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“E-commerce – an economic tool towards post-COVID-19 recovery and digital business sustainability”

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Abstract

E-Commerce is the subject of increased attention from government institutions, international development organisations, entrepreneurs and the public. COVID-19 crisis has highlighted the importance of this issue and the debate has been centred on the power of marketplaces and big tech, whether the growing importance of digital technology in trade is a force for good or a menace to be controlled. With the crisis underway, and the projection of an economic downturn to follow, the attention has now shifted to understanding in what way e-commerce can contribute solutions. Of particular note is the African Continental Free Trade Area, which is scheduled to include negotiations on a Protocol on Digital Trade and E-Commerce.

This policy brief draws from the interventions and discussions of the eComConnect virtual conference on “e-commerce – an economic tool towards post-COVID

19 recovery and digital business sustainability”, held June 4, 2020. This one-day series conference focused on practical recommendations that could set a framework for action in 2020 and on new tools and research that can support entrepreneurial activity in e-commerce. Within this focus, the day began with strategic panels that considered the implications of the AfCFTA on e-commerce and on inclusivity and recovery, within the current COVID-19 scenario and beyond. The conference was co-organized by the International Trade Centre, the Institute of Development and Economic Planning and the African Trade Policy Centre – United Nations Economic Commission for Africa.

Context

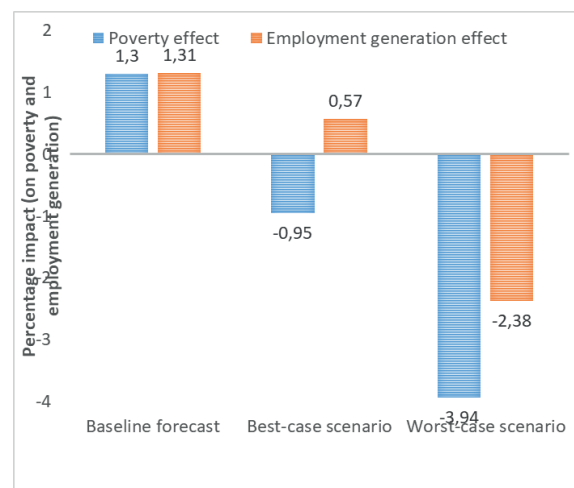
As of 2019, the International Telecommunication Union (ITU) statistics showed that 28.2 percent of individuals use the Internet in Africa, in a global average of 4.1 billion people using the Internet in 2019, reflecting a 5.3 per cent increase compared with 2018. Adding to these numbers, 79% of the population in Africa is already covered by 3G or higher network, in spite of the 28.2% of the African population that is still offline – with no internet access.

As the number of internet users rises in Africa, by 2025, 10% of the retail sales will derive from online shopping (\$75 billion). According to the 2013 McKinsey Lions Go Digital report: “If governments and the private sector continue to build the right foundations, the Internet could transform sectors as diverse as agriculture, retail, and health care— and contribute as much as \$300 billion a year to Africa’s GDP by 2025”. Despite this positive scenario, the impacts of the current COVID-19 global crisis can either confirm or significantly reverse the above-mentioned forecasts, depending on the immediate measures that governments, international development organisations and entrepreneurs will adopt to refrain the negative economic impact of the crisis over e-commerce.

For instance, disrupted access to internet due to poor electricity infrastructure in many countries of the continent became a constraint that increased significantly, in the current pandemic crisis, with the disruption of the respective services. Moreover, this constraint is aggravated by the cost of data: according to the World Economic Forum, in Sub-Saharan Africa, one gigabyte of data costs nearly 40% of a monthly average wage, when 85% of the African population lives with less than \$5.50 a day. These numbers highlight a digital divide that will severely impact over the on-line consumerism trends and on digital businesses in terms of short/mid-term liquidity and sustainability. There is a long way to go to make e-commerce a profitable (and therefore sustainable) activity in Africa. The leading marketplaces have struggled to make money and are reducing presence in several African countries.

For smaller players the situation is possibly more desperate: recent research by ITC shows that 1% of Africa’s e-commerce marketplaces are responsible for 60% of the activity in the whole continent and that over the last 3 years there has been an overall decline in activity on these marketplaces of around 5%. ITC’s Africa Marketplace Explorer points to the low penetration of online payment solutions and the almost unique focus on domestic sales among the marketplaces: feedback from operators of the platforms confirms the high costs of handling cash, costly logistics and unfamiliarity with ecommerce of African consumers and small enterprises as major barriers to building a viable businesses. African ecommerce remains below scale (the continent registering a total online marketplace traffic equivalent to only about 10% the size of Amazon.com) and divided into national markets, with only the largest thriving: the majority of marketplaces do not accept sellers from other African countries.

This poses a key problem: digital divide impacts over patterns of demand, and subsequently over the mid-long-term sustainability of the e-services’ providers, hence affecting jobs, especially during the COVID-19 economic shock. According to the first ILO Monitor – April 7 - the COVID-19 full or partial lockdown measures were already affecting almost 2.7 billion workers, representing around 81 per cent of the world’s workforce. In Africa, the United Nations Economic Commission for Africa estimates a -2.38 points decrease on the employment generation effect, an immediate impact of the COVID-19 – worst case scenario:



How can e-commerce be used as an economic tool towards post-COVID-19 recovery and digital business sustainability?

1- The AfCFTA and e-commerce: what's happening in Africa, how relevant is e-commerce to the economy of Africa?

Several African countries have moved fast to support e-commerce as a means for enhancing social distancing in the fight against COVID-19. Notable examples include:

Rwanda: The removal of transaction fees for mobile money has stimulated a five-fold increase in the use of digital payments

Ghana: A new Digital Financial Services Policy encourages mobile money by increasing wallet size limits and making know-your-customer restrictions transferable from SIM registrations to allow for remote mobile money account openings

Kenya: The raising of mobile money transaction limits and a waiver on mobile money fees have been introduced to further incentivise the uptake of mobile money

Ethiopia: Internet tariffs have been reduced, and speeds reportedly increased, to encourage online and

As remarked by Commissioner Albert Muchanga of the African Union Commission, “the reality is that e-commerce is already happening on the ground in Africa”. The bigger debate is how can it best be harnessed and promoted for sustainable development. Here, three policy priorities stood out:

i. AfCFTA Protocol on E-commerce and Digital Trade

There appears to be such considerable belief in the potential for an AfCFTA Protocol on E-Commerce and Digital Trade that policy attention has now moved towards identifying whether negotiations on this Protocol, which were scheduled to take place under Phase III of the AfCFTA, can be moved forward to Phase II. In the meantime, the African Union Commission is engaging in preparatory steps for these negotiations, including trainings and capacity building workshops for African negotiators.

ii. Foundational infrastructural constraints

In a point that was echoed in the participant discussions, Dorothy Tembo, ITC Executive Director ad interim, remarked that “access to internet isn’t sufficient: it needs to be fast, affordable and reliable”. Alongside better quality internet, improvements are needed in broader e-commerce ecosystem, including developing last-mile logistics and updating e-commerce-related regulations. The African Union Digital Transformation Strategy provides a comprehensive strategy for achieving an appropriate enabling environment in Africa.

iii. Leaving no one behind

Women are less likely to have financial means to access the internet, less likely to have access to bank accounts to use online, and are still behind men in receiving the sorts of education required to take advantage of e-commerce. Challenges remain in ensuring that the opportunities of e-commerce are as available to Africa's Francophone, Lusophone and Arabphone populations as it is to Africa's Anglophones.

2- E-commerce: inclusivity and economic recovery?

Private Sector adaptation to the digital transformation

There still remains a convergence on the critical role of Micro, Small and Medium Enterprises (MSMEs) in relation to e-commerce, given the potential of its market size, expected to amount to 476.5 million by 2024, with a projected 2020 revenue of 18,420 million and on the creation of 3 million jobs, as stressed by Dorothy Tembo, the ITC Executive Director ad interim.. Estimates show that Africa has 400 million internet users and therefore this presents an opportunity to dissect and understand the make up of the users so as to better serve their needs. The observations addressed by Elzie Kanza, the Head of Africa and Member of the Executive Committee, WEF Africa revealed gaps that threaten the untapping of the aforementioned potential:

- Negative impacts for women and youth, due to capital limitations most causing businesses to close permanently. Access to finance still remains a challenge for MSMEs as their size renders them inherently risky.
- Remaining businesses will struggle to survive the post-pandemic economic situation - an immediate consequence that calls for ensuring the liquidity and sustainability of small and medium-sized enterprises (SMEs) and securing jobs at risk. Uganda might be taken as an example: for instance, according to Uganda Business Climate Index "Uganda businesses in agriculture experienced the largest decline in business activity with 76% of the firms reporting severe decline and 12% reporting moderate decline."

Adding to these gaps:

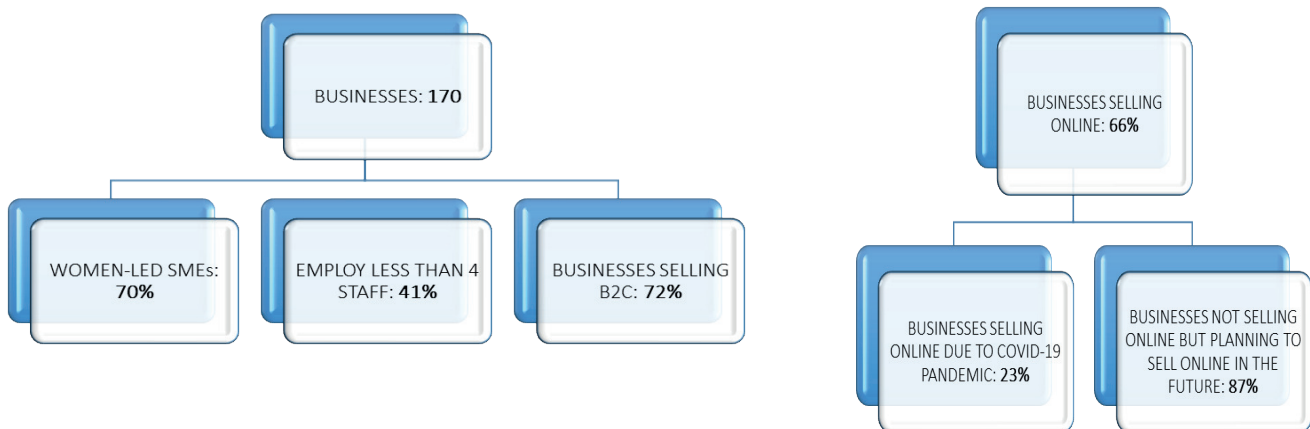
- Infrastructural and financial challenges have been identified – a significant decrease of energy supply to urban and rural areas and consequently, a disruption on the internet services; low access to financial services: only 37 percent of women in Sub-Saharan Africa have bank accounts in comparison with men (48 percent), according to the African Development Bank Group. Moreover, the two above-mentioned gaps will also have a serious impact on the distinction between rural and urban areas. According the International Telecommunications Union (ITU), limited access to internet pairs with low levels of infrastructure electricity-wise, especially in the rural areas. The imbalanced above-mentioned percentage will increase the digital divide and impact over the development of SMEs and e-commerce.
- Low digital literacy to navigate the digital spheres and gender gap in internet access According to an UNCTAD 2019 estimate: "Overall, 12% fewer women use the internet than men. In sub-Saharan Africa it's as high as 25%, and in LDCs even 33%", whereas a 2016 World Bank survey pointed that: "Across Africa, seven in ten people who do not use the internet say they just don't know how to use it."

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1. **Organize:** join or form tech sector associations, probably cannot afford charismatic “public policy” lobbyists, but can aggregate their views and coordinate together through organizations like E-Commerce Forum Africa.
2. **Identify policy and regulatory priorities and frameworks:** associations often do this in a short two-pager to be circulated with policymakers.
3. **Articulate priorities to policymakers.**

3- E-commerce response to COVID 19: 10 practical responses from the ecomConnect community

SURVEY HIGHLIGHTS



Source: ITC, COVID-19 response guide for E-commerce businesses, June 2020

A survey conducted by ITC in April 2020 highlighted the challenges small businesses across Africa, Europe and Latin America are facing in the face of COVID-19. The survey covered 107 countries and included more than 170 businesses, most of them being involved in Business to Consumers (72%), activities and women-led SMEs (70%). A significant amount of the businesses employed less than 4 staff (41%). This sample, while being limited, was used to share qualitative feedback on the self-assessed implications of the crisis by SMEs with a group of e-commerce experts in order to generate their suggestions.

Of the firms conducting ecommerce, 23% had started to sell online only recently as a reaction to the pandemic. The vast majority of businesses sell, or plan to sell, online: 87% of those not selling online plan to do so in the future.

The most frequently cited need in relation to e-commerce expressed among the businesses is to receive assistance in developing a long-term e-commerce strategy, followed by advisory on digital marketing activities and third creating or improving their online presence.

The challenges encountered by the e-commerce businesses are categorized in 7 key areas: finance; market research; e-commerce strategy; customer service; human resources; logistics and supply chain and COVID-19 offers. The “COVID-19 response guide for E-commerce businesses” offers a selection of tips for entrepreneurs to improve their business practices and use of digital tools to capture some of the immediate opportunities offered through digital business.

| | QUESTIONS | RESPONSES | TOP TIPS FROM ECOMCONNECT |
|----------------------------|--|--|--|
| AREAS | | | |
| MARKET RESEARCH | How can I identify online demand for a potential new product line? | <ul style="list-style-type: none"> To identify online demand for new products, start by analyzing the search volume for different keywords related to your niche to find out what people are looking for online. If you are relatively new to e-commerce, try to find niche markets with a high search volume and relatively low competition | |
| | What are the top trending products and services to sell online as a result of COVID? | <ul style="list-style-type: none"> DIY products, Protective clothing, Gifts, Health and wellbeing products, Home & Garden Décor products, Video tutorials. | “If you are already selling on a specific marketplace, look for customized research tools to identify niche markets in your marketplace (e.g. Junglescoutfor Amazon, Marmaleadfor Etsy and Terapeakfor eBay)” |
| E-COMMERCE STRATEGY | How can I develop my e-commerce strategy and business model post COVID? | <ul style="list-style-type: none"> The downtime imposed by the lockdown can be a perfect time to think strategically and take a bird’s eye view of your business-model and e-commerce strategy. We advise taking the time now to understand changes in customer demand and the steps that you need to take to protect your business’ future. | |
| | What are the digital marketing activities which work best right now? | <ul style="list-style-type: none"> If you already have an online presence and can deliver goods to your customers, now is the time to put all your efforts in increasing your online visibility. All of the traditional (online and offline) techniques apply, but certain actions may be more relevant at this time. | “Don’t forget to review existing campaigns and paid marketing to avoid targeting audiences you can no longer deliver to or are no longer relevant to your business. As always with digital marketing, test different ads/messages, review the data, optimize and start again!” |

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| | What steps can I take to improve my website without investing a lot of money? | <ul style="list-style-type: none"> Improving your website doesn’t need to be costly! Lots can be done to improve your online presence, even if money is tight. Use resources that you have at your disposal (like your existing customer base) to provide you with valuable feedback. Join support groups and offer to exchange services. Above all, be creative and resourceful in your efforts! | “User-generated imagery is a great way to improve your website additional investment. Ask your previous customers for pictures of them using your products and share these on your website and social media channels!” |
| CUSTOMER SERVICE | How can I adapt to changing consumer behaviours? | <ul style="list-style-type: none"> It’s time to revisit the assumptions you might have made about your target customer. Listen to your customers and understand their pain points, needs and wants. Research your target buyers and use this time to understand potential shifts in product demand, and to identify potential new audiences where relevant. | |
| | How do I retain my existing customers? | <ul style="list-style-type: none"> The probability of selling to an existing customer is 60 –70% more likely than the probability of selling to a new customer. Do everything in your power to retain your customers during these difficult times. You can try creating a long-term offer, special discount, or negotiating payment terms. | “Check if your fulfilment partner offers live customer service in time zones you are unable to cover with your own staff.” |
| HUMAN RESOURCES | How do I manage my staff to ensure their health and safety in the context of COVID-19? | <ul style="list-style-type: none"> Frequent communication with staff is key: Leverage technology tools for productive collaboration Involve staff in decision making and help them with their needs if possible Ensure staff have access to personal protective equipment (PPE) and basic needs are met | |
| LOGISTICS & SUPPLY CHAIN | How can I manage logistics during lockdown? | <ul style="list-style-type: none"> Focus on a good inventory management process to avoid disappointing your customers. If your current logistics provider reduced its services, it’s time to change strategy. | |

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|-------------------------------------|---|---|
| LOGISTICS & SUPPLY CHAIN | How can I manage logistics during lockdown? | <ul style="list-style-type: none"> • Focus on a good inventory management process to avoid disappointing your customers. • If your current logistics provider reduced its services, it's time to change strategy. • Find new logistics solutions even if it involves higher costs. You may be able to absorb some of the logistics costs in your prices. • Another important note: don't lose sight of the future. It might not seem immediately relevant to keep extra stock on hand right now, but it may help when there are new supply chain disruptions in the future. |
| | How to handle long delivery times (and communicate this with your customers)? | <ul style="list-style-type: none"> • Be transparent and clear in your communications. • Quickly inform your customer about potential product shortages or delays in delivery. Explain the impact the crisis is having on your business. Your customers will understand, as long as you stay true to your word. |
| | How to manage disruption in the supply chain? | <ul style="list-style-type: none"> • In these uncertain times, stay in touch with your suppliers to know if there will be any disruptions. Source new suppliers to diversify the risk and limit your dependence on one specific supplier. |
| FINANCE | How can I improve my financial planning and cash flow management to ensure business continuity? | <ul style="list-style-type: none"> • Post-COVID-19, proactive financial management is key. To gain an overview of your financial situation and start planning out your options, make a plan with 3 scenarios: What would this year and next year be if: <ol style="list-style-type: none"> 1. Everything is just as it was before. 2. Everything is worse, but not too much. 3. Everything went wrong. |
| COVID-19 offers | Which e-commerce companies have special offers/discounts for small businesses right now? | <ul style="list-style-type: none"> • Shopify, Google Ads, Hootsuite's platform, New BigCommerce, eBay offers, Etsy, Google Shopping |

Source: ITC, COVID-19 response guide for E-commerce businesses, June 2020

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