

Building Bridges to New e-Commerce Markets

A blueprint for small and medium-sized enterprises



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sized enterprises

About the paper

Advanced economies have developed highly competitive and innovative e-commerce services, making it simple for small enterprises to set up online stores, transport their goods and receive payments. Although entrepreneurs in developing countries can sell online by accessing these services, most are blocked from doing so because of their origin.

This paper shows these enterprises how to set up international business structures so they can use such services. They would also gain more control over their distribution arrangements, better account and pay for duties and taxes, achieve higher margins and operate as if local in the target market.

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Foreword

E-commerce is big business. More than 1.3 billion people now buy goods and services online, and enterprises are increasingly sourcing through digital means – an opportunity representing \$25 trillion in annual sales.

Most of these sales happen in domestic markets, where large e-commerce sites such as Amazon, Flipkart, Rakuten, and Taobao hold significant shares. Getting onto these marketplaces is not always easy for foreign enterprises, however, because they cannot satisfy the commercial rules or compliance obligations.

Multinationals have long recognized the benefits of having branches in foreign markets, wherever possible adopting legal structures that allow them to trade as local operators. A subsidiary, once incorporated locally, can operate in a customs union with full market access and many of the advantages of local enterprises. It can pay import duties and taxes, and include these costs in local operations. A subsidiary can also enter into business contracts in the same manner as its local counterparts and benefit from deals that are often only available to other local enterprises.

In the age of e-commerce, many small enterprises see going international as a priority. Having local representation is important to making this happen. Before the digital age, these advantages could only be found by hiring international lawyers and setting up expensive structures to manage the international business. The growth of digital services mean many business registration requirements can be met online, independently or through service providers, greatly simplifying the process and lowering its costs.

This can be a route for small enterprises from developing countries to enter new markets. But it may mean more than gaining access to site listings and payment solutions – it can also open up the potential to work with other service vendors such as marketing agencies, logistics enterprises and tax advisers.

The International Trade Centre (ITC) helps micro, small and medium-sized enterprises in developing countries access global e-commerce through training and coaching that shows them how to tackle the barriers that prevent them from trading online. ITC's ecomConnect work helps these enterprises build their capability to select and prepare products, manage inventory, enter online marketplaces and organize promotional activities. Small enterprises increasingly understand the potential of e-commerce, and many remain frustrated by restrictions that block them from participating.

The cost of setting up a foreign structure may be too heavy for a small enterprise. As a rule of thumb, export sales should exceed €100,000 to justify creating such a structure. A better alternative initially may be to explore and develop an international presence through partners.

Another option is to collaborate with other businesses. In a 2019 report, ITC examined how clusters of enterprises could work together to share promotional activities and other resources. Combining these collectively managed entities with an export structure opens market entry. An added benefit of this route is that the costs to set up and manage an international business structure would be shared.

This framework and its lessons are set to be the basis of future work with small enterprises in developing countries. Together with local partners, ITC will train and advise when and how to set up representative structures and, in doing so, facilitate access to new services in foreign markets.



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Contents

Foreword	iii
Acknowledgements	iv
Acronyms	vii
Executive summary	viii
Chapter 1 Barriers to international e-commerce	1
Accessing payment providers	1
How an international structure can help	2
Advantages for developing country enterprises	2
Going international: Yes or no?	4
Chapter 2 Is an international structure necessary?	5
Criteria to enter the European market	5
How accessible are EU e-consumers?	6
As a single seller	7
Through a foreign partner	8
As a group	8
Chapter 3 Which jurisdiction is best?	10
How to compare jurisdictions	10
Key elements to consider	10
Matrix helps identify the best jurisdiction	14
Chapter 4 What is the best legal form?	16
Practical issues to consider	17
Chapter 5 How to choose a distribution channel?	21
African sellers target four online marketplaces	21
Websites and social media pages must follow rules	23
Chapter 6 Which payment methods are necessary?	24
Traditional bank accounts	24
Fintech bank accounts and services	25
Payment gateways	25
Payment solutions comparison matrix	27

Chapter 7	Learning from African entrepreneurs	29
	Mamadou Doumbia Jr. Founder of WaxAfrika in Côte d'Ivoire	30
	Mpho Sekwele Founder of Sintu Online in South Africa	33
	Wissem Oueslati Author and entrepreneur in Tunisia	35
Chapter 8	Recommendations	37
	Appendices	39
	References	40
Figures		
1	Setting up an international structure	4
2	Rwandan firms struggle to sell online in Europe	6
3	How to enter international markets?	7
4	United States, Belgium and Estonia are appealing	14
5	Four major platforms to reach EU consumers	22
6	Alibaba is most accessible to foreign sellers	24
7	Cryptocurrency, 2checkout.com accept Rwandan firms	28
8	Owning a British company means more options	29

Acronyms

Unless otherwise specified, all references to dollars (\$) are to United States dollars, and all references to tons are to metric tons.

B2B	Business to business (sales to professional buyers)
B2C	Business to consumer (sales to consumers)
FBA	Fulfilment by Amazon
IBAN	International Bank Account Number
ITC	International Trade Centre
SMEs	Small and medium-sized enterprises
VAT	Value-added tax

Executive summary

Small enterprises from developing countries that want to sell their products and services online face a host of challenges. Having an international business structure could remove many of the biggest barriers, such as ownership of a foreign bank account, exclusion from online payment solutions, restricted access to the major marketplaces and dealing with value-added tax (VAT) and customs duties.

An enterprise that sets up a registered company in a foreign jurisdiction becomes, in effect, local. This means that many of the challenges of being a foreign enterprise simply disappear.

This paper explains why micro, small and medium-sized enterprises (MSMEs) in developing countries should consider setting up, and possibly sharing, international business structures to engage in e-commerce – and how they can do it.

The main advantages of setting up such a structure in the United States and/or European markets are:

- **Access services only available to local enterprises.** Most relevant local services, including payment solutions, banking and access to online marketplaces, are available only to companies in the United States or the European Union. It is also easier to access other service providers in sectors such as transport, insurance and marketing at locally competitive rates.
- **Direct market access.** Fewer or no intermediaries are needed to enter markets, meaning higher profit margins and faster decision-making.
- **Better import process control.** It becomes easier, and sometimes less expensive, to access services to declare third-party customs duties and VAT. Import processes are simplified because the company has its own Economic Operators Registration and Identification and VAT numbers.
- **Control of distribution channels.** A developing country brand can technically access all channels in the target market. As a local entity, the international structure can more easily satisfy all compliance requirements and better generate trust – for example, by joining local associations or obtaining certifications offered to local enterprises.
- **Better logistics and returns management.** A foreign business can offer local return addresses to international buyers, making it easier to contract with local logistics providers.

Despite these benefits, the costs of setting up and administering an international structure may outweigh the advantages. The pros and cons must be carefully considered.

The size of the business is key. A small enterprise just starting to expand internationally and operating alone from a developing country would probably not be able to justify the costs of incorporating in a foreign market. Grouping with others in an association or cooperative, however, could be appealing.

Five key questions

Small enterprises in developing countries must answer five questions before deciding how to structure their e-commerce business. This report examines each of these questions to help MSMEs decide whether an international structure could be advantageous and what the alternatives could be.

Is an international structure necessary? Setup costs may be hefty – and represent too large an investment for many developing country MSMEs operating on their own. A low-risk (albeit slower) approach is to begin international sales, where possible, from the country of origin as a single seller and learn about demand for a specific product. If the business shows high growth potential, the next step may be to partner with a foreign entity and increase sales, probably by dealing with other businesses rather than end consumers.

Once an enterprise understands the market and has made sufficient sales, it can take the next step and register an international structure. This could be a corporate structure as a single seller, meaning that all the costs are borne by that individual firm, or as a group, with costs shared among participating enterprises.

If the answer to the first question is 'yes', the entrepreneur must then ask:

Where is the best place to set up? The answer to this question depends on where the enterprise wishes to export. This paper compares four European countries and the United States using a range of criteria, such as the existence of a double taxation treaty and residency requirements of directors. All things considered, the United States is one of the most attractive jurisdictions to set up foreign-owned business structures for e-commerce purposes.

Which is the best legal form? Switzerland and the United Kingdom offer several advantages for establishing entities that are not based on capital, such as associations, foundations and cooperatives. Both the Swiss association and the British cooperative can be a fully commercial entity, providing similar trading capacity as a limited liability company. Swiss associations do not require directors to be local residents. This can be practical if the association committee is based in Africa, saving the cost of appointing a local agent.

As for capital-based entities (corporations and limited liability companies), the United States, the United Kingdom and Estonia seem to be particularly open to foreign ownership of structures. They are also attractive in terms of setup and maintenance costs.

Considerations for groups of enterprises to own a foreign entity

The national law of the origin country¹ governs whether a group of businesses may own and/or manage a corporate structure in another country. The following factors should be taken into account:

- The cooperatives created by entrepreneurs in their own country, not the entrepreneurs themselves, should indirectly control the foreign corporate structure. The board of directors should include representation from all would-be cooperatives and limit itself to supervising a managing director who handles day-to-day management.
- An external auditor may be needed.

The best practice in arranging group ownership may differ greatly from one organization to another, depending on the needs and priorities of the founders. The following should be considered:

- Defining the purpose and priorities of the corporate structure;
- The need for share capital and a shareholder agreement;
- Avoiding deadlocks by distributing voting rights unevenly.

How to choose the best distribution channels? Gaining access to online marketplaces is crucial, because 60% of all business-to-consumer (B2C) sales are made through these platforms. Some marketplaces are tougher to access than others. Amazon, for instance, demands extensive proof of business activities, references and business plans that many small enterprises struggle to provide.

Which payment methods are necessary? Not being able to accept a payment using the method that the client expects can lead to lost or lower sales. For B2C sales, 42% of consumers consider available payment methods before deciding to buy.

A enterprise needs a bank account to access payment solutions. Innovative 'fintech' banks are more accessible to foreign entrepreneurs than traditional lenders. This is mainly because these banks use compliance and verification techniques based on the latest technologies, often allowing an account to be opened without the physical presence of the person. Generally, African enterprises will find it much easier to access payment solutions if they open their account via a corporate structure based in the United States, the United Kingdom or Estonia.

¹ Origin country should not be confused with the country of origin of the shareholder. It may be better to refer to 'country of seat'.

Chapter 1

Barriers to international e-commerce

Most online payment services are restricted to enterprises operating in specific jurisdictions. This presents a major problem for SMEs in developing countries.

Trading electronically is challenging. It requires good understanding of new technologies and marketing and business processes, as well as legal knowledge about different jurisdictions. Online commerce also involves complex payment, shipping, tax and customs practices and laws.

Many enterprises struggle to adapt a 'brick-and-mortar' business model to the digital world. If e-commerce is challenging for enterprises in developed economies, it is even tougher for those in African and other developing countries, where infrastructure and access issues compound the difficulties.

The barriers are well documented in other papers.² Here, we wish to examine how setting up international business structures can overcome these hurdles.

Restricted access to payment services and online marketplaces is a serious obstacle that can block many SMEs from engaging in e-commerce. Most payments for online goods are made using credit cards. Merchants that do not accept credit cards may be unable to sell products over the internet.

Accessing payment providers

PayPal and Stripe.com are the best payment solutions for developing country entrepreneurs targeting the United States or the European Union. PayPal reaches about 300 million people, and some marketplaces (such as eBay Europe) use it as a compliance gateway – meaning no PayPal, no access to the marketplace. Stripe.com is popular because it has competitive transaction fees (below 2%), is easily integrated into many online platforms and can 'acquire'³ other payment solutions such as Alipay, Giro, Single Euro Payments Area, iDEAL, Sofort and Wechat.⁴

PayPal says its services are available in 200 countries and regions supporting 25 currencies.⁵ Although this list includes 50 African countries and regions, not everyone has equal access. In many of these places, enterprises cannot receive money. This prevents many African entrepreneurs and SMEs from conducting business online using PayPal.

There are several reasons PayPal does not extend merchant services to smaller countries. These include the perceived risk of conducting business with the country (due to the regulatory environment) and policy (such as currency exchange controls).

PayPal is a trusted platform. It became a successful worldwide payment service mainly because of the trust created among buyers by automatically offering services such as PayPal Buyer Protection. This means that if an item that qualifies doesn't arrive or is markedly different than what was advertised, PayPal will reimburse the full purchase price plus any original shipping costs.⁶ For practical and cost reasons, PayPal does not extend this service to all countries.

² ITC (2019). *Joining forces for e-commerce: How small African firms succeed with collaborative business models*, page viii.

³ 'Acquire' is a technical term that refers to authorizing, processing and executing payments.

⁴ <https://stripe.com/docs/payments/payment-methods>

⁵ <https://www.paypal.com/us/webapps/mpp/country-worldwide>

⁶ <https://www.paypal.com/us/webapps/mpp/paypal-safety-and-security>

In addition, governing bodies often have regulations and financial sanctions in place that prohibit transactions with certain high-risk countries.⁷ In most cases, the processing bank will decline transactions that originate from these countries.

Finally, trade policy and laws to combat money laundering might restrict access to some financial institutions and payment services.

Stripe.com says it covers 34 countries – none of them African – for accepting payments.⁸ It also offers a service called Stripe Atlas that can be used to easily incorporate a US company, set up a US bank account and start accepting payments with Stripe.com ‘no matter what country you’re based in’.⁹

When selling through marketplaces such as Amazon or Etsy, their payment solutions can be used instead of an external payment provider like PayPal or Stripe.com. In this case, access to the payment solution depends on access to the marketplace, and each marketplace has its own requirements, beyond registration, on how to access its trusted payment services. This illustrates that access to payments is linked to other issues, such as compliance.

How an international structure can help

Access to payment solutions is determined by the place of residence. Entrepreneurs who live in a country where PayPal and Stripe.com do not offer merchant services are effectively excluded from much of the online market, particularly in Europe and the United States.

An international structure can overcome this obstacle. Creating such a structure means incorporating a company in a country different from where its owner resides or where it is registered with the fiscal authorities. To the extent that the company is incorporated and has its own legal entity, it is considered domiciled in the place where it is incorporated.

Having an international structure is also a leap forward for an e-commerce venture in terms of compliance and access to key services. Being locally registered enables a business to accept and/or offer additional value-added services, sometimes for a better price. Important services that become accessible through an international structure include payment solutions, logistics services, insurance, consumer protection features offered by marketplaces and greater convenience in managing import duties and indirect taxes.

Advantages for developing country enterprises

An international business structure allows developing country firms to control some or all of the export, import and distribution processes in the target market. This saves them time and money, and gives them more independence. There are many benefits to such structures.

Direct market access

Fewer or no intermediaries can mean higher profit margins and faster decision-making. African SMEs often must go through many intermediaries before their product or service reaches the final consumer. Avoiding go-betweens usually means a company keeps a higher share of the consumer price.

Branding control and exposure

A company may have to build and own a retail entity in the target market to keep one brand in front of the final consumer. Branding is one of the most important aspects of ‘price perception’ building among consumers in a given market. Building and nurturing a brand can be one of the most important elements of a business’s long-term vision.

⁷ <https://www.paypal.com/us/webapps/mpp/bigcommerce/security/prohibited-countries>

⁸ <https://stripe.com/global>

⁹ <https://stripe.com/atlas>

Import process control

Importers often point to the complexity of the import process to pressure foreign merchants to reduce their prices. Having a legal entity in the EU or the United States enables a foreign enterprise to import goods or services for domestic consumption using its own Economic Operators Registration and Identification number or VAT number or an import permit. Sellers who can clear their merchandise into the country of a potential buyer may be able to double their prices, especially for commodities.

European businesses also increasingly expect to source imports in a locally compliant manner, especially in terms of meeting EU rules on VAT invoicing. Having a European VAT number creates many opportunities for entrepreneurs, giving them access to distribution channels such as Pan-European Fulfilment by Amazon (FBA).

An offer covering all Incoterms

Once a company has an international structure, it can act as the official importer in the target market. This allows the enterprise to offer any International Commercial Terms, or Incoterms,¹⁰ that a buyer may expect, in a cost-effective manner and without having to use an intermediary.

Control over distribution channels

A developing country brand can use an international structure to access all channels in the target market. As a local entity, the international structure can meet compliance and trust requirements more easily than the origin enterprise. From online marketplaces to physical stores, a foreign brand is free to select from all available distribution options, as a function of the profitability of the product. Such a structure enables a business to eliminate intermediaries or reduce its reliance on local partners.

Market-side value addition

New value-added options such as product processing become available. The foreign entrepreneur still owns the imports and can hire service providers in the target market to transform and add value to these goods. This can add significant value for much less money and time than going through the same steps in the country of origin.

This is especially useful for commodities that are easily exported and are subject to lower import tariffs, VAT and certification requirements in their raw form rather than as final products. For instance, it is easier and cheaper to import coffee into the European Union under a dry fruit classification (green beans) than as a non-compliant packaged, roasted coffee product.

Access to competitive local providers

After goods are cleared for import, an international structure can turn to local service providers that a foreign enterprise would be unable to approach. This means access to price-competitive providers in sectors such as transport, payments, insurance and marketing. Providers are more willing to offer their services at better price to a business in their jurisdiction as the legal risks are mitigated because local laws apply.

Better logistics and returns management:

International business structures can contract more easily with local logistic providers, so a foreign business can offer a local return address to buyers. Services such as Fulfilment by Amazon require a local return address and offer a wide choice of local relay points where consumers can drop off the products they wish to return.

¹⁰ Incoterms are a series of pre-defined commercial terms published by the International Chamber of Commerce relating to international commercial law. See <https://iccwbo.org/resources-for-business/incoterms-rules/incoterms-2020/>

Like any business venture, taking control of key processes comes with a cost and the burden of taking on direct responsibilities. The methodology laid out in the following section makes it easier for enterprises to make the right choices so they can successfully branch out into international markets.

Going international: Yes or no?

Deciding if it is worth opening an international structure can be difficult. We propose a simple step-by-step approach to help entrepreneurs make the decisions that lead to successful internationalization.

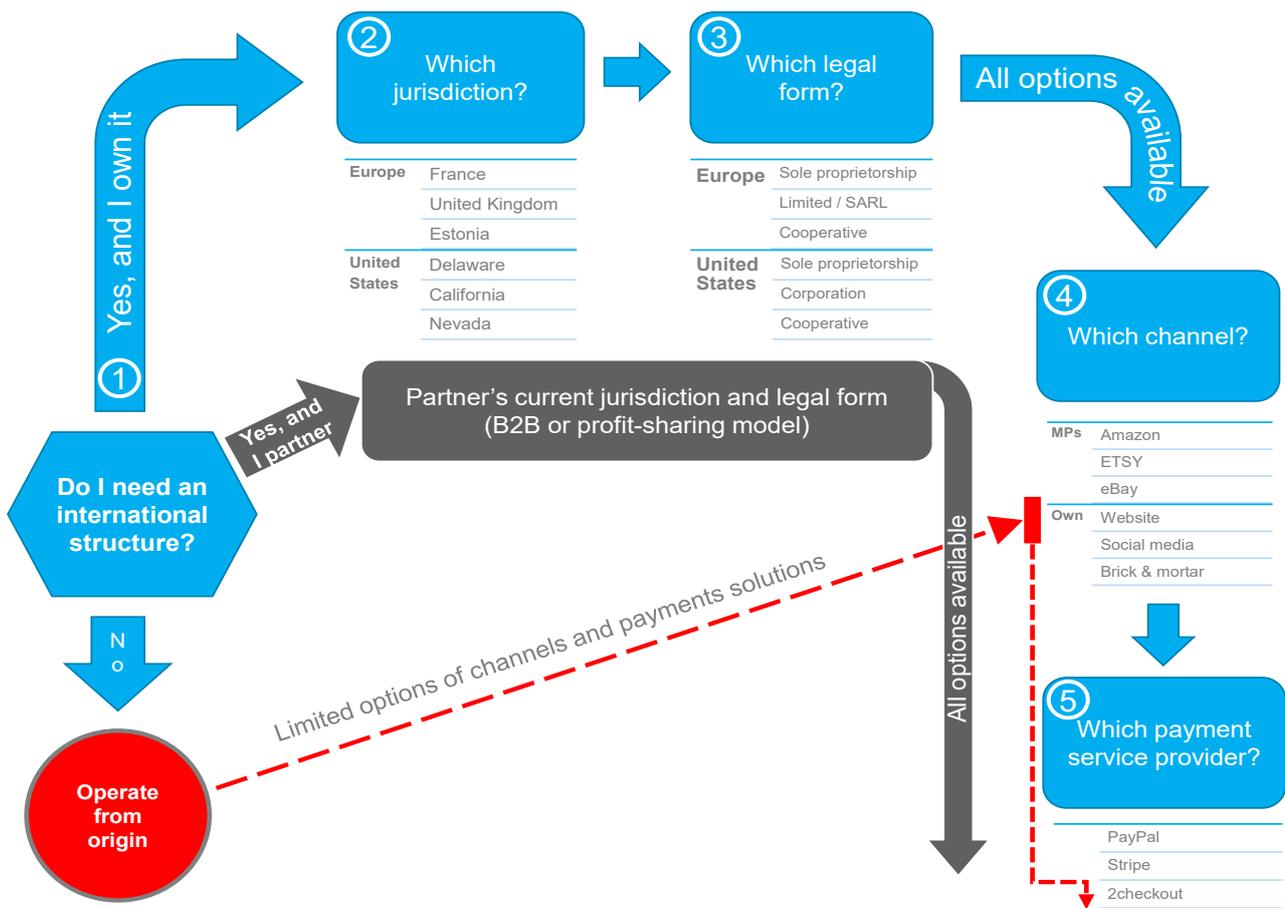
An entrepreneur must answer five questions, moving from one step to the next in the most realistic way possible. These questions are the focus of the next five chapters of this report.

- Do I need an international structure?

If the answer to this question is 'yes', the four following questions must be answered:

- Which jurisdiction should I choose?
- Which legal form is appropriate?
- Which channels am I targeting?
- Which payments methods must I have?

Figure 1 Setting up an international structure



Source: Naray & Partners.

Chapter 2

Is an international structure necessary?

Creating or expanding a business structure can be costly and involve legal responsibilities that must be considered. It is essential to ensure the mid- to long-term sustainability of the business before taking the first step – that is, making sure it will survive for a year or more, depending on the time needed to reach the breakeven point.

Many entrepreneurs wonder if they should set up a foreign company or just use their country-of-origin infrastructure, with the pros and cons they already know. Exporters can also work with a wholesale partner or agent in the target market who can sell their products online and offline.

We propose a simple methodology to help entrepreneurs decide whether they need a business structure in the target market.

The need for an international structure depends largely on how challenging it is to sell directly to that market from the origin country. It may simply not be viable to serve countries that are especially difficult to enter without using some form of international structure.

Criteria to enter the European market

The following eight criteria can be used to estimate the difficulty of reaching e-consumers in a chosen market – in this case, the European Union. In this qualitative assessment, each criterion can initially be considered to have equal importance. The idea is to use this as a reference when comparing the choice of target countries.

Ease of exporting

Exporting challenges start in the country of origin. We propose using the World Bank Ease of Doing Business index – and specifically the country scores in the ‘Trading across borders’ category – to assess the business environment in a particular economy.

Trade agreements

Difficulties exporting and, more importantly, importing into the target market are exacerbated when there are no trade, legal or fiscal pacts between the countries. We base our evaluation on the status of an agreement (that is, whether one exists) between the European Union and the country of origin. We use the EU official list of trade agreements.

Foreign currency controls

Government-imposed limitations on buying and/or selling currencies make it harder for local enterprises to convert their currencies and quickly pay foreign partners such as online marketplaces. We score this criterion based on the monetary policy of the country of origin, namely the national currency convertibility and the requirements for foreign currency repatriation for local businesses.

Cost of production (labour):

Enterprises should export when profit margins are high enough to cover cross-border fees and related costs of international logistics, as these can accumulate quickly. For quick reference, we have used the national average wage as a proxy for estimating relative costs of labour.

Logistics costs (door-to-door)

Studies show that nine out of 10 consumers consider free shipping to be the biggest incentive for buying online.¹¹ We score the logistics difficulty on the door-to-door shipping price offered by the national postal operator for a 1 kilogram parcel.

Access to online marketplaces

About 80% of all internet sales are made through online marketplaces, making these sales channels almost indispensable – especially for an unknown foreign brand. We score the difficulty of accessing marketplaces on the possibility to register and qualify for all or part of the added-value services offered by a platform (such as Amazon’s FBA service).

Access to international payment solutions

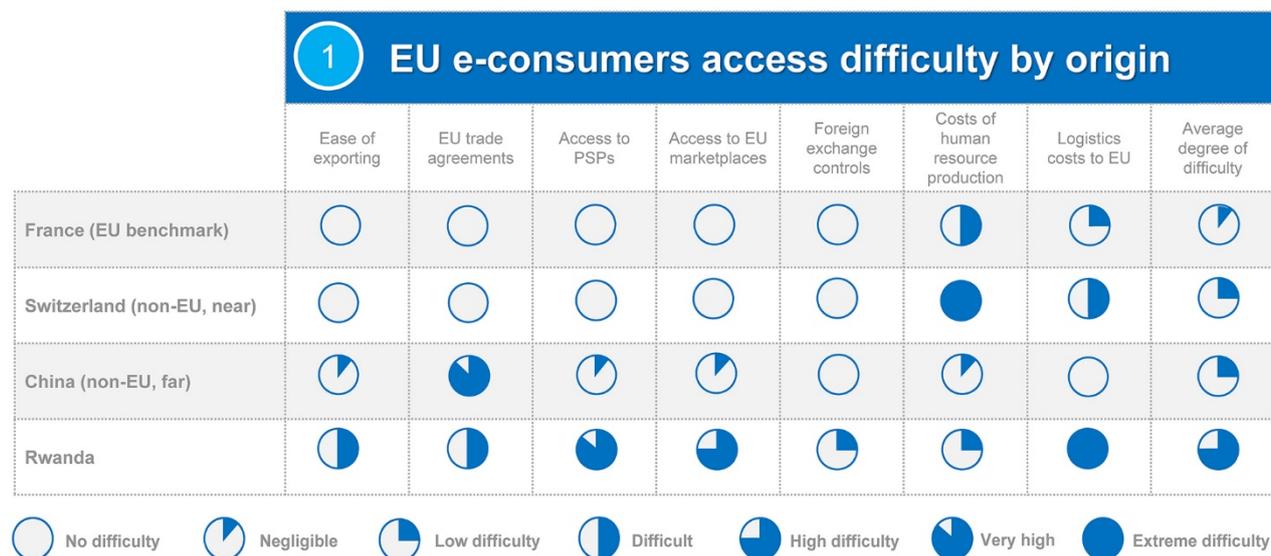
Payments, like logistics, can have a significant impact on the ability of a firm to sell online. As PayPal is the leading international payment provider, we use the current level of service it offers to the country of origin of the sellers (if available at all) to estimate this difficulty criterion. The availability of PayPal to sellers can be found on each country homepage.

How accessible are EU e-consumers?

To better understand the challenges a developing country entrepreneur faces in reaching e-consumers in the European Union, we evaluated the relative attractiveness across these criteria from the perspective of sellers in France, Switzerland and China as well as Rwanda, according to the criteria mentioned above.

The figure below shows that it is much tougher for a Rwandan company to sell goods and services online in the European Union than it is for a French, Swiss or in many cases a Chinese enterprise.

Figure 2 Rwandan enterprises struggle to sell online in Europe



Note: PSPs refers to payment service providers.

Source: ITC research.

¹¹ <https://www.walkersands.com/resources/the-future-of-retail-2019/>

The top three challenges for Rwandan enterprises are logistics costs, accessing EU payment solutions and accessing an EU online marketplace. The average difficulty level for Rwanda is 'high'.

It costs almost €40 to ship a 1 kg parcel from Rwanda to the EU, using the Rwandan EMS postal service. PayPal is not available to sellers in Rwanda. Similarly, most EU online marketplaces are either not accessible or they greatly limit access to their added-value services for Rwandan sellers (Etsy's Secured Checkout and Amazon's Pan-European FBA, for instance).

There are two ways to tackle these issues:

- 1- Consolidate shipments at origin (in Kigali, for example).
- 2- Import and sell the Rwandan products through an EU-based company that can open a European bank account, a payment gateway and marketplace accounts.

The US and Asian markets are equally or more challenging for Rwandan enterprises. Being a landlocked country without direct access to a seaport also increases the costs of international logistics.

How does the score calculated above help a Rwandan business decide whether to register a foreign entity? And if it decides to proceed, should it do so on its own or join/create a cooperation with other local sellers or a foreign partner?

The cash-flow capacity of SMEs in developing countries and the costs of setting up a fully functional EU-based commercial structure will determine when and how to incorporate in Europe.

Figure 3 How to enter international markets?



Source: ITC research.

The natural approach is to start from origin as a single seller and, when there is sufficient demand, to join with a foreign partner to increase business-to-business (B2B) sales. The next step, once sales potential justifies it, would be to register an international structure to serve the retail market.

However, this approach can be counterproductive. It may delay a firm's market reach by years. In a worst-case scenario, an entrepreneur may miss a window of opportunity for a product, as trends change rapidly.

To avoid missing opportunities, enterprises should consider the following ways to enter a foreign market:

As a single seller

A company can try to approach the European market on its own as a single seller. However, the costs to set up and run an EU structure can be considerable. Entrepreneurs should expect to pay more than €5,000 in the setup phase and at least €3,000 in fixed annual fees, on top of logistics, payments to service providers, marketing, labour and production costs.

Depending on the type of product and the market demand, the average breakeven point may be reached when annual sales amount to around €100,000. As a reference, the inventory crowd-financing platform www.kickfurther.com considers an e-commerce business viable if it had at least \$150,000 (about €131,000) in sales in the last 12 months.¹²

The guiding questions for a single seller should be:

- Do I have the potential/production to reach €100,000 in export sales per year?
- Can I sustain the first two years of setup and operations while sales grow?
- Can I start by joining forces with foreign and/or local partners?

It is important to consider the time and human resources such an initiative may require. The learning curve on how to set up and run an international business structure is steep, so an entrepreneur may lose focus and local activities could be affected.

Through a foreign partner

Another option is to find a partner. Although this means quick, low entry costs and low-risk market reach; this move raises two key questions:

- Do we need and can we keep our branding (if we have any)?
- Do we have enough margin to share profit with a partner?

Partners can be found through social networks such as LinkedIn or among contacts in the target market (developed at trade fairs, for example). Entrepreneurs can find potential partners in B2B marketplaces and become their customer before discussing cooperation. Official lists of importers in a given country for a given product are also a great resource for finding potential partners. In addition, online databases such as the Yellow Pages provide lists of importers and distributors.

A business must be ready to offer enough margin and potential earnings to attract and retain foreign partners. Having a trademark or a branded product and making some retail sales in the target market may show the potential partner that there is demand and enough profit to be made from collaborating.

A distribution or agency¹³ agreement that specifies the benefits and the responsibilities of each party could regulate the partnership. A long-term purchase agreement could also be an option, although it offers the developing country partner less visibility in terms of market information and customer feedback.

As a group

Another approach for small sellers is to combine resources at origin with other entrepreneurs who also have demand and potential in the same foreign market. This would enable the group of entrepreneurs to create enough volume and frequency of exports to justify setting up a mutually owned process and structure.

For instance, if several Rwandan brands from Kigali find demand in Belgium, they could share an air freight shipping route. This would allow them to contract as a group directly with the airline for 1 ton of goods on a weekly scheduled Kigali to Brussels flight.

¹² <https://www.zeonamcintyre.com/blog/kickfurther>

¹³ An agency agreement draft contract can be found online in the location mentioned in the annexes.

Cooperation may seem difficult, especially in developing countries, and raises the following questions:

- Do we trust each other?
- In which legal form should we group ourselves?
- Who can lead the group and keep the cohesion?
- Am I ready to commit long enough for the routines to pay off?

A partnership at origin or destination can take the form of an association, a consortium or a cooperative. Additional information about the advantages of each structure can be found in the ITC report *Joining forces for e-commerce: How small African enterprises succeed with collaborative business models*.¹⁴

Entrepreneurs who are unable to collaborate in their home country could jointly own a foreign structure,¹⁵ if this is allowed under local legislation.

Another option is to use a corporate structure that helps multiple parties. This can be arranged using a customized shareholder agreement that specifies the benefits and responsibilities of each member or shareholder. In the United States, a properly established C corporation may work almost the same way as a cooperative.¹⁶ In other jurisdictions, especially in developing countries, associations and cooperatives may have limitations placed on their commercial activities, if they have a commercial function at all.

Associations, consortiums and cooperatives may have different legal forms and commercial capacities, depending on where they are based. For instance, a British cooperative or a Swiss association can be a fully commercial entity, providing similar trading capacity as a limited liability company.¹⁷

Each legal form should be examined jurisdiction by jurisdiction to understand the pros and cons of these structures.

¹⁴ ITC (2019). *Joining forces for e-commerce: How small African firms succeed with collaborative business models*.

¹⁵ See Chapter 4.

¹⁶ A C corporation is a legal structure for a corporation in which the owners, or shareholders, are taxed separately from the entity.

¹⁷ See Chapter 4 for examples.

Chapter 3

Which jurisdiction is best?

Non-residents looking at registering a company in a given jurisdiction often face special conditions or limitations. The costs to incorporate and operate a business may be higher, and the requirements more stringent, when the structure is foreign-owned.

How to compare jurisdictions

Few entrepreneurs in developing countries have partners in the target market with whom they can cooperate and share decision-making power with full trust. Therefore, the criteria used here to compare jurisdictions are relevant to entrepreneurs who are looking to set up an international business structure without any help or a network in the target market.

Comparing the costs and benefits of different jurisdictions only makes sense if it is done with a specific commercial and operational objective. Therefore, this paper examines the expenses and requirements to sell and deliver in the target market using Amazon's FBA service. Selling through FBA is the most efficient way to reach e-consumers because of its free and fast shipping and favourable returns policy for Prime subscription buyers.¹⁸ Sellers can also use other channels and automate the deliveries with FBA. This service is called multichannel fulfilment.¹⁹

Key elements to consider

The following elements should be considered when choosing a jurisdiction:

Residency requirement:

This is probably the most critical point when deciding on a jurisdiction. The need to have a local resident director in the target country is often the first challenge for an entrepreneur from a developing country. Sharing decision-making authority and access to the business bank account with a new and unknown partner abroad is a daring step. It is also risky for a professional in Europe or the United States to act as the director or shareholder of a developing country business that has no track record.

We therefore strongly urge entrepreneurs to avoid jurisdictions that oblige foreign shareholders to have a local resident director, or that forbid the appointment of a registered agent.²⁰

Setup costs for the first two years:

Most online service providers will register a new business in their proposed jurisdiction for less than \$500. However, this typically does not include the additional services that foreign sellers need before they can function properly. Entrepreneurs should understand the different services they require.

¹⁸ <https://services.amazon.com/fulfillment-by-amazon/benefits.html>

¹⁹ <https://services.amazon.com/fulfillment-by-amazon/multi-channel.html>

²⁰ For example, Delaware requires every corporation or limited liability company to have a registered agent in the state. This agent is a responsible third party who is registered in the same state where the company was incorporated and who is empowered to receive service of process notices, correspondence from the state and other official government notifications, usually tax forms and notice of lawsuits, on behalf of the company.

In most jurisdictions, the typical steps to register a company are as follows:

Company registration (application)

The provider will help fill in and submit the required forms and application to the commercial register for the business to be incorporated. In some jurisdictions, this can be done online or using publicly available forms and guidance. Registering a company can cost \$500–\$5,000 depending on the jurisdiction and, more importantly, who handles it (agent, accountant or lawyer). It costs nothing if done by the entrepreneur, though there is a risk of mistakes that could lead to rejection of the application or to potential legal or fiscal liabilities.

Government fees (filling)

Government fees for submission of the documents, often called ‘filling fees’, are usually small. Depending on the jurisdiction, there may be more than one filling fee – for instance, one to register the company and another for the business licence. Different authorities may each charge filling fees; this can be the case when both a ‘federal state’ and a ‘local state’ agency impose fees. In some jurisdictions, anyone can pay filling fees online using a credit card or wire transfer. In some jurisdictions, only registered or certified providers may do so.

Registered office/agent/director

Some jurisdictions require a local address for correspondence or a local person/entity that represents an enterprise owned by foreign shareholders.²¹ This type of service can cost from \$200 to more than \$10,000 a year, depending on the jurisdiction and how much responsibility the local agent/director has.

Preparing bylaws/articles of incorporation

Articles of incorporation establish a corporation as a separate business entity and bylaws set out the rules and procedures for internal governance of the corporation. For a limited liability company, the bylaws are called an operating agreement (or *statuts* in francophone jurisdictions). When standard template documents are used, these documents may be inexpensive or even included in the company registration service. The cost to customize these documents can run from \$100 to few thousand dollars, depending on the complexity and the type of provider.

Bank documents

Banks often ask for certified copies of company documents. These typically include the bylaws and, more importantly, documents that list the directors and shareholders so the bank knows who is authorized to do what. Banks need to be able to identify the economic beneficiaries of the company – in other words, who owns the money that will be transferred to the account.

Local tax identification number

This is usually a series of digits and sometimes letters that identifies the business with the main tax authority, usually for the purpose of income or corporate tax and not necessarily usable for indirect taxes (VAT or goods and services tax).

In some jurisdictions, this number is generated and provided automatically by the authorities. For instance, each registered company in the United Kingdom receives a Unique Taxpayer Reference. Likewise in France, every registered entity will receive a SIRET code (*Système d’identification du répertoire des établissements*).

²¹ A country-by-country list of requirements to set up a company can be found at <https://www.dlapiperintelligence.com/goingglobal/>

In the United States, however, a tax identification number (called an Employer Identification Number) is not issued automatically. Rather, the entrepreneur or agent must apply for it using an SS4 form application. Entrepreneurs can usually obtain the company tax ID themselves, which means no fee is involved. The fee for an agent to apply for the Employer Identification Number can run \$100–\$500, depending on the jurisdiction and the type of provider.

Annual fees and services

Every type of structure in all jurisdictions involves recurrent fees. Services can be limited to the renewal of the registered address or the registered agent services. In some cases, they can include financial or activity reporting to the authorities.

For instance, for a US company registered in Delaware, the state will require annual payment of a franchise tax and basic financial reporting, regardless of company turnover. This means the annual fees for a C corporation in Delaware range from \$800 to \$3,000, depending on how much the registered agent charges.

First two years of bookkeeping:

Bookkeeping fees are sometimes ignored, but they must be considered. They include the following:

Preparing balance sheet, calculating and reporting income tax:

This cost is often based on the number of invoices issued and received over a month or a year. Entrepreneurs can handle this themselves, using compatible software, or they can hire professionals at rather competitive prices starting from about \$90 a month.²²

Indirect tax registration and reporting (VAT, goods and services tax, sales tax)

Governments rely heavily on indirect taxes for revenue and entrepreneurs need to be prepared. These taxes are the most complex for foreign entrepreneurs. Indirect taxes usually apply to the total sales amount, including shipping fees. In many cases, these taxes are based on the location of the buyer or on where the goods are stored, not where the seller is located.

Penalties for noncompliance are serious and can bring down successful enterprises. Each country has its own VAT liability rules. In principle, VAT registration becomes mandatory when a certain turnover threshold is reached. However, VAT fraud on online marketplaces²³ and pressure by European states have prompted marketplaces to force merchants to register VAT locally, regardless of their turnover threshold.

The German and British authorities require local VAT registration to sell on Amazon.²⁴ Merchants must present the VAT registration documents before even listing goods on those marketplaces. All European Union members are likely to impose the same requirements.

Complying with this requirement is expensive. As a reference, using data on public service fees obtained from the enterprise Avalara, the cost to comply and sell in Europe using the Pan-European

²² See <https://www.itcontracting.com/contractor-accountancy-fees/>

²³ Her Majesty's Revenue and Customs estimates that online VAT fraud and errors cost £1 billion–£1.5 billion in lost tax revenue in 2015–2016. See <https://www.nao.org.uk/report/investigation-into-overseas-sellers-failing-to-charge-vat-on-online-sales/>

²⁴ See <https://sellics.com/blog-amazon-held-liable-for-tax-evaders/>

FBA service can be €5,000 for multiple EU countries' VAT registration fees. The monthly reporting requirement can amount to €1,000, whether the business is selling or not.²⁵

Opening a local business bank account

To benefit from certain online marketplace payment services or consumer protection services, an online seller must provide a local bank account number in the format of the country where the company is registered, or at least in the same region. Etsy's Secured Checkout service terms and PayPal and Amazon bank account verification process all require a local bank account number.

For instance, British bank accounts have a different format than those in EU countries, which use an International Bank Account Number (IBAN). Adding a British bank account to a PayPal account in the United Kingdom requires a six-digit sort code and an eight-digit local bank account number.²⁶ Certain payment services or online service providers in EU countries expect an IBAN starting with the country code (FR for France, DE for Germany).

In some cases, an online bank account number that can easily be provided by services such as Holvi.com, PioneerCard, TransferWise or Mypos.eu could be enough. However, to reach as many e-consumers as possible, an entrepreneur should choose a jurisdiction where he/she can obtain a local bank account number.

Although local banks are not forbidden from accepting local enterprises owned and operated by non-residents, most tend to refuse such enterprises. An international structure owned by shareholders in a developing country may not be able to open a bank account for compliance reasons. This can be a serious obstacle in terms of market access.²⁷

When this option is available, it may involve additional costs. The bank or provider may require the entrepreneur to travel to a branch to verify his/her identity or to pay an intermediary to provide this verification service. This could cost \$500–\$3,000.

Opening a local business PayPal account

If PayPal for sellers is unavailable in the country of origin of the entrepreneur, a business PayPal account should be opened in the country where the international structure is incorporated. However, this can be difficult, expensive or even impossible, depending on the jurisdiction and the ability to open a local business bank account there.

Proof of a business address (such as a utility bill), a local business bank account statement, local bank account details and a valid credit or debit card are needed to open and verify a PayPal business account. Entrepreneurs should target jurisdictions that have local bank partners and providers that enable foreign firms to open and validate a local business PayPal account. Unfortunately, there is no way to know where a foreign owner can open a business bank account without asking the main banks of each country.

Double taxation treaty

Entrepreneurs should find out if their government has ratified a double taxation treaty with the country where they intend to register their international structure. This is to avoid double taxation – that is,

²⁵ Firms registered in Estonia are not automatically subject to value-added tax. VAT registration becomes mandatory only once the profit generated in Estonia exceeds €40,000. There is a single flat VAT rate of 20% (though this can be 9% on some products while the rate on others may be zero) when the threshold is reached.

²⁶ See <https://webcollect.org.uk/help-topic/paypal-set-up-linking-your-bank-account>

²⁷ See Figure 4 on the next page.

being taxed in the country where the corporate structure is located and again in the country of origin on the repatriated dividends.

The existence of such a fiscal agreement between the country of origin and the country of the future international structure is an important factor to consider.²⁸ For instance, Rwanda has signed this type of treaty with only one EU country, Belgium.²⁹

Alternatively, complex and potentially costly accounting and bookkeeping rules can be used to minimize fiscal burdens in both countries. However, this should be done by qualified professionals to avoid breaking any local or international law.

Matrix helps identify the best jurisdiction

Selecting a jurisdiction to create an international structure can be complex and risky. To illustrate the trade-offs in the choice between different jurisdictions, we have studied five developed countries and analysed each from the point of view of an entrepreneur based in Rwanda:

Figure 4 United States, Belgium and Estonia are appealing

	Setup costs in first two years	Bookkeeping costs in first two years	Rwanda non-double tax	Residency not required	Local bank account opening	PayPal account
United Kingdom	\$ 410	\$ 3,000				
United States	\$ 460	\$ 3,000				
Estonia	\$ 346	\$ 2,500				 *
France	\$ 1,300	\$ 3,500				
Belgium	\$ 1,300	\$ 3,500				

Source: ITC research.

The United States seems to be one of the most open jurisdictions to foreign-owned business structures. Several service providers in the market are ready to accept US-incorporated enterprises owned by foreign beneficiaries. We have even interviewed successful African entrepreneurs who were able to set up their company and open a bank account using services such as Stripe Atlas.³⁰ As long as the US corporation is duly registered with the Internal Revenue Service and has an Employer Identification Number, it can open a traditional or online bank account.

For Rwandans, targeting Belgium could also be appealing because of its double taxation treaty with Rwanda. However, the greater complexity and higher costs that are involved must also be considered. Incorporating in Belgium may require dealing with a public notary and the deposit of a minimum initial share capital of €18,550 for a private company with limited liability, known as an SPRL.

²⁸ A list of worldwide double taxation treaties can be found at <https://dits.deloitte.com/>

²⁹ See <http://taxsummaries.pwc.com/ID/Rwanda-Corporate-Withholding-taxes>

³⁰ See interview with Mamadou Doumbia Junior of Côte d'Ivoire in Chapter 7.

The Estonian E-residency programme has concluded different partnerships with private sector providers so foreign entrepreneurs can form an Estonian company, open a local business bank account (some lenders, such as LHV Bank, require travel to Estonia for identity verification) and access payment solutions and European marketplaces as an EU company. Work is ongoing to expand these partnerships with fintech firms, to facilitate access to banking services. This makes Estonia a great jurisdiction for entering the EU market.³¹

In the absence of clear advantages in terms of costs and/or legal or fiscal advantages, the choice of the EU jurisdiction should be made from a logistics and shipping point of view.

This means Moroccan sellers could choose Spain, Tunisian sellers could choose Italy, Moldovan sellers could choose Romania and Eastern European countries could choose Poland, the Czech Republic, Hungary or Bulgaria. This is especially relevant if the country of origin shares a border or has established and cost-effective goods transportation links with a particular EU country.

³¹ More information about opening a bank account in Estonia with the E-residency programme can be found here: <https://www.b2bpay.co/how-open-bank-account-estonia>

Chapter 4

What is the best legal form?

Business structures can be divided into two groups: those with their own legal entity, such as limited liability companies or corporations (hereafter: 'corporate structure'), and those run by people without necessarily having their own legal entity, such as sole proprietorships and partnerships.

The most common legal forms are detailed in the following sections. Most countries have similar structures, but under different names.

- **Sole proprietorship:** This is the simplest business form. It is owned and controlled exclusively by one person, who is responsible for the business, including all liability and any profit or loss.
- **Partnerships** are established between two or more entities (people, corporations, other partnerships, limited liability companies, trusts or others) to operate a business for profit. Similar to a sole proprietorship, these individuals are personally responsible for the business, including liability and any profit or loss.
- **Limited liability companies:** These extremely flexible business structures combine the pass-through taxation of a partnership or sole proprietorship (in the United States only) with the limited liability of a corporation. They are not formally corporations, but a new kind of legal form that provides limited liability to their owners in many jurisdictions. They share some similarities with corporations (being a separate legal entity with continued ownership) and have some advantages of sole proprietorship, such as the possibility of having pass-through taxation.³²
- **Corporation:** This is a business that becomes a separate entity from its founders/owners and is chartered by the state where it is located. A corporation can enter into contracts, pay its own taxes and be sued. The owner becomes a shareholder and has the option to sell the business.
- **Associations, foundations and other non-profits,** created by founding members, have a separate legal personality and may limit liability. For instance, a cooperative in the United Kingdom can be a fully commercial entity, providing similar trading capacity as a limited liability company. In Switzerland, an association is required to specify a 'meaningful purpose' and may conduct commercial activities towards this purpose. It can enter into contracts, pay its own taxes (for which an exemption may be filed in certain circumstances) and be sued. The Swiss association does not have share capital and cannot be sold, unlike a corporation. Switzerland also allows cooperatives, which have legal characteristics placing them between an association and a corporation.
- **Fiscal representation:** Enterprises providing goods or services in European countries may be required to register for VAT with a non-resident trader status. Many countries allow foreign enterprises to register directly with the tax authorities, without having to appoint a local representative. In certain circumstances, however, the tax authorities will require enterprises to appoint a fiscal representative in the destination country. This representative handles all VAT-related obligations required by the local tax administration, from obtaining a VAT number and submitting periodic declarations and VAT payments to requesting VAT refunds.

The fiscal representative may be jointly liable for all VAT payments of the company³³ and may facilitate the process of importing goods. The tax authorities consider a fiscal representative to be the local agent of the foreign trader and will hold him/her liable for all tax payments on behalf of clients.

More details about the advantages and disadvantages of these different business structures can be found in the reference materials listed in the Appendices.

³² Pass-through taxation exists only in the United States.

³³ See <https://www.vatglobal.com/tax-compliance-when-is-fiscal-representation-needed-for-your-business/>

Practical issues to consider

This section examines some of the practical issues of owning and managing a foreign entity from the perspective of a group of enterprises (e.g. cooperative, association or consortium of businesses) in a developing country.

These issues are specific to each individual structure, and the actual challenges may depend on different circumstances. Further, the restrictions will depend on the laws and regulations applicable at the place of incorporation of the entity.

Among the countries examined in this report (but not yet knowing the eventual number of trade deals to be completed by the United Kingdom post-Brexit), Switzerland has among the most trade agreements covering goods with other countries or territories: Switzerland (65), Estonia (63) and United States (20).³⁴

Switzerland has consistently ranked in the top five, ahead of the other jurisdictions, in the Economic Freedom indicator, published since 1995 by the Heritage Foundation and the *Wall Street Journal*. It has also ranked higher than the other jurisdictions in the trade freedom sub index measuring the absence of tariff and non-tariff barriers affecting trade of goods and services.³⁵

Given growing anxiety about trade wars, a large and stable network of trade partners makes Switzerland a strong choice for establishing a foreign entity in terms of direct market access, import processes and distribution channel control, as well as factors such as branding control, exposure and market-side value addition.

In light of these factors, this section uses Switzerland as a low-restriction benchmark. Possible additional restrictions in the other jurisdictions may need to be further researched with a local legal counsel.

- **Can a group of businesses in a developing country use its association, cooperative or consortium to own and manage a foreign entity?**

The national law of the country where a corporate structure is based governs whether it can be owned and/or managed by a group of firms in another country.

National legislation may restrict the ownership of the entity by foreign nationals; the management of the entity by foreign nationals or people living abroad; or the exercise of certain activities or ownership of certain assets. Such restrictions aim to protect national security, prevent money laundering and/or help enforce other local laws and regulations.

Except in specific circumstances, few jurisdictions discriminate or impose restrictions based on the nationality of the owner of a corporate structure. In Switzerland, foreigners can create or own a corporate structure. The other countries assessed in this report do not apply such restrictions, either.

As a general rule, a corporate structure must have at least one director, who usually must be a 'natural person' (United Kingdom, Estonia and Switzerland), though 'moral persons' can be appointed (some US states).³⁶ Certain jurisdictions require at least one director to be a local resident (Switzerland³⁷ and Estonia³⁸) while others do not have such an obligation (United States and United Kingdom).

³⁴ World Trade Organization Regional Trade Agreements Database. See <http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>

³⁵ See <https://www.heritage.org/index/trade-freedom.aspx>

³⁶ In jurisprudence, a natural person is an individual, as opposed to a legal or moral person, which may be a private or public organization and need not be a physical person.

³⁷ At least one director should be a Swiss resident. If there is more than one director, most members of the board of directors should be Swiss residents. Details of directors are publicly disclosed.

³⁸ If more than half of the directors are not Estonian residents, the company must appoint a local representative with a local address.

It should be mentioned that Swiss associations do not require a director be a local resident. Where required, nominee directors may perform the function of a local resident director, whether for legal purposes or for practical reasons.

In the case of an e-commerce company trading goods, general restrictions based on the type of activities are not expected. However, this would need to be confirmed with a local counsel in each jurisdiction. Even though it is beyond the scope of this report, it is worth mentioning that all jurisdictions limit the trade (import and/or export) of certain goods.

- **What are the implications?**

Most jurisdictions allow a foreigner to own and manage a corporate structure, either directly or through nominee directors. Other than governance issues (discussed below), creating a corporate structure may have general implications not linked to foreign ownership and/or management, and specific implications that are caused by foreign ownership and/or management and are mainly practical in nature.

General implications: Setting up a corporate structure in any jurisdiction will create tax liability. In Switzerland, it is possible to establish an association with a 'public utility' that may be exempt from tax. Further, a corporate structure will entail fixed costs irrespective of the actual activities.³⁹ A corporate structure can also be sued in local courts according to local laws, depending on how legal clauses are designed in contracts.

Specific implications: The foreign representative of the owners and the foreign directors may want or have to be present in the country of registration in some circumstances. In such cases, the ease of travelling may need to be considered (entry visa and stay requirements, frequency of flight connections, length of travel, costs of stay, etc.). Furthermore, local consultants (i.e. accountants, tax advisers, legal advisers) may be needed.

- **What are the recommendations for would-be cooperatives to own an entity?**

Corporate structures in most jurisdictions have similar minimal governance organs, including:

- General meeting of shareholders (corporations or limited liability companies) or of members (associations or other non-capitalistic structures).

The general meeting typically focuses on strategic and important matters about the structure, such as change of purpose, elections or dismissals (directors and auditors), approval of the yearly activities report or the financial statements, or dissolution of the structure.

As a general rule, the general meeting is held at least once a year and extraordinary general meetings may be called when necessary. Resolutions are ordinarily adopted by a simple majority of votes, but more stringent majority rules (two-thirds or more) are generally foreseen for important resolutions.

If the corporate structure has a share capital (limited liability companies and corporations), shareholders generally have a voting right in proportion to the number of shares held (subject to shares with preferential voting rights). This means major stakeholders may have more influence. If the corporate structure does not have a share capital (association), each member would typically have one vote, thus providing for democratic control.

³⁹ See Chapter 3.

- Board of directors.

The general meeting elects the directors of the corporate structure, collectively forming the board of directors. The board conducts the business of the corporate structure within the boundaries given by the general meeting. In particular, directors may be required to establish the budget, enter into contracts, open bank accounts, supervise financial situations, call general meetings, file taxes and, if necessary, file for bankruptcy. The board may decide to delegate the day-to-day business to a manager (sometimes called a chief executive officer) or to a management company.

The board of directors may have to meet frequently, depending on whether a manager is appointed. In principle, each director has one vote and the chairperson may have a tie-breaking vote (or 'casting vote'). Resolutions are passed by a majority of the votes.

- Auditors.

Auditors verify the yearly financial statements drawn by the corporate structure and certify that they are legal. Typically, auditors will report to the general meeting, but they may also have a duty in some circumstances to report gross irregularities to state bodies.

Most jurisdictions allow smaller organizations to waive or perform a limited audit, to reduce the cost burden. The exact threshold varies from one country to another.

Matters to consider in running and managing corporate structures:

- The cooperatives created by the entrepreneurs in their own country should indirectly control the foreign corporate structure, not the entrepreneurs directly. The members of would-be cooperatives may change frequently. There may be disputes on whether a certain person has become a member of the cooperative, especially where close votes are expected. If such disputes occur at the level of the foreign corporate structure, they may severely hamper business activities and damage the reputation of the structure.
- For practical reasons, general meetings (of shareholders or members) are generally held in the country of the corporate structure. Although the requirement for physical presence may be overcome by arranging power-of-attorney to local representatives, care should be taken to ensure that discussions are transparent and lead to shared agreements. Barriers to effective communication could lead to a lack of trust between the general meeting and the board.

Instead, efforts should be made for collaborative and clear decision-making within the would-be cooperatives, to ensure local control and foster a sense of ownership. The cooperatives would control and influence the foreign corporate structure by naming its directors. Having cooperatives as shareholders (corporations and limited liability companies) or members (associations) would bring stability, because unlike natural persons, cooperative members or shareholders do not need to change.

- The board of directors should include representation from all would-be cooperatives and limit itself to supervising a managing director, to whom day-to-day management is delegated.

Effectively running a foreign corporate structure requires solid knowledge of the business and the evolving regulatory context, especially in e-commerce, as well as the ability to make collective decisions in a timely manner. A foreign board of directors may not be able to acquire sufficient knowledge and reach consensus as easily as a local team.

Day-to-day management should be delegated to a carefully selected, experienced and trustworthy management, which may initially be only one person. The board would voice the needs of the would-be cooperatives (and their members), verify and assess the performance of management, provide input and direction on strategic matters, and offer its business network when required. Successful start-ups frequently adopt such a structure.

- External auditors are often hired to verify the rigorous management of financial operations in corporate structures. This can often be done in other ways, however, such as providing stringent internal checks and balances. The costs of hiring an external auditor in the early stages may outweigh the volume of financial transactions.

- **What is the best practice in organizing group ownership?**

The best practice in arranging group ownership may vary widely from one organization to another, depending on the needs and priorities of the founders. In the current context, the following should be considered:

- Defining the purpose and priorities of the corporate structure.

It may be worthwhile to define the long-term purpose of the foreign corporation. Capital-based entities such as corporations and limited liability companies typically focus on bringing the highest return on investment (either by paying dividends or by creating value and allowing stakeholders to sell shares at a higher price). Non-capital-based entities including associations, foundations and cooperatives are designed to serve an ideal or to benefit a specific group of people.

Defining the long-term purpose of the structure provides guidance on other issues. These include choosing how to measure the success of the corporation (return on interest, for example); setting the price policy for the services provided to members; defining how any benefits should be used; and deciding which important decisions require a qualified majority. These topics should be discussed and agreed upon in writing, possibly in the articles of association or a shareholder agreement prior to the creation of the corporate structure, to avoid disputes at a later stage.

- Considering the need for share capital and a shareholder agreement.

A corporate structure can be financed by issuing share capital (equity financing), assuming liabilities (debt financing) and/or accepting grants (donations). Issuing share capital is the only way to ensure that the corporate structure has enough money to operate, though it also means shareholders own part of the structure. The number of shares to be acquired by each stakeholder must be carefully considered, weighing both financing needs and future influence in the company.

In principle, all shares can be assigned or sold at any time. This may significantly affect the corporate structure and its management, depending on the number of shares acquired and the identity of the new shareholder. Corporate structures typically oblige shareholders to enter into an agreement that set rules on the governance structure (i.e. number of board members, dividend policies) and the terms for a share transfer (typically price determination mechanism, rights of first refusal).

A foreign corporation without share capital (such as a Swiss association or cooperative) could be attractive if equity financing and different levels of control and influence are not needed, and if future sales of shares are not desired. Such structures are often seen among non-profits and in the social economy, where the priority is not paying a return on the initial investment, but rather fostering long-term and sustainable growth.

- Avoiding deadlock situations

Voting rights should not be distributed in an even manner, as this could result in deadlocks.

Chapter 5

How to choose a distribution channel?

Distribution channels should be identified and selected based on a market study, which is not the subject of this paper. There are many services to help entrepreneurs identify and measure demand and sales volume in specific online marketplaces. Some of the tools that offer this crucial analytical information are:

- www.Junglescout.com (for Amazon)
- www.TeraPeak.com (for eBay)

Entrepreneurs must examine other issues after choosing a distribution channel. Foreign sellers face additional hurdles and requirements, and some marketplaces may be unavailable or restricted.

African sellers target four online marketplaces

About 60% of all B2C sales are made through online marketplaces.⁴⁰ There are many e-commerce platforms, available in different countries and offering different solutions and customer targeting.

For the sake of simplification, this report focuses on the online marketplaces that are in high demand among African sellers. Although our approach can be applied to any type of marketplace, this paper uses Alibaba, Amazon, eBay and Etsy as benchmarks for accessing EU-based buyers.⁴¹

Figure 5 Four major platforms to reach EU consumers

E-commerce platforms	Details
eBay	eBay Inc. is based in the United States. It started as one of the first online auction sites and is now a multibillion-dollar business with operations in more than 30 countries. Buyers can use the website for free, but sellers are charged fees to list items and again when those items are sold.
Amazon	Amazon is the largest Internet-based e-commerce retailer in the United States. It operates 10 online marketplaces (websites) worldwide, in Canada, China, France, Germany, India, Italy, Japan, Spain, the United Kingdom and the United States. Amazon allows enterprises to advertise their goods by paying to be listed as featured products. Its fulfilment centres provide warehousing and order fulfilment, including customer service and return for third-party sellers.
Alibaba	Alibaba, the biggest online retailer in China, owns Taobao, Tmall and Tmall Global. Taobao started as a consumer-to-consumer platform for individual sellers and small businesses to sell their goods via auctions or fixed prices. Tmall operates as a virtual mall, linking small businesses and major brands to consumers. Tmall Global, designed to accommodate sellers outside of China, allows foreign enterprises to sell directly to Chinese consumers without requiring them to have Chinese business licences or to store inventory in China.
Etsy	Etsy is a US e-commerce website focused on handmade or vintage items and craft supplies. These items fall under a wide range of categories, including jewellery, bags, clothing, home decor and furniture, toys, art, as well as craft supplies and tools. All vintage items must be at least 20 years old.

Source: ITC (2016), *Bringing SMEs onto the e-Commerce Highway*, p. 10.

⁴⁰ Pitney Bowes. 2018 Global E-commerce Study: Summary Report, page 6. Available at <https://www.pitneybowes.com/content/dam/pitneybowes/us/en/ecommerce-study/2018-global-ecommerce-study-overview.pdf>

⁴¹ More information about online marketplaces for developing country sellers can be found in ITC (2016) *Bringing SMEs onto the e-Commerce Highway*.

These marketplaces are also examined from a compliance perspective.⁴²

Developing country entrepreneurs must ask and answer the following questions to determine whether to use an international structure to access a particular marketplace:

Can I register and verify my account (as a foreign seller)?

This may not seem obvious, but many marketplaces and payment services are not available to entrepreneurs in developing countries. Each marketplace website should be studied to find out if registration is available as a seller, as many e-commerce giants are available to buyers, but not to sellers, in developing countries.⁴³

To check, an entrepreneur must go through the registration process and select his/her country for the business address (if that country is even available). Once the account is opened, attention must be paid to the status of the account to make sure it can be fully 'verified' and has passed the due diligence and identification process. There are usually transaction volume limits or listing limit notifications until the business account is fully verified.

Can I access the valued-added services?

After registration, the entrepreneur must apply for additional services (such as FBA on Amazon or Secured Checkout on Etsy) to find out they are available. Certain added-value services are so important that, without them, the potential for sales is substantially lower. This is true of Amazon Prime listings, for instance.

Does it require a fiscal (VAT) registration?

The German tax authorities oblige online marketplaces to confirm that sellers are up to date on VAT compliance.⁴⁴ Some marketplaces require a country-level VAT number before even registering or listing a product. Others only request that information once a certain threshold of sales is reached or another event occurs.

For B2C sales in markets such as the European Union, VAT registration and compliance are becoming inevitable – even for low volumes of sales. Some authorities have already taken retrospective legal action against sellers who did not comply with VAT rules during a past sales cycle.

Does it require a local return address?

Marketplaces such as Amazon are zealous about protecting their customers, and they put stringent requirements on sellers to comply with the legal right of consumers. It often goes further. For example, FBA customers can return purchased goods within 30 days of receipt, even if they have no defects. Most of the time, Amazon's return policy goes beyond consumer protection laws to offer a unique experience for the customer.

Unfortunately, these practices are contrary to the interest of sellers, who must accept a higher rate of return that could have been avoided by selling on another channel with their own terms of sale. Some online marketplaces may compel sellers to provide a local return address and local customer support communication. Others allow the seller to handle this issue, contingent on negotiation with and acceptance by the buyer.

Does it require a performance level?

Some e-commerce sites require high seller performance levels in terms of fast shipping and customer support, as well as customer satisfaction. These mirror the key performance indicators of multinational e-

⁴² Fees and cost approach comparisons of marketplaces can easily be found online. For example, here: <https://sellerzen.com/compare-9-online-marketplace-fees>

⁴³ Liyanage, H. (2015). Nations forgotten by e-commerce giants. Discussion paper. eNovation4D.

⁴⁴ <https://www.avalara.com/vatlive/en/vat-news/german-marketplace-f22-vat-certificate.html>

commerce brands and are often beyond the capacity of new and small sellers from developing countries. An account may be blocked or frozen if the seller fails to meet these requirements.

For instance, Amazon sets the following seller performance metrics:

- Order defect rate: < 1%
- Pre-fulfilment cancel rate: < 2.5%
- Late shipment rate: < 4%

The matrix in Figure 6 compares the four marketplaces based on the conditions they impose on sellers. The green checkboxes show which requirements are easy for foreign sellers to meet. The red cross-hatches indicate the requirements that are strict and relatively difficult for a small enterprise to satisfy.

Figure 6 Alibaba is most accessible to foreign sellers

	Registration and verification	Access to value-added services	VAT registration not required	Local return requirement	Tough performance KPI
					
					
					
					

Source: ITC research.

Amazon sets the most barriers, but it is also the most profitable platform for third-party vendors. As of the second quarter of 2018, third-party sellers had generated 53% of paid unit sales on the platform. Amazon generated \$42.75 billion in third-party seller service revenues in 2018, up from \$31.88 billion the previous year, making this a lucrative business for everyone involved.⁴⁵

Websites and social media pages must follow rules

Although channels such as a company website or social media pages have less stringent rules than online marketplaces, the same legal and fiscal obligations apply. However, such obligations are usually post-sale and may come in the form of an audit or inspection instead of a requirement before the start of the business.

In other words, entrepreneurs must comply with VAT requirements at all times and on all channels, even if they are not forced by the channel to do so. In addition, websites should have clear terms and conditions, proper privacy policies and established rules of returns and refunds to comply with consumer-protection laws in the target market.

⁴⁵ <https://www.statista.com/topics/4827/online-marketplaces/>

Chapter 6

Which payment methods are necessary?

Receiving payments is crucial for an entrepreneur. It is very frustrating to lose sales because of an inability to cash in a payment in the manner and method that the client expects. For B2C transactions, 42% of consumers consider payment methods as a decision-making factor.⁴⁶

The main guideline is to study and use whatever payment method buyers expect.

Payment collection in e-commerce requires a few basic tools and accounts. A bank account is necessary to receive all income collected through different payment methods. The following section examines the pros and cons of traditional banks and fintech banks.

Traditional bank accounts

Traditional banks refer to brick-and-mortar lenders that tend to have a history and established processes when it comes to compliance and non-resident clients. This type of lender has a banking licence and faces stringent scrutiny and audit requirements from its local jurisdiction authorities.

Rules to prevent money laundering and/or fiscal reporting requirements mean banks take a liability risk when they accept a new client. Most traditional banks are reluctant to accept local businesses owned by non-residents because of pressure to comply and the risk of being fined or even losing their licence. Complying with the rules, verifying the identity of non-residents and retrieving information about the potential account holder and his/her sources of funds can be more expensive than doing the same for a local resident.

Although opening a business account with a traditional bank may be difficult, entrepreneurs should make an effort. Payment service providers more readily accept the format of traditional bank accounts and their official listings.

For instance, to validate a British PayPal business account, a UK bank account that uses the specific British bank account format (different than the IBAN) is needed. In addition, the bank account must be under the name of the newly registered international structure. PayPal sends two small amounts to that bank account and asks the entrepreneur to enter those exact amounts in the PayPal verification wizard to validate the bank account and finalize the account verification step.

A traditional bank account is also required to open an Amazon seller account in the United States. Amazon requires US sellers to upload a coloured scanned copy of a paper bank statement showing the name of the company and the name and address of the bank. A semi-automated algorithm from the Amazon website checks the uploaded bank statement against known bank statement templates. New, small or fintech bank statements are often unable to pass this Amazon US verification step.

The e-Residency programme in Estonia encourages traditional banks to accept an e-residency card as proof of identity of non-resident business owners. An association of Estonia e-Residency entrepreneurs⁴⁷ lobbies for this and other issues to promote acceptance of the e-Residency programme by financial and e-commerce providers in Europe.

More information about the programme can be found in the Appendices.

⁴⁶ eMarketer. Factors that Influence US Internet Users When Deciding Where to Shop Digitally, October 2017. Available at <https://www.emarketer.com/chart/212896/factors-that-influence-us-internet-users-deciding-where-shop-digitally-oct-2017-of-respondents>

⁴⁷ www.eerica.ee

Fintech bank accounts and services

A new wave of more flexible, cost-effective banking service providers has appeared over the last decade. Although these institutions are often referred to as banks, they do not necessarily have a banking licence and are not, from a legal point of view, a bank. They are often called payment service providers or financial intermediaries. In most cases, fintech banks actually have 'banking deposit' agreements with traditional banks, which use their licence to hold the deposits of fintech bank customers.

Fintech banks use advanced e-banking or wallet integration solutions to generate and allocate dedicated proxy IBAN bank accounts to their clients, when the actual funds are held at the traditional bank behind the fintech. This is the case of www.transferwise.com, which can automatically open and offer clients a dedicated business euro IBAN bank account with one of its partners, such as Handelsbank in Germany.

In some instances, certain fintech companies cannot generate a dedicated account with a licensed bank for each merchant/client. In this case, the fintech would provide a 'mutualized' bank account number that is under the fintech name but held at the licensed bank. It would ask merchants to use their fintech account number as a reference for every bank transfer they receive, so the fintech could recognize incoming transfers and automatically credit them to the right client dashboard. This is the case with <http://mercury.io/>, which uses a mutualized or intermediary bank account with First National Bankers Bank.

Whether fintechs generate dedicated bank account numbers or use a mutualized bank account for all their clients, they are playing an important role in enabling non-residents to open business bank accounts for their newly created international structure. These types of fintech accounts are accepted by www.stripe.com and in some cases by Etsy Checkout services, which represents great progress for developing country entrepreneurs in terms of accessing payment solutions⁴⁸.

Fintech institutions usually use advanced video conference and document-scanning services such NetVerify from www.jumio.com for their compliance and verification processes. Unicorn startups such as Airbnb and Uber use this service, or a similar one, to verify the identities of clients in a quick, convenient and cost-effective way.

This identity-verification technology, which uses the same databases and algorithms that border control and immigration services use, can authenticate and accept passports and national identity cards from more than 150 countries. This means there is a good chance that such systems will accept the national passports of entrepreneurs in developing countries, so they can open and verify their business account with the chosen fintech.

Some fintech companies also offer online card-processing services and point-of-sale card reader devices for physical shops or sales events. Examples include www.mypos.eu, www.sumup.com and PayPal Here connected card reader solutions. Still, some e-commerce giants do not fully recognize or accept fintech-powered bank accounts.

Payment gateways

The payment gateway is the next layer of payment solutions that an entrepreneur must set up in response to consumer payment habits in the target market. Payment service providers in Europe and the United States often require the newly established business structure to provide a local business bank account or at least a bank account in an Organisation for Economic Co-operation and Development jurisdiction.

Payment service providers are subject to the same due diligence and compliance rules facing banks when they verify an identity. Some may use automated identity verification systems and others may demand notarized or simple copies of passports and proof of address.

⁴⁸ Note that PayPal often places restrictions on the use of fintech banks.

Payment service providers are often stricter about the content of the website or the catalogue of goods and services that will be offered. Before they can accept a new merchant, they expect to see fully functional websites with listed products, prices and terms and conditions.

Proper privacy policies are increasingly expected, especially if the business is to have EU-based clients. This is because payment service providers need to verify that the new merchants are complying with the General Data Protection Regulation instructions or other equivalent legislation for clients from other regions.

Some payment service providers only accept business structures from certain countries. For instance, Stripe.com is only available to registered companies in Organisation for Economic Co-operation and Development countries.⁴⁹

On the other hand, global payment gateways including www.2checkout.com and www.worldpay.com are accepting more countries. Those that accept more countries tend to charge higher transaction fees to offset the additional risks.

A growing number of payment service providers offer multiple payment methods. Stripe.com, for instance, accepts payments using a dozen other payment methods, including Nordea or AliPay. Some providers, such as 2checkout.com, may even aggregate PayPal payments for their merchants. However, this does not allow a developing country seller to use the 2checkout PayPal account on his/her eBay store, for example.

Many online marketplaces have their own payment gateway services; this is the case with Amazon Payment Services and Etsy Checkout service. Integrating a payment solution adds to the complexity and requirements of the marketplace, and one may use a marketplace for advertising and listing but not necessarily for acquiring payments.

Etsy.com allows merchants to specify other payments methods or conditions besides Etsy Checkout. However, it advises entrepreneurs to use the payment solution offered by the marketplace. This is because a marketplace that controls the full cycle of a transaction saves money on fraud detection and builds trust with buyers, offering refunds, insurance or other guarantees if the payment is made via its payment solution.

Meanwhile, more and more banks are offering their own merchant gateway services. As direct owners of Visa or MasterCard acquiring contracts, banks can offer cheaper transaction fees than third-party payment service providers. Transaction fees can be as low as 0.3% for French cards acquired through the BNP Paris Bas Mercanet payment solution, and about 0.9% for other cards.⁵⁰ Although very attractive in cost terms, banks may have tougher compliance requirements than payment service providers and may accept only certain activities or companies registered in their jurisdictions.

Entrepreneurs from developing countries should not ignore the growing potential of cryptocurrencies. Although the cryptocurrency situation is not clear in every country, a global consensus is emerging to accept this kind of currency. Online marketplace generally do not accept cryptocurrencies as a payment form, but this may change depending on demand from consumers.

Many entrepreneurs do not offer this payment option on their websites because they mistakenly believe they must hold and keep a payment in the cryptocurrency used by the buyer.

This issue is resolved by cryptocurrency payment gateways such as www.coingate.com, which offers multiple e-commerce integration modules for Prestashop, for instance, and which allows e-commerce websites to accept payments in bitcoin but receive the exact amount in euros on their merchant accounts. Volatility of cryptocurrencies such as bitcoin is therefore not a problem. Coingate lets merchants publish their prices in their preferred currencies, and the gateway does an instant conversion to the equivalent in the cryptocurrency of the buyer.

⁴⁹ As previously mentioned, the Stripe Atlas programme offers the possibility to incorporate in the United States, and can open a bank account regardless of where the entrepreneur is based.

⁵⁰ <https://www.e-commerce-nation.fr/moyens-de-paiement-e-commerce/>

Payment solutions comparison matrix

The table below shows how accessible the main payment solutions available in Europe are for a Rwandan limited liability company.

Figure 7 Cryptocurrency, 2checkout.com accept Rwandan enterprises

	Rwandan LLC accepted	Address verification	Transactions fees < 2%	Start accepting payments ASAP	Settlement to Rwandan bank
					
					
					
					
					

As a rule of thumb, the tougher and more demanding a payment solution is in terms of compliance, the lower its risks and its transaction fees. This why Mercanet (BNP Paribas) and Stripe.com can offer a transaction fee of less than 2%.

An exception to this rule is PayPal, which has a comparatively high transaction fee (3.5%) and some of the most restrictive seller acceptance conditions.

At the other extreme are cryptocurrencies, which have very low transaction fees and yet no upfront compliance or restrictions. The very nature of cryptocurrencies is to be independent of any centralized control over who can open an account and move currencies. Dealing with cryptocurrency still involves compliance requirements, because businesses must convert acquired cryptocurrencies to their national currency and declare revenues. In the process, they will encounter compliance measures applied by 'exchanges' or 'crypto-gateways' such Coingate.

The only payment solutions that accept Rwandan businesses are 2checkout.com and cryptocurrency, due to the decentralized nature of blockchain technology. Mercanet, Stripe.com and PayPal only accept enterprises from Organisation for Economic Co-operation and Development countries.

It is also important to know whether a given payment solution settles the secured transactions directly to the bank account in the country of origin. Today, only 2checkout.com can settle sales to a Rwandan bank account using SWIFT bank transfers.⁵¹ And via cryptocurrency exchange platform services,⁵² a Rwandan business can arrange to convert its cryptocurrencies into a national currency and receive a bank transfer to its Rwandan bank account.

The next figure shows how accessible the same payment solutions would be to a British limited liability company owned by Rwandan shareholders.

⁵¹ https://knowledgeorganisa.2checkout.com/Onboarding/Payouts/Payout_methods_and_currencies

⁵² <https://bitcoinafrica.io/buy-bitcoin-best-bitcoin-exchanges-in-africa/> and <https://www.directpay.online/online-payments-botswana/>

Figure 8 Owning a British company means more options

	UK limited company (Rwandan-owned)	Address verification	Transaction fees < 2%	Start accepting payments ASAP	Settlement to UK-based bank
					
					
					
					
					

Source: ITC research.

All these payment services are much more available through a British-based company. This is also true of an Estonian business.

Although cryptocurrencies seem to be an interesting option, they should only be used for small amounts and as a last resort. It is impossible to guarantee the reliability and solvency of trading platforms, particularly those in Africa, most of which are very new.

Therefore, we recommend setting up a corporate structure in the United States or Europe to access payment solutions.

For all payment solutions, entrepreneurs should always be prepared with the appropriate documents and information. Being proactive with compliance preparation helps entrepreneurs build trust and access payment services more rapidly. More importantly, it can also reduce the risk of their accounts being frozen.

Chapter 7

Learning from African entrepreneurs

Using foreign representative structures is not unknown to entrepreneurs from developing countries. We asked three small e-commerce business founders in Africa why such a structure could be useful and what their experience has been trying to access these resources. They provide a testimonial from the field, describe the difficulties and frustrations they have experienced, and explain how they have found a way around the barriers.

It is worth noting that these three entrepreneurs were interviewed before the COVID-19 pandemic that has created so much economic uncertainty across the world.

Mamadou Doumbia Jr. Founder of WaxAfrika in Côte d'Ivoire



Mamadou is a serial entrepreneur and co-director of Startup Grind in Abidjan. Startup Grind is the largest independent start-up community in Côte d'Ivoire, actively educating, inspiring and connecting two million entrepreneurs in more than 600 chapters in partnership with Google for Startups.

He is also the founder of WaxAfrika, a marketplace, and CraWax, an original brand of bow tie.

What e-commerce project are you working on right now?

I am working on WaxAfrika, which is a marketplace developed to help African craftsmen to sell their goods, such as handicraft creations, clothes and jewellery, internationally.

The marketplace is online with more than 400,000 organic fans on Facebook, but not yet operational.

I am also working on my own brand, CraWax, which is a trendy bow tie brand for adults and children.

In my country, Côte d'Ivoire, we are also working on the redeployment of e-commerce website Zangoly.com, which is our local Zalando. In fact, contrary to the difficulties experienced by some international e-commerce in Africa, like Jumia, Afrimarket, Africashop and Cdiscount, the good days of e-commerce in Africa start in 2020, and we intend to contribute to the writing of this beautiful story in perspective.

What problems did you encounter when creating a structure for WaxAfrika?

We faced three types of problems typical of African enterprises like ours wishing to do business in the international market:

- the development of the sales platform from a technological point of view according to the global standard,*
- the logistical question for the delivery of the articles and finally,*
- the most important being the means of payment when engaging in cross-border trade.*

When you are in Africa, how do you set up to facilitate purchases for consumers in Europe and the United States?

We were interested in using PayPal a couple of years ago, and we discovered that we did not have the right to open an account because our country was blacklisted or not yet available for those who wanted a merchant account.

Thanks to Stripe Atlas, we were able to open an account. They managed to open a limited liability company in Delaware for us and open a bank account at the Silicon Valley Bank.

This opportunity allowed us to create an American company without moving to the United States, in a few clicks. This allowed us to access modern and international payment solutions.

How to ensure professional logistics at a lower or acceptable cost?

We found an interesting offer with Express Mail Service.⁵³ It was the most interesting in terms of sending from Côte d'Ivoire. They perform a more public utility service and are more affordable than DHL and UPS. They have a partnership with the Côte d'Ivoire post office.

How did the process of creating a company with Stripe Atlas go?

From the moment the business model is validated by Atlas, they put us in contact with their network of lawyers and notaries for a fee of \$500.

The lawyer was based in Delaware and helped us to set up the company.

They asked me questions about the business viability, compliance with US regulations and some details on the relevance of the business.

Since my file was about a sales platform, they asked me if I planned to sell products/services to banned countries with which the United States should not do business.

I was able to open my bank account with Silicon Valley Bank online, without physically going to the United States.

The annual fee for the maintenance of my structure created with Stripe Atlas is in the order of \$200–\$300.

In your opinion, why don't more African or Ivorian entrepreneurs use this kind of service to export products?

They must first be aware of the existence of this service. I met many entrepreneurs and small businesses who did not know about the existence of Stripe Atlas. Once they know about it, it is not enough. They still have to be able to build a good file and get the business model approved. If the business has value, the candidate who wants to register on Stripe Atlas must have the talent to value its own business. He must also be transparent.

I am fortunate to have set up several entrepreneurial projects, so I have some experience to present things in the right way. Not all Africans are so lucky and often give up after the first refusal.

I think that in terms of timing, this is the right time for African entrepreneurs and designers to sell internationally. There is a great interest in 'made in Africa' creations, especially in the United States. This is one of the reasons I launched the WaxAfrika platform.

What is the business model of your WaxAfrica platform?

WaxAfrika does not buy the products. It allows creators and craftsmen to open an account and gives them access to the European market. The average cost of goods sold is approximately €45.

Why didn't you create your international structure in a country like France, for example?

The process for creating a company in France is more complex. You have to go to France, open a company and operate through it.

You also need a trusted person on site who agrees to be the representative of the company.

Not everyone can afford it; it is much more expensive than Stripe Atlas.

⁵³ <https://www.ems.post/en/global-network/ems-operators/ems-cote-divoire-rep> The express mail service in Côte d'Ivoire is EMS Côte d'Ivoire, part of La Poste de Côte d'Ivoire, the country's designated universal postal service provider, supporting customers, businesses and communities worldwide.

Moreover, I understand that to create a company in France you need a long-stay visa or be a resident of France. This discouraged me.

In your opinion, why aren't more Africans trying to sell internationally?

People here don't have this vision of selling to the United States or Europe. The majority try to satisfy the needs of the local market or the regional market in Africa. Generally speaking, people prefer to be interested in the business that is going on in their country.

Some are interested in international business, but lack the knowledge and information.

Learning points

- The services offered by Stripe Atlas can be an effective tool to provide access to a bank account in the United States and to online payment services.
- To increase the chances of being accepted by Stripe Atlas, it is worthwhile to build a complete file, or even hire professionals to do so.
- Marketing and communication skills, as well as a good level of English, are essential for international success.

Mpho Sekwele

Founder of Sintu Online in South Africa



Mpho Sekwele, a South African social entrepreneur, is founder and managing director of the online web shop Sintu Online (<https://sintuonline.com/>). She has an international executive Master of Business Administration degree and more than 10 years of retail experience (strategy, planning, buying and project management) with blue chip enterprises.

What is your e-commerce about?

It is an online store specialized in African heritage products, mainly clothing and accessories. It is targeted at the US and UK market. Our products are sourced only from authentically African-made products from young emerging brands.

What legal structure did you set up?

The company SintuOnline (Pty) Ltd. is registered as a private company in South Africa.

What challenges did you face to launch your store?

The challenges to launch this business were the following:

- *Setting up a new company is challenging in Africa, especially if you don't have funding. I was able to set up the company from my own financing.*
- *Export licence: This is specific to South Africa. Any company that wishes to export goods needs such a licence to trade internationally.*
- *Shipping. DHL, UPS were too expensive to make the products profitable. I was able to make a partnership with Aramex that was slightly more affordable than its competitors.*
- *Credibility. An important investment had to be made to put trust behind the brand and the product. To create trust, we partnered with influencers and people we knew from target countries. We also affiliated our company with E-commerce Forum Africa, an organization that aims to endorse trust internationally across African e-commerce platforms.*
- *Duties and taxes: United States has the African Growth and Opportunity Act agreement with South Africa, which eases trade between the two countries and, as a result, export duties to United States were not a problem.*

How did you set up a bank account?

We set up a bank account with First National Bank in South Africa. They offer access to PayPal.

Currently, we don't feel that we need a structure in the United States or the United Kingdom. However, this might change according to the volume and the brand image that we want to build in these countries.

Learning points

- Some African banks, particularly in South Africa, have partnerships with payment services such as PayPal. Therefore, before creating an international structure, it is best to check with local banks to find out if they have a partnership with Western payment service providers such as PayPal.
- It is best to contact all delivery companies and negotiate with them individually to obtain the best offer for sending packages internationally.
- Contacting influencers abroad can help to secure the initial sales without being known in the destination country.
- Verifying customs agreements with the target country can improve competitiveness (e.g. in the event of customs exemption on the product concerned).

Wissem Oueslati

Author and entrepreneur in Tunisia



With more than 19 years of experience in computer systems and networks (national and international), Wissem has closely followed the evolution of e-commerce in the world, and particularly in Africa, for the last 17 years.

He is an e-commerce entrepreneur and author of the e-book *Become an E-Resident of Estonia and start your European business remotely*.

Blog:
<https://www.wissemoueslati.com/>

What have you managed to achieve with e-Residency?

I was able to set up a European company in Estonia, open a bank account and access most payment solutions such as PayPal and Stripe.com. It also allowed me to obtain a professional Amazon seller account. It took six weeks.

Tunisian and African enterprises are usually blocked by most payment solution providers, because these services focus only on residence. Residents of many African countries are not allowed to open an account.

What are the advantages of the e-Residency programme compared to other solutions, such as creating a company in the United Kingdom or the United States?

The advantage of the Estonian model over the creation of a company in the United Kingdom or in the United States is that there is no need for an intermediary. Under the British and US system, you have to hire or pay for a service that provides a local director.

In Estonia, thanks to the e-Residency card, we can do everything remotely, without any intermediary.

The disadvantage is that Estonia is the country with (among) the fewest embassies in the world. It has only 39 embassies.⁵⁴ I think this is why they are developing such advanced digital services.

⁵⁴ The e-Residency team intends to expand this network. External service providers outside the Estonian network of embassies will soon be able to issue e-Residency cards. In addition to the embassy network, the cards will be issued in São Paulo, Johannesburg, Singapore, Bangkok and Tokyo.

To obtain the e-Residency card, you have to physically go to an embassy. In Africa, the only Estonian embassy is located in Egypt. The other solution is to go to Turkey, France or Italy. The last two require a Schengen visa, which makes it more difficult for an African resident.

Going to Egypt to get your e-Residency card can be an obstacle. Depending on the African country from which you come, the trip can take more than 10 hours, which can actually be a deterrent.

Do you think the fact that Estonia has not concluded a double taxation agreement with African countries is a barrier for African entrepreneurs to apply for e-Residency?

No, I don't think so. Most entrepreneurs are so enthusiastic about the idea of having a European company and opening a bank account that they are not yet asking themselves the question of taxation.

Do you know about Stripe Atlas?

Yes, I have heard about it, but I haven't personally subscribed for it. It's a good programme to create a company in the United States and open a bank account.

What I have seen from my African colleagues is that the acceptance rate of African residents is low. They do a Skype interview with security questions. It is like a job interview and it is very stressful.

I have the impression that if you were born in Tunisia, Algeria or generally in Africa, you are more easily refused. I know at least seven or eight people who have been refused.

In my experience, if you are Tunisian or African, you can do the same process of setting up a US company on your own, without going through Stripe Atlas. It can even be more convenient and cheaper. According to me, there is also a better chance of being accepted by a bank.

I would recommend the following services:

www.wyregisteredagent.net (for the United States)

<https://www.mydigitalcompany.net/mydigitalcompany-wissemoueslati.html?aff=12> My preferred company (for the United Kingdom).

There are also the new European fintech banks that facilitate access to bank accounts. I'm thinking N26 or Bunq or Revolt; I think that Bunq is the best and very innovative.

Learning points

- The e-Residency programme can be a solution for African entrepreneurs to set up a European company and to gain access to the European market.
- Managing an Estonian company may be easier than managing a British or US company.
- To obtain the e-Resident card, one must physically go to an embassy or a representation of Estonia, which involves travel costs.
- To avoid double taxation, it is strongly recommended to check whether the origin country has a double taxation treaty with the target country. If not, perform tax calculations using a specialized accountant to avoid selling at a loss.

Chapter 8

Recommendations

Having an international business structure that makes it possible to trade on similar terms to local enterprises enables small enterprises to compete in e-commerce markets. This is not a route to circumvent restrictions; it is a legal, transparent and professional way of trading internationally that multinational enterprises have used for years.

Thanks to the greater transparency on procedures and costs that the internet has created, and competition between service providers, it is now easier and more affordable for smaller enterprises to set up and manage such structures.

Small enterprises in developing countries have particularly strong incentives to learn about and use this particular business practice. By 'going local', they can immediately access a whole suite of services otherwise unavailable to them. But more than that, they can overcome various restrictions attached to the origin of the business and operate on more equitable terms with enterprises in the host country.

This solution is not for everyone, however, and probably not for the smallest enterprises. As a rule of thumb, they would need to turn over about €100,000 a year to justify annual operating costs (less if the business has particularly high margins).

We recommend the following steps to develop an international presence in e-commerce:

1. Explore foreign markets, working with local partners where possible

Enterprises should start by doing research before investing in a foreign entity. This begins with using publicly available tools (such as ITC's market analysis tools) and potentially field research including visiting trade fairs and distributors in the target market.

A good starting point, with minimum risk, is to develop a distribution relationship with a partner, distributor or commercial agent in the target market. Ideally, this would be a partner with a strong presence in e-commerce who is willing to share data and insights into marketing and customers. Success working through such an agent can prove that further potential can be developed, and justify the investment to develop an independent presence in the market.

Such partners may require a sizeable commission equivalent to most of the margins on the product, leaving little in the way of profitability for the producer. For this reason, it is best to consider these arrangements as a short-term entry strategy, though the enterprise should be sure to capture the learning and build experience for an independent commercial presence.

2. Work with other enterprises at home in a collaborative structure

Grouping small enterprises at origin means the costs to set up an international structure are shared. It also brings other advantages, such as pooled knowledge and greater negotiating power.

The cooperative legal form is often appropriate for ownership of foreign entities.

3. Study suitable options for international structures

Choosing where to set up a representative company involves many factors that are unique to the particular enterprise. It is both natural and potentially the best choice to target the most important trading partner country. If exports or commercial relationships have been established with a certain country, it may be the best place to set up an international structure.

But it may not be.

The United States is a large and attractive market that offers great potential for small enterprises and may deserve a particular focus. Stripe Atlas offers a simple, competitive route to set up a company in Delaware, and it offers a remote service to set up a bank account to enable all the common payment solutions.

In Europe, the United Kingdom is highly innovative in the number of services it proposes and costs are competitive. However, opening a local bank account can be challenging. Furthermore, Brexit and ongoing trade negotiations mean it is unclear how exports from the country to Europe and beyond will be treated.

Given no particular reason to choose one EU country over another, Estonia presents a very attractive option to set up a digital identity (e-Residency) company structure and access innovative payment solutions.

The foreign entity itself can be a corporation or a limited liability company in, for instance, the United States, the United Kingdom or Estonia. If the choice is to register as a cooperative, then countries such as the United Kingdom or Switzerland are suitable.

Appendices

The appendices comprise relevant reference materials that provide more detailed information on specific areas related to the creation of an international structure. To keep this document concise and the appendices relevant and up to date, these have been published in an online document on our e-commerce community engagement platform ecomConnect (<https://www.intracen.org/ecomconnect/>).

Connect to ecomConnect, or send an e-mail to ecomconnect@intracen.org, for more information about any of the following.

The reference materials available include the following:

- Types of enterprises (advantages and disadvantages). Various company structures are reviewed including sole proprietorship, partnerships and corporate structures.
- Detailed explanations about the process to register a company in the United States. The process for a group of SMEs is also examined, along with the risks and potential costs for SMEs.
- A review of the Estonian e-Residency programme, including the requirements to register an Estonian company.
- A review and explanation of how to incorporate a company in the United Kingdom.
- Descriptions of onboarding processes for PayPal and TransferWise.
- A sample sales agency contract in English and French.

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