

# Social protection in Kenya

*Linking payment solutions to  
market development*

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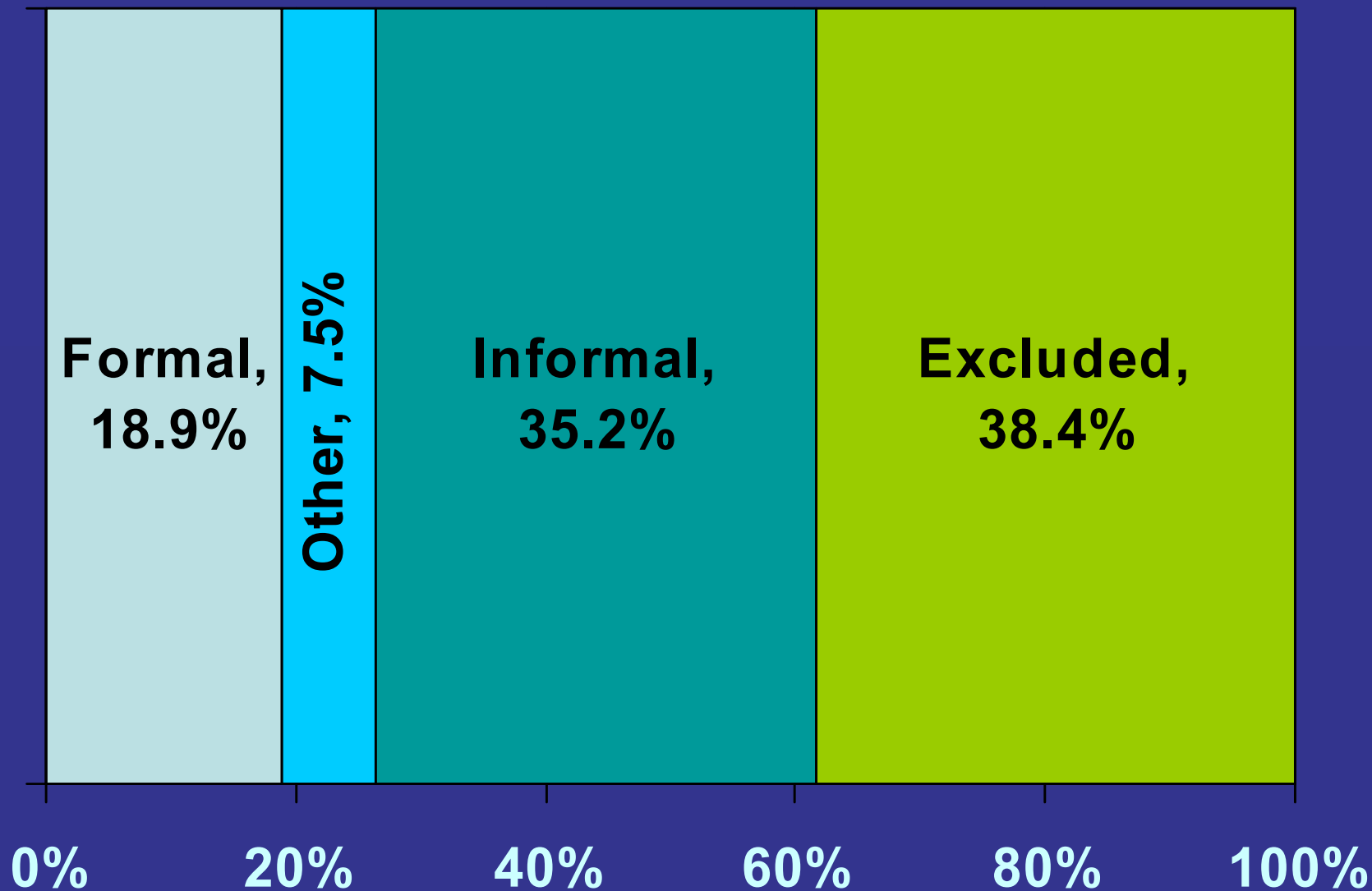
# FSD Kenya

- **FSD Kenya** established in 2005 by UK's Department for International Development (DFID)
- Objective:
  - *Support the development of inclusive financial markets in Kenya as a means to stimulate wealth creation and reduce poverty*
- Funders:
  - UK's Department for International Development
  - World Bank/Ministry of Trade and Industry
  - Swedish International Development Agency
  - Agence Francaise de Développement/Ministry of Finance

# Social protection in Kenya

- Relatively new in Kenya
- Two key initiatives
  - Hunger safety nets (HSN)
  - Orphans and vulnerable children (OVC)
- Key background factors
  - Food emergencies in arid areas
  - Climate change
  - HIV/AIDs pandemic
  - High and increasing inequality

# Financial inclusion in Kenya



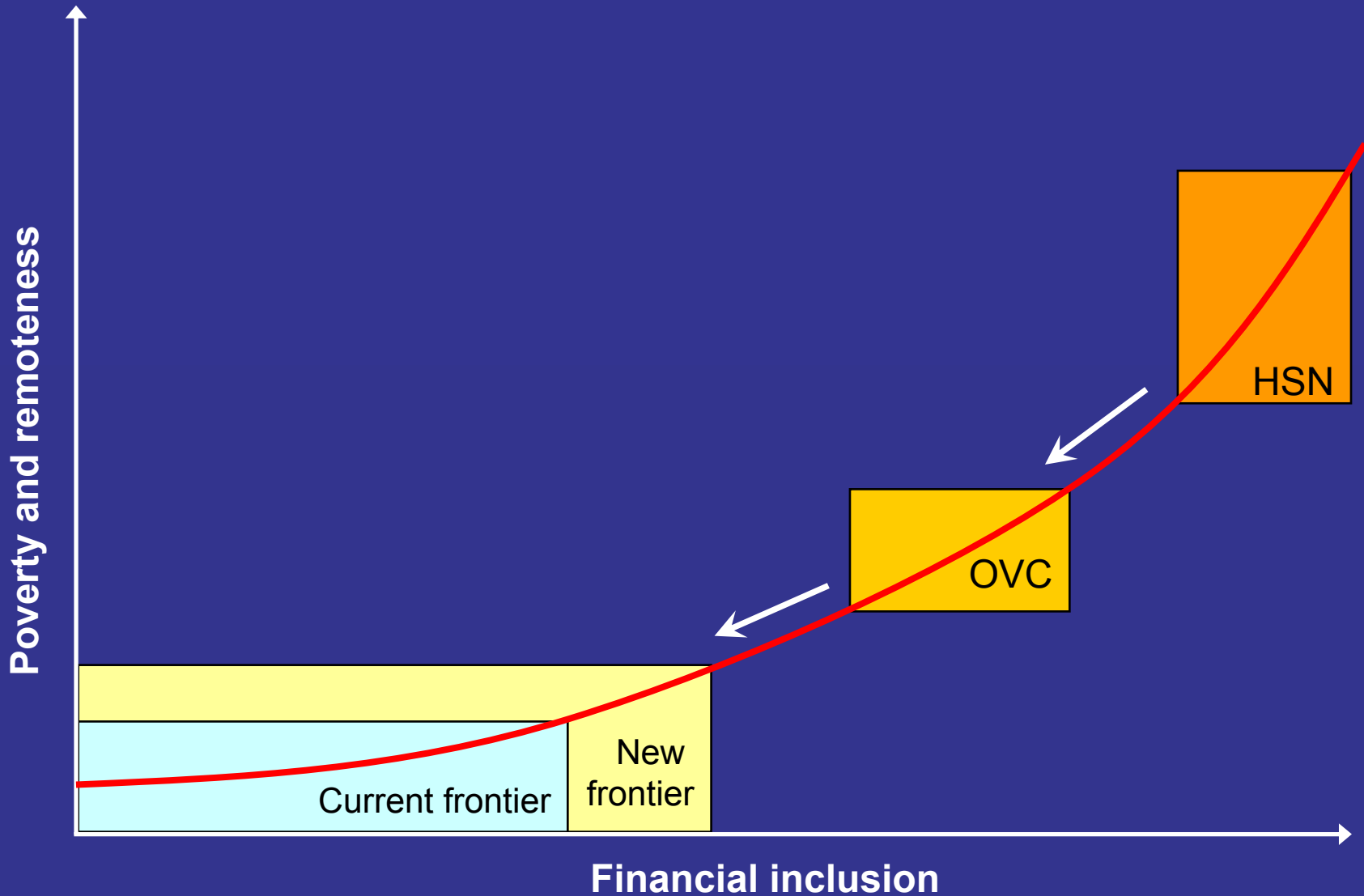
# The payments problem

- Large scale programmes envisaged
- Many target recipients in areas with limited or no formal financial service providers
- Both Government and recipients need payment mechanisms which are:
  - cost efficient
  - safe
  - low-risk

# A market development opportunity

- New demand for services from the payments problem
- Demand for services from un-banked non-recipients
- New technologies may radically reduce transaction costs

# Leapfrogging frontiers



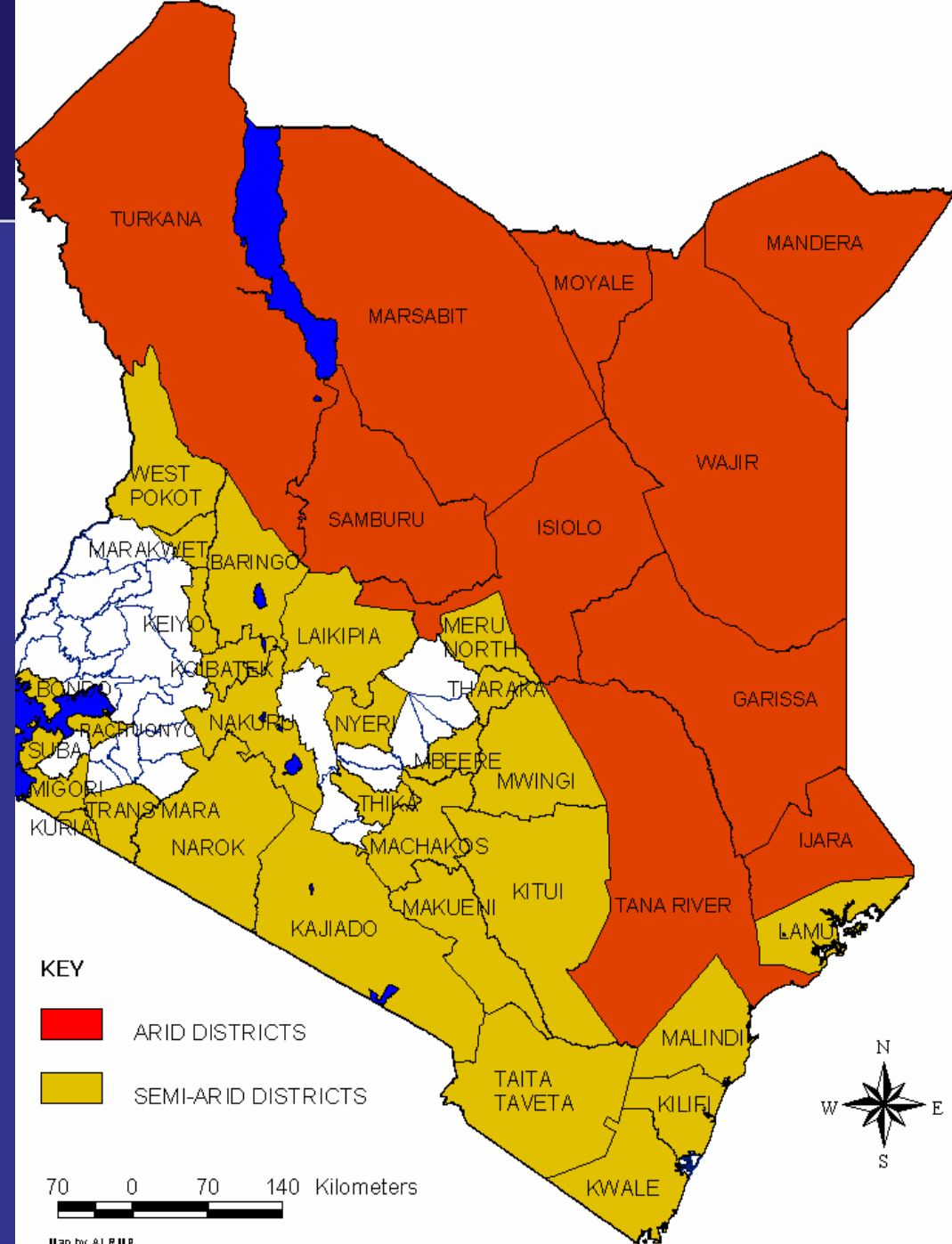
# Context

- **HSN**

- Turkana
- Marsabit
- Wajir
- Mandera

- **OVC**

- Kwale
- Garissa
- Nairobi
- Kisumu
- Suba
- Homa Bay
- Migori



Map by ALRMP.  
Intended for illustrative purposes only.  
Boundaries do not necessarily reflect official GOK endorsement.

# Contextual challenges

- **Infrastructure**
  - banking network
  - roads
  - power
  - communications
- **Security**
  - basic security (conflict areas probably impossible)
  - safety in delivery of bulk cash
  - security at payment points
- **Client education**
  - basic literacy
  - numeracy
  - financial literacy

# A settlement in Turkana (HSN area)



# Focus group in Turkana (HSN area)



# Focus group in Suba (OVC area)



# Towards a market solution

- **Incentives for financial sector engagement**
  - Overall scale economies
  - Minimal agglomeration economies
  - Managing institutional complexity
  - Mitigation of uncertainties (beyond risk!)
  - Appropriate pricing
- **Government/donor requirements**
  - Cost efficient solutions
  - Fiduciary risk management and auditability
  - Risk management
  - Transparency in procurement

# Encouraging innovations

## **FSD – CGAP Social Protection Payments Challenge Fund**

- Vodafone/Safaricom
  - mobile phone based low cost agent network
  - developing off-phone and out of network solution
- Sevak/Paynet/KCB
  - combined bank, ATM and POS based agent solution
- **Research**
  - supply side
  - demand side
  - policy and regulatory

# An enabling framework

- **Basic requirements**
  - Government co-ordination
  - donor co-ordination
  - market communication
- **FSD Kenya's direct (and expanding) role**
  - designing the payment services procurement
  - managing the procurement process
  - on-going management of payment service provision
  - developing an exit strategy – National Payments Agency?

# Key risks

- Is HSN pushing market development too far?
- Will donor/government partners lose their nerve?
- Too many institutional and market uncertainties for private sector to bid at all?
- Can we get beyond simple payment solutions to financial inclusion?
- Will FSD Kenya be able to exit successfully in the medium term?

# Current progress

- **Strong promise**
  - Challenge Fund projects
  - An expanding and deepening financial system
- **Solutions for OVC look possible**
- **HSN much more challenging**
  - Need to manage risk of over-stretch
  - Design smart subsidies to achieve outreach
- **Long term picture remains uncertain**
  - Social protection still only in pilot stage
  - Institutionalisation looks distant