

# Cash for Assets

*World Food Programme's Exploration of the In-Kind to  
E-Payments Shift for Food Assistance in Kenya*



September 2013

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The Consultative Group to Assist the Poor works toward a world in which everyone has access to the financial services they need to improve their lives.

CGAP develops innovative solutions for financial inclusion through practical research and active engagement with financial service providers, policy makers, and funders. Established in 1995 and housed at the World Bank, CGAP combines a pragmatic approach to market development with an evidence-based advocacy platform to advance poor people's access to finance.

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CGAP

1818 H St., N.W., MSN P3-300

Washington, DC 20433 USA

1 202 473 9594

[www.cgap.org](http://www.cgap.org)

[www.microfinancegateway.org](http://www.microfinancegateway.org)

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## Executive Summary<sup>1</sup>

1. Cash for Assets (CFA) is a joint World Food Programme (WFP)/Government of Kenya conditional cash transfer scheme that reaches food insecure households in seven arid and semi-arid land (ASAL) counties in eastern and coastal Kenya, where recipients work on community assets to build resilience against drought.
2. CFA launched as a pilot to test a different mechanism for delivering assistance in the Food for Assets (FFA) program, which has been running since 2003. WFP, a food assistance organization within the United Nations, has historically and continues primarily to use the distribution of in-kind food aid in its programs. As WFP has expanded its scope from “food aid” to “food assistance,” it took a conservative and iterative approach to designing and implementing CFA over the course of nearly five years.
3. Although WFP Kenya began experimenting with shifts away from food aid through CFA, it did not consider physical cash distribution, deeming it too insecure and fraught with risk, given high levels of corruption in Kenya. Because it involves linking to a mainstream financial account,<sup>2</sup> financial inclusion has been a core objective since the program’s inception.
4. Although CFA is linked with the Kenyan government at the national and local levels, WFP drives program management and depends on other international donors to provide funds for payments.
5. Working with Equity Bank from the design and prepilot phases in 2009, WFP Kenya<sup>3</sup> has recently conducted a competitive bid process and selected Cooperative Bank as its new payment service provider (PSP) for 2013–2015.
6. The payment scheme has evolved with and adjusted to the realities on the ground over time, driven by a “test-learn-iterate” philosophy. As such, the payment scheme has experienced several course corrections since its conception in 2009, including the following:
  - a. Originally working with Equity Bank to prepilot the bank’s M-KESHO product, linked to Safaricom’s M-PESA, WFP Kenya found that network connectivity was not strong enough to process payments. WFP Kenya thus moved to a new debit card-based system that provides each recipient with an Equity account and debit card.
  - b. After trying to manage program data in Excel, WFP Kenya found that managing, cleaning, and maintaining such a high volume of detailed data would require a more developed management information system (MIS). As a result, WFP Kenya invested in creating a custom in-house MIS for CFA.
  - c. At the outset, a significant proportion of CFA recipients (almost 20 percent) lacked the identification necessary to open a bank account. WFP Kenya developed a solution where recipients could designate an “alternate,” a trusted individual with the required documentation, to withdraw the payment on the recipient’s behalf.

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<sup>1</sup> This case study is based on interviews conducted in Kenya in July 2013; it represents the situation with Cash for Assets as of that time.

<sup>2</sup> As introduced in Bold, Porteous, and Rotman (2012), account-based payment methods can be distinguished as limited-purpose instruments or mainstream financial accounts. Whereas limited-purpose instruments transfer the grant to the recipient through a notional account, these accounts are restricted in at least one of the following ways: (i) funds cannot be stored indefinitely; (ii) funds must be withdrawn only at dedicated infrastructure; and (iii) additional funds may not be deposited into this account from other sources. In contrast, mainstream financial accounts have none of the limitations of the limited-purpose account, and they are typically available to nontransfer recipients as well.

<sup>3</sup> Unless otherwise specified, WFP refers to the broader World Food Programme institution and WFP Kenya refers specifically to WFP operations in Kenya.

7. WFP Kenya has benefited from increasing competition among financial institutions for the country's unbanked market. Equity Bank has willingly invested in the necessary agent presence, equipment, training, and program management at the head office and local level without subsidy from WFP Kenya.<sup>4</sup> The pilot test also revealed there may be a strong business case for e-payments over food aid distribution. WFP Kenya found e-payments to be 15 percent cheaper than in-kind food assistance, while also (i) spurring economic activity in local markets in each county, (ii) reducing leakage, and (iii) improving transparency (WFP 2011).
8. Still, the program has challenges related to unreliable payments; insufficient agent network, liquidity constraints, and inadequate customer service; lack of recipient capacity to manipulate the point of sale (POS) and personal identification number (PIN) without agent interference or assistance; lack of cooperating partner (CP) capacity to collect and manage data; and inflexibility in procurement rules.
9. When asking PSPs about their business case<sup>5</sup> for involvement in CFA, both Equity Bank and Cooperative Bank cited a strategic case for partnership. They foresee benefiting from additional valuable partnerships with WFP and/or other electronic payments (e-payments) programs. For Equity, the business case holds only at the strategic level: the bank did not identify the CFA product or the client base as financially attractive. Cooperative Bank, on the other hand, anticipates a business case at both the strategic and portfolio levels, particularly if recipients participate in affiliated savings and credit cooperatives (SACCOs), as envisioned.<sup>6</sup>
10. Equity Bank identified its top challenges as (i) client enrollment and use of the service; (ii) inadequate agent liquidity; and (iii) technology failures.
11. Recipients interviewed across Kitui, Tharaka, and Malindi demonstrated different levels of understanding of the program especially regarding the amount of money they receive.<sup>7</sup> In particular, a number of recipients interviewed did not understand (i) the fees they incur for transacting; (ii) variations in the amount received; and (iii) who to contact if they experience a payment-related problem.
12. A majority of recipients interviewed withdraw the full amount of each payment and do not use their accounts for other purposes, despite the program's financial inclusion objective. One agent even admitted not accepting deposits (for which he does not receive commission) and another admitted entering recipients' PINs for them.
13. WFP Kenya's experience with CFA has demonstrated that, to adopt an e-payment scheme, the program needs a strong value chain of stakeholders; a grievance mechanism through which recipients can voice concerns; procurement flexibility to fit program needs; and continual flexibility to adapt to the conditions and realities of implementation. Despite persistent challenges to achieving a robust value chain, CFA has grown from a prepilot to an 80,000-recipient program embedded in the core operations of a major international institution. It has inspired continued investment in innovation within WFP and helped international donors make the case to further reform aid delivery.

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<sup>4</sup> WFP did mention periodically covering some "insignificant" logistical costs for Equity.

<sup>5</sup> Bold, Porteous, and Rotman (2012) introduce five levels at which a PSP may build a business case for providing services (1) account, (2) client, (3) portfolio, (4) strategic, and (5) mandate. If profitability holds at level 1, it will hold at the four other levels.

<sup>6</sup> SACCOs hold a 65 percent stake in Cooperative Bank.

<sup>7</sup> BFA conducted focus groups and interviews with recipients in CFA program villages in the counties of Kitui, Tharaka and Malindi.

## 1. The Context for Electronic Government-to-Person Payments in Kenya

### Poverty and Access to Financial Services in Kenya

Kenya had a gross domestic product per capita of US\$862 in 2012, up from US\$786 in 2008.<sup>8</sup> Kenya's number of bank branches also grew from 576 to 970 between 2006 and 2009 (Cull 2012). In 2011, Kenya had 5.2 bank branches for every 100,000 adults,<sup>9</sup> 30 percent of Kenyan adults had a debit card, and 42 percent had an account at a formal financial institution.<sup>10</sup>

However, financial services have grown unevenly in Kenya, with more growth in branches and agency banking taking place in population-dense areas such as Nairobi and Mombasa than in the arid and semi-arid lands (ASALs) in the north and east of the country, which have low connectivity and poorer and more widespread populations. MIX Market (2012) reported 39 percent of commercial bank branches in Kenya were in Nairobi Province in 2012. Equity Bank alone boasted an increase from 70 branches in 2007 to 147 at the end of 2012, with 44 of those in Nairobi, compared to 15 in eastern, six in coastal, and three in northeastern Kenya—the three districts that include ASALs (Equity Bank 2012). Equity also reported employing more than 7,500 agents across Kenya at the end of June 2013 (Equity Bank 2013).

In ASALs, agents tend to find it difficult to maintain sufficient liquidity to reliably serve customers, while customers tend to use agents' services only periodically (so agents are often unable to predict when customer demand will increase). Agents also experience challenges with customers who do not always know their PINs or how to enter them, the cell network being down, and insecurity and robbery. In these areas with widespread populations, many customers have to travel significant distances to the nearest agents (WFP 2013). A recent WFP (2013) study of financial services of ASALs estimated the limited financial services infrastructure in these areas, with the northeastern and eastern districts having mobile money and bank agents only in larger market towns with connectivity.

As in most developing economies, Kenya has seen an increase in mobile cellular subscriptions in recent years. In 2011, Kenya had over 28 million mobile cellular subscriptions, up from 16.3 million in 2008 (and even 25 million in 2010).<sup>11</sup> GSMA (2012) reported mobile penetration to be 69 percent in 2012. Since Safaricom introduced mobile money in Kenya in 2007, international mobile money schemes and donors alike have lauded Kenya as the success story for mobile money. MIX Market reported Safaricom had 4,655 agents in Nairobi Province and 11,969 elsewhere in Kenya in 2012. Safaricom reported 1,896 agents in the coastal region, of which 1,125 are in Mombasa, and 1,643 in the eastern region, split among 12 towns in which one—Tharaka—has only two agents. In the northeastern area, Safaricom had only 117 agents in 2012 (MIX Market 2012). In 2011, just over 13 percent of adults used their mobile phone to pay bills; 67 percent of adults received money on their mobile phone; and over 60 percent sent money on their mobile phone.<sup>12</sup>

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<sup>8</sup> World Bank data, 2012.

<sup>9</sup> World Bank data, 2011.

<sup>10</sup> World Bank data and World Bank Findex, 2011.

<sup>11</sup> World Bank data, 2012.

<sup>12</sup> World Bank Findex, 2011.

## Cash Transfers in Kenya

In recent years, Kenyan policy makers have shown growing agreement that social protection is a tool to fight poverty and “promote inclusive growth.” Between 2005 and 2010, social protection expenditures increased from KES 33.4 billion to KES 57.1 billion (US\$393 million to US\$672 million) (Republic of Kenya 2012). Spending on “safety nets” in particular rose from KES 11.9 billion to KES 20.5 billion (US\$140 million to US\$241 million) between 2005 and 2010, with much of this spending going toward social cash transfer programs from 2009 onward (Republic of Kenya 2012).

The 2012 Kenya Social Protection Review, produced by the Kenyan Government’s Ministry of State for Planning, National Development and Vision 2030, found that development partners finance 71 percent of safety net programs and the government provides the balance.<sup>13</sup>

As national and international perspectives shift from in-kind food distribution to cash transfers, Kenya has seen an increase in cash transfer initiatives. Cash transfers as well as other safety net programs are often uncoordinated, however, due to the small size and overlap of programs and implementing programs’ limited capacity.

The shift away from in-kind aid as the preferred mechanism for humanitarian assistance has contributed to the rise of cash transfers in Kenya. In 2008, the World Food Programme (WFP) for the first time shifted strategically from a food aid to a food *assistance* strategy, recognizing new and diverse ways in which the organization could address global hunger. Already looking for fertile ground for innovation, WFP Kenya decided to explore the possibilities for new modalities in delivering food assistance by launching an Innovations Team and experimenting with modifications of one already established program, Food for Assets (FFA). In 2010, WFP Kenya launched the Cash for Assets (CFA) pilot.

## Electronic Payments in Kenya

With the international recognition and admiration of Safaricom’s M-PESA, Kenya has remained in the spotlight as a model for mobile-enabled electronic payments (e-payments) and transfers in developing countries. M-PESA’s ubiquitous agent network throughout Kenya allows Kenyans in rural and urban areas alike to access mobile money conveniently. Other financial institutions, such as Equity Bank, have adopted agent networks as well to expand banking services to those in remote areas, far from—and often unfamiliar with—bank branches. Safaricom, with original M-PESA seed money from DFID, and Equity Bank, with funding from donors such as the Bill & Melinda Gates Foundation to test products targeting low-income populations, continue to attract donor funds and requests for partnerships with donors as they look to widen the reach of e-payments and financial services in support of their own business models.

Kenya’s recent history of widespread mobile money adoption and an increasing number of agent banking models has led to donors exploring providing cash transfers electronically to increase efficiency and reduce leakage. Table 1 lists cash transfer programs in Kenya and their characteristics, including payment methods. Initial donor enthusiasm to embrace e-payments

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<sup>13</sup> The Ministry of State for Planning, National Development and Vision 2030 produced the Kenya Social Protection Sector Review in 2012 after it was reviewed by members of additional ministries as well as representatives from academia, development partners, and civil society organizations. For more information, see Republic of Kenya (2012) and <http://www.planning.go.ke/>.

has not always resulted in long-term commitments, however. For example, when WFP, Oxfam, and Concern Worldwide introduced the Urban Food Subsidy Program (UFSP) in 2009, they contracted with M-PESA to distribute the payments. Despite 10 percent of recipients not having national identification cards—and thus not getting paid—the organizations found the M-PESA service to be easy and convenient. However, when the Government of Kenya took over as the driver of the program in 2010, it chose to contract with the Postal Corporation of Kenya (PCK) to deliver payments using its manual system, given the ease with which the Government of Kenya can procure and work with a parastatal organization (Pulver 2012).

**Table 1. Cash Transfer Programs in Kenya**

<b>Program</b>	<b>Cash Transfer for Orphans and Vulnerable Children (CT-OVC)</b>	<b>Hunger Safety Net Program (HSNP)</b>	<b>CFA</b>	<b>Urban Food Subsidy Program (UFSP)</b>	<b>Persons with Severe Disabilities (PwSD)</b>
<b>Payment Service Provider (PSP)</b>	Post Office and Equity Bank	Equity Bank	Equity Bank, moving to Cooperative Bank	Previously Safaricom’s M-PESA, presently Post Office	Post Office
<b>Payment instrument</b>	Manual and smart card	Smart card	Magstripe card, now moving to smart card (with Cooperative Bank)	Previously SIM, now manual	Manual
<b>Frequency of payment</b>	Every 2 months	Every 2 months	Monthly	Monthly	Every 2 months
<b>Number of recipients</b>	149,000 (10,400 receiving e-payments)	65,000 receiving e-payments	62,500 receiving e-payments	10,200 through PCK	
Source: Pulver (2012).					

Although donors and the government have demonstrated interest in shifting to electronic cash transfers, mobile network operators (MNOs) and banks are still developing reliable mobile network coverage and back office systems to support such shifts. In July 2013, for example, Equity Bank experienced a week of unreliable service due to a crash of its core banking system (The Star 2013). Despite their reputation, Kenya’s mobile networks are also not always reliable nor ubiquitous. Some financial institutions, such as Equity Bank, have invested in POS devices that operate on multiple mobile networks; in case one network is down or not available in a specific area, the POS can still transact on another mobile network. Financial institutions have traditionally worked around network outages by transacting offline and reconciling later, though the 2009 agent banking guidelines require “all transactions [that agents conduct] involving deposit, withdrawal, payment or transfer of cash from or to an account” to be in real time (Central Bank of Kenya n.d.).

Despite some persistent challenges, Kenya has become synonymous with innovation in financial inclusion beyond the branch, which has fueled increasing investment in new financial products, services, and delivery channels aimed at low-income and disadvantaged populations. WFP Kenya’s CFA took root within this context of innovation in financial services.



## 2. Overview of Cash for Assets

*“Since 2010 WFP Kenya has invested heavily in ‘innovation’—learning to do things better, more efficiently. Management sees it as a priority, and set up a team to work exclusively on designing, testing and mainstreaming innovations to improve ‘why, how, and what’ we do. Cash for assets was the first WFP Kenya ‘innovations’ pilot taken to scale—it is our first born, and we continue to learn a lot from it.”—Cheryl Harrison, Head of Innovations Team, WFP Kenya*

### Genesis

After several years operating food-for-work initiatives, WFP Kenya launched FFA in 2003 as a means of coupling access to food in drought-stricken or food insecure areas with resilience-building opportunities offered by restoring or building assets that reduce recipients’ future risk and vulnerability to negative shocks.<sup>14</sup> In 2008, WFP launched a five-year strategy (2008–2013) in which the organization, for the first time, expanded its scope from “food aid” to “food assistance,” which took a broader and longer term perspective on the role of the agency in working to sustainably eliminate hunger through food *and cash* modalities. The WFP country director in Kenya subsequently invested in developing WFP Kenya’s local capacity to explore cash-based approaches, launching a three-person Innovations Team, the only one of its kind among all WFP country offices at that time.

The first major project of WFP Kenya’s Innovations Team was testing cash modalities within the FFA initiative. By 2010, the vision for CFA was in place, with substantial support from bilateral and private donors, WFP Kenya would pilot and document the experiences shifting from food aid to e-payments through a general-purpose mainstream bank account. The team made a decision early on that learning, evidence-building, and financial inclusion would be core objectives of the CFA experiment, which heavily influenced the initial design of the program and its development over time.

In 2010, over 20 bilateral and private donors contributed nearly US\$20 million for WFP Kenya to launch and scale up CFA, starting with a prepilot in one county, Mwingi, and a small pilot to test the shift from in-kind food aid to electronic cash transfer payments for nearly 5,000 recipients across three market locations within two counties in Kenya’s semi-arid lands, Mwingi and Tharaka.

#### Box 1. Unique Influencers of CFA’s Design

1. **Physical Food Delivery to Electronic Cash Delivery Shift.** CFA launched as a pilot to test a different mechanism for aid delivery in the FFA program, which began in 2003. WFP has historically been and continues primarily to use in-kind food aid in its programs. The shift from food distribution to account-linked electronic conditional cash transfers is a big leap that has required culture shifts and steep learning curves, particularly for WFP staff and cooperating partners (CPs) in the field.
2. **Donor to Person (D2P).** Although CFA is linked with the Kenyan government through the National Drought Management Authority (NDMA), WFP drives the program management, while relying on other international donors to provide the resources for the payments. As an

<sup>14</sup> <http://ffa.kenyafoodsecurity.org/images/files/MODULE%20A%20-%20Rationale%20for%20FFA.pdf>

organization of the United Nations, WFP along with other international donors supporting CFA, have priorities and limitations that have historically influenced and continue to influence various aspects of the program, from the program design and objectives, to the cash pipeline on which the resources for the payments depend. Thus, CFA, as a D2P payment scheme, is unique among Kenya's largely G2P-led payments ecosystem.

3. **Financial Inclusion.** Linking to a mainstream financial account, financial inclusion has been a core objective of CFA since the program's inception. However, while the program has influenced the expansion of bank agents in participating counties, recipients rarely use their accounts or banking services beyond withdrawing their CFA payments.

## Program Elements

**Table 2. Cash for Assets Program Details**

<b>Objective/Purpose of the Scheme</b>	Build resiliency and assets while decreasing hunger among food insecure households across Kenya's ASALs, including the drought-prone marginal agricultural areas.
<b>Objective of Shift to E-Payments</b>	<ol style="list-style-type: none"> <li>1. Test the process for and efficiency gains of a shift from food aid distribution to cash distribution via e-payments.</li> <li>2. Test relative welfare gains in households through food versus through cash.</li> </ol>
<b>Target Population(s)</b>	Food insecure households in seven ASAL counties in Kenya
<b>Requirements to Register for the Grant</b>	<ol style="list-style-type: none"> <li>1. Be identified as food insecure based on national food security assessments.</li> <li>2. Participate in community asset development work, coordinated by NDMA and CPs.</li> </ol>
<b>Conditionality</b>	Yes. Recipient must work toward a community asset, providing proof of work completed.
<b>Average Amount per Grant Paid</b>	KES 2,800–3,000 (US\$33–35), fluctuating with PPI
<b>Payment Frequency</b>	Monthly <sup>a</sup>
<b>Program Participant Duration</b>	Duration of recipient's participation in the program depends on the designation of whether each county continues as food insecure, or has moved to "food secure" status, as based on the Kenya Food Security Steering Group (KFSSG) assessment.
<b>Duration of Scheme</b>	Seasonal (nine out of 12 months per year)
<b>Start Month and Year</b>	Prepilot in January 2010; staggered growth between June and December 2011. Full scale as of January 2012.
<b>Status as of July 2013</b>	Mature (at scale)
<b>Number of Grants Paid Per Year/Cycle</b>	<p>2012: 80,000 households x 12 months per year = 960,000 grants per year</p> <p>2013: 62,000 households x 9 months per year = 558,000 grants per year<sup>b</sup></p>
<b>Total Number of Recipients</b>	80,000 in 2012, down to 62,500 in 2013, as food security has improved across the ASALs due to a series of good rainy seasons.
<p>a. Although recipients receive a monthly stipend, they rarely actually receive a payment each month. Due to several delays, recipients often receive two to three months of stipend in one payment.</p> <p>b. In 2013, the CFA program elected to distribute payments on a seasonal basis, paying recipients nine months out of the year; during the three months when recipients do not receive payments, they earn income from their harvested crops. However, seasonality appeared to increase vulnerability of recipients; in 2014, they will return to a 12-month grant payment cycle.</p>	

**Table 3. Cash for Assets Stakeholder Profiles**

Role	Details
<b>Funder</b>	Top five current funders are (in descending order): United States, Japan, Canada, Norway, Finland, and Sweden. See appendix for full list of donors for pilot and scale-up.
<b>Initial Champions</b>	Innovations Team, WFP Kenya, USAID
<b>Core Agency</b>	WFP Kenya
<b>Program Administrator (lead)</b>	WFP Kenya
<b>Program Administrator (supporting)</b>	CPs for CFA: Tharaka: Catholic Diocese of Meru Kwale and Malindi: Kenya Red Cross Taita Taveta and Kilifi: World Vision International Kitui: Diocese of Kitui Mwingi: Action Aid Kenya
<b>Government Partner Agency</b>	National Drought Management Authority, Government of Kenya
<b>Payment Service Providers</b>	Equity Bank (2010 to present), shifting to Cooperative Bank (beginning 2013)
<b>Agents</b>	Current: Equity Bank agents Future: Cooperative Bank agents, SACCOs
<b>M&amp;E Provider</b>	WFP
<b>Gender of Current Recipients</b>	85% female

### Current Payment Scheme

Although WFP began experimenting with shifts away from food aid through CFA, it never considered physical distribution of cash, deeming it too insecure and fraught with risk. It preferred the efficiencies offered by traceable, direct e-payments. Moreover, as a means to achieve one of the program’s core objectives of resilience through asset creation, WFP decided to make financial inclusion an explicit and important component of any design of the CFA payment scheme. WFP Kenya prioritized documenting the shift from food to cash as a means of sharing lessons, insights, and considerations that could influence other WFP offices’ operations and/or help demonstrate the “case for cash” within the global food aid dialogue. As such, it has contributed to a slow and steady design and implementation process, beginning with the prepilot, extending to a pilot, and eventually scaling up to shift to cash payments for around 81,000 households.

Despite some flexibility offered for new initiatives in WFP, they are still restricted by UN procurement rules<sup>15</sup> for contracting partners. Equity Bank has partnered on CFA since the program’s design in 2010 and won the tender for the roll out in 2011. After a contract amendment reopened the tender 2012, Equity lost the bid to Cooperative Bank based largely on

<sup>15</sup> Each UN organization establishes its rules and regulations for procurement, though all are guided by Common Guidelines that pertain to the entire UN system. The Common Guidelines cover “procurement stages from sourcing activities that precede a requisition to the execution of a procurement contract.” Given the systemwide and WFP-wide procurement rules, WFP Kenya does not have flexibility to set its own procedures. For more information on UN procurement, see the more recent version of the [United Nations Procurement Manual](#) from July 2013.

a technicality that disqualified them. Cooperative Bank will be the new PSP for CFA as soon as contracting and systems set up are finalized.<sup>16</sup>

WFP Kenya targets recipients for CFA through the Government of Kenya’s National Drought Management Authority (NDMA) semi-annual food security assessment based on predicted outcomes of the rainy seasons. The program works with members of food insecure communities to develop action plans that form the basis of the asset-building activities undertaken in the program. The aid payment is thus conditional on recipients completing “work norms” related to building community assets, which focus on water harvesting and soil and water conservation. Recipients must complete a set number of days of work (as described in Table 4) to receive their payments. Every month, CPs report whether recipients have or have not completed their work norms.

**Table 4. Side-by-Side Comparison of Current and Future Cash for Assets Payment Schemes**

Payment Scheme Detail	Equity Bank	Cooperative Bank
<b>Name of Associated Payment Service/Product</b>	Cash for Assets	Cash for Assets
<b>Year PSP Began Involvement</b>	2010; involved in design phase	2012; won 2 <sup>nd</sup> round tender after scale-up
<b>Year Payment Started</b>	2010	pending
<b>Value of Payment</b>	KES 2,800–3,000/month (US\$33–35); fluctuates with market prices and completion of work norms	KES 2,800–3,000/month (US\$33–35); fluctuates with market prices and completion of work norms
<b>Frequency of Payment</b>	Monthly with seasonality (9 of 12 mo/yr), (though sometimes bi-monthly or quarterly)	
<b>Number of Recipients in Program</b>	2012: 80,000 2013: 62,000	2013 (expected): 62,000
<b>Fees Paid by Scheme to Provider</b>		
—One-off	KES 300 (US\$3.53)/ATM Card	Under negotiation
—Ongoing	Withdrawal fee for one withdrawal per payment period, starting from KES 30 and increasing based on the amount withdrawn	
<b>Pay Points<sup>a</sup></b>	Equity Bank Agents: 5,100 ATMs: 560 Equity Bank Branches: 149	Cooperative Bank Agents: 4,100 ATMs: 286 Cooperative Bank Branches: 106 SACCOs: under consideration
<b>Payment Instrument</b>	Equity-branded debit card	WFP/CFA-branded debit card
<b>Payment Device</b>	Agent POS, ATM, Branch Teller	Agent POS, ATM, Branch Teller
<b>Authentication Process</b>	3 Factors: ID, debit card and PIN	3 Factors: ID, debit card and PIN

<sup>16</sup> Despite nearly a year of planning and negotiations, Cooperative Bank’s contract with WFP had not yet finalized when we conducted research there in July 2013. (Contract with Cooperative Bank was signed 2 August.)

<b>Reconciliation Process (Electronic/Manual)</b>	Electronic	Electronic
<b>Financial Inclusion/Store of Value</b>	Yes. Payments are deposited in a mainstream general purpose bank account. Recipients also received 13 one-day sessions of financial literacy training through Equity Foundation.	Yes. Payments are deposited into a mainstream general purpose bank account. Also, plans to encourage recipients to join affiliated SACCOs to begin savings habits and build credit worthiness. <sup>b</sup>
<p>a. Pulver (2012, p. 33). Pay point numbers as at September 2012.</p> <p>b. SACCOs hold a 65 percent stake in Cooperative Bank.</p>		

### Registering for the Payment Scheme

In most counties, CFA participants would have previously been enrolled in the project’s legacy program, FFA. These data include each recipient’s full name, national identification number or other formal identification, and photo. Recipients lacking any formal identification may designate an alternate to be registered for an Equity account on the recipient’s behalf. Equity Bank, WFP Kenya field offices, and CPs coordinate recipient enrollment in CFA, including mobilizing recipients to open banks accounts, issuing ATM cards, and training recipients on how to use their cards and other “basic financial management.”

### Receiving the Payment

CPs in each county inform recipients when each payment is made to their bank accounts; frequent delays resulting from an unstable “cash pipeline” often make payments unpredictable. Although the recipients are free to withdraw some or all of their payments whenever they like, a majority of the recipients interviewed tend to withdraw their transfer within a week of the pay day, creating a flood of activity at local agents and agents’ uncertainty or unpreparedness around necessary liquidity to make payouts. Recipients have the option of withdrawing their transfers using debit cards at local agents, Equity Bank branches, or ATMs; a majority rely on agents.

## 3. Evolution of Cash for Assets Payment Scheme: Design and Implementation Processes<sup>17</sup>

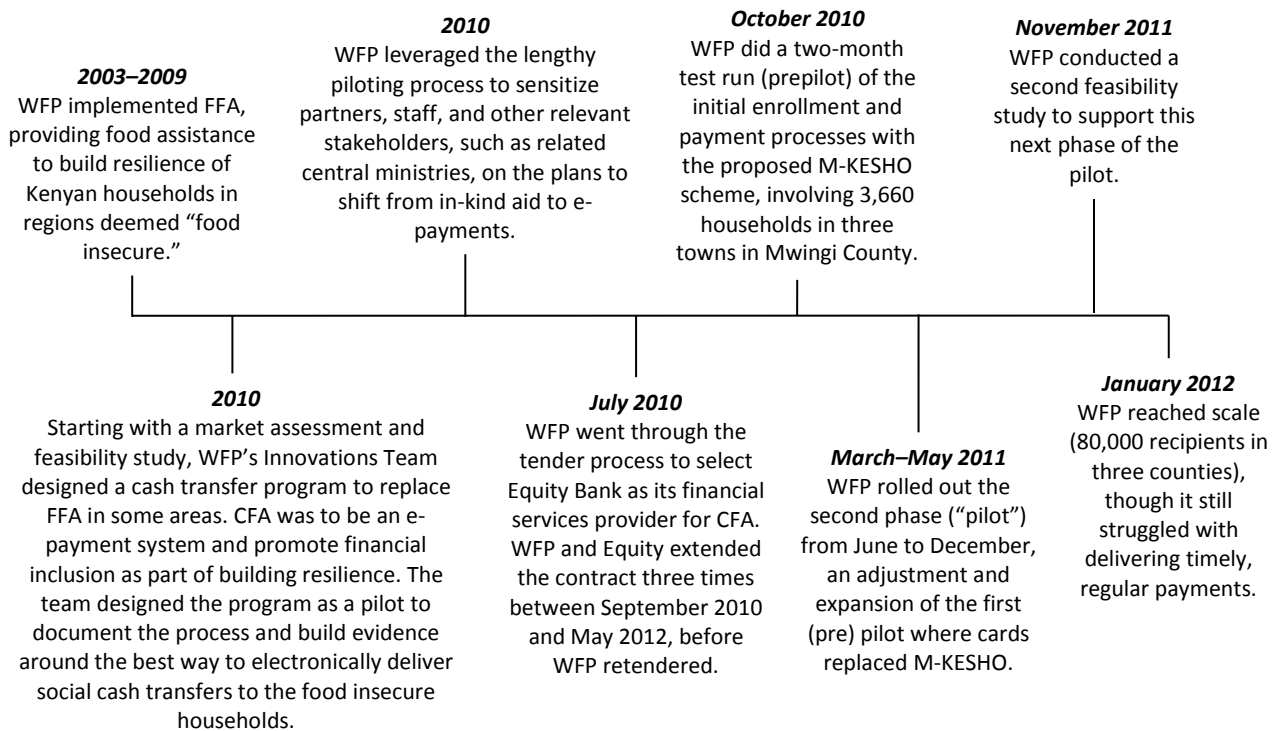
*“Getting buy-in among partners wasn’t that hard. [WFP] has been moving to cash for some time, and Kenya is ready for these shifts.”—Cheryl Harrison, Head of Innovations Team, WFP Kenya*

Guided by the principles of evidence building and learning, WFP took a conservative and iterative approach to designing and implementing CFA over the course of several years. The payment scheme has evolved with and adjusted to the realities on the ground in terms of both infrastructure and capacity, and vice versa: the program and PSP have adjusted their own capacities and infrastructures in efforts to improve the function of the payment scheme over time. Given the test-learn-iterate process inherent in the program, the payment scheme and its implementation has experienced several course corrections since its original conception in 2009.

<sup>17</sup> This list is not indicative of *all* steps taken in designing and implementing CFA’s payment system, but it is an illustration of particularly critical steps.

## Designing Cash for Assets

**Figure 1. Cash for Assets Design to Implementation Process**



### Design Process Highlights

WFP Kenya designed the CFA program over the course of several months in 2010 with the explicit objectives of testing and documenting the experience, piloting, and then, if successful and appropriate, rolling out a financially inclusive e-payment scheme to its resilience programs across the ASALs.

**Step 1: Set Payment System Parameters.** The WFP Innovations Team built clear parameters shaping the eventual design of the CFA payment scheme, including (i) only entertaining payment options that are fully electronic, agnostic on the devices used as long as they eliminate the need to deliver or pay in physical cash; (ii) designing the system so it allows for documentation and evidence building; and (iii) only providing a solution that had “financially inclusive properties,” such as linking to a general purpose bank account in a financial institution.

**Step 2: Engage Partners.** WFP leveraged the lengthy piloting process to sensitize partners, staff, and other relevant stakeholders, such as related central ministries, on the plans to shift from in-kind aid to e-payments. While the Government of Kenya and WFP already shared a vision of increased electronically delivered cash-based assistance, WFP Kenya field staff and local CPs traditionally involved in the distribution of food aid through FFA and related programs, required a greater level of sensitization and training in data collection and management.

**Step 3: Determine Partner Roles and Responsibilities.** By and large, WFP Kenya sought continuity of implementing partners in their shift from in-kind food to e-payments: the same CP nongovernment organizations (NGOs), who are also chosen through a competitive procurement

process to distribute food aid, and government partners involved in targeting and community planning under FFA would play similar yet modified roles in the CFA program. Traditionally, CPs in each county took on a variety of administrative tasks: targeting, mobilizing the community, and supporting implementation and monitoring for WFP Kenya's programs. For CFA, CPs also needed to promote the new program, collect and manage recipient data, and communicate/liase among WFP and Equity Bank and its agents and the recipients. And they no longer had to distribute food.

**Step 4: Propose Initial Design.** WFP originally planned to leverage M-PESA for accessible e-payments made into Equity Bank's then-recently-launched M-KESHO product, which linked clients' M-PESA accounts to basic general purpose accounts at Equity bank.<sup>18</sup>

**Step 5: Select PSP Partner.** WFP put out a tender for a PSP to engage in the initial pilot; the tender specified requirements, but not a specific product. Out of four bidders, WFP Kenya selected Equity Bank, given its relatively robust agent presence outside of Nairobi (compared to other commercial financial institutions) and the unique features M-KESHO offered.

**Step 6: Prepilot.** Starting in October 2010, WFP and Equity did a two-month test run of the initial enrollment and payment processes through M-KESHO among 3,660 households in three market locations in one county, Mwingi. These processes included coordination among CPs to collect the necessary recipient information (i.e., full name and ID number), educate recipients about the program and payment process, and share the data with WFP and Equity Bank to reconcile the program and bank's data to open and process payments into each M-KESHO account.

**Step 7: Pilot.** After several modifications to the payment scheme and operational plan following major complications with the M-KESHO-based payment system used in the prepilot, WFP regrouped and, in March 2011, implemented a pilot test with a larger group—adding three market locations in Tharaka and increasing targeted households to 4,684—and used a different, card-based payment modality.<sup>19</sup>

### *Lessons from the Prepilot and Pilot*

*"In our prepilot, it seemed like everything that could go wrong, went wrong. We learned from it and tried again, and got much better results."*—Cheryl Harrison, Head of Innovations Team, WFP Kenya

**Lesson 1: Unfeasible Original Payment Mechanism.** Not long into the prepilot test, WFP and Equity realized that the bank's M-KESHO product was not a suitable payment option. To complete a transfer from the M-KESHO account into the M-PESA mobile wallet (and hence complete a withdrawal), the recipient's phone needed the strongest possible network signal for

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<sup>18</sup> The M-KESHO product allows customers to transfer cash from their Equity Bank accounts to their M-PESA accounts and deposit into their M-KESHO accounts via M-PESA. Safaricom advertises the main features of the account to be (1) microsavings; (2) microcredit; and (3) microinsurance. For more information, see Safaricom's M-KESHO pages at <http://www.safaricom.co.ke/personal/m-pesa/m-pesa-services-tariffs/m-kesho>.

<sup>19</sup> The program had maintained cards as the "back-up plan" from the beginning of the project, and WFP Kenya reported the transition to cards to be by-and-large "smooth," other than the increased dependency on Equity agents, as recipients could no longer withdraw from M-PESA agents.

a payment to process.<sup>20</sup> Of the targeted recipients, 74 percent did not receive their payments. As the program, its partners, and particularly, the recipients grew frustrated and confused by the flawed payment process, WFP and Equity scrapped the mobile money linkage after only two months. The new debit card-based system, which provided each recipient with an Equity account and debit card, quickly improved the overall payment process for the program, the PSP, and the recipients: 59 percent of participants received their payments by the end of the pilot period, a 33 percent increase.

**Lesson 2: Data Collection and Management Challenges.** WFP originally used Microsoft Excel spreadsheets to manage the prepilot caseload, but quickly realized that the need to manage, clean, and maintain such a high volume of detailed data would require a more developed management information system (MIS). As a result, WFP invested in creating a custom in-house MIS for its cash transfer programs.

**Lesson 3: Perverse Incentives.** WFP quickly found that cash is much more attractive to recipients than in-kind food aid, which increased risks of corruption and fraud in the targeting and payment processes. WFP, therefore, decided to invest in designing and implementing a strong registration and verification process, as well as the necessary MIS needed to monitor for duplicate registrations or any other suspicious account behavior, such as including recipients who do not qualify for the program.

**Lesson 4: Documentation of Recipients for Accounts.** A small yet significant proportion of CFA recipients lacked the necessary documentation—a national ID—required to open an Equity Bank account. WFP developed a work-around solution where recipients could designate an “alternate,” a trusted individual with the necessary documentation who could withdraw the payment on the recipient’s behalf.

**Lesson 5: Training and Systems Set Up Critical.** The shift from food aid to e-payments required a seismic operational shift for WFP’s CPs. After more than 2 decades working only in food (organizing trucks and managing warehouses and food distributions), CPs required different skills (computer skills, attention to detail, understanding the importance of accurate data) to implement targeting and registration processes for CFA. During the scale up when CFA reached a point in which Equity rejected 75 percent of recipient payments because of data discrepancies, WFP halted operations to conduct an “all hands on deck” data clean-up and retraining process for CPs.

**Lesson 6: Reasonable Scale-Up Plans.** Once the program got its systems and processes in place and working for the pilot, it convened all partners to agree on the scale-up plan, moving from under 5,000 to 80,000 recipients. The planning meetings revealed the various capacity needs and anticipated challenges to scaling up. For instance, at the meeting, one Equity branch manager questioned how she was going to be able to open 40,000 CFA accounts in two weeks when she typically opens 150 accounts in a month. WFP and Equity adjusted plans and built up capacities quickly to roll out the scale-up plan.

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<sup>20</sup> CFA never considered partnering with M-PESA independently as the PSP for the CFA pilot because it felt it could not achieve one of its central objectives: formal financial inclusion. WFP Kenya never distributed free mobile phones, as it found that most people have access to a phone. In case recipients did not have a phone, the program gave them a card.



## Implementing Cash for Assets

Despite initial challenges, WFP's self-evaluation of the CFA pilot showed positive results: It found the pilot e-payments scheme to be 15 percent cheaper than food distribution;<sup>21</sup> recipients clearly preferred cash to food; and recipients were, on average, getting the same nutritional supplement from using the cash to purchase food as those recipients getting in-kind food alone. With these positive results in hand, WFP decided to scale-up its CFA operations from its 5,000 recipient pilot in 2011 to 80,000 recipients by January 2012.

### Implementation Process Highlights

**1. Finalize Payment Scheme Design.** After the pilot test using card-based transfers yielded more positive results than the prepilot's M-KESHO-based payment system, WFP and Equity felt confident they had devised the optimal payment scheme for CFA: recipients would have to open a bank account and a linked debit card, which they could use for withdrawals (or deposits, if they desired) at any Equity Bank branch, agent location, or ATM. WFP would top up the cash transfer value by the amount needed for one withdrawal fee per cycle (i.e., month). After that first withdrawal, the recipient would be subject to the same transaction fees, options, or restrictions as any other Equity account holder.

**2. Tender Process.** Moving out of pilot and into scale-up also required allowing other institutions to compete for the tender at scale. WFP held a competitive tender at the prepilot stage, won by Equity Bank. WFP then adjusted and extended the contract through three separate amendments before the WFP procurement unit in headquarters required a retender of the contract.

**3. Contracting.** Although they did not provide financial institutions with resources to do so, WFP expected its tender and contracting processes to encourage financial institutions to open new pay points to make them more competitive for the WFP contract. Once WFP awarded Equity the CFA contract, WFP included a binding clause: Equity had to ensure there were "sufficient" licensed bank agents to serve the recipients without requiring subsidies from WFP to build out the network.<sup>22</sup> WFP explained that it intentionally chose not to subsidize the PSP's expansion of financial services to new areas because *"(1) it's expensive and should not be paid for with humanitarian funds, and (2) we are aiming for sustainable financial services, i.e. financial services that do not rely solely on a G2P or D2P program in order to serve communities."*

**4. Prepare Delivery Channels.** Equity Bank needed to build out its agent network to adequately service all CFA recipients every month. Bank staff estimated that, in some counties, they had to "expand their agent presence ten-fold" (from one agent to 10) to meet the program's need. Yet they insisted that they did not do so solely for the CFA program: they reportedly required a business or strategic case for any new agent opening.

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<sup>21</sup> Cost efficiency calculated by comparing the value of and cost of distributing cash transfers and the cost of in-kind food aid distribution, averaged over the course of the evaluation, from October 2010 to April 2011.

<sup>22</sup> In its contract with WFP Kenya, Equity agreed to "[r]ecruit, train, and equip sufficient Equity Bank agents in market centers accessible to WFP beneficiary households in the targeted divisions." WFP Kenya did not further define "sufficient." It was difficult to define "sufficient" because agents struggled to maintain liquidity and serve all recipients due to recipients rushing to withdraw their payments as soon as the payments were available, instead of going to the agent during regular working hours any day. An agent in each village would be "quite enough" if recipients did not all try to access their payments at once.

**5. Review Partner Roles, Responsibilities, and Processes.** After a critical mass of households consistently failed to receive their CFA payments, a second data clean-up exercise took place in January 2012 among the WFP core operations team and the CPs across the seven counties to ensure that all recipient identification data were correct in the program’s MIS.

**6. Mainstreaming into WFP Core Functional Areas.** With the scale-up, the WFP Innovations Team, which managed the design and implementation of the pilot, transferred roles and responsibilities to the core operations teams, such as the Logistics, Finance, and Programme Units within WFP. As the first large-scale cash transfer program implemented by WFP Kenya, where and by whom each step of the implementation process would be managed was a matter of intense internal debate, as some units seemed more prepared and willing to take on certain activities than others. The WFP core operations units finally divvied up the responsibilities into the following payments process:

- As with in-kind food transfers, *Program* works with field offices and CPs to do registering, targeting, etc.
- *Logistics* completes central office data reconciliation, creates the payment schedules, and requests payment from Finance.
- *Program and Finance* double check that everything is in order, authorize, and release payment.

#### ***Continued Challenges to Implementation after Scale Up***

*“Unreliable and irregular payments cause chaos and confusion, from logistics to management at the field level, to people not knowing when the money will come or when the payment has arrived. It’s the biggest challenge the program faces by far and they don’t seem to be improving. There is so much uncertainty around the payment that now the systems feel ad hoc.”—James Oduour, CEO of the National Droughts Management Authority*

*“Ensuring we had enough agents was slow and painful. The initial number of agents Equity put out was more or less sufficient, but we hadn’t expected recipient behavior: when a payment is made, the vast majority rush to the agent to cash out at the same time and [Equity] had to compensate for that.” —Cheryl Harrison, Head of Innovations Team, WFP Kenya*

**Challenge One: Unreliable Payments.** CFA’s biggest challenge to smooth implementation stems from the irregularity of its payments, caused primarily by frequent breaks in “the cash pipeline” or the flow of cash-based contributions from donors. Despite the ongoing food aid debate, a majority of resources are either in-kind contributions or earmarked for food purchases, limiting the resources WFP has on hand for scheduled monthly payments. As a result, the program often doubles or triples payments to recipients as back pay for months missed during a pipeline break. These unreliable payments cause several implementation challenges, such as the inability to consistently plan for agent/branch liquidity; breaks in operational processes and rhythm across partners; miscommunications or delays in communication to field-level staff and CPs; inability or challenges for recipients to smooth consumption over time and, in some cases, recipients taking on short-term credit to cover the shortage; confusion among recipients regarding the amount of payment or account balances; and agents running out of float and denying payments and/or raising rates.

**Challenge Two: Enrollment and Registration.** WFP continued to face a host of problems related to migrating data into its new MIS. CPs also lacked capacity to be precise about transfers. When they were distributing food, most partners had been working in a nearly entirely paper-based

environment. They had their recipient information on paper and had never been particularly concerned about the spelling of names or accuracy of ID numbers. With e-payments, this had to change. Delays in registration due to dirty data not only delayed payments to individuals in the program but also impacted Equity Bank: after three months without usage, Equity's accounts go dormant, meaning that it had to reopen thousands of accounts that had gone dormant once the data-cleaning process was finally complete.

**Challenge Three: Agent Presence.** Because recipients can access their CFA payments at times and places of their choice, the program expected that recipients would choose over time to spread out the days on which they go to agents to withdraw their payments. Instead, recipients have consistently descended on agents at one time to get their payments, sometimes waiting hours to make a withdrawal. In some locations, Equity eventually recruited "sufficient trustworthy agents" to reduce the run on agents. Overall, however, neither the program nor the PSP anticipated or adequately planned for the volume of withdrawals taking place in short periods immediately after pay dates.

**Challenge Four: Agent Liquidity.** WFP and Equity both described the payout process as chaotic. Despite the program often urging recipients to spread out their trips to agents to retrieve their money, recipients continue to gather on the same day to withdraw their payments, causing long lines, insufficient agent liquidity, agent frustration, and recipient confusion. Sometimes the influx of recipients is because the agents are located in market towns that have a designated weekday for trading; recipients are more easily able to travel to and from their villages on market day, resulting in many recipients withdrawing on one day. Recipients' over-eagerness to make withdrawals could also be the result of the inconsistency of payments and the lack of information about the timing of payments shared with recipients in a consistent fashion. They often do not know when the payment will come through, and head office and field staff relayed stories of women going regularly to check at ATMs or agents to "see if the money was there" and then "running back to the village to let everyone know." In some cases, recipients reported that insufficient liquidity leads to agents insisting the women buy goods from the agent's store or come back multiple times instead of withdrawing the full payment at once. The cost of managing and maintaining the necessary agent liquidity eventually led Equity to adjust its agent fee schedule such that agents receive a higher amount for larger withdrawals. This came as a surprise to CFA, which was not originally consulted on the modification and thus no longer sufficiently covered the withdrawal fees incurred by many recipients as intended. Although WFP and Equity eventually renegotiated the contract to reflect the new fee schedule, agents' struggles with liquidity still often resulted in higher costs for the recipient (who may now have to make multiple withdrawals, or make multiple trips to the agent).

**Challenge Five: Capacity of All Partners.** WFP and Equity rely heavily on their field staff (WFP field office and CPs, and Equity Bank's branches and agents, respectively) to manage the majority of interaction and communication with CFA recipients. However, the varying core competencies of CP institutions and the differing sizes and performances of agent networks across counties lead to variations in how each county's partners managed the program. CPs are responsible for communication with recipients about the timing and size of their payments and are meant to be the liaison between the recipient and the program's central office in Nairobi: the CP is responsible for reporting and resolving recipients' concerns and problems. The CP is also responsible for liaising with the bank branches and agents to post notifications for recipients, as well as to meet and plan for pay dates and liquidity. Where CPs function well, these processes run relatively smoothly. In some counties, however, quality is less consistent.

The quality of bank agents, much more so than CPs, appears to influence the quality and functioning of the program. For example, where agents have been identified as rude, have reportedly asked for/demanded recipients' PINs, or pressured recipients to buy goods in their outlets, quality control of the program has suffered. On the other hand, agents face increased risk and insecurity as they struggle to manage large and sporadic payments.

**Challenge Six: Capacity of Recipients.** Head office and field staff consistently described recipients revealing their PINs (to agents or others) as one of the biggest problems and risks with the CFA payment mechanism. While there are some accounts of agents insisting that recipients share their PINs with the agent to withdraw their money, several other agents reported recipients volunteering their PINs because they do not know how to use the POS device, despite reportedly receiving 13 sessions of financial literacy training as well as initial training on CFA payment withdrawal at account opening, which discussed issues of PIN ownership, secrecy, and usage.

**Challenge Seven: Procurement Restrictions.** After three years of iteration, adjustment, partnership building, and planning to scale-up and operationalize CFA, WFP is nevertheless obligated to adhere to strict UN procurement rules. In 2012, Equity lost its bid to Cooperative Bank through a technicality in the bidding process, which means that WFP had to enter into new contract negotiations and build new processes and systems with a new PSP, which in turn has to operationalize its own product and service for the program.

From prepilot to scale-up, CFA has adjusted its program in response to several challenges to implementation of the payments, but performance of the payments has consistently improved:

**Table 5: Summary of Payments Performance of CFA from Pilot to Scale Up**

	Prepilot	Pilot	Scale up
<b>Dates</b>	2 months in 2010	10 months in 2011	2011 to present
<b>Product</b>	M-KESHO	Debit card account	Debit card account
<b># Recipients</b>	3,996	4,684	80,000 (adjusting to 63,000 in May 2013)
<b>Payment rate (%)</b>	24%	59%	100%
<b>Type of pay points</b>	M-PESA agents, Equity Agents and Branches	Equity Agents and Branches	Equity Agents and branches, switching to Cooperative Bank

### Biggest Resulting Modifications to the Payment System: The Shift to Cooperative Bank

*“We saw the challenges faced by early movers, like payment rejection because of bad customer data, and can avoid them.”—Florence Owuor, Head of Card Center, Cooperative Bank*

*“We knew going into it that we would have to re-compete for the business, but we thought we had a good shot since we invested so heavily in the infrastructure and training. WFP didn’t pay for any of the infrastructure development.”—Esther Muiruri, Equity Bank*

### Equity Bank versus Cooperative Bank: The Implications, Pros, and Cons

Cooperative Bank claims it benefits from “the advantage of seeing Equity’s growing pains” as a PSP for CFA, based on frequent meetings with CFA staff at the head office and field levels and has made some adjustments in its plans as a result. Cooperative Bank seems acutely aware of

agent issues and claims to have field agents in every planning meeting to design a robust “dispute resolution processes.” Cooperative Bank also plans to give loans to its branches and agents to cover float. Local-level staff and CPs are optimistic about the switch, particularly since Cooperative Bank has suggested it will address issues the program has experienced with Equity, including the following:

- Working closely with the CP to ensure accurate recipient data at the time of enrollment.
- Ensuring money is never credited to the wrong account.
- Dealing with different recipients with the same ID numbers.
- Avoiding the problem of having dormant accounts/needing to reactivate dormant accounts (Cooperative Bank will have CFA-specific accounts for recipients, whereas Equity allowed only one account per recipient, even for non-CFA transactions).
- Improving the integrity of agents and their availability.
- Ensuring their POS and switch technologies are account- and SACCO-linked.

However, Cooperative Bank may face significant challenges as the CFA PSP:

- Cooperative Bank’s agent presence nationally and in program areas is weak compared to Equity’s, and some program staff question the extent to which it can or will “improve agent availability” given the volume of payments made and the experiences with the relatively more robust Equity agent network. Cooperative Bank has proposed exploring the use of SACCOs as potential agents for recipient payouts, as well as recruiting Equity’s agent network, given Kenya’s rules around nonexclusivity of bank agents.
- While Cooperative Bank seems eager to put all necessary systems and planning in place to cleanly transition into its PSP role, doing so has taken substantially longer than either WFP or Cooperative Bank anticipated: over one year after winning the bid to take over CFA payments, WFP and Cooperative Bank had still not finalized their contract (as of the writing of this report).

## 4. Stakeholder Experiences and Perspectives

With the exception of Cooperative Bank, CFA’s multiple stakeholders—core program administrators and funders, payment service providers, field staff and agents, and the recipients themselves—have nearly all been involved in the program since its conceptualization. Today, they have four years of shared experience in testing and learning from the drivers, costs, and benefits of a shift from in-kind food to e-payments.

### Core Program—WFP, USAID, NDMA

WFP’s decision to test e-payment modalities stemmed in part from a global paradigm shift away from food aid and the role of “resilience building,” as well as an institutional decision to consider and understand the costs and benefits of new ways of delivering assistance. The CFA experiment carried a heavy burden: both the WFP and USAID, the experiment’s largest donor, counted on CFA as a proof of concept for the shift from food to cash. This may explain in part WFP’s stated top motivations for implementing the e-payment scheme:

1. *Organizational Learning.* “Developing systems and processes for implementing large-scale cash transfers, and contributing to a growing foundation of knowledge about the use of cash transfers in addressing food insecurity.”

2. *Maximizing the Development Benefits to the Recipient.* For example, enabling asset building, behavior change, financial capability, and human capital investment.
3. *Financial Inclusion of the Recipients.*
4. *Promoting the Dignity of the Recipients.*

Although WFP and USAID noted other policy drivers, such as transparency and efficiency, as important, building the resilience of the recipient shaped the decision to consider only financially inclusive payment options, in which recipients are offered a general purpose bank account into which they could save or which they could potentially leverage for access to other financial products and services.

The pilot test also revealed a strong business case for e-payments over in-kind food distribution. In the pilot alone, electronic cash transfers were found to be 15 percent cheaper than delivering in-kind food, while also supporting local markets in each county (most recipients spend their cash locally) (WFP 2011). WFP Kenya has benefited from increasing competition among financial institutions for the country's unbanked market: Equity Bank (and, more recently, Cooperative Bank) willingly invested in the necessary agent presence, equipment (such as POS terminals), and training and program management at the head office and local level without subsidy from WFP Kenya.<sup>23</sup> WFP Kenya pays Equity (and soon Cooperative Bank) one-off fees of KES 300 (US\$3.53) per debit card issued as well as for the first withdrawal fee per payment cycle.

When asked in June 2013 to rate the effectiveness of the payment scheme and its various components, program managers at WFP and the government partner, the National Drought Management Authority, consistently ranked specific payment scheme components higher than their assessment of the overall PSP or their product, indicating that the whole may still not be greater than the sum of its parts. Effectiveness ratings break down as follows:

- Most Effective
  - *Payment Instrument:* Card-based payments are considered one of the most effective components of the CFA payment scheme. This perspective may stem from the failures of the prepilot experience with the mobile-money linked card-less account.
  - *Reconciliation Process:* Despite early struggles with data collection, management, and reconciliation during the piloting process, program managers now agree that the reconciliation process runs smoothly.
  - *Financial Inclusion:* The linkage to a formal bank account through CFA is a source of pride for the program. As one program respondent noted, "Many CFA areas did not have banking services before, and only a fraction of WFP recipients had accounts prior to the start-up of the program."
- Least Effective
  - *Pay Points:* Although the program is satisfied with the choice of different types of pay points offered to recipients (agents, branches, and ATMs), it was less satisfied with the number of each type available in each county. In other words, while the program likes that recipients have several options, it is less satisfied with the availability of each.

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<sup>23</sup> WFP did mention periodically covering some "insignificant" logistical costs for Equity.

- *Verification Process:* Respondents felt the process by which the PSP verifies the identity of the recipient appears to be running smoothly, yet noted an unexpected challenge: *recipients are still not keeping their PINs secret.* Others expressed serious concerns about the risks inherent in requiring alternates with the ID necessary for know-your-customer requirements, even if technically the system is “working.”<sup>24</sup> As James Oduor, CEO of NMDA put it, “With an alternate, there is a risk of cheating, having to pay off the alternate, having to transport the alternate in to the town to get the payment and spend double on transport, food, etc., for the day...I have heard of this happening so many times.”

Overall, while program managers did not rate any aspect of the payment scheme at or near “ineffective,” they gave the PSP and its accompanying services a “needs improvement” rating. Various core program actors (WFP, NDMA and USAID) shared this view, reflecting a perceived disconnect between Equity’s partnership-focused headquarters staff and the agents interfacing with recipients and field staff in the CFA counties. Whereas the program openly lauds Equity’s flexibility and responsiveness to the needs of the program at the head office, others voiced frustrations with Equity’s “continuity of service,” stating that “they do not have good management of all of their agents.”

As Cooperative Bank now moves into the PSP role, the program welcomes the new partnership with both optimism and trepidation. While Cooperative has made plans and commitments to better manage issues around agent behavior and capacity, its agent presence in CFA counties pales in comparison to Equity’s.

### **Payment Service Providers—Equity Bank and Cooperative Bank**

*“If they are [bottom of the pyramid] right now, they won’t be forever. They will be productive with the right opportunities. So [providing financial services] is a cost but it’s worthwhile. We believe the ‘unbanked’ are not unbankable anymore.”—Esther Muiruri, Equity Bank*

*“We want to be top of mind as the bank of choice of Kenyans all over the country, but we’d also love to be the bank of choice for all Kenyan government G2P programs. Why not?”—Florence Owuor, Cooperative Bank*

In Kenya’s increasingly competitive commercial banking market, financial institutions embrace opportunities that enable them to capture the shrinking unbanked market. When asked about their business case for involvement in CFA, both Equity Bank and Cooperative Bank cited a strategic case for partnership. For Equity, the business case, in its view, stops at the strategic level. While the bank has benefited from continued and new partnerships with WFP and other donors, it did not identify the CFA product or the client base as attractive at any financial level. Cooperative Bank, on the other hand, anticipates a business case at both the strategic and client levels. The staff envision earning revenue from other lines of business as a result of partnering with WFP for CFA, as well as cross-selling more profitable services to recipients, though they have yet to prove either case.

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<sup>24</sup> The option to select an alternate is viewed as a stop-gap measure while recipients work to register for their own ID cards. Until the Government of Kenya waived the ID fee ahead of the most recent presidential election, obtaining an ID could be an expensive and time-consuming process. Since the government waived the ID fee, more recipients have registered for their own IDs to avoid using alternates.

Interestingly, however, when asked, “What were the overall objectives and envisioned benefits of becoming a payment service provider for this scheme?” Equity and Cooperative Bank offered somewhat similar responses for their highest priority motivations.

**Table 6. Stated Motivations of PSPs**

Equity	Cooperative
1. Gaining new clients	1. Gaining new clients
2. Cross-selling	2. Making a profit on the recipient segment as a whole (efficiencies of scale)
3. Public relations/CSR	3. Providing a business case to explore new product development
4. “Banking the unbanked” (written in)	4. “Financial Inclusion” (written in)

Equity’s perspective on the financial case for the D2P partnership may reflect its experience with the program to date. The vast majority of recipients seem to withdraw all of their funds at once and there have been virtually no instances of cross-selling Equity products to its new CFA program clients. As one Equity staff member explained: “We thought [CFA] was a good opportunity to easily reach out to the unbanked, which is part of our mission. It’s not really about profit, most particularly in the short term: you can’t make money out of this group.”

Making money off of the WFP contract is apparently also impossible. When asked to rate the importance of earning fee revenue or subsidy from the contract, both Equity and Cooperative wrote in “not applicable.” To be sure, neither bank has partnered or will partner on CFA for free, though neither charge a fee per transfer, such as a small percentage of the total transfer value. WFP pays Equity (i) KES 300 per debit card issued to a CFA recipient, plus (ii) one withdrawal fee per payment cycle, which is added to the value of each payment and varies depending on the total amount paid to the recipient. The fee is then shared across the agent and the bank under the same terms set for any other agent-based transaction fees.<sup>25</sup>

**Table 7: Equity Agent Banking Withdrawal Fees for CFA**

Amount of Withdrawal	Withdrawal Fee
Less than KES 2,500 (Less than US\$29.41)	KES 25 (US\$0.29)
<i>KES 2501 to 5,000</i> <i>(US\$29.42–58.82)</i>	<i>KES 45</i> <i>(US\$0.53)</i>
<i>KES 5,001 to 10,000</i> <i>(US\$58.83–117.65)</i>	<i>KES 75</i> <i>(US\$0.88)</i>
KES 10,001 to 20,000 (US\$117.66–235.29)	KES 145 (US\$1.71)
KES 20,001 to 35,000 (US\$235.30–411.76)	KES 175 (US\$2.06)
KES 35,001 to 50,000 (US\$411.77–588.24)	KES 195 (US\$2.29)
Over KES 50,000 (Over US\$588.24)	KES 225 (US\$2.65)

*\*Italics indicate the typical withdrawal amount and fee for CFA recipients.*

<sup>25</sup> Cooperative Bank will likely agree to a similar fee structure, but contract negotiations had not been finalized as of the writing of this draft.



The challenges Equity has faced in its efforts to uphold its commitments as the CFA PSP may be a reflection of a questionable business case: the bank agreed to make a substantial investment without much additional revenue from WFP Kenya to fuel it. The respondents for Equity identified the three top challenges they have faced in implementing the CFA payment scheme, all but one of which they reportedly underestimated:

- *Client Enrollment and Usage of the Service.* Each CFA recipient receives a savings account and gets 13 one-day sessions of financial literacy training through the Equity Bank Foundation to learn about budgeting, investment, and the range of financial services they could access. Yet, client behavior has been hard to change; they still forget or give away their PINs, run on the agents on pay days, and rarely save money or solicit other services.
- *Inadequate Agent Liquidity.* Agent liquidity is a clear concern, and the bank and WFP have tried, and yet still struggle, to manage it. The bank mentioned regular meetings with WFP field staff and partners to plan for a smooth payment process. However, irregular payments have taken a toll. The bank claims that having to make double and triple payments due to pipeline breaks has (i) increased float risk among the agents and required them to increase their fees and/or (ii) resulted in agents quickly running out of money on pay days, both of which have led to (iii) recipient frustration and trust issues.
- *Technology Failures.* Equity's struggles with network connectivity underpinned the program's original abandonment of the M-PESA-linked M-KESHO account. Even without the mobile money offering, sufficiently strong communication networks remain a necessity of effective payment solutions, as transactions are predominantly made via POS devices at agents. Previously, agents would transact offline and reconcile at the end of the day or when the system went down. New regulations that prohibit offline transacting (in hopes of reducing settlement risks) make the impact of such technology failures more acute.
- Cooperative Bank admittedly has observed Equity's struggles and claims that it has conducted adequate planning to identify and manage the challenges inherent in operating the payment service. In fact, the Cooperative Bank respondents identified the exact same top three challenges as Equity in their questionnaire response. In addition, they had other anticipated risks they are currently working to mitigate:
  - *Communication to Recipients.* Cooperative Bank seems acutely sensitive to recipients' vulnerability to fraud and cheating, and vow that agents will lose their agent "clearance" for any violations of client rights, whether direct (stealing from them or demanding PINs) or indirect ("persuading" recipients to buy goods from their business).
  - *Agent Presence.* In 2012, Cooperative had 106 branches and 4,100 agents nationally, compared to Equity's 149 branches and 5,300 agents (Pulver 2012). Although Cooperative is expanding its agent presence in each county and claims that most recipients "will choose to use the branches," the Cooperative team is exploring opportunities to leverage existing SACCOs as pay points and as an additional means of financial inclusion for recipients.
  - *Security Risks to Staff, Partners, and Recipients.* If Cooperative struggles to leverage its SACCO network for pay-outs, then maintaining adequate liquidity among a small number of pay points will result in relatively large volumes of cash in few locations, and a large number of recipients traveling to those pay points at somewhat predictable times, presenting security risks.

It remains to be seen whether Cooperative will successfully mitigate its challenges and fulfill its objectives as CFA's next PSP, though its designated team (and field staff and recipients, as discussed in the following sections) is optimistic. While Equity expressed disappointment to lose the CFA contract, it notably has achieved one of its strategic goals, winning other business from governments/donors. Equity is already planning a new partnership between WFP and MasterCard (discussed below) and currently remains the financial institution of choice for financial inclusion experiments in Kenya.

### **Local-Level Staff and Partners**

WFP field staff have embraced the opportunities and capitalized on the challenges of the CFA program over the past two years. Some admitted that food distributions are easier for staff and partners to manage, particularly given their years of experience with it, though this process more expensive. Particularly at the beginning of CFA, staff and partners struggled to keep up with data management. Tharaka county staff expressed fewer challenges with the initial processes, as they benefited from piloting with 2,600 before scaling up to 10,000 recipients. In contrast, Malindi was not part of the pilot and the staff and CPs thus had to enroll 7,000 as soon as Malindi joined the program.

Field staff report that CPs are sometimes slow transferring information from the field to WFP's system, which partners attribute to the speed of WFP's system (which is improving). However, field staff expect a smoother recipient registration process with Cooperative Bank, building on what they learned in the past two years. Moreover, they are cautiously optimistic about Cooperative Bank's ability to address some of the challenges the staff experienced with Equity. Overall, despite the data management challenges accompanying the shift from food to cash, the staff expect that the e-payment system will become easier as the processes are streamlined and as they grow more comfortable with the system. They value the e-payment system, as they perceive its benefits for recipients.

### **Bank Branch Managers and Bank Agents**

#### ***Equity Bank Branch Managers***

*"We want to get the customers now so, when they have money in a few years, we will already be their trusted bank and partner."*—Equity Bank branch manager in Tharaka area

Equity Bank branch managers expressed optimism about the program as a way to reach the low-income population because they see medium-term potential for these recipients to be customers in three to five years. (They also did not appear concerned that Equity would no longer make CFA payments.) In Tharaka county, for example, one branch manager indicated that Equity boasts free activation of dormant accounts, and he intends to keep open the accounts of "graduated" recipients (even if the accounts fall dormant), given the investment and economic activity he anticipates in the region over the next two to three years. Similarly, a branch manager in Malindi extensively explained how he had invested in financial literacy for all interested customers to promote small and medium enterprise (SME) development and engage small business owners in group loans, graduating the most creditworthy to individual business loans. (He sees some potential among the recipients, but was focused on this SME development in the region more generally.) While investing broadly in clients, the Malindi branch manager expressed skepticism around how much to invest in providing ATM cards to all recipients, because he was not sure how long the program would last.

## Agents

*"I'm serving my mothers and fathers."*—Equity agent in Kitui area, expressing his respect for his position and responsibilities as an Equity agent for the CFA program

As with recipients, some agents we spoke with also voiced that recipients experienced problems with other agents, from agents taking fees above the allocated amount from recipients to having insufficient float; this benefited the agents interviewed. Two agents described how they became agents after the program started, in one case at the request of recipients from his home village, and immediately served large volumes of recipients who wanted an alternative to the illiquid or dishonest agents.

Even some of those agents that the recipients appeared to favor experienced challenges with float. In Tharaka, for example, one agent indicated that liquidity is sometimes a challenge because bank branches are far from where she operates. In contrast, another agent in the Tharaka region is typically able to manage his liquidity adequately, as he now has a car and is able to drive to the nearest bank branch (about one to one-and-a-half hours away) to get cash. As a demonstration of his ability to manage liquidity, he readily admitted that he does not take deposits from recipients or other Equity customers since he does not receive commission for such transactions and does not need the cash.

Agents also expressed problems related to the delay of payments. For example, recipients travel to the agent to get their money, and it has not arrived—whether because it is delayed and recipients did not know or the money has not been credited to their accounts for some reason. One agent cited his costs incurred when this happens; he spends money and time calling the bank to find out why recipients have not received their money. For recipients who travel to him but have not received payments, he reports providing them fare for transport back to the village.

Recipients' lack of understanding about the payment system, the verification requirements, and conditionalities present a challenge, or at least a time-consuming task, for the interviewed agents. Though he does not report it specifically as a challenge, one agent in Tharaka assists recipients who have forgotten their PINs. Either recipients come with a child or other family member to help them enter the PIN, or they will present their PIN written on a piece of paper for him to enter for them. If a recipient does not want to or is hesitant to enter her PIN, another agent in Malindi will ask for the PIN and enter it. Sometimes recipients give their ATM cards to relatives (not their alternates) to transact as well. As he is typically not supposed to allow nonalternates to withdraw the money, the agent verifies the identity of these relatives with the CP, then gives them the money anyway. A third agent in Kitui sometimes encounters challenges when recipients do not understand the charges associated with their accounts, leaving recipients questioning the amount the agent is giving them. For example, Equity had automatically (and erroneously) deducted KES 300 from some recipients' accounts during the first payment to cover the cost of the ATM card.<sup>26</sup> Not understanding this, some recipients raised questions. When recipients receive more or less money than expected, the agent claims

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<sup>26</sup> For accounts opened outside of the CFA, new customers pay for their cards through an auto-deduction from the first deposit. For CFA, WFP negotiated the card payment separately (by invoice). Indeed in those cases where the auto-deduction accidentally took place, Equity had to reverse it.

they must call the bank, though the “correct” chain of complaints would be to take the problem to the CP. Sometimes the bank is unavailable or unable to help.

Agents cannot serve recipients when the cellular network is down because the POS does not work offline and, therefore, they must stop paying recipients until the network is back.

All of these challenges are compounded when all recipients come on the same market day to withdraw their payments (when they can more easily get a ride from their villages and can also buy food and complete other transactions). In addition to overcrowding the agents’ area and not lining up when asked, as one agent described, the network outages and each recipient’s problems compound their waiting time.

## Recipients

### *CFA in Recipients’ Financial Lives*

In such drought-stricken areas where recipients find the harvests are not enough to invest in other activities, the CFA payments help smooth recipients’ cash flows. Though recipients did not rank the CFA payments as one of their most reliable sources of incomes—as it can be two to four months between payments—they did explain how they are able to use the CFA payments to pay school fees, buy livestock, and pay back debts, in addition to buying a wider variety of food than they would get through food distributions.

Recipients’ financial needs vary by season, as demonstrated below, which highlights in what periods they have the hardest time covering financial needs.

**Table 8. Seasonal and Annual Financial Needs in Kenya**

January–March	April–June	July–September	October–December
<ul style="list-style-type: none"> <li>• School fees</li> <li>• Seeds</li> <li>• Food</li> </ul>	<p><i>Hardest time in Malindi</i></p> <ul style="list-style-type: none"> <li>• School fees</li> <li>• Water</li> <li>• Day-to-day expenses</li> </ul>	<p><i>Hardest time in Kitui (1 group)</i></p> <ul style="list-style-type: none"> <li>• School fees (September)</li> <li>• Day-to-day expenses</li> </ul>	<ul style="list-style-type: none"> <li>• December holidays</li> <li>• School fees</li> <li>• Seeds and agricultural inputs</li> </ul>

*Source: Fieldwork July 2013.*

In addition to regular seasonal and annual financial needs, recipients must manage their access to cash in case of emergencies, such as a child falling ill. They identified selling livestock as a main source to cover such emergencies, in addition to selling land, borrowing from their savings groups or friends, and engaging in casual labor.

### *Experience with CFA*

Recipients across Kitui, Tharaka, and Malindi demonstrated different levels of understanding of the program and, in particular, the amounts of money they receive. For instance, a number of recipients interviewed did not understand the following:

1. The fees they incur for transacting (i.e., the withdrawal fee for every payment)
2. Why they receive the amount they do (one recipient said she received KES19,000 one payment, then only KES 8,000 the next payment, likely because the time between payments varied and WFP thus did not “owe” her as much for the second payment)

3. Who to tell if they experience a problem (whereas some recipients report problems to CPs, others, particularly those in more remote areas, explained they do not report problems because they do not know who to tell)

When asked whether they leave some of their payment amount in their account, or whether they withdraw all of it at once, recipients responded inconsistently and reflected potential misunderstanding. Some groups interviewed claimed to not withdraw all their money at once “in case of emergencies,” with one group claiming “it’s a common practice to leave something small in our account.” However, they were vague on when they would return to the agent or branch to withdraw this money. Four out of 71 recipients in these groups also claimed to deposit money in their accounts to save—in one case up to once a month. Other recipients within these groups would share stories they had heard about neighbors either (i) deciding to leave money in, then finding the money gone when they went to withdraw it; or (ii) learning they had, for example, KES 2,800 (US\$32.67) in their account but the teller or agent only giving them KES 2,300 (US\$26.85) after finding out the recipient was not literate. Another group reported that they withdraw all their money because they had heard experiences of people leaving some money in, then finding it was no longer there when they went to withdraw it, leading them to believe the bank “swallows money.”

Some recipients admitted to agents taking advantage of them, either asking for an extra commission or pushing recipients to withdraw only a portion of their payment initially and withdraw the rest later (so the agent gets more commission) or buy goods instead of withdrawing all. (Some of this pressure could be from agents not having enough cash to service all recipients.)

Recipients, as well as agents, found that the distance to agents is a problem (especially in Malindi where many recipients just go to the branch); if their accounts have not yet been credited, recipients must decide whether to stay overnight (this came up especially in Malindi) or to return later. Because of the number of recipients withdrawing at each agent or branch, recipients also wait in line for a long time, though they did not express this as a concern as much as not receiving the right amount of money (whether due to problems with the agent or their own misunderstandings).

The branch managers’ response to the agent problems—from liquidity to distance to taking advantage of recipients—was to improve the agent network. They expect recruiting more agents to solve many of the recipients’ complaints, creating more competition in each location and more options for recipients.

While recipients are able to smooth their cash flows with the unreliable but significant lump sum payments from CFA, many of those interviewed seem to experience confusion and challenges that may discourage them from shifting to formal financial services. Recipients’ problems with agents resulted in them expressing mistrust of agents generally, and sometimes of Equity Bank, while stating that overall they find banks to be the safest place to keep their money (even if they do not have enough money or access to save with a bank). Additionally, the challenge of remembering and entering their PINs, likely leading to some of the issues with agents, is another possible barrier to further financial inclusion. Some recipients expressed having trouble with their Equity PINs, but not their M-PESA PINs. Whether this is because they use M-PESA more frequently, or are more familiar with how to enter a PIN on their phone for M-PESA (rather than on the POS for Equity), further financial literacy and program training could

help. (On the other hand, M-PESA does not provide training and customers learn about the service through agents and word of mouth.) Finally, another barrier to access their money in the CFA program is the lack of national ID cards, though this problem is gradually becoming less of an issue as more recipients obtain IDs. In addition to recipients requiring ID cards for a broader array of government services, recipients no longer requiring alternates to help them access their money can help reduce the number of problems with alternates taking recipients' cash.

These barriers suggest that many recipients interviewed have a ways to go before engaging with banks further (though many recipients use M-PESA to send and receive money, and even keep money in their M-PESA accounts short term). A small number of recipients demonstrated commitment to saving not only for emergencies, but for other investments and school fees. Additionally, some recipients located closer to main roads, agents, and bank branches indicated their awareness and usage of loans with microfinance institutions and savings with nearby banks.

## 5. Lessons Learned from the CFA Experience

*“When one part of the system breaks, there are ripple effects: everything breaks.”—James Oduour, CEO NDMA*

### Ensure a Strong Value Chain

All G2P and D2P programs are relatively complex, with several links in the delivery value chain. CFA's complexity stems from (i) the donor-led structure that is (ii) also linked with the Government of Kenya via the National Drought Management Authority (NDMA), (iii) its dependence on several major donations of a shifting yet traditionally politically charged food aid system, (iv) working with different CPs in all communities, and (v) other factors, such as linkages to bank accounts, work-based conditionalities, and a focus on documentation. These linkages require – and can complicate – partner relationships, controls, and processes. A strong value chain becomes critical to ensuring a smooth payment process and experience.

**Clearly define partnership roles and accountability structures.** As aid agencies and international NGOs shift increasingly from cash to e-payments, programs would benefit from an awareness of the challenges of such complex models so that they can (i) consider ways to simplify and/or develop partnership structures that reinforce the value chain and (ii) develop systems and quality controls that help to mitigate the risks.

**Maintain adequate funds or funding sources.** Almost all cash transfer programs, whether G2P or D2P, are subject to resource constraints and uncertainties around the permanence of funds. However, the frequent delays in payments caused by “pipeline breaks” at CFA were the most disruptive, highly criticized component of an otherwise well-regarded cash transfer system. Ensure a guaranteed flow of funds for the cash transfers before committing to scaling up, at least for a specified period that is clearly communicated to funders, partners, and recipients so that kinks in the system do not undermine the ultimate objectives of the program, such as making it difficult for beneficiaries to plan their expenditures and consumption. Also, it may be worth considering the appropriateness of reducing the frequency of payments to bi-monthly or quarterly, to ease payment management burdens and costs. Some recipients actually reported that they preferred lump sum payments, because these allowed them to better manage funds for both consumption and productive investments.

**Ensure adequate technical and operational capacity for scale-up.** Given their technical and complex nature, e-payment systems require a minimum technical and operational capacity. Inadequacies in both of these areas resulted in major delays and hurdles during the pilot process for CFA, though staff and partners are now improving as they learn the systems (and WFP improves the systems).

*Cooperating partners.* At a minimum, partners involved in targeting, monitoring, and registration need to understand and be well-equipped to collect and maintain data (particularly for program and payment system registration). Whatever their roles may be—data collection, training, communication sharing, or other interfacing, all of which CFA CPs are expected to do—programs considering a certain payment system should not underestimate the value of ensuring partners’ capacity to fulfill their obligations. CFA benefited from the pilot process that exposed the need for technical capacity building and the implementation of processes that would improve the program’s and partners’ operations. All parties reported that the process has improved substantially and continues to improve through frequent learning, sharing, and iteration.

*PSP Agents.* Uncommon among similar G2P and D2P payments systems in Kenya and elsewhere, WFP does not provide any subsidy to the PSP to develop the necessary payment infrastructure. The challenge of ensuring agent presence and liquidity has had an adverse impact on the program, particularly at the field level. Agents run out of money and incur expenses when they have to close down their businesses to retrieve more money, and some do not allow recipients to withdraw the entire payment, forcing recipients to withdraw multiple times (only the first withdrawal is free for the recipient). As a result, recipients complained about Equity Bank. Equity’s ability to manage float among its agents is complicated by the delays and inconsistency in payments. To address this liquidity issue, Equity Bank changed its agreed on withdrawal fee structure. Even if Equity could communicate to its branches in advance that a payment would be made on a specific date, if the recipient receives three payments in one lump sum payout, agents require an amount of float that some branches have struggled to provide. Managing liquidity in this context requires a minimum amount of consistency or at least adequate contingency planning.

## **Include Recipient Voices**

**Create Communication Channels for Recipients.** Among all the various steps to design, refine, implement, and document CFA over the past three years, when asked what she would change if she could start all over, the WFP Innovations Team manager had an immediate and unequivocal response: Create a hotline recipients can call to ask questions, express concerns, or report grievances. Confusion, skepticism, and anxiety among recipients over the program and its payment procedures, dates, amounts, and fees may be weakening the impacts it strives to achieve and prolong the resolution of any problems that arise. Providing clear, accessible, direct communication channels with recipients, including a grievance mechanism, particularly one that is set up in a way that informs operations and implementation going forward, can be a valuable component of cash transfer systems.

**Improve Recipient Training.** While continued training about program parameters is likely to help recipients, further training on how to use the POS, card, and PIN, and who to inform when a recipient has a question or problem with her payment amount or agent service may also benefit this program and advance broader use of formal financial services. Importantly, recipients should be aware that they are able to lodge complaints without fear of being kicked

out of the program. While some recipients report to CPs and group leaders about problems with agents or the amounts they receive, others do not know who to tell when they experience a problem. Knowing their rights and not fearing that complaining will kick them out of the program (then having the mechanism in place for recipients to express concerns) go hand in hand.

### Consider Procurement Modifications That Fit Program Needs

Both WFP and Equity made large investments in capacity, processes, communication, and partnership building to get the systems running smoothly, only to have to go through the procurement process every two years. One Equity branch manager mentioned being unsure about how much to invest in getting all recipients cards, as he did not know how long the program would last. However, Equity's team in Nairobi shared that, while it feels it carried a heavy investment burden, it added agents only when it made strategic sense: *"We've never opened an agent just for a program. It has to be sustainable."*

**Test, Learn, Iterate.** WFP began CFA with an explicit learning objective and planned its piloting, monitoring and evaluation, and eventual scale-up around testing methods, processes, and systems that would allow it to quickly identify and adjust to lessons learned and best practices. With an emphasis on constant learning from and throughout the shift from in-kind assistance to e-payments, the program was able to prioritize an openness to flexibility and adaptability. For instance, staff and recipients' feedback on mechanisms for raising and addressing questions and concerns inspired WFP to create and test a recipient hotline that will be rolled out in CFA over the coming months.

## 6. Conclusion: The Future of WFP Cash Transfers in Kenya

*"We are learning a lot from this program that is fueling our investments and shifts elsewhere in WFP. We are lucky to have this independent unit that can take a step away from the day to day to think about what the future is going to hold. And other WFP countries and development partners are watching what we are doing."*—Ron Sibalda, WFP Country Director, Kenya

*"The more we go into the remote areas, the more cash becomes a constraint: it is expensive and there is less of a business case for equipping a bunch of bank agents in these areas."*—Cheryl Harrison on the need for cash-lite communities in the arid lands

Despite persistent challenges to achieving a seamless value chain, CFA is considered by most parties a success. Over three years, CFA has grown from a prepilot to test how to change from in-kind food to e-payment for an 80,000 recipient program (providing food assistance to almost 500,000 people) embedded in the core operations of a major international institution. Its impact also extends beyond the seven counties in which it operates. It has inspired continued investment in innovation with WFP and helped international donors such as USAID make the case for aid reform. Even Equity, who lost the second round contract for CFA, continues to benefit from the foundation WFP Kenya has built for e-payment systems through continued collaboration with WFP.

At WFP Kenya, the Innovations Team is making both immediate and longer-term plans to strengthen its e-payment operations. It has recently opened up a recipient hotline to share information (such as letting callers know when to expect the next payment), answer questions,



solve account problems, and address grievances immediately, as opposed to waiting for information to travel up and down the partnership value chain. Recipients can confidentially report grievances without fear of retribution or penalty. To test the hotline and ready it for scale, WFP first used it in the context of another (smaller) cash transfer pilot, and intends to roll it out for CFA recipients in 2014.

WFP Kenya's Innovations Team also continues to experiment with new e-payment modalities for cash transfer schemes, including mobile money. For instance, in September 2012, WFP corporately entered into an agreement with MasterCard to help WFP Kenya find payment mechanisms that are most appropriate, particularly as they look for ways to make cash transfers work in the more challenging context posed by Kenya's arid lands. MasterCard seconded a product expert to advise on banks, payments, systems, and technology as WFP Kenya experiments with more sophisticated e-payments approaches. In addition to experiments already run with mobile networks, including Safaricom and Orange, by the end of 2013 it will have started a pilot on mPOS (a card reader "dongle" plugged into a smartphone used to cash out or spend at retailers), with the goal of moving toward a cash-lite system in a pilot area.

Within CFA, the entrance of Cooperative Bank as the new PSP offers new opportunities to test, learn, and iterate. Although the bank's fledgling agent and branch presence is likely to present challenges, working with Cooperative may also reveal whether providing access to group savings and encouragement to join SACCOs impacts savings behavior, the bank's ability to cross-sell, and the overall financial inclusion of the recipients compared to the Equity model.

Although Equity did not win the second round of procurement for CFA, it is still actively engaged with WFP on other experiments, and enjoys several robust relationships with donors and others that are trying to push for financial inclusion or financially inclusive cash transfers in Kenya. Interviewed branch managers expressed their "medium-term" view of capturing this lower-income market with future potential. For example, in Ngubu (Tharaka), the branch manager expects heavy regional and foreign investment in the next couple years, particularly with East African Breweries' interest in sorghum in the region. Equity is positioning itself to be familiar and well-established in the market for when the economic boom hits. In Malindi, the branch manager was quite proud of his SME training courses and was slowly educating businesspeople in the region.

As cash transfer schemes have proliferated within Kenya, the Kenyan government has responded with an effort to coordinate the nation's various social protection payment programs. With the recent establishment of a social protection policy and a national social protection secretariat, the government has embarked on an ambitious plan to create a common MIS for all the transfer programs through a single registry project with the World Bank, WFP, and NDMA that would coordinate all cash transfer programs and make monitoring the system easier and faster. Also, as part of recent regulatory changes, the Government of Kenya has mandated that banks shift from magstripe to chip and PIN debit cards, which are more secure and less prone to fraud.

As it moves forward, CFA will find out whether its extensive efforts to fulfill its financial inclusion objectives have paid off. To date, very few recipients use their bank accounts for more than withdrawals of their payments. Overall, Kenya continues to improve its enabling environment for e-payment systems, while experiments like CFA prove that—even if imperfectly—e-payments can be delivered to low-income population groups.

## Annex 1: List of Interviewees

Name	Title	Institution
Cheryl Harrison*	Head of Innovations Team	WFP Kenya
Chris Cheruiyot	Agent Management	Cooperative Bank Kenya
Esther Muiruri*	General Manager Marketing-Agribusiness	Equity Bank
Florence Owuor*	Head of Card Center	Cooperative Bank Kenya
George Ratimo	Agent Management	Equity Bank
Greg Collins*	Food Security Advisor	USAID, Washington
James Oduor	Chief Executive Officer	National Drought Management Authority (NDMA)
James Kamunge	Programme Officer, Asset Creation	WFP Kenya
Marc Van Puyvelde	Business Leader, Global Products and Solutions	MasterCard Worldwide
Maurice Matumo	Consumer Banking Manager	Cooperative Bank Kenya
Paul Kimeu*	Resilience Manager	National Drought Management Authority (NDMA)
Robert Gatimu Kiboti	Business Growth & Development Manager	Equity Bank
Romina Woldemariam*	Programme Officer, Recovery Unit	WFP Kenya
Ronald Sibanda	Country Director and Representative	WFP Kenya
Rose Joyce	Financial Literacy & Entrepreneurship	Equity Group Foundation
Tariq Muhammed*	Head of Finance	WFP Kenya
Winnie Opiko		
Local program partners in Kitui, Tharaka, Malindi	Field Staff and Community Partners	WFP Kenya Catholic Relief Services Red Cross
Equity Bank staff and partners in Kitui, Tharaka, Malindi	Agents Branch Managers	Equity Bank

\* Interviewee also responded to a program or PSP questionnaire.

## Annex 2: Acronyms

CFA	Cash for Assets
CT-OVC	Cash transfers for Orphaned and Vulnerable Children
D2P	Donor to Person
FFA	Food for Assets
G2P	Government to Person
HSNP	Hunger Safety Net Program
NDMA	National Drought Management Authority
NSNP	National Safety Net Program
PCK	Postal Corporation of Kenya
PSP	Payment Service Provider
PwSD	Persons with Severe Disabilities
SACCOs	Savings and Credit Cooperatives
USAID	United States Agency for International Development
UFSP	Urban Food Subsidy Program
WFP	World Food Programme

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