Research Brief

SURVIVING 2020:
LESSONS ON RESILIENCE FROM KENYA'S COVID DIARIES

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Background

Kenya's first official case of COVID-19 was diagnosed in early March 2020. Government authorities immediately put in place a number of measures aimed to "flatten the curve," including closing schools, restricting passenger numbers in vehicles, instituting a 7pm curfew, restricting travel in and out of Mombasa and Nairobi, and encouraging the public to frequently wash hands and wear masks.

Official case counts (and by extension death counts) underestimate some of the health impact, though it's unclear just how much. A national sero-prevalence study based on June data reported 4.3-5.6% national exposure. A second study from November, just in Nairobi, estimated 35% of the city's population had been infected.

Soon after the first case of Covid, a number of institutions recognized that the shock would likely take a major toll on ordinary people. The Kenya National Bureau of Statistics with World Bank and other partners as well as FSD Kenya with FinMark Trust, and other researchers quickly began quantitatively tracking Covid's impact. Adding qualitative insights to complement this work was challenging, given

We conducted four rounds of interviews over the phone with about 200 respondents from the Kenya Financial Diaries between March and December to understand how ordinary Kenyans were affected by the COVID-19 shock. After a period of severe stress in June, most households recovered to modest levels of stress with incomes allowing for survival, but still well below pre-Covid levels. While nearly all families were stressed throughout the study, by September, we saw increasing divergence in the sample with higher-income, diversified households taking advantage of low wages to make new investments and some of our worst hit households—often salary-dependent workers who lost jobs—seeing their fortunes continue to deteriorate. Formal relief measures played only a small role in household resilience. Instead, households coping best with the shock benefited from diversified informal income streams catering to local demand, resilient forms of social finance (through shopkeeper credit, rent arrears, savings groups, and domestic remittances), and low-investment, low-expectation subsistence agriculture. Insights from these interviews suggest a number of ideas for intervention to support recovery and rebuilding.

1 The would also like to thank fellow researchers Lilyan Nekesa Wekesa, Naomi Kiiru, Hildah Chao, and Norman Manthi. Thank you also to all of our Diaries families who continue to share their stories with us.
2 This was first pushed to 11pm, then back to 10pm.

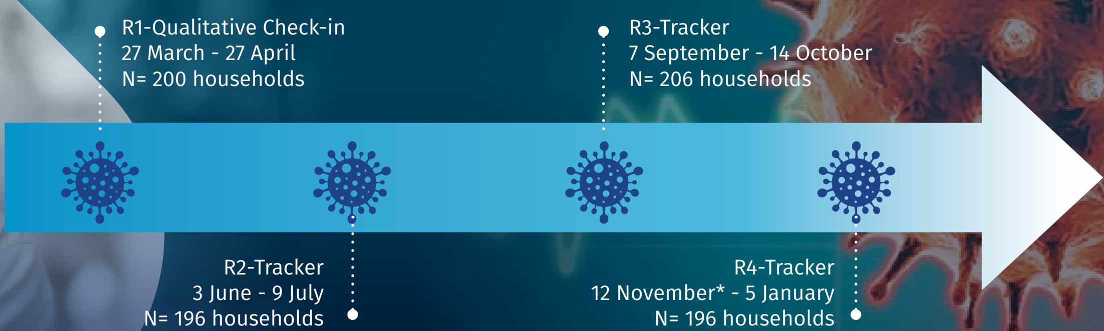
movement and social distancing-related restrictions. Doing qualitative research by phone would be daunting without some preceding relationship on which to build rapport. With this in mind, BFA and FSD Kenya agreed to revisit our Kenya Financial Diaries sample and conduct regular phone check-ins with them over four rounds of interviews to get a deeper sense of the dynamics of the Covid shock.

Methods

For this project, we contacted all reachable households from our initial sample list. The original Diaries sample consisted of 298 households completing an intensive year-long study in 2012/3. This study involved repeated interviews every two weeks for an entire year. In 2015, we conducted a one-time Update interview with 286 still-traceable households. Between 2015-2020, we did not conduct systematic research, but researchers had still been in touch with many households with whom researchers maintained contact and friendship. Financial Diaries households span five areas of the country, broadly around Vihiga, Eldoret (mostly rural areas about an hour from town), Nairobi, Makueni, and Mombasa (urban and rural parts of Coast).

Researchers from the initial project with existing ties to respondent families conducted all of the phone interviews. All interviews included both open-ended questions and some systematic questions allowing us to see trends more clearly over time. Researchers recorded notes from each interview in a "journal" section after each call. The first round of interviews were about 40 minutes to an hour, with average calls lasting about 25 minutes in the subsequent three rounds. We thanked participants for their participation by sending KES 500 as a gift via M-Pesa after each round.

Figure 1:
Research timeline and sample for each round.



* Started some households early to accomodate a team member's maternity leave

Figure 2:
The nature of the Covid shock shifted over time

FULL ALERT
(March/April)

- Abrupt pause in economic activity
- Staying at home
- Washing hands
- Bracing for short shock

CRISIS
(June)

- Loss of business, employment, remittances
- Hunger
- Extreme stress
- Attempts at distress asset sales

MODEST RECOVERY
(Sept/Oct)

- Resumption of employment, remittances
- Harvests in western
- Divergence in recovery with some thriving and others falling further behind

NEW NORMAL
(December)

- Plateau recovery at low levels for most
- Continued divergence
- Uncertainity of health threat, surge in illness

Four seasons of the Covid shock

In each round of interviews, participants' general experience of the shock shifted in important ways. In our first round of calls in late March, running through April, very few households were yet experiencing extreme stress. The crisis appeared to be something that might pass quickly. While many people were home from work and put informal businesses on hold, they felt they could get through a two-week or even one month slow down. Some urban households, however, were anxious that they might need to go to their rural homes to reduce costs and get through the slowdown. But, that pathway was blocked[3] by movement restrictions in some areas. Urban areas were hit the hardest, which also caused remittances to stop flowing. Rural women expressed some worry about the increasing family dependence on food stocks and their meager earnings with children home from school as well as children and husbands who were home from cities and towns and not working. Many women whose businesses were informal were able to keep working a bit, though they saw sales drop. Facing significant uncertainty, most shopkeepers stopped extending credit and chamas (savings groups) mostly paused their operations. Families were investing in home handwashing stations given lack of running water at home. They also purchased soaps, sanitizers, and masks. With new restrictions in place, the security presence in low-income neighborhoods increased, and a number of respondents found that initially quite helpful in improving general security.

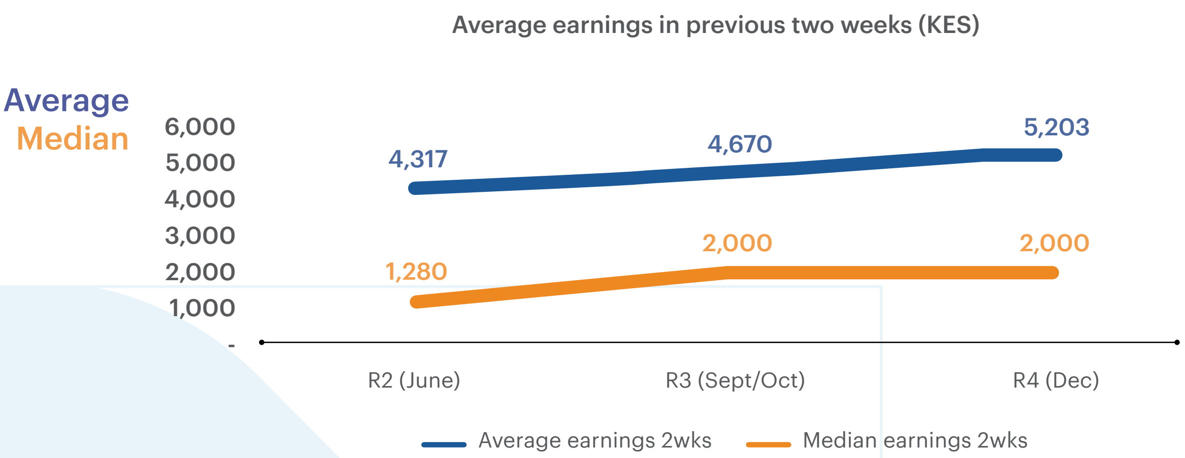
By June, things had become much worse. Job losses continued and casual work was yet to resume. Most families had gone through their emergency resources and very little relief was reaching households in need. Many of our households reported extreme stress, often reducing meals to once per day. Some tried to sell household assets to buy food, but found there was no longer a market, with very few people buying anything non-essential. Sharing among neighbors had slowed dramatically, with many unsure how long their own stocks of food would last. Many reported relaxing social distancing practices, unsure of the actual severity of the health threat. We observed growing worries about debt stress and fears of eviction. Some digital lenders froze new lending after even very loyal customers repaid, leaving them in a liquidity pinch. Desperation theft began to rise, with respondents reporting theft of their crops from the fields, grain from their stores, and pots and pans from their homes. In Mombasa, respondents reported that a young man was killed for stealing a cell phone.

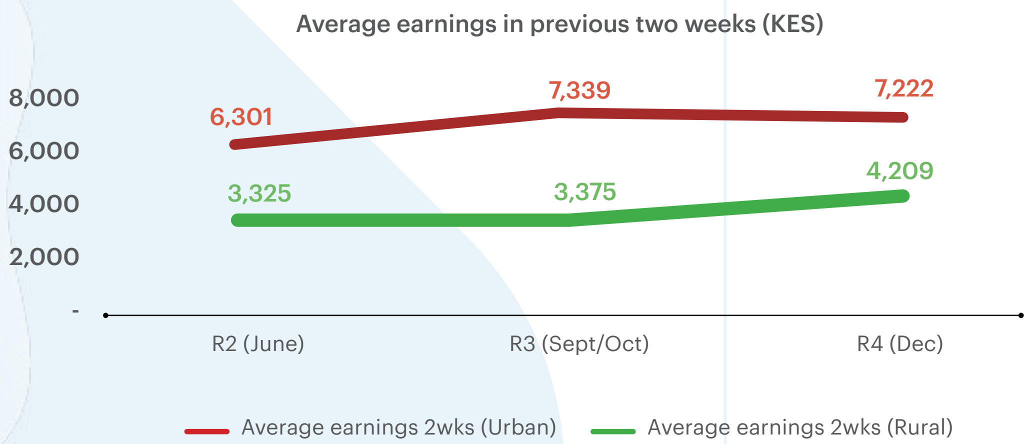
3 This was in reality only partially blocked. Early in Covid, a number of urban residents were able to take hidden routes or pay off police in order to travel to their rural homes. Enforcement of movement restrictions became more strict a bit later.

The easing of some restrictions in July seemed to help some economic activities come back to life. By September, many of our households were experiencing a modest recovery. Casual work at construction sites had resumed. Many urban workers returned to look for and find work, albeit often at reduced salaries or informal wage rates. While in April and June many women had assumed the role of main income earner, most households reverted to their normal roles by September. We began to see some real divergence emerge in our sample. Some of our wealthier households took advantage of the lower wages and reduced competition to expand their businesses or invest in building projects. But other households continued to backslide, unable to regain their incomes. In some areas, workers reported increased competition over casual and construction jobs. To get work, men were accepting lower wages and sometimes yielding their work to women who would work for an even lower wage.

By December, there wasn't much of a new increase in incomes, but respondents had come to terms with these new, seemingly persistent conditions. With the modest rise in incomes, few were still missing meals because of money, and overall stress levels had reduced. But incomes remained much lower than pre-Covid levels. Government relief money stopped for those few families who had been receiving help, and core social protection schemes under Inua Jamii were dramatically underpaid, distributing KES 4000 in place of the KES 12,000 beneficiaries expected. More respondents expressed concerns about rising Covid rates, and more than 30% reported an illness in the household in the preceding two weeks, often with Covid-like symptoms and coinciding with the country's second wave of infections. Recovery patterns looked quite different by geography, with Nairobi recovering much faster than Mombasa among urban areas, and rural areas around Eldoret bouncing back more strongly than in Makueni or Vihiga.

Figure 3:
Recovery slowed between September and December as families eased into a "new normal" of lower incomes. This chart shows individual, estimated incomes.





Understanding divergence

In September and December, we saw the sample splitting into those who were recovering strongly and those who were not, some even continuing to see their situation deteriorate. This divergence was driven both by individual abilities to cope as well as due to local economies in different parts of the country experiencing recovery differently. As shown in Table 1, deteriorating conditions continued to affect more than a third of respondents in Makueni, Mombasa's urban areas, and in Nairobi. In Makueni, households were awaiting an upcoming harvest, with December representing part of their usual hungry season, adding stress to these families who are also quite dependent on remittances from Nairobi, which had only partially recovered. In Mombasa, returns were slow to Export Processing Zone (EPZ) factories and there was little work at area godowns.

Divergence at an individual level was more nuanced. A number of our better-off respondents used some creative, sometimes formal, strategies to be able to make investments in September and December, while poorer respondents and those who lost their formal incomes, struggled through on age-old informal coping strategies, often at significant cost.

Table 1:
Stress and trajectories in different areas of the sample in December 2020.

Changing situation by area	N	Ave stress Score (1-10)	1 = Mostly improving	2 = Staying the same	3 = Getting worse
Eldoret - urban	3	8.3	33%	0%	67%
Makueni - rural	36	5.9	25%	36%	39%
Mombasa - urban	28	6.0	29%	36%	36%
Nairobi - urban	35	6.6	37%	29%	34%
Vihiga - rural	41	7.1	10%	59%	29%
Mombasa - rural	24	5.4	25%	46%	29%
Eldoret - peri urban	13	6.0	77%	0%	23%
Eldoret - rural	16	4.8	75%	19%	6%

Pillars of Resilience

As shown above, formal finance was important for helping many of those Investors move ahead as they began to recover from Covid. As show in **Table 2**, they leveraged savings, borrowing, and even borrowing against life insurance, to make these future-oriented investments. But formal savings and credit were used less by most respondents to simply finance consumption. In fact many of our respondents who had significant formal savings did as much as they could to protect that savings through the crisis. If they came out on the other end with no ability to invest, they reasoned, they would really be in trouble. One example is Edna (51) who earns an income as an agent collecting rent, acting as a broker for househelps, renting one informal flat, collecting Inua Jamii (under the OVC programme), and doing political mobilizing. Early in the crisis, much of her income was cut, and her daughter needed an emergency C-section. While the need for cash was urgent, she refused to tap into or even let her family know that she had KES 140,000 in her savings account with Kenya Commercial Bank. She wanted to keep the lump sum intact for future investments, particularly given the uncertainty around Covid.

Table 2:
Examples of Investors and Backsliders

Better-Off Investors	Worse-Off Backsliders
• One respondent borrowed KES 30,000 from a life insurance (very rare) policy to do a home renovation. • Another needed KES 20,000 to clear a pit latrine, and borrowed this from a moneylender, confident in their ability to repay quickly. • Even though J had a huge loss on his vegetable production when market vendors stopped traveling and schools closed, he still spent KES 10,500 to renew his business license so he could apply for government tenders. • J took KES 30,000 from her savings and borrowed KES 20,000 from her chama to start an M-PESA agency in Nairobi in September. • C. got a good deal on cowpeas, given farmers' desperation to sell after the harvest. C borrowed KES 70,000 on Timiza to buy and store until the prices rise. • B. started a poultry project with KES 100,000 from his bank savings. In the past he had been trading in livestock and decided to diversify. • F. and S. were able to hire the extra help they needed to finish building their own house and move out of the slum. Most of the money came from S's matatu and contracting businesses, but F. also sold her cosmetics business for KES 50,000 and used the money to paint the house.	• One respondent lamented that she and her husband had no way to help when her mother-in-law passed away. All the friends and family were struggling. "I don't know how he managed. I could not ask because he was under a lot of stress." • Another dislocated her leg, and with no cash around, she sold four trees for KES 4000 to go the hospital. • P sold nearly all her livestock to pay the local moneylender. She now has debts "left, right, and center." Her husband and daughter were in an accident and needed urgent treatment. Meanwhile the son who helps out was sent home from work and just went back, but with a huge pay cut. Her food store is running out. She regrets sharing with neighbors, since now very little is left. Her husband will be on crutches for life after the accident, leaving all the earning up to P. • B's foreign employer departed the country suddenly. B. then accumulated a debt of KES 1800 at shop, and shopkeeper took him to the chief. They agreed he will work off the debt on the shopkeeper's farm. Since B had no cash income, he had to sell a cow and calf. He got only KES 19,000 instead of the KES 35,000 they were worth pre-Covid. • R sold all his chickens. He can no longer borrow from family and friends who tell him, "sina kitu" (we have nothing). "I don't know what to do anymore. Nothing I try works." Meanwhile, his wife has diabetes, which is deteriorating from their poor diet.

An exception to this rule is Gregory. Gregory had been working with a large security firm in Nairobi, and was posted at a popular restaurant/bar in Kiambu. By June, the restaurant had closed, and the security firm sent Gregory on unpaid leave. Gregory had been earning KES 50,000 per month, and his wife had not been working, spending her time with their two small children, ages 3 and 1.5 years old. They quickly started burning through Gregory's savings, expecting that he would soon be called back to work. His wife started a vegetable *kibanda*, but, given her inexperience and significant competition in the area, it only survived for three weeks. Gregory had no foothold in the informal economy. As the months dragged on, he

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was increasingly desperate. He started showing up at construction sites hoping to get a casual job for the day. Few contractors wanted to hire someone who was unknown, had no experience, and offered no special skills. By December, they were three months behind on their rent of KES 8,500 per month, and Gregory was only getting casual work once or twice per week. Gregory had relied on one formal income stream and in his social network, he was meant to be the remitter, not the recipient of support. When his access to a stable income was cut, he struggled to get by and exhausted the savings he hoped to use to buy land and build a house upcountry.

Outcomes for the majority of respondents were less dire. Instead, they avoided some of the worst harms by relying on vibrant, informal coping strategies which proved to be powerful tools for resilience. Three of these were particularly important:

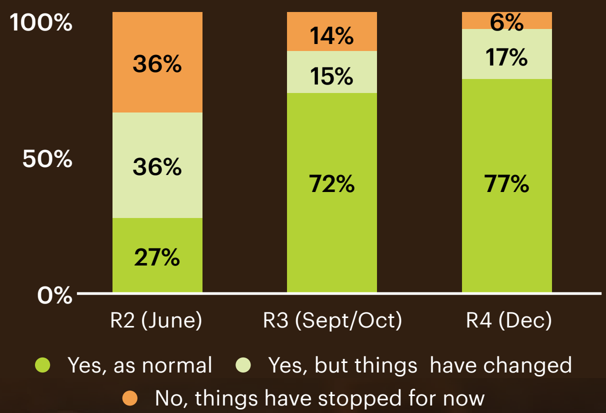
1. **Diversified, informal income streams** – Being able to continue earning an income was key to avoiding the worst impacts of the downturn. Those with formal salaries who lost their jobs and had no foothold in the informal sector quickly burned through their savings and struggled to stabilize. Those with informal incomes –particularly from diverse sources did better. Being able to quickly adapt to new conditions is a real skill, one that many informal business owners already had. They were able to use that to ensure money was still flowing into their households, protecting their assets, even under very challenging conditions.

2. **Social finance** – The most important sources of liquidity for low-income households throughout the crisis were their mechanisms for social finance. Three sources of social finance really stood out: patience from landlords, credit from shopkeepers, and *chamas*, or savings clubs.

Landlords showed extraordinary patience with their tenants, allowing them to accumulate months of rental debt while tenants tried to meet basic survival needs. Once tenants started earning again, they tried very hard to keep current with new payments to show a good faith effort while they also negotiated at least partial repayment of their debts. Evictions in our sample were exceptionally rare.[4] Shopkeepers froze new lending to customers early in the crisis, but soon realized their customers were desperate. They also needed to move stock. So many opened up credit lines again. Respecting this incredibly valuable source of liquidity, borrowers prioritized repayment and were careful to try and limit themselves to sums they thought they could manage. This critical liquidity was provided by other relatively low-income people and the losses they incurred in providing this service could sometimes become substantial.

Many savings groups paused early in the crisis. Members were trying to keep a little more of their cash on hand in case things worsened, some lost new income inflows for a time, and groups were reluctant to meet, given social distancing guidelines. However, this pause did not last long. As soon as incomes came back online, so did chamas, sometimes with modified procedures to allow for social distancing. This helped people borrow for key needs and for many to access year-end payouts that allowed them to clear their debts, prepare for school fees payments in January, or make new investments.

Figure 4:
Are your *chamas* still going right now? (Among users)



Domestic remittances and borrowing in friend networks also rebounded as soon as incomes started to recover, similar to what we observed in the core Diaries study. Formal credit, salaries, and relief measures may have helped to seed these networks, but it was these social liquidity mechanisms that did a lot of the heavy lifting in ensuring resilience for low-income families.

3. **Subsistence Agriculture** – In the core Diaries project, we observed that families used the food from their household production to smooth consumption amid income volatility. That played a very important role during the crisis as well. Small scale farming households typically engage in low-investment, low-expectation agriculture. Having that cycle already in motion when Covid began meant that many families had some grain in storage to keep the family fed through the worst of times. Even when they couldn't afford many inputs, they were able to cultivate and achieve modest harvests, which played a major role in easing stress. Many of these households were also able to absorb and help feed their urban kin who needed to retreat from high-cost cities when work was not available.

Some larger scale, commercial farming was less helpful. One farmer who had an entire acre of vegetables ready for sale in the early part of Covid lost everything. Vendors from Kisumu who usually bought from him were no longer traveling to buy stock. The schools where he used to provide vegetables had closed. Similarly, large mango and orange sellers in Makueni found that no brokers were coming to buy their harvested fruits, which had cost a lot of money to produce.

Tea farmers were able to make some adjustments that kept some revenue coming in, though lower than usual. Some were forced to sell their tea to brokers, unable to wait for payments from larger factories. This reduced their year-end bonuses. Others were unable to afford to hire labor to help in their farms, reducing the harvest. Some picking and weighing operations were also changed during the crisis, which impacted farmers bottom lines. But, importantly, not all was lost, and when the tea bonuses did come in at the end of the year, the lump sums were smaller than usual, but still incredibly helpful in allowing farmers to clear debts and plan for the year ahead.

4 It is worth noting that in a parallel study led by of our authors, Julie Zollmann, among refugees in Nairobi, evictions were much more common, affecting 26% of the sample. Likely the refugee sample has lower social capital with landlord and perhaps were viewed as less able to recover their incomes as the crisis eased.

Implications

The stories and trends from these four rounds of interviews provide a number of insights for Kenya's policymakers and development actors seeking to strengthen the economic recovery.

Two big lessons:

1. **Rebuilding stronger will require marrying GDP to ordinary people's well-being.** Even before Covid, we were seeing troubling signs that ordinary people were not sharing in the benefits of growth and that macro changes were often having a negative impact on the poor through hasty transitions that did not take their livelihoods into account. Can we do more to invest in growth that more directly links with business and employment opportunities for the poor? Can we better ease macro transitions? In the immediate term, the country may need sectoral rebound strategies and should be focusing on sectors with the greatest potential for pro-poor growth and women's employment even under the current global health conditions. Might there be financial sector disruptions that offer transformative opportunities for ordinary people to participate in growth?

2. **Increasing globalization and formalization create new risks and fragilities,** even when they open up possibilities for much greater income. How do we manage these risks in ways that protect both progress and the poor?

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And a number of ideas:

- Further **cash transfers** would still be helpful in providing relief to the vulnerable and stimulating demand at the low end of the market.

- **Asset transfers** may be helpful to help particularly vulnerable groups recover. However, at this time, we are still early in recovery, and asset transfers right now to vulnerable groups and women face a likelihood of being liquidated for consumption purposes and school fees payments.

- **Fees for secondary school** continue to be a major burden for low-income families. While in the final term of 2020, mostly we heard that schools did not send children home because of fee debts, this only postponed and compounded burdens for parents going into 2021. For low-income families, inability to finance school fees—particularly in the wake of this shock—jeopardizes the future of a generation of young people, with a likely disproportionate impact on students who are meant to be transitioning between primary and secondary and secondary and tertiary schools in 2020-2022. Fee waivers and guarantees would be extremely helpful now as Kenya continues to work towards free secondary education.

- **Accurate risk communication** on Covid's trajectory and Covid-related deaths needs to improve to boost public trust and adherence to distancing protocols, even now, as Kenya continues to struggle with the health impacts of the virus.

- Investigate what has happened to **wage workers who lost their jobs.** In our study, it seemed that group might be particularly vulnerable to backsliding. New research could help us think about how to help formal workers be more resilient to the certain volatility that will continue into the future.

- **Digital credit** has strong potential to help smooth consumption for large numbers of Kenyans very quickly, but it faced serious problems during the pandemic. First, many Kenyans were already tagged in the credit reference bureau based on previous defaults made while learning the formal credit system. Second, some lenders (especially unregulated fintechs) froze lending when borrowers needed it most. This could be an opportunity to re-vision digital credit and possibly even start over for CRB-tagged borrowers, even if at low levels and with modest penalties persisting into the future. A "restart" would need to happen alongside new regulation for consumer protection and better information for users.

- New gender-based stresses have calmed, but reveal long-lasting **gender inequalities**. Building back better should address some longstanding issues, in particular in women's formal labor force participation and in helping girls finish school with second chance programmes for high school and post-secondary training, following a pregnancy or drop out.

- Kenya needs to strengthen its **social protection** machinery. This crisis revealed both the weaknesses in existing *Inua Jamii* operations and communications as well as the difficulty in rapidly deploying assistance to the Kenyan population in a crisis. *Inua Jamii* generally needs to more clearly communicate eligibility, selection, benefits, and problem solving avenues. Operations need to be streamlined to make enrolment clear, efficient, and fair and to improve the predictability and reliability of payments. A more transparent and reliable transfer will deliver greater benefits. But, Kenya, with it's massive mobile money system, should

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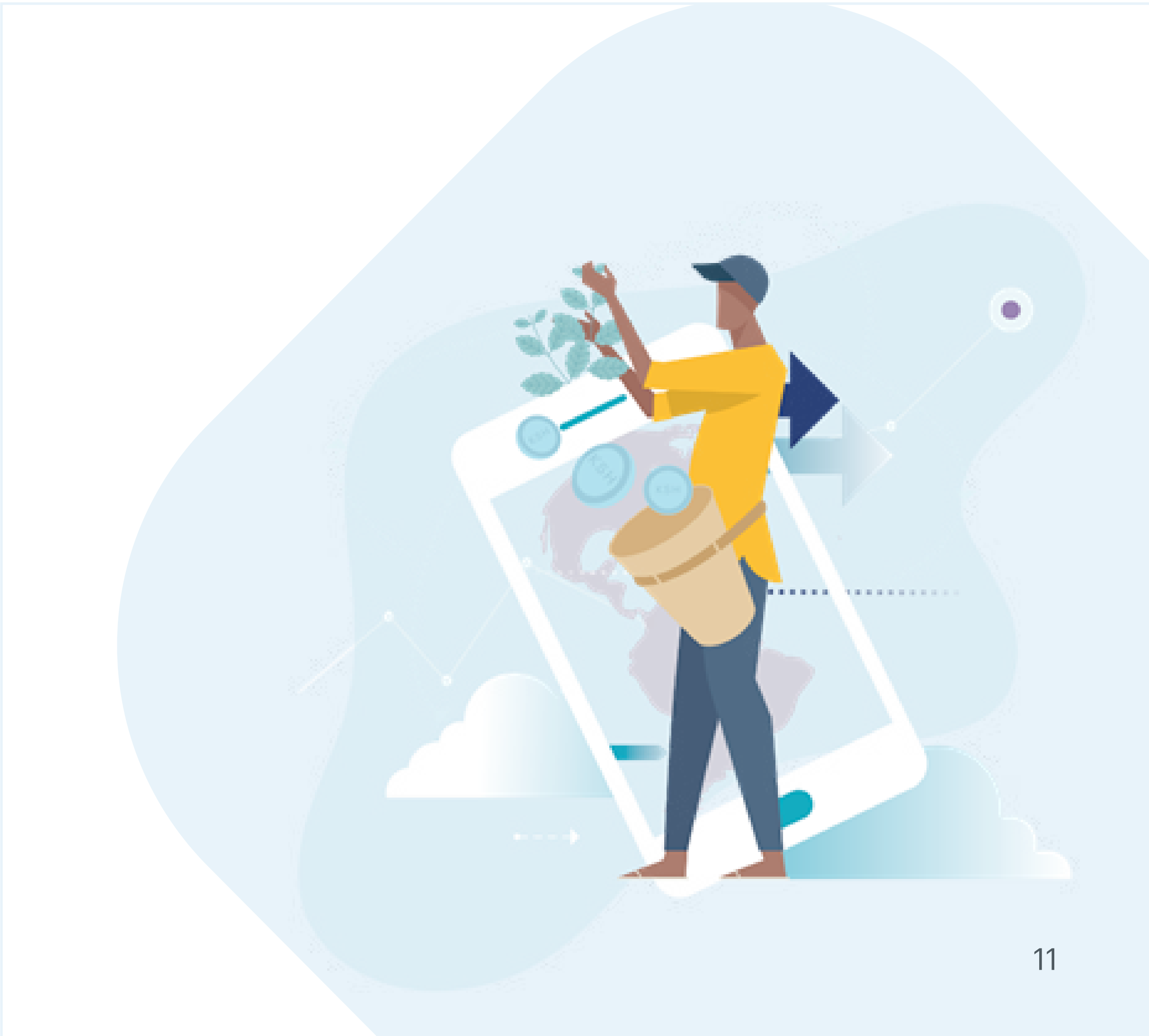
also build capabilities to communicate with and distribute targeted transfers much more quickly as part of a future disaster preparedness intervention. There are precedents for this, and Kenya's vibrant mobile money and identity ecosystems make this much more feasible to implement.

- The major sources of resilience for Diaries households were diversified informal businesses, social finance, and non-commercial agriculture, suggesting we must **recognize the resilience of informality**. Formalized and globalized value chains bring possibilities for growth, but are themselves sources of systemic risk and may offer only weak coping mechanisms. As Kenya "modernizes," how do we continue to retain these key resilience resources?[5] M-Pesa helps to keep some informal networks alive. Might there be other tools that help, such as community currencies?

5 There is some evidence from India that formal borrowing reduces risk sharing in social networks, and this harms the ones left out of formal borrowing the most. Summary here. Full paper here.



About FSD Kenya

The Kenya Financial Sector Deepening (FSD) programme was established by the UK's Department for International Development (DFID) programme in 2001 to support the development of financial markets in Kenya. In 2005 we were constituted as an independent trust under the supervision of professional trustees, KPMG Kenya, with policy guidance from a Programme Investment Committee (PIC). Our aim today is to help realise a vision of an inclusive financial system to support Kenya's goals for economic and social transformation. We work closely with government, financial services industry and other partners across key economic and social sectors. The core development partners in FSD Kenya are currently the Bill and Melinda Gates Foundation and the Swedish International Development Agency (SIDA).

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