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PRIVATE SECTOR LEADERSHIP:

Building African businesses and creating jobs

A marriage of more than convenience: How COVID-19 can bring public & private sectors together in Africa

"Africa is grappling with an unprecedented health and economic crisis—one that, in just a few months, has jeopardized progress towards the SDGs and upended the welfare of millions of people. While governments in the region have taken laudable steps to cushion the health and economic effects of the pandemic, achieving a resilient recovery—a job-rich, inclusive, and green recovery—will not be easy. Support from the international community will be vital. Stepped up debt relief, financing, and capacity development will all be needed. The IMF is supporting the recovery in the region through all three channels."

Kristalina Georgieva, Managing Director, International Monetary Fund

Edem Adzogenu

Chairman of the Executive Committee, AfroChampions Initiative

@AfroChampions

Beyond the staggering tragedy that is the death and illness of thousands of people the world over, the COVID-19 pandemic has also brought unprecedented economic disorder, decimating economies and the livelihoods of citizens in rich and poor nations alike. The International Trade Centre projected that, globally, 1 in every 5 micro, small, and medium enterprises (MSMEs) will go bankrupt in 2020[108]—an alarming number considering that, in Africa, this category of business provides nearly 80 percent of sorely needed youth employment. The pandemic is estimated to push about 40 million people in the region into extreme poverty in 2020.[109] That kind of abrupt uptick in suffering has not been seen in Africa since the 1980s.

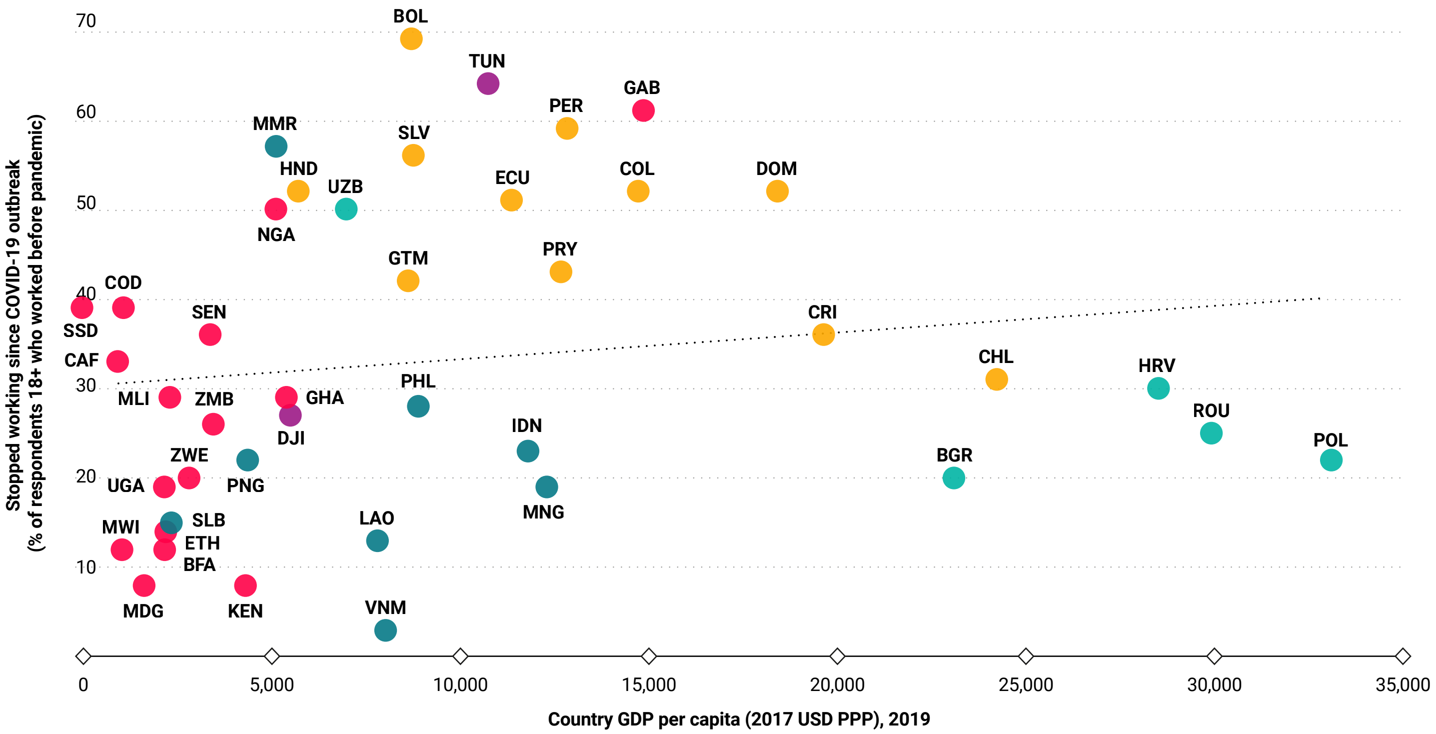
From a macro perspective, the pandemic will compound the already declining level of foreign direct investment (FDI) in Africa, exacerbating in turn the serious liquidity and capital constraints that restrain enterprise growth and keep African economies uncompetitive. Weak enterprise growth means a shrinking tax base and a deepening of fiscal incontinence. Governments in such dire straits are rarely the guardians of an "enabling environment for innovation, investment and industrialization." Thus, a vicious poverty circle perpetuates itself. The International Monetary Fund's recovery price tag of $1.2 trillion and the financing gap of $345 billion resulting from FDI and domestic revenue shortfalls put numbers to the widely felt anxiety.[110]

[108] International Trade Center, *SME Competitiveness Outlook 2020: COVID-19: The Great Lockdown and Its Impact on Small Businesses* (Geneva: International Trade Center, 2020).

[109] "World Bank Confirms Economic Downturn in Sub-Saharan Africa, Outlines Key Polices Needed for Recovery," *World Bank*, October 8, 2020.

FIGURE 4.1
JOB LOSS SINCE THE START OF THE PANDEMIC BY WORLD REGION

Sub-Saharan Africa's large informal sector was hit pretty hard by lockdowns and social distancing as governments looked to stem the spread of COVID-19. However, according to the World Bank, even after accounting for income levels, workers in sub-Saharan Africa were less likely to stop working during the pandemic than any other world region except East Asia and the Pacific. This figure may not tell the full story, as workers in many countries with large informal sectors have seen large losses in income.



Visual Key

- Europe & Central Asia
- East Asia & Pacific
- Latin America & Caribbean
- Sub-Saharan Africa
- Middle East & North Africa

Note

Countries are identified by their ISO 3166-1 alpha-3 codes.

Source

World Bank, "COVID-19 High-Frequency Monitoring Dashbord", beta. Accessed on December 7, 2020.

For African economies to survive these shocks, policymakers and private sector actors must work more closely together than ever before. They must jointly take action to protect the economic gains of recent decades as well as pave the way for a smooth implementation of the African Continental Free Trade Area (AfCFTA)—which promises a $1.2 billion consumer market to African businesses and $4 trillion in estimated private and business-to-business spending.[111] Thankfully, they already are.

Technology and partnership will be key to recovery

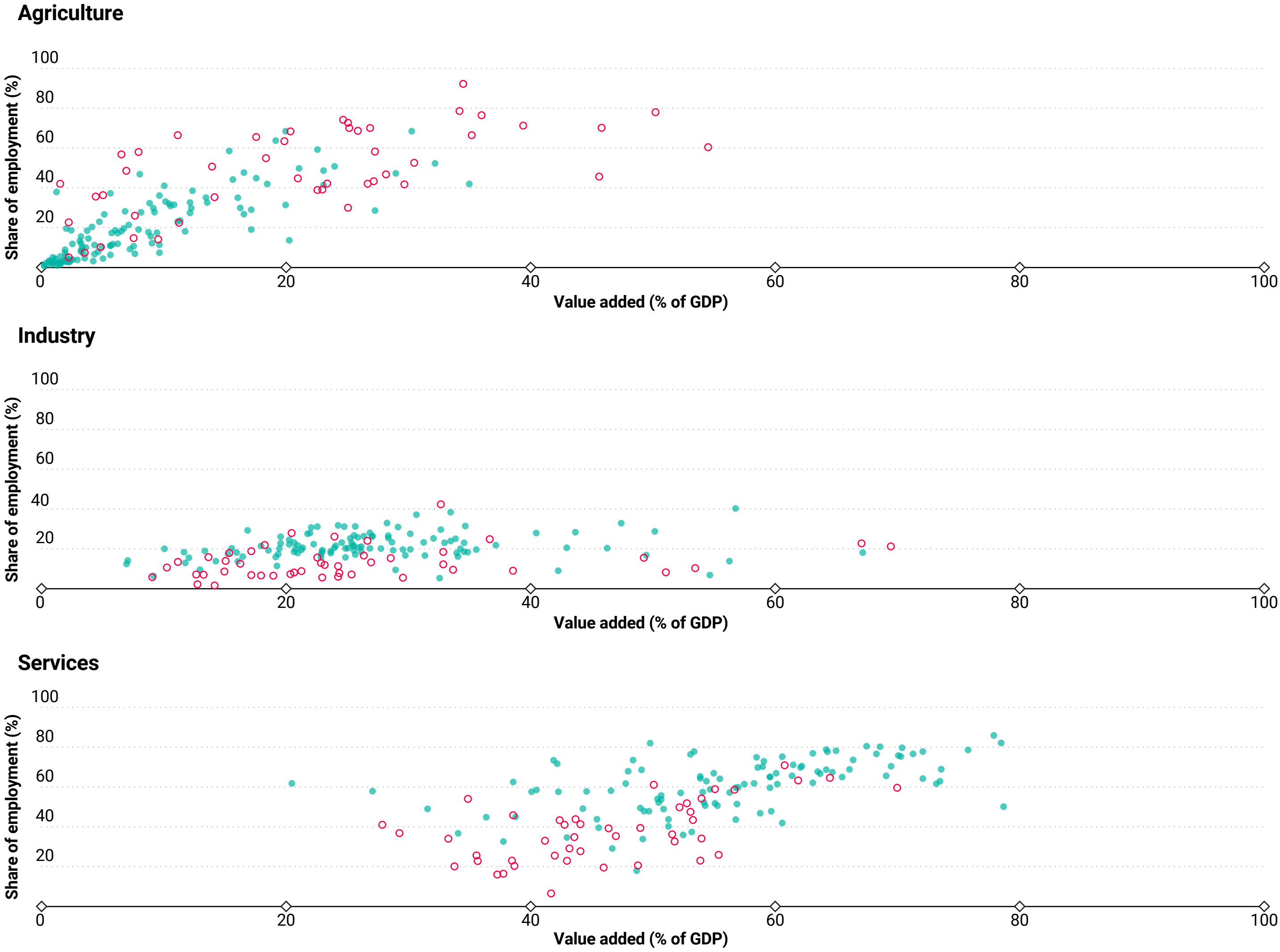
Experts agree that technology and its corollary, innovation, will be primary drivers of any kind of post-COVID-19 recovery strategy as well as long-term sustained economic growth. Already, the pandemic has underscored the importance of e-commerce, remote working arrangements, and virtual meetings, among others. Businesses didn't need too much persuasion to align with the evolving business climate by promoting green recovery and adopting technologies that will enhance competition, firm-level productivity, and profit maximization. While there are infrastructural bottlenecks to technology adoption, such as the high price of internet access, these are offset by massive opportunities, such as widespread "mobile-first" tools and services.

Furthermore, technological innovation has created a powerful new vector for novel partnerships. For example, when

[110] Abebe Aemro Selassie, "Sub-Saharan Africa's Difficult Road to Recovery," International Monetary Fund, October 22, 2020.
[111] International Trade Center, *A Business Guide to the African Continental Free Trade Area Agreement* (Geneva: International Trade Center, 2018).

FIGURE 4.2
STRUCTURE OF SUB-SAHARAN AFRICA'S ECONOMIES

In all three modes of employment–agriculture, industry, and services–value added is not strongly correlated with employment. While the region tends to employ a higher share of people in agriculture compared to the rest of the world, the value added of this sector varies anywhere from 1.6 percent of GDP (Djibouti) to 54.5 percent (Sierra Leone). Analogously, the region employs fewer people in industry and services, but the productive shares of these industries varies widely by country."



Visual Key

Sub-Saharan Africa
Rest of the world

Source

"World Development Indicators," *World Bank Group*, accessed December 3, 2020.

the private sector coalitions assembled by AfroChampions—comprising some of the largest and most powerful pan-African players in prominent sectors such as banking, telecoms, agribusiness, energy, and transportation—sat across the table from the African Union to discuss the structure of a COVID-19 relief fund, fintech was quickly identified as the fund's cornerstone. The public-private fund that eventually emerged was powered as much by crowdsourcing as by corporate donations, a first for the African Union.

Similarly, when beleaguered African countries contemplated reopening the skies to international travel, PanaBIOS—a consortium of public and private regional institutions—emerged to support the relevant bodies in their efforts to make air travel safe. Eventually the Africa CDC brought PanaBIOS and regional telecom giant Econet on board to create a novel digital platform to promote safe corridors for travel, including regionally verifiable digital COVID-19 test and vaccine certificates and cross-border contact tracing apps. All the technologies were built in Africa.

And as the continent looks forward to the start of trade under the AfCFTA, the AfCFTA Secretariat and AfroChampions are working together to promote a digital platform (www.afcfta.app) to enable every African government to digitize cross-border trade facilitation for MSMEs at no cost.

How policymakers can facilitate private sector growth and involvement in post-pandemic recovery

While the private sector can bring innovation and implementation, policymakers must bring institutional commitment, regulatory support, and the elimination of bottlenecks to create room for these risk-taking entrepreneurs and businesses to find success. At the national level, governments have been working hand-in-glove with the private sector to turn idle stocks of alcohol into life-saving drums of sanitizers.[112] Textile companies reeling from the shock caused by blocked arteries in global supply chains were mobilized in places like Kenya, Uganda, and Ghana to supply sorely needed personal protective equipment to hospitals at a moment's notice.[113]

The pandemic has dramatically revealed that, given the right political push and institutional support, policy engineers at home—both in the bureaucracy and in the boardroom—can rapidly create the preconditions and mechanisms for widespread, coordinated, innovative, and needed capacity and subsequent action to both beat the virus and help businesses weather these devastating shocks.

Notably, **increased political commitment** is almost always the essential prerequisite for the success or otherwise of the kinds of partnerships described above—because business leaders take inspiration from public sector leaders, and often prefer to lead from behind. In the examples discussed above, the private sector showed initiative, but nothing could have been achieved without the gallant public sector leaders in governments, as well as those in regional bodies who ensure that intergovernmental coordination bridges the gap between national- and regional-level implementation.

These innovation-driven public-private partnerships are already succeeding in keeping the delicate economies of Africa afloat. But what will happen to these partnerships when the sense of urgency that galvanized them dissipates, now that a COVID-19 vaccine is a reality? It will be a disaster indeed to revert to business as usual. So, first, we need such partnerships to quickly accelerate safe vaccine deployments across Africa to the very last mile–just as the PanaBIOS consortium is already prepared to do. (For more on vaccine deployment in Africa, see page 29).

Second, we need sustained dialogue between business and governments on improving post-pandemic resilience for African MSMEs and start-ups. Governments should foresee the need to modify and extend COVID-19 stimulus packages beyond the crisis mitigation phase. Policies on interest-free loans to MSMEs, tax postponement, grants and subsidies, and a moratorium on debt repayments, among others, should feature in the post-COVID-19 private sector policies and strategies to enable adequate business recovery and create a conducive environment for the emergence of new businesses.

A key area of modification is to align stimulus policies with climate change and environmental protection policies—and incentivize businesses to create green jobs and green industries. This is a progressive approach to building smarter, greener economies that can quickly correct many of the economic inequalities wrought by the pandemic. (For other potential policies for green growth, see page 12).

Such public-private partnerships have always been with us, but all too often we tend to make them all about a marriage of convenience. The pandemic has taught us new lessons about why they are even more critical to the continent's post-pandemic resilience.

112 Demi Priscilla Letsa Duah and John Sauer, "Ghanaian Beverage Company Kasapreko Shifts Production to Hand Sanitizer," *PSI*, April 29, 2020.
113 Mary-Jean Moyo and Tania Lozansky, "Working with Africa's Apparel Makers to Produce Personal Protective Equipment," *World Bank*, May 19, 2020.

VIEWPOINT

Long-term strategies for an African recovery from COVID-19: A CEO's perspective

Ashish J. Thakkar

Chief Executive Officer,
Mara Phones

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Late last year, after 20 years of investing on the African continent, Mara Phones opened the first two smartphone-manufacturing factories in Africa, first in Rwanda, then in South Africa. Our optimism about Africa and the decision to invest in the continent has always been premised on the fact that Africa is among the world's fastest-growing consumer markets and has the necessary support structures for investments. Despite the African continent's macroeconomic conditions, which were exacerbated by the COVID-19 pandemic, Africa has fared well due to the urgent preventative action taken by individual governments to avoid the rampant spread of the virus. Although it is still early to assess, African economies seem to have withstood the anticipated devastating effects of the pandemic because of improved economic policies and the quality of investments on the continent. In short, this resilience shows that there are relevant investment opportunities in the region that can power post-COVID-19 economic recovery and resilience strategies.

As we shift the conversation from the pandemic and its impacts, we now look towards the future and assess post-pandemic opportunities that the African continent can explore in order to rebuild and diversify our economies. Importantly, COVID-19 has certainly exacerbated the region's economic strain but is not responsible for all the economic challenges faced by the continent. In other words, when we think of post-pandemic opportunities we should not frame them as if every economic challenge faced by Africa is rooted in or is a result of the pandemic.

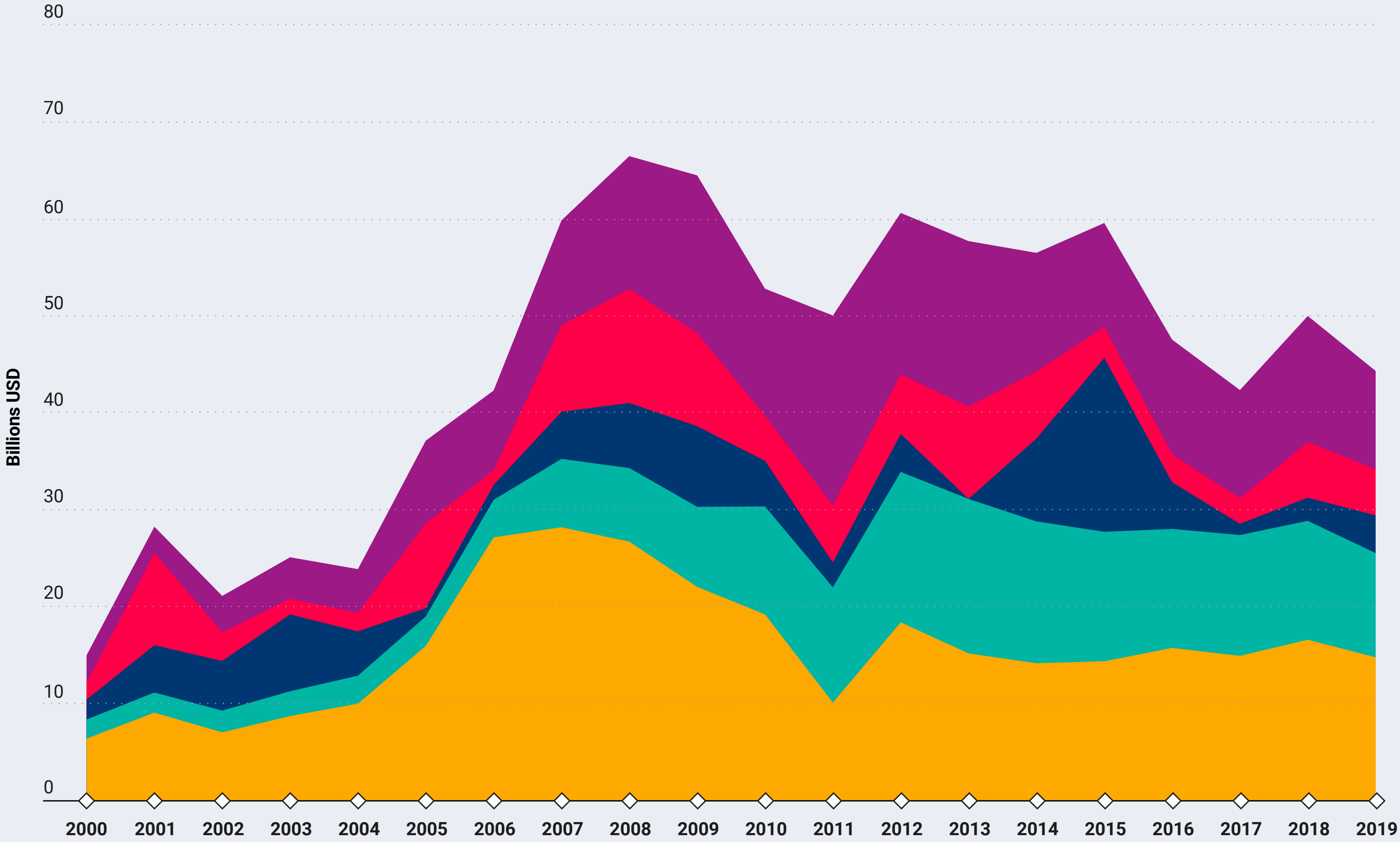
Furthermore, Africa is not a homogenous continent, and the impact of COVID-19 will be different for every country. Now, more than ever, Africa needs sustainable long-term strategies, and we need to start by assessing the priority areas of focus and initiating a shared sustainable economic recovery plan.

The African continent has an opportunity to build sustainable value chains by adopting strategies that demonstrate certainty, stability, and ease of doing business. To become more relevant in the global value chain, Africa's post-pandemic opportunities and strategies need to advance the following priorities.

1. **Reconfiguration of global value chains:** COVID-19 revealed to the world the risks associated with overly relying on a few global economic regions for the supply of goods and services. This revelation has presented an opportunity for Africa to recalibrate and achieve its ambitions of being self-sufficient by identifying trade opportunities—essentially becoming both the users and suppliers of goods and services. Indeed, Africa must move away from overly relying on imports and focus on supporting locally produced products in order to retain profits and support job creation and economy-building initiatives.

FIGURE 4.3
INFLOWS OF FOREIGN DIRECT INVESTMENT TO AFRICAN REGIONS

Foreign direct investment (FDI) flows to Africa have increased substantially in the past two decades, from less than $20 billion in 2000 to around $45 billion in 2019. FDI flows peaked, however, around 2008 and have gradually declined since then. The North, East, and West African regions receive the majority of FDI on the continent.



Visual Key

Rank

- West Africa
- Southern Africa
- Central Africa
- East Africa
- North Africa

Source

"Foreign direct investment: Inward and outward flows and stock, annual," *UNCTAD*, accessed November 15, 2020.

2. **Collaboration between regions:** Weakened global economic growth will have an impact on trade with and within Africa, further providing the region with the opportunity to collaborate and leverage its scale and efficiency by both rethinking the fundamentals of partnerships among African countries and speeding up the implementation of the African Continental Free Trade Agreement. The facilitation of trade between African countries through policy harmonization will boost commerce and social reform by increasing the competitiveness of African products and services and creating global export opportunities and new export markets within the continent.

3. **Increasing digitalization:** African countries that can galvanize their efforts towards digital resources will be better placed to attract investments and position themselves as future economic world leaders. African leaders need to refocus the energy and the urgency that have arisen from COVID-19 to rethink digital infrastructure, therefore avoiding further exclusion from the global economic value chain. Part of the COVID-19 recovery strategy must pivot towards infrastructure, as it will enable Africa to be self-sufficient.

COVID-19 has indiscriminately affected the whole world. No region, industry, or business has been exempted. As a result, private and public sector collaboration and partnerships have become even more critical and essential features of the African economic recovery strategies.

VIEWPOINT

Shared failure, shared success: Africa's economic recovery must be structural

Beyond the negative short-run consequences, COVID-19 has created a new sense of urgency in developing countries for strategies to tackle structural economic issues that we have willfully ignored for decades. My experience as the head of a pan-African engineering services company, The Lucient Group, tells me that the right coordinated responses from both the public and private sectors can make the long-run economic effects of the pandemic a net positive.

COVID-19 has created a new sense of urgency in developing countries for strategies to tackle structural economic issues that we have willfully ignored for decades.

Lerang Selolwane

Co-Founder and CEO, The Lucient Group

COVID-19 has revealed key structural issues in my own country, Botswana, and other developing countries, including shared failures to develop internal capabilities to produce even the most basic goods and services that we ourselves consume and, furthermore, to generate exports, besides raw materials, that are globally competitive.

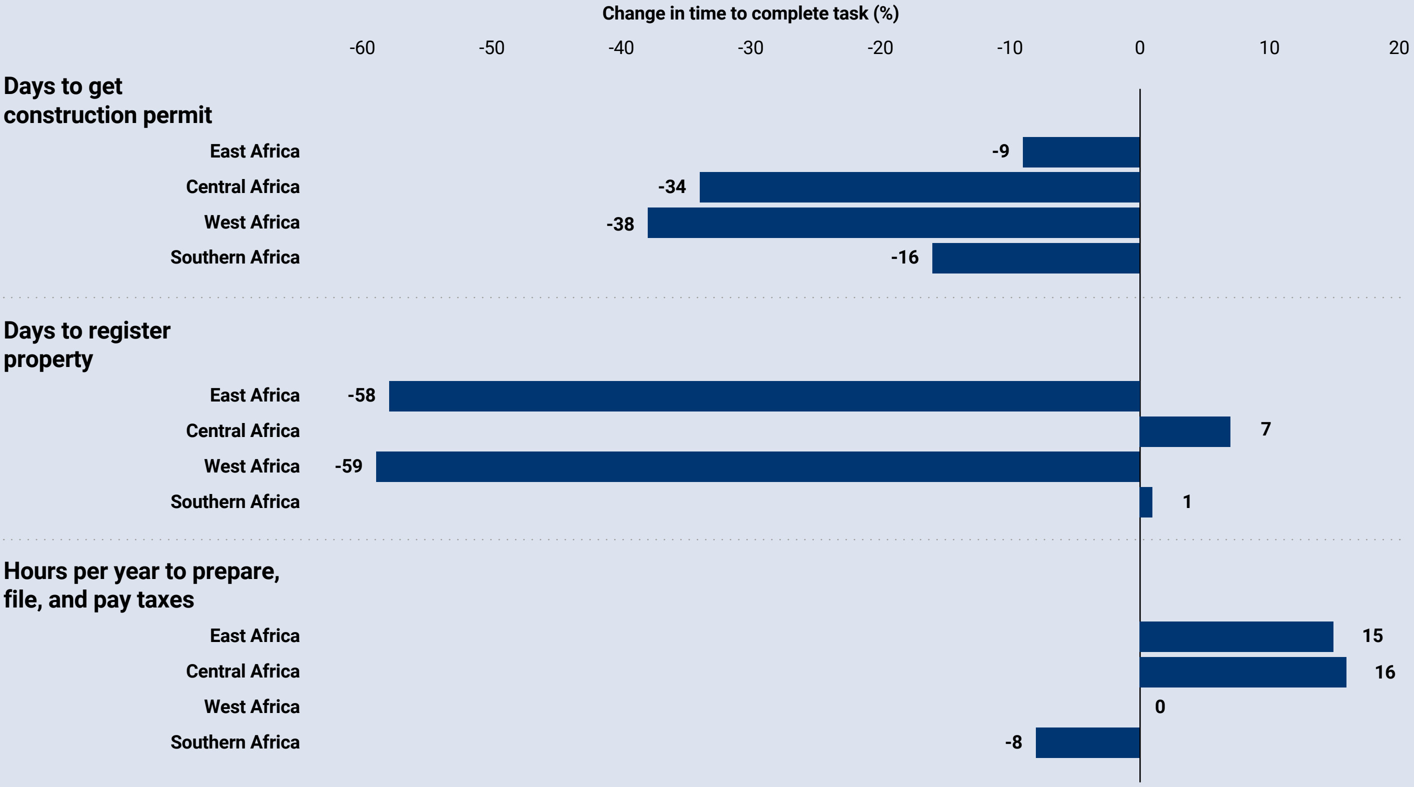
As such, I believe that the primary focus of both the private and public sectors in post-COVID-19 developing economies should be on becoming more nationally self-sufficient and regionally inter-dependent in six key and foundational industries, namely: food production, health care, education, energy, telecommunications, and transportation. These core industries, in turn, provide the foundation on which other, more "advanced" industries (e.g., nanotechnology, aeronautic, bio-medical) could develop. However, to develop these industries, both the private and public sectors require paradigm shifts in how they see their roles.

The private sector, led by us entrepreneurs, must understand we cannot transform our countries sustainably as individual economic actors. Only the network effects of a truly collaborative, co-created, interdependent, entrepreneurial ecosystem will create the economic clusters/hubs that in turn will serve as "nurseries" for key sectors of our future economy. We, together, can make the changes we want to see.

The public sector, typically the largest economic agent in most developing countries, must deliberately and systematically embrace its role as a catalyst for these clusters/hubs by 1) directing public sector purchasing power towards the clusters/hubs on a sustained basis and 2) incentivizing other economic agents, through well-organized fiscal policies or regulations, to do the same. This would need to be done and sup-

FIGURE 4.4
CHANGE IN ADMINISTRATIVE TIMES FOR COMMON LEGAL PROCEDURES, 2010 TO 2020

As African countries adopt new digital technologies, the time it takes to complete basic administrative procedures continues to decrease. Indeed, in some regions, the process for obtaining a construction permit over the last decade has become 25 percent faster. In others, it has become more than 33 percent faster to register a property. Reducing property registration time facilitates business and decreases barriers to entry for new firms. A variety of factors can impact tax preparation, and technology can be a tool for reducing the burden. For example, Central Africa, the time it takes to complete taxes has increased considerably, despite already being the region in which taxes were most time consuming.



Source

World Bank, "Doing Business," accessed November 2, 2020.

ported by enabling legislation, appropriate policies, and the provision and maintenance of vital infrastructure facilities, including electric power, roads, railways, bridges, airports, seaports, water supply and sanitation, and broadband and information communication technology.

If done correctly, these actions would effectively "jump start" the nascent economic clusters/hubs, creating the momentum needed to set them on the path to self-sustainability and scale. COVID-19 has laid bare the weaknesses of our economies; policymakers and private sector actors alike must channel their shared energy not toward tempting quick fixes, but toward long-term, hard-won economic solutions.

Policymakers and private sector actors alike must channel their shared energy not toward tempting quick fixes, but toward long-term, hard-won economic solutions.

VIEWPOINT

Deepening access to capital for Nigerian MSMEs during a pandemic

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While Nigeria has, so far, seemingly been spared the public health onslaught created by COVID-19, the country has not escaped the urgent economic crisis created by the pandemic. Worse, hardest hit have been the micro, small, and medium enterprises (MSMEs), whose operations are largely traditional and dependent on physical contact with their consumers and partners.

Over 40 million MSMEs exist in Nigeria,[114] employing over 80 percent of the country's population and contributing about 50 percent of the country's GDP.[115] Now, the biggest threat to the survival of these businesses central to the economy lies in their physical approach to interacting and transacting, which has left them unprepared to take advantage of the opportunities offered by digitization as well as vulnerable to the lockdowns and distancing measures intended to stave off the health crisis.

Financial exclusion—especially among micro-entrepreneurs in the informal sector—was a national concern even before COVID-19 made in-person interactions hazardous. To address this issue, prior to the pandemic (as far back as 2017, in fact), large-scale microcredit interventions such as the Government Enterprise and Empowerment Program—in which the Bank of Industry (BOI) participates—have been targeting four economic segments—market traders, artisans, youth, and farmers—for increased financial inclusion. Technology has been key: By leveraging the power of data, biometrics, and mobile wallet systems, and with an extensive network of over 17,000 agents, BOI has been able to identify, target, and deliver micro-credit to over 2.4 million MSMEs across Nigeria. Remarkably, over 52 percent of the beneficiaries are female. In the process, the bank has onboarded an additional 500,000 beneficiaries onto the formal financial system—essentially using technology to break the barrier of access to finance and financial services for underserved demographics.

At the onset of the pandemic, our bank's immediate objective was to ensure business continuity by deepening our MSME activities through the provision of innovative lending solutions to new customers. Through our microcredit platform, BOI's agent network—spread across the country—operate as proxies enabling beneficiaries to efficiently interact with technology and have their businesses captured and digitized in records. These agents, equipped with smartphones loaded with the bank's data-driven applications, engage informal entrepreneurs by capturing their Know-Your-Customer details, profiling their business, tracking transaction histories, and monitoring income and spending patterns—thus providing financial solutions tailor-made to boost financial literacy, improve credit worthiness, and support their micro-businesses with funds, especially during these difficult times.

These efforts are just the beginning of a long journey of large-scale digitization, driven by big data and continually improved algorithms, to deliver tailor-made interventions to MSMEs across the length and breadth of Nigeria.

[114] PwC Nigeria, *PwC's MSME Survey 2020* (Lagos, Nigeria: PwC Nigeria, June 2020).
[115] Ibid.