Building Financial Services in the Arid Lands of Kenya: Lessons From the Hunger Safety Net Programme (HSNP)

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Summary

In 2007, the UK government's development arm - then known as the Department for International Development – tasked Financial Sector Deepening – Kenya (FSD Kenya) with designing a payment solution for a cash transfer programme for the vulnerable populations in the northern counties of Kenya (Turkana, Mandera Marsabit and Wajir). Previously, general food distribution was the largest social assistance scheme.

FSD Kenya designed the payment solution for the Hunger Safety Net Programme (HSNP), which was launched in 2007. By the end of the second phase of the HSNP programme in 2019, 101,800 households[1] had been reached in the regular programme and in addition over 300,000 households received support during emergencies.

In this case study, we demonstrate how FSD Kenya's role as the payment service manager of the programme led to the expansion of financial services in the arid lands of Kenya. We describe the role of FSD Kenya in bringing about innovative solutions to mitigate challenges of providing financial services in remote lands. We also look at how the payment service provider selected by FSD Kenya continues to invest in expanding their reach through agent banking as well as in developing responsive products and thus, deepening financial inclusion in regions previously described as remote and hard to reach.

We also detail how cash transfers can be leveraged as massive vehicles for not just social but economic transformation and describe how cash transfer programmes have expanded commerce and accelerated economic growth at local levels.

1 The programme essentially impacts entire households. Only one registered individual collects the payment on behalf of the household. In each household therefore, an average of 4-6 individuals have been impacted by the programme.

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1 Introduction

1.1 Background

Kenya is home to more than 47.5[2] million people and is considered one of the fastest growing economies in Sub-Saharan Africa[3]. Between 2015 - 2019, Kenya's economic growth averaged 5.7 per cent, with rain fed agriculture, the key contributor to Kenya's economic growth, accounting for at least 26 per cent of the Gross Domestic Product (GDP) in the five-year period.

Kenya is also referred to as the 'Silicon Savanna' and is one of the major Information and Communications Technology (ICT) hubs on the continent. Kenya has seen its ICT sector grow an average of 10.8 per cent annually since 2016, increasingly becoming a significant source of economic development and job creation. The digital economy is propelling economic growth, driven by mobile telephones (mobile penetration was at 90 per cent as at March 2019), rising internet usage and uptake of e-commerce and digital services[4]. Kenyans have become world leaders in the adoption of mobile money and consequently, the proportion of Kenyan adults with access to formal financial services and products has increased from 26.7 per cent in 2006 to 83.7 per cent in 2021[5].

These economic advances have had an impact on poverty levels in Kenya. In 2005, 43.6 per cent of Kenya's population[6] was living below the poverty line, earning less than US$1.09 per day. By 2017, according to data by the Kenya National Bureau of Statistics (KNBS), the proportion of Kenyans living in poverty had dropped to 36.1 per cent[7]. By 2021, the World Bank estimates that the poverty rate will have dropped to 31.8 per cent.

Despite these positive trends in Kenya's economy, climate-related hazards continue being a serious threat to Kenya's development. 83 per cent of Kenya's total land mass is composed of Arid and Semi-Arid Lands (ASALs), which remain significantly poorer and more marginalised than the rest of Kenya. Drought is the single most important natural hazard in Kenya. In the ASALs, about 2 million people are permanently on drought relief, with the number rising to 5 million during severe droughts. Social protection in Kenya is therefore an essential component of a successful and sustainable market economy.

47.5M+
Kenya's population

5.7%
Kenya's economic growth between 2015-2019

10.8%
Kenya's ICT annual growth rate since 2016

83%
Total landmass composed of arid and semi-arid in Kenya.

2M The number of Kenyans on permanent drought relief

5M The number of Kenyans on drought relief during severe drought

1.2 Overview of social protection in Kenya

Investing in social protection is embedded in the 2010 Kenya Constitution. The Constitution recognises social security as an entitlement that all citizens should be able to access. Kenya's main development strategy, Kenya Vision 2030, contends that no society can gain social cohesion if significant sections of the population live in abject poverty. The strategy aims to provide 'a high quality life for all citizens by 2030'.

Kenya's social protection sub-sector is therefore an important strategy in poverty reduction because it aims to address inequities and promotes inclusion and social

2 2019 Kenya National Bureau of Statistics
3 World Bank Kenya Overview, March 2021
4 2019 Kenya Economic Update, World Bank
5 2021 FinAccess Survey, Central Bank of Kenya, Kenya National Bureau of Statistics, FSD Kenya
6 2018, Kenya Economic Update, World Bank
7 Kenya National Bureau of Statistics (KNBS)

cohesion through the provision of minimum income security[8].

In Kenya, social protection encompasses social assistance, social security, and social health insurance. Under social assistance, Kenya now has four cash transfer programmes (see table below) which are increasingly being coordinated and harmonised under the National Safety Net Programme (NSNP).

Table 1: Four cash transfer programmes of the National Safety Net Programme

Programme	Target group	Year launched	Implementation ministry and agency	Transfer per household (KShs[9])	Household coverage as at FY 2018/2019	Counties
Cash Transfer for Orphans and Vulnerable Children (CT-OVC)	Households with OVC.	2006	Ministry of Labour and Social Protection, Social Assistance Unit	KShs 2000	353,000 (29% of coverage)	47
Older Persons Cash Transfer (OPTC)	Households with 65+	2007	Ministry of Labour and Social Protection, Social Assistance Unit	KShs 2000	833,129 (78% of coverage)	47
Persons with Severe Disability Cash Transfer (PWSD-CT)	Household with PWSD including adults and children.	2011	Ministry of Labour and Social Protection, Social Assistance Unit	KShs 2000	47,000 (3% of coverage)	47
Hunger Safety Net Programme (HSNP)	Poorest Households in Turkana, Marsabit, Mandera and Wajir.	2007	Ministry of Devolution and ASAL, National Drought Management Authority	KShs 2700	102,229	4

Source: G2P Case Study, 2020, UNICEF Kenya 2018 Social Protection Budget Brief, Evaluation Report, FSD Kenya GP II Project, *NDMA Website, March 2021, GoK Website and Kenya Social Protection Sector Review 2019

8 2018-2019 KIPPRA Social Protection Budget Brief
9 The Kenyan currency 'Kenya Shilling' is abbreviated as 'KSh'

2 The Hunger Safety Net Programme

Historically, the principal means of supporting the poorest and vulnerable households has been food aid, often costly and poorly targeted. Non-food interventions received limited attention as viable models for implementing social protection programmes. HSNP was originally designed to pilot cash transfers as an alternative to food aid. The expected impact of the programme was achieving reduced levels of poverty, hunger, and vulnerability for poor households. This would further promote asset retention and accumulation in poor households in the ASALs[10].

HSNP Phase 1 (2007 – 2013) was piloted in the poorest four ASAL Counties of Turkana, Mandera, Wajir and Marsabit. Communities within these counties are traditionally nomadic and frequently at high risk of being affected by severe drought. HSNP 1 delivered regular and unconditional cash transfers to about 69,000 households (i.e. 496,800 people identified as the poorest in the four communities) on a bi-monthly basis. Initially, each household received predictable electronic cash transfers of KShs 2150[11] a month via pre-paid biometric smart cards[12].

HSNP Phase 2 (2013-2019) expanded to reach over 100,000 households (600,000 people identified as chronically poor) in the four counties. The bi-monthly cash transfers gradually increased to KShs 5400 paid through an improved model: instead of pre-paid biometric smart cards, full bank accounts were opened for all beneficiaries. Payments were accessed using bank cards via biometric or PIN recognition through either a network of nearly 500 Equity Bank Agents[13], or Equity Bank branches. The programme paid out over KShs20 billion in aggregate over the entire period. The programme is now in Phase 3 (April 2019 to March 2024) where it has scaled up to 8 ASAL counties reaching an additional 32,000 households through regular payments.

The HSNP payment solution includes a scale-up component that can be triggered in case of emergencies, such as floods or drought, to serve affected households. Currently, HSNP emergency cash transfers reach over an additional 274,000 households. Households are entitled to receive one-time cash payments equivalent to half[14] of the current cash transfer when emergency payments are triggered.

10 HSNP Phase 2 Business Case Quest Documents
11 The original value of the HSNP transfer was KShs 2,150 every two months. This was paid to each beneficiary household (or individual in the case of the Social Pension component). The value was calculated as 75% of the value of the World Food Programme (WFP) food aid ration in 2006, when the value of the transfer was first set. Over time, the value of the transfer has increased from Financial year 2013/14 - KShs 2,300, Financial year 2014/15 - KShs 2,450, Financial year 2015/16 – KShs 2,550 and Financial year 2016/to-date - Ksh2,700
12 Project Completion Review_ Post April 2018
13 Equity Bank is a Kenyan registered commercial bank that was contracted by FSD Kenya. An Equity Agent avails the immediate community the full range of financial services also offered at any Equity branch
14 Current CT amount is KShs 5400 thus half of this (KShs 2700) is paid to households during emergencies.

3 HSNP's governance structure

HSNP was funded through the UK government's development arm[15], then known as the Department for International Development (DFID), under its twelve-year support to the social protection sector in Kenya.

The UK government's support for phase 1 was KShs 54.7 billion (£40.5 million) while total funding for phase 2 was KShs16 billion (£119.85m) delivered through UK aid. UK aid entered a series of contracts, MoUs and Accountable Grants with several partners in order to implement its contribution to the HSNP (detailed on Table 2).

Table 2: UK aid partners

UK aid partners[16]	**Role of partner**
Oxford Policy Management	Undertake monitoring and evaluation.
Help Age International	Implement a complaints and grievances system.
Development Alternative Inc (DAI)	Manage a 10-person technical assistance team to NDMA, referred to as the Programme Implementation and Learning Unit (PILU), supporting in areas such as MIS, communications, coordination and financial management.
Financial Sector Deepening Kenya (FSD Kenya)	Manage the UK government's contribution for the cash transfers, including contracting Equity Bank, through which UK funds were channelled into beneficiary bank accounts.
Government of Kenya (GoK) National Drought Management Authority (NDMA)	Implementation. No UK funds were channelled through GoK systems.

This case study focuses on the role played by FSD Kenya as Payment Service Manager that led to the expansion and growth of financial services network in the arid lands of Northern Kenya.

15 Foreign, Commonwealth & Development Office (FCDO) replaced Department for International Development (DFID) in June 2020. DFID was merged with the Foreign Office to create the Foreign, Commonwealth and Development Office.
16 OPM (2017). Legacy of HSNP

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4 FSD Kenya's role and successes

FSD Kenya is an independent trust dedicated to the achievement of an inclusive financial system that supports Kenya's long-term development goals. FSD Kenya works closely with the government, the financial services industry, and other partners to develop financial solutions that better address the socio-economic challenges faced by low-income households, enterprises and underserved groups such as women and young people.

FSD Kenya was engaged to design a payment solution for HSNP as well as to manage UK government's contribution for the cash transfers in the second phase of the programme. FSD Kenya was selected because of its local expertise and experience in financial services development. Payments, technology and developing financial services infrastructure is a strength of FSD Kenya[17]. FSD Kenya thus became the Payment Service Manager (PSM), performing several key roles that contributed to the overarching success of the programme.

The following section describes the roles FSD Kenya performed as the PSM for the HSNP, highlighting the outcomes, opportunities and challenges arising during the execution of its mandate.

I. Designing the payment solution

HSNP started as a challenge from the UK's development arm (then DFID) to FSD Kenya to design a cash based social protection payment solution as an improvement of the existing food subsidy model. Cash was considered a better alternative to food distribution, which had numerous logistical challenges and leakages resulting in inefficiencies. The whole design process was managed by FSD Kenya, and the goal was to increase the penetration of financial services in northern Kenya, long considered an unsustainable market by financial service providers.

As part of the design, FSD Kenya was the first to conceptualise the 'agency banking' as a delivery channel for cash transfers to reach the remote HSNP beneficiary households. The programme received a special dispensation from the Central Bank of Kenya to deploy an agency banking solution, using small businesses, in very remote parts of Kenya to act as bank agents and dispense funds during payments cycles. Initially, 50 HSNP agents were on boarded to pay cash transfers to the beneficiary households.

The design process also included the incorporation of internal checks by FSD Kenya to eliminate disbursement losses. The internal checks introduced processes like deduplication[18] of the payroll checking for accuracy and completeness of beneficiary details, accounts, reconciling successful and failed credits using various reports provided by the Bank.

The initial design in Phase 1 involved proprietary cards[19] that could only be used at dedicated agents. The design in the second phase included fully functional transaction accounts as they offered increased use cases. Beneficiaries could use the cards in branches, bank ATMs and agents.

17 GENESIS Report 2016
18 Depuping is the process of removing identical entries from two or more data sets
19 With HSNP the payment product chosen in Phase 1 was an Equity Bank developed SMART card. The SMART card had an embedded chip and was linked to biometric data of the beneficiaries. The card was proprietary and not EMV compliant. (EMV stands for Europay, Mastercard and Visa)

"The design process also included the adoption of metrics to ensure we are transferring to the right persons. There were a lot of leakages in the previous model but with the metrics, leakage stopped"

Victor Malu, FSD Kenya

"HSNP's design was innovative and it aligned with Equity's goal of providing low value transactions to the low income innovatively, while at the same time giving the low income dignity..."

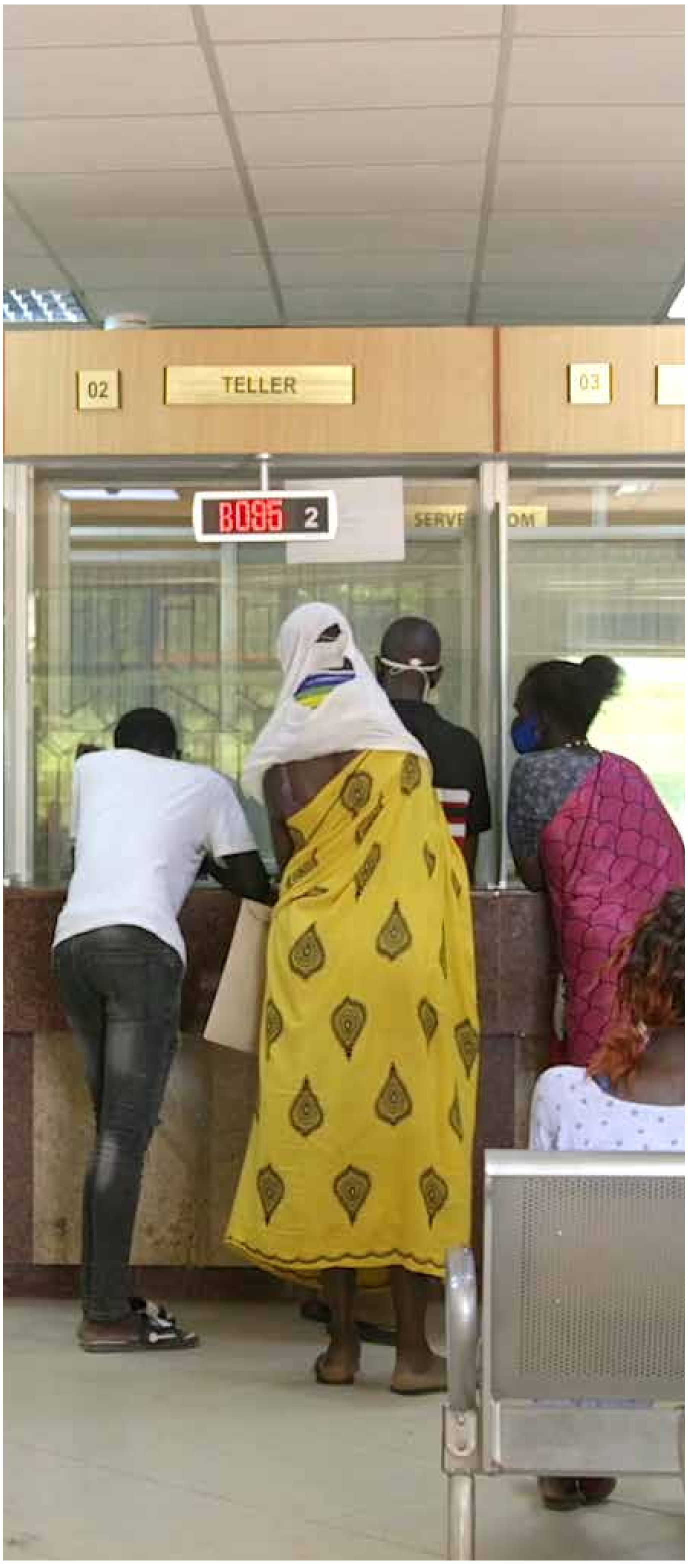
Dr. James Mwangi, MD and CEO Equity Group

The bank accounts could also be used for savings thereby deepening financial inclusion.

Even though the locations had very limited financial access points due to poor infrastructure at the time, HSNP's design incentivised banks to invest in expanding their outreach through the agent network. Agent banking became an attractive concept for financial service providers because with technology, new markets that were previously inaccessible were opened up for growth.

Success/wins

- Equity Bank leveraged its operations/ implementation of HSNP and further invested in expanding its own agent networks to further deepen access for beneficiaries. Equity Bank by Phase 2 had built a network of 408 agents in counties where HSNP is implemented and had opened up 11 new branches.
- Prepaid biometric cards facilitated the delivery of cash payments for Phase 1.
- Biometric-enabled authentication allowed increased security of beneficiary funds and later the incorporation of PIN identification as an option to biometrics increased the accessibility options for beneficiaries of the programme.
- In the second phase, the design led to full retail bank accounts enabling opportunities for full financial inclusion. To access cash, a beneficiary can now choose between the following options: (can also be simply put as at an agent location, over the counter at the branch or through an ATM)
  - Present a debit card at Equity's payment at any agent point and access the account biometrically.
  - Use a debit card and an associated PIN to have access to funds through an ATM.
  - Over the counter of their local Equity Bank branch or any Equity branch in Kenya.



> Financial inclusion in HSNP areas of Turkana, Mandera, Marsabit and Wajir has increased from 8% in 2009 to 67% in 2019. There is evidence to show that HSNP contributed to this increase
>
> ***Plounne Oyunge, FSD Kenya***

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II. Procurement and contracting of the Payment Service Provider (PSP)

FSD Kenya undertook a long process of market preparation before issuing an open call for tenders to provide payments services. FSD Kenya issued Terms of Reference in 2007 requesting expressions of interest (EOI) for a pilot project. The evaluation criteria defined by FSD Kenya for the payment service provider is highlighted in Table 3.

In the second phase of the programme, after the Cash Transfer (CT) concept had been tested, FSD Kenya also issued an EOI attracting 14 bidders.

Table 3: HSNP service provider proposal criteria

Objective	Description of criteria	Weight
Price	Cost effective: defined by the bid matrix provided.	30%
Value to recipients/ beneficiaries	(a) Accessibility to recipients: proximity; availability; speed; suitability; security. (b) Additional financial services available to recipients.	30%
Ability to deliver payments	(a) Demonstrated track record. (b) Credible detailed plan.	30%
Improve financial access to the general population of non-recipients	(a) Additional financial services available to non-recipients.	10%

In both the first and second phase of the HSNP, Equity Bank emerged as the most competitive service provider and won the bid to make cash payments to beneficiaries in the most remote parts of Kenya. It had the most competitive bid based on: Cost; value to recipients/ beneficiaries; the ability to deliver payments to recipients; the ability to improve financial access to the general population of non-recipients, and; strength of solution architecture.

Success/wins

- A wide range of providers expressed interest highlighting that the terms of the tender were sufficiently clear and attractive to the potential payment service providers.
- After the pilot, FSD Kenya improved the overall design of the payment component of HSNP. The highly competitive procurement process was well accepted by the private sector and led to the selection of Equity Bank as the payment service provider[20].
- The selection of the right payment service provider in both the first and second phases of the HSNP programme further enabled the payment service provider to deliver on their service level agreements but also importantly, ensure that the overall goals and impact of the project were achieved.

III. Implementation

Following the award, FSD Kenya managed the payroll process[21] for bi-monthly payments to HSNP beneficiaries. FSD Kenya also had field officers during the second phase of the programme to monitor beneficiary satisfaction and payment issues at the county level. FSD Kenya staff also sat in county committee meetings and field officers represented FSD Kenya at the county meetings led by NDMA.

Success/wins

- There was a high level of reliability, efficiency, and timeliness of payments. Payments were made within 10 days of approval of the payroll over 90 per cent of the time. The HSNP has contributed

20 ibid

21 Mangement of Payroll Process: 1. NDMA provides a list of beneficiaries/ update the amount/cycles that was to be paid; 2. Equity Bank indicates status of bank accounts; 3. FSD Kenya validates the information 4. FSD K sends list to NDMA for final approval+ issue instructions to pay; 5. NDMA sends list back to FSD Kenya for final validation, approval and release of funds to E quity Bank and 6. Equity Bank would credit the bank accounts and provide required reports

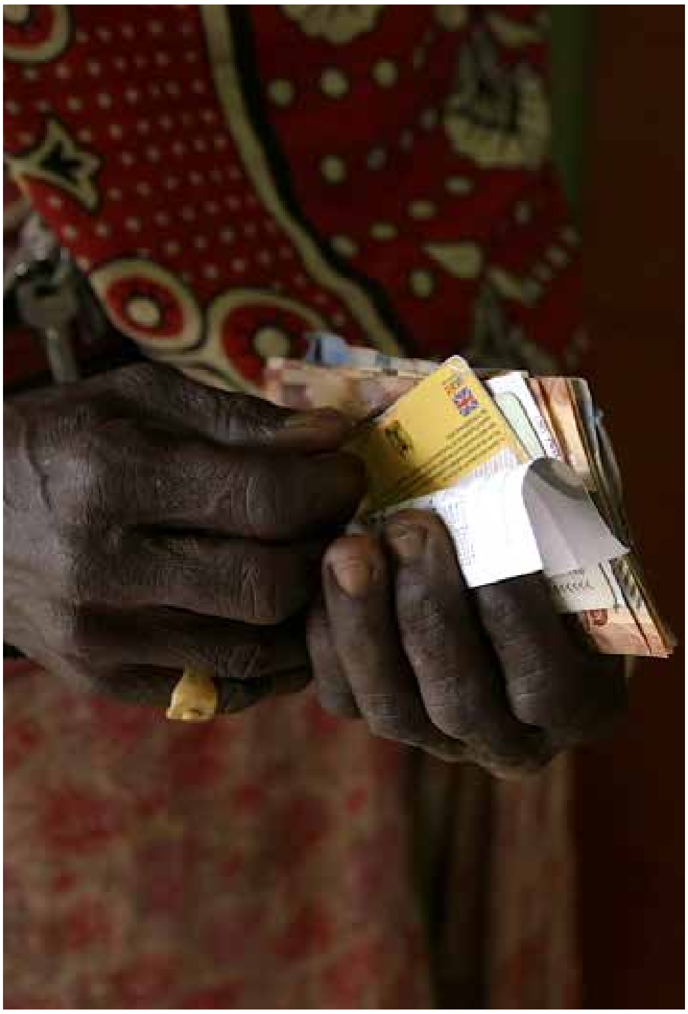
to building the government's capacity to manage payment service providers. The current Inua Jamii programme design was inspired by HSNP and further improved in that it is now being implemented through a multi-provider model, allowing beneficiary choice through multiple PSPs.

IV. Funds management and disbursement

As the payment service manager, FSD Kenya was responsible for requesting and managing donor funds for beneficiary cash payments and for operational costs related to the payment mechanism itself, e.g., service fees of the implementing payment service provider.

Success/wins

- 97 per cent of beneficiaries withdrew cash transfers within two weeks of disbursement.
- Over half a billion Kenyan Shillings was injected into the local economies of beneficiaries every two months when HSNP beneficiaries were paid. This stimulated growth of the local economies.



"HSNP has stimulated the market economy......traders are now taking food and investments to remote locations due to the increased buying power of the beneficiaries due to the predictable disbursements"

Victor Malu, Head of Future Financial System, FSD Kenya

"This programme gave birth to the current Lorengelup trading centre"

Local leader, Turkana County

"I opened a shop when I first got the money. It was a green grocery shop. The shop helped me pay school fees for my children ......"

Female Beneficiary from Marsabit

Social payment agent experience: Joseph's journey to wealth creation

Joseph Odhiambo Sumba is a 50-year old business man and father of three children. He began his entrepreneurial journey in 1994 when he opened a small kiosk in Napetet. Napetet is a small commercial center located about 25 kms from Lodwar town, Turkana County. He first registered as Equity Bank Agent in 2008. He thereafter received a contract from the Bank to act as an agent to HSNP beneficiaries. Becoming an agent was an investment opportunity that he took a risk on as there were no other agents in the region then. Thanks to his consistency, between 2011 to 2014, he experienced exponential growth in his agency business. The number of beneficiaries using his agency grew to 1,000. This increased his commission to KShs100,000. The increased number of beneficiaries contributed to an increase in cash transactions and a high risk handling money in a simple kiosk. To mitigate these risks, Joseph relocated his business and moved to a permanent building.

The introduction of the debit cards card in Phase 2 of the HSNP Programme enabled beneficiaries to purchase goods from his shop. Due to the growth in number of customers, he felt he needed to expand the business building to accommodate the variety of goods and stock. This encouraged him to take a loan from Equity Bank to expand his business. From the proceeds of his expanded business, Joseph bought a truck in 2012. He used the truck to ferry goods as he went to make mobile payment to beneficiaries who lived further away from his agency outlet. Joseph went as far as 50kms away from Lodwar town to markets such as Kangatsa and Kerio to deliver payments and make sales.

In 2015, Joseph bought a piece of land and built a permanent home where he currently lives with his family. His children's education has been supported by his busy retail business but also by commissions from the agency banking business and, increased income from sales during beneficiary payments cycles. He is known by the community members as the best agent and shop keeper in the area. They trust him fully as he rarely denies services on account of insufficient liquidity.

"The number of agents increased, and I no longer run the mobile agency. However, I have maintained quite a number of customers who still buy my goods. I therefore still go to the two markets four times a week while my wife maintains the shop in town at Napetet"

V. Fiduciary risk management

FSD Kenya was required to manage UK aid's fiduciary risk by preventing fraud, by ensuring funds were securely disbursed. FSD Kenya undertook fiduciary risk assessments which sought to not only assess the end-to-end inherent risks, but to ensure adequate safeguards to minimise the risk of fraud or misuse of the funds. A risk framework was then developed that had checks to address potential risks before payments were disbursed. FSD Kenya further facilitated workshops with all partners to increase their understanding of the inherent risks of the programme.

Success/wins

- There was no recorded case of any major fraud or misappropriation of funds due to FSD Kenya's integrity and accountability structures.

"Our internal audit process found no evidence of fraud or corruption"

Anthony Njage, Team Leader, Resilience, Equity, and Inclusion at the British High Commission in Kenya

VI. Triggering payments

FSD Kenya triggered payments to group 1 beneficiary households on a bimonthly basis. FSD Kenya undertook an end-to-end mapping of the payment process. All the partners involved in the programme participated in the process. The exercise culminated in the 5 -Step[22] validation process of the payroll, to ensure accuracy and completeness of the data including amounts disbursed to each beneficiary household.

Success/wins

- HSNP continues to lead in terms of consistency and efficiency as a cash transfer (CT) programme. Funds are disbursed on the 5th of every payment month.
- The government received timely payment reports providing visibility of the programme's effectiveness.

VII. Shock response payment (also in design)

FSD Kenya designed a scalable component that involved registration of over 300,000 households in Northern Kenya - also known as 'Group 2' beneficiaries. Most of these households already had bank accounts opened for them, following data collection of household characteristics as part of the process of ranking their well-being. The rationale was to enable HSNP to scale up rapidly during emergencies, particularly in times of drought, and potentially make payments to the entire population in need.

22 The 5 Step process involved; Step 1 – Checking for accuracy, completion, deduplication, reconciliation reports, correct amounts, update of the risk note & framework etc. Step 2 – Head FSS checked for the above and reviewed all payment/payroll reports from the previous payroll, review of risk framework, payment risk note Step 3 - Finance Manager checked all the above with reference to funding obligations Step 4 –FSD Kenya Director checked all the above and signed off the cheque once all the above requirements had been met. Step 5 -KPMG Kenya checked all the above and was also the second signatory. KPMG focused on the risk management and funding, as the fiduciary risk bearer

Success/wins

- The scalable design allowed for timely delivery of payment during shocks like floods and drought.
- This design also reduced leakages and increased security of funds during emergency disbursements.
- The scalable solution allowed for local markets to continue without distortions as evidenced during food-based aid distributions when the markets had a food glut.
- Other donors such as the European Union were quickly able to integrate in their support during shocks.

VIII. Service Level Agreement (SLA) management

FSD Kenya designed the service level agreement to hold Equity Bank to account via enforcement of the service level agreement. The service level agreement with Equity Bank defined among other duties such as identification of recipients, preparation of bank accounts using accepted identification documents, opening bank accounts, and distributing transaction instruments and finally, effecting payment to beneficiaries. It was however challenging to sanction the bank for failure to uphold all the terms of the service level agreement due to the dynamic nature and length of the programme.

Success/wins

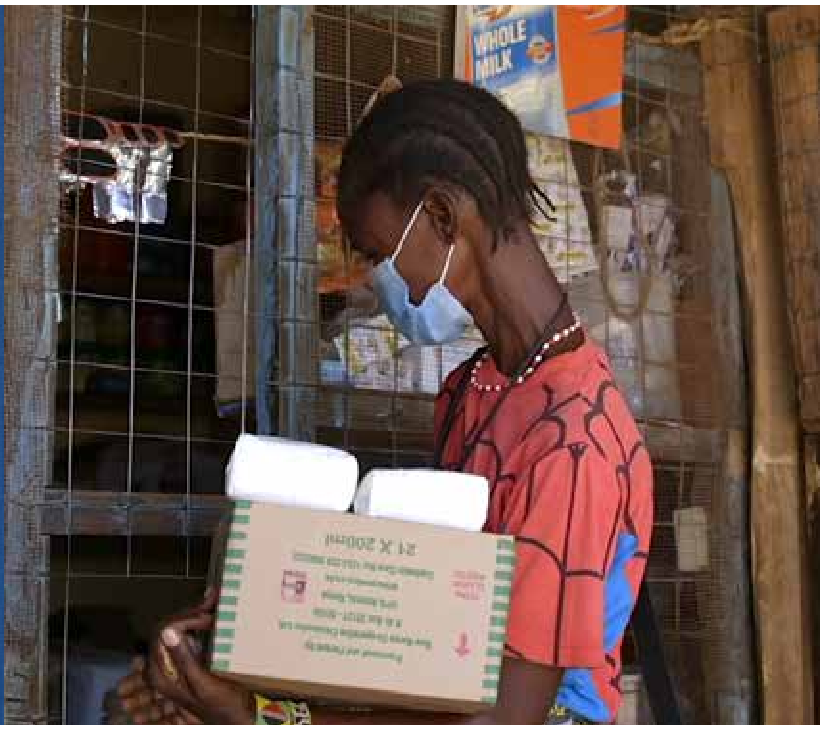
- The programme has expanded the population in possession of a valid national ID card. This in turn has increased potential access to financial and other services for many people, as well as enabling them to participate in other social and political processes.
- Equity Bank successfully enrolled beneficiaries and opened bank accounts to selected members of the household. The programme has increased access to formal financial services for many people, transforming financial inclusion in northern Kenya.
- FSD Kenya had to delicately negotiate with the payment service provider where discrepancies were observed. This resulted in the continuity of the programme as solutions to emerging causes of the failures in executing the service level agreement were addressed.

IX. Beneficiary satisfaction

FSD Kenya conducted beneficiary satisfaction surveys on a regular basis to obtain feedback on levels of beneficiary household satisfaction with the payment service provider. Through the surveys, critical feedback was obtained that informed future implementation activities.

"We can afford food like anybody else due to the consistent payments. We are not considered a beggars neither do depend on relatives or community members for basic needs. Our dignity is improved"

Woman beneficiary from Turkana



Success/wins

- There were improvements in programme delivery especially with regards to issues like timeliness, customer service, treatment by agents, walking distances, resolution of complaints and collection of funds. For instance, beneficiaries currently receive notifications on their phones when their accounts have been credited. Furthermore, beneficiaries reported that using the debit cards is easy and there is always someone to assist in case of any challenges.
- The feedback from the surveys conducted highlighted beneficiary's pain points with the payment service provider. Survey's findings became the tools for enforcing the service level agreement with the payment service provider.

X. Technological innovations of HSNP

Due to the unestablished basic and financial infrastructure – there was no power and no banking services in some of the payment locations - the programme design required some adaptation to the challenges in serving beneficiaries. In addition to being the pioneers of the agent banking model, the following innovative solutions were developed.

- Biometric identification systems - the HSNP led to the deployment of 'HSNP agents' and biometric identification systems, which Equity Bank has applied elsewhere in Kenya and beyond.
- Very small aperture terminal (VSAT) connections and Satellite phones were used where mobile network and internet connectivity was not accessible for real time online payments.
- Use of solar kits in the absence of electricity to power Point of Sale devices in areas without power.

"The infrastructure has improved... currently, only 2 of our agents rely on VSAT connectivity. In addition, where there was insufficient or no electricity to charge point of sale devices, solar powered electric units, including a solar panel linked to a battery pack were installed to recharge the payment devices"

Saralyn Wairimu, GM Special Projects, Equity Bank

5 Challenges FSD Kenya faced during the implementation of HSNP

Alongside the wins during the implementation of HSNP, FSD Kenya faced the challenges below:

- There were very high expectations and assumptions on ease of deployment of the payment solution particularly in Phase 1. This led to various conflicts among partners jeopardising the synergy required to run the programme.
- Serving beneficiary households in remote areas remains challenging. The terrain is difficult to navigate especially during account opening and payments. In addition, there were pockets of insecurity in Northern Kenya that caused delays especially during the start of Phase 2.
- Some beneficiaries met the threshold to be registered as programme recipients but did not have valid identification documents to meet Know Your Customer (KYC) requirements during account opening. Some missed out from receiving cash transfers. To resolve this, UK aid funded the process to fast-track the registration of households without IDs in partnership with NDMA and the department of immigration and national registration.
- Some families temporarily migrated because of droughts, thus affecting their receipt of payment, and further exposing them to shock. This has since changed since the recipient of the CT is not necessarily the head of the household.
- Low technological literacy levels among beneficiaries created a steep learning curve on their use of digital finance services. Low financial literacy also led to limited optimisation bank accounts, as well as continued dependence on social transfers for sustenance. Capacity building is still needed to allow beneficiaries to ultimately transition from the programme towards self-reliance, having removed them from their state of vulnerability.
- In a few cases funding delays, especially from the Government of Kenya, led to dissatisfaction among beneficiaries and challenges for some households.

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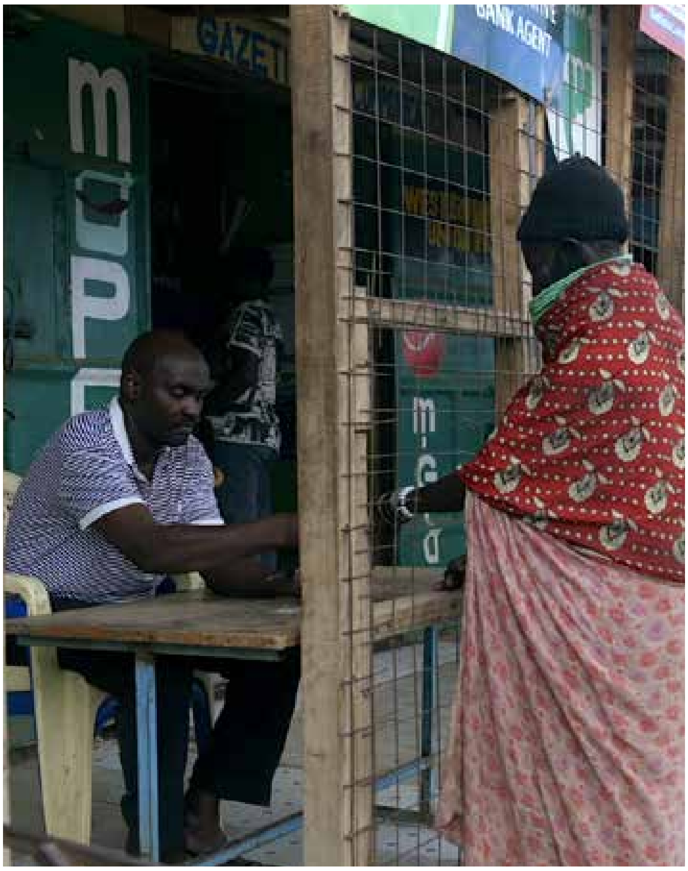
6 Key factors of the success of HSNP



Despite the challenges, the HSNP has undoubtedly been a successful programme. There has been significant progress in the ease of disbursing and accessing social protection modalities, from food to hard cash and now to digital payments using biometrics. All these are in the most remote environments. The greatest enablers of the success of the HSNP programme and FSD Kenya as the payments service manager include:

HSNP used evidence

FSD Kenya used experts to design, implement and upscale the programme.

Alignment with national plans

Being able to think and work politically by ensuring programme objectives are aligned with the goals of the existing government. The HSNP's design was aligned to national strategies including Vision 2030, where the government identifies social protection as a key pillar for the country's development.

Close collaboration with all stakeholders

Close collaboration between the payment service provider, the Government of Kenya through NDMA, county governments and non-state actors was key in the success of the programme. Collaboration allowed for leveraging of different stakeholders' capacities creating synergy towards effective implementation of the programme.

Scalable solution

The creation of a database enables flexibility to respond to the needs of the additional beneficiaries, in case of a shock or emergency response. In addition, the HSNP, now in its third Phase, has expanded to four more counties, Isiolo, Samburu, Tana River and Garissa.

Agent selection

The selection criteria[23] developed by Equity Bank led to the selection of qualified agents and contributed to the expansion of the agent network. Entrepreneurial agents who invest in the business penetrated the challenging Northern Kenya terrain and are now providing quality and affordable financial services to the communities.

Technology

HSNP Phase 1 successfully proved that with technology, the disbursement of cash transfers was feasible even in the most remote environments.

> FSD Kenya generated independent quality assured evidence planted on science to not just design but set objectives and thereafter improve the programme..
>
> ***Anthony Njage, Team Leader, Resilience, Equity, and Inclusion at the British High Commission in Kenya***

23 Requirements of becoming and Equity Agent

7 Conclusion

Cash transfer is an effective tool for social and economic transformation. Any social protection programme with an effectively designed framework can become a success story even if implemented in the most challenging environments. Thus, being able to reach the most remotely located households means getting it correct from the word go. The ring-fencing of sufficient resources to match the demand is also key.

FSD Kenya's objective from the onset was to create a sustainable programme with sufficient capacity that would be eventually handed over to the Government of Kenya. In this regard, FSD Kenya as payments service manager achieved its goal, and sufficient capacity was created through transfer of skills to NDMA to implement the HSNP Phase 3. The programme, currently ongoing in the aforementioned 8 counties, aims to serve a total of 100,000 beneficiaries (approximately 600,000 people) by year 2024 and up to an additional 250,000 households (approximately 1,250,000 people) during drought emergencies.

There is still scope and a need to gather more lessons learned as the programme expands. These lessons are being shared to better ensure the social and financial inclusion of every Kenyan, and to improve the overall programming of cash transfers that may be replicated in other financial inclusion contexts in Africa and beyond.

About FSD Kenya

The Financial Sector Deepening Kenya (FSD Kenya) is an independent trust dedicated to the achievement of an inclusive financial system that supports Kenya's long-term development goals. We work closely with government, the financial services industry and other partners to develop financial solutions that better address the real word challenges faced by low-income households, enterprises and underserved groups such as women and youth.

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