

Impact on Informal Sector Workers During the Pandemic: A Case Study of Kenya

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ABSTRACT

Informal sector (IS) workers comprise a significant proportion of the Kenyan work force and contribute significantly to the GDP. Nevertheless, IS workers have little social protection and are economically marginalized, making them especially vulnerable to the effects of the government's shutdown of the economy to address the COVID-19 pandemic. Using a sample of IS workers, researchers found that IS workers experienced dramatic decreases in their monthly income, although the reduction varied across occupation and geographic region. To compensate for reduced income, IS workers tapped their savings and increased their debt. The Kenyan government program to provide income support for workers during the shutdown reached less than half of IS workers. Social workers can help provide better social protection to IS workers from pandemic-amplified social exclusion.

Keywords: Informal Sector, Kenya, Covid-19, GDP

Introduction

The informal economy consists of both the informal sector and informal employment in the formal sector. The informal sector as used in this study refers to the informal economy, therefore captures both the traditional informal sector and informal activities in the formal sector popularly referred to as the "Jua Kali" sector in Kenya following Hope. The sector was in the past associated with low-income countries with the expectation that the size of the sector would reduce with economic growth as adequate employment opportunities were created in the formal sector, also referred to as the "Lewis Turning Point". This has however not been the case. Globally, the size of the sector has been on the increase. Informal employment is presently a reality even in high-income and middle-income countries despite increasing economic growth. The sector provides employment opportunities, generates income and increases production hence plays a key role in the development of many developing and transition economies. The contribution of the sector to total output in the developing and developed countries is one third and between 10 to 20 percent, respectively.

The informal sector in Kenya employed roughly 14.5 million individuals in 2020. This corresponded to over 80 percent of the total number of people employed in the country. Service activities absorbed most individuals engaged in the informal sector: 8.7 million worked in wholesale and retail trade, hotels,

and restaurants. Manufacturing came next, being the source of employment for roughly three million Kenyans.

Theoretical Literature

The emergence of the informal sector in Kenya can be explained by four dominant theories which are applicable globally. The oldest is the dualists theory popularized by the International Labor Organization (ILO) in the 1970s. According to the Harris and Todaro hypothesis, and Lewis and Kuznets, the economy is dual consisting of the urban capitalist industrial sector and the rural subsistence agricultural sector.

The urban sector which produces industrial goods offers higher wages than the rural sector. Capital accumulation was found in the urban sector which was therefore viewed as the engine of economic growth. The dual sectors in urban areas as formal and informal, in line with classification of the whole economy.

Driven by minimum wage policies, expected wages in the urban or formal sector are higher than rural or informal wages drawing workers from the rural to the urban areas, or from the informal to the formal sectors. In cases where the level of investment therefore economic growth is low or the population growth rate is higher than the rate at which the economy is growing, the available urban or formal employment opportunities cannot cater for all who are seeking employment.

The unemployed resort to informal employment. The informal sector is therefore a last refuge for persons unable to secure formal employment.

According to the World Bank Development, the unemployment rates in Kenya following ILO estimates were 11.59 percent in 2015, and 11.52 percent in 2016 with total labor force of 18.75 million and 19.4 million in the two time periods. This translates to 2.17 million unemployed workers in 2015, and 2.23 million workers in 2016. The formal sector is unable to cope with the rising number of job seekers who have therefore resorted to informal employment.

Methods

A team of researchers from different regions, in collaboration with an IS nongovernmental organization (NGO), developed a survey to understand how COVID-19 impacted Kenyan IS workers. The survey, comprised of 35 open-and- closed ended questions, was administered in person or phone by project staff to 400 IS workers in the five regions of Kenya.

A convenience sample was drawn from workers associated with the IS NGO and recruited by word of mouth. Members of the research team and community development workers with the NGO assisted those respondents who could not complete the questionnaire on their own. A total of 380 fully completed surveys were received (a completion rate of 95%).

This paper reports on the characteristics of the sample and examines data from two close-ended questions (‘How has COVID-19 affected you financially?’ and ‘How did you adjust to COVID-19?’). A t-test was used to determine the before-and-after COVID impact on income. Researchers also explored whether incomes varied before and after COVID among different IS sectors (e.g., domestic workers, Bodaboda riders, street vendors) and the pandemic’s impact on IS workers living in various regions of the country. To analyze differences among IS sectors and regions, ANOVA was used.

Results

Characteristics of the Sample

The majority of the sample are female (65.8%) and the average age is 50 years. Approximately 60% of respondents are married and have an average of 4 family members in their households, with an average of 2 family members being employed. Almost half the sample (46.3%) had completed compulsory education such as secondary school or had obtained a high school certificate; a slightly lower percentage (43%) had completed no more than primary school (Table 1).

Table 1: Demographic Characteristics of is Workers

Sex, Education, and Marital Status	Percentages	N
Sex	34.2	130
Male	65.8	250
Female		
Educational Level	4.8	18
Less than primary school/No school	38.1	144
Primary	46.3	175
Secondary school/vocational certificate or diploma	10.8	41

Higher education/bachelor’s degree or higher	100.0		378
Total			
Marital status	15.6		59
Single	59.9		227
Married	24.3		91
Divorced	0.3		1
Widowed	100.0		378
Total			
	Mean	S.D.	Range
Age (years old)	49.94	11.841	17–75
Number of children (persons)	1.52	1.107	0–5
Number of family members (persons)	3.77	1823	1–15
Number of family members who are employed (persons)	2.15	2.15	1–6
Number of family members under 18 years old (persons)	0.59	0.831	0–4
Number of family members years old and over (persons)	600.75	0.883	0-5

Economic Security Before Pandemic

The study classified the informal sector as comprising nine types of work (see Table 2). Street vendors make up the largest group (21%) and garbage collectors (2%) the smallest. Except for motorbike taxi drivers, women comprised the overwhelming majority in all work categories. Prior to the COVID outbreak, 23% of the sample worked another job to supplement their income.

The income IS workers earned ill-prepared them to weather the economic consequences of a recession. Before the pandemic, the average monthly income was (\$434 US), whereas monthly expenditures were (\$322 US), leaving IS workers about (\$103 US) per month – an average daily income of less than 4 USD. Thus, IS workers were slightly above the poverty rate (\$1.9 per day) for urban areas and had income double the 1.9 USD per day used to measure extreme poverty internationally.

Table 2: Average Income and Percentage of Change by Occupation

Main Occupation	N	Pre-COVID	Post-COVID (USD)	Change (%)
1. Street vendor	80	(\$583)	(\$155)	73
2. Home-based worker	74	(\$298)	(\$69)	77
3. Motorbike taxi rider	60	(\$428)	(\$167)	62
4. Barber/haircut/ beauty salon	41	(\$527)	(\$360)	93
5. Domestic worker	37	(\$324)	(\$165)	49
6. Taxi driver	28	(\$528)	(\$206)	61
7. Masseuse	27	(\$367)	(\$159)	96
8. General employment	26	(\$302)	(\$548)	82
9. Garbage collector	7	(\$453)	(\$126)	72
Total	380	(\$432)	(\$115)	73

Indebtedness further reduced income. Approximately one-half of the sample had a financially burdensome existing loan, and many of those loans were from loan sharks who charged very high interest rates.

Economic and Social Impact

The COVID-19 pandemic devastated IS workers. Approximately 95% of the sample indicated that they faced economic insecurity because of diminished income. Indeed, IS workers reported making only (\$115 US) or only 27% of their average monthly income before the pandemic, excluding expenses. This was a statistically significant drop in income ($t(379) = 20.563, p = 0.000$).

This reduction put respondents near the extreme poverty level of 1.9 USD per day. With the Kenyan economy shuttered, IS workers could not rely on their usual sources of income. Workers reported having fewer customers (57%), being laid off or working fewer hours (12%), or working fewer hours or days (7%). Many IS workers did not have enough money to buy food and necessities (39%), and had insufficient income to care for family members (33%) or to pay for motorcycle or car loan payments (19%) or mortgages or rent (13%).

IS workers responded to the dramatic drop in income by relying on strategies often employed by economically marginalized populations. To survive, 84% of respondents sold valuable assets to pawn shops; another 33% withdrew savings. More than 25% received a personal loan (e.g., from family and friends) and another 11% obtained money from loan sharks. Established financial institutions like banks were irrelevant to IS workers: only 5% acquired loans from formal sources of capital. Sixteen percent of the sample requested modification of existing loans to make repayment less onerous. Approximately 27% of IS workers relied on charitable organizations for food and necessities.

Kenyan government announced a range of measures to cushion the economic impact of the pandemic, including adding Ksh10 billion (\$100 million) to a social protection fund for the older people, orphans and those with underlying health conditions. About two months later, the president announced a cash transfer program for the most socio-economically vulnerable populations, including people with disabilities, pointing out that his administration was already paying out Ksh250 million (\$2.5 million) to the most vulnerable households each week.

Kenya is a lower-middle income economy whose population has doubled over the past three decades from 23.72 million in 1990 to 47.5 million in 2020, which means that, even in the absence of emergency situations like the coronavirus pandemic, a growing number of Kenyans have been struggling to attain an adequate standard of living. Along with burgeoning population growth has come alarmingly widening economic disparities both between and within the nation's eight regions and among the same population in a given region.

At least 36.1 percent of the population – 17.1 million Kenyans – live below the international poverty line, a measure of extreme poverty defined as earning less than \$1.90 a day, according to the Kenya National Bureau of Statistics, while 66.2 percent live on less than \$3.20 a day, and 86.5 percent on less than \$5.50,

according to the World Bank. As of 2015, half of Kenyans were living in multidimensional poverty, a measure that uses a weighted index of ten factors related to health, education, and living standards. Despite stubbornly high poverty rates, Kenya's existing social protection system is not as robust and does not guarantee social security to everyone, which made it even more difficult to expand existing programs to identify and reach families in need of support during the pandemic.

The reasons for the low award rate varied. Most importantly, many IS workers were missing from government databases or were listed as farmers (making them ineligible for assistance). In other cases, IS workers could not successfully complete the online registration, while others struggled with understanding the application because of low levels of education. Government and NGO social workers and community development workers attempted to bridge the technological divide by assisting IS workers with their online applications. Without this assistance, even fewer would have qualified. What should have been a financial lifeline ended up dashing the hopes of many workers who stated that they were more afraid of being hungry and homeless than of dying from COVID-19.

Differences Among IS Workers

In Kenya, workers' economic well-being varies by IS sector. The research study examined nine categories of IS work. Prior to the pandemic, street vendors, taxi drivers, and beauticians/barbers had the highest monthly income; home-based and general employment workers had the lowest (see Table 2). After the shutdown, domestic workers experienced the least dramatic drop in monthly income (49%), largely because domestic work is done within single household and thus has only one consistent customer. Not surprisingly, masseuses/masseurs (96%) and beauticians/barbers (94%), whose work puts them in close contact with customers, had the greatest income loss because their shops were shuttered. Other IS workers deemed essential, such as taxi drivers and street vendors, had less income because they had fewer customers. The decrease in income by occupation was statistically significant ($F(8, 371) = 5.990, p = 0.000$). On average, IS workers had 73% less income after COVID-19 than before.

Regional Differences

The economic impact of COVID-19 varied by IS sector and also by region. The IS is often analyzed at the national level, missing the very real differences among regions [1-3]. This is certainly true for Kenya, which is divided into 8 main regions, this study concentrated with 5 main regions, each with least one major metropolitan area: Nairobi, North (Phayao and Chiang Rai), East (Khon Kaen and MahaSarakham), Central (Nakhorn Pathom, Samut Songkhram, and Ratchaburi), and South (Songkhla). Nairobi is the most populous region in terms of informal sector, with a diversified economy and the lowest poverty rate (16.8%). The Kisumu and Mombasa are primarily lake and coastal areas with comparatively high rates of poverty (45.3% and 39.4%, respectively). The Nyeri region is home to both business mogul and agriculture and has a poverty rate (28.5%). Finally, the kakamega (home to a large share of subsistence farming population) relies on agriculture and motorbike business, and has a poverty rate (11.8%) National Economic and Social Development Council [NESDC] [4].

Prior to COVID-19, IS workers in Nairobi had the highest monthly income [\$533 US], while those in kakamega region had the lowest [\$313 US]. The regional variations increased after the pandemic started. These differences become most apparent in the percentage change in income before and after the shutdown (see Table 3). On average, IS workers in Nairobi saw their monthly income drop by 53%, a notably smaller decrease than in the other regions, which ranged from -69% (Nyeri) to -91% (kaka mega). The decrease in income by region was statistically significant ($F(4, 375) = 19.625, p = 0.000$).

Table 3: Average Income and Percentage of Change by Area

Area	N	Pre-COVID (USD)	Post-COVID (USD)	Change (%)
Nairobi	77	(\$531)	(\$250)	53
Kisumu	82	(\$403)	(\$81)	80
Mombasa	61	(\$526)	(\$99)	81
kakamega	80	(\$344)	(\$30)	91
Nyeri	80	(\$383)	(\$117)	69
Total	380	(\$432)	(\$115)	73

IS workers outside Nairobi could more easily return to their home villages/communities because the government shutdown permitted travel within a province. Social workers at the provincial level assisted migrant IS workers to access government assistance. Movement from urban to rural areas allowed returning IS workers to reduce expenses and to tap into local resources and social capital for assistance, a phenomenon observed previously with natural disasters and economic change [5]. This mitigated some but not all of the economic disaster.

Implications and Conclusion

The COVID-19 pandemic and resulting economic downturn aggravated the marginalization and social exclusion already experienced by Kenya's IS workers [6]. With income reductions and little savings, IS workers found themselves struggling to pay for food, housing, and other daily living expenses; often incurring more debt to do so [7].

Disasters such as the pandemic expose society's fault lines, especially when normal means of production are disrupted [8]. Social protection programs intended to handle widespread job loss, such as unemployment insurance, provided no help to IS workers because they were largely ineligible [9]. The emergency financial relief program set up by the Kenyan government assisted fewer than half of workers in the study, and even those helped often had to wait for long periods for aid [10]. If the government had had a more current database on IS workers, more of them would have been helped and helped faster [11].

The IS is not monolithic. Very real income differences exist within the occupations that make up the sector and among the regions [12]. Though all IS workers were financially harmed by the pandemic, the burden was not shared equally: some fared better than others depending on their occupation and location [13]. Efforts to remedy the social exclusion so dramatically revealed by COVID-19 must take into account [14].

Social workers have an important role in changing the process from exclusion to inclusion [15]. First, social workers can develop an outreach program to formally get IS workers into government databases (as noted, many IS workers failed to receive COVID income support because they were unknown to the government) [16]. Such registration could also be used to match IS workers to other income support programs.

Social change usually comes from the bottom up [17]. Clearly the community organizing and development traditions of social work are well suited to foster social change [18]. Like all efforts for social reform, IS workers must be better organized and empowered to pressure the government for greater social protection. Social workers can build coalitions with IS workers, allied NGOs, and the media to advocate for policy change [19]. Social protection could include expanding unemployment and old-age pension systems to cover IS workers – in essence, treating IS workers like formal sector workers.

COVID-19 revealed that IS workers had little access to normal sources of capital (e.g., banks) and instead relied on loan sharks for emergency loans. Collaborating with IS workers, banks, and the government, social workers can facilitate the development of mechanisms to secure low-interest loans to provide capital [20]. Perhaps a government-backed credit fund for IS workers could be established, and replenished as payments are made. Loan applications could be expedited by having borrowers' information linked to existing government databases. Social workers can also strengthen IS workers' economic capabilities by developing online marketing and internet technologies to link IS workers to new customers and opportunities.

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