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Strengthening the cash transfer payment systems in Kenya

by Winnie Mwasiaji, Social Protection Secretariat, Kenya

The Government of Kenya is currently implementing four social cash transfer programmes covering approximately 600,000 beneficiary households across the nation. One of the most critical challenges facing Kenya today is the implementation of an effective, efficient and robust payment mechanism that ensures payments are delivered to the beneficiaries in a timely, convenient, reliable and secure way.

The delivery mechanisms of cash transfers to beneficiaries in Kenya have evolved considerably since 2004. Before 2004, manual cash payments were made through the District Treasury, the benefits were delivered at pay points within the community, and large amounts of money were carried manually by government officers across the country.

This system offered minimal advantages, such as low payment transaction costs and easy access for beneficiaries with low levels of literacy. However, the mechanism also presented several disadvantages, including fiduciary risks, insecurity and sometimes long distances between beneficiaries and pay points, which negatively impacted programmes. The reconciliation processes were also cumbersome, causing delays in payment cycles and rendering them unreliable and unpredictable. Due to delays of up to six months, some beneficiaries reported having to borrow money to pay for utilities, which in turn caused mistrust among community members.

In 2010, the benefit payment system shifted from being completely manual to being semi-manual, using the Postal Cooperation of Kenya for some beneficiaries and a limited-purpose banking system for others. The semi-manual system partly relied on computer technology—for example, for keeping track of beneficiary lists—however, payments were still made manually in cash to beneficiaries. This approach still posed a lot of challenges, such as delays in the reconciliation process that in turn delayed subsequent payments to beneficiaries. This system still suffered from a lot of leakages and fraud.

To tackle these challenges, the Government of Kenya has made concerted efforts to ensure that payments are made electronically to beneficiaries. Two-factor authentication based on a Personal Identification Number (PIN) and a national identification card and/or a biometric fingerprint are used to identify beneficiaries. Moreover, greater steps have been taken to deliver cash benefits through outsourced payment delivery services and to link these transactions with the overall programme Management Information System (MIS) to avoid manual processes that can be subject to human error or deliberate manipulation.

In 2013, a presidential directive mandating the digitisation of all government payments was published. This directive underscored the government's commitment towards reforming the public payment system, to enhance transparency, accountability and efficiency in cash delivery. Since 2013, social cash transfers in Kenya have been delivered electronically through limited-purpose accounts in commercial banks or through an accredited agency for beneficiaries who live in remote areas. The agency model uses offline Point of Service (PoS) devices across the country, mainly with shopkeepers. The accredited agents come under the responsibility of the serving bank which bears the liability for the payment process. Limited-purpose accounts imply that all funds must be withdrawn by the beneficiaries during the two-week payment period.

The electronic payment mechanism faces some challenges related to the low level of civil registration and to some features of the target population. The requirement of Kenyan citizenship validated by the possession of a national identity card is particularly problematic in border towns, as it is harder to identify genuine citizens due to the high incidence of non-Kenyans crossing the border, sometimes denying vulnerable Kenyan community members a chance to benefit from these programmes. In addition, child-headed households are also affected, as identification cards are only issued at the age of 18. Plans have been put in place to ensure that these eligible children— especially those who do not have caregivers—are not denied their rights.

A payment working group and a contract management group have been constituted to provide oversight of the payments of all social cash transfer programmes. Since payments are made online, real-time monitoring is also performed by a team of selected officers. Furthermore, the single registry system supports the verification of the beneficiary list through pre-payroll and post-payroll checks. All these measures have helped to ensure the efficient and effective delivery of the cash transfers. Finally, an elaborate complaints and grievances mechanism has been established at different levels of implementation to address all emerging issues from stakeholders. This includes a toll-free line managed by the social protection secretariat.

Kenya's vision for the future is to use a multiple-bank delivery mechanism under which benefits could be withdrawn at different commercial banks, reflecting different needs according to regional infrastructural disparities. These banks would receive the appropriate amount of money through a switch at the Central Bank of Kenya.[1] These developments will also help to address issues of technological failure (e.g. biometric smart cards), limited institutional capacity of the payment service providers, such as the number of staff, limited knowledge and familiarity with the use of technology by the agents, and liquidity problems. Moreover, it has been agreed with the service providers that all participating banks or agents should be within a 6 km radius of all beneficiaries, which substantially reduces the distance between beneficiaries and payment points.

Note:

1. Under the current system, the payments can only be made through a single commercial bank, selected by a competitive procurement process.

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International Policy Centre for Inclusive Growth (IPC - IG)
United Nations Development Programme
SBS, Quadra 1, Bloco J, Ed. BNDES, 13º andar
70076-900 Brasilia, DF - Brazil

E-mail: ipc@ipc-undp.org ▪ URL: www.ipc-undp.org
Telephone: +55 61 2105 5000