TECHNICAL GUIDE

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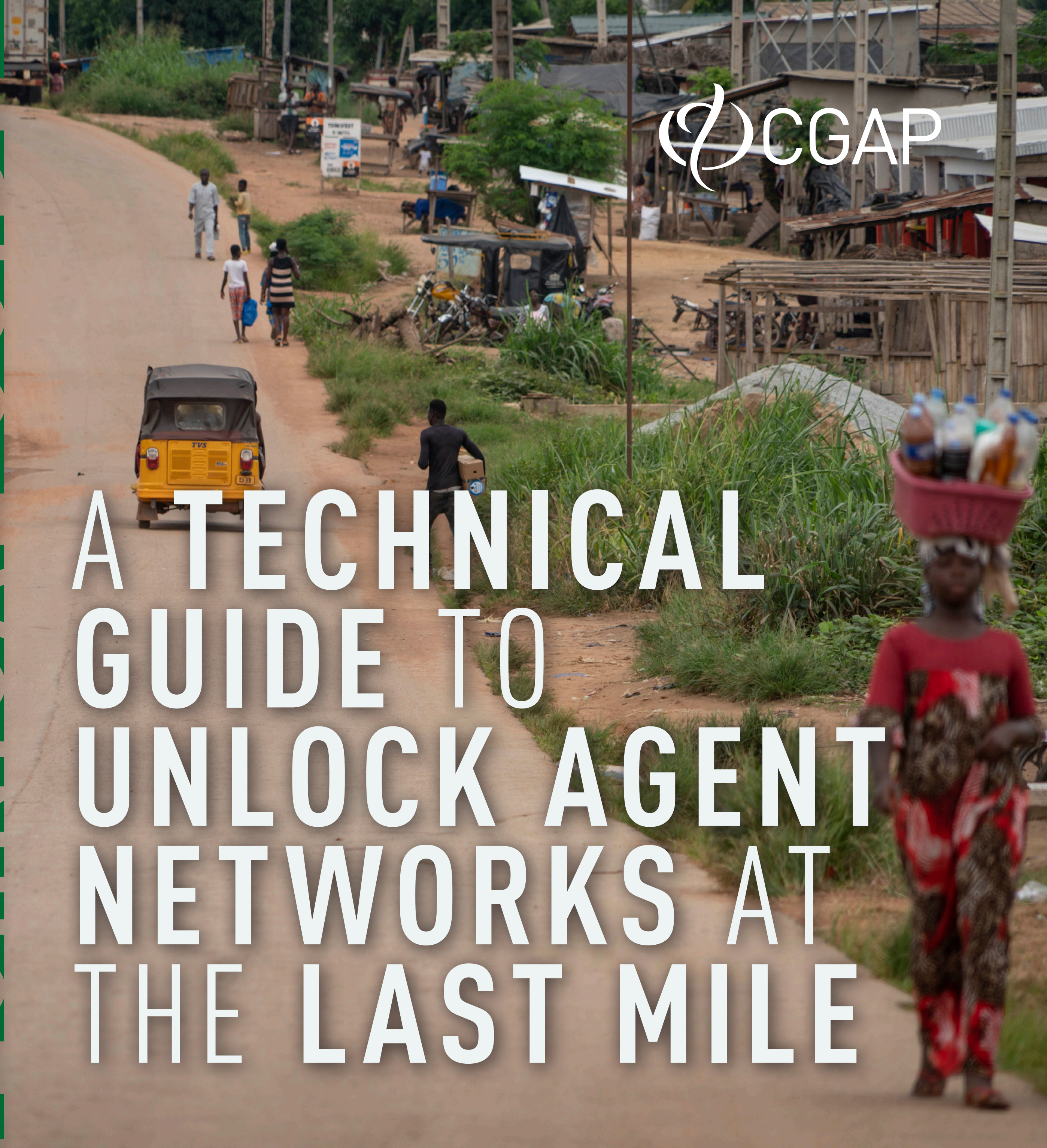

A TECHNICAL GUIDE TO UNLOCK AGENT NETWORKS AT THE LAST MILE

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EXECUTIVE SUMMARY

DIGITAL TECHNOLOGY HAS shown great potential to enable digital financial service providers to reach low-income customers with services that help them become more resilient against individual and climate shocks, and capture investment opportunities that improve their well-being (Sirtaine and McKay 2022). However, realizing this potential for inclusive digital finance ecosystems requires the setup of key building blocks. One of the most foundational is the development of far-reaching, Cash-In and Cash-Out (CICO) agent networks. Other key building blocks include customer-centric services, instant payment systems, open finance frameworks, and the accompanying policy and regulatory frameworks that enable them (Hernandez et al. 2021). This guide presents five key actions that financial providers, policymakers, regulators and funders can take. These actions have shown to be most effective in unlocking the expansion of CICO agent networks, based on CGAP's global experience.

As digital financial ecosystems grow, despite many predictions, cash continues to play a central role in the lives of customers (BIS 2023). This is especially true for low-income customers in developing countries, who are mostly employed in large, informal economic sectors that pay wages in cash (ILO 2022). For this reason, far-reaching CICO agent networks will be required to scale the use of Digital Financial Services (DFS) among low-income customers who earn mostly cash income, and need to transform cash into electronic money to transact digitally. This holds even when these customers own a smartphone, an account, and see the value of DFS. Based on the experience of the very few countries in the world where cash in circulation has diminished, agent networks will continue to be critical for low-income customers until most of their income and expense streams are simultaneously digitized (Hernandez et al. 2021).

Beyond the currency conversion function agents play, they have shown to provide crucial advice and enable digital confidence and trust among first-time DFS users. The 2021 Global Findex finds that 75 percent of unbanked adults believe they can't use an account without any assistance. Even among those who are banked but dormant, a third still cite the same reason for the lack of usage (Global Findex 2022).

Going the last mile with Digital Financial Services

Today, CICO agent networks cover urban areas well in most countries. However, extending these networks to peri-urban and rural areas, where most low-income customers live, remains a significant challenge. According to the latest Global Findex, low-income customers, rural dwellers, and women are disproportionally represented among the 1.4 billion adults that remain financially excluded. Distance to a financial institution or mobile operator is the second most cited reason for this exclusion, with 31 percent of respondents arguing that they live too far away from a financial institution and 23 percent from a mobile money operator.

This distance to a financial service point is felt more by women, given mobility restrictions imposed by gender norms, which helps explain the global gender gap in access to finance at 9 percentage points. In most developing countries, there is also a rural gap in access to finance, such as in sub-Saharan Africa, where as much as 62 percent of the unbanked population lives in rural areas (Global Findex 2022). This gap exists due to the remoteness and, low population density in these areas, leading to higher agent network management costs and lower revenues. Most provider business models have not been able to adapt to these conditions. This persistent rural-urban gap in financial inclusion represents an important impediment to attaining socio-economic development goals that focus on improving poor people's lives.

In this *Guide,* CGAP presents concluding lessons from its work to address significant knowledge gaps that prevent the expansion of CICO agent networks into rural areas. A special focus was given to understanding the role of women agents in the financial inclusion of women customers and various other vulnerable customer segments.

Lessons learned

An overarching lesson is that there is no one-size-fits-all solution to creating successful agent networks at the last mile. Solutions can range from fully private enterprises to public-private partnerships. M-PESA in Kenya or Bancolombia in Colombia, have become flagship examples of entirely private ventures reaching most of the rural population. Although these are two drastically different DFS models, they both invested heavily in rural CICO agents, recognizing their foundational role in allowing the uptake of DFS among rural customers, which contributed to their vision for long-term growth through becoming mass market leaders.

However, in most cases, rural outreach success was achieved through public-private partnerships like in China or India, where governments partnered with private actors like e-commerce firms (China) or third-party Agent Network Managers (India), all working with banks, to support the formation of rural agent networks (Hernandez et al. 2020). In all these approaches, one common achievement is that to make rural agent networks sustainable in the long-term, DFS providers succeeded in diversifying the number of valued services offered through agents that use a single float account. This increased transactions per rural customers and ensured economic viability for the rural agent and the provider, as explained in this guide.

While DFS providers are in the driver's seat in developing and executing solutions that make rural agent network expansion technically and economically viable, achieving this result at scale requires policymakers and regulators to fully understand the role these networks play in bringing the benefits of DFS to low-income customers, and to achieving socio-economic development goals. This understanding will justify the public investments suggested in this guide to accelerate the scaling of these networks.

Furthermore, in our research, we have seen multiple cases in which local industry stakeholders may be stuck in incentives that counter rural agent networks. Or, there are upfront investments that are too high and risky for a single private sector actor to pursue. Funders, as external and impartial actors, can leverage their financial resources, global knowledge, and convening power to align these industry stakeholders' incentives, or provide financial support for research, upfront investments, and piloting solutions. This role, even if temporary, can be catalytic to expand rural CICO agent networks (Kumaraswamy and Negre 2022).

Five key actions

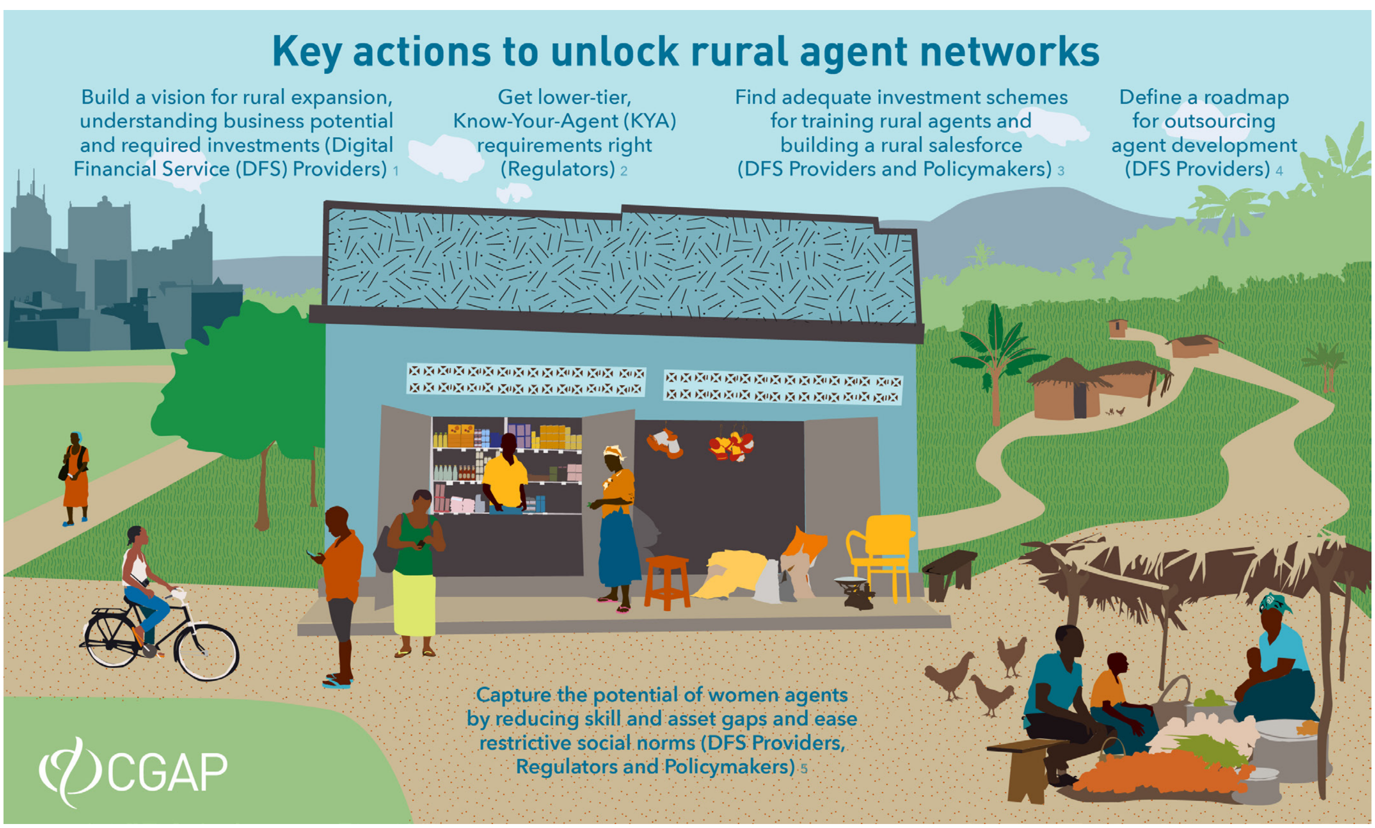
In this *Guide*, we summarize our conclusions in the form of five key actions. These are drawn from a broader set of global good practices that CGAP has identified (CGAP's CICO Webpage) and that ranked as the most catalytic in expanding rural agent networks in six focus markets (Colombia, Cote d'Ivoire, India, Indonesia, Morocco, and Pakistan). We recognize that not all good practices have the same weight in different market contexts. Thus, through these Actions, we present a more granular explanation of the significant challenges that local industry stakeholders must overcome to expand rural CICO agent networks. Each Action also provides examples of strategies and coordination efforts required from leading industry stakeholders to overcome challenges.

The Key Actions 1-4 are presented in a sequence that suggests the order in which, ideally, barriers should be addressed. Once one barrier is removed, the next one will be easier to tackle. Therefore, these actions can be interpreted as a guide for stakeholders to define a roadmap that unlocks progress in expanding the reach and quality of rural agent networks. Key Action 5 is focused on how to capture the benefits that recruiting more women agents bring for DFS providers, women agents themselves, and their communities, and it should be considered in parallel to all other activities.

Key Action 1: DFS providers build a vision for rural expansion. Given important differences in needs and preferences between rural agents and customers, relative to their urban counterparts, providers too often underestimate changes in product strategy and agent channels necessary to build rural agent networks. This leads to the early cancellation of rural expansion initiatives and prevents future provider attempts. This action focuses on the need for DFS providers to conduct a rural market assessment that is crucial to inform and validate the initial business plan for viable rural agent expansion. This assessment enables a realistic estimate of investments required and helps secure buy-in from senior management and alignment with operational units. We suggest what aspects this rural market assessment should cover.

Key Action 2: Regulators get lower-tier, Know-Your-Agent (KYA) requirements right. Here we discuss the importance of well-defined, low-tier agents, in building vast rural agent networks. If adequate risk-based KYA requirements for lower-tier agents are absent, it is likely that too few rural entrepreneurs will qualify as agents despite not representing any meaningful risk, and seriously limit DFS providers' ability to go rural. We show how regulators should define lower-tier agents and the due diligence required to onboard them (i.e., Know-Your-Agent or KYA requirements). Regulators should use a risk-based approach that is sensitive to the realities of agents in rural areas relative to their urban counterparts.

Key Action 3: DFS providers and policymakers find optimal investment strategies for training rural agents and building a rural salesforce. This action focuses on how DFS providers should adapt two types of processes that represent the greatest challenge to rural agent network expansion. The first is how to onboard and train rural agents. The second is how to create a salesforce to



promote financial products among rural customers and build demand. We discuss how these two processes have been successfully applied, the main cost items, and the optimal investment strategies used by industry leaders to fund them.

Key Action 4: DFS providers define a roadmap for outsourcing rural agent management. We discuss how DFS providers should decide whether to (i) onboard and manage rural agents directly; (ii) outsource this function to a third party or Agent Network Manager (ANM); or (iii) a hybrid approach. In any case, the country experiences presented suggest the outsourcing of agent management function tends to be optimal as service reach expands into more remote rural areas. We present some criteria to help DFS providers decide which strategy is best given their context.

Key Action 5: All stakeholders to capture the potential of women agents by solving skill and asset gaps and designing around gender restrictive norms. This action should be interpreted as cross-cutting to all the previous actions. It discusses the indispensability of recruiting more women agents to fully capture the rural expansion potential of agent networks in a way that reaches the most underserved and excluded customers. We present the benefits that women agents bring to themselves, their customers, DFS providers, and their communities, as well as the most prominent challenges that DFS providers face in recruiting them. We recommend some solutions to these challenges, per the global experience, which involves close collaboration between DFS providers, policymakers, regulators, and funders.

BACKGROUND

Rural agents matter for green, resilient, and inclusive development

Ensuring digital finance ecosystems are inclusive of poor people in rural areas, including women, is necessary for all efforts to promote green, resilient, and inclusive development. Digital financial inclusion has been identified as essential for achieving 13 out of 17 Sustainable Development Goals (UNSGSA 2023). Moreover, financial systems that are inclusive of all sectors of society have long been associated with less inequality, faster sustainable growth, and greater resilience against a diversity of shocks (World Bank 2008). Achieving these development goals is increasingly a top priority of not only global policymakers, but also private businesses.

As the financial inclusion community reflects on how to build financial systems that more effectively help vulnerable people, it is essential to emphasize the foundational role of CICO agent networks, as these are a vital part of the basic financial infrastructure necessary to deliver the benefits of Digital Financial Services (DFS) to poor people, as exemplified in India, Kenya, China, Colombia, and Brazil (Hernandez et al. 2021).

To ensure that DFS ecosystems scale in an inclusive manner, far-reaching CICO agent networks need to be developed. This is due to the fact that the substantial progress in building digital ecosystems in developing countries continues to coexist with sizable informal economies that employ 61 percent of the world's employed population and pay wages in cash (ILO 2018 and BIS 2023). This is particularly true for low-income customers. Therefore, even when these customers own a smartphone, an account, and see the value of DFS, they will require a CICO agent to transform their cash into e-money and vice versa, before they start making digital financial transactions. Furthermore, CICO agents allow critical human interactions with low-income customers, which is needed for the latter to gain trust in using DFS. CICO agents are generally the main promoters of consumer protection practices, as they are often the only point of contact for customers to learn about services, receive advice, and resolve issues.

As we acknowledge the importance of CICO agent networks for financial inclusion and sustainable development, we realize there is a persistent knowledge gap regarding how to expand CICO agent networks to rural areas, where most poor people live. Although the rural population globally is expected to reduce in the future, low-income people who remain financially underserved or excluded will still concentrate heavily in rural areas for the foreseeable future (Brookings Institute 2020). Moreover, even though DFS providers have successfully built CICO agent networks in urban hubs, these providers have struggled to extend these networks to peri-urban and rural areas. Provider agent management models do not adapt to the remote and low population density characteristic of rural areas, which leads to higher costs and lower revenues for these providers. This results in a persistent rural-urban gap in financial inclusion and poses significant challenges to sustainable development (Global Findex 2022).

Lastly, despite great advances in overall financial inclusion, the gender gap has been stubborn to close. Both in 2017 and 2021, the Global Findex found a consistent gender gap in access to financial services of 9 percentage points. Without the design of intentional strategies to further include women and provide them with the support they require, any expansion in rural agent networks will not necessarily translate into better development outcomes for women.

BOX 1. **This *Guide* is part of CGAP's research on Agent Networks at the Last Mile**

Recognizing the foundational role of rural agent networks in the development of inclusive DFS ecosystems, in 2019, CGAP began documenting the innovations that have allowed DFS providers to be successful in extending agent networks to rural areas in the few leading markets where this has been achieved at scale. This led to identifying guiding principles common to these markets (Hernandez 2019). We then further explored the different paths that industry stakeholders have taken to apply such principles for rural agent expansion, primarily driven by a strong demand from rural customers for payments applied to Person-to-Person (P2P), Government-to-Person (G2P), and e-commerce transactions (Hernandez et. al 2020). We have also compiled general global best practices and guidelines for local industry stakeholders - DFS providers, policymakers, and regulators – which provide a holistic global collection of these stakeholder experiences to expand rural CICO agent networks and can be seen as reference documents (Hernandez and Blackburn 2022 a-c).

Furthermore, to contribute to closing the gender gap in financial inclusion, CGAP designed a framework to apply a gender lens to the development of inclusive agent networks (Schiff 2021). Then, we took stock of the limited evidence about how women can benefit as CICO agents and as DFS customers. Based on the identified knowledge gaps, CGAP conducted further research in India, through an in-depth assessment on how gender-intentional policies that support rural agent networks can benefit women (Arora et al. 2023).

The catalytic role that funders play in enabling the creation of inclusive agent networks at the last mile was also highlighted by sharing lessons from CGAP's own experience, acting as an independent market actor and facilitator of local stakeholder initiatives in some markets (Kumaraswami and Negre 2022).

This *Guide* complements previous work by recognizing that the weight of those global good practices identified to promote rural CICO agents changes in every market context. Therefore, in the last phase of this initiative, CGAP set out to work with local industry stakeholders in six focus countries to narrow down and tailor those good practices, according to their unique conditions, and developed local strategies for their implementation. These countries were Colombia, Cote D'Ivoire, India, Indonesia, Morocco, and Pakistan, capturing a spectrum of DFS markets that range from nascent to very mature. For a description of the country-level work, see the Annex.

A compilation of all related knowledge products can be found on CGAP's Channel Page, and an e-learning course is available for those interested in this complete body of work.

INTRODUCTION

IN THIS *GUIDE*, WE PRESENT concluding lessons from the work conducted in six markets (Colombia, Cote D'Ivoire, India, Indonesia, Morocco, and Pakistan), summarized as five key actions at the country-level that industry stakeholders can take to expand rural agent networks.

Narrowing and tailoring global good practices to adapt them to specific market contexts requires a lot of work with local industry stakeholders —namely, DFS providers, policymakers, and regulators— to help them build their vision, knowledge, and capacity for implementation. An overarching lesson we gathered from this experience is that DFS providers, whether public or private-owned, are truly in the driver's seat in developing and executing local solutions to building viable rural agent networks that deliver valued services to rural customers. However, policymakers and regulators play a fundamental role in scaling these provider initiatives. This is because, most of the time, the social returns that come from greater financial and economic inclusion of the rural population will be higher than the private financial returns for DFS providers.

For this reason, policymakers and regulators have stronger motivations to invest in and support the scaling of provider initiatives. Without intentional policy support that genuinely leverages the know-how of DFS providers and co-invests in initiatives to scale, this network expansion will not happen. Similarly, without a regulation that is in tune with the realities of rural financial markets and entrepreneur profiles that can act as rural agents, regulatory restrictions can stop DFS providers from even trying to expand their services into these areas.

In addition, funders, as external market actors can play a temporary role in kickstarting these processes. They have the ability to leverage their financial resources, global knowledge, and convening power to align these industry stakeholders' incentives and can be catalytic to expand rural CICO agent networks. In many market contexts, local industry stakeholders may have misaligned incentives, and funder support can persuade other stakeholders to prioritize this work and improve their ability to start rural agent network expansion initiatives. Furthermore, funders can provide grants or co-invest to cover the initial up-front costs that may be prohibitively high for many DFS providers in starting rural networks.

In the following chapters, we present five Key Actions that reflect what these industry stakeholders —either in lead or supporting roles— should focus on to address the more pressing barriers that prevent progress in rural agent network expansion. The Key Actions 1-4 presented can be interpreted as a guide for stakeholders to define a roadmap that unlocks progress in expanding the reach and quality of rural agent networks. Each Action, once addressed, will make the remaining critical obstacles easier to tackle. Key Action 5, which specifically talks about women agents, is an overarching action that should be considered in each step of the rural expansion strategy.

BOX 2. **Definition of stakeholders referenced**

DFS providers: Public or private-owned Digital Finance Service providers of various types. They include traditional banks, non-bank financial institutions, fintech, e-commerce firms, mobile network operators, and microfinance institutions. They are all authorized by regulators to offer some type of digital financial services —alone or in partnership with another financial provider— related to payments, savings, credit, or insurance.

Policymakers: Government entities with the ability to define public policies that directly or indirectly affect the financial sector's ability to serve customers. This includes Ministries of Finance defining policies directly concerning the finance sector (e.g. taxes, subsidies, mandates); Ministries of Social Affairs or Agriculture, which may have subsidy distribution policies specific to vulnerable populations that can indirectly influence DFS provider incentives to extend agent networks into rural areas. Policymakers may or may not implement the policies and often rely on funders to provide technical assistance and funds for initial implementation.

Regulators: Public entities that set all rules governing the financial sector (e.g. agent and customer due diligence requirements, the constitution of financial institutions, limits to services offered, and costumer protection). These rules are sometimes motivated by the need to implement policies. Usually, regulators are Central Banks.

Development funders: Entities that work at a country, regional and/or global level that play a temporary role to align incentives of DFS providers, policymakers, or regulators and build their capacity. They can design and implement solutions that advance financial inclusion. Funders use their convening power, networks, and funding through different instruments (e.g. debt, grants, equity, technical assistance) to strengthen provider practices, policies, or regulations. This includes bi-lateral donors, multi-lateral development agencies, foundations, and Development Finance Institutions (DFIs).

5 KEY ACTIONS TO UNLOCK AGENT NETWORKS AT THE LAST MILE

KEY ACTION 1
DFS providers build a vision for rural expansion.

DFS providers hold the key to developing solutions that make rural agent networks viable. A necessary first step for any provider, is to decide whether it can build a realistic business case for rural expansion and ensure internal alignment throughout the organization. Going rural is always a long-term growth strategy consideration, and some providers may find it attractive to serve in rural areas in the long run given their competitive advantages. However, others may not, as they may find it optimal to stay only in urban centers, given their target clientele.

For those providers who believe there is long-term value in reaching rural areas, a first step in shaping a realistic business case requires answering the following questions:

1. Are low-income and rural customers a strategic and sizable customer segment?
2. Is there clarity on the provider's competitive advantage in delivering value to these customers?
3. What would be the potential revenues and costs derived from the products and services offered to rural customers?
4. What are the required investments to adapt current products and processes to rural markets?

Most DFS providers can accurately assess the potential business *case* of serving rural customers, by estimating (i) the market size of rural customers; (ii) general models that project revenue potential as more customers adopt initial anchor financial products (e.g. P2P, G2P, credit, or savings); and (iii) initial estimates of the costs to deploy services in these areas.

However, CGAP's country experiences show that many DFS providers have problems in putting together a realistic business *plan* for implementation. Although DFS providers have experience in developing business plans, most fail to validate their initial assumptions about how much their urban-based practices and customer knowledge apply to rural contexts. This often leads to unrealistic business plans for rural agent expansion that result in the cancellation of such initiatives and prevent future attempts. Furthermore, businesses tend to focus on short-to-medium-term goals, while undergoing a rural agent network expansion requires a long-term vision. These competing priorities also inhibit alignment between strategy and operational teams, and estimation of required investments. Getting assumptions wrong about rural agent management processes is a result of the little experience DFS providers have in dealing with rural agents, which can differ significantly from their more familiar urban counterparts (e.g. see table 1 below).

Once providers have a first version of a business plan for rural expansion, a key action to prevent unrealistic expectations, is to conduct a more granular rural market assessment to validate and adjust assumptions. This will help senior management make more accurate revenue projections, related to the effort and investments required

TABLE 1. **Some stylized differences between rural and urban CICO agents**

Common features related to:	Urban agents	Rural agents
Profiles	Have formal due diligence documents, medium-sized value of stock with fast turn over	Do not have the most common due diligence documents, and can have a low to medium value of stock with slow turn over
Agent on-boarding approaches	Convinced to become agent through social media marketing and onboarded remotely via app	Convinced by word of mouth and prefer to onboard through personal contact with provider representatives
Agent training approaches	Training support accepted in virtual or hybrid format	Prefer in-person format
Liquidity management	Can rebalance any e-float value several times per day	Needs larger e-float values since rebalancing is more costly and happens with less frequency (most commonly once a week)
Troubleshooting support	Can receive advice remotely through, for example, WhatsApp	Prefer in-person support or a phone call
Location	Fixed	Fixed location or roams to provide doorstep services

Source: CGAP in-country experience

to expand into rural areas. The key areas this assessment should cover are:

1. Validation of rural customer's financial needs in the context of their livelihoods; how DFS can add value; and identify pain points in DFS use and marketing pitches that resonate with these customers.
2. Understand potential agent profiles, their capabilities and skills gaps; understand what a value proposition made by DFS providers to agents would be.
3. Estimate the value and frequency of daily financial transactions done in target rural communities and the share of them done in cash versus digital. This helps assess how much base experience there is with managing digital transactions and the level of effort required to introduce DFS to more customers. It also helps assess the potential customer risk and fraud to inform risk management efforts.
4. Explore options to build distribution channels through partnerships by identifying potential local partners –such as fast-moving consumer goods (or FMCG), logistics, agribusiness firms, tech firms, other types of financial institutions– that DFS providers can eventually work with to distribute their services in a cost-effective manner.

This assessment represents an additional cost that providers need to make. An initial three-month assessment to kick-start testing and iterate products and approaches is ideal.

Another very important aspect of tailoring a rural expansion strategy is that it should rely heavily on diversifying the service offered over time, such that the agent can experience more transactions per customer using a single float account. This is important for provider and agent profitability because population density in rural areas is lower, which means fewer customers are in the agent's catchment area. Therefore, the market assessment should be used to conceptualize a trajectory of revenue streams that can be generated over time, through both the projections of a growing customer base, and an increase in the diversity of financial services that will generate economies of scope for the agent and the provider.

OVERCOMING BARRIERS IN KEY ACTION 1

What do DFS providers need to do to success in creating a vision for a rural expansion?

How can DFS providers succeed in creating a vision for a rural expansion?

DFS providers: Those DFS providers committed to become mass market leaders and serve rural customers, BOX 3. **How Do Rural Markets Differ from Urban Ones?**

Relative to their urban counterparts, customers and agents in rural populations face various challenges. These include gaps in education, trust in the financial sector, working capital availability, and digital and financial literacy. These tend to be exacerbated for women. In addition, the number of customers in each rural agent's service catchment area is significantly lower than for urban agents.

These differences necessarily lead to material changes in products, marketing, and agent management to ensure viability and define the investments to be made. Below are some of the most important agent network considerations that a rural market assessment can inform:

- **Agent identification and recruitment processes require significant tailoring.** Depending on the country-specific Know-Your-Agent (KYA) requirements set by regulators and the agents' business capabilities required by DFS providers, it is usually hard to find agent profiles that fit the business and regulatory requirements (which we further discuss in Key Action 2). For example, agent recruitment through social media and digital self-onboarding via apps have been cost-effective strategies to scale agent networks in urban areas. However, in most rural markets, even with good smartphone penetration levels that make self-onboarding technically possible, rural entrepreneurs will not self-onboard if there is no awareness and trust in the provider. This trust tends to be built by human interactions with sales representatives from the DFS providers or its Agent Network Manager (ANM). This requires a considerable investment in creating agent advocacy teams that supplement the app-based process for agent recruitment (we will discuss tweaks required for rural agent onboarding in Key Actions 3 and 4).
- **Agent training and support are far more expensive in rural areas.** This process usually requires a hybrid strategy that leverages remote training tools such as chatbot programs or YouTube videos, with physical contact with the provider's agent training team. Furthermore, liquidity management, troubleshooting support, and supervision also increase costs due to the remoteness of agents locations. These training and support costs are exacerbated when recruiting women agents given pre-existing educational gaps and gender-biased social norms (as explained in Key Action 5).
- **Products need to be adapted to the specific needs and skills in rural segments.** An anchor use case will be vital in creating a solid demand foundation in rural markets, and these products may be very different from their urban best-sellers. For example, these include domestic remittances in sub-Saharan Africa, government subsidies in India and Latin America, or e-commerce payments in East Asia (Hernandez et al. 2020).
- **Marketing and sales strategies need to be tailored for rural areas,** Even when good DFS products already exist, any communication strategy should consider financial and digital literacy gaps, and explain how the product can help customers in their daily lives, which are different than those in urban settings. Furthermore, any approach will need a fair amount of human support –provided by well-trained agents– at least at the early stages to encourage agent and customer onboarding.
- **An understanding of rural livelihoods is critical.** This allows providers to earn the trust of communities and tailor the products and marketing strategy.
- **Adaptations in the digital interface are required.** Rural customers and agents are less digitally savvy and are generally more distrustful of DFS. The design of these apps or feature phone interfaces should be simple, using text and icons familiar to most rural dwellers.
- **Market intelligence on the different businesses that have a presence in rural areas is needed.** These could include firms in other sectors like logistics, FMCG distribution, agribusiness, or other types of financial institutions like cooperatives or microfinance institutions. This would provide DFS providers with basic information to identify potential partners for service distribution (more on this in Key action 4).

should inform their long-term vision by understanding the required investments for rural expansion through a rural market assessment that consideres the following:

- The needs of the target customer segments and their willingness to adopt DFS.
- The product, marketing, and sales modifications required to adapt to this customer segment.
- The profile of potential agents and whether their skills match business and regulatory requirements.

BOX 4. **From Branches to Agents: Bancolombia's Journey Towards Serving the Last Mile**

For the past 20 years, Bancolombia, Colombia's largest private bank, has cemented its leadership in serving low-income customers, including in rural areas. The bank's client base has increased fivefold to 17 million customers from 2008 to 2021, thanks to the creation of one of the vastest networks of active rural agents. During this period, the bank's agent representation rose from 8 percent to 29 percent of all agents in the country; and its footprint grew from 18 to 95 percent of municipalities. By 2020, Bancolombia agents processed 83 percent of all customer transactions made through the agent channel in the country.

Looking at the origins of Bancolombia in the late 1990s, after an international financial crisis and multiple mergers, the bank had acquired an extensive, yet unsustainable, branch network across the country. Reflecting on its vision for the future, the bank's senior management decided that its competitive advantage should center in becoming the country's leading mass-market bank, inclusive of low-income customers: the country's largest clientele segment. This relied on the conviction that the bank had a competitive edge in offering retail savings and credit services and in building a viable and far-reaching agent network, supported by a considerable branch network, that could ensure massive adoption of its services.

Bancolombia made important early investments in understanding rural customers' livelihoods, the potential market size, and how it could use the acquired branches as support nodes to expand rural agent coverage. Having recruited staff that had been operating in the acquired branches in bigger rural towns, Bancolombia had a team of members with a good sense of the particularities of rural areas, which led to recognizing the need to conduct a rural-focused market assessment to validate customer needs and the bank's response. This assessment identified a strong unmet need for saving and lending products, and defined how these services could help rural customers' livelihoods, which was key for an effective marketing strategy. The bank also recognized the profile of entrepreneurs that are more prevalent in rural areas (small mom-and-pop shops) and reflected on how they could support them to become effective agents delivering financial services.

With these results, Bancolombia started investing in product development that targeted this population. Over the years, "Ahorro a la Mano" became the bank's flagship portfolio of retail products for low-income customers, which includes savings, credit, payments, and insurance.

It is important to highlight that Bancolombia's rural agents are reported to be profitable for the bank without the need for cross-subsidization from urban operations. This is because the rural agent pays for the hardware device and starts generating revenue for the bank since its first transaction. The bank covers the marginal cost of supporting such transactions given their volume, since the diversity of services offered by the bank through agents has increased, generating more transactions per customer. Bancolombia has not received any public sector or funding support for its agent network expansion and operations. This is one of the few cases where a private sector DFS provider has successfully developed a business model that allowed it to scale its rural agent network without external help.

For more details, see this case study.

- The costs entailed in recruiting, training, and managing rural agents (including capitalization, operation, and liquidity management).
- Define technological and operational investments required for the expansion.
- Understand whether the infrastructure is adequate to support the above operations.
- Assess the potential to partner with other industry stakeholders that have already built agent networks in rural areas, such as FMCG distributors, agri-businesses, logistics firms, and appliance stores.

DFS providers should have an internal mindset of testing hypotheses and a flexible strategy to optimize products and processes that bring value to rural customers and agents.

Supporting Roles: Policymakers and funders

How can policymakers and funders support DFS providers?

This first Key Action is determined exclusively by the DFS provider senior management's vision for long-term growth and whether the rural population is an attractive customer segment. However, policymakers and funders can be essential in better informing this vision and supporting initial investments that may not make business sense for a provider in the short-term.

Policymakers can support in many ways, for example, they can:

1. Provide partial subsidies to specific DFS providers to conduct detailed rural market assessments that help them build their vision to serve rural customers in a target region, develop a more accurate business plan, and gain buy-in from senior management. These subsidies can cover expenses related to staff capacity building and improving market knowledge.
2. Support a nationwide rural market assessment that can help inform all DFS providers in the country who are considering rural agent network expansion.

BOX 5. **Revolutionizing Rural Finance: India Post Payments Bank Agents Pave the Way for Digital Lending in Rural Areas**

As it began operations in 2018, India Post Payments Bank's (IPPB) senior management reflected on their vision for long-term growth. They realized the bank's competitive advantage relied on the 200 thousand rural agents composed of roving mail carriers that enabled customers to perform CICO and make digital payments possible. Through a series of rural market assessments, the bank recognized unmet needs for loans borrowing among rural customers and the necessity to improve the viability of its rural agent network. Limited by its constitution as a payments bank, it realized the value of partnering with private digital lenders to offer IPPB's customers access to the digital credit marketplace. This additional service would bring value to customers as well as make rural agents more active and viable.

IPPB, with support from CGAP and other partners, commissioned a rural market assessment to better understand rural customers' profiles, their readiness to apply for digital loans, and the human support they would require from an agent. The research concluded that it would be possible to offer digital lending products to the target population if the customer-facing app was simple, using familiar language and logos, and agents could support the customer through the application process. The results made evident the essential role agents play in explaining the product and building trust under the IPPB brand; acting as a recourse in case of issues during the application process; disbursing credit and collecting repayments.

Based on these insights and leveraging India's open finance infrastructure, IPPB and its partners set forth to create a self-service app with agent support to complete the loan application. Furthermore, CGAP and other partners have helped IPPB broker relations with various private sector lenders to provide choices to customers and offer suitable products to this population.

For more details see this blog.

This would be a bigger exercise that would consider the particularities of different rural regions and their implications for different value propositions that providers could make.

3. Connect providers to funders involved in developing CICO agent networks and related programs.

Such efforts from policymakers can be part of public initiatives that foster innovation for financial inclusion or private sector development.

Funders, as external actors, can temporarily share costs with providers for technical support to implement rural market assessments, including a demand-side analysis, identifying rural customers and agent profiles, and testing agent onboarding and management processes. In doing so, funders need to understand and build provider incentives and capacities for change. Funders can also share knowledge with DFS providers and local policy makers of other global experiences in building a vision for rural expansion.

BOX 6. **From Urban Success to Rural Financial Inclusion: Bukalapak's Journey To Reach Rural Indonesia**

Bukalapak, an e-commerce and payment platform, has a strong willingness to expand to rural markets, driven by its vision to promote a more inclusive digital economy. In its initial approach, the firm planned to use the same agent expansion strategy that proved cost-effective in building its impressive 15 million-strong urban agent network. In that process, Bukalapak relied on digital innovation to develop an online marketing campaign for individual entrepreneurs to download its self-service app to onboard, enabling them to become agents and offer the multiple products and services Bukalapak offers to customers.

However, rural agents did not onboard organically. For this reason, Bukalapak partnered with CGAP and others to conduct a rural market assessment that would help the firm understand rural agents and customers better. The research results showed that neither customers nor potential agents were willing to download the app and use it without human support from Bukalapak. The assessment revealed that potential agents were hesitant regarding their knowledge and trust in Bukalapak's brand, digital literacy gaps, limited working capital, and limited data plans for their smartphones. Rural customers also relied much more on cash, highlighting the need for CICO outlets before they could kick-start digital transactions.

The company realized that (i) it needed a robust sales force or a partner with an established rural agent network to identify, onboard, and train agents more cost-effectively; and (ii) high-quality agents capable of marketing the digital service offerings to customers.

As further explored in Key Action 4, CGAP also helped Bukalapak find an ideal partner with a rural presence and compatible strategic objectives. CGAP also provided technical assistance to launch a pilot where Bukalapak could test, jointly with the selected partner, their digital financial service, and train its agents.

For a detailed analysis of Indonesia's agent network potential see here.

KEY ACTION 2

Regulators to get lower-tier, Know-Your-Agent requirements right

In all markets researched, as lead DFS providers built their vision for rural expansion, they quickly recognized the vital role of an enabling regulation that simplifies and makes it viable to overcome the many barriers to expanding agent networks. CGAP previously compiled good regulatory practices to promote rural agents (CGAP 2022c).

One of the most common, yet binding, regulatory constraints relates to defining the right agent due diligence or Know-Your-Agent (KYA) requirements *for lower-tier* agents.

This is key because in rural areas, individual entrepreneurs that can act as CICO agents tend to have lower capabilities relative to their urban counterparts. However, they have the greatest presence in rural areas and proximity to low-income customers. Setting KYA requirements for low-tier agents that are unnecessarily strict will seriously limit the capacity of DFS providers to expand rural agent networks, no matter how adequate their rural expansion strategies may be. Done correctly, simplified KYA requirements for low-tier agents will allow for a greater diversity of rural agent profiles and lower provider recruiting costs, ultimately translating into greater agent network reach at the last mile.

Rural agents are usually informal entrepreneurs engaged as FMCG merchants, agro-dealers, or individuals with distinct roles in their community, like village heads or members of community savings and credit associations. They tend to have lower education, revenue, and working capital; weaker formal tax and accounting practices; lower ability to comply with business registry requirements and other formalization aspects of their businesses; as well as more fragile physical infrastructure at their sales points.

Most of these rural entrepreneurs are perfectly capable of safely facilitating basic, low-risk and low-value customer financial transactions, like CICO. Nonetheless, too often, the low-tier agent categories in place are primarily influenced by an understanding of urban agent profiles and the more sophisticated banking activities they facilitate, making requirements hard, if not impossible, to meet by rural entrepreneurs willing to act as CICO agents.

This chapter focuses on the type of low-tier KYA requirements defined by regulators, which are concerned with promoting system-wide stability and safety, normally related to preventing fraud, money laundering, and financing terrorism at the national level[1].

To define adequate low-tier KYA requirements, regulators should conduct a risk-based analysis —as part of a National Risk Assessment initiative— that considers the realities of rural economies and defines the minimum, yet safe, KYA requirements that most rural entrepreneurs can meet to become low-tier agents. Below we describe a general process that regulators can follow to conduct such analyses.

OVERCOMING BARRIERS IN KEY ACTION 2

How can regulators succeed in creating more appropriate KYA requirements for low-tier agents?

Regulators can follow the four steps below to define more adequate risk-based, low-tier KYA requirements. Regardless of the specific context arrangements, low-tier KYA requirements should be realistic and allow the onboarding of large numbers of rural agents, while keeping risks within acceptable levels.

Step 1

Conduct a landscape of entrepreneur/businesses profiles that are most prevalent in rural areas and the types of documents and business practices that are commonly used. They should also understand the type and volume of daily financial transactions done by individuals in rural markets. Global experience suggests that such transactions tend to be cash-in and cash-out operations related to domestic remittances, distribution of public subsidies, payments for government services, bill payments, or opening simplified accounts. These types of

1 There are additional KYA requirements that DFS providers themselves should define, as they are best placed to determine the right agent profiles for their type of business and target customers. These provider-defined KYA requirements usually relate to consumer protection protocols, the educational level and knowledge of agents, working capital, and cash flow levels, among others.

transactions usually represent the lowest risks to financial stability, especially when the maximum value of these can be capped, and payment systems operate in real-time (CGAP 2019). More complex and riskier processes, like international money transfers, credit repayment or disbursal, or insurance premium payments or payouts, tend to be less common.

Step 2

Based on the common agent profiles and dominant financial transactions in rural areas, regulators should assess the type of risks these may pose related to fraud, Anti-Money Laundering / Combating Financing of Terrorism (AML/CFT), consumer protection, or other relevant threats. Regulators then need to reflect on whether these risks are mitigated by existing DFS provider practices and monitoring systems, and how national law enforcement organizations mitigate the identified risks.

Together, DFS provider practices, monitoring systems and local law enforcement, can help reduce those conceivable risks identified in rural financial markets. Financial regulators should focus on the residual risks that are not mitigated by DFS providers and law enforcement when setting low-tier KYA requirements.

Step 3

Regulators should set simplified KYA requirements that can be met by most common rural agent profiles while mitigating the residual risks identified in the previous step. To do so, regulators can consider the following measures:

1. Use alternatives to standard KYA requirements to enable low-tier agents to operate in rural areas. The table below summarizes common requirements that most urban agents can comply with but can be simplified to onboard rural agents.
2. Allow DFS providers to rely on third parties, such as ANMs or master agents –other names may be used in different markets– (Hernandez and Blackburn 2022c), to recruit individual agents that may not meet all requirements but operate under a master agent's legal umbrella with a plan to mitigate risks. The principal DFS provider remains ultimately accountable for an individual agent's actions.
3. Consider making explicit the KYA requirements only for the highest-tiered agents that will be allowed to perform the riskiest transactions (defined by each country's context and supervisory capacity) while explicitly allowing DFS providers to set up all KYA requirements for low-tier agents. DFS providers may be required to report on risks, controls and monitoring to ensure adequate risk management of all their agents.

TABLE 2. **Example of common versus simplified KYA requirements.**

Common Agent KYA requirements (not exhaustive)	Simplified requirement for rural areas
Formal ID	Alternative IDs like a letter of identification from the village or municipality leader.
Proof of business registry or criminal record	Agents can operate during a grace period while they acquire their business registry or criminal record. Alternatively, these requirements can be eliminated if not considered risky.
Tax and accounting requirements	Work with tax authorities to develop a simplified tax identification that is easier for low-tier agents to obtain.
Only firms can be agents	Allow individuals (natural persons), community-based organizations, non-profits, microfinance institutions, or cooperatives to become agents.
Agent outlet needs to be a fixed premise with minimum infrastructure requirements	Eliminate reference to a fixed premise with specific infrastructure requirements or explicitly allow for roving agents if the DFS provider ensures it can communicate with the agent.
Higher requirements for revenue, years in operation, or education level	Lower requirements for revenue, years in operation, or education level.

4. Consider capping the daily or monthly maximum value of agent transactions to limit the risk of AML/CFT and fraud.

Step 4

Evaluate the residual risks after the proposed simplified KYA requirements and contrast this to the benefits of broadening the network in rural areas. If regulators conclude that risks need further mitigation, they should return to step three and iterate until the right balance is achieved.

The resulting low-tier KYA requirements may be temporary. Regulators should periodically assess how risks change as agent networks expand and financial markets mature.

BOX 7. **How Simplified KYA Regulatory Changes Foster Strong Rural Agent Networks Across Countries**

Below are examples of countries that have waived the incorporation or registration of low-tier agents as businesses, allowing for large numbers shares of entrepreneurs to operate in rural areas:

Brazil's regulatory changes in the year 2000 allowed banks to use individuals without formal registration. A large wave of agent network growth was enabled: 250,000 agents were reported in 2013 (55 percent of all banking access points), covering all municipalities. Once agent networks matured, KYA requirements were made stricter as the regulator learned how risks evolved.

Pakistan's regulation allows for tiered agents, defining qualifications for the two upper levels but not the lowest. This gives DFS providers the flexibility to set their own KYA requirements for low-tier agents based on rural market realities and risk management capacities. **Ghana** takes a similar approach.

Colombia allows low-tier individual agents without a fixed location and does not require business registration. These measures helped expand agent networks with more peri-urban and rural reach. Today, it is estimated that 96 percent of adults in Colombia live within 5 kilometers of an agent.

Morocco removed the requirement for low-tier agents to be registered in the country's business registry in 2022. This means that DFS providers are responsible for setting their own KYA requirements and mitigating risks.

For more background on agent regulation for rural areas see here.

BOX 8. **Empowering Rural Women to Become Agents Through Simplified KYA Requirements in India**

The Bank Sakhi Program is another example of a simplified risk-based approach, that balances the realistic requirements that rural women can comply with and the risk that financial institutions can manage. This is a government-led program to support financial institutions in recruiting women as low-tier agents in rural areas. To be eligible to act as a Bank Sakhi, a woman must: (i) provide an Aadhaar ID (100 percent of the adult population has one); (ii) have passed at least 10th grade in school; (iii) should not be a defaulter in a Self-Help Group or a financial institution; and (iv) know the basics of managing a Smartphone. This simplification of the minimum requirements approach is based on a deep understanding of rural entrepreneurs linked to important community organizations like Self-Help Groups. This KYA requirement has allowed over 100,000 women to become Bank Sakhis in multiple states in India's most remote rural areas without posing incremental risk to the financial institutions they work for.

Supporting Roles: DFS providers, policymakers and funders

How can policymakers, DFS providers, and funders support the simplification KYA for low-tier agents?

Although regulators are the only ones that can mandate low-tier KYA requirements, other stakeholders can support them.

Policymakers can advocate to regulators for simplified KYA requirements for low-tier agents as part of broader financial inclusion or social protection policies based on rural market assessments.

It is helpful to regulators if **DFS providers** who are advocating for rural agent expansion can provide information such as:

1. The most common potential agent profiles in rural areas.
2. What types of transactions and volumes are expected to be performed.
3. How prevalent the use of IDs and other required documentation are.
4. The common pain points that providers face when trying to find eligible rural agents.

DFS providers can also propose risk mitigation strategies, like agent transaction caps, or adequate due-diligence simplification measures like village leader letters, grace periods, and other examples mentioned above.

Funders, as neutral and external actors, can facilitate a public-private dialogue, to increase knowledge among regulators about simplified KYA requirements for low-tier agents. They can also organize and facilitate working groups to enable this dialogue, help build trust between regulators and the private sector and lay the foundation for joint problem analysis and identification of solutions including regulatory reforms. Finally, they can help improve KYA regulation as part of the National Risk Assessments exercise. This can be done through advocacy, knowledge sharing and technical assistance to assess rural agent profiles, the documents they hold, and devise models to balance KYA requirements, systemic financial risks, and the potential impact on financial inclusion.

BOX 9. **Advocating for Tiered KYA in Cote D'Ivoire**

Cote d'Ivoire has only one KYA category independent of an agent's activity (that is, there are no tiers for agents in the current regulation). The regulator is considering CGAP's assessment of the various challenges faced by DFS providers when onboarding rural agents to determine if a review of current KYA requirements should be made considering agent tiers and simplified KYA requirements.

CGAP's assessment identified the need for agents to be registered businesses as the most binding constraint to recruiting rural agents. In some cases, this lack of documentation creates a condition that makes leading DFS providers reject rural agent applications that only partially comply with requirements. In other cases, the DFS providers that are more intentional in covering rural areas have outsourced their KYA and agent management to ANMs who hold an agent license themselves. These DFS providers allow ANMs to work with individual agents who are not registered as a business. In this scenario, an agent works as an "affiliate" of the ANMs, and the SIM card and the account they use is under the ANM's name and not their own. The regulation does not explicitly provide for such a scenario; therefore, many other DFS providers fear falling into a regulatory grey area if they allow ANMs to recruit these more common types of rural agents.

KEY ACTION 3

DFS providers and policymakers to find adequate investment strategies for training rural agents and building a rural salesforce

After DFS providers define their rural expansion strategy as per Key Action 1, the most critical and expensive part of implementation relates to training agents and developing a salesforce team, which experience shows, is critical to build customer trust and kick-start rural demand for DFS. It is important to ensure the quality of these two programs because the customer experience and consumer protection practices will directly depend on the quality of agent training. This will ultimately determine the levels of trust and confidence among first-time customers in DFS and the healthy development of this ecosystem.

Given the costs and complexities this implies, this third Key Action often creates significant challenges for DFS providers that, if not surmounted, can halt any rural expansion initiative. The objective of establishing an adequate rural agent training program and a sales force team imply both high private investment costs and a high potential to increase rural financial inclusion. For this reason, there is usually a strong case for public-private collaboration to achieve this objective, where the public sector subsidizes or co-invests in a robust training program for rural agents and the kick-start of a rural sales team with DFS providers willing to go rural.

To form a dedicated salesforce that goes to rural regions and directly sells DFS to potential customers requires DFS providers to understand the livelihoods of rural customers, informed by the rural assessment conducted in Key Action 1. This is because the examples of the use case for financial products should connect closely to the dominant socio-economic activities of rural areas. The sales force also plays an important role in onboarding and training an initial cohort of local rural agents who will start processing the CICO transactions required by new customers. Only after making this effort, when rural customers and agents start scaling their transactions, can the DFS provider move toward more digital marketing strategies, similar to urban areas.

In parallel to building a rural salesforce, an agent training program must be developed. This training should focus on the gap between the skills required to facilitate the DFS and the capabilities of rural agents, such as education, financial, digital literacy, confidence, and self-efficacy, identified as part of Key Action 1. Furthermore, even when rural agents meet technical requirements like having a smartphone, data, and minimum digital literacy, the tendency observed is that they will not self-onboard without a physical visit that develops their trust in the DFS provider, and the value that the new services offered by the provider will bring to customers. These lower capabilities and trust in providers contrasts with the experience of building agent networks in urban hubs, especially for fintechs that rely heavily on digital self-onboarding and training processes. These, overall makes rural agents more costly to train.

Public investments specifically targeting the formation of a rural salesforce and rural agent training delivery are likely to be catalytic in accelerating a rural network expansion. This is especially the case given the importance of properly training rural agents and considering that the social benefits of financial inclusion may be greater than an individual DFS providers' benefits from a rural expansion. Public support programs can be designed to benefit all financial providers in the market, by strengthening the knowledge of rural agents on basic aspects like accounting, types of digital transactions, consumer protection protocols (like the Bank Sakhis general training in Indias or China's public investments and support to all e-commerce and fintech providers to train rural agents and expand the network). In other cases, these public support programs may target a few providers that have interest in expanding services in certain rural areas that are of high priority for government. For example, Colombia's support to providers contracted to distribute government subsidies in select rural areas in the early 2000s. These government programs can be associated with financial inclusion initiatives, or other non-financial interventions, like government subsidy programs, where well-functioning CICO agent networks are a prerequisite for the execution of these public policies. Furthermore, there is also a role for funders to provide temporary support in setting up salesforce teams, providing technical assistance and grants to design the training and support piloting programs.

OVERCOMING BARRIERS IN KEY ACTION 3

How can DFS providers and policymakers successfully train rural agents and create a salesforce?

DFS providers can perform a cost-revenue analysis to estimate the timeframe required to recuperate initial investments, and then must determine the optimal investment strategy to implement the agent training and salesforce programs.

This investment can be viable from a purely private sector perspective, as proven by cases like Bancolombia in Colombia or M-Pesa in Kenya which have managed to scale their rural agent networks with their own capital (Hernandez et al. 2020). In these cases, the DFS provider can mobilize enough resources and have the patience needed to recuperate the investment as revenues increase, through a rise in the number of rural customers and, more importantly in the rural context, through an effective diversification of services offered that increase transactions per customer.

However, these cases have proven to be the exception rather than the norm. More often, rural agent networks that have scaled have benefited from public investments to partially cover the costs of forming a rural salesforce and training rural agents.

Supporting Roles: policymakers and funders

How can policymakers and funders support to train rural agents and create a salesforce?

Most other cases where rural agent networks have scaled have required the support of **policymakers** through public-private partnerships. DFS providers propose the areas, agents profiles, format and content of the recruitment and training. And the government subsidizes part of the costs for execution. In our research, we have

BOX 10. **Colombia: Bancolombia's Strategic Investment in a Robust Salesforce and Agent Network**

A big part of Bancolombia's success is due to a very early and considerable investment in a robust rural salesforce and rural agent network. Sales agents tour rural towns based on schedules informed by their market assessments. These agents offer and explain products to potential customers and then onboard them. This, on the one hand, dedicates specialized staff to focus on sales. On the other hand, it allows CICO agents to concentrate on facilitating simple cash-in and cash-out transactions for customers. These agents consist of non-dedicated merchants that primarily sell fast-moving consumer goods and airtime top-ups.

The division of responsibilities between sales and service agents acknowledges that —in the specific case of Bancolombia offering credit and savings services— the profile of sales versus CICO agents is very different, given the complex services Bancolombia offers. This may not be the case in other contexts, and other anchor financial services, like payments.

In 2006, regulations in Colombia allowed for agents and the possibility to outsource them to external partners, such as ANMs. Unsurprisingly, Bancolombia was the country's first bank to open an agent banking correspondent and later work with ANMs. As it expanded into new territory, besides market research and product development, it also relentlessly optimized its agent network to find the right balance of high-quality customer experience, a focused salesforce that builds demand in rural areas, and viable rural agents that offer a growing suite of products to balance CICO transactions. They also outsource most agent management activities to ANMs to make it viable to support a large number of rural agents.

The bank developed the agents' training based on a careful assessment of the dominant agent profiles and closely monitors the quality of delivery, as it knows this ensures the best possible customer service and consumer protection. The bank delivers the training through its ANMs. However, the rural salesforce is composed of bank staff.

For more details see here.

seen governments that support DFS providers with temporary subsidies, which has been the case in Colombia and China, while in other cases subsidies are permanent, like in the case of India. Below are some ideas outlining how policymakers can support DFS providers.

1. Directly fund the costs to provide general training to rural agents.
2. Provide tax breaks for those providers who conduct such rural trainings.

BOX 11. **Rural Taobao: How Public-Private Collaboration Transformed China's Rural Agent Networks**

China has one of the world's most developed and sustainable rural CICO agent networks and it is one of the few countries where the aggregate use of cash has been decreasing nationally. Historically, the government has subsidized the expansion of rural agent networks through public banks and rural finance cooperatives. However, an acceleration in the expansion of these agents into more remote rural areas, occurred through its partnership with e-commerce companies. To take the benefits of the digital economy into rural areas, the government and e-commerce providers invested in training rural agents on how to facilitate e-commerce. With the increased agent capacity, e-commerce firms invested to create the processes to onboard and support agents, as well as set up a dedicated sales force for rural areas.

One such successful initiative is the public-private partnership of Rural TaoBao, a collaboration between WeChat, and national and local governments. In this partnership, agents were jointly recruited and WeChat developed training courses for village entrepreneurs to link their shops, warehouses, and transport to the e-commerce providers (CGAP 2020). Village leaders helped WeChat secure public funding to sponsor the rollout of these training courses through subcontractors. These entrepreneurs were allowed to become CICO agents when e-commerce providers obtained their payment licenses. Furthermore, these agents were made available for all Chinese banks to use as part of open finance initiatives. The close relationship between WeChat and village-level policymakers allowed for a deep capillarity of agent networks in rural areas. By 2020, 97 percent of villages in China had at least one CICO agent.

For more details see here.

BOX 12. **India: Government's Sponsored Bank Sakhis Training Program**

In 2016, the State Rural Livelihood Missions launched the Bank Sakhi Initiative to deepen financial inclusion and digital financial services in rural areas, particularly for women. This program is a public-private partnership where state governments identify and train rural women who belong to Self-Help Groups to act as agents. Once these women have been certified, they are employed by private ANMs and partner public and private banks to offer financial products and CICO for DFS.

The Bank Sakhis training, provided by government, includes:

- Guidance on India's banking structure and typical financial products and services.
- The role and daily activities of agents.
- Easy to understand material on what to do to troubleshoot customer problems.
- Hands-on training in hardware operations, which can be a laptop, tablet, or mobile phone.

Furthermore, the government also provides continuous support to the Bank Sakhis and monitors their performance.

For more details on the Bank Sakhi program, see here.

3. Collaborate with DFS providers and other partners to define the training content.
4. Advocate for funders to provide grants to establish a rural salesforce and implement rural agent training.
5. Monitor and evaluate the effectiveness of training programs.

More recently, a third path to fund the recruiting of salesforce and training agents has emerged. Since building such teams form a significant part of any upfront investment and a one-time event to provide DFS to rural populations, **funders** can play an important role in the provision of technical assistance to:

- Understand the type of rural profiles that can be part of the salesforce and agent network.
- Understand the type of support customers will need.
- Help design the training materials, and help execute and pilot its implementation.
- Provide direct grants to DFS providers to develop this in-house.

BOX 13. **CGAP Role as a Funder to Kickstart Training Rural Agents**

As part of a collaboration with Bank Al-Maghrib in Morocco —the country's financial regulator— CGAP[a] partnered with the DFS provider Barid Cash —the payment arm of the country's postal bank Barid Bank— to start their first rural-focused agent expansion strategy. CGAP provided technical assistance to design and test a tailored DFS marketing strategy for rural customers, and rural salesforce and agent onboarding and training programs. The content of the training is based on a rural market assessment conducted in strategic rural areas where Barid Cash wants to expand. This assessment has enabled the identification of the most promising rural agent profiles for Barid Cash, consisting of small rural merchants, and a skills gap analysis that has informed the training program. It has also led to the formation of a salesforce composed of local community leaders, living in target areas, trained to act as ambassadors for Barid Cash to build rural customer demand.

As presented in Key Action 1, CGAP also partnered with Bukalapak in Indonesia to provide technical assistance and initial field support to design the training materials for rural agents and train the DFS provider employees and an initial cohort of CICO agents.

In both examples, CGAP's interventions were temporary and focused on generating knowledge about how to build a roadmap for rural agent network expansion. Partner DFS providers implement this roadmap with their own resources for the long-run.

a Given the early stage of DFS in Morocco, there is a general absence of funders involved in developing rural agent networks. As a result, CGAP played a funder's role —being external to the market and having a neutral position— both to create momentum in developing rural agent networks to expand DFS use in remote areas, and to provide lessons to funders themselves on how good global practices can be applied, and tested, in local nascent DFS markets.

KEY ACTION 4
DFS providers define a roadmap for outsourcing rural agent management

The next step is for DFS providers to define a roadmap for the medium term that will lead to an increasingly efficient rural agent network management strategy that reaches further into rural areas. Many successful DFS providers have had an evolving agent management strategy, starting with direct onboarding and management of rural agents and later outsourcing these activities to third parties, referred to as Agent Network Managers or ANMs. As networks further expand into rural areas, the costs of identifying, recruiting, training, and monitoring new rural agents increase significantly. This justifies outsourcing agent management activities to an ANM that can perform these activities more cost-effectively. We discuss below common characteristics that such ANMs should have, so that DFS providers can recognize promising partners to outsource agent management functions to.

DFS providers commonly face significant challenges in finding their optimal rural agent outsourcing strategy and operationalizing it. Many times, they don't fully recognize upfront the significant increase in management costs required to run a successful rural network, given a lack of experience dealing with rural agents and customers. Moreover, they may distrust outsourcing to third-party companies with comparative advantages in industries outside the financial sector, such as FMCG, agribusiness, e-commerce, logistics, cellphone airtime distribution, believing these may take their customers later.

Many DFS providers must go through a learning curve to develop the teams and adapt processes to expand their agent network into rural areas. Only when this learning happens will they identify the tipping point where marginal costs of recruiting more rural agents outweigh the benefits, thereby indicating the need to outsource if they want to continue expanding the network. This learning by doing before outsourcing to ANMs will allow them to define adequate terms under which an ANM should operate to ensure the quality of customer service that the DFS provider desires.

Outsourcing to ANMs is a process that should not be rushed or forced, and DFS providers will find different models more fitting to their target rural customers and the types of services they offer. In nascent DFS markets, the first-mover advantage can make it more attractive for DFS providers to build and manage an exclusive rural agent network with minimal support from a partner. For example, the partner may only identify eligible rural agents and collect KYA documents, and the DFS provider still approves and manages these agents directly. Such were the cases of Bancolombia in Colombia and M-PESA in Kenya at the beginning of their rural expansion.

As agent networks mature, providers are more likely to find it optimal to partner with non-exclusive ANMs with an established network of rural service points delivering various non-financial services. The more remote customers are, the more the viability of agents depends on the aggregation of services that can generate more transactions per customer, rather than on the number of customers in the agent's service area. With the rise of fintech and open finance, successful cases have enabled new types of ANM-DFS provider partnerships that allow the delivery of services from various providers through the same agent network, which share the same operating systems, including a common single float. This takes service aggregation to new heights and more rural agent viability (see box below).

BOX 14. **One-size does not fit all: the diversity of ANM models globally**

The ANM models and the type of ANM firms used worldwide are diverse, and different models tend to coexist in a single market, reflecting the need to tailor these models to local rural contexts. We have found that non-exclusive ANM models (i.e., ANMs that serve more providers) and non-dedicated (ANMs that distribute financial and non-financial products) tend to show better unit economics in rural areas. However, these ANM features are not always achievable due to regulation or market competition strategies used by dominant providers (Hernandez and Blackburn 2022c).

Most common ANM Models worldwide

	Stand-Alone ANM	Specialised ANM	Large Chain	Diversified ANM
Transaction Processing	• **ANM does not integrate into financial service providers' (FSPs) systems.** • **Agent transactions are processed and managed by the FSP's core system.** • ANM has **no or limited visibility on agent transaction data.**	• **Integrates its systems only with FSPs.** • **Agent's float account is managed by the ANM and can be used to process customer transactions on any partner FSP.** • Has **visibility into agent transaction data.** • Contracts and pays commissions to the agents.	• **Integrates its systems only with FSPs.** • **ANM manages a pooled float account for all agents (agents don't have individual float).** • ANM has full visibility into transaction data. • **ANM earns all commission.**	• **Integrates its system with that of FSPs AND non-financial services providers like e-commerce, FMCG, agribusiness, others.** • Has full visibility into agent transaction data. • Contracts annd pays commissions to the agents.
Product Offering	• Supplies agents with FSPs equipment or access to FSP agent platform. • **Only provides financial products from partner FSP.** • **May offer non-financial products in separate agent till.**	• ANM provides agents with a platform where they can process financial transactions. • **Distributes only a financial service offering** from partner FSPs (unlike a diversified ANM). • ANM may also be authorized to offer some non-bank financial services (e.g. credit, payments).	• **Agents are the ANM staff. The agent outlet is wholly owned by the ANM** and so there is no agency contract between the agent and the ANM. • The ANM decides the location where the agent will open and staffs the service point and owns/rents the physical structure.	• **Agents float account managed by the ANM can process financial and non-financial transaction from customers of partner FSPs and non-financial partners.** • Provide additional services examples; FMCG, digital services.
Agent Network	• Recruits agents on behalf of a FSP (KYA). • Occasional training and follow-up if requested by FSP.	• Recruits and manages agents. Offers training and liquidity management support.	• Centrally run chain of stores, a head office recruits and manages all stores/agents.	• Identifies, recruits and trains agents on behalf of FSP partners and non-financial partners.
	Examples: FIA Global (India), ValeMas (Colombia)	Examples: Atyati (India), Intouch (Senegal), Tanda (Kenya), ABC (Uganda)	Examples: Oxxo (Mexico), PEP (South Africa), Exito (Colombia)	Examples: Grabkios (Indonesia), PTM (Colombia), Taobao (China), Dvara (India)

Source: Hernandez and Blackburn, 2022c

OVERCOMING BARRIERS IN KEY ACTION 4

How can DFS providers successfully define a roadmap to outsource their agent management?

DFS providers first need to landscape existing rural economic actors they can potentially partner with to outsource their agent channel. They should seek to create a long-term partnership where there is room for growth for both their own and their partner's business. DFS providers should look for the following ANM characteristics, based on successful experiences observed. The potential ANM should:

- Already have physical service points in the target rural region and the supporting teams and systems. Shared agent management activities are more likely to be viable when they represent a low additional marginal cost to the processes that the ANM already has in place to maintain their current service points as part of their core business.
- Have a Management Information System (MIS) into which the DFS provider can integrate to, minimizing investments in system changes and enabling the reporting needed to comply with agent regulation and any other desired data.
- Provide services complementary to the financial services offered by the principal DFS provider. For example, an ANM could be a rural microfinance organization that provides credit, which would bring mutual benefits if it were to partner with providers specializing in payments, as the financial service bundle could bring greater value to customers. Or, an ANM specialized in distributing FMCG, airtime, or goods sold online that can benefit from distributing credit, payments, or savings offered by a DFS provider. Financial services can help the agent with its float and facilitate cross-selling with non-financial services, thereby driving business volume for both the DFS provider, the ANM and the agent.

In their landscape exercise for potential partners, DFS providers should first have clarity whether there are any potential third-party companies that already have the above desired characteristics. If not (likely to happen in the least developed contexts), providers can consider directly onboarding and managing rural agents in the better-connected rural towns, acknowledging this strategy will limit their rural outreach. However, in the process, the DFS provider will gain fundamental knowledge about rural agent profiles and a better understanding of third parties that they could potentially partner with in the mid-to-long run. Furthermore, DFS providers may advocate for policymakers and donors to support the development of potential ANM partners. Lastly, DFS providers can invest in an ANM that does not meet all the criteria but, with the provider's support, can do so in the near future.

If there are attractive partners to act as ANMs, DFS providers should invest efforts to develop a relationship with the ANM such that a mutual assessment can be done focusing on the following:

- Complementarity of partner services (cross-selling) and revenue projections for each partner.
- Define the cost structure of the ANM functions and the pricing of its commissions.
- MIS integration requirements.
- Define what agent management functions can be outsourced, considering local regulation, and the ANM capacities relative to those of the DFS provider.
- Align the incentives between senior management at the DFS provider and the ANM with their operational units' Key Performance Indicators (KPIs). The latter should include the development of the new business lines brought by the partnership, in addition to the ANMs ongoing business.
- Agree on exclusivity or non-exclusivity. Our experience suggests that ANMs naturally seek non-exclusivity, while DFS providers tend to prefer exclusivity. The initial agreement will depend on each party's bargaining power based on how much business one party can bring to the other. The clause on exclusivity may change over time as the business of DFS distribution grows and services reaches more remote rural areas.
- The DFS provider needs to understand what risks should be outsourced to the ANM, as allowed by regulation. The KYA case in Key Action 2 showcases

BOX 15. **Bancolombia's Diverse Agent Network Management Strategies for Rural Market Expansion**

At the start of its expansion into rural areas, Bancolombia managed all its agents directly. Approximately five years into this strategy, the bank recognized that it needed to outsource some of its activities to partners with established agent networks to expand its footprint, especially in rural markets. This has evolved into Bancolombia currently managing four different types of ANM models:

- **Onboarders model:** ANMs help identify agents and compile their due diligence documents, but Bancolombia contracts these agents directly. This model has become more dominant in rural areas serviced by the bank and offers Bancolombia the tightest control over customer experience and consumer protection. Over 60 percent of the bank's rural agents operate under this model.
- **Aggregators model:** ANMs own their network of agents and have a single contract with Bancolombia for their agent management services. They have recently acquired more market share in rural areas due to broader economies of scope by representing Bancolombia and other non-financial service providers like airtime, fast-moving consumer goods, streaming services, and e-commerce. This aggregation of services has helped improve agent viability outside large rural dwellings.
- **Retailers model:** mainly composed of supermarket chains. They have been vital for the bank to get closer to the daily activities of customers in urban centers.
- **Robust model:** stems as a solution for decongesting urban branches by designating smaller service points specializing in CICO and other simple financial transactions.

It is worth highlighting that, firstly, Bancolombia has never outsourced sales: they still have "mobile" sales agents that tour different rural towns and offer products to potential customers. This is more relevant for rural customers, whereas urban customers find it easier to visit the bank's branches or acquire products online. Second, Bancolombia mandates that agents are exclusive to them. That is, they can't sell or service products that compete directly with Bancolombia's products. This reflects Bancolombia's strong bargaining power with ANMs and individual agents, resulting from a strong customer demand for their financial services.

To learn more about Bancolombia's ANMs models, see here.

BOX 16. **India's Post Payment Bank Search to Bridge the Digital Lending Gap in Rural India**

Despite tremendous progress in India's open finance framework that reduces information asymmetries, digital lenders have been struggling to onboard the masses of low-income customers in India. The reliance of lenders on digital-only loan applications and fully digital transactions without CICO has limited the pool of customers to those who are most digitally savvy and receive most of their income digitally.

Realizing this, IPPB, which already has an extensive agent network in peri-urban and rural areas, saw an opportunity to bridge this gap. The Payments Bank leveraged India's open finance framework to create an app that connects its customer with digital lenders. The unique aspect of this process is that agents can assist customers through the loan application process, therefore removing many barriers that digital lender have faced that prevent them from scaling.

how some providers have different risk appetites: some choose to outsource KYA to ANMs, while others refrain from recruiting agents that do not meet requirements from a provider perspective.

Supporting Roles: regulators, policymakers, and funders

How can regulators, policymakers and funders support DFS providers in creating a roadmap to outsource agent management?

Regulators can encourage the evolution of ANM models by explicitly allowing DFS providers to outsource to these third-party companies. It should also clarify that the ultimate responsibility for agent actions falls within the DFS provider, despite outsourcing to ANMs. In general, our research shows that the following barriers tend to slow the development of dynamic ANMs ecosystems:

- Regulators impose an exclusive or non-exclusive ANM model. This does not provide flexibility to DFS providers to tailor ANM contracts to their needs and those of their customers. In most mature digital financial markets, it is expected that exclusive and non-exclusive ANM models co-exist as they adapt to varying local market characteristics.
- Similarly, regulators mandate that ANMs are solely dedicated to distributing financial services. This dramatically limits the viability of operations in rural areas. Regulators can let DFS providers and ANMs define what services the latter can distribute, in addition to those offered by the DFS provider.
- Non-financial entities such as store chains or e-commerce platforms are prevented from acting as ANMs. Regulators should leave it to the DFS providers to select the type of companies best suited to serve as ANMs for them. They may sometimes ask

BOX 17. **CGAP's Advocacy for ANMs in Indonesia's Agent Regulation**

CGAP and the World Bank in Indonesia supported the country's bank regulator, Otoritas Jasa Keuangan (OJK), to assess opportunities to improve agent regulation. The global experience was presented to demonstrate why agents matter for inclusive digital financial systems and the role that ANMs play in making rural agents more viable. This informed a thorough analysis by OJK, which eventually led to the explicit authorization for banks to outsource agent network management functions to ANMs in the country in February 2022.

BOX 18. **Cote d'Ivoire Enjoys a Dynamic, non-exclusive and non-dedicated ANM Market**

In Côte d'Ivoire, the DFS market is dominated by mobile money operators, principally Orange, MTN, Moov Africa, and Wave. The highly competitive market has helped develop a vibrant ANM market as DFS providers compete to reach new customers outside saturated urban markets. An estimated 6,000 ANM companies currently work with DFS providers to reach urban, peri-urban, and rural areas.

All ANMs are non-dedicated. However, some ANMs are exclusive to a specific DFS provider. Although more costly, this exclusive model allows providers to have tight control of branding, support to agent liquidity management, customer experience, risk management, and the geographic location of agents, among others.

Other ANMs are non-exclusive to DFS providers. This non-exclusive model has been shown to offer better economics for DFS providers. For this reason, it is preferred by DFS providers when exploring new rural areas where they were not present before. Unsure of the latent customer demand and agent costs, DFS providers prefer to test the market through non-exclusivity arrangements. However, this non-exclusive model tends to come with less control over the branding and agent liquidity management support.

DFS providers to submit a risk management plan to show how they will monitor ANMs and enforce all requirements defined in agent regulation.

- A general outsourcing framework exists, however; it is unclear what activities DFS providers can outsource to ANMs. In this case, regulators can amend the provisions by making explicit that DFS providers can use ANMs and what activities they are allowed to outsource.

For more details see here.

DFS providers are generally unfamiliar with the landscape of rural economic actors. Policymakers and funders can accelerate this process to favor the success rate of DFS providers and potential ANM partnerships.

Policymakers can subsidize or provide tax incentives for rural companies to become ANMs in less mature markets. They can also introduce DFS providers to funders who are temporarily working on initiatives that require strong rural agent networks.

Funders can raise awareness among DFS providers, regulators, current and potential ANMs about innovative agent models and partnerships, through research, knowledge sharing, training, and advocacy. They can also convene DFS providers and ANMs in neutral spaces to help with networking, trust building and encouraging partnerships. Funders can share the cost of pilots between providers and ANMs and help refine these relations. Lastly, they can also advocate and provide technical assistance to regulators to ensure best practices to allow for the development of a dynamic ANM market.

BOX 19. **Bukalapak and Komida Explore a New Partnership to Extend DFS into Rural Indonesia**

CGAP and its partners in Indonesia have supported DFS providers to reflect on their agent network management outsourcing strategies and further their coverage in rural areas. In particular, CGAP has been informing a current dialogue between Bukalapak and Komida.

After attempting to expand in rural areas with the same strategy used in urban settings, based on agent self-onboarding through an App, Bukalapak realized that this approach did not lead to much growth in rural agents. Through a rural market assessment, in partnership with CGAP, Bukalapak identified Komida, an MFI, as a potential ANM partner that could provide the high-touch support that rural agents need to be convinced to work with Bukalapak.

Furthermore, Komida qualified for the top three requirements for a successful partnership: it has an existing presence in rural areas where Buakalapak is interested in exploring; the backend systems are easy enough to integrate; and it can offer complementary credit products.

Meanwhile, Komida was looking to diversify its services offered to customers through its loan officers, who visit rural villages periodically. As a result, customers can access the credit services offered by Komida and the payment and e-commerce services offered by Bukalapak.

BOX 20. **Shared Agent Networks as a Solution to Expand DFS in Low-Income and Fragile Countries**

The barriers to expanding DFS and CICO agent networks in rural areas tend to be exacerbated in the lowest income and most fragile countries. These countries tend to have more extreme rural conditions, currency instability, and general insecurity, which can significantly disincentivize private sector investments and participation in rural areas. However, it is also in these circumstances that having far-reaching and well-functioning CICO agent networks may be essential to provide adequate support to the most vulnerable segments of the population, as they are often recipients of humanitarian and government social protection payments. Without rural CICO agent networks, and any business with rural presence, the government and donors are forced to deliver benefits in cash, which is extremely costly, insecure, and prone to corruption.

In these contexts, policymakers and funders can create "shared" agent networks that can be leveraged both by the private and public sectors.

CGAP explored the concept of shared agent networks as part of its work in Pakistan. Based on experience in other countries and best practices identified, we ideated three potential models that public authorities and DFS providers in least developed contexts can find useful to kick-start the rural agent networks expansion as a public good.

As with any public sector market interventions, special attention will be required to ensure that any shared solution will not crowd-out any private-led interventions and disrupt the organic growth of the market.

Potential models to kick-start shared agent networks

	Subsidy to existing, for-profit ANM	Develop a purpose-built, not-for-profit ANM (e.g., as public-private partnership)	Support acquiring capacity as public utility (e.g., as support for central bank led IPS project)
What support does this model involve?	Subsidy to an existing privately owned for-profit ANM with an inclusive vision and participation model.	Subsidy or other donot support to create an independent, purpose built, not-for-profit ANM entity within the market.	Subsidy or other donor support to existing government programs (e.g., instant payments switch project within central bank) for agent acquiring
Who owns and who makes decisions?	Privately owned with shareholders determining the rules and fees. Participants may be owners or not.	Jointly owned by participants, government/regulator, and/or funders. Strong participant involvement in rule making and feesetting, including non-owners.	Owned by government (e.g., central bank or social protection ministry), who also sets rules and fees with consultation of participants.
How does the model drive expansion?	For-profit ANMs are incentivized to maximize reach, but strategic priorities of investors may differ from funders. Some funder influence possible through support agreements.	Not-for-profit modes are ideally placed to balance incentives between the private and public sectors, and to ensure a level playing field with regards to participation and decision making. Moderate/strong funder influence possible, depending on form of support agreement.	Public utilities can make subsidy even more attractive to private sector, but must manage network strategy closely to complement existing private expansion strategies. Moderate/strong funder influence possible, depending on form of support aggreement.

Note: IPS stands for Instant Payment Systems.

KEY ACTION 5

All stakeholders to capture the potential of women agents by solving skill and asset gaps and designing around gender restrictive norms

Efforts to reduce the gender gap in financial inclusion are key to capture the full social and market benefits of promoting an inclusive financial system. Part of these efforts include the promotion of women as agents. CGAP's work with partners in focus countries, and its holistic review of the literature, offers new insights on the benefits of recruiting more women as agents, for women themselves, for their customers and communities, and for DFS providers. This analysis also identifies the barriers preventing more women from becoming agents and explores emerging solutions to address these barriers. The insights presented here are drawn from =Hernandez et al. 2023, where more details can be found.

When women are successfully recruited as agents, they have shown to benefit in several ways. Although global evidence is still scarce, from the review of the few mature experiences recruiting women agents at scale mostly in India, and some in sub-Saharan African and East Asian countries, this evidence suggests that after becoming agents, women have increased soft skills such as self-esteem, self-confidence, and agency in household decision-making; as well as hard skills including literacy, accounting and operation of electronic devices to process payments. They also see their incomes and assets increase.

These benefits spill over to the community. Women agents tend to better serve different types of customers that are often more vulnerable and harder to reach like low-income women, youth, elderly people, or people with disabilities, compared to their male counterparts. Also, women agents are better at building upon their social networks to gain customer trust, and customers report women agents show more empathy and patience when explaining how DFS works. Customers tend to report better customer service, which results in more active customers. All these skills are essential to promote responsible DFS use among traditionally underserved customers who are first-time users and may have low digital and financial literacy. In addition, in the communities where women agents operate, they tend to become role models to other women and girls. This, over time, is expected to relax gender norms that constrain the engagement of women in community affairs and their ability to do paid work. Also, women agents report that with the additional income they generate, they are able to invest in the well-being of other family members, including better food, education and healthcare for their children.

There is also a business case for DFS providers to hire women as agents beyond their financial inclusion or Corporate Social Responsibility programs. As mentioned above, women agents are opening markets that have historically been hard to reach through the traditional agent model. With the proper training and support, they can be sustainable and perform as well or better than their male counterparts, offering good customer service that also results in increased revenue for DFS providers.

However, to capture all the benefits women agents bring, there are important barriers that, in practice, greatly limit the number of women agents in developing countries. The root cause of these barriers are discriminatory gender norms prevalent that work at three levels that are key for agent performance. The first level is structural and refers to rules and regulations that make it hard for women to participate in financial markets, like acquiring a formal ID, registering a business, or opening an account. This type of barrier is better understood in the literature and there are proven solutions (World Bank 2018).

The other two, less understood, constraints are found at the individual and community levels. At the individual level, women tend to face systematic norms-induced skills gaps related to hard and soft skills, that limit the ability of women to manage and grow an agent business. Similarly, women face an asset gap that results in holding very low levels of investment and working capital that don't meet the minimum requirements to start operating an agent business.

At the community level, there tend to be restrictive norms that dictate where women should work, their household responsibilities, who they can interact with, and their mobility level, all of which limit the ability of women to perform well as agents.

The global evidence available suggests that public-private partnerships are needed to overcome these complex and widespread constraints, where public investments reduce norms-induced skills and asset gaps among women, which in turn helps unlock DFS providers' investments to recruit and support women as agents at scale.

Left to DFS providers alone, these investments are hard to justify with the private returns that can be generated, in the short run. By contrast, the social returns from increasing the number of women agents mentioned above, can justify public investment needed to reduce those skills and asset gaps that restrict women's participation in agent networks. From our research, public investments focused on reducing norms-induced gaps in women's skills and assets are most catalytical in unlocking DFS provider investments to on-board and support women as agents.

As these gaps between women and men reduce, the experiences studied show DFS providers can find it viable to make investments that target women as agents. These investments include the provision of operational support designed with a gender lens, like on-boarding processes, liquidity management, system troubleshooting, or customer grievance and protection protocols that fit women agent needs.

Despite the importance of public investments in promoting women agents, it is DFS providers who should be proactive in understanding the benefits that women agents bring as part of a long-term growth strategy. This requires investments to conduct market assessments and expansion strategies (referenced in Key Action 1, 3 and 4) using a gender lens. This approach will uncover the different experiences women face relative to men when going through the agent onboarding and support processes, and gives important insights to tailor such processes to ensure the inclusion of women. Furthermore, insights collected using a gender lens can help DFS providers lobby for public investments that are most catalytic to reducing barriers for women agents.

Policymakers and regulators as market actors, and funders as facilitators, all have essential roles in accelerating the inclusion of women agents in digital financial supply chains. The social gains from including women agents are significantly higher than the private cost to train and support them, making them a strong argument for public investments.

OVERCOMING BARRIERS IN KEY ACTION 5

How can all stakeholders be successful in including women as agents?

DFS providers need to learn how to assess the benefits and costs of onboarding women agents, and these need to be incorporated as part of the analysis of all the previous Key Actions.

Providers need to undergo research to understand women agents better, what their advantages are as agents, and what barriers they face inside and outside of the business realm. Internally, providers must collect gender-disaggregated data and identify factors that help and hinder the performance of women, by identifying what high-performing women agents do differently from those lower performers. Using this data, providers can make operational changes to support the viability of women agents (see India's Bank Sakhi example below).

Providers should also understand gender norms-induced restrictions that women face that impact their ability to perform as agents. As feasible, they should work toward accommodating the jobs of women agents around this. For example, providers should explore allowing for flexible hours, family involvement in the agent business, and alternative channels for women to balance their float.

More broadly, there are many dimensions where support is needed to make women succeed. This goes from attempting to shift gender norms to operational aspects like training women to become agents.

Policymakers can subsidize women's training to first, reduce the pre-existing gender gaps in education and business acumen and, second, as mentioned in Key Action 3, help DFS providers to cover important training costs. Furthermore, policymakers can also invest in long-term programs that support women in dimensions where gender-restrictive norms put them at a disadvantage.

Supporting Role: Regulators

Regulation should identify and address context-specific gender constraints to increase women's participation in CICO networks as customers and agents. Examples include making it easier for women to meet Know-Your-Customer (or KYC) and KYA requirements, eliminating discriminatory regulation based on things like marital status. Moreover, they can require DFS providers to report sex-disaggregated data on customers and agents to inform more effective business practices, policies, and regulations.

Funders, as external actors, can also provide temporary support in kickstarting the interest of DFS providers, and even policymakers and regulators, to onboard women as agents. For example:

- Provide technical assistance and grants for research on women agents and women customers' needs, constraints, and potential solutions.
- Based on this research, advocate to DFS providers to hire women agents, to policymakers to subsidize training and support, and to regulators to remove any regulatory barriers that create undue burdens on women agents, when compared to men.
- Provide grants to DFS providers and policymakers to kickstart training and field pilots – which are usually the costliest investments and create the most hesitancy.

BOX 21. **Exploring the Potential of Women Agents: A Study of the Bank Sakhis in Bihar, India**

CGAP performed a study jointly with the World Bank and JEEViKA that uncovered a series of barriers that women agents face which impact their revenue and business performance. These barriers are more related to DFS provider practices, than to gender norms.

Analyzing the best-performing Banks Sakhis reveals specific services that add the most value for customers and drive-up revenue for DFS providers and agents. These services are opening accounts and updating customer account ledgers (known as passbooks). However, not all Bank Sakhis can offer these services, simply because DFS providers had not enabled the systems to offer them. These results showcase to providers the need to identify which services create more traction among rural customers, and ensure internal systems are enabled to offer them.

Another constraint Bank Sakhis face relates to liquidity management. Understanding cash flow dynamics in communities proved important to identify local solutions to this problem. In this case, women agents tend to provide significantly more cash-out services, dwarfing cash-in services. This is a problem as women agents need to go more frequently to the bank branch to rebalance her float account. However, local Self-Help Groups tend to require large sums of cash-in deposits. The research showed that Self-Help Groups go to banks to deposit these funds, instead of reaching out to a Bank Sakhi that is closer. This is primarily due to the fact that the permitted maximum transaction amounts of Bank Sakhis is lower than what these groups require. An easy solution to benefit the groups, agents and providers, is to allow Bank Sakhis to provide higher transaction amounts for Self-Help Group accounts. This will not only increase revenues for providers but lower the costs of managing liquidity for agents too, as they will require fewer trips to the bank branch.

Finally, it is important to understand the pain points women agents face in serving their distinct customer base to ensure adequate support mechanisms. Our research shows that rural customers need reassurance whenever a transaction fails, caused by glitches in the system. As a result, DFS providers have agreed on the need to build real-time dashboards in the existing agent operating system that confirm transactions and help assure customers.

For more details, see here.

CONCLUSION

THE GLOBAL EXPERIENCE SHARED in this *Guide* shows that sustainable rural network expansion is possible with the right strategies and enabling environments. Although there are a few DFS providers that have managed to reach rural areas at scale by themselves, most cases of success show the need for public-private partnerships in which public policies and regulations enable and complement DFS provider initiatives.

This *Guide* provides a more granular explanation of the significant challenges that need to be overcome to achieve such expansion —as well as some proven strategies and coordination efforts used by industry stakeholders to do so. For those DFS providers that have managed to 'crack' rural service delivery, this has translated into long-term market leadership. The public sector players that have effectively enabled such rural agent expansion carried out by DFS providers, have experienced the remarkable contribution that digital financial markets can make to create more resilient, sustainable, and inclusive economies.

The leading role that DFS providers have in identifying solutions to make rural agent networks more viable comes from the know-how they have gained in building agent networks that cover urban areas well in most countries. The experience shared in this *Guide* suggests that addressing the remaining knowledge gaps that have prevented rural agent network expansion is more about adapting and tailoring existing products and distribution processes to rural realities —rather than creating new and separate ones. Success in serving rural areas needs to be part of a holistic vision from senior management in financial institutions to consolidate long-term market leadership, serving a wide range of customers in various geographies within a country.

Achieving rural agent network expansion at scale requires key public stakeholders, like policymakers and regulators, to fully understand the role these networks play in bringing the benefits of DFS to low-income customers and, thereby, in realizing important socio-economic development goals. This understanding is needed to justify public investments that can support DFS providers to innovate their products and agent management processes to go rural. Key areas of support required include implementing rural agent trainings and developing a rural salesforce, developing enabling KYA regulation and tax regimes, and promoting women agents. In an ever-growing digital era, it is easy to lose sight of the many pain points that low-income customers still face when using digital services, making physical interactions with agents a cornerstone for digital penetration.

This *Guide* provides recommendations for collaboration among all industry stakeholders, which is necessary to ensure digital financial services reach those most at risk. With a comprehensive approach, financial inclusion for vulnerable populations at the last mile can become a reality.

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ANNEX

Description of CGAP work to support local industry stakeholders in six focus markets.

Colombia

Colombia has made significant advances in financial inclusion since its national strategy launched in 2006. By 2022, 92 percent of adults have access to at least one financial account. Agents have been one of the cornerstones of this strategy, and in 2015, 100 percent of Colombia's municipalities had at least one CICO agent (Marulanda and Consultores 2022; Banca de la Oportunidades 2023).

CGAP partnered with Banca de las Oportunidades (BdO) by providing technical assistance to conduct a deep dive to understand the most pressing constraints affecting CICO agent networks in Colombia. As a result of this diagnostic, jointly with BdO, we hosted a series of workshops to convene the financial industry to validate and fine-tune the identified constraints. The discussions highlighted the need for a geolocation map of all agents to understand gaps in coverage and assess risks in managing agent operations.

The problem: The dominant bank-led, post-pay ANM model enabled vast reach but also causes agent double counting and exclusion of smaller rural retailers.

Focus: The opportunity is to pool industry-level agent geospatial data (through BdO) to target public incentives better and improve the provider's rural agent expansion strategies.

In the second stage of this project, CGAP and BdO commissioned the development of a geospatial analysis tool and training for BdO's staff to use the tool and continue monitoring agent geographical developments to inform future financial inclusion policies. This resulted in the first estimation of agent coverage in the country done through geo-positioning. Areas where service coverage is lacking, were identified in a granular way, helping focus efforts done by public policies and private initiatives.

Cote d'Ivoire

Côte d'Ivoire has made significant strides towards digital financial inclusion, with a 9 percent increase from 2017 to 2021, bringing the number of financially included adults to 51 percent. However, this country has one of the most significant gender gaps, at 27 percentage points, and rural-urban gaps worldwide, estimated at 12 percentage points (Global Findex 2022).

Despite the growth of agent networks, with over 83,000 estimated in 2020, less than 10 percent are located in rural areas, and most are economically unviable. CGAP partnered with the leading mobile money providers to conduct a diagnostic study of the agent network landscape in rural areas. The study aimed to understand the growth strategies and business models used by DFS providers and the constraints they faced in expanding and managing their rural agent networks. It also explored whether policy and regulatory framework enhancements could improve the reach and quality of rural agent networks.

The problem: Diverse and dynamic FSP-ANM models have been developed, but it is unclear which ones have the most potential to go rural and withstand the new market norm of lower customer prices and agent commissions driven by fierce competition.

Focus: The opportunity is to accurately measure agent network coverage and contrast the ANM model economics to inform DFS providers rural expansion plans and public sector policy design.

Based on the diagnostic findings, the project's second stage focused on proposing to regulators a tiered, risk-based Know Your Agent (KYA) approach to facilitate the identification of potential agents in rural areas. In addition, a differentiated rural-urban agent commission structure was proposed so providers can increase the business viability of these rural agents.

India

India has made significant progress in increasing access to formal financial services, with 78 percent of its population having access in 2021 compared to 35 percent in 2011. However, despite this growth, the country still has the largest unbanked population in the world, with 230 million adults lacking access to financial services (Findex 2022). Additionally, around 207 million people do not have access to a financial outlet within a five-kilometer radius of their homes (CGAP 2020).

CGAP created two partnerships to further the access and usage of formal financial services in rural areas and among women.

The problem: ANM-led innovations have improved agent viability, but do not reach rural areas due to policy limitations, such as agent dedication and lack of service aggregation through new public-private DFS providers partnership models.

Focus: Public actors (e.g., Bank Sakhi Program and India Post Payments Bank IPPB) adjust their policies to apply innovative ANM models to aggregate more valued services and improve operational efficiency.

CGAP partnered with IPPB, a public DFS provider with a large rural agent network and part of the country's Department of Post, with the mandate to offer payment services to low-income customers in rural areas. CGAP also partnered with Sahamati, a consortium of Account Aggregators, interested in viably offering formal digital credit to rural populations. CGAP provided technical assistance to perform rural demand research, as well as help convene and coordinate the different stakeholders to develop a collaboration model where IPPB acts as an ANM and payments provider, opening its rural agent network for the distribution of digital credit offered by private lenders.

In parallel, CGAP partnered with the World Bank and JEEViKA, Bihar State's rural development agency, to understand better the business and impact of women agents in the Bank Sakhi program —a public program which trains rural women to act as agents working with public and private banks. The research has resulted in proposed market interventions and identified policy-relevant insights that will increase the program's positive impact on rural customers, especially women.

Indonesia

Indonesia is one of the top five countries with the largest unbanked population (around 100 million adults), according to Global Findex 2021 (Global Findex 2022). Among the reasons cited for this are the distance to financial services, which is an issue for 36 percent of unbanked individuals. The fragmented geography of Indonesia also leads to significant gaps in access to financial services, with over 75 percent of the population in Java and Sumatra having accounts, while in other islands, it can be as low as 25 percent.

Agent coverage follows this trend closely, where there is extensive urban coverage and a struggle for DFS providers to replicate this success in rural areas. Thanks to regulatory changes and the proliferation of fintech, since 2015, there has been an exponential growth in CICO agents, with an estimate of over six million active agents by 2019. However, rural expansion of agents, and DFS, has remained anemic in rural areas (CGAP 2020).

To tackle this gap and allow the urban momentum to penetrate rural sectors, CGAP played multiple roles in Indonesia. In the first phase, CGAP offered suggestions to regulators to allow DFS providers to partner with non-financial providers with agent networks to offer DFS. This led to the creation of ANMs.

The problem: Key e-commerce-led innovations have improved agent viability, but these innovations do not reach rural areas given regulatory constraints. Furthermore, e-commerce firms lack an understanding of the investment required to recruit, train and manage rural agents.

Focus: Support public actors to assess how allowing ANMs and e-commerce firms to distribute financial services enables rural financial inclusion. As well as, support providers in applying more efficient ANM models.

In the second phase, as a result of these regulatory changes, CGAP brokered two potential partnerships between urban DFS providers and rural non-DFS partners with established networks to provide DFS.

CGAP facilitated a partnership between Bukalapak, an e-commerce and payments platform, and Komida, a Microfinance Institution (MFI) with a strong rural presence and potential to act as an ANM. It also helped Irma Store, a DFS provider, partner with Rajawali, a mobile operation ANM with presence in rural areas. While Bukalapak and Irma Store have the business and technology to offer DFS in rural areas, Komida and Rajawali have the rural network that the DFS providers lack.

CGAP provided technical assistance to conduct rural market research, agent training, and support capabilities for the two ANMs to introduce DFS services to their agents and provide initial on-the-ground assistance. It also supported the rollout of two pilots to test these partnerships.

Morocco

Morocco has made significant progress in financial inclusion over the past four years, as indicated by the 2021 Global Findex report, which shows that 44 percent of the adult population is now included (Global FIndex 2022). However, this is still relatively low compared to other countries, and there is a significant gap between urban and rural markets, and genders. Agent network development is also lacking in both urban and rural areas.

In 2021, CGAP conducted a diagnostic of the Moroccan agent network to understand better the leading DFS providers' business models and the constraints they face in expanding rurally. CGAP also partnered with Bank El Maghrib to better understand regulatory enablers and constraints of DFS distribution through agents.

The problem: Nascent DFS providers struggle to offer products that customers value and are not exposed to ANM models that can help deliver their services.

Focus: Work with innovative providers (Barid Cash, Chari, Inwi) to design new products and distribution strategies that move the needle in DFS adoption. Regulatory improvements are suggested.

In the second phase of the project, CGAP partnered with two providers, Barid Cash, the payments company of Morocco's Post, and Chari, a fast-moving consumer goods distributor with a payment license, to test different solutions to extend the access and usage of DFS in rural areas through the use of agents.

Pakistan

Pakistan has a low level of financial inclusion, as only 21 percent of the population has a formal bank account, and one of the top five countries with the highest number of unbanked individuals, with 115 million adults lacking access to financial services (Global Findex 2022).

Despite an aggressive expansion of agent networks initially through over-the-counter transactions covering 85 percent of the total population, this has yet to translate into financial inclusion. The use of digital wallets is mainly concentrated in urban centers. Most individuals who lack access to financial services are rural, poor, and living in areas with low population density, even though high proportions of adults within 5 kilometers of a financial access point, like agents, still lack access to formal financial products.

The Covid-19 pandemic led the Central Bank to eliminate fees for P2P transactions, resulting in increased transactions among those customers already included. However, it decreased profitability for DFS at the provider and agent level, posing a threat to the viability of current agent networks.

The problem: The zero-fee P2P environment has challenged providers to find new business models. A shared agent network agreement between lead providers could reduce agent network management costs.

Focus: Offer suggestions on how a shared agent network model between the primary DFS providers could work, what an adequate governance structure could be, and how to create a model that allows for interoperable agents through economically viable interchange fees.

To address this challenge, CGAP has provided technical assistance to suggest ideas about how providers could form a consortium to create an ANM, allowing providers to share costs, create interoperable systems, and pool agent floats to increase the economies of scale and scope. Uganda, Nigeria, and Peru have implemented similar approaches to pooling agents.

Banque Africaine de Développement – African Development Bank

African Development Fund – Fonds Africain de Développement

AFD

Bill & Melinda Gates foundation

British International Investment

Udenrigsministeriet
Ministry of Foreign Affairs of Denmark

European Investment Bank

Federal Ministry for Economic Cooperation and Development

giz

Global Affairs Canada

IDB | LAB

INVESTMENT FUND FOR DEVELOPING COUNTRIES

IFC International Finance Corporation

IFAD
Investing in rural people

AGENZIA ITALIANA PER LA COOPERAZIONE ALLO SVILUPPO

JOA
JERSEY OVERSEAS AID

KFW

KOICA Korea International Cooperation Agency

THE GOVERNMENT OF THE GRAND DUCHY OF LUXEMBOURG

Center for Inclusive Growth

mastercard foundation

MetLife Foundation

Ministry of Foreign Affairs and International Cooperation

Ministry of Foreign Affairs of the Netherlands

FMO
Entrepreneurial Development Bank

PROPARCO
GROUPE AFD

Sida

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Agency for Development and Cooperation SDC

Norad

THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP

UKaid
from the British people

UNCDF
Microfinance • Capital Development

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