



Case Study

The Future of Government-to-Person (G2P) Payments: Innovating for Customer Choice in Kenya

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Summary

In 2018, the Ministry of Labour and Social Protection in Kenya launched the newest phase of its social safety net program *Inua Jamii* with an audacious goal: provide all beneficiaries with a full bank account and offer them a choice among four financial services providers. The *Inua Jamii program* (Swahili for “uplift the family”) has been operational since 2004 and now reaches 1.2 million beneficiaries (as of the end of December 2019) across four programs targeting particularly vulnerable groups in Kenya. Beneficiaries can access funds at bank branches and biometrically enabled agents of the bank of their choice.

In this case study, we examine how the *Inua Jamii* program gradually introduced payments digitization, then choice to design a program that has successfully scaled to reach the most vulnerable groups in Kenya. We look at how the Kenyan government sought to offer beneficiaries’ choice, convenience, and ultimately, greater dignity in how they access and use their safety net payments and other financial services.

We detail how Kenya has enlisted private banks to deliver social benefits and has offered them incentives to promote outreach in rural areas. We also describe how development partners supported the transformation of the social safety net programs.

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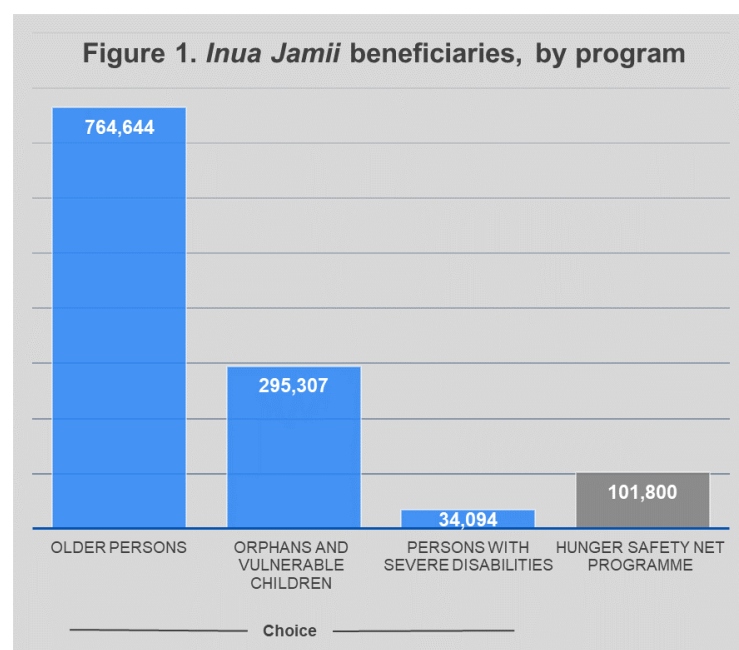
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Introduction

Known as “Silicon Savannah” for its high-tech ecosystem and dynamic private sector, Kenya is one of the fastest growing economies in Sub-Saharan Africa. With a gross domestic product per capita steadily increasing over the past 20 years and gross national income of US\$1,620,¹ Kenya has become a lower middle-income country. However, high rates of poverty persist, particularly among vulnerable groups such as children (especially orphans), older people, severely disabled people, and people who live in the sparsely populated and drought-prone northern portion of the country.

Kenya’s 2010 constitution recognizes social protection as a human right and a tool to achieve inclusive growth. Its Vision 2030 strategy aims to reduce poverty through investing in vulnerable groups. The Kenyan government has invested heavily in safety net programs, both to expand these programs and also to improve the beneficiary experience in terms of increased access, choice, and convenience.

Kenya’s experience with social assistance schemes began in 2004 to meet the needs of the country’s increasing number of children made vulnerable by poverty and HIV/AIDS.² The first pilot project was supported by UNICEF in just three counties, disbursing \$6.70 monthly to 500 households.³ By December 2019, the social safety net had grown to cover nearly 1.2 million beneficiaries (disbursing \$39 per beneficiary or \$48.4 million total in each bimonthly cycle) through programs (see Figure 1):⁴



1. Cash transfer for **Orphans and Vulnerable Children** (launched 2004).

2. **Older Persons** cash transfer programme (launched 2007).

3. **Persons with Severe Disabilities** cash transfer (launched 2011).

4. The **Hunger Safety Net Programme** for people living in northern counties (launched 2009).

The programs are collectively called *Inua Jamii* (Swahili for “uplift the family”) or National Safety Net Program (see Box 1). This case study focuses on the first three programs listed, which have offered beneficiaries the choice of payment

¹ World Bank gross national income per capita, Atlas method (current US\$), Kenya 2018.

² See UNICEF, “[Kenya Social Protection Sector Review—2017](#)” (New York: UNICEF 2017) for background on Kenya’s social safety net program.

³ International Policy Centre for Inclusive Growth, “[Strengthening the Cash Transfer Payment Systems in Kenya](#)” (Brazil: International Policy Centre for Inclusive Growth, March 2016).

⁴ Some programs like the Older Persons program distribute payments at an individual level—e.g., one household can receive two payments if two older persons live in the household. Other programs, such as the Orphans and Vulnerable Children and Hunger safety net programme, are implemented at the household level, thus payments collectively benefit far more than 1.2 million individuals. Kenya has an estimated population of 51.4 million people.

services providers (PSPs)⁵ since June 2018. (See the Annex for more on the evolution of these programs.) Although the fourth program on the list, the Hunger Safety Net Programme (HSNP), has made significant progress in digitizing payments, it does not offer beneficiaries' choice of provider and, hence, is not the focus of this case study.⁶

Digitization was motivated by a labor-intensive, leaky, and risky manual payment process and was gradually introduced over the course of a decade. When cash transfer payments first began with households of orphaned and vulnerable children in 2005, manual cash payments were made through the District Treasury. Government officers traveled under armed guard with large amounts of cash to pay the beneficiaries. This was a risky and labor-intensive exercise. Cumbersome reconciliation processes caused delays in payments of up to six months. In 2010, the benefit payment system shifted from being completely manual to being semi-manual. The Postal Corporation of Kenya (PCK) was contracted, through a single-source procurement, to deliver payments to beneficiaries, which by then also included elderly

Box 1. Key components of the *Inua Jamii* Program

- Delivers unconditional social assistance through cash transfers of US\$39 every two months into bank accounts.
- Benefits more than 1.2 million vulnerable Kenyans across the country.
- Focuses on four vulnerable groups in Kenya: orphans and vulnerable children, older persons, persons with severe disabilities, and poor households in the northern part of the country.
- Enables beneficiaries in three out of the four programs to choose from among four banks that were selected through a competitive procurement process: Co-operative Bank, Equity Bank, Kenya Commercial Bank, and Post Bank. The northern households receive payments into a bank account but do not choose their bank provider.
- Offers an opportunity to switch providers during a yearly two-month long “switching” window (still to be implemented).
- Compensates banks based on a three-tier “remoteness” scale as an incentive for them to reach beneficiaries in remote areas.
- Provides beneficiaries with biometric-enabled debit cards. The cards can be used with a personal identity number (PIN), but this is intended to be used only if capturing biometrics is not viable.
- Allows beneficiaries to withdraw cash through bank branches and biometrically enabled agents. Those with PIN-enabled cards also can use ATMs. Two free withdrawals and two free balance inquiries are provided per payment cycle.

⁵ Referred to as PSPs even though all the current financial institutions linked to the *Inua Jamii* program are banks.

⁶ The HSNP distributes unconditional cash transfers to 101,800 extremely poor households in the drought-prone arid areas of northern Kenya. It is operated by the Ministry of Devolution and Planning and is managed by the National Drought Management Authority. It is not consolidated with the other government-to-person (G2P) programs in Kenya under the Ministry of Labour and Social Protection. It provides emergency payments to an additional 274,000 households during a drought. With an average of four people per household in Kenya, this program benefits 1.5 million people. Infrastructure is limited in this part of the country: there are few roads, and bank branches are almost nonexistent. Due to these circumstances, the Government has opted to continue with a single provider (Equity Bank). However, many of the lessons learned through digitization of HSNP were later brought to other *Inua Jamii* programs, mostly through Financial Sector Deepening Kenya, which serves as an adviser to both programs.

and severely disabled persons. PCK was chosen for its wide-reaching branch network. The semi-manual system partly relied on computer technology, but payments were still made manually in cash. There was no reliable way to verify identity, payments took 10 minutes per beneficiary, and reconciliation took months.⁷

In 2013, a presidential directive mandated that all Government payments be digital. The Ministry brought development partners such as DFID, the World Bank, and the World Food Program together to support the development of a management information system (MIS) and enhanced technical capacity.⁸ Financial Sector Deepening Kenya (FSD Kenya) was asked to support the design of an electronic delivery model.⁹ Equity Bank and Kenya Commercial Bank (KCB) were selected out of 10 banks that bid on the project to provide payments to beneficiaries. Each bank was allocated specific programs and served only beneficiaries that were part of their allocated programs. Withdrawals were made with debit cards, and identity was verified using Government-issued national IDs and biometrics (fingerprints) at branches and biometrically enabled agents. Beneficiaries had a 21-day cycle when they could receive payment or risk forfeiting their benefit, which would then be sent to a government holding account.

Beneficiaries still faced significant challenges, including restrictions on where they could withdraw funds, biometric failures, long distances to collection points, and misrouted cards. The Ministry knew it had to do something more radical to reduce time and money for both the beneficiaries and the Ministry itself. John Gachigi, head of the Social Assistance Unit (SAU), remembers: “When there were just two banks, those banks basically had a monopoly and did not have to work hard to win customer loyalty. We decided to come up with a new model, the choice model. Not only can beneficiaries choose their bank, but they can use their bank accounts for other purposes, like receiving remittances from abroad and saving money. We wanted to develop a solution that would give them a sense of dignity.”

The choice payment model was introduced to offer beneficiaries more convenience, lower costs, and critically, agency over their financial lives. Despite incremental progress, the Principal Secretary of the Ministry of Labour and Social Protection knew the program needed to make a bold move to offer beneficiaries a truly safe, convenient mode of payment and allow them more control and choice.¹⁰ She asked FSD Kenya to lead a series of design workshops to co-create a payments process that would bring full bank accounts and choice to beneficiaries. FSD Kenya brought its extensive experience with HSNP to the task. After a decade of incentivizing banks for long-term outreach to rural areas and designing offerings for beneficiaries, FSD Kenya was well placed to improve and scale the *Inua Jamii* program. Planning started in 2015, and three years later, the redesigned choice model was launched.

⁷ Interview with John Gachigi, head, Social Assistance Unit, Government of Kenya.

⁸ There have been several changes to the names and structures of the ministries since the inception of the cash transfer program, particularly in light of the 2010 constitution following which the number of ministries in Kenya was reduced from 47 to 18. At inception, the programs that now make up *Inua Jamii* were managed by the Ministry of Gender, Children, and Social Development, which no longer exists. They are now under the Ministry of Labour and Social Protection and managed by a specialized unit within the Ministry called the Social Assistance Unit.

⁹ FSD Kenya is a donor-funded organization that supports the development of financial inclusion in Kenya by making financial markets work better for poor people.

¹⁰ Interviews with FSD Kenya and Social Assistance Unit, Government of Kenya.

Enabling environment

Four key elements of an enabling environment facilitated the transition to the redesigned choice model: government commitment, high-level champions, well-developed and accepted digital payment infrastructure, and an existing ID system.

The Government’s directive to digitize cash transfer payments underscored a commitment to reform the public payment systems to achieve efficient and safe electronic delivery. The Kenyan government was able to transition from limited digitization in the form of prepaid cards to full bank accounts, in part, because it was open to outside input. It was able to give beneficiaries more financial opportunities and invest government resources in its programs rather than using them for onerous reconciliation processes.

Senior government officials championed the transition to greater digitization and openness. It took leadership at the highest levels of the Ministry of Labor and Social Protection to drive full digitization and adopt the recommendations made by design partners. Their support was particularly instrumental in putting the three cash transfer programs under SAU, which brought greater efficiency and accountability, including a consolidated MIS.

Kenya has experienced very high rates of DFS adoption since Safaricom’s M-PESA mobile money service launched in 2007. In 2019, an impressive 83 percent of adults had access to formal financial services, and in 2015, 78 percent of adults lived within 5 km of a financial access point.^{11, 12} Mobile money in Kenya is widely accessible even to the very poor—63 percent of adults living in the lowest quintile have formal financial services. Although initially banks were prohibited from agency banking, by 2010 the Central Bank had issued guidelines for agency banking,¹³ and in 2014 the Competition Authority ruled against Safaricom in a case on agent exclusivity,¹⁴ essentially prohibiting exclusivity in agent contracts. This set the stage for tremendous growth in bank agent networks, which would later be leveraged for the *Inua Jamii* program. By 2017, there were 61,290 bank agents,¹⁵ with Co-operative Bank, Equity Bank, and KCB collectively accounting for more than 90 percent of bank agents in the country.

Approximately 82 percent of the population has national IDs.¹⁶ National IDs are required for enrolling in the *Inua Jamii* program, for receiving virtually all other government services, and for opening bank

¹¹ 2019 FinAccess Household Survey Central Bank of Kenya, KNBS, FSD Kenya (2019).

¹² Bill & Melinda Gates Foundation; Central Bank of Kenya; FSD Kenya, 2016, “FinAccess Geospatial Mapping 2015,” <http://dx.doi.org/10.7910/DVN/SG589T>, Harvard Dataverse, V1.

¹³ Revised in 2013, see Central Bank of Kenya Prudential Guidelines, <https://www.centralbank.go.ke/images/docs/legislation/Prudential%20Guidelines-January%202013.pdf>.

¹⁴ Rafe Mazer, Rashmi Pillai, and Stefan Staschen, “Agents for Everyone: Removing Agent Exclusivity in Kenya & Uganda,” CGAP blog post, 22 July 2016, <https://www.cgap.org/blog/agents-everyone-removing-agent-exclusivity-kenya-uganda>.

¹⁵ As of 2017. Bank agent numbers are from the 2017 Central Bank of Kenya annual report and referenced in Angeline Mbogo, “Equity Bank Captures 47% Share of Banking Agents in Kenya—CBK Report,” *Kenyan News*, 31 August 2018, <https://kenyanwallstreet.com/equity-bank-takes-47-banking-agents-cbk-report/>. In addition, there were 94,216 mobile money agents (FSD Kenya/CBK).

¹⁶ “ID4D Data: Global Identification Challenge by the Numbers Global,” World Bank Group, <https://id4d.worldbank.org/global-dataset>.

and mobile money accounts. Kenya has a well-established system for national IDs, therefore most *Inua Jamii* program beneficiaries already had an ID when they were enrolled in the program.¹⁷

Key design choices

Through a series of design workshops, the Ministry of Labour and Social Protection, FSD Kenya, and other partners eventually agreed on five key choices that would drive the design of the latest phase of the *Inua Jamii* program, with a focus on beneficiary choice and full bank accounts.

Choice 1. Beneficiaries can choose account providers at onset and switch providers annually

The most fundamental design choice was that beneficiaries should be able to choose their provider from a list of qualified FSPs. Beneficiaries could choose based on factors such as distance to the nearest pay point, quality of service, or any other criteria. To achieve choice at the onset, the Ministry organized community meetings (*barazas*) where the FSPs would meet beneficiaries and advertise their services. Beneficiaries would choose their FSP at that meeting or within 30 days. They also could change FSPs once a year during a specified switching window of two months. Participating banks have to maintain a presence in all zones—urban, semi-urban, and remote. (Currently, all four banks are in every county in Kenya.)

Choice 2. Payments are made into full bank accounts

Another design choice was that all beneficiaries would receive full bank accounts (Box 2 explains how this choice and others limited the types of FSPs that could participate), the flexibility to withdraw at a range of possible points of service, and choice in how many withdrawals to make per payment. Gachigi of SAU says: “We felt that one way of giving beneficiaries a sense of dignity was to ensure they had full bank accounts. They can use these accounts for other purposes—to save money, make payments, receive and

Box 2. Why Not Mobile Money?

With almost 100,000 agents in the country, Safaricom’s M-PESA has close to 50 percent more agents than all the banks in Kenya combined. Although mobile money’s reach geographically and to poorer segments of the population is impressive, there are several reasons why mobile money providers are not direct partners of *Inua Jamii*:

- The Government wanted to offer full bank accounts, not just a mobile wallet.
- Mobile money is PIN enabled, not biometrically enabled, and the Government felt that biometrics were necessary to ensure proof of life.
- “Clawback” i.e. the Government’s ability to reclaim uncollected funds, might be more difficult with mobile money services.

Safaricom and other mobile money providers did not formally bid to be part of the program, likely because they were unable or unwilling to meet program requirements. However, beneficiary accounts can be linked to M-PESA and other mobile money services for easy movement of funds into and out of mobile wallets for beneficiaries that already have mobile money.

¹⁷ When HSNP was scaling up in the remote northern regions in 2013, the lack of IDs was a major issue. National ID registration campaigns were held alongside HSNP registrations.

send remittances and link to mobile money wallets.” Beneficiaries receive two free withdrawals and two free balance inquiries per payment cycle. Additionally, they are entitled to a first free debit card upon account opening and no monthly charges. Beneficiaries can withdraw from any branch or biometrically-enabled agent or ATM of their chosen FSP in Kenya.

Choice 3. Authentication is done via biometrics for regular evidence of proof of life

The Government felt that it was essential to receive regular evidence of proof of life of beneficiaries to continue distributing payments, given that the beneficiaries in the largest program are older persons. Authentication via PIN was not considered reliable enough for proof of life and some beneficiaries felt that their cards and PINs could be used by others to steal their money. Biometrics (i.e., fingerprints) were considered easier to use by a population that includes older, illiterate, and innumerate people. PINs were to be used only when necessary, such as when biometric capture fails at registration. Severely disabled or child beneficiaries who were unable to present themselves at cash-out points were allowed to appoint caregivers as proxies whose biometrics were taken as well. Biometrics are used with a national ID card for two-factor authentication.

Choice 4. A competitive procurement process was mandatory, but a workaround was needed to select multiple banks

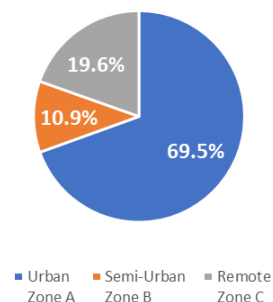
Generally, procurement entails selecting one bidder based on price and quality.¹⁸ However, the choice model requires multiple services providers. To avoid a “winner takes all” scenario, SAU and FSD Kenya sought an exemption from the Public Procurement Regulatory Authority that would allow them to sign contracts with multiple providers. They wanted to attract as many PSPs as possible and select the top four or five. The Government selected four banks in its first round of procurement: Co-operative Bank, Equity Bank, KCB, and Postbank.

Choice 5. Tiered fees incentivize banks to serve remote locations

The Government spends 3.5 percent¹⁹ of its budget on average for fees to the banks. The cost, before this latest phase, had been 3 percent, but the fee was increased to incentivize PSPs to service remote areas.

To create incentives for high-quality service and expansion in rural areas, the program paid the banks on a three-tier commission structure. The levels were based on three zones: urban (zone A), semi-urban (zone B), and remote (zone C). The zones were based on detailed analysis and on population density, economic activity, and distance from branch. Banks are currently paid US\$1.18 for servicing zone A, US\$1.30 for zone B, and US\$1.52 for zone C. About 70 percent of beneficiaries are in urban areas, 20 percent are in remote areas, and 10 percent are in semi-urban locations (see Figure 2). Bank agent remuneration agreements were left up to the two parties; the program did not set pricing guidelines for those

Figure 2. Share of population by zone



¹⁸ Kenya’s Public Procurement Act requires bidders be selected based on technical qualifications and lowest price in a “one bidder wins all” framework.

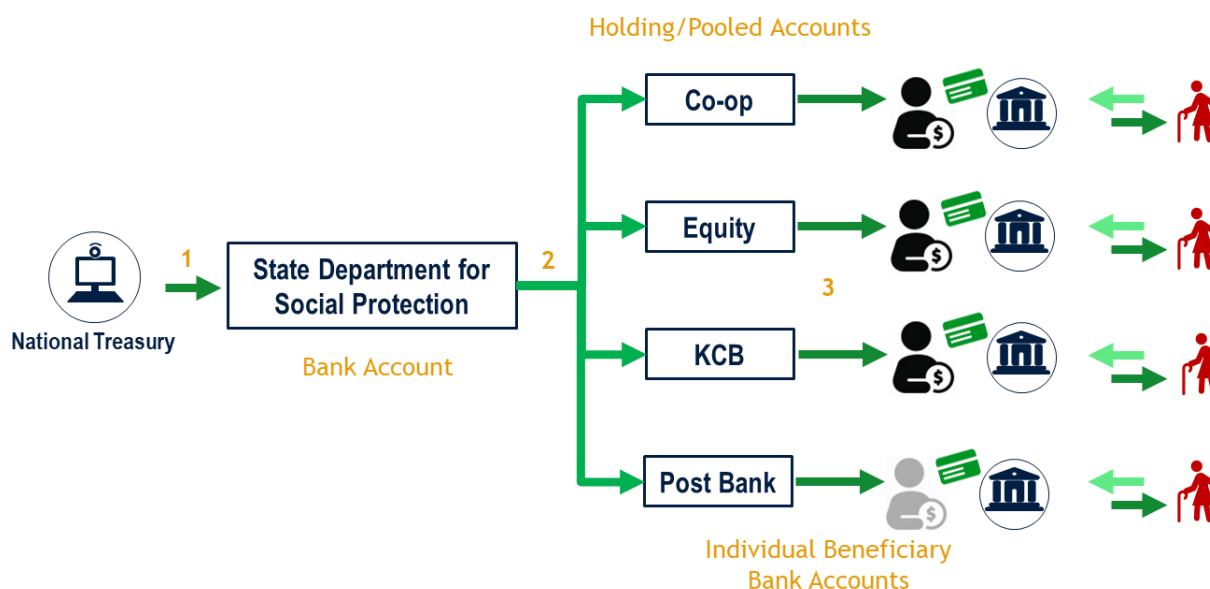
¹⁹ Per conversations and material provided by the Social Assistance Unit (SAU).

relationships. As an incentive to be part of the program, banks are paid once a beneficiary makes a withdrawal.

Payments Pathway

Inua Jamii transfers rely on a three-step payment pathway. Payment cycles take place every two months. At the onset of each payment cycle, the National Treasury sends a bulk payment for the three programs to the Ministry of Labour and Social Protection (administered by SAU). When SAU receives these funds, it sets a payment date and sends a circular to the banks informing them of the timing of the payment. It also sends a circular to Ministry field officers to begin alerting beneficiaries of the upcoming payment. After SAU sends the funds and payroll authorization to the banks, the banks are expected to pay beneficiaries within five days. (See Figure 3.)

Figure 3. Flow of funds from the National Treasury account through to individual beneficiary accounts



Once the SAU confirms that the funds are in the bank accounts of beneficiaries, SAU holds a press briefing and makes media announcements via newspapers and radio. While broadly effective and cost efficient, SAU’s multiple outlets sometimes create confusion when messages about fund availability get out prematurely, and this can create reputational risks for both the Ministry and the banks.

Banks must provide credit and fund movement reports to the SAU after each bimonthly payment cycle to facilitate payment of commissions. Any unclaimed funds are “clawed back” from the beneficiary account after one year (six months of account inactivity and an additional six months of beneficiary failure to provide proof of life).

Implementation so far

***Inua Jamii* choice programs currently reach 1.1 million beneficiaries,²⁰ around 90 percent of its targeted number of beneficiaries.** It uses a network of nearly 700 bank branches and over 4,100 biometrically enabled agents, representing only 6 percent of the total of the participating banks' agents. The program covers all 47 counties in Kenya and is supported by field officers at the county and subcounty levels. (See Table 1²¹.)

Table 1. Summary of implementation

	KCB	Equity	Co-op	Post	TOTAL
Branches	263	179	154	98	694
Total number of agents	16,000	40,000	12,000	724	68,724
Number of biometric-enabled agents	2,222	1,400	520	-	4,142
Beneficiaries	556,641	426,757	58,225	52,422	1,094,045

Implementation has had its challenges but is mostly proceeding in line with agreed design choices. A tremendous amount of political will was expended to get the program up and running quickly. The Ministry was under a lot pressure to make *Inua Jamii* work, and it succeeded in getting it going. The first payment was made in June 2018 and was followed by another that combined three payment cycles into one for a total of US\$118 per beneficiary.²² Four payments have been made to date. However, the program is still in transition. The initial experiences of key stakeholders have been largely positive. Agent and beneficiary experiences in particular are expected to improve.

Government

The Government put in place the structures necessary for *Inua Jamii* to take off and succeed. Partnerships with local and international stakeholders who bring technical and fiscal support have helped the program overcome government inertia that can impede or delay reforms. The World Bank used disbursement-linked indicators (DLIs)²³ as incentives to achieve results. This helped to mobilize political will and administrative support for some structural changes, such as consolidating the three programs under one unit (SAU), creating a consolidated MIS and payroll, using two-factor authentication, and designing a scalable model. Continuity of leadership at the Ministry level helped to sustain gains and improve the program. This has been exemplified by an engaged Principal Secretary in the Ministry of Labour and Social Protection who has helped to keep the momentum of reforms going. SAU continues to administer the program and has demonstrated openness to advice, which will be important for *Inua Jamii's* continued development.

The Government attributes time and cost savings to several key decisions, as indicated in Table 2.

²⁰ Households of the three programs that offer customer choice, not including HSNP in the North.

²¹ Numbers from FSD Kenya and Individual banks

²² Challenges in the early months of the program stemmed from delays in reauthorizing *Inua Jamii* budgets. This is being addressed by adding the G2P payroll to the recurring budget.

²³ A World Bank approach that focuses on supporting a government in achieving desired operational results by making disbursements tied to specific achievements as defined by the DLIs

Table 2. Benefits of key decisions

Decision	Previous Model	Benefit
Pay transaction fees for banks against proof of beneficiary withdrawal of funds.	Full payment of fees in advance, along with transfer values.	Cost saving by having float for additional days and reducing cost of reconciliation for transfers that were not withdrawn. Also, Government pays for services delivered and provides incentives for PSPs to issue payment instruments and set up agents especially in remote areas
Full know- your- customer (KYC) and customer due diligence (CDD) as part of bank account opening.	Limited KYC/CDD increased chances of ghost beneficiaries.	Minimizes the chances of ghost beneficiaries and improves targeting.
Outsourcing all bank services to banks.	In the past, government was responsible for managing cards. Beneficiaries had to report loss of cards to a government official, and government paid to replace lost cards.	Significant time savings by not having to manage cards or other bank services directly.
Biometric proof of life every 6 months done by banks.	Proof of life was done by government officials who would do field monitoring to visually identify that beneficiaries were still alive.	Time savings as government no longer does field monitoring. Cost savings because people who have died are removed from the list of beneficiaries.

Banks

The banks have to contend with a new G2P paradigm. Competition is the new game in the social payments space. The shift to the choice model introduces three major changes for banks:

1. Choice—striving to win customer loyalty, not just government contracts.
2. No guarantees from the Government, especially on customer count.
3. Uncertainty about whether the switching window will reward or punish them.

By and large, banks are adjusting. The leading two banks, perhaps not coincidentally, were also the incumbents at the start of *Inua Jamii* and have over 90 percent of beneficiaries between them. When the Government first realized that incumbent banks Equity and KCB had a significant advantage in registration as they already had beneficiary biographical data and fingerprints, it quickly devised a strategy to give one-off physical tokens to all beneficiaries to surrender to their chosen bank at registration/account opening. Tokenization began with the SAU creating unique codes and linking each one to individual beneficiaries enrolled in *Inua Jamii*. On bank selection and account opening day, program officers handed each beneficiary a piece of paper with their code written on it and instructed them to give the paper/token only to the bank of their choice during the account opening process. The token system was created to establish a level playing field between the four banks and to prevent multiple registrations/bank accounts of the same beneficiary across banks. This was possible because tokens became invalid as soon as they were used, and no accounts could be opened without a token; meaning incumbents could not automatically convert existing customers into “new” ones without having the beneficiaries undergo a “token in hand” registration/account opening process. This helped the situation, but most beneficiaries still ended up with one of the two incumbent banks. The biggest winner so far has been Equity Bank, which has grown its beneficiary count three-fold.²⁴



Implementing choice: A beneficiary's experience

Josfat Mburu Thuku is a 69-year-old from Mweki, a neighborhood approximately 20 km northeast of Nairobi. He is part of the Old Persons Cash Transfer Program. On registration day, after the banks made their sales pitches, Josfat sat waiting with others his age. His mind was made up. He already had a prepaid account with KCB and wanted to stick with it. He expected a long wait and was relieved when a young man approached him and announced that he was from the bank. The young man led Josfat by the hand to the bank registration station where he had his fingerprints and biographical information captured. To his surprise, Josfat later learned that he had been registered as a customer at a different bank! There is a KCB access point closer to his home, and Josfat expects that he will switch to KCB when the switching window opens.

The business case for the banks is varied, given their different starting points. First, there have been uneven investment needs for banks to comply with *Inua Jamii* program requirements. Two of the banks already had biometric equipment; the other two have had to invest in the equipment from scratch. As a result, some beneficiaries still do not have cards and some still have their previous limited-functionality accounts. Second, not all banks have invested in biometric-enabled point-of-sale (POS) devices for most of their agents. In fact, one of the banks does not yet have any biometrically enabled agents. Finally, all banks have assumed direct costs on behalf of agents, including providing liquidity for those far from bank branches and paying for biometrically enabled devices (\$300–800 per device). This decision to incur agent-related costs is a retention strategy in the first years of the program. It remains to be seen if it will continue as the *Inua Jamii* choice model matures.

Banks seem to be motivated by long-term brand enhancement rather than short- or medium-term profits. Although all banks are seeking to breakeven, it is clear that their primary objective is to boost their

²⁴ Note that with the transition to *Inua Jamii* the number of beneficiaries grew by 523,000. Any growth does not necessarily mean beneficiaries moved from another provider.

brands and reputations in Kenya.²⁵ Being a partner bank of the Government is prestigious. Bank names and logos appear in most government communications on the *Inua Jamii* program and being associated with this high-profile program on behalf of poor and vulnerable people in Kenya enhances their reputation. Banks also mention that the project is part of their wider social purpose, and they want to give back to the communities in which they operate.

The banks faced a variety of challenges, some simply from navigating a new program, others from facing an uncertain future. One big challenge so far has been the unevenness of the payment schedule, which has created an unpredictable income stream for banks. The Government contract stipulates remuneration based on number of beneficiary transactions. Lumped withdrawals were initially treated as one by the Government, but this was recently changed, and contracts now reflect payment based on cycle count. FSPs receive commissions only when confirmation is received that the beneficiary has made at least one withdrawal. A second challenge is the relatively short duration of the contract (three years), which is not enough time to breakeven and recoup large upfront investments. The Ministry agrees but was limited by the Public Procurement Act which stipulates that such contracts should be a maximum of three years for initial engagements. It is exploring avenues for lengthening contracts in the next phase. Finally, banks are uncertain about the impact of the proposed switching window on their number of customers. Any loss of customers would be a major problem for the sustainability of banks participating in the program.

Agents

In four agent interviews conducted in and around Nairobi, agents indicated that they are satisfied with their role in serving *Inua Jamii* beneficiaries. While revenue from *Inua Jamii* commissions (about \$0.30 per transaction) is low, agent costs are close to zero. It is clear that agents earn the bulk of their revenue from other agent business, in particular M-PESA business. However, the banks have made it as easy as possible to be an *Inua Jamii* agent, providing agents with POS devices at no cost to them and taking on liquidity rebalancing costs in harder-to-reach areas. Banks do not pass on their higher commissions in remote areas to agents, but they incur most of the higher cost of serving these areas. Agents express three main frustrations. First, fingerprints are difficult to read, and biometrics frequently fail. The 10-print²⁶ has helped to increase the chances of capturing readable prints, but agents still face challenges. Second, some banks reimburse float in real time,



The agent experience: Helping older people with biometrics (and refreshments!)

“Biometrics are often an issue, not because of connectivity, but rather dirt and wear and tear, particularly for the older people. I keep a wet cloth with water and soap for beneficiaries to clean their fingers in case of difficulties with capturing fingerprints.”

Beatrice Mugai is based in Kawangare in Nairobi and has been an agent since 2009. She is one of the few agents in the area that have been issued a biometrically enabled POS devices by both Equity and Co-op Bank. Her words demonstrate her commitment to serve beneficiaries well: “This past payment cycle, there were so many people I had to organize seats as well as water and at times even milk for them. I see them as my parents, and I won’t make them queue for long.”

²⁵ Based on interviews with all participating banks

²⁶ Previously, *Inua Jamii* required banks to capture prints from three fingers, whereas now they require a capture of prints from all 10 fingers.

but commission is paid only monthly. Other banks pay commission immediately but delay float reimbursement. As a result, reconciliation is a big challenge for agents, especially since transaction statements are not always readily available and the commission amount too small to warrant investing in their own reconciliation methods. Finally, *Inua Jamii* payments are lumpy and disrupt normal business. The uneven payment schedule and tendency of beneficiaries to rush to get payments on the same day means that, on pay day, agents struggle with float and have their outlets crowded with beneficiaries at the expense of their core business.

Beneficiaries²⁷

Perhaps most importantly, beneficiaries understand and appreciate that they can choose their service provider. Unfortunately, the initial roll-out of the choice component was not as planned. Although beneficiaries were supposed to have a 30-day window to consult with others and decide on a bank, the tight deadlines around registration meant that most did not have that amount of time from when they heard the sales pitches from the banks to having to make a decision. Most beneficiaries seem to have made their choice based on which bank has a service point near them and general bank reputation and brand. Equity Bank fares especially well on the latter point. Beneficiaries also know that they will have an opportunity to switch providers.

However, most beneficiaries do not understand the functionality of their bank accounts. Most withdraw everything, even when it arrives in larger lump sums, because they do not understand that they can use their accounts to save and that they have two free withdrawals per cycle. Although many beneficiaries in Nairobi have M-PESA accounts, they do not understand that these can be linked to their *Inua Jamii* accounts.

Biometric failures have frustrated beneficiaries as well, and some try hard to protect their fingerprints from wear and tear. Instances of failure have led to delays in payment of two weeks or longer as customers await recapture and revalidation. Most issues are a result of improper transition from the previous phase, when a lower standard of biometrics was used. Banks have promised to correct this and adhere to the current high standard.

Development partners

Several development partners and funders have supported the Government of Kenya in its efforts to digitize and improve *Inua Jamii* payments. These include DFID, FSD Kenya, UNICEF, and the World Bank. FSD Kenya and the World Bank have had a particularly significant influence on *Inua Jamii*.



Beneficiary perspective: “My bank, my choice”

Nancy Gathoni, 74, from Clay City selected Equity Bank. She had been a KCB customer before choice was introduced, but she preferred Equity where she felt more comfortable. Her closest access point is 10 minutes away by *matatu* (minibus) and the round-trip journey costs around \$0.50.

Nancy plans to stay with Equity when the switching time comes and to use it for all her banking needs going forward.

²⁷ From interviews with 12 beneficiaries of *Inua Jamii* in and around Nairobi.

FSD Kenya has played a critical role in supporting the Government in digitizing cash transfer benefits since the inception of HSNP in 2009. It was deeply involved in designing and implementing HSNP for over 10 years. It acted as both a technical adviser and as the payment services manager, managing procurement, contracting, and payments processing. FSD Kenya CEO Tamara Cook says: “The Hunger Safety Net Programme not only introduced digitization of social safety nets to Kenya but also introduced agency banking to the country. Most people don’t know that the first bank agent was not in Nairobi but in Turkana, in the heart of northern Kenya. FSD Kenya invested heavily in this program over the course of a decade, and our efforts bore fruit when Kenya’s government saw the success of this demonstration project and incorporated many learnings into the wider *Inua Jamii* programs.”

This involvement over a sustained period of time helped FSD Kenya to encourage government to make critical decisions, such as moving from prepaid cards to bank accounts and from specialized payment outlets to full agents. It gained deep expertise which it later brought to the wider *Inua Jamii* programs. Since 2012, one of FSD Kenya’s payments specialists has been based first within the Ministry, then in SAU, to support implementation. Having a staff member supporting all aspects of implementation gave FSD Kenya a deep understanding of what was going on and the ability to be influential. Government stakeholders recognize the important role FSD Kenya has played, including its role as a neutral mediator between the banks and the Government.

In the lead up to beneficiary choice, the World Bank was instrumental in keeping the Government of Kenya focused on reforms by providing disbursements linked to achieving results on the key reforms. Notable disbursement-linked indicators (DLIs) include:²⁸

- DLI 3, which helped ensure that a single registry is fully operational with the MIS using agreed standards for internal payroll controls.
- DLI 4, which ensured that 100 percent of payments are made electronically using two-factor authentication.
- DLI 7, which ensured that a system for scaling up payments was adopted.
- DLI 8, which ensured that the Government consolidated its cash payment programs.

In November 2018, the World Bank approved the US\$250 million Kenya Social and Economic Inclusion Project (KSEIP) with co-financing of GBP 74.45 million from DFID. Over the next five years, KSEIP will support the Government in strengthening delivery systems for enhanced access to social and economic inclusion services and shock-responsive safety nets to poor and vulnerable households. It combines investment financing with DLIs to achieve outcomes in various areas. In the context of this case study, DLIs supported by KSEIP include:

- DLI 1: Enhance the scope, coverage, and functionality of single registry with the aim of developing an integrated information system for HSNP that can harmonize beneficiary targeting and registration nationwide i.e. beyond the original four counties in Northern Kenya.
- DLI 2: Support the roll-out of a new *Inua Jamii* payment mechanism for three cash transfer programs led by the Ministry of Labour and Social Protection.
- DLI 3: Strengthen the integrated grievance and case management mechanism/system and roll it out at a decentralized level. Under the new system, officials at the county and sub-county level

²⁸ For more on DLIs see World Bank, [“National Safety Net Program for Results \(P131305\)”](#) (Washington, D.C.: World Bank, 2019).

will have the capability for decentralized recording of updates into a specially designed consolidated cash transfer program-MIS grievance and case management module.

What could be next for *Inua Jamii*?

The *Inua Jamii* program has broadly achieved its targets in the first 18 months since the introduction of the choice payment model. Going forward, decisions will need to be made that will significantly impact the future of the program. These include:

- Establishing when and how to offer account switching.
- Ensuring consistency and clarity around PIN enablement.
- Enhancing efficiency through a directory of individuals and accounts.
- Determining the optimal number of providers for the next procurement decision.
- Introducing biometric interoperability for increased access points and convenience.
- Helping beneficiaries understand the functionalities and benefits of owning full bank accounts.

Establishing when and how to offer account switching. Yet to be introduced is a switching period in which beneficiaries who want to switch providers will have 60 days to do so. This is a critical component of offering choice. It was to have taken place after one year, but it was delayed for a variety of reasons, including the delay of payments (which were made in arrears). This meant that most beneficiaries had only limited interactions with providers and would not be able to judge whether they should switch providers. Another reason for the delay was that the Government wanted to move past any remaining confusion in the implementation phase before opening up a switching period in which banks would once again compete for customers. The Government is exploring ways to open the switching window in a controlled and orderly way.

Ensuring consistency and clarity around PIN enablement. Originally, PINs were to be used only in specific circumstances, such as failure of biometric capture at registration. However, the use of PINs was inconsistent. For example, one bank in a particular area allowed beneficiaries to use PIN codes regularly to access funds at the ATM while another bank did not enable PINs at all. On average, just 6 percent of all agents are able to use biometrics and as a result, many beneficiaries are using bank branches, knowing they can always cash out successfully there. Banks need to provide agents with biometrically enabled POS devices, otherwise government may want to consider more widespread PIN use to enhance convenience (while maintaining the biometrically verified proof of life every six months).

Enhancing efficiency through a directory of individuals and accounts (mapper).²⁹ A mapper connects beneficiaries' identification details to their banking details, thereby allowing any government program or any other cash transfer program to pay beneficiaries directly. A mapper allows any change in payment information to be done only once and then it can be used by a variety of programs. This has helped increase efficiency in other countries, such as Bangladesh, and may be useful in Kenya eventually.

Determining the optimal number of providers for the next procurement decision. For the choice model to be sustainable, government could extend the contract period from the current three years to five years or longer. This will enable FSPs to invest in the program, knowing that they will have enough time to

²⁹ For more about mappers, see Silvia Baur-Yazbeck, Gregory Chen, and Joep Roest, "[The Future of G2P Payments: Expanding Customer Choice](#)" (Washington, D.C.: CGAP, 2019).

recoup these investments. Currently, the three-year contracts come with a possible extension of about the same duration, which does not provide sufficient assurances to FSPs as they compute their return on investment. This is especially important because in the choice model, the FSP is not guaranteed any beneficiaries and has to market itself to recruit customers.

Introducing biometric interoperability to increase access points and convenience. In the works is biometric interoperability, which will allow beneficiaries of one FSP to use access points of any of the other FSPs in the program at a small extra charge. Biometric information would be stored on the card itself so that authentication can be done easily without having to communicate with a remote biometric repository. The hope is that this pioneering move by the four banks that deliver the *Inua Jamii* program payments will be adopted more broadly by FSPs in Kenya.

Helping beneficiaries understand the functionalities and benefits of owning full bank accounts. The few interviews conducted with beneficiaries indicated that they do not fully understand the benefits of the switch from transactional to full bank accounts. They should understand that they can connect their accounts to mobile money wallets and use their accounts to save, which can help them become eligible for other financial services, if they want them.

The Ministry and FSD Kenya, with support of other development partners such as the World Bank, DFID, WFP and Development Pathways, are already planning the next phase of the *Inua Jamii program* and considering the improvements needed to serve current beneficiaries better and pioneer new design elements that can spread throughout Kenya.

Annex

Table A1. Evolution of *Inua Jamii* programs that offer choice

	Pilot (Phase 1) 2004–2010	Phase 2 2010–2012	Phase 3 2012–2017	Phase 4 2018–present
Description	GoK officers disburse cash.	GoK single-source contracting of PCK to deliver benefits, largely manual.	GoK competitive procurement; selects two providers.	GoK competitive procurement; selects four providers. Offers customer choice.
Programs	<ul style="list-style-type: none"> Orphans and Vulnerable Children OPCT 	<ul style="list-style-type: none"> Orphans and Vulnerable Children Old Persons Persons with Severe Disabilities 	<ul style="list-style-type: none"> Orphaned and Vulnerable Children Old Persons Persons with Severe Disabilities 	<ul style="list-style-type: none"> Orphans and Vulnerable Children Old Persons Persons with Severe Disabilities
No. beneficiaries	Orphaned and Vulnerable Children: 500	<ul style="list-style-type: none"> Elderly: 59,000 Disabled: 27,200 Children: 255,470 	<ul style="list-style-type: none"> Elderly: 310,000 Disabled: 47,000 Children: 353,000 	<ul style="list-style-type: none"> Elderly: 764,000 Disabled: 34,000 Children: 295,000 <p>1.1 mil out of a total of 1.2 mil targeted.</p>
No. providers	0 (GoK District Treasuries)	1 (PCK)	2 (KCB, Equity)	4 (CO-OP, Equity, KCB, Post Bank)
Fees	not applicable (0 KES)	60 KES per month (120 KES per cycle)	Equity: 100 KES, with annual increment of 5% KCB: 2% of benefit (80 KES per cycle)	Approx. 3.5% of cash transfer value. Tiered: Zone A = 120 KES; Zone B = 132 KES; Zone C = 154 KES
No. access points/agents	not applicable	All post office payment points where beneficiaries were located	Equity: 4,977 KCB: 1,089	CO-OP: 12,674 Equity: 41,579 KCB: 18,485 Post Bank: 822
Payment instrument	Cash	Cash	Prepaid card	Bank account
Identity	National ID	National ID + Signature / Manual thumbprint	National ID + Biometric	National ID + Biometric (proof of life every 6 months)
Development partners & roles	Orphaned and Vulnerable Children: <ul style="list-style-type: none"> UNICEF: Direct CT & OPs 	Orphaned and Vulnerable Children: <ul style="list-style-type: none"> DFID: Direct CT & OPs WB: Direct CT & OPs UNICEF: Direct CT & OPs 	<ul style="list-style-type: none"> FSD Kenya: TA - Payment Specialist WB: Direct CT & Ops, DLIs, TA DFID: Direct CT & Ops, TAs (FM Specialist) UNICEF: Ops 	<ul style="list-style-type: none"> FSD Kenya: TA - Payment Specialist WB: DLIs DFID: FM Specialist, M&E UNICEF

	Pilot (Phase 1) 2004–2010	Phase 2 2010–2012	Phase 3 2012–2017	Phase 4 2018–present
How funded (each funder % of total)	Orphaned and Vulnerable Children <ul style="list-style-type: none"> • GoK: 58.6% • UNICEF: 41.4% 	Orphaned and Vulnerable Children <ul style="list-style-type: none"> • GoK: 43.4% • UNICEF: 13.7% • DFID: 25.0% • WB: 17.8% Old Persons: <ul style="list-style-type: none"> • 100% GoK Persons with Severe Disabilities <ul style="list-style-type: none"> • 100% GoK 	Orphaned and Vulnerable Children <ul style="list-style-type: none"> • GoK: 93.2% • UNICEF: 0.0% • DFID: 1.8% • WB: 5.0% Old Persons <ul style="list-style-type: none"> • 100% GoK Persons with Severe Disabilities <ul style="list-style-type: none"> • 100% GoK 	Orphaned and Vulnerable Children <ul style="list-style-type: none"> • GoK: 94.3% • DFID: 5.7% Old Persons <ul style="list-style-type: none"> • 100% GoK Persons with Severe Disabilities <ul style="list-style-type: none"> • 100% GoK

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