CORRESPONDENT BANKING IN MEXICO'S RURAL AREAS: LESSONS FROM A G2P PAYMENT DIGITIZATION AND FINANCIAL INCLUSION PROJECT

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The information contained in this document draws from various project-related documents as well as interviews with over 20 key actors in the months of July & August 2013. This is a summary of the main report. The study was commissioned by the Bill & Melinda Gates Foundation. The findings and conclusions are those of the author and do not necessarily reflect positions or policies of the Bill and Melinda Gates Foundation.

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Executive summary

Between 2008-2013 the Bill & Melinda Gates Foundation (BMGF) supported a USD$13.5 million initiative that sought to leverage the G2P payment[1] platform of Mexico's largest conditional cash transfer program—Oportunidades[2]— to build a network of more than 7,000 banking correspondents[3] throughout the country's rural areas by the end of 2012. A partnership was established with Diconsa[4]—a large government retail network with over 23,000 rural stores—and Bansefi[5]—a state savings bank with a commitment to serve the poor—with technical support from McKinsey & Co. The project's ultimate objective was to provide access to savings and other financial services to Oportunidades' recipients and others in their communities, paving the way for their inclusion into the formal financial system and strengthening the program's overall development impact. It was an undertaking with great potential for outreach amongst the rural poor and a conceivably high demonstration effect within Mexico and internationally.

While payment digitization was successfully accomplished for over 6.5 million Oportunidades' recipients—provided with account-linked biometrically-enabled cards—the financial inclusion initiative did not yield the expected outcomes. The banking correspondent footprint was neither significantly nor sustainably expanded—the number of Diconsa agents stood at 261 in July 2013—and the promise to offer a range of relevant financial services to previously unbanked populations, especially in rural areas, went unfulfilled. To date, accounts in rural areas remain inoperable except to withdraw the G2P payment in full, in cash, using the card solely for identification purposes.

Setting up and managing a successful network of banking correspondents was a much more challenging and complex task than delivering payments electronically. This was exacerbated by the absence of unified project leadership and differing institutional priorities and capabilities, which prevented alignment and gave way to ongoing execution challenges. Despite its limited performance, this complex, multi-partner initiative generated a number of valuable learnings that can inform other similar undertakings in the future, both in Mexico and elsewhere.

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[1] Government-to-person (G2P) payments, which, in this case, specifically refers to social transfers.
[2] Mexico's largest conditional cash transfer program overseen by the Ministry of Social Development (Sedesol).
[3] This figure included 4,000 Diconsa stores, 1,000 Pemex gas stations and over 2,000 outlets belonging to financial cooperatives *(Cajas)* linked to Bansefi's *L@Red de la Gente*—a commercial alliance between Bansefi and regulated non-bank financial institutions (NBFIs).
[4] Diconsa is a majority state-owned enterprise overseen by Sedesol, dedicated to providing food and basic goods to the poorest regions of rural Mexico through a network of (now) more than 25,000 "community-owned" stores located in villages of less than 2,500 inhabitants.
[5] *Banco del Ahorro Nacional y Servicios Financieros* (National Savings & Financial Services Bank), a state savings bank that also supports the development of the 'popular savings and credit sector' comprised of financial cooperatives *(cajas)* and other NBFIs.

Introduction

Between 2008-2013 the Bill & Melinda Gates Foundation (BMGF) supported a USD$13.5 million G2P payment[6] digitization and financial inclusion project in Mexico through a partnership between Diconsa[7]—a large government retail network with over 23,000 rural stores—and Bansefi[8]—a state savings bank with a commitment to serve the poor—with technical support from McKinsey & Co. The project sought to leverage the payment platform of the country's largest conditional cash transfer program—Oportunidades[9]— to build a network of more than 7,000 banking correspondents[10] throughout Mexico's rural areas by the end of 2012 in collaboration with Diconsa and Bansefi. The objective was to provide access to savings and other financial services to Oportunidades' recipients and others in their communities, paving the way for their inclusion into the formal financial system and strengthening the program's overall development impact. It was an undertaking with great potential for outreach amongst the rural poor and a conceivably high demonstration effect within Mexico and internationally.

The announcement by the Mexican government in 2010 that all government payments should be migrated to electronic channels by 2012[11] made the intervention all the more relevant. The project initially focused on developing the electronic payment distribution channel to deliver Oportunidades's payments at Diconsa payout points close to recipients' place of residence through Bansefi. The institutions spent most of 2011 engaged in the nationwide effort to enroll and migrate the program's ≈6 million recipients to electronic payment channels (primarily chip-based, biometrically enabled bank-issued cards) and to develop, with Diconsa and others[12], the logistical organization around payment distribution. They accomplished these tasks successfully, earning high visibility for their efforts.

This part of the experience showed that having a clear mandate with a deadline, a highly visible and tangible goal, and strong motivations for all participants (financial and political, at both institutional and personal levels) was key to aligning very different partners and achieving success. Today, Bansefi distributes and electronically tracks 6.5 million Oportunidades payments through 6,099 Diconsa stores (560,000 recipients); 300 Telecomm offices (2.3 million recipients); some 50 cooperatives linked to Bansefi's *L@Red de la Gente* (300,000 recipients); and the bank's own mobile (itinerant) units (over 50% of recipients) in both rural and urban areas.[13]

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[8] *Banco del Ahorro Nacional y Servicios Financieros* (National Savings & Financial Services Bank), a state savings bank that also supports the development of the 'popular savings and credit sector' comprised of financial cooperatives *(cajas)* and other non-bank financial institutions (NBFIs).
[9] Mexico's largest conditional cash transfer program overseen by Sedesol.
[10] This figure included 4,000 Diconsa stores, 1,000 Pemex gas stations and over 2,000 outlets belonging to financial cooperatives *(Cajas)* linked to Bansefi's *L@Red de la Gente*—a commercial alliance between Bansefi and selected regulated NBFIs.
[11] *Presupuesto de Egresos de la Federación 2010* (Annual Budget Law).
[12] This included *Telecomm-Telégrafos*—a public agency overseen by the Ministry of Telecommunications and Transportation (SCT) that controls and operates telecommunications services and offers basic financial services—*cajas* and Bansefi mobile units.
[13] Figures reported for July 2013. Mobile units are temporary cash-out access points whereby a Bansefi employee travels to a disbursement site with a POS device and necessary cash on payment day.

As a result of the G2P digitization project both Oportunidades and its recipients accrued significant benefits. For the program, being able to electronically track and deliver G2P payments increased payment efficiency and transparency, and improved targeting and timeliness in delivery. For recipients—according to analyses performed by McKinsey—there was a considerable reduction in transaction and opportunity costs—a 77% savings—by virtue of being able to collect their G2P payment (in cash) at a pay-point no further than 4km away from their homes. Recipients' satisfaction with and trust in the delivery mechanism is reported to be upwards of 97%.

Project outcomes

Despite the successful electronic delivery of Oportunidades payments into individual recipients' accounts, the initiative to develop a banking correspondent network through the Diconsa-Bansefi partnership did not yield the expected outcomes, nor did it translate into greater financial inclusion, which was the project's higher objective. Setting up and running a successful network of banking correspondents turned out to be a much more challenging and complex enterprise than delivering payments electronically. In Mexico, social payments do not fall under the purview of the financial regulator, nor do they require a strong marketing campaign to drive adoption; only information dissemination to recipients on where and when payments will be made. Building a network of banking correspondents, however, demands compliance with various regulatory requirements to be able to take deposits and provide other financial services (both online and offline). It also requires widespread capillarity and a robust setup to manage operations efficiently and effectively and market service offerings adequately to ensure uptake and use.

Part of the complexity lies in an Oportunidades-mandated requirement that compels rural recipients—over 5 million people—to cash-out their benefit in full, at a designated pay-point (i.e. Diconsa store, Bansefi mobile unit, cooperative, Telecomm office), during a specified period of time. Rural accounts operate in a "closed network," which effectively renders them into a bimonthly, temporary repository of G2P funds and the cards into a simple "ID plus cash-out" instrument and nothing else. Urban recipients—amounting to some 1.3 million people—, on the other hand, are able to use their accounts and cards in an "open network" that enables them to keep their money in their account, use it digitally, and transact at Bansefi branches, agents, ATMs and POS-equipped retailers that accept Bansefi's card, which are more ubiquitous in urban areas.

The government's mandate requiring that government payments be made electronically into beneficiaries' bank accounts[14] did not (and could not) dictate how far the digital trail should reach, including the kinds of cash-in/-out options that should be made available to recipients and their proximity to them, giving people a real option to keep/use their money in electronic form. As things stand today, mandating that accounts function in an open network

[14] *Presupuesto de Egresos de la Federación 2010, 2011 & 2012* (National Budget Law).

without sufficient capillarity in rural areas of POS-enabled cash-in/-out/electronic payment-receiving points or ATMs would reverse the cost reduction benefits that Oportunidades' recipients have experienced from payments being made closer to their homes. The program itself would also have to relinquish some of the benefits in transparency and reliability that payment digitization has afforded it; a trade-off not to be taken lightly.

Despite various efforts, the project was unable to extend the banking correspondent footprint significantly and sustainably. It also failed to deliver on its promise to offer a full range of relevant financial services to previously unbanked populations, especially in rural areas. The absence of unified leadership was a major drawback as were differing institutional priorities that prevented proper alignment (see box) and led to ongoing execution challenges. There were also significant shortcomings in institutional capacity and ownership as well as weak intra- and inter-institutional cooperation mechanisms. Other problems that plagued the project included a lack of robust infrastructure, reliable connectivity, adequate incentive schemes, systematic data mining and knowledge-sharing exercises. All of this was compounded by unforeseen political and security issues that negatively affected the project. Today, Diconsa operates only 261 correspondents[15] and Pemex gas stations are still at pilot stage—a long shot from the expected initial project milestone of 300 operating correspondents by the end of 2010 and over 7,000 by the end of 2012.

Similar and differing priorities of key players

Institution	Mandate	Project objective	Project alignment	Sources of friction
OPORTUNIDADES	Improve capability development of families in extreme poverty through conditional education, health and nutrition incentives.	Deliver G2P payments to millions of recipients.	Achieve an efficient, effective, transparent and timely delivery; reduce costs for recipients.	Financial inclusion not a priority; not convinced recipients should be saving a portion of the resources designed to enhance current consumption; doubtful of Diconsa's and Basefi's capacity to serve recipients adequately.
DICONSA	Provide food and basic goods to the poorest regions of rural Mexico through its network of community stores.	Enhance the use of its network of stores to deliver additional services to poor clients.	Bring additional income to the institution (from payment commissions, correspondent administration); increase foot traffic in stores.	Correspondent banking not part of its core business; generates more work for staff who are not always keen to undertake it; increased security risks; preference for recipients to spend their G2P in the store rather than saving it.
BANSEFI	Provide savings services and other financial products to poor Mexicans; promote financial inclusion.	Expand its coverage through correspondent banking.	Use network of rural stores & G2P as gateway for financial inclusion; earn commissions from payments and services rendered.	Lack of control over agent channel governance and decisions over account operability; preference for clients to leave money in the accounts and increase transactionality at the agent.

Notwithstanding its shortcomings, this complex, multi-partner initiative generated a number of valuable learnings that can serve to inform other similar undertakings in the future.

[15] Figures reported for July 2013.

Insights and recommendations

The main insights and recommendations based on this project's experience have been divided into three themes:

1. Establishing partnerships and positioning the project[16]
2. Building and managing the agent network
3. Growing the business by serving the clients

1. Establishing partnerships and positioning the project

Solid project leadership and institutional alignment is key. It is essential that a project of this nature have an institutional "champion" from within the government with (i) the vision to lead and drive the initiative; (ii) the hierarchy and authority to coordinate and oversee all participants; and (iii) the capacity to enforce accountability and ensure alignment. Institutional priorities may differ but common ground should be found and alignment sought if a project is to succeed. Not having unified leadership that promotes and ensures alignment amongst all participants will most assuredly have a negative effect on project performance.

Institutional partners must be carefully selected. It is essential to liaise with solid partners and to determine their interest to cooperate; their execution capacity and staff's technical skills; their ability (or openness) to innovate; and their understanding of and level of commitment to a financial inclusion agenda. Identifying all internal units within participating institutions whose support will need to be enlisted to ensure project success is also necessary, as is to have thorough knowledge of the prevailing organizational climate within the institutions.

Working with and between government entities is a complicated task. While this will come as no surprise to both government and non-government participants, it is advisable to acknowledge and be aware that most public sector complications (e.g. bureaucratic procedures, senior staff turnover, changing political priorities, complex procurement rules) *will* arise in some form or another during the life of the project and to contemplate them in the timeline when possible.

Simplified MOUs[17] may help to reduce intra- and inter-institutional coordination challenges. The use of simplified MOUs (or similar) between institutions participating in the project and within them may serve to (i) add formality to the engagement; (ii) make project objectives clear to everyone; (iii) distribute responsibilities and specify timelines; and (iv) facilitate follow-up and accountability. They may also include some common success metrics

[16] In all instances here, "project" refers to leveraging a social transfers G2P to promote financial inclusion.
[17] Memorandum of Understanding.

around which institutions can rally. Some MOUs may revolve around information-sharing, reporting and confidentiality. Others can focus on operational issues and would be additional to any specific and legally-binding contractual agreements between the parties. The number and type of intra- and inter-institutional MOUs will depend on the needs and expectations of each project. These should be simple documents, in straightforward language to ease collaboration between the parties.

Project institutionalization is highly desirable, but needs strong justification. Formalization can provide stability and security to the project and its team. It is generally through proof of success (and sometimes also size, or potential for scale) that a project may generate the political value required to sustain it and even warrant changes in the host institution's mandate to effectively institutionalize it. Unless this is accomplished, it is unlikely that an institution will go through the trouble of formally institutionalizing a project/program.

External funding can be key to expediting proof of concept and, if successful, ensuring timely rollout. External funding can play a key role in quickly delivering the necessary proof that governments may need to embrace a project initiative and be willing to bring it to scale (with or without more external funding and provided the pilot shows promising results). It also has the advantage of allowing executing public institutions to expedite pilot/project inception by avoiding cumbersome procurement rules; having access to specialized technical assistance; and not taking risks with public funds. It should be considered that, if external funding is cut after the pilot, the momentum of the intervention might drastically slow down. It is quite complicated for certain government agencies to obtain fresh funding for or reassign existing funds to a project that was not budgeted for at the beginning of the budget cycle.

When hiring a local team consider this:

- **Government procurement guidelines and policies** – These may not be a problem while there is external funding but might be a problem if subsequent funding comes from a government source: a tender may be required to procure staff and salaries may be capped or cut, which would put team continuity at risk.
- **Country's labor laws** – Familiarity with local labor laws is necessary to determine how much flexibility there will be for staffing. Some laws are very strict and require hefty severance payments after hardly any time in the job. These potential additional costs should be taken into account.

Successful project execution will require a highly skilled dedicated team with solid leadership and sufficient funding. The composition and qualifications of the core (essential) members of a project team (or teams, depending on the number and needs of participating institutions), as well as the institutional unit under which the team will reside, should be well-defined. Given the challenges that a project of this nature will face throughout, a team must have sufficient qualified and dedicated staff and the internal support to move forward. It is also highly advisable that the team leader have enough seniority, experience, technical competence, commitment and character to be able to manage the team effectively; position the project both internally and externally; negotiate ably; maintain enthusiasm high; and deliver results.

Regarding the often-expressed desirability for a project team to be part of an institution's permanent staff, two considerations should be taken into account: (i) projects may last a long time but not be permanent, whereas staff may be, which may affect an institution's appetite for permanent hires (particularly where there is pressure to reduce the size of the bureaucratic apparatus); and (ii) a project in the making may require flexibility to staff as needs evolve, so a fixed structure might prove restrictive. Ensuring institutional buy-in and sufficient initial funding will allow a project to make enough progress without facing uncertainty early on. As the project proves its worthiness it should become easier to procure funding from other sources and maintain the required team, external or otherwise.

Nurture ownership and build local capacity when using external specialized support, even if project execution takes longer. Areas where specialized technical assistance is necessary during project preparation, piloting and execution should be clearly identified and the scope of the support defined at the onset, when possible, or commissioned as specific needs arise. This should be discussed with and agreed upon with the executing team, ensuring they benefit from it and own the process. Care should be taken to guarantee that these efforts are supportive and not substitutive, fostering local capacity-building and project ownership within participating institutions, even if this causes progress to be slower than is usually desired. Speeding things up through external support without taking this into account may affect ownership and prevent the effort from being sustained in time.

A successful and sufficiently large pilot is needed to garner policy-makers' interest in a G2P-linked correspondent banking model. A high-risk project of great potential magnitude—such as a correspondent banking model that leverages a large G2P program—will require robust proof to be supported by policy-makers and other potential players. A carefully managed and controlled pilot of sufficient size will need to be conducted to provide the required proof. Results should be thoroughly documented and presented in a way that will make the case clearly and convincingly for the project.

2. Building and managing the agent network

A channel designed and custom-built for G2P payments is not easily converted to a financial services distribution arm. Several factors need to come together for a G2P delivery channel to successfully transition to distribute financial services, including: (i) ensuring sufficient agent capillarity where customers live and work; (ii) having a dependable agent network—managed by a business-oriented, experienced and capable agent administrator; (iii) allowing G2Ps to be deposited into transactional accounts and funds to be withdrawn at recipients' will; (iv) ensuring stability of G2P deposits at correspondents to the extent possible[18]; (v) enabling usage of stores' cash for correspondent operation;[19] (vi) having a robust technology platform and reliable connectivity (or a way to reliably and legally conduct off-line transactions); (vii) offering and marketing relevant products designed with a focus on clients' needs; (viii) having trusted, well-trained and adequately incentivized agent operators who are able to provide the services efficiently. Potential conflicting agendas/priorities between the key players regarding the above should be clearly identified and averted or ironed out to prevent them from becoming permanent roadblocks later on.[20]

Incentives need to be aligned for all participants in the correspondent banking chain, but particularly for correspondent shopkeepers. At the top of the chain, it is essential that all participating institutions have appealing-enough incentives to participate in the project and seek alignment. At the other end of the chain is the essential, client-facing banking correspondent for whom it is a must to see a tangible and attractive benefit in providing agent services. They represent the bank, and the business ultimately depends on them. Agent training and technical support need to be provided seamlessly and continuously; their commissions must also be attractive and promptly paid.

A built-for-purpose agent network for G2P payment delivery will incur high initial set-up costs and high on-going liquidity management costs. It is expected that increased capillarity and transaction volumes will eventually drive down costs, provided the network grows sufficiently and is efficiently managed. Initially, however, adequate funding must be available to cover the various expenses (planned and unforeseen) needed to build a functioning network that will eventually be able to scale and offer a host of relevant products.

Whatever the structure of the agent network, it must be dependable. There is no best structure for an agent network, but having a business-oriented, experienced and capable agent administrator(s)—whether provider-operated or through a third party—is a must. Public networks may have wide coverage, but may prove to be ineffective agent administrators unless (i) they have dedicated and experienced staff to do the job and operate under a business logic or (ii) are managed by an experienced third party(ies), either as a network or on a selected outlet basis. Since a bank's reputation is at stake, care must be taken to procure an agent administrator(s)—and, if necessary, other relevant companies—capable of properly establishing, growing, managing and training the agent network sustainably. Administrator(s) should be picked (or operated) by the participating bank, not *for* it.

Security risks will increase costs and may deter potential agents from participating in G2P payments. Given that most G2Ps are paid in cash in remote rural areas, there is

[18] Provisions need to be made for some changes to happen in conditional cash transfer distribution when (i) recipients lose the benefits (due to death, change of residence, non-compliance with program conditionality, or other factors); (ii) the program is seasonal or temporary; (iii) the program ends; (iv) activities are suspended due to political events (e.g. election season).
[19] Diconsa did not allow stores to use their cash for agent business.
[20] Such as Oportunidades' restrictions on account usage and the requirement for 100% payment withdrawal (although justified due to lack of agent capillarity and capacity); Diconsa not allowing stores to use their cash for agent business; and having to use two POS devices (one for G2P payments and one for conducting agent business); among others.

bound to be a risk of robberies and crime. It is essential to identify and manage security risks adequately. If the situation so warrants, this could be done through a national level strategy or a series of specific strategies for critical areas. The cost of these activities should be worked into the overall business case. In some instances, the federal or local governments, or even the G2P hosting agency, may provide financial or in-kind support to procure adequate security and/or purchase insurance coverage. This cost may also be worked into the commission to payers for G2P disbursement. However, if crime rises and requires that a larger proportion of the commission be spent on security, it may prove a disincentive to participating or potential payers.

3. Growing the business by serving the clients

Over-reliance on G2P payments' juicy earnings can be a deterrent to offering financial services, particularly savings. G2P programs that are large, permanent, periodic, and pay attractive commissions to payers might have the effect of reducing a bank's interest and need to develop a serious business through offering financial services (which, of course, would have to be designed, marketed and sold, at a cost) to proper customers—not "beneficiaries"—thereafter.

Biometrics may serve a programmatic purpose but may also constitute a barrier to financial inclusion. Collecting millions of fingerprints and distributing biometrically-enabled smart cards is no easy or inexpensive undertaking. While biometrics may serve various desirable purposes, like reducing leakage, the downside to requiring biometric identification to receive an account-linked G2P is that it limits access to those points with biometric reading capability. If the overall financial infrastructure in the country does not support biometrics, achieving a financial inclusion objective—which would allow people to receive their G2P in a transactional account and use those funds and their account as, when and where they choose—may preclude the benefits of biometrics accrued by a social transfers program, which may cause the program to adopt a defensive position to uphold the use of biometric authentication to disburse payments. There are ways around this problem, such as requiring people to authenticate themselves at specific points every so often—regardless of where they use their account cards—but this is likely to prove cumbersome and may also prove limiting for financial inclusion purposes.

The upside of using biometrically-enabled smart cards in Mexico

The use of more expensive, biometrically-enabled smart cards to deliver G2Ps has often been questioned. However, in the Mexican case,♦ it has served several purposes (some unforeseen) for both Oportunidades and Bansefi:

1. *Overcoming lack of connectivity for G2P disbursement and conducting off-line transactions.* Mobile connectivity continues to be dismal in remote rural areas of the country. For the purposes of disbursing G2Ps, the smart card has allowed for secure, off-line payments to program beneficiaries, allowing the government to know that selected beneficiaries received their payment in full. In addition, recent regulation allows compliant banking correspondents to conduct off-line financial transactions with smart cards (although this has not yet been implemented).
2. *Effective mechanism for identity verification, increased security and reliability.* Oportunidades is very pleased with a mechanism that allows qualifying recipients to provide "proof of life," preventing unauthorized access, greatly reducing leakages, and increasing the reliability of its G2P databases.
3. *Compliance with new government disposition for credit and debit cards.* All banks were given until 2014 to switch credit and debit cards to EMV smart cards, or else, directly cover the costs of any card fraud in full. However, EMV standards do not include biometric authentication.

♦ The Mexican government covered the cost of Oportunidades' smart cards and fingerprint collection for enrollment.

The bank and its agents need to treat G2P recipients as their customers (and should refer to them as such), but require having relevant product offerings too. For recipients to be considered bank customers, they need to be served as such. For this to happen, G2P payments need to be deposited into basic transactional accounts with no restrictions other than those required for KYC (assuming agent capillarity is widespread and technology infrastructure robust). At the same time, the bank must offer relevant financial services whose design must be based on deep client knowledge with a focus on achieving long-term customer activity and loyalty—key to a viable business.

A bank needs to ensure a consistent customer experience at the agent. Whether a bank is managing its banking correspondents directly or outsourcing the service, customers need to be aware that a bank is behind the financial service being provided. The bank also needs to trust that its standards are being upheld and a consistent customer experience is guaranteed at correspondents.

A formal savings account may not be the most sought after (nor consciously required) product by poor clients and may be a costly product for the bank to offer, but there are other complementary financial service options. While it is desirable that everyone should be an active saver, there is often no recognizable demand for and active usage of the current basic savings product offerings among the poor. Account-deposited G2P payments are a start and can be leveraged to stimulate latent demand for formal savings and to provide other product offerings, such as insurance or credit, designed with customer needs in mind. Pull-products for which there is already a demand amongst the general population should be offered too (e.g. payments, transfers, airtime purchases) to boost the business. Diversification of product offerings will depend on the bank's ability to strike sustainable partnerships with utilities and other service providers; its capacity to design relevant products and features; and the capacity of its technology platform to support the deployment of such products. The aptitude of correspondent shopkeepers to handle the diversified product offering should also be ensured.

Liquidity management is key to providing reliable financial services, but solving the liquidity management challenge is not easy. Effective liquidity management at the correspondent is affected by many factors, such as: (i) G2P payments that are bulky and of varied frequency; (ii) varying level of retail sales at the store; (iii) restrictions on using cash from retail sales for correspondent transactions; (iv) capacity of the correspondent administrator to top-up the agent account or take away excess cash in a timely manner; (v) lack of diversity of financial product offering and limited levels of client transactionality; (vi) inability to use G2P account cards for electronic payments. Where payment system infrastructure capillarity is absent, as is the case in many rural areas, liquidity management will remain a challenge and its costs must be taken into account.

Conclusion

This project sought to develop an innovative way to bring financial services to a significant number of poor families in rural areas by building an agent platform that leveraged a large social payments program, a network of government-supported stores, and a state savings bank. The venture was risky yet worthy of support given the potential for outreach that it would have if successful. While its performance was ultimately hampered by a myriad of execution challenges and obstacles, many valuable learnings resulted from the experience and could prove very useful in informing future efforts in Mexico and elsewhere.

Despite the fact that commercial bank-led correspondent banking has developed significantly in Mexico in recent years[21]—mostly in urban and periurban areas—its main objective has not been to bank new clients. Financial exclusion in Mexico's rural areas[22] still stands at 78%.[23] In the foreseeable future, the market alone will not address the huge financial service access gap in rural areas. Therefore, the need for interventions that seeks to develop sustainable financial access points in rural areas nationwide remains both relevant and justified as a public policy initiative.

[21] Over a dozen banks (e.g. Bancomer, Banamex, Banorte, Santander, Compartamos) have developed a network of more than 24,000 agents (CNBV, June 2013) through various retail chains (e.g. supermarkets, drugstores, convenience stores) and some, like Banamex, also through mom & pop shops. The likes of Banco Azteca, Banco Coppel and Banco Walmart have extended their banking footprint through their own retail chains (e.g. Elektra, Coppel, Walmart). For more details, refer to the CNBV's and National Council for Financial Inclusion's "Financial Inclusion Report No.4," July 2012 and www.cnbv.gob.mx.
[22] Communities with less than 15,000 inhabitants.
[23] *Encuesta Nacional de Inclusión Financiera* 2012 (National Financial Inclusion Survey 2012). The figure refers to population (18-70 years of age) without a formal savings account.

Efforts of this nature and magnitude would need, above all, the political will to make them happen and the active participation of both the public and private sectors. Complex institutional partnerships and substantial effort and funding will be required to create an open access framework that leverages and expands existing communications networks to offer financial services through widespread webs of well-managed agents. This will entail, on the one hand, the committed and efficient participation of a host of players. On the other, it will require driving high volumes of financial transactions—G2Ps and others—across the digital financial ecosystem by offering relevant products through accessible channels. An enabling environment that ensures the system's sustainability will help bring about the much-needed and sought-after social and financial inclusion of the rural poor.