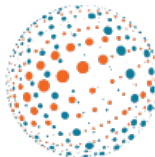# Building Resilient and Inclusive Digital Ecosystems:

A Toolkit for Using Digital Payments in Development Programs

Table of Contents

Glossary[1]

Agency Banking: A form of branchless banking; a network of agent points that are authorized to facilitate customer transactions on behalf of a licensed financial institution.

Agent Point: Payment agents who are authorized to facilitate transactions on behalf of digital payment providers, such as a mobile money agent.

Branchless Banking: The delivery of financial services outside of traditional bank branches, such as through mobile phones, cards, and/or agency banking.

Cash In: Deposit, exchange of physical cash for e-money.

Cash Out: Withdrawal, exchange of e-money for physical cash.

CICO (Cash In, Cash Out) Networks: Access points for physical cash and e-cash conversion, which can be managed by regulated financial and non-financial service providers and are often Agent Points.

Digital Financial Services (DFS): Financial services which rely on digital technologies for delivery and use.

Digital Wallet: A digital payment wallet, usually accessible through a mobile device, that allows users to transact, save and receive payments digitally.

Financial Service Provider (FSP): An entity that offers financial products or services. In some circles this includes mobile network operators and FinTechs.

FinTech: Financial technology companies that create technology used to support or enable banking and financial services.

Float: Available supply of e-money and/or physical cash.

Implementing Partner (IP): An organization that implements USAID funded projects.

Know-Your-Customer (KYC): The process of identifying and verifying the identity (and risk) of customers for financial services.

Liquidity: Supply of e-money and/or physical cash.

Mobile Network Operator (MNO): Also known as a Telco, operate digital networks that provide mobile communications services including voice, data and broadband services.

Payee: Digital payment recipients, such as project beneficiaries, staff or contractors.

Payment Aggregator: A service provider that processes payments across multiple digital payment offerings.

Person to Person (P2P): A digital payment transaction between two people.

Point of Sale Device (POS): A portable hardware device for processing either card or contactless mobile payments at retail or agent point locations.

Unstructured Supplementary Service Data (USSD): A GSM communication protocol, commonly used for mobile money, air time top up, and other services that requires the user to interact with the mobile operator's computer system directly. If you dial a number that starts with * and ends with #, you are using USSD.

USAID Procurement Executive Bulletin (PEB): The USAID directive that requires digital payments to be the default payment method under all awards.

Value-Added Services (VAS): Services beyond digital payments that can be accessed through a digital payment wallet such as insurance, credit, bill payments, etc.

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[1] Some of these definitions are from FinEquity, 2020.

Foreword from the USAID Digital Finance Team

At USAID, we know that improving people's access to and usage of safe and reliable financial services contributes to a better quality of life. Financial inclusion fosters resilience, empowers women, and improves humanitarian outcomes. Through our work, we have supported and seen that countries with safe and inclusive financial systems accelerate their journey to self reliance. Digital technologies play a key role in that progress by supporting economic participation, and during the COVID-19 pandemic, enabling remote and contactless payments has been vital to the health and safety of communities. Earlier this year, USAID released its first ever *Digital Strategy*, charting an agency-wide vision for development and humanitarian assistance in the world's rapidly evolving digital landscape. While digital payments are already the default method of payment under all USAID awards, our shift to a strategy of "Digital by Default" encompasses a broader vision for USAID's work with Digital Financial Services (DFS).

USAID recognizes DFS as a cross-cutting tool that can deliver greater development outcomes across sectors in countries where we work. For example, our Women's Global Development and Prosperity Initiative (W-GDP) includes work to advance women's digital financial literacy to close the gender gap in women's digital and financial inclusion. Our Feed the Future programs are also integrating DFS and digital technologies to improve market systems and linkages for farmers. DFS is also included in our country plans to implement the U.S. Global Food Security Strategy. By financing off-grid solar products and enabling customers to make small, affordable payments through integrated pay-as-you-go systems, DFS creates off-grid energy access - a key ingredient of our Power Africa initiative. In addition, health systems are

incorporating DFS for payment of services and expansion of insurance coverage. And most recently, governments are increasingly relying on digital systems to deliver economic relief to support resilience during COVID-19.

We are committed to working with our partners to strengthen open, secure, and inclusive digital ecosystems that contribute to broad-based, measurable development and humanitarian assistance outcomes and increased self-reliance in emerging market countries. We are pleased to share this Toolkit as part of this commitment under USAID's Digital Strategy.

As with all of our work, we know context matters, and local digital ecosystems and DFS tools may not be universally available. Partners can use the Toolkit to harness opportunities to accelerate their program activities and empower individuals to become active users of DFS to manage and improve their lives. The Toolkit is structured to help you think across the program cycle on how to evaluate local opportunities for DFS, identify weaknesses in the digital ecosystem, and design programs to optimize and advance the use of DFS market systems while adhering to the Principles for Digital Development. Together in this work, we can actively move toward a future where digital technology promotes inclusive growth, fosters resilient and democratic societies, and empowers all, including the most vulnerable.

We encourage you to use the Digital Payments Toolkit, share your experience and join us as partners in adapting our work in a digital age.

Introduction

In 2014, NetHope published the first edition of the Digital Payments Toolkit to help USAID Implementing Partners (IPs) navigate the journey from cash to digital payments. Over the past six years the digital payments landscape has matured and become essential, particularly during the COVID-19 pandemic in which contactless and remote transactions are essential elements for communities' health, safety and economic resilience. Advances in the digital payments sector prompted us to redesign and update the Toolkit with funding support from USAID. This updated version includes new content and tools to reflect the progress made both in the availability of digital payments and their use by development organizations.

More people than ever are now using mobile money and other forms of digital payments; mobile money accounts reached an all-time high in 2019 of 1 billion mobile money accounts processing over 1.9 billion in value per day. Increasingly, we find that NetHope's members and other USAID IPs have eliminated cash from their operations, which holds true whether we are working in Africa, South Asia or Latin America.

Over these years, USAID has expanded its commitment to digital payments as a tool to achieve development outcomes. In 2014, USAID added the requirement to all awards that IPs use digital payments as their default method of payment or seek a waiver only when this approach does not clearly offer an advantage, or when the risks introduced by digital are too great. In 2020, the Agency adopted the Digital Strategy reflecting the importance of digital ecosystems in building resilience, with digital payments being one of the most often cited examples of digital innovation.

With advancements in digital ecosystems, the journey to digital payment adoption for USAID IPs has shifted from operational payments to programmatic payments that contribute to

individuals' resilience and economic prosperity. The usefulness of digital payments cuts across all sectors of work from achieving programmatic objectives of the Feed the Future initiative or using digital financial services to contribute to global health outcomes as recognized by the Global Health Bureau.

So, the work remains. Globally 1.7 billion people remain financially excluded (9% more women than men) — many to whom USAID and its IPs provide programming and support. This Toolkit is designed to assist USAID IPs in evaluating and selecting the digital payment options best suited to their program focus and in building lasting capacity for the populations they serve. We encourage you to use this Toolkit to meet your needs and share your learnings as we continue together in the journey to build an inclusive and self-reliant world.

Shelley Spencer

Shelley Spencer
Director, NetHope Payment Innovations Program
CEO, Strategic Impact Advisors

How to use this Toolkit

The Toolkit is designed to be used by organizations regardless of their experience with digital payments and to inspire and enable organizations new to digital payments to make the switch. The Toolkit is a "how-to" guide divided into step-by-step modules along with associated tools to support you in practically applying the knowledge learned. The Toolkit has two sections in which you'll find ten steps.

✓ Section One: Internal and External Analysis
Steps 1-5 help you understand the digital payment landscape in your program location, document your payment streams, understand the needs of your program payees and how to negotiate with and procure services from a digital payment service provider.

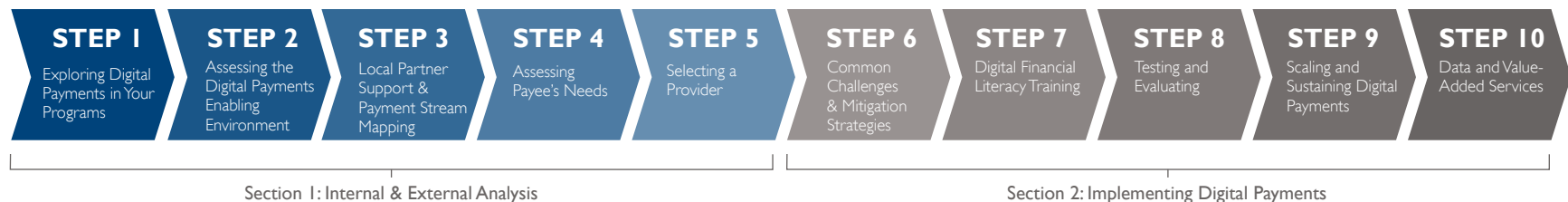✓ Section Two: Implementing Digital Payments
Steps 6-10 support you in implementing digital payments after you have selected a service provider. This content will help you understand how to overcome some of the common challenges in digitization, conduct a digital financial literacy training with your program payees, test and evaluate your product before full-scale roll out, scale digital payments to your payees sustainably and consider integrating value-added services or bundled solutions.

✓ Who should use this toolkit?
An organization can use this Toolkit with multiple internal teams. It can be useful for those devising a digital strategy in the program planning or proposal development phase, for increasing access to market systems and finance, or for providing cash assistance. The Toolkit can also support team members responsible for processing payments as well as finance and internal audit staff at the country and head office levels. It may also be useful for your legal, procurement or contracts staff, who may be responsible for negotiating contracts with service providers. At the beginning of every step, we have indicated who from your staff is likely best suited to lead the work described in the step and to use the tool.

✓ How do I incorporate the activities in this Toolkit in my USAID project?
Generally the costs of adopting and using digital payments are eligible, however, your USAID Contracting or Agreement Officer will make the final determination based on your situation and how your award is structured. In special cases, such as non-competitive emergency humanitarian assistance awards, other guidelines may also apply.

STEP 1	STEP 2	STEP 3	STEP 4	STEP 5	STEP 6	STEP 7	STEP 8	STEP 9	STEP 10
Exploring Digital Payments in Your Programs	Assessing the Digital Payments Enabling Environment	Local Partner Support & Payment Stream Mapping	Assessing Payee's Needs	Selecting a Provider	Common Challenges & Mitigation Strategies	Digital Financial Literacy Training	Testing and Evaluating	Scaling and Sustaining Digital Payments	Data and Value-Added Services

Section 1: Internal & External Analysis

Section 2: Implementing Digital Payments

If digital payments are part of a digital strategy for your program, such as the activities in this Toolkit, they could be incorporated upfront into your USAID application/proposal budget and billed as direct costs. At the beginning of every step, we indicate how you could classify the activity in your budget. Even if your project scope is not explicitly about payment digitization, you should factor in the costs for the activities identified in this Toolkit (where relevant) to ensure compliance with USAID's e-Payments Procurement Executive Bulletin (PEB). More on this in Steps 1 and 2 of the Toolkit. When digital payments are used as an operational or back-office tool to manage payments they may be deemed as indirect costs/NICRA.

If you did not budget for digital payment activities prior to award, these costs can still be eligible, as long as they meet three criteria:
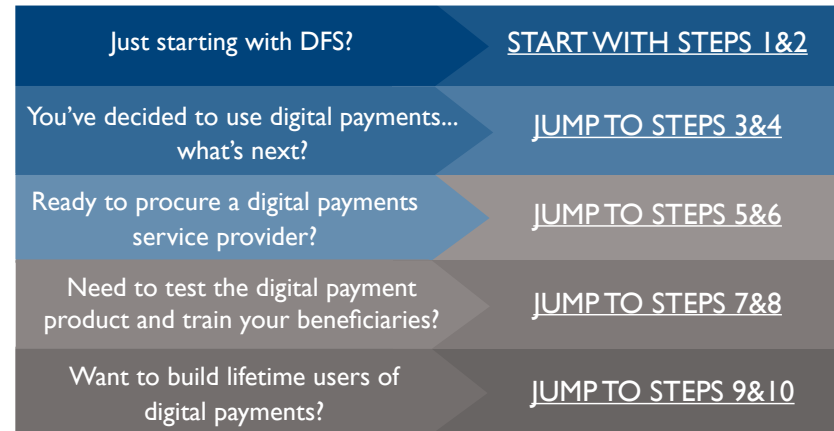
» Criterion 1: The costs must be allowable. That is, they cannot be explicitly prohibited in the award or under 2 CFR 200.400 or FAR part 31.
» Criterion 2: The costs must be allocable. That is, they must be traceable to the USAID funded intervention.
» Criterion 3: They must be reasonable; that is, do not exceed the amount a "reasonable" person would pay using their own money.

Again, all specific cases should be discussed with your Contracting or Agreement Officer who will have the final say.

✓ **How should I read the Toolkit?**
We suggest you read the steps first, then complete the tools. Some of these steps and their associated tools may not be relevant for your organization. Please keep in mind that you are not obligated to follow all of the steps or tools, and they do not have to be

completed sequentially. Use the guide below to help point you in the right direction.

Just starting with DFS?	**START WITH STEPS 1&2**
You've decided to use digital payments... what's next?	**JUMP TO STEPS 3&4**
Ready to procure a digital payments service provider?	**JUMP TO STEPS 5&6**
Need to test the digital payment product and train your beneficiaries?	**JUMP TO STEPS 7&8**
Want to build lifetime users of digital payments?	**JUMP TO STEPS 9&10**

The Technology Unit in the Innovation, Technology and Research Hub of the Bureau for Development, Democracy and Innovation (formerly the Center for Digital Development, within the U.S. Global Development Lab) aims to make this journey easier and smoother for you by regularly updating this Toolkit. Recognizing that this field is evolving rapidly, we welcome feedback, input, and shared resources so we can improve the Toolkit. Email us at digitalpayments@usaid.gov with your thoughts.

⬇ **DOWNLOAD THE TOOLS**

You can download the tools at the beginning of each step, or you can download them all at once by clicking here.

We also created 10 video tutorials guiding you through the more challenging tools and the ones requiring active completion. We completed these tools from the perspective of a hypothetical IP called World Coffee. You can access these videos at the beginning of each step, or you can download them all at once along with completed tools here.

Step 1

Exploring Digital Payments in Your Programs

KEY QUESTIONS   How can digital payments be used in programs and who should be involved? Who are the digital payment providers?

WHAT YOU WILL LEARN

In this step you will learn how to explore the value of digital payments, identify stakeholders to include when developing your programmatic approach to digital payments and identify types of digital payment providers. The tool for this step is a Digital Frontiers Institute course in Digital Money, which will give you a baseline understanding of digital payments.

- Tool 1:   Digital Frontiers Institute course

Step Read Time: 5 minutes
Tool Completion Time: 12-week course

Budget Category: Labor
Phase: Start Up

Who:
Program Design Staff, Finance, In-Country Technical Program Staff

USAID IPs play an important role in building or strengthening safe, reliable and inclusive digital ecosystems in the countries where USAID works.

In the time of COVID-19, the importance of this role has increased. By using digital payments in USAID program activities, IPs can act as the catalyst for: 1) program payees to

open formal financial accounts and participate in digital economies, and 2) financial service providers to improve their service offerings and reach and build a strong digital ecosystem.

USAID requires the use of digital payments by all its IPs and also encourages broader consideration of the use of digital payments in programming activities to achieve USAID's

Digital Strategy goal of achieving, "open, secure and inclusive digital ecosystems" that promote self-reliance.

To realize the full benefit of digital payments there are many stakeholders who must actively engage in supporting the digital payment ecosystem.

Individual: Financial needs, Income generation, Safety net

Local Partners: Direct connection

USAID Implementing Partners: Applying Digital Tools in Program Work

Digital Financial Services Providers: In Country Market System

Inclusive National Digital Ecosystem
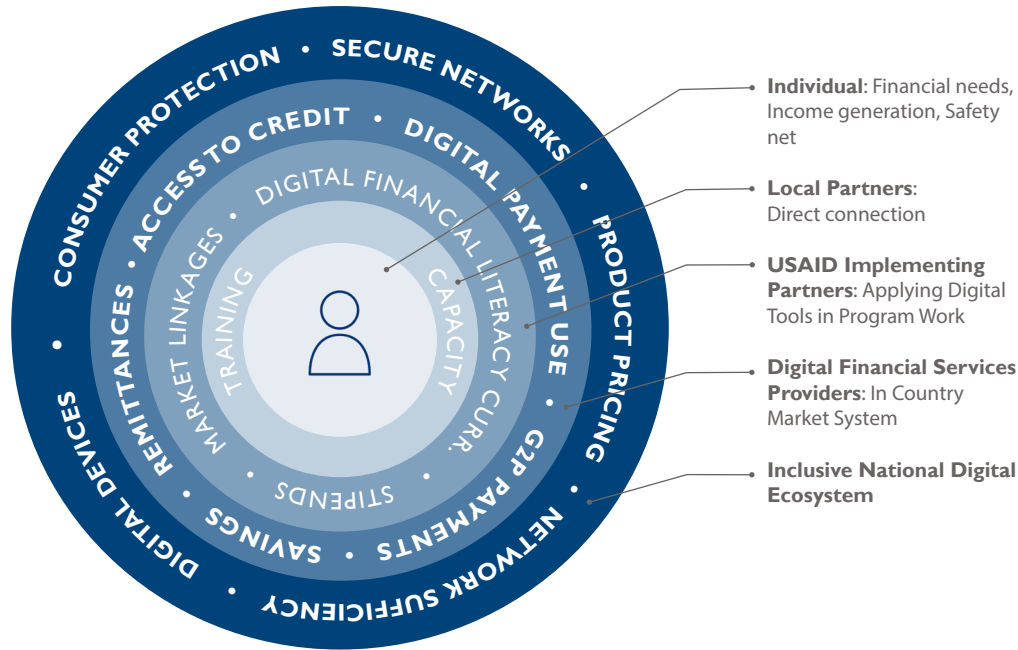
Individual. These are your program payees, or the end-users of your digital payment product. Their needs and existing understanding and usage of digital payments should guide your digital payment selection process (see **Step 4**).

Local Partner. USAID IPs frequently work with local partners on the ground who make the direct payments to program payees, but this may not necessarily be applicable for your organization (see **Step 3** for more information about working with a local partner). An example of a local partner could include an agribusiness that a USAID IP partners with to digitize smallholder farmer payments.

USAID IPs. You! The recipient of USAID funding tasked with program implementation and looking to implement USAID's Digital Strategy.

Digital Payment Service Providers. The service providers you will use or are using to process digital payments.

Inclusive National Digital Ecosystem. Digital market systems offering quality digital networks and services that are available, accessible and affordable to all in a country.

The digital payment ecosystem, particularly in emerging markets, has matured significantly over the past six years and while USAID does not endorse a particular digital payment technology, three types of digital payments providers have emerged as leaders in support of IPs adopting digital payments: 1) mobile money, 2) branchless banking, and 3) FinTechs.

Mobile money is one of the most popular digital payment modalities in emerging markets, with over 1 billion accounts globally that processed $1.9 billion in transactions daily in 2019. Mobile money is offered by mobile network operators (MNOs) that are licensed by a regulator to offer mobile financial services.

Branchless banking, which includes the use of cards, Point of Sale (POS) systems, mobile banking and agency banking, is also a popular form of digital payment that can act as a pathway to access other bank services such as credit facilities. Branchless banking is offered by licensed financial institutions.

FinTechs have also emerged as influential players in the digital payments market. Some FinTechs offer their own distinct digital payment wallet, while others act more as a payment aggregator, allowing users to make transactions across existing digital payment solutions. FinTech regulation is still in its infancy

in many markets but FinTech services are typically offered by technology companies that are either licensed to offer mobile financial services themselves or support and enable financial transactions offered by traditional financial institutions.

Need a primer on some of the digital payment modalities available? Check out the resources to the right.

Another important consideration to keep in mind as you begin this journey is the persistent gender digital divide. Women are still 33% less likely to own a mobile money account than men. While the progress varies by country, your programs should factor in a gender lens. Check out some of the resources to the right to learn more about the gender digital divide.

LEARN MORE	RECOMMENDED RESOURCES
Alliance for Financial Inclusion	Digital Financial Services Basic Terminology
GSMA	Platforms for Successful Mobile Money Services
IMF	The Promise of Fintech: Financial Inclusion in the Post COVID-19 Era
The Cash Learning Partnership	E-Transfers in Emergencies: Implementation Support and Guidelines
World Bank	A New Banking Model for Africa Digital Financial Services

LEARN MORE ABOUT THE DIGITAL GENDER DIVIDE

To learn more about the digital gender divide, and how digital payment products can successfully reach women, check out some of these resources:

CGAP	Digital Cash Transfers in the Time of COVID 19: Opportunities and Considerations for Women's Inclusion and Empowerment
GSMA	The Mobile Gender Gap Report 2020
USAID	Gender Digital Divide Online Course Gender Digital Divide Primer Gender ICT Survey Toolkit The Role of Trust in Increasing Women's Access to Finance Through Digital Technologies
World Bank	Mobile Technologies and Digitized Data to Promote Access to Finance for Women in Agriculture

Step 2

Assessing the Digital Payments Enabling Environment

KEY QUESTIONS

What are the factors that support a digital payment ecosystem?
When are digital payments not the best option?

WHAT YOU WILL LEARN

In this step, we provide you with an overview of the factors contributing to an enabling environment for digital payments. There are three tools for this step. The first is a tool to help you understand the baseline factors to successfully launch digital payments in a market; the second is an assessment tool to understand a country's ecosystem readiness; and the third is a list of resources to get specific about the digital payment landscape in a particular market.

- Tool 1:   Digital Payment Enabling Factors
- Tool 2:   Mobile Financial Services Market Viability Tool
- Tool 3:   Guide to Digital Payments Market Assessment

Step Read Time: 4 minutes
Tool 1 Read Time: 5 minutes   **Tool 2 Read Time:** 5 minutes
Tool 3 Completion Time: 1-2 hours

Budget Categories: Labor; Subcontractors
Phase: Start Up

Who:
Finance Staff, Program Design Staff, Senior Leadership

Watch a tutorial on Tool 2

In 2014, USAID released a procurement executive bulletin (PEB) making digital payments the default method of payment under all awards. The PEB indicates six circumstances where IPs can seek to be exempt from the digital payment required,

which are highlighted in the first tool for this step and on the next page. However, in line with USAID's Digital Strategy, if a waiver of the requirement may be necessary, IPs should consider how the strengthening of payment systems can fit into the design of

program activities.

Taking time to understand the existing ecosystem, one of the Principles for Digital Development, helps partners design digital programming that is effective within the

unique context of the local market.

There are a number of factors required to create an enabling environment for use of digital programmatic payments, including agent capacity, reliable liquidity and mobile network and mobile phone penetration.

USAID IPs may find the most important work they can do is to help build capacity at the last mile of digital payment delivery - the agent level. Agents act as the intermediary point between the digital payment service provider and its customers. Agents assist with opening customer accounts, building the capacity of customers, supporting bill payments, and are responsible for the conversion of physical cash to e-cash and vice versa. These access points for physical cash and e-cash conversion are also referred to as Cash In / Cash Out (CICO) networks, which can be managed by regulated financial and non-financial service providers.

When trained and incentivized well, agents or CICO operators can play a crucial role in improving adoption and usage of payments, if they are known and trusted figures who are able to explain key concepts to customers. Ensuring an easily accessible agent point in the community where your payees are located is essential to ensuring a successful digital payments program.

Beyond their local presence, agents must also have reliable liquidity to process payments. Reliable liquidity allows agents to maintain a healthy balance of e-cash and physical cash to meet customers' demands and reliably process transactions.

OFFLINE MERCHANT PAYMENTS IN INDIA

A leader in digitizing merchant payments, the Reserve Bank of India (RBI) is currently piliting an offline payment system to allow smaller size, offline payments using mobile devices, digital wallets and cards.

Offline payments always come with a degree of uncertainty given the payment is not processed until internet connectivity is accessible. To mitigate this risk, the pilot includes liability coverage and requires digital payment operators to incorporate an online dispute resolution system in their payment systems.

Mobile network reach and quality in your communities of focus is also an important requirement for any digital payments scheme. In these circumstances, offline solutions may be available to accommodate last mile customers. For example, offline POS devices have been successful in closing this gap in rural areas with inadequate mobile network infrastructure.

POTENTIAL EXEMPTIONS TO THE PEB

Please note these exemptions must be approved by your USAID Contracting Officer or Agreement Officer.

1. The cost of implementing a digital payments system clearly exceeds the projected savings of the system, or that the risks associated with implementing such a system clearly exceed the benefits.

2. The political, financial, or communications infrastructure does not support digital payments.

3. The use of digital payments is inconsistent with U.S. Foreign Policy.

4. The use of digital payments payments poses a threat to national security, endangers the life or physical safety of any individual, or compromises a law enforcement action.

5. The use of a cash payment system is required because there is only one source for goods or services and the U.S. Government or the development project would be seriously injured unless payment is made by a cash payment system.

6. 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.

High levels of mobile phone access and ownership among your program payees eases the transition to digital payments. Should your payees not have access to a mobile device, you can consider creative ways of promoting mobile phone ownership such as negotiating with your service provider for a subsidized bulk purchase of mobile phones or seeing if payees can access a lease-to-own model (check out an example of this here) whereby repayments are made through digital payments. This digital repayment data can in turn build payee's credit score, from which they may be eligible to access other value-added services (more on this in **Step 10**).

CASE STUDY

SUPPORTING THE DIGITAL PAYMENTS ECOSYSTEM

In 2016, Save the Children (SC) used Lonestar MTN's mobile money product to facilitate payments of $50 to 5,000 payees as part of the Emergency Food Assistance for Ebola Affected Families in Liberia Program.

While mobile money existed in Liberia at the time, the ecosystem had not reached a level of maturity to support the broad distribution of mobile money payments. Access to reliable liquidity flows was a particular challenge for the mobile money agents who struggled to accommodate cash out requests especially in rural locations. In addition, the poor road network disincentivized MNOs from extending their reach. This required SC to take a larger role in the distribution and management of the mobile money payments than anticipated to ensure all payees could cash out.

SC used budget funding to create additional commission structures as incentives for mobile money agents to take on the large cash management responsibilities for facilitating cash outs for beneficiaries. In addition to increasing commissions, SC also supported some mobile money agents in gaining access to cash by leveraging its strong banking relationships with Ecobank. These two levels of support provided enough de-risking elements to encourage mobile money agents to provide cash out services to beneficiaries. Read the case study here.

Hiccups in meeting the enabling factors for digital payments are common as providers roll out new products or scale to new geographies, and SC's commitment highlights the critical role IPs can play in boosting the ecosystem's resilience and reliability.

Step 3

Local Partner Support & Payment Stream Mapping

KEY QUESTIONS | How do you work with a local partner to digitize payment streams? What are your full costs of cash payments compared to digital?

WHAT YOU WILL LEARN

In this section, and its accompanying tools, we provide you with resources to map your or your local partners' operational and programmatic payment streams and highlight the importance of identifying champions to lead the digitization transition.

- Tool 1:   Payment Scoping Survey Tool
- Tool 2:   Costing Utility Analysis Tool

⊳ Watch a tutorial on Tool 1 | Tool 2

Step Read Time: 4.5 minutes
Tool 1 Completion Time: 30 minutes
Tool 2 Completion Time: 2-3 hours

Budget Categories:
Labor; Subcontractors; Other Direct Costs
Phase: Start Up

Who:
Finance Staff

USAID's IPs often work with local partners on the ground who make the direct payments to program payees. Examples of this partnership include an IP working with an agribusiness to digitize smallholder farmer payments or a partnership with a school to digitize school fee payments. The proximity and trust between local partners and payees often translates to higher participation in, and openness to, digital payment adoption. This, in turn, drives payees' financial inclusion and the potential for other financial benefits beyond just payments (digital savings, credit, insurance, pension, etc.).

Beyond these benefits to payees, digitizing local partner internal payments (i.e. staff salaries or per diems) can also improve their own accounting as well as reduce costs and leakages. These byproducts of digitization will improve the transparency, efficiency, and ultimately the sustainability of all actors, making every programmatic dollar stretch further.

Mapping payment flows is a critical precursor to digitization because it:

✓ makes the cash flow clear for your digital payment provider
✓ reveals which payment streams are ripe for digitization
✓ allows for an analysis of the costs associated with cash transactions, and
✓ allows for an assessment of potential payment flow inefficiencies.

The mapping should be comprehensive, capturing both 1) internal operational cost of the payer, and 2) costs to the payee.

It is also critical during the mapping process to catalogue any change management considerations during the shift from cash to digital payments and develop mitigation strategies in advance. It is important to acknowledge that despite any perceived upfront cost associated with the digitization of payment flows, the investment is highly encouraged not only as a way to increase operational efficiency, but more so, to enable services to reach last mile payees.

One of the most critical success factors in digitization is having the full buy-in of the local partner, from the leadership level to the field staff. Nowhere does this commitment need to be more evident than through a digital champion who will project the message

Lessons learned from USAID IPs that have already made the transition:

- Costs are context specific and **not always obvious**
- During transitions, financial costs **may initially increase**
- Donors like to see **costs outlined** before and after transitioning
- **Non-financial costs** (i.e. security, transparency, cost) may be considered more impactful
- Transition and payment costs are **a reimbursable direct cost** to USAID

that implementation challenges should be viewed as an opportunity to regroup and move forward, rather than as a signal to quit. Above are some common concerns your local partner staff may have towards digitization that can be mitigated through transparency and inclusion of staff members throughout the payment digitization process.

Securing the active participation of a champion within your local partner staff is critical in managing personnel concerns and pushing the digitization agenda forward.

It's also important to identify a relationship

Your local partner staff may have some of these concerns about digitization:

- Those in control of cash are sometimes reluctant to give up that control
- Strong habits tied to using cash and behavior change
- Distrust around the new payment system
- Concern around using a new system or a general resistance to change
- Fear of job loss if the system is more efficient
- Payee and staff digital literacy skills

manager within the IP/local partner. This person can provide the payment service provider with a direct line of engagement to quickly address any issues that arise. They should have enough authority to champion the initiative within the organization and be able to influence others who are averse to change. Payees will take note of the local partner's broad-based commitment to digitization, which should positively influence their view of the transition.

Finally, USAID IPs and their local partners must be aware of the new restrictions on

certain technologies for USAID awards. IPs, and their partners, must avoid certain technologies that may allow surveillance and/ or pose a threat to the right to privacy or be vulnerable to external, state-based and maligned actors. See the call out box on page 19 for more information.

Three characteristics of an ideal champion

1. Understands internal processes and existing status quo

2. Coordinates, and has influence, across departments particularly senior management, finance team and program/field staff

3. Recognizes, and can effectively communicate, the value of payment digitization for payees and IPs

CASE STUDY

THE POWER OF PARTNERSHIP

World Vision Bangladesh implemented the 'Nobo Jatra-New Beginning' five-year USAID Food for Peace Title II Development Food Security Activity in partnership with three local partner NGOs. The initiative, starting in 2015, integrated interventions in Maternal and Child Health and Nutrition among other focus areas.

World Vision's main objectives were to improve nutrition for pregnant and lactating women and children under five as well as reduce the incidence of adolescent pregnancy. To achieve this, World Vision worked with local NGOs and 122 community clinics to disburse mobile money conditional cash transfers of $27.5 per month to more than 23,600 pregnant and lactating women over 15 months.

World Vision also championed the use of mobile phone technology to provide information via free mobile messages, including sending educational jingles to over 460,000 recipients. The use of mobile technology for mHealth strengthened real time monitoring and record keeping through local community clinics and resulted in infrastructure improvements in 25% of the community clinics.

You have now completed 30% of the Toolkit! Only 7 steps to go.

Step 4 Assessing Payees' Needs

KEY QUESTIONS How to understand the current capacity of payees to receive payments?
How to assess payee digital finance needs?

WHAT YOU WILL LEARN

In this step we provide you with an overview of why understanding your payees' knowledge of digital payments as well as clarifying their financial needs is one of the most important success factors in using digital payments effectively as a programmatic tool. The tool for this step provides a detailed list of questions to assess payee capacity to receive digital payments.

- Tool 1: Payee Digital and Financial Capacity Assessment

  ▷ Watch a tutorial on Tool 1

Step Read Time: 3 minutes
Tool 1 Completion Time: 20-30 minutes to administer interview

Budget Categories:
Labor; Subcontractors; Travel, Transportation, Allowances
Phase: Start Up

Who:
Program Staff

As you learned in **Step 2**, each market has its own unique payment market system and often nuances exist between urban and rural locations within a market. Similarly, payees' digital payment exposure, accessibility and usage varies. Understanding your payees' capacity to receive digital payments is essential

in structuring the disbursement approach and selecting a service provider. Designing with the user is also one of the Principles for Digital Development.

The tool for this step is a survey to collect data from a subset of payees. While capturing

a statistically significant number of respondents is ideal, it is not necessary for the purposes of this assessment. The survey results can help establish a rough baseline of payees' existing usage and understanding of financial and digital services. This baseline should inform service provider selection (see **Step 5**), digital

financial literacy course design (see **Step 7**) as well as the inclusion of relevant value-added services (see **Step 10**).

By incorporating this element of human centered design in programs, IPs can help ensure sustainability and active use of digital financial services after the project, particularly if relevant value-added services are bundled with the digital payment product, such as insurance or microcredit (more on this in **Step 10**).

Learnings from early efforts to digitize payment streams show that the payee value proposition for shifting to digital payments is stronger if payees understand and value being able to access other, relevant features through a digital payment wallet.

Some of the overarching questions the Payee Digital and Financial Capacity Assessment addresses include:

1. How many payees own a mobile phone or have easy access to a phone where they can safely receive payments? From which provider and what are their average mobile device usage costs?
2. How many payees already have a bank account or mobile wallet?
3. What do they use their mobile phone for typically? What type of transactions / activities can they perform on their phone?
4. Do they use any digital payment services, such as mobile money, already?
5. What are the gender dynamics around mobile phone / mobile money use?

Check out some of the resources below for other demand-side research around digital payments.

LEARN MORE	RECOMMENDED RESOURCES
EFInA	Access to Financial Services in Nigeria 2016 Survey
FinMark Trust	FinScope Consumer Survey Cameroon 2017
Insight2Impact	The financial needs of Mexicans A needs-based approach to financial inclusion measurement in Zimbabwe

CASE STUDY

MOBILE MONEY IN THE COCOA VALUE CHAIN

In 2015, Strategic Impact Advisors conducted a mobile money market study for the World Cocoa Foundation (WCF) in Ghana and Côte d'Ivoire using quantitative data collected primarily through surveys.

This mobile money market research provided data and analysis on the awareness, usage and interest in mobile money of 522 cocoa farmers in the Sud Comoe region of Côte d'Ivoire and the Western Region of Ghana. WCF's member companies can use the market research findings to initiate their own payment digitization streams to smallholder cocoa farmers in these countries.

Read the full study here.

Step 5 | Selecting a Provider

KEY QUESTIONS What to look for when selecting a service provider? How to ensure the selected service provider is a committed partner?

WHAT YOU WILL LEARN

In this step, you are introduced to the key factors to keep in mind throughout the service provider procurement process. The tool for this step includes a sample request for proposal template and detailed questions to ask service providers during the selection process.

- Tool 1: Service Provider Capacity Assessment

  ▷ Watch a tutorial on Tool 1

Step Read Time: 5 minutes
Tool Read Time: 7 minutes

Budget Category: Labor
Phase: Start Up

Who:
Finance Staff, Legal, Procurement or Contracts Staff, Senior Leadership

When selecting a service provider, both pricing and functionality should be evaluated, as well as the provider's compliance with the relevant regulatory requirements and new U.S. Government restrictions on certain technologies (see the call out box at the end of this step for more information). There should also be alignment between the IP and service provider on timelines, approach and outcomes. At this stage IPs should consider the potential for a joint procurement/demand aggregation with other IPs that could produce better terms for themselves and payees (USAID IPs successfully did this in Rwanda; check out the case study on page 19). Though selecting a provider does require a certain amount of diligence, fear not! The tools accompanying this step will guide you through this process and ensure you have the level of confidence needed to select the best service provider for your program.

In recognition that humanitarian and development cash transfers are often a

deviation from digital payment service providers' normal business model, it is often necessary for IPs to help service providers understand the opportunity (take a look at the International Rescue Committee's report on the business case for expanding humanitarian digital payments). By including information in your RFP around the number of payees, the average value of payments, frequency of payments, project duration and geographies of focus, service providers will be in a better position to respond to your RFP.

While efficiency, pricing and terms are important considerations during your selection process, it is equally as important to ensure your service provider selection is in line with USAID's broader goal of achieving safe, inclusive and reliable digital ecosystems in the spirit of self-reliance. The Service Provider Capacity Assessment Tool will shed light on technological infrastructure such as the type, agility and rigor of the payment platform. The assessment should also be used to understand the service providers' footprint in your geographies of focus. To the right are key specifications to consider when selecting a service provider.

It will also be important to evaluate aspects such as the level of thoroughness, accuracy and timeliness the service provider

KEY SPECIFICATIONS	DESCRIPTION
Transaction Tracking Capabilities	Details on how transactions are pre-verified before payment and the information provided to the payer once payments are made. Ask for a sample transaction statement.
Registration and Know Your Customer (KYC) Requirements (Corporate Account)	List of requirements for [organization] to activate an account with the service. For more information on KYC requirements, check out some reports here and here.
Account balance and transaction volume limitations (Corporate Account)	Details on transaction limits, including limits on the value of payments an organization can send to a single recipient in one day and limits on the volume of transactions an organization can send in one day.
User Authorization	Ability to assign different user authorities within the system (i.e. maker, checker, processor).
Interoperability	Platform interoperability with other payment platforms to ensure compatibility with other DFS payment options the payees may be using. For more information on interoperability, check out some reports here and here.
Pricing	Detailed pricing matrix for transactions.
Data Storage	Ability to store recipient data on the payment platform to avoid uploading names every time a payment is made.
CICO Liquidity Controls	Details on liquidity management at the cash in/cash out access points (agents). For more information on CICO networks, see resources here and here.
Data Security	Process and policies for ensuring the privacy and security of data involving the transactional history (see **Step 10**).
Data Privacy & Security	Processes and policies for ensuring security and privacy of payee data (see **Step 10**).
Data Integration	Details on how the service provider's digital payment data records can integrate with your organization's management and information system.

demonstrate when faced with time-bound requests. This will give you an idea of how responsive the provider will be if selected and how it will manage troubleshooting and response times. This could include having a dedicated point person for your account and the availability of key staff, especially in the field. Also assess the level of commitment of the service provider in building out the DFS acceptance ecosystem (i.e. financial access and merchant points). This could include

discussions about how pricing, service delivery etc. will change as payment values, volumes and geographic coverage increase. While a service provider may indicate adequate agent penetration and reliable liquidity in the communities of focus in response to your RFP, you should consider revisiting the tools in **Step 2** (Guide to Digital Payments Market Assessment and Digital Payment Enabling Factors) to verify that the local digital payment ecosystem does indeed have the capacity to

handle the anticipated volumes and values. IPs working in areas vulnerable to shocks (e.g. natural disasters, monetary issues, insecurity, etc.) should also consider and assess service providers' capacity to adapt in these circumstances. Take a look at the Cash Transfer Resilience Tool, which helps assess this risk. Make sure you also keep in mind the Mobile Money Assessment and Contracting Guide, supported by USAID, and the new Section 889 restrictions on certain technologies.

JOINT PROCUREMENT

CASE STUDY

In 2016, USAID partnered with NetHope and Strategic Impact Advisors to train over 30 USAID IPs in Rwanda on transitioning to digital payments, where only 6% of IPs were using digital payments in their programs. Ten IPs issued a joint request for proposals, helping to aggregate demand for similar digital payment services. This resulted in a strong response with some providers reducing pricing by up to 80%. The ten IPs who were part of the joint procurement then successfully signed contracts with providers, some selecting the provider that offered better pricing terms as a result of the joint procurement. The IPs transacted over $1 million in value through mobile money in the 18 months after the training was conducted. The Rwandan example highlights how IPs can leverage their shared demand to negotiate better terms and rates from service providers.

EVOLVING POLICY CONSIDERATIONS

USAID IPs implementing digital payments should ensure that technologies employed provide a secure and resilient IT infrastructure, with a focus on identifying and avoiding insecure technologies that may allow surveillance that would pose a threat to the right to privacy or be vulnerable to external, state-based and maligned actors.

USAID IPs should be aware that USAID awards have requirements regarding the procurement of IT. For instance, under 52.204-25 Prohibition on Contracting for Certain Telecommunications and Video Surveillance Services or Equipment, the Government cannot fund telecommunications equipment, system, or service from certain prohibited sources, including Huawei Technologies Company, ZTE Corporation, HyteraCommunications Corporation, Hangzhou Hikvision Digital Technology Company, or Dahua Technology Company (or any subsidiary or affiliate of such entities). This list may change.

USAID IPs that are currently using, or wish to procure, services from a digital payment service provider whose mobile money or digital payment platform is powered by one of the designated covered companies should discuss relevant ongoing or future actions with your USAID Agreement or Contracting Officer Representative to ensure compliance. Your program may be eligible for a waiver from this requirement. To learn more check out USAID's Section 889 Partner Information website.

Congratulations! You've completed half of the Toolkit! Just 5 more steps to go.

Step 6

Common Challenges and Mitigation Strategies

KEY QUESTIONS What are some of the challenges others have faced in using digital payments in their programs? How to identify these challenges? How to mitigate them?

WHAT YOU WILL LEARN

In this step, we examine some of the common, potential challenges you might face in integrating digital payments into your program and strategies to mitigate the risk of those challenges. The tools for this step include a survey that can be administered in parallel to your market assessment activities (**Step 4**), as well as a mitigation guide to support you in responding to challenges.

- Tool 1:   Common Challenges and Solutions
- Tool 2:   Challenge Identifier

  ▷ Watch a tutorial on Tool 2

Step Read Time: 5 minutes
Tool 1 Read Time: 4 minutes
Tool 2 Completion Time: 2-3 hours to administer interview

Budget Categories:
Labor; Travel, Transportation, Allowances; Equipment
Phase: Recurring

Who:
Program and Finance Staff

There are several common challenges to integrating digital payments as part of your program, including the following.

Limited mobile phone ownership or access.
Some of your payees, especially in rural areas, may not have access to a mobile device to receive mobile money. Women, for example, tend to have lower phone ownership than men. To close this gap, explore purchasing mobile phones in bulk from a service provider to receive a subsidized rate. Rather than distributing phones for free and to encourage

ownership of the device, your payees could repay the phone cost in digital payment installments. This can contribute to their digital payment record, which could act as a credit-scoring basis to access value-added services.

Some companies are experimenting with

providing installment payment financing (see an example of this underlined here) for mobile phones or encouraging women in saving's groups to save towards the phone purchase (informal savings groups are a powerful tool for promoting financial inclusion, check out examples of this here and here).

The following gender and social norms influence access and usage of a mobile device for women:

Income and affordability	Incentives to own & use	User capability & design	Infrastructure
Handset cost	Value	Technical literacy & confidence	Network quality & coverage
SIM cost	Family uncomfortable		Agent service
Credit cost	Security & harassment		Agent access
Battery charging cost	Operator/ agent trust		ID
			Battery charging access

SOURCE: GSMA Bridging the Gender Gap Report

Digital risks.

Like any payment system, digital payments are not without their risks. Fraud can occur by digital payment agents as well as scammers, who prey in particular on vulnerable populations such as refugees or those who are illiterate. This risk can be mitigated through a robust digital financial literacy campaign that not only builds payee capacity to use digital financial services but also explains how fraud can occur and how to identify and mitigate it (see **Step 7's tools** for guidance and also check out the United Nations High Commissioner for Refugees' work to mitigate this risk). Digital payments, like other digital platforms, are also at risk of exposing payees' personal information through hackers and/ or through the mismanagement of data by service providers or IPs. In **Step 5** we discuss the importance of selecting a service provider who adheres to data protection standards and in **Step 10** we discuss ways to ensure your project follows best practices around data protection. Equally as important is sensitizing your payees about their data protection rights and how their data can be used throughout the project period and beyond (see **Step 7's tools** for guidance).

Lack of network infrastructure.

While mobile networks have expanded, their reach and quality are not always sufficient to provide reliable service.

To mitigate this, work with your service provider, as discussed in **Step 5**, to negotiate improving the infrastructure in exchange for new customers and a secured cash flow. This typically works only with high volume projects, as service providers will need the incentive of scale to consider investing in additional infrastructure.

Identifying network limitations may serve as a valuable tool to not only inform project level disbursement plans but also for advocating partner governments' and private sector actors' opportunities in the market. Where relevant, it is encouraged that this effort link closely with program objectives.

Limited agent points.

It is the responsibility of your service provider to ensure adequate agent points in your communities of focus (a key topic in **Step 5**).

Should there be resistance or time constraints, explore creative, temporary solutions such as a "roaming agent" model whereby an agent visits your communities of focus as and when payees require their services (i.e. once a week) until a more permanent agent point is established.

LEARN MORE	RECOMMENDED RESOURCES
CGAP	Agent Networks at the Last Mile
GSMA	Managing a Mobile Money Agent Network
	Distribution 2.0: The Future of mobile money agent distribution networks

The payer and payment service provider could also explore subsidizing initial expansion of agent points or CICO networks to less populated areas by facilitating higher agent commissions. For more information on managing agent networks, check out the below resources.

Low payee willingness/readiness to receive digital payments.

Transitioning to digital payments often requires a mindset change. Low digital and financial literacy — both of which are unfortunately more prevalent among women — can contribute to this unwillingness, however an effective digital financial literacy campaign (see **Step 7**) can help mitigate this hesitation.

The identity documents required to meet know-your-customer (KYC) requirements may also be a contributing factor, and again women tend to have lower ID penetration than their male counterparts.

This challenge can be countered by engaging local government representatives for support or choosing a digital payment modality that requires minimum KYC requirements (take a look at GSMA's report about digital identity).

Payee resistance to digital payments may also be affected by social and cultural norms that restrict the accessibility and usage of digital payments, particularly for women. If your project is gender-sensitive, evaluate the best approaches to digital literacy training including whether to train women separately or include both men and women together in the digital financial literacy training and sensitization process (see **Step 7** and USAID's report on the role of trust for women accessing DFS). It is also important to understand the local context and whether other, non-gender specific reasons (e.g. a distrust of agents, fraudulent behavior or scams) could contribute to lower levels of trust in digital financial services.

Lack of liquidity at cash-out points.

This refers to a shortage of float, which is the availability of either e-money or physical cash, at a digital payment agent point, bank branch or ATM to process a transaction. Float is exhausted through the conversion of physical cash to e-cash and vice versa. Often, agents receive their liquidity from a dedicated dealer or from a bank branch. In some communities, particularly rural ones, there is a deficit of these liquidity rebalancing points.

This can be mitigated, in partnership with your service provider, by identifying the businesses within your targeted communities that have high cash flow, such as filling stations or high traffic shops. Incentives can be provided for these businesses to serve as liquidity dealers like offering startup capital or loans. In addition, there are now liquidity third party providers in some markets that work with service providers to supply liquidity directly to digital payment agents, usually in the form of

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CASE STUDY

REACHING HOUSEHOLDS WITH CONDITIONAL CASH

The Philippines government launched a five-year Pantawid Pamilyang Pilipino Program (4Ps) in partnership with the World Bank, Asian Development Bank and AusAid. The program focused on conditional cash transfers through cash-cards limited to over-the-counter or ATM withdrawals, to provide short-term poverty alleviation for poor households as part of the country's commitment to advancing financial inclusion.

In 2007, 4Ps began with a pilot to reach 6,000 people across four municipalities in one year. The project quickly scaled to reach 300,000 payees by the end of 2008. As the program scaled in volume, value and geography, so did the challenges in getting payments quickly and efficiently to recipients. The project struggled to maintain rigorous targeting, monitoring, impact evaluation and roll out, while simultaneously making accurate and timely payments. Many mitigation strategies were implemented such as employing over 10,000 additional government support employees as well as increasing cash out points by bringing postal offices, mobile network agents and cooperatives on board. By improving the robustness of the ecosystem, the 4Ps program was able to reach 4 million households in five years.

an overdraft or micro-loan facility accessible via USSD.

IPs must also be sure to communicate the anticipated cash volumes to the service provider in advance, which can be included in the service provider agreement to ensure an adequate supply of liquidity.

Lastly, liquidity is also stressed by a lack of digital payment acceptance points, leaving payees no option but to cash out. This overwhelms agents and quickly exhausts their float but can be mitigated by identifying where payees make their financial transactions (see **Step 4**) and working with the service provider to increase merchant acceptance of digital payments. This works to bolster the digital payment ecosystem and ensure sustainability after the project ends.

The chart below indicates some common challenges, their associated impact on the digitization process and the level of influence both payers and the service provider have in mitigating the challenges.

#	CHALLENGE CATEGORY	Potential impact on digitization success (High, Medium, Low)	Influence the payer can have to mitigate (High, Medium, Low)	Influence the service provider can have to mitigate
1	Low phone penetration in the payee population	High	Medium	Low
2	Poor network connectivity in payee communities	Medium	Low	Medium
3	Lack of sufficient POS devices to support card transactions	High	Low	Low
4	Low digital literacy leading to lack of trust, making payees vulnerable to fraud	High	High	High
5	Low financial literacy which limits DFS uptake and reduces payee's ability to take full advantage of DFS	Medium	High	High
6	Inability to meet KYC requirements	High	Low	Low
7	Restrictive social norms and practices	Medium	Medium	Low
8	Poorly equipped or located financial access points	High	Low	High
9	Poorly designed or implemented guidance from the FSP on how to maintain liquidity	High	High	High
10	Lack of DFS acceptance points	Medium	Medium	High
11	Ineffective collaboration between the payer and the FSP	High	High	High

Step 7

Digital Financial Literacy Training

KEY QUESTIONS | What is digital financial literacy training? How is it administered? Who is involved?

WHAT YOU WILL LEARN

In this step we outline the basics of launching a digital financial literacy campaign and provide accompanying tools to support you in your implementation of digital financial literacy trainings. The three tools in this step will guide you on how to implement a digital financial literacy campaign and assess your payees' knowledge improvement from before and after the campaign.

- Tool 1: Steps to Guide Your Curriculum Development
- Tool 2: Sample Digital Financial Literacy Training Flow
- Tool 3: Digital Financial Training Pre- and Post-Training Survey

Step Read Time: 4 minutes
Tool 1 Read Time: 3 minutes **Tool 2 Read Time:** 3 minutes
Tool 3 Participant Completion Time: 5-10 minutes

Budget Categories:
Labor; Travel, Transportation, Allowances; Other Direct Costs
Phase: Recurring

Who:
Program & Finance Staff

One of the persistent barriers to the active use of DFS is digital financial literacy, especially for women, forcibly displaced people, indigenous groups and other vulnerable minority populations. IPs may need to buil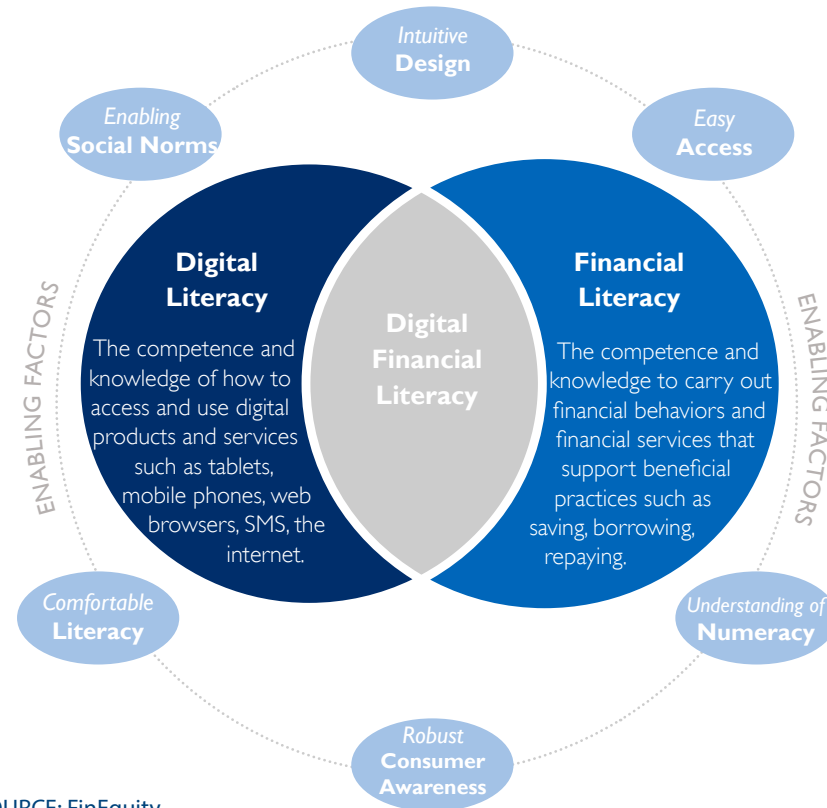d individuals' capacity to understand and use DFS as part of their programmatic activities. While conducting digital financial literacy training is important at the onset of launching a new digital payment product, periodic trainings throughout the project period should be considered to ensure your payees maintain their proficiency with the digital payment product. This training ensures your payees are equipped with the knowledge to use the selected digital payment modality, and also gives you the opportunity to strengthen their financial knowledge as well

as their understanding of the other VAS that accompany a digital payment wallet (see **Step 10**). Digital financial literacy training is one of the most important steps in building a more inclusive and resilient digital ecosystem.

The Consultative Group to Assist the Poor's FinEquity Working Group defines digital financial literacy as, "the application of digital literacy and financial literacy to enable the use of digital financial services." Six core enabling factors, shown in the figure on the right, should guide the design of your curriculum and digital financial literacy training.

Beyond the primary goal of ensuring your payees can use your selected digital payment modality, digital financial literacy training provides venues to open accounts for first time DFS users, introduces them to their local financial access point (e.g. mobile money agent) and links them to a broader array of VAS.

Intuitive **Design**

Enabling **Social Norms**

Easy **Access**

ENABLING FACTORS

ENABLING FACTORS

Digital Literacy

The competence and knowledge of how to access and use digital products and services such as tablets, mobile phones, web browsers, SMS, the internet.

Digital Financial Literacy

Financial Literacy

The competence and knowledge to carry out financial behaviors and financial services that support beneficial practices such as saving, borrowing, repaying.

Comfortable **Literacy**

Understanding of **Numeracy**

Robust **Consumer Awareness**

SOURCE: FinEquity

Key tips to keep trainees engaged:

☑

✓ Conduct polls periodically

✓ Take 5 min breaks when you notice trainees losing attentiveness

✓ Breakout the larger group into smaller groups to promote discussion

✓ Consider the gender mix and sensitivities of the training groups

Digital financial literacy can be a particular obstacle for women, when social norms restrict women's access and agency to digital technology and financial services. For more information on how to design a gender inclusive curriculum, see FinEquity's key takeaways from five discussions around digital financial literacy training with a focus on women.

Digital financial literacy training should take place no later than two weeks before you launch digital payments, based on lessons learned from previous projects, giving payees enough time to familiarize themselves with the digital payment modality. Program staff should test the digital payment modality at least one month before the digital financial literacy training to inform the curriculum design (for more on testing, see **Step 8**).

There are a number of actors that must be engaged to ensure an effective digital financial literacy training that considers the entire digital payment ecosystem including:

- **Project payees.** Those receiving payments from IPs, and, if part of the project scope, other stakeholders involved in the digital payment process. For example, if an IP pays smallholder farmers via mobile money for the purpose of those farmers then paying their agricultural input providers via mobile money, the agricultural input provider must also be engaged for the digital financial literacy training.

- **Program staff.** Especially those that will facilitate the training and support the program implementation.

- **Existing community leaders and groups** (i.e. Village Savings and Loan Associations or farming groups). Leveraging existing networks of trust and convenience is an effective means of disseminating DFS training (learn more about this in the first tool for this step).

- **DFS service providers.** Engaging representatives from the selected service provider during the training process, especially the direct interface with the payee such as the mobile money agent,

is important for familiarizing payees with the representative in their community. It also serves as an opportunity to open accounts and introduce value-added services. They also serve as a sustainable point of contact for payee retraining and product support.

Rather than start from scratch, there are existing digital financial literacy curricula that may meet your project context entirely or include valuable resources to adapt from.

LEARN MORE	RECOMMENDED RESOURCES
GSMA	Mobile Internet Skills Training Toolkit Mobile Technical Literacy Toolkit
USAID	Integrating Digital Financial Services in Feed the Future Programs W-GDP Digital Financial Literacy Campaign for Women in Ghana, Uganda and Malawi
Women's World Banking	Capacity Building for Government-to-Person Payments
World Bank	Integrating Financial Capability into Government Cash Transfer Programs
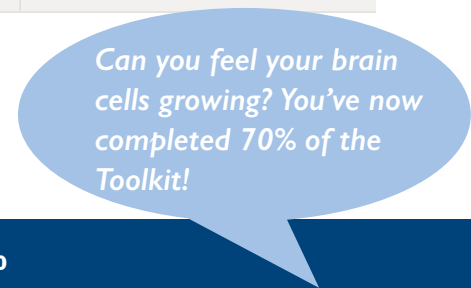
CASE STUDY

DESIGNING A RURAL DFS STIMULATION CAMPAIGN

NetHope, with support from USAID, entered into collaborative arrangements with two USAID Feed the Future activities in Uganda: the Alur Highlands Coffee Alliance (AHCA), implemented by Palladium, and Youth Leadership in Agriculture (YLA), implemented by Chemonics to explore where DFS could be leveraged to improve the livelihoods of smallholder households and the value chain partners that work with them.

As part of this work, 16,000 coffee farmers were trained on how to use DFS products independently to meet a variety of financial, payment or money transfer needs. The training was conducted in three waves, each one month apart, that addressed rural households' income and expenditure patterns, detailed descriptions of DFS and skit-performances to practically demonstrate how the product is used. The training was delivered through agricultural extension officers, who were already equipped with the trust, credibility and language skills required to deliver the training. The effects of the training were effective, with a nearly 50% increase in self-reported registration for mobile money accounts between the second and third training wave. NetHope developed a toolkit from this work to guide USAID's IPs on how to integrate digital payments into their agricultural projects.

Can you feel your brain cells growing? You've now completed 70% of the Toolkit!

Step 8

Testing and Evaluating

KEY QUESTIONS | Why should payments be tested on a smaller group of payees? With who, and where, should digital payments be tested?

WHAT YOU WILL LEARN

In this step we provide you with tools and guidance to both test and evaluate the digital payment system with a subset of your payees and your staff before fully launching payments to all payees.

- Tool 1: Digital Payments Test Checklist
- Tool 2: Digital Payments Test Feedback Questionnaire

▷ Watch a tutorial on Tool 1

Step Read Time: 4.5 minutes
Tool 1 Read Time: 4 minutes
Tool 2 Completion Time: 1-2 hours to administer

Budget Categories:
Labor; Travel, Transportation, Allowances; Other Direct Costs
Phase: Start Up

Who:
Program and Finance Staff

Testing the digital payment product with a select group of payees and internal staff prior to a full-scale rollout is essential to confirm the product's effectiveness and functionality. While these factors are considered in earlier steps in this Toolkit, it is difficult to understand how the product will perform until it is tested. This step introduces reasons why launching a test before you roll out payments is crucial to identifying and troubleshooting any issues that may arise from both the payment issuer and recipient side.

The first tool for this step provides a checklist to prepare for testing the payment and the second tool provides an evaluation framework to assess the test.

When deciding how to test external payments, consider with **who and where** to conduct the pilot, as well as how to **evaluate** its success.

Who. Payments should always be tested

with your staff first, especially those directly involved in facilitating payments. Trialing payments with staff should occur before testing with payees so staff members understand the digital payment process to build their own internal capacity and to also better support payees throughout the payment process. Also consider shifting staff's salaries to the selected digital payment method to familiarize them with the process.
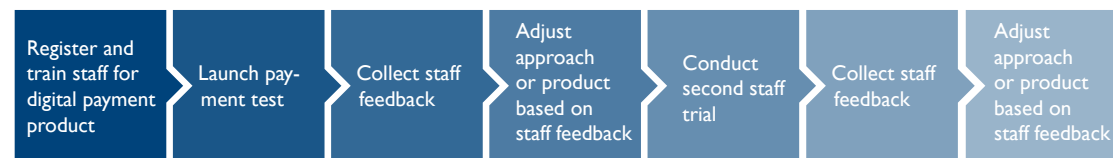
When considering who to test from your payees, the test group should be representative of the broader profile of payees that will be paid as you scale. For example, only trialing a new digital payment solution with individuals that have smart phones and are already conversant with some aspects of digital payments will likely not set you up for success in paying seasonal workers new to digital payments and whose primary use of a mobile phone is making phone calls. This group of initial payees also have the potential to become champions amongst their fellow payees in the future, so it is important to focus on gathering quality feedback from them.

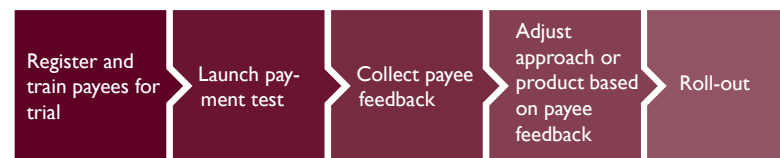**Where.** The pilot should seek to emulate the geographic location where payments will be made. If you test payments in an urban setting while your project context is more rural-facing, test results will not give you an accurate picture of how the digital payment product works in a rural context.

Evaluate. Once you have successfully conducted the test, it is critical to capture results to iterate and refine your approach before you scale. The second tool for this step

2 months before issuing payments to all payees

| Register and train staff for digital payment product | Launch payment test | Collect staff feedback | Adjust approach or product based on staff feedback | Conduct second staff trial | Collect staff feedback | Adjust approach or product based on staff feedback |

1 month before issuing payments to all payees

| Register and train payees for trial | Launch payment test | Collect payee feedback | Adjust approach or product based on payee feedback | Roll-out |

FEES, FEES, FEES

While the costs of cash are real, they often do not come in the form of a fee. Fees are the primary reason many customers may ask for cash over a digital payment. For mobile money payment solutions, in particular, sending and withdrawing funds incurs a fee. This often creates a disincentive and will likely be the primary source of complaints your organization receives from payees. Testing the new digital payment channel with a smaller group allows you to assess the impact of these new fees. In some cases, organizations elect to include funds to cover costs like withdrawal fees for mobile money transfers. However, there should be a plan in place to wean out the fee subsidy throughout the project duration to ensure sustainability and continued uptake of DFS once the project funding period ends. Another way to help mitigate the issue of fees is to encourage payees to keep the digital value in circulation by using it to make payments rather than cashing out. In many markets, digital wallets can be used for a variety of purposes that are often free of charge or cost less than withdrawing (in fact, 2019 was the first year that there was more money circulating in the digital ecosystem than being cashed out). Read on to **Step 10** for more information about some of the value-added services that can incentivize your payees to retain money in their digital wallets.

guides you through this evaluation process and considers key questions for those issuing payments as well as those receiving payments. It will be important to share this feedback with your service provider as some of the issues may be out of your control. Once these findings are incorporated, the next step will teach how to scale digital payments to all your payees.

CASE STUDY

THE IMPORTANCE OF TESTING

The Haiti Hope Project was a public-private partnership to digitize payments and improve market linkages for Haitian mango farmers working with Perry Export (a mango export company). Perry Export initially partnered with one service provider to test the digital payments in three stages:

1. An internal pilot using DFS to pay project field staff
2. An external pilot paying farmers
3. Real-time payments for mango deliveries

The results of the pilot made it clear that there were not enough rural agent points to accommodate the needs of the mango farmers. Consequently, Perry Export pivoted and chose another service provider with a stronger rural agent network. If Perry Export did not begin with a small pilot to test the digital payments, then they would have invested significant effort and money in a service provider that did not meet their needs. This highlights the importance of conducting a digital payment test to understand the potential challenges faced during implementation that are not always clear from the preparation stages.

Step 9

Scaling and Sustaining Digital Payments

KEY QUESTIONS What is required for roll out? What metrics should the project be evaluated against? What factors ensure sustainability after the project ends?

WHAT YOU WILL LEARN

In this step we introduce you to the requirements necessary for successfully scaling, evaluating and sustaining digital payments as you roll out payments to project payees. The accompanying tools ensure your readiness for scale and provide you with an evaluation framework to assess the progress of your project.

- Tool 1:   Digital Payments Implementation Roll Out Plan
- Tool 2:   Digital Payments Metrics Dashboard

▷ Watch a tutorial on Tool 1 | Tool 2

Step Read Time: 4 minutes
Tool 1 Completion Time: 1-2 hours
Tool 2 Completion Time: 20 minutes per month

Budget Category: Labor
Phase: Recurring

Who:
Program and Finance Staff, Senior Leadership

As you incorporate the findings from the trial of payment delivery (see **Step 8**), other prerequisites must be in place to roll out the payment process across your program. In the first tool of this step, we provide a work plan so you can easily schedule timelines for implementation and ensure that over time all potential activities are undertaken and tracked. Activities are broken down into three phases:

1) planning and set-up, 2) implementation and management, and 3) evaluation and expansion.

As you successfully launch digital payments, your project's effectiveness should be evaluated against key performance indicators (KPIs) to assess the growth in values, volumes and users of digital payments. The second tool for this step provides an evaluation

framework, and suggested KPIs, to guide your digital payment progress. The KPI categories for this metric include:

1. Recipients of digital payments
2. Payment transaction levels, completion rate and cost
3. Transaction time and stored value
4. Financial access points

Unfortunately, it is common for digital payments to come to an end at the conclusion of a project even though building for sustainability is one of the <u>Principles for Digital Development</u>. To ensure payees continue to reap the benefits of financial inclusion and digital payments, there are a number of internal and external-facing factors, that you can address in a sustainability plan well before the project ends. Sustainability should be built into project budgets and often requires securing the commitment of other stakeholders.

These stakeholders need clear incentives to maintain the payment ecosystem once project funding ends, which is why it is important to begin the planning and engagement process early.

Ensuring and committing to project sustainability promotes active digital payment usage amongst your payees, which in turn improves their access to a number of value-added services (as discussed in the next step) and builds the resilience and self-reliance of digital ecosystems.

Internal & external considerations when working towards ensuring digital payments sustainability

Internal

1. Ongoing availability of staff who have been trained on the technical aspects of the initiative and who can provide training of trainer support within the organization.
2. Transition plan to eliminate any project subsidy of digital payment costs (e.g. transaction fees) as payees become regular users of DFS.
3. Any planned changes in leadership or strategy that may influence the level of commitment to the initiative (e.g. CEO or board of director term limits, change in strategic focus of the organization after a set period).

External

1. Who can provide training of trainer support within the organization.
2. Ongoing allocation of financial resources to absorb any additional costs associated with digitization (e.g additional staff, computers, field visits, M&E, etc.).
3. Availability of sustainable funds to cover payee payments and transaction fees should the payer be absorbing those.
4. Any planned changes in leadership or strategy that may influence the level of commitment to the initiative (e.g. CEO or board of director term limits, change in strategic focus of the organization after a set period, etc.).
5. Availability of ongoing training around VAS enabled by DFS to drive payee interest in extending the payment scheme.
6. Commitment and capacity of the service provider.

CASE STUDY

SCALING SUSTAINABLY

In 2012, the Colombian government contracted DaviPlata to pay conditional cash transfers (CCTs) to 937,000 payees of the Más Familias en Acción (FA) program. This contract made DaviPlata one of the largest-scale mobile-based CCT payment operations in the world. In 2014, it had 2.2 million wallets, 46% of which were associated with CCTs. To date, over 79% of the $43 million government to person (G2P) monthly payments in Colombia are channeled through DaviPlata. To sustain this scale, DaviPlata invested significantly in expanding the "cash-out" agent and ATM network from 2,047 to 7,558 access points by 2014. In an effort to improve liquidity management, the bank staggered G2P payments in sequence and geography across the country. DaviPlata also coordinated with partner banks and mobile network operators at the time of payment to minimise transaction pricing variations, making withdrawals more affordable. Finally, to produce real financial inclusion and accelerate adoption of digital technology by payees, the bank promoted diversified transactions across microsavings/credit that impacted over 12% of clients. This case highlights a proven delivery model for effectively reaching and engaging with more vulnerable customers and also scaling digital payments to serve a larger population. The FA program was used in June 2020 to disburse <u>$145 per payee</u> for COVID-19 relief.

For more information on Colombia's digitization initiatives generally, check out the Better than Cash Alliance's reports on the country's efforts <u>here</u> and <u>here</u>.

You're almost done becoming a digital payment expert — only one step left to go!

Step 10

Data Protection and Value-Added Services

KEY QUESTIONS What data protection and privacy controls should be considered? What kind of VAS can be accessed with digital wallets?

WHAT YOU WILL LEARN

In this step and its associated tool we help you ensure your service provider's data protection policies meet industry standards, prompt you to refine your own policies and also introduce you to the world of value-added services being enabled by digital wallets.

- Tool 1:   Value-Added Services

   ▷ Watch a tutorial on Tool 1

Step Read Time: 4 minutes
Tool 1 Read Time: 2 minutes
Tool 2 Read Time: 7 minutes

Budget Category: Labor
Phase: Recurring

Who:
Program, Finance, Legal, IT Staff, Senior Leadership

Payment transaction data generated from digital payments is proving to be a powerful tool of a mobile money wallet that extends beyond its basic deposit, withdrawal and money transfer functionalities. With digital repayment data often comes access to services that many financially excluded populations have historically been denied, such as access to credit or insurance. While this data certainly promotes access to a broader range of value-added services, data protection policies and privacy controls come into play.

We discuss the importance of understanding your service providers' data protection policies in **Step 5**, however we deem it important to expand here as well. GSMA's guidelines on data protection for mobile money operators is a great resource to compare service provider policies to ensure adherence to the industry's best practices.

Some of the key topics to keep an eye out for are listed below.

Data Governance

User Choice and Control

Data Minimization

Openness, transparency and notice

Data Information & Security

Data Sharing

Accountability

USAID requires its IPs to use data responsibly (see USAID's data guide) and governments are also adopting regulations that may impact your data collection approach. When developing your organization's data protection policy, consider asking yourself and any project partners the following questions (pulled from CaLP) to ensure your current or future data privacy controls protect payee data from all angles.

1. What information is being collected and what is the purpose of collecting this data?
2. Who is collecting the information? Who is analyzing the data?
3. How is the information collected?
4. How and where is the data being stored?
5. What are the national regulations around data protection, privacy and security?
6. Who has access to, and can change, the data?
7. How is it being shared and used with partners and other stakeholders/any third parties?
8. How are data protection and privacy policies being communicated to payees and how is their consent to use their data obtained?
9. How long will the data be stored and what happens to it afterwards?
10. What data security measures are being put in place by the program and partners to reduce the risk of data security and availability incidents?
11. Can the data management system handle a project scale up?

Addressing privacy and security, one of the Principles for Digital Development, with your payees is equally as important. Payees can also be informed about their data privacy rights, a topic that can be addressed during the digital financial literacy training (see **Step 7**, **Tool 2**). Some considerations (pulled from CaLP's great work around data protection) to keep in mind as you sensitize payees about data protection include:

✓ Transparency about how data will be used
✓ Notify payees when collecting their personal data
✓ Obtain payees' active and informed consent to use their personal data
✓ Ensure data is used only for the purpose(s) for which it was collected; if this purpose changes, inform the payee again and seek consent

LEARN MORE	RECOMMENDED RESOURCES
CaLP	E-Transfers and operationalizing payee data protection course
	Protecting Beneficiary Privacy: Principles and Operational Standards for the Secure Use of Personal Data in Cash and E-Transfer Programs
Mercy Corps	Tipsheet: CVA Payments and Digital Data Management
USAID	Considerations for Using Data Responsibly at USAID

Once payees provide their consent, they are eligible to access a range of value-added services and participate in the broader digital economy that is increasingly data driven. Highlighted below are some of the most common value-added services, some of which generate data and others which are reliant on data to offer their services.

Bill Payments - *Generate Data*

This is the most popular type of value-added service. Payees can use their digital payment wallets to purchase airtime, pay for utility bills or make school fee and hospital payments.

Savings - *Generate Data*

Financial Institutions and FinTechs offer a number of automated or manual savings schemes specifically designed for mobile money or agency banking wallets. In fact, in some markets, the mobile money wallet itself must be an interest-bearing savings account.

Insurance - *Generate Data*

Insurance providers are also offering services directly through digital wallets. Some models deduct the premium from the customer's mobile money balance automatically and others offer manual payments.

Credit - *Rely on Data*

Given the maturity of the digital payments landscape, there are now a number of creative credit offerings from banks, agricultural

technology companies and FinTechs that apply digital payment wallet use and activity as a component for, or the sole, credit scoring criteria. There are a number of options that are available directly on mobile money or agency banking wallets.

PAYGO Solar - *Both Generate and Rely on Data*

Pay-as-you-go (PAYGO) solar energy schemes offer consumer financing to purchase off-grid energy systems. These systems are particularly valuable for rural populations where access to the national electric grid is sparse, but sunshine is abundant. The typical lease-to-own model often incorporates financing facilitated by payments made through mobile money. A customer typically makes an initial deposit followed by monthly or weekly mobile money installments. Many PAYGO solar companies, such as Fenix International, use their customers' mobile money repayment history to assess customer risk and to offer additional value-added services such as school fee loans, agricultural loans, home improvement loans and health insurance. Check out USAID's report on PAYGO solar as a financial inclusion driver here.

Helping payees understand the value-added services available with a digital wallet is a powerful way to incentivize digital payment adoption, encourage use and connect payees with the digital economy. As global digital

systems continue to mature, the value of a digital wallet increases, unlocking innovation and access to resources.

DEMOCRATIZING ACCESS TO MICROCREDIT

CASE STUDY
JUMO, a financial technology company, partners with financial institutions and mobile money operators to provide short-term microfinance through customers' bank or mobile money accounts. Available directly on mobile money menus, JUMO's loans are simple and easy to obtain, with no prior financial account ownership, savings or formal credit history required, as all one needs is an active mobile money account. JUMO relies on mobile money transactional history and account activity during its automated appraisal process. JUMO's model is 100% digital and does not require any in-person interaction. Customers can borrow smaller amounts, ranging from as low as $2 - $230, with a typical loan term of between 30-60 days. Most of JUMO's customers are low income earners and small or micro-entrepreneurs with limited access to formal financial products.

To date, JUMO has served 16 million customers (98% in Africa) and disbursed over $1.8 billion in microfinance. In its most popular markets, including Tanzania, Kenya, Zambia, Rwanda and Uganda, users make 300,000 daily transactions. JUMO's model shows the power of a mobile money wallet in unlocking access to finance, particularly for those who have been historically excluded from formal financial services.

Looking towards the future

As we look towards the future of the DFS landscape, here are some trends to watch:

1. **Official Identity: A Gating Item for DFS Improved by Digital ID Systems.** USAID is supporting efforts to develop cross-functional, infrastructural identification systems rather than fragmented systems. Improving the ease with which identity can be verified, such as using facial recognition technology to verify a selfie, especially for those without current proof of identity will be an important contributor to the continued advancement in digital financial inclusion through use of DFS. With that said, individual's privacy rights must not be compromised.

2. **The Need for e-Commerce, especially during COVID-19, may Accelerate Use of DFS.** The COVID-19 pandemic has made DFS essential for individuals to engage in economic activity. Markets driven by human contact and physical presence have moved to digital platforms, from food delivery to product sales. Governments are providing stimulus payments through digital transfers which require a digital account for receipt. An individual's ability to adapt to this shift to digital interaction has highlighted the need to close the gap in digital financial inclusion.

3. **Non-Traditional Players: FinTechs, SuperPlatforms and Global Aggregators.** New companies entering the DFS market include start-up FinTech companies, global aggregators and "super-platform" companies, such as Google, Facebook and Amazon. Companies, such as Facebook's WhatsApp, Instagram and Messenger, are working to integrate payments into messaging platforms in particular. Global aggregators are offering digital payment solutions across providers and countries that IPs can use to centralize payment processing at the headquarter level. IPs increasingly are integrating payments and payee data into their broader management information system approaches.

4. **New Approaches to Currency: Cryptocurrency.** Movement away from cash to digital technology is also driving innovation in approaches to currency through blockchain and central bank approved digital currency. Bitcoin was one of the early blockchain approaches to cryptocurrency. It has been met with mixed success. In 2019, Facebook announced its design of a cryptocurrency, Libra, that would use a blockchain network to create the currency token and verifying transactions and token ownership. No doubt additional innovation in this space will occur but regulators and central bank policies will be the biggest determinant in their success.

5. **Cybersecurity: A Digital Essential.** Digital transaction processing raises the issue of cybersecurity. Vulnerabilities in digital payment systems need to be addressed at the systems level with providers but also at the consumer level to prevent internal threats such as sharing a PIN and responding to phishing attempts. Consumers need to trust the system, the security of their transactions and the safety of their funds. In this space in particular, developing best practices from standards bodies and global alliances will be important.