AGENTS FOR CHANGE:
Four Ways Funders Can Support Rural Cash-in/Cash-Out Networks

WEBINAR
12 October 2021
Learning Agenda

1. Why are agents important in advancing DFS use, financial inclusion and SDGs?

2. What innovations are required to support the development of rural agent networks?

3. How can development funders support market actors in designing, implementing and scaling these innovations?
Speakers

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Senior Financial Sector Specialist

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Senior Financial Sector Specialist

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Senior Financial Sector Specialist
Who are agents and why are they important?
Agents are the ‘face of the service’ for DFS providers

- Account opening and management
- Converting e-money to cash and vice-versa
- Over the counter payment services
- Information services, training and troubleshooting
Rural agents drive DFS use, promote financial inclusion and advance sustainable development goals

Globally, use of DFS and mobile money is closely associated with physical proximity to CICO agents.

Counterintuitively, growing agent networks enable more digitization.

Agents convert cash into e-money and back → most people still earn and spend in cash → agents drive DFS adoption and use.

This is especially true in rural areas.

Source: Proximity Matters: Five Case Studies in Closing the CICO Gap (CGAP, 2018)
Growth of DFS does not eliminate the need for cash, hence CICO operations will always be needed.

Sources: The Role of Cash In/Cash Out in Digital Financial Inclusion (CGAP, 2019), Payments Are a-Changin’ but Cash Still Rules, BIS (2018)
Agent networks lag where they are needed the most – in rural areas

In China, 88% financially excluded individuals live in rural areas

Half the rural population in India, Indonesia, Pakistan, Bangladesh, Tanzania, Kenya and Uganda live more than 5km away from their nearest financial service access point.

FSPs are increasing coverage and quality of DFS in urban areas

Rural areas risk being left out of DFS coverage

Source: BCG Analysis (2020)
Market system wide innovations are required to support the development of rural agent networks
Agent networks do not expand to rural areas because the market systems are underperforming

### Low Demand
- Fewer customers and low population density
- Lack of many use cases, cash-based economy
- Limited consumer awareness
- Social norms are barriers to access

### Unviable business models
- High set up costs and operating for providers and agents
- Limited supply of agents
- Lack of affordable financing for agents
- Customers have different liquidity needs (e.g. fewer, low value transactions)

### Restrictive regulations
- That don’t consider rural constraints like having narrow ID requirements, agent exclusivity etc.

### Weak rural infrastructure
- Limited network of financial service providers
- Poor and unreliable mobile and internet connectivity
- Inaccessibility of ID (for consumers), high cost of using ID (for providers)
Providers face much higher operating costs in rural frontier areas compared to non-frontier geographies.

1. Customer charge per transaction, minus commissions to agent and distributor
Countries reviewed include India, Bangladesh, Tanzania, Kenya.
Source: BCG DFS Agent Interview Study, 2018; secondary research
Solutions exist: insights from deep dives in 5 countries

- Indonesia
- China
- India
- Kenya
- Colombia
A market system approach is needed to support rural agent network development

**Boost Demand for DFS**
- Tailor agent and DFS use cases to rural areas, embrace human centered design
- Address social norms and improve customer attitudes towards DFS
- Raise awareness about agents and DFS among rural customers

**Support Viable Business Models**
- Aggregate financial and non-financial services at agent level
- Tailor agent profiles and management processes
- Improve agent experience and incentives
- Leverage technology to reduce costs and increase customer uptake

**Support enabling regulations**
- Create regulatory environment adapted to rural areas specificities
- Protect customers and create incentives for positive customer outcomes
- Design incentives and mandates that encourage providers

**Strengthen rural infrastructure**
- Financial infrastructure for liquidity management
- Interoperable payment systems
- Reliable ICT
- Low cost and accessible ID
- Data and data analytics capacity
Let’s focus on three key solutions

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Demand: providers and regulators often underestimate the need to tailor approaches to the rural population.

CICO agent networks tend to develop in rural areas through P2P-, G2P-, or e-commerce-led pathways.

Providers should develop a better understanding of the rural customer journey and tailor their offer and supply systems using a lowest common denominator that deepens reach not only in urban areas, but also in rural ones.
Business model: aggregation is key for viability

Aggregation and agent diversity are key to increase average revenue per client, drive volume of transactions, and profitability.
Policy and regulations: incentives and mandates can catalyze rural agent network development

<table>
<thead>
<tr>
<th>Provider and agent targeted incentives</th>
<th>Leveraging social protection policies</th>
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<tbody>
<tr>
<td>➢ Preferred financing</td>
<td>➢ Channelling G2P and P2G payments through mobile money and agents</td>
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<td>➢ Favorable government contracts</td>
<td>➢ Create diverse set of service touch points for customers to receive or make payments</td>
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<td>➢ Tax credits and rebates</td>
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<td>➢ Subsidizing transaction fees and inputs</td>
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<td>➢ Funding agent training</td>
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<td>➢ Pricing guidelines</td>
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<td>➢ Income guarantees</td>
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<td>➢ Innovation or R&amp;D grants</td>
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<th>Setting inclusion guidelines</th>
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<tr>
<td>➢ Mandates, service obligations and service level targets for providers to cover rural markets</td>
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</table>

Source: BCG Analysis
Funders can play an important role in supporting market actors to design and implement these innovations.
Market actors often lack the incentives and/or capacity to implement these solutions.
DFS Providers

We won’t invest given the uncertain financial returns …

… and the free rider issue

We don’t want to partner with new entrants we don’t trust

We don’t have the internal capacity to innovate

Lack of incentives to develop solutions

Lack of capacity to develop solutions
It is not a priority

We don’t see why bank branches and agents important

We do not have an ID issue.

What exactly should be improved?

We don’t have the resources

Lack of incentives to develop solutions

Lack of capacity to develop solutions
I don’t want to change – I am good with cash

Never heard of DFS or agents

I don’t have a phone

I don’t know how to use a phone

Rural Customers

Lack of incentives to adopt solutions

Lack of capacity to adopt solutions
Funders can help, by building incentives and capacity

- Boosted Demand for DFS
- Viable Business Models
- Enabling Policies and Regulations
- Supporting Rural Infrastructure

Innovations

- DFS Providers
- Policymakers
- Regulators
- Customers

Funder interventions

- Build capacity and share risks/costs
- Support local market knowledge building
- Build awareness: share global knowledge, advocate for change
Various types of interventions

- **Boosted Demand for DFS**
  - TA for Customer Centricity
  - Support communication campaigns
  - Raise awareness around social norms
  - Co-fund market research
  - Advocate for and support G2P digitization

- **Viable Business Models**
  - Share piloting costs
  - Create networking opportunities
  - Share information on innovations worldwide

- **Enabling Policies and Regulations**
  - Help draft policies and regulations
  - Support data-based monitoring tools
  - Advocate for improved regulation

- **Supporting Rural Infrastructure**
  - Co-fund rural infrastructure
  - Co-fund market diagnostic
  - Advocate to build rural infrastructure

**Build capacity and share risks/costs**

**Support local market knowledge building**

**Raise awareness**
Let’s take a few examples

**Boosted Demand for DFS**
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Advocate for & Support G2P and P2G Digitization
To stimulate demand

World Bank & BMGF – G2Px: aims to bring knowledge and expertise to digitize G2P payments and accelerate development outcomes.

GIZ - Tunisia: within its broader Digital4Reform program, GIZ is advocating for and supporting the digitization of P2G payments at the municipality level.
Raise Awareness around Social Norms

- Help providers work around a norm (e.g., hiring more female agents)
- Run campaigns to change a norm (e.g., sharing information on the impact of e-money vs. cash on households' costs)
- Advocate for regulations that break the norm (e.g., regulation prohibiting FSPs to ask whether a woman is married)
Create Networking Opportunities

FSDs provided networking opportunities and share knowledge on partnership models, to encourage partnerships beyond providers’ comfort zone.
Support Regulation

Provide expertise to improve regulations

Shared e-KYC and ID verification utility to foster more convenient and more secure remote account opening for DFS

Co-fund or subsidize to build rural infrastructure

World Bank financing to Morocco to strengthen digital infrastructure includes commitments to develop digital ID, development of accessible and good quality digital broadband service.

Source: World Bank
USAID funded training and capacity building, including marketing support for mobile money agents in Liberia and Sierra Leone, as part of efforts to digitize the payments infrastructure to improve health service delivery.

IFC invested in providers who test new agent profiles, new agent management processes or new technology.
## Different solutions at different stages

<table>
<thead>
<tr>
<th>Stage</th>
<th>Align incentives</th>
<th>Build Foundations</th>
<th>Scale</th>
<th>Improve</th>
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</thead>
<tbody>
<tr>
<td>Nothing</td>
<td>❑ Advocate for and demonstrate importance of rural CICO agents</td>
<td>❑ Develop the regulations for e-money and agent networks to function safely and effectively</td>
<td>❑ Scale and replicate successful pilots</td>
<td>❑ Add new use cases to improve customer experience and preserve business model viability</td>
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<td>Incipient</td>
<td>❑ Make agent economics more attractive for private actors by stimulating demand and reducing costs</td>
<td>❑ Support innovative business model pilots</td>
<td>❑ Support communication campaigns</td>
<td>❑ Develop performance monitoring tools to identify gaps in coverage and services</td>
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<tr>
<td>Emerging</td>
<td>❑ Improve infrastructure</td>
<td>❑ Improve infrastructure</td>
<td>❑ Improve regulations, consumer protection to manage emerging consumer risks</td>
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<tr>
<td>Growing</td>
<td>❑ Improve infrastructure</td>
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<td>❑ Improve infrastructure (never ending task!)</td>
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Same Goals, Different Paths

**Lead in developing innovative business models**

- **Kenya:** DFS providers, outsourcing some agent recruitment and management to ANMs.
- **Colombia and India:** Banks took the lead but relied heavily on ANMs to onboard and manage agents, and for service aggregation.
- **China:** DFS providers, linked to E-commerce firms.

**Use cases to stimulate demand for DFS**

- **Kenya:** P2P urban to rural remittances.
- **Colombia and India:** Expanding G2P transfers to rural beneficiaries.
- **China:** Buy and sell various goods and services in urban/rural areas using a single e-platform.
Q&A

1. How important are rural CICO networks in your current portfolio of work?

2. What are some challenges and knowledge gaps that prevent you from supporting rural agent network development?

3. What will it take for you to design projects around rural agent network development? How can we help?
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Visit Channel, CGAP’s knowledge hub of research and findings on topics related to agent networks, CICO, and distribution of digital financial services in rural areas.

www.cgap.org/Channel

Watch out for our forthcoming efforts to guide funders in supporting rural agent network development.

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