



Blended webinar

Community of Practice on Digital Skills and Jobs in Kenya

► Third Thematic Discussion on *E-Commerce, Digital Financial Services & Digital Platforms*



EXECUTIVE REPORT

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Thematic Area: Unlocking the potential of e-commerce, digital financial services and platforms in Kenya

Sub-thematic areas: E-commerce; digital financial services; digital platforms.

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Objective

The 3rd Thematic Session of the Community of Practice (CoP) on Digital Skills and Jobs in Kenya discussed the policy, regulatory, and investment opportunities and challenges to unlocking the potential of e-commerce in Kenya. Discussions centered on how e-commerce is facilitated by, and must work in parallel with, digital financial services and digital labour platforms, ensuring they remain accessible to all.

Key points discussed

- **Kenya's e-commerce and digital financial services are increasing in size and scale**, but regulatory and infrastructural gaps remain.
- **Consensus emerged about the importance of adopting a holistic approach to e-commerce policymaking**, cutting across policy areas like consumer protection and security of digital transactions, data privacy and tax policies.
- **Collaboration to foster trust and consistency is a key factor for unlocking the full potential of e-commerce**. Improved access and affordability of digital financial services are also part of the equation, and must be supported by inter-operability of digital business models and online platform work, in a way that provides opportunity for all.

E-commerce

- **E-commerce touches many sectors and relies on traditional and digital labour markets, with direct implications on consumer protection, data privacy, taxation of digital activity, and security of digital transactions**. A holistic approach to policymaking on e-commerce is necessary, given that e-commerce activities already cut across different economic sectors and segments of the population, each one with nuanced challenges and opportunities.
- **An enabling policy, regulatory and investment environment for e-commerce depends on high degrees of cross-sectoral collaboration in policymaking**. Participatory approaches to policy and regulatory changes and investment plans for e-commerce must make space for industry associations to ensure that the voices of workers, employers, entrepreneurs, and consumers are taken into account and that the policy-regulatory-investment space responds to the needs, challenges, and opportunities of all actors.

- ▶ **Multi-stakeholder partnerships are critical to unlocking the full potential of e-commerce in Kenya.** Working together with policymaker, regulators, investors, entrepreneurs, and sector experts can enable a sharing of key market and sector data and trends upon which policies, regulations, investment plans, and innovations can directly respond to.
- ▶ **Flexibility in current and forthcoming regulatory frameworks around the digital economy is important.** National policy and regulatory frameworks must respond to existing challenges currently holding back e-commerce activities and innovation in the digital space, such as lacking or unclear frameworks around consumer protection, redress mechanisms, and compliance in digital transactions.
- ▶ **The scaling up of e-commerce needs better use of market data to inform policy and investment decisions.** This data can better identify challenges around inadequate ICT logistics and infrastructure networks available to nascent or potential start-up companies, insufficient consumer protection frameworks and redress mechanisms, and low levels of public trust in the digital economy at large.
- ▶ **The viability of e-commerce is held back by foundational barriers related to the availability and accessibility of ICT and banking services.** Half of the Kenyan population does not have access to smartphones, about 40 per cent is unbanked, and the existing bank account holder population is not growing (instead, existing customers hold multiple bank accounts).
- ▶ **Connected devices – smartphones, tablets and computers – remain unaffordable for many.** This represents a key impediment in a wider adoption of e-commerce solutions by companies and clients alike. Connected devices, while widely available in Kenya, still represent a significant up-front, fixed cost as part of scaling up a business venture from offline retail to an online marketplace.

Digital financial services

- ▶ **Not everyone in Kenya is equally benefiting from national efforts to improve digital financial inclusion.** While Kenya has seen noteworthy improvements in financial inclusion among its population – 85 per cent of whom have access to digital financial services – there remains a digital divide, especially among traditionally underserved groups, such as refugees.
- ▶ **Emerging technologies and innovative business models are reshaping the Kenyan retail, commerce, and financial architecture.** Together with product, service, and process innovations, have come challenges for existing policies and regulations to adapt to these changes and accurately reflect the needs and governance gaps in these new forms of business and transactions. Understanding the disruptions that these technologies represent is vital when creating new, or updating existing, regulatory or governance frameworks.
- ▶ **Introducing taxation on digital transactions may act as a short-term disincentive to adopt digital financial services.** As digital transactions are taxed – including those made via mobile money platforms – this may act as a regressive tax and disproportionately affect small businesses, entrepreneurs, and consumers with lower levels of disposable income. This may also mean that the operating cost of digital finance can increase for all.

Digital platforms

- ▶ **Up-front investment and fixed costs are high and may disincentivize economic activity in digital platforms.** From investing in connected devices to paying for expensive ICT services, to even securing enough capital to obtain credit to scale up business operations, operating costs are too high for many looking to enter the digital economy. Public-private partnerships are essential to help de-risk new

investment opportunities, including around innovations being driven predominantly by micro, small, and medium-sized enterprises (MSMEs).

- ▶ **Data privacy concerns remain, calling for stronger data protection frameworks and functional redress mechanisms.** Innovation in the digital space comes with ethical responsibilities, including how digital labour and financial transaction platforms capture, process, store, and share personal user data.
- ▶ **Consumer trust and perceived safety in digital platforms, including e-commerce, still needs to be strengthened.** This is especially the case in sectors that inherently manage highly sensitive consumer or client data (such as the healthcare sector) and which are transitioning from in-person to web-based services.

Challenges identified and recommendations

E-commerce

- ▶ **Challenge:** E-commerce relies on suppliers and clients having access to affordable and functional connected devices, but these remain prohibitively expensive for many.
Recommendation: Prioritizing public-private business plans that invest in local manufacturing of smartphones, tablets and computers can help lower the cost of otherwise expensive connected devices.
- ▶ **Challenge:** The income-generating opportunities that come from e-commerce are not viable for many in a context where up to 60 per cent of the population is not digitalized, in terms of consistent access to smart connected devices and Internet connectivity.
Recommendation: Last-mile connectivity efforts must be prioritized, especially as innovations in e-commerce and the wider digital space come from small start-ups, many of which are not able to operate or scale up in currently underserved or remote areas.
- ▶ **Challenge:** Many new start-ups end up shutting down as they lack timely seed capital and market tools to remain competitive against market pressures.
Recommendation: It is important to better understand and respond to the needs of start-up ventures, which are largely driving important innovations in the digital space.
- ▶ **Challenge:** There is a lack of public trust in engaging in or buying from e-commerce platforms, as buyers may have limited information about suppliers and the authenticity of the goods and services that will be rendered after already having paid for them.
Recommendation: Other countries have established, in collaboration with the Chambers of Commerce, digital badges or seals that business obtain when adhering to minimum standards around data and consumer protection. Other digital badges can also provide consumers with information about the origins and authenticity of the goods and services provided by a particular supplier, similar to existing badges on sustainability, environmental protection, and fair labour practices.
- ▶ **Challenge:** There is insufficient finance and political will assigned to research and development and innovation in the e-commerce sector.
Recommendation: E-commerce should be seen as a crosscutting enabler for business solutions and job creation. As such, a wide array of sectors and sub-sectors across many different industries can start rethinking how their business models can integrate an e-commerce component as a way to reach new markets and fill gaps in consumer demand, especially in currently underserved areas.

- **Challenge:** The success of e-commerce ventures depends to a large extent on the degree of collaboration and positive feedback loops between policymakers, regulators, sector experts, investors, entrepreneurs, workers, employers, and consumers.

Recommendation: Participatory approaches to policy design, regulatory updates, and investment plan discussions must be ensured, tapping into the direct sector knowledge of industry associations who can inform the direction in which policies, regulations, and investments need to move in order to directly respond to the needs and opportunities for a more inclusive and scaled-up e-commerce sector.

Digital financial services

- **Challenge:** Operational difficulties and high costs to ensure cross-border interoperability between payment platforms and across national borders can represent a disincentive to newcomers to e-commerce.

Recommendation: Strategic partnerships that tap into existing payment networks, including through application programming interfaces as championed by the Kenya Bankers Association, can help reduce up-front costs in setting up more stand-alone, dedicated payment platforms. Banks not currently part of these networks can also see the added value of belonging to an integrated payment interface through which they can attract more clients and transactions.

- **Challenge:** Taxation of digital transactions may serve as a public revenue stream, but especially as the digital economy grows, it may act as a disincentive for companies and consumers to switch from cash-based and traditional forms of payments to digital options, including the already robust mobile money apparatus present in Kenya.

Recommendation: Regulations around digital transactions must be mindful of the short-term and long-term tradeoffs of taxation, especially considering that many of the newcomers to the digital economy may be small businesses, entrepreneurs, or individuals with low levels of disposable income to begin with. Taxation on digital transactions may be considered a regressive tax, as all transactions are taxed at the same rate, but it is the poorer populations who may disproportionately be burdened.

- **Challenge:** Start-ups and other MSMEs lack access to affordable credit and finance to cover up-front operating costs or to expand their operations to attract higher profits.

Recommendation: De-risking investment in start-ups and MSMEs is crucial, with public-private blended finance options making it less risky and more cost-efficient to invest in early-stages e-commerce platforms or start-ups.

- **Challenge:** Refugees are still excluded from many financial services due to strict Know-Your-Customer requirements, including as part of M-PESA.

Recommendation: The Refugee ID should be universally recognized as a valid form of identification and personal verification, especially since the refugee population is thoroughly vetted before a refugee's status is determined.

Digital platforms

- **Challenge:** Companies providing goods and services via digital platforms are likely to rely on a wide network of partners, service providers, and intermediaries, all of whom must adhere to the same stringent level of data protection compliance.

Recommendation: Companies, including start-ups, looking to work via digital platforms must have the understanding of the latest data protection compliance measures – many of which are not widely understood in the sector. A shared high standard of data protection compliance in the sector should be rewarded or certified by sector regulators, where companies and clients can choose to work with those voluntarily adhering to industry-recognized levels of compliance.

- **Challenge:** There is no framework or a platform for online dispute resolution processes, which creates public distrust of e-commerce activity as a whole.

Recommendation: The Ministry of ICT has a key role to play in building credibility in e-commerce, with a framework for how different platforms can have a common online dispute resolution mechanism, benefiting both suppliers and consumers. While there must be a framework specific to Kenyan e-commerce, it is also important to collaborate with other countries and international institutions as e-

commerce is increasingly involving different countries and markets, and many of the dispute resolutions may involve suppliers and clients in different national jurisdictions.

- ▶ **Challenge:** Engaging in e-commerce via social media platforms can carry risks of non-payment for suppliers and lack of consumer assurances and protections for consumers.

Recommendation: Establishing payment platforms, where formal dispute mechanisms are available, means that profiles can be verified in order to protect both users and clients. It also makes the validation of transactions easier by regulators.

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