State of the Economy: 2021 Year in Review

March 2022
Contents

01 Executive Summary
02 Macroeconomic Update
03 Financial Health in Kenya
04 MSE Update
05 Household Update
Executive Summary: Divergent and precarious recovery

- The performance of the global economy continues to be defined by the COVID-19 pandemic with the war in Ukraine worsening the outlook for the world economy and Africa. For Africa, the war in Ukraine will exacerbate food insecurity, increase fuel and food production costs, and push up the cost of living.
- Key global risks include the emergence of new COVID-19 variants which could prolong the pandemic and induce renewed economic and supply chain disruptions, energy price volatility, and high uncertainty around inflation and policy paths.
- For Africa, COVID-19 exacerbated pre-existing inequalities and socio-economic challenges. Africa also faces high conflict and instability particularly in Chad, Guinea, Mali, Sudan, Central African Republic, Madagascar, Nigeria and Ethiopia, some of which have been subject to successful and/or foiled military coups. On the upside, strong global demand and high prices is providing financial breathing room to African energy, metals and agricultural producers.
- In Kenya, the economy rebounded in 2021 from the economic contraction of 2020 with the GDP for H1 2021 coming at an average of 5.4% and Q3’ 2021 growth at 9.9%. However, GDP growth partly reflects a large base effect given particularly poor performance in 2020 in the services sector (Kenya’s growth engine), which rebounded except for accommodation and food services.
- Further, agriculture performance fell, having been a bastion of stability to which many Kenyan’s turned to for survival in 2020. The sector absorbed 1.6 million additional workers, increasing its share of employment from 47% to 54% in one year.
- Poverty declined through 2021, but remained above pre-pandemic levels, with rural areas experiencing a slower decline. The COVID-19 pandemic has reversed the gains made in poverty reduction in the last two decades by pushing approximately 6.2 million Kenyans into poverty.
- The upcoming general elections are likely creating headwinds for investment and growth given historical precedence. The economic momentum required to recover from COVID will likely be interfered with by the negative economic effects of election activity.
Executive Summary: Divergent and precarious recovery

- The labour market recovered during the first half of 2021 with growth in employment, and a decline in unemployment and inactivity. But unemployment increased in urban areas and 75% of the growth in wage employment between mid-2020 and mid-2021 came from only six sectors: utilities & construction, agriculture, transport & storage, wholesale & retail trade, manufacturing, and accommodation & food services.

- Employment recovery shows signs of vulnerability: The more skilled were hit hardest in terms of job loss especially in service sub-sectors, yet job creation has been driven mainly by a rise in casual labour which is an insecure source of livelihood raising warning signs for longer term job and income security, resilience and economic recovery.

- Deteriorating Financial Health: In 2021, only 15% of adults had an ability to secure basic daily needs, cope with the costs of unexpected shocks, and invest in their livelihoods and future. Personal goals made a slight shift from future oriented ones such as education, towards more pressing needs such as getting a job and putting food on the table. Drivers of this deterioration include COVID-19 but also more structural features such as inflation, high dependency ratios, lack of broad income growth, and limited economic opportunity.

- Divergent MSE recovery continues: 34% of MSEs reported to have closed, 25% were struggling and only 18% recovered or were generating revenues of at least 75% of their pre-Covid revenues. More of the larger MSEs closed and while revenue ‘recovered’ for some businesses, profits have been affected due to external factors such as stock price increases. This means that the ‘recovered’ business owner may not be in a better financial position or at the same level of profit as pre-COVID.

- Household vulnerability Over 2021, more households cut food expenses, borrowed and sold assets to meet their daily needs, and businesses were having to eat into their business capital to feed their households. In February 2022, 50% of households had skipped meals in the previous 7 days, 47% of households had gone without food for an entire day for at least one day in the previous 2 weeks and 8% of households had gone completely without food for at least 4 days in the previous 2 weeks.
Executive Summary: Towards an equitable and robust recovery

- The good news is that **economic output in Africa is projected to be strong**, averaging an annual growth rate of 4% from 2022 to 2024. Yet to return to its pre-pandemic trajectory, **Africa would need to grow by approximately 6% in 2022-2023**, which is as fast as South Asia.
- In Kenya, a key lever that has proven resilient through the pandemic is **diaspora remittances** which totalled a record USD3.718 million in 2021 or approximately 3% of Kenya’s GDP. Efforts to **retain and grow remittances** can address the high cost of remitting cash, inadequate information on investment opportunities in Kenya for the remitters and leveraging the diaspora’s preference for digital service providers.
- The **Digital Economy** also remains a bright point: The value of **mobile money transfers** has more than doubled since the start of the pandemic; **mobile data usage** almost doubled, and more people are connected to faster **mobile internet**. The adoption of **digital payments increased** through the pandemic and ‘digitally advanced’ MSEs have been better able to survive and recover.
- It is crucial that **digital inequality is addressed** so that **digitisation drives inclusion** and does not exacerbate income and economic inequality or prevent equitable access to digital, income and economic opportunity.
- While Kenya’s economy is showing some signs of recovery, it is premised on a more volatile global and continental context, a thinner base of macroeconomic resilience, uneven and fragile sectoral performance, and high levels of household and individual vulnerability.
- Sustaining and increasing **social protection coverage** and supporting the creation of good quality jobs and appropriate **demand-oriented policies** is important in ensuring a recovery process that is inclusive.
- Protecting the economy and Kenyans from **climate-related shocks and building climate resilience** will be crucial given the share of economic activity, labour and livelihoods reliant on climate-sensitive sectors such as agriculture, fisheries & aquaculture, livestock, water, energy and even tourism.
- Finally, engendering **justice, peace and stability** during the election period will be crucial for the country to stand a chance at generating the momentum required for an equitable and robust recovery from COVID.
Covid-19 Vaccination Rates in Kenya

As of March 28th, 2022:

- **Nationally 30%** of the target population (over 18) have been fully vaccinated.
- Distribution of vaccines is uneven:
  - **Nairobi** has the highest % fully vaccinated target population at 52%
  - In **Marsabit** the lowest % of fully vaccinated at 9.6%

Google location Data from September shows that the number of visits and time spent from the pre-COVID baseline is as follows:

- **Workplaces** was up 18%
- **Retail and recreation** locations was up 37%
- **Transit stations** was up 51%

This suggests that Kenyans, at least those with smartphones, are returning to workplaces and shops.
Macroeconomic Update

- Global Snapshot
- Africa Snapshot
- Spotlight on the War in Ukraine
- Kenya GDP Growth and Outlook
- Employment and Jobs
- Poverty rates
- Digital Economy Update
Global Snapshot: Divergent and precarious recovery

- The global economy entered 2022 in a weaker position than previously expected. Rising energy prices and supply disruptions have resulted in higher and more broad-based inflation, notably in the USA and many emerging and developing economies.
- Global growth is expected to moderate from 5.9% in 2021 to 4.4% in 2022 - lower than previous estimates. Global growth is expected to slow to 3.8% in 2023.
- In the USA, early withdrawal of monetary accommodation, and continued supply shortages produced a downward 1.2 percentage-points revision for the United States.
- In China, pandemic-induced disruptions related to the zero-tolerance COVID-19 policy and protracted financial stress among property developers induced a 0.8 percentage-point downgrade.
- Risks are tilted to the downside: The emergence of new COVID-19 variants could prolong the pandemic and induce renewed economic disruption, and supply chain disruptions, energy price volatility, and localized wage pressures mean high uncertainty around inflation and policy paths.
- As advanced economies lift policy rates, risks to financial stability and emerging market and developing economies’ capital flows, currencies, and fiscal positions—especially with debt levels having increased significantly in the past two years.

Source: IMF
Africa Snapshot: Divergent and precarious recovery

- **COVID-19 exacerbated pre-existing inequalities** and socio-economic challenges across Africa.
- In Africa, average public debt ratios rose to 70% of GDP in 2020, with at least seven African countries hitting levels over 100%.
- In 2020, sub-Saharan Africa suffered the weakest contraction of any world region (-1.9%); its recovery is projected to be robust, **averaging an annual growth rate of 4% from 2022 to 2024**, driven by the rollback of virus containment measures, rising vaccination rates, higher commodity prices and improvements in investment rates— a boom in commodity prices is providing much needed fiscal space for commodity exporters but tourism-dependent countries may take longer to bounce back.
- Africa faces high conflict and instability with **military coups** in Chad, Guinea, Mali and Sudan, and attempts were foiled in the Central African Republic, Madagascar and Niger. In **Ethiopia**, civil war in the northern Tigray region since November 2020 is a major source of tension domestically and for countries across the Horn of Africa.

- Although, economic output in Africa is projected to rise, to return to its pre-pandemic trajectory of output growth, **Africa would need to grow by approximately 6% in 2022-2023**, which is as fast as South Asia.
- In per capita terms, **real GDP levels are expected to remain below pre-pandemic levels through 2023**, especially in southern Africa, representing a significant setback to development gains achieved before the pandemic.

Source: UN

---

Africa GDP growth 2018-2023

- **GDP growth**
  - Total
  - Per capita

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP growth Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>3.2</td>
</tr>
<tr>
<td>2019</td>
<td>2.8</td>
</tr>
<tr>
<td>2020</td>
<td>-4.6</td>
</tr>
<tr>
<td>2021</td>
<td>1.3</td>
</tr>
<tr>
<td>2022</td>
<td>4.0</td>
</tr>
<tr>
<td>2023</td>
<td>3.6</td>
</tr>
</tbody>
</table>

Source: UN
Africa Snapshot: Divergent and precarious recovery

- There is concern that Africa will experience recurrent COVID-19 waves with more variants; vaccine hoarding by developed nations and affordability constraints may extend the pandemic.
- Rising inflation in advanced economies and other regions threaten financing for the region. A tightening of monetary policy in the USA and global financial conditions would increase risk premiums, especially for more exposed economies with elevated debt levels.
- However, East Africa has been particularly resilient evidenced it was the only region in Africa that avoided a recession in 2020 and in 2021.
- Tourism-dependent economies face improving prospects, driven by the loosening of travel restrictions and economic recovery in origin markets in Europe and Asia. But global tourist arrivals are not expected to return to 2019 levels before 2023/24.

- Strong global demand and high prices is giving some breathing room to energy, metals and agricultural producers. The financial windfall is providing crucial improvements in national income and government spending and investment. The rise in commodity prices will likely be transitory and insufficient to generate robust, sustainable growth.

Snapshot on labour and poverty
- Labour markets and social conditions lag economic growth in Africa; with 85.8% of the labour force and 89.7% female labour force in informal employment, the ability of governments to provide targeted assistance proved limited.
- Extreme poverty in Africa increased by 38.4 million people in 2020--another 8.6 million fell below the extreme poverty threshold in 2021.
- High unemployment, poverty and inequality afflicting young, increasingly tech-proficient and urbanized populations will present substantial political and policy challenges ahead.
The war in Ukraine has led to a worsening outlook for the world economy and Africa.

**Food:** In 2018–2020, Africa imported $3.7 billion in wheat from Russia (32% of total African wheat imports) and $1.4 billion from Ukraine (12% of total African wheat imports).

All major wheat exporters reported higher prices over February.

**Fuel:** The rising price of oil in global markets, induced by the crisis in Europe, will have direct impacts on the cost of transport.

**Fertilisers:** Rising energy costs also affect the production of fertilizer—the rising cost of fertilizer will also elevate food costs.

The combined effect will be upward pressure on food and non-food inflation, and an increase in the cost of living.

While there may be a window of opportunity to anchor investment into African gas to reduce Europe’s dependence on Russian energy, these potential benefits are neither certain nor immediate.
Kenya: GDP Growth 2021

- In Kenya, the economy rebounded in 2021, with the GDP for the first half of 2021 coming at an average of 5.4% and Q3’ 2021 growth at 9.9% compared to a contraction of -2.1% in the same quarter of 2020.
- Activity in the services sector rebounded in 2021, supported by an exceptionally large increase in education output.
- However, agriculture performance fell by 1.8% due to drought conditions that were present most of 2021.
- GDP increased 9.9% year on year in Q3 2021 (7.6% increase from Q3 2019).
- GDP growth partly reflects a large base effect given particularly poor performance in 2020.

Double digit growth in the following sectors:
- Transport and Storage: 13%* (accounts for 10% of GDP)
- Taxes: 18%* (accounts for 9% of GDP)
- Manufacturing: 10%* (accounts for 9% of GDP)
- Education: 65% (accounts for 6% of GDP)
- Professional Admin and Support: 14% (accounts for 3% of GDP)
- Other Services: 13% (accounts for 2% of GDP)
- Mining and Quarrying: 25% (accounts for 1% of GDP)
- Accommodation and Restaurant: 25% (accounts for 0.5% of GDP)

*Highest Q3 growth rate since at least 2016
Kenya: GDP Growth 2021 sectoral analysis

- Services sector value-added rose by 9.2% y/y in H1 2021 compared to a contraction of 1.5% in H1 2021.
- All services subsectors, except accommodation and food services, reverted to making a positive contribution to economic growth in H1 2021, signaling growing normalization of economic activities in the sector.
- Education subsector value-added surged to well above pre-pandemic levels, recording an exceptionally large increase contributing over a quarter to GDP growth.
- This oversized contribution by education value-added to GDP growth partly reflects a large base effect as all educational institutions were shut in March 2020 with partial re-opening only beginning in October 2020.
- On the demand side, the recovery has been informed by some revival in private consumption, reflected by improved employment conditions, and also helped by resilient international remittances.
- The industrial sector recorded a broad-based recovery and Kenya’s exports (with the exception of tourism) rebounded in 2021, supported by the global recovery. Strong recovery in demand from Kenya’s trading partners, led to a rise in merchandise exports led by large increases in horticultural goods and manufactures.
Factors that will **positively inform growth** in 2022 include the ongoing vaccination drive, private consumption aided by some household income and job growth, strengthening external demand, and continued recovery in industry.

While the recovery in 2021 is also due to the reopening of the economy which is expected to increase economic activities, it also **partly reflects the lower base of 2020** when most service sectors were adversely affected by the closure of the economy thereby recording negative growth. Further, growth is predicated on the continued adaptation of economic activities to the pandemic, vaccine rollout, and sufficient rains.

Growth will be **negatively informed** by the potential emergence of new COVID-19 variants in Kenya and its trading partners which could lead to renewed disruptions to trade and tourism and require broader reinstatement of containment measures; lower agricultural output due to potential adverse weather condition; ongoing concerns on the sustainability of the country’s debt levels; and increased public expenditure pressures.

In 2021, the **counties** are expected to have **registered improved growth** based on the assumption that the counties will experience a gradual recovery process from the pandemic with the hope of minimal interruptions during the electioneering period.

### Kenya: GDP Growth 2022

<table>
<thead>
<tr>
<th>Institution</th>
<th>GDP growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Bank of Kenya</td>
<td>6.4% 6.0%</td>
</tr>
<tr>
<td>National Treasury</td>
<td>6.0% 4.9%</td>
</tr>
<tr>
<td>AfDB</td>
<td>6.3% 6.4%</td>
</tr>
<tr>
<td>World Bank</td>
<td>5.0% 4.7%</td>
</tr>
<tr>
<td>IMF</td>
<td>5.9% 5.8%</td>
</tr>
</tbody>
</table>

### Elections 2022

The **general elections** are scheduled to be held in August 2022, likely creating **temporary headwinds** for investment, based on the historical precedent suggesting that some private investment activity is usually paused ahead of elections. As predicted, just as the economy starts to stand a chance to fully recover from COVID, this momentum will likely be countered by the negative economic effects of election activity.
Kenya: Employment and job quality in 2021

- The COVID-19 pandemic had a large impact on the labour market and some of the scarring will have longer term implications. Workers lost jobs and moved into agriculture to survive and the services sectors, and urban areas were worst affected. The share of employment in services declined by 7 percentage points, reversing almost all the gains since 2005.
- Agriculture absorbed 1.6 million additional workers, increasing its share of employment from 47% to 54% in one year. Unemployment increased in urban areas, while employment increased in rural areas. The share of workers in wage-employment decreased even further to 34%, only 2 percentage points above the share in 2005/06.
- Positively, the labour market staged a recovery from the severe hit to jobs and earnings in 2020, job quality and insecurity remain concerns. During the first half of 2021, unemployment and inactivity continued to decline, and employment surpassed its pre-pandemic level.
- Around three-quarters of the growth in wage employment between mid-2020 and mid-2021 came from six sectors (utilities and construction, agriculture, transport and storage, wholesale and retail trade, manufacturing, and accommodation and food services).

Job losses occurred across all service sub-sectors but the more skilled were hit hardest

Employment recovery shows signs of vulnerability
A growing share of individuals were working multiple types of jobs (wage, household enterprise, or agriculture); job stability, as measured by having a permanent contract, declined; hours and wages for wage employees decreased; and the growth in wage employment for women was reliant on sectors that are particularly vulnerable to future containment measures.

Job losses by skill type

Source: World Bank
Kenya: Poverty rates in 2021

- Poverty declined through 2021, but remained above pre-pandemic levels, with rural areas experiencing a slower decline. The poverty rate surged in Q2 2020 as the pandemic plunged the economy into a recession.
- With a strong economic recovery ongoing, poverty subsequently decreased by roughly one-fifth in the first half of 2021, though it remained above pre-pandemic levels.
- While poverty dropped in both rural and urban areas, the progress has been slower in rural areas. This likely reflects the adverse impact of severe dry weather conditions in 2021 on rural livelihoods.
- More people experienced food insecurity in the first half of 2021 amid renewed containment measures, but food insecurity remained below levels earlier in the pandemic.
- The COVID-19 pandemic has reversed the gains made in poverty reduction in the last two decades by pushing approximately 6.2 million Kenyans into poverty. This is attributed to loss of incomes equivalent to 11.7% of GDP, and job losses and pay cuts during the COVID-19 pandemic.
- Sustaining social protection coverage and supporting creation of productive jobs with appropriate demand-oriented policies is important in ensuring a recovery process that is inclusive.
## Inflation and Exchange Rates

### Inflation
- In 2021, inflation rate remained within the government’s set range of 2.5% - 7.5% but higher than the mid-range of 5.0% in 2021 with the average monthly inflation rate at 6.1%.
- The relatively high inflation was due to high fuel prices experienced through most of the year and erratic weather conditions experienced in H2 2021 which led to increases in food prices.
- The y/y inflation for the month of February 2022 declined to 5.1%, from the 5.4% recorded in January 2022, due to the slower 4.5% growth in the transport index compared to the 6.8% growth recorded in January 2022.
- Inflation is expected to remain within the target range in the near term, however upward pressure on inflation could emerge from drought in the first quarter of the year, further depreciation of the currency, the Russia-Ukraine crisis, and unsustainability of the fuel subsidy program by the National Treasury.

### Exchange Rate
- In 2021 the Kenyan Shilling depreciated by 3.6% against the USD to close at Kshs 113.1, from Kshs 109.2 recorded at the end of 2020.
- The Shilling was supported by robust diaspora remittances; the maintenance of sufficient forex reserves; increased official borrowing and the temporary bilateral debt service suspension; and action by the CBK in the money market such as repurchase agreements and selling of dollars.
- 2021 Shilling depreciation was driven by the increased global crude oil prices; increased dollar demand which led to a shortage of USD in the Kenyan market; increases in merchandise imports and the growing government debt, including servicing costs.
- In 2022, the shilling will be supported by diaspora remittances and expected dollar inflows from new foreign commercial loans. Shilling deprecation will be driven by factors such as rising oil prices and high debt servicing costs given the expiry of the Debt Service Suspension Initiative in Dec 2021.
Diaspora Remittances

- Diaspora remittances were robust in 2021, with total remittances in 2021 reaching a record USD3,718 million. This surpassed the previous record of USD3,094 million set in 2020 and are equivalent to approximately 3% of Kenya’s GDP.
- January saw a 21.7% year-on-year increase to USD 338.7 mn from USD 278.3 mn recorded over the same period in 2021.
- In a survey by the CBK on diaspora remittances found that remittances are directed at family members, who are largely self-employed, unemployed, or students.
- About half of the total remitted was allocated to investment in real estate (land and buildings), mortgage payment, and purchase of food and household goods.
- The Survey also confirmed the importance of mobile money operators and money transfer companies, in addition to banks, as the main channels for cash remittances.

- The Kenyan diaspora prefer digital service providers due to convenience, promptness, and ease of access. On average, recipients receive remitted funds on the same day, reflecting the efficiency of these channels.
- Key problems that were identified included the high cost of remitting cash, and the inadequate information on investment opportunities in Kenya for the remitters.
Mobile Money and Digital Payments

**Mobile Money**

The value of mobile money transfers has more than doubled since the start of the pandemic. Between March 2020 and Sept 2021:

- The total value of mobile money transfers increased by 123%
- Growth has been driven by transfers from mobile money wallets to banks (C2B), which have increased 285% and transfers from bank accounts to mobile money wallets (B2C), which have increased 124%
- The value of P2P mobile money transfers increased by 61%.

**Digital Remains Dynamic**

- Growth for all transfer services saw significant increases with the revision of reduction or abolition of fees to promote digital transfers during the early stages of the pandemic.
- Whilst growth has plateaued for P2P transfers, after the reintroduction of fees for low value transfers, it is encouraging that the gains that have been made appear to be sticky, which indicates a longer-term behavioural shift towards digital transfers.
- Continued growth is now being driven by the deeper integration of the banking and mobile money platforms, as fees for transferring between mobile wallets and bank accounts remain at zero both individuals and business consumers are moving more money backwards and forwards between mobile money and branch-based accounts.
Digital Payments

Between April and Sept (inc) the value of Lipa na M-PESA transfers reached **KShs 653 billion**

This is equivalent to **11% of the value of the GDP** for the same period and an increase of 61% from the same period in the previous year.

This growth can be partly accounted for by organic growth which was already substantial before the Covid-19 pandemic.

However, the pandemic appears to not only have provided a short-term increase in the adoption of digital payments but to have acted as a catalyst for **increased sustained growth** for the sector.

This is likely a combination of increased demand for digital services from consumers and an increase in investment in the recruitment of merchants.
Digital Loans and Overdrafts

Digital Loans
- Since March 2020 the value of digital loans offered through KCB M-PESA and M-Shwari have decreased by 42% and 52% respectively.
- In the period April and Sept 2021:
  - The number of monthly users fell by 14% (KCB M-PESA) and 20% (M-Shwari) from the same period the previous year.
  - The average loan size increased by 10% (KCB M-PESA 9,070 KShs) 17% (M-Shwari 6,047 KShs) from the same period the previous year.

Digital Overdrafts
- Since April 2020 the value of digital overdrafts offered through Fuliza has increased by 63%.
- Between April and Sept 2021 the average number of daily users was over 1.7 million.
- The average total value of credit extended per day was KShs 1.32 billion.
- The average size of overdraft was KShs 376.
Mobile Data Usage and Data Subscriptions

Mobile Data Usage
- Mobile data usage almost doubled since the start of the pandemic.
- According to the Communications Authority of Kenya the amount of mobile data consumed between July–Sept 2021 was 88% higher than between Jan–March 2020.

Data Subscriptions
Mobile data subscriptions increased and more people are connected to faster mobile internet.

Between Jan – March 2020 and July – Sept 2021:
- The number of mobile broadband subscriptions increased by 24% and the number of fixed broadband subscriptions increased by 43%.
- The number of 4G subscriptions overtook the number of 3G subscriptions for the first time.
Mobile Gambling

- The value which is being gambled, through mobile platforms increased significantly during the pandemic.
- In the period April – Sept 2021, Safaricom reported the value of gambling through products using their network to be 83.24 billion shillings, an increase of 69% from the same period the year before.
- This is the equivalent to 1.4% of GDP during the same period.
- During the same period, the average value per bet fell 8% to KShs242 from KShs261.
- FinAccess 2021 shows that gambling is higher in urban areas and males.
- While Turkana has the highest % of people living in poverty (79%) but the 20th highest level of reported gambling which was 14x higher than Garissa the county with the 5th highest % of the population living in poverty.
- West Pokot has the 5th highest rate of people living in poverty and the second highest % of households which reported gambling.
Snapshot on Financial Health in Kenya

- Status of Financial Health
- Shift in financial priorities
- Worst hit groups
- Why has financial health declined?
The financial health of Kenyans has eroded rapidly since mid-2015. In 2021, only 15% of adults demonstrated an ability to secure basic daily needs, cope with the costs of unexpected shocks and invest in their livelihoods and future. Greater financial strain is evident across diverse demographic segments: men and women, urban and rural, youth and prime working age adults.

The component indicators used to measure financial health using the multi-dimensional financial health index (MFHI) were first collected in the 2016 round of FinAccess. The MFHI is an experimental statistic developed by FSD Kenya and the Central Bank of Kenya.
Financial Health: Shift to meeting basic needs

- In 2016, for every adult that said their financial life had worsened in the past year there was one adult that said it had improved. By 2021, this ratio was over 9 to 1.

- Over this period, personal goals moderately shifted from future oriented ones (such as education) towards more pressing needs (such as getting a job and putting food on the table).

Source: Paul Gubbins (2022-upcoming)
The largest decline in financial health between 2019 and 2021 was among adults in the richest 20%.

Potential reasons for the sharper decline in financial health at the top-end of the distribution between 2019 and 2021 are likely related to the distributional impacts of the COVID-19 recession, including the hit that formal labor markets and businesses took.
Why has financial health declined?

- **Inflation:** Food prices increased by 74% between December 2014 and December 2021. The cost of food has major implications for household finances since food spending comprises over half of typical monthly household spending in Kenya, and even more for low-income households.

- **Demographics and social security:** For every adult of working age (25-64) in Kenya, there are nearly 2 other people either under the age of 25 or over the age of 64. In a context of limited government spending on social security and education, the finances of working adults with children or elderly parents will be sensitive to: (1) decisions about how much education children pursue, (2) the cost of education and (3) the availability of jobs or livelihoods for youth and older individuals. During the pandemic, the share of youth and retirement age individuals receiving transfers from family or friends increased substantially, providing needed support to recipients, while potentially squeezing the finances of working age adults that provide funds.
Why has financial health declined?

- **Income**: Nominal personal monthly income reported by adults in FinAccess did not increase over time, even though nominal GDP per capita increased by 40% from KSh 12,000 to Ksh 16,600 between 2015 and 2021.

- In FinAccess, the share of adults earning at the higher end of the income spectrum (KSh 15,000 or higher) fell by 9 percentage points between the 2016 and 2021 survey rounds while the share earning in the mid to lower end of the income spectrum (earning less than Ksh 10,000) increased.

- **Median self-reported income fell** from Ksh 6,700 in 2016 to Ksh 5,000 in 2019 and remained at that level through 2021. This suggests that personal monthly income has not kept up with the rise in consumer prices.

- In this context, for households to avoid a decline in material living standards (via reductions in consumption), more members of the family must either enter the labor market or initiate cash-earning activities (such as starting a business or investing in income-earning assets); or a main earner must either switch to a higher paying livelihood (perhaps involving a change in residence) or take on “side-hustles”; or some combination of the above.
Why has financial health declined?

- **Opportunity:** Formal employment and business ownership, two important pathways for upward mobility, became less common since 2016 and the pandemic further narrowed these avenues for income growth.
- The share of adults drawing at least some income from **formal employment** fell from 16% to 12% between 2016 and 2021. Men bore the brunt of formal job losses – the share of men in employment declined by 30% between 2019 and 2021.
- Around 18% of adults relied on business revenues for most of their income in 2016 and 2019, but that share declined to 14% in 2021. The drop in business earnings as a source of income between 2019 and 2021 was most pronounced in Nairobi and adults in households ranking in the richest 20%.

- During the pandemic **casual work and transfers** displaced farming and business ownership as the top two most important income sources for adults. In 2021, casual work and transfers represent the largest source of income for 30 and 25% of adults, respectively. Transfer income has made up for losses in employment and business income – most notably among men. The share of **men dependent on transfers** for most of their income more than doubled between 2019 and 2021.
- In contrast, **women** with livelihood transitions during the pandemic, disproportionately shifted their main livelihoods from farming and running a business to casual work. In most cases, these occupational shifts represent changes from higher paying activities to lower paying ones.
MSE Update

- MSE survival rate
- Revenue and Profit
- Case study of Recovered Business
- Customer Demand
- MSE Supply Chains
- Case Study of Struggling Business
- Credit, Debt and Saving Patterns
- Source of Financing for MSEs
- Case study of Closed Business
- Reasons for MSE Closure
- Digital Uptake and Advancement
- Impact on Food Security
- Hope for the Future
MSE survival rate

- **16% of population** earn a living from businesses (down from 19% in 2019) - of which **88% are MSEs** (FinAccess 2021)
- To understand how micro businesses coped during the pandemic and what helped or hindered their recovery, business owners were grouped according to their **operational status and revenue** between the first and third survey waves.
- **Closed**: 34% of respondents had stopped all business activity by July 2021.
- Only 43% of respondents were still actively running businesses.
- **Struggling**: 25% reported revenues in July 2021 that were **less than 75%** of their pre-Covid revenues.
- **Recovered**: Only 18% had businesses that were generating revenues of at least 75% of their pre-Covid revenues in July 2021 (i.e. the business returned to the same, or similar, state it was in pre-Covid).

![MSE survival rate diagram]

- **Recovered**
  - 18% (n = 76)
  - +75% pre-covid revenue in July ’21

- **Struggling**
  - 25% (n = 108)
  - <75% of pre-Covid revenue in July ’21

- **Closed Businesses**
  - 34% (n = 147)
  - Had a business pre-Covid but not operating any business in July ’21

- **Excluded from Segmentation**
  - 24% (n = 102)
  - Did not provide reliable revenue data that could be compared between W1 & W3

Total sample n = 433
## Business Owner Demographics

<table>
<thead>
<tr>
<th>Segment</th>
<th>Recovered</th>
<th>Struggling</th>
<th>Closed</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue in July ’21 vs Feb ’20*</td>
<td>75% or more of pre-Covid revenues</td>
<td>Less than 75% of pre-Covid revenues</td>
<td>Not involved in any business activity in July 2021</td>
<td></td>
</tr>
<tr>
<td>Segment size</td>
<td>17%</td>
<td>24%</td>
<td>33%</td>
<td></td>
</tr>
<tr>
<td>GENDER</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>49%</td>
<td>46%</td>
<td>36%</td>
<td>42%</td>
</tr>
<tr>
<td>Female</td>
<td>51%</td>
<td>54%</td>
<td>64%</td>
<td>58%</td>
</tr>
<tr>
<td>AGE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18 - 34</td>
<td>24%</td>
<td>25%</td>
<td>28%</td>
<td>26%</td>
</tr>
<tr>
<td>35-44</td>
<td>46%</td>
<td>30%</td>
<td>35%</td>
<td>37%</td>
</tr>
<tr>
<td>45-54</td>
<td>16%</td>
<td>24%</td>
<td>19%</td>
<td>20%</td>
</tr>
<tr>
<td>55+</td>
<td>14%</td>
<td>21%</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>Highest Education Level</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tertiary</td>
<td>9%</td>
<td>14%</td>
<td>10%</td>
<td>12%</td>
</tr>
<tr>
<td>Secondary</td>
<td>43%</td>
<td>38%</td>
<td>37%</td>
<td>39%</td>
</tr>
<tr>
<td>Primary / none</td>
<td>47%</td>
<td>46%</td>
<td>50%</td>
<td>48%</td>
</tr>
</tbody>
</table>

Source: FinAccess MSE Tracker Survey: Wave 3 (July 2021)
Note: *Segments based on the reported revenue amounts from the sample of business owners that remained active between Wave 1 & Wave 3 and who provided reliable revenue data. Demographic data is from Wave 3.
Snapshot of businesses in the survey sample

- Over 80% operate in wholesale and retail trade, mostly selling agricultural produce (>30%).

- Overall, a relatively even split between businesses that were operating in formal premises (commercial / industrial) and more informal premises (open market / mobile) pre-Covid.

- More female business owners than male business owners (58% to 42%), but relatively even spread in ages.

- The majority have no formal education or only a primary education.

- Around 70% of business owners are the sole income earners in their households.

- Around 70% of business owners are the sole income earners in their households.

- Around a third supplement their business income with income from farming activities and a quarter do casual work (this is higher in the closed business segment; 38%).

The majority have no formal education or only a primary education.

Around 70% of business owners are the sole income earners in their households.

Around a third supplement their business income with income from farming activities and a quarter do casual work (this is higher in the closed business segment; 38%).
Impact Of Covid-19 On Business Revenue

- While revenue provides some indication of business size and performance, it does not provide information on the profitability or viability of the businesses.
- Deeper distinction between revenue and profit: Some business owners that were initially classified as ‘recovered’ mentioned that they were not doing any better than they were pre-covid.
- Their business revenue had returned to its pre-Covid state but because the prices of their stock went up, some (not all) of these costs were passed onto their customers in order to generate some profit.
- Recovered business segment should not be mistaken for well-performing or thriving businesses: Instead, they are the segment of businesses that have managed to return to the same, or similar, state of revenue as they were in pre-Covid, but profits have been affected due to other external factors (e.g. stock price increase). This means that the business owner may not be a better financial position or at the same level of profit as pre-COVID.

MONTHLY REVENUE* IN FEBRUARY 2020 (PRE-COVID) by segment

<table>
<thead>
<tr>
<th>Estimated monthly business revenue (KSh)</th>
<th>STRUGGLING</th>
<th>RECOVERED</th>
<th>CLOSED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grand Total</td>
<td>33%</td>
<td>25%</td>
<td>42%</td>
</tr>
<tr>
<td>100,000</td>
<td>47%</td>
<td>9%</td>
<td>44%</td>
</tr>
<tr>
<td>50,000 - 99,999</td>
<td>40%</td>
<td>16%</td>
<td>44%</td>
</tr>
<tr>
<td>30,000 - 49,999</td>
<td>34%</td>
<td>25%</td>
<td>41%</td>
</tr>
<tr>
<td>10,000 - 29,999</td>
<td>23%</td>
<td>35%</td>
<td>42%</td>
</tr>
<tr>
<td>&lt; 10,000</td>
<td>5%</td>
<td>58%</td>
<td>37%</td>
</tr>
</tbody>
</table>

More ‘larger’ business closed: Businesses that started off with lower pre-Covid business revenues (less than KShs 30,000) were more likely to have recovered by July 2021 compared to businesses with higher pre-Covid revenues.

35% of businesses with monthly pre-Covid revenues of between KSh 10,000 – KSh 30,000 were generating at least 75% of their pre-Covid revenue by July 2021.
CASE STUDY: RECOVERED BUSINESS

Daniel is a 44-year-old married male who owns a general retail store in Kawangware informal settlement, Nairobi.

His business revenue has returned to pre-COVID revenues, around Ksh 3,000 – 4,000 per day. During COVID, and particularly when the 7pm curfew was in place, the store would generate less than half of this revenue. However, while daily sales are back up, Daniel’s profits are still suppressed by the increase in stock prices. “I have been able to record income of Ksh 3,000 but the prices of basic products stocked in my shop has gone up. It has been a challenge passing the cost to my customers. Prices of goods like cooking oil, flour, rice, soaps…almost everything has gone up by bigger percentage some even double price”

Daniel’s business was able to survive COVID due to the income he earned and “ploughed back into the business” from casual work. Without his wife manning the shop in his absence, this would not have been possible. “I was working as a mason or would go around with plastics which we exchange for other items for example old clothes, shoes and also electronics. My wife is always here helping with the shop, so I get opportunity to go look for some casual work. I would use that money to continue operating the shop”

Another advantage Daniel has is that his business operates from the house he rents, so he doesn’t have additional business rent expenses to cover every month. In addition, he was still able to borrow from his Chama during COVID, unlike other businesses. “I am grateful that I am in a chama which was helpful, as you could borrow, pay suppliers and pay when you get money. I regularly borrowed 5-10k to run the business”
How Covid-19 impacted Customer Demand

- **Customers migrated** to rural areas due to fear of Covid-19, job losses and inability to pay rent in urban centers.
- **Customers also had less money** to spend due to job losses / less income.
- **Government curfews** also impacted demand.
- Businesses couldn’t afford to **maintain stock levels** which inadvertently affected customer demand.
- **Issues with supply quality**, prices and transport also affected demand.
- **Communication** regarding the risk of contracting Covid-19 by purchasing fresh produce also drove customers away – “customers disappeared and went to buy at the supermarkets”
- **Unable to compete with better capitalized competitors** (retail stores owned and run by the larger wholesalers).

When covid was announced, so many of my customers lost their jobs and others opted to go to the rural areas to avoid contracting the virus. Also, most of my customers would come to the store in the evening, but because of the 7 pm curfew so many of them would not come.

Pre-covid I used to make sales of up to Ksh 1,500 daily but right now I make sales from Ksh 500-700 with a profit of only Ksh 150. Covid played a part, because some of my customers moved and the ones who were left reduced the amount they spent on my shop. Part of the reason they also spent less on my shop is because I didn't have enough stock. I am not able to stock up the business as I would want to because of lack of funds.
Impact Of Covid-19 On Supply Chains

• **Fewer transport providers and increased cost of transporting goods** due to travel bans and transport permit requirements to get into Nairobi.

• **Higher stock prices**: Over 40% of business owners cited increased stock prices as their main challenge with suppliers. This is in part due to the disruption of normal bargaining practices at the markets (limits on crowds and gathering).

• **Access to markets, fewer suppliers in the market and changes in supply schedules** made getting stock and supplies more difficult.

• **Reduced access to trade credit** from suppliers and unfavourable payment terms put a lot of strain on business by driving down the quantities they were able to purchase and therefore sell.

From the suppliers side the challenge was getting goods to Nairobi from Meru because you remember the zoning and the lockdown, the **few vehicles with travel permit hiked their cost to up to 350 shillings per bunch of bananas, we used to pay 150 to 200 shillings** and also getting space in such trucks became a problem too. – **Male, fruit vendor, Nairobi**

For suppliers there **was uncertainty that my shop will be able to survive** ...in the first week we got goods on credit and I think because of the trend and people were not able to pay, they **change their terms to cash payment** which became a challenge to us in business. It impacted on rent payment. I ended up having rent arrears. – **Male, general retailer, Kawangware**
CASE STUDY: STRUGGLING BUSINESS

Valerie* is a 46-year-old, single mother of three who owns a small fresh vegetable business in Kawangware informal settlement, Nairobi. To supplement her business income, she does laundry at people’s homes. Before COVID, she had three regular customers and could earn Ksh 900 – Ksh 1500 per week from this work. But since COVID, she is only able to get casual work once a week. “I had 3 regular customers who called me every week, but once covid hit, one of them moved to Jamhuri estate, the other brought her sister from the rural home to help her with the housework. Now I only have one customer left”

Valerie’s business income also took a large knock during COVID. Her daily sales in July 2021 were 30% - 50% of her daily sales pre-COVID. As the sole income earner in the household, this put a lot of strain on her. “This business helped me pay school fees, rent for both my house and the business and also feed my children, so when it took a hit due to COVID, so did we. My children never lacked food, but I wasn’t able to feed them as well as I would want to.”

Besides fewer customers, Valerie’s other main challenge was affording stock for the shop. “Part of the reason they also spent less on my shop is because I didn’t have enough stock. I am not able to stock up the business as I would want to because of lack of funds.”

Technology has also been an important enabler for Valerie’s business; most of her regular customers call her to enquire what products she has and then send their children to collect the goods. She also estimates that four out of her 10 regular customer pay via Mpesa.

Pre-COVID, Valerie belonged to a ‘merry-go-round’ that helped her save for stock purchases, but unfortunately the group “dismantled” during COVID. The group has since got back together but the relationship has weakened, “I don’t rely on them as much as I used to”. Her only other source of finance in her sister.
Credit, Debt and Saving

- Reduced access to trade credit was a major challenge faced by business owners – suppliers were less willing to offer trade credit than pre-COVID.
- Bad debt is another challenge business owners faced, not only because of the money customers owed but also due to its impact on customer relationships. In response, some business owners stopped offering customers goods on credit.

While many businesses reported having savings pre-COVID, it’s likely the savings were diverted to other household expenses, or the value of the savings was low, as it didn’t prevent businesses from closing.

<table>
<thead>
<tr>
<th>SEGMENT</th>
<th>RECOVERED</th>
<th>STRUGGLING</th>
<th>CLOSED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue in July '21 vs Feb '20*</td>
<td>75% or more of pre-Covid revenues</td>
<td>Less than 75% of pre-Covid revenues</td>
<td>Not involved in any business activity in July 2021</td>
</tr>
<tr>
<td>Segment size</td>
<td>17%</td>
<td>24%</td>
<td>33%</td>
</tr>
</tbody>
</table>

**FEB 2021 (PRE-COVID)**
- Offered customers goods and services on credit? 62% YES, 38% NO
- Median amount of unpaid credit owed¹ | KSh 1 500 | KSh 500 | KSh 900 |

**JULY 2021**
- Offered customers goods and services on credit? 70% YES, 30% NO
- Median amount of unpaid credit owed¹ | KSh 1 700 | KSh 1 700 | Not applicable |

¹ Excludes business owners who reported being closed in July 2021.
Business owners relied heavily on their family and personal networks for financial support during COVID. Those that took loans, accessed small mobile banking loans or loans from their Chamas.

### Source of financing for MSEs

<table>
<thead>
<tr>
<th>SEGMENT</th>
<th>RECOVERED</th>
<th>STRUGGLING</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue July '21 vs Feb '20*</td>
<td>75% or more of pre-Covid revenues</td>
<td>Less than 75% of pre-Covid revenues</td>
<td></td>
</tr>
<tr>
<td>Segment size</td>
<td>17%</td>
<td>24%</td>
<td></td>
</tr>
<tr>
<td>HAD ANY OPEN LOAN (formal or informal)</td>
<td>55% YES 45% NO</td>
<td>55% YES 44% NO</td>
<td>55% YES 45% NO</td>
</tr>
<tr>
<td>Source of loan:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 45% – Mobile banking loan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 31% – Loan from Chama</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 10% – Loan from bank</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Source of loan:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 39% – Mobile banking loan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 27% – Loan from Chama</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 19% – Loan from bank</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Source of loan:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 42% – Mobile banking loan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 29% – Loan from Chama</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 15% – Loan from bank</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Top 3 reasons for taking out the loan

<table>
<thead>
<tr>
<th>Reason</th>
<th>RECOVERED</th>
<th>STRUGGLING</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>To purchase stock / supplies</td>
<td>76%</td>
<td>56%</td>
<td>64%</td>
</tr>
<tr>
<td>For general household expenses</td>
<td>19%</td>
<td>42%</td>
<td>33%</td>
</tr>
<tr>
<td>Business expenses</td>
<td>31%</td>
<td>25%</td>
<td>28%</td>
</tr>
<tr>
<td>To purchase stock / supplies</td>
<td>76%</td>
<td>56%</td>
<td>64%</td>
</tr>
<tr>
<td>For general household expenses</td>
<td>19%</td>
<td>42%</td>
<td>33%</td>
</tr>
<tr>
<td>Business expenses</td>
<td>31%</td>
<td>25%</td>
<td>28%</td>
</tr>
</tbody>
</table>
CASE STUDY: CLOSED BUSINESS

Monica* is a 31-year-old, married mother of two, who used to own a small food trade business in Kangemi, a large informal settlement on the outskirts of Nairobi. Before COVID, Monica felt that her business was doing “fairly well”. She estimates that her average monthly revenue in February 2020, pre-COVID, was KSh 36,000. This dropped by more than 80% during the first lockdown. “So many of my customers moved due to lack of money to pay rent and the few customers I had left, started spending less. They used to spend 150 shillings but when COVID struck, they would spend 80 – 100 shillings”

Monica found herself unable to afford to buy the same quantity of stock as she used to. Her suppliers also started demanding cash on delivery which really affected her cash flow. “I would only take stock worth the money I had sold the previous day, which was an average of Ksh 400. That wasn't enough to give me good profits. It became very difficult for me to even make rent for the business”

Relationships with customers were also strained during COVID due to bad debts. “I lost a friend who was also a customer since I have been asking for money she owed me, but she doesn’t want to pay me back”

Monica used to belong to an informal savings groups with 14 other people but has since exited the group and feels that her social networks are now constrained. Her main source of support is from her family. “Business was so bad to a point where my husband and sister helped me out, and once I couldn’t get it back on track I decided to close”

Beyond COVID, Monica faced other financial shocks that also contributed to her business’s downfall. Her child fell ill and her parents house burnt down. This cost Monica close to KSh 20,000. Monica has now turned to casual work, laundry work, to earn some money but is hoping to find a permanent job. She hopes to find a job that pays her KSh 15,000 a month so that she can start contributing towards her household expenses again, especially the cost of her children’s education.
Female business owners were more likely to have closed their businesses by July 2021 compared to male business owners---49% of female-run businesses closed compared to 37% male-owned businesses.
Reasons for Business Closure

• Many micro businesses were already operating at the margin prior to COVID. Business owners described past household financial shocks that wiped out business savings or lines of credit which they hadn’t recovered from by the time COVID hit.

• Small cash injections from savings groups and financial support from family and social networks helped businesses “stay afloat” for some time but after exhausting these lifelines business owners had little option but to close. Especially those that had monthly financial commitments, like rent payments.

• Business owners reported that lack of money to cover operating expenses and lack of customer demand were the main reasons for closing (31% and 27% of closed business respondents respectively). These two factors are obviously closely linked.

• Increased stock prices, fewer transport providers and higher transport costs, and changes in suppliers’ credit terms (including freezing credit sales) also contributed to business closures.

• During the interviews, business owners described how these challenges converged and created a downward spiral of low stock → low sales → limited cash to purchase stock (and repeat)

• Businesses operating in commercial / industrial premises pre-Covid were also more likely to be closed compared to businesses operating from more informal arrangements (e.g., open markets without a dedicated stalls or hawking). The high fixed cost of commercial premises and potentially less supportive landlords may have contributed to this.

• Difference in the closure rates of businesses by sector is evident: 38% of businesses in the food trade sector closed compared to over 50% of businesses in the clothing and general retail trade sector.
Digital Uptake and Advancement

Definition of Digitally Advanced: Accepted digital payments and used at least one digital marketing channel to reach customers (mostly SMS/phonecalls).

- 60% of businesses owners that were classified as 'digitally advanced' were in the recovered segment indicating the important role technology can play to improve the resilience of businesses.
- Businesses in the recovered segment are twice as likely to be more digitally advanced than businesses in the struggling segment.
- Technology is an important enabler of business resilience, even elementary use of phonecalls and SMS can help businesses.

<table>
<thead>
<tr>
<th>Segment</th>
<th>STRUGGLING</th>
<th>RECOVERED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digitised payments only</td>
<td>65%</td>
<td>35%</td>
</tr>
<tr>
<td>Digitised marketing channels only</td>
<td>64%</td>
<td>36%</td>
</tr>
<tr>
<td>Digitally advanced</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>Digital laggards</td>
<td>68%</td>
<td>32%</td>
</tr>
</tbody>
</table>
Food Insecurity

- The culmination of the challenges faced by business owners resulted in an increase in food insecurity for business owners and their families between February 2020 and July 2021.
- This is most pronounced in the closed business segment; 20% of business owners reported that their families went without enough food to eat in July 2021, up from only 3% of business owners reporting this in February 2020 (pre-Covid).
- More than half of the business owners who reported that their families often or sometimes went without enough food to eat in July 2021 were in the closed business segment.
Hope for the future

Despite the challenge past two years, business owners remain optimistic for the future, even those that are still struggling, to recover from COVID.

<table>
<thead>
<tr>
<th>SEGMENT</th>
<th>RECOVERED</th>
<th>STRUGGLING</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue July ’21 vs Feb ’20*</td>
<td>75% or more of pre-Covid revenues</td>
<td>Less than 75% of pre-Covid revenues</td>
<td></td>
</tr>
<tr>
<td>Segment size</td>
<td>17%</td>
<td>24%</td>
<td></td>
</tr>
</tbody>
</table>

BELIEVE THE REST OF 2021 WILL BE BETTER FOR THE BUSINESS?¹

- 63% YES
- 45% YES
- 53% YES

I have a plan to expand this business, you can see I even added shelves in the shop which have nothing on them. If I was able to get a loan or grant of just Ksh 20,000, I know I could be able to stock variety of items and even my customers wouldn’t need to go anywhere else, because they would get everything they needed here. I am very optimistic about the future. – Female, 47 years old, vegetable trader Kawangware
Household update

- Income and Jobs
- Sources of Income
- Resilience and Coping
- Credit Sources
- Use of Credit
- Use of Education Savings
- Coping Mechanisms
Income and Jobs

- The onset of COVID19 in Kenya resulted in a series of economic restrictions that hit livelihoods and income, especially for the poor many of whom many of whom were not able to earn during the lockdowns. Since then, with more people joining the workforce, median income across the population has risen.
- Improved liquidity at the lower end of the economy has resulted in an increase in remittance activity and ability to get hold of an emergency lump sum.
- However, this has been driven mainly by a rise in casual labour which is an insecure source of livelihood with marginal returns on labour, raising warning lags for longer term resilience and economic recovery.
Sources of Income

There have been some notable shifts in sources of income between Nov 2021 and Feb 2022:

• Significant increasing in 18-34 year olds earning income from waged/salaried positions.
• Significant decrease in 18–24-year olds in casual labour, but an increase in those over 60 engaged in casual labour and starting businesses.
• Those over 60 are at high risk of not eating for multiple days—this could be an indication of increasing vulnerability in the older population.

Source: Kantar Covid Tracker
Despite the uptick in income and earning in 2021, the rising cost of living, drought and intensifying health and mortality impacts of the pandemic have undermined household resilience and wellbeing.

Over the course of 2021, more households have had to cut food expenses, borrow and sell assets to meet their daily needs, and businesses are having to eat into their business capital to feed their households.

At the end of 2021, nearly half of borrowers had recently missed a loan repayment because they needed money for essentials. Meanwhile, food insecurity has continued to rise, with 62% of households claiming to have missed meals due to lack of food in December 2021.
Food Insecurity

In February 2022:

- **50% of households had skipped meals** in the previous 7 days
- **47% of households had gone without food for an entire day for at least one day in the previous 2 weeks**
- **8% of households had gone completely without food for at least 4 days** in the previous 2 weeks.
- Casual labourers, those over 60, and those with only primary education are particularly at risk

Source: Kantar Covid Tracker
Credit Sources

Usage of bank loan products has increased significantly

This increase is almost entirely due to increased use of bank loans by men. The gender gap is particularly marked for traditional (non-mobile) loans.

It's unclear whether this disparity is an issue of demand or access and could indicate that credit is being offered more easily to male customers.

Use of Education Savings

- 70% of respondents report using money saved for education to meet basic household needs. Whilst the use of business and farming assets to meet day to day needs has declined the use of money for education remains stubbornly high.
- This may be because savings for education are seen as vital and so are the first to be replenished making them the most available for use when need arises.
- With funds for education being continually depleted, this could lead to an inability to pay fees and costs leading to students being excluded from school.

Source: COVID EconData

Source: Kantar Covid Tracker

Use of Education Savings