POLICY CONSIDERATIONS FOR E-COMMERCE IN SOUTH AFRICA AND OTHER AFRICAN COUNTRIES

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EXECUTIVE SUMMARY

South African organisations, particularly small and medium-sized enterprises (SMEs), can benefit from the local and international exposure that e-commerce affords. In order for these benefits to be fully exploited, increased collaboration between the government and industry is needed, particularly in defining the future e-commerce policy and legislative environment. E-commerce can also enhance economic inclusion in South Africa and other African countries by bringing public services to remote areas and providing better access to markets for women and the poor. However, case studies reveal that the reach of e-commerce in Africa is still hindered by inadequate regulation, education and infrastructure. Moreover, there is insufficient data available to obtain an accurate picture of the scale and contribution of this growing industry. This briefing

POLICY RECOMMENDATIONS

1   In light of the potential conflicts between national security interests, local development needs and international trade in South Africa, Tanzania and Kenya, further economic analysis and advice are needed, specifically in the areas of cross-border trade, taxation, data management and localisation, and cybersecurity.

2   Trust and security are major concerns among e-commerce consumers globally. The introduction or expansion of national or regional accreditation agencies would improve the safety and trustworthiness of online transactions in Africa.

3   Further growth in e-commerce will require significant investment in new infrastructure, including data bandwidth and logistical storage and distribution capacity. New policies may need to be formulated to ensure that e-commerce goods and services can be delivered widely and competitively.

4   African workers, entrepreneurs and consumers will need new forms of education and new skills if they are to fully participate in the digital economy. This will require a review of the formal education system, in addition to targeted interventions to reskill workers and communities or provide specialist incubation services to new businesses.

draws on case studies from South Africa, Kenya and Tanzania, and describes some of the main opportunities and policy challenges confronting the e-commerce industry in these countries.

INTRODUCTION

With the rapid growth of online business globally, South African SMEs can benefit substantially from the opportunities afforded by e-commerce. Through e-commerce, SMEs can gain entry to previously inaccessible markets and can advertise and sell their products globally. According to the UN Conference on Trade and Development,[2] it is also widely recognised that e-commerce can improve access to global markets. As both the export and import markets of a country expand, there is a positive impact on employment and productivity.

However, the growth of e-commerce brings with it a number of challenges for policymakers, such as the need to protect the privacy and security of national data and to regulate and tax transactions that take place across virtual channels. Countries are also exploring ways to promote their domestic information technology (IT) industries in the face of increasing trade and competition from abroad. Many of these issues are already being addressed at global forums such as the G20. However, to fully participate in these discussions African countries first need to identify and understand their own interests and, ideally, ensure that these interests are accurately reflected in appropriate domestic policies and regulations.

A set of three country case studies[3] undertaken by the Global Economic Governance Africa programme identifies three issues related to the growth of e-commerce that are currently of primary concern for policymakers in South Africa, and to some extent also in Kenya and Tanzania.

- Efforts are being made to develop and apply appropriate definitions of e-commerce that take the local environment into account but also reflect international trends and debates.
- The current size and nature of the industry in most countries, including imports and exports, trade barriers and new growth areas, are not adequately understood. Data on the e-commerce industry is generally scarce or non-existent.

- Policymakers are in the process of developing new legislation and reviewing existing regulations to accommodate e-commerce and the digital economy, and the costs and benefits of the various options need to be understood.

HOW E-COMMERCE CONTRIBUTES TO ALLEVIATING POVERTY AND EMPOWERING WOMEN

A 2014 study found that, through policy interventions, information and communications technology (ICT) could contribute significantly to the development of women.[4] Developing countries in Africa and Asia have already embarked on this journey and are reaping the benefits, for example in the global craft production sector.

According to the study, 84% of women in sub-Saharan Africa work in the informal economy, which excludes them from financial rights and representation. Most of these women end up being self-employed and earning subsistence incomes with few or no opportunities for growth. Many turn to craft production, which serves as an entry point into the economy for under-resourced groups. For the tens of millions of women in the craft sector, a simple tool that increases their income with little or no upfront investment would be very welcome.[5] Soko Inc. (previously known as SasaAfrica) connects micro-manufacturers and entrepreneurs with global markets through proprietary mobile technology. The proposed technology allows vendors to sell their goods directly to global consumers through their personal mobile phones.

In developing countries elsewhere, e-commerce initiatives are already being put in place to tackle poverty. China is pushing forward with the implementation of e-commerce platforms for more than 60 000 impoverished villages. The initiative started in 2014 and will run until 2019. According to the head of the State Council Leading Group Office of Poverty Alleviation and Development for China, residents in poor rural areas are encouraged to open stores on major e-commerce platforms to sell their agricultural produce. The e-commerce programme is part of the poverty alleviation authority's effort to help those in dire need and make the most efficient use of poverty reduction funds.[6]

E-COMMERCE IN SOUTH AFRICA

The South African e-commerce market is still in its infancy and little up-to-date information on the size and structure of the industry is available from official sources. Industry reports forecast that e-commerce transactions will make up over 1% of total gross domestic product by the end of 2017 and that online consumer penetration, which is currently at 44.5%, will reach 60.1% in 2021.[7] A number of large e-commerce businesses and brands such as Spree, Zando, Takealot, Superbalist and Yuppiechef have already emerged in the country. In addition, online marketplaces such as Hyperli have been established using recognisable South African brands.

Current definitions of e-commerce in South Africa are in line with international trends. The most widely used definition is that of the Organisation for Economic Co-operation and Development (OECD), which defines an e-commerce transaction as being 'the sale or purchase of goods or services conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders', regardless of delivery method.[8]

The most recent key local policy, the South African National Integrated ICT Policy White Paper of 28 September 2016,[9] is aligned with this definition in its reference to 'transactions involving goods or services that take place online between remotely located parties'. Like the OECD definition, this incorporates not only the traditional business-to-consumer model but also business-to-business and consumer-to-consumer transactions.

E-COMMERCE IN TANZANIA

Tanzania[10] has seen a surge in the adoption of e-commerce. Local online stores that have emerged include bongoduka.com, shoponline.co.tz and eswahili. com. The mobile network operator Tigo has entered into a partnership with the Kenyan online retail store Jumia to enable customers in Tanzania to buy Tigo mobile devices online on Jumia's mobile platform.

Current legislation around e-commerce is contained in the Electronic Transactions Act 2015 and the National ICT Policy 2016, which deal with e-commerce somewhat generically along with other digital tools

and environments. The safeguards contained in the legal framework are not seen as sufficient to create an environment of trust for e-business transactions.

In order to support the growing demand for e-trade, the Tanzanian government is expanding the national address and postal code system in the country.[11] It has also increased investment in the National ICT Broadband Backbone.

E-COMMERCE IN KENYA

Advances in ICT in Kenya are evident across all sectors of the economy but have been felt most in the financial sector,[12] where the use of mobile money (starting with innovations in M-Pesa) has enhanced financial inclusion and transformed the operations of commercial banks. Mobile transactions have surpassed transactions done using debit cards and credit cards.

Beyond the banking sector, the e-commerce market in Kenya is dominated by companies such as Jumia, Kilimall and PigiaMe. As in South Africa and Tanzania, there is currently no official recording or measuring of e-commerce transactions.

The main supply side constraints to e-commerce in Kenya are infrastructure, including storage and warehousing challenges, and the authentication of transactions. It follows that the reasons why many Kenyans do not make frequent use of online shopping sites are a lack of trust, high shipping costs and unsupported payment methods.

Unlike the current legislation, the Kenya Information and Communications (Electronic-Transactions) Regulation of 2016 provides for the regulation of electronic transactions.

CONCLUSION

South Africa has experienced rapid growth in e-commerce, which has created new opportunities for industry and consumers alike. However, the above-mentioned case study reveals a number of constraints which, if not addressed, could see it lagging behind developments elsewhere in the world. These include data costs, online safety, the 'last mile' distribution of goods to the consumer, Internet accessibility, and education and training. Working together with

business, the government should urgently implement policy and regulatory interventions to address these challenges with a view to establishing South Africa as an e-commerce hub in the region.

The South African National Integrated ICT Policy White Paper of September 2016[13] proposes that sector-specific strategies be put in place to encourage the uptake and use of ICT in various industries and to promote local e-commerce. Care must be taken to ensure that the strategies designed to support specific sectors do not have unintended consequences for the cost and competitiveness of digital products and services across the rest of the economy and the wider region. The government should continually look for opportunities to reduce the high cost of communication and data and to expand Internet accessibility throughout the country.

While the Electronic Communications and Transactions Act 2002 (Act 25 of 2002) is the core piece of legislation regulating e-commerce in South Africa, the Consumer Protection Act 2008 (Act 68 of 2008) and the Protection of Personal Information Act 2013 (Act 4 of 2013) also play a key role in governing e-commerce transactions. South African legislation on e-commerce is currently relatively progressive but the government is considering the introduction of new regulations to enforce data localisation. A new Cybercrimes and Cyber Security Bill is to be enacted in 2017, while the taxation of e-commerce transactions has been reviewed and is likely to be revised. When instituting these changes, the government must ensure that the long-term interests of the digital economy are not overshadowed by perceived security or revenue concerns. This will require a serious and substantive economic and social analysis of all proposed regulations.

Many more constraints exist in other African countries, including a lack of supporting logistical and technological infrastructure, small and fragmented markets, inadequate Internet access and insufficient IT-related skills among business and consumers. These factors contribute to the ineffective use and delivery of e-commerce transactions and generally low levels of trust. Broader interventions are clearly needed to improve data infrastructure and e-commerce delivery standards, enhance IT-related skills and build confidence among consumers.

The African e-commerce environment is evolving rapidly and clear policy is required to ensure that the market

is supported and protected, particularly when it comes to cross-border trade. In order to facilitate the growth of this industry in South Africa and extend the range of e-commerce goods and services currently offered in the country to beyond its borders, the government must maintain a positive trade and investment climate while intervening where necessary to expand access and develop relevant skills. A new or revised policy on the digital economy may be needed to guide new legislation and interventions in this area, and to ensure that South Africa and other African countries are able to engage proactively in global debates on e-commerce.
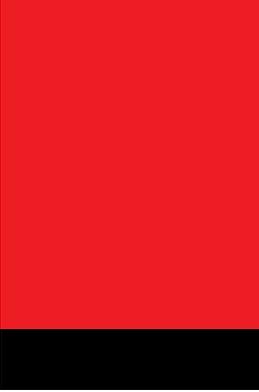
ENDNOTES

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3   Baregu S, 'E-commerce: The Case of Tanzania', Budree A, 'E-commerce: Case Study South Africa', & Nyang'oro O, 'E-commerce Development and Operations: Kenyan Country Case Study', case studies presented at 'E-commerce: Policy Priorities for South Africa and Africa' workshop, GEG Africa, Pretoria, 31 January 2017.

4   Sabrina A, 'Role of e-commerce in women empowerment', 2014, Academia, http://www.academia. edu/6586964/Role_of_e_commerce_in_women_ empowerment, accessed 30 November 2016.

5   *Ibid.*

6   *China Daily USA*, 'E-commerce to play key role in poverty relief', 25 December 2014, http://usa.chinadaily. com.cn/epaper/2014-12/25/content_19167552.htm, accessed 30 November 2016.

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10 Baregu S, *op. cit.*

11 Nyang'oro O, *op. cit.*

12 *Ibid.*

13 Department of Telecommunications and Postal Service, *op. cit.*

GLOBAL ECONOMIC GOVERNANCE