The economic impact of COVID-19 on small retail shops in Nairobi

*In a phone survey of 2,739 small retailers in and around Nairobi, researchers gathered evidence of the economic effects of COVID-19, and the impacts of subsequent government actions. The responses suggest widespread negative impacts on business activity and household well-being, with little or no assistance from the government, NGOs or other entities. J**on Helfers, Billy Jack, Martha Mutua, Josiah Muyesu, Chris Parker,** and **Whitney Tate** suggest policy actions to deal with the fallout of the pandemic.*

The novel coronavirus (COVID-19) has adversely affected the global community and, like most countries, Kenya has not been spared. According to one study, Kenya's international trade performance, its financial and commodity markets, and the entire macroeconomic environment have all been affected. We take a microeconomic view, reporting findings from a survey of small retail shops in the country's capital, Nairobi.

Kenya's first case of COVID-19 was reported on 13 March 2020. Soon after, the government took several measures to slow the spread of the virus and to address its health effects, including a dawn-to-dusk curfew, restrictions on public gatherings, school closings, recommendations to work from home, and social distancing measures. As fears of widespread infection mounted, movement in and out of Nairobi was all but prohibited.

The government also took several measures to limit the economic impact of COVID-19 on Kenyans. It reduced the personal income tax top rate from 30% to 25%, instituted a 100% tax relief for low-income earners, lowered the VAT rate, and reduced the turnover tax rate for SMEs. Nonetheless, many Kenyans have been struggling with the economic fallout of COVID-19, despite the policy measures put in place.

In a phone survey of 2,739 small retailers in and around Nairobi, *gui²de*-East Africa gathered evidence of the economic effects of COVID-19, and the impacts of subsequent government actions. The shops sold basic foodstuffs including dairy products, household items, and fast-moving consumer goods. Average monthly pre-pandemic turnover in our sample was about 159,000 KSh (USD 1,450), and average monthly profits were about 30,000 KSh (USD 270).

The phone survey was targeted towards understanding how well the retailers were coping with the effects of COVID-19 both at the business and household levels, and the extent to which government policies had ameliorated those effects. We collected information on such outcomes as household-level employment and job losses, effects of the curfew and cessation of inter-city movement on incomes and economic activity, changes in prices of essential commodities, access to and use of loans, and receipt of government assistance or support from any other source due to the negative effects of COVID-19. While we were not able to collect information in sufficient detail to fully quantify these effects, the responses suggest widespread negative impacts on business activity and household well-being. Respondents reported higher levels of unemployment within their households, an increase in the prices of basic commodities, and the need to take out formal and informal loans to deal with COVID-19. But they reported receiving little or no assistance from the government, NGOs or other entities.

Our results show that many of the small businesses in our sample were negatively affected by COVID-19, either directly or as a result of government policies to limit the spread of the virus. Such negative impacts on livelihoods – including job losses, reduced business operations and incomes, and disrupted supply chains – are unintended (if not unforeseen) consequences of the fight to protect lives.

Some of the survey respondents coped with the negative impacts, at least in the short run, by taking out loans when available from both formal and informal sources. Government assistance was not widely accessed by those in our sample, probably because tax relief is only meaningful for those already paying taxes. In particular, as most of the small shop owners we interviewed operate at or outside the margins of the formal sector, they did not benefit from such policies. In any case, even for tax-paying respondents, the tax relief was small enough that it may simply have gone unnoticed.

In light of these observations, we note some policy options:

Scale up cash transfer through mobile money

In order to maintain at least minimal purchasing power, and to ensure that businesses that can operate safely face sufficient demand to allow them to continue to do so, putting cash in the hands (or mobile phones) of households who have suffered job losses or income declines is essential. The challenge of course is one of targeting the transfers to those in such circumstances. A well-functioning and highly inclusive tax system can be an appropriate vehicle, but in its absence, direct transfers must be designed and implemented.

The mobile phone could conceivably serve as a practical delivery mechanism as well as a second-best targeting instrument for such transfers. All the respondents to our survey owned or had access to a mobile phone, virtually all of which were registered with M-PESA or another mobile money service. Historical activity on the platform can be used as a proxy for income or poverty status (see Blumenstock, Cadamuro and On, 2015), and transfers delivered over it. Of course, the targeting efficiency of such a scheme would be highly imperfect, but it could be scaled immediately, and would potentially reach many vulnerable groups, including women and rural residents. Early on in the pandemic, the charity GiveDirectly launched Shikilia, an emergency program of such cash transfers, hoping to reach 200,000 people to whom monthly transfers of $30 were to be made.

Reconsider the use of income tax relief for formal sector workers

It is arguable that tax relief for individuals in the formal sector is not well targeted, in the context of offsetting the negative impacts of COVID-19, and that they should be replaced with generous and expanded unemployment benefits. If government support is to be targeted to those who have lost their jobs, unemployment status is the appropriate indicator upon which to base transfers. Of course, all the inefficiencies of unemployment benefit systems will arise, but in the short run, if the unemployment status can be confirmed, expanded benefits to those who have lost their jobs will have first-order impacts on the maintenance of spending power at pre-COVID-19 levels.

Improve the efficiency and inclusivity of credit markets

The pandemic left many households vulnerable and in need of short-term assistance. While many were able to access some kind of credit to help them cope, the riskiness of such loans, from the perspective of lenders, necessarily increased. To protect borrowers from the long-term consequences of distressed default, the government discontinued the practice of reporting non-payers to the Credit Reference Bureau, which would otherwise have closed off access to future credit. The unintended consequence of this policy was, however, to restrict current access to credit, as lenders tried to reduce their exposure to non-performing loans. The challenge for the regulatory authorities is to ensure that short-term credit can continue to flow to qualifying small businesses and households while maintaining incentives for repayment.

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Notes:

- *This blog post is based on The Economic Impact of COVID-19 on Small Retail Shops in Nairobi, Kenya, Georgetown University Initiative on Innovation, Development and Evaluation*
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