klasha | techcabal

International e-commerce in Africa.

KEY PLAYERS, CHALLENGES AND THE WAY FORWARD

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Executive Summary

This white paper begins by highlighting the overview of international e-commerce in Africa. It places crucial emphasis on the market size, key drivers and countries dominating the e-commerce sector in the international market.

The first chapter reveals that despite the increasing number of e-commerce marketplaces operating across the continent, many do not meet international standards. The findings also highlight the inequalities in e-commerce across the continent; one of these being that the largest e-commerce markets are present in Nigeria, South Africa, Kenya and Egypt.

The next chapter examines the challenges of international e-commerce in Africa. The challenges as identified in this white paper are categorised into four barriers, namely:

- Consumer-facing barriers (mistrust, cyber-crime, last-mile deliveries)
- Business-facing barriers (cyber-crime, logistics and transportation deficits, lack of finance)
- Infrastructural barriers (ICT infrastructure and Africa's digital divide)
- Regulatory barriers (regulatory issues and bureaucracies)

The third chapter provides solutions to these challenges; also, it reveals how innovators like Klasha are addressing these problems and what the other stakeholders are doing to tackle these problems.

The last chapter highlights the way forward and the future potential of Africa's e-commerce sector. It lists possible recommendations to bridge the gap and advance international e-commerce in Africa.

Introduction.

Digital commerce, popularly known as e-commerce, has evolved over the years into a significant force pushing global economic transformation. It is enabling new use cases and business opportunities for the industry to undertake, especially in the African continent. African entrepreneurs are developing solutions that tackle low consumer trust and limited access to formal banking.

The continent is also experiencing an increase in digital literacy, breakthroughs in infrastructure and technology, and unprecedented new demand, especially since the COVID-19 pandemic began. In this same period, we are witnessing successful investment rounds for local e-commerce platforms, an increase in interconnectivity reach, rising mobile money acceptance and digital payments. All of these are disrupting barriers and upending sectors like retail and travel.

There are, however, a number of barriers to actualising the continent's full potential. This white paper examines the state of international e-commerce in Africa, with a focus on the key players contributing to the development of the e-commerce sector and barriers hampering its growth.

It also discusses strategies to remove these barriers and facilitate international trade on the continent, with key emphasis placed on the unified digital payment solution startup Klasha and its roles in addressing these challenges.

This paper is structured in addressing the questions on the mind of every entrepreneur and policymaker, which are: - what is the way forward in tackling these barriers? How can we accelerate Africa's e-commerce development to become a global force and serve as a positive influence in advancing her economy?

Chapter 1

The state of international e-commerce in Africa

The state of international e-commerce in Africa

With the surge of internet penetration and the growing internet connectivity in Africa, the e-commerce landscape is fast-growing. This trend is predicted to continue, as the continent is home to the youngest population in the world. Therefore, it has the potential for a vast digital audience.

Many players are entering the market and more investments are being made in the sector. Technological advances and innovation have irrefutably played a pivotal role in the adoption of online retail in Africa while addressing the challenges faced by the sector. Solutions such as increased e-payments innovations and technical security are evolving due to the rapidly changing demographics, and that is setting a new demand for consumerism.

According to the Organisation for Economic Cooperation and Development (OECD), e-commerce is defined as “the sale or purchase of merchandise or services, conducted over computer networks by methods specifically designed to receive order placements”. While placements are done through those online methods, payment and delivery of the goods don’t have to be conducted online. These online methods can be categorised as order placements achieved through web interactions, extranet or electronic data interchange. However, the strategies do not include orders achieved through telephone calls, photocopy or manually typed e-mail [1].

Most e-commerce platforms in Africa are niches that consist of the following [2]

- Business to Business (B2B)- A transaction occurring between businesses.
- Business to Consumer (B2C)- A transaction occurring between businesses and consumers
- Consumer to Business (C2B)- A transaction where a consumer makes their services or products available for companies to buy.
- Consumer to Consumer (C2C)- Transactions that occur between consumers through either a social network or a payment platform.
- Business to Administration (B2A)- Transactions between companies and public administration.
- Consumer to Administration (C2A)- Transactions between individuals and public administration.

With B2B, B2C, and C2C being the foremost niche in the continent, it is interesting to note that less than 30% of the e-platforms are traditional online shopping malls [3].

Other than this, there is mobile commerce (m-commerce) and social commerce (s-commerce). Social commerce involves the utilisation of social networks to carry out online retail, while mobile commerce is e-commerce achieved with mobile devices and networks. Currently, mobile commerce dominates the net shopping experience. This is due to the rise in the use of smartphones, increased internet connectivity and mobile money that permits a seamless shopping experience for users. Morocco, Kenya, and Nigeria have the highest share of mobile shopping [4].

1.1. Overview of the e-commerce market size in Africa

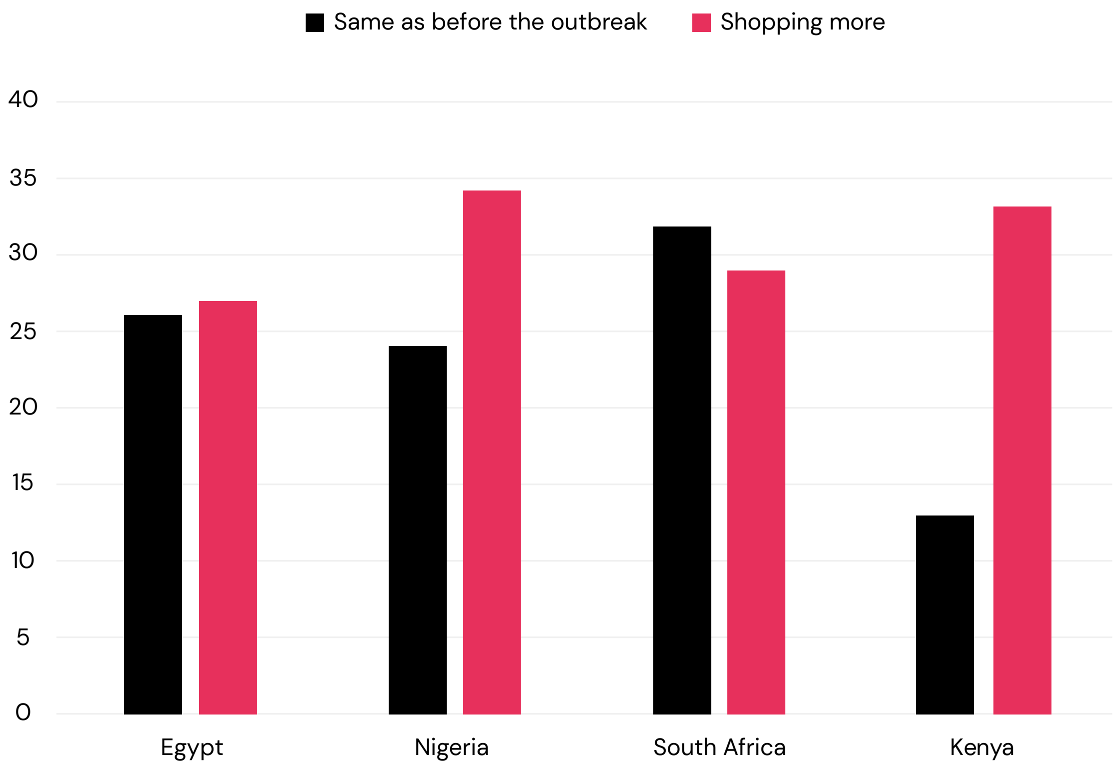
There are approximately 465 million internet users on the African continent; a figure that is estimated to reach nearly half a billion by 2025 [5]. The United Nations Conference on Trade and Development (UNCTAD) reported that the number of online shoppers in Africa has surged annually by 18% since 2014 [6].

As of 2017, the market size of Africa's e-commerce sector was valued at $16 billion [7] and will likely reach $75 billion by 2025 [8]. Additionally, in 2019, the number of e-commerce users in Africa increased to 233 million. This is projected to grow to 478 million by 2024, with an annual growth rate of 17%. [9].

Despite the recent setbacks caused by the COVID-19 crisis, e-commerce has not been left behind in digital development. This is because customers turned to e-commerce in order to fill the gap left behind by the impact of the lockdown measures implemented globally, and the culture is still being sustained in the post-COVID era. In sub-Saharan Africa, the lockdown saw new e-commerce users rise by 5%. [10] A survey by Nielsen reports that in Egypt, Nigeria, South Africa and Kenya, consumers were 40% more likely to either maintain the same shopping levels they had before the pandemic or increase them.

The pandemic caused a spike in the number of online shoppers in Africa, with numbers nearly tripling for Kenya.

Figure 1.1. Percentage of consumers shopping online: the same before or after COVID [11]



Source: Nielsen

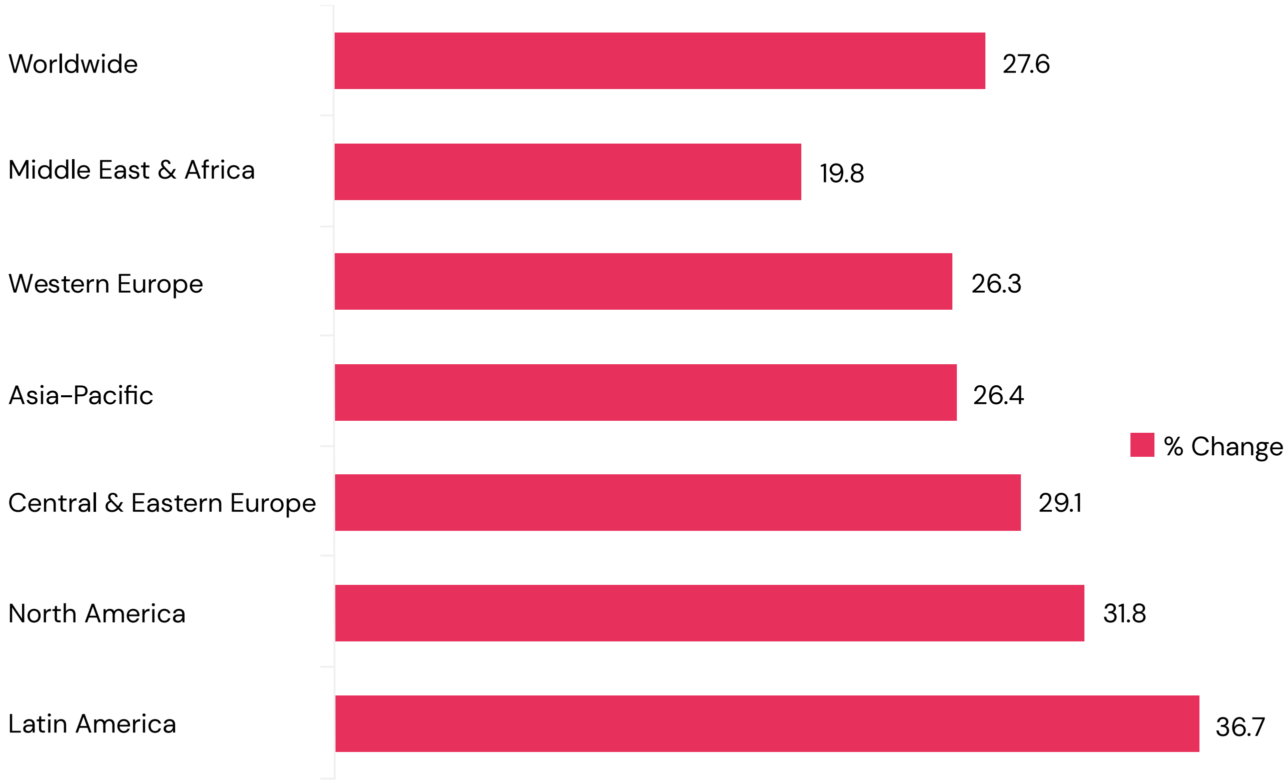
Countries in the Middle East and North Africa (MENA) region will likely have the largest growth potential over the next 5 years, with a Compound Annual Growth Rate (CAGR) of 23% (almost twice that of other regions). [12] Even though sub-Saharan Africa lags behind MENA, it still shows strong potential, having seen a 42% annual growth in the region from 2019-2020. [13]

By international standards, Africa still has a relatively low percentage compared to other continents. The current percentage of online shopping traffic in Africa still represents less than 2% of the global total of e-commerce users. For instance, as of 2019, there were 631 online retail stores in Africa across 58 countries and territories. These retail stores recorded about 2.2 billion visits that year. Yet, companies like Amazon.com had estimated traffic of 26.73 billion, eBay.com had 10.47 billion, while AliExpress.com had 6.66 billion.[14]

The Asian continent dominates the global landscape today in both absolute and relative terms, with total e-commerce sales at the end of 2020 estimated at around $1.8 trillion. This is more than twice the level recorded by the US and other nations like the UK, France, Japan, and Germany. China has the largest share of e-commerce sales in the world, while e-commerce sales in emerging markets currently account for less than 5% of the total retail value.

The growth of e-commerce sales in Africa lags other regions

Figure 1.2. E-commerce sales growth by region (2020)



Source: eMarketer

Despite this, there is a shift in growth momentum towards emerging markets like sub-Saharan Africa. For instance, it is anticipated that India will have the strongest growth from this period to 2023, closely followed by Indonesia and South Africa, which will be ranked in the top six. [15] These are countries with high population and GDP growth rates, allowing for the emergence of young, tech-savvy consumers with expendable income.

Leading e-commerce players plan to extend activities to fast-growing emerging economies around the world. Companies like Amazon announced a $1 billion investment in India in January 2020, while Alibaba has expressed interest in expanding across Africa.

1.2. Leading countries for e-commerce in Africa

Online business in Africa is dominated by ten countries. These countries account for 94% of all e-commerce transactions. However, nearly a quarter of countries on the continent lack an appropriate transactional marketplace where payments are concluded directly online.

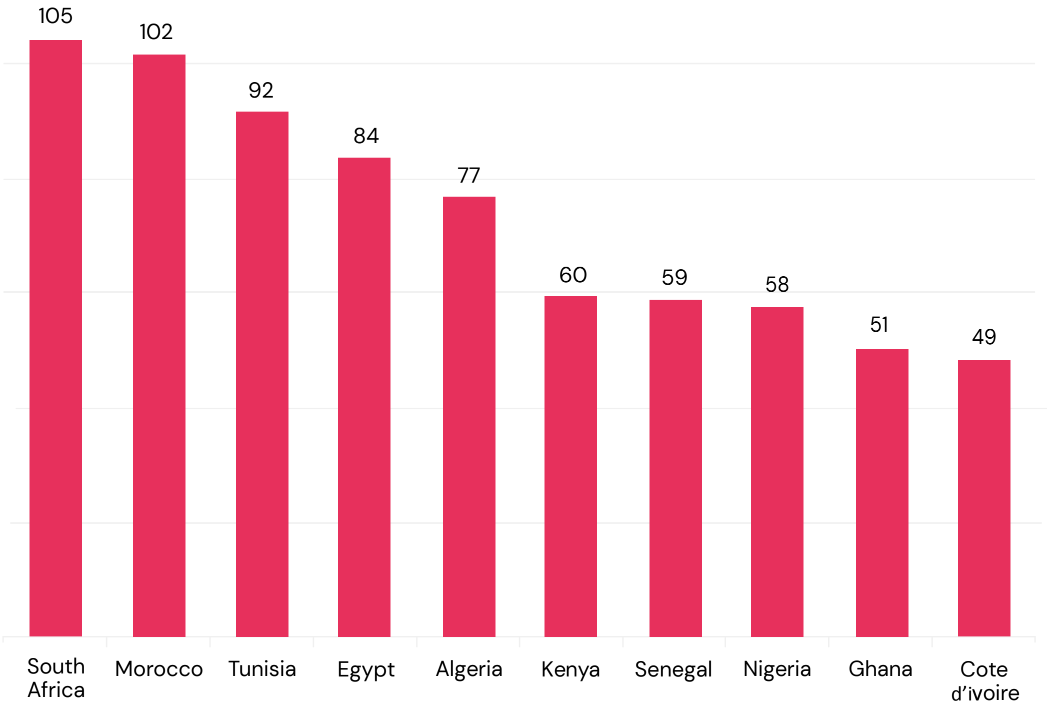
According to the UNCTAD yearly publication on “B2C e-commerce World Index”, the top ten African countries include Mauritius which is Africa’s champion with a ranking of 58, South Africa (73), Tunisia (74), Ghana (82), Libya (83), Nigeria(88), Kenya (89), Morocco (97), Senegal(98) and Algeria (109).[16]

Nigeria, Kenya, South Africa, Morocco and Egypt are at the forefront of e-commerce development. These five countries have the largest economies on the continent and account for 78% of the total marketplace.

In terms of digital marketplaces, South Africa leads with over 100 digital marketplaces. Nigeria is recognised as Africa’s biggest e-market and Ghana, having replaced Kenya in the top three contributors in 2020, is primed for massive growth.

As of 2020, these African countries had the highest number of digital marketplaces on the continent [17]

Figure 1.3. The highest number of digital marketplaces on the continent



Source: International Trade Centre: Marketplace Activity in Africa

1.3. Key international players

The e-commerce sector is booming in the African markets, due to various leading corporations that also operate in several other African countries. Jumia, Takealot, Kilimall, and Souq are just a few examples.

Jumia, Africa's most prominent online platform [18], is headquartered in Nigeria and operated in 12 African countries as of November 2019, with Egypt and Nigeria being its largest markets. Unfortunately, it shut down operations in The Gambia, Tanzania and Cameroon in November 2019 and in January 2020, it closed its operations in Rwanda. [19] The Nigerian platform had 6.7 million customers as of the third quarter of 2020, with an anticipated gross merchandise volume of $1.25 billion in 2020, despite the impact of 2019. 20

Another key player in the industry is Takealot, South Africa's leading e-commerce platform that has raised millions of dollars in capital since its inception. The company is solely based in South Africa.

Kilimall, founded in Kenya, has expanded its operation to Nigeria and Uganda. Although it is relatively new in the e-commerce space, it has remarkably made its mark since its launch in 2014. Souq, an Amazon-acquired company, can be regarded as the leading e-commerce in the Middle East and North Africa region. It is the largest e-commerce company dominating the Arab market, with operations covering Egypt, Saudi Arabia, United Arab Emirates, Jordan and Kuwait.

International players like Alibaba entered the continent in 2018, but after facing postal and logistics issues, retreated from most African regions, preferring to offer their services through African e-platforms like MallforAfrica, Jumia and Takealot, all of which handle their own logistics. As a result, the majority of e-platforms in Africa are owned and operated by Africans, creating an interesting situation.

In 2019, Africa's e-commerce sectors received $134 million in funding across 30 deals.

Notwithstanding, Africa's e-commerce landscape is improving, with more players entering the industry, new innovations and increased investments. In 2019, Africa's e-commerce sectors received $134 million in funding across 30 deals. This represents a 2% year-over-year (YoY) increase in money and a 36% YoY increase in the number of deals. [21] Copia Global, an e-commerce startup in Kenya, raised $26 million in a 2019 Series B funding round in order to expand its operations. [22]

1.4. Trends driving inward expansion

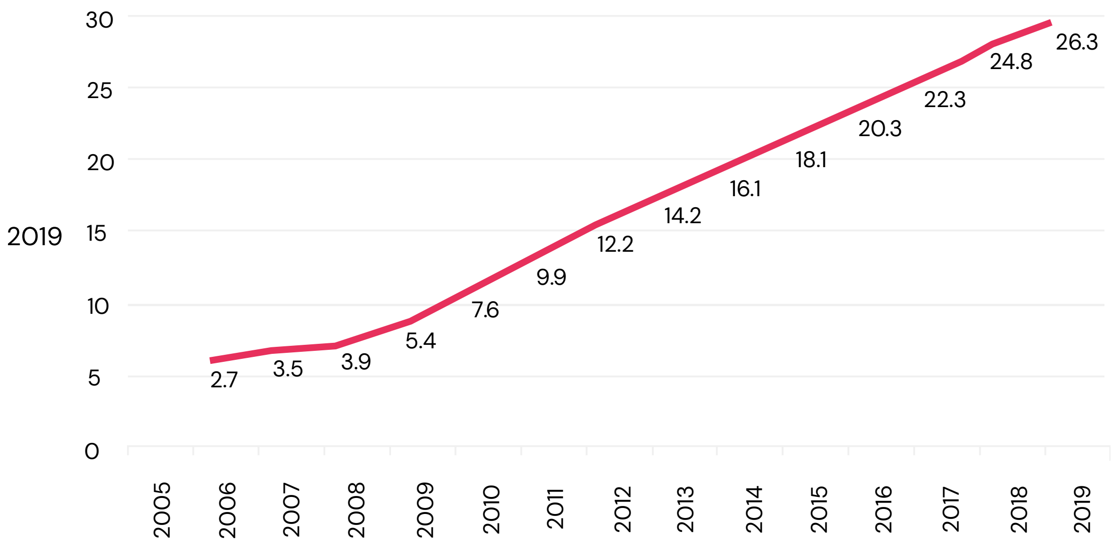
Mobile technology plays a crucial role in the advancement of e-commerce. It serves as the primary platform used to access the internet and can also facilitate online payments through mobile money. Thereby addressing the pressing challenge of low penetration of bank cards and risks associated with cash on delivery.

High internet penetration and access to mobile phones at cheaper rates across the African continent have played a significant role in increasing average data consumption and supported the growth of the e-commerce landscape. In 2019, more than 83% of smartphones sold in Africa had a price tag of $200 or less, while internet penetration had surged from 3% of Africa's population as of 2005 to 28% in 2019 (Figure 1.4.). [23]

The decreasing cost of the internet across Africa was a significant influence on this rise. Fixed broadband was practically inaccessible for many Africans at the beginning of 2010, when the average price of a fixed broadband high-speed internet connection was 500% of Africa's average monthly GNI. [24] Today, Africans pay an average of $3.42 per gigabyte. [25] Africa has come far but has much further to go in its digital economy foundations.

Share of individuals using the internet in Africa,2015-2019 [26]

Figure 1.4. The population of Africans using the internet from 2015-2019



Sources: ITU. 2020. Statistics

Online payments also play a crucial role in the African digital economy. The continent is experiencing innovative solutions addressing the financial barriers. 21% of adults across Africa have mobile money accounts. [27] Since the COVID-19 pandemic, there has been a reduction in cash transactions and an increase in preference for alternative payment solutions such as debit, credit cards and mobile money.

Innovative mobile-based payment solutions are also addressing the concerns of cash transactions and security against fraud. Examples include the Klasha app, a digital banking platform that allows merchants to accept payment in any currency (US dollars, South Africa Rand, Ghanaian Cedi, Euro, British Pound, Naira, Kenyan Shillings, and Bitcoin). Thereby creating more payment options for both the business and the customers

Aside from addressing these concerns, these online payment solutions are facilitating cross-border transactions, which are dominating the e-commerce sector..

Chapter 2

The challenges of international e-commerce in Africa

The challenges of international e-commerce in Africa

In spite of the significant development demonstrated by the African digital economy amid the COVID-19 pandemic, the e-commerce sector is not without its challenges. Compared to the global economy, Africa is lagging in terms of internet connectivity, security, payments, and data center. Despite the vast opportunities in the continent, Africa fails to grow fast and this consequently restricts the sustainable growth of the sector. Much work is required if Africa's true digital potential is to be realised. The challenges facing the continent include:

2.1. Mistrust

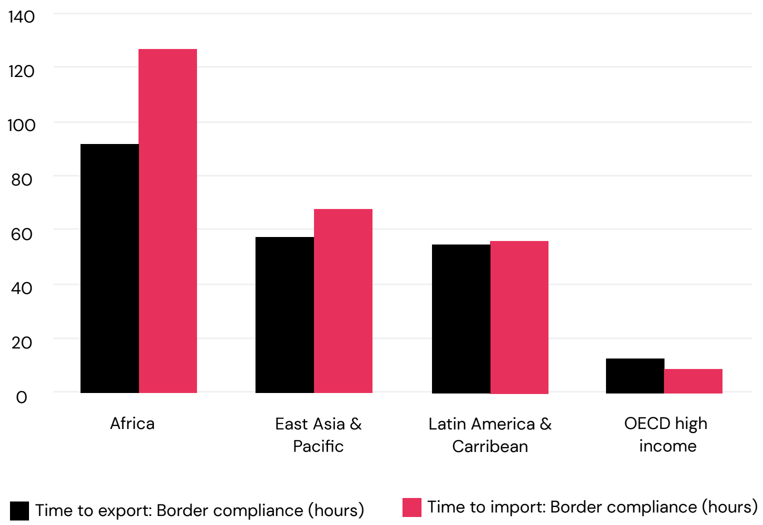
Both African businesses and consumers do not trust each other. Often, both parties are concerned about hidden charges, previous negative experiences, online transactions, security, return policy, quality of the goods, delivery, and lack of consumer protection regulations. From business to business, many small and medium enterprises (SMEs) prefer building relationships before purchasing a service.

The use of online trust marks, backed by codes of conduct and effective alternative dispute resolution mechanisms established to resolve customer concerns, can improve trust, like the South Africa trust mark (Safe. Shop)

2.2. Logistics and transportation

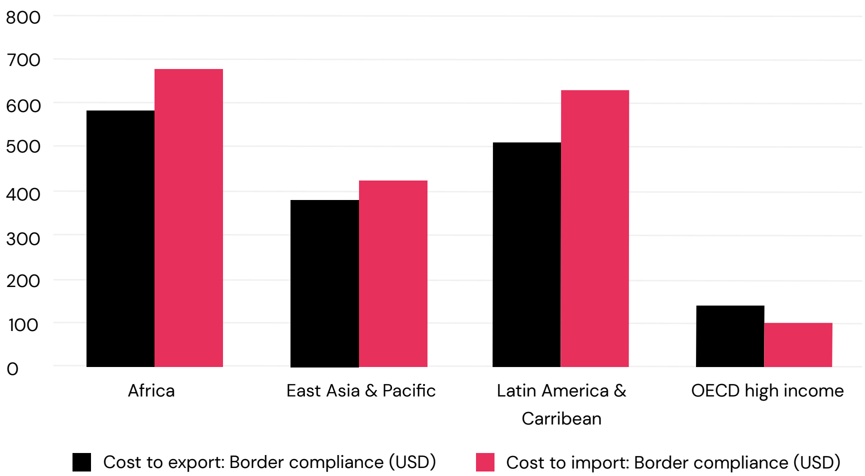
Logistics is a major constraint, hindering the e-commerce sector. In Africa, it adds an average of 320% to the cost of manufacture.[28] Cross-border takes double the time compared with other developing countries. It also costs more (Figure 2.1), results in customer dissatisfaction, and poses a challenge for the e-commerce platform if the average value of the product is relatively low (below $25). [29]

Figure 2.1 - Time to trade: Africa and comparators, hours



Source: World Bank . 2020.

Figure 2.2 - Cost to trade: Africa and comparators, US $[30]

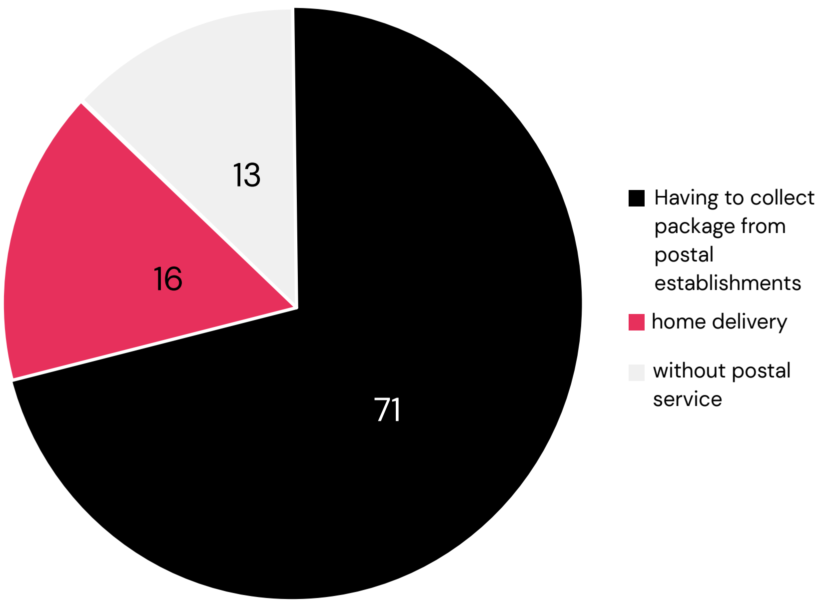


Source: World Bank. 2020.

For national deliveries, only 16% of Africans are able to receive their orders at the designated destination. This reveals that Africa performs terribly in terms of postal reliability (speed and delivery predictions) as compared with other developing nations (Figure 2.3). Meanwhile, international countries outside Africa place emphasis on speed and efficiency as essential product offerings to their digital customers.

How Africa's population accesses postal services [31]

Figure 2.3. Comparison of how Africa's population accesses postal services



Source: UPU. 2020.

In certain African countries, there is a monopoly on last-mile deliveries by the national postal agency. This creates an unnecessary additional expense and prevents innovation.[32]

Not all national postal operators in developing countries are bad, there are still some innovative ones in the continent. According to the Universal Postal Union index of national postal delivery effectiveness, Nigeria has the best record in Africa (83%), followed by Tunisia (79%), Tanzania (69%), Ethiopia (61%), Senegal (53%), Angola (52%), Cameroon (50%), Mauritius and Kenya (47%), Egypt and Ghana (42%).[33]

Aside from this, there is also a poor distribution network in Africa that affects delivery services. [34] Reports indicate that 30 to 40% of products ordered are returned because the address can not be located.

2.3. Lack of finance

39% of African countries report that lack of finance is a major threat to the operation. The situation is further exacerbated as 90% of the investment funds are directed towards five African countries which are Egypt, Kenya, Morocco, Nigeria and South Africa. [35]

Due to its youthful exuberance, Africa has no shortage of entrepreneurs. According to the World Economic Forum, lack of support and infrastructural inadequacies will result in 14% more startup failures in the continent. Its proposition is the establishment of more public-private partnerships, innovation, and accelerator hubs. [36]

40% of African nations do not have FDI promotion agencies

An alternative option will be to borrow funds. However, entrepreneurs need to overcome a high hurdle to borrow funds from formal financial institutions, especially if the business is e-commerce or inventory control. The hurdle is especially high for marginalised communities like women, the youthful population, people living below the poverty line and persons with disabilities. Much progress is still required to open formal financial markets and attract foreign direct investment (FDI). Unfortunately, 40% of African nations do not have FDI promotion agencies. [37]

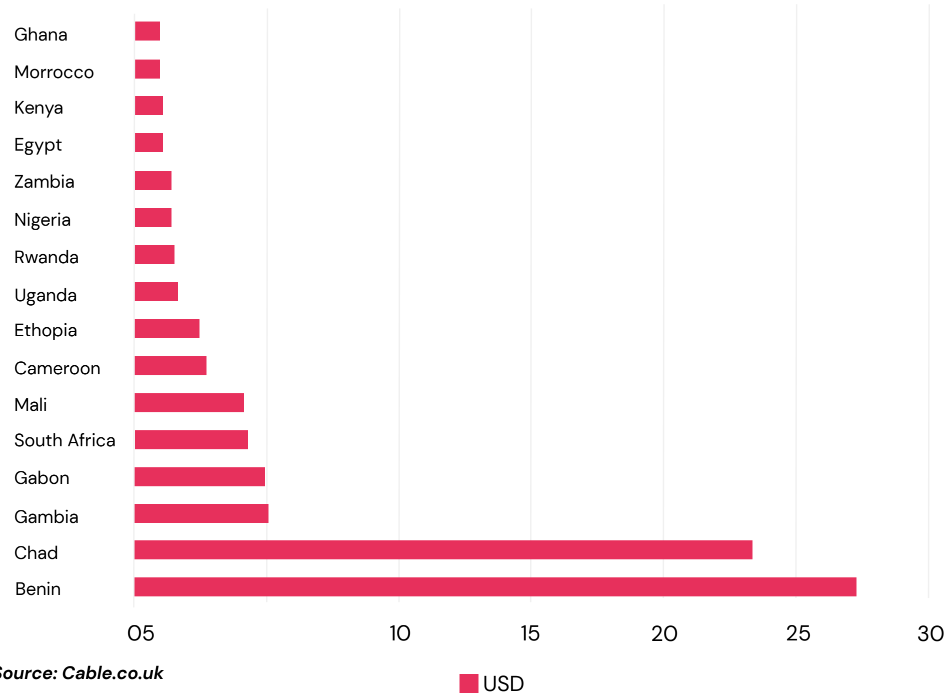
Interestingly, findings revealed that 243 African-tech start-ups raised a total of $2.02 billion in equity through 250 rounds, which was 74% growth year-on-year [38]. Across the continent, Disrupt Africa reports indicated that there are 640 technological hubs that have generated an estimate of $500 million in funding in 2019- with year-on-year growth of 50%. However, female-led startups only receive 2% of all venture capital funding [39]. With both crowdfunding opportunities and financial angels, more startups will have more opportunities to generate funds.

2.4. ICT infrastructure and Africa's digital divide

COVID-19 revealed the shortcomings of Africa's digital infrastructure. Despite seeing an increase in smartphone connection, internet broadband speed crumbled due to the new remote work and living patterns. Based on income levels, the high average prices of the internet in Africa threaten digital adoption. Data costs in some African countries are the highest globally. The table below indicates the mobile plans for some African countries, as highlighted by Cable.co.uk.

The average price of 1 GB in selected African Countries in 2020 (USD)

Figure 2.4. Mobile plans for some African countries



Source: Cable.co.uk

Competition and taxes are two statutory areas that may be restricting the development of affordable, fast and reliable internet infrastructure and services in Africa.

Uncompetitive markets for mobile and internet services are linked to higher prices and decreased investment. [40] Furthermore, since COVID-19 showed a progression in the digital economy, African nations are progressively examining new tax options on digital services. Kenya, Nigeria, South Africa, Egypt, Tanzania, Mauritius, Uganda, Cameroon, Ghana and Zimbabwe are among the ten African countries that have either enacted or announced plans to implement new tax policies on the digital economy. [41]

Unfavourable taxation, on the other hand, can stifle infrastructure investment and digital adoption. [42] Research revealed that the issue of taxation was the second frequently cited top challenge to cross-border e-commerce. [43]

Infrastructural costs, lack of investment and internet shut-downs clearly constrain internet adoption and e-commerce development in Africa. In 2019, a minimum of 25 partial or total internet shutdowns occurred across the continent. [44]

2.5. Digital payments

Online payments systems are crucial elements of e-commerce yet the sector is still largely plagued by the continued reliance on cash transactions, especially for users with trust issues. Cash on delivery transactions are expensive, increase theft and risk of payment refusal.

However, the recent COVID-19 pandemic has prompted new fintech developments in many countries, particularly South Africa, Kenya and Nigeria. These developments are disrupting traditional banking, introducing the unbanked to the mainstream economy and enabling e-commerce trade at the micro-level.

Another challenge affecting the sector is currency exchange; fluctuations in exchange rates and national banking rules poses a serious barrier to cross border payments. Some national currency rules complicate accepting foreign currency payments in Africa, such as requiring all foreign bank transfers to be justified, which delays purchases.

Buyers can circumvent these rules by using Visa, Mastercard, or PayPal, and benefit from the chargeback policies of the major credit card companies, but this limits cross-border purchases to those with an account in one of the major credit card companies.

Aside from this, most African countries have their own unique currencies. Some are sharing their currencies with several other states. As a result, the currency exchange rate is constantly fluctuating. Thereby, posing a major challenge for many retailers.

This has led to many businesses preferring to limit their sales to specific countries where online payment and currency exchange is possible, and where the rules are not stringent. However, if the transaction is done in the consumers' currency, it can eliminate the sellers' profit margins. Whereas, transactions requiring currency exchange often get cancelled midway. [45]

In terms of cross-border trade within the African Continental Free Trade Area (AfCFTA), there is an ongoing conversation on a single currency and a proposal highlighting the introduction of a common currency based on the Euro by ECOWAS countries. However, until an appropriate solution is devised, Africa will continue to experience the pressing problem of currency exchange. Interestingly, Klasha is addressing this problem.

Thirty-two African countries have statutory regulations on electronic transmissions, while nineteen have consumer protection laws.

2.6. Regulatory issues

The legal foundation for e-commerce in many countries is still in its early stages, with norms for data privacy, consumer protection, electronic contracts and online payments yet to be enacted. As a result, consumers may be wary of online transactions, fearing fraud, substandard items, or financial misappropriation.[46] Interestingly, some policymakers also distrust the e-commerce sector.

Thirty-two African countries have statutory regulations on electronic transmissions, while nineteen have consumer protection laws.[47] South Africa has properly established the consumer protection law through the Electronic Communications and Transactions Act (ECTA 2002) and the Consumer Protection Act (CPA 2011).

These laws play a crucial role in cementing consumer trust, however, they must appear to work in the customer's best interest. For example, product guarantees ensure that the products are safe and meet quality standards. [48] This is a global issue that e-commerce players must face responsibly. Africa deserves a high level of consumer protection to offset low discretionary incomes.

Data protection or privacy is another key element of regulation. In Africa, 28 countries have privacy laws either in place or in the pipeline. These laws are based on the principles of the Council of Europe's Convention 108 and the EU's Data Protection Rules. The AU Commission prepared the Malabo Convention on Data Protection and Cybersecurity,[49] but this convention is yet to be implemented.

28

African countries have privacy laws either in place or in the pipeline

This failure has resulted in differences in law that will create unintended non-tariff barriers for e-commerce in the future, and the likely victim to suffer it will be the SMEs who lack appropriate resources.

Some African governments are wary about adopting traditional enforcement to sectors in the digital space.

However, without cutting-edge enforcement, the African e-commerce market is vulnerable to exploitations harmful to both the businesses and consumers as well.

The most controversial rules relate to IP and trademarks. The trademark rules which are being utilised predate back to the pre-digital economy and differ greatly across each African country. There is therefore a need for new IP regulations that will cater to all stakeholders' interactions.

2.7. Increase in cybercrime

With the increasing level of sophistication of cybercrime globally, billions of dollars have been lost by companies, citisens and governments from various scams, ransomware, phishing attacks and viruses. Personal and company data are particularly at risk. Africa records the highest global levels of phone spam. Out of the 55 African Union members, only 28 have cybercrime regulations.[50]

Unfortunately, Africa is not prepared to deal with cybercrime and lacks cyber-security specialists on the continent. Findings revealed that many businesses do not recognise the dangers of opening attachments to emails without verifying their source.[51]

2.8. Bureaucracy

Government bureaucracies contribute to increasing expenses and reduced costs. According to the World Bank's Ease of Doing Business Index, Mauritius is ranked as the highest sub-Saharan African economy, followed by Rwanda, Kenya and South Africa. [52]

Chapter 3

How innovative stakeholders are facilitating international e-commerce

How innovative stakeholders are facilitating international e-commerce

Africa is indeed experiencing the Fourth Industrial Revolution (FIR) with the e-commerce sector on a high innovation, high-growth trajectory. Mobile penetration, financial services, changing demographics, digital transformations and ecosystem maturity have spurred even more innovative solutions that are addressing the complexities of the sector.

Several digital innovations have proven the way forward with their customer-centric approach. A prime example of this is Klasha, a startup that is simplifying borderless payment and bridging the gap between the international and African marketplaces.

Below, we examine how these stakeholders are disrupting the E-commerce industry.

3.1. Overcoming payment hurdles

In terms of overcoming the hurdles of financial payments, a number of innovative solutions have been implemented.

Due to the COVID-19 pandemic, cash transactions are greatly reducing, despite it being the preferred payment method in the e-commerce economy. There has been an increase in cardless and contactless transactions like mobile banking, internet banking, debit or credit card on delivery, and mobile money.

The use of mobile money across African domestic markets and e-commerce platforms makes domestic payments easy. In Kenya, M-PESA (a mobile money application) facilitates this transaction and connects the unbanked population to the mainstream economy. Kenya's M-PESA has expanded across regions through its integration services. It has partnered with organisations like Jumia, the leading e-commerce player in Africa, to allow residents in Kenya to make payments with the platform. It has also connected Family Bank Limited to allow easy transfers between the customers and WeChat users in China. Within the last five years, payment facilitators have become a critical player in the e-commerce value chain for digital payments. Facilitators, like Klasha, have become a requirement for merchants, as they ensure transaction security and offer alternative payment options to customers.

Klasha has a mobile payment application; a multi-currency payment platform addressing the barriers of currency exchange. These platforms are improving e-commerce transactions by enabling more online payment options such as mobile payment, wallet transfers, subscription billing, internet banking, QR codes and payments in cryptocurrency.

A possible solution to the fluctuations in national currency exchange rates is the use of cryptocurrencies for online payments, however, several countries have adopted different responses to the use of cryptos. Some countries have embraced them, while others have either banned or restricted them. This is why digital payments platforms are essential.

3.2. Navigating concerns of distrust

To address the concerns of mistrust, the E-commerce Forum South Africa (EFSA) launched Africa's first e-commerce Trustmark, a badge provided to e-commerce platforms that are compliant with EFSA's South African Code of Conduct checklist. This trust mark serves to indicate that a business has met all regulatory requirements with respect to security and privacy.

Aside from this, some e-commerce companies offer escrow services to navigate this issue. Fintech players like Mobicred provide users with a centralised account to access several merchants, purchase immediately and pay later.

3.3. Addressing the barriers of logistics and transportation

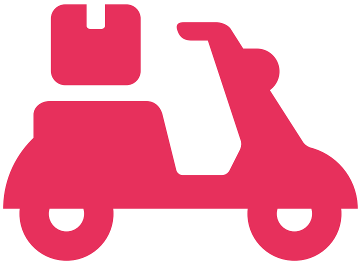
Local e-commerce delivery is increasingly being explored in novel methods. Motorcycles and tricycles have been the most popular. The amount of money invested in delivery motorcycles and tricycles has increased dramatically. Unfortunately, some local authorities are pushing back on this initiative.

For instance, in January 2020, the state government in Lagos, Nigeria banned the use of these tricycles and motorbikes in specific areas due to the chaos they cause and an alarming increase in fatal accidents.[53] In South Africa, reports indicate that there have been over 70 fatal accidents involving delivery motorcycles.[54] This identifies a need for road safety training for delivery personnel and the provision of insurance.

Another solution is the establishment of logistics innovations that form local partnerships with major cities and smaller ones like in India, or partnerships between informal operators and established marketplaces, as seen by Sokowatch in Kenya, Rwanda, Tanzania and Uganda.

Moreover, in Senegal, a public-private partnership is in place to facilitate the delivery of essential goods and services. Buyers can also opt to purchase online but pick delivery from the nearest delivery agents. Innovative startups like Klasha address this problem by allowing international merchants to deliver goods to Africa within a 10-day duration at a lower cost.

Drone deliveries are also being considered by these companies. However, they possess their own limitations such as low payloads, flight path restrictions, and they are even banned in some countries.



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3.4. Increasing access to funding opportunities

Africa is already known for its value, especially in entrepreneurship. With increasing innovation and acceleration hubs, more entrepreneurs will receive business support services, get more funding and connect with other tech entrepreneurs. Some popular innovation and acceleration hubs on the continent include Kenya's iHub, Uganda's Hive

Co-lab, Ghana's Meltwater Entrepreneurial School of Technology (MEST), Nigeria's Co-creation hub and several others.

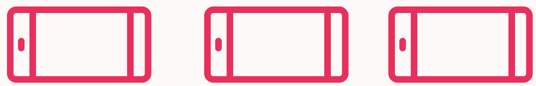
Organisations like AfriLabs coordinate innovation hubs across the continent by creating platforms, supporting projects and organising events. Thus, they are a good model of collaboration, knowledge sharing and capacity building in the innovation ecosystem.

Aside from this, there are some funding and investment opportunities like competitions, fellowships and hackathons which do not restrict entrepreneurs due to bias. For example, there is the MTN Entrepreneurship challenge, which allows entrepreneurs to develop digital applications or smart solutions aimed at solving problems facing the continent. Such events foster the participation of entrepreneurs in developing local innovations that provide societal impact.

3.5. Bridging the digital divide

Findings show that less than 39% of Africans lack access to the internet due to a combination of supply and demand-side constraints, with a larger percentage living in areas without constraints.[55] According to GSMA, there will be 600 million new subscribers by 2025 and the population of smartphone users will double in that time.[56] This development will definitely continue to aid the e-commerce sector across the continent. Countries Like Rwanda and Kenya are already experimenting with high-altitude balloons like Project Loon [57] or SpaceX [58] to boost the internet coverage in locations that have difficulty accessing it.

The African Union's goal for the next decade is to establish and improve digital networks and services. This will help strengthen intra-Africa trade, capital flows and the continent's socio-economic integration while maintaining a



600M

new subscribers by 2025 and the population of smartphone users will double in that time.

relational balance with other continents to build digital and collaborative economies.

However, to achieve this, policymakers must implement policies that strengthen mobile infrastructure and internet affordability. This will include the reduction and optimisation of sector-specific plans, which constrains investment and impacts the affordability of devices and services. This will increase competition and create a level playing field across payment ecosystems while improving the interoperability of global and local payment systems.

3.6. Stakeholders collaboration to drive growth

There is a need for stakeholders to collaborate together to address the key challenges of e-commerce adoption. Ecommerce stakeholders consist of regulators and policymakers, mobile operators, private sector players, and civil society. Efforts by these stakeholders will include tackling digital exclusion, increasing consumer trust in digital services, strengthening transaction security, enabling the supporting physical infrastructure and institutions, and bridging the skills and funding gap.

One notable organisation fostering this is Klasha. The next part of this report discusses more about Klasha and how it is facilitating innovation in the e-commerce space.

3.7. How is Klasha facilitating e-commerce?

Klasha is an innovative digital platform established to make consumer goods online more accessible to customers across Africa. The organisation was founded in Lagos, Nigeria by a team of ex-Amazon, Shopify, Net-a-Porter and ASOS employees, in the year 2018.

Klasha is a critical player fast-tracking borderless payment solutions across the African continent. The organisation believes that consumers in Africa should have the same frictionless access to the goods they want regardless of their geographic location.

Hence, the startup has developed a suite of products intended to help international businesses sell into Africa, local businesses to source products internationally, and African consumers shop and subscribe online using virtual cards.

3.7.1. What makes Klasha unique?

Klasha is the first organisation of its type to bring this suite of solutions under the same umbrella. Whether it's international organisations selling into Africa, or local merchants paying for goods or services they import, or consumers looking to shop online - Klasha is able to serve them all through an integrated and innovative suite of products. These innovative suite of products include Klasha Checkout, Klasha Wire, Klasha Mobile Application, Klasha Cargo and Payment Links .

3.7.2. What pressing issues in the E-commerce space is Klasha addressing?

Throughout Africa, entrepreneurs and consumers face significant barriers to making the payments that enable goods and services to cross borders. This limited interoperability creates artificial barriers for trade, limits competition and choice - ultimately impacting the ability of African economies to grow to their full potential. Klasha addresses these issues by providing a convenient, affordable and accessible way for both consumers and businesses to transact in an increasingly digital world.

The organisation plays a crucial role in strengthening payment structure, increasing consumer trust and addressing the challenge of logistics in e-commerce. Thereby, eliminating payment hassles, stringent regulatory policies and logistics concerns for consumers, local and international retailers.

3.7.3. How does Klasha benefit retailers?

Klasha offers these retailers and businesses end-to-end logistics, tackling the complexities associated with last-mile logistics on the continents. Thereby, increasing customer satisfaction through delivery reliability and speed.
Klasha offers a payment integration that allows African consumers to easily purchase a product from these global online retailers in their local currencies and get their items shipped quickly to the continent, irrespective of their location.
The company focuses on retailers selling fast-moving non-perishable consumer goods like clothes, shoes, bags and electronics.

3.7.4. What have your biggest limitations been so far, especially with respect to offering end-to-end logistics?

Klasha has been able to establish a proven and safe operating model in a limited time - as recently demonstrated through its ISO 27001 certification. It has also been able to establish partnerships and integrations with the leading platforms through which African businesses and consumers pay and get paid - including leading banks and mobile money operators. Klasha has also introduced Klasha Cargo as a last mile delivery option for international merchants looking to sell into Africa. The greatest challenge throughout the journey of securing these various certifications and partnerships has been obtaining the necessary access to key partners - and showcasing the benefits that can accrue from working with a Nigerian-based partner like Klasha.

3.7.5. How does Klasha benefit individual sellers?

For individual sellers who lack an online storefront, Klasha provides a no-code option to accept payments. This link is a flexible and easy way for international businesses to collect payment from their African clients without requiring a website or applications. These individual sellers can conveniently generate the link from their dashboard, and share it. While their African customers can make payments using their preferred payment methods in their local currencies.

3.7.6. What is the process of integrating Klasha for retailers with an online storefront?

Klasha leverages an integrated technology solution that can be implemented on any e-commerce platform, website, or application. Merchants who have an online storefront, simply need to sign up on Klasha, integrate Klasha's API to their online commerce stores and deploy the solution.

3.7.7. What other platforms does Klasha run?

The company uses a secured mobile application to eliminate the restrictions encountered in cross-border trade, especially when it comes to making international payments online.

The mobile application has no hidden or monthly charges and is free for all subscribers. Through the mobile application, a virtual card can be created and funded with your local currency. Aside from this, customers can also see all transaction details, inclusive of the merchant details. The application is secure and reliable, as it allows fingerprint authentication and face recognition.

3.7.8. How have you been able to build and secure customer-to-business trust, particularly in Nigeria?

Through delivery. Klasha boasts a 4 out of 5 star review rating for its mobile application, and a positive Net Promoter Score for its business-grade offerings. Both of these have come through a commitment to consistent excellence and delivery. Klasha's dedicated team of account managers and customer success professionals help each user feel valued and understood. This in turn leads to referrals - which is the single best way to build trust.

3.7.9. What does Klasha's data collated over the past few years say about how international e-commerce is changing in Africa? What are your projections for how it will evolve in the coming years? What is Klasha's long-term commitment?

Klasha anticipated significant growth in this space over the coming years. Klasha's own growth (doubling month on month in terms of transaction volume and user base) shows that there is significant demand for this type of service. Klasha's expansion into Ghana earlier this year saw immediate traction, and to date more than 500 merchants have signed up to Klasha's B2B services, in less than 6 months of operation. This fills the company with confidence in the future. Hence ,Klasha is committed to transforming the payments landscape in Africa and building borderless payments for commerce.

Conclusion

The way forward

The way forward

E-commerce provides emerging economies with new opportunities to gain a competitive advantage, creating employment opportunities, and accelerating progress towards the Sustainable Development Goals (SDGs). Countries whose governments establish an enabling climate for e-commerce and whose firms take advantage of those opportunities would benefit the most. Whereas, those who do not run the risk of lagging behind even further.

Nonetheless, lingering impediments in infrastructure, payments, logistics, regulation, skills and finance, continue to stymie the promise of e-commerce and its developmental potential in Africa.

For e-commerce to succeed in Africa, the following steps must be taken to promote innovation, attract investment and encourage competition.

Recommendation 1: Establish legal and regulatory frameworks through collaboration

During the COVID-19 pandemic, the continent witnessed an increasing rise in collaboration between policymakers and digital entrepreneurs and the impact thereof. Examples of some successful collaborations include governments in North Africa (inclusive of Tunisia, Morocco and Egypt) working in tandem with digital businesses during the early phases of COVID-19 related lockdowns, as well as Central Banks in East Africa (Rwanda and Kenya) adapting cashless payments by easing regulations.

All these examples helped in stabilising the nations' economies during the pandemic and showcased the power of well-coordinated public-private partnerships.

Public-private sector collaboration also enables the development of useful and practical initiatives, as seen with the Novissi platform implemented by Togo's government to address key policy objectives. By registering 1.3 million citizens, the initiative was able to quickly deploy capital to those in dire need.

By collaborating together, both government stakeholders and digital entrepreneurs can:

- Undertake a statutory gap analysis on existing laws and practices, identifying where new measures are required.
- Work together to formulate and implement regulations that support e-commerce services across governments in line with the national e-commerce strategies.
- Review and relax policies inhibiting infrastructural investments, business start-ups and rapid, responsive innovations in business practice. This will promote infrastructural investments and a conducive environment for e-commerce.
- Review currency exchange controls on digital trades.
- Establish new laws and regulations in a timely manner, but with full due diligence in critical areas in e-commerce like consumer protection, e-transactions data and cybersecurity, together with appropriate enforcement mechanisms.
- Create awareness and capacity for legal adoption and enforcement by government stakeholders (parliament and judiciary) and ensure compliance by businesses.

All of these will ensure that policies are aligned towards advancing the digital economy and establish new pathways for economic growth.

> **Public-private sector collaboration also enables the development of useful and practical initiatives....**

Recommendation 2: Ensure a variety of payment channels are available

ince the pandemic, the value of digital and cashless payments value mechanisms can't be overemphasised, especially as it allows for transactions to be implemented from a distance.

Evidently, there is a need for e-commerce to offer both multi and omnichannel experiences. This would entail providing customers with alternative choices that not only span payment instruments like cards and mobile money but multiple channels such as online gateways or POS on delivery. Offering this choice would allow customers to transact conveniently and reduce the security risks faced by merchants.

Unfortunately, many low-income developing countries are still adapted to the cash culture. There is therefore a need to increase the acceptance and adoption of cashless payments, as this will easily facilitate cross-border commerce and lay the groundwork for stronger e-commerce in the future.

Aside from this, there is also a need to encourage interoperability within a competitive banking environment to facilitate seamless bank transfers, reduce frictions in transactions and lower costs.

Recommendation 3: Rapidly improve ICT infrastructure

About a third of Africans are still excluded from the opportunities of the digital economy, either due to unavailability or unaffordability of internet connection. Thanks to the pandemic, the gap within the technological infrastructures has been identified and steps are being taken to address it. There is therefore a need to:

- Encourage investments in international and domestic connectivity through enabling regulatory frameworks, especially in underserved locations.

- mprove network deployment in underserved and less profitable areas to ensure that everyone has access to broadband, reduce the digital divides across nations and improve the affordability as well as the availability of internet coverage across the continent..
- More bandwidth, improved quality and resilience will facilitate international e-commerce. More so, there will be an increase in online patronage as more people will be encouraged to shop and sell online due to universal and affordable broadband access. This will require stakeholder collaboration (public-private partnerships and international partnerships).
- Support ICT and e-commerce platforms addressing local business' and consumers needs.

Recommendation 4: Improve access to international transport and logistics

The inefficiency of transport and trade logistics is a critical factor affecting the growth of the e-commerce sector. These inefficiencies were further exacerbated during the pandemic, particularly for small and medium enterprises (SMEs) and last-mile deliveries. To address this, the following must be in place:

- Develop new initiatives and investments in the transport infrastructure inclusive of airports, ports and border crossings. These are critical to enabling cost-effective, timely delivery of inbound and outbound goods that are ordered online from other countries
- Improve road distribution and postal networks. This will enable competitive delivery mechanisms and address the challenge of not locating physical addresses. Electronic identification can also be utilised to effectively locate customers and ensure that their packages are successfully delivered.
- Consider the introduction of "de minimis duty [59]" exemptions for low-value shipments.
- Support the establishment of information resources that assists SMEs to enter new e-commerce markets.

Recommendation 5: Broaden skill development & financing for e-commerce platforms

Two critical issues, as revealed by the pandemic, are the lack of adequate business and technical skills to leverage e-commerce opportunities, as well as the low availability of capital for entrepreneurs in e-commerce.

To address this, steps must be taken to help African entrepreneurs and countries attain the standards, tools and technical expertise required to participate in the marketplace. Aside from this, the entrepreneurs need to look for alternative funding strategies that will work for them.

Governments and other stakeholders need to assist SMEs and digital startups in developing their financial capabilities to improve their access to investment opportunities. Also, banks need to revise their lending criteria to meet the needs of the emerging digital economy, thus spurring innovation in e-commerce.

> **....steps must be taken to help African entrepreneurs and countries attain the standards, tools, and technical expertise required to participate in the marketplace.**

Recommendation 6: Develop cross-border e-commerce

Africa has an opportunity to build profitable cross-border e-commerce firms, but this requires home-grown e-commerce businesses and competitors to establish themselves in the African marketplace. This, however, means the formulation of clear, harmonised and applicable policies across African nations and the continent at large. It will require:

- Eliminating the risk of currency fluctuations from the equation by establishing a unified payment system across the continent and examining the possibilities of cryptocurrencies to aid cross-border trade.
- Removing the non-tariff barriers to ensure the free movement of goods and services in the African market, thereby encouraging cross-border trade.
- Tackling cross border custom duties and sales taxes..
- Providing regulatory clarity and information on registration and activity of companies in African countries. This will help enterprises to comply with legal and fiscal requirements for trading in developed countries..
- Establishing quality and performance standards applicable to marketplaces and their merchants, and developing universal consumer protections laws across the African continent.
- Increasing partnerships with global merchants that make transactions and payment easy. Payment providers like Klasha can support this focus by ensuring efficient transactions with these global players through partnerships that seamlessly enable payments in the various African channels.
- Speeding up cross-border small parcel logistics to ensure timely delivery and reliability of the e-commerce sector, a solution which is also offered by Klasha.

Africa’s future potential

E-commerce will play a critical part in Africa’s future economic environment, allowing local enterprises to tap into new domestic and international markets while giving consumers more choice and convenience as their lives change. The emergence of the COVID-19 pandemic in 2020, and the social distancing measures put in place to combat the disease, has highlighted the potential of e-commerce to assist societies in supporting vulnerable people and maintaining trade in difficult circumstances.

In the short and medium term, there will continue to be a rise in homegrown and social commerce services, and the continent will likely become more attractive to major regional and global players in the future.

This will arise due to the size of several markets in the continent and the potentials for trade integrations. According to the report by Mastercard Foundation, Africa will be raking in more than US $500 billion a year by 2030, which will account for 16.7% of the continent’s economy [60].
There are indications that Africa’s early e-commerce boom is winding down, with key players merging and reorganising. New digital technologies are gaining traction, lowering costs and advancing the industry. Selling items online, especially across borders, is still relatively new in Africa. This reveals that the African market will continue its robust growth from 2021 to 2030, especially with the trends and integration of digital technologies like artificial intelligence and blockchain.

E-commerce, in particular, will produce secondary economic activity, resulting in jobs for both skilled and unskilled workers. The tasks ahead will necessitate patience and a concerted effort on the part of all stakeholders. There will be numerous setbacks and stumbling blocks along the way, but the goal can be realised.

In the E-commerce space, Klasha anticipates a significant growth over the coming years.The company’s own growth which has been doubling month on month in terms of transaction volume and user base) shows that there is significant demand for this type of service. Klasha’s expansion into Ghana earlier this year saw immediate traction, and to date more than 500 merchants have signed up to Klasha’s B2B services, in less than 6 months of operation. This fills the company with confidence in the future.

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