**Draft Concept Note: Recipient Segmentation to assess Digital Financial Service Readiness and Building Digital Financial Capacity**

1. **Project Overview**

Humanitarian organizations in Nigeria have continued to grow the amount of cash and voucher programming as a modality for delivering aid when market conditions allow. While the vast majority of this assistance happens in the form of vouchers, unrestricted cash modalities exist in some programs, and are the preference when conditions (i.e. security, financial service provider availability, and market readiness) support them. One such initiative is starting to get underway

The cash assistance will target persons registered at the screening centers as heads of households (HH). In line with the recommendations of the Cash Working Group (CWG), “basic needs” are defined as: food, hygiene items (soap and reusable sanitary pads), water (purchased from a water vendor), cooking fuel, transportation, education, communication, and rent. For MultiPurpose Cash Assistance (MPCA), the Transitioning Households to Recovery from Vulnerability (THRIVE) program will use beneficiary cards from the Cash and Asset Transfer (CAT) platform and participants will be verified through photographic and fingerprint biometrics. This system will not require participants to memorize a Personal Identification Number (PIN) or be familiar with other banking procedures. The beneficiary cards will be fully transferable and integrated into the program to allow participants to redeem recurrent assistance such as food assistance or WASH NFIs as part of the program.

Cash out process: THRIVE will explore various cash out options for MPCA participants. For “cashing-out”, based on the recommendations provided in the recent Financial Service Providers (FSP) Assessment conducted by Mercy Corps in November 2020, THRIVE will engage FSPs with a possible network of local cash out agents for redemptions through e-transfers through a tendering process. The purpose of engaging these larger FSPs, which have wider outreach of local cash out agents at Local Government Areas (LGAs) level, is to minimize the risk of physical cash transportation from the main city to LGA level and strengthen the local financial services market. This will make implementation faster, more convenient and traceable, and promote the financial inclusion of disadvantaged groups. participants will also have the option to cash out smaller sums of the cash to minimize their exposure to looting/extortion.

In the ongoing Mercy Corps program, the cash out option has been provided by the Red Rose platform where participants are given electronic cards credited with the transfer value and the participants move out the identified agents within their location to redeem their cards and receive cash. THRIVE will continue with these electronic/digital FSPs then distribute the cash that will be sensitized to the CRS safeguarding policy and sign the contracts with strict termination clauses upon complaints of abusive behavior. In such a scenario, on the distribution dates, the selected FSP will use a terminal on which the Red Rose app is installed to verify the identity of the beneficiary before distributing the cash. In such a case, Mercy Corps will also be present, alongside the established community-based committees, to assist and to monitor the transaction process. Given the nature of the participants who are eligible to receive the MPCA, most of our target population do not have access to formal banking services. As such, transfers will be made through third party services, and this is currently the only option for making cash grant payments electronically to participants. THRIVE requests an Electronic Payment System Waiver. The cost of implementing an electronic payments system clearly exceeds the projected savings of the system, or that the risks associated with implementing such a system clearly exceed the benefits (e.g. a recipient is within a disaster area or during a humanitarian assistance effort of less than one year duration).” and “F. The need for goods and services is of such unusual and compelling urgency that the U.S. Government or the development project would be seriously injured unless payment is made by a cash payment system.”

Unrestricted cash programing can provide Mercy Corps and other humanitarian organizations an opportunity to support strengthening access to financial services amongst beneficiaries in Nigeria. Helping beneficiaires register for financial accounts that are accessible via digital channels and corresponding agent networks and delivering cash transfers directly into these accounts. Access to finance services can have a significant impact on individuals and communities both during a crisis and beyond. Access to financial services builds resilience to better manage risk and shocks in the future. For humanitarian organizations, digital cash transfers into wallets can improve transparency and accountability within their programs, allowing for cleaner data on transfers. FInally, delivering cash transfers into accounts owned by beneficiaries has the potential to build stronger financial ecosystems in the areas humanitarian organizations work, which typically have less financial infrastructure in place.

Yet, delivering digital cash transfers to beneficiaries who live in areas with low network coverage or places those who do not have the necessary identification documentation to comply with account opening requirements can result in negative experiences with financial services, and ultimately reduce trust in these types of services. In order to avoid this scenario, Mercy Corps is considering testing a segmentation model that helps identify digital payment-ready recipients based on existing recipient registry data. Using data on beneficiaries they already have (there will be no need for data sharing, all of this analysis can be done in house at Mercy Corps), Mercy Corps can build a segmentation model that shows areas where beneficiaries are likely more ready and capable for opening and using a financial account. Using a segmentation model can not only reduce risks associated with rolling out digital payments to beneficiaries who are not in a good position to use an account, but also can help financial service providers make more data driven decisions on where to invest in infrastructure and invest in product roll outs.

Establishing a recipient segmentation strategy that uses existing registry data sources could 1) inform the key challenges and barriers faced by recipients as Mercy Corps transitions to digital disbursements directly into beneficiary owned accounts, 2) offer suggestions for how Mercy Corps can prioritize and scale its transition, 3) support the broadening of the local digital payment infrastructure through PSP collaboration and 4) support digital financial literacy education through a dedicated curriculum. This can lead to program recipients’ accessing and using these accounts to help manage their financial lives productively and confidently.

Following the segmentation, this concept note proposes supporting a financial service partner in registering and activating beneficiaries who the segmentation model indicates are ready. Mercy Corps will then work with the service provider to deliver digital and financial literacy training to beneficiaries to ensure they are aware of the different services available through these accounts. Mercy Corps will then test the model by using these accounts to deliver unrestricted cash transfers to these beneficiaries, and monitor how they are used.

This concept note considers only segmentation for humanitarian payments, a separate concept note has been designed for G2P payments.

1. **Project activities**

Phase 1: Determine Geography

To narrow the potential recipient pool, the geography should first be selected prior to conducting the recipient segmentation. The geography will also inform which financial service providers (FSPs) are eligible to participate in the pilot given certain FSPs operate in specific states for cash transfer disbursements. This first engagement with FSPs can be used to 1) receive data points to determine the geography, 2) gauge their interest in participating in the pilot and 3) to communicate expectations for FSPs around recipient registration, liquidity management, cash in cash out agent presence and account troubleshooting. In determining the geography, the below indicators must be assessed:

**Table 1: Geography selection indicators**

| **Data Origination** | **Indicator** |
| --- | --- |
| Mercy Corps | Location of household |
| FSPs | Existing DFS ecosystem including agent locations or bank branches |
| Existing merchant DFS ecosystem |
| Access to minimum 2G network connectivity |
| News articles/Mercy Corps | Security / safety of location quantified by frequency of attacks |

**Phase 2: Analyze Relevant Data Points in Existing Databases**

In the second phase, the consortium will conduct an analysis of the existing types of information held on program recipients to determine where proxy data points for digital account readiness might exist. After matching existing data to the indicators available in the MPCA Registration form, an expanded list of relevant indicators can be developed based on the available dataset. Once the final list is developed, PSPs should be engaged to receive feedback on the indicator list. After receiving feedback from the PSPs, the final list of proxy indicators will be complete.

Phase 3: Segmentation Model Testing

Using the final indicator list, recipients in the selected geographies can then be scored based on the sample scoring criteria in Table 2 below, with 3 being the highest score and 1 being the lowest.

**Table 2: Digital Payment Readiness Scoring Criteria**

| **Indicator** | **Score of 3** | **Score of 2** | **Score of 1** |
| --- | --- | --- | --- |
| Total HH Income level | 80th - 100th percentile | 40th - 79th percentile | 0 - 39th percentile |
| Proximity to market centers | Under 20 minutes | Between 20-60 minutes | Over 1 hour |
| Amount of livestock | 80th - 100th percentile | 40th - 79th percentile | 0 - 39th percentile |
| Housing is safe from weather and thieves | Very Safe | Not Very Safe | Not Safe at All |
| Optional Gender Lens: Who usually decides how to spend the income that you bring into the household? | Respondent herself | Respondent and husband jointly, Respondent and another household member jointly | Husband, Another household member, Someone outside the household, Household not involved in this activity |

The lowest score possible using this scoring criteria (including the optional gender lens question) is 5; the highest is 15. Individuals that score between 11-15 are strong candidates for offering transactions directly to a DFS account and can be considered in the “ready now” category. Those that score between 6-10 could perhaps be ready for receiving funds into a DFS account, but may experience difficulties and can be considered as “ready with an intervention.” Any scores below 6 should not be considered as candidates at the moment, as it will likely be too difficult or irrelevant to their current situation. These candidates can be considered as “ready only with a large intervention.”

There are three primary ways to lift their score: 1) continue promoting the utility of mobile phones among program recipients (a rotating savings group or PayGo scheme could be explored), 2) coordinate with development programming that focuses on developing livelihoods (e.g., agriculture, SME development) to help improve the overall economic well being of recipients, 3) continue promoting the utility of digital finance accounts to program recipients, 4) utilize existing savings group structures to take turns purchasing mobile phones and 5) adopt a pay-as-you-go model to mobile phone ownership.

**Phase 4: PSP Contracting**

Once the segmentation model is complete, PSPs should be contracted. PSP expectations should be communicated and agreed upon through amendments to existing contracting agreements or new contracting agreements. Once the PSP partner is contracted, the recipient list should be shared with the PSP and arrangements should be made to centralize the recipients at a specific day and time for account registration and digital financial literacy training.

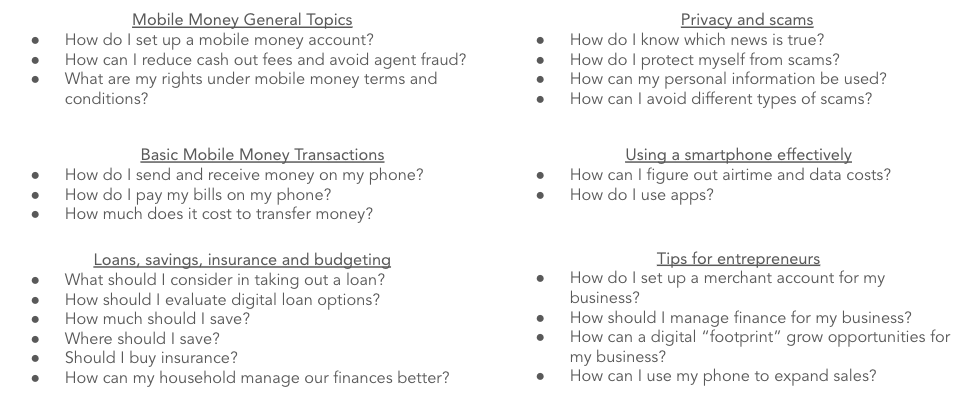
**Phase 5: Pilot Implementation**

Following the identified geography and pilot participants, the first part of pilot implementation will include registering recipients that do not yet have accounts with the selected PSP with Tier 2 (and possibly Tier 3) accounts in collaboration with the PSP. During this registration, digital financial literacy training will be implemented collaboratively with the PSP to ensure recipients are comfortable using the wallet. A customized digital financial literacy curriculum will be developed according to the PSP wallet and the local context. There are a couple curriculums that are publicly available that could be adapted including the open-source women-centered digital financial literacy curriculum called [Hey Sister! Show me the Mobile Money](https://www.siaedge.com/show-me-the-mobile-money), from which elements can be incorporated and adapted to meet the cash programing and PSP wallet context. Content can also be drawn from [SMEsabi’s financial literacy courses](https://www.smesabi.com/availiable-courses) that were designed in collaboration with GIZ and the Central Bank of Nigeria. In preparation for this concept note, GIZ was engaged regarding their curriculum and they indicated interest in collaborating and supporting the dissemination of the digital financial literacy training. Throughout the customization of the digital financial literacy curriculum, PSPs will be engaged to refine the content.

The suggested delivery of the digital financial literacy curriculum is to follow a facilitated group model. This model groups recipients together (ideally based on pre-existing groups such as savings groups) to listen to audio-based skits with a trained facilitator (such as the Cash Transfer Facilitators) that spurs conversation through question sets. Facilitator guides are already publicly available for the Hey Sister! content. The local PSP agents and/or representatives from cash out locations will also be in attendance to 1) familiarize themselves with the pilot participants and 2) conduct practical examples with participants on how to conduct the cash out process.

The pilot should cover at least 3 transaction periods.

Figure 2: Digital Financial Literacy Curriculum Audio Based Lessons



**Phase 6: Measurement and Evaluation**

Baseline and endline data should be collected throughout the pilot in the form of focus group discussions or surveys. Questionnaires should focus on determining the successes and challenges of the implementation as well as tracking changes in knowledge, attitude and behavior among recipients. Feedback will also be collected regarding recipients’ experience with the digital financial literacy campaign, assessing its usefulness, clarity and impact, in order to refine the content for future training. Recipient feedback, as well as high level PSP transaction data, will be scored against key performance indicators (suggestions listed below in Section V). Based on this measurement analysis, there may be a need to adjust the minimum viable segmentation model to adapt any existing or new data. Should new data be required to better inform the model, the pilot can suggest modifications to the MPCA Registration questionnaires used for targeting and registry updates.

**Phase 7: Develop a plan for rolling out the segmentation strategy**

Using the updated segmentation model, a roll out plan will be developed based on the area where the model indicates the largest segment of recipients who are ready to begin using an open loop DFS account. This will involve conducting registration and educational events in those areas preceding the first transfer.

1. **Project Budget**

**Key budget considerations**

1. Staff time
2. Field travel
3. Refreshments for digital financial literacy training
4. Monitoring / Measurement data collection
5. **Project Impact**

KPI indicators:

* # of recipients receiving digital cash transfers into open loop accounts
* # of recipients that registered for DFS accounts
* # of recipients that received digital financial literacy training
* # of recipients aware that they can leave balance in account/wallet
* # of recipients that cashed out 100% of funds in a single transaction
* # of recipients that maintained funds in their wallet
* # of recipients that successfully received their digital cash transfers credited to their wallet by the PSP
* # of recipients that feel safe receiving their digital cash transfers
* # of recipients able to carry out a cash out transaction unaided
* # of recipients that used their DFS accounts for other purposes
* # of recipients that feel more confident using DFS
* # of recipients that can demonstrate how to access various DFS services
* # of recipients that find DFS valuable and useful
* # of recipients that would recommend DFS to a friend / family member

1. **Project Partners**

Financial Service provider Partners

Mercy Corps

Others?