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EDITORIAL & OPINION

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Set sights on informal sector recovery

COVID-19



BITANGE NDEMO
Professor of
Entrepreneurship
at University of
Nairobi's School of
Business

The Covid-19 pandemic is throwing a curved ball at us. It has made planning virtually impossible. The interventions we made in March are not the ones we need today, and it is possible that in the coming days we may have to improvise strategies to deal with the pandemic.

The question people are asking is: How are we to live with uncertainty as a norm? The answer lies in military intelligence that leverages on a strategic planning method known as “scenario analysis”, also called “scenario thinking” or “scenario planning”.

While the Government is working on health intervention and economic recovery scenarios, organisations, both private and public, as well as individuals, are beginning to look at scenarios beyond the pandemic.

Economists Anzette Were of the Financial Sector Deepening Trust (FSD Kenya), and Amolo Ng'weno of Bankable Frontier Associates shared thoughts on the FSD Kenya blog on economic recovery.

For Kenya to realise a robust and inclusive recovery, they argued, it needs to include, or even be led by livelihoods of individuals actively earning in-

comes from the informal sector – the cuspers – people on the cusp of escaping poverty but are at risk of falling back into it.

FSD Kenya postulates that finance could promote the recovery of real sector livelihoods of Kenyan ‘cuspers’ ravaged by Covid-19.

Like the military does in times of war, they took an agile scenario process to create three macroeconomic trajectories, that is, Kenya limping back, falling back or bouncing back.

The bounceback, which is more optimistic, assumes that economic growth will resume in late 2020 with reasonable growth levels by mid-2021. The limpbck is projected to be more draining with slower recovery that will ease in 2023. Under fallback, it could be devastating to the economy and will take us back to the lower growth rates of the 1990s, with signs of recovery beyond 2023. In all scenarios, digitisation will play a key role.

These scenarios were used to tell their story of cuspers based on data, about how the future might unfold. Their analysis is based on the assumption that cuspers are generally differentiated and that women, who form the majority of this group, may be especially vulnerable.

An online survey by BFA, *The Impact of Covid-19 on Financial Lives in Eight Countries*, conducted last April established that 79-81 percent of low- and moderate-income Kenyans reported income somewhat or significantly reduced as a result of the pandemic.

Further, the survey noted,

conventional coping strategies to survive shocks such as increasing income through casual work, and receiving remittances from friends and family have been reduced.

Although cuspers are the engine room of an inclusive economic recovery, they suffer from financial vulnerability in times of crisis. Without social protection in the informal sector and practical livelihood strategies, the study says the poverty gap could grow and inequality increase within this large group of people that supports dependents. As such, any scenario driven by the recovery of the formal sector alone risks squeezing this group into welfare dependency.

Through the lenses of cuspers, there are interventions that can be made based on each scenario. Success of a bounceback scenario will depend on what the government does to stimulate the economy. So far, of the \$503 million stimulus announced, only \$3 million will directly go to the informal sector.

A limpbck scenario may be painful depending on the source of livelihood, in terms of the sectors the cuspers are in.

A fallback scenario will overwhelm the informal sector owing to the fact that there will be less demand for goods and services.

The authors of the FSD Kenya blog post reiterate that the scenarios are not predictions but rather the unfolding stories to bring a clear picture of who is being impacted.

The Government ought to support the recovery of the informal sector.

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NDEMO | AUTHOR