Using tech to unlock new markets, cross-border trade for African SMEs

By Soromfe Uzomah

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African consumer and business spending is projected to reach a combined $6.7tn by 2030 with some reports indicating a $2.1tn consumer spending projection for as early as 2025. While it is exciting to share the continent's potential, it is not difficult to see the many hurdles it faces: heterogeneous economies, spotty development, widespread poverty, limited regional trade, a widening infrastructure deficit, and the challenge of weak institutions.

If the continent's growing spending power will translate into much needed economic development, there is an obvious imperative for bold, large scale, holistic initiatives.

Will the new African Continental Free Trade Agreement (AfCFTA) play such a role?

Soromfe Uzomah is head of strategic partnerships at Microsoft Africa Initiatives (4Afrika)

For the companies operating on the continent, and the countries looking to ratify the agreement, what new advantages do recent advancements in technology present? Can these advancements potentially mitigate risks while increasing the scale of the agreement's impact? Do these two propositions present a unique opportunity for unlocking innovation, growth and productivity on the continent especially for its SME segment?

Unpacking the challenges

The African continent faces a myriad of challenges; poor infrastructure, political instability, conflict hotspots to name a few. In the face of these challenges, however, Africa's member countries continue to trade with both internal and external partners. While this should be positive, a deeper look at the split of this trade throws up some important questions.

Research from the United Nation’s trade body UNCTAD indicates that intra-African trade was just 10.2% of the continent’s total trade in 2010.

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A more recent report by the same organisation compares intra-continental import percentages and the result is no less worrying with intra-Africa exports coming in at least 40 percentage points lower than Europe and Asia.

One of the inadvertent consequences of this is a small manufacturing sector – contributing only 10% of GDP. Juxtaposing this with the fact that manufacturing typically contributes 24% to 33% of total job creation in other regions, it is not difficult to see some of the structural challenges that have led to a young person on the continent being twice as likely to be unemployed. This last statistic is thrown into starker contrast when we consider that over 70% of sub-Saharan Africans are below 30 years old.

Turning inwards for growth

The introduction of the African Continental Free Trade Area (AfCFTA) is the continent’s response to this challenge. It aims to harmonise the liberalisation of trade among its member countries, creating a single market based on a framework for the free movement of people, goods and services.

All 55 member countries of the African Union are expected to sign their support for the agreement which would bring together 1.2 billion people with a combined GDP of over $2 trillion. One of the much-touted benefits of this agreement is that it could grow intra-Africa trade by more than half over the next four years.

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Of course, the AfCFTA is not a panacea for all of Africa’s economic woes. Firstly, there are legitimate worries that the benefits from this free trade area will be unevenly distributed in addition to the loss of tariffs estimated to contribute $4.1bn a year to state incomes. The above-mentioned UNCTAD research, however, counters that removing these would ultimately create an annual welfare gain of $16.1 billion. Critics of the agreement caution that it places too much emphasis on cutting tariffs without considering the disparate production capacities of African countries – arguing that it will inevitably favour Africa’s advanced and more developed economies, deepening their advantages over the less developed countries and stalling growth.

Technology as a key enabler

Several key technology trends augur well for the implementation of the AfCFTA once ratified and could act to mitigate some of its risks.

Two major examples of this are the rising profile of digital commerce platforms (taken in the context of the increasing interconnectedness of market participants via mobile technology) and the combined impact of such fields as data analytics, artificial intelligence and blockchain technology in optimising the production and flow of these goods and services between member countries, while enabling effective value-capture by harnessing economies of scale.

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The ascendance of digital platforms (acting as aggregators for sellers and buyers ranging from individuals to organisations) and the accelerated adoption of mobile technology enabling access to these platforms is a strong positive trend. These digital platforms act as effective conduits for the exchange of value either in the form of goods or services.

The impact of these platforms is even stronger when we consider that 95% of firms in sub-Saharan Africa are SMEs. By aggregating demand over a wide geographical area, these digital platforms give small and medium businesses the opportunity to access new markets and surface not-so-obvious niches for their offerings, engendering the discoverability of goods and services hitherto unlikely as a result of location constraints and prohibitive marketing costs.

These platforms create a diversification effect, expanding the breadth of players that can actively capture the benefits of the AfCFTA by providing cross-border visibility. The growth of the fintech sector on the continent effectively simplifies any transaction challenges, creating multiple payment channels and giving buyers and sellers a range of options tailored to local realities. The AfCFTA now provides a continental framework that allows these technology benefits to be promulgated and translated into actual value creation and trade by expanding what were previously national business clusters into a single continent-wide opportunity.

Critical to the success of these platforms, and the cyber marketplaces they create, is the optimal and efficient production and flow of goods and services. One of the identified risks to the successful implementation of the AfCFTA is the challenge of non-tariff barriers typically exacerbated in low-trust environments and scenarios.

In addition to this, is the importance of ensuring that expanding supply and value chains do not create favorable conditions for the malaise of rent-seekers and non-value adding middle-men depriving the actual centres of production in their returns. This challenge is most prominent in sectors such as the agricultural sector where information asymmetry between producers, middle-men and consumers has long had a negative impact.

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It is in areas such as this that technology excels, enabling a more equitable distribution of accrued value to the different participants along the chain. Whether it is in the adoption of blockchain technologies to drive transparency in trade flows (and reduction in the cost of trading) to the development of predictive models to ensure the efficient production of goods adequately tailored to match market demand (a need most pronounced in sectors where goods have a finite shelf life), technology is an essential part of creating a healthy single market on the continent.

Source: pixabay.com

This combination of digital platforms and technology-enabled market efficiency will eventually translate to potential jobs for the continent's young population. This sort of impact transcends any advantages that more developed economies on the continent may have, producing a plethora of unique market opportunities for market participants of various sizes.

Creating a better tomorrow

Africa continues to show potential for growth and the AfCFTA is a great step on the journey to achieving this growth, alleviating poverty, growing local economies and giving the continent better leverage as it engages with other global regions.

However, beyond the many levers that are key to its success, the strategic deployment of technology as a tool for driving transparent, efficient and optimal outcomes both for nation-state actors and organisations on the continent will be essential to its success. Digital transformation must be a keystone of the vision for a more integrated African economy.

ABOUT THE AUTHOR

Soromfe Uzomah is head of strategic partnerships at Microsoft Africa Initiatives (4Afrika)