



Digital Trade: Assessing the Opportunity for Africa

‘Trade in the New Normal’: NWU Trade Advisory
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Setting the Scene

“Africa’s Continental Free Trade Area will positively impact the [digital trade] sector, since it creates huge potential for cross-border e-commerce. The quantity and quality of supply is very different from one country to another, presenting a wealth of market opportunities for online entrepreneurs. E-commerce platforms can also play a role in logistics and payment solutions to enable this cross-border trade”. – Jeremy Hodara, CEO, Jumia.com

Introduction

- The digital economy is now *the* economy.
- This refers to the permeation of digital technologies into practically all spheres of business, finance, trade, education and government.
- While Africa initially lagged the developing world in adopting technology and migrating commerce modes to the new digital forms, in the last several years Africa has taken several leaps forward.
- The well known African example is that of fintech innovation in East Africa, but there are many more stories now being told and waiting to be told

- This presentation will discuss digital trade in Africa in terms of e-commerce, payments solutions and remaining challenges
- 'e-Commerce readiness' refers to the potential of a country or grouping to leverage new technologies for trade
- The analysis examines readiness for business-to-consumer (B2C) and business-to-business (B2B) electronic trade, as well as indicators of overall Internet penetration, technology adoption, postal reliability and credit card uptake

Africa and the Digital Divide

- Africa is playing catch-up and is making steady progress in reducing the 'digital divide'.
- Africa is the last continent in the world where large proportions of the population are still 'offline' and excluded from the digital economy.
- This is a result of two primary factors: the cost of access and the lack of expertise and technology know-how. The former factor – cost – creates a self-perpetuating cycle of the second factor. Lack of access or expensive access limits exposure to the digital economy and serves to alienate citizens from the online world and the considerable benefits it brings.

Africa and the Digital Divide 2

- The majority of African countries have broadband costs far in excess of the global average
- Due to the additional complications relating to connectivity of **land-locked countries**, broadband penetration is usually lower and costs higher in such countries
- The cost of broadband is related to the expense of infrastructure as well as the cost and availability of finance. High infrastructure costs restricts connectivity to urban and sub-urban areas, which exacerbates the rural-urban divide.
- Across Africa, investment into telecommunications infrastructure is growing strongly, but far greater investment into roads and rail are needed as well.

Africa and the Digital Divide 3

- Costs of internet access are not universally high across Africa.
- The worldwide average is around \$40, meaning several countries actually have below average broadband internet costs.
- Mauritius, Reunion, Tunisia, Egypt, Algeria and Morocco are all in this category whereas several other African countries are not far above the average – South Africa, Côte d'Ivoire, Libya and Mayotte are notable here.

African Digital Businesses and Start Ups 1

- Growth in investment into technology start-ups is a good indicator of the level and strength of the ICTs sector.
- For Africa, the amount of funding of new start-ups had by the middle of 2018 already outstripped the full amount recorded for 2017.
- Of these, fintech projects were in the majority, while Nigeria, Kenya and Egypt were the top three destinations for funding. This reflects quite a shift from 2017, where the order was South Africa, Kenya and Nigeria.
- Finally, the top ten projects comprised 74% of the funding, implying that the balance of the funded projects were relatively small endeavours.

African Digital Businesses and Start Ups 2

The types of start-ups of the top ten are (via WeeTracker):

- Fintech (four)
- Cleantech (one)
- Software as a service (SAAS) (one)
- Transport tech (one)
- Recruitment
- Agritech
- Analytics

African Digital Businesses and Start Ups 3

‘Fintech’ refers to applications that cover mobile banking and payments services.

While fintech services essentially replace the face to face interaction between customer and banker, e-commerce services encompass a far broader set of services:

- Marketing
- Virtual cataloguing
- Sales and payments
- Fulfilment
- After-sales services including support, maintenance and warranty fulfilment

African Digital Businesses and Start Ups 4

e-Commerce requires not only a replacement in the face-to-face interaction between buyer and seller, but also:

- Secure (potentially cross-border) payments mechanisms are also required,
- Shipping and logistics function to safely deliver merchandise sales to the customer.

Understandably then, e-commerce platforms are not at the level of growth seen with fintech and other sectors, yet there is still growth

African Digital Businesses and Start Ups 5

- There are at least ten major e-commerce ventures currently operating in Africa.
- These ventures were funded in collaboration with international investors – reflecting the potential in Africa's market seen by the international investor community.
- Some of these ventures innovated their own payments and delivery systems in order to be able to contain the end-to-end service. They have this extent of innovation in common with the original e-commerce global platforms such as eBay and Alibaba.

African Digital Businesses and Start Ups 6

- Jumia.com is almost certainly Africa's first e-commerce unicorn and its founder, Jeremy Hodara, understands the potential of e-commerce to advance intra-African trade. He makes the important point that the number of inhabitants per retail outlet is a tiny fraction of that in the developed world, presenting a unique opportunity for e-commerce start-ups on the continent.
- MallforAfrica.com is an app-based platform allowing customers in Africa to shop the top web stores in the US, the UK and Europe and have the items delivered to them or collected. Payment is made through the platform's own payment system and does not require a PayPal account. It is currently offered in 17 African countries, primarily Anglophone countries .

African Digital Businesses and Start Ups 7

- MarketPlaceAfrica.com is an associate business of MallforAfrica.com. However, it caters for the reverse trade flow – African suppliers have a platform on which to market and sell their goods to the 220 countries serviced by DHL couriers, which is the delivery partner.
- This enables African businesses to bypass the potentially ‘weak link’ in the chain – the postal services system in their home countries. Products for sale on this platform have a distinctly African flavour and are not simply re-exported Asian-manufactured goods.

Measuring e-Commerce Readiness

- UNCTAD's *e-trade for all* initiative aims to increase the inclusivity of electronic trade globally, with the recognition that Africa and the developing world have been left behind in the race to adopt and utilise the new technological platforms on which trade takes place
- One aspect of the *e-trade for all* initiative is a comprehensive index of readiness for electronic trade. The name coined for this index was the **UNCTAD B2C e-Commerce Index**, which is an aggregate of a set of sub-indices of readiness: specifically, ICTs necessary for online shopping, payment methods and delivery methods

Measuring e-Commerce Readiness

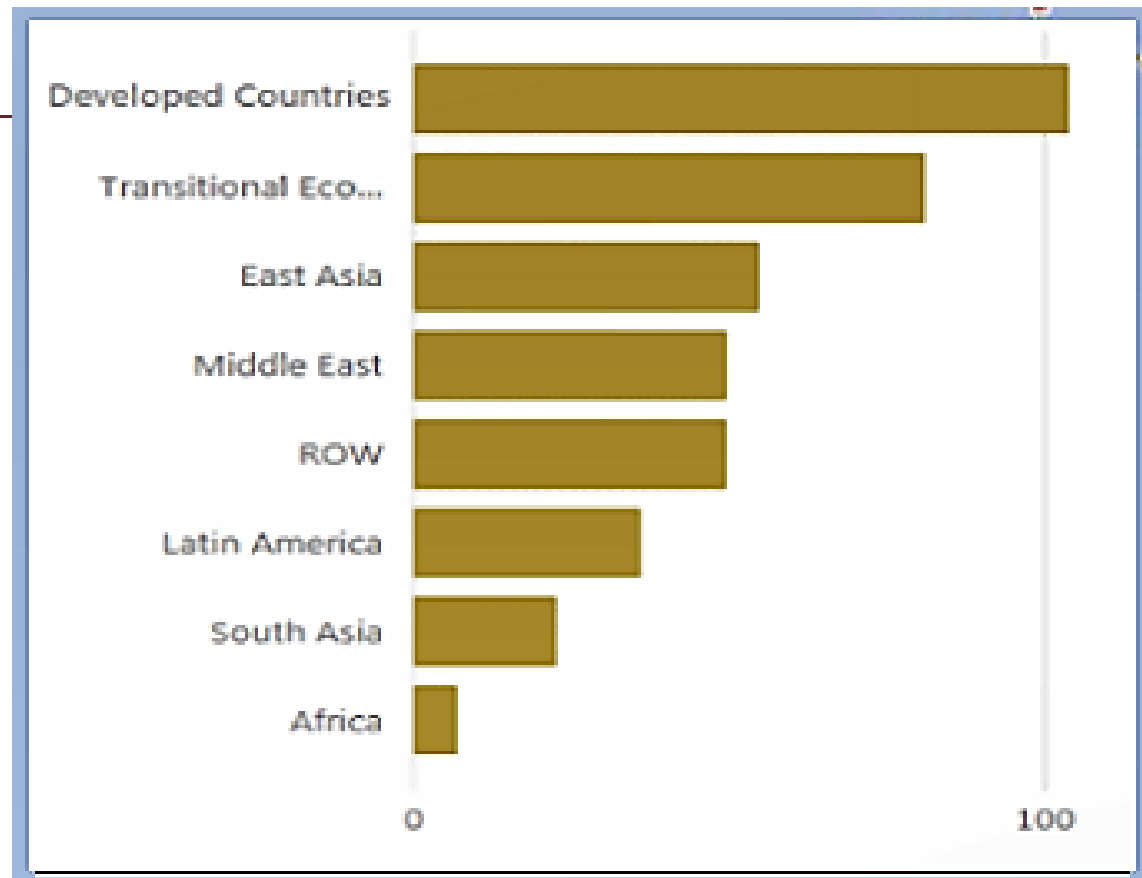
Other indices used in the visualisations include:

- World Telecommunication/ICT Indicators database-
Internet users per 100 people
- Global Findex Database of the World Bank - *Credit card ownership (age 15+), percentage of the population*
- Universal Postal Union – Postal reliability score of the UPU
- World Economic Forum
 - *Firms' technology absorption*
 - *B2B ICT use (2015)*
 - *Networked Readiness – country score*

The Benefits of e-Commerce

- The ability to begin participating in international value chains
- Improved access to markets and greater reach of market
- Enhanced efficiency internally to the enterprise as well as to the market itself
- Reduced transaction costs. This is especially beneficial to remoter locations, for example, Bieron (2013) has estimated welfare gains to South Africa from moving to online trade that exceed that of Korea, Canada and Mexico
- Productivity gains to market participation, especially for smaller enterprises and for services trade

B2C Readiness – Africa in Global Context



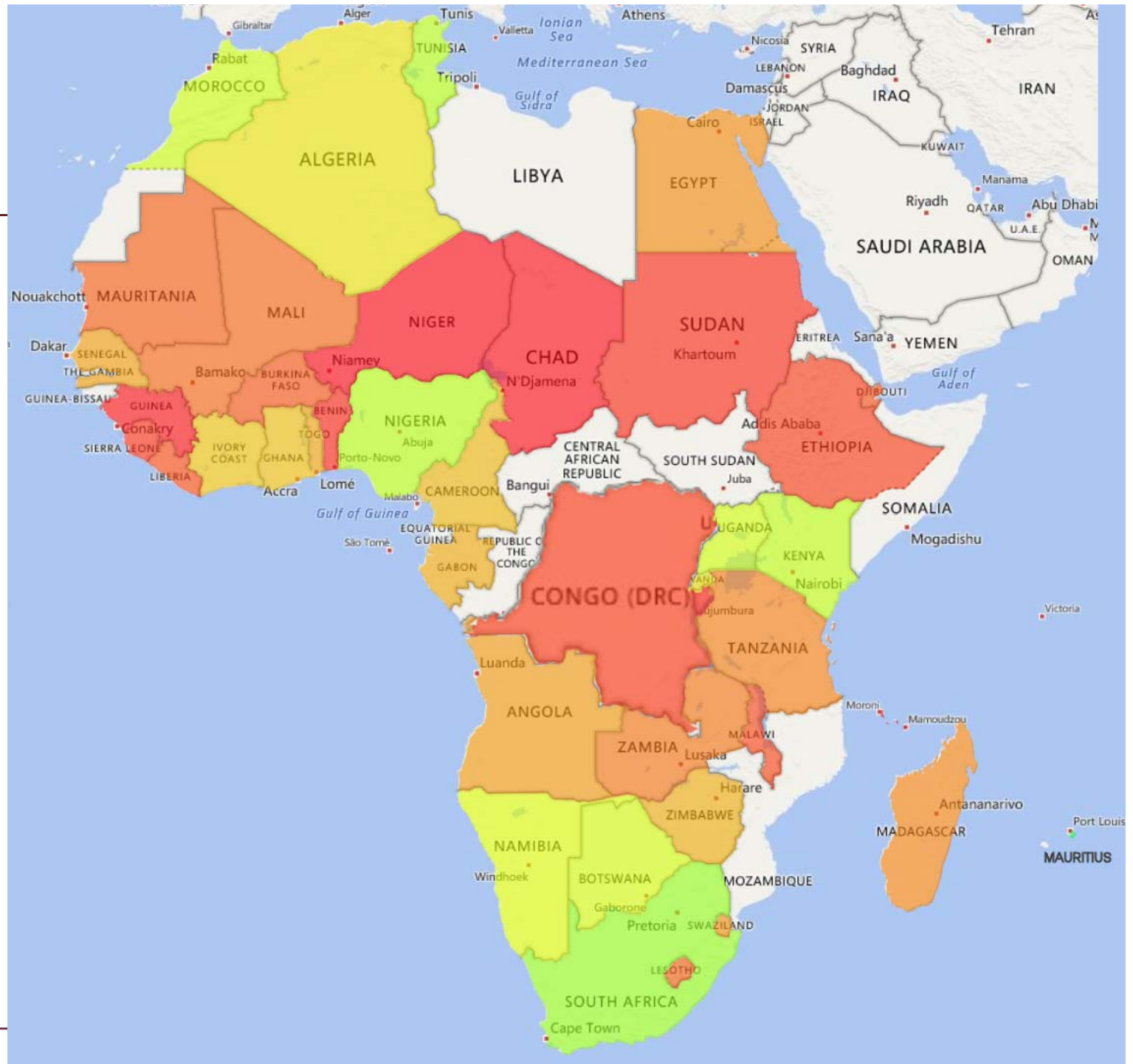
- Even though Africa ranks last, its recent rate of improvement exceeds that of the Middle East and Latin America

B2C Readiness – Africa in Global Context

- Africa's B2C e-Commerce readiness is less than 10% of the highest-ranked grouping, but its *internet user penetration* metric is much better, at 20% of the highest-ranked grouping
- This implies that Africa is well-positioned to swiftly advance its e-Commerce readiness in the near future
- In Africa, most internet access is via mobile devices rather than desktop machines but with mobile application development proceeding rapidly, the gap between the potential e-commerce use-cases presented by desktop machines vs those possible with mobiles is closing

B2C Readiness – Africa Countries

Ranked



Challenges to Africa's Digital Economy

Besides broadband costs:

- Lack of funding: investment into ICTs, especially e-trade related areas - is based on an anticipated return on investment (ROI) that assumes a marketplace can and will come into being.
- Particularly low penetration rates and 'digital exclusion' in certain countries, such as the DRC, Chad, Guinea and Benin.
- Language-based exclusion: the predominant language of the internet is English. French and Portuguese-speaking Africans are at a disadvantage when using platforms that are not available in their language. Online translation tools are available but are often slow and imprecise.

Challenges to Africa's Digital Economy 2

- Cultural exclusion (my terminology), where internet users have no say or consideration in the design and content of tools and are to some extent, 'alienated' from the online environment.
- Foreign ownership of platforms or significant foreign control due to the extent of foreign investment in start-ups.
- Cybercrime: updated internet security applications require regular access to bandwidth to update the definitions. Ignorance about the safety of e-commerce and fintech give openings for cybercriminals.

Conclusion – Some Policy Recommendations

- New funding sources for investment. The large tech giants have indicated they are willing to become more involved in bridging Africa's digital divide.
- Reduce customs complexity. For example, in South Africa the Customs and Excise authority now (since June 2017) levy a flat customs rate on all small international parcels, so as to simplify customs processing.
- Improve shipping reliability, especially for the national postal services which are usually parastatal entities. The data presented in the infographics clearly shows the deficits in the performance of the postal system in many African countries.

Conclusion – Some Policy Recommendations

- Streamline consumer protection so that the displacement between the buyer and seller does not become an aspect to be exploited by unscrupulous sellers.
- Within countries, every online seller will have to comply with consumer protection legislation, but this becomes an issue with cross-border transactions.
- Fortunately many of the online retailers as well as the payments gateways now have robust and responsive dispute resolution systems for buyer protection.

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END – THANK YOU

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