, the payment agent sends an online payment request through the POS device to a central payment server. If the recipient has enough funds available, the system approves the transaction request automatically. The device then records the transaction and prints a receipt.

When a smart card is used, the payment agent uses the POS device or a smart card reader to scan the account balance information embedded in the chip offline. Again, the payment agent may request verification of ownership. If ownership is verified and sufficient funds are available, the POS device authorizes the payment and deducts the stipulated amount from the chip contained in the smart card. The POS device or smart card reader record the transaction and print a receipt. With the record and receipt of the transaction, the payment agent connects online at a later point in time or attends a different location to transfer the transaction information manually or electronically to the payment agency for reimbursement.

Table 2. Private cost ranges of Agents with POS devices

<table>
<thead>
<tr>
<th>Travel time to collect cash</th>
<th>Waiting time in lines</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 – 32 mins</td>
<td>5 – 120 mins</td>
</tr>
</tbody>
</table>

Source: Extracted from Cost/Benefit Annex

Agent with mobile phones: A mobile phone contains a SIM card or a chip that can hold large amounts of

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16 Also see below discussion of traditional versus technology-enhanced payment instruments.
17 Idem.
information about the virtual account of a recipient. Through a telecommunication network, the cell phone allows agents to connect to a recipient’s virtual account and make transactions upon the recipient’s authorization.

A cell phone can work in three ways: In the first one, recipients visit a local payment agent, provide an ID and/or account number, and request the payment. The agent uses the payment application installed in the phone and asks the recipient to enter its PIN to verify ownership of the account. If valid, the agent accesses the account and submits a payment request to the agency’s server by sending a short message services (SMS). Seconds later, the server automatically verifies the account balance of the recipient and sends a SMS back to the agent confirming the new account balance. The agent hands cash to recipient using its own money and keeps additional record of transaction for reimbursement, reconciliation, etc.

In the second option, the recipient deposits the requested amount from its virtual account into the agent’s account via SMS. After confirming the deposit, the vendor hands cash to the recipient. In the third option, a POS device or card reader slot is attached to handset. In this case, the steps in ‘Agent with POS device’ are followed.

2.4.2.3. PAYMENT INSTRUMENTS

Payment instruments: Physical tools that recipients hold to receive and collect payments. These are capable of storing payment information (i.e. name of recipient, account number, entitled amount) that a payment agent uses to make transfers and record transactions. To authorize payments, agents require some type of identification card, code or biometrics that can verify that the recipient requesting payment is the owner of the instrument and is thus entitled to the payment amount. Payment instruments can be categorized into traditional and technology-enhanced:
Traditional instruments are pieces of paper that explicitly display the amount to be paid and the name of the recipient collecting the payment. These types of instruments involve the collection of, or redemption to, cash ‘over-the-counter’, typically all at once, at a fixed time and usually leaving a paper trail of the amount delivered. These include:

Paper-based documentation: Passbooks, worksheets, and any other type of documentation that can record transactions and account balance. This type of tool is commonly used at mobile banks or in cash-for-work transfers paid on-site. For example, in Rwanda, unconditional cash transfer and public works recipients are given program-specific bankbooks.

Money orders/Checks/Vouchers/Stickers/Passbooks/identification cards (ID): Certified pieces of paper that can be redeemed for cash, traded for goods or presented to collect payments. Mexico’s Oportunidades delivers a roll of stickers with security holograms to some of its beneficiaries. These instruments can also be directly delivered in an envelope to recipients’ homes through post services. In Pakistan’s BISP, payments were made initially using money orders distributed by the Pakistan Post (IAGGP 2011).

Technology-enhanced instruments store information of the name of the recipient and amount to be paid. Conversely to traditional tools, these types of instruments allow recipients to redeem cash fully or partially, at various cash-out points, and even pay for goods and services. These include:

<table>
<thead>
<tr>
<th>Table 3. Transaction fee range (and percentage of transfer) of traditional payments</th>
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</thead>
<tbody>
<tr>
<td><strong>Traditional payments</strong></td>
</tr>
</tbody>
</table>

Source: Extracted from Cost/Benefit Annex

<table>
<thead>
<tr>
<th>Table 4. Transaction fee range (and percentage of transfer) of magnetic stripe card</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Magnetic Stripe Card</strong></td>
</tr>
</tbody>
</table>

Source: Extracted from Cost/Benefit Annex

18 Excluding Ecuador (US$ 0.38 (1.1%)) as it is considered an outlier
19 Excluding Colombia (US$ 9 (16.4%)) as it is considered an outlier
**Magnetic Stripe Cards:** Similar in size to plastic cards, magnetic stripe cards contain magnetic stripes capable of storing personal identification and limited banking information. Each time the magnetic stripe card is used, the magnetic stripe verifies the cardholder’s name and financial account information. Magnetic stripe cards can be used to access benefits - previously transferred into an account on a periodic basis - from ATMs or POS devices linked *online* to a back-end server (Grosh et al. 2008). Unit cost for debit cards fluctuates around US$ 0.25 (Ecuador) and US$ 3.6 (Brazil).

**Smart Cards:** Conversely to stripe cards, smart cards contain an electronic microprocessor or memory chip that can encode a recipient’s account information. Such information can be retrieved *offline* directly when the card is inserted into a POS device adapted to read the information stored in the chip. The device can deduct the amount from the chip and record the transaction without requiring connection to a back-end server.

**Subscriber Identity Modules (SIM) cards and mobile phones:** A SIM card is a portable, exchangeable memory chip used in mobile phones that connects to a recipient’s virtual account. In case the recipient is in possession of a handset and a virtual account, it can cash out its payments by virtually transferring via SMS the requested amount to agent’s account. Seconds later, the agent receives the SMS confirming its new account balance. It hands cash to the recipient using its own money and keeps additional record of transaction for reimbursement, reconciliation, and so on.

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20 Only represents 2 entries: Niger and Congo.
Mobile phones can also provide other more sophisticated services. A payment recipient can transfer funds to family members in the form of remittances; to shopkeepers to purchase goods; and to basic service provider to pay bills. Mobile phones can also be used to provide identification verification using biometric devices (fingerprint or iris scanner). As the owner of a cell phone, the recipient has more discretion to process its own transactions.

Kenya’s major mobile operator, Safaricom, developed a PM that prompted the launch of a pilot in 2008 to make government payments. In Kerio Valley, recipients received SIM cards to use in a mobile phone shared by other recipients. Recipients bring the phone to an agent at a police station to cash their transfers (DFID 2009).

**Financial accounts:** Accounts are instruments that can hold and manage funds, and keep records of transactions between the beneficiary and the issuer. In cash transfers, financial accounts facilitate the direct deposit and withdrawal of funds electronically between governing agencies and recipients, thus reducing the involvement of intermediaries inherited in traditional instruments.

Accounts can be individual or group-owned. In cash transfer individual accounts are the norm given the targeted nature of transfers. However, in other countries where financial infrastructure is limited or non-existent, groups accounts can be created. In these types of accounts, individuals pertaining to a group have equal or tailored access rights to one account. Not only the opening and maintenance fee\(^{21}\) of a group account can be spread out, but also the opportunity and travel costs among recipients can be divided. In most programs, accounts have dormancy rules – the government withdraws funds due to lack of usage – of 30 to 60 days. Dormancy rules generally require special legal framework as these tend not to apply to regular private financial accounts.

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\(^{21}\) For instance, South Africa the monthly maintenance fee of accounts is US$ 2.3
Accounts can be accessed in various ways. When linked to a bank, recipients can access their records presenting a passbook book at a bank branch. Recipients can also access their accounts at an ATM or POS device employing a debit card or a smart card or via cell phones, using different types of accounts as described below:

- **Simple landing account**: Full balance must be withdrawn within a certain period
- **Store of value account**: Balance can be left, full withdrawal is not required, but usually additional funds cannot be added
- **Electronic prepaid account**: Funds are preloaded, usually additional funds cannot be added and must be withdrawn within a specific period
- **Simplified deposit or savings (“no-frills”) account**: Balance can be left, additional funds can be added, usually have smaller transaction limits, cheaper fees, and a certain number of free transactions
- **Full-fledge deposit and savings account**: Balance can be left, additional funds can be added, unlimited transactions (deposits, transfers) and funds, and no dormancy rules

In summary, when considering what type of instrument to adopt, one must consider the type of tool to employ (paper-based/magnetic stripe/smart card/mobile phone); type of infrastructure required (venue and on/offline POS/ATMs/biometric devices); and type of financial account offered. In this context, program managers can evaluate what types of instruments to use. As observed in section 5.3, the selection of instruments depends on program duration, local capacity, cost, and the available financial and technology infrastructure. Often traditional instruments are preferred in short programs when transfers need to be disbursed quickly and there is little time to set up electronic payments. However, these might generate high administrative burden and leakages as cash travels physically through various hands. On the other hand, technology instruments can increase performance, coverage, cash withdrawal flexibility, as well as reduce fraud. However, these
tend to be more convenient in long-term programs as start-up costs and implementation time are high, and could compromise effectiveness if recipients are not well trained. A successful program would adopt a combination of instruments while gradually de-phasing traditional instruments once the infrastructure for electronic methods is in place.

2.4.4. **BENEFICIARIES AND RECIPIENTS**

*Beneficiaries and recipients* are the ultimate users of cash transfers. The ‘beneficiary’ can be any of the household members entitled to, and intended to benefit from, the payment (DFID 2009). The ‘recipient’, on the other hand, is the actual beneficiary of the transfer; that is, the individual authorized to receive the payment.

The recipient is normally identified during program enrollment and can be any of the beneficiary household members, usually the primary beneficiary. In some cases, however, the primary beneficiary (female head of a household, an elderly person, or an orphan) might be incapable of traveling to the pay point, and/or legally unable to collect money. In such cases, the beneficiary will nominate a secondary recipient - normally over 18 years old - to collect the payment on its behalf. This is the case in the Bangladesh’s Primary Education Stipend Program (PESP) (Ahmed 2005) and Kenya’s Hunger Safety Net Program (HSNP) (RHVP 2010).

Moreover, when the pay points are far away, the program may designate one person, usually a trustworthy community representative, to collect a single payment on behalf of a group of recipients. The person then distributes the entitlements at a group meeting. This particular arrangement has been piloted in Afghanistan’s CCT pilot.

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22The financial regulation of the country should indicate who is legally eligible to receive payments. In most cases, only individuals 18 and above with an official government ID can collect payments from banks or other financial institutions. However, financial regulations vary substantially from country to country.
Finally, program managers should not take for granted recipients’ understanding of technology to collect payments, which may compromise payment effectiveness over efficiency. In Ecuador’s Bono de Desarrollo Humano CCT, for example, although it took recipients with a magnetic stripe card half an hour less and cost US$ 20 cents less to commute to retrieve funds than their peers who were distributed cash, more than half of card users claimed not to know how to use the cards correctly in ATMs. Most difficulties cited included understanding the ATM keyboard (17.8%), understanding the procedure (15.6%) and entering the PIN (33.3%) (Samaniego and Tejerina 2010).

SSN program managers must assess the dynamic behavior of recipients in advance to avoid compromising payment effectiveness. In particular, managers should (i) understand the recipients’ knowledge of payments using traditional approaches, (ii) anticipate their reactions to the introduction of new technologies, and (iii) know their rapport with potential payment agents. Box 2 below describes the results of a focal group discussion conducted in Bangladesh. Knowing the level of understanding of recipients can help managers better customize outreach campaigns (for more on beneficiary outreach see section 6.5. Beneficiary Outreach and Communication Campaign).

**Box 2 - Assessing the Perspective of Beneficiaries in Bangladesh**

In Bangladesh, a study was conducted to assess the level of satisfaction using existing payment methods and interest in introducing alternative tools. The study looked at Bangladesh Primary Education Stipend Program (PESP) and the Rural Maintenance Program (RMP). While PESP recipients currently collect payments individually at the bank, RMP recipients do so in groups. In both programs, the study found that recipients consider their corresponding payment methods satisfactory but presented different views with regards to introducing new approaches. When the introduction of an alternative method was proposed whereby the beneficiary group would choose a representative among the recipients to collect the transfer on the group’s behalf, PESP recipients responded positively as long as the travel cost of the representative was equally shared among members. On the other hand, when a method to collect payments individually was proposed to RMP recipients they did not welcome it arguing that many of the RMP beneficiaries were illiterate and thus unable to conduct bank transactions (Ahmed 2005).
2.4.5. CONTROL AND ACCOUNTABILITY STAKEHOLDERS

No program is immune to error, fraud and corruption (EFC) and process inefficiencies. Therefore, it is important to engage auditors and complaints facilitators that can enforce established procedures and identify payment, processing or social issues.

2.4.4.1. Auditors conduct financial, administrative and social audits. They can be in-house or hired externally. Their purpose is to perform ex-post institutional audits to ensure appropriate use of public funds, identify issues and propose recommendations to improve payment and expense management.

Audits of PMs ensure that:

- Overall processes and procedures are followed, such as enrollment and disbursement, bottlenecks identified, and performance evaluated
- Basic accounting records of public expenditure are accurate to ensure reported expenditures reflect actual spending for intended purposes
- Internal controls are adequate, including payment authorization and reconciliation
- Social accountability and transparency is maintained and corrective measures taken

In India, the state of Andhra Pradesh has established an independent government body “Society for Social Audit, Accountability and Transparency (SSAAT)” to conduct social accountability activities. Beneficiaries are recruited as volunteers and trained to work in teams to verify payment records with facts directly from fellow beneficiaries. To date, this verification approach has recovered around US$ 5 million and has dismissed 3,631 and suspended 402 program staff (Kidambi 2011).

2.4.4.2. Complaints management facilitators provide channels at a specific official venue for recipients to present complains about payment transaction irregularities (i.e. incomplete, delayed or omitted payments). These facilitators are tasked to receive complaints, assess
them, and depending on the validity of the claims, provide explanations, authorize compensations, and refer to service provider (Gauri 2011).

The existence of complaints facilitators may not be sufficient. Due to political and social marginalization and illiteracy, some recipients may not make use of these channels. It is important to inform recipients about their rights under the program, explain the existence of complaints processes, and support organizations that promote their use. Complaints facilitators can also provide managers with feedback on the functioning of the PM, which in turn allows for improvements to program processes and controls. Also see section 6.5. Beneficiary Outreach and Communication Campaign and trade-offs in tables 7-9.

III. CUSTOMIZED IMPLEMENTATION DESIGN

Once basic stakeholders and instruments have been identified, program managers need to design the basic seven steps that compose the payment flow and tailor them according to program-specific considerations. To review, the basic seven-step payment flow (Figure 1) provides managers with the framework of PM. Figure 2 describes the steps to ensure a minimum level of effectiveness of the PM. Varying scales of this framework can then be designed and implemented either in part, as a complete solution, or in association with already existing PMs (Ghaller 2005).
Figure 1. The Basic Seven-Step Payment Flow Framework Explained
All necessary steps in the seven-step payment flow (Figure 1), linking the stakeholders with specific actions, are explained in detail below. Program managers should set specific timelines for the steps to allow stakeholders to plan and coordinate actions accordingly.

**Figure 2. The Basic Seven Steps Explained**

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Step 2 – Approval and Enrollment:</strong></td>
<td>Once the governing agency (usually a central agency) approves the enrollment of final beneficiaries, the beneficiaries’ details are entered (usually by an administrative agency) into the central database and issued a program ID number.*</td>
</tr>
<tr>
<td><strong>Step 3 – Compliance with requirements (when applicable):</strong></td>
<td>For certain programs, clearly establish procedures are established to verify that enrolled beneficiaries are complying with program requirements and ensure they are entitled to intended cash transfers.</td>
</tr>
<tr>
<td><strong>Step 4 – Payment Order:</strong></td>
<td>A governing agency (usually an administrative agency) issues instructions to transfer funds (i.e. from the treasury or program funder) to the payment agency’s pool accounts and submits a list of recipients holding payment instruments.</td>
</tr>
<tr>
<td><strong>Step 5 – Payment Delivery:</strong></td>
<td>Payment agency/agent request proof of enrollment (i.e. program ID or payment instrument) and verifies it against the list of recipients (manually or electronically) before disbursing payment. In some cases, payment can be delivered directly to the beneficiary’s mailbox.</td>
</tr>
<tr>
<td><strong>Step 6 – Payment Reconciliation:</strong></td>
<td>Records of the transactions are processed and sent back (manually or electronically) together with uncollected funds to the governing agency.</td>
</tr>
<tr>
<td><strong>Step 7 – Grievance and Redress:</strong></td>
<td>Recipients that received incomplete or delayed payments file a complaint to a complain management facilitator. The facilitator reviews the case and determines proper action in accordance to established procedures.</td>
</tr>
</tbody>
</table>

*In some countries, this program ID is linked to a national ID. In some cases, various payment stakeholders may require additional identification, often imposed by the regulatory environment in the country. For example, national banks may require an official government ID before issuing a debit card or opening a bank account and may not accept a program-specific identification card.
3.1. THE CUSTOMIZED SEVEN-STEP PAYMENT FLOW

The following section reviews the basic seven-step PM under three specific SSN program interventions: (i) unconditional cash transfers (UCT), (ii) conditional cash transfers (CCT), and public works programs (PWP). While the stakeholders and steps are similar, program requirements for each step and stakeholder vary depending on the type of intervention and the overall program objectives. The three models presented in this section for each intervention are therefore comprehensive at the cost of some repetition but easier to follow for targeted audiences. Additionally, the discussion around the customized payment flows is focused on PM-related issues only. Interrelated program issues, such as identification, registration, and enrollment are discussed but not covered in detail.
PAYMENT FLOW FRAMEWORK FOR UNCONDITIONAL and CONDITIONAL CASH TRANSFER PROGRAMS

Figure 3. Payment Flow - Unconditional Cash Transfers (UCT)
3.1.1. **STEP-BY-STEP PAYMENT FLOW FOR CASH TRANSFERS (UCT AND CCT)**

Cash transfers can be either Unconditional or Conditional cash transfers. In Unconditional Cash Transfer (UCT) programs, the general PM framework applies, with the main exception that the compliance-related process (step 3) is omitted. In Conditional Cash Transfer (CCT) programs, the key difference will be in the design of compliance-related process and controls (step 3).

**Step 1 – Request/Invitation for Participation:** The identification of potential beneficiaries can be done by employing a variety of geographic and individual targeting approaches. Once potential eligible beneficiaries are identified, they can be selected to participate in the program using some targeting criteria. CCT programs might restrict eligibility criteria. For example, if CCT participants were required to attend primary schools, then only families with school age children would qualify.

**Step 2 – Approval and Enrollment:** Based on the results of the eligibility assessment, the governing agency approves the beneficiaries and requests the administrative agency to enroll them into the program. The enrollment will require recording the selection of the beneficiary and any other individuals authorized to collect the transfer on behalf of the beneficiary (recipient) into a database/registry. Then, an identification (ID) number linked

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23 See Beneficiaries and Recipients in previous Section.
to an existing ID card or program-specific ID\textsuperscript{24} is handed to enrolled beneficiary/recipient by the administrative agency. In an UCT, the ID distinguishes the beneficiary/recipient from non-recipients. In a CCT, the ID distinguishes the beneficiary/recipient from non-beneficiaries and allows track-keeping of conditionality compliance.

In UCTs from the moment recipients receive their corresponding IDs, they become immediately entitled to receive payments without further completion of requirements. In CCTs, the administrative agency also needs to submit a copy of the list to the basic service providers. The list contains the name of the participant and the conditionality required for the service provider to verify compliance on the ground. Often, during this step, the beneficiaries are informed about their rights, their entitled amounts of cash transfer, the payment schedule, the specified point of payment, and the required payment instruments and how to acquire it. The program needs to clearly specify what stakeholders will be in charge of this key role. (Also see section V for additional considerations related to beneficiary outreach and awareness programs).

Step 3 – Compliance of Conditionality: In UCT, this step does not apply. In CCTs however, this step is key. Conditionalities typically involve beneficiaries attending schools regularly and/or health clinics periodically. The service provider records compliance, such as school attendance and health clinic visits by validating beneficiary IDs against the participant list and documenting the compliance. The attendance information is subsequently processed at a regional or local administration center to be transmitted to the central program administrator, usually every two month. Attendance/visit information may be returned to

\textsuperscript{24} IDs can take the form of passbooks, checkbooks, electronic cards, among others. Sometime, the ID is the same as the payment instrument (e.g. ID number embedded in debit card). Moreover, an ID card typically contains personal details, including name, address, gender, date of birth, etc; the cardholder’s signature, photograph, or fingerprint to verify ownership; and the seal and/or signature of an authorized registering officer to certify authentication and reduce falsification. Most importantly, IDs typically can hold a code or a number that maps cardholders to the geographic location of their residences that can be matched to the closest designated payment agent. In this way IDs enable adequate tracking of beneficiaries throughout key payment processes including payment order and delivery, which are covered next.
participants for them to keep track and prove their compliance. This process can be carried out manually using appropriate forms, or electronically via Internet, or via technology-enhanced cards.

**Step 4 – Payment Order**: In UCTs, the administrative agency along with the decentralized agency prepares the list of registered recipients in good standings. The list is then submitted along the payment order to the payment agency. In CCTs, the process is similar but includes verification of compliance information received from the respective institutions. On the basis of information received, the list of CCT recipients is then prepared, excluding those who did not meet the compliance requirements. For both UCT and CCT programs, payment order submitted by the administrative agency containing the following information:

- List of recipients, often referred to as the payment roll
- A authorization letter, instructing the payment agency to proceed with delivery
- Transfer of funds, a wire transfer approved by the treasury or the central bank of the total installments to be paid in specific period of time
- Payment calendar, schedule of paydays

In particular, the list of recipients should at a minimum contain, but is not limited to, the following elements:

- Name of recipient and ID number
- Date and amount to be paid
- Geographical location of recipient matching a point of payment
- In case of CCT, compliance with the conditionalities

**Step 5 – Payment Delivery**: Under both UCT and CCT, upon the reception of the payment order, the payment agency sends the list of recipients to its network of payment agents. The list corresponds to their area of coverage and includes the authorization and respective transfer of resources. The payment agency ensures that each payment point receives
necessary funds to avoid liquidity bottlenecks. In some cases, payment agents take the money from their accounts and then request the payment agency for reimbursement. As discussed in the overview section, the disbursement of the transfer can be made using two types of instruments, *traditional* and/or *technology-enhanced*.

**Traditional**: On a set date and time, the recipient goes to the payment point and requests its payment ‘over-the-counter’ by showing his/her ID. The payment agent compares the ID against the list of recipients and may solicit the recipient for a further proof such as password or code to validate the recipient’s identity. Upon validation, the agent provides the recipient with cash. The recipient is asked to provide proof of receipt of payment, which can include a signature or a fingerprint on a report sheet.

**Technology-enhanced**: The payment is transferred electronically into the account of the recipient on a periodic basis. The recipient decides the time most convenient to collect the entitled cash payment at the closest payment point available. Depending on the type of instrument employed\(^25\), the recipient would need to show its identification or use a password or code for the payment agent to convert money from its account into cash.

**Step 6 – Payment Reconciliation** and **Step 7 – Grievance and Redress** will be covered in Section III below under accountability and monitoring considerations.

\(^{25}\) Instrument could employ various types of technologies such as magnetic strip technology; smart card technology or mobile phone. See previous Section under Payment Stakeholders and Instruments.
PAYMENT FLOW FRAMEWORK FOR PUBLIC WORKS PROGRAMS (PWP)

Figure 4. Payment Flow - Public Works Program (PWP)
3.1.2. **STEP BY STEP PAYMENT FLOW FOR PWP**

The management of PMs in the case of PWP presents additional challenges. These include the flow of information between the beneficiaries, the work site and program administrators, and the need to expedite the payment process on a weekly or biweekly basis most of the time, as opposed to bimonthly as in CCTs.

**Step 1 – Request/Invitation for Participation**: Due to the nature of PWPs, the locations of the areas of interventions and the work sites need to be identified before the identification of potential beneficiaries can take place. The actual identification of potential individual beneficiaries can be done by employing targeting methods, such as those used in the UCT and CCT programs, or by letting participants select themselves (self-selection approach) based on the wage level set below the market rate.\(^{26}\) Once eligible are identified, they can request participation or be invited to participate into the program.

**Step 2 – Approval and Enrollment**: Based on the number of workers willing to participate in the program, a selection of beneficiaries is undertaken, especially if the supply of workers far exceeds the availability of vacancies. Days and wages can be allocated based on the level

\(^{26}\) The level of wage rate, if set below the ruling market wage, can render the program pro-poor inasmuch as it enables the poorest to participate in the program whereas in general a rate set above the market level is most likely to attract the non-poor to the program (Subbarao et al. 2010).
of need and skills by the administrative agency to differently each household when enrolling (Subbarao et al. 2010). Similarly to UCTs and CCTs, each worker is then handed a unique ID number linked to an existing ID card or issued a program-specific ID to keep track of his/her completion of work.

Often, during this step, the beneficiaries are informed of their rights and obligations under the program, their entitled amounts of cash transfer, the payment schedule, the specified point of payment, and the required payment instruments and how to acquire it. The program needs to clearly specify what stakeholders will be in charge of this key role. (Also see section V for additional considerations related to beneficiary outreach and awareness programs).

**Step 3 – Compliance with work requirements:** Once workers are enrolled, they organized into construction crews, supervised by a worksite supervisor. The worksite supervisor is in charge of keeping attendance using the laborer’s unique ID card/number to keep track and record his completion of work (number of days and hours worked) in the attendance sheet (Figure 6). The government of Andhra Pradesh state in India, for example, set up an electronic muster and measurement system to record work attendance on site using mobile phones to upload the information onto a centralized system (Murali 2011).

Work attendance information may be returned to participants so they can keep track and prove their compliance. The worksite supervisor then sends the attendance sheet to the administrative entity to make payment order arrangements. As in the case of CCTs, this process can be carried out manually or using enhanced technology methods.
Figure 5. Daily Attendance Sheet

<table>
<thead>
<tr>
<th>Serial No.</th>
<th>Worker's ID</th>
<th>Name of Worker</th>
<th>Male/ Female</th>
<th>D1</th>
<th>D2</th>
<th>D3</th>
<th>D4</th>
<th>D5</th>
<th>D6</th>
<th>D7</th>
<th>Total number of hours</th>
<th>Total amount of wages</th>
<th>Worker's signature</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

Prepared by
Signature
Name
Title
Date

Approved by
Signature
Name
Title
Date

Step 4 – Payment order: The program administrator receives and verifies the attendance sheet from the field. It approves it and prepares the final stage of wage payments by creating the muster roll (see Figure 6). The critical minimum information required in a muster roll for organizing the payment order and wage payments is:

- Worksite code (serial No.)
- Name of recipient and ID number
- Number of hours and days worked
- Agreed wage rates

Source: Subbarao et al. 2010
The payment order is submitted to the payment agency. This is usually accompanied with:

- A letter authorizing and instructing the payment agency to proceed with delivery
- A wire transfer approved by the treasury or the central bank of the total installments to be paid in a given time period

The payment agency then proceeds to transfer the payments to the recipients either directly through the agency’s facilities or through the payment agents’ premises.

**Step 5 – Payment Delivery:** Upon the reception of the payment order, the payment agency sends the muster roll to the agent relative to the area of coverage and includes the authorizing instructions and the required transfer of resources. The payment agency makes sure that each payment point or payment agent receives necessary funds to supply the demand of payment requests and avoid liquidity bottlenecks. In some cases, payment agents take the money from their accounts to make payments and then request reimbursement.
Subsequently, workers can collect the benefits at the payment point by presenting proof of identification and an approved work attendance sheet. As discussed in the preceding section, the disbursement of the transfer can be made using two types of instruments, traditional and/or technology-enhanced. However they all should include the verification of the payments and the recording of the transactions at a central level.

**Traditional:** On a set date and time, the beneficiary goes to the payment point and requests its payment ‘over-the-counter’ by showing his/her ID and in the presence of the worksite supervisor. The payment agent compares the ID against the list of recipients and may solicit the recipient for a further proof such as password, special code and so on to validate the recipient’s identity.

Upon validation, the agent provides the recipient with cash notes. The recipient is asked to provide proof of receipt of payment, which can include his/her signature or a fingerprint and that of the worksite supervisor on a payment report sheet to guarantee the payment was made correctly (e.g. based on the number of hours worked).

The lists are signed and kept by the governing agency for verification and monitoring. In some programs, the payment is also made in-kind with food or in the form of coupons that can be exchanged with food at specific stores, like in Ethiopia’s Productive Safety Net Program (PSNP).

**Technology-enhanced:** The payment is transferred electronically into the account of the recipient on a periodic basis. The recipient decides the date and time most convenient to collect its entitled cash payment at the closest payment point available. Depending on the type of instrument employed, the recipient would need to show its identification or use a password or code for the payment agent to convert money from its account into cash.
Step 6 – Payment Reconciliation and Step 7 – Grievance and Redress will be covered in the next section that deals with the accountability considerations of the payment flow.

IV. ACCOUNTABILITY AND MONITORING CONSIDERATIONS

4.1. PAYMENT RECONCILIATION & GRIEVANCE STEPS

The reconciliation and grievance processes, described in step 6 and 7 of the basic seven-step payment flow, help ensure accountability and regular monitoring of the program. The main objectives of the reconciliation and grievance processes are to make sure that (i) funds are distributed accurately and timely and (ii) recipients have a channel through which they can raise concerns and claim their rights under the program.

No SSN program is immune to EFC and process inefficiencies. However, technology-driven PM that are complemented with transparent and demand- and supply-side accountability mechanisms can help reduce such errors by minimizing the number of human hands that handle the cash. Additionally, technology-enhanced methods can facilitate monitoring of transaction activities in real time.

Step 6 - Payment Reconciliation: Payment reconciliation refers to the procedure through which the payment agency reconciles the amounts of transfers expected to be paid with those actually disbursed. Once all scheduled disbursements have been made, the payment agent transmits a periodic report to the payment agency that is used to confirm that the amount of funds planned matches the amounts transferred. The agency then registers it into the programs management information system (MIS), which can be paper-based or electronic depending on level of program automation, to keep record of completion (collected funds) and incompletion (uncollected funds) of payments. Uncollected funds are

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27 Reconciliation can take place either when money is withdrawn or when money is deposited into the account. Variations will depend on choice of program parameters. For example, many programs have a ‘dormancy rule’ on the account. That means that if the money is not withdrawn within a certain period of time, the money will be transferred back to the program account.
identified and can be either used for next payment cycle or are sent back to the central administrative, depending on program-criteria.

**Step 7 – Grievance (or Complaint) and Redress:** Grievance and redress mechanisms provide beneficiaries with channels to raise complaints (i.e. report bribery) or to claim an eligible payment that has been denied. A complaint management facilitator can be a government official appointed at the national, regional and district level (as in the case of Kenya’s HSNP), or an NGO or community committee set up at the local level (as in Rwanda’s VUP).

**Complaints - Supply side:** Recipients can file a complaint to a facilitator at a grievance redress venue established for a program, at the point of payment, or by phone, email or in written (as in the case of Mexico’s Oportunidades).

Recipients can issue complaints concerning payments on the following grounds:

- Incomplete, delayed and/or omitted payment
- Bribery and mistreatment by a payment agent
- Bad service delivery (e.g. late opening of venues, long waiting lines, absent agents at pay points, and so on)

Once the facilitator receives the complaint, he/she determines the accuracy/authenticity of the claim by further investigation, including tracking of transaction records in the MIS. If valid, the facilitator issues a redress request to resolve the issue. While a complaints mechanism’s processes and procedures differ, the ultimate goal is to ensure that the recipient can collect his/her entitled cash transfer. In the case that a program official or other stakeholder is negligent and/or corrupt, a penalty can be imposed to create incentives to minimize such behavior.
Complaints - Demand side: The existence of complaint offices may not be sufficient. It is also important to stimulate demand by:

- Employing media channels to inform recipients about their entitlements and promote rights consciousness (see Rwanda’s VUP case-study)
- Empowering civil society organizations (CSOs) to build a sense of entitlements, explain how to access a redress procedure, and if possible, accompany recipients through the process (see Mexico’s Oportunidades case-study)
- Making complaints channels more accessible to recipients through lower economic, social, procedural and geographic barriers (Gauri 2011).

4.2. ENSURING LINKAGE WITH MANAGEMENT INFORMATION SYSTEMS

A Management Information System (MIS) is a network platform that enables users to manage data to support the decision-making of program operations with evidence. In the case of payments, the MIS can generate accurate and timely data to inform:

- Who to pay (beneficiary ID)
- How much to pay (payment calculation)
- When (payment calendar)
- Through which payment agency/agent and instrument
- How much is actually disbursed (payment reconciliation)

This information is generated through various MIS modules depending on the level of sophistication of the system. At the basis an MIS supporting cash transfers should be composed of at least 7 modules, including payments (see Figure 7). All modules are interlinked and draw information from each other, especially to transfer payments.
The *targeting module* captures information about where beneficiaries reside - an approximation of where they need to be paid potentially. The enrollment module registers beneficiaries and at the same time assigns the payment recipient, ID number, and corresponding point of payment and instrument code.

When applicable, the *requirement compliance module* verifies compliance with program conditions. Based on how benefits are set around conditions, the *payments module* then calculates benefits and generates payment lists. It also facilitates payment reconciliation once payment delivery is complete. The *grievance and redress module* allows complaint
facilitators to find solutions by crosschecking the grounds of a complaint with payment records. It also enables them to make corrections for the next payment cycle if the complaint is valid.

The finance and administration module can keep track of how much is being spent periodically in order to make expenditure estimations for future operation cycles. Finally, auditors can generate aggregate payment records in the monitoring and reporting module and compare them with actual payments on the ground to assess performance.

The integration of payments into the MIS is preferably considered during the program design phase. The more time that passes without having the PM integrated into an MIS, the more cumbersome and time-consuming it becomes to make payments based on accurate information. The challenge remains to integrate technology as much as possible throughout all the information flows required to process and reconcile payments.

V. FEASIBILITY ASSESSMENT & STRATEGIC DESIGN

After the desired implementation, accountability and monitoring options have been identified (section I, II, and III), program managers must identify feasible and viable PM options - and estimate their costs - available in the country to implement the program. This is usually accomplished by commissioning an in-depth PM feasibility study with the ultimate goal of assessing the feasibility of setting up a PM that fulfills the program parameters, payment objectives as well as interests and capacity of various stakeholders (Ahmed 2005; Kilfoil 2010; Kilfoil et al. 2008; Lafaurie and Velasquez 2004; Lafaurie and Marulanda 2010). Below is a summary of interrelated aspects to be considered in the feasibility assessment.

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28 This section builds on previous work, including the “Designing and Implementing Financially Inclusive Payment Arrangements for Social Transfer Programmes” by DFID, 2009.
5.1. **DEMAND-SIDE: ASSESSING KEY PROGRAM AND PAYMENT PARAMETERS**

A demand-side assessment should include the following key program and payment-related questions (DFID 2009):

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Source: DFID 2009
**What is the profile of the intended recipients?** The characteristics of potential recipients in terms of location (proximity and estimated commuting time to points of payments), geographical distribution and concentration, and level of (financial) literacy will determine the level of coverage and capital investment required in regional, state and local spaces.

**What is the amount and frequency of payments and the number of recipients?**

The amount levels can be fixed per recipient or determined by program requirements (number of conditionalities complied, number of days worked), on a periodic basis or in a fixed term (i.e. one-time payment). In case program requirements exist, the amount levels affect the recipient’s understanding of conditions and penalties in case of incompliance. Activities to ensure recipients understand the reasons they are getting their amounts (SMS via cell phones, community or school gatherings, payment receipts, and so on) should be established.

The amount and number of recipients will affect the total transfer amount per each payment cycle, \((\text{number of recipients times amount paid per recipient})\), which in turn affects the level of liquidity required to ensure that each payment agent has the required cash to make payments to beneficiaries.

The frequency per year (monthly, quarterly) will affect the estimated annual cost. The frequency depends on the operational cycle of the program, especially on the level of MIS automation, to capture and generate information to process payments.

**What is the intended length of the program?** The length of the program (e.g. 3 to 5 years) influences total cost for the duration of the program \((\text{number of recipients times amount paid per recipient times payment frequency per year times length of the program})\). This in

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29 Ideally, this amount should consider the estimated transaction costs incurred by recipient to retrieve the entitled transfer. This depends on the chosen PM and should be assessed during the in-depth feasibility study, as explained later in this section.
turns affects the acceptable level of capital investment, taking into account whether the program intends to meet a short-term need or address medium- to long-term needs of intended beneficiaries.

**What is the intended start time of the program and scale up plans?** The urgency of the implementation will influence whether the PM will rely on existing or innovative payment options or whether a combination is preferable. Moreover, a scale-up may make an innovative approach more cost-effective in the long run. On the other hand, it may not be feasible in all geographical locations nor may not be cost-effective if the program is temporary.

An in-depth feasibility assessment would also assess the literacy of recipients and their knowledge concerning the use of financial instruments as well as the incentives that will drive them in the short- and long-run. Hypothetical questions and approximations of the incentives of recipients:

**Recipients:**

**Questions:** Are recipients literate enough? Do they have previous experience in using financial instruments or the considered options? Do the considered payment instruments involve transactions costs? Do these ensure timely distribution, enhanced ease of use, security and convenience to recipients? Do these reduce the chances of having to pay bribes to intermediaries?

**Short-term:** Recipients’ priority and main concern in the short-term is to collect their benefits, even if that means travelling long distances, lining up for hours at pay points, and bribing the payment agent. For instance, at the onset of a cash transfer program in Swaziland, recipients queued for hours at ATMs to withdraw their entitlements on the day of delivery despite the fact that they could withdraw money anytime (RHVP 2010).
Long-term:
There are two types of situations:
Programs do not invest in technology: As time passes, recipients start feeling discouraged to continue spending time and/or money to collect transfers, especially if the payment is too small to justify travel and bribery costs.

Programs do invest in technology: As programs mature, recipients start trusting payments to be more predictable, frequent, and safe, and may be more willing to adopt new technologies over time. Under the Jefes y Jefas de Hogar program in Argentina, 87 percent of recipients considered the introduction of debit cards to be an improvement compared to the old method of dispensing cash via local officials since, on average, travel to collection points and queuing time dropped from 255 minutes to 41 (Duryea and Schargrodsky 2008).

5.2. INSTITUTIONAL ARRANGEMENTS: ASSESSING CAPACITY

An in-depth feasibility assessment would also assess the institutional capacity of governing agencies and the incentives that will drive them in the short- and long-run. Hypothetical questions and approximations of the drives of governing agents are summarized below:

Governing agencies:
Questions: What is the capacity required to implement the proposed PM? Are there significant cost savings and time-efficiencies to be gained by introducing a new payment mechanism? What is the expected impact of the overall program in terms of generating administrative and corruption cost savings?

Short-term: In the short-term, once a cash transfer program is designed, governing agencies are often under great pressure to implement the program. Start-off costs tend to be high as the number of program officials, offices, computers and stationary need be expanded.
Program managers may therefore seek to make payments with available technology and infrastructure already in place (e.g. post offices or state banks) to keep operating costs low. In Namibia, a pilot cash transfer makes payments into bank accounts held with NamPost (the state post office), which already issued biometric cards as a standard service to its banking customers (RHVP 2010).

**Long-term:** In the long-term, programs mature and tend to scale up. This requires expanded day-to-day capacity for each step in the payment flow (steps 1-7) to handle the increased volume (beneficiaries, information and liquidity) and the geographic expansion of the program. The limitations of the payment process (i.e. time-consuming, labor-intensive and ‘leakages’) become more visible. Recipients may start complaining openly about payment delays, errors, and the time and money spent to collect them. The press may denounce EFC present in the cash transfer program. The need to gain transparency, security and efficiency by reducing the transaction processing time and costs and avoid leakages becomes priority for program managers. They have an incentive to introduce new technologies to address bottlenecks in the payment flow.

5.3. **SUPPLY-SIDE: ASSESSING PAYMENT STAKEHOLDERS**

As described above, SSN PM depends on a variety of program parameters. Because circumstances differ across program interventions and within countries, no payment method is universally applicable. Each one of the available payment methods and any combination thereof, are therefore unique. A feasibility assessment would evaluate the incentives of payment agencies and agents. Hypothetical questions and approximations of their incentives are summarized below. Regardless of the method selected, program managers should not compromise payment effectiveness over transparency and efficiency by pushing for technology-oriented solutions and taking for granted that recipients would automatically understand how to use it. The service provider normally facilitates training for
recipients on how to use payment instruments (see section 6.5 Design Beneficiary Outreach and Communication Campaign).

**Payment agencies and agents:**

*Questions:* Does the proposed solution provide enough business opportunity over the medium- and long-run for the payment agencies and agents? Do agencies and agents have sufficient financial, technology and communications infrastructure in target areas?

*Short-term:* When introducing new PMs, payment agencies/agents need to produce, distribute and administer new payment instruments (i.e. electronic cards) and deploy financial infrastructure (i.e. POS devices) to remote, often unsafe areas where electricity shortage can be constant. Moreover, programs may only distribute small payments per recipient during a fixed period of time. Increased costs, little capacity and low business opportunity may discourage payment agencies and agents from getting involved in the short term. In Bangladesh, bank managers cited illiteracy of the rural client, low demand and lack of security as reasons for not introducing ATMs in rural areas (Ahmed 2005).

Payments agents (i.e. shopkeepers and traders) can be either dependent or independent from the payment agency, hence driven by slightly different incentives. If these are independent from the payment agency, they may be incentivized to create a market around recipients to sell goods (i.e. food), services (cell phone airtime). But they may also be incentivized to bribe recipients when disbursing money. If agents are dependent on the agency, this can pay a wage and a commission based on performance to discourage corruption. For example, in India’s Andhra Pradesh state, payment agents are paid US$ 6.5 monthly plus a commission of 0.25 percent of the total amount disbursed (Johnson 2008).

*Long term:* With the passage of time, financial institutions may realize that cash transfers can target a great deal of beneficiaries making frequent payments for a stable period of time. Moreover, these payments are very often, delivered in town centers or condensed
areas, creating new markets for financial institutions where business may have been previously considered unprofitable (RHVP 2010).

Moreover, to adopt PMs that better suit their needs, program managers must understand the various tradeoffs that come with each option. Complementary to Figure 8, Tables 1, 2, and 3 below summarize some of the specific advantages and shortcomings of various PM options. Further below, Table 4 provides an illustrative template on how to evaluate payment options in terms of cost, time, and benefits while Table 5 and 6 provide cost ranges of different payment instruments, agents and point of payments based on Annex 8.2.
<table>
<thead>
<tr>
<th>Agencies</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
</table>
| **State & private banks** | - Considerable expertise in handling cash and setting accountability controls  
|                        | - State banks in particular might be suitable at program onset due to wide coverage and mandate to reach customers excluded from the private financial sector  
|                        | - Eliminate intermediaries, and reduce payment delays and rent-seeking practices  
|                        | - Ability to adopt new technology  
|                        | - Capacity to distribute cash frequently. | - Private banks may have low coverage in remote areas and may charge high fees due to little business opportunity perceived and high fixed costs in remote areas  
|                        | - May be reluctant to customize financial products to meet the needs of recipients outside the regular client base  
|                        | - Beneficiaries may distrust and feel uncomfortable dealing with banks  
|                        | - May lack enough liquidity in rural branches |
| **Private non-bank vendors** | - Experience in dealing with transactions (e.g. receiving payments, keeping records, reimbursements)  
|                        | - Experience serving low income clients  
|                        | - Often possess wide coverage due to network of correspondents (e.g. shopkeepers, airtime sellers)  
|                        | - Have more innovative financial products and practices | - Some may ask for kickbacks or put pressure on recipients to buy goods and services in exchange of payments  
|                        | - Regulations and rigid controls are required to monitor their business  
|                        | - May inflate prices of other products and services offered |
### Table 8. Payment Agents and Tradeoffs

<table>
<thead>
<tr>
<th>Agents</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
</table>
| ATMs                        | - Reduce stigma as recipients can withdraw transfers from ATMs as other regular customers  
                             | - Offer great potential for low operating costs service is automated  
                             | - Minimize rent seeking and manipulation of information as it reduces intermediaries  
                             | - May increase coverage in some countries                                  | - Require reliable electricity and security against theft or damage  
                             |                                                                       | - ATMs which require use of backup management data systems will have higher operational costs  
                             |                                                                       | - Equipment is only installed where it is used frequently and thus profitable  
                             |                                                                       | - Recipients may find them difficult to use at the beginning  
                             |                                                                       | - May only be possible to withdraw a fixed denominated amount that can be higher than that of the customers’ account balance |
| Agent with POS devices      | - Verification may be possible online in areas where there is mobile network coverage, and offline using a smart card in areas with no signal  
                             | - May not need electricity as devices can also be charged using batteries or external power supply | - Investment costs may be significant to deploy and install the technology infrastructure  
                             |                                                                       | - May not dispose sufficient liquidity to meet cash demand                  |
| Agent with mobile phones    | - Likely cheaper than other devices  
                             | - Does not need to be electrically connected as information travels through mobile phone networks  
                             | - Large coverage in areas where network is strong  
                             | - Reduces the need to deploy infrastructure (e.g. ATMs and POS devices)  
                             | - Reduce error, fraud and corruption significantly                        | - Operates only in areas with mobile network coverage  
                             |                                                                       | - Beneficiaries are only allowed to hold a limited amount of money on their mobile accounts  
                             |                                                                       | - Agents may not dispose sufficient cash liquidity to disburse payments at large scale |
### Points of Payment

<table>
<thead>
<tr>
<th>State &amp; private venues</th>
<th>Mobile cash points</th>
</tr>
</thead>
</table>
| - More viable, reliable and secure if already existing in area where recipients reside  
- May offer already established networks of extensive delivery routes  
- Beneficiaries intimidated by banks may be more familiar with local public entities | - May lack capacity to take up a large scale PM nationwide independently  
- Some may not be fully regulated as financial intermediaries  
- May charge a higher fee per transaction |
| - Preferable in remote areas where financial service coverage is low or non-existent  
- Recipients incur smaller travel costs. | - May only operate in secure areas;  
- High administrative costs (transportation, staff, food, security)  
- Low payment frequency due to temporary nature. This may translate into large one-time payment sums and risks of theft to recipients  
- Payment control may be more lax as compared to fixed bank and non-bank locations  
- May increase social stigma to recipients standing in line to receive payments |
<table>
<thead>
<tr>
<th>Instrument</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
</table>
| Over-the-counter cash| - Preferable at the beginning of programs when transfers need to be disbursed fast  
- Viable in areas with little, if any, telecommunication infrastructure | - Transportation and security costs can be high  
- Process is labor intensive  
- High chances of error, fraud and corruption due to the involvement of several intermediaries  
- Payments are usually made in large sums which increases the risk of theft to recipients |
| Money Orders/Checks/Vouchers/Stickers/Passbooks/IDs | - Easily transportable and do not require large storage space  
- Provide a paper trail  
- Relatively reduce error, fraud and corruption when compared to over-the-counter cash payments | - Process is cumbersome and expensive due to printing, signing, packaging, and distribution costs; competitive bidding with printers and distributors; as well as arrangements with banks or shop-keepers for redemption  
- Agents may not always hold enough funds to honor them  
- A black market may emerge around these by selling them at undervalued prices  
- Slow the speed of disbursements due to time delays between issuance, encashment and clearing  
- Payment reconciliation can turn cumbersome due to transportation of various paper slips  
- May be easy to falsify |
| Magnetic stripe card  | - Very common and typically cheap  
- Ability to update encoded information  
- Potential use to make other transactions at pre-authorized retailers | - May limit amount of transactions/withdrawal per month  
- Recipients may require a bank account  
- Low adequate coverage requires the use of ATMs or POS devices directly connected to centralized authorizing system  
- Not many retailers in rural areas accept them as means of payments  
- May only work on the infrastructure of issuer and/or authorized retailers of the card |
| **Smart card** | - Do not require a connection online to a centralized management system  
- Less risky for payment agencies as there is no need to transport cash  
- Provide quick information | - Unit cost higher than magnetic stripe cards due to chip technology  
- Limited memory capacity  
- Requires the use of POS that can read smart cards offline |
| --- | --- | --- |
| **SIM cards and mobile phones** | - Recipients have almost full discretion when and how to process and use their payments  
- May be used to send remittances, purchase goods, pay bills or redeem to cash  
- Beneficiary can share costs of handset in groups and hold individual SIM cards  
- Reduce bribery significantly  
- Large coverage in areas where network is strong. | - Swapping process of SIM cards may wear out the handset and lead to loss of cards  
- A significant amount of potential recipients may not own cell phones  
- Only in areas with mobile network coverage  
- Limited amount of money allowed to maintain in the account |
In some SSN programs, several payment agencies and agents or different instruments can be available at the same time. For example, three SSN programs in South Africa pay 80 percent of grants in cash at mobile payment points using biometric readers and ATMs and pay 20 percent directly into bank accounts (IAGGP 2011). Also, in the case of SSN programs in Kenya and Mexico, a combination of retail stores, post offices and commercial banks can distribute payments through money notes, debit or pre-paid cards and savings accounts (see annex). In India, NREGA’s recipients can choose between different POPs, such as a post office or from village officials, using various payment instruments, such as savings account or checking account. In Andhra Pradesh state, the program also offers electronic prepaid account accessed via smart cards (Johnson 2008). The use of several payment stakeholders, including financial entities with experience in handling cash in remote areas, can increase coverage, avoid monopolistic capture and reduce operation costs due to competitiveness. However, dealing with various agencies increases the administrative burden on governments.

In order to evaluate different payment options, an assessment using the template below can compare different tradeoffs for different payment options:

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30 Estimation of cost is challenging and data from various sources may vary. For example, *Social Cash Transfers and Financial Inclusion: Evidence from Four Countries* (CGAP Focus Note No. 77, February 2012) finds that the cost of making payments into bank accounts was much higher than 20 percent.
### Table 10. Example of How To Evaluate Payment Mechanisms

<table>
<thead>
<tr>
<th>Proposed Solutions</th>
<th>Cost</th>
<th>Time</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposed Payment Agency &amp; Agent</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Option 1:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[ex: Commercial bank]</td>
<td>Per payment transaction</td>
<td>Average travel time for payment withdrawal</td>
<td>Does it Increase Flexibility?</td>
</tr>
<tr>
<td></td>
<td>Opportunity Cost to Beneficiaries</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>For account creation</td>
<td>Average time to transfer cash from payment agency to payment agent</td>
<td>Does it Increase Security?</td>
</tr>
<tr>
<td></td>
<td>Monthly maintenance fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Payment site &amp; cash transportation security &amp; derived costs (i.e. food)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Table 11. Private cost ranges of different payment instruments with different agents and points of payment

<table>
<thead>
<tr>
<th>Payment Instrument and Agent or POP</th>
<th>Transportation cost</th>
<th>Travel time to collect cash</th>
<th>Waiting time in lines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash at mobile cash points, branches and post offices</td>
<td>US$0.1 – US$ 3.1</td>
<td>5 – 37 mins</td>
<td>5 – 264 mins</td>
</tr>
<tr>
<td>Cards at ATMs</td>
<td>US$0.47 – US$ 3.1</td>
<td>20 – 43 mins</td>
<td>0 – 114 mins</td>
</tr>
<tr>
<td>Cards at branches</td>
<td>US$.47 – US$ 3.1</td>
<td>5 – 120 mins</td>
<td>14 – 136 mins</td>
</tr>
<tr>
<td>Cards at agents with POS</td>
<td>N/A</td>
<td>5 – 32 mins</td>
<td>5 – 120 mins</td>
</tr>
</tbody>
</table>

### Table 12. Administrative cost ranges of different payment instruments

<table>
<thead>
<tr>
<th>Payment Instrument</th>
<th>Unit cost</th>
<th>Transaction fee in US$</th>
<th>(% of transfer)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paper-based</td>
<td>N/A</td>
<td>US$ 2.4 – US$ 5.2</td>
<td>(2% – 9.5%)</td>
</tr>
<tr>
<td>Smart card</td>
<td>US$ 1 – US$ 5</td>
<td>US$0.02 – US$ 7.5</td>
<td>(0.25% – 13.6%)</td>
</tr>
<tr>
<td>Magnetic stripe card</td>
<td>US$ 0.25 – US$ 3.6</td>
<td>US$ 0.1 – US$ 2.8</td>
<td>(0.07% – 12.1%)</td>
</tr>
<tr>
<td>Cell phone</td>
<td>N/A</td>
<td>US$1. – US$ 2.5</td>
<td>(3.3% – 10%)</td>
</tr>
</tbody>
</table>

---

31 Excluding Ecuador (US$ 0.38 (1.1%)) as it is considered an outlier
32 Excluding Colombia (US$ 9 (16.4%)) as it is considered an outlier
33 Only represents 2 entries: Niger and Congo
5.4. ASSESSING PROS AND CONS: TRADITIONAL VS. TECH-ENHANCED INSTRUMENTS

Traditional and technology-enhanced instruments are not mutually exclusive. Some of the most distinguished programs use both separately or combined them to allow for more realistic approaches to reach recipients in remote areas. However, traditional and technology-enhanced instruments have comparative advantages that make them different in nature and scope.

Traditional instruments of payments, on one hand, can be deployed more easily, set up more cheaply as start-up costs tend to be low, and reach remote areas more swiftly in the short-term. Traditional PMs are typically used because the necessary payment infrastructure is already in place (e.g. post-office, remittance offices) or can be easily mobilized. Moreover, recipients may understand conventional means of payments more easily based on prior experience using them (i.e. checks, money order). Traditional methods also have some cons. These are more prone to manipulation during the delivery process. When cash travels physically through various hands it can ‘leak’ more easily before it gets to its intended recipient. Moreover, traditional methods may not leave an auditable trail from the source of the transfer to the final recipient (Gelb 2011) and may prove cumbersome when reconciling accounts.

Technology-enhanced tools, on the other hand, can save on administrative and EFC costs in the long run - if programs are scaled up and continuous. Evidence shows that electronic tools can reduce demand for human intermediaries as well as paper work and time by using automated processes that leave an electronic trail of money flows (RHVP 2010). However, electronic tools also have their cons. These may take some time to tailor to the existing financial infrastructure and upfront-costs may be prohibitive and difficult to recover in the short-term. Moreover, electronic instruments may be more difficult to adapt by recipients given the lack of familiarity using these (i.e. electronic cards). Recipients may thus require
some sort of induction explaining not only how to use an instrument but also clearly stating the rules, penalties and incentives of doing so.

In sum, while the evidence on the use of technology-enhanced instruments is promising, technology in itself is not a panacea to cash transfers. It does not automatically solve ‘leakage’ problems nor ensures cost effectiveness and efficiencies. Traditional payments, employing the infrastructure available particularly in remote areas and affordable at program onset, can be considered more suitable in small-scale settings or during emergencies while the appropriate investment is undertaken. The key to an effective PM is the complementarity of technology to seal potential leakages with an effective audits and transparent grievance redress system in place combined with clear understanding of recipients’ incentives and successful communications campaigns. Best practice often suggests that a PM pilot should test the reality of a feasibility study before scaling up.
Box 2. Are Traditional and Technology-enhanced Instruments the same as "Pull" and "Push"?

**Pull:** a “pull” payment mechanism requires the recipient to travel to the cash point at a scheduled time to collect the full amount. Because of its nature, a pull mechanism imposes a transaction and opportunity costs on recipients.

**Push:** A “push” payment mechanism requires funds to be transferred to recipients’ accounts or (close) to its residence. Recipients can either access or make use of their funds fully or partially at relatively flexible times. In this case, transaction costs for recipients are expected to be small. (RHVP 2010).

In reality, the difference between pull and push PMs is more blurred. Traditional instruments may not always be “pull” and “high-tech” tools are not always push. Programs in practice combine different elements of both instruments. For instance, a program may require a recipient to travel to a payment point at a specific time (pull) but allow him/her to withdraw only part of the transfer (push) (Johnson 2008). The quadrant below explores the common characteristics of pull and push mechanisms when traditional and technology-enhanced instruments are employed.

<table>
<thead>
<tr>
<th></th>
<th>Pull</th>
<th>Push</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Traditional</strong></td>
<td>Full collection of benefits over-the-counter</td>
<td>Full disbursement of transfer amount</td>
</tr>
<tr>
<td></td>
<td>Infrequent distribution during fixed time and at relatively remote venues such as bank branches and government agencies</td>
<td>Transfers distributed to the recipients homes in envelopes via post services or to nearby venues such as worksites, schools, mobile cash points or temporary branches</td>
</tr>
<tr>
<td></td>
<td>May require long commuting hours and take up to 20% of benefit amount for transportation cost</td>
<td>Delivery made at pre-scheduled times</td>
</tr>
<tr>
<td></td>
<td>Excludes recipients disabled or with rigid work schedules unless they nominate a substitute recipient</td>
<td>May</td>
</tr>
<tr>
<td></td>
<td>Benefits are deposited into accounts</td>
<td>May exclude disabled individuals or recipients with rigid work schedules unless they nominate a replacement</td>
</tr>
<tr>
<td></td>
<td>Partial collection of benefits using electronic methods but frequent delivery available during fixed times</td>
<td>Recipients can access their funds at any time and have the option to cash out transfer fully or partially</td>
</tr>
<tr>
<td></td>
<td>Collection at fixed and relatively remote facilities such as bank branches and ATMs</td>
<td>Recipients can collect payments at different venues of their convenience or make use of their instruments for other purposes</td>
</tr>
<tr>
<td></td>
<td>May exclude disabled individuals or recipients with rigid work schedules unless they nominate a replacement</td>
<td>Does not exclude disabled individuals or recipients with tight work schedules</td>
</tr>
</tbody>
</table>
5.5. **ASSESSING FINANCIAL AND TECHNICAL INFRASTRUCTURE AND LEGAL ENVIRONMENT**

This assessment should include a thorough review of the country and program context by:

Reviewing the *financial infrastructure* of payment agency and agents including:

- Geographical coverage of points of payments and payment agents per region\(^{34}\)
- Financial connectivity to the financial system (e.g. central bank, commercial banks, ATMs) to make small payments
- Financial liquidity and times it takes to distribute money
- Secure environment in terms of authenticity, confidentiality and integrity\(^{35}\)
- Physical security of the beneficiaries and payment stakeholders
- Ability and willingness to customized payment products for low-income users
- Evaluating existing communications infrastructure, including availability of electricity, frequency of power failure as well as reliability and coverage of phone lines
- Studying the viability of introducing a new technology to distribute payments (magnetic stripe cards, smart cards, mobile phones)
- Exploring the legal implications, including financial regulation required setting up PMs (i.e. connecting to central bank accounts, opening up banks or ‘no-frills’ accounts, handling cash notes, distributing payments (through agents), issuing payment instruments to beneficiaries with no official ID, and so on).\(^{36}\)

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\(^{34}\) In Bangladesh, it was found that 35 percent of all bank branches in rural areas belonged to public banks, followed by specialized banks with 19 percent and private commercial banks with 6 percent roughly (Ahmed 2005). In Honduras, commercial banks were present in 75 out of 255 municipalities (LaFaurie and Marulanda 2010).

\(^{35}\) Rambure and Nacamuli, 2008

\(^{36}\) For instance, SSN program managers must carefully assess the financial regulations in the country to fully understand what is required to make transfers to recipients. For example, in Kenya, the ‘Know Your Customer’ law imposes requirements on banks to request proper identification. This can pose a challenge when many beneficiaries lack such official identification or are under age. (See annex on how the CT-OVC program addresses this issue).
5.6. ASSESSING GEOGRAPHICAL AND POLITICAL ENVIRONMENT

A geographical assessment includes the mapping of target recipients to identify where they reside. Following the financial infrastructure assessment, this mapping of target recipients needs to be compared to the geographical coverage of payment providers (urban, semi-urban and rural).

Also, an assessment of the political support of the program can help guide the choice of PM. A pilot that seeks to introduce a PM that requires long-term investments in financial infrastructure, yet lacks broad political support, may find that it will lose its funding before it is able to scale up. Sometimes a quick roll out can help generate political support if it can prove results. But a quick rollout is not without risk and could neglect the objectives of the program and the best interest of the beneficiaries. This in turn could lead to withdrawal of political support in medium- and long-term.

Different countries have reached different levels of PM sophistication. Nonetheless, the overall process of assessing viable PM options provides an opportunity for refining a country’s overall SSN payment strategy. For example, can different SSN programs (e.g. cash transfers, public works, and social pensions) leverage the findings of the feasibility study? Could different PM be combined to serve different beneficiary target groups? And what are the long-term objectives of the country’s social protection strategy and what PM options would best meet its objectives in short-, medium- and long-term?

Considering a payment strategy as an integrate part of a country’s overall SSN program could allow for better program implementation. For example, NREGA’s recipients residing in Andhra Pradesh can access their payments using smart cards within 20 to 60 minutes, including travel and waiting time. This is twice as fast as the time recipients take to make withdrawals from the post office and 10 times faster than making a withdrawal from a bank branch (Johnson 2008). Thus, the primary focus of the assessment should be given to the
constraints of the beneficiaries/ recipients and the environment around them. The ease of use and convenience of PMs to recipients determines the success of a transfer.

VI. ADDITIONAL CONSIDERATIONS

This section briefly looks at the additional key considerations to ensure proper institutional and legal arrangements with stakeholders are considered before final design options are chosen and implementation can begin. Based on the results of the strategic design and feasibility study, an optimal solution of the best PM option must be recommended. Once the final solution is identified, it is time to put the theoretical discussions around payments into practice.

6.1. DEFINING CLEAR ROLES AND RESPONSIBILITIES

Different stakeholders play complementary, yet separated, roles that facilitate the smooth flow of transfers. Each stakeholder involved in the payment process must have clearly defined activities, clear timelines of delivery, quality controls and cleared rules of operations, including sanctions. For example, in India’s state of Orissa, the laborers are entitled to receive compensation from the program (as per the provisions of the Payment of Wages Act, 1936) if wage payments are not made within 15 days of the completion of work as mandated by NREGA (Government of Orissa 2010).

Moreover, too often, the same entity that submits the list of payments is the same that approves and delivers payments. While this arrangement may minimize operational costs, it leaves significant room for EFC. Program managers should thus make sure that different groups undertake these essential functions separately to discourage conflict of interests. For example, the Government in India attempts to limit misuse of funds and power in the NREGA program by mandating the separation of roles of the payment agencies (introducing banks and post office accounts) from the implementing agencies and by dividing the
competences of the agents responsible for the maintenance of muster rolls and the delivery of wages (Raabe et al. 2010).

6.2. COORDINATION OF PROCESSES AND CONTROLS

The definition of responsibilities and roles does not guarantee close stakeholder collaboration. Inter-institutional coordination amongst stakeholders requires actions to ensure that multiple stakeholders fulfill specific requirements in time and that their actions are harmonized.

Box 3. Pakistan’s Benazir Income Support Programme (BISP)

BISP clearly delineates key players’ tasks and payment information flow in its operations manual. Here is an example of a specific task of stakeholders – generating the list of recipients:

I. Uploading Lists of Eligible Women to BISP-MIS (step 2 of PM flow)
- The Data Entry Organization (DEOR) will send to BISP a Compact Disc (List of Receiver Women CD) containing the list of women designated to receive the payment,
- The List of Receiver Women CD will be given to the Director of Operations (DO) of the BISP Operational Department responsible for Payments.
- The DO will send the List of Receiver Women CD to the Director of Information and Technology (ITD) along with a letter confirming the number of women that been identified as recipient.
- The ITD will transfer the letter and the List of Receiver Women CD to the BISP-MIS Coordinator, who will upload the information to the BISP-MIS Payments Module.

II. Generation of Payment Lists (step 4 of PM flow)
- BISP-MIS will generate the Payment List between the 10th and 15th day of the first month of the payout period
- BISP-MIS will send to the DO a CD containing the Payment List along with a letter signed by the ITD stating the total amount of amount to be paid to recipients.
- The DO will send the Payment List CD to Pakistan Post Central Office in Islamabad, along with the payment checks. The Payment List CD and the checks will be accompanied by a letter directed to the Additional Director General notifying the number of recipients that will receive the payment and the amount to be paid.
- The Payment List CD will be sent to the Pakistan Post system no later than the 15th day of the first month of each payout period.

III. Reconciliation of Pakistan Post Payment Reports against BISP-MIS Payment Lists (step 6 of PM flow)
- When the Pakistan Post in Islamabad has completed the payment reconciliation for all Delivery Posts offices, it will send two separate files to BISP-Management Unit (MU), along with a letter from the Additional Deputy Director General (ADG)
- The DO in charge of payments at BISP_MU sends the Reconciliation Report CD to the BISP-MIS unit.
- The MIS coordinator uploads the two files in the MIS Payments Module, and the payment list is automatically updated.

Source: BISP 2009
6.3. CONTRACTING PAYMENT AGENCIES

In the event the governing agency decides to outsource the delivery of payments to a private entity, a legal contract must be issued following a competitive tender process. The preparation of the competitive bidding may require prior knowledge of service providers’ motivation, coverage, and availability of infrastructure. These aspects can be assessed a priori during the feasibility study and pilots. However in certain circumstances the government may nominate directly a service provider (e.g. a state bank), for which an interagency memorandum of understanding (MoU) will suffice.

Regardless of the type of agreement, one of the major components of the negotiations between the governing agency and payment agencies revolves around costs. Costs normally include the unit cost of the payment instrument, account creation and maintenance fees, and fee per payment transaction as well as security and payment reissuance in case of uncollected funds.

Determining the cost structure is one of the key considerations that determine which payment mechanisms should be adopted. However, these tend to vary substantially across regions and countries. For instance, in Colombia a merger between the state bank and a technology service provider (Banagrario – Assenda S.A.) charges US$6.24 per US$80 distributed on average (CGAP 2012) while a private bank charges US$0.08 per US$4.14 distributed in India a (DFID 2009).

Costs comparisons may nonetheless be misleading because of differences in benefit levels, payment frequency, infrastructure cost within the country, etc. For instance, while in Colombia the high price reflects the short-term nature of the contract with the single bidder and the cost incurred to upgrade its technology (issue debit cards, capture biometric information and build a new merchant network) (CGAP 2012), in India technology is more ubiquitous and not cost-prohibitive (DFID 2009).
Moreover, in preparing contracts and negotiations, a few issues need to be managed according to Grosh et al. (2008):

**“Demonstration Effect:** In countries where a large cash transfer program has not been operated in the past, financial service providers may fear that the services will be extremely expensive. These may either not bid or submit bids with high prices. In the early state of Colombia’s *Familias en Acción*, for example, program officials knew that US$ 1.30 per transaction was a standard cost for an ATM charge and were expecting to pay around US$ 2 per transaction. The first responses from private banks quoted US$ 10 per transaction.

As the program negotiators were knowledgeable about the banking industry, they understood the implications of offering to deposit the funds five days in advance of the start of the payment cycle. This resulted in a revised transaction fee quote of US$ 1.74 from the state bank. The program continued to negotiate with private banks and they quoted transaction fees between US$ 1.31 and US$ 1.52 (Lafaurie and Velasquez Leiva 2004).

**Contract Features and Issues:** Contracts need to specify a range of issues besides the financial terms, including ownership of the database of beneficiaries. Ideally, the governing agency should own the database used to manage deliver payments and maintain transaction records. At a minimum, the agency should have full access rights to the database and it should be fully subject to an audit if another institution manages it, as is the case of *Bolsa Familia* (BF) in Brazil. (Grosh et al. 2008, p. 174). Additionally, procurement arrangements of donors and the state should be considered.

The governing agency must also consider the acceptable length of contract arrangement with payment. On the one hand, a longer contract might permit payment agencies to amortize the cost of up-front investments in technology, processing, systems, and client training that will both allow low unit cost over time and good services standards (Grosh et. al. 2008). On the other hand, long-term contract can, without a well-considered time limit
or grievance mechanism in case of non-compliance (RHVP 2010), create a competitive advantage. The advantage is created due to investment in proprietary technology that only the provider can manipulate and high costs of hiring a new provider.

Contracts should also specify upfront desirable but realistic service standards and performance indicators. Details, such as maximum acceptable queuing times and paydays over the month, should be stipulated from the beginning in a contract. The biggest mistake program managers make is negotiating contracts with agencies before understanding clearly the importance of establishing service standards. In Swaziland, a Save the Children’s program suffered a four-month delay in the deployment of POS devices and the production of stripe cards because the terms of the contract were not carefully specified. Although cash note payments were made in the meanwhile, recipients needed to wait for 3.5 hours to receive payments and were not using the time savings features that the electronic nature of the PM was intended to provide (Beswick 2008).

6.4. DESIGN IMPLEMENTATION MANUALS & TRAINING

As soon as the institutional and legal arrangements are in place, program managers must clearly define the rules of operations, tasks and timeliness of stakeholders involved in the payments cycle (i.e. payment order, payment delivery, payment reconciliation, and so on) and make sure they are in tune with other program processes. These aspects are delineated in a payments manual, a tool that should not only guide the staff through the payment process but also anticipate possible scenarios in case things do not go as planned and how to resolve issues.

Once a payment manual is ready to be shared, program officers must train users of MIS module interfaces and case management staff. Training facilitates the learning and the development of new skills. Ideally, the program technical staff should provide
troubleshooting assistance to users during the first months. In India’s Andhra Pradesh state, payment agent candidates, mostly highly educated women, are provided with 2 days of training on how to process payments. At the end of the training, these candidates present a test. Only those with the highest scores become payment agents (Johnson 2008).

6.5. DESIGN BENEFICIARY OUTREACH AND COMMUNICATION CAMPAIGN

Program managers need to design beneficiary outreach campaigns to continuously convey the rights and obligations to participants before, during and after payment delivery. A sound campaign makes sure recipients understand the information required to collect payments such as payment location, requirements to comply with payment conditions, benefit size and calculation formula, identification requirements, schedules, as well as procedure to collect their installments. It also prepares them to raise complaints and provide feedback as needed. Not investing resources in a communication can increase costs in the long run. In Colombia’s Familias en Acción (FA) program, overall payment delivery using magnet stripe cards (US$ 4.9) cost twice as much as withdrawing transfer from bank branches using debit cards (US$ 2.5). This occurred because magnet stripe cards, even though they are less expensive, needed to be replaced up to five times because recipients either laminated the cards, rendering them unusable, or lost their PINs and had to request a new card (CGAP 2009).

A campaign should also empower recipients with instructions on how to proceed in case they receive incomplete, late payments or have to bribe payment agents to receive payments. Information of what is available for ‘free’ and what is available for a ‘fee’ should be publicly disclosed. Otherwise payment agents may take advantage of information asymmetry or fear of retribution (IAGGP 2011).
Information campaigns can include sending envoys of teams to villages to disseminate information through radio programs, television, newspapers, flyers, cell phones, social gatherings and so on. In lower-income settings, program can use established community structures (female groups) to pass on information to recipients. A Save the Children program in Swaziland employed trustworthy people known by the recipients and volunteers to conduct role-play activities to explain the financial services offered (DFID 2009).

Finally, it is not enough to merely disseminate information. Good outreach often means overcoming language, cultural and access barriers, especially if a new payment instruments is being introduced. Beneficiary outreach channels need to be designed to meet the needs of the poorest, the less educated, minority groups, and those in remote areas which are harder to reach. The most frequent users of payment services tend to be better informed and connected through social networks, but these may not be the poorest groups.

6.6. PROCESS EVALUATION

A process evaluation can uncover bottlenecks in the payment flow that may lead to delays and leakages in the payment flow. It can also help evaluate the cost-efficiency of different instruments – private and administrative costs versus benefits (cost-time savings). At program onset, process evaluation can be used to monitor initial payment flows so that bottlenecks can be identified and addressed quickly before scaling up. Once the program matures, a process evaluation can be used to provide ongoing feedback concerning service delivery to management. The indicators used in a process evaluation related to payments can vary but are typically:

- Average time to produce and distribute payment instruments (vouchers, cards);
- Average time to transfer cash from funding agency to payment agency to the point of payment (POP);
• Average time to produce list of recipients and submit it to payment agency/agent;
• Average commuting time for recipients to get to the POP;
• Average cost and percentage of transfer recipients incur to commute to the POP;
• Average queuing and collection time at POP and number of transactions per hour;
• Number of incomplete, delayed and omitted payments;
• Number of recipients that, and percentage of transfer spent to, bribe payment agents;
• Quality of service delivery:
• Late opening of POP during pay days;
• Absent of payment (human) agents during operating hours;
• Number of ATMs, POS devices, cell phones out-of-service due to lack of signal, hardware malfunctioning, electricity shortage;
• Reported mistreatment from payment (human) agents;
• Average time to complete payment conciliation;
• Percentage of grievance redress claims settled within x months of application.

VII. CONCLUSIONS

This paper provides a practical guide to program managers, designer and implementers of SSN programs, on the design and implementation of PMs to make effective cash transfers to beneficiaries. By doing so, this paper begins to fill a knowledge gap and extends previous work by taking a holistic view of the payment processes and controls, weaving them into program design - and country- specifics considerations, including existing banking infrastructure and regulatory environment.

The paper provides a general framework for the integration of PMs within overall program management. The framework focuses on PM flow design, implementation, stakeholders, range of available PM options as well as accountability, monitoring and process evaluation and strategic assessment considerations. In particular, the paper guides the reader through
seven basic steps to process payments. These steps broadly describe the flow of information and funds from beneficiary registration and program enrollment to payment delivery, reconciliation and redress. This framework is used to discuss specific alternative PM mechanisms for unconditional and conditional cash transfers and for public works programs.

The main conclusion is that successful PMs integrate appropriate methodologies within key business processes (registration, enrollment, requirement compliance, and grievance mechanisms) under an integrated management information system (MIS) to synchronize operations cycle. The key lessons are highlighted below.

7.1. KEY LESSONS

The key lessons that emerge from the review and analysis of programs and payment methods covered in this paper are presented below.

(i) Keeping in mind the characteristics of the program and the needs and understanding of beneficiaries. Any payment mechanism has to take into account the program processes that inform the payments cycle as well as the needs, awareness and capacity of beneficiaries. Explaining to beneficiaries once at a workshop how to access their payments may not be enough. Lack of financial literacy and previous exposure to banking may pose a barrier to some beneficiaries if not explained correctly and concurrently.

(ii) Adopting the best combination of traditional and technology-enhanced methods. Adopting the best technologies available, appropriate to the country, and cost effective even if they might seem more expensive in the short run could help reduce fraud and corruption, improve efficiency and reduce costs in the long run. These may include the use of smart cards, cell phones, and so on. The choice of the actual PM and delivery method
adopted will have to take into account the needs of the beneficiaries in combination with the alternatives presented by a feasibility study that will include an assessment of information and communication infrastructure and coverage.

(iii) Integrating PM with design processes with MIS. The design of payment mechanisms has to be integrated in the other program processes controlled by the MIS, in coordination with targeting, registration, grievances, etc. The integration of system processes is critical to facilitate the flow of information for making timely payments to intended beneficiaries.

(iv) Designing a decentralized system. In many countries payment systems are generally represented as fairly centralized systems. In a typical PM, money starts flowing from a source (government’s treasury single account), passing through a central-level coordinator (payment agency) and an intermediary (payment agent) down to its final destination in a specific form (payment instrument). However, varying levels of decentralization are also possible. Within the given framework, individual components have to be designed, given the respective situations at central and local level.

(v) Understanding payment, program, and stakeholder parameters. The selection of key actors involved in the payment system should take into account the underlying incentive structures to ensure that they are motivated to perform their task timely and efficiently. For example, separating the tasks and functions among actors can discourage conflict of interests and reduce corruption. On the other hand inter-institutional coordination amongst stakeholders is central to ensure that multiple activities of stakeholders are harmonized in synch with payment processes.

(vi) Providing sufficient information, communication and training. Beneficiaries should be fully informed through communications and publicity campaigns of the level of their benefits, the current and proposed methods of payments. If a transfer recipient does not understand how she/he is entitled to, this opens the room for errors, delays, fraud and
corruption. With a solid campaign, these risks can be significantly reduced. Similarly, understanding (and if possible assessing) the behavior of recipients to anticipate their reactions to the introduction of new technologies, their understanding of payments, rapport with payment agents, and even potential use of financial services is necessary for the design and updating of methods.

7.2. MAIN CHALLENGES

Although implementation design challenges are program and country specific, the most common ones are:

(i) Managing the perception of high costs. Automated, ICT based PM may require higher start-up investment costs, but over time unit costs of delivery are expected to go down substantially, depending on number of users and frequency of use, compatibility with other data management system, etc. However, decision-makers may also be reluctant to adopt such investments without understanding the benefits and cost-effectiveness of mid- and long-term PM.

(ii) Hiring payment providers. Contracting out services (selecting the preferred bidder, timing of roll out, PM governance, reporting requirements, etc) is not a straightforward process. The preparation of the terms of reference for the call for proposals or tender process may require prior knowledge of PM and of the motivations of the private sector companies, their capacities, coverage, and so on. It is important to point out that though ideally the selection of payment agencies/agents should be on a competitive basis, in certain circumstances this may not be feasible and the government should nominate a commercial bank or financial facilitator (IAGGP 2011).
(iii) Avoiding the use of inappropriate design. It is always relevant to shy away from approaches that deploy expensive technology for the sake of technology, requiring substantial investment in new infrastructure and limit beneficiary accessibility through the deployment of proprietary technology including proprietary payment instruments and channels. (Kilfoil, Craig, Mackay, G., Langhan, S. 2008).

7.3. WAY FORWARD

Different countries have reached different levels of sophistication and progress in their strategic development for SSN programs. A good feasibility assessment comprising current state of technology, information constraints, and local institutional capacities can inform a country’s broader payment strategy for making effective SSN payments that is most appropriate in a given country situation.
VIII.  ANNEXES

8.1.  CASE STUDIES

In this section, three different case-studies are reviewed. They are (i) Kenya’s Cash Transfer Program for Orphans and Vulnerable Children (CT-OVC); (ii) Mexico’s Oportunidades Program; and (iii) Rwanda’s Vision 2020 Umurenge Program (VUP). The objective of these case-studies is to reflect different payment options and design flows under three different SSN programs. The below box provides a summary of the case-studies.

Using the basic seven-step PM flow framework, the three case-studies illustrate how different countries have designed and implemented PMs by involving different stakeholders and employing different payment methods, processes and controls. They do not attempt to assess the performance or efficiency of their respective payment options and design flows.

Kenya’s CT-OVC shows how a program can gradually introduce and transition to alternative payment service providers as the program matures and expands. Also, the CT-OVC experience highlights the technical challenges of contracting a sophisticated payment service provider, making a business case for the payment server provider to serve a new customer demographic and new geographic areas.

Mexico’s Oportunidades leverages existing infrastructure of state and private entities to ensure widespread coverage and highlights the importance of a sophisticated MIS system. The Mexico experience shows that an automated MIS is vital to generate the information needed to process payments, such as the establishment of a payment calendar for payment cycles to ensure success in providing timely and predictable payments. The development of different points of payments, payment agents and instruments tailored to the needs of recipients in a wide range of geographic areas is, along with ensuring financial literacy, vital to the success of the program.
Finally, *Rwanda’s* VUP illustrates the importance of broad political commitment to implement best practices and drawing from lessons learned throughout the implementation.
process, while leveraging parallel government initiatives, such as the introduction of a new bank law that requires government transfers to bank accounts and the initiative to expand local SACCOs to extend financial services in country and allow citizens, who otherwise wouldn’t have access, to set up bank accounts.

Below follows the detailed case-studies for each of the country-programs:

8.1.1. KENYA CASH TRANSFER PROGRAM FOR ORPHANS AND VULNERABLE CHILDREN (CT-OVC)

I. CT-OVC - INTRODUCTION/BACKGROUND

The Cash Transfer program for Orphans and Vulnerable Children (CT-OVC) provides social protection through regular cash transfers to households living with OVCs to encourage fostering and retention of orphans within their families and communities and to promote their human capital development through better school enrolment and attendance and better health centre attendance. The program began in December 2004 in initially nine communities, within 3 districts, with cash transfers to a total of 500 OVCs. By the end of 2010, the program operated in 60 Districts, within all 8 provinces in the country, with payments being made to over 103,307 households. By June 2012 the program had enrolled and payed 150,000 households. The program is implemented by the Government of Kenya (GoK), with support from the World Bank, UNICEF, SIDA and DFID.

The program’s main objective: The overall goal of the program is to “Provide a social protection system through regular and predictable cash transfers to extremely poor households living with OVC in order to strengthen their capacity to care and protect orphaned children and promote their human capital development”. The specific objectives of the program are to:

- Increase household food consumption and promote nutritional status;
• Increase access to basic schooling (enrolment, attendance and retention) of 4 to 17 years old OVC;
• Increase access to basic health care by 0 to 5 year old OVC that covers immunization, growth monitoring and vitamin A supplementation;
• Increase the number of OVC and care givers who acquire birth certificates, national ID respectively and acquisition of death certificates for deceased parents; and,
• Increase OVC access to other key services through strengthened linkages with other social service programs.

**Target groups:** The program targets households with at least one OVC, living in extreme poverty, and not a beneficiary of another cash transfer program.

**Targeting mechanism:** Community-targeting in combination with proxy-means testing.

**Conditional and unconditional cash transfer:** The initial program design included a pilot component to test the role of penalties and conditions on education and health outcomes. The pilot design divided the selected households into two intervention groups, one conditional and one unconditional. Each enrolled household would then receive Kshs 1,500 per month (approx. US$18). During an impact evaluation of the program, the impact of the conditions and penalties could not be analyzed, due to design challenges with the conditions/non-conditions component. Instead, with increased technical assistance, the Government redesigned the pilot. Implementation of the new pilot was set to start in October 2011.

**Non-compliance of conditionality:** The first two payments are to be given in full and will not include penalty for failures to comply with conditionalities when applicable. The conditional

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37 Based on CT OVC (2011) *Operations Manual (Revised, October 2011)*
cash transfer group was subjected to a penalty of Kshs 500 (approx. US$6) for non-compliance after the first two payments (with a max penalty of Kshs 1,500, if three or more OVCs within a single household do not comply within a payment cycle). The unconditional cash transfer group is not subject to any penalties and receives the full payment regardless of compliance.\textsuperscript{39}

Payment mechanism: Initially, the payment mechanism was made through the District Treasury. Now, payments are made through the Postal Cooperation of Kenya (PCK) in 47 Districts. Lately the GOK has introduced an alternative mechanism using Equity Bank\textsuperscript{40} to provide an alternative payment mechanism using Smartcards and Point-of-Sale Agents. Equity Bank is working with the DCS to provide biometric smartcards in 25 of the program districts. By December 2012, it is anticipated that 57,000 of the 150,000 households will be enrolled for payment using the new provider.

Identification: Recipients are encouraged to obtain national identification cards in order to receive payments.\textsuperscript{41} A payment card must have at least two signatories. Under the new payment mechanism, Smartcards using Biometric Solution and an 80K smart chip will be issued.\textsuperscript{42}

Payment frequency: Beneficiary households receive their cash payment every 2 months.

\textbf{II. CT-OVC STAKEHOLDERS}

Payment stakeholders under the CT-OVC program include the following:

\textsuperscript{39} Home visits may also be used to assess the situation and reason for non-compliance and/or non-collection.
\textsuperscript{40} As of March 2011. Ministry of Gender, Children and Social Development (MGCSD) leads these negotiations.
\textsuperscript{41} An ID is not, in practice, a prerequisite for collecting payment. For example, IDs are issued to over 18 and yet children can collect the funds.
\textsuperscript{42} This smart card is produced following the collection of biometric data- fingerprints and photos from the beneficiaries and is designed to increase the security of payments.
1. GOVERNING STAKEHOLDERS

CENTRAL GOVERNMENT AGENCY

The CT-OVC program is a Government-program with support from World Bank, UNICEF and DFID.

The program is managed and implemented by the Ministry of Gender, Children and Social Development (MGCSD), and now covers all 8 provinces in the country. Within MGCSD, there are:

- **The Department of Child Services (DCS)**, the official entity responsible ensuring compliance with guidelines and coordination of daily implementation and operation;
- **The Central Program Unit (CPU)**, the technical arm of the DCS, coordinates and supervises identification and selection of the beneficiaries’ processes; produces list of eligible households; and coordinates logistics for enrolment; supervise the compliance of conditionalities/responsibilities; requests and approve cash transfer for payments agents; coordinate monitoring, promotion and training activities; and
- **The National Steering Committee for OVC (NSC-OVC)**, a multi-sectoral community, provides policy direction with respect to issues affecting OVCs. The DCS acts as the Secretariat for the NCS-OVC.
• The Technical Working Group (TWG), composed of the CT-OVC technical staff from the CPU and representatives of the Development Partners, is responsible for making day to day decisions related to program implementation. The TWG is chaired by Director Children Services (DCS) that acts the secretariat of the program.

Other central Government stakeholders include:

• Ministry of Finance, which allocates funds and provide guidelines on all financial matters for the CT OVC program;

• Ministry of Education, which collaborates with the MGCSD in the implementation of compliance in education for the children in the beneficiary households, with the support of District Children Office and District Education Officers.

• Ministry of Medical Services, which collaborates with the MGCSD in the implementation of compliance in health for the children in the beneficiary households, with the support of the District Children Office, the District Medical Office and participating health facilities.

**DECENTRALIZED GOVERNMENT AGENCY**

Decentralized Government Agencies responsible for the overall implementation of the CT-OVC program include:

• District Children Office (DCO), which is in charge of the administrative coordination of the program at decentralized level and serves as the link between the CPU, health-, education- and civil registration service providers, and the beneficiaries. It is also in charge of monitoring compliance and reporting to the CPU.

• Area Children Advisory Council (AAC), which oversees the project implementation at District levels.  

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43 The DCOs are staff of the Department of Children services at the District level. They are employees of the MGCSD. The AAC is a collective entity composed of various officers at the District level (including the DCO) and
• **The District OVC Sub-Committee (DOSC)**, which is a technical hub of the AAC, is in charge of supporting the DCO to implement the program at various stages within the Districts.

• **The Location of OVC Committees (LOC)**, consisting of community members, in charge of identifying extremely poor households with OVC in the villages. They assist enumerators for household surveys, validate selection of beneficiaries through the community barazas, assist with the enrollment, coordinate home visits and awareness sessions processes and monitor progress of OVCs continuously.  

• **Beneficiary Welfare Committees**: In order to strengthen local level delivery of the program, the CT-OVC has changed the role of the LOCs, limiting their oversight function to targeting only, and has established a new structure, the **Beneficiary Welfare Committees** (BWCs). “The overall objective of the BWC is to empower the beneficiaries to participate in decision making, promote their rights and dignity and act as an accountability mechanism to one another.” Guidelines for these committee structures have been developed and establishment of these committees in all programme locations is in progress.

• **District Education Offices (DEO), Municipality Education Offices (MEO), and schools**, all part of the educational compliance controls process of the conditional cash transfer part of the program.

• **District Medical Office (DMO), and related health facilities**, all part of the health compliance controls process of the conditional cash transfer part of the program.

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44 Useful to note that the co-responsibilities or conditionalities pilot is currently under re-design and is expected to be rolled out during the October 2011 payment cycle. Beneficiary Welfare Committee (BWCs), a new structure replacing certain tasks previously allocated to the LOCs, will be responsible for these follow up visits where beneficiaries fail to meet the conditions 2 times and if do not adhere beyond that, exit the program.

45 CT-OVC Program (2011). *Terms of Reference for Beneficiary Welfare Committees*
The GoK has developed a robust MIS for its CT-OVC program to verify selection and ranking of eligible households, provide payment service providers lists of recipients, which in turn facilitates estimates of liquidity amounts required each month at each payment point; to enable monitoring of the benefit disbursements and conditions to enable the appropriate deduction of penalties (when applicable), and to reconcile payments, among other things.

To complement the identification, enrollment, monitoring and updates of the beneficiaries, the MIS system is complemented by information provided by the following agencies:46

- *The Civil Registrar*, in collaboration with the District Children Office and provincial administration, facilitates the acquisition of birth certificates and death certificates to beneficiary households.

- *The Registrar of Persons*, in collaboration with the District Children Office and provincial administration, facilitates the acquisition of the national identification cards to the caregivers of the beneficiary households.

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46 These agencies are part of the Government of Kenya structures. Through the DCOs, they provide information that feeds into the program’s MIS.
2. PAYMENT STAKEHOLDERS & INSTRUMENTS

*Initial payment mechanism* – The first payments, during the inception of the program, were made through the District Treasury. As the program expanded, the PCK was used as the payment mechanism in majority of the Districts. As of July 2012, all payments are made through the PCK, before the expected transition to Equity bank which is being facilitated by the DCS.

*Postal Cooperation of Kenya (PCK)*: GoK contracted the PCK\(^{47}\) in 2004 when the program was first introduced to leverage the existing infrastructure that facilitated the inception, and later the scale-up, of the program. Under this payment mechanism, recipients must collect their payments directly (or their caregivers holding a national identification document) in a specified period\(^{48}\) from government post offices. Each recipient is assigned a postal office location (based on proximity). GoK is responsible to ensure that each postal office has the appropriate amount of cash to make the cash payment during each payment cycle. For identification, recipients are provided with national identification cards (form of payment is


\(^{48}\) There is a two week window during which all the beneficiaries within a location are able to access their payments

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in cash only and card serves for identification). This payment mechanism has worked well for its intended purposes during the first years of implementation and scale-up.

Alternative payment mechanism – Equity Bank Agency Model: GoK has contracted Equity Bank to provide an alternative payment mechanism under the CT-OVC program. This payment mechanism uses an ‘agency model’ (intermediary) to reach beneficiaries, drawing from experience with a similar model under the Hunger Safety Net Program (HSNP) funded by DFID. This model is initially implemented in 25 Districts and will potentially expand to cover beneficiaries in additional Districts. Equity Bank identifies local traders who have cash (liquidity) available from their daily business activities. Agents are then issued a biometric authentication Point of Sales (POS) device. The recipient of the cash transfer is issued with a SmartCard. The form of payment is cash. The SmartCard is produced based on the capture of biometric details (fingerprint and photograph) of the recipient and beneficiary and therefore serves to increase the security of the payment process. Only a beneficiary (or designated recipient) is able to use the card to access payments. When a recipient request payments, the cash is taken from the agent’s own cash supply. This cash is later credited to the agent’s Equity Bank account along with a service fee payment. The POS keeps an electronic record of the transaction and the recipient receives a paper receipt of the transaction.

49 The case-study draws from the Technical Proposal, Payment Service Provider Equity Bank, Contract Identification No: DCS/TS/Z/12/FY09-10, November 18, 2010. Contract has since been finalized and implementation is set to begin in April 2012.
Under the PCK payment mechanism, PCK makes payments bi-monthly (every two months), on a predetermined schedule following instructions from the CPU within the MGCSD, using cash transferred from treasury to the ministry account. PCK was chosen as the sole payment agency when the CT-OVC program started in 2004. As of 2010, PCK branches were serving CT-OVC households in 47 districts, across all 8 provinces, making payments to over 103,307 households, with the number of beneficiaries expected to grow up to 150,000 by the end of 2012. This payment mechanism has worked well for its intended purposes. The use of existing PCK infrastructure has allowed the program to scale up without major investments in new infrastructure as the targeted population were located within PCK service areas. Only in the Northern Provinces has accessibility due to long distance and terrain proved less than ideal for recipients. However, use of PCK branches to make cash payments does limit the flexibility of access to cash and does not easily allow offering of additional financial services to improve financial inclusion or access.

In the Equity Bank payment mechanism, Equity Bank provides an alternative payment mechanism, after a competitive bidding process. Equity Bank uses a network of local merchants, or agents, to complement the PCK network used for cash delivery. Funds are wired from MGCSD to Equity Bank, who manage the entire process with the local agents to ensure liquidity. Equity Bank’s servers also gather transaction information that is shared with MGCSD’s MIS system for reconciliation purposes. Equity Banks use of biometric technology offers the program a secure payment mechanism based on two-factor authentication, reducing the fiduciary exposure of the payment process. This option offers
also more flexibility to recipients and has the means to offer additional financial services (current and future), which aims to help deepen financial inclusion and access. This option will be tested as the CT-OVC scales up from 103,307 households (2010) to the envisaged coverage of 150,000 households by the end of 2012.\textsuperscript{50}

\textbf{PAYMENT AGENT}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{payment_agent}
\caption{Diagram of Payment Agent System}
\end{figure}

\emph{Under the PCK payment mechanism}, the recipients collect the cash directly from the PCK branch office, acting as a payment agent.

\emph{In the Equity Bank payment mechanism}, Equity Bank works with identified local partners using a so-called ‘agency model’. Each agent is given a device with Biometric Solution.\textsuperscript{51} Equity Bank is responsible for ensuring installation of the appropriate technology and providing capacity building. All transactions are monitored and backed up on Agents’ SmartCards and their POS terminals, and on the central server at the Equity Bank’s head office. This model has been used by Equity Bank for the HSN program.

\textsuperscript{50} As of May 2011, discussions were ongoing to develop a roll out plan that would include Districts supported through funding from various donor partners and GOK. The understanding is that beneficiaries will not have a range of choices for payments. Rather, it would be either one payment mechanism or the other depending on the District. These discussions were pending the finalization of the Equity Bank contract.

\textsuperscript{51} Fingerprints and photographs of beneficiary and/or recipient (“next of kin”) are required.
PAYMENT INSTRUMENTS

Under the PCK payment mechanism, recipients are given a laminated cardboard program ID card\textsuperscript{52} with their photograph and national ID number printed on it. Payment can be collected by a nominated ‘secondary recipient’ (”next of kin”), but whoever collects the payment must have a national ID card. This is a cash only option and the cash amount is collected in full.\textsuperscript{53}

In the Equity Bank payment mechanism, Equity Bank issues SmartCards using Biometric Solutions and 80K smartchip to allow for withdrawal of social funds at established payment points, in this case with local traders using POS devices, and Equity Bank branches. The SmartCards also allows MGCSD to store any other information related to the beneficiary. In addition, the SmartCards allows for other service offerings, such as balance enquiry, transaction history, and transfer to a savings account at no additional cost. It is also envisaged that the SmartCard will allow for additional future services, such as providing micro-insurance. All the POS devices have access to power from mains, car battery and solar-powered systems at a paypoint, storing power for 8 hours or 2,000 transactions.

3. BENEFICIARIES AND RECIPIENTS

Although the program is not specifically designed to reduce poverty, scarce resources mean that the program targets the poorest OVC households. A household is classified as eligible for the program if it satisfied all of the following conditions: the household contained at

\textsuperscript{52} One payment card per household, expect in cases where there is more than one wife in the households.

\textsuperscript{53} Payments must be collected in full. Partial collection is not allowed.
least one OVC; the household is poor according to the program’s poverty criteria; and the OVCs are not benefitting from other cash transfer programs.

4. CONTROL AND ACCOUNTABILITY STAKEHOLDERS

"Auditor stakeholders" include:

- The Monitoring and Evaluation Coordinator at the CPU is in charge of monitoring the CT-OVC program with the support of DCOs, DOSC and LOC members.
- The planned operational and impact evaluations will be conducted by an expert external firm.
- External monitoring through regular spot-check reviews is undertaken by an independent firm contracted by Government. This complements the internal Monitoring and Evaluation function.
- "Complaint management stakeholders" include:
  - Household representative at schools, health facilities and DCO offices.
  - LOC member or DOSC member.
  - CPU and MIS.
  - Registries related to the following documents needed for appeals: identity cards; birth certificates; death certificates; disability certificates issued by a Health Facility; or a letter from the chief stating their case if the above documents are not available.
  - An independent firm is contracted by the Government to manage the external complaints and grievance system of the program, as a complement to the internal complaints and grievance mechanism.

III. CT-OVC CUSTOMIZED PAYMENT FLOW DESIGN

The overall payment design for the CT-OVC for both intended groups, the conditional and unconditional cash transfers are illustrated in the payment flow figures below. The following should be noted:
- In the first payment flow (conditional), the payment cycle after two first initial payments (which does not require compliance) are shown. The first two cycles under the conditional cash transfers are therefore identical to the unconditional payment (Figure 9).
- The payment flow (both conditional and unconditional) shows the two payment mechanisms, via PCK and Equity Bank.
- A third payment flow also illustrates the specific payment flow used by Equity Bank to fully complete and comply with its responsibilities in terms of linking with agents through POS service-points, ensuring updating of POS devices and uploading with central server and the MIS system based within MGCSD.

Each of the various steps is then outlined in detail.

The payment flow between MGCSD and UNICEF and DFID, which allows for a slightly different flow of funds are not illustrated, but are overall similar in nature to the flow shown below (see Figure 10).
Figure 9. CT-OVC's Payment Flow for Conditional Cash Transfers - Two Alternative Payment Mechanisms

Step 1: Identification Process
Step 2: Approval and Enrollment
Step 3: Compliance
Step 7: Complaints & Appeals Mechanism

Two Alternative Payment Mechanisms

Step 5 (a): PCK Payment Delivery
Step 5 (b): EB Payment Delivery

Ministry of Gender, Children, Social Dev., MoF, MoE, MoH
Decentralized: DCO, DOSC,

Equity Bank
Server

Step 4: Payment Order
Step 6 (a): PCK reconciliation
Step 6 (b): EB reconciliation

Beneficiaries
Recipient

School
Health

CT-OVC MIS/Registry
Figure 10. CT-OVC’s Payment Flow for Unconditional Cash Transfers - Two Alternative Payment Mechanisms

Step 1: Identification Process

Step 2: Approval and Enrollment

Step 3: Compliance [not applicable]

Step 4: Payment Order

Step 5 (a): PCK Payment Delivery

Step 5 (b): EB Payment Delivery

Two Alternative Payment Mechanisms

Step 6 (a): PCK reconciliation

Step 6 (b): EB reconciliation

Ministry of Gender, Children, Social Dev., MoF, MoE, MoH
Decentralized: DCO, DOSC,
LOC

CT-OVC MIS/Registry

Beneficiaries

Recipient

Third Party Vendor

Branch Office

Equity Bank Server
Figure 11. Payment Flow For Equity Bank, linked to CT-OVC’s MIS

Details of Equity Bank’s Payment Flow with Linkages to GOK’s MIS
Step 1 - Identification Process: The community-based targeting process is complemented with a proxy-means test by collecting socio-economic data through household surveys.\textsuperscript{54} The identification of households with OVCs is the same regardless of payment mechanism used or whether the OVC will be required to comply with conditionalities or not.

Step 2 – Approval and Registration: The list of identified households is then sent for verification and final approval to the central MIS, allowing the CPU to ensure that the identified households meet predetermined eligibility criteria. In the case where more households are eligible than available program resources, a ranking system based on vulnerability is exercised. Once the list and ranking is complete, and the MIS has analyzed the information, the list is sent back to communities for final validation in terms of eligibility and level of vulnerability. Once the list has received final approval, the list is sent back the CPU, through the MIS.

Once final list of households have been identified, the enrollment process begins.\textsuperscript{55} During enrollment, eligible and selected households will provide required information and receive

\textsuperscript{54} Location of OVC Committees (LOCs) facilitate this process. LOCs are trained by District OVC Sub-Committee (DOSC).
an orientation of the program. Information is kept confidential. This process lasts about 1-4 days depending on the number of selected households. Once the enrollment process is complete, the documentations are sent to the CPU and enrollment forms are entered into the MIS.

The approval and registration/enrollment process of the households is the same regardless of payment mechanism used or whether the OVC will be required to comply with conditionalities or not. While the Smartcards use Biometric Solutions to verify identity of recipients and/or beneficiary at time of transaction, either the recipient or beneficiary is still required to have a regular national identification card at time of registration. This is to comply with the Central Bank of Kenya’s “know your customer” rule.56

Under the Equity Bank payment mechanism, once the registration is complete by the DCS team, the list is forwarded to Equity Bank who will print the Smartcards and distribute to local Equity Bank branches for collection and distribution to beneficiaries by DCS, with assistance from LOCs.

Throughout the payment cycle process, over time, the initial information collected, which has served as basis for the selection of beneficiary households to register for the program, will be updated as part of the regular monitoring process. These updates could lead to households being added or exited from the program. Updated information57 will be considered when the new list of beneficiaries is prepared for the following payment cycle.

Step 3 – Compliance of conditionality: The process for compliance is the same regardless of the payment mechanism used to make the payment. First, health and education

55 Stakeholders: CPU, DCO, Registrar of Persons and Civil Registrar.
56 In theory, registration (enrollment) requires an ID under Central Bank of Kenya’s ‘know your customer’ rule. At time of registration, biometrics information would also be captured. However, given that many people do not have ID cards, and based on experience in other programs, other verification methods are used, such as various community structures that would verify residency, age, or other info required.
57 Collected by DCOs.
compliance forms are pre-printed with beneficiaries’ names and sent to respective schools and health facilities by DCO. Second, following the specific cycle, health staff and school teachers fill out compliance forms. Third, DCO sends collected forms to CPU, where information is reviewed and entered into MIS. Lastly, DCO performs supervision control of the compliance cycle.

The only point to note is that the conditional cash transfer group will face a deduction of Kshs 500 (max Kshs 1,500 per household) if failed to comply with conditionalities. These home visits aim to create awareness of program and its benefits. After three consecutive periods of non-compliance, OVC beneficiaries under the conditional cash transfers program are automatically exited from the program. Compliance does not apply in areas where health or educational services are not available.

**Step 4 – Payment order:** Under the PCK payment mechanism, each recipient household is assigned to post office (based on proximity). Once the amounts to be paid to each beneficiary household have been calculated by the MIS, the CPU sends the list of payments to each PCK office participating in the CT-OVC program. In the case of funds from UNICEF and DFID, the CPU submits a request to these development partners for the funds. For the case of World Bank funds, the DCS transfers money to the PCK office directly. It is the responsibility of the CPU to ensure that the right amount of cash is transferred each month to each PCK office to ensure PCK offices has the liquidity to make the payment during the set payment cycles.

Under the Equity Bank payment mechanism, DCS disburses funds for a cycle to Equity Bank with a list of all the recipients and the amounts for that particular payment cycle for each

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58 Both conditional and unconditional cash transfer groups could be subject to home visits after failing to collect two consecutive payments. However, the mechanism for systematically monitoring compliance and penalizing households by Kshs 500 per infringement was not fully implemented as of 2010.
beneficiary household.\textsuperscript{59} Equity Bank then uploads the virtual amounts to the agents by a Central Server and synchronizes the Agent POS with the value of disbursement. The agents must get within network coverage to receive the latest data, which is done on specific dates agreed between the agents and Equity Bank.

**Step 5 – Payment Delivery:** The benefit is paid every two months. If benefits are not collected, the uncollected benefit is ‘rolled-over’ to the next payment cycle. If payments are left uncollected for three payment cycles, beneficiaries are removed from the program. *Under the PCK payment mechanism*, the recipients have to collect their cash during predetermined dates and times at an assigned PCK branch office. The recipient is issued a receipt and should sign or provide their fingerprints as evidence of payment.

*Under the Equity Bank payment mechanism*, once the agents have downloaded the latest data to its POS device, the agents can make a payment to recipient. Recipients have the option to go to any registered agent. Equity Bank ensures that Agents have denominations of values below Kshs 500. Beneficiaries may also transfer cash to a savings account, at no cost.

**Step 6 – Payment Reconciliation:** *Under the PCK payment mechanism*, once the payment period has ended, each regional PCK office delivers signed payrolls and reconciliation reports to the main payment executing agency, which in turn consolidates the information and prepares the reconciliation and settlement reports for the CPU to be entered into the MIS.

*Under the Equity Bank payment mechanism*, the agents is responsible for running a ‘settlement patch’ during which the agents’ POS will synchronize with Equity Bank’s Back Office system at its Bank Data Center. Once done, Equity Bank stores all transaction

\textsuperscript{59} As in March 2011 proposal. Subject to change.
information, and reconciles and produces MIS reports. At this point, agents are compensated by a virtual payment to the agents’ Equity bank account. A system interface between Equity Bank and DCS allows for information and data sharing on a bi-monthly basis or on a request-basis.

Following the third payment and onwards, after updating compliance information into the MIS, the CPU carries out the reconciliation process for payments during the last payment cycle and simultaneously requests funds for next payment cycle. In case of UNICEF and DFID funds, the CPU sends the latest reconciliation reports and requests funds for the following cycle.

**Step 7 – Grievance and Redress:** Beneficiaries may submit complaints about the following issues during program implementation: payments issues\(^{60}\) or services for education and health. The process is the same regardless of payment mechanism used for collection. The mechanism for payment and/or compliance complaints is as follows:

**Figure 12. Summary of CT-OVC's Payments and Compliance Mechanism**

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\(^{60}\) Payment related complaints could be delayed payments, payments not being made in full, poor service during payment processes, etc.
Key Steps of CT-OVC’s Payment and Compliance Mechanism

Step 1: Complaint forms are available for household representative at schools, health facilities and DCO offices. The representative fills out the form, either on his/her own, or assisted by a LOC member or DOSC member.

Step 2: The representative and the LOC or DOSC member deliver the form to the DCO office, where the DCO officer must hand out a receipt to evidence the submission of the complaint.

Step 3: The DCO carries out an investigation with the assistance of DOSC or LOC members if needed. The DCO informs the results of the case in writing to the applicant within 30 days of the complaint been submitted.

Step 4: Any complain the beneficiary feels that they cannot be addressed through the above channels should be directed to the CPU.

Step 5: The MIS System is updated as needed.

IV. ADDITIONAL CT-OVC KEY FEATURES

ENSURING LINKAGE WITH MANAGEMENT INFORMATION SYSTEMS (MIS)

In the case of payment delivery through the PCK, the MIS plays an important role in ensuring that each post office is provided with a list of recipients within its vicinity and the appropriate amount of cash transfer prior to the payment period. Lists are also provided Equity Bank, who transfers list of recipients to their agents, although Equity Bank and agents are responsible for ensuring liquidity. Equity Bank uses its own central Back Office

As similar process if followed for appeals regarding beneficiary eligibility and selection.
servers (see Figure 12 above) to process, verify, and manage transaction information received through the use of Smartcards and Point-of-Sales devices. These central servers located within Equity Bank uses an interface to communicate and share information with the MIS system designed for the CT-OVC program. Parts of this MIS system are still being implemented and developed. The MIS plays an integral part of the program’s overall monitoring and evaluation, which includes three aspects: (i) internal monitoring; (ii) external monitoring; and (iii) operational and impact evaluation. These monitoring processes are rather standard. For the internal monitoring, regular monitoring reports are produced and shared with stakeholders, including development partners. The implementation of the external monitoring is done through the following three activities; (a) a spot check verification system; (b) a citizen report card survey; and (c) an independent grievance mechanism. The design and implementation of these activities will be contracted out to an independent agency.

DESIGN BENEFICIARY OUTREACH AND COMMUNICATION CAMPAIGN

Two types of awareness sessions are in practice: (i) awareness sessions related to the operative aspects of the program, and (ii) awareness sessions related to the importance of health and education topics. Awareness of operative aspects of program emphasizes conditions and responsibilities, how and when to collect payments, how penalties (when applicable) are applied, answer questions about the enrollment process, and updates and claims processes. Awareness sessions related to health and educational aspects is performed with support from Ministry of Education, Ministry of Health Services, and other community-based groups. These home visits will focus on understanding reasons for households failing to collect cash payments for two consecutive periods (which is what calls for the home visit) and explain that the household, as a consequence, has been exited from the program. Topic such as nutrition, children and maternal health, social issues and prevention is to be addressed to help OVC household deal with related family issues.
LINKING PAYMENT FLOW PROCESSES AND CONTROLS TO FUNDING SOURCES

The following figure shows the flow of funds from the funding sources (development partners and Government of Kenya) to the government’s designated/project account for its CT-OVC program. As in any program, the design of the CT-OVC program, in particular that of its payment mechanism as described above, had to be integrated into this flow of funding resources as outlined in detail in the CT-OVC operation manual.

Figure 13. Flow of Funds from Funding Source


V. CT-OVC - LESSONS LEARNED

- Gradual introduction of and transition to alternative payment service providers can be introduced as the program matures and expands. A program can transition to new and more sophisticated payment mechanisms over time as program matures
and expands. The CT-OVC started out using the existing network of the national postal services to first pilot the program and get the program off the ground. As the program was being implemented, various alternative options to the national postal services were explored and introduced gradually while the program was already being implemented.

- **Contracting of payment service providers require technical capacity.** This is especially true if the payment service provider is to serve a new target group and may require new infrastructure and ICT investment to serve such target group. In the case of engaging a private sector payment service provider, such as Equity Bank under the CT-OVC program, negotiations must address a wide range of concerns of the private sector payment service provider to ensure that there is a valid business case in short and/or medium term to enter a market to serve the program’s target group, while ensuring that the objectives of the program is not compromised.

- **Use of ICT and leveraging the private sector can result in an accessible, more secure and efficient payment mechanism.** The use of a private bank in the financial sector not only can lower the cost of transfers, but can also provide program beneficiaries additional benefits related to financial inclusion.

**VI. CT-OVC – REFERENCES**


This case study has also benefited from input and updates from the CT-OVC Bank team in Kenya.
8.1.2. MEXICO CONDITIONAL CASH TRANSFER PROGRAM OPORTUNIDADES

I. OPORTUNIDADES INTRODUCTION/BACKGROUND

In 1997, Mexico gave birth to what is now considered, along with Brazil's Bolsa Familia, one of the pioneers of conditional cash transfer (CCT) programs, Oportunidades. Oportunidades transfers money to families upon the condition that they send their children to school, visit health clinics, and attend nutrition workshops on a regular basis.

The program has expanded rapidly since its inception. The program now reaches around 1/4 of the population, with 61 percent of beneficiaries residing in rural areas and 39 percent in semi-urban and urban areas (as of 2011). After more than a decade of operation, the business processes of Oportunidades have been well documented and have served as models for other countries to design and implement their cash transfer programs. This study presents the case of Oportunidades’ payment mechanisms.

The program’s main objective: To help break the intergenerational cycle of poverty by supporting families living in extreme poverty enhance its members’ human capital — education, health, and nutrition.

Target Groups: Households whose incomes are below the minimum wellbeing line and insufficient to invest in the education, nutrition and health of its members.

Targeting Mechanisms: A poverty map combined with a Poverty Means Test (PMT) is employed in rural areas to identify target groups. In urban areas, a PMT survey alone is

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62 CCTs now have been expanded in more than 30 countries
63 Calculated as the monthly monetary value required to purchase a basic food basket in rural and urban areas.
conducted on a door-to-door basis in areas with high concentration of poor households; and upon household request in areas with low density of poverty.

**Conditionality:** The program sets conditionalities in two areas – education and health.

Education: The program distributes bimonthly cash payments on the condition that household children under 21 years of age, enrolled in school between the third year of elementary and the 12\(^{th}\) year of high school, attend and remain in school.

Health: Families must regularly attend self-care workshops and visit local health centers for preventive medical checkups, including nutrition monitoring, as a precondition to receive their monthly entitlements.

**Non-compliance of conditionality:** The program can suspend the benefits monthly based on the following grounds:\(^{64}\):

**Education:**

- Basic Education (from 3\(^{rd}\) year of elementary to 9\(^{th}\) year of high school): The monthly benefit may be suspended if children have 4 or more unjustified absences in a month. If children are suspended for 3 months or missed school 12 times in a schooling year, payments are suspended for the entire schooling cycle.

- Middle-Superior Education (from 10\(^{th}\) to 12\(^{th}\) year of high school): Benefits are suspended for the month(s) for which permanence is not certified.

- Health, Energy and Food\(^ {65}\) Provisions: The program suspends monthly cash, food supplements and energy subsidies if families do not attend self-care workshops and

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\(^{64}\) The program can also suspend benefits indefinitely or definitely for other reasons.

\(^{65}\) Food supplements can be distributed for unweaned babies, children aged from 4 months to 2 years, children 2 to 5 who are at risk of malnutrition, and breastfeeding mothers. Energy subsidies were introduced in 2012.
visit local health centers (especially for children 0 to 9 years of age) during the monthly dates pre-established by the program.

Financial Infrastructure and Payment Mechanisms:

Mexico, as many other developing countries, has poor coverage of financial services. Less than half – only 48% – of the 2,444 municipalities in México’s 32 states have the presence of financial entities. Given its rural focus, Oportunidades sought from program onset to gradually reach the rural poor as a means to reduce transaction (commuting time, cost) and opportunity (giving up household activities) costs associated with the collection of payments. Over the years, Oportunidades have therefore developed several parallel payment mechanisms that can reach the most underserved parts of its target population.

The recipients can nowadays collect cash transfers at the following points of payments: (i) fixed and mobile savings bank branches, (ii) fixed and mobile post offices, (iii) food-ration shops, (iv) commercial bank branches and v) ATMs. Until 2010, recipients could collect transfers using security stickers and bank passbooks as well as pre-paid cards with chips and debit cards as payment instruments. Since 2011, 80 percent of beneficiaries have received pre-paid cards, while the remaining 20 percent use debit cards.

Identification: Official government identification cards accepted by the program range from electoral credentials and passports to military records and municipal identify proofs.

Payment frequency: The program transfers payments on a bimonthly basis (see payment calendar section)

Evaluation: The program counts on various evaluation mechanisms:
• A survey, denominated 'sentinel site survey', is conducted biannually to measure beneficiary satisfaction and indicators related to service quality, money transportation time and payment issues emerging during the delivery process;

• And process evaluation related specifically to customer service.

In the past, the government conducted a process evaluation to assess a pilot that delivered cash through Diconsa, a food-ration shop. The evaluation reported that the pilot saved beneficiaries paid through Diconsa, on average, three to six hours of travel and US$ 3 in commuting costs. In the future, the government is planning on launching an impact evaluation to assess the incidence of banking services on beneficiaries' well being.

II. OPORTUNIDADES’ STAKEHOLDERS

1. GOVERNING STAKEHOLDERS

CENTRAL GOVERNING AGENCY

The Secretary of Social Development (SEDESOL in Spanish) is the leading government agency responsible for the national oversight of Oportunidades. Within SEDESOL, the National Coordination Unit (NCU), a government body with operational and technical autonomy, is responsible for, among other things, coordinating the bimonthly delivery of transfers through the payment agencies (see payment stakeholders below).

ADMINISTRATIVE AGENCY

The Technical Committee of the NCU of SEDESOL is responsible for delineating and interpreting the operational guidelines as well as coordinating the implementation of Oportunidades with local governments at the state and province level. This committee comprises representatives of SEDESOL and the Comptroller’s Office (Secretaría de la Función Pública in Spanish) as well as the ministry of finance, and the health and education
sectors in charge of delivering services and verifying conditionality compliance. At the state level, there is also a State Technical Committee of Oportunidades charged with coordinating program implementation with the municipalities.

2. PAYMENT STAKEHOLDERS

Sourcing Agency:
The Federal Treasury (TESOFE in Spanish) within the Ministry of Finance is the agency in charge of authorizing and disbursing resources to payment agencies (see payment agencies below) upon NCU’s request.

PAYMENT AGENCIES

Table 13. Payment Agencies of Oportunidades

<table>
<thead>
<tr>
<th>National Savings Banks – uses a special Oportunidades deposit account designed to receive government social payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telecommunication and Basic Financial Service Institution – offers basic telecommunication (post office service) and financial services with emphasis in the rural and urban poor</td>
</tr>
<tr>
<td>Ration Shop – supplies foodstuff to rural localities of severe and high poverty through community organization and participation</td>
</tr>
<tr>
<td>Commercial Banks – offer regular financial services (savings, credit, etc) to general public</td>
</tr>
</tbody>
</table>
## PAYMENT AGENTS AND PAYMENT INSTRUMENTS

### Table 14. Payment Agents and Instruments of *Oportunidades*

<table>
<thead>
<tr>
<th>Payment Instrument</th>
<th>Payment Agents/Points of Payment</th>
<th>Characteristics</th>
<th>Service Provided</th>
<th>Service Cost</th>
</tr>
</thead>
</table>
| **Security Stickers** (until 2010) | **Telecom** office: Located maximum 2 hours away from the municipal administrative centers  
Temporary Telecom office: Mobile payment units that reach specific locations agreed with the program. It takes maximum 3 hours on average to transfer money to municipality center | Delivery made in envelope at fixed or temporary payment points upon presenting government-issued security stickers - printed with holograms to prevent forgery - and an official picture ID  
250 recipients per payment point on average  
No savings feature  
Transfer amount withdraw all at once | Security stickers printed with holograms to prevent stickers  
Transportation of cash notes to payment points  
Printing of receipts with payment history  
Envelopes  
Delivery to recipient  
Payment reconciliation  
Delivery slip | **Telecom** US$ 27.67 per delivery  
**Bansefi** US$ 33.29 per delivery  
Unit cost per security stickers US$ 0.15 |
| **Savings account** (until 2010) | **Bansefi** branch: Where the number of households is small a branch is at most 2 hours apart from the municipal administrative center  
Temporary Bansefi head office: Where the number of households is large, several mobile branches can be situated in the same municipal center 2 hours away from the fixed branch  
Savings banks certified by Bansefi can also participate | Savings account deposit  
Savings feature  
Remittances reception  
Customer service  
Partial or full withdrawal of transfer | Creation of savings account contract  
Transfer of resources to head office  
Printing of receipts with payment history  
Envelopes  
Delivery to recipient  
Payment reconciliation  
Delivery slip | **Bansefi** and Savings Banks US$ 33.29 per delivery |
<table>
<thead>
<tr>
<th><strong>Pre-paid card with chip</strong></th>
<th><strong>Debit card</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-paid card with chip</td>
<td>Debit card</td>
</tr>
<tr>
<td><strong>Diconsa stores:</strong></td>
<td>ATMs:</td>
</tr>
<tr>
<td>Situated max 3 km from municipal center</td>
<td>Existence of a payment agency</td>
</tr>
<tr>
<td>Maximum 300 recipients per store</td>
<td>ATM in the municipal center</td>
</tr>
<tr>
<td><strong>Bansefi/Savings banks branches:</strong></td>
<td>Existence of other bank ATMs in the municipal center (quota includes up to free 2 inter-banking transactions)</td>
</tr>
<tr>
<td>3 km max. from municipal center</td>
<td>Affiliated businesses:</td>
</tr>
<tr>
<td></td>
<td>Purchase with cards, cash back or payment of basic services is possible</td>
</tr>
<tr>
<td></td>
<td>Branches of Bansefi, Telecomm ranch maximum 10 km from municipal center</td>
</tr>
<tr>
<td><strong>Savings account deposit</strong></td>
<td>Savings account deposit</td>
</tr>
<tr>
<td>Recipient fingerprint required for identification</td>
<td>Withdrawal at ATMs, affiliated business, Bansefi branches/Telecomm/ issuing commercial bank</td>
</tr>
<tr>
<td>Personalized calendar for gradual withdrawal to avoid agglomeration in stores and lack of liquidity</td>
<td>Personalized calendar for gradual withdrawal to avoid agglomeration in ATMs</td>
</tr>
<tr>
<td>Savings/remittances option</td>
<td>Withdrawals at Diconsa stores</td>
</tr>
<tr>
<td></td>
<td>Savings/remittances option</td>
</tr>
<tr>
<td><strong>Card with chip</strong></td>
<td>Creation of savings accounts</td>
</tr>
<tr>
<td>Transfer of resources to stores</td>
<td>Issuance and personalization of plastics cards</td>
</tr>
<tr>
<td>Points of Sale (POS) machines and printing of voucher with payment history</td>
<td>Savings account deposit</td>
</tr>
<tr>
<td>Delivery to recipient</td>
<td>Payment reconciliation</td>
</tr>
<tr>
<td>Payment reconciliation</td>
<td>Information of account history (withdraw, deposit, savings)</td>
</tr>
<tr>
<td>Information of account history (withdraw, deposit, savings)</td>
<td></td>
</tr>
</tbody>
</table>

| **Diconsa** | **Bansefi and Savings Banks** |
| US$ 41.18 per delivery | US$ 33.06 per delivery |

| **Unit cost of card** | US$ 2.5 |
| **Card delivery cost** | US$ 16.24 (includes fingerprint and signature capture) |
| **Bansefi US$ 33.29 per deliver,** including 2 inter-banking transactions bimonthly | **Telecomm US$ 29.44 per delivery,** including 2 inter-banking transactions bimonthly |
| **Unit cost of cards recovered in first bimonthly delivery** | **Cost per contract signature and card delivery (US$ 9.00 to US$ 18.00)** |
3. BENEFICIARIES AND RECIPIENTS

The program designates a unique payment recipient per household, generally the female head of the household. In case the recipient cannot collect the entitlements, (i) a payment reissuance request can be submitted for next payment cycle and (ii) a different person can be appointed as the recipient following the rules of operations established by the program.

4. CONTROL AND ACCOUNTABILITY STAKEHOLDERS

Beneficiary Service Desks (BSDs) and Beneficiary Service Centers (BSC): Fixed or mobile spaces within or outside regional and municipal offices devoted to inform beneficiaries about program activities. These also address complaints regarding registration, conditionality compliance and payment delivery issues. Moreover, the BSDs train the Committees of Community Promotion on how to guide beneficiaries at the local level.

Community Development Committee (CDC): Comprise a group of beneficiaries, usually women, elected by other beneficiaries to represent them at the community level. These groups must designate focal points for the areas of nutrition, health, education and surveillance and control. Focal points are tasked to: (i) guide beneficiaries through program activities, (ii) assure the quality of health and education services, (iii) inform local program officers about issues emerging during implementation, (iv) carry out transactions in benefit of the community and (v) conduct social accountability. Within the committee, one person is appointed as the Control and Surveillance (C&S) representative. This person helps recipients file complaints regarding payments (e.g. incomplete payment, mistreatment of payment agents, poor quality of points of payments and so on). The C&S representative guides recipients to fill out and submit a complaint form.

III. OPORTUNIDADES’ CCT PAYMENT FLOW DESIGN

The below figure illustrates the overall PM design of the Oportunidades program:
Figure 14. Payment Flow for Oportunidades
STEPS OF THE PAYMENT FLOW

Step 1.a - Request for participation: In urban areas with low poverty levels, households need to request participation from the program’s registration station. In the registration station, the applicant fills out a form that allows program officials to conduct an initial screening of their socio-economic information. If eligible, a program official visits the household residence to validate the information provided on the ground. Applicants subsequently have to return to the registration station to confirm their eligibility and register to participate in the program.

Step 1.b - Invitation for Participation: In urban areas with high concentration of poor households or rural cities with up to 2,500 inhabitants, a door-to-door census is employed. The census evaluates households’ socioeconomic status, primarily screening household assets, but also considering education and household composition. Once this information is collected, verified, and processed, Oportunidades staff members return to eligible households to invite them to enroll them into the program.

Step 2 - Approval and Registration: Once households agree to participate in the program, a household member, generally the female head of the household, is identified as the recipient of the transfer. In most cases, the recipient presents an official government IDs and certifies its age and personal information as well as the information of other family
members. Program staff then issues the corresponding documentation certifies program enrollment as well as the payment instrument through which the beneficiary can collect the transfer.

**Step 3 - Compliance of conditionality:** As mentioned before, the health and education sectors are responsible for certifying the conditionality compliance. *Oportunidades’* local staff sends compliance forms to the health and education local authorities every. These authorities certify every two month on pre-set dates the attendance of beneficiaries, either electronically or manually, to scheduled health appointments and self-care training workshops as well as school attendance.

**Step 4.a and 4.b - Payment Order:** Once the compliance of conditionality is certified and uploaded into the MIS (SIIOP in Spanish), the National Coordination Unit (NCU) generates the payment orders, including the lists of recipients and payment requests.

4.a. The NCU submits the lists of recipients to the payment agencies for these to organize the logistics for payment delivery, collection and conciliation.

4.b. The NCU submits payment requests to TESOFI requesting the transfer funds from the Treasury to the designated accounts of payment agencies.

**Step 5: Payment Delivery**

*Security Stickers:* This was used for direct cash payment operated by approximately 15,000 temporary points of payments until 2010. The recipient visits the telecom (post) office and presents an official ID card and a sheet of government-issued security stickers. The payment agent peels off a sticker, glues it on a receipt displaying payment history and attaches it to a plastic envelope containing the cash payment. The recipient then signs or puts its fingerprints in a payment recording sheet verifying that the expected amount has been delivered.
**Savings Account:** The transfer is deposit into savings account (until 2010). The recipient can withdraw partial or full transfer by visiting Bansefi branches or a temporary branch and presenting its passbook and a valid official ID card. The recipient receives the money, counts it, and if accurate, signs a receipt containing the payment history.

**Pre-paid card with chip:** The recipient assists to a Diconsa store during the week indicated in its personalized calendar. Depending on the methodology employed, the recipient either inserts its PIN in the POS device and shows its official ID or puts its fingerprint in the electronic fingerprint reader.

**Debit card:** Based on its personalized calendar for benefit withdrawal, the recipient can visit an ATM, commercial bank branch or auto-service stores. The recipient can collect its receipt with payment history in the BSDs and sign the acknowledgment of receipt days later.

**Step 6 - Payment Reconciliation:** Uncollected transfers are sent back to the payment agencies, which in turn inform the NCU. The NCU can only reissue the payment order for the next payroll if the recipient makes the special request in advance to the program delegations at the BSDs.

**Step 7 - Grievance and Redresses:** Beneficiary recipients and the CDCs representing recipients can file complaints related to payments in person, in written, by telephone or email.

**In person,**
- BSDs, BSCs, registration stations, and program delegation offices
- Central offices of SEDESOL, the National Coordination Unit and the Comptroller’s Office.
In written:

- Fixed mailbox located in the municipal administrative offices
- Mobile mailbox located temporarily in points of payments and BSDs
- Meetings of the CDCs
- Offices of the National Coordination Unit, Comptroller’s Office and SEDESOL
- BSDs, BSCs, registration stations and program delegation offices

By phone:

- National Coordination of the Program – Telephone 01-800-500-50-50
- Internal control office of SEDESOL – Telephone (55) 53-28-50-00 Ext. 51413, 51435, 51450, 51452, 51453, 51460, 51462, 51463, 51465 y 51498
- Citizen Service of SEDESOL – Telephone (55) 53-28-50-00 Ext. 5141, 7972 and 5141 7974
- Comptroller’s Office - Telephone 14-54-20-00
- Control units of regional, state and municipal offices of the program

By email:

- National Coordination Unit - atencion@oportunidades.gob.mx
- Program website - www.oportunidades.gob.mx
- Internal control units of SEDESOL – organo.interno@sedesol.gob.mx, quejasoic@sedesol.gob.mx, demandasocial@sedesol.gob.mx
- SEDESOL website - www.sedesol.gob.mx
- Comptroller’s office email account contactociudadano@funcionpublica.gob.mx, quejas@funcionpublica.gob.mx or website www.funcionpublica.gob.mx
- Program delegations’ email accounts

In each of these instances, there is a citizen attention facilitator responsible for handling claims. The facilitator can either provide information to the recipient on how to fill out a
claim form and under what grounds. In case the recipient makes a claim through a C&S focal point, the focal point can either provide the claimant with information on how to file a claim or make the claim on its behalf. The facilitator then assesses the grounds of the claim by crosschecking the payment-information presented in the MIS. If the claim is valid, the facilitator emits a resolution to the corresponding payment agency in charge of disbursing the payment to make corresponding arrangements.

**OPORTUNIDADES’ PAYMENT CALENDAR**

*Oportunidades* has developed effective procedures so that payment-related information is passed back from the state to the national level to distribute income in a timely and predictable manner every two months. This is achieved through a calendar system called “1-2-3”.

The 1-2-3 system works on a two-month system whereby:

- Families meet (or do not meet) their conditionalities (step 3 in Figure 15).
- *Oportunidades* checks that beneficiaries have fulfilled their requirements through the information collection process (step 3).
- Payments are delivered to beneficiaries if they have complied with the conditions.

This process requires a 3 bi-monthly timeline. Figure 15 shows the annual calendar.
IV. OPORTUNIDADES - LESSONS LEARNED

- **An automated MIS of the program is vital to generate the information needed to process payments.** This includes a wide range of relevant data to ensure proper monitoring and evaluation of the program, such as the establishment of a payment calendar for payment cycles to ensure success in providing timely and predictable payments.

- **The development of different points of payments, payment agents and instruments tailored to the needs of recipients in a wide range of geographic areas is important.** For example, serving remote areas in a way that allows the program to balance between handling costs and security assurance have been vital to reach poor beneficiaries under
the *Oportunidades* program. Furthermore, fund transportation costs have gradually decreased due to the spread and concentration of municipalities served. Also, the program had to carefully oversee its production of pre-paid and debit plastic cards to keep up with the demand of recipients.

- **Financial literacy is vital.** *Oportunidades* has had to train recipients how to access and take advantage of financial services offered by some of the payment agencies.

- **Continue innovation.** The Mexico program is an excellent example how payment mechanisms can evolve as technology instruments become more affordable and can be introduced.

**V. OPORTUNIDADES - REFERENCES**


8.1.3. RWANDA VISION 2020 UMURENGE PROGRAM (VUP)

I. VUP INTRODUCTION/BACKGROUND

The Rwandan Vision 2020 Umurenge Program (VUP) is one of three flagship-programs under the Government’s Economic Development and Poverty Reduction Strategy (EDPRS) 2008-12. The VUP seeks to promote economic growth that is increasingly pro-poor and all-inclusive. The VUP is coordinated by the Rwanda Local Development Support Fund under the Ministry of Local Government (MINALOC) and implemented through decentralized structures that were introduced in 2000, and further reformed in 2005-06. It is supported by several development partners: DFID, the EU, SIDA, UNICEF and the World Bank.

The VUP comprises three components: (i) direct support to extremely poor households unable to work; (ii) labor-intensive public works, that provide support to extremely poor households with under-employed adults through creation of employment opportunities; and (iii) financial services intended to facilitate savings and investment in income-generation and entrepreneurial activities. Broadly, the VUP program is intended to reduce poverty and raise living standards, encouraging saving and promoting investment in sustainable productive activities.

As of March 2011, the VUP is in its third year of implementation and has gradually scaled up from 30 sectors in 2008 to 120 Sectors, the four poorest Sectors in each of the country’s 30 Districts. Consistent with the GOR’s decentralization policy, implementation of the VUP is planned and coordinated by the Sector administrations with strong community participation, while Districts provide oversight, technical support, and supervision.

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66 The original VUP scale-up strategy was to extend program coverage within each local government District to at least one additional Sector (Umurenge) annually, a target that has been strictly adhered to since 2008. As of July 2011, VUP was extended to a fourth Sector in each District, making a total coverage of 120 Sectors. From July 2012 scale-up of the direct support component will be accelerated.

67 Except for 10 second poorest which were control sectors in the 2008 baseline and thus excluded from implementation until impact assessment is done.
Implementation of VUP has already generated positive results in terms of social protection policy reforms and their implementation which has translated into benefits to targeted households and communities. Key reform improvements and changes are summarized below.

The program’s purpose: To accelerate the reduction of extreme poverty in targeted sectors. Together with other social protection programs, it seeks to provide social assistance to the most needy while supporting the able-bodied to graduate out of extreme poverty into more sustainable means of self-support.

Target groups: (i) under the direct support component, VUP targets extremely poor households with no adults able to work; (ii) under the public works component, it targets extremely poor households with under-employed adults; and (iii) under the financial services component, it targets poor households, although some better-off households are able to participate when they are in groups or cooperatives with the poor.

Targeting mechanism: Using a community-based social poverty targeting process called Ubudehe, households are allocated to one of six Ubudehe categories. For each of the three program components (direct support, public works and financial services) additional criteria are then applied to ascertain for which component/s households are eligible.

Conditional vs. unconditional cash transfer: The cash transfer under the direct support component is unconditional. Under the public works, the paid wages require participation in the public works program.

Awareness program: The VUP uses several channels of communication to create awareness and disseminate information to communities.
Payment mechanism: Direct support and public works payments are either made through SACCOs (savings and credit cooperatives), bank-branch networks (most commonly Banque Populaire) or microfinance institutions. Since 2009 the GoR has been supporting the creation of Umurenge SACCOs in each of the country’s 416 administrative Sectors (in its 30 Districts) in an effort to ensure greater financial inclusion and access to financial services for traditionally non-bankable households. The Umurenge SACCOs have provided a payment mechanism closer to the location of VUP beneficiaries, in the poorest sectors.

Identification: Direct support and public works beneficiary households open an account (with either a SACCO, bank or MFI) and receive a passbook, which includes their photo id. National ID cards are used as proof of identity by beneficiaries when they open their accounts. Every beneficiary is, according to law passed in 2008, required to receive payments through a financial institution account. Two signatories are allowed for each bank account.

Payment frequency: Direct support payments are monthly (at the beginning of the month) and public works payments are after every 10-day work cycle.

Impact Evaluation: There is currently no specific impact evaluation planned to evaluate the payment mechanism directly.

II. VUP STAKEHOLDERS

Stakeholders under the VUP program include the following:

Governing stakeholders, including Ministry of Local Government (MINALOC), which hosts the Rwanda Local Development Support Fund (RLDSF) under which the VUP is managed; Ministry of Finance; and decentralized stakeholders such as Districts and Sectors.
Payment Stakeholders, including SACCOs, Banks (Banque Populaire, Ecobank, Banque de Kigali, Cogebanque) and MFIs.

Beneficiaries and Recipients, which include eligible and participating households, identified through the Ubudehe-based community targeting process.

Control and Accountability Stakeholders, including the internal and external auditors and various stakeholders involved in the complaints and appeals process.

1. GOVERNING STAKEHOLDERS

The program is managed by Ministry of Local Governments (MINALOC) and implemented by VUP staff at sector level, with support from districts. At the central level, the Rwanda Local Development Support Fund (RLDSF) hosts the VUP program within MINALOC and is responsible for approving payments (among other things) before payment transfers are made.
Other central Government stakeholders include the Ministry of Finance that handles allocation of funds, provides guidelines on financial matters for the VUP program, liaisons with development partners; and coordinates the initiative of developing a network of SACCOs across the country in collaboration with the Rwanda Cooperative Agency (RCA).

**DECENTRALIZED GOVERNMENT AGENCY**

Decentralized Government Agencies responsible for the overall implementation of the VUP program include:

- **Districts**, which are in charge of the oversight; serve as a liaison between Sectors and MINALOC, and provide support and guidance to the Sectors.
- **Sectors**, which are in charge of program implementation at Sector (Umurenge) levels. Each Sector implementing the VUP program has 2 dedicated VUP staff (a VUP Program Manager and VUP Finance Officer).
- **Joint Action Development Forum (JADF)**, consisting of civil society, community networks, and other stakeholders active in the sector; responsible for approving the direct support eligible household list.

**ADMINISTRATIVE AGENCY**

Currently, management information is mostly done manually or electronically through file sharing and use of standard software such as excel. The new National Social Protection Strategy 2011-2020, approved by Cabinet in January 2011, highlights the need to develop a robust comprehensive MIS system. The aim is to have the MIS integrate not only the VUP program but also other social protection programs managed by MINALOC and by other ministries and/or organizations.
In Rwanda, there is essentially one cash payment mechanism using different payment agencies for payment delivery: SACCOs, Banks (mainly Banque Populaire) and other microfinance institutions. Cash payment (form of payment) is made directly to the beneficiary or through an authorized recipient using a bankbook, which is signed and stamped following payment (payment instrument). Payments are made through SACCO, bank or MFI branch-offices. Currently, no payment agents (intermediaries), such as local traders, are contracted to offer alternative locations for cash collection. The VUP has not negotiated any special terms for bank fees or other setup costs that the beneficiaries incur when opening an account. However, as the VUP program scales up, and as other programs starts to use the same mechanisms, this may have to be considered.

The VUP program does not enforce savings, but it does seek to nurture a savings mentality both through its awareness-raising and program dissemination efforts. Therefore, VUP beneficiaries are encouraged and informed about the option to keep some of their cash in their account. This savings option is offered by all payment agencies. Banks and MFIs also offer credit but currently most VUP beneficiaries are unable to access credit from these institutions for various reasons. Thus, VUP’s third component, financial services, includes extending microcredit to VUP beneficiaries through its Ubudehe Credit Scheme. SACCOs are now operating in all 416 sectors. Of these, 400 have the second provisional license with
ability to receive savings and issue loans. Only 7 have reached the third level of licensing, fully complying with Central Bank of Rwanda regulations.\textsuperscript{68}

The below graph summarizes the payment stakeholders under the two payment mechanisms under the VUP program:

\textbf{PAYMENT AGENCY}

\begin{tabular}{|c|c|c|}
\hline
\textbf{Funds Coordinator} & \textbf{Payment Agency} & \textbf{SACCOs, Banks & MFIs} \\
\hline
\end{tabular}

\textit{Banque Populaire} is a traditional bank, regulated by the banking laws of the country and has the most extensive network of branches across the country although it does not cover all Sectors. Most of the initial cash transfers to VUP beneficiaries were done through \textit{Banque Populaire}'s branch network so as not to delay the implementation of the VUP program. In parallel, the GoR was exploring ways to extend financial access and to be able to implement the 2008 law that requires GoR programs to only make payments through a bank account to any beneficiary, appointee, civil servant, etc. It developed a strategy for establishment of \textit{Umurenge} (Sector) SACCOs across the country. As the VUP program has scaled up and more \textit{Umurenge} SACCOs have been registered as part of the SACCO initiative, SACCOs have become the most popular mechanism for delivering cash payments to VUP beneficiaries. In some instances other microfinance institutions were used for distributing cash at sector-level (in the absence of a \textit{Banque Populaire} branch). But these have been replaced by SACCOs almost entirely, given that \textit{Umurenge} SACCOs have been set up in all of the sectors of Rwanda. Over time, as the VUP scales up (to all 416 Sectors within the next 5 years), the program will need to rely heavily on the build out of this financial network, possibly exploring alternative options to ensure effective payments.

\textsuperscript{68} As of September 2011.
Currently, no payment agent is used as part of the VUP payment mechanism. However, the consideration of alternative payment mechanisms in the future may include some type of payment agent.

PAYMENT INSTRUMENTS

Recipients open an account and receive a passbook that serves as their bank ID. The bankbook includes their photograph and can include the name and photo of a nominated secondary recipient. Payment can be collected by either, but whoever collects the payment must present and sign the bankbook.

3. BENEFICIARIES AND RECipients

The direct support and public works programs target extremely poor households. The recipient in each household is the household head.

4. CONTROL AND ACCOUNTABILITY STAKEHOLDERS

Auditor
Stakeholders include: The Monitoring and Evaluation Expert and VUP Finance Officer within VUP are in charge of monitoring payments within the VUP program with the support of the VUP central and decentralized stakeholders.

Appeals and Complaints Management

Stakeholders include: (i) Village Council, Cell General Assembly, Sector Council, District Council and Ombudsman; (ii) Community-members; (iii) MINALOC, District, Sector (for advice on program policies/procedures, to monitor the appeals/complaints made, and to implement decisions; but not directly involved in appeals/complaints decision-making).

III. **VUP’s PAYMENT FLOW DESIGN**

The payment design for VUP for both the direct support (unconditional cash transfers) and public works are illustrated in the payment flow below. The payment flow between MINALOC and development partners (funding source) is also illustrated, as seen in under step 4.
Figure 26. Payment Flow for VUP's Public Works Component

- **Step 1:** Identification of Eligible Households
- **Step 2:** Approval and Registration
  - PW Site
- **Step 3:** Compliance
- **Step 7:** Appeals & Complaints Mechanism
  - Village Council, Cell General Assembly or Sector Council
  - District Council and Ombudsman
  - MINALOC Decentralized: District, Sectors, Sector JADF
  - VUP Registry
  - SACCOs, Banks and MFIs
- **Step 5a:** Payment Delivery
- **Step 5b:** Payment Delivery
- **Step 6:** Payment Reconciliation

**Beneficiaries**

**Recipient**

National Government - VUP/COF management

District Government

Sector Government

National Account: Bank of Rwanda (BNR)

District Account: Bank of Rwanda (BNR)

Sector Account: Bank, SACCO or MFI
Figure 37. Payment Flow for VUP's UCT (Direct Support) Component

Step 1: Identification of Eligible Households

Step 2: Approval and Registration

Step 3: not applicable

Step 7: Appeals & Complaints Mechanism

Village Council, Cell General Assembly or Sector Council

District Council and Ombudsman

MINALOC
Decentralized: District, Sectors, Sector JADF

VUP Registry

Step 4: Payment Order Flow

National Government
VUP/OFM management

SACCOs, Banks and MFIs

Step 5a: Payment Delivery

Step 5b: Payment Delivery

Step 6: Payment Reconciliation
Step 1 – Identification of Eligible Households: A community-based poverty targeting mechanism (Ubudehe) is used to identify households eligible for direct support and public works. Targeting is done annually at village level. The targeting list data is entered into an excel database, from which lists of eligible direct support and public works beneficiary households are extracted. The direct support eligible household list is sent to the sector JADF for approval and to ensure that the beneficiaries are not enrolled in other programs that may make them ineligible. Once approved, the JADF sends the list back to the Sector to initiate registration.

Step 2 – Approval and Registration: Once the Sector has received the approved list of eligible direct support households from JADF, communities are informed of all eligible direct support and public works households. Only households eligible for direct support are entitled to a cash payment according to VUP policy. Eligible public works households are not guaranteed work; their participation depends on various factors, including the type of project and demand for workers. At the point of registration, direct support beneficiary households are requested to open a SACCO/bank/MFI account if they do not already have one. Public works households will only be requested to follow this procedure once they are selected to work, through a
second round of community-decision making. The recipient of the household transfer is the household head. S/he is the person who opens the bank account, but each account can also include one other nominated person (family member or other). Names and photos of both are included in the bankbook as ID.

**Step 3 – Compliance of conditionality:** The compliance only applies in the case of Public Works. In this case, the work site manager will confirm compliance and report back to the Sector VUP staff.

**Step 4 – Payment order:** Based on the approved direct support eligible household list, the payment order is initiated, following a number of steps, as illustrated below:

**Figure 4. Payment Order Flow VUP Program**

(a) the Sector prepares a quarterly direct support disbursement request; (b) the District checks and signs the quarterly disbursement request and submits it to the VUP/RLDSF
national management team in MINALOC; (c) once the request is checked by the Direct Support Expert, a payment voucher is prepared by the VUP Finance Officer. It is verified by the National Coordinator, approved by the RLDSF Director of Administration and Finance and authorized by the Director of RLDSF; (d) quarterly funds for direct support are then released from the VUP national bank account and transferred to the District Project account; (e) direct support quarterly funds are then transferred from the District Project Account to the Sector VUP account, authorized by the District Executive Secretary. The balance remaining in the Sector account triggers subsequent disbursement requests.

The Sector maintains a database listing each eligible direct support household, the amount to be paid each month and the recipient bank account numbers. Before each monthly payment, the VUP Sector Finance Officer inspects the direct support eligible household list and, in consultation with the VUP Sector Program Manager and Sector Executive Secretary, makes additions or deletions to the list as per the direct support manual. From the amended list the direct support monthly payroll order is generated by the VUP Sector Finance Officer and reviewed by the VUP Sector Program Manager. It serves as the request for bank transfers. The direct support payroll order is signed and approved by the Sector Executive Secretary.

Similar steps are followed for public works but only after the public works projects have been selected, feasibility studies and procurement done, and participants have been selected amongst the pool of eligible public works households. Also disbursement requests and transfers for public works are in three tranches: an initial 40 percent of the project total cost, a second 40% and then the final request/transfer is 20 percent.

The Sector maintains a database listing each public works eligible household and bank account numbers for participating households. After every 10-day work cycle the number of days worked by each beneficiary household is entered from attendance registers. The public works payroll form is generated by the VUP Sector Finance Officer and reviewed by
the VUP Sector Program Manager. It serves as the request for bank transfers. The public works payroll order is signed and approved by the Sector Executive Secretary.

**Step 5 – Payment Delivery:** Once the Sector Executive Secretary certifies the payroll order, the payroll order is sent to the sector bank/SACCO/MFI from which funds are transferred from the sector account directly to the bank accounts of the recipients. For direct support, this should happen five days in advance of the due date to ensure payment can be made on the first working day of each month. For public works, this should happen five days after the end of the work period being paid. Recipients (or the other nominated person on their account) visit their SACCO/bank/MFI to withdraw money and to have their bank account details updated. The bankbook’s account number should match the account number on the payroll order, and the photo in the bankbook proves that they are the real account holder.

**Step 6 – Payment Reconciliation:** For reconciliation, the VUP Sector Finance Officer reconciles the bank statement with their bankbook each month.

**Step 7 – Grievance and Redress (Appeals and Complaints Mechanism):** The VUP started piloting an appeals complaints mechanism in September 2010 in five VUP Sectors. Beneficiaries may submit appeals and complaints about issues regarding payment or any other VUP-related issue. Any community member (beneficiary or non-beneficiary) can raise complains and appeals. They can either be made to the Village Council, Cell General Assembly or Sector Council (depending on the type of appeal/complaint and choice of the appellant/complainant). The VUP payment and/or compliance complaints mechanism is illustrated below:
Key Steps of VUP’s Payment and Compliance Mechanism

**Step 1:** Appeals and complaints can be made by any community member (beneficiary or non-beneficiary). They can either be made to the Village Council, Cell General Assembly or Sector Council (depending on the type of appeal/complaint and choice of the appellant/complainant).

**Step 2:** If not solved at these levels, the appeals or complaints are forwarded to the District Council.

**Step 3:** Most cases are solved at the community level and beneficiaries are informed of the decision.

**Step 4:** If appeals or complaints have yet not been resolved, or if a beneficiary wants to appeal the decision, the case is moved up to the Ombudsman.

**Step 5:** Once final decision has been made, regardless of at what level of the appeals and complaints mechanism, the list of eligible households are adjusted (when applicable).
Initial feedback from the review of the appeals and complaints mechanism, done in December 2010, showed that the mechanism had been well-received by both VUP eligible households and the broader communities because it helped clarify questions around eligibility, program objectives, and reinforcement around both rights and responsibilities under the program. VUP intends to expand the complaints and appeals mechanism into other VUP Sectors in 2011/12 and subsequently into other social protection programs as well.

IV. ADDITIONAL VUP KEY FEATURES

DESIGN BENEFICIARY OUTREACH AND COMMUNICATION CAMPAIGN

MINALOC’s efforts to ensure transparency and accuracy of the VUP policy and procedures include the following: (i) live radio and television interactive shows where representatives of local government, central government and beneficiaries explain the VUP program and answer questions; (ii) workshops with mayors, vice-mayors, and district and sector executive to present the VUP program and provide guidance on how to communicate the VUP program effectively and accurately to community members; (iii) “Change agents”, trained through an organization called Itorero, go out in communities and provide information of the VUP program. These ‘change agents’ are covering the entire country, not only the VUP sectors; (iv) leaflets, prepared in the local language, has been distributed to every village (approximately 15,000 across the country); (v) VUP program information posted on the MINALOC website; (vi) articles are published in national newspapers on the VUP program and progress. An electronic newsletter was distributed in November 2009 and it is planned to be produced every 2 months; (vii) a documentary film to share the message of the VUP program, to be shown on the national TV channel (Rwanda Television); (viii) Districts are encouraged to prepare a proposal and receive financing from the Ministry to help promote the VUP program on local radio and television; and (ix) the targeting process uses the home-grown and traditional Ubudehe process, ensuring community input and
transparency. UCT eligibility lists are publically posted at Cell level and Imidugudu leaders present PWP eligible household lists at community work days (Umuganda).

DESIGN IMPLEMENTATION MANUALS & TRAINING

The VUP team also has updated implementation manuals for each of its three program components, UCT (direct support); PWP; and financial services (micro-credit). Additionally, the program has monitoring and evaluation and financial management manuals. While these manuals have been revised over time, the rapid scale-up of the program and the rollout of three different components within the course of 2 years has made it difficult for the VUP team to keep the manuals up to date as the processes and procedures are refined on an ongoing basis. Nonetheless, the VUP program, with support from the World Bank, is hiring VUP staff at Sector-levels, each of which receives training in the most recent program procedures.

V. VUP - LESSONS LEARNED

- Importance of broad political commitment to implement best practices and drawing from lessons learned throughout the implementation process, while leveraging parallel government initiatives. When the VUP program was first implemented in 2008, the Government had already endorsed the VUP program as one of its main flagship programs under its EDPRS 2008-2012, helping to mobilize support from donors to help VUP adopt best practices around its cash-transfers. There was a strong sense of urgency to begin the program so that the vision of scaling up nationally could be realized.

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69 The process is conducted at Umudugudu (village) level. It is a two-step operation which involves taking information from the existing Ubudehe social map followed by a community meeting to which the Umudugudu population is invited. At the meeting the social map information is validated, each household’s Ubudehe category is updated, and information required to apply the VUP eligibility criteria is added (the process is detailed in the “VUP Targeting List Training Manual, May 2006”). At the community meetings the facilitators present the meeting objectives, the VUP program, and explain each step in the process as they go along.

70 Last Saturday of every month.
Simultaneously, the Government introduced a new law in 2008 that required the Government to make any cash transfers to any citizen, whether it be teachers’ salaries or VUP beneficiaries’ cash transfers, through a bank account. As part of this effort, the Ministry of Finance began initiatives to expand the existence of local SACCOs to extend financial services in country and allow citizens, who otherwise wouldn’t have access, to set up bank accounts. These parallel efforts, together with the Government’s openness to adjust processes as the VUP evolved has helped the VUP stay on track in its scale up plans, mobilize donor support, and over time address VUP specific program payment challenges around its three cash-transfer components, now including direct support (unconditional cash transfers), public works, and financial services (in form of micro-loans).

VI. VUP – REFERENCES

- VUP Direct Supports Operational Framework and Procedures Manual revised January 2, 2009.\textsuperscript{71}
- VUP Public Works Operational Framework and Procedures Manual, revised January 2, 2009.\textsuperscript{72}
- Preliminary findings of the VUP Complaints and Appeals Mechanism, December 2010.
- Rwanda Community Living Standards Grant Program Document, February 2009.
- Rwanda Community Living Standards Grant Program Document, March 2010.
- Rwanda Community Living Standards Grant Program Document, March 2011.

Note: Much of this case study was prepared in direct collaboration with the VUP team.

\textsuperscript{71} The Operational Framework and Procedures Manuals, revised in January 2009 are not fully up to date as the program is rapidly evolving and has scaled up from its original 30 to 90 administrative pilot Sectors (as of March 2011). Therefore, the case-study has been prepared in direct collaboration with the VUP team to ensure accuracy and most recent information regarding the VUP payment mechanism and procedures.

\textsuperscript{72} Idem.
8.2. COST-BENEFIT COMPARISON TABLE

Table 15. Cost-Benefit Comparison of SSN Programs

<table>
<thead>
<tr>
<th>Country / Program</th>
<th>Payment Parameters</th>
<th>Payment Stakeholders</th>
<th>Administrative Costs</th>
<th>Private Costs</th>
<th>Features &amp; Benefits</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Period / status</td>
<td># of recipients (% of target population)</td>
<td>Ave. transfer amount (frequenc y)</td>
<td>Payment Agency/ Agent or POP</td>
<td>Payment Instrument</td>
<td>Unit cost</td>
</tr>
<tr>
<td>Honduras / Bono 10,000</td>
<td>1995 - 1999/ discontinued</td>
<td>N/A</td>
<td>N/A</td>
<td>PRAF (state agency)/ state venue</td>
<td>Goods &amp; services voucher</td>
<td>N/A</td>
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<td></td>
<td>1999 - 2005/ discontinued</td>
<td>N/A</td>
<td>N/A</td>
<td>Banadesa (state bank) and Bancafe (private bank)/ branch</td>
<td>Money order</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>2005 - present/ ongoing</td>
<td>2010: 300,000 (100%)</td>
<td>US$ 125 (quarterly)</td>
<td>Banadesa (state bank)/ branch and mobile cash point</td>
<td>Program ID and cash</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>2012/ planning pilot</td>
<td>N/A</td>
<td>N/A</td>
<td>Cellphone company</td>
<td>Mobile phone</td>
<td>N/A</td>
</tr>
<tr>
<td>Ecuador / Bono de Desarrollo Humano</td>
<td>2003 - present/ ongoing</td>
<td>2010: 1,300,000 (80%)</td>
<td>US$ 35 (monthly)</td>
<td>Banred (private banks) and Banco Nacional de Fomento (state bank)/ branch</td>
<td>Savings account and cash</td>
<td>N/A</td>
</tr>
<tr>
<td>Country / Program</td>
<td>Payment Parameters</td>
<td>Payment Stakeholders</td>
<td>Administrative Costs</td>
<td>Private Costs</td>
<td>Features &amp; Benefits</td>
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<tr>
<td></td>
<td>Period / status</td>
<td># of recipients (% of target population)</td>
<td>Ave transfer amount (frequenc y)</td>
<td>Payment Agency/ Agent or POP</td>
<td>Payment Instrument</td>
<td>Transacti on fee in US$ (% of transfer)</td>
</tr>
<tr>
<td>Mexico / Oportunidades</td>
<td>20008 - present/ ongoing</td>
<td>2010: 320,000 (20%)</td>
<td>1997 - ongoing/ dephasing</td>
<td>2010: 3,830,000 (66%)</td>
<td>US$ 118 (bimonthly)</td>
<td>Banred (private banks) &amp; Banco Nacional de Fomento (state bank)/ branch and ATM</td>
</tr>
<tr>
<td></td>
<td>1997 - present/ dephasing</td>
<td>2010: 350,000 (6%)</td>
<td>1997 - present/ ongoing</td>
<td>2010: 700,000 (12%)</td>
<td>Bansefi (state bank) and cajas (local private banks)/ branch</td>
<td>Bansefi (state bank) and Diconsa (retail stores) and ATM</td>
</tr>
<tr>
<td></td>
<td>1997 - present/ ongoing</td>
<td>2010: 700,000 (12%)</td>
<td>1997 - present/ ongoing</td>
<td>2010: 700,000 (12%)</td>
<td>Bansefi (state bank)/ Diconsa (retail stores) and ATM</td>
<td>Prepaid account and smart card</td>
</tr>
<tr>
<td>Country / Program</td>
<td>Payment Parameters</td>
<td>Payment Stakeholders</td>
<td>Administrative Costs</td>
<td>Private Costs</td>
<td>Features &amp; Benefits</td>
<td>Source</td>
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<tr>
<td>Brazil / Bolsa Familia</td>
<td>1997 - present/ ongoing</td>
<td>2010: 930,000 (16%)</td>
<td>Bansefi (state bank) /ATMs and branch of private banks, Bansefi-Telecomm branch and Diconsa (retail store)</td>
<td>Debicuenta (No-frills account) and magnetic-stripe card</td>
<td>N/A</td>
<td>US$ 2.8 (2.4%)</td>
</tr>
<tr>
<td>Brazil / Bolsa Familia</td>
<td>2003 - present/ dephasing</td>
<td>2011: 139,320 (1.08%)</td>
<td>Caixa (state bank)/branch</td>
<td>Program ID and money order</td>
<td>N/A</td>
<td>US$ 5.2 (7.3%)</td>
</tr>
<tr>
<td>Brazil / Bolsa Familia</td>
<td>2004 - present/ ongoing</td>
<td>2011: 10,820,000 (84.9%)</td>
<td>Caixa (state bank)/ATM, agent with POS including lottery, branch</td>
<td>Store of value account and social card (magnetic-stripe card)</td>
<td>US$ 2.89</td>
<td>US$ 0.88 (1.2%)</td>
</tr>
<tr>
<td>2008 - present/ ongoing</td>
<td>2011: 1,937,580 (15.02%)</td>
<td>US$ 71 (monthly)</td>
<td>Caixa (state bank)/ATM, agent with POS including lottery, branch</td>
<td>Caixa facile (no-frills account) and magnetic stripe card</td>
<td>US$ 3.61</td>
<td>US$ 0.6 (0.85%)</td>
</tr>
<tr>
<td>2012/ ongoing pilot</td>
<td>10,000</td>
<td>N/A</td>
<td>Mobile phone</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source: Bold, Portreu & Rotman (2012); Marulanda & Lafaurie (2010); BFA (2006); Lindert et al. (2007)
<table>
<thead>
<tr>
<th>Country / Program</th>
<th>Payment Parameters</th>
<th>Payment Stakeholders</th>
<th>Administrative Costs</th>
<th>Private Costs</th>
<th>Features &amp; Benefits</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Argentina / Jefes de Hogar</strong></td>
<td><strong>2002 - 2004/ discontinued</strong></td>
<td>2004: 1,500,000 (monthly)</td>
<td>Banco de la Nacion (state bank)/ branch and state venue</td>
<td>National ID and cash</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Dominican Republic / Subsidios Sociales</strong></td>
<td><strong>2004 - present/ ongoing</strong></td>
<td>2012: 893,000</td>
<td>VISA (non-bank vendor)/ retail agent with POS</td>
<td>Electronic prepaid account and Tarjeta solidaria (magnetic stripe card)</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>
| **South Africa / SASSA** | **2006 - present/ ongoing** | 2011: 3,700,000 (41%) | Net1, Empilweni (non-bank vendor) and AllPay (subsidiary of ABSA) | Store of value account and smart card | N/A | US$ 4.5 (3.1%) | N/A | Non-bank vendor: 5 - 30 mins; retail agent | Branch: 5 - 120 mins; mobile cash point: several | No deposits; withdrawal required within 90 days | N/A | Bold, Portreus & Rotman (2012); Marulanda &
<table>
<thead>
<tr>
<th>Country / Program</th>
<th>Payment Parameters</th>
<th>Payment Stakeholders</th>
<th>Administrative Costs</th>
<th>Private Costs</th>
<th>Features &amp; Benefits</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Congo / DDR Demobilization Program</td>
<td>Period/status: 2004 - present/ongoing</td>
<td># of recipients: 2004: 180,000 (100%)</td>
<td>Ave transfer amount (frequenc y): Initial payment of US$ 110 followed by 12 monthly payments of US$25</td>
<td>Payment Agency/Agent or POP: Celpay (telephone company)/ mobile cash point</td>
<td>Transport cost/Distance in km: US$ 2.5 (10%)</td>
<td>Lafaurie (2010); Gelb and Decker (2011); DFID (2009); Bezuidenhout (2008)</td>
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<tr>
<td>Country / Program</td>
<td>Payment Parameters</td>
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<td>Private Costs</td>
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<td>Colombia /Familias en Accion</td>
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<td>Payment Agency/ Agent or POP</td>
<td>Payment Instrument</td>
<td>Unit cost</td>
<td>Transacti on fee in US$ (% of transfer)</td>
</tr>
<tr>
<td>2002 - present/ ongoing</td>
<td>2011: 203,264 (9.23%)</td>
<td>Before: 7 private banks  Now: Banagrio (state bank)/fixed and temporary bank branch</td>
<td>National ID and cash</td>
<td>N/A</td>
<td>US$ 5.2 (9.5%)</td>
<td>US$ 1</td>
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<td>2008 - 2009/ discontinued</td>
<td>2009: 372,725</td>
<td>US$ 55 (bimonthly)</td>
<td>Banco Popular (private bank)/ branch</td>
<td>Electronic prepaid account and Tarjeta Eficaz (smart card)</td>
<td>N/A</td>
<td>US$ 7.5 (13.6%)</td>
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<td>2009 - present/ Ongoing</td>
<td>2011: 1,998,296 (90.77%)</td>
<td>Banco- Assenda (joint state bank-private non-bank vendor)/ ATM, branch and agent with POS</td>
<td>No-frills account with Assenda card (magnetic strip debit card)</td>
<td>N/A</td>
<td>US$ 9 (16.4%)</td>
<td>US$ 0.9</td>
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<td>2011 - Pilot, planning scale up</td>
<td>N/A</td>
<td>Banagrio and DaVivienda (private banks)</td>
<td>Agent with mobile phone</td>
<td>N/A</td>
<td>N/A</td>
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<td>Philippines /Pantawid Pamilyang Pilipino Program</td>
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<td>Transacti on fee in US$ (% of transfer)</td>
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<td>2007 - 2011/ ongoing</td>
<td>2011: 2,300,000</td>
<td>US$ 11 - 32 (bimonthly)</td>
<td>Bank of the Philippines (state bank)/ branch and ATM</td>
<td>Deposits account and magnetic stripe card</td>
<td>N/A</td>
<td>N/A</td>
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<td>Country / Program</td>
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<td>Payment Instrument</td>
<td>Transacti on fee in US$ (% of transfer)</td>
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<td></td>
<td>2010/ pilot planning</td>
<td>N/A</td>
<td>N/A</td>
<td>Globe Telecomm Gcash (cellphone company)</td>
<td>Mobile phone</td>
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<td>India-AP/NREGA</td>
<td>2005 - present/ongoing</td>
<td>2008: 5,000,000</td>
<td>US$ 1.74 (daily) for 100 days</td>
<td>Post office/branch</td>
<td>Post office savings accounts and cash</td>
<td>N/A</td>
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<td>2005 – present/ongoing</td>
<td>N/A</td>
<td>N/A</td>
<td>Private banks/branch</td>
<td>No-frills bank account and smart card</td>
<td>N/A</td>
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<td>2008 - present/ongoing</td>
<td>2008: 650,000</td>
<td>N/A</td>
<td>7 private banks/Zero Microfinance and FINO (non-bank vendor) agent with POS</td>
<td>No-frills bank account and smart cards</td>
<td>US$ 2</td>
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<tr>
<td>Kenya/Kerio Valley Cash Transfer</td>
<td>2008/pilot ended</td>
<td>570</td>
<td>US 47 (two transfer in 2 months)</td>
<td>MPESA (telephone company)/airtime agent at local police station</td>
<td>Individual SIM card and shared cellphone</td>
<td>N/A</td>
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DFID (2009); RHVP (2010); Datta et al. 2008
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<tbody>
<tr>
<td><strong>Kenya / Hunger Safety Net Program</strong></td>
<td>2009 - present ongoing scale up</td>
<td>300,000 (100%)</td>
<td>US$ 33</td>
<td>Equity Bank (private bank)/branch, ATM or retail agent with POS</td>
<td>Store of value account with smart card</td>
<td>N/A</td>
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<tr>
<td><strong>Swaziland / Emergency Drought Response</strong></td>
<td>2007 - 2008/program ended</td>
<td>2008: 147 (2.4%)</td>
<td>US$ 20.6</td>
<td>Swazi post office</td>
<td>Cash</td>
<td>N/A</td>
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<tr>
<td><strong>Namibia / Basic Income Grant</strong></td>
<td>2008 - 2009/program ended</td>
<td>930,000 (16%)</td>
<td>US$ 11.8 (monthly)</td>
<td>Nampost (post office)/office and POS</td>
<td>Savings accounts and smart card</td>
<td>US$ 5.9</td>
</tr>
<tr>
<td><strong>Niger / Drought Emergency Program</strong></td>
<td>2009 - 2010/ pilot ended</td>
<td>400 (33%)</td>
<td>US$ 45 (monthly)</td>
<td>Barthia Airtel (cell phone company)/mobile cash point</td>
<td>Program ID and cash</td>
<td>N/A</td>
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<tr>
<td>Country / Program</td>
<td>Payment Parameters</td>
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<tr>
<td></td>
<td>400 (33%)</td>
<td>400 (33%)</td>
<td>Barthia Airtel (cell phone company)/program agent in local market</td>
<td>Zap (store of value) account with cell phone</td>
<td>US$ 4.9</td>
<td>US$ 1.5 (3.3%)</td>
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</table>
GLOSSARY

**Administrative agency:** A core team or committee within the central governing agency or an NGO in charge of coordinating the administration of the program. Its main goal in the payment process is to (i) oversee enrollment and identification of beneficiaries; ii) maintain and update a registry of beneficiaries; iii) oversee the processing of program compliance; and iv) approve, submit and reconcile payment orders as well as setting payment schedule. It also v) negotiates contract terms (when payment is outsourced) or issues payment instruments (when not outsourced); vi) generates and submits list of recipients and payment orders to funding and payment agencies; and vii) and oversee, process, and generate records and reports of the overall payment process.

**Automatic Teller Machines (ATMs):** Computerized devices that act as non-human/virtual interfaces between individuals and their accounts. These devices normally grant customers 24-hour access to financial transactions in a public space without the need for a human bank teller. ATMs can operate as cash dispensers only or full-fledge allowing for other financial transactions.

**Beneficiaries:** The ultimate users of cash transfers. Beneficiaries can be any of the household members entitled to, and intended to benefit from, the payment (DFID 2009).

**Central governing agency:** Entity that can be either the central government or a non-government agency in charge of coordinating program implementation. In the payment process it is charged to i) set benefit levels; ii) establish sets eligibility criteria; iii) make budget decision; iv) oversee program identification issuance; v) design and oversee overall program implementation and progress, including development of an integrated MIS.
**Decentralized governing agency:** Entity that often serves as a liaison between service providers and recipients since they are located closer to the communities where recipients reside. A decentralized agency can therefore address day-to-day payment concerns. While it often remains under the guidance of the central governing agency, it provides an important channel of feedback on program implementation, accuracy and transparency for program management.

**Financial accounts:** Accounts are instruments that can hold and manage funds as well as keep records of transactions between the beneficiary and the issuer. In cash transfers, financial accounts facilitate the direct deposit and withdrawal of funds electronically between governing agencies and recipients, thus reducing the involvement of intermediaries inherited in traditional instruments.

**Full-fledge deposit and savings account:** Unlimited transactions (deposits, transfers) and funds, and no dormancy rules

**Funding source:** Entity that provides the actual financing for the program. This can be a development partner or a finance ministry. Funds for a specific program can go via the governing agency or directly to the payment agency, following instructions from the governing agency.

**Magnetic stripe card:** Similar in size to a plastic card, this type of card contains magnetic stripes capable of storing personal identification and limited banking information. Each time the magnetic stripe card is swiped in a card reader slot, the cardholder’s name and financial account information is retrieved. Magnetic stripe cards can be used to withdraw cash - previously loaded in an account - from ATMs or via payment agents using a POS reader linked online to a back-end server.
**Mobile cash point:** That of payment point that includes bank-employed tellers or hired agents deployed temporarily with cash on armor-plated trucks to make transfers in areas outside bank offices/branches or other fixed venues.

**Money orders/Checks/Vouchers/Stickers/Passbooks/Identification cards:** Certified pieces of paper that can be redeemed for cash, traded for goods or presented to collect payments.

**Paper-based documentation:** Book accounts, worksheets, and any other type of documentation that can record transactions and account balance. This type of tool is commonly used at mobile banks or in cash-for-work transfers paid on-site.

**Payment agency:** Entity responsible for coordinating the mobilization of resources and infrastructure to ensure cash transfers reach the hands of recipients. The main tasks of the payment agency include (i) deployment of equipment to facilitate recipient identification and transaction recording; (ii) provision of safeguards to ensure timeliness of payment delivery; and (iii) establishment of service standards. Tasks also involve (iv) issuance of payment instruments to recipients (when applicable); (v) transfer of funds to payment agents; and (vi) preparation of reconciliation reports.

**Payment agent:** The intermediary that delivers the payment to the recipient. It could either be a shopkeeper, a human or automated teller machine (ATM) at a branch or any intermediary from which recipients can collect entitlements.

**Payment agent with point of sale (POS) device:** A POS device is often referred in the literature to as cashier machine or card readers, although not all POS can use smart card technology. To authorize payments, agents use POS devices with computerized systems and built-in barcode scanner, chip readers, or magnetic stripe slot for capturing and validating information of a recipient account from its magnetic strip card or smart card.
**Payment agent with mobile phone:** A mobile phone contains a Subscriber Identity Module (SIM) card or chip that can hold large amounts of encoded information about the account of a recipient. The phone works similar to a POS terminal. Through a telecommunication network, the cell phone allows agents to connect to a recipient’s virtual account and make transactions upon the recipient’s authorization.

**Payment instruments:** Physical tools that recipients hold to receive and collect payments. These are capable of storing payment information (i.e. name of recipient, account number, entitled amount) that a payment agent uses to make transfers and record transactions. To authorize payments, agents require some type of identification card, code or biometrics that can verify that the recipient requesting payment is the owner of the instrument and is thus entitled to the payment amount.

**Payment mechanisms:** Refer to the channels through which cash transfers are delivered from the funding/governing agency to recipients.

**Payment stakeholders:** Payment stakeholders include all payment agencies and agents involved in a payment cycle – i.e. money flows from the funding source account to the hand of the recipient.

**Point of payment (POP):** The venue where payment agents deliver cash transfers to recipients. It is also referred in the literature to as cash-out point and payment location.

**Prepaid account:** Financial account where funds are preloaded but usually additional funds cannot be added from other sources and must be withdrawn within a certain period.

**Private non-bank vendors:** NGOs, retail chains, microfinance institutions, and telecommunication providers, and other private vendors those are independent from the state.
**Recipient:** The individual authorized to receive the payment on behalf of the beneficiary household. It can be any of the beneficiary household members, usually the primary beneficiary.

**Simple landing account:** A type of financial account where full balance must be withdrawn within a certain amount of time.

**Simplified deposit or savings ("no-frills") account:** Financial account that usually has smaller transaction limits, cheaper fees, and a certain number of free transactions.

**Smart card:** This type of card contains an electronic microprocessor or memory chip that can encode a recipient’s account information. Such information can be retrieved offline directly when the card is inserted into a POS device/smart card reader. At this point, the card reader deducts and records the transfer directly in the chip, without requiring connection to a back-end server.

**State agencies:** Head offices of government agencies (e.g. national social security) and post offices that have widely dispersed facilities across a country. In Eastern Europe, social security insurance facilities are commonly used to deliver social pensions.

**State and private banks:** Headquarters of corporations chartered and regulated by the state, whose primary business is, at the basis, receiving demand deposits and making loans.

**State and private venues:** Type of points of payments that include state or private bank branches or local post offices, public or private schools, local vendor stores (such as lottery shops), government agencies and NGOs.
**Store of value account:** A type of financial account in which full withdrawal of funds is not required, but usually additional funds cannot be added.

**Subscriber Identity Module (SIM) card:** Portable, exchangeable memory chip used in mobile phones that connects users to a recipient’s virtual account.

**Technology-enhanced payment instruments:** Tools such as electronic cards and mobile phones that can store information of the name of the recipient and amount to be paid. Conversely to traditional instruments, using these instruments recipients can redeem cash fully or partially, at various points of payments, and even pay for goods and services directly.

**Traditional payment instruments:** Traditional instruments are pieces of paper that explicitly display the name of the recipient and the amount to be paid. These types of instruments involve the collection of, or redemption to, cash ‘over-the-counter’, typically all at once, at a fixed time and usually leaving a paper trail of the amount delivered.
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Abstract

Cash transfers have proliferated in the past decade as key policy instruments to tackle vulnerability and inequality. Payment mechanisms (PMs), the backbone of cash transfers, are the channels through which cash travels from the funding source to the hands of beneficiaries. In theory, the harmonization of payment flows in PMs with other program processes is critical to delivering the right benefit to the right people at the right time while minimizing costs. In reality, however, PMs tend to remain disconnected, rendering payments inefficient and plagued by error, fraud and corruption. In recent years, program operators, financial institutions and technology innovators have developed strategies for streamlining payment flows. These innovations, if properly integrated into program management through a Management Information System (MIS) and supported by rigorous outreach, can not only promote efficiency and transparency but also ensure effectiveness. This paper provides a framework for integrating PMs within program management. It walks the reader through seven basic steps to process payments. It does so by articulating the flow of beneficiary information and funds from the point of beneficiary enrollment to payment reconciliation and grievance redress. It also looks at the framework through the lenses of different cash transfer interventions and the cases of Kenya, Rwanda and Mexico. The paper concludes that to execute successful PMs it is key to (i) integrate payments within an MIS; (ii) adopt a cost-effective mix of traditional and technology instruments suitable to the country’s context in the short and long run; (iii) decentralize the control and accountability of service provision across government levels; (iv) understand the capacity and incentives of stakeholders; (v) provide manuals, training and information to key players; and (vi) enforce payment parameters and penalize their violation.

Improving Payment Mechanisms in Cash-Based Safety Net Programs

Carlo del Ninno, Kalanidhi Subbarao, Annika Kjellgren and Rodrigo Quintana

August 2013