

DIGITAL TRANSFORMATION OF AFRICA – HYPE OR REALITY

Tawanda Sibanda, Partner at McKinsey Africa, reflected on the impact of digital transformation in Africa and assessed Africa's transformation progress against McKinsey's own 2025 predictions made in its *Lions Go Digital* report published in 2013.

Recap of the [Lions Go Digital](#) report

In its 2013 report, McKinsey said that Digital would add 8% to Africa's GDP or up to USD 300 billion by 2025. The report hypothesised that Africa could leapfrog developed economies in the pace of digital impact, just as Africa had seen in mobile adoption. This fast pace would be fueled by:

- increasing urbanization (moving from 40% population urbanized to 50% by 2030);
 - burgeoning demand with more than 200 million people between the ages of 15-25 in 2013 entering the workforce over the coming decade;
 - bold investments by governments and business to increase access; and
 - a wave of emerging digital entrepreneurs.
- The report sought to demystify what digital means: McKinsey defined digital as creating impact through three forces:
 - Connect: connecting people and markets together, fostering collaboration, allowing transactions;
 - Automate: automating routine manual tasks; and
 - Analyse: providing tools to analyse data, inform decision making, etc.
 - McKinsey predicted all sectors would be impacted but the biggest GDP contribution would come from (in order of size):
 - **Health (USD85-180bn)** – telemedicine, remote diagnostics, analytics-driven aid to diagnostics.
 - **Education (USD30-70bn)** - mobile-based delivery, better analysis of outcomes.
 - **Retail (USD16-23bn)** – e-commerce, better supply chain management.
 - **Government (USD10-25bn)** – revenue collection, digitization of services.
 - **Financial services (USD8-10bn)** – e-kyc driving increased financial inclusion, e-lending, more efficient operations.
 - **Agriculture (USD0-3bn)** – more information to aid farmer decision making, precision farming, creation of marketplaces.

5-year very high-level assessment

- Five years later digital access has improved:
 - Smart phone penetration has grown from 6% - 26% (faster than McKinsey had initially predicted).
 - The number of social media users has doubled from 50 million in 2013 to 100 million in 2018.

- The start-up space is even more vibrant than ever, with companies such as Jumia, Interswitch and Andela achieving substantial scale.
- However, the impact at a sector level is mixed, with only financial services showing results at the macro-level:
 - In financial services, the number of mobile money accounts has increased 4x in the last 5 years, the banking penetration rate has increased (from 26% in 2013 to 33% in 2018), and electronic credit has grown substantially in markets such as Kenya.
 - In health, there are a few start-ups achieving success such as mPedigree (that uses technology to battle counterfeit drugs), but the key indicators highlighted in *Lions Go Digital* e.g., infant mortality and maternity mortality rate have not shifted significantly.
 - In education, we are not seeing the impact on key metrics such as youth literacy or the number of primary school-aged children out of school. However, edutech start-ups such as GetSmarter (online adult education platform) and Africa Leadership University (one of FastCompany’s most innovative companies in the world in 2019), are gaining global recognition.
 - In agriculture, we do have emerging digital success stories such as GroIntelligence (an agriculture data and analytics start-up), but the impact on agriculture productivity is still low.
 - Finally, in government, select African countries are digitising government services including tax collection, but on aggregate Africa’s budget deficits are climbing (standing just over 4% of GDP currently).

Way forward

Africa is still five years away from the USD300bn impact from digital in 2025 predicted in *Lions Go Digital* and the potential is still significant. Other countries have seen rapid impact from digital e.g., India, which is the 2nd fastest digitizing country in the world by multiple metrics (after Indonesia). In India the number of internet subscribers doubled in the last 4 years, cashless transactions grew by 8.2x, and companies embracing digital are pulling ahead of their peers in terms of financial performance etc.

What can be learnt from these success stories to ensure the impact predicted in 2013 can be captured in the next five years? African countries need to:

- Define a very clear digital strategy (what sectors? what initiatives? which potential partners? what regulations? Funding requirements?). Countries should also appoint a champion (akin to a CIO) to drive this strategy.
- Encourage private sector involvement at scale. In the short term, Africa should attract leading digital multinationals to set up offices on the continent to build local capabilities and help create solutions for the continent. Over time, the right ecosystem needs to exist to scale local start-ups including:
 - Driving an increase in early-stage funding e.g., de-risking private sector capital in VC asset class (co-investment at lower cost as was done in Israel), tax incentives for VC/angel investment (as was done successfully in UK)
 - Creating government funded (but expert-run) incubators and accelerators etc. to support early stage companies in achieving scale.
 - Implementing regulation and incentives to support individual entrepreneurs.

- Generate digital demand e.g., through digital literacy programs, and digitizing of government services to encourage people to be digitally active. Digital ID could be a significant driver of demand and a multiplier for downstream impact.
- Increase access – continue to create incentives for investment in internet access across the continent.
- Build digital capabilities at scale. This will involve revamping education systems to be much more tech-focused in the long term, and in the short term creating/supporting solutions to help recruit, train and link African tech talent to local and global digital implementation demand.