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E-commerce and Mobile Money for Poverty Reduction in China

Lessons for African Countries

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Contents

OVERVIEW

Global e-commerce sales surged to US$25.6 trillion in 2018, up 8 percent from 2017.[1] Leading the way are China (US$1.5 trillion), the United States (US$600 billion), and the United Kingdom (US$135 billion) holding the top three spots respectively.[2] Yet Africa, with 17 percent of the world's population, still lags behind both in e-commerce sales and the use of mobile money for online purchases. Why is this a problem?

Africa now accounts for over half of the world's extreme poor and has a young, dynamic population set to double by 2050—making up 26 percent of the world's population.[3] E-commerce or digital trade could be a powerful "leapfrogging" tool to boost trade, create employment, raise incomes, and reduce poverty.

However, as Mukhisa Kituyi, secretary-general of the United Nations Conference on Trade and Development (UNCTAD), has stated, "the question from a development standpoint is whether businesses in developing countries are prepared to seize the opportunities provided by e-commerce." We agree and would add these questions: Are international investors and development partners prepared to support African countries to seize the opportunities provided by e-commerce in the most sustainable manner? Furthermore, with lockdowns and social distancing due to the COVID-19 pandemic providing a key opportunity for e-commerce and related digital solutions, tools and services to thrive, can this be leveraged and sustained?

This note explores the potential for e-commerce to support poverty reduction and sustainable, inclusive development across Africa by drawing on lessons from China, the world's largest and fastest growing e-commerce market.

China, often seen as both an e-commerce and poverty reduction success story, had 855 million digital consumers, spending an estimated US$1.5 trillion online in 2019.[4] Yet, only a decade ago China had around 150 million people living on less than $1.25 per day and e-commerce users stood at only 121 million.[5] While the causality is difficult to determine, the two trends are clearly correlated to some degree. But how and why?

Internet access, mobile payments, and infrastructure connectivity have spurred the growth of e-commerce, and since 2016, both the government and the private sector in China have used e-commerce as a tool to support poverty reduction efforts through so-called Taobao villages in particular. A World Bank report published in 2019 credited these villages with supporting inclusive growth across China, but is this the whole story? And if it is, can this model be replicated in other developing countries, especially across Africa?

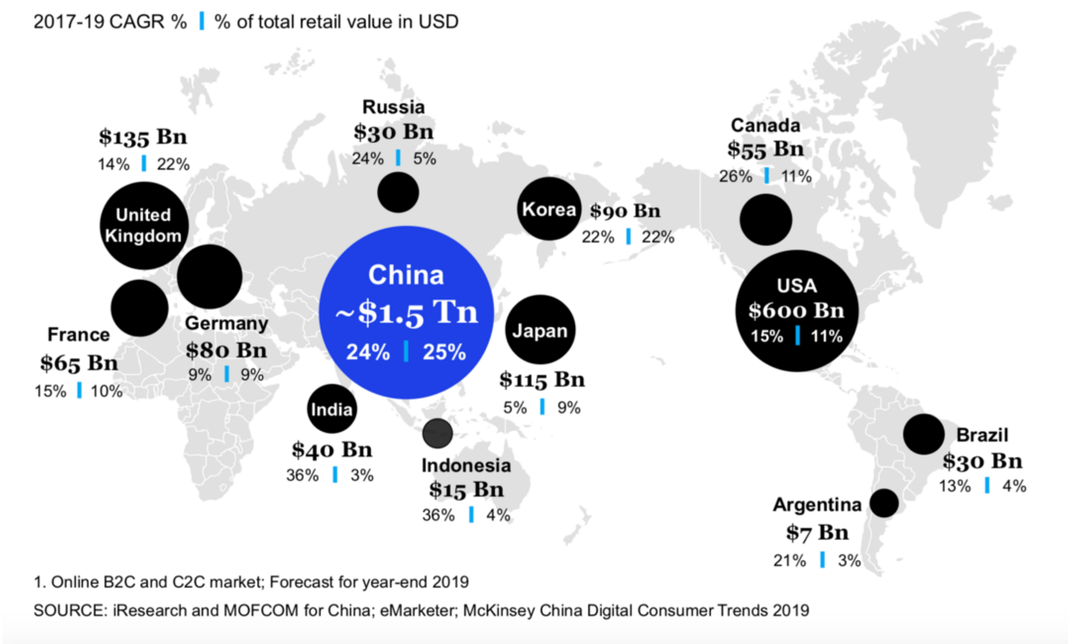
This note, aimed in particular at policymakers and business leaders in African countries, first dives into the current situation of e-commerce in China and Africa, then explores how China has grown a strong e-commerce industry that now supports poverty reduction efforts, and next discusses how

[1] UNCTAD (2020)
[2] McKinsey (2019
[3] UN.org (2018)
[4] McKinsey (2019)
[5] Statistica (2009)

China's lessons can be adapted for Africa. Finally, the note provides recommendations for African policymakers and the private sector in utilising e-commerce for poverty reduction.

E-COMMERCE AND MOBILE PAYMENTS: AN INTRODUCTION

Figure 1. Global e-commerce market value



Source: McKinsey (2019)

China

China is arguably the global leader in e-commerce, totalling around US$1.5 trillion in sales in 2019.[6] For perspective, China's e-commerce market in 2019 was bigger than the combined total value of the next 10 largest markets. Fuelling this increase has been the rise of internet penetration and steady growth of mobile payments, in particular mobile or fintech wallets. Mobile payment users in China grew by 10 percent in 2019 to reach a huge 577 million (by far the largest in the world), dominated by two companies: Alipay, owned by Alibaba affiliate Ant Financial, and Tencent's WeChat Pay.[7]

The Chinese government has supported this increase in the use of mobile payments through its effort to connect everyone to the internet. In 2018, around 831 million people lived in urban regions in China and 564 million in rural regions. In the past 10 years, more people have come online in China than anywhere else in the world.[8] Internet penetration in China reached 61.2 percent in the first half of 2020, with 854 million internet users at the end of June.

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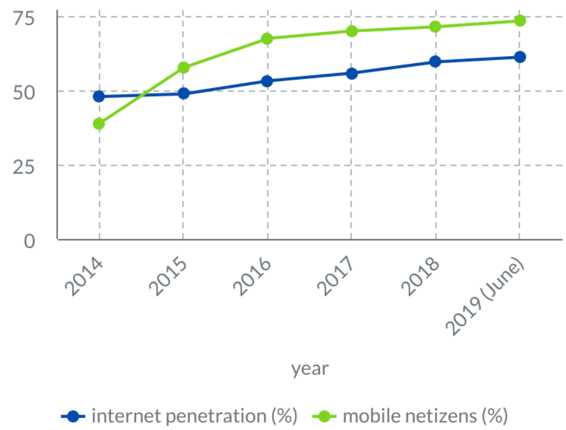
[6] McKinsey (2019)
[7] Emarketer (2019)
[8] SOAS London (2005)

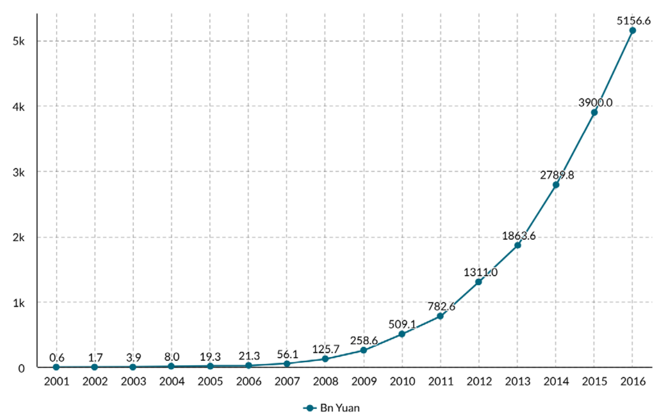
Urban internet users still account for a massive 73.7 percent of total internet users, yet the number of rural internet users is on the increase, with 225 million rural residents online in 2019 (up from 178 million in 2014). Of those using the internet, 847 million accessed it via their mobile phone—accounting for over 99 percent of the internet users in China.[9] The breakdown demonstrates that lack of access to the internet has not been a barrier for e-commerce penetration across China, particularly in rural areas.

Figure 2. Growth of e-commerce vs. internet penetration in China



Source: CNICC (2019)

Figure 3. Growth of e-commerce in China



Source: UNIDO National report on e-commerce development in China

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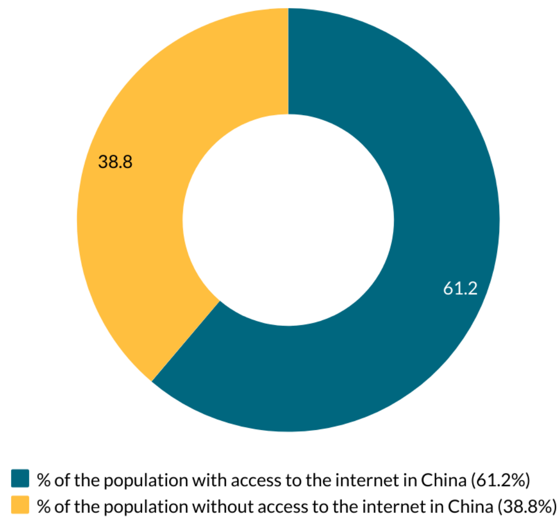
[9] Techblog (2020)

Figure 4. Internet access in China, 2019

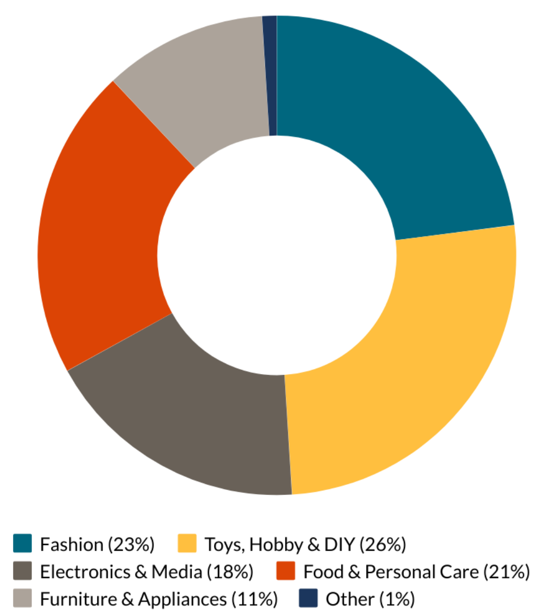


Source: Techblog (2019)

Key players in e-commerce

China's e-commerce market is dominated by two companies: Alibaba Group and JD.com.

Figure 5. Current market share of e-commerce companies in China



Source: Statistica (2019)

Alibaba Group owns two of the biggest and most popular online platforms in China: Taobao, a consumer-to-consumer (C2C) platform similar to Ebay, and Tmall, a business-to-consumer (B2C) platform selling products from leading worldwide brands. In total, the Alibaba Group has 721 million monthly active users. In 2018, 70 percent of the increase in annual active consumers were in third, fourth, and fifth tier cities (the smaller, less known cities, often provincial capitals).[10]

JD.com (JingDong), is a B2C platform selling electronics and home appliance products and general merchandise products (including audio, video products and books) sourced from manufacturers, distributors and publishers in China. The company has around 333.4 million annual active users (2019). Unlike the Alibaba Group, JD.com has its own logistical ecosystem with 650 warehouses, almost 4,000 JD.com delivery stations, and 65,000 delivery drivers (2019) around China.[11]

[10] Techcrunch (2019)
[11] JD.com website (2020)

BOX 1. UNDERSTANDING DIFFERENT TYPES OF E-COMMERCE MARKETS

There are five distinct categories of e-commerce markets:

- Business-to-business (B2B): a transaction between companies (such as Open Cart)
- Business-to-consumer (B2C): a transaction between a company and an individual (such as JD.com, Etsy and Amazon)
- Consumer-to-consumer (C2C): a transaction between individuals, often conducted via social media platforms, although not always (such as e-bay and Amazon; increasingly social media platforms such as WeChat and WhatsApp are being used for this also)
- Government-to-business (G2B): a transaction between a company and a government, often in the form of electronic government (e-government) procurement
- Coop2Coop: An emerging form of e-commerce that takes place between cooperative organizations, which are autonomous associations of persons united voluntarily to meet their common goals

Source: Tralac (2015)

E-commerce Demographics

Driving the growth of e-commerce is the active youth population and the growing middle class in smaller cities and towns across China; currently around 50 percent of digital consumers live in "lower-tier cities."[12] Despite the name, lower tier cities are significant. For example, Lanzhou, in Northwest China, is considered a lower-tier city by Morgan Stanley's standards, but still has a population of 3.7 million, broadly equivalent to the size of Nairobi, Kenya's bustling capital city.[13]

In 2017, jobs brought by e-commerce in China reached 42.5 million, a year-on-year growth of 13 percent, while the country's total employment for the same period was 776.4 million. That means one in 18 Chinese workers is employed in e-commerce or related industries.[14]

Women in particular seem to benefit from e-commerce in China. According to the Alibaba Research Foundation, the ratio of women to men entrepreneurs in e-commerce is almost equal, compared to a ratio of 1:3 in traditional businesses. The average age of female entrepreneurs in traditional businesses is 48 while online counterparts tend to be younger, with those aged 25–29 accounting for 30 percent and those aged 18–24 nearly 30 percent on the Taobao platform. The average age of online female entrepreneurs is 31.[15]

[12] McKinsey (2019)
[13] CKGSB (2019)
[14] China Daily (2017)
[15] AliResearch Foundation and World Bank (2019)

BOX 2. TAOBAO VILLAGES

According to a World Bank report, the rapid growth of e-commerce in China has provided employment opportunities for semi-skilled workers; created new types of employment, such as express delivery, e-shop design, and e-modeling; and supported more flexible entrepreneurship, especially in rural areas.

A “Taobao village” is a village that generates RMB10 million or more in e-commerce sales annually and has 100 or more active online shops on Taobao operated by local residents. The number of Taobao villages has increased sharply, and they are gradually spreading inland, though they are still concentrated in more populous coastal areas.

Case studies show that some poverty-stricken areas of China have been enriched by e-commerce development and people have gained wealth and improved their lives by participating in e-commerce. In several cases, migrants have returned home to work in e-commerce—seizing job opportunities that would not have been available in rural areas without online platforms. This has enabled them to enjoy life among elder family members and children, restoring the social fabric of their hometowns. These developments offer hope that e-commerce can be a powerful instrument for rural vitalization and poverty reduction

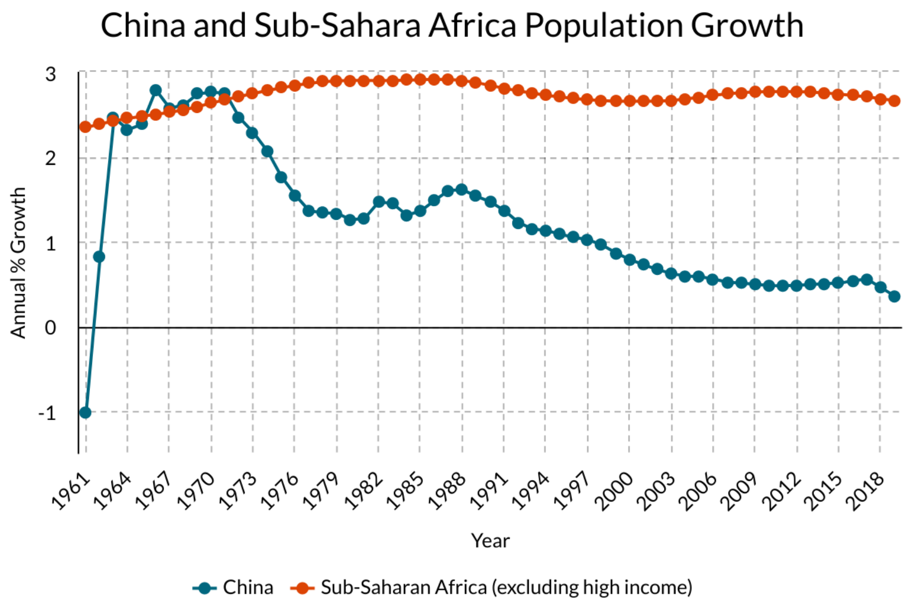
Among the study findings is that participation in e-commerce has a positive association with household welfare improvement, especially in rural China, and that beneficiaries include vulnerable populations—women and youth. The development of e-commerce, where it has taken hold, is associated with higher household consumption and reduced inequality, bringing to people in rural areas the convenience, variety, and low prices enjoyed by urban dwellers.

China’s rapid development of e-commerce has built on both digital development and its analog complements: development of human capital through education, as well as investment in transport and logistics infrastructure. The government, partnering with the private sector, has provided important support to e-commerce development. While the combination of factors may be unique to China, the country’s experience offers lessons on the development of e-commerce and its impact that may be applicable elsewhere. Notably, the China experience shows that, targeted support to improve skills and entrepreneurship, lower entry barriers and an improved business environment, and measures to address information asymmetries between producers and consumers and allow new entrants to participate in online markets, can help to launch e-commerce also in less advantaged areas.

Source: E-commerce Development: Experience from China, World Bank Group.

Africa

Figure 6.



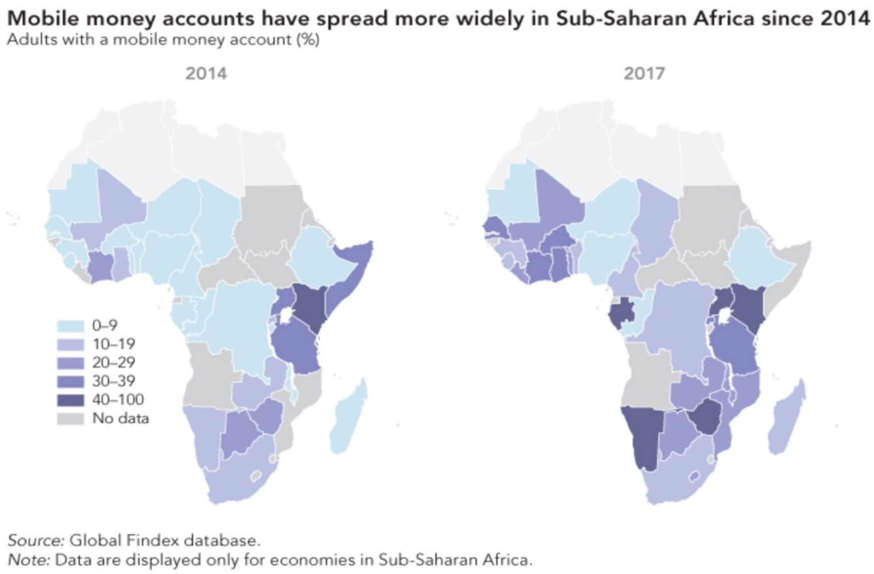
Source: World Bank 2000-2019

In comparison to China, the African e-commerce market is significantly smaller. In 2017, the African continent had an estimated 21 million e-commerce consumers, a tiny fraction of China's estimated 533 million digital consumers in 2017 (855 million in 2019). [16] And although the number of online shoppers across the Africa continent has grown faster than the global average at 18 percent yearly since 2014, it is from a low starting point. Africa's consumer e-commerce market, valued at US$5.7 billion in 2017, accounted for less than 0.5 percent of the continent's GDP, far below the global average of 4 percent.[17]

Yet whilst its adoption of e-commerce has been slower, Africa has been well ahead of the curve with mobile money (such as Mpesa). Nowhere else in the world moves more money by mobile phones than Africa. The region is currently responsible for an astonishing 46 percent of mobile money activity in the world—estimated at over US$26.8 billion transaction value in 2018 alone.[18] However, the continent lags behind in the usage of other mobile payments such as fintech wallets, with usage not as widespread as countries such as China due to low smartphone penetration (24 percent in 2018, up from 2.1 percent in 2005).[19]

[16] UNCTAD (2018)
[17] Quartz (2019)
[18] Past, F (2018)
[19] McKinsey report (2019)

Figure 7.



BOX 3. MOBILE PAYMENTS, MOBILE MONEY, AND MOBILE WALLETS

Mobile payments encompass the full spectrum of payments services delivered through handsets.

Mobile money utilizes a mobile phone for P2P (peer-to-peer) cash transfers. Though often confused with mobile wallets, mobile money is a non-bank-based payment method that relies solely on cash. Mobile money allows users to charge their mobile account with cash at a designated agent or by directly depositing funds to their mobile money account. Users can then pay merchants, service providers, or government agencies by transferring cash from their mobile phone to the recipient account. Merchants can then "cash out" at one of the designated agents in their region. Mobile money provides a non-banking alternative for payments and works from even simple phones via SMS-based transactions. Examples include M-pesa, Venmo, Airtel Money, Tigo Pesa, Vodacom, and MTN.

Mobile wallets or fintech wallets allow users to store their credit cards, loyalty programs, rewards points, coupons, and bank information on their phones in virtual "wallets," creating a single point of access for all their shopping-related payment needs. Online consumers experience an efficient, one-step purchase process. The wallet can be installed on a smartphone (such as Alipay and Wechat) or it is an existing built-in feature of a smartphone (Apple pay). Examples include WeChat Pay, Alipay, Apple Pay, Google Wallet, Android Pay, and Samsung Pay.

Source: DPO Group.

Key Local Players

Unlike in China, where two major local players dominate the e-commerce market, in Africa the sector has multiple players with many start-ups. Estimates suggest around 264 e-commerce start-ups are operational across the continent, active in at least 23 countries. [20] However, as of 2020, no e-commerce companies in Africa turns a profit and most are highly underfunded.[21] Big international players such as Amazon, which does not have local e-commerce yet does ship internationally to Africa, are yet to penetrate the African market.

Jumia (Nigeria)—previously B2C and B2B but moved to C2C. Hailed as the success story of e-commerce in Africa, Jumia was founded by two German entrepreneurs and operates in 14 countries in Africa and the Middle East. Jumia is among Africa's best-funded e-commerce sites, having raised US$150 million in funding in 2014. Currently, Jumia has an estimated 6.1 million annual users.[22]

Takealot (South Africa) B2C and B2B. It has a broad catalogue and a variety of products including books, games, computers and beauty. In April 2017, Takealot scored a significant investment of over US$69 million from Naspers, one of Africa's biggest digital companies. In 2018, Takealot saw simultaneous active users on its site peak at between 70,000 to 100,000.[23]

Zando (South Africa). The online fashion e-commerce platform is funded by Germany-based Rocket Internet. Zando's payment options include cash-on-delivery payment, EFT bank deposit, eBucks and Instant EFT with i-pay to name a few. To date, Zando has served more than 500,000 customers. [24]

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[20] WEF (2019)
[21] WEF (2019)
[22] Jumia.com (2019)
[23] Takealot.com (2019)
[24] Zando.com (2020)

Konga (Nigeria) B2C and B2B. Dubbed "the Amazon of Africa," the platform combines both a business of linking with third-party suppliers and clean distribution activity. In 2015, Konga joined forces with Nigerian banks to launch KongaPay, an online payment method to tackle the issue of trust in Africa when it came to online payments. [25]

Kilimall (Kenya) B2C. Kilimall is known for providing electronics such as phones, computers, and gadgets, stocking top brands such Samsung, Huawei, Lenovo, and Phillips. The site also offers other products, such as home appliances, clothes, books, health and beauty products, and more. The company was founded by a Chinese national in 2014.

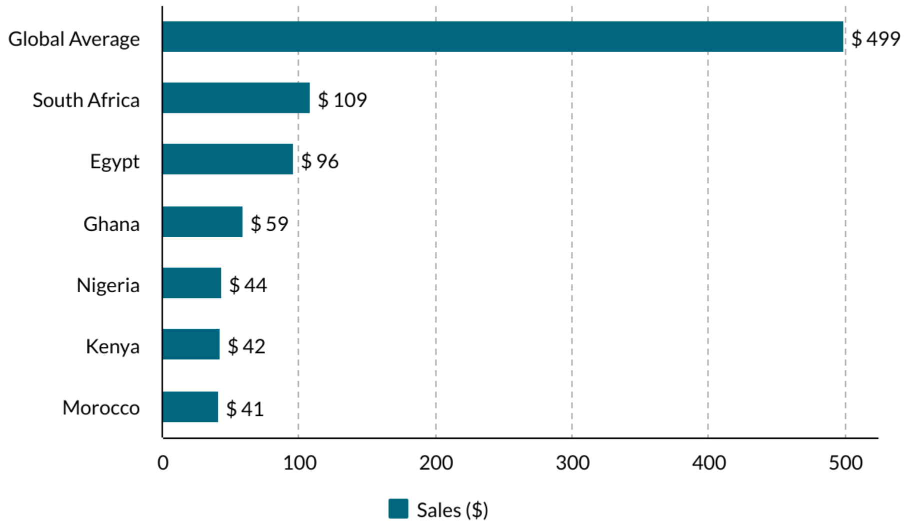
E-commerce Demographics

The UN Conference on Trade and Development (UNCTAD) estimates that Africa had at least 21 million online shoppers in 2017 in Africa.[26] The leading e-commerce market in Africa is in Nigeria, with South Africa following at a total revenue of US$3 billion in 2019.[27] The e-commerce landscape across Africa is unevenly distributed, with Kenya, South Africa, and Nigeria accounting for over half of e-commerce consumers in 2017.[28]

South African shoppers spent an average of US$109 on online purchases on consumer goods per capita—the most among African countries. Despite ranking top on the continent, however, South Africa's spend is still nearly US$400 lower than the global average. Of the 44 countries analyzed in the digital trends report by Hootsuite, the six African countries featured all rank in the bottom 10. [29]

[25] Konga.com (2019)
[26] UNCTAD (2017)
[27] Ecommercedb (2019)
[28] UNCTAD (2018)
[29] African Countries listed: South Africa, Egypt, Ghana, Nigeria, Kenya, Morocco

Figure 8. Average amount spent on e-commerce purchases (2019)



Source: Quartz (2019)

Data on the penetration of rural and urban e-commerce penetration in Africa is limited, yet data from Jumia.com provides an indication that rural e-commerce is on the rise. In 2019, 25 percent of deliveries were in rural areas, 50 percent in urban cities, and 25 percent in small cities/towns. Overall, the company has seen a growing trend of e-commerce usage in rural areas (rural delivers up from 23 percent in 2014 to 45 percent in 2016) and a decline in urban areas (urban deliveries down to 45% in 2016 from 77 percent in 2014).[30]

Leading the way with e-commerce shops are young entrepreneurs across the continent, utilising digital platforms to sell their products. Although, no estimates exist on the exact number of youth employed in e-commerce across the continent, UNCTAD has stated that e-commerce has significant potential to create new jobs—as many as 3 million by 2025, particularly for youth in Africa (predicted to increase by 170 million by 2030).[31] These jobs will be directly in online marketplaces, supporting services, and spin-off economic activity.

This is the current state of play in China and Africa right now but could e-commerce support poverty reduction and inclusive growth?

[30] Nairametrics.com (2020)
[31] UNICEF (2017)

USING E-COMMERCE AND MOBILE PAYMENTS TO ACHIEVE AGENDA 2030

According to the World Bank and the AliResearch Foundation, China's experience has shown that growing rural e-commerce has the potential to reduce poverty and support inclusive growth in developing countries.[32] But how?

Figure 9. The Sustainable Development Goals

Advocates such as the World Bank and the Alibaba group argue that e-commerce empowers micro, small and medium enterprises (MSMEs) to compete with large enterprises on the same stage. By leveraging affordable digital platform services, MSMEs can build brand awareness, acquire and manage customers, and spur innovation. E-commerce can also bridge the rural-urban divide – providing remote rural residents access to goods at same prices as urban areas. Finally, e-commerce can provide flexible and inclusive employment.[33]

On this basis, e-commerce has the potential to support the achievement of the Sustainable Development Goals by 2030 across the world but particularly in Africa, where there is a growing youth population.

- **SDG 5 (target 5b)**
  E-commerce can be leveraged to promote the empowerment of women as entrepreneurs and traders.

- **SDG 8 (target 3)**
  E-commerce can support productive activities, decent job creation, entrepreneurship, creativity and innovation.

[32] World Bank and AliResearch Foundation (2019)
[33] World Bank (2019)

- **SDG 9 (target 3)**
  E-commerce can also promote the integration of MSMEs into value chains and markets by providing an online for MSMEs to trade.

- **SDG 17 (target 11)**
  E-commerce can help to increase exports, which is particularly beneficial for developing countries, particularly with a view to doubling the least developed countries' share of global exports by 2020.

Taking this as a given for the moment (we will explore the challenges later), we therefore ask, how did China do this?

HOW DID THE E-COMMERCE MARKET IN CHINA GROW AND SUPPORT POVERTY REDUCTION?

The Chinese government did not just create the conditions for retail markets and e-commerce to grow organically. It was not laissez-faire. Instead, both policies and subsidies driven by the government, coupled with innovation and the drive for new markets by foresighted private enterprises, played a key role in growing e-commerce and mobile money in China over the past 15 years.

The Alibaba Group started its operations in 1999, targeting small markets, then slowly expanded into both more geographical regions, more product offerings, and varied types of customers. This target-and-scale-up strategy was different from most one-size-fits-all strategies often used by other platforms (such as Amazon).[34] This approach allowed Alibaba to adapt more easily to local realities, particularly when targeting rural areas where the urban "approach" did not apply.

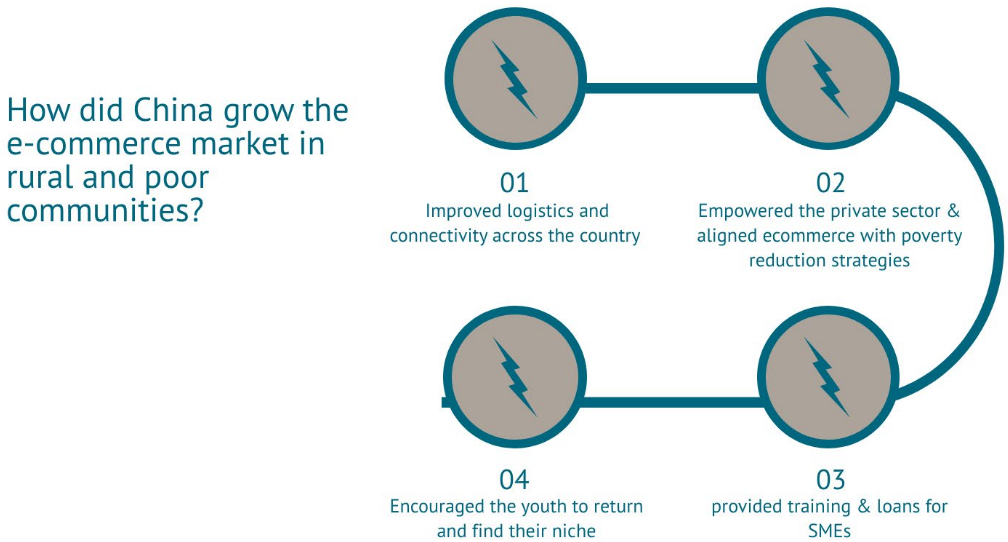
Poverty reduction and inclusion was not a key driver for e-commerce growth at first, Alibaba waited until they had successfully scaled before targeting the more logistically challenging rural communities. In 2014, over 15 years into Alibaba's growth, the company wanted to expand in new markets in China, the result was the "Taobao Village Program" an initiative aimed at targeting e-commerce development in rural villages across China.[35]

Research conducted thereafter by the World Bank and the AliResearch foundation[36] concluded that e-commerce as a key "digital technology" had contributed to inclusive growth in rural China by lowering the required skill threshold for sellers, and allowing individuals, including the less educated, to participate in e-commerce and therefore develop more skills and earn more money.

But how exactly did China grow the e-commerce market in rural and poor communities? The diagram below summarises four steps, which we expand on below.

[34] Technode (2009)
[35] World Bank and AliResearch Foundation (2019)
[36] World Bank Blog (2018)

Figure 10.



Source: Development Reimagined

Increased connectivity and improved logistics

China has invested substantial amounts of money in infrastructure connectivity. Between 1992 and 2013, China spent 8.6 percent of its GDP on building roads, railways, airports, and seaports that have been crucial for the reliable movement of goods.[37] That same spending figure was just 2.5 percent for Western Europe, and 2.5 percent for the combined GDP of the US and Canada.[38]

Bringing the population online has also been key to growing e-commerce in China. In 2015, the Chinese government invested an estimated RMB 140 billion (US$21 billion) to expand broadband internet to 98 percent of the country's 500,000 administrative villages by 2020.[39] This connectivity was the first step in bridging the rural-urban divide, and increasing the number of people online allowed Alibaba and other e-commerce platforms to continually reach for new markets in China.

For the e-commerce companies, improving logistics was essential for faster delivery. In December 2017, 18 years into Alibaba's growth, the company invested around US$1.6 billion to establish 30,000 service centres across China to enable faster deliveries and allow villagers with little or no access to the internet to use the Taobao shopping platform. Alibaba already had strong partnerships with logistics companies in bigger cities and towns and used the same strategy of integrating and aligning logistics to improve delivery time in rural areas.

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[37] BBC (2016)
[38] BBC (2016)
[39] Reuters (2015)

Table 1. Evolution of the rural Taobao Program from 2014-2018

	Rural Taobao 1.0	Rural Taobao 2.0	Rural Taobao 3.0
Year	2014-2016	2016-2017	2017-2018
Purpose	Village partners helping villagers to make online purchases	Village partners helping villagers to sell agricultural products online	Shifting towards integrating the entire Alibaba ecosystem into villages
Person in charge	Recruitment of returned migrants with distinct entrepreneurial skills		
	Mostly part-time	Full-time	
Support from Alibaba	Provision of limited resources under Rural Taobao service centres, mainly infrastructure (e.g. broadband, internet access), whereby centre managers assisted villagers with little or no access to the internet to order and receive goods that have previously been unavailable to them.		More support such as cloud data, logistics, financing and an integrated ecosystem (Charity Cultural Center, Business Incubation Center, Ecological Service Center)
Support from local government	Limited support	Direct support for infrastructure, e-commerce training, and finance	Indirect support through subsidies for capacity building. Direct support for sales and brand training

Source: World Bank Blog

Empowered the private sector & aligned e-commerce and poverty alleviation strategies

China's transition from a centrally planned economy to a more market-oriented system in which the private sector is allowed to flourish in certain sectors has allowed e-commerce to grow and has enabled thousands of poor people to create their own online shops.

The Chinese government has seen e-commerce as a complementary tool to support the eradication of poverty by 2020. In 2016 – two years after the launch of Alibaba's Taobao Villages programme - the State Council Leading Group for Poverty Alleviation and Development and a host of top government bodies jointly released guidelines that called for construction of 60,000 "e-commerce poverty relief stations" in about half of China's impoverished villages, as well as a quadrupling of e-commerce sales for villages in impoverished rural counties by 2020. Alibaba's programme effectively acted as a pilot for others to emulate and scale up further, mandated by government.

As a result, companies such as Alibaba have sought to cast themselves as the internet-enabled saviours of China's rural areas. Alibaba has made a special effort to depict Rural Taobao as connecting rural producers of local goods with potential buyers in China's more populous cities.

Table 2. Impact of rural e-commerce in China

Rural e-commerce penetration - what was the impact?	
Overall impact	Supported 1016 demonstration counties by 2018, of which 737 were poverty-stricken countries (89%)
Provincial impact	Gansu county increased annual per capital income of 4100 households by RMB 600 (US$90)
	Xixiang (Shanxi) increased annual income for 1190 households by RMB 865 (US$ 130)
	Liuhe (Jilin) increased annual income for over 1000 households by RMB 400 (US$ 60)
60,000 "e-commerce poverty relief stations"	By 2018 there were already over 60k rural e-commerce service station
Overall impact	Increase in rural internet users (netizens) from 178M in 2014 to 222M in 2018, 25% in 5 years

Source: World Bank Blog

Provided training, loans, and financing

Chinese e-commerce companies such as Alibaba invested in creating sellers in rural areas. For instance, they partnered with local governments to provide easier access to computers and training on how to use the internet and online payments. As part of China's targeted poverty alleviation campaign, local governments sponsored e-commerce and clothing-production training classes, provided low-cost loans, and encouraged successful entrepreneurs to prioritize hiring locals who remained below the poverty threshold.[40] Interestingly, the Chinese e-commerce players themselves did not offer finance for rural buyers—microfinance and other companies came in to provide such support (and we discuss later the pros and cons of this approach).

[40] Quartz (2015)

BOX 4. HOW DID CHINA SUPPORT FINANCING FOR RURAL SELLERS AND BUYERS?

Reduce financing costs for micro and small businesses. MYbank, an Alibaba-affiliated internet bank, provides "310" loan service (three-minute application, one-second approval and grant, and zero manual intervention) for micro and small businesses. Four million such businesses received the loans with total amount of RMB 700 billion with average per-account outstanding loan of less than RMB 30,000, which provides financial support for entrepreneurship and innovation development.

Extend wealth management channels for ordinary families. Yu'E Bao is a money market mutual fund with the minimum investment amount of RMB 1, which can be purchased and redeemed on the same day. It has served more than 200 million users, including 100 million rural users, and generated return of RMB 60 billion for the users. It is worth noting that Yu'E Bao has become a commonly used wealth management tool for low-income households and junior white collars. Its key characteristics of low entry requirement, low risk, high liquidity and shopping-oriented function design explain its prevalence.

Supplement traditional credit reference system. Only 0.3 billion out of 1.4 billion Chinese people have a credit record, which constrains the development of inclusive finance. Zhima Credit has developed a reliable big-data-based credit reference system. At present, Zhima Credit has covered nearly 100 million clients who have no or very limited loan history, which enables low-mid-income households, particularly rural residents, to have relatively easy access to loan services. Zhima Credit also helps financial institutions to reduce non-performance loan rate and enhance the ability to fight against frauds. Zhima Credit is also widely used in everyday life, such as for car and house rental, which saves time for users and improves society's efficiency.

Source: UCTAD inclusive growth and e-commerce: China's experience

Encouraged the youth to come back to villages to become entrepreneurs and created e-commerce hubs of fresh produce or commodity goods

Young entrepreneurs played a pivotal role in growing e-commerce in rural China. For the past 20 years China has seen a significant urbanisation shift with 500 million moving out of rural towns and villages and into big cities to find work. Government-backed policies have encouraged fresh graduates to return to their hometowns and contribute towards poverty alleviation projects at home. So far over 130,000 Chinese university graduates have been posted to impoverished rural areas to foster development. This strategy coupled with the growth of e-commerce, has created jobs and encouraged individuals to stay in their hometown and set up online shops.

BOX 5. THE VILLAGE MAKING COSTUMES: CREATING RURAL E-COMMERCE HUBS

In 2000, Daiji township, collection of villages in central China, had almost no working-age residents, all left the countryside behind for higher wages as migrant workers along the coast. The township had no industry and some of the highest poverty levels in the country. Now, half of the township's 45,000 residents produce or sell costumes—such as movie-villain attire - on Alibaba-owned Taobao. Daiji sold 1.8 billion yuan ($26.2 million) worth of costumes in 2016.

How did Daiji go from a poverty-stricken town to a booming e-commerce hub?

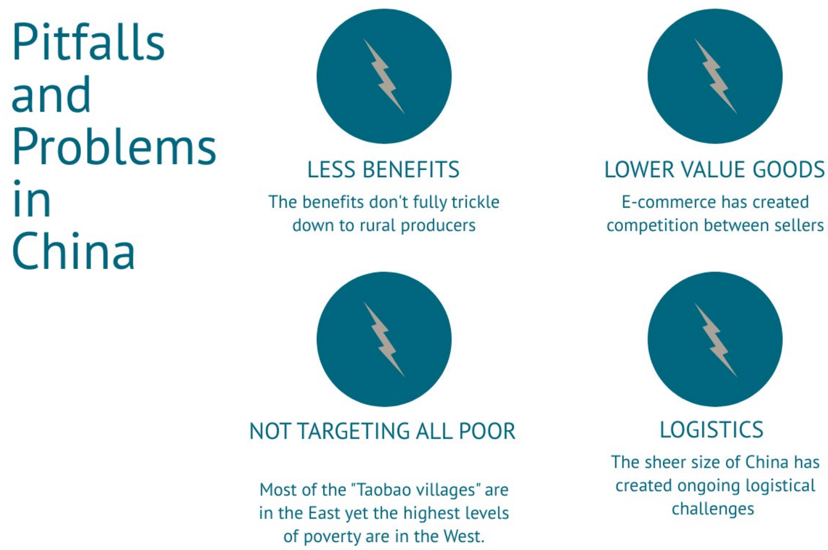
Daiji is one of Alibaba's "Taobao villages" and has created a niche product that can be sold around China online. As part of the state's targeted poverty alleviation campaign, the township government sponsored e-commerce and clothing-production training classes, provided low-cost loans, and encouraged successful entrepreneurs to prioritize hiring locals who remained below the poverty threshold. In less than four years, 6,300 people in Daiji and its surrounding county have moved above the official poverty line due to e-commerce sales.

Source: Quartz

WHAT PITFALLS AND PROBLEMS HAS CHINA EXPERIENCED?

Although China's experience of using e-commerce to spur poverty alleviation has for the most part been a success, challenges remain.

Figure 11. Pitfalls in China's experience with e-commerce



Source: Development Reimagined

The benefits don't fully trickle down to rural producers

Often the gains seem to be more for the e-commerce companies than for the rural SMEs. Chinese netizens typically spend a quarter of their total online expenditure on fashion as opposed to on agricultural products or commodity goods produced in rural areas. Luxury fashion made overseas is driving up e-commerce spending by the youth yet this does not support job creation in rural areas.

Some rural buyers end up spending more than they sell

Furthermore, last year rural customers themselves spent a total of US$141 billion on online goods while selling only US$25 billion worth of rural produce online.[41] AliResearch estimates online consumption in rural China will reach RMB1 trillion by 2020. Critics argue e-commerce has simply created excess consumer spending in rural locations that may limit spending or savings for essential needs such as healthcare. This can be exacerbated if the e-commerce players offer purchase products or other microcredit or other financing firms target rural sellers at the same time. Furthermore, e-commerce may reduce demand for local shops and goods, thus mitigating some of the positive effects of rural e-commerce entrepreneurs.

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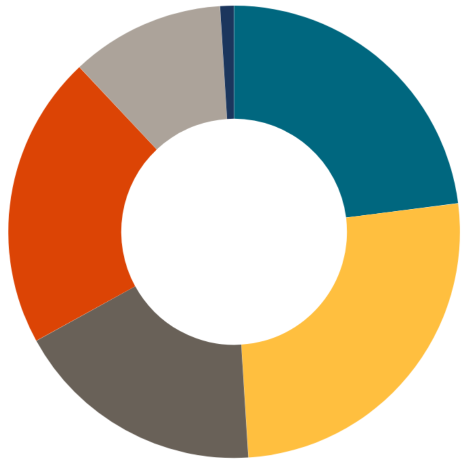
[41] Mckinsey (2019)

Figure 12. E-commerce spending (%) in China



Source: Statista data

E-commerce has supported the sale of "basic" or "lower-value" products, creating intense competition among sellers

E-commerce is now seen as tool to support job creation in villages, yet this has increased competition among rural areas. Because of the replicability of the goods and services provided, producers' profits have often been reduced. For instance, villages who sell non-commodity or consumer goods, such as unprocessed fruit, can find themselves in strong competition with others around the country. However, those villages or towns that have taken steps to add value to raw products or goods have found it easier to compete and establish regular markets.

Most e-commerce villages are still located in the eastern parts of China

The majority of Taobao Villages are located in the eastern parts of China that already had better infrastructure and education than areas in the West of China. This means they don't necessarily target the poorest of the poor, located in the more rural Western parts of China. Rural Western-based users make up only 27 percent of all internet users in China.[42]

[42] TechCrunch (2018)

Figure 13. Taobao villages (2018)

Source: World Bank Blog

China still faces challenges with logistics

Although the Chinese government and the private sector have invested heavily in improving logistics since 2000, China's sheer size has resulted in logistical bottlenecks. China is over 9.6 million sq km, with 23 provinces, 4 municipalities (Beijing, Tianjin, Shanghai, Chongqing), 5 autonomous regions (Guangxi, Inner Mongolia, Tibet, Ningxia, Xinjiang) and 2 special administrative regions (Hong Kong, Macau). With a population of over 1.44 billion (40 percent in rural areas) reliable logistics still remains a huge challenge.[43]

[43] UN (2020)

WHAT MAKES CHINA'S EXPERIENCE APPLICABLE TO AFRICAN COUNTRIES?

In 1990, two-thirds of China's population lived in poverty and the e-commerce sector was non-existent within China and globally. Fast-forward 20 years and less than 1 percent of the population in China lives in poverty [44] and China has one of the most thriving e-commerce sectors in the world, benefitting from the economies of scale a population of 1 billion enables. African countries as a whole currently have 1 in 3 of their combined over 1 billion sized population in extreme poverty[45] and a small but dynamic e-commerce sector. A historic new continent-wide Free Trade Area (AfCFTA) was agreed in 2019, which seeks to both remove and harmonise rules and regulations that restrict trade across Africa. Can similar growth take place in this potentially huge market?

The steps the Chinese government and private sector have taken to grow e-commerce and mobile money, and subsequently pivot e-commerce to become a tool for poverty reduction, have similarities to current opportunities across the African continent.

What makes China's experience applicable to African countries?

YOUNG POPULATION
Growing educated population eager to work

MANY MOBILE PHONES
Familiarity with mobile phones and the internet

ESTABLISHED E-COMMERCE
Many popular e-commerce companies already in operation

GROWING MIDDLE CLASS
With money to spend

HIGH POVERTY LEVELS
Opporunity to innovate poverty reduction

Young, increasingly educated population eager to work

Africa has the fastest growing youth population in the world, who all need jobs and fast. According to the African Development Bank, of Africa's nearly 420 million youth aged 15-35, one-third are unemployed, and another third are vulnerably employed—only one in six is in wage employment.[46] Like in China, e-commerce can provide an income for the tech savvy youth to create their own online shops and sell various commodities and value-added goods to the growing African middle classes.

These youth are also increasingly educated, with new ideas and exposure that could be harnessed by local communities, similar to China's government-backed graduate scheme. A 2019 *Economist* report indicated that about 9 percent of Africa's young people are now in tertiary education (vocational colleges and universities)—more than double the share in 2000 (4 percent).[47]

High levels of mobile phone usage and familiarity with mobile payments

The World Bank and African Development Bank report that there are 650 million mobile users in Africa, surpassing the number in the United States or Europe.[48] In some African countries more people now have access to a mobile phone than to clean water, a bank account, or electricity.

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[44] World Bank definition of those living on less than US$ 1.90 per day
[45] Brookings (2019)
[46] AfDB (2016)
[47] Economist (2019)
[48] UN (2013)

Furthermore, the continent has recently seen a huge uptake in smartphone usage due to companies such as Transsion, who hold 54 percent of the smartphone market in Africa.[49] Their success has been due to a localisation strategy with features such as low cost, dual-sims, and bigger batteries.[50]

The 2017 Accenture Digital Consumer Survey found that in countries such as South Africa, smartphone acquisition increased from 52 percent in 2016 to 63 percent in 2017. Some of the more technologically advanced nations like Kenya and Nigeria boast a smartphone uptake of more than 44 percent and 30 percent, respectively. Across the continent, the number of smartphone users saw a nearly twofold increase, reaching more than 226 million (2016 to 2017).[51]

In China, growing smartphone usage made e-commerce more accessible for the public, especially those in rural locations. In 2015, internet traffic through mobile devices surged by 36.79 million in the first six months of 2015, taking the total number accessing the web through smartphones to 594 million.[52] Familiarity with mobile money has also been a key driver in e-commerce growth in rural areas in China. In 2015, when the Alibaba group began the rural Taobao program, US$1 trillion RMB was already being transacted through WeChat pay and Alipay.[53]

In Africa, although usage of mobile money varies, citizens are already familiar with using their phone for payments. More than 8 in 10 Africans have a mobile phone but penetration varies across the continent. [54] However in China, 93 percent of the population has a mobile phone (2017).[55]

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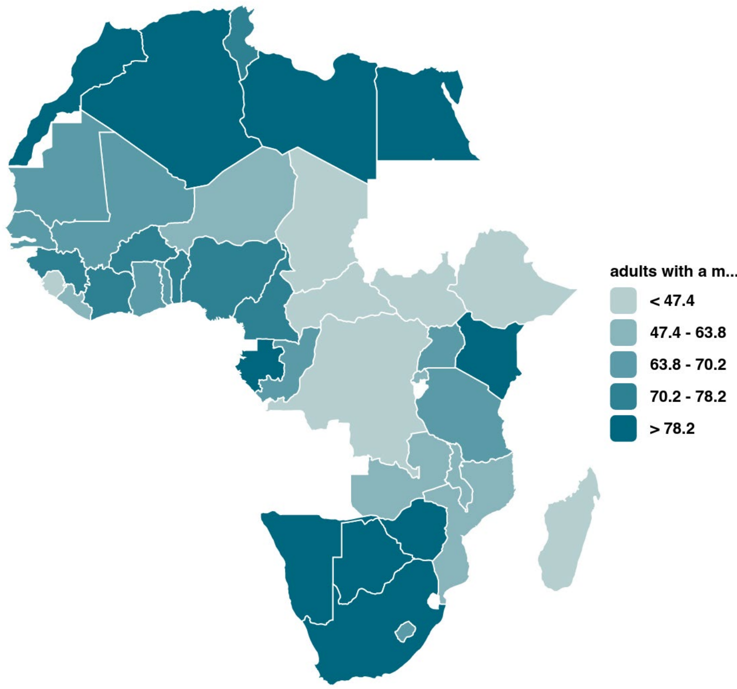
[49] Techcrunch (2018)
[50] Pew Research (2018)
[51] She Leads Africa (2018)
[52] Business Insider (2019)
[53] South China Morning Ppost (2018)
[54] AfDB (2016)
[55] World Bank Global Findex (2017)

Figure 14. The percentage of adults with mobile phones in Africa



Source: World Bank Global Findex (2017)

Established and popular African e-commerce companies already in operation

Nigeria, Kenya, and South Africa already have well-established e-commerce companies making waves. In 2016, when the rural Taobao program was launched in China, the Alibaba Group had been in operation for over 15 years and was in search of new markets to explore. The company was already popular and well known; this was an important factor in reaching the rural communities.

In Africa, the growing e-commerce companies have already garnered many consumers and are becoming increasingly popular across the continent. With more investment, they could play a significant role in poverty reduction strategies similar to the Taobao Village schemes in China.

Growing middle class and growing number of consumer goods being produced on the continent

Africa has a growing middle-class population of 330 million people, concentrated in Egypt, Nigeria, South Africa, Algeria, and Morocco. This middle class with spending power can be utilised to grow e-commerce across the continent.

Alongside the growth of middle class is the increasing number of "Made in Africa" brands and goods being produced across the continent, in the larger markets as well as emerging markets such as Rwanda, Senegal, and Ethiopia. From fashion to skincare, Africa products are becoming well respected and desirable.

There remains a large number of people living in poverty

Today, one in three Africans—422 million people—live below the global poverty line.[56] They represent more than 70 percent of the world's poorest people and need new and innovative development to lift themselves out of poverty. This is an opportunity to support them.

WHAT MAKES CHINA'S EXPERIENCE NOT APPLICABLE TO AFRICAN COUNTRIES

Although China's experience in e-commerce for poverty reduction offers valuable lessons for African countries, the vast number of underlying challenges for e-commerce across Africa make it incredibly challenging for e-commerce to specifically target poverty reduction.

Figure 15. What makes China's experience inapplicable to African countries?

Fifty-five individual countries with a diverse range of policy, market sizes, consumer profiles, languages, and other contextual differences make economies of scale difficult to achieve in terms of coordination and logistics of e-commerce.

China is a unified large market, and e-commerce for poverty reduction was heavily supported by central and local governments. Africa's markets are incredibly differentiated, and this is coupled with limited regional integration. The implementation of the 2019 Africa Continental Free Trade Area (AfCFTA) will help create the potential for goods to move across borders. But much more will be needed—not least billions of dollars in regional infrastructure—especially for ICT and logistics. These must develop regionally and continent-wide in order to allow e-commerce companies to make economies of scale and to grow.

[56] Brookings (2019)

Underdeveloped transport and ICT infrastructure at country, regional, and continental level

China is one country and as a result it has been easier to drive development across regions. In China, both the government and private sector played a role in improving logistics and connectivity. The Alibaba group created partnerships with logistics companies around the country to track and guarantee delivery. JD.com has their own fleet around the country to ensure quality. Guarantee on delivery and quality allow trust to build and therefore consumers are more likely to buy with confidence and prepay using mobile money.

Across the African continent underdeveloped transport and ICT infrastructure is a persistent challenge. According to the United Nations' Office of the Special Advisor on Africa, approximately 60 percent of the continent's population lacks access to modern infrastructure. Reports indicate that inadequate transport infrastructure adds around 30-40 percent to the costs of goods traded among African countries. Since Africa is home to 16 landlocked countries, poor and underdeveloped transport infrastructure limit accessibility to consumers, hamper intra-regional trade, and drive up import and export costs. [57]

Without good infrastructure and logistics in-country, guarantee on delivery and quality is impossible, and therefore it is difficult to build trust and a reliable consumer base.

China has one of the most extensive railways in the world, reaching 136,400 kilometers by the end of 2017, covering 97 percent of cities with a population of 200,000[58]or above.[59] According to the World Bank, the network size for Africa was around 82,000 kilometers (km) in 2010.[60] Although significant investment from China has seen this increase, many areas of Africa lack reliable rail infrastructure.

Lack of trust in e-commerce

Cash on delivery is still the preferred option for customers across African countries because of a lack of trust in both products and logistics. Customers want to see and have the product in hand before they are willing to pay for it. In rural locations, it is particularly complex and costly for companies if a delivery driver makes the trip and the customer does not to pay.

Underused mobile payments

At the moment, although mobile money usage in Africa is high relative to the rest of the world, when it comes to e-commerce payment, cash on delivery is the most common payment method in the African market, used for 90 percent of online purchases.[61] Mistrust of e-commerce companies means customers prefer to wait until they receive their order to pay in cash, hindering the growth of e-commerce—especially in rural locations. In China, in contrast, 54 percent of the population use mobile

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[57] TRALAC (2018)
[58] Only 39 cities out of 660 in China have a population less than 200,000 (People's Daily).
[59] People's Daily (2018)
[60] World Bank (2010)
[61] Business Insider (2019)

money for e-commerce purchases, followed by 21 percent on card. Only 10 percent use cash for e-commerce purchases.[62]

The "last mile challenge"

Across the African continent there is a lack of systematic address and postal systems. This makes it time consuming (and costly) for delivery drivers to locate costumers. The situation is even more complex in rural villages. In China, the challenge of last mile delivery is mitigated by drop-off centers or lockers that allow goods to be stored in a safe and cheap location. In Africa, although some companies such as Jumia have experimented with lockers, the aforementioned issue of trust and using cash on delivery makes using lockers problematic.

BOX 6. SOLUTIONS TO THE "LAST MILE CHALLENGE"

GhanaPost GPS: App and online platform allows users to attach a unique code to their location, creating a digital address. Ghana's government purchased the service for $2.5 million from Vokacom, a Ghanaian GPS app. Over 7.5 million people using the system, with over one million downloading the app and over 5,000 digitally addressed properties (Ghana Post).

NIPOST, Nigeria: Aims to drastically improve its delivery service by using digital GPS, as only 20% of people receive mail to their home address. NIPOST partnered with what3words, a British mapping system which attaches 3 words to coordinates. Cote d'Ivoire and South Africa also use what3words.
Through the Mail for Every House Initiative, Nigeria now aims to deliver to 90 percent of homes by 2020 (Quartz, 2017).

What are the challenges?

Costs: These systems are costly to governments – e.g. GhanaPost GPS cost $2.5 million and the lack of physical and digital infrastructure may impede digital GPS addresses. GhanaPost GPS does not have an offline function, and therefore service may be limited or non-existent in rural areas.

Source: Quartz 2017

Underbanked populations

In Africa, although customers are familiar with mobile money such as Mpesa, these systems have so far developed to both take advantage of and address low financial inclusion, providing easier access to peer-to-peer transactions, not—at least until now—to help online services or B2C services grow. They

[62] Brookings (2018)

have flourished so far because most Africans have little or no access to banks, and mobile money has created trust and convivence for customers. Only 10 to 15 percent of the population have access to a bank account[63] and although using mobile money or mobile wallets for e-commerce is slowly becoming more popular across the continent, it is yet to be mainstreamed into the e-commerce ecosystem and is fragmented in nature, as is clear from the myriad of players listed earlier in this brief.

Indeed, some African online retail stores and services still require a bank account or a payment service that is linked to one (at least for a first transaction), which limits their e-payment customer base.

In China, mobile money (fintech wallets) such as Alipay and WeChat are directly linked to a customer's bank account. But this does not represent a limitation because by 2014, only 66 percent of the poorest quintile in China had a formal account, which represents an increase of 28 percentage points over a period of three years (2011-2014).[64] Seventy-four percent of adults in rural areas—which includes most of the poor in China—were formally banked by 2014.[65] Overcoming this hurdle of lack of financial inclusion therefore remains a major hindrance to the growth of e-commerce in Africa.

BOX 7. MOBILE PAYMENTS FOR E-COMMERCE IN AFRICA

Using mobile payments for e-commerce is on the rise across the continent. Many of the big mobile money and e-commerce platforms are coordinating to provide a convenient way for customers to pay for their online shopping. For example:

- In Ghana, you can pay for your Jumia order using MTN Mobile Money.
- In Kenya you can use M-Pesa to pay for Aliexpress goods.
- Safaricom has its own e-commerce platform called Masoko where you can pay using M-Pesa.
- Jumia in Nigeria launched its own mobile wallet to facilitate payments, Jumia Pay.

However, there remains little integration across platforms and it is unclear how successful these payment options have been for rural merchants and customers.

Source: Quartz (2018) and TechCrunch (2020)

[63] Business Insider (2019)
[64] World Bank (2018)
[65] World Bank (2018)

Varying levels of online shopping across the continent

E-commerce was already growing in rural areas before Alibaba's Taobao program invested resources and money. In 2018, rural online sales in China accounted for 17 percent of total e-commerce and this is only set to increase.[66]

In contrast, e-commerce is yet to grow in many African countries—meaning targeting poor populations is problematic. For instance, a poll conducted by Gepoll found that 57 percent of Ugandan respondents indicated that they had never made an online purchase, which is almost exactly the opposite of Nigeria's 58 percent of respondents that had made an online purchase within the past month.[67]

Money, money, money

In 2018, Alibaba invested US$717 million in rural supply chain logistics, warehousing, and technology. JD.com also invested heavily in improving logistics services in rural China by hiring more delivery personnel and even testing drone delivery. China Minsheng Investment Group (CMIG), the country's largest private investment conglomerate, announced a plan in 2018 to invest 10 billion yuan (US$1.46 billion) to connect farmers with their urban customers through an online-to-offline model. All this funding has allowed e-commerce in rural areas to flourish and programs to target the poorest to become sustainable.

In Africa, the e-commerce sector is underfunded. In 2019, there was much excitement around Mastercard's investment of US $56 million in Jumia's private stock sale, yet this is only 8 percent of the investment Alibaba made in rural networks alone. Furthermore, no African e-commerce company is yet to turn a profit and the sector does not have the cash needed to invest in supporting e-commerce for poverty reduction initiatives.[68]

So, what can be done? Will Africa's e-commerce sector always be so constrained? Can it ever help to deliver poverty reduction, as in China?

RECOMMENDATIONS FOR AFRICAN STAKEHOLDERS LOOKING TO DEVELOP E-COMMERCE FOR POVERTY REDUCTION

When the government of China and the e-commerce sector began to target rural producers and consumers, e-commerce was already a well-established retail modality across the country. Internet connectivity, delivery logistics, and use of mobile payments were already advanced across much of the country. Furthermore, the move into rural China was a calculated business decision to target new markets whilst at the same time support the government's national policy of eradicating poverty by 2020.

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[66] World Bank and AliResearch Foundation (2019)
[67] Geopoll (2019)
[68] WEF (2019)

African e-commerce is at a very different phase of development. Many fundamental challenges remain with connectivity, logistics, and trust. However, we believe this can be shifted, and that lessons on building an e-commerce sector that supports inclusivity and poverty reduction is possible.

Across the continent, initiatives such as "e-trade for all"[69] are highlighting the importance of leveraging e-commerce to stimulate growth and partners such as UNCTAD and the World Bank are advocating for inclusive e-commerce to create jobs and opportunities, yet only a few pilot projects are underway and limited research exists on the impact.

So what concrete actions can be taken to make e-commerce work for the poor?

Recommendations for African governments and private sector companies

E-commerce for poverty reduction will only be successful if the ecosystem around the e-commerce sector is improved.

Focus on cross-border physical infrastructure and logistics to build reputation

Successful e-commerce is not just about building the technology and platforms. It's also about building the physical infrastructure around it—roads, rail, airports, internet portals, and more—so that e-commerce is a more convenient, speedier, and trusted alternative than face-to-face shopping or sales. The scale of investment and finance needed to be able to build a reputation for such speed and convenience cannot be underestimated.

The agreement of the AFCFTA provides opportunities and solutions for cross-border trade. However, all stakeholders, from governments to the private sector, will need to work together to coordinate improved logistics. For example, the International Trade Centre, through its Digital Transformation for Good approach, is working with the government of Rwanda and partners such as DHL to support SMEs to successfully develop their presence in local and international e-commerce channels and have access to improved logistics services.[70]

Across the continent, governments and the private sector can work together to integrate logistics. Building pan-African partnerships with airlines such as Ethiopian Airways and well-established delivery services such as DHL can improve logistics for both cross-border and also intercity delivery. However, governments should incentivize these partnerships by offering subsidies, especially for increasing logistics in rural locations. This will help support the growth of inclusive e-commerce.

Prioritise and create incentives for consumers to "buy-local" first

The current share of consumer e-commerce of "Made in Africa Goods" is below 2 percent yet has enormous potential to grow and stimulate jobs.[71] In order to successfully stimulate e-commerce in rural areas, China supported local communities to sell—this helped grow incomes and in return supported rural communities to themselves shop online. Products sold ranged from raw products such as fruit and vegetables to value-added products such as handicrafts or clothing. Microloans and

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69 E-Trade for all (https://etradeforall.org) is an information hub that helps developing countries navigate the technical and financial services they can use to drive development through e-commerce. Through the platform, countries can connect with potential partners, learn about trends and best practices, access up-to-date e-commerce data, and be informed of upcoming e-commerce events.

70 International Trade Centre, through its Digital Transformation for Good (2019)

71 Tralac (2015)

training for individuals in rural areas played an important part in empowering rural communities with e-commerce.

In Africa, companies often find it very hard to compete with cheap goods from overseas. Therefore, funding and loans should be channelled into training the vast number of SMEs in cities and towns on how to utilize e-commerce and market their "Made In Africa" products. In the rural areas, programs should focus on job creation by helping villages and local areas build their own e-commerce hubs. Training, loans, and attracting new talent will be essential for this. Africa has a huge, increasingly educated young population, and government-backed schemes encouraging young entrepreneurs to build e-commerce hubs in the rural areas can harness this talent.

Don't see rural residents only as consumers

At the moment, multiple e-commerce companies in Africa target similar consumers, most purchasing the same small value goods, whereby the logistical costs can be just as high as the value. To combat this some companies, such as Copia (see Box 8), specialize and focus on servicing rural residents by creating "order points" to reduce logistical costs. While "order points" or "hubs" can be useful, we would argue that specialisation to such a degree is not a long-term strategy, nor is focusing on rural residents only as consumers. Based on the China model, it is crucial to see rural residents as sellers first.

Don't just focus on building rural delivery—consolidate to build economies of scale

In China, e-commerce was driven by companies that did not specialise in the last mile but built a clear brand and trusted reputation for delivery across the board, and soon e-commerce was seen as a complementary tool for poverty reduction. E-commerce companies must build up their customer base and trust base with the middle class in particular to turn a long-term profit. But alongside this, and more speedily than China (who effectively waited 15 years to target rural areas) African e-commerce companies can also test and scale up innovative ideas to support rural residents to also sell their products through the creation of rural e-commerce hubs/villages.

Building trust and scale with middle-class consumers can provide the much-needed funding to subsidise rural e-commerce development, which will in turn offer a wider variety of goods (and customer base) for the e-commerce platforms.

Regulate for and find innovative solutions to encourage a move towards e-payment options

Cash-on-delivery remains popular in Africa, making internal and cross-border e-commerce difficult. Policymakers need to work to improve local and global payment system interoperability and actively encourage a switch from cash-on-delivery to mobile payments. Furthermore, advancements in mobile money regulation is needed to standardise the market. Smartphone usage is on the rise in Africa, but citizens need to be able to trust they will get deliveries in order for it to expand and reach the rural areas.

Equally, e-commerce companies need to be able to trust African consumers to pay even if they do not have bank accounts, and governments enable this to happen. If not, the challenge of few Africans holding a bank account will remain a huge constraint on the development of e-payments, even if smartphones continue to become easier and cheaper to access for rural populations.

One practical step, used in China, to attract new consumers and sellers would be to integrate payment methods into mobile phone technology at point of sale and use existing payments such as Mpesa for registration. For instance, the majority of smartphones sold and made in Africa are made by Chinese firm Transsion.[72] Governments and e-commerce firms could work with Transsion to ensure certain mobile payments options are integrated into the phone from the beginning, so that businesses and people can easily start selling and purchasing. This could make linking an ID, phone number, address or "bank" at point of sale easier. Alternative methods for reaching new consumers include using "social networks" to build a customer base—the "Pinduoduo" and "Groupon" model—whereby products become cheaper the more that other "friends" register and purchase the same product.

BOX 8. COPIA: A KENYA E-COMMERCE PLATFORM FOR RURAL RESIDENTS

Unlike major players in the space, Copia has focused squarely on catering to low-income consumers who are underserved partly by virtue of living mainly outside urban areas.

Copia is a 5,000-strong agent network comprising mainly local, small shopkeepers who earn commissions by serving as "points of aggregation of orders and delivery distribution." Essentially, rather than make purchases online via a website or consumer-facing mobile app, Copia customers walk into stores of partnered agents who place orders on their behalf, take payments, and serve as delivery points. Users can also make orders through USSD codes/online banking and overall, Copia has already made three million orders to 450,000 consumers while operating only in central Kenya. As the order amount is lower, it splits deliver costs, however further innovations will be needed to encourage rural consumers to sell through the platform and make the platform truly sustainable.

Source: Quartz

Recommendations for others looking to support African digital trade, including China

E-commerce—digital trade—has the potential to help support poverty alleviation, but developing it requires much more than connecting people to the internet, streamlining customs, or moving up the doing business indices. Infrastructure and logistics, entrepreneurship and skills are all crucial.

How can Africa's development partners help?

Enable—don't compete against—local e-commerce companies

Alibaba has been expressing interest in the African market by encouraging local entrepreneurs and selling some limited African products on its platform in China (e.g. Rwandan coffee beans). During the COVID-19 pandemic Alibaba developed a new partnership with Ethiopian airlines for cross-border logistics for the donation of medical equipment. These relationships could enable Alibaba to grow quickly on the continent. But what impact will this have on the existing local e-commerce companies?

[72] Quartz (2019)

Partners such as Alibaba, Amazon, and others should invest in existing African e-commerce platforms and empower them to expand their reach as opposed to capturing the market themselves.

See e-commerce as a tool for poverty reduction that can complement traditional aid programs

E-commerce has a key role to play in future development of the continent, especially in the context of COVID-19, where social distancing is required. Donors should look to include or shift more support towards e-commerce as a key tool for poverty reduction in trade-related facilitation programs. The private sector should also be viewed as a stronger enabler for job creation and more development finance loans should be focused on helping e-commerce companies to scale up and consolidate, shift busines models towards mobile payments versus mobile money, as well as continue to provide grant funding to projects that directly help rural e-commerce grow and provide a poverty reduction function, going beyond software development.

Build logistics and IT infrastructure

E-commerce cannot grow without the underlying infrastructure. Significant new loans should therefore be made available for ICT and transport connectivity that enables e-commerce. In addition, China and America in particular (as well as some smaller European players) have well-established global e-commerce platforms with experts who can share best practices and partner with African start-ups to build strong logistics processes to take advantage of new infrastructure.

Provide loans and training for SMEs

E-commerce can create jobs in rural areas, but training and microloans will be needed for this to grow. Taobao villages have shown e-commerce can support female entrepreneurs, MSMEs, and local development. Specific programs should be developed in collaboration with local communities to support access to e-commerce platforms.

Make more investments in the e-commerce ecosystem

Listen to the needs of African governments and private sector organisations. China's success was spurred by investments in e-commerce companies allowing the private sector to grow and expand. Although equity funding in African tech start-ups has increased rapidly—reaching $1.16 billion in 2018—overall foreign direct investment (FDI) flows into Africa are limited, just 3.5 percent of the global total.[73] Efforts in this area should aim to double FDI flows into Africa's tech sector by 2030.

CONCLUSION

In China, e-commerce has been a powerful tool to enable millions of rural residents to lift themselves out of poverty. In the wake of COVID-19, the growth of e-commerce—digital trade—in Africa is a unique opportunity for local communities and small and medium-sized enterprises across the continent to scale-up and capture a growing middle-class consumer market, create jobs, and reduce poverty. Across Africa, although markets are currently fragmented, e-commerce has the potential to do the same, and more. Policymakers, partners, and the private sector must work together harder and more intentionally to build a smooth, sustainable, and domestically owned e-commerce ecosystem that views both urban and rural communities as an opportunity for growth.

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[73] UNCTAD (2018)

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