How Deep is the Covid-19 Recession, and Can Unconditional Cash Transfers Mitigate Its Effects? Evidence from Kenya

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Detailed quantitative evidence on the evolution of economic outcomes during the Covid-19 health crisis in low-income countries remains scarce, as does evidence on the effects of previous social protection programs on household outcomes. We conduct repeated phone surveys with a representative sample of 11,000 households and 5,000 enterprises in 653 rural villages in Kenya involved in a previous unconditional cash transfer program to study the economic impacts of covid-19 lockdowns on economic activity. Sampling frames were drawn from censuses of both households and enterprises completed in late 2019 as part of follow-up, making all results representative of the full study area.

Since starting in late March (the onset of lockdown policies in Kenya), we have completed one round of surveys with 8,593 households and 4,254 enterprises, with a second round ongoing. We have achieved high tracking rates (relative to other phone survey efforts) of 79% and 89%, respectively. Our survey order is randomized to be representative at a weekly frequency, allowing us to trace out dynamics in core economic quantities such as expenditure, income, total sales, prices and local GDP in real time (published on www.kenyacovidtracker.org). We quantify the depth of the recession, its dynamics, and identify the channels through which economic conditions deteriorate. In addition, we test whether effects differ by cash transfer treatment status.

Early results (based on round one data) suggest a precipitous drop in economic activity with enterprise sales gradually falling by 55% across all sectors until early May. And although we see a tentative rebound in June, sales remained 40% below their pre-pandemic value. This economic shock has negatively affected household livelihoods. 69% of households report lower earnings, with an average decline of 38%. To offset these losses, labor supply increases by 16% on average, households dissave a significant share of their assets each week, and contributions from NGO and government programs increase somewhat. The magnitude of these coping strategies are not sufficient to cover losses: over the first 8 weeks of the lockdown, total consumption ends up falling by around 25%, food expenditure drops by 45% compared to the pre-Covid-19 average, and the number of days children miss meals doubles. Domestic violence also increases: reports of child beatings increase by 20%, and the number of women who report being forced to engage in sexual acts increases by 50%; three times as many report being threatened by their partners. In ongoing work, we test for heterogeneity of these impacts by baseline household characteristics, and characterize particularly vulnerable populations and economic sectors.

Last, we test whether a large-scale randomized unconditional cash transfer program 4-5 years earlier provides benefiting regions a buffer-stock, mitigating the impact of the covid-19 recession. Preliminary analysis indicates that households that received large transfers in the past show less of a drop in household income, food consumption, and meals skipped, suggesting that the benefits of such social protection programs may even extend far beyond the duration of assistance and into a crisis period.