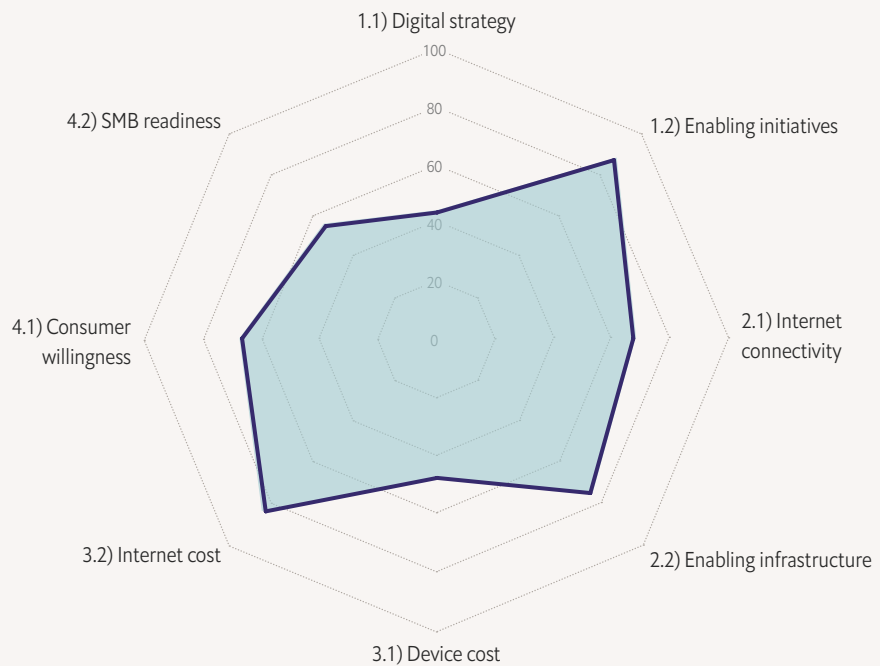


# South Africa

- South Africa has in place key elements of an enabling environment for the digital economy, from infrastructure to initiatives such as a digital ID system and open data policies.
- Governments and businesses must focus on closing the digital literacy gap to enable greater SMB participation in the digital economy.

**Figure 1: Category-level scores for South Africa**



## The need for strategic direction

Underpinned by a wealth of natural resources and a diversified industrial base, South Africa is sub-Saharan Africa's largest and most advanced economy. As a major business hub in the region,

the country attracts international companies, owing to strong institutions, sound banks and its role as a continental gateway. However, it still faces persistent structural constraints, such as high unemployment, skill deficits and power shortages.<sup>1</sup>

<sup>1</sup> EIU country report, September 2022

As well as a regional business hub, South Africa is already considered a digital hub on the continent.<sup>2</sup> Research shows that digitalisation could contribute more than R5trn (US\$282.9bn)<sup>3</sup> to the South African economy by 2029.<sup>4</sup> However, unlocking this potential will require bringing the marginalised into the digital economy. The country struggles with a persistent digital divide. “The key challenge in South Africa is that only a small number of relatively affluent consumers with sufficient disposable income are digitally literate and have access to the internet, smartphones and other devices”, explains Mark Schoeman, partner at Genesis Analytics, an African economic and development consultancy headquartered in South Africa.

South Africa’s scores reflect this. While the country performs moderately well in the policy and regulation (65 out of 100) and infrastructure (71.1 out of 100) pillars, its weakest performing pillar is affordability, where it scores 62.3 out of 100. South Africa has introduced the necessary enabling measures for developing a digital ecosystem such as a digital ID system, open data policies and data privacy legislation. However, the cost of devices—the key link to bringing consumers to the digital economy—needs improvement. Moreover,

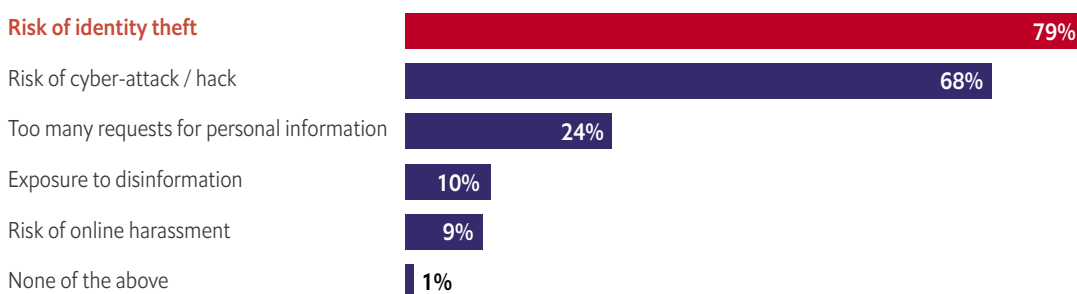
although South Africa performs well on the percentage of population with access to electricity, this does not reflect the current crisis facing the country. As of January 2023, South Africa’s state utility Eskom announced indefinite Stage 6 load-shedding due to critical power constraints. Addressing this will be fundamental to enabling the digital economy in South Africa.

**Bridging the gap between government ambition and digital literacy**

South Africa appears to have a strong enabling policy environment that prioritises digital skills. The country has published numerous draft versions of its national digital strategy—the ICT and Digital Economic Masterplan for South Africa 2020-2025<sup>5</sup>—but the final iteration is not available for review. Moreover, there is no evidence of a government entity dedicated to fostering digital entrepreneurship in South Africa.

Despite this, the country has established multiple initiatives focused on instilling digital skills for teachers and students at all levels of schooling, including the Digital and Future Skills Strategy which aims to upgrade teacher digital competencies and develop basic and intermediate digital skills from early childhood.

**Figure 2: South African consumers’ concerns about the digital economy**



Source: Economist Impact executive survey, July-August 2022

<sup>2</sup> <https://openknowledge.worldbank.org/bitstream/handle/10986/33632/South-Africa-Digital-Economy-Assessment-Digital-Entrepreneurship-Pillar.pdf?sequence=1&isAllowed=y>

<sup>3</sup> Mid-market exchange rate of ZAR1 = USD0.05659 on 5 October 2022

<sup>4</sup> [https://www.accenture.com/\\_acnmedia/pdf-93/accenture-unlocking-digital-value-updated.pdf](https://www.accenture.com/_acnmedia/pdf-93/accenture-unlocking-digital-value-updated.pdf)

<sup>5</sup> This plan is not publicly available and hence Economist Impact has revised down South Africa’s score for indicator 1.1.1 accordingly.



The “South Africa Connect” national broadband policy introduces ‘e-readiness’ programmes into the school curriculum and the National e-Skills Plan of Action (NeSPA) aims to empower teacher e-skills literacy.

But even with such a thriving policy environment, there is fierce competition for highly skilled talent in South Africa, as with the rest of the region. Among the countries in this report, South Africa actually performs relatively well in workforce readiness, scoring 72 out of 100. However, the type of skills needed to elevate digital transformation are lacking, namely programming and coding (44% of executives say their employees lack this) and engaging with advanced emerging technologies<sup>6</sup> (40%). Indeed, the top two challenges facing executives in South Africa as they try to tap into digital economy opportunities are related to talent: the overall scarcity of the necessary digital skills in the local workforce (cited by 28%) and the inability to attract talent with these skills (26%).

Upskilling is the first port of call: 77% of executives surveyed state that their organisation is actively investing in and providing programmes for upskilling employees’ digital skills. But there is a mismatch. Based on his experience working with companies in the country, Mr Schoeman explains that, “the big issue in South Africa is that

digital training programmes or courses are not imparting the skill sets that align with the skills needed for the digital economy”.<sup>7</sup> Moreover, private sector firms often seek candidates with a few years of work experience making new graduates ineligible. This perpetuates a vicious cycle of ‘no experience, no job; no job, no experience’, which ultimately hurts both new graduates seeking jobs in the digital economy and companies seeking employees with digital skills. This is more pronounced for smaller companies that cannot compete with multinationals to attract skilled talent.<sup>8</sup>

Upskilling within firms could boost local digital literacy. “People often learn through doing”, says Mr Schoeman, “and South Africa is going through a demographic transition like every other African country, with a crop of young people who are more familiar with digital technologies”.

South Africa also stands to benefit from foreign talent but needs to provide incentives to relocate. As the sub-Saharan business hub, South Africa is already at an advantage in the region. However, favourable talent attraction policies,<sup>9</sup> such as a high-skilled visa scheme that expedites the process for obtaining the right to work and provides additional benefits could attract further foreign talent. Such schemes are already in place in the UAE<sup>10</sup>, UK<sup>11</sup> and Chile.<sup>12</sup>

### Navigating the cost of compliance

Although South Africa’s score for SMB readiness is the highest relative to other countries under study, it is among the country’s lowest performing categories. This is driven by only 34% of executives claiming that their existing business model is completely ready for digital expansion. Despite promising scores in the ease of securing funding and presence of upskilling initiatives, the SMB readiness score is weighed by legal readiness (54 out of 100).

<sup>6</sup> For example, artificial intelligence, virtual reality platforms, Internet of Things

<sup>7</sup> <https://businesstech.co.za/news/software/556882/experts-say-south-africa-is-facing-a-skills-canyon-here-are-the-tech-jobs-most-in-demand/>

<sup>8</sup> Interview with Mark Schoeman, Genesis Analytics

<sup>9</sup> Ibid.

<sup>10</sup> <https://u.ae/en/information-and-services/visa-and-emirates-id/residence-visa/getting-the-golden-visa>

<sup>11</sup> <https://technation.io/visa/>

<sup>12</sup> <https://home.kpmg/xx/en/home/insights/2017/11/flash-alert-2017-170a.html>

Specifically, almost 60% of executives state that their country's data governance and privacy laws favour large corporations and do not promote competition. "South Africa is a highly regulated environment", says Buhle Goslar, CEO for the Africa region of fintech company, JUMO, "and the costs of compliance can increase to a level that makes it difficult to provide services at a cost that allows broad inclusion". The high cost of compliance has two adverse impacts: firstly, it could deter new entrants from participating in the digital economy; and secondly, the cost may be passed onto consumers, making digital services more expensive.

**Figure 3: Readiness indicator scores for South Africa**

	Score
READINESS PILLAR	60.7
<b>4.1) Consumer willingness</b>	67.6
4.1.1) Consumer skills for the digital economy	85.0
4.1.2) Consumer trust in the digital economy	52.5
4.1.3) Net Empowerment	73.0
4.1.4) Use of digital payments	81.0
4.1.5) Consumer convenience in the digital economy	37.6
<b>4.2) SMB readiness</b>	54.6
4.2.1) Business model readiness	34.0
4.2.2) Ease of securing funding for digital expansion	60.1
4.2.3) Workforce readiness	72.0
4.2.4) Upskilling initiatives	77.0
4.2.5) Technological readiness	40.0
4.2.6) Legal readiness	54.0

Source: Economist Impact  
Note: Higher scores correspond with high levels of digital economy accessibility

### Smart policy needed for smartphone prices

Despite being the cornerstone of the digital economy, smartphones are relatively costly in South Africa, scoring 48 out of 100, where 100 reflects the most inclusive environment to purchase smartphone handsets. "We have a pricing discrimination issue in South Africa—it is more expensive to be poor, whether you are buying a phone, food or internet data", notes Ms Goslar. As mentioned above, the bulk of consumers in South Africa fall in low-income segments, and have little disposable income to spend on smartphones, according to Mr Schoeman. Lower-income users choose low-cost devices, which have limited functionality. As such, they continue to miss out on opportunities within the digital economy.

"This poverty premium needs to be addressed", emphasises Ms Goslar, highlighting the need for potential intervention on the pricing of certain phones. "Smartphone financing is available, however qualifying for it is tricky", she explains. Applicants require identification and formal addresses, which can exclude individuals that operate in the informal economy.

One key avenue for government support is to subsidise the uptake of smartphones by low-income consumers. For example, in Malaysia, the government introduced a RM200 rebate for young people looking to purchase an entry-level phone and a RM1,000 grant for online entrepreneurs in 2013.<sup>13,14</sup>

South Africa has already established itself as Sub-Saharan Africa's regional business hub and is making progress in its digital economy. The next step is to ensure local conditions are ripe for further digital transformation and to bring those previously underserved into focus.

<sup>13</sup> <https://www.mcmc.gov.my/en/media/press-clippings/smartphone-rebate-only-for-the-needy>

<sup>14</sup> Similarly, in 2016, the Argentine government launched a national programme that subsidised 4G-enabled smartphones and allowed users to spread the payment, interest-free and at a maximum price of 2,200 pesos (US\$148).

While every effort has been taken to verify the accuracy of this information, Economist Impact cannot accept any responsibility or liability for reliance by any person on this report or any of the information, opinions or conclusions set out in this report. The findings and views expressed in the report do not necessarily reflect the views of the sponsor.



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