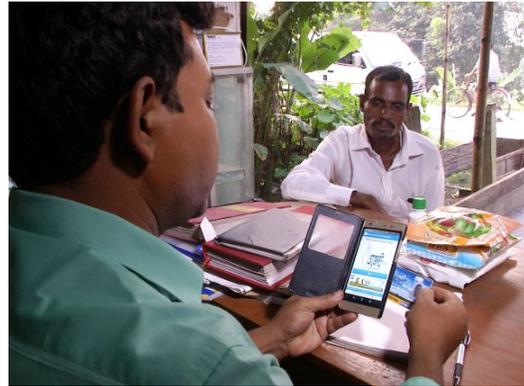


A Case Study on Agent Banking

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Expanding Access to Finance

Traditional brick-and-mortar banks use agent banking to expand the reach of formal banking services to rural communities. The model has played an important role in delivering critical financial resources and providing safe, accessible, and cost-efficient ways for underbanked communities to access financial services. Services are provided by banking agents who act as much smaller bank branches but are equipped with point of sale (POS) devices, mobile phones, barcode scanners, computers, and biometric devices. Agents provide select banking and financial services, such as cash-in and cash-out, utility payments, bank account openings, savings products, and fund transfers. In some cases, agent banks are **86 percent less expensive** than setting up traditional branches, the cost savings are mainly due to agents using their businesses as banking outlets reducing infrastructure and fixed costs for the parent banks¹. In Bangladesh, 87 percent of agents and 88 percent of outlets are located in rural areas². This has been one of the main benefits of the model as agents are typically members of the community, allowing them to build personal and trusted relationships with customers who may have been hesitant to access formal banking services in the past due to mistrust, financial illiteracy, or the long distances they had to travel.



Banking agent serving a customer.

Comparison of Banking Model Costs (USD)



Source: Veniard, C. (2010). How Agent Banking Changes the Economics of Small Accounts.

Agent Banking Serves Women

45%



Female Account Holders

4.39M

Female Accounts



250

Female Agents

¹ Veniard, C. (2010). How Agent Banking Changes the Economics of Small Accounts. Retrieved from <https://docs.gatesfoundation.org/documents/agent-banking.pdf>

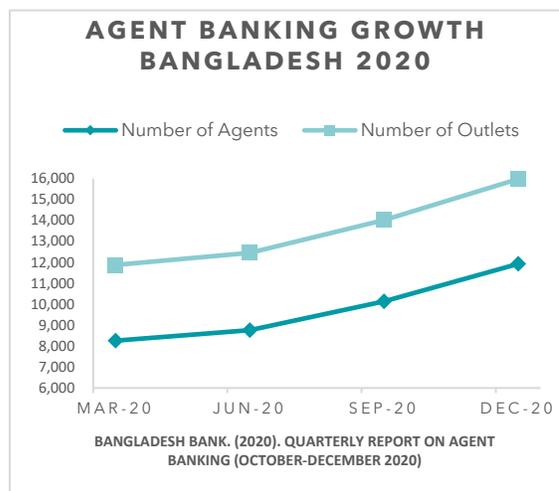
² Bangladesh Bank. (2020). *Quarterly Report on Agent Banking (October-December 2020)* https://www.bb.org.bd/pub/quaterly/agent_banking/oct-dec2020.pdf

Additionally, the model has expanded quickly among women. Its structure often benefits women where social norms restrict women’s mobility to travel to banks or where women’s ability to interact with individuals of the opposite sex in public places is limited or even prohibited. According to a recent analysis from Innovision Consulting Private Limited in Bangladesh, women held 43 percent of the agent banking accounts.

As of 2018, 52 percent of the bank branches in Bangladesh are in urban areas while only about a quarter of the total population lives in these areas; highlighting the driving need to further expand the agent banking model to rural populations³.

Supporting the Agent Banking Model during COVID-19

The Feed the Future Bangladesh Rice and Diversified Crops (RDC) Activity funded by USAID and implemented by ACDI/VOCA has been working closely with several financial institutions in Bangladesh to encourage the use of agent banking to increase access to finance for small and medium-sized enterprises (SMEs) and rural smallholder farmers. RDC provided technical assistance and grants to three banks—Bank Asia, BRAC Bank, and City Bank—to support the expansion and reach of banking services to the underserved in the Feed the Future (FTF) Zone.



To ensure activity funding was supporting market demands, in July 2020 RDC surveyed facilitators and participants of the agent banking model to understand how effective the model has been in supporting SMEs in accessing finance, and any challenges the model had encountered—particularly during the COVID-19 crisis. Agent banks were already becoming a core part of the bank model, but during COVID-19 they proved critical. At the time the study was conducted, the Bangladesh government implemented lockdowns, limiting the hours of operation for brick-and-mortar banks. Agent banks were able to continue operating mostly normal hours, and their parent banks invested in keeping the outlets open and safe by providing training on proper hygiene and safety measures as well as personal protective equipment. As demand rose for financing, agent outlets bridged a critical gap.

COVID-19 Impacts on SMEs

- \$22** Average loss in daily revenue
- 96%** Reduced business expenditures
- 74%** Personal savings as main source of working capital
- 43%** Survive for less than 15 days

In addition to RDC’s study, in April 2020 Innovision Consulting conducted a survey and found that SMEs were negatively impacted by the pandemic (see text box)⁴. The following month,

³ Survey on Impact Analysis of Access to Finance in Bangladesh. (2019). https://www.bb.org.bd/pub/research/sp_research_work/srw1903.pdf

⁴ http://innovision-bd.com/covid-19/COVID-19_Digest_9_Micro-Merchant.pdf

ACDI/VOCA's Livestock Production for Improved Nutrition activity, also located in Bangladesh, conducted the study 'COVID-19 Situational Analysis: The Effect on Households and Market Systems in the Livestock Sector'⁵ in which access to finance was found to be a major constraint to the recovery and resilience of the livestock sector. RDC recognized that banks were experiencing major challenges in disbursing the capital needed to support businesses but required more cost-efficient ways to reach agriculture SMEs. Through the review of third-party documents, key informant interviews with financial sector players including agents, customers, parent banks from three partners-Bank Asia, BRAC Bank, and City Bank-as well as a survey of over 80 female and male agent banking customers, RDC determined agent banking is an effective model to expand the reach of financial services to rural communities, even during times of crisis. Based on this analysis, RDC saw this as an opportune moment to increase grant funding and technical assistance to banks in expanding the reach of agent outlets.



Financial service providers with COVID-19 Personal Protection Equipment.

Impact

By increasing agent banking outlets, rural farming communities in the FTF zone saw an increase in the types of financial services they were able to access. The RDC Activity facilitated over 34,000 new bank account openings and smallholder farmers were more easily able to reach financial services, save money, send remittances, make financial transactions, and take out loans. To help tackle food security threats during the pandemic, BRAC Bank, in facilitation with the RDC Activity, leveraged the government's COVID-19 stimulus package to channel over \$18 million USD in credit to affected farming communities through agent banking outlets. During the shock of the pandemic, access to savings and low-cost loans provided a much-needed financial cushion for rural smallholder farmers.

Lessons Learned for Future Replication



Identify the right partners: RDC found that by partnering with banks that have common goals, they had more buy-in to facilitate financial services to the agricultural sector. All three banks had considerable interest in expanding their agent networks, but it took RDC's facilitation support-such as technical assistance and/or grant funding to encourage the shift to more rural farming communities.



Negotiate and communicate: One of the many challenges working with private sector partners is in getting their active buy-in for a project. This sometimes can be directly dependent on the size of the contract. One way to

⁵ COVID-19 Situational Analysis: The Effect on Households and Market Systems in the Livestock Sector. (2020). https://pdf.usaid.gov/pdf_docs/PA00X2GW.pdf

avoid such a dilemma is to lead with knowledge and not with money when designing the contract proposal. Particularly in contract negotiations, it is advisable to not be extractive, but instead, develop a mutually beneficial relationship when engaging with partners.



Take a market systems approach: By accelerating the expansion of agent banks in different geographical locations within the FTF zone, RDC brought financial services directly to rural communities. RDC found that by working directly with banks to improve their value-offerings, rather than working directly with the community and bringing them into the formal bank channels, the pull-marketing strategy worked and resulted in many of the targeted community cluster households expanding their financial footprint by availing new banking services. A successful case of market dynamics fulfilling unmet demand and improving marginalized population livelihoods. The primary learning is to not always focus activity resources on a bottoms-up approach for stakeholders' benefits but to also explore with partners that can help to mature the market from a top-down approach.



Promote female participation: Agents are the prime drivers of marketing banking services and reaching customers in rural communities. Banks can correct the current under-representation of women as both agents and customers by hiring more female agents. RDC has witnessed an increase in female participation in banking services when they have a female agent to work with. By supporting banks in setting specific targets for hiring female agents and reaching more female customers we can build a more inclusive model.



Pilot new ideas: The activity worked with the same three banks (BRAC Bank, Bank Asia, City Bank) throughout the life of the activity, building off pilots and building strong relationships with each of the grants, enabling these banks' buy-in and investment in this model to expand over time. This also was an effective method for adapting activity interventions to address participant needs/gaps resulting from the COVID-19 pandemic.



Encourage diverse services: In many countries, the agent banking model is still underdeveloped. Bank agents are 'credit officers' and are only able to monitor and disburse loans. Though these services are a good first step in posting agents in rural communities, by providing more diversified services, as this case studies' agent models have demonstrated, the reach of finance could be so much greater, because potential clients have a diverse set of financing needs (e.g., savings, utility payments, funds transfer, etc.).