Monetary Policies and Digital Financial Service Delivery: Understanding the Activities of Retail Agents in Oyo State, Nigeria

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1.0 Background

Digital financial services (DFS) have emerged as a powerful tool for promoting financial inclusion, especially in low and middle-income countries (LMICs) where traditional financial services are often limited. Digital financial services such as mobile money, agent banking, mobile banking and point of sale (POS) devices offer convenient and affordable access to financial services, enabling unbanked and underserved populations to save, borrow, and make transactions (Demirguc-Kunt et al., 2018). Retail agents who deliver DFS operate small business outlets on behalf of mobile network operators (MNOs) and banks, aiming to reduce costs and expand access to financial services, particularly among the unbanked, by providing services at low transaction fees and with short distances to nearby retail outlets. Their main responsibility is to offer basic financial services such as account opening and cash-in and cash-out (CICO) payment services (Annan, 2021). Expanding rural CICO agents' networks is crucial to achieving greater financial inclusion, given that most financially excluded and underserved customers live in rural areas (Kumar et al., 2020). Evidence suggests that the effectiveness of agent networks is a key driver for the adoption and use of DFS. Rural households are more willing to pay for mobile money services in areas with a higher density of agents (Aker et al., 2020), highlighting the importance of well-functioning agent networks in driving the adoption and use of DFS in rural areas. Effective cash flow and interoperability among agent networks can influence the demand for retail agent services. (Balasubramanian and Drake 2015). Agent banking provides access to finance and information. It is also an alternative source of employment, which is especially important during economic disruptions and job losses (FSD Africa, 2021).

1.1 Monetary policies and Nigerian context

Despite the potential benefits of DFS, challenges persist in ensuring that the services provided by retail agents reach unbanked and vulnerable populations. In Nigeria, the Naira Redesign Policy (NRP)[1] instituted by the Central Bank of Nigeria (CBN) was geared towards tracking money laundering activities, ensuring money in circulation was in the system, managing inflation, combating counterfeiting and ransom payment and fostering a cashless economy. On October 26, 2022, the CBN announced the introduction of the redesigned ₦200, ₦500 and

[1] cbn.gov.ng/out/2022/ccd/naira_redesign.pdf

₦1000 banknotes, while existing Naira notes in circulation would cease to be legal tender by January 31, 2023. However, the acute scarcity of the new naira notes nationwide called for extending the January 31st deadline to February 10, 2023. Despite the restoration of the validity of old ₦200 notes as legal tender on February 16, 2023, insufficient circulation and scarcity of naira notes persisted and culminated in a cash crunch crisis. The highlight of the policy was the revised cash withdrawal limit via Automated Teller Machines (ATM), Point of Sale (POS) terminals, cheques and over-the-counter by individuals and corporate organizations[2]. Also, the revised agent banking CICO regulation[3] released by the CBN on March 9, 2023, is to foster the agent banking initiative through improved financial inclusion by barring merchants that are not retail agents from carrying out CICO operations. This step is to avail retail agents of the opportunity to maximize DFS market demands. Based on the aforementioned, retail agents are critical in delivering DFS. Our study, therefore, examines the effects of the recent monetary policies on DFS among retail agents in Ibadan, Nigeria.

The research aims to provide answers to the following questions:

i. What is the profile of digital financial service retail agents in Ibadan?

ii. Do retail agents in Ibadan understand recent monetary policies?

iii. What are the constraints to providing digital financial services among retail agents in Ibadan due to recent monetary policies?

2.0 Study approach

A snap survey approach was employed in identifying 951 DFS service providers in Ibadan, Oyo state in 2023, that were included in the study. Ibadan, the capital city of Oyo State is the largest city in West Africa by land area with a population of 7,667,318[4] people. It is located in Southwestern Nigeria with rural and urban divides (Rabirou *et al*, 2013). Ibadan is suitable as a study area for DFS delivery due to its high population density, relatively high rural poverty rate, and the significant number of unbanked individuals predominant in the rural areas. According to the EFInA report (2018), Oyo state has the second highest number of financially excluded population (22.8%) in Southwest Nigeria compared to the average for the region (19.1%). The study was conducted across the eleven local government areas (LGAs) of Oyo State namely, Ibadan North, Ibadan North-East, Ibadan North-West, Ibadan South-East, Ibadan South-West representing the urban area, and Akinyele, Egbeda, Ido, Lagelu, Ona Ara, Oluyole representing the rural/peri-urban areas.

[2] https://www.premiumtimesng.com/news/top-news/585737-timeline-naira-redesign-policy-from-inception-to-supreme-court-judgement.html

[3] https://www.cbn.gov.ng/Out/2023/CCD/Regulatory%20Framework%20for%20Agent%20Banking%20-%20Exposure%20Draft%20-%20Copy.pdf

[4] https://nigerianstat.gov.ng/elibrary/read/1241207

3.0 Major findings

3.1 Study highlights

- The average age was 30 years and starting capital averages about ₦170,000.
- Monthly rent averages ₦4000.
- The monthly allowance is about ₦15,000 for employee operators.
- The average daily cash payment is about ₦140000.
- The average daily cash deposit is ₦89,000.
- The number of customers from Monday to Friday is about 180.
- The number of customers at weekends (Saturday and Sunday) is about 33.
- Daily expenses on data are about ₦250.
- The average distance to the bank is about 31km.
- Operators visit the bank twice daily on average.
- The cost of daily transportation averages ₦380.
- It takes more than one month before operators service their machine once and they spend an average of 900 Naira in each case and not more than 10,000.
- Males represent 58.4% of retail agents and females 41.2%.
- About 60% of operators were secondary school certificate holders, while about 37% had tertiary education.
- About 60% own the business, while about 61% had the business as a primary occupation.
- The most used source of capital was personal cash.
- MTN is the most used communication network by 76.8% of agents, followed by Airtel (44.5%) and Glo (30.9%).
- More than 60% of the agents use a combination of two, three or four networks.
- The most used power source was Ibadan Electricity Distribution Company-IBEDC (66.8%) followed by power generator (51.8%).

3.2 Sources of capital

The sources of starting capital among the DFS agents are shown in Figure 1. The result shows a high rating for personal cash as more than half of the digital service delivery agents started their operation through personal funding. The use of personal cash to start DFS operations suggests the lack of access to formal financial institutions for investment capital because of stringent lending criteria such as high interest rates, collateral security and provision of guarantors which these agents cannot meet. Formal financial institutions such as commercial banks, microfinance banks, and mobile money collectively contribute only 25.6% to the starting capital of DFS agents. This confirms the initial result on personal cash and further highlights a gap in the support provided by traditional financial institutions to this sector. The significantly low contribution from mobile money (1.7%) is profound, given its relevance and growth in the digital financial services landscape. There is a need to target financial products for better integration between mobile money platforms and DFS agent networks. The contributions from cooperatives (18.4%) and thrifts (10.5%) are quite interesting and suggest that DFS agents in Oyo State are leveraging community-based financial institutions as sources of starting capital. Despite the relatively high interest rates charged by some community-based

institutions, the result underscores the importance of social capital and informal financial markets or networks in supporting entrepreneurship at community level.

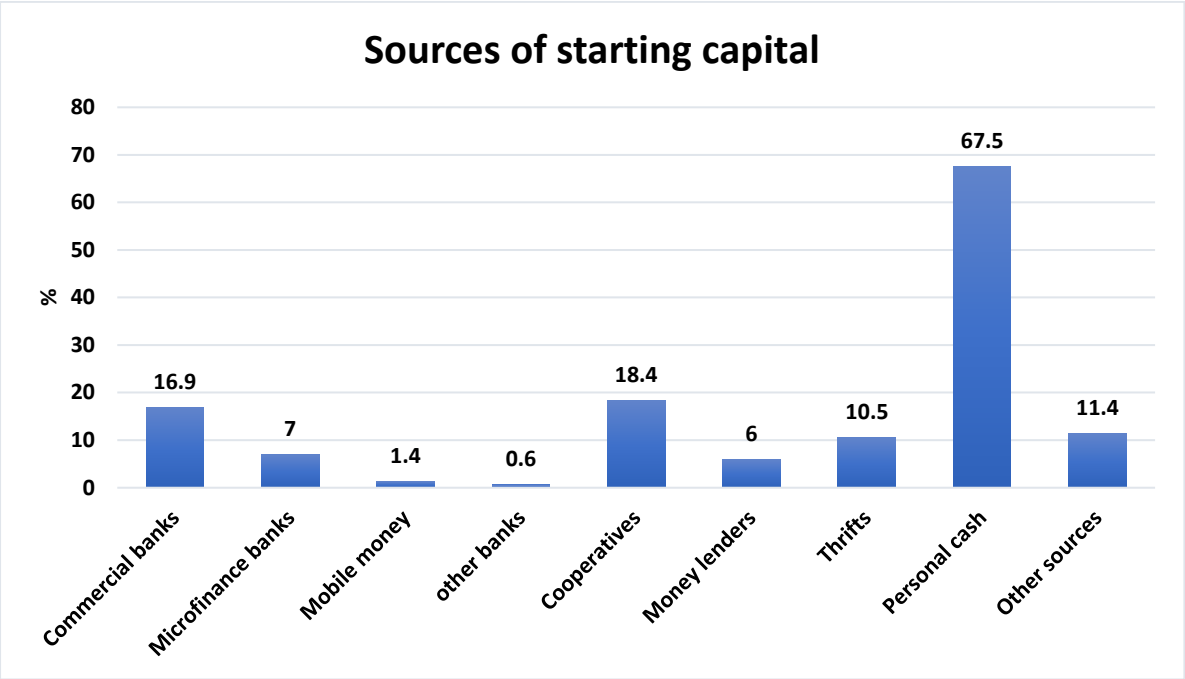

Figure 1: Sources of starting capital among DFS agents

3.3 Banks types used

The distribution of DFS agents on banks operated is presented in Figure 2. Commercial banks (61.7%) and mobile money (44.7%) are the major banks operated by agents. This outcome is regardless of the low contribution of these institutions as a source of starting capital among the DFS operators or agents. The result which portrays commercial banks as the most patronized suggests a strong reliance on traditional infrastructure for financial transactions and business operations. It further posits the level of familiarity with commercial banks, which is mostly driven by the perceived stability and security of these formal institutions. Figure 2 also shows the critical role of mobile money in the digital financial space. The DFS agents believed that mobile money offers convenience, accessibility, and lower transaction costs than traditional banking channels, making them attractive to mostly agents in remote or unbanked areas.

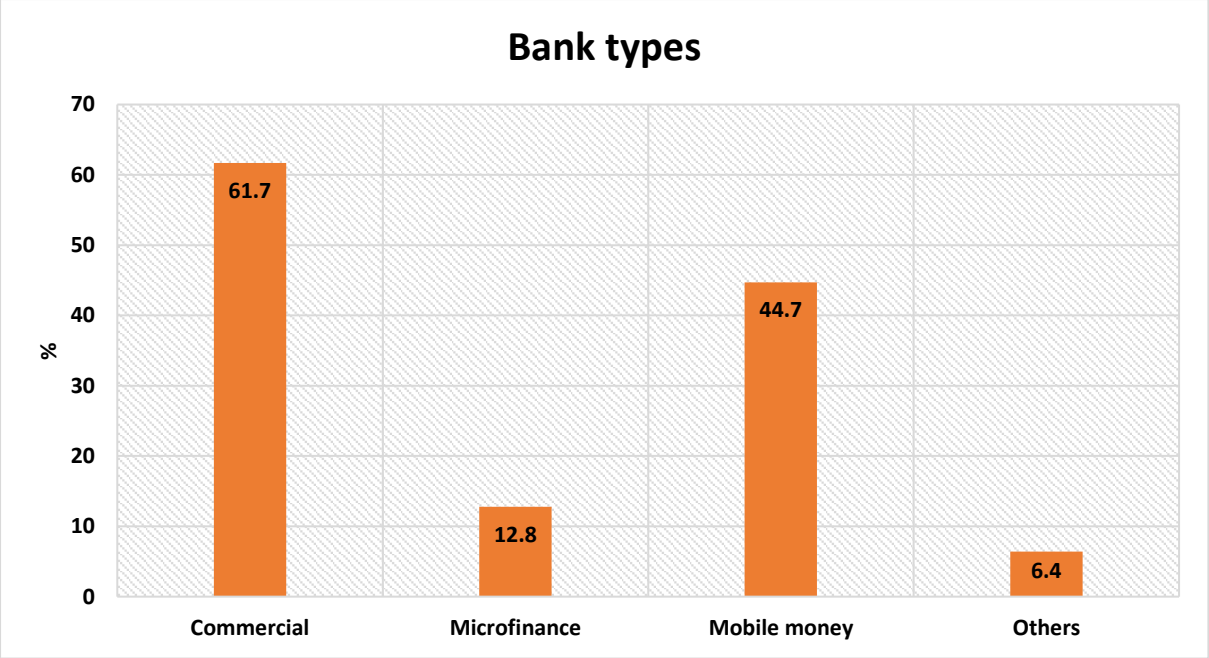

Figure 2: Bank types patronized by the DFS agents

3.4 Awareness and perceived effects of revised agent banking CICO and Naira redesign policy

There is a high awareness of the naira redesign policy (99.7%) and the revised agent banking CICO (67.1%) among the DFS agents (Figure 3). However, a notable proportion (32.9%) of the agents are unaware of the revised agent banking CICO, suggesting a need for enhanced and proper communication and outreach efforts on its provisions. The agents had a high perception of naira redesign policy (95.8%) and the revised agent banking CICO (92.1%) as it affects their operations (Figure 4).

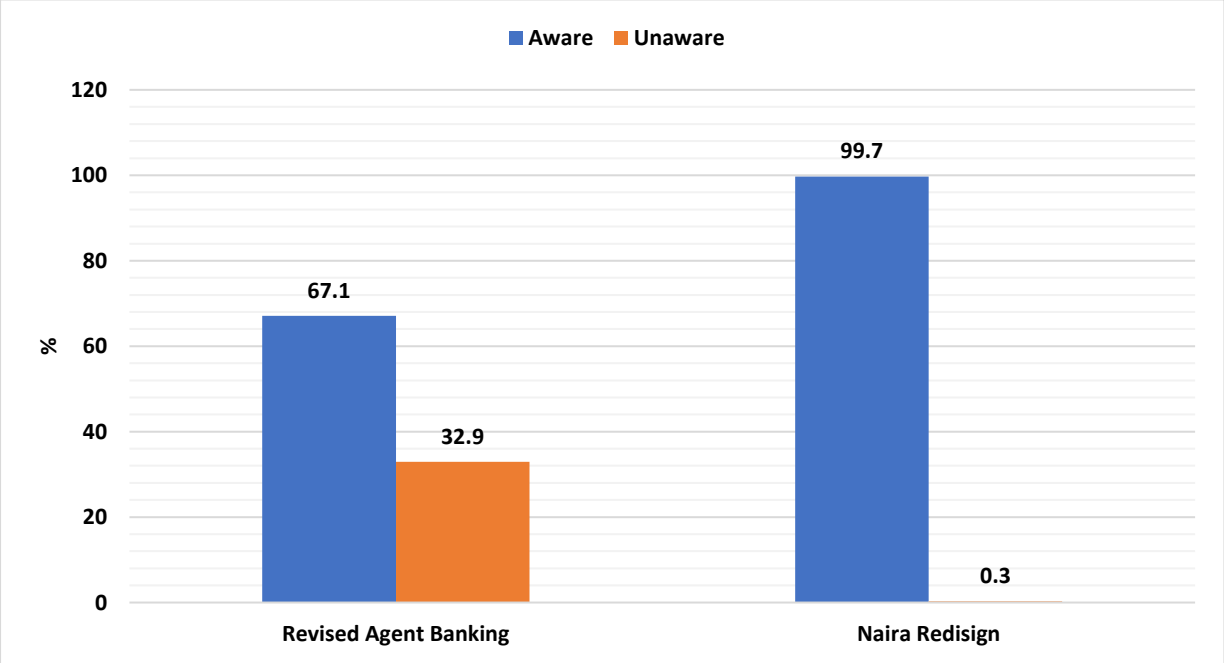

Fig. 3: Awareness of monetary policies among retail agents

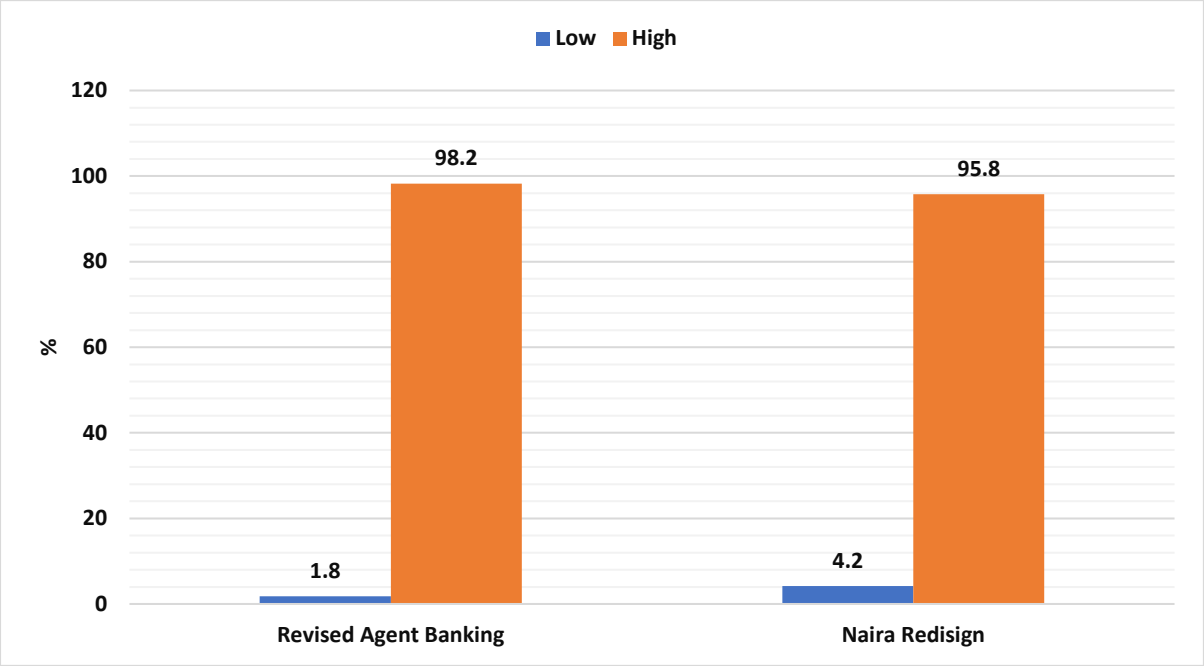

Fig. 4: Perceived effects of monetary policies among retail agents

3.5 Major constraints to the provision of digital financial services

Major constraints to the provision of digital financial services included illiquid cash flow, poor banking, and poor interconnectivity among banks (Table 1). The DFS agents are mostly constrained by the management of cash liquidity for operations. Limited liquidity can have negative consequences on agents' ability to meet customer demand, process transactions, and maintain adequate cash reserves, with implications on service delivery. The constraint on poor banking networks is associated with banking services and infrastructure. This may have implications on an agent's ability to perform essential banking functions such as cash deposits, withdrawals, and account management.

Table 1: Constraints to the provision of digital services

Constraints	Mean
Illiquid cash flow	1.71
Poor banking network	1.67
Poor interconnectivity between banks	1.66
Poor mobile network Alert	1.58
Poor internet services	1.46
Lack of understanding from customers	1.38
Competition with other agents	1.34
Erratic power supply	1.23
High start-up capital	1.21
Poor customer support from financial service providers	1.16
Distance to rebalancing point	1.14
Lack of transparency by agents on charges	1.13
Lack of uniformity in bank charges	1.06

Cyber fraud	1.05
Low literacy level of customers	0.94
Increased robbery	0.83

Policy recommendations

- There is a need to develop targeted financial products and services tailored to the needs of DFS agents, including flexible credit facilities, working capital loans, and capacity-building programmes.

-The stability of commercial banks is critical to DFS delivery.

- There is a need for continuous engagement and partnerships between formal financial service providers, DFS providers, community-based organizations, and informal credit institutions to improve access to finance and promote sustainable entrepreneurship.

- Private firms and other relevant actors can leverage on the adoption of mobile money accounts among the DFS agents to promote financial inclusion initiatives such as digital payment acceptance, savings mobilization, and access to credit.

- There is a need for deliberate policy thrust towards making cash available to DFS agents and improvement with network interoperability to ease agent operations.

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