Proposed Branchless Banking Pilot for Disbursement of Girls’ Stipends in Punjab

Key Design Features

[Version 0.0 - for internal discussion only]

Introduction

This note describes key features of a proposed one-year pilot program to disburse stipends for secondary school girls in Punjab through branchless banking. If successful, this program is intended to phase out the Punjab government’s arrangement with the Post Office to disburse the stipends, partially or fully. The pilot will be launched in FY 2012/13.

Under the Punjab government’s Education Sector Reforms Program, girl students enrolled in grades 6-10 are provided a monthly stipend of Rs. 200 ($2.12 approximately). The aim is to increase participation and retention of girls in secondary education in districts where gender disparity in enrolment is high. The stipends program is being implemented in public schools in urban and rural areas of 16 districts¹ - most of them are located in the southern zone. Each girl student is required to ensure at least 80% attendance in a quarter to become eligible for stipend. On compliance with this requirement, each eligible girl student is provided cash equivalent to Rs.200 per month, disbursed in four quarterly instalments of Rs.600 ($6.38 approximately). Total number of potential beneficiaries is in the vicinity of 419,700 in 7,173 schools. In 2011-12, 380,000 girls on average received the stipends in each quarter. About 9% girls did not receive stipend due to dropout or non-compliance with attendance requirement. In FY2012/13, the Punjab government has allocated Rs. 1.5 billion for this program.

The benefit structure and targeting of stipends is under revision and analytical work is in progress. There is a possibility that any changes in the benefit structure and targeting could affect the above number of beneficiaries and budget which will ultimately change the scale of the program at the rollout stage. This will affect the scope of work to be delivered by the providers of branchless banking. However, it will not affect the key features of this pilot, and therefore, it can be implemented as a standalone initiative.

1. **What improvements are needed in stipends delivery chain?**

There are three main parts of the stipend delivery chain: (A) verification of compliance with eligibility criteria; (B) disbursement of stipend to eligible girl students, and (C) monitoring. Improvements needed in each part are discussed below.

A. **Verification of compliance with eligibility criteria:** Each girl enrolled in grades 6-10 in the program districts has to demonstrate at least 80%

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¹Bahawalnagar, Bahawalpur, Bhakkar, Chiniot, D.G.Khan, Jhang, Kasur, Khanewal, Layyah, Lodhran, Muzaffargarh, Okara, Pakpattan, Rajanpur, Rahim Yar Khan, Vehari
attendance in a quarter to receive stipend. Compliance with this eligibility criterion is monitored through a paper-based attendance verification process. Eligibility rolls are prepared by the head mistress of the school, consolidated by the concerned Deputy District Education Officer (D-DEO) and submitted to the Executive District Officer Education (EDO-E) through DEO. This process takes approximately 14 days. In addition to being a time-intensive process, there is no system in place to cross check the accuracy of eligibility rolls. The attendance reported by the head mistress is not independently verified even on sample basis.

Two improvements are needed in this part of the stipends delivery chain: (1) a more efficient system needs to be introduced for preparation and consolidation of eligibility rolls at district level to reduce the transaction time; and (2) a mechanism needs to be put in place to verify the student information and compliance with attendance requirement reported in the eligibility rolls.

Benazir Income Support Program is piloting innovative attendance verification methods under its education conditional cash transfers component. They will test three methods: machine readable paper-based attendance sheets, short text message (SMS) based system using mobile phones, and internet and SMS based reporting using tablets. A sample-based verification mechanism will also be tested. This pilot is due soon to be launched in 20 districts in all provinces (Punjab is not included at this moment), but its findings are most likely to be relevant for Punjab also. Initial findings are expected in Q2 of FY 2013/14. This note proposes that Punjab should learn from those findings and deploy successful method to phase out the current paper-based attendance verification process in due course.

In the meanwhile, it is recommended to introduce a sample-based random verification of eligibility rolls at a limited scale in the current paper-based attendance verification system. PMIU can assign this task to District Monitoring Officers (DMOs) who can deploy their data collection teams once in a quarter to check a sample.

B. **Disbursement of stipend to eligible girl students**: Stipends are disbursed to eligible girls through the Post Office under an agreement between the Postmaster General and the Secretary Education, Government of Punjab. On receipt of the eligibility rolls, the EDO-E office assesses the total funds required and fills the names and addresses of eligible girls manually on Money Order (MO) forms. These forms are dispatched to the District Post Office, which disburses the stipends through its postmen. The EDO-E is also responsible to request the required funds from PMIU and then ensure that funds are transferred from Account IV to the Postal Saving Account opened specially for the stipends program. An earlier Third Party Validation report (2004) showed that the postmen delivered the stipends either at home, at a common place in village or town, through shopkeepers, or at school. According to the latest policy, the postmen are required to deliver the stipends in homes only.
The disbursement mechanism on the whole is believed to be effective but a number of procedural and capacity constraints have been highlighted in Third Party Validations (TPV) and discussions among the Education Department, PMIU and development partners. Key issues and risks are summarized below.

The PO system is not good enough to track the actual payment of cash at school or home level along the delivery chain. The Education Department can track money till the point it is withdrawn from the Postal Saving Account. There is no system in place to verify whether the postman actually delivered cash to eligible girl students because it is very time-intensive to reconcile and verify 380,000 receipts every quarter. Sometimes, the receipts are incomplete.

The MO forms contain the names and addresses of eligible girls’ students provided by the head mistress. The postman delivers the cash to an eligible girl or her parents without a positive identification, and there is no system in place to verify whether the recipient is genuine. It is assumed that, if the stipend is delivered at home, it will go to the intended eligible girl.

Given that the postman delivers the cash at doorstep, he may ask the recipients a small amount of money to receive the stipend. This is common practice in all areas of Punjab that the postman expect (and even ask for) some payment on delivering a letter or parcel at home. A TPV of the stipends program conducted in 2004 found that all parents who received stipends at home paid an amount in the range of Rs. 10-50 to the postman.

The Post Office takes about 4-5 weeks to complete the disbursement of stipends after receiving MO forms from the EDO-E office. Some delays occur in timely delivery due to low strength of the postmen.

Despite these issues, the PO method has a merit due to its convenience for the recipients. The postman delivers the stipends to eligible girl students at their home. The recipients do not have to travel to bank or any other outlet for receiving the stipend.

Three improvements are needed in this part of the stipends delivery chain: (1) enhancement of administrative efficiency of the disbursement system through reduced transaction time and improved predictability of timeline; (2) better transparency through introduction of rigorous verification controls and risk management and (3) real-time monitoring, reporting and validation.

C. Monitoring: PMIU is responsible for monitoring the stipends program. Although it has an effective system in place to monitor the flow of funds and disbursement up to the level of Postal Savings Account, it faces obstacles in validation of actual disbursement down to the recipients. The Post Office provides MO receipts (sometimes incomplete) but it is difficult to assess the genuineness of the signature or thumb of the recipient on the receipt unless the recipient is contacted directly to verify it.

C.
Two improvements are needed in this part of the stipends delivery chain: (1) linkage of the monitoring process to an improved disbursement mechanism which enables PMIU to track disbursement down to the recipient level, and (2) direct feedback from a sample of beneficiaries in each quarter.

3. Why use branchless banking?
This note proposes a pilot program to deploy branchless banking for disbursement of stipends in place of the Post Office. A variety of innovative models of branchless banking is being tested in Pakistan since 2008 for government payments as well as private remittances. Banks and mobile companies are jointly implementing branchless banking solutions for cash transfers in Benazir Income Support Program (BISP) and other projects funded by the Government of Pakistan, World Food Program and Department for International Development (DFID), to name a few. Compared with the Post Office, branchless banking promises more robust verification controls to reduce corruption risks along with speedier and cost-effective transaction. Moreover, it allows real-time monitoring of actual disbursement for each beneficiary through a backend web portal.

Currently, the following services providers are active in the branchless banking market in Pakistan:

1. Al-Falah Bank
2. United Bank Limited (UBL) – Omni
3. Tameer Bank - Telenor Easypaisa
4. Summit Bank – Ufone
5. Habib Bank Limited (HBL)

This range is sufficient for a competitive procurement of service providers. More banks and companies such as Mobilink, Askari Bank, TCS, and Muslim Commercial Bank are in the process of launching branchless banking services. Their entry into this market will further increase the competitiveness among service providers, lower the costs and increase the quality of provision in the years to come.

4. How will the stipends reach the eligible girls through branchless banking?
Each service provider has developed its own models of branchless banking with some unique features. However, many features are common across all models. Based on discussions with select service providers, here is a schematic description of how stipends will reach the eligible girls through this route:

i. The service provider will open a special bank account for the stipends program in which funds will be transferred for onward disbursement to eligible girl students. The banks can enter into a transaction-based or float-based arrangement with the Education Department. In transaction-based arrangement, funds will be released to the special stipends account on quarterly basis and the service provider will charge a fee for each stipend delivered. In
float-based arrangement, all stipends amount will be transferred to the account upfront at the start of the academic year. The service provider will be able to withdraw required stipends amount on quarterly basis, and use the remaining portion to generate savings. This will reduce the transaction costs payable to the service provider.

ii. Bank accounts will be opened for each eligible girl based on eligibility rolls provided by the Education Department/PMIU at the start of the pilot, and in the last month of each quarter. Given that girls in secondary school are under 18 years of age and will not have a computerized national identity card (CNIC), the service providers will use the CNIC of their mother or father to open the account. From the central stipends account (see i above), the service provider will transfer the amount of stipend online to the respective girl’s account on quarterly basis.

iii. There are four ways in which girls can withdraw their stipend from their account:

   a. The intended recipients can use ATM cards, but it will require them to travel. In smaller towns, there might be no ATM machines at all, or if there are one or two only and are out of order or out of cash, the recipients will need to travel more than once to receive a payment of Rs.600. This will cause inconvenience as well as incur additional travel costs on the recipients.

   b. Eligible girls can obtain stipend amount from their accounts directly from Point-of-Sale (POS) network operated by the service provider. In most cases, this network comprises of thousands of community-based local agents such as shopkeepers. In this case, each girl student will be provided with a unique password. The girl or her family member will visit the POS agent and show positive identity (CNIC of mother or father of the girl). Then, she or her family member will enter the unique password on the POS agent’s mobile which will authorize the agent to verify the amount and provide the cash. The agents run their own mobile accounts with the service provider in which their payments are reimbursed. This method is also called “over the counter” payment; it does not require the recipient to have a mobile phone.

   c. Eligible girls will need to have a mobile phone or a SIM card. The service provider will process the payment and send a transaction ID on the recipient’s mobile number. The recipient will go to a POS agent and get the cash after showing the transaction ID and CNIC of girls’ mother or father. The agent enters the transaction ID into his mobile account to verify the transaction and hands over cash to the recipient.
d. Another option is that the POS agent goes to school on prescheduled dates to deliver the cash by using the methods (b) or (c) above. None of the service providers is currently practicing a similar approach in other programs but initial discussions indicate that they are willing to test this option.

Each of these payment methods has many merits: The payment is online and quick, and involves at least two-stage verification of the genuineness of the recipient. Moreover, an online report is generated the very moment cash is provided to the recipient which will be visible to PMIU monitoring team at a backend web portal. The service providers have systems in place for spot checks and mystery clients to ensure integrity of the entire process. No major errors or abuses have been reported so far in other projects which make payments through branchless banking.

These methods also entail several risks. One pertains to the possibility of a high number of parents without CNIC due to which the disbursement process might get delayed in the first few months. Another risk is that, compared with the Post Office method, the use of ATM cards may cause inconvenience for girls or their parents as they will need to travel to urban areas to find an ATM machine. Similarly, they will also need to travel to POS agents who might be located closer than the ATM machines to most of the recipients, but it still involves some hassle. In some areas, the POS agent might be located far off. These risks can be mitigated through the new proposed method of payment which combines POS network and doorstep delivery (see ‘d’ above). Moreover, the service providers may be required to provide at least one POS agent within the catchment area of stipend schools. There is as possibility that the service provider will not be able to reach a portion of intended beneficiaries due to their remote location or any other factors such as unavailability of a suitable POS agent. In such cases, the Post Office could be a viable substitute. Therefore, the proposed pilot does not suggest complete phasing out of the Post Office unless the pilot findings give us enough confidence that the service providers can reach 100% beneficiaries conveniently in all stipend districts.

5. **Where the pilot program should be implemented?**
The pilot program should be implemented at a limited scale to avoid major disruption and inconvenience to the recipients arising from the use of a new system. At the same time, the scale of pilot should also allow to test the capacity of branchless banking models to handle a range of demographic variables such as financial literacy of recipients and their ability to use ATM cards and mobile phones, their location and ability and willingness to travel availability of ATM machines, availability of suitable local POS agents in stipend districts, presence of service providers and their capacity to operate in local context and gender-sensitive environments. The intensity of these variables will vary in rural and urban settings.

This range of variables can be tested in all 16 stipend districts. A preferable approach is to keep the scale relatively modest covering about 10% of
potential beneficiaries. This will be equivalent to deploying branchless banking for nearly 40,000 girls enrolled in grades 6-10; the remaining 90% will be covered by the Post Office during the pilot phase and will help avoid any major disruption in the program. This number can be drawn from 4 districts by randomly selecting a set of schools on which the pilot will be tested. Random selection is crucial to test the range of capability and reach which the service providers can provide.

Proposed districts are as follows: Chiniot, Kasur, Lodhran and Rajanpur.

Another approach is to draw this number from a few tehsils from within the proposed districts. In this case, the service providers may be assigned a specific number of tehsil(s) or district(s) completely.

If the service providers are given a choice to select pilot localities, there is a high likelihood that they will tend to prefer convenient locations where they already have presence or can easily set up requirements; results from such an approach might not necessarily be valid for rollout. However, their inputs should be solicited on the proposed approaches, i.e. school-based or tehsil/district-based.

7. **What options should be tested?**
The pilot program should consider options at two levels: number of service providers, and type of stipend disbursement mechanism.

A. **Number of service providers:** A key question to consider is whether the pilot program should be implemented by single or multiple service providers. This note proposes to deploy more than one service providers who can work either individually or in a consortium. This approach is preferable because the institutional capacity varies across the service providers, in addition to some variations in their branchless banking operations. Therefore, it would be helpful to test the range of capacity that exists in the market. In addition, it will encourage competition among the service providers to provide better quality of service at competitive costs.

B. **Type of stipend disbursement mechanism:** One option is to set out the requirements clearly and leave it to the discretion of service providers to deploy any mechanism whichever they deem fit to meet the requirement. A preferable route is to make it a requirement for each service provider to test multiple options. The following three options should be tested:

   i. **Debit/ATM card**
   ii. **POS network/community-based agents**
   iii. **POS network combined with stipend delivery in schools**

The details of how each of these mechanism works are given in Question 4 above.
The benefit of testing multiple mechanisms is that they would cater to the needs of different groups. For example, all these options can work in urban and rural areas, but in some rural settings, debit card may not be a suitable option. The feasibility of these options will be judged in comparison with the Post Office.

**8. How much budget should be allocated to this pilot?**

In the Post Office arrangement, each eligible student receives Rs.600 on quarterly basis. The Post Office charges Rs.50 for each transaction. The amount of stipend to be disbursed during the pilot is assumed to remain the same, unless there is an overlap with the pilot on new benefit structure and targeting of stipends. It is expected that the transaction cost will be lesser than the Post Office, but the exact amount is not known yet. The fee rate of service providers will vary depending on whether the Education Department enters into a transaction-based or a float-based arrangement. Some additional costs of communication and orientation of recipients on financial literacy are expected, and can be built into the contracts of the service providers. These costs can most probably be met from the difference between Rs.50 charged by the Post Office per transaction, and the lower fee rate of the branchless banking service providers.

Based on the above assumptions, it is possible to implement this pilot within the budget which would have been required in the arrangement for the Post Office. On this basis, if the pilot covers 40,000 potential beneficiaries for Q3 and Q4 of FY 2012/13, the total budget comes to Rs. 52 million. No additional budget is required except the costs associated with advertisements for procurement of service providers and evaluation. It is envisaged that some field work will be required for direct feedback from beneficiaries but evaluation will be largely based on secondary data and reports generated by the Management Information System (MIS) portal of the branchless banking service providers and the Post Office. It is suggested that Rs. 2 million should be allocated for evaluation of the pilot. Thus, it is suggested that an amount of Rs.54 million should be allocated for the pilot program; the new allocation is only Rs. 2 million for evaluation which can be allocated from the PESP II TA. This is a low-case scenario. In a high case scenario, if the transaction cost per stipend charged by the service providers is higher than Rs.50, then a preferable approach should be to reduce the scale of the pilot to manage it within the above budget.

**9. How will the service providers be selected?**

The service providers will be selected through a competitive bidding process. Terms of Reference (ToR) will be prepared to set out the requirements of the pilot and describe the criterion on the basis of which the providers will be evaluated. PMIU will carry out the tendering process in line with the Punjab government’s procurement rules.

**10. How long should the program be piloted?**

The duration of the pilot should allow sufficient time to the service providers to establish their systems and facilities, and demonstrate their capacity to perform with minimum margin of error. It is suggested that the service
providers should cover Q3 (January-March) and Q4 (April-June) of FY 2012/13.

11. What is the role of communication in this pilot?
As a new system of stipend payment will be introduced in the pilot locations, teachers, girl students and their families will need to be made aware of this change. In addition, orientation on new requirements such as CNIC and on using debit card or POS network will be required before the stipends are disbursed to pilot beneficiaries in Q3. Other programs which use branchless banking for payments have applied a combination of service-provider led awareness-raising along with additional social mobilization approaches. In this case, it is easy to target teachers and girl students at one place in the school. The girl students can then transmit the new information to their families. It is proposed that this communication and orientation should be built into the contracts of the service providers. They can time awareness raising and orientation sessions with the account opening process and positive identification.

12. How would the program proceed step-wise?
Following is the proposed timeline and key steps in implementation of the pilot:

i. Preparation of detailed design note September 2012
ii. Initial discussions with potential service providers to test their appetite September 2012
iii. Draft Terms of Reference (TORs) for selection of service providers September 2012
iv. One-day workshop with service providers in Lahore October 2012
v. Preparation of detailed list of pilot locations, finalization of TORs, tender advertisement October 2012
vi. Preparation of evaluation note October 2012
vii. Selection of service providers completed and contract signed November-December 2012
viii. Potential beneficiaries data provided to the service providers for account opening December 2012
ix. Service providers complete their assessment and set up all necessary requirements in place January–February 2013
x. First disbursement completed for pilot beneficiaries March 30, 2013
xi. Evaluation firm selected by PESP II TA March 2013
xii. Second disbursement completed for pilot beneficiaries June 30, 2013
xiii. Evaluation field work May–June 2013
xiv. Evaluation completed July 2013

13. How will this program be evaluated?
The evaluation of the pilot will compare two types of disbursement systems: branchless banking and the Post Office. Evaluation questions and indicators
will draw on the following broad parameters: administrative efficiency, transparency and corruption risks, value for money, outreach, and beneficiary convenience. The evaluation will provide an ex-ante analysis of how difference in two disbursement systems on these parameters might affect the intended impact of girl stipends. It is proposed that an independent firm should be hired to design and carry out the evaluation. A separate evaluation note will be prepared to provide more details in due course.