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FSD Updates

AGAINST THE ODDS: IMPLEMENTING SOCIAL PROTECTION IN NORTHERN KENYA

Hunger Safety Nets Programme (HSNP)

Small regular social grants or payments to the very poor or vulnerable are increasingly recognised as a key tool in the fight against extreme poverty. New social protection payment schemes face major challenges in delivering payments safely and cost effectively to beneficiaries. During 2008, FSD took on responsibility for the management of payments under Kenya's new Hunger Safety Nets Programme (HSNP) funded by UKaid from the Department for International Development (DFID).

Equity Bank was selected to provide payment services to the HSNP through a competitive process undertaken by FSD. The approach adopted looks to provide an efficient payment solution and will offer financial services to the wider community in these under-served areas through new bank branches and access points using retailers equipped with point of sale devices. HSNP is being implemented under the Ministry for Development of Northern Kenya and other Arid Lands, where the co-ordinating secretariat is based.

Introduction

The settlement of Turkwell appears out of nowhere, 40 kilometers east of Lodwar in the arid Turkana district of northern Kenya. You can negotiate those 40 kilometers by truck or motorbike, but you'd better know the way through the diverging paths, the tracts of soft sand, and the (now) dry riverbeds. To the casual observer, it's not obvious why Turkwell is here. Even a student of geography might find the reason obscure. But it is not obscure to Mama Cash. In the middle of this barren landscape, which can hardly support the few goats and donkeys that meander under the lazy, watchful eyes of shepherd boys, Mama Cash and her husband run a small but thriving shop.

One of the principal reasons for her economic success is her participation in the Hunger Safety Nets Program (HSNP). HSNP is a three-year pilot programme of the Kenyan Government to help 60,000 "food insecure" poor people in this and three other northern districts of Marsabit, Mandera, and Wajir. The programme is funded by UKaid from the Department for International Development (DFID) and provides these people with cash to help stabilize their household finances and build a life beyond mere existence. Mama Cash is not a recipient of the bi-monthly benefit. Instead, she is one of the two agents in Turkwell paying cash to 250 beneficiaries who swarm her store when the payment is due. For that service, she receives a commission fee from Equity Bank, some extra business from the beneficiaries, and the title she now proudly posts on her storefront.

Mama Cash is one of the 120 merchant agents who are being hired and trained by Equity to distribute the HSNP funds. The pilot programme has been underway for 15 months, and has been declared a success by everyone associated with it.

Why does that matter? Social transfer programmes all over the globe are recognising the value of paying cash grants through some form of financial "account", accounts increasingly administered by a network of payment

Mama Cash and her husband at their shop in Turkwell, Turkana district.

agents. The account may be as simple as a "store-of-value" recorded on an ATM card equipped with a computer chip. It is from this stored value that the cash benefit can be withdrawn. Agents like Mama Cash are a vital means of assuring that beneficiaries are fully paid, and in a timely and reliable way.

Just a few months ago, not one of the four agencies that compose the HSNP implementation team would have bet on the success of their programme and Equity's agent network. Equity has encountered the technical challenges of installing wireless point-of-sale devices in remote villages where electrical power and wireless signal might not be available. Formidable environmental and cultural obstacles clutter their landscape and complicate payment operations. Agents who are skilled enough to implement the payment system are also savvy enough to manipulate it. One agent intentionally provided partial payments in order to double his commissions. Ethnic differences can mean that some agents are not trusted by all beneficiaries. Lawlessness is also rampant in

these districts. Agents who transport cash from the nearest Equity branch to their shop live in fear of robbery. A growing influx of Somali combatants into the districts of Mandera and Wajir has magnified that concern. The mobility of beneficiaries and the long distances between groups of beneficiaries force the payment system to accommodate their variable location. It's no surprise that the social protection veterans in each of the four programme agencies find this the most challenging social transfer programme any of them have ever worked on.

Challenges faced

The HSNP implementation team is composed of four independent organisations:

- Oxfam GB (as lead agency) and its partners are CARE and Save the Children UK - Administration/targeting component.
- HelpAge International and its partners (national NGOs/CBOs) based in the districts - Social rights organisation.
- Oxford Policy Management (OPM) - Monitoring and evaluation.
- Private consultant - Management information system.

The virtue of assembling a set of very able agencies is obvious: all phases of the programme will be equally well represented. But managing such a team can be complicated. Each of the four component agencies is represented by a strong-minded, experienced individual who has clear opinions about the character and impact of the programme. Agreement has been hard-fought. At moments, individual agencies have discovered that their assignments duplicated the responsibility of another agency. At other moments, team members have discovered that essential elements in the programme have not been assigned to anybody.

If anyone is going to find problems in the HSNP pilot, it's the folks from Help Age International, an international non-governmental organisation that is the designated HSNP team watchdog over beneficiaries' rights. A couple of encouraging anecdotes are not sufficient to satisfy their conviction that benefits ought to be delivered with 100% accuracy and timeliness. Their standards are an important ingredient in the effort to make HSNP work. Consequently, their spontaneous affirmation of Equity's creation of the existing agent network is significant. That's not to say they are totally satisfied since a very small proportion of beneficiaries are falling through the cracks. Whether because of bad fingerprints or because nomadic herders are not always available when "payday" arrives, some beneficiaries struggle to get their benefits.

An elderly woman is assisted to verify her details using a POS device.

So, one of the creative tensions playing out in the programme is who will absorb the "cost" of the imperfections which any system has. Should the standard of beneficiary authentication and system controls be relaxed, forcing DFID to offer more funds to cover some illegitimate beneficiaries? Should Equity be expected to cover the administrative complications of missed payments at the expense of necessary profitability? Should Help Age accept a certain shortfall

in beneficiary service knowing that only a for-profit provider would bring the remarkable accomplishment achieved by Equity?

Yet there has been an unpredictable genius in this arrangement. In the face of these challenges, each member of the team has shown a stubborn resistance to failure. Neither organisational frustration, nor unwieldy beneficiary targeting, nor the miserable landscape has dimmed their determination. Instead, they are excited and proud to be at the leading edge of their field, pioneering an initiative that colleagues think is valuable but crazy. With more amazement than pride, every team member cites how far they have come. And without exception, they credit much of this early success to the skill and tenacity of Equity Bank in its roll-out of the agent network payment scheme.

Achievements

Equity Bank has done what some people thought impossible. By June 2010, they had established a network of agents in villages throughout the four deserted northern provinces of Kenya distributing KSh 2,150 every two months to 35,029 impoverished households of the HSNP.

Equity has a come a long way in 15 years. Out of the ashes of a floundering building society, Equity has been transformed into a major financial service provider by creative, disciplined management. Beginning with savings products which are easily accessible and attractive to people with little income and few assets, they have translated deposits into a profitable loan portfolio. To manage the large volume of small deposit and credit accounts, Equity has developed administrative efficiencies through the extensive use of information technology. The combination of innovative products and operational efficiency directed at the large, neglected market of unbanked people catapulted Equity into the top ranks of Kenyan banks. It also positioned the bank for HSNP.

At the end of 2009, Equity's Kenyan operations had more than 4 million bank accounts. That translated into more than 50% of all bank accounts in the country. Knowing that only 5 million of the estimated 15 million Kenyans living on less than $2/day have access to banking services, Equity remains clearly focused on this poorer segment of the retail banking market. According to the 2009 annual report, the bank has the following purpose: "We exist to transform the lives and livelihoods of our people socially and economically by availing them modern, inclusive financial services that maximise their opportunities."

An Equity Bank "point-of-sale" (POS) device.

To accomplish its objectives for growth in this market, Equity is developing an "agency model". This is a strategy in which wireless communications technology is employed to provide "branchless banking" through a network of merchants (agents) who already exist in towns and villages. The GSM communication network which enables mobile phone service is, in this model of branchless banking, employed to accomplish financial transactions through the use of "point-of-sale" (POS) devices and/or mobile phones. To implement the strategy, a bank qualifies and commissions local merchants to expand beyond their current product sales by conducting transfers of funds between individuals, or from individuals to companies or agencies. It allows people to receive and send funds at their convenience. For this service, the merchant and the bank each receive a fee.

A poster advertising an HSNP payment point outside a shop in Turkana.

In Equity's view, agents are the future of retail banking in Kenya. Through agents, technology can be used to bring affordable financial services to new customers including those in remote geographical areas. The HSNP provides Equity with a subsidised vehicle for developing that model.

In December 2007, Financial Sector Deepening - Kenya (FSD Kenya) began a five month selection process to choose a service provider for the HSNP payments. FSD Kenya is a not-for-profit trust/development agency established and funded by DFID and other agencies. Because of their local expertise and experience in financial service development, FSD Kenya was an ideal choice for this role. They brought to the process a principled commitment to "financial inclusion". Financial inclusion occurs when beneficiaries are able to access financial services which can secure the cash benefit, help manage cash flow, and encourage the development of the human and material assets necessary to overcome their chronic food insecurity. It's that commitment, coupled with Equity Bank's established capability in serving poor people, which ultimately guided FSD Kenya to select Equity.

Benefits of the HSNP

The objective of the HSNP is to deliver long-term guaranteed cash transfers to chronically food-insecure households. The pilot programme is aimed at 60,000

households in the four northern districts of Turkana, Marsabit, Mandera, and Wajir. These districts are, with good reason, known as the arid and semi-arid regions of Kenya. There are often more than 50 kilometers of dusty dirt roads and cross-country driving between villages. Foliage of any sort is rare making it hard to imagine how the small herds of goats, donkeys, camels and their nomadic owners survive. Rugged four-wheel drive vehicles often break en route to some villages in these "pastoral" areas. It is an environment that tests the resolve of anyone who seeks to serve these people.

The pilot project is designed to distribute KSh 2,150 every two months to each of the 60,000 households that were targeted in 200 of the 434 sub-locations throughout the four districts. The pilot phase is being used to build evidence of the impact of the cash transfers, and that evidence will inform the second phase. If the three year pilot is successful, the Government of Kenya is willing to consider joining DFID to expand to a national social protection system addressing the needs of 3 million Kenyans living in extreme poverty.

Midway between Lokichoggio and Lodwar in northern Turkana lies the town of Kalobeyei. One of the first agents commissioned by Equity is a man named John Moite whose shop has grown as a direct result of the HSNP. He is a native Turkanan, has lived all his life in Kalobeyei, and had some standing in the community before the programme. He works in the shop with his wife, and they collaborate on the HSNP payments. He began the service because of the community value which the programme has, but he would not have done so without the commission which he earns on each payment. Since beginning the payments, spending at his store has multiplied, and he is currently willing to make the payments without the commission. There are 500 recipients who each receive the Ksh 2,150 payment. That translates to a total of over Ksh 1,000,000 in potential new spending every two months. He has expanded his shop dramatically with increased inventories, has added phone recharge to his business because of the solar generator supplied with the programme, and has added a maize mill which he purchased out of cash flow (versus debt) as a new business. He intends to build himself a more permanent home in the near future.

Though his increased business is still not sufficient to provide all the cash needed for HSNP payments, and he must travel two and a half hours to the Equity branch in Lodwar every two weeks, he is very satisfied with the programme. The smart card and point-of-sale device system have functioned well, despite the occasional time-consuming failure of a recipient's fingerprint in authentication. And his stature in the community has risen considerably as a result of the perception that he is not only doing well financially but also helping people.

Mr and Mrs Moite in their shop in Kalobeiyei, Turkana North.

Three of John Moite's customers are elderly male recipients who indicate that they too are satisfied with the system and grateful for the income. Because of a separate supplemental food grant, the three seldom use much of the funds for food. Instead, they use it for education and healthcare for their families, or to purchase income-producing assets or veterinary care for their animals. These lead to "graduation" from food insecurity. Judging by conversations in other locations, this is typical for the HSNP beneficiaries. Since beginning to receive the benefit, the three say they are no longer ignored by the community. One, pointing to his proper clothes, said: "I have become a man."

Paul Waihumbu, Equity's manager for the HSNP, knows he cannot rest on the satisfaction of this moment. There are 25,000 targeted beneficiaries yet to be serviced. Just beyond the initial 60,000 lie the millions of Kenyans in comparable circumstances to whom the programme could be extended. And on Equity's horizon is the challenge of profitably extending the agent model for serving rural unbanked Kenyans beyond the scope of the HSNP. Paul's boss, Allan Waititu, is optimistic: "One year is a short time to have real lessons, but we are ready to scale up because we know the economies of scale." He echoes the belief of everyone at Equity: "The unbanked? That's what we do!"

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The opinions expressed in this article are those of the author who undertook an independent review of the Hunger Safety Nets Programme. The findings, interpretations and conclusions do not necessarily represent those of FSD Kenya, DFID or Equity Bank.

FSD Kenya
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