

## Innovative responses to Covid-19 for private sector recovery in Africa

*Charles Odoom* Head of private sector development unit - ACET

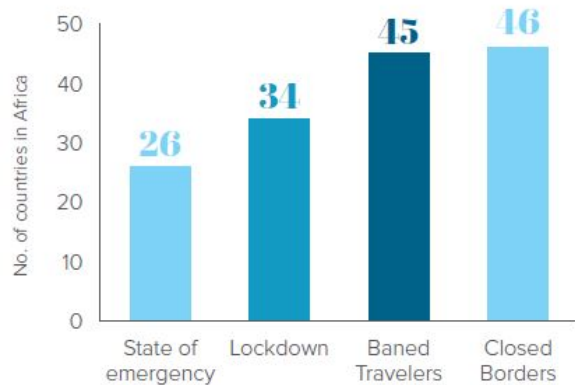
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**In Africa, micro, small and medium enterprises (MSMEs) have been the hardest hit by the Covid-19 pandemic, which resulted in the biggest contraction in Africa in the last 25 years. While large-scale enterprises relied on technology in responding to the effects of the virus, informality and low literacy among the entrepreneurs heading smaller-scale enterprises in Africa prevented them from doing the same.**

The Covid-19 crisis pushed many developing countries, especially in Africa, into an economic slump in 2020. The crisis was sparked by the ripple effect of the lockdown measures implemented to contain the spread of the virus, a drop in commodity prices and the slump experienced by its major trading partners. According to the UNDP (Figure 1), about 26 countries in Africa declared states of emergency, 45 countries implemented some sort of travel ban, while 46 countries closed their borders. This negatively impacted business in Africa. Indeed, growth in Africa contracted by about 1.5% - the biggest amount in more than 25 years<sup>1</sup>. The social and economic disruptions caused by Covid-19 have been unprecedented. It has frozen production, significantly scaled-down consumption, heightened market uncertainties, weakened business confidence and seized global supply chains. Though the effects of the pandemic impacted the private sector globally, Africa was hardest hit. Although multinational corporations have felt the impact, it is MSMEs in the informal sector that have suffered the most.

**Figure 1: Governance policy responses**



Source: UNDP data

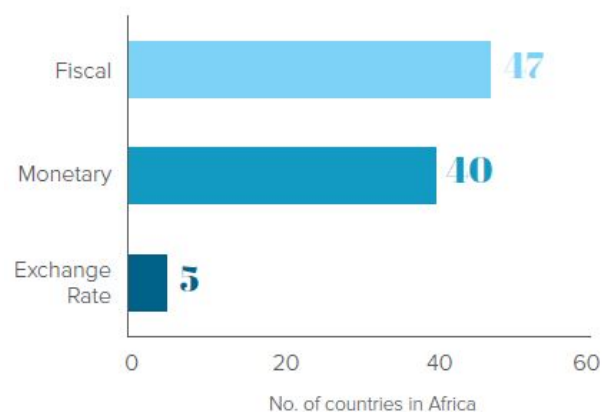
For example, women entrepreneurs account for approximately 34% of MSMEs globally and between 30% and 37% in emerging markets, translating into 8 to 10 million enterprises in this category.

### WHERE WERE THE RESPONSE STRATEGIES?

The private sector responded to the impact of the virus. However, it was the policy response of governments in support of the sector that proved most effective. This was fairly reflected among developed and developing countries, which deployed strategies to accelerate their recovery and bolster their health systems and economies against future pandemics. With respect to the private sector, large-scale enterprises relied on technology as their main strategy for responding to the threat posed by the virus. MSMEs in Africa attempted to follow suit; however, informality and low literacy among their entrepreneurs meant that they were less likely to be as successful as their larger counterparts. In Africa, governments implemented economic support systems for this category of enterprises to cushion them from the impact of the virus. Figure 2 gives a graphic

overview of some of the macroeconomic responses by these governments. The strategies employed focused on providing cash transfers to temporarily laid off staff, moratoriums on loan servicing, free or subsidized utility services, tax breaks and deferrals of other statutory payments, as well as guarantees to incentivize financial institutions to extend loans to SMMEs. Central banks also responded by easing their macroprudential policies, to support the liquidity challenges of these enterprises. In addition, some countries disbursed loans directly through new and existing business support programs. Although the responses have been commendable, there were no clear guidelines on fund utilization and disbursement. The funds did not incentivize innovation; neither did they promote inclusiveness. Support systems primarily focused on cash transfers to owners of SMMEs who may or may not have applied the funds to innovative business activities. As a result, support to the affected smaller-scale companies was unsustainable, losing the very essence for which governments allocated those funds.

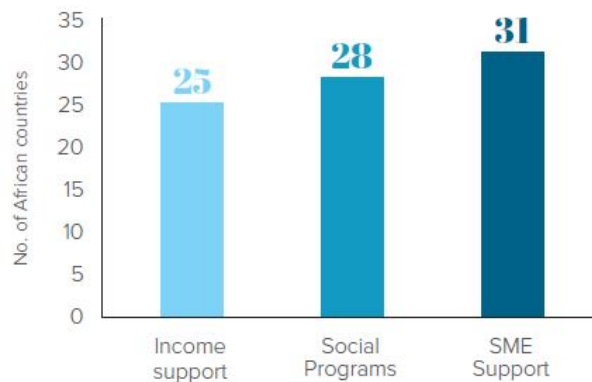
**Figure 2: Macroeconomic responses**



Source: UNDP data

*Although the responses have been commendable, there were no clear guidelines on fund utilization and disbursement. The funds did not incentivize innovation; neither did they promote inclusiveness.*

**Figure 3: Socio-economic support** ▼



Source: UNDP data and ACET construct

Moreover, the fiscal support was woefully inadequate. The developed world spent between two and three times their usual expenditure to counter the impact of the virus. The fiscal support in Africa was a meagre 2.5% of the continent's GDP. Moreover, the transmission mechanism in Africa is weak, as this central bank support did not achieve the outcomes that it was aimed at.

Smaller-scale ventures are teaching establishments that creatively internalize technology and market opportunities to extend their production frontiers. The graph showing socio-economic support per number of African countries (Figure 3) shows the socio-economic responses by governments. Interestingly, MSMEs support programs were initiated in 31 countries. However, the support packages did not sufficiently leverage innovation for MSMEs to enable them to navigate the changing work environment. A recent ACET paper on post-Covid-19 priorities for governments raised concerns about a disconnect between private sector policy and the needs of technology and innovation hubs, which can drive enterprise but need investment and support.

Large firms that have responded well to the impact of Covid-19 have resorted to innovative technologies and digital products and platforms to accelerate innovation.

African governments must support innovation in developing their micro-, small-, and medium-sized enterprises, a core element of inclusive growth strategies, even more so in the Covid-19 era. The companies in this size range that innovate are likely to employ more workers, pay higher wages, and be more productive than their counterparts who do not innovate. Innovation among the players in this sector can resolve social challenges efficiently, drive productivity and improve long-term growth. Innovative MSMEs develop resilience and grow regardless of their ecosystems.

### **LESSONS LEARNED FROM THE CRISIS AND BEYOND**

While governments worldwide have provided various support packages to MSMEs, policymakers could do more on social inclusion and innovation to ensure business continuity. However, successful responses to the challenges of these companies will be insufficient if policy responses do not prioritize inclusion. The blueprint for all Covid-19 response initiatives must be inclusive; it must capture the nuances in the needs of all vulnerable groups to ensure that no one is left lagging in the recovery.

While there are significant long-term challenges - including the absence of technological infrastructure, digital literacy, and skills - in the short term, Covid-19 interventions by governments need to include innovation promotion strategies for micro- to medium-sized enterprises. Such interventions would address some of the immediate limitations to innovation that these ventures face - and instil an innovation culture that could persist after the pandemic. Examples include reductions in data and telecommunication charges, the provision of mobile internet connectivity technology, and training in digital marketing strategies, among others.

### **WHAT ARE THE CHALLENGES FACED?**

Limited access to low- and medium-cost funding is constraining business growth. Even when funding is available, low awareness of opportunities and a lack of financial knowledge remain significant

barriers to micro- to medium-sized enterprises in Africa accessing the required support. Slowing demand in this sector has led to them having to limit expansion plans and identify alternative channels to sell products.

The private sector is the lifeline for sustainable, transformative economic growth in Africa. To build more resilient economies in order to reduce the pressures brought on by crises such as the Covid-19 pandemic, countries in Africa will need to develop and implement strategies that focus on private sector development. Creating ecosystems for MSMEs and businesses in the informal sectors to thrive should be a priority. Using a plethora of recovery programmes to improve the diffusion of technology and innovation in the micro- to medium-enterprise space is highly recommended.

For financial recovery packages to drive innovation in this space, development finance institutions must work with governments to ensure a more efficient allocation of funding to specific innovative activities. It is also critical for DFIs and governments to implement more inclusive, targeted Covid-19 economic recovery programs for women and marginalized MSME entrepreneurs. The MSMEs themselves should as a necessity begin to mainstream and formalise structures for innovation that make it easier and ready them to receive intervention support from both governments and the development community. This must be a shared responsibility.



## ***Dealing with Covid-19: a case of the private sector support programs in South Africa***

Micro-to medium-sized enterprises in South Africa account for more than 98% of businesses and employ 50 to 60% of the country's workforce across all sectors. The impact of the Covid-19 pandemic on the South African economy was massive, as it was already in reverse gear when the pandemic started. Lockdown measures caused revenue losses for many of the enterprises in this space. They were forced to cut spending to survive, which translated into job losses.

A Consumer Pulse Survey by McKinsey (2020) revealed that more than 80% of consumers were looking forward to decreasing spending across all retail categories, a further 70% were looking to cut transport-related expenditure. Like many governments in Africa, South Africa initiated a series of programs to reverse the impact of the pandemic on their economy. The major program that was implemented to support MSMEs was the debt relief fund. The fund aimed at providing relief on existing debts and repayments, to help businesses navigate the Covid-19 pandemic.

There has also been other support from development finance institutions, such as a \$750 million development policy loan (DPL) given by the World Bank to South Africa. The loan was to help the government's efforts to accelerate its Covid-19 response aimed at protecting the poor and vulnerable from the adverse socio-economic impacts of the pandemic and to support a resilient and sustainable economic recovery.

<sup>1</sup> [https://www.deginvest.de/DEG-Documents-in-English/About-us/What-is-our-impact/The\\_African\\_private\\_sector\\_in\\_the\\_COVID-19\\_crisis.pdf](https://www.deginvest.de/DEG-Documents-in-English/About-us/What-is-our-impact/The_African_private_sector_in_the_COVID-19_crisis.pdf)

