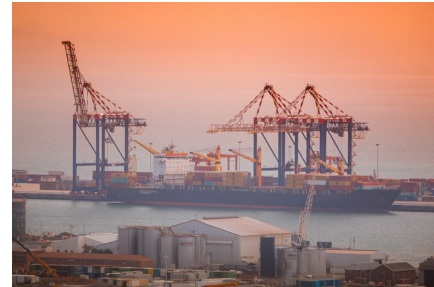


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## Digital Trade Developments in Kenya



# Defining digital trade

The term “digitalization” refers to the transformation of economic activities through the application of the digital technologies of the “fourth industrial revolution”. The term “digital trade” sets this phenomenon within a global context, incorporating the cross-border commercial implications of a digitalizing world.

“Digital trade” is therefore a broad concept. It encompasses the effects that emerging digital technologies have on the global economy.

# Introduction

E-commerce has grown rapidly in Kenya, supported by laws governing information and communications technology (ICT) services, e-commerce transactions, data protection and access to information. The government has established one-stop shops for the provision of government services to citizens and for trade logistics.

The country is well positioned to expand its digital trade with the establishment of the Africa Continental Free Trade Area (AfCFTA), given the policies outlined in the government's Digital Economy Blueprint.

# Status of digital trade in Kenya

Digital trade and digitally enabled transactions of trade in goods and services have been increasing globally. In Kenya, the growth of digital trade and digitally enabled transactions has been phenomenal, and digitization has become an integral part of numerous day-to-day activities and service delivery.

The importance of digitization of the Kenyan economy is expected to continue, especially since the country has recently developed and published a Digital Economy Blueprint (2019). Adoption of technology and the diffusion of digitization are key drivers of the growth of digital trade and of digitally enabled transactions in the country.

The proliferation of information and communications technology (ICT) services in Kenya provides opportunities to leverage business innovations to increase exports and imports (in part through improvements in trade facilitation), enhance service delivery and improve access to information, all contributing to the ease of doing business for the general public and for international traders.

E-government has helped strengthen the business environment, particularly by reducing the number of procedures, and hence the time and costs, involved in starting a business and by reducing the time required to pay taxes, as evidenced in the country's Doing Business indicators.

E-commerce has increasingly been used by both government institutions and private enterprises in Kenya, which ranks 89th globally and 7th in Africa in (B2C) e-commerce readiness, with the share of individuals using the internet at 39 %

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The digitization of government processes by the National Population Census in 2019 was conducted through a digital system that improved efficiency and enabled a more rapid release of the final tally, when compared to previous population census rounds.

At the heart of growth in digital trade in Kenya is the increased access to and use of ICT. The availability of internet services, for instance, has been driven by the development of internet infrastructure, particularly fibre optic and mobile broadband, but also the availability of affordable data enabled devices.

ICT has changed financial sector operations in Kenya, leading to a greater volume of transactions and faster transactions, including payments. The Global Findex database shows that in Kenya from 2014 to 2017 the share of the population (over 15 years of age) who made or received digital payments increased from 69 % to 79 %, the share who owned a credit card increased from 5 % to 7 %, and the share with a mobile money account increased from 58 % to 73 %.

This is both in urban and rural areas, among older adults and youths, and among both men and women, thus contributing to a more inclusive financial sector.

# Policies supporting digital trade in Kenya

ICT is identified as an enabler for socioeconomic transformation in Kenya. The Kenya ICT policy and a recent draft revision promote ICT as a developmental tool, through increased use of information technologies, the development and use of e-government to improve efficiency and the quality of public service delivery, and the development of IT infrastructure.

The ICT policy is based on the principles of keeping pace with changes in technology, providing universal service access at an affordable cost, ensuring adequate competition, encouraging innovation, standardizing ICT products and services for quality, maintaining global connectivity and safeguarding privacy and security. The policy has provided a framework for enhanced use of ICT in both government and private enterprises. Over 48 % of government institutions have an IT policy.

The new Digital Economy Blueprint is expected to build on this foundation. Furthermore, in 2019 the country enacted a modern data protection law which is compliant with the European Union's General Data Protection Regulation. The new data protection law will go a long way towards creating the right environment for investments in digital services, as well as the use of these services by individuals and firms.

In 2013, the Kenyan government implemented the Huduma (service) Kenya programme, which aims to transform public service delivery by providing access to various public services and information. The programme, through its integrated technology platform, provides one-stop shop citizens' service centres (Huduma Centres) at various counties in the country.

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For cross-border trade, the government has promoted digitization and automation of trade transaction processes through the establishment of the National Electronic Single Window System (authorized under the National Electronic Single Window System Act, 2016) which aims to address challenges related to processing of import and export cargo documentation.

This online cargo clearance platform, launched in 2014, interfaces with and integrates automated export and import information from business and government agencies, issuing documents such as export and import permits, licences, and certificates, among others. The system is also linked to financial institutions, including banks and mobile payment options, through the Kenya Revenue Authority's online taxation system and the Government's e-Citizen platform, hence providing a complete electronic cargo documentation platform.

The system has facilitated trade by increasing transparency in export and import processes, reducing the number of processes and documents required for processing, providing a paperless (electronic) application by traders on a 24/7 basis, and allowing for multiple payment channels. This improvement in services has reduced the costs and time required to complete trade transactions.

In addition, the platform accelerates communication, thus facilitating both payments and cross-border trade. The single window system is the main reason why Kenya achieved one of the largest improvements in the World Bank Doing Business indicators (2019), including improvements in trading across borders.

# Opportunities for digital trade in Kenya

The AfCFTA offers Kenyan SMEs an alternative route to market their goods, especially those SMEs and entrepreneurs who were previously hindered by a lack of connectivity, high transaction costs and information asymmetries.

Integrating Africa into a single digital market will create economies of scale and opportunities to grow both local and regional economies. Compared to many other African countries, Kenya is in a good position to benefit from the AfCFTA due to the Digital Economy Blueprint, launched in May 2019, which could set a precedent for a new digital Africa and encourage wider cooperation between African nations.

The mobile money infrastructure has created a new market and disrupted the financial industry ecosystem to become a major competitor for the traditional banking sector.

Disruptive technologies such as artificial intelligence, robotics, blockchain, drones, the Internet of Things, big data and software enabled industrial platforms have great potential to impact economic development. For example, M-Pesa transformed the financial sector by significantly increasing financial inclusion, as well as opening up the possibilities of new business models and opportunities such as PayGo, digital credit and (for better or worse) mobile betting.

Digital technology creates opportunities for innovation. New technologies give access to markets that were previously closed and remove distortions in demand by giving customers direct access to products that were previously controlled. Rapid technological developments have created new markets that now connect consumers, lower transaction costs and reduce information asymmetry.



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E-commerce and the use of digital platforms afford Kenya the opportunity to diversify its export markets and move into higher value added production segments, rather than concentrating on traditional exports (e.g coffee, tea, fruits and vegetables). Export opportunities provided by e-commerce may help to ensure longer-term firm survival in Kenya.

Digitization of production presents important opportunities for Kenyan manufacturing firms in terms of growth and employment creation. The use of digital technologies and robotics by Kenyan manufacturing firms would improve efficiency and boost their output and exports, and thus employment.

ICT has supported increased trade in services in Kenya. For example, some health services are now delivered over the internet due to ease of internet access. Blockchain technology can be used to track the pharmaceutical supply chain. Such tracking capability would help tackle the issue of counterfeit medication, which kills approximately 100,000 people in Africa every year.

The digitization of the agricultural sector offers new opportunities through innovations that can upscale the agricultural value chain.

Another benefit to be garnered from a digital economy is precision agriculture, where computer-guided aerial mapping, data collection on soil and weather, and the use of global positioning systems (GPS) and GPS-computer-guided implements such as tractors and harvesters can be used by farmers, hence making farming much more efficient

# Digital trade challenges for Kenya

Limited access to finance and infrastructure gaps constrain the ability of individuals and firms to purchase digital technologies. While larger firms in Kenya are in a better position to leverage new technologies, MSMEs are unable to do so, mainly due to their lack of credit worthiness and the cost of deploying these technologies.

Key digital infrastructure constraints include limited access to fibre and broadband connectivity due to the high costs of installation and use, low availability of spectrum for wireless, low availability of public access points and shared access to devices, as well as the inability for persons with disabilities (PWDs) to access and use digital infrastructure.

Poverty and high rates of illiteracy limit participation in digital commerce. About 36 % of Kenyan households live below the poverty line, which makes paying for the internet subscription required for online shopping unaffordable.

The use of enhanced, advanced digital technology in the automotive industry is limited by gaps in skills and low investment in training as evidenced by enrollments in science, technology, engineering and mathematics (STEM), credit constraints, the high costs of electricity and steel compared with those costs in neighbouring countries such as Uganda and trading delays due to non-tariff barriers, slow customs procedures and poor logistics.

Cybersecurity threats, poor governance and instability constrain the success of the digital economy in Kenya. Insufficient regulation, uncontrolled access to digital infrastructure, and lack of digital hygiene predispose all participants in the digital economy to cybersecurity risks and threats.

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Consumers lack of trust in products and services sold online, delivery systems, online payments and other online services remains an important challenge to the development of digital trade. For example, threats to privacy appear to be a growing concern. Kenya needs to establish a legal framework for online consumer protection that enables consumers to seek legal redress in case of breach of trust.

Lack of protection of intellectual property (IP) constrains participation in digital trade. IP that can be digitized is hard to protect since consumers can copy and use online content without paying for it or without receiving permission from the rights holders.

For Kenya to enhance digital trade with the rest of the world, cross-country collaboration is still needed to fuel interoperability and integration among mobile money platforms and banks, so that the payment systems of buyers and sellers can work seamlessly with each other. Enhanced interoperability will reduce friction in e-commerce transactions, increase ease-of-use for consumers and reduce costs for platform operators.

The African Union's Digital Transformation Strategy for Africa addresses trans boundary challenges, especially interoperability of systems, as well as harmonization of digital identity systems. The Strategy commits member countries to promote open standards and interoperability to enhance trust in cross-border transactions, personal data protection and privacy. Improvements in digital infrastructure, which is one of the pillars in the Digital Economy Blueprint, would increase Kenya's ability to meet these challenges.

# Conclusion

Kenya has made significant progress in digital trade. Various opportunities abound. In particular, the launch of the AfCFTA will provide a huge market for goods and services that is also a huge digital economy. However, a lot remains to be done, including in ICT development, in order for the country to become a competitive global player in such trade.

Considerable efforts are required to strengthen transport infrastructure (such as railway systems, roads, airports and harbours), the postal system and trade logistics, all of which are important for the operation of digital platforms. Continued digitization of border procedures, the establishment of blockchain transport corridors in customs and other border agencies in the EAC member countries, strengthened surveillance of cybercrime and more effective data protection are equally important.

The launching of the African Union's Digital Transformation Strategy for Africa and Kenya's Digital Economy Blueprint, increasing domestic efforts to enhance universal access to and utilization of ICT services and addressing cybercrimes in collaboration with international players will support Kenya's march towards a truly digital economy and to becoming a global player in e-commerce.

Thank you

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