

eCommerce in Africa



Introduction

Digital commerce, or e-commerce as it is still more commonly known, has become a powerful force driving economic change around the world. Digital commerce deploys new technologies in ways that have effects on the physical economy of goods and services. It has not only disrupted entire economic sectors, such as retail and travel, but it has also undermined the effectiveness of traditional approaches to policy in areas such as cross-border taxation. More than ever—ecommerce offers merchants rich potential to improve the customer shopping experience, increase sales and future-proof their business.

Additionally, fifteen to twenty percent of global ecommerce transaction value is already international. This trend is steadily progressing across B2B and C2B use cases, driven by low-cost transport, small-item purchases and increasing comfort with transaction security.

The SME segment stands to benefit the most from cross-border payments' convergence and simplification—given that larger corporates have long had access to most of these capabilities.

What is digital commerce and how is it relevant for Africa?

Digital commerce is a broad term referring to the sale of goods and services online. It encompasses all forms of e-commerce or digital trade, as well as the gig or sharing economy. Digital commerce is still nascent across Africa, generally at levels of well below one percent of retail commerce, compared with 14 percent and above in market leaders such as the US and China. The scores for African countries on the UNCTAD E-commerce Readiness Index are generally low. However, growth in Africa appears to be accelerating in various places.

Is rising digital commerce inevitable? Because of strong tailwinds, such as increased internet connectivity and the growing reach of domestic digital payment systems, it is all but certain that digital commerce will continue to grow. However, there are material uncertainties beyond the control of any one African country policymaker regarding the way in which the international or regional approaches to digital commerce will play out in the next 10 years.



The digital commerce landscape

Digital commerce is a broad-ranging phenomenon without an official definition.

At its most general, it refers to the digitization of commerce of all sorts - goods and services as well as domestic and cross-border.

Another way of looking at digital commerce is to consider whether the goods being sold are physical or virtual, such as streamed or downloaded music and movies. This factor makes a huge difference where ease of delivery is concerned, since physical delivery involves logistical value chains to transport the goods from the warehouse to the customer. Worldwide, physical delivery has been undertaken largely by national post offices, although all digital commerce giants have increasingly built their own sophisticated logistics networks as an area of competitive advantage. In Africa, physical delivery poses a particular problem due to often ineffective post offices, lack of clear addressing systems, and the poor quality of road infrastructure.

Unlike in countries like China, digital commerce in Africa is still nascent, and it would be interesting to see if China's eCommerce success story is a portent of what might happen in African countries.

UNCTAD's E-commerce Readiness Index¹⁰ is one measure of the current potential for digital commerce in Africa. It combines existing data on internet connections, secure servers, payment accounts and postal infrastructure to create a scale of readiness that ranges from zero to 100 percent. In general, of all the continents surveyed, the lowest-scoring countries are in Africa.

Among the leading markets in Africa are South Africa, Kenya and Nigeria, which we have explored further. However, it is clear that there is a great diversity of starting positions across the African continent, so any discussion of policy measures will ultimately have to be grounded in the specific local context.

Although digital commerce is at an early stage in Africa, its reach is already widening.

Research by FIBR, a program of BFA with the support of the Mastercard Foundation, shows that African younger generation is already moving online.

Micro-entrepreneurs perceive the online marketplace as something that far exceeds anything that would be available in the offline world,

and they are already using social media platforms -- particularly WhatsApp, Facebook, and Instagram, which are not specifically designed for digital commerce -- to promote their services. Similarly, ordering on Chinese e-commerce platforms such as AliExpress is rapidly growing among customers and online sellers.



“*The ubiquitous nature of mobile money in some countries in Africa has made remote transactions possible.*”

Still, trust remains a major problem: the reputation of one platform does not extend to the next, and there are as yet no platforms with a pervasive reach. Our research also showed young entrepreneurs relying on relatives to provide ecommerce-relevant skills such as photography, copywriting, and customer service, among others.

Forces shaping Digital Commerce in Africa

Growing labor force with rising

youth share

500m African youth will turn 15 between 2015 - 2030



Continued urbanization



Urban population will reach 770m by 2030 (+63 on 2015)

Rising internet connectivity



500m mobile broadband users in Africa by 2020, likely to reach 70 by 2030

Increasing access to digital payments



Transact-ability no longer a major constraint, at least domestically

Growth power of super platforms



These business models have deep pockets and invest in long-term R&D

Conclusion

Digital commerce will continue to grow in most of Africa over the period to 2030. It may even generate more than US\$500 billion a year by 2030, equivalent to close to 10 percent of expected continental gross domestic product. While digital commerce is in its early stages in most African countries, it may be more susceptible to national policy choices now than at a later stage, when it is more entrenched. The next few years may therefore provide a window of opportunity for prescient policy action. African policymakers may be able to expedite the growth of digital commerce, even in the absence of an international agreement.

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