State of the Economy:
Focus on Digitisation and the impact of COVID-19 on MSEs

May 2021
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Executive Summary: Divergent Recovery

• The COVID-19 pandemic, termed ‘the Great Disruption’ hit the global economy in 2020.
• Whereas 2020 was defined by divergent impact within and between economies, 2021 will be defined by multispeed and divergent recovery in the global and local economy.
• Rich economies and China are set for a strong recovery led by the USA, mainly linked to their willingness to support incomes and deploy unprecedented fiscal and monetary support, and quick COVID-19 vaccine roll-outs which have muted the extremities of sustained economic contractions.
• Low-income countries however face grimmer economic prospects due to limited access to COVID-19 vaccines and weak public finances; they will suffer more significant medium-term losses, particularly countries that rely on tourism and commodity exports, and those with limited policy space to respond.
• In Kenya, divergence trends continue with macroeconomic resilience masking sustained inequalities and divergence in recovery. On one hand, inflation remains reasonable; export performance has been relatively strong (especially relative to other African countries); diaspora remittances have been robust; and the mobile money sector has demonstrated sustained resilience and growth.
• On the other hand, inflation continues to disproportionately affect low-income groups; key sectors such as tourism remain deeply affected; and job recovery has been weak. Further, there are already signs of economic stress emerging linked to the March 2021 lockdown.
• Local fiscal dynamics have been defined by continued financing requirements to mitigate the health and socio-economic effects of COVID-19 juxtaposed with fiscal stress linked to sustained underperformance in revenue generation; unsustainable debt levels; and high debt servicing costs.
• Global developments include new global debt relief and restructuring efforts (DSSI extension, IMF SDR allocations and the creation of the Common Framework for Debt Treatments)
Executive Summary: Divergent Recovery in Kenya

- Access to and use of digital services has increased dramatically, although inequality still persists along gender and geographic lines. Some services are becoming highly concentrated, or at least dependent on one player and whilst this concentration does increase risk it also allows for more risk to be taken in product development and more investment to be made in increasing access.
- Divergent economic impact and recovery has been evident in differences in resilience and vulnerability at the sectoral, firm and household levels.
- Income sources have shifted substantially since the end of 2020 particularly for urban households: there has been a significant reduction in casual labour and farming and a corresponding rise in employment and self-employment. This points to a divergent pattern in income recovery, with salaried employment opening up at the higher end of the economy coupled with declining opportunities for informal/casual work at the lower end.
- There has also been a marked reduction in use of coping strategies at household level indicating improvements in household resilience; at the same time, this points to diminishing options/sources of support (e.g., depleted levels of savings/assets, lack of shopkeeper credit etc.), suggesting depleted resilience for households and the economies in which they are embedded.
- COVID-19 has hit MSEs in multiple ways including a significant drop in customer demand with a corresponding fall in revenue; erosion of savings and assets dampening prospects for recovery; scant support from government compounded by price hikes from suppliers; and the burden of propping up households who rely on MSE incomes, and the goods and services they supply.
- Divergent MSE recovery is emerging with 3 broad pathways: 1) Businesses that shut down and have not re-opened; 2) Businesses operating at a revenue less than of pre-COVID-19 levels; and 3) Businesses that have recovered fully.
- March 2021 partial lockdown: Individuals, households and firms were deeply impacted by the first lockdown in 2020 and thus are at a much lower point of economic and financial health for sustained resilience and bounce back from the March 2021 partial lockdown; they require deliberate government support.
Executive Summary: Addressing divergent recovery

- The divergent recovery from COVID-19 will require **different scales and types of government support** depending on the severity of impact on the household, firm and economic sector.
- In the **Post-COVID-19 Economic Recovery Strategy**, government indicates intention to implement enhanced social safety net programmes (SSNPs) including cash transfers.
- Government will need to navigate the **fiscal tension** of the need for more resources to cope with the current economic downturn and lay a foundation for a stable and inclusive medium term economic recovery juxtaposed with debt repayment obligations which take a large share of tax and borrowed resources.
- In terms of a **demand-side stimulus**, government should assess: i) The fiscal costs and multiplier effects of a demand-side stimulus linked to expanded cash transfers; and ii) The economic costs linked to raised poverty levels and reduction in firm and household welfare linked to not effecting a demand-side stimulus.
- Fiscal policy options should prioritise households deeply impacted by COVID-19 with poor prospects for independent income recovery and need urgent **relief** and **support** as illustrated below:

<table>
<thead>
<tr>
<th><strong>Relieve</strong></th>
<th><strong>Support</strong></th>
<th><strong>Sustain</strong></th>
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<tbody>
<tr>
<td>households in the ‘extreme poor’ and ‘poor’ income bands that have suffered a deep deterioration in household welfare due to COVID-19 and have low capacity for income recovery without external support.</td>
<td>households in the ‘poor’ and lower middle-income bands (including new entrants) that have suffered a moderate deterioration in household welfare due to COVID-19 and have low capacity for income recovery without external support.</td>
<td>households above the lower middle-income bands with moderate/low deterioration in household welfare due to COVID-19 and with capacity for income recovery without external support.</td>
</tr>
</tbody>
</table>

**Potential government action:**
- Direct cash transfers

**Potential Government Support:**
- Direct cash transfers

**Potential Government Support:**
- Firm level support; Tax incentives/relief; MSE Guarantee Scheme etc. to foster broad business and economic recovery
Executive Summary: Priority Recommendations

- **Demand Side Stimulus:** Expand cash transfers to households especially those in the ‘extreme poor’ and ‘poor’ categories, including new entrants to these income categories.

- **Digitisation:**
  - Ensure coordination of data collection, management and data sharing protocols between bodies responsible for measuring the digital economy, this includes capturing gender and location disaggregated data to drive inclusive policy.
  - Develop framework for measuring monetary and non-monetary aspects of the digital economy.
  - Foster cross-government support for the implementation of digital policies including digitising more government payments, rolling out digital identity, and protecting citizens.

- **MSEs:**
  - Implement expanded cash transfers to stimulate demand (National Government).
  - Harness existing data and commission new data to inform granular policy for MSE segments (with development partners).
Macroeconomic Update

- Global and Africa Snapshot: COVID-19 Impact and Recovery Outlook
- Sources of resilience in Kenya and East Africa
- GDP Growth
- Employment
- Inflation
- Export performance
- Forex and remittances
- Financial sector developments
- Fiscal Dynamics
Global Snapshot: COVID-19 Impact and Recovery Outlook

- The COVID-19 pandemic, termed ‘the Great Disruption’ hit the global economy in 2020 and had varied economic impacts between and within countries. There are clear signs that 2021 will be defined by divergent and multispeed recovery.
- High-income countries deployed unprecedented fiscal and monetary support to their economies, muting the extremities of sustained economic contractions and laying the foundation for deeper recovery and a stronger bounce back.
- This quick recovery for rich countries is due to: 1) willingness to support incomes and increase sharply public spending and borrowing; 2) better adaptation to lockdown measures to the second wave of COVID-19 and 3) rapid rollout of COVID-19 vaccines.
- COVID-19 will be a lingering drag on emerging markets and developing economies (excluding China) which may have cumulative per capita income losses over 2020–22 equivalent to 20% of 2019 per capita GDP compared to pre-pandemic projections; advanced economies the losses are expected to be relatively smaller, at 11%.
- Countries most at risk are emerging economies with little access to COVID-19 vaccines, those with weak public finances and those that are heavily dependent on tourism.

GDP Growth Projections

<table>
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<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
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<tr>
<td>World Output</td>
<td>-3.6</td>
<td>5.8</td>
<td>4.1</td>
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<tr>
<td>Advanced Economies</td>
<td>-4.7</td>
<td>5.2</td>
<td>3.6</td>
</tr>
<tr>
<td>Emerging Market and Developing Economies</td>
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<td>6.6</td>
<td>4.9</td>
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<tr>
<td>Emerging and Developing Asia</td>
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<td>8.4</td>
<td>5.8</td>
</tr>
<tr>
<td>Emerging and Developing Europe</td>
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<td>4.3</td>
<td>4.0</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>-7.0</td>
<td>4.5</td>
<td>3.1</td>
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<tr>
<td>Middle East and Central Asia</td>
<td>-4.1</td>
<td>3.6</td>
<td>3.6</td>
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<tr>
<td>Sub-Saharan Africa</td>
<td>-2.5</td>
<td>3.4</td>
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<tr>
<td>European Union</td>
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<tr>
<td>Middle East and North Africa</td>
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<td>Emerging Market and Middle-Income Economies</td>
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<tr>
<td>Low-Income Developing Countries</td>
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<td>4.3</td>
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</tbody>
</table>

Source: IMF, 2021
Africa Snapshot: COVID-19 Impact and Recovery Outlook

- Africa’s GDP contracted -2.1% in 2020; the continent’s first recession in 50 years; tourism-dependent economies, oil-exporting economies and other-resource intensive economies were the most significantly hit by the pandemic; regionally the southern African region was worst hit with East Africa the most resilient.
- About 30 million Africans were pushed into extreme poverty in 2020 as a result of the pandemic and it is estimated that about 39 million Africans could fall into extreme poverty in 2021; women and female-headed households could represent a large proportion of the newly poor.
- Growth is expected to rebound to 3.4% in 2021, significantly lower than the trend anticipated before the pandemic.
- Recovery in 2021 will be underpinned by a rebound in commodity prices, and the rollback of pandemic-induced restrictions which could lead to a resumption of tourism.
- Downside factors that could derail recovery include a resurgence of COVID-19 infections, debt overhang, financial market volatility that impedes capital flows, low commodity prices, low tourism and remittances, extreme weather events, and social tensions.
- African governments announced fiscal stimulus packages linked to COVID-19 ranging in cost from about 0.02% of GDP in South Sudan to about 10.4% of GDP in South Africa.
- The AfDB estimates that African governments need additional gross financing of about $154 billion in 2020/21 to respond to the crisis.
- Fiscal deficits are estimated to have doubled in 2020 to a historical high of 8.4% of GDP; debt burdens are likely to rise by 10 to 15 percentage points in the short to medium term; exchange rate fluctuations have been elevated, and inflation has inched up, with external financial inflows heavily disrupted.
**Sources of resilience in Kenya and East Africa**

- **East Africa** seems to be the most resilient region in Africa due to a low reliance on primary commodities and greater diversification.
- The region is estimated to register 0.7% growth in 2020 and grow at 3.0% in 2021.
- The **top performers in the region for 2021** would be Djibouti (9.9%), Kenya (5.0%), Tanzania (4.1%), and Rwanda (3.9%)
- AfDB ranks Kenya as among the more resilient economies in Africa
- Factors that inform economic resilience are:
  a) **the government** using its size- its ability to spend, invest, and make transfers, to lift aggregate demand, which can help create employment and boost recovery; 
b) **Financial sector development** which could absorb or amplify shocks, depending on how governments use macroprudential policies; and 
c) **Export concentration**- reliance on a narrow range of export products tends to amplify the impact of external shocks.

*Source: AfDB African Economic Outlook, 2021*
GDP Growth

- Kenya’s average GDP growth rate for the 3 quarters in 2020 is **-0.6%**, a decline from 5.5% recorded during a similar period in 2019.
- The economy recovered in Q4 2020 and Q1 2021 supported by **strong performance** in agriculture, construction, real estate, finance and insurance, and wholesale and retail trade.
- The economy is expected to **rebound in 2021** supported by recovery in education, wholesale and retail trade, roll-out of COVID-19 vaccines, and private sector credit growth.
- There was **general optimism in the first quarter** with the average Stanbic Bank Monthly Purchasing Managers' Index (PMI) but the private sector remains concerned about:
  - Continued uncertainties over the pandemic
  - Increased cost of inputs
  - Expectations of lacklustre economic growth, following a third wave of COVID-19 and the announcement of new restrictions measures by the government
  - Volatility in the foreign exchange market and the decline in the forex reserves to 4.5 months of import cover
Employment

- In early 2021 employment slowly recovered but has remained below Q4 2019 levels.
- The pandemic resulted in huge losses of employment: Employment dropped from 71% of the population in Q4 2019 to 50% May–June 2020.
- The situation improved in Q1 2021, with employment increasing to 66%.
- Unemployment halved from 18% in October–November 2020 to 9% in January–March 2021.
- Urban unemployment has dropped strongly from 25% to 14%.
- Despite the improvement, employment remained 5 percentage points below Q4 2019 levels.
- There is continued concern on the form and quality of work Kenyans are returning to in terms of job stability, hours worked and pay.

Inflation

- The average inflation rate declined to 5.8% in Q1'2021 compared to 6.1% in a similar period in 2020 (bear in mind that Kenya's inflation rate is currently calculated based on urban spending patterns and prices).
- The rising inflation rate can be attributed to the rising fuel prices since the start of the year.
- CBK expects the inflation rate is expected to remain within the target range (2.5% - 7.5%), in the near term, supported by lower food prices and muted demand pressures. The recent increase in fuel prices is expected to have a moderate impact on overall inflation.
- However, while it will remain within the government target range, inflation is likely to be higher than it was in 2020 mainly due to the rising global fuel prices and the new taxes introduced at the start of the year that will be transmitted to consumers.
- Inflation pressures continues to concentrate on lower income populations.
Exports

- **Exports of goods remained strong**, growing by 1.2% in the 12 months to February 2021 compared to a similar period in 2020.
- Kenya’s **exports to Africa rose to an 8-year high in 2020**; the value of goods sold to other African countries amounted to KShs 243.68 billion, a **9.07% growth from 2019**.
- The growth in value of trade between Kenya and Africa was the **highest level since 2012** and driven by demand in smaller exports destinations on the continent.
- Bear in mind however that **Kenya’s exports have been on a steady decline over the past decade**, from 13% (share of GDP) in 2010 to 6% by 2019.
- Thus, while the importance of exports is clear in the Governments’ **Post-COVID-19 Economic Recovery Strategy**, this will need to be effected through long-term action and address **structural issues** that are leading to declining exports.
Tourism

- The inward international tourist market was the hardest hit by the COVID-19 pandemic with respondents reporting over 90% cancellations of existing bookings.
- Most of the MICE sector could lose roughly KSh163.56 billion in Kenya.
- Companies have reduced the number of employees and implemented pay cuts as a result of COVID-19.
- Other key impacts to the sector include increased borrowing; eviction from premises due to unpaid running costs; increased costs of running the businesses and long-term change in consumer behavior.
- Caution should be applied to the assumption that COVID-19 vaccine delivery will boost the Kenyan tourism sector; the North-South divide in vaccine delivery may mean international tourists prefer destinations closer to home (Italy, Spain, Greece, France etc.) with highly vaccinated populations.
Exchange Rate

• The Kenya Shilling depreciated against the US Dollar by 0.3% in Q1 2021, to close at KShs 109.5, from KShs 109.2 at the end of Q4 2020. This is attributed to importer dollar demands outweighing inflows from sectors such as export agriculture and remittances.

• Depreciation pressure will emerge from:
  - Uncertainties in the global market due to COVID-19; investors continue preference to hold investments in dollars, other hard currencies and commodities
  - Continued strengthening of the US Dollar against major currencies
  - Decline in CBK forex reserves: Government may struggle to support the local currency should depreciation trends continue

• The shilling is however expected to be supported by:
  - CBK foreign exchange reserves, which currently stand at USD7,348 million (4.51 months of import cover), which is above the statutory requirement of maintaining at least 4.0-months of import cover, but barely above the EAC region’s convergence criteria of 4.5 months of import cover
  - Improving CAD: Narrowed to 4.6% of GDP in the 12 months to February 2021, compared to 5.8% of GDP during a similar period in 2020
  - Strong diaspora remittances

Source: CBK
Remittances

- Remittances to Africa declined from $85.8 billion in 2019 to $78.3 billion in 2020.
- Kenya was the only African country to record a growth in remittances in 2020.
- Countries with the most significant drop in remittances were Lesotho, Mozambique, and Seychelles.
- Although remittances were adversely affected by the COVID-19 pandemic they decreased much less than what was initially projected and have been less volatile and more resilient than foreign direct investment.
- This resilience can be explained by several factors: i) Migrants dipped into savings for money to send back home; ii) They were more likely to send remittances through recorded channels and digital means; iii) Many migrants had income from host governments’ cash transfers, which dampened the pandemic’s effect on remittances flows.
- However, migrants may not be able to keep up this behavior if more policies to support them are not adopted.

Source: AfDB African Economic Outlook, 2021
Remittances

- Remittances to Kenya remained strong at USD 3,155 million which is 11.4% higher in the 12 months to February 2021 compared to a similar period in 2020, mainly driven by remittances from North America which increased 30% year on year.

- Research from 2015 shows that the profile of Kenyans living and working in the US are highly employed (93% of those in the labour force were employed), 62% are either professionals or work in managerial positions, 27% of the workforce are registered nurses or nursing aides.

- This profile paints a picture of skilled, essential workers who are likely to be in high demand during the pandemic.

- However, according to FinAccess 2019 only 4% of adults in Kenya receive international remittances, meaning remittances do not translate into a stimulus or safety net for low-income households.
Financial Sector Developments

- Growth in private sector credit increased to 9.7% in the 12 months to February 2021.

- Strong credit growth was observed in the following sectors: manufacturing (15.8%), transport and communications (19.0%), agriculture (13.4%), real estate (8.8%) and consumer durables (20.3%).

- NPLs: The ratio of gross non-performing loans (NPLs) to gross loans stood at 14.5% in February up from 14.1% in December.

- NPL increases were noted in the Real Estate, Agriculture, Personal and Household, and Manufacturing sectors.

- Asset quality for listed banks deteriorated with the weighted average NPL ratio rising by 2.3% reaching a weighted average of 12.8%, from 10.5% in FY’2019.

- However, banks recorded a weighted average deposit growth of 22.4%, faster than the 12.7% growth recorded in FY’2019.

- The expiry of the waiver on bank charges on 2nd March 2021 will bolster non-funded income for the sector.
Restructured loans

- Cumulatively over the last year, **loans amounting to Ksh.1.7 trillion (57% of total gross loans)** were restructured.
- The **outstanding restructured loans** as at end February amounted to **KShs 569.3 billion (19% of the total gross loans)**.
- The emergency measures announced on March 18, 2020 to provide relief to borrowers through restructuring of loans expired on March 2, 2021.
- **Values of restructured loans continued to increase for all sectors to the end of 2020** with Trade loans seeing a particular jump in Dec; this indicates a continued need for forbearance.
- However, the value of restructured loans as a percent of gross loans fell from 57% in December to less than 20% in February, even before the expiration of the emergency measures.
- It is unlikely that such a steep reduction was caused by a reduction in demand for restructuring but more likely the **end of the forbearance period** for a significant proportion of loans.
- The **withdrawal of loan restructuring facilities** could further increase the rate of NPLs and could cause forced liquidation of business assets if debts are pursued aggressively.
Emerging economic effects on March 2021 lockdown

- The 3rd wave of coronavirus led to the implementation of partial lockdown measures from March 26. These included: i) cessation of all movement by road, rail, or air into and out Nairobi, Kajiado, Machakos, Kiambu and Nakuru (disease infected area); ii) suspension of all physical learning in all education institutions; and iii) closure of bars in Nairobi, Machakos, Kajiado, Kiambu and Nakuru.

- As with the previous lockdown, these understandable measures taken to contain COVID-19 will have economic effects such as:
  - **Households**: In 2021 (during the period before the partial lockdown) households were still using coping mechanisms indicating that they had not recovered from impacts of the first lockdown; the March 2021 lockdown will likely force households to go back to a deeper reliance on more extreme coping mechanisms such as skipping meals.
  - **Impact on EAC trade**: Business people across East Africa travel in and out of Kenya, with Nairobi as key node as both a market and conduit for supplies; EAC Countries are likely to suffer particularly land locked countries that rely on Mombasa port and have to transport good through Kenya to their own markets.

- The concern is that the individuals, households and firms were **deeply impacted by the first lockdown** and key coping mechanisms included sale of assets (household and business), accrual of debt, and depleting savings.

- Individuals, households and MSEs are at a **much lower point of economic and financial health** for sustained resilience and bounceback from this second and partial lockdown **without deliberate government support**.
Fiscal Dynamics: Debt Position

• **Debt Position**: Kenya’s debt position is on a path to severe unsustainability particularly given that the government agreed to the IMF’s request to include KShs 3.4 trillion parastatal and county loans as part of the country’s national debt which will push the country’s debt to over KShs 10 trillion, well above the KShs 9 trillion ceiling set by Parliament.

• **Trends in Debt Position**: Public debt stock amounted to KShs 7.12 trillion as at the end of September 2020; the trend in debt accrual is projected to continue over the medium term due to the expansionary economic blueprint, the need for fiscal stimulus, and debt servicing obligations which continue to drive expenditures as revenue generation remains low and the economy continues to underperform.

• The **debt stock is projected to double by June 2030**.
Fiscal Dynamics: Cost of Debt Servicing

- **Costs of Debt Servicing**: Debt service costs have become the largest expenditure for the exchequer.
- At the same time, *tax revenue relative to GDP has been declining* (even pre-COVID-19); tax revenue as a share of GDP has declined from 17% in 2013/14 to 14% in 2019/20.
- **Recurrent expenditure has been on an upward trend** as tax revenue has dwindled; recurrent expenditure as a share of GDP increased from 14.8% in 2013/14 to 16.3% in 2019/20; development expenditure as a share of GDP declined slightly from 6.2% to 5.9%.
- One of the main components of increasing recurrent expenditure was *interest payment on domestic and external debt*; interest payment on debt as a share of tax revenue doubled between 2013/14 and 2019/20.
- Over this period, *interest payment on domestic debt as a share of tax revenue increased from about 14% to 23%; interest payment on external debt increased from about 2% to 9%, partially driven by higher borrowing costs as Kenya borrowed more commercial external loans.*
- The Parliamentary Budget Office is concerned that debt repayment may be crowding out development expenditure; Kenya’s external debt obligations will hit KShs 925 Billion ($8.48 Billion) at the close of the 2020/21 fiscal year.
Fiscal Dynamics: **Debt Accrual, Relief and Restructuring**

- AfDB estimates that African governments need additional financing of about $154 billion in 2020/21 to respond to the crisis.
- **Restructuring Challenges**: The absence of orderly and successful sovereign debt resolution, especially with private creditors, makes the prospects of debt distress burdensome.
- A challenge with sovereign African debt is there is **no formal bankruptcy procedure in place**; sovereign debt cannot be legally discharged, leaving debt resolution in the hands of creditors and debtors’ willingness to negotiate.
- This has created ‘free riding’ and asymmetric information problems and protracted, incomplete, and non-transparent restructuring processes.
- **Private creditors**: Until recently, the absence of a comprehensive framework meant private sector was unlikely to engage in any form of debt forgiveness.
- **Concern with usage of debt relief facilities**: Rating agencies have made it clear that requests put forward by countries to private creditors for treatment on DSSI/ G20-comparable terms could **lead to downgrades of those countries’ credit rating**.
- **Link to governance**: Debt relief and restructuring will be linked to governance reforms to stop leakages in public resource and to increase transparency in the debt and natural resources spaces.

**Gross financing needs in 2020**

Source: **AfDB African Economic Outlook, 2021**
Fiscal Dynamics: Debt Relief and Restructuring - Recent developments

- **Extension of DSSI deadline**: G20 bilateral official creditors agreed to a final extension of the DSSI by 6 months through end-December 2021 which is good news given that the Kenyan government leveraged this facility.

- **IMF SDR allocations**: In March G7 finance ministers agreed to support a sizeable increase in the IMF’s Special Drawing Rights (SDRs) to help provide additional resources to fight the pandemic.
  - SDRs represent a basket of 5 currencies, the U.S. dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling, used by IMF member countries to supplement their official reserves and augment global liquidity.
  - With a cumulative quota share of 43% and 68% respectively at the IMF, G7 and G20 member countries would secure about $217 billion and $340 billion respectively under a $500 billion SDR allocation.
  - SDRs can be an efficient and effective way to provide additional resources to Africa as an increased allocation of SDRs could strengthen reserves positions, build confidence, and revitalize economic growth.
  - SDRs are expected to amount to $500 billion and expand allocations for all countries according to their IMF quotas.
  - Under a $500 billion issuance of SDRs, African countries would receive between $25.6 to 32.2 billion; this is inadequate given that the AfDB estimates Africa needs additional financing of about $154 billion in 2020/21 to respond to the crisis.
  - 7 African countries will claim over half of the amount, namely South Africa, Nigeria, Egypt, Algeria, Libya, DRC, and Zambia; and the complexity of domestic legal processes that it might entail in some countries should not be underestimated.
USA SDR Allocation: In April, the US Treasury stated it is working with IMF management and other members toward a $650 billion general allocation of SDRs to IMF member countries; a $650 billion SDR allocation would provide about $21 billion worth of SDRs in liquidity support to low-income countries and about $212 billion to other emerging market and developing countries (excluding China).

By comparison, the G20/Paris Club Debt Service Suspension Initiative has delivered about $5 billion in liquidity relief to more than 40 eligible countries as of March 2021.

The US Treasury retains the right to refuse to purchase SDRs from countries whose policies run counter to US interests.

The USA emphasised that support was conditional on countries finding shared parameters for greater transparency and accountability with regards to how the reserve currency was deployed and urged G20 countries to send their own SDR allocations to low-income countries so the benefits would disproportionately accrue to the poorest nations.

The Common Framework for Debt Treatments beyond the DSSI: Is an agreement of the G20 and Paris Club countries to coordinate and cooperate on debt treatments for up to 73 low-income countries eligible for the DSSI.

- Debt treatments under the Common Framework are initiated at the request of a debtor country on a case-by-case basis and the Common Framework includes not only members of the Paris Club but also G20 official bilateral creditors such as China, India, Turkey or Saudi Arabia that are not members of the Paris Club.
- Further, the Common Framework explicitly requires debtor countries to seek comparable treatment by other external creditors, including the private sector, while the DSSI had only encouraged private-sector participation.
- To benefit from a debt treatment under the Common Framework a country must have an IMF-supported program; the IMF has a role in defining the financing envelope (or debt relief envelope) consistent with the parameters of the IMF-supported program, which informs creditor and debtor discussions on the debt treatment.
- Chad, Ethiopia, and Zambia have made requests for a debt treatment under the Common Framework.
Fiscal tensions to navigate in Kenya

- The Parliamentary Budget Office (PBS) lucidly points out the fiscal tension government currently faces: On one hand more resources are required to cope with the current economic downturn and lay a foundation for stable medium term economic recovery, at the same time debt repayment obligations are taking a large share of tax and borrowed resources from the total resource basket, which would otherwise be used for economic recovery.
- The combination of elevated levels of expected borrowing and current debt repayment obligations means government still faces the need to reprioritize limited public spending to the most productive areas; at the same time, it is crucial to avoid reversing more than two-decades of progress on poverty reduction.
- The World Bank estimates that COVID-19 has pushed about 2 million Kenyans into poverty and 1 in 3 Kenyan workers are employed by firms facing high risk of temporary or permanent closure and reduced revenues due to COVID-19, highlighting the vulnerability of household incomes through serious impacts on livelihoods and sharp decreases in incomes and employment.
- Government is aware of this reality, evidenced in the Post-COVID-19 Economic Recovery Strategy, which indicates intention to implement enhanced social safety net programmes (SSNPs) including cash transfers.
- This thinking is in line with the the AfDB recommendation that government increase the coverage and scope of social protection to aid the newly impoverished to make economic recovery and growth more equitable; leveraging digitisation will be key in targeting, cost reduction, and expanding the reach of social protection programs.
- The long-run effects at macro, meso and micro levels of the economy in terms of raised poverty levels, poor firm performance and decimated household incomes will likely lead to sustained drags to economic recovery and growth if coverage in social protection is not expanded.
- The rationale of the benefits of a demand side stimulus are presented next.
Demand-Side Stimulus Rationale

Macroeconomic rationale: Evidence from the COVID-19 Pandemic

• The willingness of North America, Europe and Japan to use the power of government to support incomes through the crisis even when people could not go to work has been a key factor in their forecasted robust recovery.
• Without those fiscal and monetary measures, the global contraction last year would have been three times worse and could have been another Great Depression (IMF); the link between supporting incomes and broad economic recovery is becoming clear.
• A key determinant of economic resilience is the government using its size and its ability to spend, invest, and make transfers to lift aggregate demand, to help create employment and boost recovery (AfDB).

Meso-level rationale: Boosting demand and supporting firm recovery

• The top concern for firms remains lack of customers largely informed by a lack of purchasing power due to decimated incomes.
• MSEs such as shopkeepers have maxed out their ability to extend credit; this leaves them in the impossible position of having destroyed cashflow, and emptied stock with no guarantee of payment from customers.
• A demand-side stimulus in the form of cash transfers would: i) Allow MSEs to get paid back by some customers; ii) Improve firm financial health and performance; iii) Create demand from paying customers.

Micro-level rationale: Relief and support to households

• Households continue to use coping mechanisms as a survival strategy indicating a broad lack of recovery in incomes.
• Given the slow recovery in jobs and firm performance, cash transfers will play a vital role in helping households meet basic needs and prevent households from falling into poverty.
**Divergent Recovery Paths: Fiscal Policy Options**

- The divergent recovery from COVID will require **different scales and types of government support** depending on the severity of impact.
- It is recommended that government models: i) The fiscal costs versus multiplier effects of a demand side stimulus of expanded cash transfers to key households; and ii) The economic costs linked to raised poverty levels and reduction in firm and household welfare linked to not effecting a demand side stimulus.
- Fiscal support should prioritise households in the ‘relieve’ and ‘support’ categories as these are poor households deeply impacted by COVID-19 with poor prospects for independent income recovery.

<table>
<thead>
<tr>
<th>Relieve</th>
<th>Support</th>
<th>Sustain</th>
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<tbody>
<tr>
<td>- Households in the <strong>extreme poor</strong> and <strong>poor</strong> income bands (including new entrants)</td>
<td>- Households in the <strong>poor</strong> and <strong>lower middle-income</strong> bands (including new entrants)</td>
<td>- Households above the lower middle-income bands</td>
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<tr>
<td>- <strong>Deep</strong> deterioration in household welfare due to COVID-19</td>
<td>- <strong>Moderate</strong> deterioration in household welfare due to COVID-19</td>
<td>- <strong>Low to moderate</strong> deterioration in household welfare due to COVID-19</td>
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<tr>
<td>- <strong>Reliance</strong> on coping mechanisms for survival</td>
<td>- <strong>Continued use</strong> of coping mechanism to maintain welfare</td>
<td>- <strong>Limited use</strong> of coping mechanism to maintain welfare</td>
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<tr>
<td>- Low capacity for income recovery without external support</td>
<td>- <strong>Low capacity for income recovery without external support</strong></td>
<td>- Capacity for income recovery without external support</td>
</tr>
<tr>
<td>- <strong>Potential Government Support:</strong> Direct cash transfers</td>
<td>- <strong>Potential Government Support:</strong> Direct cash transfers</td>
<td>- <strong>Potential Government Support:</strong> Firm level support (i.e. tax incentives/relief/deferrals; MSE Guarantee Scheme etc.)</td>
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</table>

*World Bank Income Band Definitions*: Rural and urban poverty lines are respectively KShs 3,252 and 5,995 per month per person; Lower Middle Income Class Poverty Line is KShs155.7 (2015) or US$3.20 (2011 PPP) per day per capita.
COVID-19 and Digitisation

- Government priorities
- Readiness and Investment
- Access and Inequality
- Uptake and usage of data services in 2020
- Digital Infrastructure
- E-commerce
- Digital Payments
- Digital Credit
- Recommendations
Government priority to both leverage and mitigate risks

Digital Finance Flagship Project

“An open, digitized financial system powering a digitally driven and inclusive economy”
Kenya was heavily impacted by the reduction in equity investment ticket sizes in 2020 but remains with the second highest value of equity start up funding in Africa US$ 304 million equivalent to 0.32% of GDP (2019 current prices)

This is about half the US$ 564 million attracted in 2019 equivalent to 0.59% of GDP (2019 current prices)

This accounts for 21% of total VC equity funding in Africa

Investment is highly concentrated amongst verticals 79% of regional equity funding in Agritech went to Kenya in 2020 although this was partly driven by a single large deal US$ 85 million

Kenya also accounts for a high percentage of off grid funding but a very small percentage of Fintech funding

Digital Readiness and Investment Landscape

Source: Partech 2020
Digital Readiness and Investment Landscape

- According to the World Economic Forum Future of Jobs and Skills in Africa Report in 2017 a Kenyan born in 2017 is likely to achieve at most 52% of their potential if they survive to adulthood because of gaps in the education and health systems. It concludes, "Investments in policies to promote education, digital skills and healthcare must be prioritized".

- The Harvard Business review currently classified Kenya and South Africa as Leading the Way in terms of preparedness to exploit digital technology to leapfrog ahead in economic development

- According to the World Bank's Africa Pulse report, although better than most of its peers, Kenya still only scored 23 out of 100 for preparedness in terms of its ICT skills base a sobering number on which to build a digital economy. This highlights the need for a not only thorough and equitable upskilling but also a quick one if Kenya is to provide the domestic brain power required to exploit the available capital.
Digitisation: COVID-19 policy and firm responses

- Africa has a much higher percentage policy responses on digital payments and business continuity than other developing countries
- Kenya ranks among the top in probability of increasing digital platforms (but this may skew towards formal and larger firms)
- Financial services, ICT and retail/wholesale are ranked with highest probability of increasing use of digital platforms

Source: World Bank – Africa Pulse April 2021
Headline numbers for mobile data access look good but the details reveal stark inequality:

- In Dec 2020 over 70% of mobile subscribers (61M) had a mobile data subscription (44M). This is the first time the number of mobile data connections has exceeded 40M.

- Mobile data broadband subscriptions increased by over 15% between March and Dec 2020.

- In Dec 2020 43% of mobile broadband data connections were 4G, this was a significant increase from 35% in March 2020.

- Safaricom reported a 60% increase YoY in the number of 4G devices using more than 1GB in Sept 2020.

- Simple division of the number data connections by the population would give a coverage rate of over 90% of the population having mobile data access.

Source: Communications Authority of Kenya and KNBS
Mobile Data Access 90% or under 20%? (2)

However:

- Of the 44M mobile data subscriptions only 55%, 24 million are broadband i.e. have a speed of greater than 256Kbps (not sufficient to stream video)

- Of these, only 43%, just over 10 million, are 4G connections meaning they provide enough bandwidth to support activities beyond basic browsing and messaging

- This would leave a headline figure of 22% of the population having a meaningful mobile data connection

- However, we know that many more affluent users have multiple active 4G devices in areas covered by higher speed mobile internet. This leads to double triple or quadruple counting of the same individuals. Whilst we know this practice is widespread it is not currently possible to quantify and discount for, making it impossible to estimate the true % of the population with meaningful mobile data access

Source: Communications Authority of Kenya and KNBS
MOBILE PHONE OWNERSHIP

- In 2019, only 47% of the population aged 3 and above owned a mobile phone (feature or smartphone)
- In only 32% of Sub Counties was mobile phone ownership greater than 50% of the population (aged 3 years and above)
- Ownership based on gender is balanced at the national level

INTERNET USAGE

- Only 23% of the population aged 3 and above used the internet
- Users are highly concentrated. In only 4% of Sub Counties was internet usage greater than 50% of the population (aged 3 years and above)
- At the national level 25% of males are internet users compared to 20% of females
- The % of internet users by Sub County ranged from 3% to 66% (excluding forest reserves and national parks where populations are artificially low and internet usage high)
In 2019, only 10% of the population aged 15 and above owned a computer, laptop or tablet. This represents a serious barrier to education in STEM subjects in general and computer programming in particular, which will require more functionality than is offered by smartphones.

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E-COMMERCE

- Only 4% of the population aged 15 and above had bought something online.
- **Users are highly concentrated.** In only 5% of Sub Counties had more than 10% of the population (aged 15 years and above) bought goods or services online.
- At the national level, 3.2% of males and 4.4% of females had bought goods or services online.

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COMPUTER/LAPTOP/TABLET OWNERSHIP

In 2019, only 10% of the population aged 15 and above owned a computer, laptop or tablet.
There appears to be a broadly equitable distribution of mobile phone ownership between genders.

In 20 of 47 counties, female ownership of mobile phones was at parity or above male ownership.

In only 7 counties did female mobile phone ownership fall below 90% of male ownership.

Interestingly, according to the Comprehensive Poverty Report, Narok and Lamu had the 3rd and 12th lowest rates of monetary poverty but rank the 7th and 3rd least equitable in terms of gendered mobile phone ownership respectively.

This suggests that access to mobile phones is not determined purely by monetary considerations.

However, a look at the access to internet shows much larger gender gaps.
INTERNET USAGE

- Internet usage is highly gendered and the extent of gendered usage varies widely between counties.
- Interestingly, the 5 counties with the lowest incidence of multidimensional poverty have vastly different levels of inequality with Nairobi being the 3 most unequal nationally and Kiambu being the most equal.
  - **Nairobi** – female usage 60% of male usage
  - **Kirinyaga** – female usage 62% of male usage
  - **Nyeri** – female usage 74% of male usage
  - **Mombasa** – female usage 86% of male usage
  - **Kiambu** – female usage 92% of male usage

Similarly, West Pokot, which has the 7th highest rate of multidimensional poverty has the second most gender balanced profile of users.

Understanding these inequalities and their drivers will be key to increasing the digitally connected population and closing the digital divide.
Access and Equity Key Stats

- Female headed startups accounted for 20% of the VC equity funded deals in Kenya in 2020 substantially more than the African average of 13%.

- By Value, 79% of the VC funding for female headed startups in Africa occurred in Kenya.

In 2019:

- Mobile phone ownership rates were broadly gender neutral.
- Internet usage was highly gendered with equity varying greatly by county.

This has translated to a marked gender difference in engagement with e-commerce and likely with other internet reliant services such as e-learning and e-government.

In 2020, 34% of men and 20% of women report making a transaction online. This represents a substantial increase from data from the 2019 census which reported 3% and 4% respectively.

Sources:
1. Statista reported on [https://datareportal.com/reports/digital-2021-kenya](https://datareportal.com/reports/digital-2021-kenya)

GSMA.com

KNBS

GSMA.com
Equity and e-learning

- Covid-19 provided a real-world testing ground for Kenya’s preparedness for e-learning.
- In March 2020 education establishments closed their doors leaving over 18 million students without access to in class education.
- The government and education institutions responded by developing digital and distance learning materials such as the Kenya Institute of Curriculum Development’s Kenya Education Cloud.
- Whilst undoubtedly beneficial, these products rely on not only device access, which would mean at least one 4G device per student, but also being able to fund daily internet bundles as well as the parental time available to support learning in the home.
- The second Socio-Economic Impact of COVID-19 on Households Survey Wave Two, conducted by KNBS noted that just under 13% of households with school aged children responded that they had engaged with online learning. As a recent blog from London School of Economics notes: ‘For parents in the low-income segment or working in the informal sector, there are sadly formidable challenges to ensure their children are meeting basic quality standards.”
- Whilst classroom-based learning is likely to resume as the pandemic comes under control, it is also likely that e-learning will form an important pillar in Kenya’s future education landscape. The pandemic has offered us the chance to learn a lot of lessons about the challenges of equitable access to digital education, which we would do well to address as quickly as possible. Extracting these lessons will require coordinated efforts between government ministries, education providers, technology service providers and many others if these hurdles are to be better understood.
Digitisation - High Speed Data Services

High speed fibre and 5G connections will be crucial to support businesses creating digital content and will be crucial to rolling out services such as digital education as content requires more bandwidth:

- The number of fibre to home or office connections increased 38% over 110,000 additional subscriptions between the end of March and end of Dec 2020
- Currently, less than 3% of Kenyan households have a fibre connection

There is currently no public data available on the number of 5G connections

Data volumes:
- The total volume of mobile data used increased 50% between March and December 2020
- It is likely that some of this can be accounted for by increased video conferencing for work and education but that a large % of this was taken up with content requiring substantial bandwidth such as video streaming

Source: Communications Authority of Kenya and KNBS
Company Domain Name Registration

- At beginning of the pandemic there was a significant increase in company domain name registration indicating that the more tech savvy population saw an opportunity in digitising existing businesses or establishing new businesses.

- During the second three months of the pandemic the total number of company domains fell perhaps indicating that many online businesses were not performing and that their domains had been left to expire.

- Between October and December 2020 the number of company domain names increased 7.5% likely driven by optimism about vaccines and opening up the economy.

- Domain name registration appears to be a volatile indicator which, could be used as a proxy for confidence in the economy as a whole and the digital economy in particular.

Source: Communications Authority of Kenya
Cyberthreats

- Communications Authority of Kenya registered a more than **50% increase in detected cyber threats** in Oct – Dec 2020 when compared with the same period the previous year.
- Most of this increase can be accounted for by **malware**, which is used to steal personal, financial or business information and which enters a computer by downloading infected software or through an infected email or link.
- Whilst this increase can be expected given the increase in people working from home, and the likely increase in downloading unlicensed software to support that work, it is important that companies are aware of these threats and safeguard themselves and their employees against them.
- Bear in mind that by 2018, **annual losses for Kenya due to cybercrime were estimated at $210 million** (Serianu); the highest cybercrime costs are in banking and financial services sectors, government services; and e-commerce.

Source: Communications Authority of Kenya
Digital Infrastructure and Expanding Access

• In October 2020 the Government launched the 630-kilometre high-speed fibre optic cable that will ease communication in 24 remote areas as well as open up the northern region part of Kenya. In addition, the project will benefit communities, government entities and business operating in Northern part of Kenya. (CAK)

• Safaricom projects 100% coverage of the 4G network by the end of 2021. The coverage rate in Oct 2020 was 91% after the number of 4G base stations increased 48% from the same time the previous year

• Safaricom launched 5G services in Nairobi, Kisumu, Kisii and Kakamega with the expectation that these services will be expanded to 150 sites across 9 towns over the next 12 months

• Safaricom doubled the speeds of the fibre to home and fibre to office products with no increase in price

• In July 2020, Safaricom launched the Lipa Mdogo Mdogo product aimed at allowing 10 million low-income Kenyans to purchase a smartphone for repayments of KSh 20 per day. Whilst no numbers have yet been reported on the uptake of this product a report from CAK noted that:

There were 2.8 million additional SIM cards (between July and September), up from 1.8 million additions recorded by end of June 2020. The substantial growth is attributed to smartphones device financing service campaign run by Safaricom PLC dubbed “Lipa Mdogo Mdogo” which began on 28th July 2020 and was aimed at acquisition of new customers.
E-commerce Market Size and Firm Dynamics

As of January 2021:

- In 2020, an estimated **USD 1.5 Billion** was spent via e-commerce in Kenya, this represents a **65% increase from 2019** and is equivalent to roughly **1.6% of total GDP in 2019**.
- An estimated **1.36 million orders for take away food delivery** worth an estimated **$31.13 million** were made in 2020.
- Value of consumer **spend on mobile apps** for full year 2020 was estimated at **$60 million** or the equivalent of **0.06% of the total GDP in 2019**.
- **34% of men and 20% of women report making a transaction online**. This represents a substantial increase from data from the 2019 census which reported 3% and 4% respectively.

Firm dynamics:

- **Dependence on hard infrastructure**: E-commerce platforms and firms that use e-commerce in Kenya still have a reliance on bus companies for importing products and for last-mile delivery; this makes the sector **vulnerable to lockdowns and restrictions in movement**.
- **Intellectual property**: Kenya’s patent registration fees are **13.3 times its GDP per capita** (the ratio is 10.2 in Senegal and 7.9 in Ethiopia), compared to 0.4 for Malaysia; bringing this down will be particularly important to foster firm B2C and B2B expansion in a manner that secures firm IP and innovation labour.

Sources:
Mobile Money

- Between the periods Jan-March and Oct-Dec 2020 the value of mobile money transfers has nearly doubled. During this period:
  - Customer to Business (C2B) transfers increased 217%
  - Business to Business (B2B) transfers increased 94%
  - Person to Person (P2P) transfers increased 53%
- This indicates a significant shift in how people are choosing to pay for goods and services and may make a significant contribution to CBK’s vision of a cash-lite economy if the level of digital transfers can be maintained after the reintroduction of fees for low value payments and transfers.
- The number of mobile money agents has increased over 30% in the same period
- The value of mobile money deposits and withdrawals in Feb 2021 was over 60% higher than the same month in 2020.
- In January 2021 the value of cash either being deposited or cashed out through mobile money agents was the equivalent of 260% of the value of currency outside of banks. This is the equivalent of every shilling not in a bank passing through a mobile money agent 2.6 times
Digitisation of Payments and a Cash Lite Economy

- The total value of transactions made to merchants through Lipa na M-PESA increased by over 30% in July – September compared to the previous quarter.

- There was a 29% increase in the number of active Lipa na M-PESA merchants.

- A recent study found that 62% of micro and small enterprises accepted mobile money payments in February 2021 compared to 18% of businesses in 2018 (FinAccess MSE Tracker and FinAccess 2018). However, only 3% of this growth took place after February 2020 indicating that most micro and small businesses adopting digital payments did so before the pandemic.

- Between July and Sept 2020, at least KShs 229 billion was paid to Lipa na M-PESA merchants. This was more than the total value of currency outside of banks (KShs 218 billion) in Sept 2020. This is the equivalent of every shilling, not in a bank, being used to purchase goods or services through a Lipa na M-PESA merchant at least once during that 3 month period. This is the first time this milestone has been reached.

Source: Safaricom Results Booklet H2 2020/21
Digitisation of Payments and a Cash Lite Economy

During 2020 Safaricom launched 2 significant products aimed at increasing the ease of registering as a merchant as well as providing value add services:

- **Pochi La Biashara** is a product which allows M-PESA registered customers who own informal businesses such as: food vendors, kiosk owners, boda-boda operators, secondhand clothes dealers, etc. to receive and separate business funds from personal funds on their M-PESA number.

- **M-PESA for business** app which allows users to access real time statements, track their business performance, withdraw funds to a non-business M-PESA account, bank account or through an agent and importantly send money to other M-PESA customers to pay for supplies, make payments or pay wages.

- Online portal to allow businesses to apply for a Lipa na M-PESA till without having to visit an office.

Source: Safaricom Results Booklet H2 2020/21
Digital Credit

- Unregulated digital credit only apps took a big hit during 2020. DLAK members were lending an average of KShs 4 billion a month pre-COVID-19, this was cut by more than 50% after Covid-19 was detected in the country. Many digital lenders have stopped lending.

- Digital bank loan products such as KCB M-PESA and NCBA's M-Shwari reduced their lending. KCB M-PESA, which lends higher amounts, cut its total loan book by 60% between April and Sept 2020.

- Between April and Sept 2020, Safricom's Fuliza increased the value of credit offered by 33% from the same period in 2019. The total value of credit offered was KShs 149 billion. The product also increased its repayment rate from 97.6% to 99%. During this same period the increase in the net value of traditional non-digital bank loans was KShs 85 billion.

- Since March 2020 Fuliza offered a higher value of credit than DLAK member's digital credit apps KCB M-PESA and M-Shwari combined.

- 2 Digital credit apps (Kashway and IPESA) were in the top 10 most downloaded apps in January 2021.

Source:
1 Safaricom Results Booklet H2 2020/21
2 App Annie January 2021
Safaricom

In **December 2020** Safaricom's market share for mobile and data was:

- Total mobile subscriptions – **64%**
- Voice traffic (by minutes used) - **69%**
- SMS - **92%**
- Mobile data subscriptions – **68%**
- Fixed data subscriptions – **36%**

In **Sept 2020** Safaricom’s market share for mobile money products:

- Mobile money agent tills – **88%**
- Active mobile money subscriptions – **98.8%**
- Total value of deposits – **99.8%**
- Value of person to person (P2P) transfers – **99.9%**
- Value of business to business (B2B) transfers – **100%**
- Value of customer to business (C2B) transfers – **99.9%**
- Value of business to customer (B2C) transfers – **99.9%**
- Value of government to citizen (G2C) transfers – **100%**

**Digital Credit:**

- Between April and Sept Fuliza offered credit of over KShs 149 billion.
- This is significantly more than the total offered by KCB M-PESA, M-Shwari and all of DLAK’s members combined

Source: Communications Authority of Kenya
* provider disaggregated data was not released in December 2020
Safaricom and Innovation

This concentration of the market in a single provider, especially in the payments space, carries inherent risks but has also allowed Safaricom to reinvest and innovate taking risks on products and services that may be beyond the means of other market players. Since the beginning of the pandemic Safaricom has:

• Projected **100% coverage of the 4G network by the end of 2021**

• Launched a pilot **5G roll out expected to expand** to 150 sites across 9 towns over the next 12 months

• Doubled the speeds of the fibre to home and fibre to office products with no increase in price

• Launched **Lipa Mdogo Mdogo** aimed at allowing 10 million low income Kenyans to purchase a smartphone

• Launched the **M-PESA Business app** to provide value added services to MSMEs

• Launched **Pochi la Biashara** to reduce barriers to small and informal businesses being able to take digital payments and to separate business and personal funds

Source: Communications Authority of Kenya
* provider disaggregated data was not released in December 2020
Digitisation Recommendations: Foster cross-government support to implement digital policies

Digital Finance Policy – Flagship project under Vision 2030 MTPIII, National Treasury
“An open, digitised financial system powering a digitally driven and inclusive economy”
• Open infrastructure: Identity, data and digital money; competition regulation
• Consumer protection: Market conduct regulation, data rights and privacy
• Financial system regulation: managing innovation risk, regulatory effectiveness

Digital Economy Strategy – Ministry of Information, Communication, Technology, Innovation and Youth Affairs
“Accelerating global economic development, enhancing productivity of existing industries, cultivating new markets and industries, and achieving inclusive, sustainable growth.
• Digital government
• Digital business
• Infrastructure

“To enhance Kenya’s global leadership in digital payments by building a world-class secure, resilient, and collaborative payments system that powers Kenya’s economy and its journey towards cash-lite”
• Trust: a system which guarantees that payments will be make and received in a timely & reliable manner
• Security: A resilient system that safeguards all payments and channels in an increasingly digital world
• Usefulness: a system that meetings the payment needs of individuals, businesses and government
• Choice: Availability of feasible options resulting from collaboration among different service providers
• Innovation: An ecosystem that produces value-adding solutions which also compete at the global stage
Recommendations:
Data Key to Drive Understanding and Appropriate Policy

Maximising opportunities presented by digital advances requires more than high level access, it requires equitable access.

Supply side data:
• Needs to be reported disaggregated by gender and location
• National ID reporting would allow access and usage of services to be aggregated to individuals giving a much clearer picture of real world penetration of services and avoid the double, triple, quintuple counting of services being used by a small % of the population

Categorising and standardisation of Digitisation measures
• Neither the KNBS nor CBK currently use a classification system which reports ICT as a sector or digital businesses as a subsector. This makes the contribution that digital services contribute to the economy difficult to measure.

It would be beneficial for all Ministries and other entities, including or Central Bank of Kenya, Treasury and Ministry of ICT, the Communications Authority of Kenya and County Governments involved in the collection and dissemination of data concerning the economy to review their requirements and reporting practices to ensure that they provide a detailed and comprehensive view of the digital economy.

As the digital economy covers so many areas and reporting bodies it may also be beneficial to designate a single body to be responsible for aggregating data from multiple sources and publishing it in one place. Much in the same way that KNBS aggregates data from multiple sources to produce the Leading Economic Indicator report.
Recommendations: Measuring a digital economy

How to Measure Monetary Value in a Digital Economy?

- GDP was designed predominantly to measure manufacturing output and whilst efforts have been made to update the methodologies used to be more service orientated, approximations of value created by service industries are often unsatisfactory.

- Developing tools to capture the economic value created by the increased digitisation of the economy will be key to understanding the changing nature of growth and the economy and will be vital for setting appropriate policies.

- Creating and defining tools in a way which captures monetary value created not only through the production of digital goods and services, but which also captures the monetary value added to traditional sectors such as retail, health, industry would give the most detailed economic picture.

- Given the current challenges of estimating this value using traditional methodologies and the cost associated with expanding surveys, what mechanisms could Kenya bring to bear to ensure monetary value created by the digital economy is adequately measured?
The Importance of Measuring Non-Monetary Value in a Digital Economy

- Digital industries are not only more difficult to quantify in terms of a monetary value produced, but many disruptive technologies explicitly aim to reduce the monetary value created, whilst prioritising other forms of value such as convenience.

- For example, platforms which seek to link agricultural producers and consumers are likely to produce higher values for producers and better value for consumers. However, this comes at the cost of the middleman who is removed from the supply chain and the mark up she would have applied to the products would thus be removed from GDP. Taken in the aggregate, these changes may have a measurable impact on the economy as it is currently measured.

- Without expanding our idea of value beyond simple monetary terms we are likely to miss the true impact of potentially transformative technologies. There is no set textbook for capturing non-monetary added value as it comes in many forms including increased human capacity, environmental value (i.e. China’s Green GDP experiment), improved health outcomes and many others.

If Government is to account for the true value of digitisation and disruptive technology then it must consider:

- What aspects of non-monetary value are most important and relevant to the country?
- How this value is to be captured and included in an expanded framework for national accounts?
Recommendations: Increasing access to highspeed data connections, laptops and computers

• Maximising opportunities presented by digital advances requires more than high level access it requires equitable access.

• The telecoms sector is investing in making smartphones available to low-income households and whilst this is likely to increase youth access to digital services, it is unlikely to be sufficient to support higher level education and the devices required to support upskilling in ICT. Data from the 2019 Census indicates that only 10% of the population over 15 owns a computer, laptop or tablet (note these figures are likely inflated by those owning tablets, which do not perform the same functions as a computer or laptop).

• Given that a large number of these devices are likely to be owned by the urban employed population and that approximately 1.5% of the population over 15 is currently studying at university, where a laptop or computer are surely required. This indicates a significant market for affordable, high quality laptops and computers which could exploit similar funding models to those currently being tested to increase smartphone penetration.

• During the pandemic, several tertiary education institutions negotiated discounts on data bundles for students but this was not universal and likely mostly benefitted students from institutions with more recognition and capacity. Pricing models which increase access to highspeed data connections for students would likely contribute to increased academic performance and potentially stimulate more youth digital entrepreneurship.
Household Update

- Sources of income
- Coping Mechanisms
Sources of Income

- Across the population, **salaried employment has risen for the first time since May 2020 to 13%**. Self-employment has also risen from 18% in May last year to 25% in February 2021.
- Meanwhile, there has been a **steep reduction in causal labour** (from 24% in May 2020 to 13% in February 2021).
- These trends are **mainly driven by urban areas** where (in contrast to rural areas) there has been a dramatic upward shift in employment and business, accompanied by a significant reduction in casual labour and farming.
- While this suggests a shift to more lucrative occupations, the drop in casual labour **may also indicate reduced income earning opportunities for many who depend on informal jobs**.
- Similarly, the rise in self-employment could partly result from a bounce back in the economy, but **may also indicate lack of alternative income sources, and increased pressure on a sector already hit by reduced demand**.
- Meanwhile, the reduction in farming may be mirroring a move back to urban areas for those who had migrated out.

Source: Kantar/FSD Kenya Covid-19 Household Tracker
A reduction in coping strategies may signify reduced stress on households; or diminishing options for support

- Reliance on coping strategies reduced substantially between July 2020 (lockdown) and Feb 2021. This may signify reduced levels of stress for households; equally we may be seeing a decline in available sources of support.

- Cuts to food and airtime have reduced substantially, with a corresponding decline in food insecurity (62% said they had skipped meals in Oct 2020, down to 50% in Feb 2021)

- Reliance on shopkeepers and landlords has also reduced substantially, either because household economies are stronger or because the reserves of landlords and shopkeepers have been depleted to the extent that they are no longer able to meet these demands.

- Borrowing continues to be a major coping strategy, signifying the resilience of this strategy, but also raising concerns over increasing pressures on financial providers and social networks in relation to credit risk.

- Reliance on savings and asset sales has also reduced, possibly because these reserves have been successively depleted over the course of the pandemic.

One-third of Kenyan households still did not have enough food to eat in the early months of 2021; poor and rural households are most affected (each 33%) (World Bank)

Data on borrowing shows a sharp reduction in shopkeeper credit (35% in Oct '20 to 19% in Feb '21) indicating depleted reserves to continue to support household needs (FSD/Kantar)

Coping Strategies:
% of adults whose incomes have decreased

Source: Kantar/FSD Kenya Covid-19 Household Tracker
There has been no change in overall borrowing, but loan portfolios have shrunk with people borrowing from fewer sources

- There has been little change in credit usage; **70% of adults had loans** outstanding in Feb 2021 (compared with 71% in May 2020)
- But **loan portfolios are shrinking**, with people borrowing from fewer sources
- The hit to the informal economy is evident in **substantial reductions in shopkeeper credit and loans from friends and family**
- **Mobile banking loans are still the most prevalent**, testimony to the importance of digital technology in providing access to credit, but digital app borrowing has reduced by 30%

![Changes in top sources of credit 2020-21](chart)

Source: Kantar/FSD Kenya Covid-19 Household Tracker
COVID-19 Impact on MSMEs

- The role of MSEs in welfare and inclusive growth
- How MSEs have fared during COVID-19
- Implications and recommendations for MSE recovery
What are MSEs?

EARN ANY INCOME FROM SELF-EMPLOYMENT

5.15 million
19% of adults 16+

GENDER

Female 48%
Male 52%

AGE GROUP

56+ 12%
46-55 14%
36-45 26%
26-35 34%
16-25 15%

AGE PYRAMID

Female
Male

Wholesale & retail trade 54%
Manufacturing 8%
Other community, social and... 7%
Transport and Storage 7%
Accommodation and food services 6%
Agriculture, Forestry and Fishing 3%
Professional, scientific, technical... 2%
Construction 2%
ICT services 2%
Other sector/ No answer 8%

76% have no paid employees

Source: FinAccess 2019
MSEs are largely informal: example of Nairobi MSEs

In 2016, one in five Nairobi businesses (20%) operated on less than 3,000 KSh ($30) per month

Note: Data is from 2016; the current MSE landscape may look quite different

Operate mostly informally

- Median annual revenue* KSh 180,000
- 770,000
- 73%

Operate mostly formally

- Median annual revenue* KSh 540,000
- 200,000
- 19%
- Median annual revenue* KSh 3.6M
- 80,000
- 8%

In-betweens

- Median annual revenue* KSh 200,000
- 770,000
- 73%
- Median annual revenue* KSh 770,000
- 200,000
- 19%
- Median annual revenue* KSh 80,000
- 80,000
- 8%

Mostly informal

• Mostly operate out of temporary structures/open spaces
• Tend to not pay County permits and are not registered with Companies Registrar
• Rely mostly on informal finance

In-betweens

• Mostly operate out of permanent premises
• Usually have County permit but unlikely to be registered
• Use both formal and informal finance

Mostly formal

• Operate out of a permanent premises
• Registered businesses
• Use formal finance
• Have employees with contracted relationships

Source: FSD Kenya Formality and Informality, Nairobi MSEs

Note: *Business revenue likely to be under-reported in survey data
Nairobi MSEs are mostly survivalist…. struggling against the odds to keep families afloat

Importance of Segmentation

Different MSE Segments require different policy approaches...

How can we make survivalists more resilient?

How can we identify and support growth-oriented entrepreneurs to succeed?

Source: FSD Kenya Formality and Informality, Nairobi MSEs
MSEs play a key role in welfare and inclusive growth

MSEs play a major role in **food security and access to good and services** through last mile distribution—even during COVID-19

Contribute **24% of GDP**

Complement formal sector through managing costs in supply chains by reliance on informal networks and institutions

MSEs are a source of livelihood for 19% of adults, especially women (FinAccess 2019)

MSEs are concentrated in sectors which boost local economies (Small scale trade, agriculture, small scale manufacturing, education, hospitality, construction)

**WELFARE**

- 7.3 M (98%)
- Micro (1-9 employees)
- Small (10-49 employees)
- Medium (50-99 employees)

**GROWTH**

- 111,000 (1.5%)
- 11,500 (0.2%)

*Source: State Department for Industrialization. Kenya Micro and Small Enterprise Policy, Sessional Paper No. 05 of 2020*.
How have MSEs fared during COVID-19?

Results from FinAccess MSE COVID-19 tracker
After a severe hit during the 2020 lockdown, businesses are beginning to recover; but beneath these averages is a story of increasing divergence and uncertainty.

Of businesses that have remained open throughout COVID-19, 45% are operating at a revenue less than half of pre-Covid levels. On the flip side, 30% of businesses have recovered fully; they are earning the same revenue or a higher than they did in February 2020.

Note*: based on a sample of 193 businesses who have remained open throughout the period and provided reliable income data.
Employment of staff had recovered by March 2021, but the quality of employment has declined

By March 2021, staff employment had recovered to pre-COVID levels after a 40% drop during the 2020 lockdown period. But a larger share of employment in March was unpaid, indicating a reduction in the quality of jobs.

The high proportion of unpaid staff in March 2021 suggests that this was possibly a strategy for recovery following the 2020 lockdown period.

Source: FinAccess MSE COVID-19 Tracker
Digitisation of MSE payments has increased significantly, but the ‘COVID-effect’ may be over-exaggerated.

The main shift to use of mobile money for business transactions happened between the end of 2018 and early 2020, pre-COVID. During COVID-19 this rate of adoption tailed off, likely because most ‘adopters’ have already been reached.

MSEs who use digital payments perceived a surge in customers paying digitally during 2020 lockdown; by March this had subsided- possibly due to reduced concerns about hygiene and the reinstatement of tariffs on low-value transactions.

A third of businesses increased their use of SMS and phone calls to reach customers during the 2020 lockdown, but very few started using, or increased their use of social media and online platforms.

Source: FinAccess MSE COVID-19 Tracker
Digital borrowing has reduced since the end of 2020...but not mobile money overdrafts

Sources of loans for MSE borrowers during COVID-19

Between November and March there was a significant drop in digital borrowing

A third of bank borrowers had their loans restructured between Feb and Nov 2020 (2% of the total MSE population)

Source: FinAccess MSE COVID-19 Tracker
MSE resilience remains a key concern

Food insecurity quadrupled during COVID, and remains substantially higher than pre-COVID levels across all MSE households.

By November 2020, 90% of businesses with savings pre-COVID had used half or more of their savings, while 47% had no savings left at all.

The percentage of MSEs with savings halved during the 2020 lockdown. Despite indications of recovery since then, the percentage with savings has only increased marginally, indicating that resilience is still a key concern.

20% of businesses active in Feb '20 had closed by March 2021. Of these, 11% had closed during the 2020 lockdown and 9% (who survived lockdown) closed between November and March.

Source: FinAccess MSE COVID-19 Tracker
The main source of support during 2020 lockdown was social networks.

65% said cash assistance would have helped them the most to weather the lockdown period, with government cited as the key source they would turn to.

Nearly a fifth of businesses said they benefited from government measures to reduce the impact of lockdown (e.g. VAT and TOR reductions). However, the vast majority (73%) said they received no support from government.

Government measures cited by MSEs as benefiting their business during lockdown:

- No Support: 73%
- VAT Reduction: 19%
- Turnover Tax Reduction: 18%
- Suspension of Credit Reference Bureau Reporting: 8%

Main source of support during 2020 lockdown:

- Friends/Family: 54%
- SACCO: 19%
- None: 7%
- Other Businesses: 5%
- Customers: 4%
- Church/Group: 3%
- Bank/MSF: 2%
- Government: 2%

Businesses continued to rely on social networks to support them through the 2020 lockdown, with the biggest source of support being friends and family. SACCOs, a key source of finance for MSEs, were also mentioned as significant.

Source: FinAccess MSE COVID-19 Tracker
MSEs have borne the brunt of COVID-19: squeezed between suppliers and cash-starved customers....

- Dependence on cash-starved customer base
- Households more reliant on goods on credit (15% increase in value of customer credit outstanding)
- Price hikes from suppliers—often not cascaded to customers
- Reduced access to credit (chamas and social networks also hit; banks preferred to lend to more stable high-end markets)
- Very little support from government

Impacts of COVID-19 in 2020

Source: FinAccess MSE COVID-19 Tracker
Implications for MSE recovery
Key challenges for supporting MSE recovery

• **Informality**: Important strategy for resilience; but makes MSEs hard to reach with formal measures

• **Decentralisation**: hard to create scalable efficiencies that can enhance MSE operations and enable them to capture more value

• **Liquidity** a key constraint; but businesses shun loans in a high-risk environment; meanwhile, savings have been eroded during 2020

• **Demand**: with consumers (low-income households) continuing to struggle, demand will remain suppressed dragging down businesses who are struggling to bounce back

• **Competition**: job loss (formal and informal) has pushed people into business, increasing the pressure on the sector, despite constrained demand. Those with capital, connections and skills will survive and grow; but many will go under
## Recommendations to foster MSE recovery

<table>
<thead>
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<th>County Government</th>
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**Recommendations to foster MSE recovery**

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  - Harness existing data (e.g. KNCCI, MSEA, county councils etc.) and commission new data to inform granular policy for MSE segments
  - **Digitisation**: Explore ways to harness digital information trails to improve access to finance and services for MSEs

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**National Government**

- Expand cash transfers to households to stimulate demand
- Implement the **MSME pillar** of the **Post-COVID-19 Economic Recovery Strategy**
- Re-consider penalties linked to missed payments on NHIF so continued access to healthcare is secured

**County Government**

- Make **trading spaces and worksites** COVID-19 compliant through participatory design that includes the needs of women (WASH, security, electricity)
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