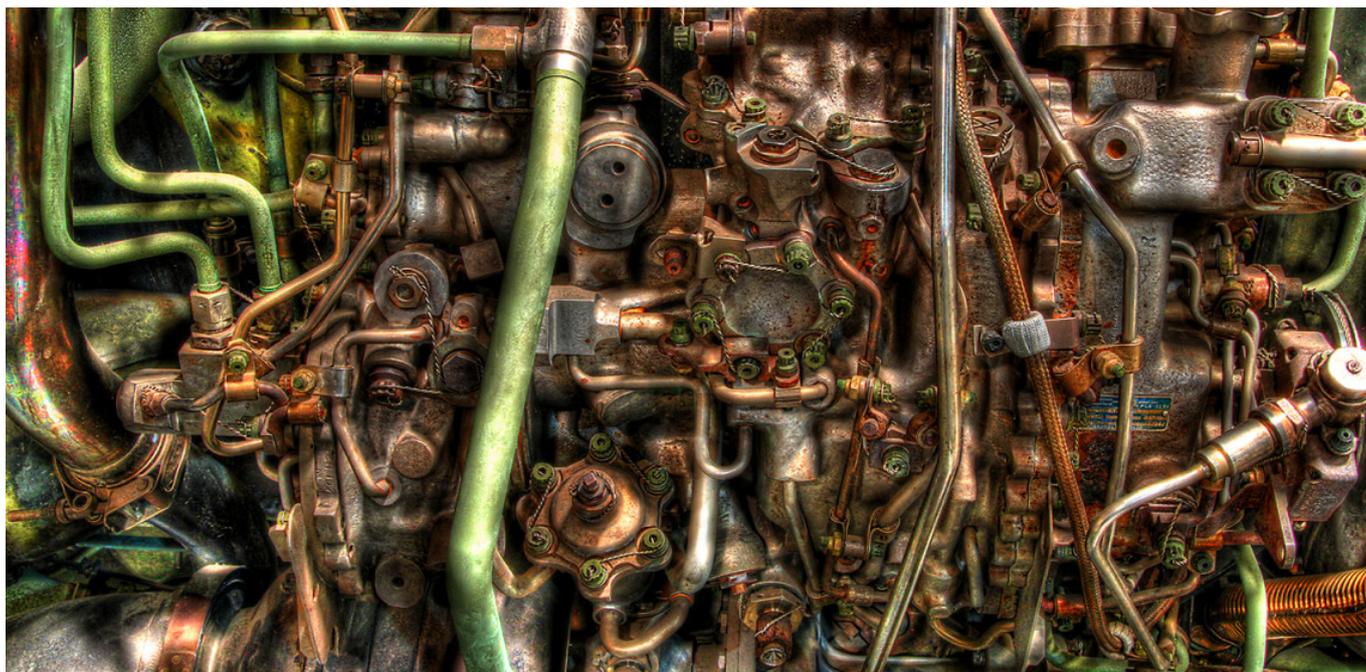


## The pandemic as a driver of innovation for private sector companies in Africa

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**During the last two years, a large number of companies have developed innovative strategies to navigate through the Covid-19 crisis. What this meant: everything that could be organised remotely in doing business helped them and their customers to cope with the consequences of the pandemic. In addition, these companies were able to secure jobs and develop new economic perspectives thanks to new digital business models. They emerged stronger from the crisis, or even benefited from it.**

Private companies in numerous developing countries are important driving forces behind jobs, training, local income and local value creation. During the pandemic too, their efforts helped to mitigate the economic and social impacts of the crisis. Some companies even managed to benefit from the crisis and come out of it stronger than before.

According to a current analysis, the 700 or so companies financed by DEG employed 2.8 million people and generated local income with a total volume of EUR 146 billion in 2021. Of this, the 140 or so African companies financed by DEG employed over 600,000 people and made up a share of one quarter of the local income generated. These figures are a testimony to their performance, achieved despite the pandemic-related restrictions that continued to be imposed on the economy and society in many developing and emerging countries in 2021.

What made these companies evidently fare so well during the pandemic, comparatively speaking? Good crisis management hinged not only on the quality of management and corporate governance,

but also on solid resources, for example, in the area of technological innovation and digitisation. Swift access to financing also played an important role. Companies with these skills and resources had the flexibility to adapt to the ever-changing challenges of Covid-19 or to better respond to them. However, the pandemic has also posed a major challenge for well-positioned companies that operate in particularly hard hit industries, for example.

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## **RESILIENCE IN PANDEMIC TIMES**

The Covid-19 crisis has affected countries and companies in Africa to very different extents. In countries that rely on tourism, the global travel restrictions led to significant downturns, with supply chains interrupted and sales markets rendered inaccessible. DEG supported companies in Africa with special pandemic response measures, thereby ensuring that they had a supply of liquidity, for instance. Ghanaian fashion company “Do the Right Thing” (DTRT Apparel), founded in 2013, was able to keep up with its rent and maintenance payments thanks to the swift provision of liquidity financing by the AfricaConnect programme. As a consequence of the Covid-19 pandemic, DTRT Apparel – which employs 2,600 persons (65 % are women) in Accra – had to halt production for several weeks in 2020. Thanks to rapid liquidity funding, the company was able to retain all jobs, despite its decline in sales and production stoppage. Furthermore, DTRT Apparel used part of this funding to produce simple face masks for the local market.

*From 2018 to 2020, foreign direct investment in Africa’s Information and communication technology (ICT) sector rose from around USD 4 billion to around USD 9 billion, according to UNCTAD.*

On the other hand, there were some signs of positivity during the pandemic. Digital products and services were developed to an increased extent, such as for the health sector and e-commerce. In addition, companies used the rising demand from a growing middle class for consumer goods to further expand local supply chains and shorten delivery routes, among other things. This helped to create more value locally and increase local income. By financing and supporting innovative companies committed to developing new technologies, and in particular facilitating digital connectivity, DEG contributed to modernisation efforts in these areas – and by doing so, also covered a need driven by the pandemic. In the past 15 years, these sectors in Africa have been the driving forces behind development, with some countries on the continent coupling infrastructure expansion with early-stage investments, not only in the energy sector, but also in broadband networks and telecommunications. From 2018 to 2020, foreign direct investment in Africa’s ICT<sup>1</sup> sector rose from around USD 4 billion to around USD 9 billion, according to UNCTAD.

## **DIGITISATION AS A DRIVING FORCE IN THE FINANCIAL INDUSTRY, HEALTH SECTOR AND TRADE**

Fintech companies, for example, are benefiting from this today. Online financial services are in demand in developing and emerging countries because only a few people there have a traditional bank account or other access to banking services. Digital technologies have been used for more than a decade to create new banking models, such as “mobile money”, which enables bank transactions to be conducted on mobile phones.

Digital financial services especially saw increased demand during the pandemic, when used to

further expand online trade. In 2020, for instance, DEG customer Copia, in Kenya, expanded its offering to include integrated fintech services, such as operating loans for intermediaries (see box on next page).

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Other financial products for credit services allow users to carry out all of the steps of the loan process on their phone, in digital form, from finding a loan to getting it approved and repaying the amounts due. DEG finances fintech companies that reach out to entrepreneurs who have previously not had access to financial services or who have been dependent on lenders, often charging very high-interest rates.

Digitalised health services are helping to improve the provision of health care in Africa, particularly in pandemic times. They have helped to provide information to patients with a suspected coronavirus infection at an early stage. This is especially important in developing countries, which have very few intensive care beds. Penda Health, one of the largest private health care providers in Kenya, thus makes use of its strong presence on social media. The company uses different channels to raise awareness of its call centres, which are available to answer any Coronavirus questions and share preventative measures. The aim is to reach as many people as possible and better manage patient numbers in medical care centres.

## *Copia Kenya: e-commerce company integrates fintech services*

Until now, 750 million people in Africa have been cut off from the supply of goods for their everyday needs, or they have had to go a long way to get them. Copia Kenya's recipe for success is a mix of local infrastructure and new technologies. The company is training local micro-enterprises such as small shopkeepers and hairdressers to act as intermediaries – so-called Copia Kenya agents. Through them, customers in regions without a traditional postal delivery service can use an app or catalogue to order goods, which they receive from the intermediaries within 48 hours.

The importance of digital commerce was demonstrated during the Covid-19 pandemic, when Copia significantly increased its turnover. The company currently supplies more than a million people with affordable everyday items, such as household products, medicines, electronic goods or simple tools. This is done through a network of over 25,000 mainly female intermediaries, known as Copia agents, who earn additional income in this way.

### **INNOVATIVE BUSINESS MODEL**

Over the past year, Copia Kenya has expanded its offering to include integrated fintech services, such as operating loans for businesses, which the company grants and manages through a digital channel. Additional credit and insurance products and a Copia Kenya e-wallet are in the pipeline. DEG, the German development finance institution, provided equity capital of USD 7.5 million to finance these expansion investments. It provided Copia Kenya with funds under the Up-scaling programme, enabling it to acquire storage space and invest in IT infrastructure. Through financing from the Up-scaling programme, this development financing institution supported the company in the early stage of business development in order to establish its innovative business model in Kenya. With its current investment, DEG not only offers young companies a financing continuum, but it also commits itself to the innovative business field of embedded finance.

Ensuring the provision of consumer goods to individuals in the countryside is another area of activity in terms of digital connectivity. Digital ordering and transport systems in the areas of trade and logistics can be used by retailers to reduce distribution costs and by farmers and other producers to expand their sales markets. Regional e-shops supply their products to their end customers through established kiosks, thus solving the “last mile” problem, even in rural regions without traditional postal services. The Coronavirus pandemic, in particular, has shown just how important digital trade is today, with Copia (see below), for example, managing to significantly increase its turnover during this time.

These examples from the fintech and e-health sectors show that sound resources, technological innovation and the courage to embrace transformation have played a substantial role in tackling the challenges posed by the pandemic. Companies that were well positioned in these areas managed to keep their head above water during difficult times and, in some cases, emerged from them stronger than before. Further development of these industries will require professional training programmes, long-term financing and, above all, comprehensive advisory services during this challenging process of transformation.

Africa is a focus region for DEG and has been so ever since its foundation in 1962. DEG's current Africa portfolio amounts to EUR 2.4 billion. Even if the Covid-19 pandemic gives positive impulses for certain sectors and industries it remains a challenge for many countries in Africa. The DFI will continue to be in demand as providers of development financing to overcome its effects.



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1 Information and communication technology

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