



Uganda

# Digital Financial Services in Uganda

2015

## Innovating with and managing rural agents

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Developing an efficient and effective agent network is costly and time consuming. It requires strategic planning in a number of areas, including scoping and selecting the right agents, training them, and developing a fluid distribution channel to manage liquidity balancing, monitor agents and resolve customer issues with ease and at the lowest cost possible. The agent network challenge is made more complex when developing and managing one in rural areas, which is a major hurdle for most institutions across Africa—how does an institution permeate into and manage a healthy agent network within rural areas?

Mobile money launched in Uganda six years ago. Today the market has seven providers, with Vodacom expected to launch its m-pesa product in the near future. Whilst there have been many mobile-money successes in Uganda, there have also been challenges that stifle digital financial services (DFS) growth in rural areas. Some pain points emanate from institutions' poor choice of agents during scoping and on-boarding, inefficient models to handle liquidity balancing and low levels of agent monitoring. Such pain points affect trust levels for DFS and result in discontent

from users and potential users. Significant growth in rural demand for DFS is unlikely if the supply side is not healthy and efficient enough to support growth.

The Mobile Money for the Poor (MM4P) programme in Uganda held a one-day workshop (facilitated by DFS experts from The *Helix* Institute of Digital Finance) on 5 December 2014. Titled 'Innovating and Managing Rural Agents,' the workshop aimed to directly support DFS partners to develop innovative models and pilot innovations that will best help to manage agent network deployment in the complex and dynamic settings of rural Uganda. The 55 participants were drawn from mobile network operators (MNOs), financial institutions and microfinance institutions. Key strategic topics critical for agent management were discussed, including the following:

1. DFS product modelling and evolution
2. Fundamental principles of mass distribution
3. Implementing agent networks—Agent selection and on-boarding
4. Compensating the agent network
5. Liquidity management
6. Agent monitoring and support

## Key results

### Digital financial service product modelling and evolution

Institutions that intend to deploy agents are often confused when it comes to choosing the most appropriate agency model, particularly for rural areas. An institution needs to identify the strategic partners required to complete the deployment, which can include a) the institution itself, b) the technology provider, c) the delivery channels and d) the customer touch points. The correct model will help the institution choose appropriate partners to support it to build an agent network that enables growth in rural settings.

Complexities in agent networks for rural areas are exacerbated by sparse population, low literacy levels that hinder interpretation of user interfaces, high poverty that makes users particularly sensitive to DFS pricing, and products and services customized to



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the rural environment. Institutions, including those expected to roll out agency banking in early 2015, therefore need to have supporting partners that are willing to be flexible and innovate with them to service the rural population. Factors to consider include pricing, product development, efficient agent on-boarding, training and monitoring support, risk and compliance, timely reconciliations, and a quicker, easier transaction process that translates to the low literacy levels of the rural population, amongst others.

### Fundamental principles of mass distribution

Over a century of operation in Uganda, banks have tended to design products and services that cater to either wealthier or urban customers. They operate around 5.2 million accounts. In a much shorter period, MNOs have developed over 7 million active wallets on a 30-day basis. However, whilst MNOs have created a mass market product, they still have had very low penetration in rural areas. This finding suggests that strategic changes are required to reach rural markets, including agent points and availability, pricing, merchandising, quality, and space and structure at agent points.

### Implementing agent networks— Agent selection and on-boarding

The quality of service received by a DFS customer from an agent in many circumstances derives from the institution's decisions regarding agent selection and on-boarding. Caution is needed to ensure that an agent has been properly inducted and has the business tools to operate effectively. A well-designed agent training module will clearly stipulate the agent's role, which could include customer registration, liquidity management, SIM card replacement, basic customer education, cash-in/cash-out services and customer issue resolution, amongst others. An agent on-boarding process should consider the following:

- 1. Scoping of the agent, preferably from within the rural community:** The proposed agent point should, at a minimum, provide security to transact, be accessible to customers and have access to a rebalancing point.

- 2. Pitching:** An attractive value proposition for a prospective rural agent is critical; having a much more attractive incentive scheme for rural agents on some transaction types could make the business proposition more attractive (e.g., paying a higher commission to a rural agent for customer registration will motivate him/her not only to adopt the business but also to perform customer registrations).
- 3. Selection, on-boarding and contract execution:** This stage should safeguard the institution's brand, needs and scaling strategy, and any regulatory requirements for know-your-customer and anti-money laundering purposes.
- 4. Delivery** of tools, training, agent branding and commencement of operations.

### Compensating the agent network

Appropriate agent compensation results in better customer service, increased registration and transactions, good brand equity and quality of the overall agent network. However, rural agents may require modified compensation relative to urban agents due to a reduced number of transactions and higher costs for rebalancing. Given that 87 percent of Uganda's population is based in rural areas, rural agents could be provided with an additional incentive for registering customers and when those customers make three to five transactions within a given period after being registered. Timely and transparent agent compensation is a **MUST** for any institution to encourage agents and gain trust, especially with rural agents who may not understand the institution's internal issues regarding delayed compensation payments.

### Liquidity management

A core role of an agent is to manage liquidity, as without liquidity there can be no transactions. However, rural agents are located far from rebalancing points, are affected by fluctuations in the liquidity needs of their customers, and often incur high costs to rebalance their float. Therefore, the institution needs to innovate to provide liquidity management models based on real-time information to support liquidity management in hard-to-reach areas. Information can help an agent to know the

right float to carry and to maximize returns on investment from holding this float. The 1.5 liquidity holding rule can be utilized to greater effect for rural agents; this rule requires an agent to hold float and cash levels of 1.5 days stock, which takes care of fluctuation or unexpected surge in demand for liquidity from customers.

### Agent monitoring and support

Active agent monitoring is required to ensure consistency in agent quality of service. The [Agent Network Accelerator Survey: Uganda Country Report 2013](#) established that over 50 percent of agents in Uganda had not been visited by institution staff, potentially contributing to the lag in DFS Uganda shows in comparison to Kenya and the United Republic of Tanzania. A continuous monitoring and support programme for rural agents a) ensures operational uniformity, b) minimizes operational risks and c) complements internal control systems. Agent monitoring should inform the institution in the areas of platform performance, agent liquidity management, activities of the competition, pain points of customers and how they are being resolved, branding application and any agent training gaps.

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