

Can the digital economy help mitigate the economic losses from COVID-19 in Kenya?

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Key messages

- The digital economy is playing a key role in Kenya's response to the pandemic, with opportunities rising in the sectors of (i) digital and digitally deliverable services; (ii) e-commerce; and (iii) online work.
- As businesses shift online and people work from home, there is a rise in demand for digital services, particularly cloud computing services; however, less than 25% of MSMEs use cloud computing, compared with over 40% of large Kenyan firms. Digitally deliverable services can offer new employment opportunities but less than 50% of firms in the services sector in Kenya- barring IT and transport- have a website.
- E-commerce is taking off, with increasing demand for Fast-Moving Consumer Goods, entertainment electronics and productivity tools.

Introduction

As of 20th April 2020, there are [281 COVID-19 cases](#) in Kenya, and there have been 14 deaths. A number of measures are in place to reduce the spread of the virus, including suspension of air travel (except cargo flights), closing of borders, curfew and asking businesses to work from home. ODI's report on [Economic Vulnerabilities to Health Pandemics](#) puts Kenya in the top seven low- and middle-income countries most vulnerable to direct adverse economic losses owing to COVID-19 outbreak; its main exports – horticulture and tourism – are very elastic in demand. Shutdowns in China, the US and Europe, notably in the apparel, machinery and footwear subsectors, are hitting manufacturing global value chains, with traditional sectors in Kenya such as the [cut flower industry also take a beating](#). The services sector, which is the biggest contributor to economic growth in Kenya, is directly affected in terms of reduced income and employment. Overall, [services contributed roughly 3 percentage points](#) to an estimated 5.6% GDP growth in 2019.

Impact on trade in services

Some services subsectors in Kenya are being hit hard by the COVID-19 outbreak – particularly transport and travel, which made up [37% and 19.7% of services exports](#) in 2018. The tourism industry – [which grew at 5.6% in 2018 and created 1.1 million jobs](#) – is facing hard times as a result of lockdowns, with the aviation

industry the worst hit. Other subsectors, such as wholesale and retail, are also taking a hit. The spread of the virus has disrupted global supply chains; [KEPSA's survey](#) of Kenyan companies suggests that roughly 21% of Kenya's total imports are from China; by end February 2020, these had declined by 36.6%. The ICT sector, however, will play a critical role in Kenya's response to the pandemic. The value of the ICT sector [expanded from KSh 345.6 billion in 2017 to KSh 390.2 billion in 2018](#), representing 12.9% growth.

With social distancing policies and remote working in place, the digital economy presents a viable route for mitigating economic losses in the medium term and increasing the efficacy of policy solutions. New economic opportunities include (i) digital services (e.g. cloud computing, data storage, Internet of Things, Artificial Intelligence) and digitally deliverable services (e.g. legal, financial, business); (ii) e-commerce by manufacturing and services companies; and (iii) online work.

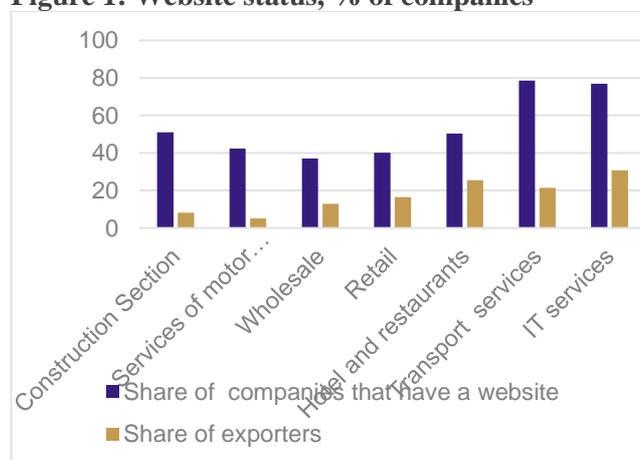
Digital and Digitally Deliverable Services

Lockdowns are generating larger demand for communications, computer and information services; Safaricom, for instance, has seen a [70% surge in data usage](#) as Kenyans stay at home to curb the spread of the new coronavirus. As businesses shift online, the demand for cloud computing – online on-demand

delivery of IT resources with pay-as-you-go pricing – is also on the rise. The cloud service market in Kenya in 2017 to \$275 million. In February 2020, [Safaricom announced a partnership with Amazon Web Services \(AWS\)](#) to sell AWS services, primarily cloud, to East Africans. It is also offering [doubled internet speed](#) for home fibre packages at no extra cost to users, while [Telkom Kenya is rolling out Google Loon](#) to boost 4G coverage. However, [MSMEs are lagging in the use of cloud computing](#); less than 25% of them use it, against over 40% of large firms.

The ICT sector is also critical as an enabler of other services subsectors. Digitally deliverable services include insurance, financial, intellectual property charges, telecommunication, computer and information, other business and audio-visual and related services. The share of digitally deliverable export services in GDP in Kenya was [1.58% in 2016](#) while its share in total services exports was 24.22%. Kenya is particularly a hub for global digital BPO, through government promotion schemes like Ajira. At present, [7,000 Kenyans work in BPO jobs, with an estimated 286,000 employed by digital services platforms in transport, logistics and e-commerce](#). However, Figure 1 shows that, while 80% of IT companies surveyed have a website, this falls to less than 50% in most other services subsectors. Across subsectors, the share of exporters is less than 30%.

Figure 1: Website status, % of companies



Source: WBES, services module, Kenya 2018.

E-commerce

E-commerce platforms in Kenya, such as Jumia Kenya, Sky.Garden, Kilimall, Pigiame and Copia, with e-payments or mobile payments and last mile delivery capabilities, are uniquely positioned to be part of Africa's response strategy to this pandemic. Local platform GoBeba reported that its [gross merchandise value tripled](#) in the three weeks following the first reported COVID-19 case in Kenya on 13 March, driven by sales of household essentials. Sky.Garden has seen an [increase in demand](#) for Fast-Moving Consumer Goods, productivity tools (computing products and accessories), entertainment electronics

(TVs, home theatre, decoders), educational material and toys. Java House has also partnered with Uber Eats, Jumia Food and Glovo to encourage Kenyans to make use of [online shopping and food deliveries](#). In mid-March, the Kenya Association of Manufacturers launched a [digital directory for locally manufactured goods](#) to help customers shop online.

Large Kenyan firms are better placed to leverage these platforms during the pandemic to reach consumers. [Membership fees](#) on these platforms are a prominent challenge for MSMEs, in addition to hefty commission fees charged. Second, e-commerce uptake is closely related to consumer online trust; while [70% of large Kenyan firms have an ICT security policy](#), less than 40% of MSMEs have such a policy in place, which risks their further marginalisation in tapping into the new opportunities of the digital economy. To encourage the use of digital payments by MSMEs, Safaricom is allowing them to [increase their daily M-Pesa transaction limit](#) from approximately \$700 to \$1500.

Online work

A segment of workers has always worked remotely – i.e. software developers, graphic designers, data labellers and others who earn some or all of their income from freelance projects and tasks obtained via online labour platforms. Roughly, [53,700 Kenyans were estimated to be online workers](#) in 2018; and a minimum of 25,000 Nairobians earn on average \$300 per month conducting some form of online labour. On the one hand, the pandemic could lead to declining revenues for companies, reducing demand for external contractors and outsourcing of online work. But on the other hand, as companies globally switch from on-site contracting to remote freelancing, [demand for online work](#) in Kenya could increase. As per the [Online Labour Index](#), the top occupations in Kenya are writing and translations, software development and clerical and data entry.

FINAL REMARKS

As businesses shift online, there will be an increase in demand for digital and digitally enabled services, e-commerce and remote and online working. Digital solutions can also increase the efficacy of government policies through Telehealth, EdTech, digital tracking, etc. The COVID-19 crisis is therefore likely to be a step-change for digital transformation in African countries. But this will require targeted efforts in development of digital infrastructure and comprehensive regulatory frameworks for data protection and cyber-security, in addition to improving postal competency and viable delivery networks.

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Information in this note is correct as of 20th April 2020. The author is a Research Fellow in the International Economic Development Group. This note is written in a personal capacity. Comments welcome to k.banga@odi.org.uk.