Impact of the COVID-19 pandemic on CICO agents

Kenya report

June, 2020

SCBF

SWISS CAPACITY BUILDING FACILITY
Innovating Financial Inclusion

MSC
MicroSave Consulting

CICO agents during COVID-19

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Kenya report

Provides a detailed country-level view of the impact of COVID-19 on CICO agents*, their coping strategies, and recommendations for policymakers and financial service providers to support them

*The sample size is, clearly, too small to be representative and therefore the percentages throughout this report should be seen as indicative only

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01 Recommendations

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Recognize CICO agents as essential service providers. Offer credit and support by way of training to agents

Recognize CICO agents as essential service providers

Key insights

- CICO agents face severe health risks due to continued business operations during the pandemic. CICO agents have to take initiative for their safety and the safety of their staff and customers.
- Due to the curfew imposed to curb the spread of COVID-19, CICO agents reported a decrease in customer footfall as well as the number of transactions. This has, in turn, affected their monthly income.

Recommendations

01 The government should recognize CICO agents as essential service providers. With this recognition, agents should be allowed to operate for the usual business hours and not be restricted by curfew timings.

02 DFS providers should help agents increase compliance with safety measures at agent premises. They should educate both agents and customers through SMS blasts that emphasize the importance of adherence to hygiene and social distancing precautions.

03 DFS providers, in partnership with the government, should ensure a free supply of essential items, such as masks, gloves, and sanitizers, among others. This would enable agents to promote best practices concerning hygiene among the community. Such an approach would also reduce the additional financial burden on agents.

Ease credit flow to agents and provide training

Key insights

- Training is key during this period to enhance awareness among agents, especially on ways to deal with customers as well as the necessary safety precautions.
- While a reduction in transaction volumes has reduced the frequency of replenishing float, volatility in transactions has led a few agents to obtain credit to maintain liquidity and e-float.

Recommendations

01 Most DFS agents in Kenya are non-dedicated, that is, they run other businesses besides the CICO agency. However, liquidity issues in their other businesses reflect on the agency channel. Thus, allowing agents with little or no float capital to borrow float and repay at a later date will provide immediate relief.

02 Offer training to ensure agents adhere to safety precautions and maintain hygiene as they serve customers. MSC's comics can help train CICO agents on the necessary precautions during this pandemic. The comics, being shared widely on WhatsApp, are available in both English and French.

03 Agents should be informed about liquidity management agencies such as PesaKit and Bloom Finance. The services offered by these agencies can help agents gain rapid access to e-value and cash. This would enable agents to continue their services and respond to the fluctuating demands of their customers.

CICO agents are in urgent need of support for business continuity. Do we make the move towards self-initiated digital transactions in the medium term?

Support to minimize losses

Key insights

- CICO agents are under considerable strain, with almost half of them reporting a decline in the income generated through commissions.
- This reduction in income is driven by: 1. Waiver of fees on transactions less than KES 1,000 (~USD 10) until 30th June, 2020; 2. Increase in transaction and wallet limits; and 3. An overall decline in business activity, particularly in the case of urban to rural remittances.

Recommendations

01 In the short term, DFS providers should review their cash-in cash-out commission tariffs after 30th June, 2020 to mitigate agent losses and support agents to continue their business sustainably. However, for the medium term, providers should take a strategic call on utilizing the COVID-19 crisis to move towards a more digital future. They should set commissions to encourage the use of digital money instead of cash outs.

02 DFS providers should review bill payment and merchant commissions. They should incentivize agents who also act as merchants to accept digital payments instead of urging their customers to withdraw and then pay in cash. This may call for changes in the commission structure incentivizing receipt of digital payments by merchants.

03 DFS providers should offer re-balancing support to agents. This may cover additional expenses incurred to organize liquidity during the curfew and lockdown.

Enhance income streams and reduce vulnerability

Key insights

- The existing DFS ecosystem can be utilized to deliver the proposed G2P transfers, provided adequate commissions are offered to DFS providers and their agents.
- Agency monitoring systems are presently affected by the restrictions on movement and agents face an increased risk of fraud. This problem is exacerbated by the push to increase the use of digital channels.

Recommendations

01 In Kenya, bank agent networks have a lower reach and fewer agents than MNOs. Policymakers and regulators should consider utilizing MNO agents for G2P transfers under the Inua Jamii program of Kenya. Given the outreach of MNO agents in remote rural pockets of the country, this will be more convenient for beneficiaries and will also serve as an avenue for increased agent commissions.

02 Due to the push for digital channels to curb COVID-19, there are novice users who may be unable to ensure the security of transactions. Both agents and providers should be aware of this segment of new users and the challenges it presents. Providers need to remain alert to mitigate the risks associated with the use of mobile money. They should ensure that fraud cases are minimized and those that do occur are resolved immediately.

02 Impact of COVID-19 on CICO agents

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CICO agents need support from both service providers and the government

Agents require support from banks and MNOs

- Around two-thirds of the agents surveyed reported that they would like to receive support from banks and MNOs
- They would require the banks and MNOs to provide
  - Liquidity support to manage the agency operations
  - Support to comply to the health and safety measures during the pandemic
  - Higher commissions to meet the expenses and cope with the lower business volumes

Agents require support from the government

- A majority of the agents surveyed reported that they would like to receive additional support from the government
- They would require the government to provide
  - Income support to cope up with reduced revenues and commissions
  - Opportunity to service cash-out for the government's social benefits transfers

To curb the spread of COVID-19, the Central Bank of Kenya announced directives encouraging the use of digital financial services

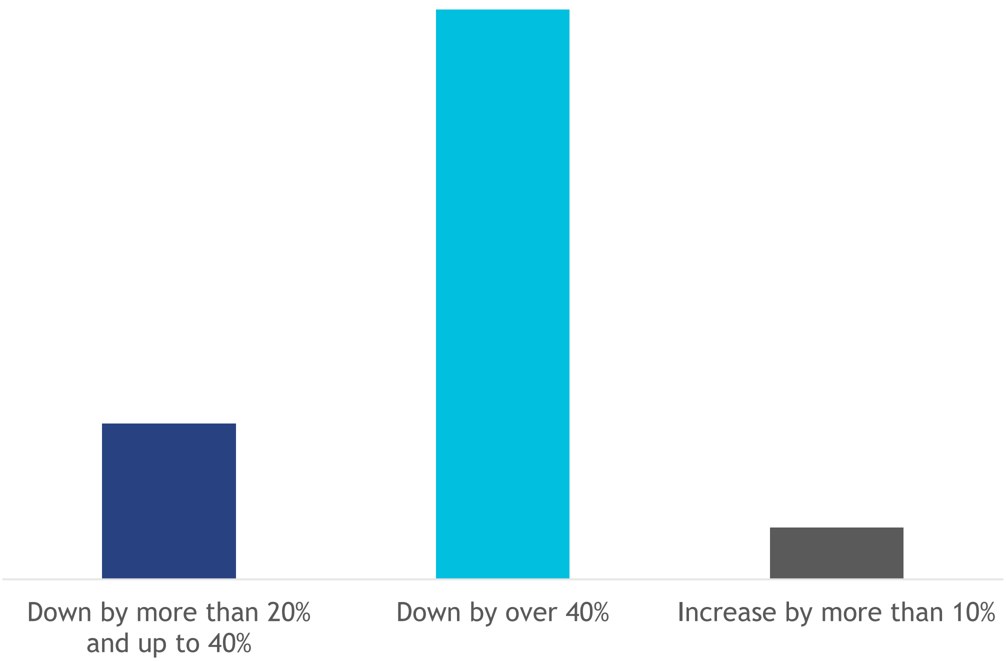
On 16th March, 2020, the Central Bank of Kenya (CBK) issued a set of directives to facilitate the increased use of mobile money transactions instead of cash. These measures are applicable until 30th June, 2020 and include the following:

- No charges for mobile money transactions up to KES 1,000 (~USD 10)
- Transaction limit for mobile money increased from KES 70,000 (~USD 700) to KES 150,000 (~USD 1,500)
- Limit of mobile money wallets increased from KES 140,000 (~USD 1,400) to KES 300,000 (~USD 3,000)
- Elimination of monthly total limit for mobile money transactions
- The tariff previously levied on transactions up to KES 70,000 (~USD 700) is now applicable for transactions up to 150,000 (~USD 1,500)
- Payment service providers and commercial banks to eliminate charges on transfers between mobile money wallets and bank accounts

Financial institutions waived off the fees for online fund transfers. The Kenya Bankers' Association has also waived all charges on transfers between mobile money wallets and bank accounts for 90 days.

Most agents reported a significant decline in customer footfall

Around three-fourths of agents reported a significant decline in customer footfall



Business operating hours have reduced due to the curfew

- Around <u>three-fourths of agents reported a significant decline</u> in customer footfall as a result of the "stay home" directive by the government as well as the curfew. This resulted in limited hours for the agents to operate their kiosks. Combined with the general economic decline, it led to fewer transactions and negatively affected the income of these agents.
- The agents experienced a significant decline in the value and volume of transactions.
- The push for digital channels to curb COVID-19 resulted in many novice users. These users are unable to ensure the security of transactions and are more susceptible to fraud and risks associated with digital transactions.
- Agents face an increased risk of fraud. Consumer-driven fraud is the most common, initiated by fraudsters that pose as customers. This is because fraudsters have started taking advantage of the increased use of digital channels.

"My business is heavily affected. We only make about 40% of the commissions we used to earn before the curfew. I used to conduct 60-80 transactions in a day. This has come down to around 20-25 transactions if I get lucky." – An agent from Mombasa

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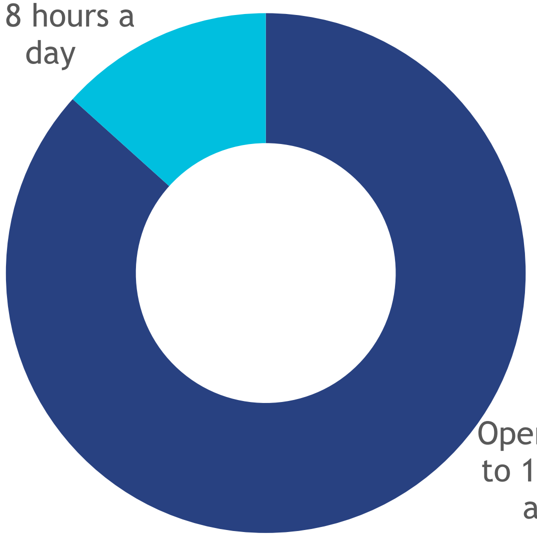
The government directive meant a reduction in business operating hours for CICO agents



For most agents, revenue has reduced significantly since the COVID-19 outbreak

- Agents witnessed a decrease in the operating hours of their businesses due to the curfew. From 27th March to 6th June, a curfew was imposed from 7 p.m. to 5 a.m. The timings were altered to 9 p.m. to 4 a.m., with effect from 7th June, 2020.
- The new relaxed curfew timings meant extended operating hours for the agents. This was expected to translate to greater customer footfall and a consequent increase in the transaction volume.
- Before the pandemic, most agents operated for more than 10 hours each day. Currently, a majority of agents open shop by 7.30-8.00 a.m. and shut down operations around 6.30 p.m.* to ensure they are home before the curfew.

*Kenya had earlier imposed dusk-to-dawn curfew before the relaxation of curfew timings with effect from June 7, 2020 to 9 pm to 4 am

"Before the pandemic, my outlet used to remain open until midnight. Currently, I operate from 8 a.m. to 6 p.m. because of the 7 p.m. curfew limit." - An agent in Nakuru

"I have changed my operating hours from the previous 8 a.m. to 10 p.m. I now open from 7 a.m. to 4 p.m. to comply with the curfew orders." - An agent in Wajir

"Because of COVID-19, I open my shop from 9 a.m. to 4 p.m. Earlier, I used to operate from 7 a.m. to 8 p.m."
- An agent in CBD, Nairobi

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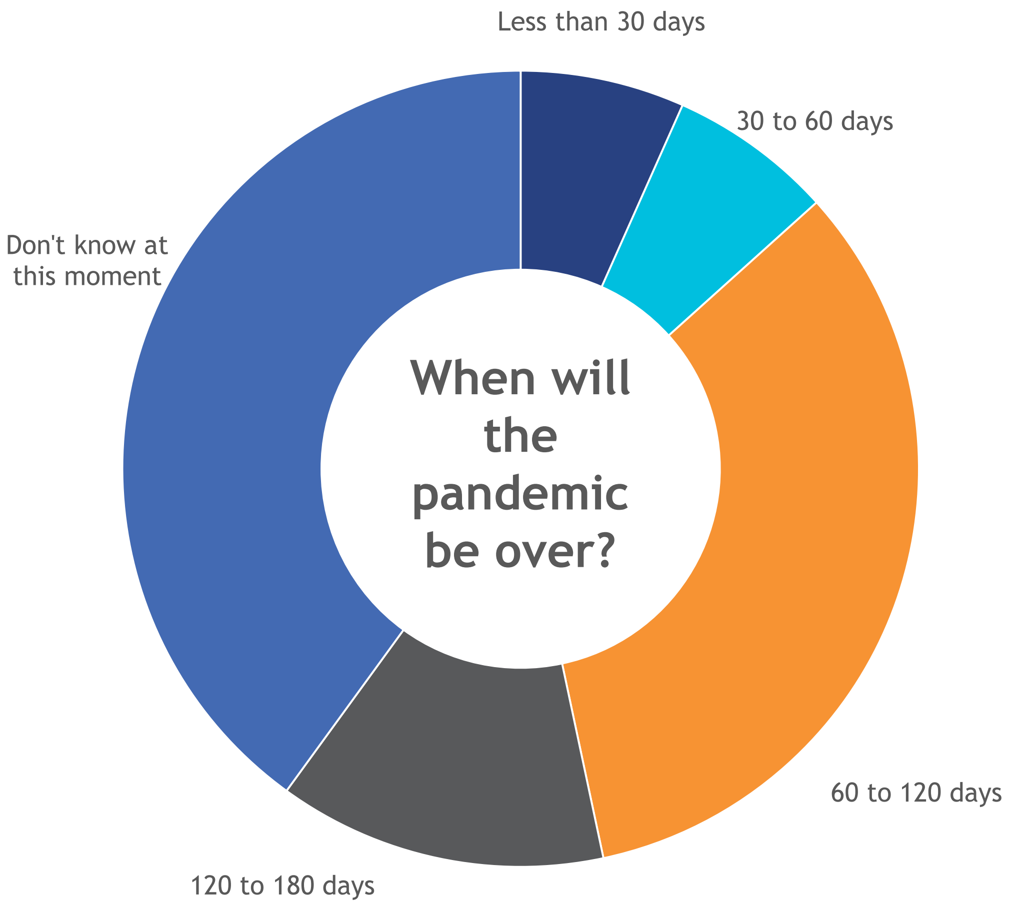
03 Coping strategies adopted by CICO agents

CICO agents are uncertain of the duration of the pandemic and the future of their businesses

Half of the agents have no sense of when the pandemic will end



CICO agents are uncertain about the future. How long will the pandemic last? How long before the situation normalizes?

- The agents anticipate a long-term impact and a stretched business recovery horizon. They are, however, unable to address the continued decline in business due to the fall in volume and value of transactions. This decrease in business results in reduced income through commissions.
- Management of rent for the business premises is a major concern among agents in a deteriorating business scenario.
- Agents receive negligible support from banks or mobile money operators addressing the current challenges in agency business.
- Agent network managers use WhatsApp groups as the main platform to share information.

"I am unable to even generate revenue to meet business expenses or pay rent for the premises. If the situation remains the same for two months, it is pointless to continue operations. I am in an industrial area and I see many companies closing down and people losing their jobs."
– An agent from an industrial area in Nairobi

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CICO agents are uncertain of the duration of the pandemic and the future of their businesses

Agents have adopted different coping mechanisms to continue their businesses during the pandemic

- Compliance with health and safety guidelines is a key coping strategy that most agents have adopted. Though an additional cost for the business, it is seen as an essential requirement to ensure safety and continue the business.
- Business continuity: Agents continue with their business and open their establishments daily, despite uncertainty and low business volumes.
- Maintaining liquidity and e-float: Despite the challenges agents face, most of them maintain both cash and e-float to satisfactorily serve the limited number of customers. Some face competing demands for working capital from their other businesses or demands for money from their families. The latter is likely to increase over time as the economic impact of the pandemic worsens.
- Most CICO agents have reduced household and business expenses while businesses have changed gears to survival mode.
- As a temporary coping strategy, many agents turn to their savings to meet their current expenses for household as well as business needs.

"The situation is becoming tough. Since withdrawals have spiked, I need to sometimes borrow from friends or other agents to continue servicing my clients. Earlier, I used to depend on cash from retail businesses but this is no longer an option since these businesses have also been greatly affected by the pandemic. Now I constantly struggle to manage liquidity." - An agent in the rural area of Wajir

"To ensure my outlet remains clean, I sanitize the counter repeatedly. I provided free sanitizer bottles for two days to clients who conducted transactions worth KES 10,000 (~USD 100) or more in the first week of the COVID-19 outbreak. I distributed around 35 bottles in total." - An agent in Kibera, Nairobi

"We removed the chairs that the customers used to ensure the availability of space. We have placed sanitizer for customers who come in and sanitize all cash. We also use masks while in the shop." – An agent in Nairobi

"I just have to survive on my income as we do not know what will happen next. I do not have any savings to fall back on—my income was just enough to meet my expenses. Since my children go to a private school, we could not manage to save a part of my income. I am trying to reduce my expenses as much as possible. I have also requested my landlord to reduce my rent." – A mobile money agent in Ruiru

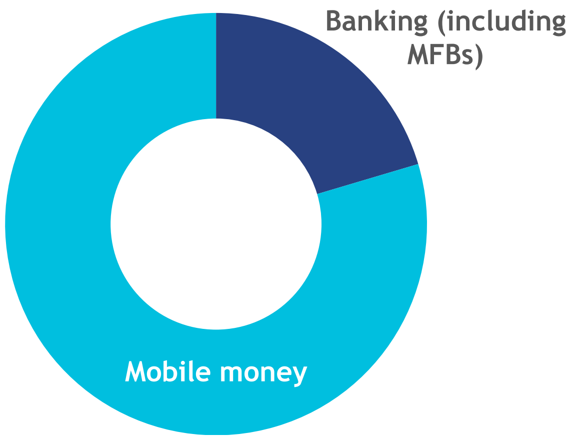
Annexes

The status of CICO agents in Kenya

Definition of CICO agent

Cash-in Cash-out or CICO agents are agents who offer cash deposit and withdrawal services to customers.

Proportion of agents



Number of agents

301,865

Distribution of CICO agent network across major service providers

Name of service providers	Number of CICO agents
Equity Bank	29,723
Safaricom's M-PESA	>167,000

Data of CICO agents

75%
own another business

73%
increase in mobile money accounts in the past 3 years, from 33.9 to 58.7 million as of March, 2020

>KES 1.5 trillion
transaction value, with a ~24% share of mobile money

Assessing the economic impact of COVID-19 on CICO agents

The objective of the research

- Understand and quantify the impact of COVID-19 on CICO agents
- Inform policy and support subsequent efforts to rebuild CICO Network
- Assess the impact of COVID-19 on:
  - Revenues and costs
  - Business activities and ranges of products
  - Liquidity management
- Explore options to minimize threats and maximize business opportunities
- Assess gender implications
- Understand the usage of communication channels and identify opportunities that can be utilized
- Understand the role of CICO agent networks and the impact of the pandemic on these networks and customers' trust
- Assess the current experience with private and public sector support services

Research coverage

- Research country: Kenya
- Locations: Rural, semi-urban, and urban areas
- Qualitative sample size: 15 respondents

Approach

A qualitative telephonic panel of 15 agents interviewed by MSC staff every 4-6 weeks for 6-9 months

Respondents' profile

Qualitative research: A sample profile of 15 CICO agents				
Location of CICO agents	33% Rural	47% Urban	20% Semi-urban	
Gender of ownership	53% Men		47% Women	
Experience of CICO agents	0% 1-3 years	67% 3-5 years	13% 5-7 years	20% >7 years
Type of CICO agents	40% Mobile money agents		60% Bank agents	

Qualitative research: A sample profile of 15 CICO agents				
Location of CICO agents	5 Rural	7 Urban	3 Semi-urban	
Gender of ownership	8 Men		7 Women	
Experience of CICO agents	0 1-3 years	10 3-5 years	2 5-7 years	3 >7 years
Type of CICO agents	6 Mobile money agents		9 Bank agents	

In addition, we interviewed 18 agents and super agents under the research sprint conducted by MSC and Caribou Digital to develop a report titled "The role of DFS agents during the Covid-19 crisis."

Note: The sample is not a representation of the overall CICO agents in Kenya.

MSC is recognized as the world's local expert in economic, social and financial inclusion

International financial, social & economic inclusion consulting firm with **20+** years of experience

180+ staff in **11** offices around the world

Projects in **~65** developing countries

Our impact so far

550+ clients	**>850 publications**
Assisted development of digital G2P services used by **875 million+** people	Implemented **>850 DFS projects**
Developed **275+ FI products** and channels now used by **55 million+ people**	**Trained 9,000+** leading FI specialists globally

Some of our partners and clients

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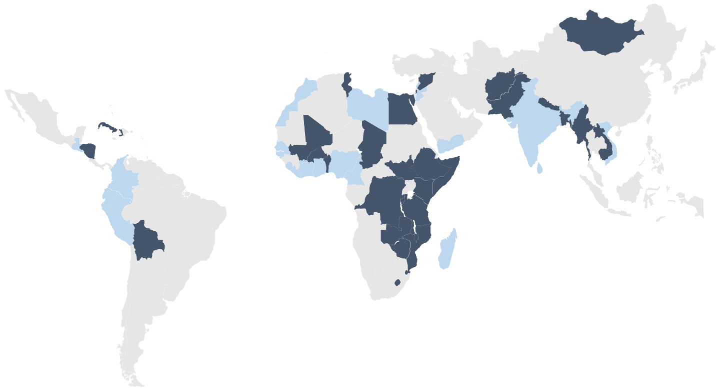
This is SCBF

- SCBF co-funds **technical assistance (TA) grants** to develop client-centric **financial products, channels, and services** for low-income clients in developing countries
- **Target end-clients:** Low-income populations, particularly women, smallholder farmers, micro, small, and medium enterprises (MSMEs), and rural populations
- **Goals:** Build resilience, economic empowerment, and access to essential services

Outreach

2.1M+ Low-income clients	**91+** Partner financial institutions	**43** Countries
59% Low-income women	**36+** Technical assistance providers	**55%** Rural clients

Eligible countries



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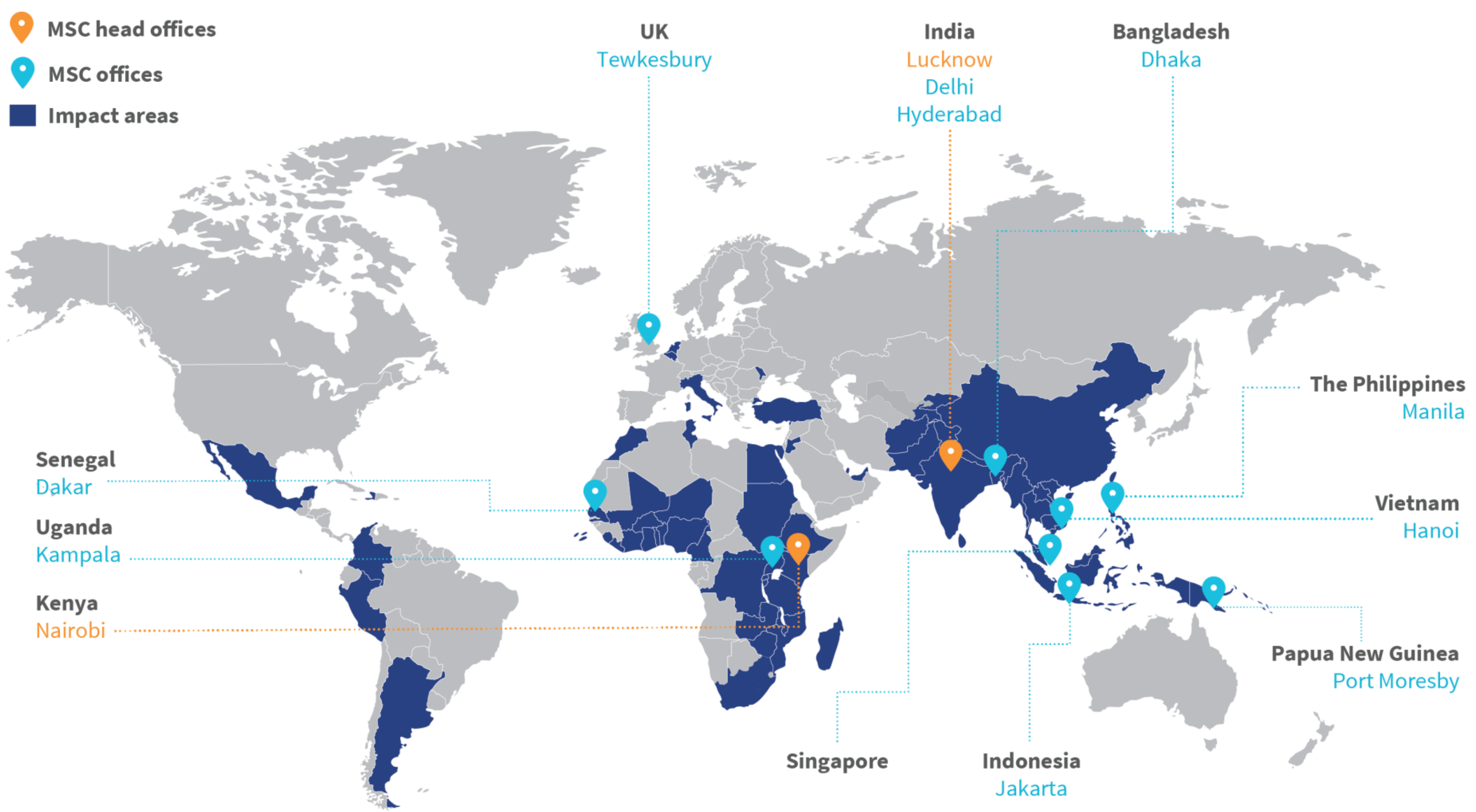

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