

# Special Themes Report: Pay Agent Cash Flow

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## HUNGER SAFETY NET PROGRAMME: PHASE 2 EVALUATIONS

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*The Special Themes series allows HSNP to explore topics of interest in a systematic way. The Programme Implementation and Learning Unit (PILU) determines the topic from questions or concerns raised through other monitoring tools, field observations or current policy issues. The findings are based on multiple open-ended interviews with recipients, implementing agencies, pay agents, and county and national staff. This allows observers to triangulate data and provide colourful insights. Reports are led by Oxford Policy Management (OPM), an independent consultancy firm.*

### Introduction

Over successive rounds of interviews, pay agents regularly mention challenges with ensuring they have enough cash to distribute to HSNP recipients, in particular during the first few days of the payment cycle. For this report, we explore the issues around cash flow in a bit more detail to determine what is driving the issue and how agents are pro-actively resolving challenges in the field.

### KEY FINDINGS ON CASH FLOW

- Record books from 53 pay agents show that they are typically serving about 110 households in the first two weeks after the payment is released. Assuming that these households are most likely to be receiving the routine transfer, this amounts to a requirement for over KES 500,000 (\$5,000) in cash in the first fortnight, and declining amounts thereafter.
- Some of the primary drivers influencing the number of recipients served, and therefore the amount of cash that the agents must have available, include the proximity of other active agents, the promptness with which the agent starts paying, and the pastoralist cycle.
- Safety is another key issue influencing agent behaviour. Agents vary their trip schedules, employ security guards, or hire taxis when travelling with large sums of cash.

### Cash requirements

Agents need to have enough cash on hand to cover routine requests for payment by regular Group 1 recipients as well as emergency payments to Group 2 recipients, when issued. Agents also need to cover households who have accumulated large balances during delays in their entry into the HSNP. Since July 2015 Group 1 recipients have received KES 5,100 (around \$50) every two months.

Here we look more closely at the record books kept by agents to keep track of the name and number of recipients paid on each date of a two-month payment cycle. In the absence of being able to access Equity Bank records that show when recipient and pay agent accounts are debited and credited, this

is the best source of data we have on actual cash requirements. Out of the 108 agents interviewed thus far over all rounds of monitoring we have detailed payment records for 53 agents. The reasons why we have a limited set of records to review are described later in the section on bookkeeping.

The peak time for households to collect their transfer is the first week after the payment is released (Figure 1). Among the 41 agents for whom we collected data when the payment was not delayed, records show that they typically serve around 110 households in the first week, with most coming in the first three days<sup>1</sup>. In the second week households continue to collect their transfer, though the average number of recipients served falls to around 5-10 households per day. Thereafter pay agents may find just the occasional household coming to collect their money in the rest of the month. During the second month of the payment cycle there is very little activity. A similar pattern was found in March 2016, when the payment was delayed, though the timing was shifted by about two weeks.

**Figure 1 Median number of beneficiaries per day across a 2-month payment cycle**

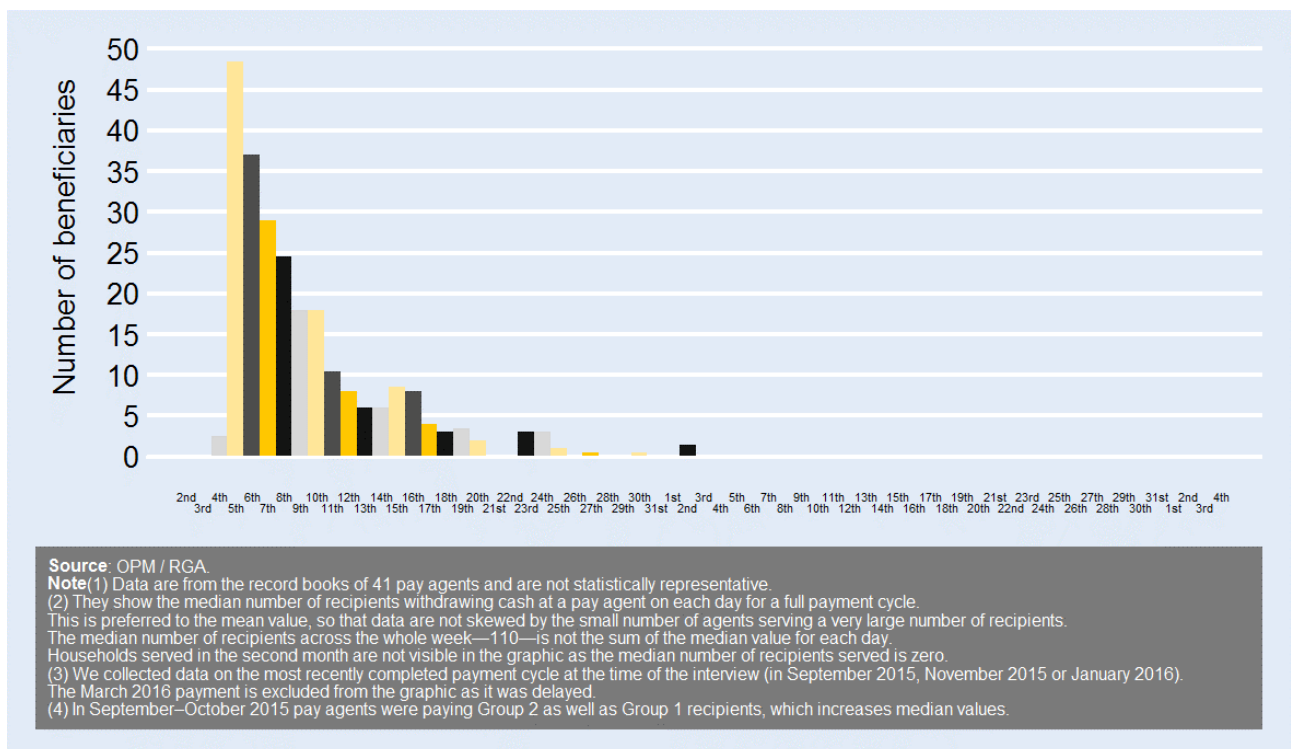
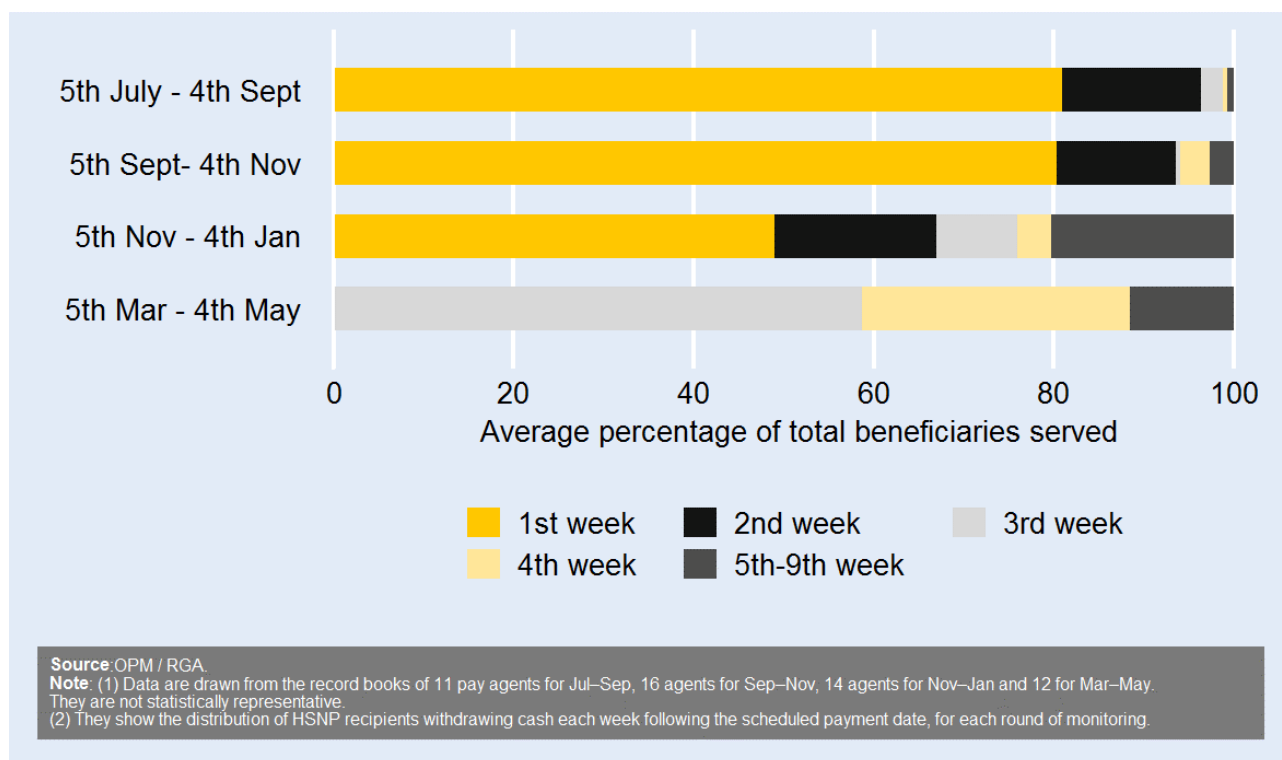


Figure 2 shows the average distribution of recipients across each week of a two-month payment cycle, among the small number of agents who shared their Equity Bank record books in each monitoring round. The pattern in the first two monitoring rounds is similar, with 80% of recipients withdrawing their cash in the first week. The Nov-Dec 2015 payment cycle shows a somewhat different pattern of withdrawal with many more recipients taking money out in the last week of the payment cycle (last week of December). This change in pattern might be explained by the New Year holiday, when Equity Bank credited households' accounts prior to the holiday weekend. So we believe these withdrawals are actually early payments of the Jan-Feb 2016 payment cycle. The Mar-Apr 2016 payment cycle was two weeks delayed, thus the reason for the varying distribution pattern.

<sup>1</sup> These are median values, so half the agents for whom we have records are serving more than this number, while half are serving fewer.

**Figure 2 Distribution of recipients per week across the scheduled two-month payment cycle**



Looking at the cumulative figures (not illustrated), pay agents typically serve about 110 households in the first two weeks after the payment is released. Assuming that these households are most likely to be receiving the routine transfer, this amounts to a cash requirement for over KES 500,000 (\$5,000) in the first fortnight, and declining amounts thereafter. These estimates are based on median figures. Some more popular agents must have on hand a great deal more cash to satisfy the HSNP recipient flow. Indeed, during the course of routine operational monitoring on average 4-6 pay agents report serving 500-999 recipients a cycle while an additional 2-3 report serving over 1000 recipients a cycle. In the record books that we actually verified, the total number of recipients served by a single pay agent in the course of a two-month cycle has ranged from as few as 18 recipients to well over 500. The number of recipients that a pay agent serves during a payment cycle is driven by four key factors.

1. **The proximity of other agents who are also paying out.** If there are other agents nearby who are also making payments, then any given agent will have fewer recipients. Several pay agents indicated that they were the only agent when they started but now there is more competition. The definition of whether they are active, however, is quite fluid (see Box 1)
2. **Timeliness of payments.** If an agent starts paying earlier than other nearby agents, he or she will get the bulk of the business.
3. **The pastoralist cycle.** The number of recipients rises and falls seasonally when herders bring in their livestock nearby to graze.
4. **Programme features.** Not surprisingly, many agents also noted that during emergency cycles, the number of recipients served tends to rise.

## BOX 1: ACTIVE PAY AGENTS

The HSNP representatives of Equity Bank that we spoke with reported the total number of pay agents that they serve along with the numbers of active agents. Their definition of 'active', however, is fluid in that it doesn't mean that the agents pay out each cycle. Reasons why a pay agent might not pay during a cycle may include, for instance, personal reasons, equipment failure, or logistical constraints in getting to the bank in time to pay. Currently there is no good process to know in advance which agents will pay during the cycle. Equity Bank can only run reports afterwards to see which accounts have been reimbursed. One of the Equity Bank representatives indicated that they occasionally monitor the pay agents lists to see who is active. Another indicated they have several agents who were active in the first phase but not in the second and have not been cleaned from the list.

## Cash withdrawal patterns

With the average pay agent handing out over \$5,000 in cash during the first two weeks of a payment cycle it is inevitable that many need to travel to Equity Bank at least once, and often more than once, to be sure to have enough liquidity to serve any HSNP recipients that come to their store. Some 80 of the 108 agents whom we have spoken to over the last year said that they had had to make at least one trip to a bank branch to collect cash during the previous complete pay cycle. The factors that determine the number of trips a pay agent makes to the bank and the amount of cash that is withdrawn are very similar across the four counties. There is a trade-off between making frequent visits to the bank, which increases the agent's cost of disbursing the money, and making fewer trips but taking out larger amounts each time, which increases the security risk.

### Distance / cost of transport

A key factor driving the number of trips and amount of cash withdrawn is the distance to the bank and related complexities such as the cost of transport, road quality, and the rains. Travel times can be upwards of two days for those agents on the fringes and the logistics can be complicated as one agent from Turkana described:

“Going to the bank involves picking a motorbike from here to Lokori and paying about KShs 700, then connecting to Lokichar at a cost of KShs 600 and if lucky connecting to Lodwar by bus or any other public means at a cost of about KShs 600, [or] else [you] spend [the night] in Lokichar, and travel to Lodwar the following day. Day 2, go to the bank and collect money and take a vehicle to Lokichar and it is always very unlikely to get a vehicle from Lokichar to Lokori in the afternoon hence one is expected to spend an extra night in Lokichar before eventually returning to the pay point through Lokichar”. – Pay Agent, Turkana.

### Safety

Despite very few records of any agent ever being robbed, safety and security was another important consideration for pay agents. Across counties agents indicated that safety is an issue because people in the community generally know who they are and that they transport large sums of cash during the HSNP payment cycle. In some more remote areas or those close to the Somali border, agents also fear random bandits and roving militia.

Pay agents mentioned the use of several innovative ways to keep safe. A number of agents indicated that they never let anyone know when they are going to the bank. Indeed, one Equity Branch

manager noted he has agents that come upwards of two weeks prior to the pay cycle to pick up cash. Other agents mention frequently changing routes so that their patterns are not predictable. Several agents hire security guards to come with them on cash collection days or take a taxi / private car rather than risk walking with large amounts of cash. One agent in Turkana described the following process for disguising the large amount of cash she carries:

"When we withdraw money from the bank, we put it in a paper bag and in the same paper bag add bread, cabbages, onions, bananas, etc. The money is always fitted in the middle of the paper bag and the paper bag loaded together with other luggage under car seats and hence no one can imagine there is any cash in the paper bag." - Pay agent, Turkana.

Two agents indicated they knew of other agents who carry a gun for security. It is not known whether this is solely as a result of participating in the HSNP programme. Nonetheless the fear is very real as the same agent in Turkana describes:

"A person can decide to track me down follow me up to somewhere near the bank and keep an eye from a distance. After withdrawing, identify the vehicle I will use on my way from the bank and move ahead of me and set a trap and disappear with all the cash. These almost happened to an agent in Kalapata near Lokichar who was ambushed on his way back from the bank. He was lucky he was a man and had a gun and therefore the attackers were not successful."

Issues of safety and distance drive up the amount of money pay agents must pay out of pocket, leading to complaints about the small size of the commissions. This increased financial cost to agents who are located far from an Equity Bank branch led to the introduction of a sliding scale of commissions to pay agents in late 2015. Agents living within 20 km of an Equity Bank branch receive KES 35 for every disbursement of KES 5,100; this rises to KES 65 for those located at 100 km or further from a bank branch. Since a few agents in this monitoring round reported spending in the region of KES 8,000-10,000 a pay cycle on travel—comparable to the maximum figures reported in March—the agents living in the most hard-to-reach areas may need to serve over 150 recipients simply in order to begin to earn an income and to offset the cost of collecting the transfer.

## Managing cash flow

In the regular cycle monitoring pay agents consistently complain about the number of trips to the bank they need to make in order to manage their cash for HSNP payments. However, a deeper analysis shows that agents are in fact managing cash in a variety of ways.

### Cash on hand

While making additional trips to the bank is one way of managing cash flow, it is clearly not the most efficient and can be quite costly and time-consuming for those who live far away. Pay agents describe several mechanisms for dealing with cash flow, mostly relating to managing the amount of cash the agent has on hand. Just prior to pay day, several agents mention encouraging their regular customers to make cash deposits so as to boost the amount of cash in the till. Other agents have side businesses that help with cash while others ask neighbouring businesses or family members for cash that can be reimbursed after a trip to the bank. For instance, one agent in Mandera explained:

"I always have money because of the shop and the bar that I have. In case I get a short I just get some from other businessmen around, then I refund later."

Another agent in Wajir mentioned he often bankrolls the payments by getting cash upfront from the wholesaler he uses. These informal relationships of borrowing illustrate the trust the agents have within the community.

### **Equity Bank assistance**

One question we asked pay agents is what, if anything, Equity Bank does to help with cash flow. The idea of an Equity Bank agent delivering cash was not really considered as a feasible option. Agents explained that the amount of cash they needed was likely too little to make it worthwhile for Equity Bank to make the trip. Similarly, very few agents had ever enquired of Equity Bank for an overdraft. Several thought that Equity Bank did not offer overdrafts or said they did not understand the rules of an overdraft. Many others stated that they would not take an overdraft, fearing the interest Equity Bank would charge would wipe out their profits. One agent from Wajir observed that overdrafts were considered loans and were not allowed in Islam. Those few agents who have asked for overdrafts indicated that Equity Bank has always refused. One Equity Bank officer noted that in cases where the bank had issued overdrafts to a few pay agents, this was not the official policy of the bank but an informal arrangement with trusted agents. The process was described as follows:

"We have been able to give overdraft services to more than one agent. Then we monitor how they pay this cash from our systems. We know the agents accounts from our side and we also have developed a relationship with our agents as a result of the long time we have worked together. If an agent comes asking to be topped up with some cash the management will observe the account history of the agent and other protocols that the bank requires then a decision will be made on the way forward. But the request should come from the agent themselves and not from the bank. The bank does not charge any interest to the overdrafts given to the agents."

The relationships built between Equity Bank and the pay agents are quite strong. Most agents cited that they value the relationships with Equity Bank and do not see a reason to switch banks. One frustration aired by a pay agent was that she had no good way to determine whether or not a commission was credited. The only way was to ask for a bank statement for which Equity charges a fee. A few agents in Marsabit are activating Equity Bank's Eazzy 24/7 mobile banking app to manage transactions, which might offer a solution.

### **Swipe now, pay later**

The overwhelming majority of agents interviewed for this report said they did not swipe cards only to pay later after a trip to the bank. This information is somewhat contrary to what has been observed in previous rounds of monitoring. The reasons cited why agents do not conduct this practice are many: (i) it is not allowed by the programme; (ii) recipients would just go to another agent rather than wait for the cash; (iii) recipients expect to be paid on swipe. One agent in Marsabit commented:

"No I do not do that. Most of these people are illiterate and when you try such a stunt here they might even kill you thinking you are stealing from them. It is a tricky affair that I do not want to try."

However, one or two agents in each county out of the six in each county we spoke with for this report (which represents about one percent of pay agents total) indicated that swiping cards and then going



to the bank is an integral part of how they do business. They describe a clear process that involves swiping the cards, printing receipts, marking the withdrawal in the book, telling the recipient exactly when they plan to pay, travelling to the bank to collect cash, and on return requesting the receipt and a National ID card of the recipient to collect the cash and balance the book.

“Yes I do that a lot as part of my security strategy. This is because sometimes I am forced to take cash to recipient homes with help of the chiefs. So my boys swipe the cards first to see who has money in the account then pay later....it guides me on how much I shall withdraw...”  
- Pay agent, Marsabit.

### **Small change**

While some agents are challenged by not having enough small bills to provide correct change, it does not appear to be a pervasive problem. The coping strategies for this issue are the same across counties and include:

- Get small notes from the bank (although several agents complained that they are too bulky to transport, posing a safety issue);
- Ask recipient to keep the KES 100 as a balance in their account (See Box 2);
- Ask recipient to buy something worth KES 100 in the shop;
- Ask recipient to come back later to pick up the balance (several agents noted that they write these transactions in the book to keep track of whom they owe); and
- Look for change at neighbouring shops.

Another common solution across counties is to pair beneficiaries from the same location into groups of five, give them one KES 500 note, and then have them sort out the change issue amongst themselves. While a fairly common response, some agents noted that they have run into problems later when recipients return saying they never received their portion of the KES 500. One agent in Turkana mentioned using more complicated math to solve the problem: “*At the pay point if we are short of change sometimes we ask [the recipient] to give us KES 900 and then give them KES 6,000.*”

### **BOX 2: Recipient balances**

During this round of routine operational monitoring we report that the available data suggests that recipients continue to accept whatever amount of transfer is offered to them. For example, of the 192 recipients that we interviewed in this round, two-thirds (120) withdrew the full KES 5,100, while nearly all the remainder report receiving KES 5,000. What we don't know is whether the agent only withdraws KES 5,000, actually leaving the 100 shillings in the account or whether agents are debiting the entire amount and simply giving this recipient the rounded number, leaving the actual balance of the recipient account at zero. To date we have not seen evidence that recipients are withdrawing greater amounts (e.g. KES 5,500) in successive rounds to reflect the accumulation of 100 shillings each pay cycle. To better understand what is happening, access to Equity Bank records on actual withdrawal patterns would be extremely useful. To date, HSNP has not been able to obtain these records. What is really happening to these 100 shilling balances is of particular importance if HSNP decides to increase the transfer amount. For instance, what happens if the transfer rises to KES 5,300? Would the pay agents absorb this larger amount as well, if that is indeed what is happening now?

### **Excess cash**

Pay agents were asked whether they ever end up in situations where they have extra cash on hand after the pay-out period. Only a few agents indicated ever experiencing this problem. Agents that have found themselves with excess cash most often use to money to buy extra stock for their shops.

Some agents choose to return the money to the bank, depending on the circumstances (e.g. distance from bank and amount of excess cash).

## Bookkeeping

The information on record books is mixed and hard to untangle. Several agents would not let enumerators look at the books or had excuses why they were not around. Many agents just keep track of the date, recipient name, and amount paid. For those few that do keep more comprehensive records, often certain information is recorded in the wrong place. One agent in Wajir reported that rather than keeping these records, he kept a duplicate copy of the receipt for his own auditing purposes.

Interestingly, *all* the pay agents with whom we conducted phone interviews declared that they maintained Equity Bank records or had their own makeshift book in which they kept track of recipients for each cycle. Since these were phone interviews, we could not visually verify the books. These agents responded that keeping such records was very useful for: reconciling cash, confirming commissions, and supporting evidence of transactions in the event of a dispute.

When asked why the agents did not complete the books responses varied from it being too long and cumbersome to complete, and that in doing so they would lose out on customers, to the fact that Equity Bank no longer provided the materials. Very few pay agents indicated that anyone from Equity Bank ever asked to see the books, although most Equity Bank HSNP representatives said they did indeed check the books. A few agents said they had used the books in the past to resolve complaints.

## Methods

OPM field teams and RGA team supervisors conducted interviews between 5 and 10 May 2016 with 24 pay agents in the field and an additional 12 pay agents via mobile phone. The team also interviewed an HSNP representative at an Equity bank branch in each county (Table 1).

**Table 1 Summary of fieldwork, March 2016**

Stakeholder	Wajir	Mandera	Turkana	Marsabit	TOTAL
Pay agents	10	9	9	8	36
Equity HSNP representative	2	1	1	1	5
<b>Total interviews</b>	<b>12</b>	<b>10</b>	<b>10</b>	<b>9</b>	<b>41</b>

Source: OPM / RGA.

Data on the distribution of beneficiaries across the pay cycle have been collected throughout the operational monitoring, since September 2015, by looking at the number of recipients recorded each day in the Equity Bank record books held by the pay agent, where such books were available. These were analysed here as a desk-based exercise.