Visa Business and Economic Insights

Global Economic Insights

Mohamed Bardastani
Senior CEMEA Economist

Mariamawit Tadesse
Associate Global Economist

The last billion connections: Africa's e-commerce potential

The dramatic events of last year have brought forward three to four years' worth of digital transformation into just a few months as people were forced to shelter in place and businesses shifted their day-to-day operations to digital channels.[1]

Africa was already on a trajectory of rapid digital transformation before the COVID-19 crisis hit. It is very likely that the pandemic will only accelerate this pre-existing trend as it unlocks further untapped opportunities, with more people getting connected and gaining access to digital services. Key macroeconomic and demographic trends, such as wider technological adoption, rebounding economic activity, rising income levels and growing, young populations will only reinforce the rapid digital transformation in Africa going forward.

In This Issue

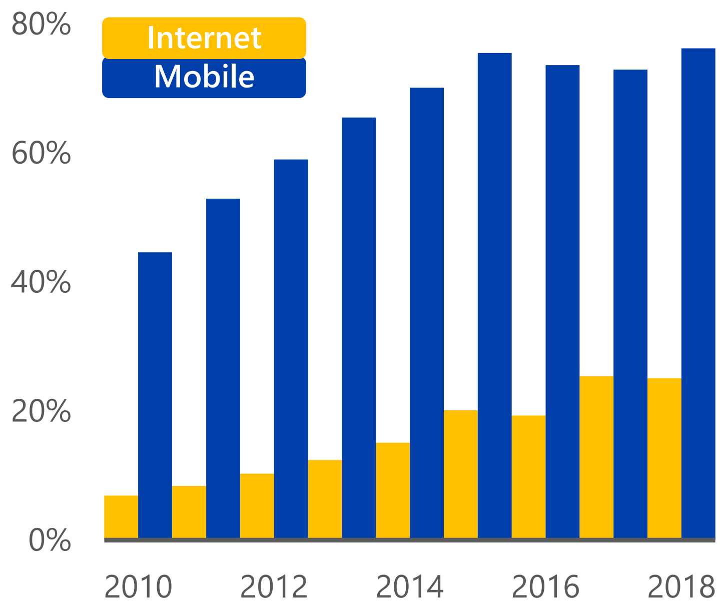
COVID-19 accelerated the digital transformation in Africa

Africa was undergoing a major digital transformation in recent years as more and more people connected to the internet and subscribed to mobile services for the first time.

Between 2010 and 2018, the percentage of the population with internet access in Sub-Saharan Africa (SSA) increased by more than three fold, reaching 25 percent by 2018, while the share of the population with a mobile subscription surged from 44 percent in 2010 to 76 percent in 2018.[2]

The pandemic has only accelerated this trend by highlighting the importance of social and economic connectivity amidst all the restrictions on mobility and movement last year. However, despite rising technological adoption rates, Africa still lags the global average of internet (50 percent) and mobile (104 percent) penetration rates as of the end of 2018.[3]

Internet and mobile penetration rates in Sub-Saharan Africa (percent of population)



Source: World Bank

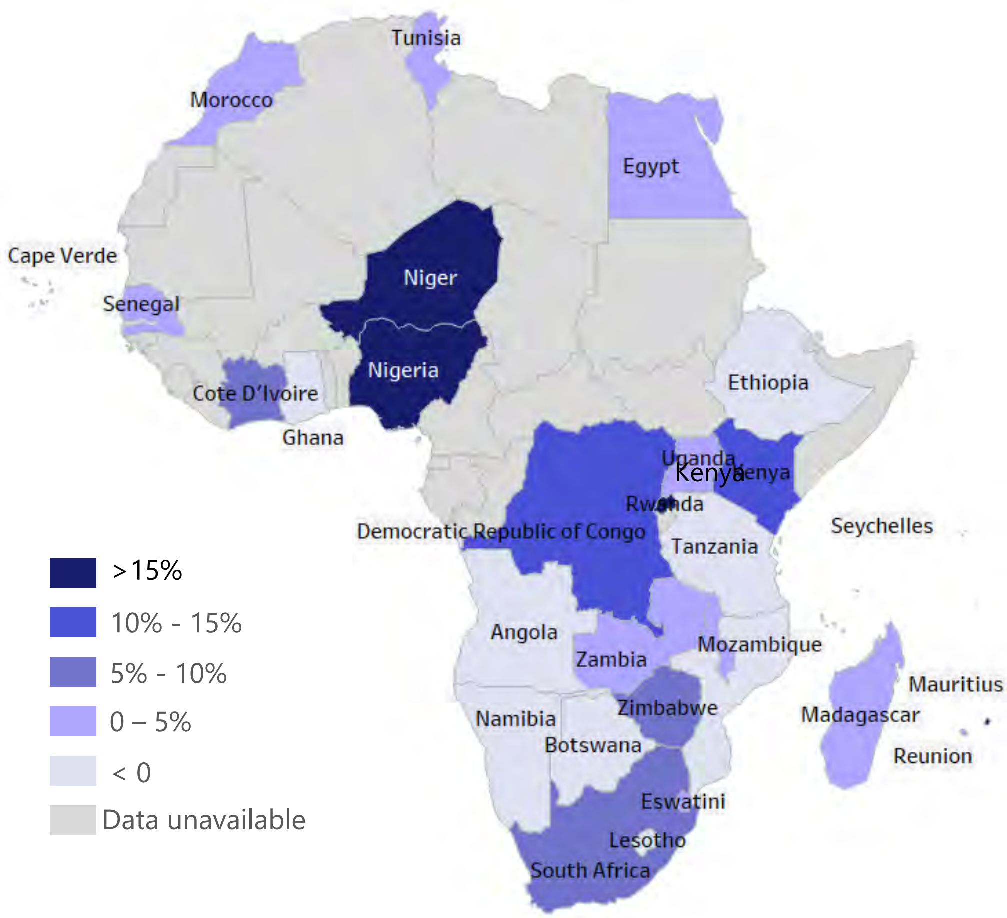
The pandemic accelerated the uptake of e-commerce

While internet and mobile subscriptions continued to grow in Africa in recent years, e-commerce in general was slow to gain traction and was hobbled by various challenges, ranging from consumer preference for in-person shopping, slow delivery times, logistical issues and informal home addressing systems. But the various stay-at-home orders last year meant many consumers shifted to digital channels out of necessity with the closure of brick-and-mortar shops.

Just like the rest of the world, once the COVID-19 crisis hit Africa, countries around the region introduced various forms of lockdowns to mitigate the impact of the virus. As a result, the restrictive measures have led millions of people in Africa to depend on digital platforms for shopping, work, entertainment, education and healthcare.

The 2020 gains in African e-commerce compared favorably to the increase in online retail sales as a share of total sales in more economically advanced regions and were higher than many other emerging markets. Within Africa, Nigeria, Niger, Rwanda and Mauritius led the gains, followed by Kenya and Democratic Republic of Congo.

E-commerce sales by retailers advanced across Africa, as the pandemic led to reduced in person sales: (Q4 2020 vs Q4 2019 change in the card not present (CNP) retail trade as a share of total sales)



Source: Visa Business Economic Insights analysis of VisaNet

That Africa has been able to pivot so successfully to greater use of the online sales channel is all the more remarkable given the fragmentation and informality of its retail sector.

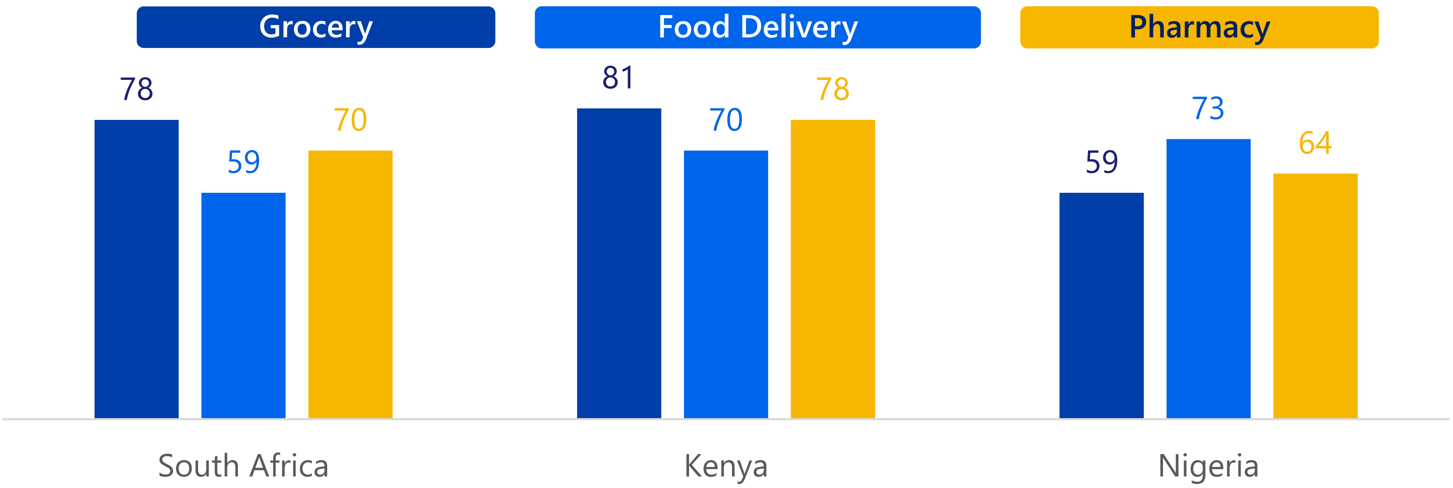
With the exception of South Africa, the majority of commerce in Africa occurs in informal markets, accounting for 85.8 percent of total employment, according to the International Labor Organization.[4] Pre-pandemic, business-to-consumer (B2C) e-commerce platforms reach did not extend much further than urban middle- and upper-class consumers.

The secret to Africa's pivot to greater e-commerce sales was the faster growth in business-to-business (B2B) sales, which layers online sales onto of the existing network of informal retailers rather than supplanting them. SSA's B2B e-commerce platforms thrived because they overcame issues of consumer trust and logistics by working with and tapping into the informal markets, rather than working around these sales channels. This allowed the B2B platforms to provide goods beyond urban areas and well into remote regions. The majority of SSA consumers purchased from the informal shops and over time have built a trusted relationship with them. That is why some informal shops provide loan services to their loyal customers. Informal retailers order goods through their mobile phones. These informal shops who know their customers very well continue to act as the middle-man between consumers and the B2B e-commerce companies.

Consumers quickly shifted to digital channels – and remained there

A survey by Visa in June last year found 59 to 81 percent of consumers in South Africa, Nigeria and Kenya had tried online shopping for the first time for groceries, pharmaceuticals or food delivery services.[5] Most consumers surveyed in these three countries were satisfied by their first-time online shopping experience and said they would continue shopping online even once the COVID-19 situation is contained. Our VisaNet data of consumer spending also supports the reported consumer intentions. Consumer spending on digital channels went through three distinct phases last year; pre-lockdown, between January and February; lockdowns, between March and May; gradual easing, from June onwards.

Started shopping online for the first time during the COVID-19 crisis, by product category (Percent of respondents)

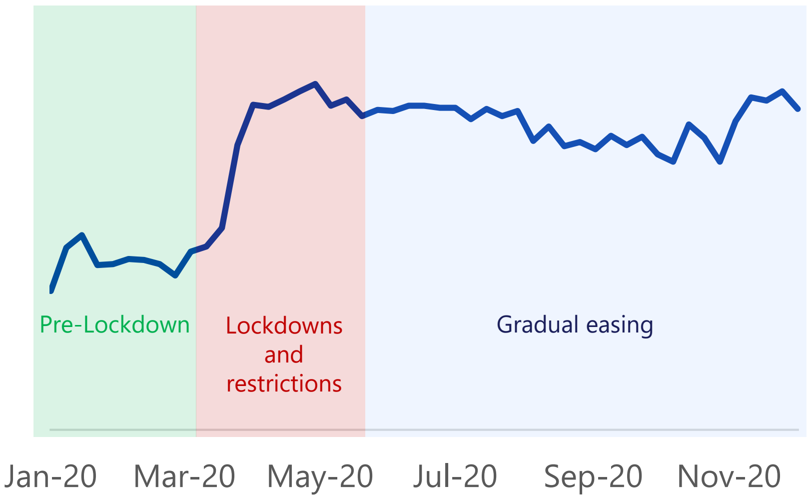


Source: Visa COVID-19 Impact Tracker, CEMEA

An analysis of consumer spending shows rapid acceleration in e-commerce spending in the lockdown period, when governments imposed shelter-in-place requirements. Interestingly, consumer spending on digital channels in SSA remained elevated even once governments lifted restrictions and people started to venture out and move around more—the average share of e-commerce spending as a percentage of total consumer spending in the post-lockdown period was 1.8 times the average share in the pre-lockdown period in Sub-Saharan Africa. This suggests that consumer habits may have changed permanently by shifting spending to digital channels versus offline channels.

The same Visa survey also found consumers in Nigeria, South Africa and Kenya have increased their usage of contactless cards, mobile payments and digital wallets as substitutes for cash, because these payment methods were considered safer and more hygienic.[5]

E-commerce transactions share of total transactions* in Sub-Saharan Africa



Sources: Visa Business and Economic Insights, VisaNet.
*Value of card not present transactions/total transactions

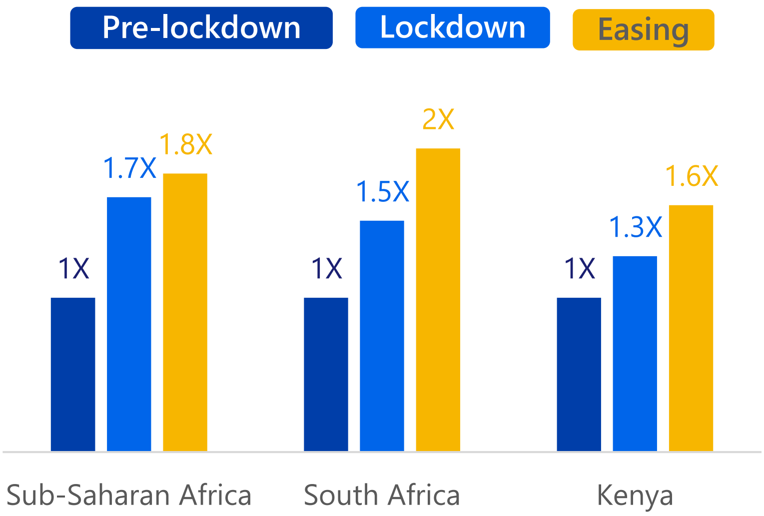
Economic and demographic factors support the digital transformation

While the COVID-19 crisis has contributed to the acceleration of digital commerce in Africa, the wider macroeconomic and demographic fundamentals are equally conducive to higher e-commerce growth going forward.

The Sub-Saharan African economy is projected to rebound by 5.2 percent in 2021, up from the 4.4 percent contraction in 2020—the first recession since the aftermath of the financial crisis.[6] Household income levels are also projected to rise in the near term, with almost two thirds of households in Africa expected to earn US$5,000 or more by 2025.[7]

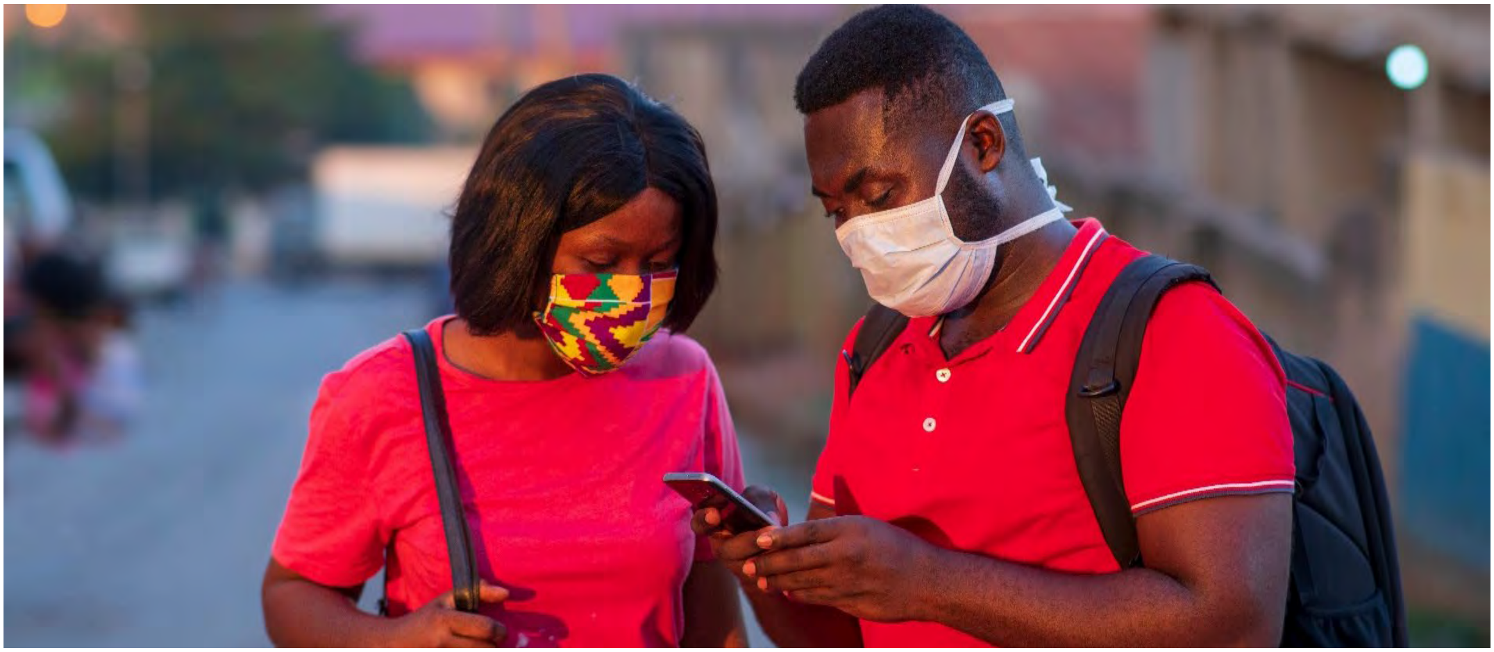
On top of that, greater technological adoption and young, growing populations will provide further impetus for the rising opportunities in e-commerce in Africa. GSMA Intelligence, a mobile industry expert, projects the number of mobile subscriptions in Sub-Saharan Africa will more than double and reach 1 billion connections by 2024, up from 477 million in 2019.[8]

Ratio of e-commerce transactions share of total transactions* compared to pre-lockdown

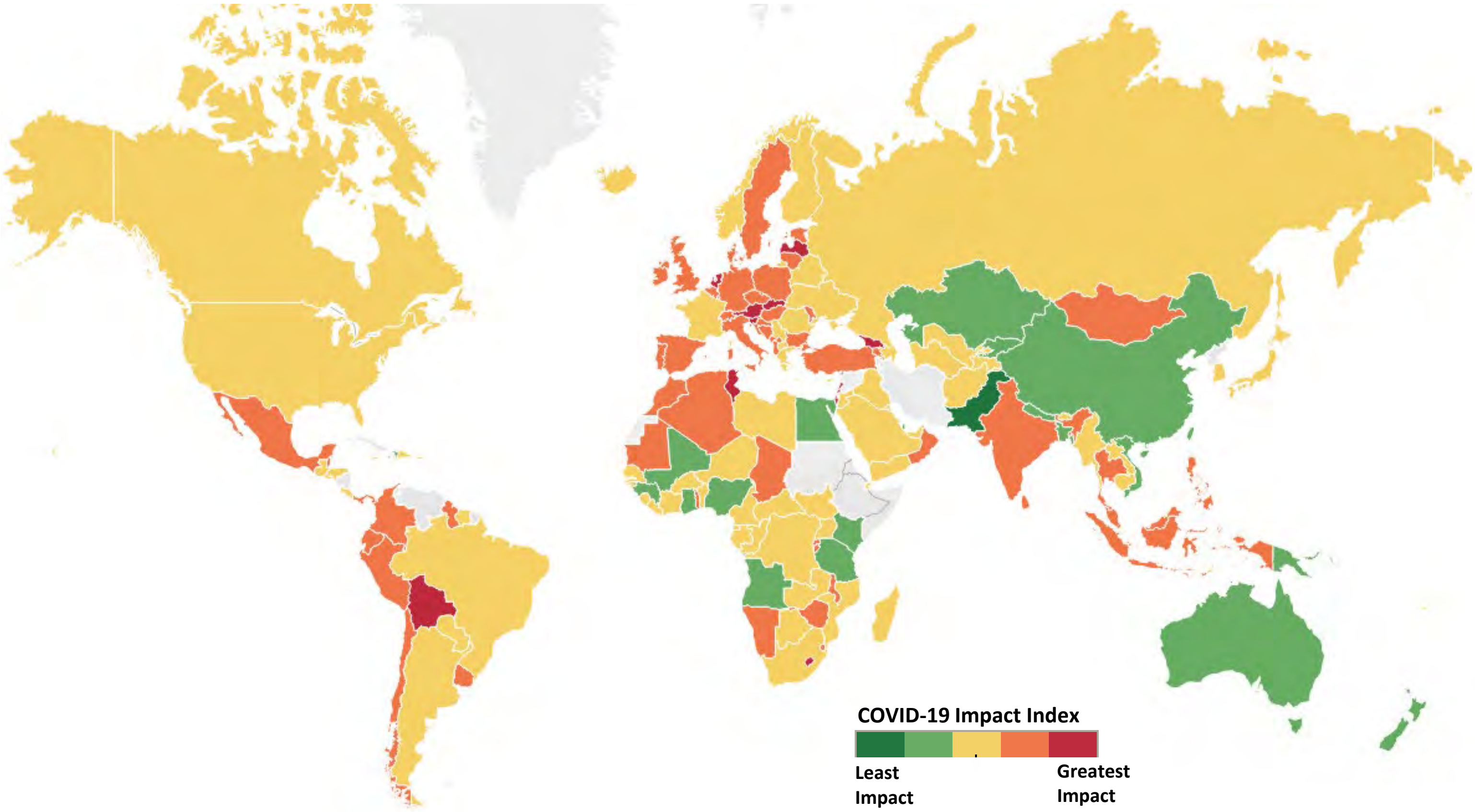


Source: Visa Business and Economic Insights, VisaNet.
*Value of card not present transactions/total transactions.

Not only is the quantity of mobile connections expected to grow rapidly, but also the quality. GSMA expects the number of smartphone connections to almost double to 678 million by 2025, representing 65 percent adoption rate.[8] Smartphones offer a more versatile and wider range of digital services and channels, compared to regular connections. The youth population in Sub-Saharan Africa is also expected to reach 430 million by 2025, up from 366 million in 2019, accounting for almost a third of the total SSA population.[9] All these economic, technological and demographic factors will fuel the acceleration of the ongoing digital transformation in the African continent.



Economic impact of COVID-19 (by country as of January 2021)



- In the first half of January, COVID-19 cases continued to rise globally before declining towards the end of the month. The number of countries seeing the greatest economic impact from the pandemic rose in January.
- COVID-19 cases have reached 112 million, with 63.4 million recoveries and 2.4 million deaths as of 24 February 2021. So far 216 million vaccines have been administered globally. Gibraltar, Israel, Seychelles and UAE are leading in vaccine doses administered per 100 residents.
- Travel bookings are seeing an upswing as vaccinations ramp up. Airline transactions improved for 27 countries, while lodging transactions improved for 52 countries.
- Discretionary spending per card increased in 21 countries. The easing of lockdown restrictions has had a great impact on restaurant spending per card, which improved in 59 countries.

The **Visa COVID-19 Economic Impact Index** tracks how the pandemic has affected economic activity across the globe through 12 key indicators: COVID-19 confirmed cases, COVID-19 death rates, airline transactions, cross-border lodging transactions, discretionary spend, discretionary transactions, restaurant spend, restaurant transactions, Google COVID-19 community mobility, consumer confidence, Purchasing Managers' Index (PMI) and leading economic indicators.

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Notes

1. McKinsey & Company, How COVID-19 has pushed companies over the technology tipping point—and transformed business forever. October 2020
2. World Bank: https://data.worldbank.org/indicator/IT.NET.USER.ZS?locations=ZG
3. World Bank: https://data.worldbank.org/indicator/IT.CEL.SETS.P2?locations=ZG
4. ILO, Women and men in the informal economy: A statistical picture. Third edition, April 2018: Women and men in the informal economy: A statistical picture. Third edition (ilo.org)
5. Visa COVID-19 Impact Tracker, 6,614 consumer interviews and 1,583 merchants across 7 key CEMEA markets
6. IMF, World Economic Outlook, October 2020: https://www.imf.org/en/Publications/WEO/weo-database/2020/October
7. McKinsey & Company, Lions (still) on the move: Growth in Africa's consumer sector. October 2017
8. GSMA Intelligence, The Mobile Economy Sub-Saharan Africa 2020
9. GSMA Intelligence, Powering Youth Employment through the Mobile Industry in Sub-Saharan Africa by 2025

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Wayne Best, Chief Economist

Bruce Cundiff, Vice President, Insights

Michael Brown, Principal U.S. Economist

Adolfo Laurenti, Principal European Economist

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Glenn Maguire, Principal Asia Pacific Economist

Mohamed Bardastani, CEMEA Economist

Jennifer Doettling, Director, Content and Editorial

Michael Nevski, Director, Consumer Insights

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Dulguun Batbold, Global Economist

Weiwen Ng, Asia Pacific Economist

Angelina Pascual, European Economist

Travis Clark, U.S. Economist

Mariamawit Tadesse, Associate Global Economist

Juliana Tang, Executive Assistant

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Please visit us at **www.visa.com/EconomicInsights** or Contact us at **VisaEconomicInsights@visa.com**