Policy Recommendations and Options: Boosting Trade and Development by Tackling Africa’s Supply Chain Challenges

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On November 16, 2017, the Wilson Center hosted the third annual Signature Event of the Brown Capital Management Africa Forum, “Boosting Trade and Development by Tackling Africa’s Supply Chain Challenges.” Supply chains—which center on the processes of sourcing, adding value, and delivering goods to the customer—are crucially important to Africa’s development and to its ability to participate in, contribute to, and benefit from the global economy. Over the decade ending in 2014, Africa accounted for six of the ten fastest growing economies in the world, according to the IMF. Despite this growth, Africa only accounts for approximately 2 percent of global trade.\(^1\) While some African regions, such as East Africa, have taken measures that have resulted in significant increases in intra-regional trade, overall intra-regional trade across the continent stands at approximately 10 percent, the lowest rate of any world region.\(^2\) Furthermore, the World Bank estimates that intra-African trade is more expensive than in other regions; for example, it is 50 percent more expensive than intra-regional trade in East Asia.\(^3\) In fact, according to the African Development Bank, Africa faces the largest trade costs overall of any region in the world, mostly as a result of man-made barriers to trade. It was noted that as of 2017, twenty-two African countries had still not ratified the World Trade Organization’s Trade Facilitation Agreement (TFA), which could help to increase transparency, streamline trade-related processes, and enhance Africa’s trade profile. While not the sole factor, the continent’s supply chain challenges help to explain the weak regional and global trade figures, as well as the high cost of trade.

The goals of the 2017 Signature Event were three-fold: to examine the current state of Africa’s supply chain development and integration at both the regional and global levels; to identify key challenges and highlight progress made and lessons learned in addressing those challenges; to offer concrete and transformative recommendations for African and international governments and institutions and the private sector to more effectively address Africa’s supply chain challenges.

The event featured speakers from the public and private sectors from both the U.S. and Africa. Congresswoman Jane Harman, Director, President and CEO, at the Wilson Center and Mr. Keith A. Lee, President and Chief Operating Officer, of Brown Capital Management offered welcome and opening remarks. Mr. Seward “Skip” L. Jones, Jr., the Deputy Assistant Secretary for Middle East and Africa of the International Trade Administration of the United States Department of Commerce offered the keynote address. Other speakers included: Ms. Laura Lane, the President of Global Public Affairs of UPS and Vice Chair of the President’s Advisory Council on Doing Business in Africa (PAC-DBIA); Mr. Chris Folayan, the CEO of MallforAfrica; Mr. Tielman Nieuwoudt, Principal at the Supply Chain Lab, South Africa; and, Ms. Sandra Uwera, the Chief Executive Officer of the Common Market for Eastern and Southern Africa.
Supply Chains in Africa: Progress Made and Recommendations for the Way Forward

Key recommendations for addressing supply chain challenges to bolster intra-African trade and Africa’s share of international trade include the following:

1. Identify Overarching Entry Points for Addressing Africa’s Supply Chain Challenges

There are five overarching areas of focus that are important to addressing Africa’s supply chain challenges: provide people with more information about trading in Africa, educate vendors about the process and standards required to get goods to the global market, facilitate communication between buyers and consumers, deliver goods in the most time and cost efficient ways, and utilize technology to facilitate trade. Programs such as the Made in Africa Campaign, which seek to connect buyers around the world with sellers in Africa, and the Africa Made Product Standards, are models for programs that can create economic opportunity in Africa. These business models can be expanded and built upon.

2. Improve Trade Facilitation Processes

One of the major barriers to trade is the thickness of the borders and the degree of red tape associated with getting goods through customs in many African countries. Cumbersome processes and associated delays in processing goods through customs discourage businesses trying to work in Africa, and stymie intra-African trade and development.

Key recommendations and considerations:

a. Governments should consider ratifying agreements like the World Trade Organization’s Trade Facilitation Agreement (TFA), which can be a tool for reducing man-made trade costs, particularly in developing countries.

b. Governments should consider establishing pre-clearance processes and doing more to harmonize customs processes in order to facilitate the movement of goods across countries.

c. At the continental level, African governments should work together to agree to common standards and efficiency-increasing measures for trade facilitation, which could help African countries become stronger, more competitive trade partners.

d. The U.S. Department of Commerce can be a partner for African countries in implementing the TFA as trade with Africa is a key priority for the U.S. government.

3. Invest in Improving Technology for Trade

Technology can play a key role in mitigating some of the challenges afflicting supply chains in Africa, such as the difficulties associated with selling, tracking, and delivering goods. For example, technological platforms on smart phones or computers can be tools that help connect local suppliers to the global market, making their goods available to consumers and companies all over the world, 24 hours a day, and seven days a week. Access to these platforms can be a game-changer for small and medium enterprises (SMEs) operating in Africa which could gain access to the global market through technology.

Technology can also help with the logistics of shipping goods to, from, and within Africa. Especially considering
the fact that many African businesses and homes lack formal addresses, digital tracking of shipments is especially important in the African context to reduce the risk and increase the certainty involved in shipping goods.

The commercial use of drones for delivery in Rwanda is an example of technology overcoming another important issue—weak, insufficient, and disconnected infrastructure in many parts of the continent—which has been an impediment to development for years. Although no substitute for long-term infrastructure development, technological solutions can be stop-gaps that help promote trade, provide lifesaving services to populations, and ultimately further development.

Key recommendations and considerations:

a. Governments and the private sector should continue to explore innovative technology for trade and development, such as the use of drones for healthcare delivery in Rwanda.

b. Regional economic communities (RECs) and their business-focused affiliates, such as the COMESA Business Council, can help harmonize the use of technology for selling and distributing goods and play a key role in knowledge exchange between various companies and governments. This would help to overcome the problem of technological platforms that are stove-piped and exist only in specific countries, and can help to integrate technology at the regional level.

c. Promote the use of electronic documents (e-documents) in trade. Shipping goods and overall trade can be made more reliable and efficient through use of e-documentation and digital tracking mechanisms, which reduce the risk of bureaucratic red tape and corruption while increasing certainty for businesses operating in Africa.

4. Prioritize Infrastructure Development

Without a reliable and connected infrastructure network, the movement of goods to, from, and within Africa becomes an incredible logistical challenge.

African countries are beginning to make a concerted effort to address infrastructure and logistics challenges. East Africa is one region that has done particularly well at improving infrastructure and logistics, decreasing port dwell times, and increasing transportation efficiencies; it could provide lessons learned for other regions. For example, despite being landlocked (a status that typically presents more transportation challenges), Rwanda and Uganda have shown massive improvement in recent years, according to the World Bank’s Logistics Performance Index.

However, significant infrastructure challenges remain across the continent. For example, according to the African Development Bank, the effective speed of road transport in the Southern African Development Community is between 6 and 12 kilometers per hour (3.72 and 7.45 miles per hour,) which is indicative of wider infrastructure challenges that hinder trade throughout the continent. Rural areas generally face increased challenges with logistics, infrastructure, and access to technology.

Infrastructure and other supply chain challenges can be especially debilitating for the movement of perishable goods. For example, it is estimated that 60 to 80 percent of perishable goods are lost during transit within Africa mostly due to a lack of consistent refrigeration and the slow speed of ground transport.

The preponderance of seasonal roads and the overall lack of year-long passable roads, the weak regional railway networks, as well as transport-related inefficiencies—including the long dwell times at ports—all serve to increase the cost of doing business in Africa and add volatility into the supply chain equation. For example, it was noted that ports in Nigeria have dwell times of between 15 and 20 days, while the Durban Port in South Africa has dwell times of only four days, which is closer to the global standard. Average dwell times in Sub-Saharan Africa (excluding Durban) are
over two weeks, while the average in Asia, Europe, and Latin America is less than a week.\(^5\)

Key recommendations and considerations:

Infrastructure is more than just ports and roads, however. Technological infrastructure, including wireless internet and fiber optic cables, can play an important role in trade and development. Without the requisite level of technological infrastructure, digitization of shipping and online marketplaces will not function at full capacity.

a. Infrastructure development should be prioritized, as it is critical for any country wishing to boost trade and development. Countries should focus on developing long-term and coordinated infrastructure developments.

b. Last-mile logistics are a key piece of the equation, as this phase often generates the majority of the challenges and costs to trade in the African context. Infrastructure development, especially improvements in road transportation, would greatly reduce the costs associated with delivering goods directly to homes and businesses.

c. Consider how technological innovations such as drone delivery can help close the gaps where infrastructure is poor, and how technology can be better integrated at the national and regional levels to facilitate and boost trade.

d. The fragmentation of retail markets makes it more costly for businesses to operate in Africa, as they must coordinate delivery to a multitude of distant locations and vendors. While African governments have developed Special Economic Zones, and these could be helpful in addressing fragmented markets, more effort should be made to strategically position the Special Economic Zones in order to more fully realize their benefits.

e. More could be done to encourage Private Public Partnerships as a means for addressing supply chain challenges in Africa.

5. **Harmonize National and Regional Trade Integration Frameworks**

All African countries are a part of at least one Regional Economic Community (REC), sometimes more than one. Many of these RECs have robust regional integration strategies, some of which include supply chain development. However, implementation of the strategies often varies within and across RECs. In some countries, the strategies and underpinning regional integration policies have not been domesticated or prioritized at the national level.

Key recommendations and considerations:

a. Each country should develop national trade policies that outline country-level implementation that is in line with regional goals.

b. Along with harmonizing RECs, the Special Economic Zones in Africa could be more carefully planned and implemented. To increase their positive impact, African special economic zones must be tied to global markets and supply chains.

6. **Expand the Scope and Lengthen the Timeframe of Regional Trade Agreements**

Many regional trade agreements in Africa are made for the short- to medium-term, which creates uncertainty for investors, government administrators, and consumers alike. Lengthening the timeframe of trade agreements will make engagement more stable and cost-effective in the long-term and minimize risk for investors.

In addition, trade agreements in Africa are often focused on raw materials and resources rather than on finished goods. Establishing regional trade agreements with long-term views and that include provisions for the production
of finished products is an important piece of facilitating trade, improving regional coordination, and supporting the production of value-added, finished goods in Africa.

7. Mitigate Risk and Increase Opportunity for Stakeholders along the Supply Chain

Various stakeholders—investors, SMEs, and governments—face a variety of risks in operating in many parts of Africa, thus mitigating and managing the risk is a key component of incentivizing businesses to operate in Africa and to facilitate intra-African and international trade.

Key recommendations and considerations:

a. In order to mitigate risk for investors operating in Africa, governments, the private sector, and regional economic communities should pay more attention to promoting transparency in the supply chain process, achieving macroeconomic stability, and establishing and maintaining standardized practices.

b. More attention should be paid to creating policy environments and regulatory frameworks that support the needs of African SMEs. For example, SMEs often suffer from irregular cash flow and poor access to credit, which in turn hampers their ability to source goods in bulk or make purchases on a weekly basis and causes losses for the intermediaries in the supply chain.

c. Establishing and adhering to standardized regional and continental regulations mitigates risk for African governments, while creating the necessary environment for outside businesses and investors to operate.

d. Governments, the private sector, and RECs should work together to develop the skills that would allow Africans to meet global standards for products, develop more affordable schemes for certification for African SMEs (currently this costs approximately $35,000, which is out of reach for many African SMEs), encourage consortia among African SMEs and regional business groups, and redefine corporate social responsibility to include technology transfer.

To watch the full video recording of the event, please visit: https://www.wilsoncenter.org/event/boosting-trade-and-development-tackling-africas-supply-chain-challenges

For further analysis of supply chain challenges in Africa, please see Mr. Tielman Nieuwoudt “Boosting Trade and Development by Tackling Africa’s Supply Chain Challenges,” Brown Capital Management Forum Paper No. 6.

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