Digital Trade in Africa: Update, Opportunities and Challenges

Digital trade in Africa is evolving rapidly, offering both substantial opportunities and significant challenges. This note provides an overview of the current state of digital trade in Africa, highlighting key developments, opportunities, and challenges, as well as offering policy recommendations to enhance Africa's participation in the global digital economy.

Defining Digital Trade and Scaling Africa's Participation

Defining digital trade is crucial for effective measurement, taxation, and regulation. It encompasses various categories, including e-commerce, digitally-delivered services (DDS), and platform service hybrids. E-commerce involves physically-delivered goods that are ordered and paid for online, while DDS refers to services ordered, paid for, and delivered digitally. Platform service hybrids, such as ride-hailing and accommodation services, are ordered and paid for online but delivered \textit{in person}.

These distinctions are important as they influence regulatory and taxation frameworks. Currently, Africa has an average internet penetration rate of 43%, significantly lower than the global average of 68%. However, smartphone penetration is increasing, with projections showing a rise from 50% in 2019 to 70% by 2025. The UNCTAD B2C e-Commerce Readiness Index indicates that Africa's strongest e-commerce driver is financial inclusion, while postal reliability remains a challenge.

Current Digital Trade Developments in Africa

Fintech remains a dominant sector in Africa's digital economy. Established players like M-Pesa in East Africa and Flutterwave in West Africa are joined by newcomers such as Opay in Nigeria and Craft in South Africa. Opay has seen significant growth, quadrupling its user base since 2018 and increasing revenue by 60%. However, its majority Chinese ownership highlights the funding challenges faced by African startups. Craft, a South African startup, offers electronic invoicing and basic bookkeeping aimed at freelancers, providing a cheaper alternative to existing solutions like Xero. Despite these successes, the sector faces headwinds, including
valuation markdowns and company closures, such as Kenyan fintech startup Wasoko (valuation markdown) and South African logistics startup WhereIsMyTransport (closure).

In South Africa, online transacting is growing, particularly in supermarket e-commerce and motorbike delivery services, led by the Checkers 60/60 app. Nigeria's Chowdeck, a food delivery app launched in 2021, has rapidly gained 500,000 users and 3,000 riders, supported by seed funding of $2.5 million. TaxiConnect in South Africa coordinates the delivery of fast-moving consumer goods (FMCGs) using various transportation methods, focusing on empowering micro businesses.

Digital Trade in Africa: Visualising Some Recent Data

Data visualisations illustrate the varying levels of investment in digital solutions across regions. Figure 1 plots the level of investment in digital technologies for three periods from April 2020 to December 2022, for the main geographic regions[1]. Africa shows growing investment in digital technologies, eclipsing that of South Asia (SAR) and the Middle East and North Africa (MNA), as seen in the figure.

![Figure 1: Firms investing in digital solutions, by main region (%)](image)

Source: World Bank

Identification and digital payment adoption are increasing, though significant disparities exist between different African regions. Figure 2 presents data for a set of regions[2] including two Africa sub-regions: East Africa (AFE) and West Africa (AFW). While African or partially-African regions AFW and MENA lag in two of the digital payment metrics, East Africa has a 25% digital payment inclusion rate, thanks to the innovation of mobile money applications in that region.
Internet usage also varies widely, with Africa lagging behind other regions, underscoring the need for improved infrastructure and access. Figure 3 presents this data by main region and several African sub-regions, again showing disparities among African sub-regions. This time West Africa leads East Africa, with the former showing an accelerated rate of growth over 10 years, relative to the latter.

**Key Opportunities in Digital Trade for Africa**

Digital trade offers numerous opportunities for Africa. Market expansion allows businesses to access broader markets beyond local boundaries, while economic inclusion brings opportunities to underserved populations. The introduction of Starlink has the potential to promote digital inclusion, though it faces regulatory challenges in some countries, such as South Africa. Innovation and startups are flourishing in tech hubs and innovation centres across cities like Lagos, Dakar, Nairobi, and Cape Town. Projects such as Senegal’s Digital Technology Park and Kenya’s Konza Technopolis aim to drive technological innovation, business process outsourcing (BPO), and create information economy jobs, positioning these countries as leaders in the region.
Challenges Facing Digital Trade and the Digital Economy

Despite the opportunities, several challenges hinder the expansion of digital trade in Africa. Infrastructure gaps, particularly in rural areas, limited internet and mobile network coverage. In addition, the regulatory environment lacks cohesion, with fragmented digital trade regulations and policies. Low levels of digital skills and literacy among the population further impede growth. Additionally, concerns over data privacy and cybersecurity threats pose risks to the digital economy and ideally these need to be addressed in a consistent way across the continent.

Policy Recommendations

To address these challenges, regulators must facilitate key aspects of the digital economy, including internet access, data speeds, digital payment technologies, and financial inclusion. Promoting cloud services, innovation, investment, and skills development is essential. The regulatory framework should encompass well-designed regulations and laws, robust data protection without unnecessary restrictions on data flows, trade agreements that include digital trade provisions, and strong intellectual property laws. African countries must avoid using regulations for economic rent and ensure that digital tax regimes are carefully designed to support, not hinder, business and trade. Regulations, laws, and taxes should serve as building blocks that enhance the core elements of the digital economy rather than compromise them.
Conclusion

Digital trade presents a significant opportunity for Africa to enhance its participation in the global economy. By addressing infrastructure gaps, improving regulatory frameworks, and promoting innovation, African countries can leverage digital trade to drive economic growth and development. Ensuring that regulations and policies support the digital economy is crucial for maximising the benefits of digital trade and fostering a healthy business environment.

[1] East Asia and Pacific (EAP), Europe and Central Asia (ECA), Latin America and Caribbean (LAC), Middle East and North Africa (MNA), South Asia (SAR), Sub-Saharan Africa (SSA).

[2] Africa West (AFW), South Asia (SAR), Africa East (AFE), Middle East and North Africa (MENA), Latin America and Caribbean (LAC), Europe and Central Asia (ECA), East Asia and Pacific (EAP), High Income Countries (HIC).