

Supply chain diversification due to Covid-19 to benefit Africa?

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With its booming population, Africa may have no choice but to rapidly expand its industrial base. Doing so has been given impetus by European companies' desire to bring their supply chains closer to producers - a lesson learnt from the Covid-19 pandemic. African countries with a higher level of integration into global markets may benefit, as well as countries with a large work force and comparatively low labor costs.

The UN General Assembly has declared 2016-2025 the Third Industrial Development Decade for Africa. Industrialisation and innovation are also specifically reflected in the Sustainable Development Goals (SDG) of the UN's 2030 Agenda for Sustainable Development (SDG9 - Infrastructure, industrialization and innovation)¹.

With its booming population, Africa may have no choice but to rapidly expand its industrial base. However, industrialization often goes with increasing use of natural resources and energy, with pollution and the generation of waste. The "industrial revolution" in Europe in the 19th century and the Chinese economic "miracle" in the last 30 years have played vital roles in the economic development of these regions. They are also said to have started and accelerated global warming. Hence, it would be in the interest of all investors in Africa and other emerging markets to have the option to choose green and state-of-the-art technologies.

REGULATING FOR OPTIMAL OUTCOMES

While DFIs would be more than happy to provide adequate financing for investment in green and

modern technology, there are two main factors countering this: incentives and costs. Regarding incentives, companies are in most cases not directly affected by the positive or negative environmental effects of their technologies – investing in lower CO² emission does not pay off. Unless governments apply relevant regulations, there is no incentive to produce at higher costs.

This leads to the second – and more important – factor for investors: costs. Modern technology often comes at a substantially higher price compared with standard technology – usually within the context of a limited budget. When comparing bids, the cost aspect is of high importance.

However, the short-term view of investment cost does not take into consideration the long-term positive effects of energy and resource savings, the longer durability of machinery and equipment, and thus lower maintenance and replacement costs. In DEG's experience, many African entrepreneurs prefer modern technology – but this is a tough decision if investment costs are up to 30% higher.

DEG, like all DFIs, supports choosing modern, green technology, for additional reasons. The best available technology substantially reduces environmental risks – including changes to regulations, which might help drive improvements in technology and standards; reputational risks related to impacts on communities and quality requirements by off takers; and long-term market risks, as clients increasingly demand better production standards.

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TAKING THE LONG ROAD TOGETHER

DFIs offer various measures to support and encourage entrepreneurs to invest in the best available technologies. These are long-term arrangements, access to networks, consulting and advice and co-financing, as detailed below.

Long-term financing that is tailored to the degree of risk involved (equity, mezzanine financing or loans with suitable repayment schedules) provides security for the investor. DFIs are prepared to finance and support entrepreneurs who can and want to invest in green and best available technologies, even during the Covid-19 crisis.

Access to networks refers to a large network of European technology providers and other entrepreneurs in emerging markets helping potential investors to compare technologies, talk to technology leaders and learn from experiences. With this support, investors can take decisions on a well-informed basis.

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Consulting and advice are provided through DEG's Business Support Services (BSS) in different ways and stages: developing a business plan or financial model; providing information on state-of-the-art technologies and equipment; advising on current innovative production methods to address clients' specific needs; identifying potential for resource and efficiency gains and cost reduction; connecting companies with external experts to implement tailor-made advisory solutions and helping customers to design and implement coherent development projects; and identifying resource and energy efficiency potential, including designing renewable energy projects.

DEG offers promotional programs that help companies to enhance their sustainability. Fundable are support for vocational training and training centres; know-how and technology transfer can be co-financed with non-repayable funds through the develoPPP program, which is financed by the German Federal Ministry for Economic Cooperation and Development (*Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung, BMZ*).

LONG-TERM HEALTH

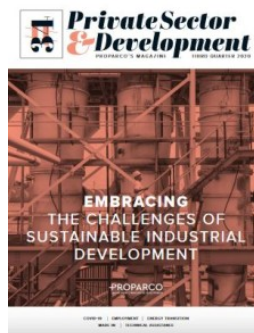
In view of the Covid-19 crisis, the question is Are the above aspects still a priority? Should entrepreneurs not be concentrating on the health of their employees and on prudent and careful liquidity management? The answer for the coming months is yes, definitely.

Yet during and after the Covid-19 pandemic, there will be opportunities for African entrepreneurs. For example, one of the lessons learned from this crisis by European industries is to diversify supply chains and to develop suppliers in closer proximity to producers. Northern and sub-Saharan African countries with higher levels of integration within global markets may benefit, as well as countries with large work forces and comparatively low labour costs. Likewise, international and African producers that depend on external supplies of raw materials or semi-finished products will foster national supply - an opportunity for local producers.

Even if many economies go through deep recessions, the risks of global warming and climate change are higher for humankind in the long term. Green technology, high quality and high environmental standards will be a key requirement for producers in the future. Importantly, digitalization has been boosted as a result of Covid-19, with opportunities for leapfrogging, even for small businesses.

1 <https://www.un.org/sustainabledevelopment/fr/infrastructure/> (consulted on 05/09/20)

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