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Summary Report: Opportunities and Barriers to Digitising Social Protection and Humanitarian Payments in Nigeria

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GSMA

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Introduction

Since the early 2010s, humanitarian organisations and the Nigerian government have disbursed cash and voucher assistance to millions of Nigerians in urgent need of assistance. Extreme poverty fueled by violent conflict, climate shocks and a neo-patrimonial distribution of wealth have left 40% of Nigerians living below the poverty line.[1]

Households can use financial services to better manage their livelihoods. The use of a financial account (e.g., bank account or digital wallet) can connect households to savings that help secure income and improve access to other services such as remittances, credit and insurance. Yet access to financial services still evades nearly 60% of Nigerians, most of whom are poor and live in the northern part of the country.[2]

In response to increasing inequality and food insecurity, both the national and state governments of Nigeria as well as humanitarian organisations have rolled out cash programming interventions to boost social protection and food security where it is needed most. Programs transferring unrestricted cash are often seen as opportunities to introduce recipients to formal digital financial service (DFS) accounts where they can receive funds and manage spending. Yet the vast majority of both humanitarian and social protection unrestricted cash transfers are delivered to recipients in the form of physical cash.

Nigeria's DFS landscape is atypical by comparison to its regional peers. Driven by a bank-led market, mobile money as per GSMA's definition – which includes transferring money and making payments using a mobile phone – is still developing in Nigeria. This complicates the delivery of digital cash transfers, given that the DFS ecosystems surrounding recipients are not robust enough to facilitate and support digital payments. Cash transfer delivery in Nigeria does involve partnerships with financial service providers (FSPs), whose role is to manage the disbursement of funds. Yet these FSPs typically create virtual, temporary accounts on behalf of recipients. These accounts are not accessible by recipients and are usually single purpose, meaning they can only be used as a means to receive cash. Once FSPs receive funds from the organisation issuing the cash transfers, the FSP credits recipients' virtual accounts. During designated cash out days, recipients receive their cash over the counter from FSP staff members, usually by presenting a paper-based quick response (QR) code or ID card. Once the program ends, the recipients' virtual accounts are closed by the FSP.

The ideal end goal for the digtisation of unrestricted cash transfers in Nigeria is for recipients to receive funds through a permanent digital wallet accessible on a mobile device where they can transact, save and access other financial services. At present, however, a combination of factors restricts the development of the DFS landscape in the cash transfer context, including:

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Regulatory restrictions	Low recipient readiness to receive digital payments	Minimal value proposition for FSPs in serving recipients beyond the duration of cash transfer programs	Low government commitment to digitising cash transfers

[1] National Bureau of Statistics. 2020. **2019 Poverty and Inequality in Nigeria**.
[2] EFiNA, 2018 Access to Financial Services in Nigeria Survey.

Key Findings and Opportunities

The table below summarises the key challenges and opportunities for the stakeholders directly or indirectly involved in cash transfer delivery, including:

Regulators	Service providers and agents	Humanitarian organisations and government agencies issuing cash transfers

Summarised Challenges and Opportunities

Stakeholder	Challenge	Relevance for Cash Transfers	Opportunities
Regulator	Daily agent e-float limits, mandated by the Central Bank of Nigeria (CBN), of 100,000 NGN for regular agents and 1 million NGN for super agents, restrict the capacities and potential turnover of digital payment agents.	Servicing cash transfer programs requires that agents be well-equipped to handle higher volumes on specific days and allowed to hold much higher amounts of float. Without higher liquidity thresholds, agents are unable to reliably service this segment.	The CBN is working to facilitate "risk-based float approvals," which will allow for super agents and their agents to apply for exemptions. These approvals should be contingent on a tiered agent know-your-customer (KYC) structure, whereby higher float ceilings require more extensive KYC collection. Given its relationship with the CBN, EFInA can play an advocacy role to support the roll out of the risk-based float approvals.
Regulator	CBN has yet to approve two major mobile network operators (Airtel and MTN) for a payment services bank (PSB) license, likely to give domestic companies a head start. However, these providers have both the capital and mobile money experience required to invest in agent infrastructure and products to suit this segment.	PSBs are expected to serve rural populations, with the regulation requiring that 25% of all operations focus on rural areas. Their success could mean improved access to functioning digital finance ecosystems in the areas where humanitarian and social protection cash transfers occur and offer high volume low value payment streams as a potential source of untapped demand.	It is unlikely that the PSBs currently licensed, including Globacom's Money Master, will focus their attention on rural markets first as they are less commercially viable. Even though PSBs are required to have 25% of their financial service touch points (e.g., agents) in rural areas as part of their license, they will likely focus on urban areas, where costs are lower, when they launch. The licensing requirement to serve rural areas could hold the long-term key for improving access to DFS among humanitarian and social protection cash transfer recipients based in rural areas.
Regulator	CBN has installed financial incentives and disincentives for digital payments across different laws and policies such as the Cashless Policy and Finance Act 2020, which establishes fees and stamp duties for both cash and digital transactions.	The conflicting regulations on digital transactions creates doubt among service providers, as well as additional costs that make sending and receiving funds more expensive for recipients.	As the Finance Act 2020 is relatively new, viable solutions for the conflicting messages coming from CBN on this matter have yet to emerge. Continued investment in regulator education and additional advocacy campaigns could be part of the solution.

Stakeholder	Challenge	Relevance for Cash Transfers	Opportunities
Service Providers and Agents	**There is minimal economic viability and no clear value proposition for FSPs to open permanent financial accounts for recipients. In most cash transfer programs in Nigeria, FSPs only open temporary, virtual accounts for recipients which are closed after the program ends.**	Recipients do not make enough financial transactions or receive enough cash transfer support in terms of values and volumes to have formal financial accounts, thus inhibiting financial inclusion and access to financial services for this segment.	Recipients should be profiled and segmented based on their readiness to receive digital payments. A select group who meet this criteria can be targeted for a digital payment pilot. In addition, existing community and savings groups can be leveraged as an entry point for digital financial literacy training.
Service Providers and Agents	Agents do not have a clear value proposition to support the delivery of cash transfer payments.	The volumes and values of cash transfer assistance, coupled with low recipient transaction frequencies, do not build a clear value proposition for agents to service this segment.	Different humanitarian organisations serve the same households with different cash transfers to meet different specific needs (i.e. food, or water, sanitation and hygiene). Integrated cash transfers designed to meet multiple needs, as appropriate, would help to better demonstrate a viable value proposition to FSPs. Improved data on end-user spending capacity, spending habits and other transactional data flow mapping can help establish whether a business case exists, and open the door for additional value added services that can make digital wallets more relevant for end-users.
Service Providers and Agents	High unstructured supplementary service data (USSD) costs, which are established by the Nigeria Communications Commission (NCC), make providers less willing to use this highly accessible channel to reach the mass market.	The vast majority of program recipients do not have a smartphone, so access to a mobile or virtual wallet would need to be possible using channels available on basic and feature phones such as USSD.	In March 2020, the NCC approved a new flat USSD rate of 6.97 NGN per session which may help with this issue. It remains to be seen whether this new rate helps boost provider willingness to push USSD as a channel to reach the mass market.
Service Providers and Agents	Liquidity management remains a persistent pain point for FSP partners due to a number of factors, including: 1. the availability of cash in bank branches for the volumes required, 2. strict security requirements and the logistical operations required to transport cash, 3. condensed timelines when they are given short notice of cash out days (typically more relevant in the case of social protection payments).	The challenges associated with the distribution and management of cash reduce the value proposition for FSPs to support the delivery of social protection payments and limits the number of FSPs that can actually service this market, given the demands.	Enabling the facilitation of digital payments for recipients and merchants will lead to less reliance on the cash out transaction and may help alleviate the liquidity crunch. Longer-term investment and coordination across humanitarian organisations is necessary to drive the ecosystem's sustainability, granting FSPs a value proposition for longer-term investment in the geographies.

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Humanitarian Organisations and Government Agencies	Various different government and humanitarian registries use different types of identification to verify recipients of cash transfers, which undermines efforts to enable Know-Your-Customer (KYC) checks. However, data sharing including humanitarian recipients must adhere to humanitarian principles.	Common standards across the way data is collected, and increased access to civil documentation, could help to enable greater interoperability when feasible, appropriate and in accordance with humanitarian principles.	Humanitarian cash actors should establish data sharing agreements with other humanitarian actors to integrate cash payments to meet various different needs, and reduce duplication. This more cohesive approach to meeting needs would better enable the type of case management required to enable referrals to obtain/replace missing ID. Humanitarian organisations and government agencies should support recipient registration for the National Identification Number (NIN) in parallel to registration for cash transfer programs. Some organisations, such as Norwegian Refugee Council (NRC), have agreements with the National Identify Management Commission (NIMC) and have begun coordinating to arrange NIN registration of beneficiaries. Referrals to these actors, from humanitarian cash actors, would help to increase access to ID and help to enable broader interoperability. Humanitarians and the National Social Safety-Nets Coordinating Office (NASSCO) should work together to understand who would likely be eligible for government support, and explore a safe and principled way to enable registration for government social protection payments for recipients who wish to be registered. This could help to drive increased access to government-led social protection payments by enabling the government to extend the reach of the social protection registry into areas where coverage is low.
Humanitarian Organisations and Government Agencies	Requirements for recipients to cash out 100% of their cash transfers result in minimal options to save and transact money digitally (more prevalent in social protection payments).	The mandatory cash out requirement and the inaccessibility of a financial account mean that beneficiaries cannot save or transact digitally, even if it is their preference. This also limits recipients' digital financial inclusion and accessibility by reinforcing a reliance on cash.	The digitisation of community savings groups, which are already popular among recipients, should be explored. The increased use of digital wallets may help achieve cross selling of opportunities for other basic financial services, such as credit.
Humanitarian Organisations and Government Agencies	There is low recipient awareness and literacy of mobile money and DFS. Most recipients equate mobile money with the use of point of sale (POS) devices, due to the nature of Nigeria's bank-led market.	Recipient readiness to receive digital payments poses a significant barrier to digitisation, given that many recipients may not have the pre-existing requirements to receive funds through a digital wallet. This includes owning a mobile phone, having access to an energy source for charging mobile phones, and being digitally or financially literate.	There is a need for better profiling of recipients using the data captured during the recipient registration process to determine those that would be best positioned to receive payments directly to a digital wallet. This is likely only relevant to humanitarians operating in urban areas where infrastructure and connectivity is more reliable. Efforts to digitise vendors – where cash transfers are used by the target population-- is likely a realistic place to start, Community leaders should be further empowered to become digital payment champions and to facilitate discussion and knowledge sharing around DFS and its broader value-added services that could be particularly relevant for recipients. Humanitarian organisations and government agencies can also coordinate with their FSP partners to organise digital financial literacy training or awareness generation through short campaigns and market storms.

Summarised Recommendations

In response to the identified challenges and opportunities, SIA also identified the following overarching recommendations to improve Nigeria's capacity to deliver digital cash transfers. These recommendations are further detailed in the accompanying roadmap.

Segment beneficiaries based on digital payment readiness.

Not all recipients have mobile phone access or literacy/digital literacy. There is a need for better profiling of recipients using the data captured during the registration process to determine who would be best positioned to receive payments directly to a digital wallet and use their transactional accounts in an active manner. Government agencies and humanitarian agencies could explore conducting a pilot with this group, which would also help to further identify customer transaction thresholds to viably service humanitarian and social protection program recipients.

Strengthen Foundational Identity Through Data Sharing Partnerships.

A major effort is underway by Nigerias National Identity Management Commission (NIMC) to roll out the National Identification Number (NIN) to all Nigerian citizens. While functional IDs, such as the Bank Verification Number (BVN), have had some success, Nigeria hopes to provide a more robust foundational ID system through NIN. Much of the information required on the NIN enrolment form is already collected by both humanitarian organisations and the national social protection programs. A greater effort could be made to come to a data sharing agreement between NIMC and cash transfer programming to help boost enrollment. NRC and some other humanitarian organisations have begun coordinating with NIMC officials to organise beneficiaries for NIN registration. These types of partnerships should be expanded for both humanitarian and national cash transfer programmes.

Leverage existing community groups and create digital payment champions.

Trusted community leaders such as religious leaders or chiefs are highly respected members of recipients' communities. In UNICEF's experience, once community leaders bought into the digital payment process, the community was more receptive to exploring alternate cash transfer payment mechanisms. Some humanitarian organisations like UNICEF, World Food Programme and the National Commission for Migrants, Refugees and Internally Displaced People (NCFMRI) are already leveraging local community leaders to support financial literacy, community savings, recipient verification and security to transport cash. Community leaders should be further empowered to become digital payment champions and to facilitate discussion and knowledge sharing around DFS and its broader value-added services, some of which could be particularly relevant for recipients (e.g., crop insurance, micro-credit). Supporting the digital champions can lead to more trust and even improving the chances of digitising other aspects of program recipient's financial lives such as saving groups.

Concerted efforts in mapping recipient transaction flows can lead to a better understanding of the retail outlets that recipients transact with most.

The success of e-voucher usage among humanitarian organisations indicates that digitising merchant payments through an unrestricted system could be a natural transition, as users already have experience scanning or swiping cards. Whether through a mobile or card form factor, digitising merchant payments will reduce the liquidity burden for mobilising cash for disbursement, build the broader ecosystem development and support recipients' active use of a financial account. Transaction mapping will also help FSPs and agents better understand the potential economic viability of permanently servicing recipients beyond the duration of cash transfer programs.

Continuous donor advocacy for digitisation.

Existing efforts to support the government in the digitisation of social protection payments should continue through the World Bank, Bill and Melinda Gates Foundation and the Cash Working Group. In addition to this, technical working groups for each government agency directly or indirectly involved in the facilitation of cash transfers should be established to provide the more direct support required to make lasting change. These technical working groups should meet either monthly or quarterly to discuss specific questions that can translate into key metrics.

Conclusion

While Nigeria's digital payment landscape is unusual compared to its regional peers, the opportunity to digitise cash transfer delivery is still present. Getting there, however, will require regulatory reform and lasting government commitment to digitising cash transfers and building an enabling environment to reach last mile customers. In addition, humanitarian organisations and government agencies issuing cash transfers must better coordinate programs among service providers and geographies to increase the values and volumes disbursed, thus bolstering the value proposition for FSPs to invest in building sustainable digital payment ecosystems. Using recipient data to support segmentation activities will help identify where pockets of digital transaction-ready program recipients are located. With this level of investment and commitment, humanitarian organisations and government agencies can not only facilitate the digital delivery of funds, but also support the development of digital payment ecosystems and advance financial inclusion. Digitising cash transfers will not be a singular answer to Nigeria's financial inclusion challenges, but it can be part of a broader set of solutions that work together to provide greater access to financial services for all Nigerians. You can read more about this scoping study in the main report.

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