

DEVELOPING RURAL AGENT NETWORKS TO ADVANCE DIGITAL FINANCIAL INCLUSION

Emerging Guidance for Funders

EXECUTIVE SUMMARY

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RURAL DEVELOPMENT IS CENTRAL to realizing the 2030 Sustainable Development Goals (SDGs) agenda because nearly 80 percent of the world's poor live in rural areas (UNDESA 2021). Moreover, rural populations have less access to education, health, electricity, sanitation, and other services, leading to marked rural-urban disparities, discontent, and discord.

It is widely accepted that financial services for the poor and excluded is a key enabler in advancing several SDGs. However, increasing access to, and usage of, financial services in rural areas is not easy. These areas tend to be poor, remote, sparsely populated, and poorly connected by weak infrastructure. This makes rural markets more expensive to serve for financial service providers and less attractive compared to urban markets. Digital financial services (DFS) can help lower costs for providers, which is essential for reaching poor customers at scale.

While the term “digital financial services” suggests that everything can be conducted on a phone, a network of human touchpoints known as cash-in / cash-out (CICO) agents is critical, especially in rural economies which are predominantly cash-based. Rural customers need financial access points where they can convert physical cash into e-money and back. Without the confidence that e-money

can easily be converted into physical cash when needed, many customers hesitate to accept e-money payments. Further, since rural populations are characterized by a long history of financial exclusion (and low financial and digital literacy) CICO agents are uniquely positioned to provide the awareness, trust and capacity building needed to advance formal finance.

CICO agents are individuals or commercial entities, like small retail shops or even roaming sale agents, contracted by financial service providers (FSPs) to act as an interface with customers and distribute their services. CICO agents tend to be in close proximity to the communities they serve, enjoy their trust, and are familiar with their customers’ needs, enabling them to drive adoption and usage of DFS. Female CICO agents are also positioned to advance women’s financial inclusion; underbanked women customers exhibit a strong preference to transact with female agents, even when they are not easily accessible, and especially when female customers have high account balances. The agents provide a range of services from opening and helping operate e-money accounts, converting cash to e-money and back, conducting over-the-counter payment services (like bill payments, remittances) and troubleshooting.

The importance of CICO agents to rural areas goes beyond the distribution of DFS. The frontier nature of rural economies imposes high distribution costs on goods and service providers catering to these markets, including governments. CICO agent networks can be leveraged by these providers to distribute or facilitate payments for a wide variety of essential goods and services such as off-grid electricity, water, education, pharmaceutical and nutritional products, and fast moving consumer goods. They can also make government-to-person payments like social protection payments and humanitarian assistance, which can help poor households improve their wellbeing, take advantage of opportunities to generate incomes, and build resilience to prepare for shocks.

The significance of CICO agent networks has been underscored during the COVID-19 pandemic when several countries including India, Mexico, the Philippines, Vietnam, and Pakistan declared CICO agents “essential service providers,” allowing them to remain open during the pandemic, distribute emergency relief payments, make other social transfers and keep remittances flowing (GPFI and World Bank 2021). Other countries, such as Ecuador, made policy changes to support expansion of agent networks by relaxing entry requirements and simplifying agent onboarding procedures, leading to a doubling of the number of agents (Baur-Yazbeck and Johnson 2020, Cavallari 2020).

Given the importance of CICO agent networks in promoting financial inclusion, facilitating access to basic services, and advancing several development outcomes, and given the increased interest of governments in digitization during the COVID-19 pandemic, funders should consider supporting the expansion of CICO networks in rural areas as a priority. Although many development funders recognize the importance of these networks and rely on them to distribute financial assistance or improve value chains, not enough is being done to expand them in a sustainable way. More is needed to build viable agent networks that serve poor rural customers.

DFS providers invested extensively in developing their distribution network in recent years. Yet CICO agent networks lag where they are needed the most—at the last

mile, in rural areas, where most of the world’s poor and underbanked live. Fifty percent of the rural population in India, Indonesia, Pakistan, Bangladesh, Tanzania, Kenya, and Uganda—which are among the world’s most underbanked countries—live more than five kilometers away from the nearest financial access point, compared to only 10 percent of the urban population and 20 percent of the peri-urban population (Unnikrishnan et. al. 2019).

There are market system-wide barriers that hinder the expansion of agent networks beyond urban areas, such as low demand for DFS and CICO agents, a limited supply of traditional CICO agents, unviable businesses models, restrictive regulatory environments, and a weak supporting rural infrastructure.

These barriers can be mitigated through innovations across the market system, as illustrated in Figure ES1. These innovations aim to encourage DFS providers to tailor use cases for rural customers, reduce costs by developing alternative agent profiles and management processes and increase revenues by aggregating financial and non-financial services at the agent level. They often require market actors to leave their comfort zone to leverage technologies and partner with organisations outside financial markets (e.g., fast-moving consumer goods providers, agribusiness, or e-commerce players that operate rural service points).

Although these solutions exist, market actors, including both providers and regulators, often lack the incentive or capacity to implement them. For example, DFS providers often replicate their urban market operations in rural areas, without conducting thorough market research and sufficiently tailoring their products and distribution strategies, which results in unviable rural agent operations and the consequent belief that rural areas are not an addressable market. The inability to appreciate the potential of rural markets stems from a historic lack of familiarity with rural customers and uncertainty of financial returns on rural investments. But such a one-size-fits-all approach leads to low customer uptake and an unviable business model, creating a vicious cycle. Similarly, policymakers and regulators may fail to see why agent networks are critical to digitizing financial services or appreciate all the supporting measures needed

to encourage development of these services at the last mile. Lastly, rural customers themselves may be limited in their ability to adopt DFS solutions due to low digital literacy and account penetration, social barriers, and the status quo bias toward the use of cash.

Development funders are uniquely positioned to leverage their financial resources, technical knowledge from global or regional experience, and convening power to align the incentives of various market actors and build their capacity, so that they design and implement self-sustaining solutions to expand rural CICO agent networks. Figure ES1 describes the various interventions funders can make across each component of the market system – supply, demand, regulation, and infrastructure.

This Technical Note is targeted at development funders (donors and DFIs) and provides high level guidance based on CGAP's prior research. **Section I** introduces CICO agents and describes their importance in advancing sustainable development goals and financial inclusion.

Section II explains the various market system-wide barriers to expanding rural CICO agent networks, solutions to address these barriers, and what funders can do to create the incentives and capacity among market actors to design and implement these solutions. **Section III** concludes by discussing implications for funders.

FIGURE ES1. Solutions markets actors can implement to expand agent networks and interventions funders can design to support market actors

Solutions to be implemented by market actors	Funders' possible interventions
Solutions to increase supply of CICO agents <ul style="list-style-type: none"> Diversify agent revenue through financial and non-financial service aggregation at agent level, with a service offer mix that responds better to customer needs. This might include support to inclusive technologies, like e-commerce platforms, embedded finance products, etc. Develop alternative agent profiles, more relevant and available in rural context Outsource agent management processes to existing network managers Create additional incentives (beyond profits) to serve as CICO agents Leverage technology to decrease costs of agent management 	 <ul style="list-style-type: none"> Raise providers' knowledge of rural markets and innovative business models (TA, knowledge sharing) Create networking opportunities among DFS providers, and potential partners De-risk pilots to test business model innovations (TA, grants)
Solutions to boost demand for CICO agents <ul style="list-style-type: none"> Tailor DFS and agent use cases for rural customers, rather than simply replicate the urban experience Digitize G2P and P2G payments, as well as agricultural value chain transactions, which often represent high volumes of transactions in rural areas and can help kick start the adoption of e-money Mitigate gendered norms related barriers to DFS use Raise awareness about DFS and agents among rural customers 	 <ul style="list-style-type: none"> Co-fund market research to identify flows to digitize, best agent profile, etc. Support communication campaigns on DFS and CICO agent services (advocacy, TA) Help digitize G2P, P2G and Ag. Value chain payments (advocacy, TA) Encourage providers to adopt customer centric approaches (TA) Help understand and mitigate restrictive gender norms (advocacy, TA)
Solutions to support enabling policy and regulation <ul style="list-style-type: none"> Design regulations to test and enable key innovations, such as alternative agent profiles, agent management outsourcing, agent non-dedication and non-exclusivity. Create safeguards to protect customers Develop mechanisms to incentivize or even mandate DFS providers to expand into rural markets 	 <ul style="list-style-type: none"> Foster public-private dialogue Foster enabling regulatory environment (TA, advocacy) Advocate for customer protection (TA, advocacy)
Solutions to build supporting rural infrastructure <ul style="list-style-type: none"> Improve financial infrastructure like bank and postal branches Expand access to ICT infrastructure like mobile phones, high speed internet Expand coverage of identity management systems like biometric- enabled national IDs Design for agent interoperability and non-exclusivity Develop the data infrastructure and promote data-based decision making for both providers and policy makers 	 <ul style="list-style-type: none"> Co-fund infrastructure diagnostics Co-fund rural infrastructure development (ICT, ID, physical, payment interoperability, etc.) Promote evidence-based decision making by providers and public market actors (TA, advocacy, grants)