Into Africa

Tapping vast resources beyond China as trade conditions remain volatile

Shifting trade conditions and tariffs have set the stage for frontier markets in Africa to emerge, but how can global brands and manufacturers tap into this vast wealth of resources?

"By 2050, we will have a larger and younger workforce than either China or India. But our biggest advantage—and the reason I am confident that, with a developed manufacturing sector, 'Made in Africa' will achieve ubiquity—is that we are just 15 days away from Europe by sea. With journey times in excess of 50 days for its goods to arrive, China will be at a disadvantage from the outset."[1]

CEO of Egyptian petrochemicals provider Carbon Holdings

Global trade winds are shifting, driven by mounting forces that range across political, social, and economic landscapes. Uncertainty looms in the forms of tariffs, trade wars and populism. Commerce continues to undergo a transformation as Uber-ization and the Amazon effect continue to play out across industries, redefining customer expectations in both the B2C and B2B sectors. A rising middle class emerging from China and India is creating new opportunities that come with new demands and challenges. Rising wealth, particularly in China, has a broader impact on the global economy. Not only as Chinese consumers purchase branded goods and services to generate demand, but as the Chinese labor market evolves from high density reliance upon textiles and clothing into production of higher value goods such as smartphones—the waves are felt far beyond the shores of the South China Sea.

As the Chinese labor force climbs the commercial ladder from labor-intensive to knowledge-intensive industries, a vacuum of opportunity has been created for other emerging regions. This has been further exacerbated by tariffs placed on Chinese goods. One major fashion brand that was producing 80% of its handbags in China just five years ago has shifted its supply chain elsewhere. Today, less than 20% of production volume comes from China.

Years ago, many supply chain strategies were tied to the concept of chasing the low-cost needle. Sourcing hubs were primarily a resource for low cost production. But multiple factors have rearranged this thinking. To name a few:

- The premium placed upon reliability and customer service (on-time, quality and customization)
- Increased awareness of working conditions in low cost regions
- Emphasis placed on production locale in relation to served market (in-market production, near-sourcing)

Exploring Africa, continent of opportunity

A *Financial Times* opinion piece from May 1, 2019 features a projection from the CEO of Egyptian petrochemicals provider Carbon Holdings, stating that by 2050 the label “Made in Africa” will be as common as “Made in China” is today. A bold projection. He goes on to say:

“By 2050, we will have a larger and younger workforce than either China or India. But our biggest advantage—and the reason I am confident that, with a developed manufacturing sector, 'Made in Africa' will achieve ubiquity—is that we are just 15 days away from Europe by sea. With journey times in excess of 50 days for its goods to arrive, China will be at a disadvantage from the outset.”[2]

Proximity is an attractive benefit, but it’s one of several. Growing population and resources offer massive upside. According to a report from the Brown Capital Management Africa Forum and The Wilson Center:

“It is estimated that by 2050, Africa will account for over half of the global population growth. The populations of 26 African countries are likely to at least double in size between 2017 and 2050. Furthermore, approximately 170 million Africans will enter the labor market between 2010 and 2020.”

As companies vie for raw materials and resources in the coming years amidst a growing global population, Africa serves as a growth consumer market as well as labor and production force. The IMF points out that from 2004 to 2014, six of the ten fastest growing economies were in Africa. Geographically, the region provides proximity advantages for markets in Europe, the Americas and parts of Asia. And intra-African trade poses a massive opportunity for growth.[3]

Economic and technological barriers

Geography can be an advantage, but major barriers exist for cross border trade in Africa. Lack of infrastructure remains a long-standing issue. The World Bank suggests that $95 billion in annual infrastructure investment is needed to achieve long-term economic growth. Challenges range from insufficient ports, to lack of paved roads. Brown Capital Management and The Wilson Center point out in their report that just 43% of Africans have access to all-season roads. Less than 9% of roads are paved in Central Africa.

At the port, high dwell times and lack of reliability and visibility can plague trade. Manual processes and complex customs procedures weigh down cross-border flow. And the vast differences in rules, infrastructure, and processes for transacting add to complexity.[4]

For example, laws in Ethiopia require suppliers to receive full payment before orders can be shipped out. Specific documentation and workflows must be orchestrated and worked out before an order is placed. Ethiopia ranks 159 out of 190 countries in the World Bank's "Ease of Doing Business" report. The report identifies burdensome customs administrative procedures, the high cost of logistics, and access to credit and foreign exchange as major challenges.[5]

As a result, access to financing and credit is limited. Conducting business with trading partners in the region is considered too challenging and risk fraught. And the global supply chain overlooks and surpasses a wealth of opportunity.

International trade transactions in Ethiopia

Ethiopia has trade practices that pose challenges.

Modes of payment

- **Advance Payment**—100% of supplier payment needs to be remitted for the invoice in the case of free on board to obtain an export permit.
- **Documentary collection/cash against document (CAD)**—Goods can be exported based on an undertaking letter provided by the exporter. However, payment for the export proceeds must repatriate or credit the exporters account within a maximum of 90 days per National Bank of Ethiopia (NBE) rules and regulations.
  Note: If exporters need to use CAD for export, their single shipment or one permit value must not exceed USD $100,000 and total outstanding (pending payments) value must not be greater than USD $500,000. This figure shall be increased based on export performance and NBE's approval, as per their analysis or review.
- **Documentary credit/letter of credit (LC)**—Goods can be exported, however the payment for the export proceeds must repatriate or credit the exporters account within a maximum of 90 days per National Bank of Ethiopia (NBE) rules and regulations.

Technology to bridge the digital divide

Technology stands as part of the answer—and part of the problem—when it comes to inserting African businesses into global commerce. Brown Capital Management points out that 16% of African households have internet access and the region trails the rest of the world when it comes to fiber broadband services. Yet, the report states that companies in the region are deploying mobile platforms to connect suppliers and buyers, automate processes and enhance communication to improve supply chain service:

"Enhancing communication throughout supply chains also builds trust between partners and bolsters supply chain visibility. The effect of increased visibility is greater awareness of the weakest links in the chain, identification of the optimal responses to strengthen these links, and data accumulation to inform future supply chain decisions."[6]

But more than internet access is required to serve major global businesses. How can small, local businesses bridge the commerce gap that remains to effectively serve customers, while overcoming many of the local barriers that exist? Likewise, how can global manufacturers or retailers connect and transact with African trading partners without exposing themselves to risks, costs, and adversity?

- **B2B connectivity through a commerce platform**
  B2B cloud supply chain platforms have become commonplace in global commerce. They offer a seamless path to collaboration between trading partners. They can break down barriers that have traditionally existed. And most importantly, this can be done with minimal technology deployment beyond a web browser. The ability to send and receive orders, acknowledge receipt, flag key production milestones, and even facilitate payment through a trusted cloud platform provides a foundation of trust and control between buyer and seller. In many ways, these attributes are ideal for global brands seeking to extend their reach into areas of Africa.

Export permit in Ethiopia

An export permit must be obtained from the National Bank of Ethiopia for goods to be exported. To obtain it, the following documents must be provided by the exporter:

- NBE account number
- Business license
- Tax identification number (TIN) certificate
- Commercial invoice
- Packing list
- Filled and signed bank permit
- Recognition of non-delinquency by National Bank of Ethiopia
- Account with the National Bank of Ethiopia
- Credit advice (for advance payment)
- Copy of L/C (for letter of credit) if applicable
- Undertaking letter (for CAD)

- **Business networks**
  Some of these commerce platforms have been around for years. In doing so, they've formed broad networks of businesses in countries all over the world. Major global brands from the US and EU are connected to suppliers anywhere from Southeast Asia to Eastern Europe to South America. All parties on the network see the same set of information and when one party makes an update, it is reflected instantly. So, if a manufacturer in Germany is transacting with a supplier in Egypt, each time a change or update is made to an order, both parties see it and acknowledge it—and there is no room for discrepancy. This network model delivers additional value by enabling outside parties and service providers, including banks, to plug into the network, see the transacting parties and offer financing based on the credit strength of the buyer.

In the example of the German manufacturer and its smaller Egyptian supplier, access to capital is granted to the supplier based on the buyer's credit strength—which makes a big difference. Credit and financing—typically major headaches in many African countries—become part of the workflow, which can ease not only capital related burdens, but local customs and commerce laws that make cross-border transactions even more challenging.

- **Digitized workflows—POs, invoices, settlements, and financing**
  Traditionally, when a buyer sent a purchase order, it was accompanied by a series of phone calls or emails or faxes. And each party had a printout of "the truth," which was often discrepant or outdated within minutes. Today's commerce platforms can eliminate these headaches and create a seamless process for orders, collaboration, and even settlements. It's been estimated that the average cost of processing a paper invoice is somewhere between $12 and $40. Eliminating paper and automating invoice processes has proven to save $7 to $35 per invoice. The value comes not only in the elimination of phone calls and chasing payments, but also avoiding the added headcount and resources needed to match and approve documents. Suppliers can count on payment being delivered on time. Buyers have clear visibility into orders and statuses, without discrepancy. Automation and visibility between buyer and seller eliminates many of the core challenges of conducting cross-border trade in Africa.

Automated workflow customized for Ethiopia, through a digital platform

- PO issued by buyer digitally via platform
- Supplier reviews the PO and approves it on the platform. If amendments are required, the supplier reaches out to buyer.
- Goods are manufactured and ready to ship.
- Exporter obtains the export permit from NBE by issuing an undertaking letter along with documents listed above.
- Freight forwarder collects the goods and issues BL/POD to the supplier.
  Note: The original documents will be held with the vendor (or beneficiary bank) until payment is received
- Exporter creates/approves the commercial invoice on the digital platform and attaches the documents required for fulfillment (Packing List/QC Inspection Certificate & BL/FCR). **At the point of approving the commercial invoice the supplier may select early payment*.
- Statement of review (if required) will be approved by the buyer's agent.
- The payment authorization document is generated to the buyer for payment approval. Buyer approves the payment on the platform creating an irrevocable commitment to pay. System schedules value date based on payment terms on the PO as agreed upon between buyer and supplier.
- Supply chain platform financing partner (i.e., bank) or buyer-funded early payment program ensures that the vendor is paid 100% of the PAD approved amount minus any fees and discounts applicable, within two business days of PAD approval to the bank account designated by the exporter in the system (where the original documents will be held).
- Once payment is received, the vendor and/or local bank holding documents will release funds to the buyer and freight forwarder for the goods to be cleared.
- At maturity, funds from the buyer will be transmitted to the finance provider if financed by a third party.

Opportunity to deliver growth

The ability to expand into emerging regions will be a major driver of growth in the coming years. In April 2019, both Unilever and Nestlé beat their respective first-quarter sales forecasts, driven by stronger results in emerging markets. Growing sales in developing countries have helped companies in industries like retail and consumer goods counter slowing growth in established markets. With a growing population, increased investment in commerce and shifting global trade landscape tilting in favor of this region, Africa remains an underutilized sourcing locale for supply chains. While barriers exist, the right tools, connectivity, and collaboration can provide the necessary visibility and control to both produce and deliver into the continent.

1 Basil El-Baz, "Africa will be the new China," Financial Times, May 1, 2019.
2 El-Baz, Financial Times.
3 Tielman Nieuwoudt, "Boosting Africa's Trade and Development by Tackling Some Supply Chain Challenges," Wilson Center and Brown Capital Management, March 2018.
4 Nieuwoudt, Wilson Center and Brown Capital Management.
5 World Bank, "Ease of Doing Business Report 2019," January 2019.
6 Nieuwoudt, Wilson Center and Brown Capital Management.

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