



African Development Bank Group

# Digitisation, Small Businesses at the Base of the Pyramid and post- COVID-19 World: Lessons from Kenya

Colloquium Talk Event

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South Africa



# Presentation Outline

**Section 1:** The Digital Economy in Kenya – a snap-shot

Section 2: South Africa's Economic Outlook 2020/21

**Section 3:** Digital Economy, COVID-19 and Prospects

**Section 4:** Key Policy Recommendations

## Section 1:

# Digital Economy in Kenya - Snapshot



# Kenya's GDP Growth and Digital Economy

- Kenya is a key player, vital communications and logistics hub.
- Kenya's ICT sector was worth an estimated \$5.48 billion in 2017, constituting 31.7% growth from 2016.
- Kenya's digital services market - projected to grow from \$2.34 billion in 2017 to \$5.15 billion in 2022. The telecommunications makes up the vast majority of the digital market - around \$3.2 billion. Other important contributors are broadcasting, data centre services, cloud, IT and BPO.



# Digital Economy in Kenya

- Kenya's combination of relatively stable governance, strategic location, young and innovative population has made it an attractive destination for multinational companies.
- Several notable tech firms such as:
  - Oracle, IBM, Microsoft, Cisco, HP and SAP have offices in Nairobi, and including entire African operations
- Kenya has identified technological innovation as one of the key pillars in its 2030 plan.



# Digital Economy in Kenya

- Nairobi is sometimes referred to as the ‘Silicon Savannah’ with large technological incubators and start-ups. Backed by ease of doing business
- The Communications Authority of Kenya estimates internet penetration at 90% and about 90% ownership and usage of mobile phones
- Furthermore, ICT infrastructure is well developed, especially in urban areas.
- Kenya enjoys the best connection speeds on the African continent (~12mbps) due to a number of undersea cables that end up in the country



# Digital Economy in Kenya

- Mobile technology has been central to the development of some of the most innovative solutions in Africa in a range of sectors, including finance, agriculture, healthcare and education.
- Start-ups have leveraged the growing access to mobile networks and internet services to enable innovation in these sectors.
- Some of the main opportunities for growth identified in this research include cloud services, fintech services, business process outsourcing (BPO) and eCommerce.



# Digital Economy in Kenya

- Cloud Services - becoming steadily more viable in Kenya as connectivity becomes cheaper and more reliable.
  - several large, international players such as Salesforce and IBM have entered the market.
- Fintech Services – there is a rich history in Kenya following the adoption of M-Pesa.
  - An estimated 75% of Kenyan adults have access to a financial services account of some type, considerably higher than the sub-Saharan Africa average of 26%. This represents a 50% increase since 2006
  - The majority of start-ups located in Nairobi's many technology incubators are fintech firms.
  - Credit, mobile payment and banking services represent the core of the market, but there are also innovations in the agricultural and peer-to-peer lending domains.



# Digital Economy in Kenya

- BPO Services -The Kenyan government has recently reiterated its interest in the country's BPO sector, and it is expected to generate 10,000 jobs by 2022.
  - Niche services such as analytics and knowledge process outsourcing are expected to lead growth.
  - The Kenyan government is targeting the creation of 10,000 jobs in the BPO sector by 2022.
- eCommerce – this is expected to grow healthily off the back of mobile services. This is due to low levels of fixed internet access and computer usage.
  - Much of Kenya's start-up activity is around mobile payment systems.
  - SMES can leverage these development to their advantage



# Digital Economy in Kenya

- 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.



# Digital Economy in Kenya

- 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.

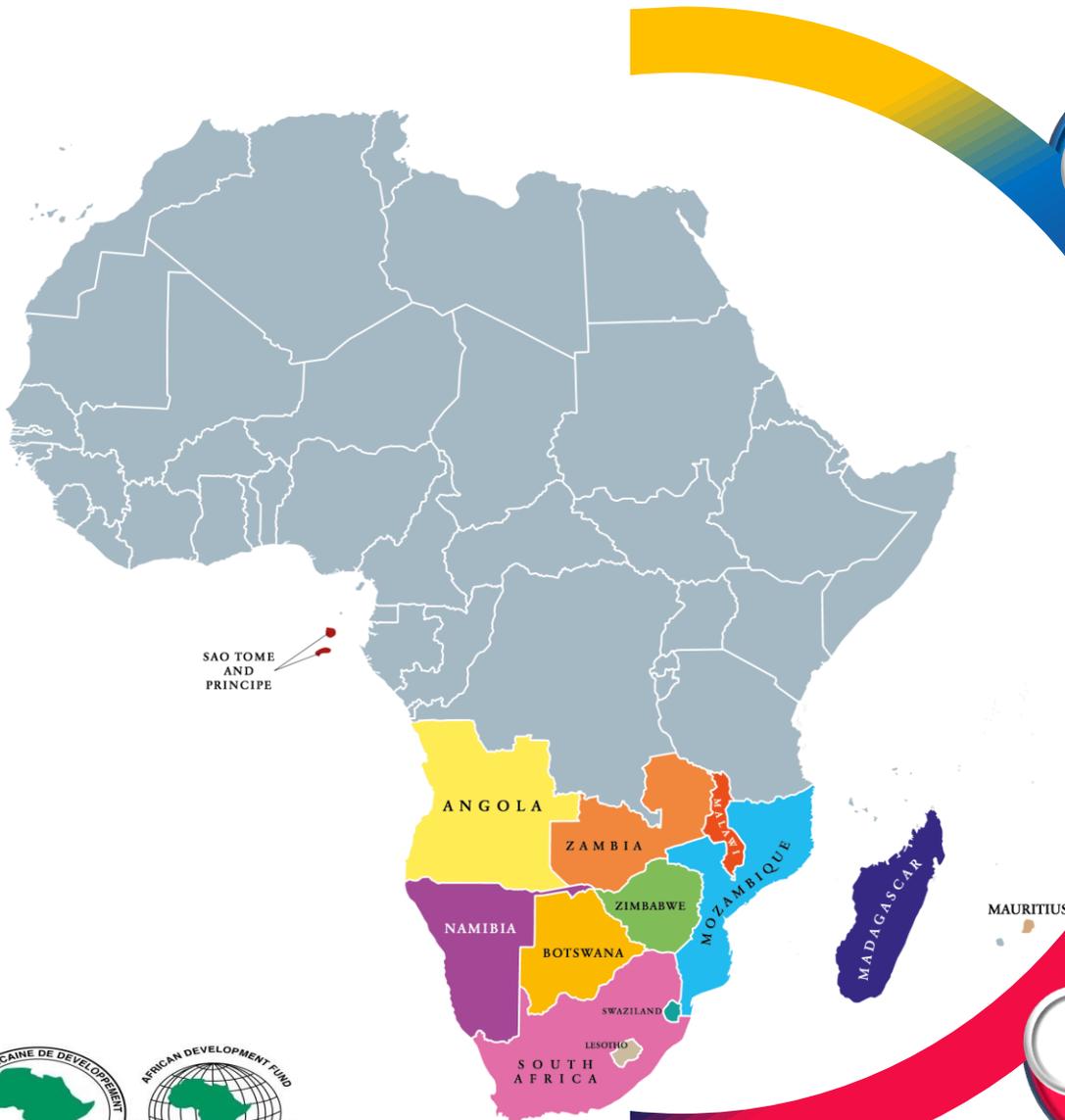


## Section 2:

# South Africa Economic Performance and Outlook 2020/2021 – Bringing in COVID-19



# Southern Africa: Mixed Macroeconomic Environment



SAO TOME  
AND  
PRINCIPE

1

The Southern Africa region contributes 25.6% to the continent's GDP, second after West Africa's 26.3%.

2

Growth has been sluggish in recent years, falling from 4% in 2010 to 1.8% in 2018 and only estimated to grow initially by 2.2%, then by between 0.3 to 0.7% in 2019

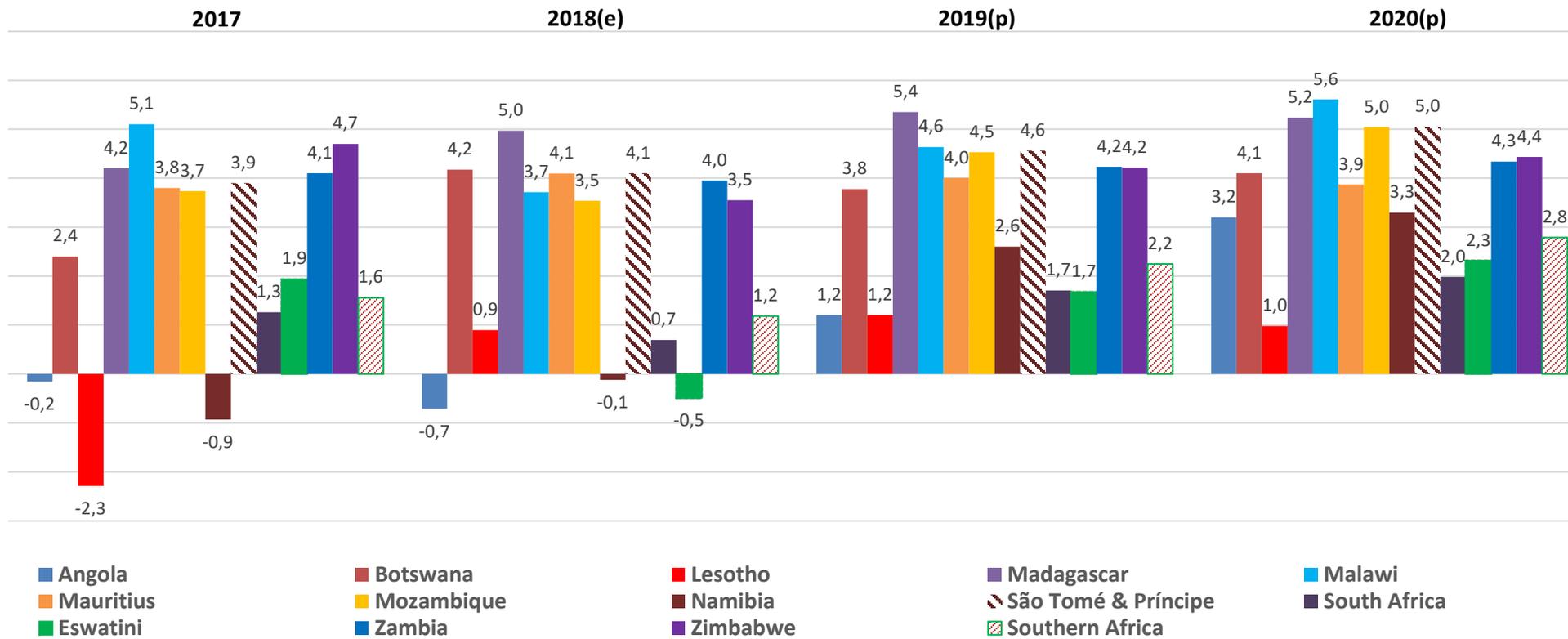
3

South Africa's GDP per capita, the second highest in Africa, has been declining since 2014 but was expected to pick up in 2019

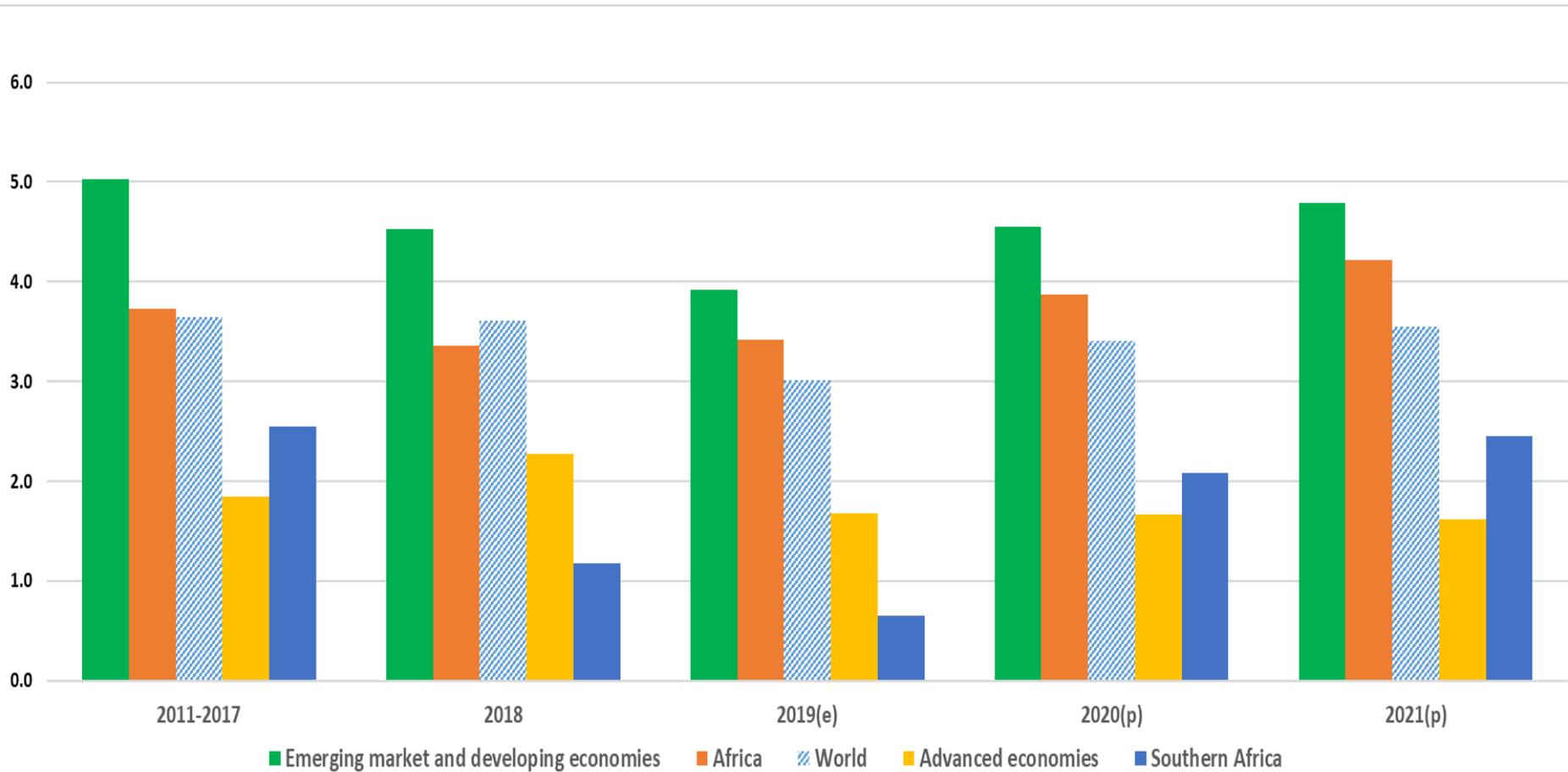


# Slow Regional Growth and South Africa

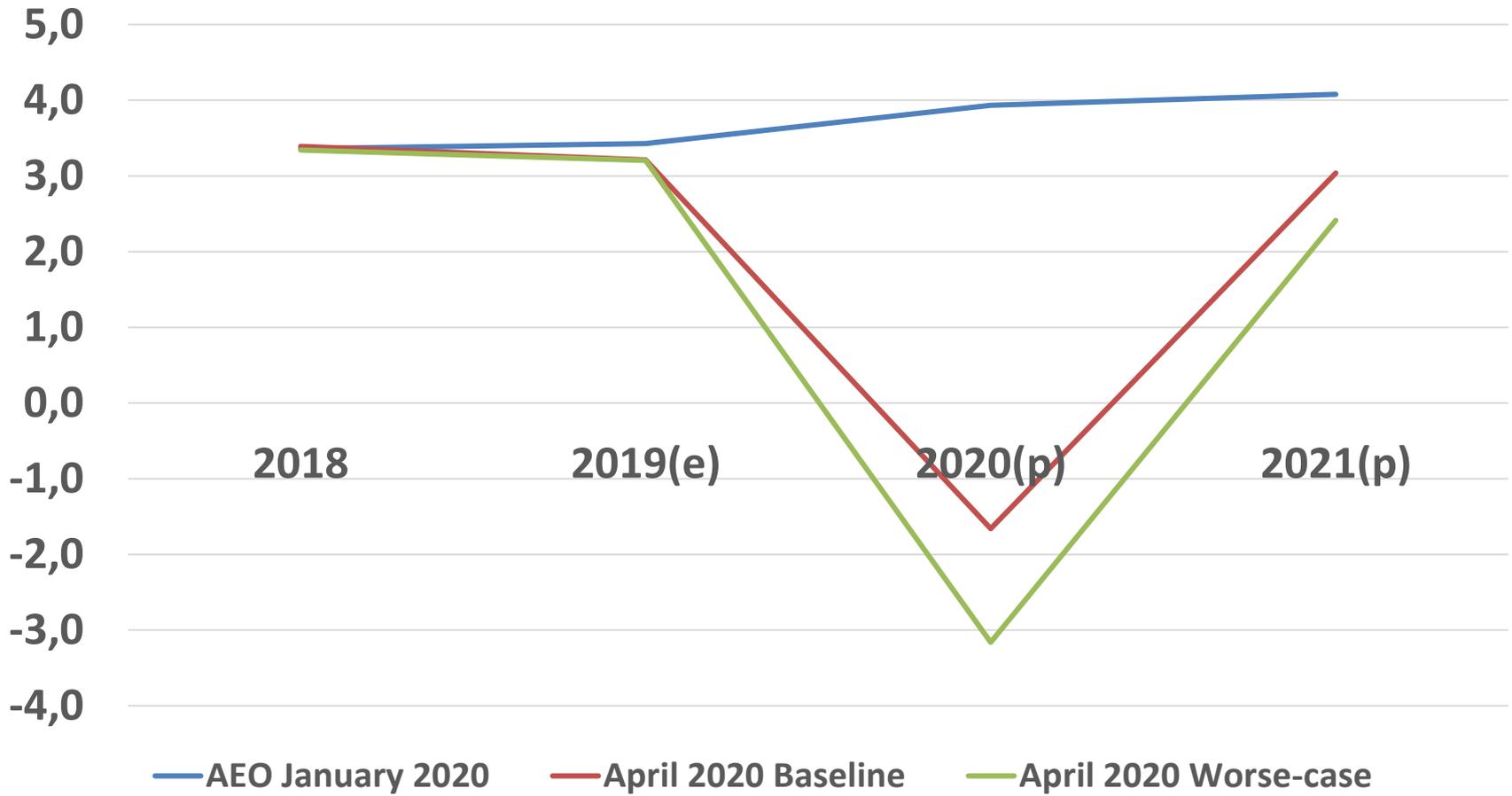
Economic Growth of Southern Africa Countries, 2017-2020 (%)



# Real GDP growth rate in world regions (without COVID)



# Real GDP growth rate in Africa (with COVID)



# SA Growth Outlook with COVID-19

Real GDP growth rate - worse-case scenario COVID-19	April 2020 estimates				
	2017	2018	2019(e)	2020(p)	2021(p)
<b>Southern Africa</b>	<b>1.3</b>	<b>1.2</b>	<b>0.3</b>	<b>-6.6</b>	<b>2.2</b>
Angola	-2.5	-1.2	-0.9	-5.3	1.2
Botswana	2.9	4.5	3.0	-7.3	5.5
Lesotho	-0.9	1.2	1.0	-7.3	4.7
Madagascar	4.3	4.6	4.8	-3.0	5.6
Malawi	5.2	4.0	4.5	0.6	3.3
Mauritius	3.8	3.8	3.0	-11.5	5.5
Mozambique	3.7	3.4	2.2	-2.0	5.0
Namibia	-0.9	-0.5	-1.4	2.6	3.3
São Tomé & Príncipe	3.9	3.0	1.3	-8.2	-2.1
<b>South Africa</b>	<b>1.4</b>	<b>0.8</b>	<b>0.2</b>	<b>-7.5</b>	<b>1.3</b>
eSwatini	2.0	2.4	1.3	-6.3	2.0
Zambia	3.7	4.0	1.5	-6.5	4.8
Zimbabwe	4.7	3.5	-8.4	-8.5	3.5

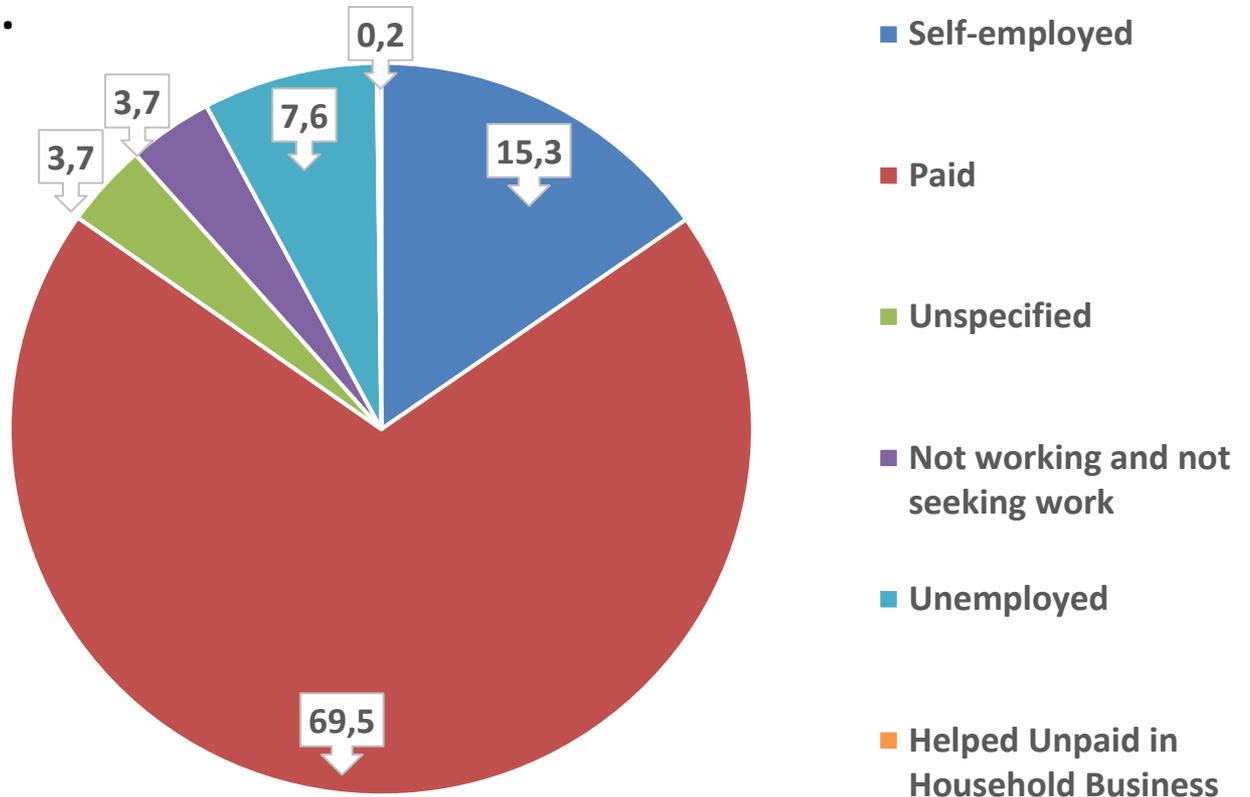
# SA Growth Outlook with COVID-19

- STATSA recently conducted a survey to gauge effects of COVID-19 on employment, income and hunger
- Collection period 29 April to 6 May 2020
- Selection criteria - Non-probability convenience sample
- Number of respondents: 2 688.
- Only residents of SA and persons 18 years and older participated
- The largest proportion of participants were black African (57,6%), followed by white (35,2%), coloured (8,6%), and Indian/Asian (4,4%)



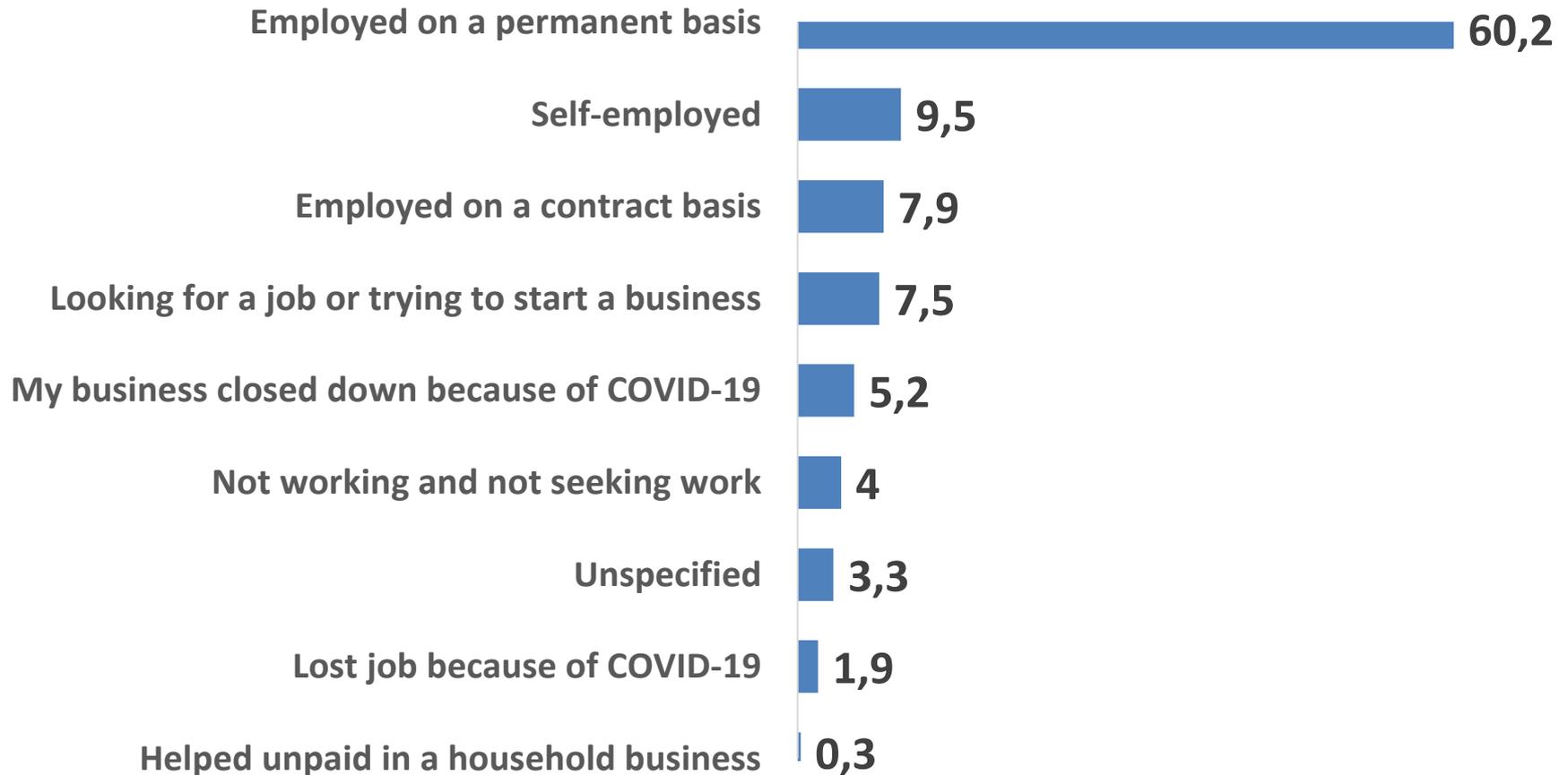
# SA Growth Outlook with COVID-19

The majority of respondents (almost 70%) indicated that they were in paid employment before the national lockdown, followed by those in self-employment at 15,3%.



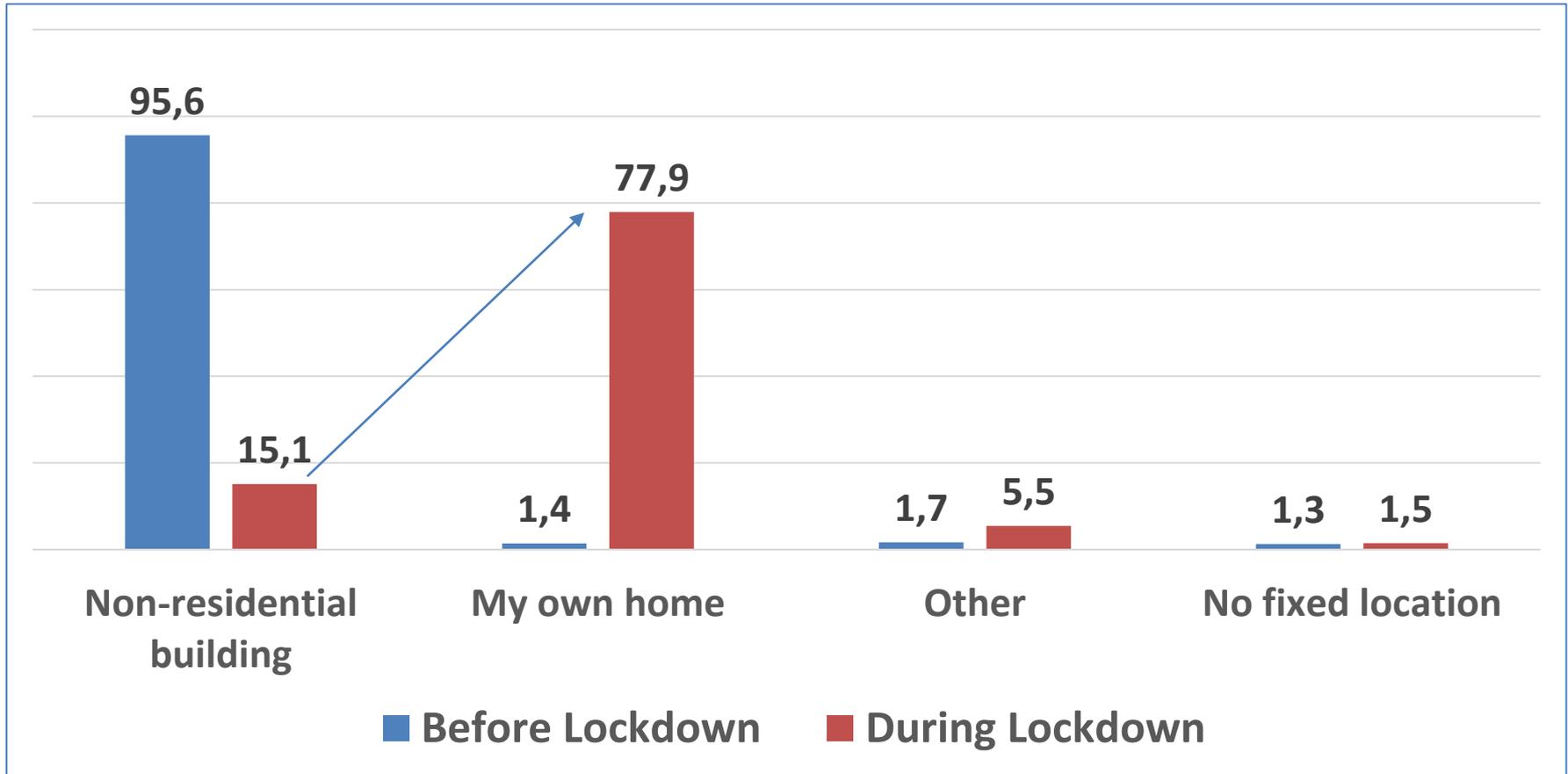
# SA Growth Outlook with COVID-19

60.2% of respondents were employed on a permanent basis during the national lockdown, 5.2% said their business closed down, while less than 2% lost their job due to COVID-19



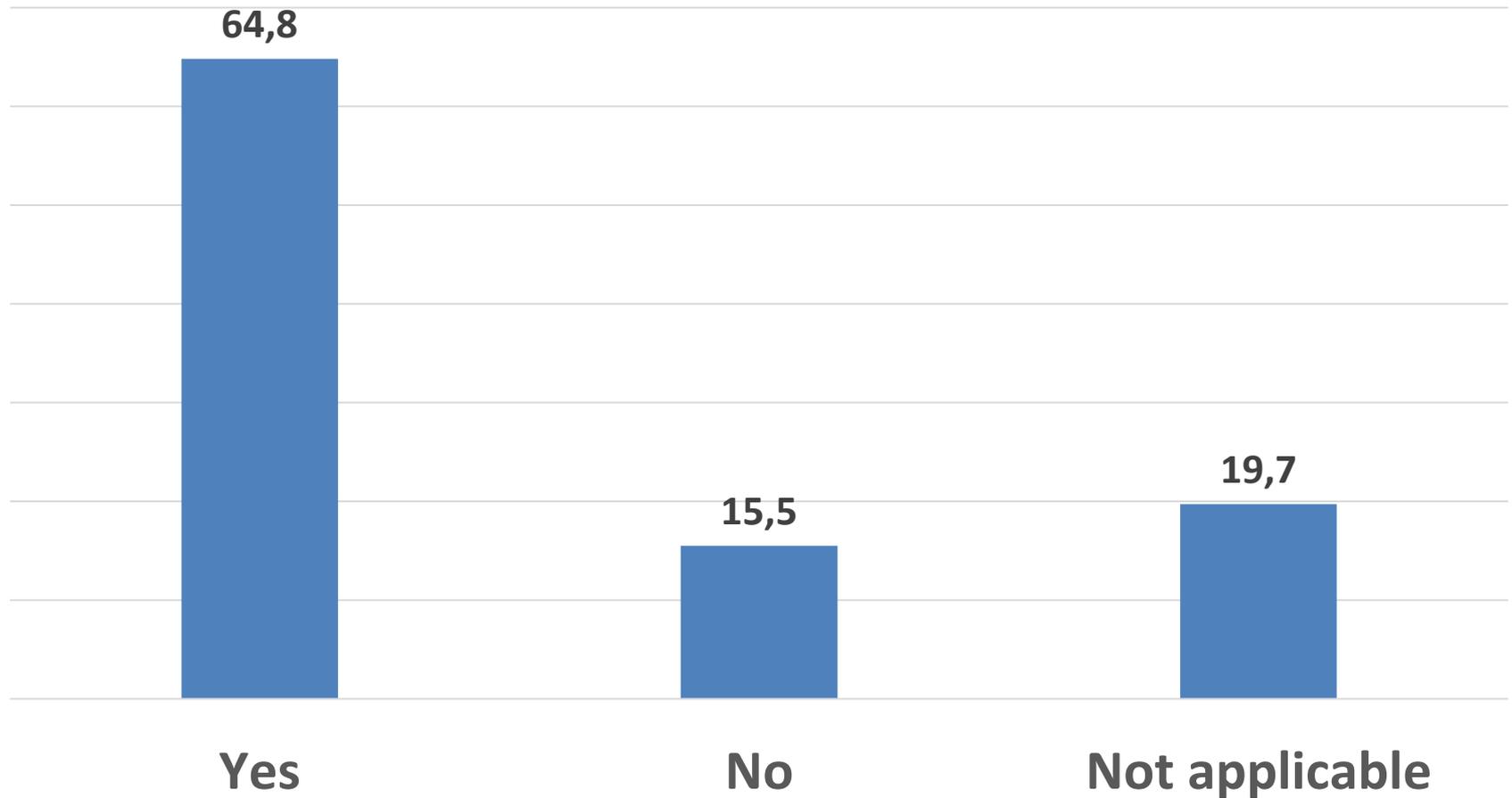
# SA Growth Outlook with COVID-19

**Before the national lockdown, the majority of respondents indicated that they had worked from non-residential buildings, while only 1,4% of those in employment worked from home**



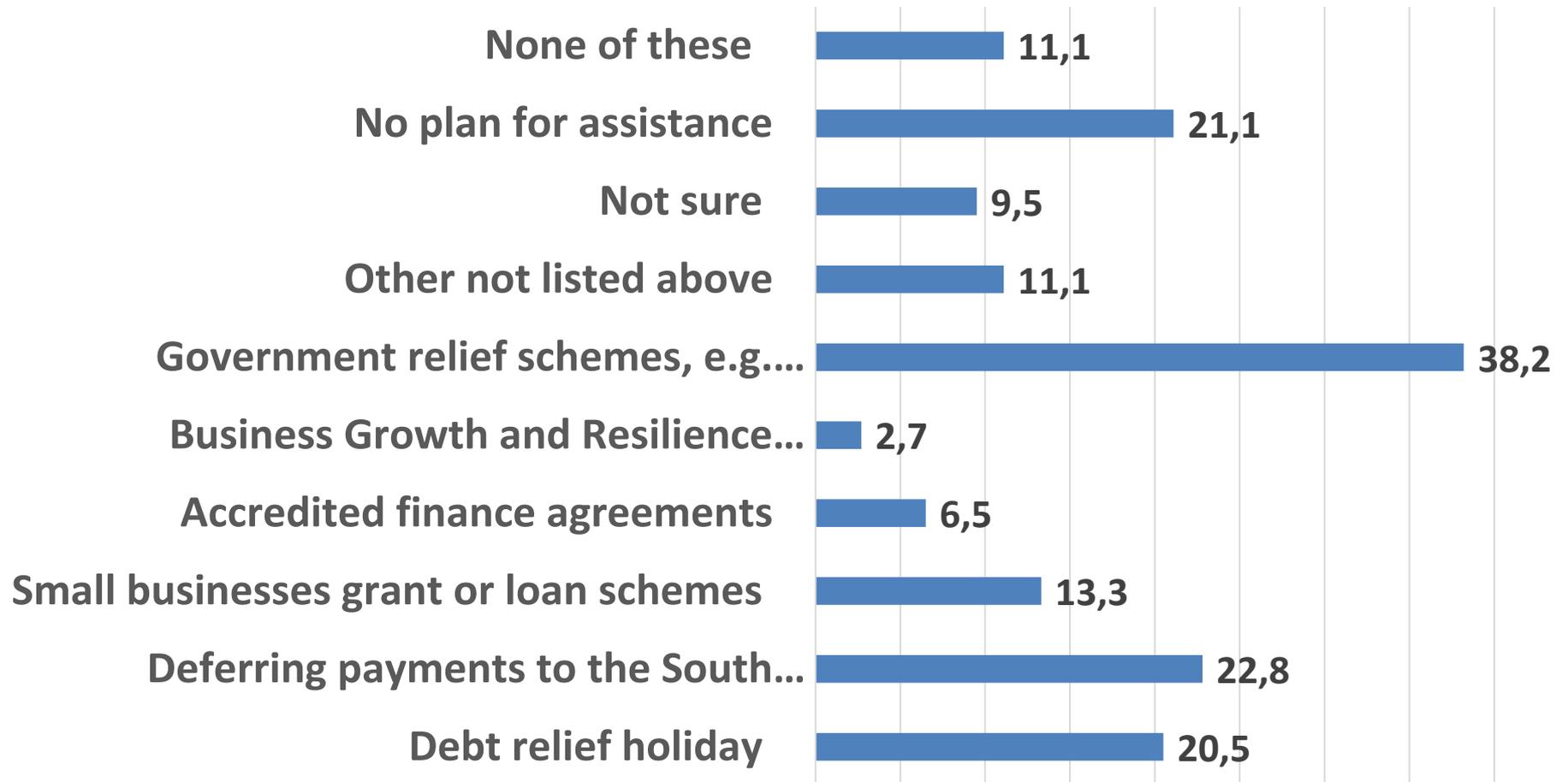
# SA Growth Outlook with COVID-19

- Robustness of IT systems during COVID-19 (%)



# SA Growth Outlook with COVID-19

- Likely use of financial initiatives during COVID-19 (%)



# Section 3: Digital Economy, COVID-19 and Prospects



# Digital Economy and COVID-19

- Africa needs integrated responses to COVID-19 that build on countries' existing strengths and resources.
- South Africa, like Kenya, can respond based on three factors: young people, technology, and community healthcare volunteers.
- In both countries COVID-19 cases are on the rise
- We must exploit existing strengths in the both societies and health systems - including community-based healthcare, young people and a vibrant information technology sector - to enhance COVID-19 case detection, isolation, referral and management



# Digital Economy and COVID-19

- In Kenya:
  - Safaricom, Kenya's biggest telecoms operator, waived transaction costs on mobile money transfers under 1,000 shillings (\$10) for customers on its mobile money platform, M-Pesa.
  - Also, Airtel Kenya waived transaction charges on transfer from mobile wallet to bank accounts on Tuesday, 17th of March. Airtel also increased the limits subscribers can hold in their wallet from \$300 to \$ 1,400.
  - The beneficiaries of these moves are largely SMEs and informal traders
- These new measures are in line with the government's cashless payment agenda which seeks to curb the spread of the coronavirus in the country.



## Digital Economy and COVID-19

- M-Pesa is widely used by over 20 million subscribers in Kenya's 47 million population. The wide embrace of fintech is also reflected across the continent.
- Digital financial services have become the leading driver of financial inclusion for the unbanked in the region. As of 2018, Nigeria had approximately [172 million phone subscribers](#) from a population of 203 million, which gives 90 percent of its citizen's access to digital transactions on their phones.
- Public health experts are raising the need to shift towards cashless payments to help prevent the spread of coronavirus
- Such changes will help informal traders and SMEs who rarely have bank accounts



# Section 4: Key Policy Recommendations



## Key Policy Recommendations

- ***Data is readily available, but may not easily usable***
  - ✓ The sheer amount of data generated and captured by various economic actors are impressive.
  - ✓ The only challenge may be that analytics become daunting and slow.
  - ✓ Similarly, data generated by the informal sector in both Kenya and South Africa is largely collected and stored in physical records, pocket diaries, or even committed to memory.
  - ✓ A digital economy would see all this data captured passively through trading platforms, and analysis could be done in real time thereby offering invaluable information that could be used to provide appropriate inputs and services to enhance productivity.

## Key Policy Recommendations

- ***Smart-phone and internet penetration needs to increase***
  - ✓ For data to be collected seamlessly in a digital economy, smart devices are required to act as interfaces between real economy sectors and digital markets.
  - ✓ According to the 2019 FinAccess survey, smartphone penetration stands at 30% in Kenya. For Kenya to truly transition to a digital economy, smartphone penetration needs to increase. Only a small number of the farmers had smartphones or high-speed internet
  - ✓ For the population to effectively engage in a digital economy, the cost of interfaces such as smart phones need to be reasonable to allow wide-spread adoption.

## Key Policy Recommendations

- ***Up-skilling is required to enable people to effectively participate in a digital economy***
- ✓ Varying levels of literacy and ability to leverage technology mean that significant investment needs to be made towards ensuring that people can fully harness the opportunities offered by a digital economy.
- ✓ There is need for training for the population to capture data in a structured manner, replicating what they would have done if they were using an app.
- ✓ Digital extension services were identified as a potential game changer if successful production techniques were to be scaled up across the county.

## Key Policy Recommendations

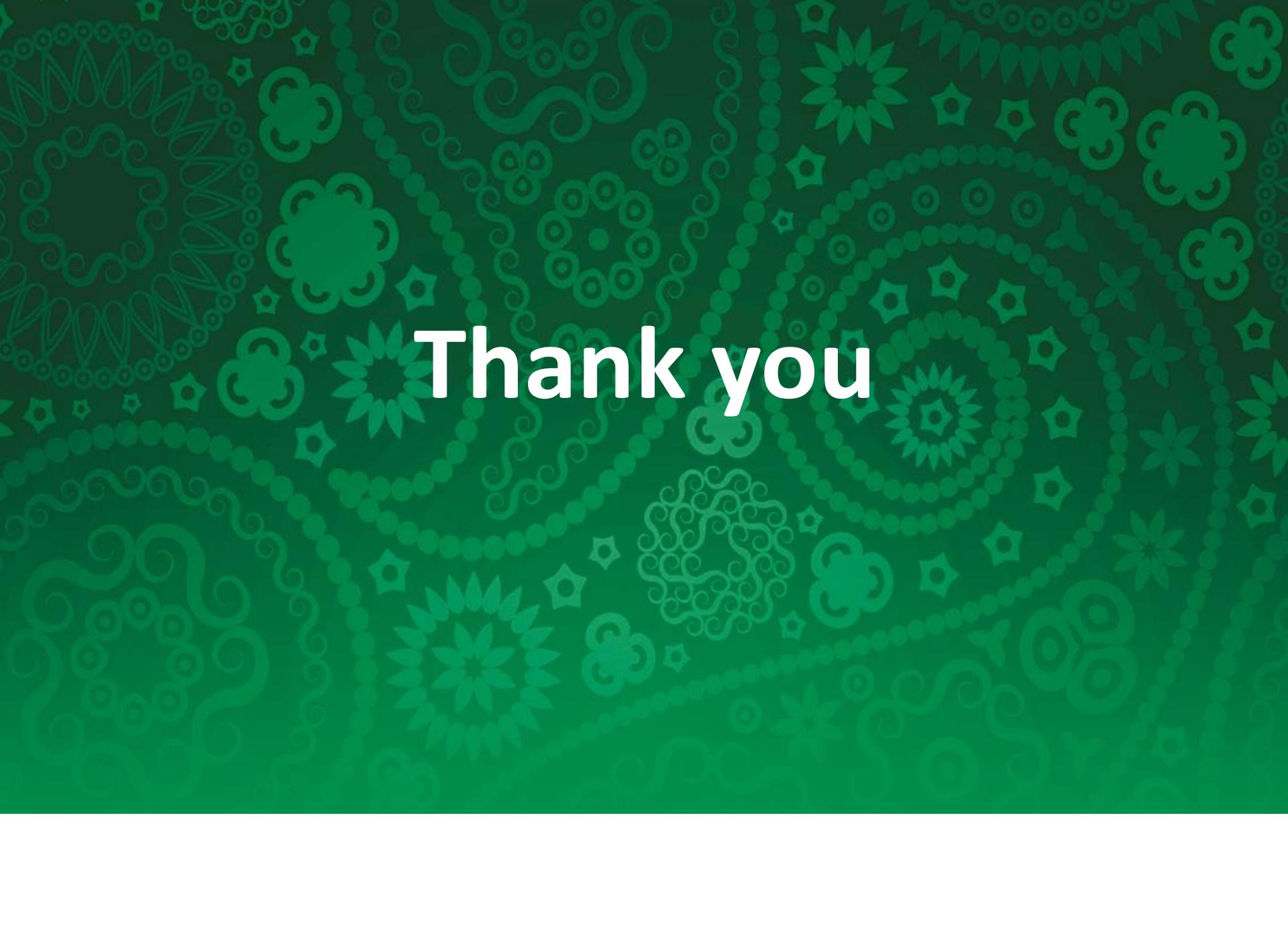
- ***Need to solve underlying real-economy constraints:***
  - ✓ A key constraint for scaling up production and distribution techniques include burdensome regulation, lack of financing.
  - ✓ A shift to a digital economy offers the opportunity to address some constraints plaguing the informal economy especially those regarding access to markets or both inputs and produce.
  - ✓ However, there is only so much that digitisation can do if other real economy constraints – such as the lack of key pieces of infrastructure (roads, internet connectivity, electricity etc.) – are not addressed.



## Key Policy Recommendations

- ***There is a role for government support***
- ✓ Ensuring 4/5G connectivity across the country is a great start, but deliberate and concerted effort is needed from government and industry in order to transition to a digital economy.
- ✓ Informality – especially in townships and rural areas - is a stumbling block to digitisation and the government needs to create adequate incentives for enterprises to formalise.
- ✓ There is need to pay attention to possibility of an emerging digital divide and entrenchment of inequality both in Kenya and South Africa



The background is a solid green color with a repeating pattern of various floral and geometric motifs. The motifs include stylized flowers, leaves, and circular patterns, all rendered in a slightly lighter shade of green than the background. The pattern is dense and covers the entire area.

**Thank you**