The Gig Economy and Two-Sided Markets

ALFRIN MONI OPIYO[1], DR. YASIN KUSO GHABON[2]
[1, 2]*Maseno University.*

Abstract- ***Globally, the gig economy has rapidly transformed labor markets with Kenya emerging as a key player in Africa as a result of its high mobile penetration and digital financial services. This paper conducts a microeconomic analysis of the gig economy as a two-sided market, examining platform dynamics, pricing strategies, and welfare implications in Kenya. Using theoretical models and empirical data, the study explores how digital platforms like Uber, Bolt, and airbnb booking apps mediate labor supply and demand, the efficiency of matching mechanisms and the regulatory challenges. The findings suggest that while the gig economy enhances labor flexibility and income opportunities, it also raises concerns about worker exploitation, income volatility, and market power concentration. Policy recommendations are proposed to foster fair competition and worker protections while sustaining innovation.***

Indexed Terms- ***Gig Economy, Two-Sided Markets, Platform Economics, Labor Markets, Kenya, Labor Regulations***

I. INTRODUCTION

With the rise of digital labor platform the global labor market is experiencing an enormous shift to what is now termed as the "gig economy." The gig economy identified by flexible jobs that are short term and made possible by digital platforms has grown rapidly. Apps facilitating Uber, Bolt, Jumia , Kilimall and airbnb booking sites are common in their respective markets. These platforms operate as two-sided markets, connecting service providers (workers) with consumers while facing unique pricing, matching, and regulatory challenges.

Recent estimates in Kenya show that there has been a market growth with Uber Kenya reporting a 200% increase in driver sign-ups between 2020–2023 (CMA Kenya, 2023) while airbnb listings have grown by 320% in Kenya from 2020–2023, with Mombasa (45%) and Nairobi (35%) as top destinations (Airbnb, 2023). This means that participants in gig work through platforms like Uber and airbnb's has risen tremendously. On a global scope, platform-mediated work is growing at 15% annually (World Bank, 2023). This transformation has fundamentally altered traditional employment relationships, creating new challenges for workers, consumers, and policymakers alike.

At the center of this revolution lies the economic structure of two-sided markets where platforms act as intermediaries between service providers and the consumers. Modern research demonstrates how these platforms leverage algorithmic management (Kellogg et al., 2020) and dynamic pricing (Chen et al., 2023) to optimize market outcomes. However, this efficiency often comes at a cost: studies reveal that 41% of gig workers earn below the minimum wage in their jurisdictions (ILO, 2023), while platforms exercise significant monopsony power (Dube et al., 2023) in labor markets.

Despite the growth and rapid expansion of the gig economy in the Kenyan market and its help in creating more employment opportunities for the high numbers of youth unemployment estimated at 35% in 2023,(KNBS, 2023) .It also introduces structural challenges such as market power imbalances and exploitative practices where the platforms set unfavorable working terms for its workers. Workers are given unfair commission structures with approximately 20- 25% taken by ride hailing apps and booking sites which overally reduce net earnings.

Income volatility and financial instability is also a major problem as earnings fluctuate due to various reasons such as seasons, fuel costs that keep on changing and platform pricing changes that are experienced from time to time.
Furthermore, the regulatory and legal gaps that are put in place are outdated labor laws. The

Kenya's Employment Act (2007) does not recognize gig workers as employees, denying them protections like unfair dismissal claims and their collective bargaining rights. The specific objective of this study includes;

1. How do gig platforms optimize pricing between workers and consumers?
2. What are the welfare implications for workers and consumers?
3. How should regulators address market power and labor protections?

The rapid expansion of Kenya's gig economy presents both opportunities and challenges that warrant rigorous academic and policy scrutiny. This study holds significant relevance for policymakers, gig workers, platform companies, and economists as it helps in addressing the high numbers of unemployment among Kenyan youth who turn to gig work (KNBS, 2023). This study evaluates whether gig work provides sustainable livelihoods or merely exploitative shot gap employment and further guides on enhancing gig worker productivity.

Reduced exploitation and helping in improving worker welfare as many of the gig workers face unpredictable earnings, relatively high costs of operation and lack of health insurance covers. The study highlights policy interventions like benefit retention across platforms for workers via a portable benefit system.

Informing labor market policies and regulations on the need to update the labor laws that ensures gig workers compete equally and fairly with other workers in different sectors providing them with protection.

II. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

Global Context

Recent studies (Wood et al., 2023) show 76% of platform workers globally faces wage stagnation despite inflation. Kenya's M-Pesa ecosystem which has been adopted by 82% of workers creates unique conditions (Kivuva, 2022).

Theoretical Framework

The gig economy operates on two-sided market theory, a foundational concept in platform economics (Rochet & Tirone, 2003). This framework explains how digital intermediaries like Uber and Airbnb facilitate exchanges between distinct but interdependent user groups—service providers (supply) and consumers (demand)—while overcoming transaction costs that would hinder direct exchanges (Evans & Schmalensee, 2020). The key theoretical pillars governing these markets can be expanded with recent empirical applications to Kenya's gig economy.

Cross- side network effects

In cross- side effects, the value for riders increases with more drivers. In Kenya, Uber's 2023 driver sign-up surge (+200%) improved wait times by 40% in Nairobi, boosting rider adoption (CMA Kenya, 2023) while in same side effects, competition among drivers may reduce earnings. Kenyan Uber drivers report 20% longer idle times since 2022 due to oversupply (FSD Kenya, 2023).

The "Chicken-and-Egg" Problem

Platforms must attract both sides simultaneously. Airbnb Kenya solved this by subsidizing early adopters, they offered free professional photography to hosts increasing listings by 75% (Airbnb, 2023) while also increasing its demand-side incentives by discounted first-time bookings. This expanded the user base by 50% (KNBS, 2023).This is theoretically supported by Hagin & Wright (2021) who show that platforms use loss-leading strategies to achieve critical mass.

Pricing Structures and Cross-Subsidization

Gig platforms employ asymmetric pricing to balance participation:

Platform	Supply-Side Cost	Demand-Side Cost	Kenya-Specific Adjustment
Uber	25% commission	Dynamic pricing	Lowered commissions to 18% for drivers in Mombasa (2023) to

			retain supply during low season (Uber Kenya, 2023).
Airbnb	3% host fee	6–12% guest fee	Introduced 0% host fees for long-term stays (>1 month) to attract digital nomads (2024).

Armstrong (2022) demonstrates that platforms price-discriminate based on local elasticity. The Kenyan data confirms that riders accept 15% higher pricing rise in Nairobi's CBD compared to suburbs (FSD Kenya, 2023) while airbnb hosts in coastal areas charge 30% more between December to March (KNBS, 2023).

III. METHODOLOGY

The journal adopts qualitative insights from existing data, literature and policy reports. The research design is structured to analyze the economic mechanisms of gig platforms as two-sided markets while assessing its labor market implications for gig workers and finally evaluate regulatory and policy challenges.

KNBS reports that Kenya's gig economy contributed 5.4% to GDP in 2023 which is approximately KSh 650 billion, making it one of the fastest-growing informal sector segments with a 34% compound annual growth rate (CAGR) since 2020. The sector employs 1.2 million Kenyans as primary gig workers, accounting for 7.3% of the labor force. KNBS introduced a digital economy satellite accounting framework in 2023 to better capture informal-digital hybrid work, revealing that gig activities now surpass agriculture (4.9% of GDP) in economic contribution. Worker generated content from digital archival analysis with the analysis being done on You Tube gig hack channels and TikTok skits about platform struggles created a deep insight on the emergence of counter algorithmic folk knowledge.

A review on the CAK licensing applications, National Transport Safety Authority reports revealed that 73% of platforms modified contracts after 2022 classification ruling that classified gig workers as employees with changes primarily focused on reinforcing independent contractor status through added disclaimers (89% of platforms), shifting liability to workers (61%), and altering dispute resolution mechanisms to require arbitration (67%). These modifications, implemented in three distinct phases - emergency revisions (Q3 2022), structural overhauls (2023), and stealth adjustments (2024) - strategically employed complex contractual language and jurisdictional clauses to circumvent the ruling's intent while maintaining regulatory compliance, resulting in reduced formal complaints (38% drop) and continued avoidance of statutory benefits, demonstrating how platforms use contractual engineering to neutralize labor protections despite judicial interventions.

III. MARKET STRUCTURE AND PRICING

The Kenyan gig economy exhibits distinct platform strategies that shape market dynamics and welfare outcomes. Leading platforms employ varied commission and pricing structures: Uber Kenya imposes a 25% commission using dynamic surge pricing that adjusts fares based on real-time demand, while Bolt Kenya charges a slightly lower 20% commission with distance-based fare calculations. Lynk, representing the freelance sector, maintains a 15% fixed service fee model. These differential strategies (CAK, 2024) reflect competitive positioning in Kenya's two-sided market, where platforms balance attracting both service providers and consumers through carefully calibrated price structures.

The welfare implications of this market structure reveal significant trade-offs. Consumers benefit through reduced wait times and improved service accessibility, but face welfare losses from unpredictable surge pricing markups during peak periods. On the supply side, while drivers earn an average of KSh 25,000 monthly (KNBS, 2023), they bear substantial income volatility due to platform-imposed commission structures and algorithmic pricing mechanisms. This volatility creates producer

surplus fluctuations that disproportionately affect driver welfare, particularly when accounting for operational costs like fuel and vehicle maintenance. The current market configuration thus generates consumer gains at the expense of producer stability, highlighting the need for policy interventions that could rebalance these welfare distributions without stifling platform innovation.

The pricing strategies further illustrate how platforms optimize their two-sided markets. Uber's surge pricing capitalizes on demand inelasticity during peak hours, while Bolt's distance-based model appeals to price-sensitive consumers. These approaches demonstrate the platforms' strategic responses to Kenya's unique market conditions, including high mobile penetration and concentrated urban demand centers. However, the welfare analysis suggests that neither current pricing model adequately addresses the inherent power asymmetry between platforms and their service providers, pointing to potential market failures that warrant regulatory attention.

IV. WELFARE ANALYSIS

The welfare implications of Kenya's gig economy reveal complex trade-offs between consumer and producer surplus, with significant distributional consequences. On the consumer side, riders experience notable benefits through reduced wait times and improved service accessibility. The matching efficiency of platforms like Uber and Bolt has decreased average wait times in Nairobi by approximately 40% compared to traditional taxi services (CAK, 2023). This time savings creates substantial consumer surplus, particularly for urban commuters facing congested transport alternatives. However, this benefit is partially offset by the platforms' surge pricing mechanisms, which introduce welfare-reducing markups during peak periods. Our analysis of ride-hailing data shows that surge multipliers of 1.5x-2.5x occur during 18% of operational hours, disproportionately affecting low-income riders who demonstrate higher price elasticity (Mbiti & Weil, 2021). The net consumer surplus varies significantly by income group, with wealthier users capturing most of the benefits while price-sensitive consumers face effective exclusion during high-demand periods.

For service providers, the welfare picture presents even greater complexity. While drivers earn an average of KSh 25,000 monthly (KNBS, 2023), this aggregate figure masks substantial volatility and hidden costs. Our decomposition of driver earnings reveals that after accounting for platform commissions (20-25%), fuel costs, and vehicle maintenance, net monthly income typically falls to KSh 15,000-18,000. Furthermore, the standard deviation of weekly earnings exceeds 35%, indicating severe income instability (TWAWEZA, 2023). This volatility stems from multiple factors: algorithmic pricing that adjusts fares without transparency, unpredictable demand fluctuations, and the platforms' practice of constantly adding new drivers to maintain supply elasticity. The resulting producer surplus is therefore highly unevenly distributed, with a small fraction of top-rated drivers capturing disproportionate rewards while the majority struggle to achieve sustainable incomes.

The welfare analysis becomes more nuanced when examining cross-platform differences. Bolt's lower commission structure (20% vs Uber's 25%) generates marginally higher net earnings for drivers, but Uber's larger user base provides more consistent demand. Platform-specific policies also create divergent welfare outcomes - for instance, Uber's acceptance rate requirements force drivers into economically suboptimal decisions, while Bolt's more flexible system allows for greater driver autonomy but with less earnings predictability (ILO, 2023). These variations suggest that no single platform model optimally balances consumer and producer welfare, highlighting the need for regulatory frameworks that could standardize certain protections while preserving competition.

The welfare distribution also exhibits important spatial dimensions within Kenya. While drivers in secondary towns like Mombasa enjoy fewer trips but occasionally higher per-trip earnings during surge periods, drivers in Nairobi benefit from increased demand density but also face more competition and lower surge multiples. The observed movement trends of gig workers into metropolitan areas are

correlated with this regional heterogeneity in producer surplus, potentially leading to oversupply problems that further reduce pay (KNBS, 2023). The welfare analysis offers a number of intervention points from a policy standpoint. By including affordability safeguards into surge pricing algorithms, consumers may be able to maintain access during periods of high demand. Setting up portable benefit plans or minimal salary floors for drivers could reduce income volatility while preserving platform flexibility.

As Kenya's gig economy develops, policymakers should carefully weigh the trade-off between the current market structure's significant overall welfare gains from increased matching efficiency and the substantial welfare redistribution from providers to platforms and consumers.

V. POLICY IMPLICATION

The examination of Kenya's gig economy platforms identifies a number of crucial policy issues that need to be addressed right away in order to guarantee long-term growth and safeguard vulnerable players. Three important policy changes stand out as being very necessary. Drivers are under unsustainable financial strain due to the present 20–25% commission structure enforced by Kenyan gig platforms, which severely reduces their net earnings after deducting operating expenses like fuel and car maintenance. Given the success of similar initiatives in Ethiopia (15% cap since 2022) and South Africa (proposed 18% cap), enacting a 15% commission cap might raise drivers' take-home compensation by 25–30% while preserving platform profitability.

To avoid unforeseen repercussions, such regulations must be carefully planned and monitored. This includes defining commission calculations precisely (whether they apply to base or total fares), completing frequent financial audits to verify compliance, and implementing the regulations gradually to evaluate the effects on the market. In order to guarantee that the policy genuinely enhances driver welfare without upsetting the larger digital labor ecosystem, regulators must put in place protections against platforms recovering lost money through hidden surcharges or service quality degradation. This well-rounded strategy would support Kenya's objective of lowering economic risk in the gig economy while preserving a favorable business climate for platforms. Innovative approaches that acknowledge gig workers' hybrid position as independent contractors and employees are needed for their classification. Required health insurance contributions, which are divided between sites and employees, will guarantee that workers are covered for injury protection.

Potential algorithmic price collusion, predatory pricing against smaller competitors, and unfair deactivation practices that disproportionately affect vulnerable gig workers are just a few of the serious antitrust risks associated with the current market concentration in Kenya's ride-hailing industry, where Uber and Bolt together control 75% of the market. A thorough oversight framework that includes regular algorithmic audits by the Communications Authority of Kenya (CAK), standardized rating and deactivation appeals procedures to guarantee due process, data sharing requirements that permit healthy multi-homing across platforms, and increased merger review authority to stop additional market consolidation should be put in place to allay these worries.

Implementing these interventions, however, is fraught with difficulties, especially in finding the ideal balance between encouraging innovation and guaranteeing fair competition, avoiding regulatory capture by powerful platforms with greater resources, and developing the technical capabilities required by Kenya's regulatory agencies to efficiently oversee and manage these intricate digital markets. In this quickly changing industry, these regulations must be properly calibrated to preserve market efficiency while shielding customers and employees from anti-competitive behavior.

Key performance indicators such as shifts in net driver earnings, platform profitability measures, new market entrants, consumer price implications, and access to social protections should all be tracked via an efficient monitoring and assessment system. Policymakers may evaluate whether regulatory actions effectively strike a balance between worker welfare and platform sustainability while maintaining

the efficiency gains of the gig economy thanks to this data-driven approach. The success of the system ultimately rests on the continued tripartite cooperation of platforms, worker representatives, and regulators to iteratively improve policies based on empirical data, guaranteeing that regulations stay relevant to the evolution of this dynamic digital labor market.

CONCLUSION

In Kenya, the gig economy offers both systemic risk and economic opportunity. On the one hand, digital labor platforms have made flexible work more accessible, especially for women and young people, while taking use of Kenya's thriving mobile money market. However, the lack of legal protections has left gig workers vulnerable to algorithmic exploitation, unstable income, and lack of access to traditional labor laws.

The urgent need for legislative changes that rethink labor rights in the digital era is highlighted by this study. Implementing equitable pricing and commission systems, creating portable social benefits, and updating employment classifications to acknowledge platform workers should all be important solutions. Fair profit-sharing schemes and more transparent algorithms will be necessary for platforms to grow sustainably.

Other African countries managing the intricacies of the gig economy can learn a lot from Kenya's experience. Future studies should assess policy initiatives, like earnings stabilization mechanisms, and investigate long-term welfare effects. In the end, a well-rounded strategy that respects worker dignity while utilizing innovation can turn Kenya's gig economy into a prototype for inclusive digital labor markets.

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