

# *Insights from Digital Platforms*

**THE EFFECTS OF COVID-19 ON THE LIVES  
OF DIGITAL WORKERS, AND HOW  
DEVELOPMENT ACTORS CAN STEP  
IN TO INTERVENE**





## Contents

- 3 Who are these micro-entrepreneurs?
- 4 How has COVID-19 impacted their lives and livelihoods?
- 5 How are micro-entrepreneurs coping?
- 7 How did we intervene?
- 9 What are we learning?
- 10 Where do we go from here?  
Study Overview
- 11 About Mercy Corps Youth Impact Labs

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The COVID-19 pandemic and its wide ranging consequences have laid bare a variety of structural issues inhibiting small and medium enterprises, particularly in the informal sector. Mercy Corps' Youth Impact Labs (YIL) has invested resources and financing into the digital workforce, or gig economy, since it started operating in Eastern Africa (and the Middle East) from late 2017. As most of us grapple with the pervasive and protracted nature of this pandemic, YIL and many other actors in impact investing continue to ask: who is responsible for supporting gig workers left vulnerable by the COVID-19? However, given the limited data on the informal sector, despite its considerable value and size, organizations seeking to intervene are compelled to return to some basic questions. Through targeted studies with two partners in the YIL portfolio — Lynk and Sky.Garden— this year, we contribute some provisional answers to the following:

- What is the profile of urban micro-entrepreneurs?
- How has COVID-19 impacted their livelihoods and households?
- Which actions are they taking to mitigate the impact of the pandemic?
- What have we gleaned from designing and deploying a package of support in the last 5 months?

We found that the lives and livelihoods of the urban micro-entrepreneurs (here we include: gig workers and merchants using digital marketplaces) we work with have been severely disrupted by the restrictions enforced by the government to curb the spread of COVID-19. These workers often rely on day-to-day work, and even with the support of digital platforms, a significant number report that their incomes declined by a half or more— especially as urban areas are more affected by lockdown measures. These findings echo other research on low-income households in the region. In this context, we drew from Mercy Corps' experience in deploying social cash transfer programmes to deploy bespoke digital cash transfer packages for the workers enrolled with two of our partners in Kenya. Our initial results suggest that this may be an effective method to cushion particularly vulnerable households, and could be embedded into long-term strategies as we enter the post-COVID recovery.

## WHO ARE THESE MICRO-ENTREPRENEURS?

To be clear: rural and urban micro-entrepreneurs are decidedly different. Even so, research by Mercy Corps and others highlights two concrete similarities: opportunistic or necessity-driven as opposed to choice-driven entrepreneurship; limited or non-existent infrastructure such as access to finance, supporting networks and social safety nets. While the observations below are gleaned from working with, and investing in urban (largely Nairobi-based) micro-entrepreneurs, particularly those within digital platforms, we expect they may usefully inform work with rural entrepreneurs as well.

- **High dependence on business for household income.** From our study with Sky.Garden, over 70% of the entrepreneurs active on the platform say business is their main income generating activity. The Lynk results underscored various Kenyan labour market assessments: **only 14% of surveyed workers have permanent jobs**; 66% work temporary roles and 20% are daily labourers.
- **Increasing dependence on revenue from digital platforms.** Nearly half say the majority (50-100%) of their business revenue is from online sales; in fact, **34% say online sales comprise 'nearly all' of their business revenue.** Top channels reported for online sales are: Facebook, Instagram, WhatsApp, followed by e-commerce platforms like Jumia, Jiji, Kilimall, Masoko, PigiaMe and Sky.Garden. That said, nearly a quarter (24%) of entrepreneurs still rely almost fully on offline sales.
- Demographically:
  - o Our Lynk study found that 76% of micro-entrepreneurs' households only had a single working adult, with a typical household of 3-5 members.
  - o There seems to be a fair gender representation, but any skews in offline participation translated to the

platform. For instance, more women tended to offer beauty services on Lynk, and men were disproportionately represented in the construction vertical. Notably, even when accounting for over-representation in particular services, **men tended to book higher earnings on Sky.Garden** than women; average earnings for women since August 2019 was Ksh 25,843 (median of Ksh 8,600) but nearly double for men (Ksh 51,827; median of 15,600). Age did not have a statistically relationship with earnings.

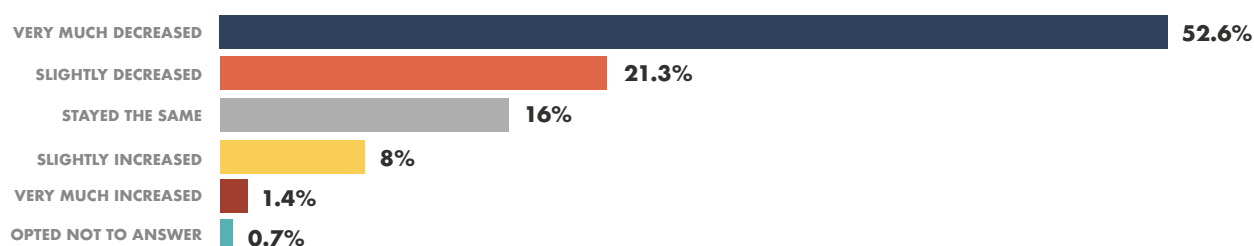
- o As far as financial access, just over half of the Lynk respondents do not have bank accounts or existing accounts are dormant; slightly more men are banked (56%).

## HOW HAS COVID-19 IMPACTED THEIR LIVES AND LIVELIHOODS?

Given limited social safety nets, irregular and low household incomes, the pandemic has adversely affected micro-entrepreneurs in Kenya. In the Sky.Garden study, we focused on the impact of COVID-19, as well as the government-enforced restrictions, on businesses/firms, while the Lynk study provided a more broader sense of the pandemic's effect on entrepreneurs' households and the coping strategies they are employing.

- Workers are all aware of COVID-19 (100% in the Sky.Garden study). However based on the Lynk results, workers are ambivalent in their concern about the threat of infection. 51% of Lynk workers said they were exposed or threatened/fearful of infection.
- Relative to pre-COVID-19 averages, **a third of Lynk worker households reported their monthly income declined by over 50%**. Certainly, this figure is only for a 30 day window in May/June, and not the full length of the COVID-19 period, but it is **notable that over half of the households experienced an increase in income**, and surprisingly 12% of households experiencing a 400% uptick in income. 75% of this latter fraction are male. Another caveat to ground these percentages: 43% of Lynk workers earned less than KES 10,000 (\$100) in that 30 day period, and just under a quarter of households, 20%, did not earn any income in that month.
- Additionally, **67% of Sky.Garden merchants said online sales have decreased** since March 2020 (start of COVID-19 lockdown in Kenya); 41% report a significant decrease. Relatedly, 74% say business revenue through the Sky.Garden platform decreased since; 53% say this decrease was significant. Most merchants cite **decrease in market demand and logistics disruption (sourcing from manufacturers/suppliers as well as delivering to clients) are the key challenges** since the COVID restrictions went into place. Note, in research from another Mercy Corps program— Agrifin Accelerate— 92% of agro-dealers said COVID-19 has had a negative impact (high or low) on their businesses. Their revenue/cash flow has reduced immensely and the flow of customers has gone down. These findings echo work by Precision Agriculture for Development and 60 Decibels.

### HOW HAS THE CORONAVIRUS LOCK-DOWN AFFECTED YOUR BUSINESS REVENUE THROUGH THE SKY.GARDEN PLATFORM?



### How COVID-19 has impacted Sky.Garden merchants:

“Demand is rising again, but less foot traffic in physical stores. I have also had challenges in importing the goods.”

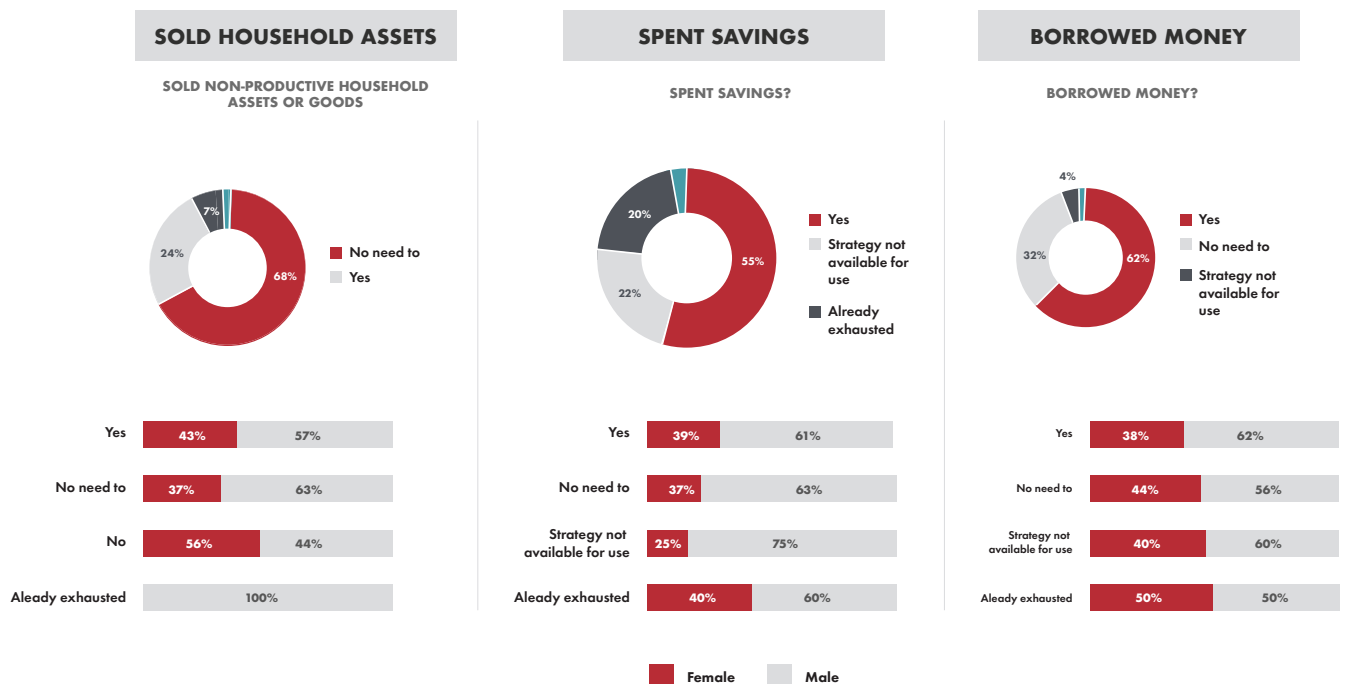
“People do not have money. Orders have decreased. People want to buy at lower prices which means little profit for me and my business.”

“COVID-19 has affected the logistics part. Businesses make their own deliveries. Curfew has affected movement. Someone might make an order, then they cancel. My business is built on payment on delivery so if a customer cancels, I have to pay for delivery costs without revenue. There is a tendency of people holding their money for security. There is a general decrease in sales.”

“Generally, business has gone down but there are both positive and negative effects. On the positive, house deliveries have increased because people don’t want to go into town. On the negative, clients want discounts because they have no money.”

## HOW ARE MICRO-ENTREPRENEURS COPING?

We found conventional coping mechanisms, from savings and loans groups (‘chamas’), personal savings, taking on extra work, or formal and informal borrowing are not adequate to plug the gap created by the dip in incomes. As a result, households are increasingly resorting to negative or counter-productive mechanisms to survive, including sale of productive assets and reducing consumption. There is opportunity to temper any negative long-term consequences on their livelihoods and households.





Household level (Lynk workers):

- Nearly all of the respondents' households (**94%**) **did not have to sell their productive household assets to cope with COVID-19.**
- **24% sold their non-productive household assets** to cope; a majority of this segment is male respondents depending on temporary jobs.
- Two thirds of all respondents' households had used their savings to cope with COVID-19 with 54% of them having used their savings recently, in the last 30 days, while **20% had already exhausted their savings.**

### How Sky.Garden merchants are coping:

"I now have to do online deliveries myself after laying off a worker and I also closed down one of my two shops that was located in town."

"I changed from deliveries over the week to over the weekend only; the 2 days are dedicated to deliveries. I increased the cost of some items as I have bills to foot and there is not so much revenue, and added cost to some items to cater for others. I have had to use personal savings to pay some business bills."

"Price reduction on products to solicit customers to purchase, bulk purchase of goods to aggregate orders."

"Purchase of PPE for staff, shift to telephone orders; and emphasis on digital payments."

"Nothing much has changed. For all businesses there are good and bad days. This is just like a prolonged bad day but I am positive that things will get better with time."

"This lockdown has given me hope for my business to work. I have revamped my Instagram and Facebook pages to provide a better platform for my business. I also closed my physical shop and removed stock from the shop to sell from behind my car."

- **62% had to borrow money** in the last 30 days to cope with the adverse impact of COVID-19.
- **45% of workers' households had to purchase food on credit or borrow** food to cope with COVID-19.
- 82% reduced expenditure on essential non-food items.
- Most households did not have to cut down their expenditure on health, medicine or education. This may be attributable to the country-wide closure of schools.
- **80% had delayed or skipped paying (residential) rent** in the last 30 days. A majority of these households had a monthly rental expenditure of KES 5,000 (\$50) and below.
- Just about **a quarter of all respondent's households had asked strangers for money or food** to cope with COVID-19.

Firm-level:

- To mitigate the effects of COVID-19, the top 3 strategies employed by Sky.Garden merchants are: **reduced spending on marketing; laying off workers; and defaulting on rent payments for business premises.** Furthermore, **76% expect to move previously offline products online** post COVID-19.
- 76% of Lynk workers indicated that they could not take an additional job to cope with COVID-19, largely due to the challenging market. The fraction that found an additional job scouting for work outside their usual channels, secured irregular day jobs or pivoted using readily available household assets.
- Fortunately, of the above minority, **most did not have to accept socially degrading, exploitative, high risk or illegal work** to cope with COVID-19 despite income pressure. Of the 17% that indicated that they did, they either perceived the additional job that they took as high risk or considered having to work during the crisis as high risk.

## HOW DID WE INTERVENE?

Based on internal data from partners and the studies referenced above, YIL designed and deployed packages of support for a segment of Lynk and Sky.Garden workers; these are summarized in the table below. We also included in italics our rationale behind these decisions, that may inform your work.

Importantly, we paired this direct support with working capital to partners in our portfolio so they were also

YIL worker support package	Lynk	Sky.Garden
<b>Total budget (USD)</b>	50,000  A responsive donor, and flexible program design enabled us to pivot quickly from our planned activities to allocate this support.	35,000
<b>Objective</b>	Assist gig workers in meeting their basic needs, primarily food and rent.  Our design was informed by Mercy Corps’ internal cash transfer experts as well as collaboration with the Kenya Cash Working Group.	Assist merchants in marketing their products online to cope with the disruption caused by the COVID-19 crisis.
<b>Mechanism</b>	One-time cash transfer via mobile money (M-Pesa)  This was possible as Lynk had access to contact phone numbers of all workers, and they were registered with the mobile money service. We selected a one-time transfer so as to allow gig workers to better plan and use the funds on most critical expenses instead of smaller tranches.	Disbursement of funds to the merchants’ Sky Coins account (digital credit system)  As this funding was targeted towards marketing in response to priority needs identified by both Sky.Garden and merchants themselves (see table below), we opted to use in-platform credits instead of cash. Prior campaigns showed 9x ROI on advertising spend

<b>Amount per worker</b>	KES 10,000 (\$100) per Pro  Given the scale of need, value selected to widening the reach within the budget, while still providing a meaningful amount; baseline data on monthly rent and earnings as well as secondary research on a household's minimum expenditure basket informed decision.	KES 10,000 (\$100) per merchant
<b>Disbursal window</b>	May - June 2020	Aug - Sept 2020
<b>Disbursed funds (USD) as of August 2020</b>	10,970	35000
<b>Total recipients as of August 2020</b>	115 (8% of Lynk Pros)	350 (7% of Sky.Garden merchants)
<b>Selection criteria</b>	<p>The largest weight was placed on the first 2 criteria as indicative of workers most adversely affected by COVID-19:</p> <p>Sector: Workers working in a category where demand is very low and workers don't have alternative skills.</p> <p>Income before and after COVID-19</p> <p>Households with persons with disabilities (PWDs)</p> <p>Female-headed households</p> <p>Households with multiple children under 5 years of age</p> <p>Households not covered by other interventions (cash, food aid, etc.) from another agency</p> <p>Households in which no one else is working</p>	Merchants who are currently active on the Sky Garden platform but faced revenue fluctuations during the COVID-19 pandemic period in H1 2020.

Note: to inform the design of our support, we asked Sky.Garden merchant to tell us, and this is what we heard:

- 30% of all merchants said they anticipate challenges growing or continuing their business even after the COVID-19 restrictions are lifted. Surprisingly, **67% do not predict any difficulty recovering.**
- 80% required less than half a million Kenya shillings to invest in post-COVID-19 recovery. The **average projected investment amount is Ksh 308,621 (\$3000) and the median is Ksh 100,000 (\$1000), with a large standard deviation of 667,684.**
- Half would invest in inventory**, and 36% would invest in marketing (note 67% already use paid digital marketing campaigns).



## WHAT ARE WE LEARNING?

The Lynk cash transfer was processed on May 21st and a month later, the data shows:

- 62%** decrease in workers asking strangers for food or money
- 67%** decrease in workers drawing down on savings to cope
- 26%** decrease in workers skipping or delaying rent payments
- 11%** increase in workers buying food on credit, or borrowing food



better able to weather the market changes.

Nonetheless, while the cash transfer provided much-needed support in the short-term, Lynk gig workers told us that a more impactful intervention would offer continually, not one-time, support in the form of grants, recurring cash transfers or paid employment to better shore their livelihoods throughout the time of this COVID-19 crisis.

Sarah is a gig worker at Lynk, working as a beautician. Before Mercy Corps' cash transfer support came through, she had a low supply of household items and had a lot of outstanding debt. When she received the funds, she apportioned a section of it towards household shopping to take her for 1.5 – 2 months, paid off a portion of her debt with the local shopkeeper and used US \$50 to start a small business. Sarah bought a stock of 15 pairs of secondhand shoes, refurbished a low-cost stall and started selling shoes. She sold off her first stock of shoes, generating net earnings of USD \$20. She was also able to buy her second stock once she had sold half of the first stock. When the economy recovers, Sarah plans to continue running this business and expand it while still maintaining her engagement with Lynk as a beautician. Sarah is saving up US \$5-\$10 per month towards meeting the cost of school fees when schools reopen.

To cope with the financial crisis, Edwin— a father of two — took out a KES 4,000 (USD 38) loan at a relatively high interest rate to sustain his family. Despite the cost of the loan, Edwin shared that he had to take it as he had no choice since he and his wife were out of work and had no alternative source of income. The financial strain and worry on how to repay his debts and put food on his table is affecting Edwin's mental state. Edwin reports feeling depressed and hopeless as the crisis does not seem to have

a foreseeable end. Edwin received \$100 cash assistance in April from Mercy Corps. Edwin reports that the cash assistance came just in time as he and his family of 4 were about to be evicted from their home due to rent arrears. Edwin utilized the money he received to settle the outstanding rent.

## WHERE DO WE GO FROM HERE?

Globally, we are still processing the full extent of the pandemic’s impact, and we expect the consequences to be far-reaching. Micro-entrepreneurs were already operating with limited social safety nets and supporting infrastructure; we can expect they will bear the brunt of COVID-19’s more deleterious effects. In a context with fast-changing or incomplete data, Youth Impact Labs chose to act with the available information to provide some measure of support to the gig workers our partners work with. There are many more gig workers and entrepreneurs, rural and urban, in great need of targeted support. Share with us what you’re learning in your COVID-19 response.

“While providing cash transfers is an essential short-term solution to the economic damage caused by new restrictions on movements, the changes that are made now could also have positive long term implications. Expanded or newly created social cash transfer programmes will be able to form the basis of an expanded social safety net post-crisis. This could take the form of providing wider basic income support (i.e. relatively small amounts on an ongoing basis), or providing larger one-off capital support to spur rapid economic change. These could be conducted by governments, or by other partners through the infrastructure that has been built. In addition, this newly created infrastructure will allow governments to respond to future crises more rapidly and effectively, by providing cash support to vulnerable populations immediately at the onset of the crisis.

More digitized cash transfer systems, in which beneficiaries don’t simply cash out immediately, can also provide recipients with the benefits of being financially included. For example, cashflows and transactions can form the basis of credit scoring for loans, and digital micro-insurance can be targeted to those who would benefit the most. The former is likely to be particularly important as restrictions ease: from the lessons of previous health crises, credit will likely be essential for rebuilding businesses that are viable but need a capital injection.

## STUDY OVERVIEW

	Lynk	Sky.Garden
<b>Partner brief</b>	Using technology to reimagine employment opportunities in the informal sector, Lynk is currently connecting casual labor professionals to households and businesses in over 70 categories, ranging from plumbers to furniture makers and nannies.	A SaaS mobile commerce platform for African retailers that enables retailers to sell online by providing WebShops, marketing platform, and delivery infrastructure.

	<p>Youth Impact Labs supported Lynk in developing two platforms: Byld, which targets construction based projects, and Shop, an online digital marketing platform for Pros to showcase their products.</p> <p>Engagement also involved supporting Lynk to build its commercial team and engagement of a research consultant to restructure a number of Lynk's offerings along fixed prices, i.e. 'commoditization' with the aim to increase earnings across the service providers (Pros on the platform).</p>	<p>Youth Impact Labs supported Sky Garden in developing their new rider app which will enable integration with riders partners through a delivery auction portal and enable real time payment settlement to riders/courier.</p> <p>Support was also provided to perform digital sponsored marketing campaigns to target merchants on the platform who have not being able to earn revenue for more than 90 days since their last order as well as merchants whose revenues were affected as a result of the COVID-19 pandemic</p>
<b>Geography</b>	Kenya (100% Nairobi-based)	Kenya (97% Nairobi-based)
<b>Survey dates</b>	May 5-8, 2020	June 17-29, 2020
<b>Mode</b>	Phone surveys	Phone surveys
<b>Sample size (number of responses)</b>	123	323
<b>Sample disaggregation</b>	40% female 63% youth (18-35 years)	44% female 60% youth (18-35 years)
<b>Sampling method</b>	Purposive sampling of eligible recipients of cash transfer	Stratified random sampling of merchants active on platform since August 2019
<b>Response rate</b>	88%	46%

Whilst it is essential to provide support to people that need it as quickly as possible, governments and other stakeholders should bear in mind the long-term benefits that new infrastructure could bring as they do so. Ensuring that the infrastructure is set up to last, that people have the information on how to use it effectively, and that the cash transfers fit into a wider environment of monetary and capacity support for effective financial decision making - can make sure that these benefits are realised."

## ABOUT MERCY CORPS YOUTH IMPACT LABS

Catalyzed by funding from Google.org, Mercy Corps' Youth Impact Labs (YIL) identifies and tests creative, technology-enabled solutions to tackle global youth unemployment, accelerating job creation, so every young person has the opportunity for dignified, purposeful work. In Kenya, YIL focuses on digital marketplaces and platforms that offer services to micro and small businesses, agricultural supply chain management, and digital work.

The program supports these enterprises through financial and technical services, issued in the form of milestone-based grants. On-boarded business partners also get access to advisory services to support the development of technology solutions and tailored business support to expand.

[Read more about Youth Impact Labs](#) and follow them on:

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