Kenya and South Africa offer insights into digital economy challenges and alternatives

By Stephan Manning

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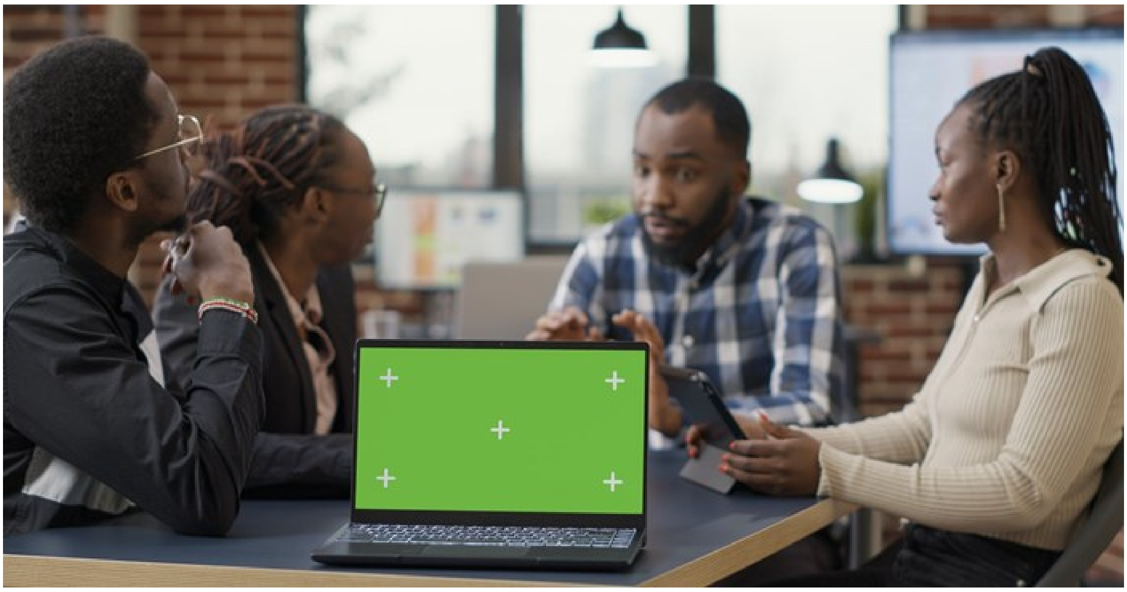
The World Bank is warning of the real danger of a massive economic downturn across the world.



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In a recent analysis it warned that many countries - including those in sub-Saharan Africa - will be facing economic challenges due to rising food and fuel prices.

At the same time, however, there is unshakeable optimism around the growth potential of African economies as a whole and specifically the digital economy.

The rapid rise of tech hubs and startups in urban areas in sub-Saharan Africa in recent years seems to support that. Many observers have, therefore, identified the digital economy as an important driver of long-term growth in Africa despite current global challenges.

The reality is that experiences with promoting the digital economy in sub-Saharan Africa have been mixed. Following great hopes in the promise of “digital connectivity” in the early 2000s, many scholars have observed that the ability of African businesses to turn connectivity into success in global markets has been limited.

The future of Africa’s tech scene is equally uncertain.

Despite great potential, the tech startup scene is underfunded, and several tech hubs have had to shut down due to bankruptcy

How can we explain this gap between promise and reality with digital economy investments in sub-Saharan Africa? And how can investments lead to more sustainable growth?

In my recent study I analysed the historical case of global business services in Kenya and South Africa to examine why governments and businesses make certain investment choices over time, and how they can learn to be more in tune with the context of sub-Saharan Africa.

The main finding is that global templates of success, such as meeting global standards and developing scalable business models, often stand in the way of realising the full potential of locally specific skills and business opportunities. As I show below, this has fundamental implications for today's digital startup scene in sub-Saharan Africa.

Flawed hopes

The promise of the digital economy has always been a double-edged sword. Many global consulting firms and international organisations initially saw "digital connectivity" as a key driver for the future growth of African economies.

Even today there is a strong belief that you just need to have the right infrastructure in place for the digital economy to grow and create jobs.

This optimism led the Kenyan government in 2007 to define business process outsourcing as a central pillar in its Vision 2030. The assumption was that Kenya had the talent and internet connectivity to copy India's success in this business.

In a similar fashion, South Africa's business leaders put their hopes in call centres, which had previously generated many jobs in India and the Philippines. But these hopes turned out to be flawed. Digital businesses are often easy to get into but difficult to compete in – especially on the global stage.

To win client contracts in a highly standardised digital business, such as call centres and tech support, you need to be scalable. Yet, to succeed with scale you also need to be cost competitive and develop a strong reputation.

Kenyan business process outsourcing services were neither scalable nor competitive. As a result they soon went out of business. A famous example was KenCall, a once-hyped Kenya-based call centre that could not keep up with global competition.

South African call centres had the scale. But competition from the Philippines put enormous pressure on them. The current tech-startup scene seems to be facing similar challenges: scalability of new ventures has been a serious issue. In part this is due to poor support infrastructure as well as global competition.

Lessons learnt

In the case of global business services, Kenya and South Africa learned their lesson. Initially, trying to meet global standards and keeping up with global rivals was seen as desirable in the eyes of governments, businesses and the general public. But as competitive pressure grew, the agenda changed from competing globally to avoiding global competition, from meeting global standards to focusing on locally specific skills and resources.

As a result, both economies invested into niche business segments. For example, Kenyan business process outsourcing providers increasingly focused on local and regional clients rather than trying to compete for clients from Europe and North America.

In the case of South Africa, business services increasingly diversified into more specialised areas such as legal process outsourcing, to lower global competitive pressure. Also, both economies promoted so-called impact sourcing, which focuses on hiring and training disadvantaged young people from slums and rural areas, combining employment opportunities with community impact.

What these niche strategies have in common is that they are less subject to global competition, and that they rely on locally embedded resources, such as local client connections and untapped labour pools in local communities.

Some of these niche models emerged even before they became fashionable. In fact, their ability to survive against the mainstream gave them a competitive edge, allowing them to survive in the long term. A similar dynamic might be unfolding with today's tech-startup scene in sub-Saharan Africa.

Alternative models

It's still fashionable today to promote tech startups and tech hubs based on models from the global North. But new, alternative models might be emerging that might be much more sustainable. For example, studies suggest that African businesses are traditionally much more community-focused. Businesses exist to support communities rather than just to make profit.

Research shows that while African tech hubs often "fail" to scale up businesses in the Western sense, they are very effective in providing individual growth opportunities and in expanding and deepening community connections.

Such experiences suggest that concepts of "scalability" and "growth" may take on a range of meanings in sub-Saharan Africa, and that the global North should expand their horizon beyond their narrow conception of these terms to really understand Africa's economic potential.

Take-aways

Recent reports may be right that the digital economy carries a lot of potential in helping sub-Saharan Africa overcome current economic challenges in its its move towards sustainable growth.

But maybe it is not because the digital economy can merely drive economic growth in the conventional sense, but because it can expand regional business networks and local communities, and make them more resilient against global economic threats.
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