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The Role of Digitalisation in Strengthening Capacities of Micro, Small and Medium-size Enterprises (MSMEs) in Southern Africa to Take Advantage of the AfCFTA

ECA Sub-Regional Office
for Southern Africa (SRO-SA) &
ECA Digital Centre of Excellence

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ACRONYMS & ABBREVIATIONS

3D	Three-dimensional
3G	Third Generation Mobile Network Technology
4G	Fourth Generation Mobile Network Technology
5G	Fifth Generation Mobile Network Technology
AfCFTA	African Continental Free Trade Agreement
AT	Artificial Intelligence
AU/AUC	African Union Commission
B2B	Business-to-Business
B2C	Business-to-Consumer
BDES	Business Development Services
BSA	Business South Africa
CBAM	Confederation of Business Associations of Mozambique
COMESA	Common Market for Eastern and Southern Africa
CZI	Confederation of Zimbabwe Industries
DCE	Digital Centre of Excellence
DTSA	Digital Transformation Strategy for Africa
EAC	East African Community
ECA	Economic Commission for Africa
ECOWAS	Economic Community of West African States
EDBM	Economic Development Board of Mauritius
GDP	Gross Domestic Product
GNI	Gross National Income
GSM	Global System for Mobile communication
GVC	Global Value-chains
HIV	Human Immuno-Deficiency Virus
ICESA	Inter-governmental Committee of Experts of Southern Africa
ICT	Information and Communications Technology
ITC	International Trade Centre
IOT	Internet of Things
MNO	Mobile Network Operator
MSMEs	Micro, Small and Medium-size Enterprises
MVA	Manufacturing value-added

NATF	Namibian Agricultural Trade Forum
NTB	Non-Tariff Barriers
NTMs	Non-Tariff Measures
PAPSS	Pan-African Payment and Settlement System
REC	Regional Economic Community
SACAU	Southern African Confederation of Agricultural Union
SADC	Southern African Development Community
SME	Small and Medium-size Enterprises
SRO-SA	Sub-Regional Office for Southern Africa
TSA	Tanzania Spices Association
UNDESA	United Nations department of Economic and Social Affairs
USD	United States Dollar
UPU	Universal Postal Union
WB	World Bank
ZNCC	Zimbabwe National Chamber of Commerce

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STUDY OVERVIEW

The key question that the study seeks to answer is broad but simple: ***How can MSMEs be supported to position themselves to participate and take advantage of the AfCFTA and what role can digitalisation play to enable this?*** The study investigates the challenges and obstacles that MSMEs face as they do business in the Southern Africa region. It examines policies and measures that may be implemented to aid the digitalisation and forward competitiveness of smaller businesses in the light of the COVID-19 impact. In identifying the range of opportunities that can be unleashed for MSMEs in Africa through the operationalisation of the African Continental Free Trade Area (AfCFTA), the study focuses on the Southern African Development Community (SADC), with emphasis on how digitalisation, digital tools and digital policies can lead to increased production of 'Made in Africa' goods and the development of regional value-chains. The goal of this report is to assist policymakers in the public sector and private sector players to formulate and implement an optimal digital economy and digitalisation strategies that can aid the digital upliftment of MSMEs to effectively engage in intra-African trade and to be strategically positioned in regional and global value-chains as the AfCFTA is implemented.

Methodology

The study was conducted in four stages: Desk Research, which entailed a comprehensive review of nascent literature on the tripod of connected themes: MSMEs, Digital Ecosystems and AfCFTA; In-depth Interviews with 23 key informants drawn from business associations and industry experts in the SADC region (Appendix C); analysis of retrieved materials and datasets, and report-writing. Through data collection, the work of analysis and the discourse in this report cover the entire Southern Africa region subject to data availability. The study focuses particularly on SRO-SA member states, Angola, Botswana, Eswatini, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Zambia and Zimbabwe. Supplementary insights are also drawn from other non-SADC countries that serve to illustrate the issues being examined.

Structure of the Report

The report is structured into six chapters. Chapter one profiles micro, small and medium-size enterprises; emerging trends in digitalisation and industrialisation; the state of AfCFTA implementation within SADC and the impacts of the trade area on smaller businesses. It also describes the readiness of MSMEs to play an active role in the continental trade area. Chapter two reviews the opportunities which may be opened up by the AfCFTA for MSMEs, particularly within the value-chains adopted for development by SADC with linkages to the continental trade area. Chapter three provides a detailed situation analysis of MSMEs in Southern Africa, the national and regional MSME policies under which they operate, and the constraints they face, especially during the outbreak of Covid-19. Chapter four evaluates the technology and digital economy landscape to map the digital ecosystems of the region and

shows what needs to be done to enable the digitalisation of MSMEs. Chapter five lays out the lessons learned in analysing the literature and key informant discussions while chapter six contains a set of recommendations based on a review of the findings of the study for consideration by policymakers, the private sector and development partners.

EXECUTIVE SUMMARY

This study on the ***Role of Digitalisation in Strengthening Capacities of Micro, Small and Medium-size Enterprises (MSMEs) in Southern Africa to take Advantage of the African Continental Free Trade Area (AfCFTA),*** probes into the network of three critical and connected themes: African MSMEs, Digital Ecosystems and AfCFTA. It lays out an understanding of the state of MSMEs within the Southern African Development Community (SADC) and outlines how governments can create the right conditions for smaller enterprises to optimally participate in their respective national digital ecosystems in order to leverage the range of opportunities opening up for full regional and continental integration through AfCFTA.

AfCFTA holds great promise as an umbrella for driving the next wave of Africa's growth. Anchored on the prioritisation of intra-Africa trade, regional collaboration, industrialisation, and economic diversification, the free trade agreement, when successfully implemented, will consolidate the continent's markets by developing regional and specific value-chains that avail new scalable opportunities to MSMEs and the private sector beyond what they currently have access to, but there is a major concern.

Though the evidence suggests the growing use of digital tools by MSMEs driven by the penetration of mobile networks and the increasing popularity of platforms and social media, it appears that MSME digitalisation is not yet at the scale to positively affect the participation of MSMEs in the AfCFTA in any significant way. Though government policies favour technology adoption, added to the realisation that some private sector actors are developing digital capacity programs, MSME penetration of these initiatives is relatively slim, except in the leading countries in SADC. The gap of a potential shortfall in MSME participation in the continental trade agreement is a real possibility that needs to be envisaged and resolved through proactive policy-making.

The AfCFTA's vision is to encourage MSMEs and large producers to trade among themselves under a collaborative digital system with sufficient guardrails to originate and conclude any trade deal online. Herein lies a twin dilemma. AfCFTA is designed to get African countries to trade in goods within the context of a weak manufacturing base except for the most advanced economies on the continent, South Africa, Egypt, and Nigeria who combined, control 56 per cent of the share of manufacturing in African GDP[1] and economies that are dominated by highly fragmented MSMEs. Additionally, though AfCFTA is designed to bring African countries together in a way never seen before, more direct regional-level institutional arrangements need to be established to coordinate the inclusion of MSMEs in the continental

[1] Signé, L. (2018).

single market so that they can take advantage of the opportunities offered by the AfCFTA when implemented.

To deal with these issues from a continental perspective, African policymakers are in uncharted territory concerning AfCFTA implementation, yet no argument that the African MSME sector needs no support can be sustained. The evidence shows that MSMEs may find it difficult to participate and take advantage of the AfCFTA without significant digitalisation upgrades, capacity development and institutional support leading to the removal of barriers to doing business across borders. While all the AfCFTA agreement and negotiated protocols should contribute to the reformation of the public and private sectors, and positively impact MSMEs when operationalised, MSME-focused institutional coverage is required and the interests of MSMEs need to be directly acknowledged and taken into account in the development of regional and national strategies for implementing the free trade agreement. MSMEs need external help in virtually all the SADC countries without which, their participation in AfCFTA is likely going to be feeble. There is a clear need to supplement the '*pull*' of the AfCFTA agreements and protocols with regional institutional arrangements and private sector involvement to '*push*' MSMEs into the trade area in a concerted way. The assumption that MSMEs will automatically be lifted to participate in AfCFTA when countries improve their domestic business environments may be overly simplistic or even far-fetched.

For AfCFTA to be a game-changer for MSMEs as intended, market-liberalisation policies have to be fully established at country levels with the help and coordination support of RECs to stimulate sectoral growth, build productive capacities, strengthen the competitiveness of African MSMEs and assist them to take advantage of the opportunities that the AfCFTA will unlock. Digitalisation can be an important lever for achieving this as demonstrated by this study.

There is also important work ahead to resolve incoherence and inconsistencies within and between national regulatory systems. For instance, harmonising how MSMEs will be defined in SADC has been unsuccessful so far, yet there are far more complex issues to deal with including traditional and digital taxation policies, e-payments, e-logistics, e-commerce, and digital trade, among others. Governments have to commit to coordinated business climate reforms – consolidated at the REC level – to develop their national MSME sector and make AfCFTA work for participating countries. Coordinated business reforms and the harmonisation of MSME policies and digitalisation strategies at the AU and RECs should result in the upgrading and digitalization of MSMEs.

, Having a holistic vision of what the government wants to do for the MSME sector is critical at the other end of the MSME policy development spectrum. The AfCTA as well as national governments have to showcase to MSMEs where profit-making and productivity opportunities lie. MSMEs are unlikely to digitalise simply for their sake, except there are compelling opportunities that only digital tools can help to exploit. A small farm holder may invest in digital tools if that is the only way to sell produce at a higher price for better profits in another African country but will need access to that information in addition to business support, digital

literacy, instant payments and seamless logistics. AfCFTA's overall success is firmly tied to the untangling of a "spaghetti bowl of complex regulations", which hinder the development of the MSME sector.

African countries are do not have a shortage of resources to develop and digitalise the MSME sector. What is missing is a consciousness of the benefits, the intent to get all of those benefits and the openness to collaborate. MSME participation in AfCFTA is presently made much more complicated by the difficulty that neighbouring countries have in overcoming the business environment for cross-border exchanges, but AfCFTA's success is pre-eminently tied to the elimination of these challenges at both the national and regional levels.

CHAPTER ONE: MSME, AfCFTA AND DIGITALSIATION

This Section profiles micro, small and medium size enterprises, the emerging trends in their digitalisation and industrialisation, the state of AfCFTA implementation in SADC, AfCFTA impacts, and how ready MSMEs are to play an active role in the continental free trade area.

1.1 Characterising African MSMEs

The post-implementation success of the Africa Continental Free Trade Area (AfCFTA) critically depends on the involvement and active participation of the private sector, a sector that drives the economic growth and development of African countries.[2] According to a 2020 Google/IFC study, 1,100 companies are operating in Africa with annual revenues over US$500 million.[3] These large corporations are likely going to be early players in the AfCFTA as they have the capacity and resources to access and exploit new opportunities across a wider array of countries and markets. However, most private businesses are not at this scale as they fall within the band of micro, small and medium-sized enterprises (MSMEs), yet these smaller firms constitute the *real* backbone of African economies as they make up at least 90per cent and 60per cent of businesses and jobs on the continent.[4]

MSMEs represent nearly all enterprises in Tanzania (99.5 per cent), Malawi (98.0 per cent), Zambia (97.0 per cent) and 87.0 per cent of all businesses in Lesotho to date, based on information provided at the 23rd session of the Intergovernmental Committee of Experts of Southern Africa which was held in September 2018.[5] MSMEs generally work under tough conditions and business environments due to their small sizes and restricted ability to scale, and the vast majority falls within the informal sector, which further impedes their capacity and capability to participate in the AfCFTA. In Southern Africa, informal MSMEs average 83 per cent in all the countries for which there is independent data (Table 1).

[2] ECA (2020a).
[3] Google and International Finance Corporation (2020).
[4] ITC (2018b).
[5] ECA (2020b).

Table 1: Proportion of MSMEs in Southern Africa.

No. of MSMEs		Percentage of unregistered MSMEs	
South Africa[6]	5.780m	Zambia[7]	90%
Zimbabwe[8]	3.500m	Malawi[9]	89%
Tanzania[10]	3.162m	Mozambique[11]	87%
Malawi[12]	1.600m	Tanzania[13]	86%
Lesotho[14]	76 068	Zimbabwe[15]	85%
Eswatini[16]	68,000	South Africa[17]	84%
		Lesotho[18]	81%
		Eswatini[19]	75%
		Mauritius[20]	70%

Source: In-table references.

Constraints in the business environment hinder value-adding activities, limit growth opportunities, and as a result, in degrees that vary from country to country, few micro and small operators develop into medium-sized or large enterprises. The contrast of an exceedingly large number of smaller firms set against a rather small number of medium or large corporations is a phenomenon described in the literature as the "missing middle".[21] The total number of MSMEs operating in Africa, notwithstanding the best efforts of researchers at estimation is unknown.

Despite the limiting factors they face, MSMEs make a significant contribution to SADC economies reaching up to 70 per cent in Zambia, 50 per cent in Zimbabwe, 40 per cent in Mauritius and 34 per cent in South Africa (Table 2). Lower numbers reflect economies with less dependence on MSMEs. According to OECD, 22 per cent of new jobs on the continent are being created by smaller businesses formed within five years.[22] Developing and digitally

[6] IFC (2018). The Small Enterprise Development Agency has a much lower figure for the number of MSMEs in the country – 2.251million. See SEDA (2016), The Small, Medium and Micro Enterprise Sector of South Africa.
[7] Ministry of Commerce, Trade & Industry Zambia (2008).
[8] Finmark Trust (2012).
[9] Finmark Trust (2019).
[10] Ministry of Trade & Industry Tanzania (2012).
[11] Key informant interview.
[12] Finmark Trust (2019).
[13] Ministry of Trade & Industry Tanzania (2012).
[14] Finmark Trust (2015).
[15] IFC (2018).
[16] Finmark Trust (2017).
[17] IFC (2018).
[18] Finmark Trust (2015).
[19] Finmark Trust (2017).
[20] Source: In-depth interview with SME Mauritius. Statistics Mauritius estimate for unregistered MSMEs is 7% in "Census of Economic Activities, Small Establishments" (2013).
[21] ECA (2020a).
[22] AUC/OECD (2019).

enabling this pivotal sector is essential to achieve an Africa that improves the quality of life of Africa's citizens as envisaged by the AfCFTA. Table 2 below shows the contribution of MSMEs to national economies in Southern Africa.

Table 2: Contribution of MSMEs to national economies in Southern Africa.

Economies with MSME contribution to GDP greater than 50%		**Economies with MSME contribution to GDP lower than 50%**	
Zambia	70.0%	Lesotho	15.0%
Zimbabwe	50.1%	Botswana	20.0%
		Angola	20.5%
		Tanzania	27.0%
		Namibia	30.0%
		South Africa[23]	34.0%
		Mauritius	40.0%

Source: ECA (2020b)

1.2 Defining MSMEs

To understand the challenges and constraints that MSMEs face as they do business and to assist them to actively take up and participate in the AfCFTA, it is necessary to know how they are defined. As with the rest of the continent, there is no uniform definition for MSMEs in Southern Africa. Countries define MSMEs based on broad policy objectives and development considerations. MSME definitions tend to be articulated in policy and, in a few cases, legislation but definitions are rarely updated to account for changes in macro-economic variables.

In existing research, the parameters by which MSMEs are defined are typically sales turnover, the number of employees and asset size, either solely or in combination. A 2017 survey conducted by The Alliance for Financial Inclusion, whose membership is made up of central banks across the globe, Southern Africa inclusive, established that the top criteria for defining MSMEs by its members is the number of employees, followed by sales and then assets.[24] In an older IFC study that reviewed data across 152 economies, the number of employees (92 per cent) was the most widely used parameter for defining MSMEs, then turnover (49 per cent) and assets (36per cent).[25] Eleven per cent of countries employed alternative indicators such as years of incorporation, formalisation, or loan size. Furthermore, while many state bodies tend to use the number of employees as their anchor criteria, primarily due to the development impact of job creation, financial institutions and tax regulators focus on MSME assets,

[23] IFC (2018).
[24] AFI (2017).
[25] IFC (2014).

particularly annual turnover, in profiling how they extend loans to or interact with smaller enterprises (Table 3).

Table 3: Selected definitions of African MSMEs

	Indicator	Micro	Very Small	Small	Medium
COMESA[26]	*Employees*	2–9		10–50	51–150
IFC[27]	*Turnover*	<R500,000	R500,000 < Rm	R1m < R5m	R5m < R20m
ITC[28]	*Employees*	< 5	5–19	20–99	100 or more
McKinsey[29]	*Turnover*	<US$0.1m		US$0.1m–0.5m	US$0.1m–3.5m
UNIDO[30]	*Employees*	<10		10–49	50–249
WBG[31]	*Employees*	1–9		10–49	50–249

Source: In-table references.

Presently, the lowest and upper limits for the maximum number of employees, zero (0) and two hundred and fifty (250) respectively, is held by South Africa (Table 4). In every other country save Democratic Republic of Congo (200), enterprises are no more classified as MSMEs once they employ more than 100 workers. Only Eswatini (60), Angola (>19), Lesotho (49), and Zimbabwe (75) have lower limits. Country-specific MSME definitions by assets and turnover can be found in Appendix A.

[26] COMESA (2013).
[27] IFC (2018).
[28] ITC (2018b).
[29] McKinsey (2012).
[30] UNIDO (2005).
[31] Global definition - see Kushnir, K., Mirmulstein, M., & Ramalho, R. (2010).

Table 4: MSME Country Definitions by Number of Employees

Country	Year	Micro	Small	Medium
Angola[32]	2016	1-9	10-19	>19
Botswana[33]	2016	1-4	5-19	20-99
DR Congo[34]	2019	1-10	11-50	51-200
Eswatini[35]	2018	0-10	11-20	21-60
Lesotho[36]	2016	1-2	3-9	10-49
Madagascar[37]	2005	1-3	4-15	16-100
Malawi[38]	2019	1-4	5-20	21-99
Mozambique[39]	2015		1-9	10-99
Namibia[40]	2016	1-10	11-30	31-100
South Africa[41]	2019	0-10	11-50	51- 250
Tanzania[42]	2012	1-4	5-49	50-99
Zambia[43]	2014	<10	11-50	51-100
Zimbabwe[44]	2018	1-9	10-40	41-75

Source: In-table references.

A further observation in literature is the existence of multiple definitions for MSMEs within countries (e.g., Namibia, Seychelles). In many instances, state agencies and private actors define MSMEs differently from the principal legislation or national policy document. In South Africa, though the Department of Small Business Development, the primary agency for MSME development, applies definitions outlined in the National Small Business Amendment Act 2003, the South African Revenue Service, private banks and other MSME stakeholders define and engage with MSMEs using different criteria sets.[45] In addition, it appears that official definitions are not binding nationally nor on the private sector and there are no guidelines that prevents interested parties from generating their own MSME definitions. A recent representative survey of 2,600 MSMEs in South Africa proposes the classification of micro, small and medium enterprises using five variables: business registration, number of permanent staff employed, type of bank account utilised, the treatment of cash in the business and the

[32] INE - Instituto Nacional de Estadistica. Anuario de Statistica das Empresas, www.ine.gov.ao/publicacoes/economia-e-financas-artigos/202-anuario-de-estatistica-das-empresas.
[33] ITC (2019a).
[34] World Bank (2019b).
[35] Finmark Trust (2017).
[36] Finmark Trust (2016).
[37] ADA (2019).
[38] Ministry of Industry, Trade & Tourism Malawi (2019).
[39] National Statistical Office, http://www.ine.gov.mz/operacoes-estatisticas/censos/censo-das-empresas
[40] Ministry of Industrialization, Trade & SME Development Namibia (2016).
[41] Department of Small Business Development South Africa (2019).
[42] Ministry of Trade & Industry Tanzania (2012).
[43] Ministry of Commerce, Trade & Industry Zambia (2008).
[44] Zimbabwe Revenue Authority, www.zimra.co.zw/index.php?option=com_phocadownload&view=category&id=23:legislation&Itemid=112.
[45] IFC (2018).

business infrastructure density.[46] This may work for countries with extensive MSME databases but may be difficult to implement where these enterprises have not been comprehensively identified.

To resolve this problem, there have been discussions on a common definition for Southern Africa at the regional level, though this has not progressed due to a divergence of views. SADC appears inclined towards encouraging member states to adopt the UNIDO definition where any enterprise having less than 250 employees would be classified as MSME.[47] The regional body also wants definitions to include the turnover parameter so that the economic contribution of MSMEs can be measured. As only two countries have upper limits above 100 employees, it may be a stretch to push for an upper limit beyond this. It may even be argued that a uniform definition for MSMEs for Southern Africa may not be desirable, given the wide disparities in economic levels and advancements, development objectives, data availability and the prevalence of business in formalisation, among other factors.

1.3 Digitalisation & Digital Ecosystems

The AfCFTA is greatly dependent on the digitalisation of the public and private sectors. The digitalisation of the national economy usually improves public and private access to platforms, data services and online applications, which (in turn) facilitates cross-cutting support for value-chains and critical areas of the economy including agriculture, education, finance and health, to list a few. In the private sector, there is mounting evidence that digitisation and digital business solutions can yield significant positive impacts on the productivity, capital and revenue of enterprises.[48] Digitalisation has been proven to transform industries, value-chains and economic segments including the MSME sector.[49] A recent study using World Bank Enterprise data for 266 economies demonstrated that the business use of email in communicating with suppliers and clients, ownership of a business website, or newer equipment of technologies by medium-sized enterprises have positive effects on employment growth.[50]

Despite the reflections above, there is no universally agreed definition for what really is digitalisation. A recent paper equates digitalisation to the "digital transformation of the economy, achieved through an interaction of digital technologies such as cloud computing, artificial intelligence (AI), Internet of Things (IoT), to cite a few, with physical ICT infrastructure".[51] However, digitalisation can occur locally within an enterprise or organisation without necessarily involving only advanced technologies nor even directly, or ultimately,

[46] IFC (2020b).
[47] SADC (2018b).
[48] World Bank (2020b).
[49] Disse, S. & Summer, C. (2020).
[50] Ndiaye, N., Razak, L.A., Nagayev, R., Ng, A. (2018).
[51] Banga, K. & Willem te Velde, D. (2018).

result in the digital transformation of the economy. Furthermore, technologies change and the range of applications they enable frequently become obsolete within a short time. So, a definition as this may be time limited.

Digitalisation has equally been defined as "the way in which many domains of social life are restructured around digital communication and media infrastructures"[52] or "the integration of multiple technologies into all aspects of daily life that can be digitised".[53] These definitions may apply in some way to MSMEs, but not so much due to the social slant of these particular definitions. Nonetheless, one increasingly accepted definition is that it is the transformation of businesses through the use of digital technologies, products and services.[54] Though somewhat narrow as it excludes public sector uses, the role of complementary ecosystems of entrepreneurship and digital skills, and the part the national ICT infrastructure plays in creating an enabling environment for digitalisation appears consistent with current trends and understanding of the subject. It may also apply to African MSMEs where digitalisation needs are nascent and the digital tools necessary to achieve digitalisation are relatively simple as revealed by this study.

Perhaps, a more rounded way to digitalisation with MSMEs is to view it in terms of digital ecosystems. Gartner classifies a digital ecosystem as "an interdependent group of enterprises, people and/or things that share standardised digital platforms for a mutually beneficial purpose, such as commercial gain, innovation or common interest".[55] There are numerous variations of this definition,[56] but what seems common is that digital ecosystems function as a unit and are characterised by innovation, interoperability, digital infrastructure, digital platforms and digital skills, all combined through collaboration into an enabling environment within which each member of the ecosystem thrives. What this means is that the digitalisation of MSMEs is subject to the availability and quality of digital ecosystems within the local environment where they operate. We discuss how digitalisation and digital ecosystems practically apply to Southern Africa MSMEs in Section 4.

1.4 Emerging Trends in MSME Digitalisation

There is evidence that MSMEs in Africa are increasingly adopting digital tools and e-commerce for marketing, sales outreaches and production efficiencies. The increasing digitalisation of MSMEs and their relative openness to exploring digital solutions is a positive trend to getting smaller businesses to participate in the continental free trade area. From recent studies, the use of available digital tools by MSMEs to extend their businesses, has evolved over the past three decades from traditional fixed calls to web and social media platforms that are mainly accessed over mobile phones and devices (Figure 1).

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[52] Bloomberg, J. (2019).
[53] Gray, J., & Rumpe, B. (2015).
[54] Brennen, S. & Kreiss, D. (2014).
[55] Bennett, M. (2017).
[56] See Brush, K. (2019).

Figure 1: Evolution of MSME digitalisation.

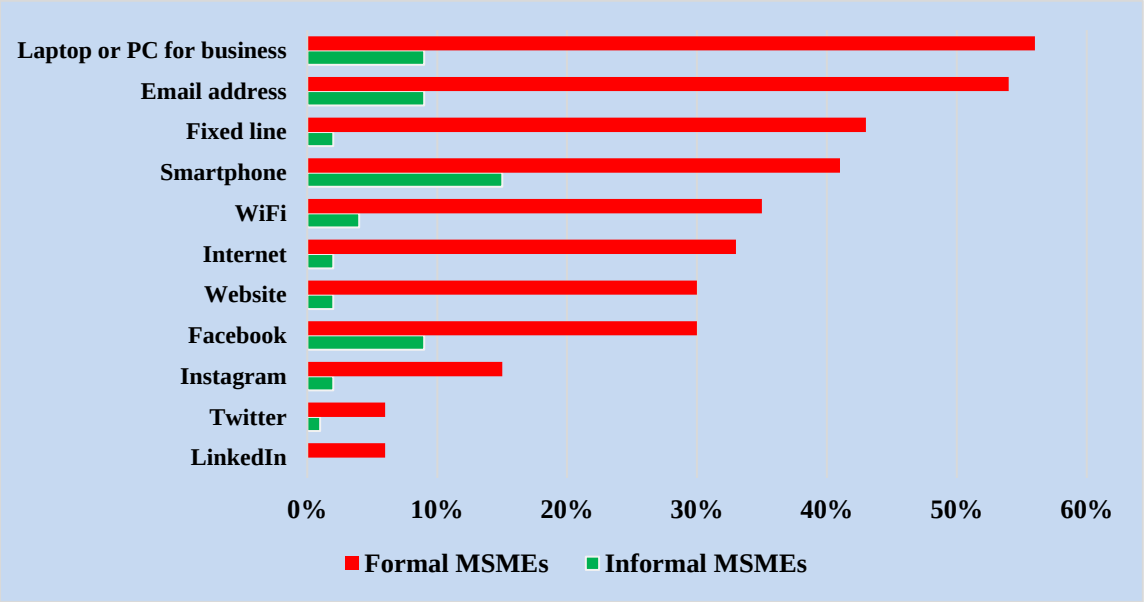
Source: Adopted from pages 53 & 54, Partnership for Finance in a Digital Africa (2019).

Presently, the variety of uses of digital tools by MSMEs appears to be fast-growing. A 2019 survey of Kenyan micro-businesses found increasing use of contemporary digital tools and platforms by MSMEs in their day-to-day business activities.[57] There is also a positive correlation between the use of smartphones by Senegalese MSMEs and exporting.[58] A non-representative survey of 500 SMEs in Nigeria concluded that digitalisation has a significant impact on small and medium-sized businesses that participated in the study, with the effects of SME digitalisation including job creation, poverty reduction and the opening up of new business opportunities.[59] Kenyan MSME platform practices consist primarily of the use of e-commerce marketplaces (Alibaba, Amazon), social media (Instagram, WhatsApp, Facebook) and learning channels (YouTube) to source goods, push sales, and create better products and services respectively.[60]

This trend is not unique to Kenyan MSMEs. 56 per cent of formal MSMEs in South Africa own at least one laptop or computer for business purposes (Figure 2). LinkedIn is gaining traction among educated MSME owners (both men and women) and tech start-ups, according to key informants. Farmers are also being impacted by the increasing use of digital tools by society. Mobile phones acquired by farmers have been primarily for connecting with family members in the diaspora, but these phones are also being used for agribusiness. Mobile Network Operators (MNOs) are major players in enabling infrastructure for MSME digitalisation.

[57] Partnership for Finance in a Digital Africa (2019).
[58] Atiyas, I. & Dutz, M. (2021).
[59] It should be pointed out that this finding was reached through an analysis of the *views* of SME owners and representatives rather than on any hard data. See Shettima, M.B., & Sharma, N., (2018).
[60] Gachoka, A. & Won, J. (2019).

Figure 2: Use of digital tools by South African MSMEs.



Source: IFC (2020b).

MSMEs are going online across Southern Africa and the distinction between their online and offline business activities is gradually narrowing. For instance, 29 per cent of MSMEs in Democratic Republic of Congo are presently utilising ICTs to improve business visibility through websites, social media (9 per cent), online training (7 per cent), and digital tools to support operations (6 per cent).[61] The use of websites and social media is being driven by improvements in the quality of internet connections. More than half of Zambian SMEs in support services surveyed in an ITC study report access to a good-quality Internet link which in turn aids the use of social media for business promotion (56 per cent) and the development of company websites (44 per cent).[62]

However, this is not the whole story. Despite the emerging shift, MSMEs are generally not taking full advantage of digitalisation and its benefits. The FIBR study posits that only a few MSMEs are using advanced digital tools such as subscription services in Tanzania, Ghana and Kenya.[63] A third of South African SMEs that participated in a 2019 survey are apprehensive of "being left behind" as a result of new developments in technology.[64] Key informants point to increasing exposure by MSMEs to online fraud, misinformation and disinformation as challenges to digital adoption by smaller enterprises. A World Bank study of Lesotho's apparel, horticulture and ICT value-chains established that enterprises in the country are yet to benefit from advanced technologies such as 3D design and automation (apparel), online price exchanges and tech-enabled climate systems (agriculture) due to weak competition in the local

[61] World Bank (2019b).
[62] ITC (2018c).
[63] Gachoka, A. & Won, J. (2019).
[64] Xero (2020).

ICT market, poor internet and smartphone penetration, digital illiteracy and power access problems.[65] According to key informants, the present use of digital tools and social media by MSMEs is spontaneous, unstructured and generally lacking in direct policy support.

Nevertheless, on the whole, the evidence shows that African policymakers are accepting and gradually adjusting to the realities and inevitability of digitalisation even if they need assistance with capacities to make it happen. For instance, Mozambique has expressed a determination to aid economic recovery by radically transforming public institutions post-pandemic, so they can digitally interface with a domestic business sector that is increasingly digitalising.[66] Actions planned towards this goal include the acceleration of certain e-government projects including e-taxation. Tanzania also plans to remove policy barriers that inhibit mobile operators from making infrastructure investments into their networks.[67] Despite these, there are no clear-cut digitalisation strategies specifically targeted at MSMEs in the majority of Southern African countries. Presently, business inclusion practices and any digitalisation linkages between large corporations and MSMEs tend to be private sector led. They are not often consequent to direct government intervention or a strategic national process.

Regarding the evidence, digitalisation of African MSMEs on a holistic basis will not happen all by itself as it is much more than the private use of technologies or digital tools by individual operators. As previously highlighted, digitalisation usually occurs within the context of a national digital ecosystem enabled by coherent policies which create a universe of high-quality interconnected networks, services, applications and content available for different types of users and uses.[68] Possibly, a way to develop domestic digital ecosystems with MSME impacts that positively feeds into the AfCFTA is through the coordinated implementation of the Digital Transformation Strategy for Africa by responsible parties (Box 1).

[65] World Bank (2018).
[66] Confederation of Business Associations of Mozambique (2020).
[67] World Bank (2020d).
[68] Gillwald, A., Moyo, M., & Stork, C. (2012).

Box 1. Africa's Digital Transformation Strategy

Central to the digitalisation of African MSMEs is the comprehensive Digital Transformation Strategy for Africa (DTSA)[69] which was adopted at the February 2020 AU Summit in Addis Ababa. The strategy document seeks to create an "integrated and inclusive digital society" in Africa and identifies several key pillars and cross-cutting areas required for digital transformation. These include digital skills, digital regulation, infrastructure, innovation and entrepreneurship, and electronic identification, among others. The innovation and entrepreneurship pillar, in particular, focuses on the importance of Micro, Small, and Medium Enterprises (MSMEs). The DTSA intends to enhance MSME capacities through digital skills training programs and improved access to capital, among other practical initiatives. Internal and external interconnectivity within and between countries, and the promotion of enabling environments for digitalisation such as digital networks, data affordability and digital regulations should also greatly impact and benefit MSMEs when implemented. Heads of State have already requested for the African Union Commission (AUC), the Economic Commission for Africa (ECA), Smart Africa and other development partners to support member states in the local and regional implementation of the DTSA, an action which should substantially benefit the operationalisation of the AfCFTA.

1.5 Likely Impacts of AfCFTA on MSMEs in SADC

While the evidence suggests the growing use of digital tools by MSMEs driven by the penetration of mobile networks and the increasing popularity of platforms and social media, it appears that MSME digitalisation is not presently at the scale to positively affect the participation of MSMEs in the AfCFTA in any game-changing way. Though government policies favour technology adoption and many private sector actors are developing digital capacity programs (Section 3), MSME penetration of these initiatives is relatively slim, except in the leading countries in SADC. The gap of a potential shortfall in MSME participation in the continental trade agreement is a real possibility that needs to be envisaged and resolved through proactive policy making.

The Africa Continental Free Trade Area holds great promise as an umbrella for driving the next wave of Africa's growth as it is anchored on the prioritisation of intra-Africa trade, regional collaboration, industrialisation and regional value-chain development, and economic diversification. The AfCFTA promise and framework is presently mobilising a unified

[69] African Union (2020c).

approach to the formulation of market-liberalising policies by national governments in addressing the challenges of trade, both in the real and digital economies. The agreement which has been ratified by all but one AU member state - Eritrea, brings together African countries in a way no other previous arrangement has done and is building an expectation of cross-border trade, and the possibility of a new cycle of direct investments. Various forward-looking models estimate the AfCFTA's positive impacts within the first 10 years of implementation to include a 52 per cent rise in intra-Africa trade,[70] annual growth in GDP of up to 0.97 per cent for the region,[71] and consumer and business spending reaching a combined value of US$6.7 trillion.[72] All countries are projected to achieve gains from exports of up to 2.2 per cent or US$56 billion by 2040.[73]

The free trade agreement seeks to enhance MSME capacities and capabilities to foster intra-African trade and regional integration, promote industrialisation, diversification and growth, expand economic opportunities, create employment and reduce poverty, among other goals. When successfully implemented, the AfCFTA should aid the development of regional value-chains, the consolidation of markets on the continent through African trade, and ultimately, the upscaling of the private sector and MSMEs so they can exploit new opportunities beyond what they currently have access to. The operational phase of the agreement was launched in 2019 at the 12th Extraordinary Summit of the African Union Heads of State and Government, and trading officially commenced on January 1, 2021.[74] Though the agreement is now operational, early engagement by the private sector, MSMEs inclusive, is slow as the requisite protocols to give force to the trade agreement including investment, e-commerce, competition policy and intellectual property rights are undergoing negotiations.

Technology related plans of the SADC that have an effect on or benefit MSMEs are laid out in SADC Digital 2027, SADC Cybersecurity Action Plan, SADC Interconnection Policy Framework, and the work of the SADC 4R Task Team. The REC also intends to develop a Big Data Framework and a Big Data Regional Hub. SADC on its own, however, admits to experiencing country-level implementation challenges, resource constraints and a lack of appreciation by citizens in the region of the benefits of the economic community.[75]

1.6 Regional Trade

According to the World Bank, the effective implementation of AfCFTA will increase intra-Africa trade in manufactured goods by 110 per cent by 2035.[76] Manufacturing exports to destinations outside the continent will also rise by 46 per cent. In contrast, the contribution of MSMEs to regional exports is negligible at present. For instance, only 2 per cent of MSMEs in

[70] Fofack, H. (2020).
[71] Mesut, S., Peters, R. & Knebel, C. (2018).
[72] Signé, L. & van der Ven, C. (2019).
[73] ECA (2020c).
[74] Fofack, H. (2021).
[75] SADC (2020b).
[76] World Bank (2020e).

Malawi participate in exports, the main destinations of which are Tanzania and Zambia.[77] Furthermore, according to the same report, business-to-business linkages within value-chains are also limited, involving only 22 per cent of MSMEs as the majority of small businesses in the country (68 per cent) sell directly to consumers. Malawian MSME imports are mainly from China, South Africa and Zambia, and are being presently carried out by 6 per cent of micro, small and medium-sized enterprises. Only 19 per cent of Nigerian MSMEs participate in international trade and only about a quarter (24 per cent) of all manufacturing companies are responsible for the country's exports.[78]

Though the situation is as above, AfCFTA should change this picture. An AfriLabs 2020 survey of 1,000 African entrepreneurs and tech start-ups showed that 74 per cent are currently exploring opportunities to scale their home-grown innovations beyond borders once they can overcome the constraints of poor cross-border logistics, high transport costs, multiple language barriers and limited investment capital.[79] Though it is anticipated that the operationalisation of AfCFTA and associated institutional arrangements will help in advancing cross-border trade, it is obvious that member states will need to provide additional impetus for growth through direct policy interventions and deeper collaboration with other countries to positively impact MSMEs.[80] Key informants generally agreed that regional trade will benefit from the industrialisation of MSMEs which is a core component of the AfCFTA.

1.7 Industrialisation

The evidence in the literature is that African manufacturing is largely underwhelming and non-competitive, which is not the case with African commodities, as most economies are yet to diversify from their high resource or agriculture-bases. Zambia's assessment of the readiness of the country's exporters for AfCFTA states that "the greatest limitation to export growth is not market opportunity but limited domestic supply capacity".[81] This rings true for much of Africa. Africa's manufacturing value added (MVA) dropped from 16.3 per cent to 9.7 per cent in the ten years from 1990 to 2010 and currently stands at 11.3 per cent.[82] SADC manufacturing value-added as a proportion of GDP, has similarly declined from 12.4 per cent in 2009 to 10.9 per cent in 2019[83] with Botswana, Zambia, Angola and Tanzania being the lagging countries (Table 5). Though South Africa is the dominant economy in the region, the growth of its manufacturing sector has been almost negligible in recent years.

[77] Finmark Trust (2019).
[78] NACCIMA (2020).
[79] AfriLabs (2020).
[80] ECDPM (2020).
[81] Ministry of Commerce, Trade and Industry (2020).
[82] World Bank (2021).
[83] SADC (2021).

Table 5: State of manufacturing in SADC.

Country	Manufacturing GDP 2019 (US$, m)	Manufacturing Value Add, Avg. Growth Rate 2016 - 2019 (%)	Avg. Manufacturing Value Add as % of GDP (2019)
South Africa	41,396	0.2	11.8%
Angola	7,151	4.6	7.7%
Tanzania	5,188	9.5	8.5%
Zimbabwe	3,181	1.1	11.9%
Zambia	1,742	3.2	7.6%
Mauritius	1,534	0.7	10.9%
Namibia	1,452	3.4	11.7%
Mozambique	1,385	2.3	9.1%
Botswana	962	2.5	5.2%
Malawi	729	2.6	9.1%
Lesotho	381	4.7	16.0%

Source: SADC (2021).

AfCFTA depends on the industrialisation of Africa and the domestic production of local goods. According to a study, diversified economies with a solid industrial base producing locally manufactured goods will be the early beneficiaries of AfCFTA.[84] As of now, though there appears to be growing use of ICTs in manufacturing in many countries, it would appear that this rise is due to an adaptation by local enterprises to global trends rather than a response to any explicit digital policies that specifically promote value-added manufacturing. Gambia is an example of a country that neither has a national digital trade nor e-commerce policy nor even a national electronic payment system but since 2014, FarmFresh, a local e-commerce platform, has been doing local produce online marketing and selling for smallholder farmers. The service features mobile money payments involving Gambians within the country and in the diaspora,[85] yet AfCFTA is dependent on trade in locally produced goods which have to be competitive to thrive in cross-border markets.

Industrialisation is largely driven by the national policy and regulatory environment. In Southern Africa, the industrialisation policies and strategies are presently shaped by the SADC Industrialisation Strategy and Roadmap (2015 – 2063), which aims to enable "economic and technological transformation at the national and regional levels within the context of deeper regional integration".[86] The document is consistent with Agenda 2063 of the African Union and outlines several strategies including efforts to encourage the use of state-of-the-art technologies, the emergence of tech start-ups and the coordinated ICT-enabled manufacturing

[84] UNCTAD (2019)
[85] Republic of Gambia (2018).
[86] SADC (2014).

of goods throughout the region. In 2018, the REC released a regional SME policy containing strategic thrusts for achieving the goals of industrialisation, though micro-enterprises are inexplicably excluded. The document identified five critical conditions that need to be put into place by member states for the industrialisation of SMEs. These are: capacity-building programs, access to capital, access to information, enabling fiscal and policy environment, and assistance with digitalisation.[87]

Furthermore, heads of states in the Southern Africa region, except Botswana, Seychelles, South Africa and Zambia, approved the SADC Protocol on Industry in August 2019.[88] The Protocol lays out plans for the development of globally competitive MSMEs within the region through the promotion of industrialisation, strengthening public and private sector capabilities, improving the regulation of technical standards, protecting intellectual property rights and facilitating investments, among others. Article seven (7) of the Protocol describes intentions to promote the industrialisation of MSMEs in the region through the implementation of strategies that increase the formalisation of small operators, identify opportunities in export markets for cross-border trade, enable linkages with large enterprises, and the promotion of women and youth businesses. National governments are responsible for implementing the Industry Protocol. However, it will be necessary to develop and harmonise practical steps to achieving the MSME-focused goals as they are yet outstanding.

At the national level, industrialisation plans generally encourage local production and local sourcing of inputs and raw materials. Most countries have identified certain value-chains for improvement and further development and have put policies in place towards this objective. Nevertheless, the region's overall industrialisation is weak. One factor in this respect is the challenge of sketchy implementation of national and regional industrial policies.[89] There is overwhelming evidence of a disconnect between the apparent sound commitment by African governments to progressive industrialisation policies on the one hand and the practical implementation of those policies on the other, which in one report is attributed to ineffective institutional capacity or weak political economy environments.[90] The challenge of policy and regulatory failures and insufficient implementation leadership is a general problem that would need to be overcome if an enabling environment would be created for MSMEs to produce high-quality local goods that would be traded across borders under the AfCFTA.

Positively, there appears to be some indication of an uplift in the continent's industrialisation. According to the African Development Bank, Africa's industrial GDP increased by 17 per cent to reach US$731b in 2019, with MVA growth rising to 39 per cent.[91] While the MSME component of these figures is unclear and the contribution of manufacturing MVA to national GDP is relatively modest as highlighted, a regionally coordinated approach to policy

[87] SADC (2018b).
[88] SADC (2020a).
[89] SADC (2019b).
[90] Lopes, C. & Willem te Velde, D. (2021).
[91] African Development Bank (2020).

harmonisation and implementation may be necessary to ensure that the recent upswing in industrialisation directly results in locally produced goods being brought into the AfCFTA framework. Producing MSMEs will benefit from improvements in industrialisation policies, especially if direct provisions and incentives are designed for them. Going forward, digitalisation may also aid the industrialisation and competitiveness of the Southern Africa manufacturing sector if such factors as connectivity, digital infrastructure and digital ecosystems to support the rapid deployment of advanced technologies are enabled through progressive AfCFTA compliant policies.

1.8 Are African MSMEs Ready for the AfCFTA?

1.8.1 AfCFTA and Implications for MSMEs in Africa

The AfCFTA architecture consists of a sound set of negotiated agreements and protocols which are intended to create a liberalised single market for African goods and services.[92] The agreement lays the basis for the structural transformation and diversification of African economies, industrial development, and the competitiveness of the African public and private sectors. The AfCFTA seeks to promote regional integration and collaboration, the development of regional value-chains, and the establishment of a single Customs Union for the continent, among others. Phase one negotiations have been concluded and three protocols have been ratified: the Protocol on Trade in Goods, the Protocol on Trade in Services; and the Protocol on the Rules and Procedures on the Settlement of Disputes. Phase two of the AfCFTA negotiations on Protocols on Investment, Competition, and Intellectual Property Rights is currently ongoing. The e-Commerce Protocol which was initially planned for Phase three has been fast-tracked and brought into the second negotiations phase.

However, the AfCFTA is much more than an ordinary agreement between nations on trade liberalisation or economic development. It is a watershed for the African continent. The agreements and protocols are designed to create a new momentum of opportunities, investments, and growth leading to the reformation of the public and private sectors with positive MSME impacts when operationalised. For instance, the removal of tariffs on at least 90 percent of goods and the elimination of non-tariff barriers will aid trade in goods as will the liberalisation of trade in services.[93] Some provisions allow states to establish policies for the protection of "infant industries", which are producers in economic sectors of strategic national importance. Article 27 of the Protocol on Trade in Services directs states to mobilise resources to improve the "export capacity of both formal and informal service suppliers, with particular attention to micro, small and medium-sized; women and youth service suppliers".

While all the AfCFTA agreement and negotiated protocols should contribute to the reformation of the public and private sectors, and positively impact MSMEs when operationalised, MSME-

[92] African Union (2018).
[93] UNDP (2020).

focused institutional coverage is required and the interests of MSMEs need to be directly acknowledged and taken into account in the development of regional and national strategies for implementing the free trade agreement. From a review of the agreement and protocols being currently negotiated, AfCFTA provisions for MSMEs are obligatory rather than revolutionary. This is not to question the innovatory agreement, yet there are important MSME-related gaps that need to be addressed to ensure that micro, small and medium-size enterprises successfully participate in the AfCFTA. For instance, while the Protocol on Trade in Services seeks to channel the potential and capacities of MSMEs to participate in regional and global value-chains, the strategies detailing how this would be done still need to be developed. Article 27 (2d) of this Protocol directly mandates countries to give specific attention to formal and informal MSME service suppliers, especially those owned by women and youth,[94] although the national or regional mechanisms for ensuring this happens, in reality, are yet to be specified and still need to be worked out. For example, how will informal MSMEs actually participate in AfCFTA? Section 3.3 discusses this issue.

To illustrate, AfCFTA's dispute resolution mechanisms are said to be ground-breaking and, in the words of a key informant, "better than WTO's" in the sense that state parties can be sued by private business regarding any AfCFTA-related dispute. However, the hard reality is that MSMEs typically do not have the financial resources nor the wherewithal to do businesses in another country or even take their national governments to court. Perhaps incentives-in-kind such as free access to a pool of trade attorneys may be developed to enable MSMEs utilise the dispute resolution framework of the AfCFTA.

Presently, evidence shows that the ability of African MSMEs to participate in AfCFTA (even if they digitalise) is greatly limited by a variety of critical real-world factors such as:

- The high costs they experience doing business in their respective countries: Based on the in-depth interviews, these costs are partly due to the high-handed way MSMEs are regulated, particularly in the areas of licensing, taxation and compliance, which altogether lead to high input costs. It is anticipated that the progressive implementation of the AfCFTA should lead to corresponding reductions in the costs of the inputs of smaller businesses as a resulting of improved business environments.

- The limitations and barriers encountered in cross-border trading: The movement of goods and services between countries, a central premise of the AfCFTA, is presently affected by the prevalence of Non-Tariff Barriers (NTBs) and Non-Tariff Measures (NTMs) existing in most countries in furtherance of certain domestic goals. Across Africa, there are inter- country trade disputes leading to the closure of borders and restriction of trade, which if unresolved, will continue to affect MSMEs and intra-Africa trade in undesirable ways. There is general resistance on the part of many governments in opening up the services sector to external competition or players from

[94] African Union (2018).

other countries. The ultimate removal of NTBs and NTMs is a major objective of the AfCFTA and represents a unique opportunity for government ministries responsible for the development of the MSME sector.

Furthermore, the movement of goods across borders is presently subject to elongated non-digital processes even if a transaction was initiated digitally. Yet, the ability of MSMEs to digitalise towards AfCFTA is impaired by the extent to which countries adopt trade liberalisation policies. SADC countries must work together to eliminate restrictions to cross-border trade in services which hinder digital MSMEs and platforms. For example, cabotage restrictions that limit the ability of a company to move goods and services into another country will prevent e-haling tech companies that facilitate factory-to-retail distribution such as Kobo360, Trade Depot, and Lori Systems from scaling across borders, contrary to the goals of AfCFTA. According to key informants, implementation arrangements and the role of digitalisation in enabling smooth logistics under the SADC One-Stop Border Posts are not currently effective. Additionally, the physical movement of staff across borders is also not digitally enabled at present. What all this means is that any advantages that the digitalisation of the MSME sector can yield towards AfCFTA are nullified by the absence of digital cross-border processes relating to logistics, payments and regulations.

Liberalisation will enable a coordinated flow of physical and digital cross-border trade, allowing consumers in one country to be able to purchase and pay for goods and services from another country. These cross-border exchanges are presently not seamless under existing business and regulatory environments. It is anticipated that the implementation of the Boosting Intra-African Trade (BIAT) Action Plan,[95] a framework for resolving constraints in cross-border trade and which complements the AfCFTA agreement, will result in critical upgrades to cross-border trade infrastructure, customs procedures and border logistics. BIAT also contains important measures and strategies in trade facilitation, trade-related infrastructure, trade finance, and productive capacities and capabilities, all of which should benefit African MSMEs when accomplished.

Positively, AfCFTA seeks to digitalise border posts to address the challenges posed by cumbersome customs procedures, payment systems and immigration requirements. At least 44 countries now have digital IDs utilising biometrics for deduplication and citizens and residents of member states of the Economic Community of West African States (ECOWAS) and the East African Community (EAC) can travel freely within their respective regions using their national IDs. The African Export-Import Bank has set up a US$1b currency hedging platform, Pan-African Payment and Settlement System (PAPSS), in support of AfCFTA cross-border trade through which cross-border

[95] African Union (2012).

payments can be accessed in local currencies by African businesses, though it is unclear how involved MSMEs will be. The Universal Postal Union initiative on logistics in Africa, Ecom@Africa, which seeks to assist postal networks to make the e-commerce transition through strategic positioning, operational efficiencies and sustainable development would also benefit MSMEs.

- Inadequate business support and trade facilitation: More importantly, though AfCFTA was designed to enable African enterprises to do business among themselves. There is an underlying assumption that MSMEs will want to and can internationalise. But there is strong evidence that MSMEs may not be able to trade across borders on their own even if they digitalise without significant assistance in digital upskilling, trade facilitation, e-commerce policy support and access to finance. They will also need access to information exchanges for price and opportunity discovery and infrastructure upgrades to aid cross-border payments and logistics.

There is also important work ahead to resolve incoherence and inconsistencies within and between national regulatory systems. National regulatory frameworks impacting MSMEs will need to be coordinated and harmonised first at the REC level (SADC) and subsequently at the continental level (AUC/AfCFTA). RECs are fundamental to the operationalisation of the continental free trade agreement and are the building blocks on which AfCFTA rests. For instance, harmonising how MSMEs will be defined in SADC has been unsuccessful so far, yet there are far more complex issues to deal with including traditional and digital taxation policies, shipments and much more. Policy harmonisation may include, as an example, the establishment of a continental services policy platform (at AU level) designed to ensure the harmonization of MSME policies and regulations across the region. Going forward, governments have to commit to business climate reforms consolidated at the REC to make AfCFTA work for their respective countries.

Beyond these real-world constraints, there are also digital economy challenges that MSMEs face that can be resolved through the AfCFTA. Digital trading where goods are digitally ordered and physically delivered (e-commerce) or digitally ordered and digitally delivered (digital trade) may only materialise under AfCFTA by the establishment through public-private sector collaboration of trust networks that can securely enable digital identification and validation, cross-border payments (e-Payments) and seamless deliveries of goods and services within and between countries (e-Logistics). Trust networks enable the systematic authorisation and documentation of interactions between users and are hugely important in facilitating digital trade and e-commerce in Africa.

Presently, the use of digital tools by MSMEs appears driven by the penetration of mobile networks and the increasing popularity of platforms and social media. Though government policies favour technology adoption and many private sector actors are developing digital capacity programs, MSME penetration of these initiatives is relatively slim, except in the leading countries in SADC. Indeed, while MSME-development strategies based on ICTs, technology, or digitalization may be referenced in national MSME policy documents, active

measures to aid the digitization of MSMEs in the region tend to be ineffective, that is if they are implemented at all.

As far as the digitalisation of MSMEs for participation in the AfCFTA, digitalisation works in the context of technology absorption and penetration. While there are growing cases of private sector digitalisation and industrialisation in Africa, there are firm-level challenges that need to be addressed. A key informant asked, "What is the point of acquiring a great digital platform as a manufacturing MSME if the technology in use by the production unit that will push goods to the same platform is obsolete?" Digitalisation often brings about changes or improvements to the business model, a process that can be confronting to smaller enterprises.

Altogether, the assumption that MSMEs will automatically be lifted to participate in AfCFTA when countries improve their domestic business environments may be overly simplistic or even far-fetched. For AfCFTA to be ground-breaking for smaller businesses as intended, market-liberalisation policies have to be fully established at country levels to stimulate growth, build productive capacities, and strengthen the competitiveness of African MSMEs, so they can take advantage of the opportunities that the AfCFTA will unlock. Existing institutional arrangements established under sub-regional free trade areas like the Tripartite Free Trade Area may help to ensure the successful implementation of the AfCFTA if leveraged upon.

1.8.2 AfCFTA Implementation and MSMEs

The implementation of the AfCFTA is currently being driven at three levels: (a) regional bodies mainly the AUC and the AfCFTA secretariat, who are coordinating negotiations between African countries with the support of multilateral bodies and development partners; (b) national governments who are to revise related national polices, engage in trade facilitation and investment mobilisation, develop new regulations, enact supporting legislation and generally create the business environment to make the AfCFTA happen within the local context; and crucially, (c) the private sector which originates, manages and trades in goods and services across borders under the AfCFTA arrangements. It is the second and third legs of this implementation model that is of concern to the business associations and key informants who participated in this study.

The evidence suggests that implementation arrangements towards the inclusion, digitalisation, and active participation of MSMEs are presently shallow. While the use of digital tools by MSMEs appears driven by the penetration of mobile networks, the increasing popularity of platforms and social media, and government policies that favour technology adoption, the penetration of MSME digitalisation with AfCFTA is relatively slim, except in the leading countries. Presently, there is no single platform, digital or physical, connecting 1.2 billion Africans through which African buyers can purchase goods or services from African sellers, a possibility which the AfCFTA framework and negotiated agreements will bring about upon full implementation.

Trading on AfCFTA's digital platforms commenced January 1, 2021. However, many private enterprises are not currently aware of the imminent implementation of the AfCFTA. MSME

business associations that participated in this study say that though there is appetite in their respective local business communities for the free trade area, awareness is acutely low as countries work out their national implementation strategies. They also lamented the poor state of the business environments they play in and their lack of awareness of the specific digital tools to adopt in order to participate in the AfCFTA. Additionally, most key informants are also not aware of any AfCFTA-specific strategies targeted at smaller businesses in their respective countries. These views are consistent with new research.

A 2020 survey of MSMEs in manufacturing, wholesale/retail, agriculture, and services in Nigeria found that 75 per cent are not informed about AfCFTA,[96] signifying acute policy gaps in communication and engagement that need to be addressed if the continental agenda will be successful from the onset. Yet digitalisation can make the unprecedented opportunity that AfCFTA represents truly possible. 71 per cent of Zimbabwean businesses that participated in a 2020 survey say they are ready to leverage the AfCFTA despite using outdated technologies, experience high production costs, and have poor access to finance.[97] Due to these and the early nature of implementation arrangements for the trade agreement, there are currently few examples, if any, of successful cases of the early participation by MSMEs in the AfCFTA as the African business community is still sizing up how to leverage the agreement for trade. According to one assessment, the countries most prepared for AfCFTA implementation within SADC are Mauritius, South Africa, Tanzania and Namibia while the least ready are Angola, Lesotho, Zambia and Botswana (Table 6).

Table 6: State of preparedness for AfCFTA implementation

Country	Overall Ranking	Commitment	Implementation Readiness
Mauritius	**61.45**	58%	64%
South Africa	**58.65**	46%	68%
Tanzania	**55.09**	43%	64%
Namibia	**54.47**	45%	62%
Zimbabwe	**53.06**	62%	47%
Malawi	**50.51**	37%	60%
Mozambique	**48.48**	47%	51%
Botswana	**47.75**	38.7	66%
Zambia	**45.54**	25%	61%
Lesotho	**45.17**	34%	55%
Angola	**33.98**	28%	38%

Source: Afro Champions (2020).

Nearly all SADC countries are in the process of establishing AfCFTA implementation strategies (Table 7). However, so far only a few countries such as Mauritius, Zambia and Zimbabwe have validated the national plan for operationalising the free trade agreement in

[96] NACCIMA (2020).
[97] ZNCC (2020).

their respective countries. Based on key informant interviews, to date, there is yet to be direct MSME participation in AfCFTA. While the private sector is working with state implementation agencies towards operationalising the continental trade agreement in many countries, MSME business associations do not appear as involved.

Table 7: Status of AfCFTA Implementation Strategies in SADC

Inception Phase	Consultations Phase	Validated
Botswana Comoros Eswatini Mozambique Seychelles Tanzania	Democratic Republic of Congo Malawi Namibia Mauritius	Zambia Zimbabwe

Source: Luke D., Ameso J., & Bekele M.G. (2021).

The success of the AfCFTA depends heavily on national implementations of market-liberalising, digitally biased MSME policies by African governments. While national MSME policy documents that govern the business and regulatory environment for the MSME sector tend to be well-written and aspirational, and nearly all the countries in the Southern Africa region have established MSME business development and support programs, respondents that participated in this study were unanimous that implementation and practice often fall way behind government objectives. This view about the ineffectiveness of national MSME policies and programs in Southern Africa is supported by a SADC assessment[98] and by every of the national MSME studies reviewed during this study.

Reasons for poor policy implementation by Southern African governments are attributed to inadequate public sector capacities, non-domestication of protocols by responsible authorities, insufficient policy alignment, harmonisation and coordination between national and regional policies, and undeveloped monitoring and enforcement mechanisms.[99] New national MSME policies also typically cite the substantial failure of the version being replaced. A 2020 scoping report by Alliance for Financial Inclusion determined that national MSME policy programs tend to fail in the absence of active coordination of regulatory bodies and major stakeholders.[100] In some instances, the process of enacting legislation to give force to MSME policies linger for so long that by the time they are eventually promulgated, changing market dynamics make both the legislation and the underlying policies near obsolete, according to key informants who participated in this study. This reality now has to be overcome. It is almost obvious that only a consolidated, regionally coordinated approach to the development of the African MSME sector

[98] SADC (2014).
[99] SADC (2018c).
[100] AFI (2020a).

and the implementation of related AfCFTA strategies will ensure that the trade agreement succeeds as planned.

1.9 Summary of Chapter One

UNIDO defines an enterprise having less than 250 employees as a Micro, Small and Medium –Sized Enterprise (MSME) although many parameters are considered in defining the term. MSMEs constitute the real backbone of African economies and make up at least 90 per cent and 60 per cent of business and jobs respectively on the continent. MSMEs in Africa are adopting digital tools and e-commerce for marketing, sales, outreaches and production efficiencies although most of them are not taking full advantage of digitalisation and its benefits. Despite the growing use of digital tools by MSMEs in Africa, this digitalisation, at the current scale, cannot positively affect the participation of MSMEs in the AfCFTA due to many reasons. Furthermore, African MSMEs are limited to participate in AfCFTA (even if they digitalise) due to inter alia the high cost of doing business, limitations and barriers in cross-border trading and inadequate business support and trade facilitation.

CHAPTER TWO: OPPORTUNITIES FOR MSMEs UNDER THE AfCFTA

A review of the prospective opportunities which may be opened up for MSMEs by the AfCFTA, particularly within the value-chains adopted for development by SADC.

2.1 E-Commerce & Digital Trade

Digital trade and e-commerce are prime mechanisms through which the AfCFTA will unleash new opportunities for MSMEs and drive regional integration. The Digital Transformation Strategy for Africa (DTSA) defines digital trade as all cross-border trade that is digitally ordered and/or digitally delivered, while e-commerce refers to the "sale or purchase of goods or services, conducted over computer networks by methods specifically designed to receive or place orders".[101] Digital trade is in its infancy in Africa while e-commerce is enhanced or inhibited by the degree to which MSMEs trust the digital platforms they use.[102] E-commerce was included in the African Continental Free Trade Area (AfCFTA) via a decision of the African Union Heads of State and Government Assembly in February 2020. The assembly urged member states to ensure that "Africa is able to negotiate and implement an AfCFTA Protocol on e-commerce, where Africa has full authority on all aspects of e-commerce such as data and products being traded under e-commerce, and to promote the emergence of African owned e-commerce platforms at national, regional and continental levels."[103] Negotiations on the e-commerce Protocol have been brought forward under Phase two (2) of the implementation arrangements.[104]

Currently, evidence shows that businesses in Southern Africa (MSMEs inclusive) are progressively making a shift to online selling but face challenges with internet connections (56 per cent of respondents), payment gateways (44 per cent), platform reach (27 per cent) and online queries (23 per cent), according to an ECA survey.[105] 86 per cent of SMEs that participated in a 2018 survey of 1,000 business owners in South Africa regularly use smartphones, cloud services (22 per cent) and e-commerce (20 per cent) to conduct business.[106] 97 per cent of South African small businesses in a more recent survey report that they invested in new technologies in 2019 with a little over half (53 per cent), citing evidence of significant increases to profitability.[107] The use of accounting cloud packages among the same SMEs rose from 13 per cent in 2017 to 61 per cent in 2019. While these results may not be generalised across SADC as South Africa is a top-ranked tech country in the region, it demonstrates the growing appetite by smaller businesses for e-commerce solutions.

[101] African Union (2020b).
[102] Gachoka, A. & Won, J. (2019).
[103] African Union (2020a).
[104] African Union (2020b).
[105] ECA & IEC (2020b).
[106] SME Africa (2018).
[107] Xero (2020).

The move to e-commerce has been heightened by Covid-19, which essentially forced enterprises to digitalise aspects of their business model, especially e-payments. Across Eastern and Southern Africa, mobile money is the primary mechanism for initiating and concluding online payments. 80 per cent of MSMEs own and use mobile money accounts for business transactions in two African countries, according to a recent GSMA survey of over 300 MSMEs.[108] Notwithstanding the growing adoption of e-commerce by MSMEs, overall e-commerce penetration is limited, and financial transactions are enabled at only 11 per cent of the continent's marketplace websites with Nigeria, South Africa, and Kenya accounting for 50 per cent of online shoppers.[109]

In 2012, SADC adopted a regional e-commerce framework to promote B2C e-commerce within countries and B2B online trade between them.[110] The plan sought to assist countries to develop functional national e-commerce environments built on harmonised privacy-respecting legislation and a regional monetary platform. MSMEs, particularly those in manufacturing, trade, and distribution were to be incentivised, trained, and assisted to re-organise their internal processes through upgrades of ICTs, website development and training, all of which should lead to B2B and B2C onboarding of small and medium-sized business and increased e-commerce investments. However, based on available evidence, the plan is yet to deliver on its goals due to slow implementation[111] and has not been updated since its expiration in 2017.

Positively, many African countries recognise the intrinsic market opportunities in digital trade and e-commerce and have been taking strides in recent years to resolve limitations in the domestic business environment. The continent has made the most progress in implementing paperless trade and trade facilitation, almost double the global average percentage increase of 9 per cent as of 2017[112] though, admittedly, Africa is emerging from a deficit position in comparison. On trade logistics, at least 41 African countries have been certified by the Universal Postal Union (UPU) as having achieved operational readiness for e-commerce.[113] These countries have implemented modern tracking systems for their postal services, use electronic customs declaration systems and exchange electronic data with airlines, customs and postal partners. These developments augur well for the AfCFTA and the imminent implementation of the Digital Single Market.

An e-Bay study of how MSMEs in 18 countries including South Africa were using the platform describes the increasing value of national postal services as economic and trade facilitators for small, micro, and medium-sized operators and recommends that governments should modernise and specially treat these services to increase commerce and digital trade opportunities.[114] SADC countries are currently liberalising their postal services under the

[108] Pasti, F. & Nautiyal, A. (2019).
[109] ITC (2020).
[110] SADC (2012).
[111] Markowitz, C. (2019).
[112] UN (2017)
[113] Universal Postal Union (2018).
[114] eBay (2017).

SADC Postal Strategy 2017–2020, which includes the e-post concept.[115] As with the majority of development indicators, Mauritius and South Africa are the leading B2C e-commerce countries in Southern Africa with the highest share of secure internet servers, individuals using the internet and individuals with account ownership (Table 8). Namibia has the highest proportion of Internet shoppers while Tanzania is ranked as having the most reliable postal systems, a vital component of e-commerce.

Table 8: Southern Africa B2C landscape.

Country	B2C Ranking 2020	B2C Index Score	Share of individuals using the Internet	Share of individuals with an account	Secure Internet servers	Internet shoppers as % of Internet users	Internet shoppers as % of population	UPU postal reliability score
Mauritius	**58**	58.4	64	90	51	12	7.3	28
South Africa	**73**	56.5	56	69	77	17	7.9	24
Namibia	**95**	43.9	51	81	42	24	12.1	3
Tanzania	**99**	36.6	25	47	31	28	5.4	43
Botswana	**106**	38.7	47	51	44	9	3.6	12
Zimbabwe	**116**	30.5	31	55	36	12	3.8	0
Lesotho	**118**	27.4	29	46	35	10	2.1	0
Angola	**122**	26.0	14	29	24			37
Zambia	**125**	30.0	24	46	31	20	5.1	19
Mozambique	**136**	20.1	10	42	26	31	4.3	2
Malawi	**139**	18.0	14	34	25	13	2.3	0

Source: UNCTAD (2020c).

In summary, more work still needs to be done at all levels; continental, regional and country to address the numerous gaps in policies and regulations to adequately prepare for all the opportunities of digital trade and e-commerce (as well as challenges as described in Section 3.2.6) under AfCFTA.

2.2 MSMEs and Regional Value-chains

The African Free Continental Trade Area offers a grand opportunity for the development of regional value-chains (RVCs) and the integration of MSMEs into those regional value-chains, though their competitiveness would need to be enhanced relative to foreign suppliers. At present, the MSME sector is highly fragmented within domestic markets and negligibly integrated into regional value-chains in Southern African. It is predicted that the AfCFTA will catalyse the growth of regional value-chains, better connect African enterprises with global value-chains,[116] and through the enlarged markets created by the newly developed RVCs, possibly reduce the continent's vulnerabilities to future disruptions as experienced during the Covid-19 pandemic.[117]

[115] SADC (2020b).
[116] Fofack, H. (2018).
[117] Afreximbank (2020).

Regional value-chains (RVCs) work primarily to boost regional trade, investment and corporate ownership.[118] In the simplest of forms, a value-chain is the "sequence of production or value-adding activities leading to and supporting end users of a particular product".[119] There is scant research on regional value-chains in Southern Africa, the specific role MSMEs play within those value-chains, what barriers they face, or which regional or value-chains represent the most significant opportunities for MSME digitalisation. However, using value-added trade data from the UNCTAD-Eora Global Value-chain Database, a UNU paper established that Southern Africa's regional value-chains are very short with low forward integration.[120] According to a 2018 SADC report, there is virtually no specific business sector that can be said to have achieved true regional integration within Southern Africa,[121] a fact confirmed by key informants who participated in this study. Public sector initiatives at developing value-chains tend to be targeted at export promotion in the main as opposed to regional value-chain integration, an opportunity which is now made available through the continental trade area.

SADC adopted mineral beneficiation (copper, cobalt & mining inputs), pharmaceuticals (malaria & HIV drugs, testing kits, and condoms) and agro-processing at its 40th Summit in Maputo in 2020 as the first of six regional value-chains to be actively developed under the Regional Indicative Strategic Development Plan 2020 – 2030.[122] Additional strategic regional value-chain actions that the regional body intends to take that have a digitalisation component include the creation of an online portal to provide trade information to MSMEs, support for climate-smart agricultural practices and the promotion of production efficiencies through the use of automation and advanced technologies by enterprises.

2.3 Mineral Beneficiation

Assessments of regional mineral beneficiation value-chains carried out by SADC point to opportunities that can be exploited in linking Southern Africa's battery energy sector with global value-chains. The region is rich in all the minerals required to produce lithium-ion batteries used in renewable energy products for which there is an exponential global demand (Table 9). The global base of electric vehicles is estimated to rise to 140 million units by 2030 from 7.2 million units in 2019.[123] These vehicles are mainly powered by energy-efficient batteries such as lithium-ion. MSMEs can play a part in the development of this promising value-chain if the right policies to attract investments, stimulate local manufacturing and exports of produced goods are adopted, in alignment with SADC Industrialisation Strategy Roadmap 2015–2063.

[118] SADC (2018a).
[119] UNIDO (2003).
[120] Black, A., Edwards, L., Ismail, F., Makundi, B., & Morris, M. (2019).
[121] SADC (2018a).
[122] SADC (2020b).
[123] SAIA (2020).

Table 9: Commercial mineral deposits in SADC.

Cobalt	Nickel	Graphite	Manganese	Lithium
Namibia Madagascar Democratic Republic of Congo Zambia	South Africa Madagascar Zimbabwe	Mozambique Tanzania	Botswana South Africa	Democratic Republic of Congo Namibia Zimbabwe Mozambique

Source: SAIA (2020).

2.4 Pharmaceuticals

Southern Africa has the world's highest concentration of HIV and only 15 per cent of generic antiretroviral therapy (ARV) drugs are produced within the region.[124] Most drugs are imported from outside the region. One estimate place this at up to 90 per cent of all pharmaceuticals in Africa,[125] and the support system for local drug production is said to be largely limited in most countries. The region's pharmaceutical sector is presently covered by a harmonised regulatory system tagged Zazibona,[126] which aims to stimulate local production of pharmaceuticals in alignment with the AU Pharmaceutical Manufacturing Plan for Africa 2012 and the SADC Pharmaceutical Business Plan 2007-2013.

Digitalisation, or e-health, in this case, offers health sector MSMEs the opportunity to play a role in leveraging the integration of technology into service delivery. According to Disrupt Africa, there are at least 180 e-health start-ups in Africa.[127] E-health solutions that can be found in Africa include the use of drones to deliver PPEs, medicines, and blood in Ghana and Rwanda, which was aided by the digital policy environment of both countries,[128] the digitisation of 1.3m patient health records in Ethiopia,[129] 3D printing of low-cost ventilators in Senegal,[130] and digital medicine dispensers in South Africa.[131] Notwithstanding these emerging use cases, the adoption of e-health and digital healthcare in Africa is fragmented and largely uncoordinated with negligible government interest in the use of technology to resolve glaring health challenges.[132] The AfCFTA offers policymakers and the private sector (MSMEs inclusive) a coherent mechanism to digitally transform national healthcare systems and service delivery by stimulating pharmaceutical manufacturing and e-health care.

[124] Mothibe, G. (2018).
[125] McKinsey (2019).
[126] Mothibe, G. (2018).
[127] Disrupt Africa (2020).
[128] www.flyzipline.com
[129] www.abay-chr.com
[130] TVC News (2020).
[131] www.pelebox.com/locker.html
[132] ALT (2020).

2.5 Agribusiness and Agro-processing

Digital tools offer unique opportunities to MSMEs to improve food production, food security and cross-border trade in farm products towards achieving the Sustainable Development Goals (SDGs). The Technical Centre for Agriculture defines digitalisation for agriculture as the use of digital technologies, innovations, and data to transform business models and practices across the agricultural value-chain and to address productivity bottlenecks, food insecurities, climate challenges and the empowerment of youth and women.[133] There is a significant body of research work demonstrating the positive impact of ICTs in agriculture. One study describes how various ICT applications are boosting farmers' income by up to 21per cent across many cases in Africa.[134] According to another, there are currently 390 unique digital solutions serving about 33 million smallholder farmers across the entire agricultural value-chain in Africa.[135]

Digital platforms bypass middlemen and link the smallest agribusiness MSMEs directly to an extensive and growing market of buyers,[136] and over 80 per cent of digital Agric solutions can operate with basic-to-intermediate (mobile) connectivity[137] as are typically available in rural Africa. Present Agri-focused digital solutions can be found in information services, market linkages, supply chain systems, market and business intelligence and financial services. About 60 per cent of these solutions were developed and launched between 2016 and 2019, an indication of the rising use of digital tools to solve real problems being faced by African farmers.

Despite these trends, a salient point is that there appears to be a link between the digitalisation of agribusiness and the digital ecosystem available to support digitalisation locally. According to a World Bank database, 75 per cent of disruptive agricultural technologies in Africa can be found in the countries with the most active digital ecosystems, Kenya, Nigeria and South Africa.[138] Factors such as mobile penetration, internet connectivity, the pervasiveness of technology hubs and digital skills, and the widespread use of electronic payment platforms or mobile money appear fundamental to the digitalisation of agriculture on the continent.

Presently, the Southern Africa agriculture sector operates sub-optimally and contributes only about 13 per cent of total regional export earnings.[139] Though it accounts for 66 per cent of the value of intra-SADC trade, this is primarily driven by commodities as there is negligible agro processing outside the region's dominant economy. Agro processing changes the form of agriculture produce into multifarious forms that last longer and are distributed into a wider range of markets.[140] Policies that may aid the development of agribusiness and agro processing

[133] CTA (2019).
[134] Halewood, N.J. & Surya. P. (2012).
[135] CTA (2019).
[136] Mercy Corps (2018).
[137] OECD (2020b).
[138] World Bank (2019a).
[139] SADC (2016).
[140] Department of Agriculture, Forestry & Fisheries (2014).

the digitalisation of MSMEs active in the sector and AfCFTA linkages include the promotion of "Made in Africa" and "Buy Local" policies, the encouragement of innovation and tech hubs, increased penetration of mobile broadband and usage, support for nascent and advanced technologies, and improvements in road and power infrastructure.

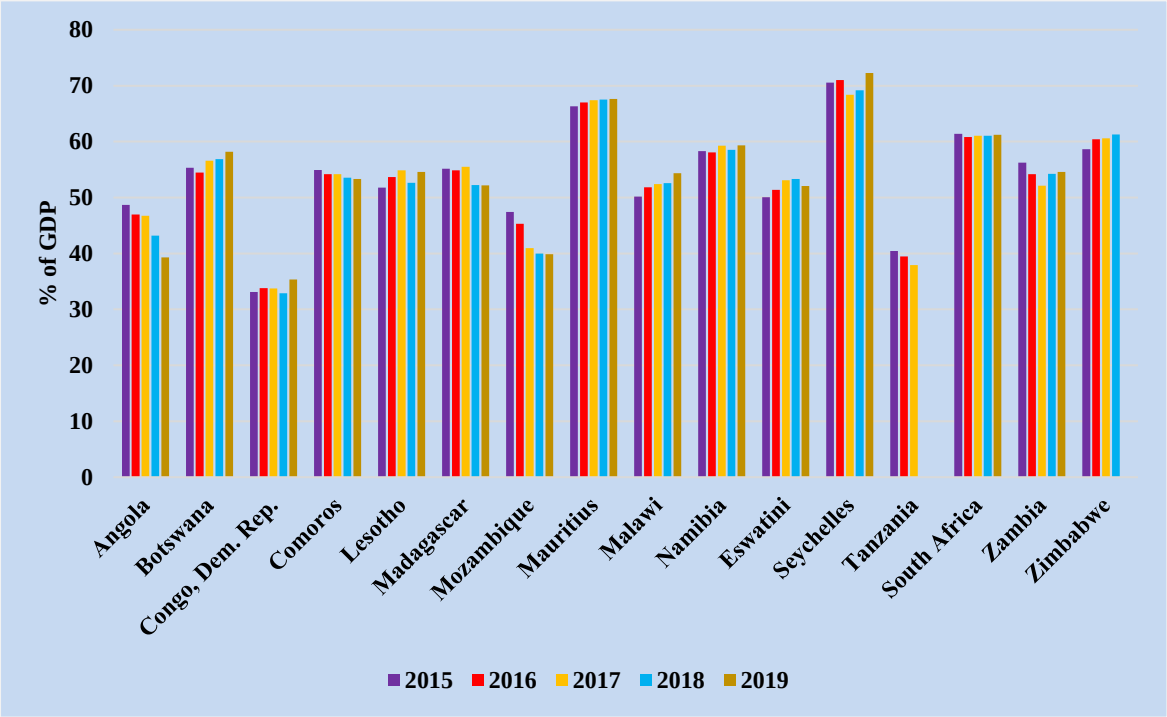
2.6 Professional Services

One area that could be transformed with effective digitalisation policies is the services sector. Services account for at least 50 per cent of GDP in many African countries, although the overall contribution of the sector to national economies is low in value.[141] A new World Bank study reports that while manufacturing has stagnated and agriculture is declining on the African continent, the services sector is rising as a driver of employment, value addition and GDP growth.[142] AfCFTA is designed to create a liberalised market for services where barriers to cross-border trade in services are progressively done away with. This goal appears shared by the private sector in many countries. For instance, 85 per cent of smaller businesses expect the continental trade to result in the growth of Nigerian services and creative industries.[143]

The World Bank characterises services as "value-added in wholesale and retail trade (including hotels and restaurants), transport and government, financial, professional and personal services such as education, health care and real estate".[144] Regionally, Mauritius, Seychelles and South Africa are the leading economies with the highest contribution of services to GDP (Figure 3). Additionally, 30 per cent of Mauritius start-ups are in the services sector.[145] But on the downside, nearly all SADC countries operate restrictive policies that inhibit cross-border trade in services.[146] These restrictions cover immigration, employment and access to public procurements, which continue to be stringent eight years after the SADC Trade in Services Protocol was approved by SADC member states. AfCFTA may aid the transformation of the services sector if the deep reforms articulated in the Protocol are implemented.

[141] ITC (2018a).
[142] Hoffman, B., McKenna, M. & Sáez, S. (2019).
[143] NACCIMA (2020).
[144] World Bank (2021).
[145] SME Mauritius – key informant interview.
[146] International Economics (2015).

Figure 3: SADC services value added (2015 – 2019)



Source: World Bank (2021).

It is also recognised that the AfCFTA implementation regarding the services sector will be bolstered by the entry into force of the African Union Protocol on Movement of Persons, which provides for the establishment and strengthening of common civil registration regimes, biometric registration, and movement control systems in the region, and the Single African Air Transport Market (SAATM), which would create a single African Airspace with aims to promote a more integrated African air transport market. These arrangements hold the potential to considerably bring down the barriers and cost of travel between African countries.

2.7 Linkages with Large Enterprises

The continental free trade area also offers opportunities for establishing and strengthening connections between large corporations and MSMEs in sourcing inputs, distribution and capacity-building. Success stories showcasing how these linkages have yielded new business opportunities and growth may inspire lagging countries to improve the business environment so that smaller operators can scale. According to a key informant, Namibia reports good buy-in of the private sector and significant uptake of the country's Buy Local Campaign which links MSMEs in trade, manufacturing and agribusiness with South African retail chains. But this is not peculiar. Many SADC countries including Zambia,[147] Madagascar, Mauritius,[148] Mozambique and Malawi are implementing inclusive policies to encourage South African

[147] National Assembly of Zambia (2017).
[148] Ministry of Industrial Development, SME & Cooperatives Mauritius (2019).

retailers such as Shoprite, Woolworths, Spa, and Pick N Pay, who are active throughout the region, to source from local producers rather than from their home markets,[149] a process that may lead to regional value-chain upgrades and new business models premised on digitalisation. For instance, Shoprite's cross-border money remittance product for transfers between South Africa and Lesotho got to R1billion within three years of launch with 70per cent of remittances carried out by women.[150] Walmart uses block chain technology to rapidly detect contamination in green vegetables by mandating suppliers of farm produce to input their details into an actively monitored distributed digital ledger database.[151] The system assures the quality of fresh food to customers and saves the retailer money. Local MSMEs in agribusiness and agro processing would benefit from access of an expanded market under innovative arrangements such as these.

In summary, the evidence analysed shows that Southern Africa's regional value-chains are yet to be actively developed. Though there are instances of the use of digital tools at certain points within several value-chains, the research does not reveal any wholesale adoption of digitalisation throughout any regional value-chain, yet there are Global Value-chains (GVC) that are fully digitalised at global, regional and national levels such as aviation, tourism and traditional financial services. Perhaps a deeper analysis of these particular GVCs can reveal important lessons that may be applied in developing and digitalising regional value-chains across Africa. Though there are real problems that digitalisation is best positioned to solve, however digitalisation for its sake has been proven not to be a success it often appears to be.

2.8 Summary of Chapter Two

The AfCFTA can create new opportunities for MSMEs and drive regional integration through digital trade and e-commerce. Digital trade is defined as all cross-border trade that is digitally ordered and digitally delivered while e-commerce refers to the sale or purchase of goods or services conducted over computer network by methods specifically designed to receive or place orders. The MSMEs in their present form are highly fragmented within domestic markets and are negligibly integrated into regional value-chains which could boast regional trade, investment and corporate ownership in Southern Africa. SADC adopted mineral beneficiation, pharmaceutical and agro-processing as the first of the six-regional value-chains to be actively developed under the regional Indicative Strategic Development Plan 2020-2030.

[149] SADC (2019a).
[150] SADC (2019b).
[151] New York Times (2018).

CHAPTER THREE: SITUATION ANALYSIS OF MSMEs IN SOUTHERN AFRICA

This section contains an analysis of the Southern Africa MSME sector, the national and regional MSME policies under which they operate, and the challenges and constraints they face especially following the Covid-19 outbreak.

3.1 MSME Policy & Business Environment in Southern Africa

The policy environment for MSMEs in Southern Africa is presently underdeveloped. Although all SADC countries have established overarching MSME policy documents which outline objectives and strategies for developing the micro, small and medium-sized business ecosystem, these documents typically recognise and articulate the weak state of the MSME sector, their contribution to the national economy and their potential impact. They outline policy goals to address observed sectoral weaknesses, the development strategies that will be implemented to achieve those goals and the value-chains that would be focused upon. Strategies tend to be anchored on an implementation framework that may consist of legislation, institutional arrangements including the establishment of an MSME development agency reporting to a high-level inter-ministerial committee or the presidency and other institutional improvements.

Additionally, policy documents generally outline steps that the national government plans to take to develop MSMEs in the areas of business formalisation, business development services (including assistance with market research and product standardisation) and strategies to develop a supportive ecosystem of capacities, infrastructure and regulations. They may also contain steps or, in a few cases, incentives to strengthen the competitiveness of MSMEs in production, exports and regional trade, though this is less common. Access to capital through the removal of credit restrictions and support for innovative funding mechanisms and the development of new markets through clustering, industrial parks, or technology hubs are also a common thematic focus with actions to assist MSMEs to overcome the most common business challenges in these areas laid out in the policy document. Cross-cutting issues which generally feature relate to potential value-chain linkages, youth empowerment, gender sensitivities and HIV awareness. Newer documents tend to provide for more current matters such as global competitiveness, digital transformation, privacy and data protection, economic greening, climate change, intellectual property, gender equality and youth empowerment. The more advanced a country is, the more robust the MSME policy document tends to be.[152]

[152] The Mauritius SME Master Plan covers over 230 pages.

Table 10: Overarching national MSME policies.

Country	Policy Document	Year	Policy Organ	MSME Agency
Eswatini	Small, Micro and Medium Enterprises Policy (2009)	2018	Ministry of Commerce, Industry & Trade	Small Enterprise Development Company
Lesotho	Micro, Small, and Medium Enterprises Policy	2016	Ministry of Small Business, Cooperatives & Marketing	
Malawi	Micro, Small, and Medium Enterprises Policy	2018	Ministry of Industry, Trade and Tourism	
Mauritius	10 - Year Master Plan for the SME Sector	2016	Ministry of Business, Enterprise, and Cooperatives	SME Mauritius
Namibia	National Policy on Micro, Small and Medium Enterprises	2016	Ministry of Industrialisation, Trade and SME Development	
South Africa	Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises[153]	2004	Department of Small Business Development	Small Enterprise Finance Agency; Small Enterprise Development Agency
Tanzania	Small and Medium Enterprise Development Policy	2003	Ministry of Industry and Trade	Small Industries Development Organisation
Zambia	Micro, Small and Medium Enterprise Development Policy	2008	Ministry of Commerce, Trade & Industry	Zambia Development Agency
Zimbabwe	Small-Medium Enterprise Policy	2002	Ministry of Small & Medium Enterprises and Cooperative Development	Small & Medium Enterprises Development Corporation

Source: National MSME development policies and in-table references.

Most national MSME policy documents are neither regularly updated nor do they contain clear digitalisation strategies to assist MSMEs to make the transition from traditional business practices into the digital economy. Where reference is made to 'ICT usage', 'digital economy',

[153] South Africa's MSME policy document is annually updated. See Department of Small Business Development South Africa (2020).

or ‘digitalisation’, these tend to be superficial as what is often meant by such phrasing is traditional ICTs or connectivity. The precise role of technology in aiding the transformation of the local business environment is, for the most part, rarely described even when acknowledged, except in the more developed countries. For instance, the Eswatini MSME policy mentions the introduction of ICT-enabled services such as mobile money, the stimulation of ICT-based innovation, and the facilitation of “ICT-based business platforms” but does not articulate how or when these would be done. However well-intended the strategies outlined in MSME policy papers are, even where they include support for the digitalisation of the sector, they have not translated into any significant, wholesale benefits to micro, small and medium-scale operators. Except for South Africa, there are no linkages between MSME policies and AfCFTA.

At the REC level, both SADC and COMESA have developed MSME policy documents to guide member states in the formulation of strategies for the sector. The SADC policy is designed to complement the region’s industrialisation strategy and lays out plans for countries to create a favourable business environment for MSMEs through the easing of formalisation arrangements, strengthening of competition policies and the opening-up of public procurement opportunities.[154] It also deals with improvements in technology, infrastructure, access to finance and business development support. Generally, both documents treat relatively similar issues. However, while the SADC paper contains a section on innovation hubs, it contains no reference to digitalisation, MSME roles in regional value-chains nor AfCFTA linkages, all of which undoubtedly can be found elsewhere within other SADC policy documents. The COMESA MSME document is more holistic as it deals with regulatory harmonisation, value-chain development, monitoring and evaluation, and implementation arrangements which are delegated to national governments and the private sector, but also omits a detailed treatment of technology though the document is nearly a decade old.[155] The MSME policies of Zimbabwe, Tanzania and Zambia which expired in 2002, 2003 and 2008 respectively, are presently being reviewed.

Going forward, concerted efforts have to be applied to update and harmonise national MSME policies so they can form the basis for the development, digitalisation, and integration of MSMEs into the AfCFTA. Regional bodies can play in role in assisting policymakers to align national policies with continental aspirations in the areas of financial inclusion; digital infrastructure; regulatory integrity and stability; quality control including the certification, and standardization of products and services; consumer protection and data responsibility. They can also help to resolve any incoherence in MSME policy that may impact the implementation of the continental free trade area.

[154] SADC (2018b).
[155] COMESA (2013).

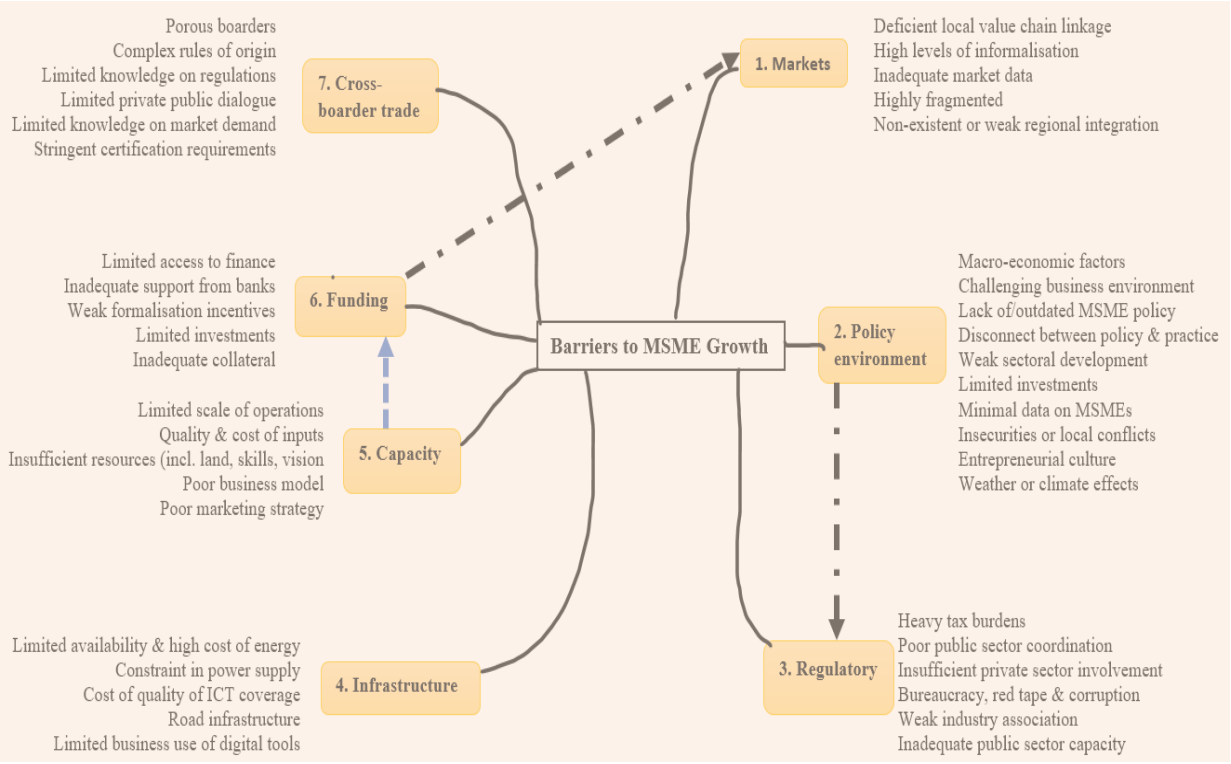
3.2 Challenges & Constraints

The constraints of African MSMEs have been extensively researched. From a review of current national MSME policies and FinScope MSME surveys of 7 SADC countries, the most common systemic constraints facing MSMEs in Southern Africa can be categorised as:

1. Status of and access to markets,
2. Funding and access to finance,
3. Policy environment,
4. Regulatory practices,
5. State of physical and digital infrastructure,
6. Capacities and capabilities, and
7. Impediments to cross-border trade.

Figure 4 maps comprehensively (but not exhaustively) the common challenges faced by MSMEs in Southern Africa.[156] These issues were corroborated in the in-depth interviews.

Figure 4: Most common barriers to MSME growth in SADC countries.



Source: Based on a review of existing literature particularly all 7 FinScope MSME Surveys of SADC countries and the expert discussion at the ECA MSME forum in Eswatini September 2018 ECA (2020b).

[156] A deep dive into each of these challenges is beyond the scope of the study.

However, the region is heterogeneous and behind every challenge is a big story peculiar to MSMEs within their location of business. These challenges, and more, can be found throughout the Southern Africa region and continue to remain largely unaddressed. The in-depth interviews reveal that, with the exceptions of Mauritius, and to some extent, South Africa, no country has successfully removed the bulk of the afore-listed constraints, and thus, the enabling environment and holistic support for the structured development MSMEs are generally lacking across Southern Africa. Policy linkages between MSMEs and digitalisation or even the acknowledgment of the role of digitalisation in the development of the sector are also muted. Nevertheless, in this section, we focus on those challenges that were identified by key informants as having the most impacts on MSME digitalisation if they will be brought into the AfCFTA on a massive scale.

3.3 Access to Finance

A recent study based on World Bank Enterprise Survey data for 119 developing countries revealed that access to finance is the biggest growth-limiting hurdle facing SMEs (13.5 per cent), followed by practices of competitors (11.3 per cent), electricity (11.1 per cent) and tax rates (11.1 per cent).[157] 50 per cent of formal MSMEs in Africa are credit constrained and FIBR estimates that the credit gap to the sector is US$328b.[158] Throughout Southern Africa, MSMEs find it challenging to access the necessary capital to launch and keep their businesses running. They are not often aware of the hidden costs of starting a business or formalisation and are not always able to finance these expenses. The credit scoring and risk management frameworks of traditional financial institutions tend to rely on manual processes and hard collateral as conditions for businesses to secure credit. As a result, smaller operators do not enjoy financial inclusion and many entrepreneurs in some urban and especially rural areas do not have bank accounts, which complicates making and receiving payments, keeping funds safe and growing the business. Only 24 per cent of Malawian MSMEs are banked.[159]

But digitalisation can help financial institutions to instantly and profitably lend to MSMEs without the traditional need for a physical presence.[160] A McKinsey survey of 26 leading bank CEOs in 2012 found that they serve MSMEs profitably with economic profits ranging between 9-35 per cent (South Africa), 26-31 per cent (Ethiopia) and 21-26 per cent (Nigeria).[161] Consumers of financial products in Africa adopt digital technologies more than their peers in high-income countries according to an EIB study[162] and the continent boasts of the highest concentration of mobile money accounts globally.[163] Policies that drive greater mobile money adoption and cross-border interoperability are likely to increase the prospects of MSME digitalisation. Similarly, policies that enable MSMEs to access alternative forms of capital such

[157] Wang, Y. (2016).
[158] Proparco (2019).
[159] Finmark Trust (2019)
[160] McKinsey (2012).
[161] Ibid.
[162] EIB (2018).
[163] GSMA (2020a).

as crowdfunding, angel investments and the development of specific legislation for private equity may unlock opportunities for smaller enterprises. Presently, Nigeria, Morocco and Tunisia are the only African countries with fully developed policy frameworks for crowdfunding.[164]

3.4 Access to Markets

SADC MSMEs, from the in-in-depth interviews, face a twin challenge in general terms when it comes to market access. Firstly, they find it difficult to create products that meet market demands, and when they do, locating the right market can be problematic. Entrepreneurs in rural areas cannot access markets as quickly and efficiently as those close to urban areas or city centres. Added to this, business associations report that some MSMEs struggle to establish and maintain a client base, a problem that becomes harder to solve in the face of the low access and use of digitalisation and digital platforms in the region. MSME participation in AfCFTA is made much more complicated by the difficulty that neighbouring countries have in overcoming the business environment for cross-border exchanges. These issues are exemplified, in one instance, by Malawi where only 2 per cent of MSMEs participate in exports, the main destination of which are to the neighbouring countries, Tanzania and Zambia.[165]

Though the above being the case, AfCFTA's success is tied to the elimination of these challenges at both the national and sub-regional levels. MSMEs are unlikely to digitalise simply for the sake, except there are compelling opportunities that only digital tools can help to exploit. For instance, a small farm holder may invest in digital tools if that is the only way to sell his produce at a higher price for better profits in another African country, but he will need access to that information in addition to business support, digital literacy, instant payments, and seamless logistics. While the African Trade Observatory which was set up as part of the AfCFTA arrangements to provide trade information through an online portal may help, it appears that information solutions that are closer to MSMEs in their respective localities offering price discovery and market intelligence may make more impact and should be encouraged.

3.5 Business Environment

Business associations and key informants are unanimous that the Southern Africa business environment is challenging and detrimental to MSMEs. For instance, South Africa's Small Enterprise Development Agency highlights high crime rates as a pervasive problem affecting both informal and formal businesses in the country.[166] According to Business South Africa, MSMEs in the country often need to spend a significant amount of money installing security systems or hiring security companies. Hijackings and high crime rates create a risk in

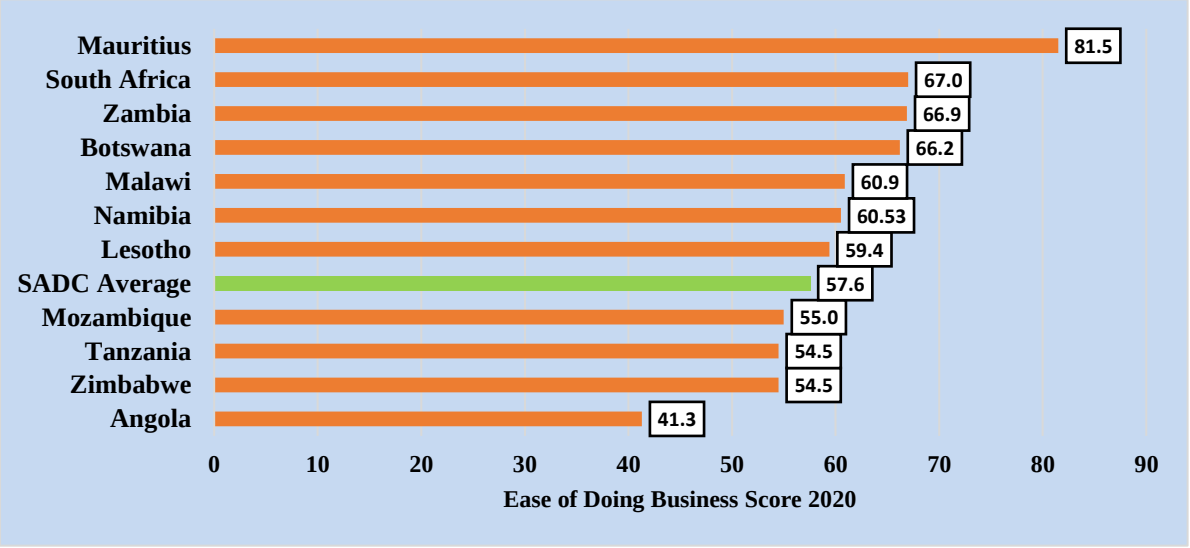
[164] African Crowdfunding Association (2021).
[165] Finmark Trust (2019).
[166] SEDA (2016).

transporting cash or high-value goods, making it difficult to do business in some cases. Security costs and losses due to theft push up the overall operating costs for MSMEs.

Furthermore, onerous and frequently changing regulations create a challenging environment for MSMEs to operate and grow. A lack of coordination between government agencies also hampers growth, a factor that became clear with the Covid-19 pandemic (See Section 3.4). SME owners in Democratic Republic of Congo say the tax system is bureaucratic, lacking in transparency, and is rife with harassment by local authorities.[167] Service MSMEs are affected by 'unfriendly' labour laws and delays in the issuance of work permits for staff and suppliers coming in from other countries, making businesses hesitant to provide hiring opportunities to individuals that may not perfectly fit their needs.

The World Bank's Ease of Doing Business ratings is a generally acknowledged way by which the business environment of a country can be assessed against global best practices. Although not directly targeted at MSMEs, smaller businesses operate in the same environment which the country rating assesses and are subject to the same (or even worse) vagaries as large enterprises. In the latest rankings, Mauritius leads the Southern Africa region with a score of 81.5, followed by South Africa (67.0), Zambia (66.9) and Botswana (66.2). Higher scores of up to 100 reflect an efficient business environment, robust regulatory agencies, transparent business regulations, and electronic processes and procedures. Mozambique, Tanzania, Zimbabwe and Angola are presently the least efficient business environments ranking below the SADC average of 57.6 (Figure 5).

Figure 5: Ease of Doing Business Score for SRO-SA countries.



Source: World Bank (2020c).

[167] IFC (2020a).

In terms of the pace of change, only 23 business environment reforms were carried out by the Southern African countries that are member states of SRO-SA in 2019/2020, that is a little more than one per country, which is low given the need for many countries to catch up with leading countries both in Africa and in other regions of the world. Regardless, the evidence suggests that MSMEs in Southern Africa have not been able to reap the full benefits of generic reforms in the domestic business environment and beneficial consultative policy actions need to be implemented at a faster pace to aid the development of the sector.

3.6 Infrastructure

Infrastructure is a key factor in establishing and running a successful MSME. Across the continent, the poor quality of infrastructure to support cross-border trading activities, whether in the real or digital economies, is a general problem that is magnified in the MSME sector. Throughout Southern Africa, infrastructural challenges facing MSMEs in many countries include inadequate or erratic public power supply, poor road networks especially around trade corridors and unsatisfactory access to an affordable internet connection. 58 per cent of small businesses and 46 per cent of medium businesses in Nigeria rate the business environment as hostile and cite erratic power supply, inadequate access to credit, poor roads and onerous taxation as responsible factors.[168] 75 per cent of small and medium-scale manufacturers in Botswana participating in an ITC survey are dissatisfied with access to water and electricity services.[169]

The challenges of digital infrastructure and energy (electricity) are real in terms of the digitisation process. The second phase of the Programme for Infrastructure Development in Africa (PIDA-II) aims to foster integrated infrastructure development, including ICT and energy. The opportunities presented by PIDA-II and related infrastructure programs of SADC and COMESA, as well as the tripartite agreement with EAC, should be explored to drive infrastructure upgrades in Southern Africa.

3.7 MSME Capacities & Competitiveness

The development of human, institutional and digital capacities is imperative if the African MSME sector will be upgraded, especially as small and medium enterprises are less productive than larger companies.[170] According to a sectoral report, productive capacity and MSMEs are intertwined and have to be supported by entrepreneurship to be effective.[171] Though there is no universal consensus on what "capacities" mean specifically for African MSMEs and the unique environments in which they operate, nonetheless, UNCTAD defines productive capacities broadly as a "set of different types of productive, organisational, technological and innovation capabilities embedded in organisations, institutions and infrastructures whose integration

[168] NACCIMA (2020).
[169] ITC (2019a).
[170] ITC (2018b).
[171] UNCTAD (2006).

determines the capacity of a country to produce goods and services in a competitive global market".[172]

Next, we look at MSME competitiveness. In the context of the MSME sector, any actions developed towards improving MSME competitiveness can further lead to the competitiveness of markets, regional value-chains and countries. But competitiveness goes beyond mere operational improvements. The International Trade Centre (ITC) defines competitiveness as the "demonstrated ability to design, produce and commercialise an offer that fully, uniquely and continuously fulfils the needs of targeted market segments, while connecting with and drawing resources from the business environment, and achieving a sustainable return on the resources employed".[173] Most national MSME policy documents typically contain sections that lay out the intention of the government to strengthen the domestic and regional competitiveness of MSMEs. Practical strategies in this respect may include the setting up of business development services (BDES) and capacity-building structures, initiatives to improve access to capital, information exchanges to aid access to markets, and protective measures for nascent economic sectors.

The ITC SME Competitiveness Index measures the competitiveness of small and medium-sized enterprises using three parameters that measure their ability to compete, connect and change within a business ecosystem and macro-economic environment. Their ability to compete is assessed by looking at the quality and quantity of what they require as well as the time and costs of inputs. Their ability to connect to markets is measured against how they reach out to buyers, suppliers, and other stakeholders within the value-chain that they play in, while their ability to change is reviewed against the skills they require to transform, innovate and secure funding. The goal of AfCFTA implementation is, among others, to deepen the capacities and competitiveness of African MSMEs through their participation in non-domestic markets especially as internationalised small and medium enterprises tend to experience higher sales and growth than when they exclusively trade locally.[174] However, there is presently no primary research work that can be used to comparatively assess the competitiveness of African MSMEs and the markets where they operate as South Africa is the only SADC country included in both the ITC SME Competitiveness Index and the WEF Global Competitiveness Index. Perhaps a policy proposal to develop an MSME competitiveness index for Africa may be considered to enable benchmarking across and between African countries and the rest of the world.

3.8 Obstacles to Digital Trade

Presently, digital trade in Southern Africa is hampered by severe regulatory restrictions, insufficient local value-adding activities, particularly in domestic manufacturing, out-of-date trade logistics and customs clearance systems, which summed together affect the smooth cross-border movement of goods. Furthermore, the lack of interoperable payment systems for

[172] UNCTAD (2020a).
[173] ITC (2018b).
[174] ITC (2019b).

seamless fund transfers and digital payments between countries, cultural preferences for cash, insufficient investments in fintech (excepting South Africa) and poor standardisation are among other reasons. An ECA study cites long delays in clearing goods as inimical to cross-border trade.[175] While SADC is working towards harmonised regulations and the implementation of various policies to eliminate obstacles that impact negatively on digital trade, the pace of country-level reform has been tepid[176] and will continue to affect MSMEs in AfCFTA if unresolved.

The urgency of the opportunity presented by the historic AfCFTA and the unprecedented socio-economic benefits that would likely accrue as the continent progressively drives towards a Digital Single Market means that critical building blocks such as trust frameworks have to be established through a collaborative, multi stakeholder approach. Trust frameworks consists of the development of open standards, interchange protocols, technical and semantic specifications, secure processes, and controls that establish multiple layers of trust so that African individuals, businesses (MSMEs and large enterprises), not-for-profit organizations, and governments can conduct secure online (electronic) transactions among themselves and, subsequently, with the rest of the world.[177] Trust frameworks have been proven to resolve legal and regulatory uncertainties, security concerns, technological complexities, and interoperability challenges of fragmented markets that exist across Africa.

3.9 Informalisation & on boarding Informal MSMEs

In Southern Africa, as throughout the continent, there is a preponderance of informal enterprises. They constitute over 80 per cent of all enterprises in all the SADC countries for which there is independent data, except in Eswatini and Mauritius where the informal MSME sector is 75 per cent and 70 per cent respectively (Table 1). Though there is no consensus in existing literature on the parameters used in determining how informal businesses should be classified,[178] the International Labour Organisation defines informality as "all economic activities by workers and economic units that are in law or practice not covered or insufficiently covered by formal arrangements".[179]

The informal sector is dynamic in creating employment and adding value, it presently accounts for 85.8 per cent of all employment on the continent,[180] and nine out of ten informal workers are women and youth. Yet, across Africa informal MSMEs tend to be survivalists who focus on generating enough income for daily living rather than on building a sustainable business. They hardly have a fixed address and do not usually register their enterprises with regulatory bodies or may even avoid doing this altogether. They are difficult to support as they lump their business and personal finances together and are unlikely to open bank accounts. In some

[175] ECA (2020b).
[176] SADC (2012).
[177] Odufuwa, F. (2019).
[178] Donner, J., & Escobari, M. X. (2010).
[179] International Labour Conference (2015).
[180] ILO (2018).

countries such as Botswana, more women than men own and operate informal enterprises.[181] Notwithstanding these characterizations, informal enterprises are an important economic segment, and the size of the informal sector often shrinks as a nation becomes wealthier.[182]

According to the evidence provided, the MSME sector in Mauritius appears comparatively well-developed and the informal MSME segment is the smallest relative to other Southern Africa countries. In contrast, policymakers in most countries often lack comprehensive data on the MSME sector and are often unable to show where the opportunities are or how they can be exploited. On their part, informal MSMEs exist and conduct business despite government and indeed many key informants that participated being doubtful that any SADC country, except Mauritius, has done "anything meaningful" for these MSMEs in particular. The AfCFTA recognises that most informal sector cross-border traders are women and young people, and the AU is in the process of formulating a protocol on women and youth to address their peculiar needs and constraints.

3.10 Business Formalisation

Given their significance to the economies of countries, there is a need to systematically formalise these businesses with the intent of initially registering their operations so as to incorporate them into national statistics. It is also necessary to build their capacity to increase their economic contributions and gradually nurture them to the point where they can participate in the AfCFTA. Presently, the primary criteria by which enterprises are formalised in Southern Africa are tax registrations. However, the conditions for tax registration are mostly considered burdensome by informal enterprises, according to several key informants. Arduous regulations are a disincentive to formalisation, especially when there are no tangible incentives for MSMEs to take on the process. From discussions with business associations, MSMEs generally consider the costs of formalisation as expensive and are resistant to registration schemes except incentivised.

Digitalisation can help the formalisation of businesses by facilitating the identification and verification of informal enterprises and improving how the responsible agency for MSME development accesses them. It can reduce the distances MSMEs travel to reach the nearest registration office, which according to a key informant, can be over 100km in rural Mozambique. A 2019 Banque de France study on the impact of mobile financial services established that the adoption of mobile money and money credit by MSMEs decreased the size of the informal sector by 2.4 to 4.3 percentage points of GDP between 2000 and 2015 in 101 developing and emerging countries, 12 of which are in SADC.[183]

However, digitalisation alone cannot resolve all the real-world challenges that informal MSMEs face, but when combined with a complementary suite of policies and incentives that

[181] Ministry of Investment, Trade and Industry Botswana (2020).
[182] Klapper, L., Miller, M., & Hess, J. (2019).
[183] Jacolin L., Massil J. K., & Noah A. (2019).

overcome regulatory challenges, digitalisation can create an unprecedented opportunity for governments to on-board this critical economic sector. Incentive-based online platforms can be set up to make registration easier. Benin increased the registration of informal businesses by 16.3 per cent by offering free training programs on online bank account opening.[184] From discussions with key informants, there is evidence that there is a threshold of informal enterprises whose economic value is simply too insignificant to undertake the costs of getting them registered to participate in AfCFTA.

3.11 Impact of Covid-19 on MSMEs in Southern Africa & Digitalisation Effects

Covid-19 has increased the vulnerability of formal and informal MSMEs. The pandemic disrupted the MSME sector across the globe, affecting sales, market access, staff availability, supply chains and capital flows.[185] African businesses have also been equally affected both by the pandemic and the effects of lockdown restrictions and containing measures like social distancing. 43 per cent of male-owned MSMEs and 57 per cent of female-owned MSMEs in South Africa report that in June 2020, they did not make any income due to the impact of the country's stringent Covid-19 response measures.[186] In the same vein, over half of informal businesses in Botswana posted no revenues in April 2020.[187] According to a Finmark survey of selected African countries including Zambia, South Africa and Uganda, income drops were evidenced as a result of the closure of markets or business premises, supply chain disruptions, movement restrictions and demand shock as customers reduced in number.[188] Economic sectors that were most impacted by the outbreak were hospitality, trade, education, manufacturing and construction.[189]

Furthermore, pre-existing credit constraints which MSMEs had to deal with were heightened by the pandemic. The Future of Business Survey of 26,000 business owners globally unearthed that MSMEs in Africa were the least likely to receive Covid-19 financial assistance.[190] 88 per cent of innovators and tech start-ups that were surveyed by AfriLabs were not aware of any public sector initiative to cushion the effect of the pandemic and say government support to SMEs was inadequate.[191] This is consistent with the results of an IFC survey of 2,207 African MSMEs, 90 per cent of whom report that they did not receive any pandemic-related financial assistance or debt restructuring from their banks.[192] As of June 2020, 98 per cent of Botswana businesses experienced sharp revenue drops and significant cash flow problems.[193] Business activity in Mozambique declined by 65 per cent by the middle of 2020, adversely affecting 92

[184] IMF (2020a).
[185] AFI (2020b).
[186] FinMark Trust (2020).
[187] Ministry of Investment, Trade & Industry Botswana (2020).
[188] FinMark Trust (2020).
[189] IFC (2021).
[190] World Bank (2020a).
[191] AfriLabs (2020).
[192] IFC (2021).
[193] Business Botswana (2020).

per cent of small, medium and large enterprises.[194] These findings are consistent with the interviews. In terms of gendering, women-owned or women-led MSMEs experienced greater Covid-19 impacts than their male-owned counterparts with more losing over 50 per cent of their revenues during the pandemic.[195]

According to one study, the pandemic affected agriculture in Africa by exposing smallholder farmers and agribusinesses to increased food insecurity, labour shortages, challenges with access to markets, agro-inputs and extension services.[196] In another instance, an ECA survey indicated that capacity utilisation dropped to 40-50 per cent for micro and medium businesses and 30-40 per cent for small enterprises at the onset of the pandemic.[197] However, as lockdowns began to be lifted across the region, enterprises began to make adjustments to their business models through the use of technologies and digital tools to reach old and new customers.[198]

The evidence further shows that while Covid-19 is accelerating, the digitalisation of businesses with an increased uptake of digital tools and remote working, the digitalisation of society and enterprises is taking place by necessity rather than as a result of direct government policy.[199] 25 per cent of Africa's MSMEs scaled up their use of digital tools during the pandemic with women-owned MSMEs demonstrating as much interest in digitalisation and digital upskilling as male MSMEs.[200] In Mozambique, 80 per cent of MSMEs in professional services are said to have switched to Zoom as the primary means of reaching their clients.[201] In South Africa, 61per cent of SMEs participating in a survey cited the country's stringent lockdown measures as the reason for going online and nearly half are now conducting business virtually, though the transition has not been without challenges.[202] Activities of digitalisation triggered by the outbreak include the setting up of the home office, video conferencing, and online selling and deliveries, though early adopters cite costs and limitations of ICT infrastructure, inadequate digital skills and power as constraining factors in the transition to digital operations. Nevertheless, the full picture of the extent to which MSMEs are making the digital transition due to the pandemic is not completely known.

3.12 Covid-19 Relief Schemes for MSMEs and Post Covid-19 Outlook for MSMEs

The World Bank recorded 144 digital policy responses to the pandemic by 31 African countries between March and July 2020.[203] These digital responses have been targeted at addressing affordability challenges, network expansion, business continuity, e-learning, digital payments

[194] Confederation of Business Associations of Mozambique (2020).
[195] IFC (2021).
[196] Muyiramye, D. & Addom, B. K. (2020).
[197] ECA & IEC (2020a).
[198] ECA & IEC (2020b).
[199] One key informant says that if African governments had directed the adoption of digitalisation during the pandemic, adoption rates by MSMEs and society may have actually fallen!
[200] IFC (2021).
[201] Key informant interview.
[202] Getapp (2021).
[203] World Bank (2020b).

and health care continuity among others. Official relief policies and strategies announced by African governments with impacts on businesses included the granting of debt moratoriums, tax deferrals, the setting up of funds accessible to enterprises or direct lending by central banks to financial institutions, the extension of grants or subsidies, and the expedited release of arrears or debts owed by MDAs. During 2020, central banks in 35 African countries adopted measures to support the sustainability of SMEs by lowering lending rates by as much as 275 basis points (bps) (South Africa), 250 bps (Mozambique) and 200bps in Seychelles to help avert defaults.[204]

Increased MSME digitalisation arising from the outbreak appears long-lasting and is leading to greater use of technology, which may result in advantages in new business models and practices, based on discussions with key informants. The adoption of digital solutions and new sales channels by businesses may help mitigate the impact of the pandemic and related containment measures issued by governments. An OECD review of governmental Covid-19 measures lists official assistance to SMEs as including financial aid towards digitalisation (Argentina, Japan, Singapore & Ireland), the development of toolkits and online information services (France & Italy) and the setup of digital teams to assist MSMEs with mobile working, often at no cost to businesses (Austria, Korea & Chile).[205] In addition, state and development partners are initiating programs to help businesses overcome the challenges brought up by the pandemic.

However, a review of the Covid-19 related actions of Southern African countries targeted at domestic businesses including MSMEs presents mixed results (Appendix B). Most government policies, while well-intended, do not seem to have had much impact on MSMEs due to access problems. For example, only 6 per cent of small businesses in South Africa secured relief funding.[206] Similarly, 52 per cent of MSMEs in 13 African countries (including Tanzania, Zambia, South Africa, Madagascar and the DRC) did not seek government pandemic relief and 38 per cent were not even aware that such assistance was available.[207] Though this conclusion may be generalised, it may not be representative. For instance, according to key informants, there was a high uptake of wage subsidies offered by the government by MSMEs in Botswana and Mauritius, but this was not the case in Zimbabwe where there was negligible uptake by businesses of the government's Z$1b covid-19 relief package. Furthermore, there are hardly specific structural policies or strategic steps to actively support MSMEs to make the shift to digitalisation.

Looking forward, digitalisation is proving a key factor in the post-pandemic outlook for Africa, and based on a review of new research, certain trends are beginning to emerge. A 2020 AfriLabs survey showed that the pandemic has led to an explosion of innovation within the African tech community and start-ups are eager to support the government's efforts at containing the pandemic with digital solutions to complex problems in different economic

[204] IMF (2020b).
[205] OECD (2020a).
[206] Business Report Online (2020).
[207] IFC (2021).

sectors including health, agriculture and financial services, among others.[208] 92 per cent of Zimbabwean businesses responding to a survey carried out during the pandemic say they are planning to digitalise against future disruptions through computerisation of production systems, virtual technologies, high-speed internet and other digital tools.[209] The key question though is this: how can the observed transition to digitalisation by MSMEs arising from the shock and realities of the pandemic be sustained and institutionally supported to help African economies build back better? Section 5 of this report seeks to understand and address this issue.

3.13 Summary of Chapter Three

The policy environment for MSMEs in Southern Africa is underdeveloped even though SADC countries have MSME policy documents in place which outline objectives and strategies for developing MSMEs. MSMEs in Southern Africa, further face constraints related to access to markets, funding and access to finance, policy environment, regulatory practices, state of physical and digital infrastructure capacities and impediments to cross-border trade. The Covid-19 pandemic further disrupted the MSME sector affecting sales, market access, staff availability supply chains and capital flows. Although efforts were met to help MSMEs during the pandemic, many did not benefit due to access challenges.

[208] AfriLabs (2020).
[209] ZNCC (2020).

CHAPTER FOUR: ENABLING DIGITALIZATION OF MSMEs IN SOUTHERN AFRICA

This section evaluates the technology and digital economy landscape to map the digital ecosystems of the region and discusses what needs to be done to enable the digitalisation of MSMEs.

4.1 Technology & Infrastructure Environment

The digitalisation of MSMEs greatly depends on the state and quality of the technology, networks and infrastructure of the business environments in which they operate. It is affected by the costs and robustness of connectivity and technical skills to achieve part or all of the entire spectrum of the potential of digitalisation. SADC affirms that digital infrastructure is the primary building block of the region's digital economy[210] and has established intra-region fibre backbone links to submarine cables for land-locked member states under the Regional Information Infrastructure (SRII) program.[211]

We examine the latest data and development indicators to understand the access that MSMEs have to network and connectivity systems and the way they use technology tools. Apart from the top four countries, Southern Africa is characterised by modest investments in infrastructure and connectivity resulting in under-developed transport networks, electricity systems, and ICTs, according to the African Development Bank (Table 11). These bottlenecks are significant as they inhibit internet penetration, limit download speeds and reduce the overall quality of connections.

Table 11: Infrastructure development in Southern Africa.

Country	Africa Infrastructure Development Index			Composite Indexes 2020			Network Readiness Index [1]
	2020	2015	Change	ICT	Transport	Electricity	
South Africa	79.3	75.9	*3.44*	71.8	22.6	73.9	45.26
Mauritius	79.1	74.3	*4.83*	62.4	36.7	41.2	49.83
Botswana	37.5	35.6	*1.86*	30.9	25.8	20.6	36.94
Namibia	30	28.7	*1.25*	27.1	17.6	10.6	36.11
Zimbabwe	25.5	24.2	*1.37*	19.5	12.2	8.5	22.09
Zambia	24	21.5	*2.42*	17.5	6.8	11.7	30.54
Malawi	21.8	18	*3.78*	8.9	3.8	2.6	25.23
Angola	20.1	16.8	*3.24*	9.9	4.3	5.9	20.96
Lesotho	16.3	15.7	*0.63*	17	7.3	3.4	27.72
Tanzania	14.9	11.9	*2.96*	16.9	3	2.1	33.92
Mozambique	12.6	11.7	*0.94*	10.9	2.1	11.1	24.18

Source: AfDB (2020).

[210] World Bank (2020b).
[211] SADC (2020b).

South Africa and Mauritius have the most developed enabling infrastructure and the highest network readiness scores in the region. The two countries together with Malawi have also made the most improvements in their national digital infrastructure since 2015. The least ranked countries: Angola, Lesotho, Tanzania and Mozambique perform poorly in the Network Readiness Index. For African businesses, outright reliance on public power supply is generally often insufficient. A recent study of performance factors of SMEs in 266 economies found that reducing the duration of electrical outages boosts their overall performance and productivity.[212] One IFC report observes that Spain (population – 47million) consumes more electricity than the entire continent of Africa (population – 1.2billion) and 60 per cent of Africans have no access to public power supply.[213] The Broadband Commission for Sustainable Development has set a 2025 target for halving the unconnectedness of MSMEs.[214]

In August 2012, SADC approved a Regional Infrastructure Development Master Plan (RIDMP) which contains a blueprint for the implementation of 18 ICT projects valued at US$21.4b to enable regional integration.[215] The projects would deliver high-speed integrated networks, broadband infrastructure, and in-demand applications and services. Despite current efforts at tech infrastructure improvements, the digitalisation of MSMEs in SADC economies is quite limited.

4.2 Connectivity, Access & Usage

Presently, the digital environment in Southern Africa is dominated by mobile technology and mobile networks. MSMEs, in varying degrees, are increasingly having access through mobile networks to revolutionary digital tools such as e-commerce platforms and apps, cloud packages, connectivity-dependent hardware solutions, which assist in deepening sales, expanding profits, aiding distribution and helping with customer service. Access to networks tends to be limited to larger enterprises and wealthy individuals with significant gender and rural-urban divides. Operators of communication networks lean towards the most lucrative markets and find little incentive to push into under-served areas, given high deployment costs and comparatively lower revenues.

One key finding from the evidence is that though mobile broadband covers 78 per cent of African populations with 3G signals and 54 per cent have access to 4G networks, yet the penetration rate of mobile internet is only 28 per cent,[216] which is the lowest of any region in the world. GSMA estimates that 3G and 4G penetration in SADC by 2025 will be up to 49 per cent and 37 per cent of total connections respectively.[217] However, 5G is not yet imminent as mobile operators continue to analyse the cost-benefit of making significant investments into

[212] Ndiaye, N., Razak, L.A., Nagayev, R., Ng, A. (2018).
[213] IFC (2017).
[214] ITU (2020a).
[215] SADC (2015).
[216] Google and International Finance Corporation (2020).
[217] GSMA (2020a).

network upgrades. For this reason, there are presently only 19 5G deployments in the region, South Africa (17) and Madagascar (2).[218]

Table 12 depicts the latest data for mobile connections, internet users and social media use as percentages of the population. Though mobile connections range from 42.7 per cent (Malawi) to 168.5 per cent (South Africa) with an average of 101 per cent in SADC, internet penetration is much lower at an average of 39.2 per cent. Countries with the lowest proportion of Internet users, Malawi (17.8 per cent), Mozambique (21.2 per cent) and Tanzania (25.0 per cent), and indeed all the countries in the region would need to do more to deepen internet usage and to reduce the spectre of low internet usage in the context of high rates of mobile connections as the first step in MSME digitalisation.

Table 12: Mobile & internet connectivity.

Country	Population	Mobile Connections	Internet Users	Social Media Use	Mobile Connectivity Index [1]
South Africa	59.67m	168.5%	64.0%	41.9%	60.1
Botswana	2.37m	163.9%	47.0%	50.5%	51.3
Mauritius	1.27m	151.8%	64.0%	73.1%	65.8
Namibia	2.56m	114.6%	51.0%	31.2%	40.2
Lesotho	2.15m	102.6%	47.9%	24.6%	40.6
Zimbabwe	*14.98m*	*98.5%*	*33.4%*	*8.7%*	36.6
Zambia	*18.65m*	*89.7%*	*29.4%*	*13.9%*	35.3
Tanzania	*60.61m*	*82.7%*	*25.0%*	*8.9%*	40.1
Mozambique	*31.71m*	*50.4%*	*21.2%*	*9.5%*	35.0
Angola	*33.4m*	*46.3%*	*31.0%*	*9.0%*	43.5
Malawi	*19.39m*	*42.7%*	*17.8%*	*3.5%*	26.9
Average		*101.1%*	*39.2%*	*25.0%*	

Source: Hootsuite (2021).

All modern technologies within the business or industrial environment are heavily reliant on affordable, high-speed data links. The internet is central to unlocking the possibilities of digital technologies, so internet penetration may be used as a proxy to understand whether a country has the critical mass of internet users or the ecosystem to support the digitalisation of MSMEs.

[218] www.speedtest.net/ookla-5g-map (Accessed April 16, 2021).

Though there is no agreed threshold at which network benefits of the internet kick in,[219] nevertheless higher rates of internet users are better for digital transformation. Presently, the main barriers preventing increased usage of mobile broadband in Africa are the high cost of mobile devices, poor affordability and digital illiteracy.[220] GSMA reports that inadequate digital skills, especially with women and people living in rural areas are the biggest hurdles to mobile internet adoption on the continent.[221] In many countries, communication and competition policies are making data prices increasingly unaffordable for large segments through exclusivities in licensing frameworks, retrogressive spectrum fees, irrational digital taxation, and the unwillingness to reduce the leverage that dominant mobile operators have in many markets.[222]

Mobile network coverage is the primary way Africans connect to the internet, nonetheless, mobile data is still out of reach for large segments of the population and costs on average 10 per cent of Gross National Income (GNI) per capita across the continent.[223] To date, Mauritius at 0.7 per cent of GNI per capita is the only SADC country that has been able to meet the target set by the Broadband Commission for Sustainable Development for entry-level broadband services to cost no more than 2 percent of monthly GNI per capita by 2025. Mauritius is currently ranked 33 of 193 countries in global mobile data affordability.

The Worldwide Mobile Data Pricing League monitors changes in the pricing of mobile broadband plans in 230 economies. The latest research measured 432 plans in SADC and found that Tanzania and Mauritius have the cheapest 1GB internet broadband plan at US$0.75 while Malawi has the most expensive plan (US$25.46) as of March 2021. Tanzania and Angola together had the biggest average price drop since 2019 (-80 per cent), followed by Mozambique (-78 per cent), and Botswana (-77 per cent). At the other end, the average price of the cheapest 1GB plan increased in Namibia (103 per cent), Malawi (60 per cent) and Mauritius (46 per cent), causing the average price of the region's cheapest 1GB plan to grow by 6 per cent over the same period.

[219] A Research ICT Africa study suggests network effects kick in at 20% internet penetration. See Gillwald, A., & Mothobi, O. (2019).
[220] Research ICT Africa (2019).
[221] GSMA (2020c).
[222] Gillwald, A. (2020).
[223] ITU (2020b).

Table 13: Average price of 1GB in SADC.

Rank	Country	Average price of 1GB (USD)	Cheapest 1GB for 30 days (USD)	Most expensive 1GB (USD)	Average price of 1GB in 2020 (USD)	Average price of 1GB in 2019 (USD)	Percentage change (2021/2019)
32	Tanzania	$0.75	$0.28	$4.31	$0.73	$3.71	-80%
33	Mauritius	$0.75	$0.04	$6.49	$2.48	$0.51	46%
62	Zambia	$1.13	$0.01	$6.80	$1.36	$2.25	-50%
89	Angola	$1.61	$1.03	$3.21	$5.29	$7.95	-80%
117	Eswatini	$2.24	$0.69	$2.80	$13.31	$5.25	-57%
135	Lesotho	$2.66	$1.29	$9.02	$2.13	$7.19	-63%
136	South Africa	$2.67	$0.12	$34.95	$4.30	$7.77	-66%
140	Mozambique	$2.79	$0.19	$6.98	$3.33	$12.82	-78%
150	Comoros	$3.21	$0.60	$96.41	$4.38	$5.27	-39%
167	Botswana	$3.92	$1.63	$36.23	$13.87	$16.79	-77%
184	Madagascar	$5.14	$0.66	$50.09	$8.81	$7.24	-29%
212	Seychelles	$8.64	$2.36	$22.67	$11.43	$19.55	-56%
224	Namibia	$22.37	$1.20	$72.06	$4.78	$11.02	103%
226	Malawi	$25.46	$20.37	$25.46	$27.41	$3.59	609%

Source: Cable.co.uk (2021).

Africa, excluding North Africa, hosts the most expensive broadband plans in the world with 1GB plans costing an average of US$6.44. They range from US$0.27 for the cheapest average plan to US$49.67 for the most expensive. The average cost of a 1GB plan in SADC is US$5.95. The cheapest plan costs US$0.75, while the most expensive is priced at US$25.46. 10 of SADC countries are in the bottom half of the global pricing table including South Africa (rank 136 of 230), Namibia (224), Mozambique (140), Lesotho (135) and Eswatini (117). Only four SADC countries, Tanzania, Mauritius, Zambia and Angola, are in the top half of the pricing table. This implies that the cheapest mobile broadband plans can be unaffordable even in a country with advanced digital infrastructures like South Africa, a reflection of ineffective competition policies and practices in the mobile communications sector.[224]

Concerning usage, FinScope's 2019 survey of Malawian MSMEs unveils an interesting result: while two-thirds of small businesses use technology and 99 per cent own a mobile phone, only 2 per cent used technology and their mobile phones to access the internet for business purposes.[225] The report does not however explain the wide disparity between the prevalent ownership and use of technology and mobile phones by MSMEs, and the lack of reliance on the same technology tools in accessing the internet for business purposes. A possible explanation may be high data costs, mentioned by nearly all the business associations that

[224] Gillwald, A. & Mothobi, O. (2018).
[225] Finmark Trust (2019).

participated in this study, which commonly limits the use of the internet by MSMEs in the region. 77 percent of MSMEs in Democratic Republic of Congo also cite the lack of modern equipment and technology as productivity-restricting.[226]

Finally, in reviewing the factors of connectivity, access, and usage, the ability of MSMEs to digitalise their businesses is linked to the availability, quality and speed of internet connectivity. 60 per cent of SME businesses that participated in a South African study report being inhibited by the quality of their internet connections.[227] Only two of 16 SADC countries (Madagascar and South Africa) have met the minimum broadband download speed target of 10Mbps set by the Broadband Commission (Table 14), implying that more work needs to be done in policy to improve the competitive space and to attract the investments that will enable operators to push out data at higher speeds for the use of private individuals and MSMEs.

Table 14: Mobile broadband download speeds.

MEAN DOWNLOAD SPEED						
Rank	**Country**	**2020 (Mbps)**	**2019 (Mbps)**	**2018 (Mbps)**	**2017 (Mbps)**	**% Change from 2017**
77	Madagascar	18.00	22.57	24.87	3.49	416%
97	South Africa	14.04	8.4	6.38	4.36	222%
125	Lesotho	7.43				
126	Mauritius	7.28	5.02	2.39	1.53	376%
130	Zimbabwe	6.92	2.73	2.86	2.49	376%
156	Comoros	4.85	2.54			91%
160	Tanzania	4.54	2.34	1.96	1.49	205%
161	Eswatini	4.51	1.45	1.26		259%
171	Angola	4.15	1.21	1.49	1.05	296%
172	Malawi	4.07	1.59	1.17	0.92	342%
175	Seychelles	3.96	2.93	1.72	5.84	-32%
176	Namibia	3.91	3.39	2.62	1.81	116%
178	Zambia	3.84	3.13	2.03	2.45	57%
181	Mozambique	3.47	2.16	1.76	1.45	140%
188	Botswana	2.78	1.92	1.5	1.07	160%
201	Democratic Republic of Congo	2.06	1.1	0.86	0.72	186%
	Average	**5.99**	**4.17**	**3.78**	**2.21**	**172%**

Source: Cable.co.uk (2020).

[226] World Bank (2019b).
[227] SME Africa (2018).

4.3 Cybersecurity & Data Protection

The African Union Convention on Cyber Security and Personal Data Protection of 2014 (also known as the Malabo Convention) established a legal framework and a common set of cross-border dataflow principles that will guide the participation of African countries in the digital economy. It stipulates regulations governing electronic transactions including e-commerce, electronic contracts, cybersecurity, data protection, privacy rights and ICT crimes among other provisions. As of July 2019, the legislation is in force having been endorsed by a minimum of 15 states.[228] The Malabo Convention culminates in or has inspired regional cybersecurity legislation and guidelines including the ECOWAS Cybersecurity Guidelines and Supplementary Act on Data Protection, ECCAS Model Law/CEMAC Directives on Cybersecurity, EAC Framework for Cyberlaws, the SADC Model Law on Data Protection, e-Transactions and Cybercrime. Of these, the ECOWAS Supplementary Act is the only binding regional treaty on Data Protection.

The African Union has also developed the Personal Data Protection Guidelines for Africa and the Guidelines on the Internet Infrastructure Security in Africa, in collaboration with the Internet Society. The Malabo Convention and ensuing laws and guidelines form a critical bedrock for the digital economy and the basis for inter-country digital trade and electronic interactions. Altogether, 25 African states have passed data protection laws of some form.[228] Of these countries, Senegal, Mauritius, Cabo Verde, Burkina Faso, Tunisia and Morocco lead the continent for GDPR compliance having been granted accession to the Council of Europe Convention 108 on data protection.[229] However, no African country is presently fully compliant with GDPR, implying that digital trade with the European Union and other regions may not materialise until there is traction among countries with strengthening national legislations that impact the digital economy, bringing them in conformity to global standards.

Although much has been made of the continent's mobile revolution and indeed there has been good progress on many fronts, there is quite some ground to be covered to create or strengthen legal and regulatory frameworks and policies in digital trade, cybersecurity, data protection, cross-border payments, digital economy-friendly tax policies, dispute resolution, among others, and to align national frameworks to regional, continental and global standards, failing, which lagging nations will continue to experience stunted growth, under-development and a looming exclusion from the Fourth Industrial Revolution. Regional initiatives including the SADC Digital 2027, SADC Cybersecurity Action Plan and the work of the SADC 4R Task Team may help in resolving these issues.

4.4 Digital Platforms

Interviews with key informants show that digitisation is increasingly becoming a major factor in competitiveness especially as MSMEs adapt to the new environment of doing business since

[228] Hogan Lowells (2019).
[229] CE (2019), Chart of signatures and ratifications of Treaty 108.

the outbreak of Covid-19. Gradually, and in varying degrees, businesses are being digitally transformed as they use new technologies and platforms to develop new processes, products and services. UNCTAD defines digital platforms as "technology-enabled operations that facilitate interaction and exchange between various groups, built on a shared and interoperable infrastructure and driven by data".[230] The best estimate is that there are at least 365 platforms in use in Africa with 301 of these platforms being home-grown or developed by Africans.[231] These platforms deliver solutions in transportation (135), retail and wholesale (109), personal services (64), professional services (38), education (19), and agriculture (12). These help MSMEs carry out their business online. According to this study, the total number of active platforms in Zambia, Tanzania and South Africa are 57, 64, and 142 respectively.

A FIBR 2018 survey of micro-entrepreneurs and their use of digital tools and platforms in Tanzania found that Alibaba, Facebook, WhatsApp, etc are potentially the most disruptive to the African financial landscape in that these global platforms are gradually creating trusted environments for online marketing selling and payments in the developing world.[232] This finding aligns with the in-in-depth interviews. It does not appear, for the most part, that traditional financial institutions can match the range of business opportunities that online platforms provide for MSMEs in Africa.[233]

Box 2: Impact of Facebook usage on Malaysian SMEs

A 2015 study of the business use of digital platforms by 259 SMEs in Malaysia established that Facebook usage had a strong positive impact on the financial performance and non-financial business activities of participants in the survey through lowered marketing costs, enhanced customer care, and improved access to business information.[234] Though this survey was limited to one community of SMEs in Malaysia and was based on a snapshot (instead of a time-series) which consequently limits the generalisation of the findings, the inference regarding the benefits of platform used by small and medium enterprises is supported by new research.

[230] UNCTAD (2018).
[231] Insight2Impact (2019). The number of active platforms in Africa was determined from a survey of 8 countries with relatively developed digital ecosystems. However, the actual figure may be higher, especially given that the survey was carried out pre-Covid-19. Indeed, further analysis carried out by Research ICT Africa to match the platforms to demand-side data on a common set of 7 countries (Zambia excluded) determined that the total number of platforms in use is 452 though the number of unique platforms is 283. See Gillwald, A. (2020), Readiness for the Digital Economy in Africa? UNCTAD Intergovernmental Group of Experts on E-commerce and the Digital Economy.
[232] FIBR (2018).
[233] BFA (2019).
[234] Ainin S., Parveen F., Moghavvemi S., Ismawati N., Nor J., & Shuib N. L., (2015).

Jumia is an example of how platforms are bringing together large numbers of small and medium-sized businesses in Africa. The company currently has 50,000 MSMEs selling on its platform supported by 100,000 sales agents, its direct employees are only 3,500.[235] However, Africa's platforms, unlike their foreign peers, suffer from under-developed payment systems, lack of trusted interoperable networks and inadequate logistics environment in all but the most advanced countries. For instance, platforms with continental aspirations have to set up country-specific websites for each market, which defeats economies-of-scale benefits that would otherwise accrue from having a single website for the entire continent as Alibaba or Amazon, for example. The arrival of Big Tech, through the launch of dedicated Africa offices, Facebook (2020), Amazon (2021), and Twitter (2021) shows the determination of super-platforms towards exploiting digital opportunities on the continent. Twitter in particular references the citing of the AfCFTA secretariat in Ghana as a motivation for its decision to locate its Africa office in that country.[236] Nevertheless, the adoption of the right policies can lead to greater penetration and usage of global and home-grown platforms by African MSMEs.

4.5 Innovation and Tech Hubs

The digitalisation of African MSMEs is tied to the state and quality of the local digital ecosystem. For the moment, tech hubs are growing to become the backbone of digital ecosystems in Africa and there appears to be a correlation between the quantum and quality of tech hubs, and how developed a country's digital ecosystem is or its ability to attract new investments. Countries with large numbers of tech hubs like Nigeria, Kenya, South Africa and Egypt, responsible for 42 per cent of African hubs, are also the most advanced digital ecosystems on the continent. Countries with a low number of hubs or none at all tend to have the least developed digital ecosystems.

Presently, there is evidence of innovation in SADC countries that can be leveraged to enable the digitalisation of MSMEs. One World Bank study defines innovation as "finding and applying new ways to solve problems by combining technology with transformational entrepreneurship".[237] Transformational entrepreneurship relates to commercial uses of technology by both formal and informal enterprises and the business use of technology should ordinarily lead to "an improvement in product, process, marketing or organisation". An ITC survey of 616 Botswana unveiled that SMEs in the services sector are creating new products and processes at a greater rate than in other sectors by upskilling to foster innovation.[238] Seventy-two per cent of Zambian SMEs in textile and garment manufacturing that participated in a similar survey say they frequently introduce a new or improved product or process.[239]

[235] BFA (2019).
[236] Beykpour, K. & Adegbite, U. (2021).
[237] World Bank (2012).
[238] ITC (2019a).
[239] ITC (2018c).

Tech hubs can help with any initiatives to formalise and digitalise smaller businesses. The communities of innovation and entrepreneurship that they inspire tend to form the basis for the local supply of technology, software, and digital content and service support as smaller businesses may require. Tech hubs are spaces or structures designed to assist new businesses to start-up, prove their business models, and become successful with the support of local or digital communities of innovation and entrepreneurship.[240] Hubs provide co-working spaces and innovation support to entrepreneurs for economic or social impacts in affiliation with government, universities, or corporates. The latest data shows that there are 643 tech hubs in Africa, with a quarter located in the Southern Africa region helping in various ways to create (or stimulate the creation) of a domestic entrepreneurial ecosystem in which tech start-ups and digitally inclined MSMEs can play and thrive. South Africa hosts the largest number of tech hubs (78) in the SADC region, followed by Tanzania (23), Zimbabwe (23), and Democratic Republic of Congo (11). Zambia, Botswana, Namibia, and Madagascar make up the balance of 24 hubs between them. About half of existing tech hubs on the continent are donor funded.[241]

Since the outbreak of Covid-19, more hubs are shifting their operations, support services and training programs online so countries with less developed digital ecosystems can tap into the same resources as are available to innovation communities in more advanced nations,[242] though they still have to find a way to solve the problems of poor connectivity and unreliable electricity, which remains major obstacles to homeworking in many African countries. African start-ups received US$1.3b in funding in 2019 with about 60 per cent going into Nigerian businesses alone.[243] In the same year, 91 start-ups in 14 African countries including South Africa, Zambia and Zimbabwe received at least US$1m from 192 unique investors.

On the downside, tech hubs do not appear presently designed by default to on-board traditional or classical MSMEs at any scale nor can they be said to be overtly successful at turning start-ups into successful businesses.[244] A World Bank review of the tech start-up ecosystem in Dar es Salaam found inadequate production of start-ups that qualify for further funding and attributes this to low-quality services, inadequate capacity-building and insufficient mentoring.[245] Moreover, newer studies have been sceptical about the real impact of these hubs and at least 110 have closed in recent times, constrained mainly by inadequate access to constant capital.[246] 62 per cent of African tech hubs are MSMEs themselves as they employ less than 10 workers[247] and it appears that hubs that run as professional ventures and not just as social enterprises are those that may eventually succeed.[248] Digitalisation may play a role in

[240] ITC (2019b).
[241] Afrilabs & Briter Bridges (2019).
[242] Google and International Finance Corporation (2020).
[243] Bayen, M. (2020).
[244] Digest Africa (2018).
[245] World Bank (2016).
[246] Afrilabs & Briter Bridges (2019).
[247] Ibid.
[248] ITC (2019b).

these reforms if the emergence of sustainable tech hubs is supported and online public services are promoted.

4.6 Digital Skills

Digitalisation requires the acquisition of technical knowledge and digital skills by people who desire to become competent in providing digital solutions and services. While end-users may not need basic digital literacy, digitalisation requires significant improvements to education systems if digital learning and upskilling will take place. The ability of a country to digitalise its economy is tied to the prevalence of digital skills that range from relatively basic activities such as technical support, networking and computer hardware to more advanced competencies in artificial intelligence, game development and robotics. Figure 6 outlines the range of digital skills that can be found across Africa.

Figure 6: Digital Skills in Africa.

Source: World Bank (2019c).

Throughout Southern Africa in varying degrees, skilled human resources to support MSME digitalisation and upskilling are scarce and depend on economic development, literacy levels, and quality of educational institutions. Two-thirds of South African SMEs surveyed in a 2019 study say they continue to struggle to recruit skilled workers and report digital skill gaps in cloud computing (39 per cent), programming or app development (32 per cent), digital product management (12 per cent), digital project management (10 per cent) and digital design (9 per cent).[249] Furthermore, according to business associations who participated in this study, many

[249] Xero (2020).

MSMEs indicate that lack of knowledge is a serious barrier to participation in digital activities. MSMEs are also indicating that they are having challenges finding a mentor or individual who could help them and guide them through the process. Furthermore, there is a lack of access to affordable platforms where entrepreneurs can educate themselves. At the moment, platforms that offer guidance and educational programs can be often extremely costly for smaller enterprises.

In SADC, countries with low digital skills adoption rates tend to have poorly developed digital ecosystems as Madagascar (1 per cent), Malawi (1 per cent), Democratic Republic of Congo (1per cent), Angola (2 per cent), Mozambique (2 per cent), Tanzania (2 per cent), Zambia (4 per cent) and Zimbabwe (5 per cent).[250] Mauritius has the highest adoption and prevalence of digital skills (24 per cent), followed by South Africa (17 per cent), Botswana (14 per cent) and Namibia (12 per cent). This World Bank study lays out compelling proofs that directly tie digital skills to the availability of complementary infrastructures like reliable internet and electricity. It also shows that wide penetration of mobile voice subscriptions has little or no effect on the emergence and growth of digital skills in a country, but affordable internet does.

Going forward, there are many routes to MSME digital upskilling. One is in the creation or expansion of digital capacity programs (Section 4.7); but there is another route. The implementation of the AfCFTA trade-in services agreement establishes the movement of natural persons and the mutual recognition of qualifications to promote the migration of IT professionals by which immediate gaps in digital jobs can be quickly filled. This may be the way for lagging countries to go if they are going to leap forward in the development of their local digital ecosystems.

4.7 MSME Digital Capacity Initiatives

A sustained "mass market" approach to bring MSMEs into the digital ecosystem is needed in light of these realities. Efforts by Microsoft, Cisco and others to onboard MSMEs onto the web and e-commerce can be scaled up and expanded to include African platforms. For example, Microsoft's 4Afrika initiative invests in start-ups, partners, small-to-medium enterprises, and youth. Established in 2013, it claims to have brought "tens of thousands of SMEs online."[251] Other global technology player initiatives have been implemented at scale. Cisco has shown a commitment to training students on the company's technology with almost 700,000 students trained since 1998 and a further commitment through their Network Academy Program (NetAcad) to training an additional one million students by 2025.[252] NetAcad provides students hands-on digital skills on Cisco-related technology that prepares them for a range of careers in communications and networking. The African Virtual Resilient-Integration for a Vibrant Africa (AVRIVA) is an AU-backed digital platform being established to build the capacities

[250] Ibid.
[251] www.microsoft.com/africa/4afrika/about-us.aspx (Accessed June 3, 2021).
[252] Cisco (2019).

of 100,000 micro enterprises (including women- and youth-owned) so they can engage in intra-Africa trade by leveraging the AfCFTA.[253]

Digital ecosystems that supply a steady stream of innovation can also be enhanced through the strengthening of education systems. There is a real need for improvements to the national education systems in most countries, particularly in the areas of Science, Technology, Engineering and Mathematics (STEM) and Technical Education Vocation and Training (TVET) to demystify technology and entrepreneurship and to create or increase the base of digital literacy and digital skills within the population.

Box 3: Selected case studies of MSME digitalisation

There are growing examples of apparently successful MSME digitalisation that can aid policy formulation and implementation.

ShopSoko is a women-led, digital manufacturing platform that brings together over 2,300 artisans in Kenya in a distributed production model to develop and sell African jewellery into global markets.[254] The e-commerce site empowers artisans, whose sales were previously narrowly limited to local informal markets with digital tools so they can automate production and gain access to international buyers in advanced economies. The company is working to develop the East Africa ethical jewellery supply chain and is said to have sold over 100,000 products valued at over US$800,000 since it commenced business.[255] The platform claims that artisans in its virtual factory earn five times more income than their non-digital peers.[256]

Zambia's **Agri Predict** uses artificial intelligence and machine learning to analyse pictures uploaded by 22,000 farmers of suspected diseased plants, who through a dedicated app get on-demand diagnosis and treatment options direct to their mobile phones.[257] The system also offers users data-driven services including weather predictions, smart irrigation and Agric extension.[258]

On its part, **Tropigalia**, a Mozambican food, beverage and fast-moving consumer goods distributor uses a different business digitalisation model. The company brings together a larger number of MSMEs and sales agents in informal markets who are equipped with GPS-enabled tablets which capture retail outlet data that is then used to make real-time orders for any of over 3,000 products.[259]

In July 2020, the African Union and the AeTrade Group launched **Sokokuu**, a Pan-African e-commerce platform based in Eswatini that brings MSMEs and large enterprises in manufacturing and trade on the continent into an online marketplace. The site focuses on African-made products and currently claims a registry of 800 merchants.[260] The platform's first post-launch shipments, hand-crafted glassware

[253] www.avriva.com
[254] www.lseg.com/resources/companies-inspire-africa/companies-inspire-africa-2017/consumer-services/shop-soko (Accessed April 21, 2021).
[255] ECA (2017).
[256] www.shopsoko.com/pages/about (Accessed April 21, 2021).
[257] www.agripredict.com (Accessed April 21, 2021).
[258] BBC (2020).
[259] USAID (2017).
[260] African Newspage (2021).

made from recycled inputs, originated from Eswatini to Ethiopia on January 1, 2021.[261]

More recently, social enterprises like **Potential.com** are making available a broad set of business education, management, and e-commerce tools and capabilities cloud-hosted platforms to SMEs, youth and women-led business inclusive, for free. This effort, if expanded and combined with the establishment of local SME hubs as proposed by the International Chambers of Commerce (ICC) and sustained over the medium term of 5-10 years, could also provide the kind of scale required for a mass migration of MSMEs online.

4.8 Summary of Chapter Four

The digitalisation of MSMEs largely depends on the state and quality of the technology, networks and infrastructure of the business environments in which they operate. In terms of connectivity, access and usage, MSMEs are increasingly having access through mobile network to revolutionary digital tools such as e-commerce platforms and ups, cloud packages, connectivity-dependent hardware solutions which assist in deepening sales, expanding profits and helping with customer service.

The digitalisation of African MSMEs is tied to the state and quality of the local digital ecosystem as there is a correlation between the quantum and quality of tech hubs and how developed a country's digital ecosystem is. Currently, skilled human resources to support MSMES digitalisation and upskilling are scarce.

[261] Eswatini Observer (2021).

CHAPTER FIVE: LESSONS LEARNED – REVIEW OF FINDINGS

5.1 Main Messages

1. **There are presently no clear-cut digitalisation strategies specifically targeted at MSMEs in the majority of Southern Africa countries which can be expressly leveraged upon for a successful implementation of the AfCFTA.**

AfCFTA's overall success is tied to the untangling of a "spaghetti bowl of complex regulations"[262] resulting in the carefully coordinated removal of restrictions that progressively lead to the upgrading and digitalisation of the private sector (MSMEs inclusive) and seamless cross-border flows between all participating countries. As this study has shown, active measures to aid the digitalisation of MSMEs in the region tend to be ineffective at present, yet there is a clear need to (a) encourage the adoption and utilisation of digital technologies by MSMEs, (b) support the development of digitalisation on the continent as well as (c) support endogenous digital innovations on the continent by MSMEs themselves.

For the AfCFTA to achieve success in accelerating digital transformation of the MSME sector, there is important work ahead to develop clear-cut MSME-focused strategies and resolve incoherence and inconsistencies within and between national MSME policies and regulatory systems to enable greater intra-Africa trade as envisaged under the AfCFTA. Key policy areas that need to be addressed in creating an enabling digital environment include e-transactions, e-payments, e-logistics, data protection and cybersecurity. According to the World Development Report 2021,[263] lower- and middle-income countries have serious deficiencies in one or more of these areas. Governments have an opportunity to commit to the "doing business" climate reforms which are consolidated at the Regional Economic Community (REC) level. These country-level reforms could then fit into making the AfCFTA work for MSMEs continentally.

Presently, the gap between countries with significant advancements in legislation, policies, infrastructure, and implementation promoting the digital economy and those that are trailing appears to be widening considerably. The physical infrastructure gap is huge but smaller for network infrastructure in the Southern Africa region. Countries that have embraced digital realities such as Mauritius, Kenya, Nigeria, South Africa and Rwanda are making good strides to reform their respective national economies by implementing policies that promote growth in private sector investments, ease of doing business, ecosystems of innovation, infrastructure implementation and take-up of digital services by the population. Having a holistic vision of what the government wants to (and will) do for the MSME sector is clearly critical. For instance, Mauritius appears to be developing its MSME sector with intent. The country engages the MSME sector via awareness campaigns and training programs to help enterprises deal with

[262] Remark made to the consultant by African trade key informant, William Babigumira.
[263] World Bank (2021).

the fears and anxieties they have toward formalisation or digitalisation. Willing MSMEs are rewarded with a program of support and training incentives which in a relatively short time convinces enterprises to formalise and digitalise.

While digitalisation and technology can be complex, fast-changing, and in many cases confusing for policymakers and enterprises, new approaches to MSME policymaking and implementation need to be adopted where regulatory environments for digital are progressive, holistic and collaborative environments in which technological innovation and digital services are created, managed and controlled. This new approach should also lead to greater promotion by policymakers of business inclusion practices, digitalisation, and value-chain linkages between large corporations and MSMEs, linkages which are presently private sector-led and are not often consequent to direct government intervention or a strategic national process. Greater cooperation and collaboration between and among the public, private, and civil sectors should be recognized as inherent to deliver and evolve a successful, inclusive, and competitive regulatory environment where African MSMEs can readily thrive, and which puts people and the common good as the central purpose of regulation. While the public sector must retain leadership, accountability, and oversight capabilities for creating an enabling environment and digital ecosystems, the private sector has a crucial role in the design, management, operations, and delivery of these systems. It is through such dynamic, progressive, and collaborative environments that the full range of opportunities that the AfCFTA portends for African economies and their MSMEs can be unlocked.

2. **The wide gap between the better-performing countries and those lagging in the advancement of their respective national digital ecosystems is real and has to be addressed for the digital transformation of the MSME sector**.

Digitalisation of African MSMEs on a holistic basis will not happen all by itself as digitalisation is much more than the private use of technologies or digital tools by individual operators. As highlighted in this report, digitalisation usually occurs within the context of a national digital ecosystem enabled by coherent policies which create a universe of high-quality interconnected networks, services, applications and content available for different types of users and uses. In many countries, communication and competition policies are making data prices increasingly unaffordable for large segments through exclusivities in licensing frameworks, retrogressive spectrum fees, irrational digital taxation and the unwillingness to reduce the leverage that dominant mobile operators have in many markets.[264]

Underpinning the digital ecosystem and the digital economy are certain legislative or regulatory actions including the development of an investment-friendly environment, promotion of communities of innovation and digital entrepreneurship, market-liberal trade policies, robust competition laws and safeguards, and, for the AfCFTA and the Digital Single Market, management of cross-border data exchanges. Since the 1990s, competition policies

[264] Gillwald, A. (2020).

and laws have been put in place in all but 17 African countries.[265] Competition laws have a direct impact not only on the traditional but also on the digital economy as well. Despite this history, less than half of countries on the continent, 23 in total including South Africa, Egypt, Morocco and Kenya, have established the necessary institutions, guidelines and frameworks to monitor and enforce competition policy either towards simply improving bricks-and-mortar markets or, in rare cases, in anticipation (or towards the development) of digital trade, e-commerce, and the digital economy. National competition laws may however need to be reviewed and revised as part of the operationalisation of the AfCFTA upon the adoption of the Protocol on Competition.

African countries are not without adequate resources to develop and digitalise the MSME sector. What appears missing is a consciousness of the benefits, the intent to claw into all of those benefits, the openness to collaborate and the capacity to make it happen. AfCFTA stakeholders, the AU, AfCFTA secretariat, national governments, development partners, and large enterprises and business associations, have to showcase to regulators and MSMEs where the opportunities are for economic development, growth, and profit-making as present arrangements appear inadequate. Opportunities to exhibit any good MSME digitalisation practices by (or in) other African countries as it relates to the continental free trade area should also be explored.

The above being the case in point, policies and regulations are only part of the picture. Investment is needed to create and extend digital infrastructure, digital services and digital innovation. On the continent, there are more than 630 tech and innovation hubs and a vigorous fintech sector. Innovation requires investments to establish interconnected e-payments systems and digital services. There is a present need to spur private equity investment and encourage Series A and B funding by supporting the dissemination of factual information to counter some of the risk premium generated due to the information gap that exists for potential investors. There are also innovative funding models that are emerging including green bonds, crowdfunding platforms, sovereign funds and other solutions that can help to accelerate the transition to a regional economy.

Development partners and large corporations could provide facilities to support training, access to resources and compliance certification for African MSME businesses. Online self-paced tutorials and training modules, particularly in local languages, and an interactive tool for checking compliance would go a long way to getting MSMEs over the digital business divide. Gender and digital inequalities that discriminate and disempower women, youth and marginalised persons also need to be addressed.

Digital ecosystems that supply a steady stream of innovation can also be enhanced through the strengthening of education systems. Critical improvements and digital upgrades to the national education systems in most countries, particularly in the areas of Science, Technology,

[265] WTO (2019).

Engineering and Mathematics (STEM) and Technical Education Vocation and Training (TVET) should be undertaken to demystify technology and entrepreneurship and to create or increase the base of digital literacy and digital skills within the population.

The urgency of the opportunity presented by the historic AfCFTA and the unprecedented socio-economic benefits that would likely accrue as the continent progressively drives towards a Digital Single Market means that vital building blocks have to be enabled through a collaborative, multi-stakeholder approach to the setting up of trust frameworks. The Digital Single Market (DSM) is a stated priority of the African Digital Transformation Strategy, the African Union and the ECA. A Digital Single Market would overcome the small market sizes, and differing regulations, that currently constrain investment into many African businesses. The coordinated implementation of the Digital Transformation Strategy for Africa by responsible continental and national parties should feed into the AfCFTA arrangements in the development of the MSME sector and ultimately result in the setting up of the DSM for the continent.

3. **The examined evidence shows that MSMEs will find it difficult to participate and take advantage of the AfCFTA without significant capacity development, institutional support, digitalisation upgrades, and the removal of barriers to doing business across borders.**

There is a real possibility that MSMEs may be unwittingly 'left behind' as the operationalisation of the AfCFTA goes forward. There is thus a strong case to be made for the creation of institutional structures to support the integration of MSMEs into the AfCFTA, though the form and nature of how to do this may be debated. It appears that without such coverage, the AfCFTA's potential to serve MSMEs will be significantly reduced. Anchoring the AfCFTA implementation on a business-as-usual policy approach may not suffice for the development, digitalisation and regional integration of the MSME sector.

For example, one country aims to identify and support the integration into the AfCFTA of 10 new export MSMEs trading across borders yearly over the next ten years as part of its implementation strategies for the continental trade area, but this rate is simply too low if the AfCFTA will succeed. It probably reflects an inadequate understanding by policymakers of the ambitions of the AfCFTA or the paucity of resources with which to scale beyond the target expressed. AfCFTA implementation strategies like this will not fulfil its objectives nor achieve the scale and scope for MSME participation designed into the AfCFTA arrangements, especially if other African countries implement at a similar level.

African countries have to build coalitions to aid MSMEs participation in the AfCFTA based on common goals and shared interests, working under the REC umbrella to find a way to overcome policy differences. Business associations have to amplify their voices in business advocacy in support of MSMEs. Technology providers including MNOs, infrastructure companies, app developers and content creators all have a significant role to play in MSME digitalisation. Countries that are doing relatively better at developing the MSME sector

generally use a consultative, multi-stakeholder bottom-up approach to designing and implementing the right policies instead of a unilateral or draconian tactic.

As stated, there is a prime case for the creation of institutional coverage at the regional level targeted at the inclusion of MSMEs to help policymakers achieve greater inclusion of MSMEs in the continental free trade area. Though not a completely comparable analogy, one solution is for a cohesive, standards-based initiative for the rapid upgrading of African MSMEs and the policymakers regulating them which is modelled on the trading platform approach of the African Medical Supply Platform (AMSP), and the bulk purchasing approach of COVAX as part of the AfCFTA implementation. AMSP was created in mid-2020 and is run by the Africa Center for Disease Control and Prevention (Africa CDC) through the AU with support from ECA and is funded by Afreximbank. AMSP creates bulk purchasing power for African governments to secure medical supplies. At a time when the price of medical masks increased six-fold, AMSP was able to offer producers larger, more reliable orders, while simultaneously offering buyers stable lower prices. The platform achieved this by aggregating orders, providing transparency and creating a trusted environment to buy and sell, such that African countries could effectively compete for goods. Complexities as to whether one country will recognise and allow MSMEs in another to participate in its markets may be better treated under such a high-level arrangement.

COVAX is a worldwide alliance through which 42 African countries can secure equitable access to 600 million doses of Covid-19 vaccines.[266] While the AMSP initially brought together buyers and suppliers of medical equipment, mainly for Personal Protective Equipment (PPE), it has now expanded to include a range of vaccines. COVAX and AMSP have shown that Africa can innovate and succeed when African countries come together. There is reason to believe that no single nation would have been able on its own to successfully attack the outbreak of coronavirus without the sort of resources and institutional arrangements that COVAX and AMSP made available for the entire continent. In unlocking digital transformation continent-wide, there is much to be learned from this unique crisis-driven innovation, that created a continent-wide digital platform, including a "Made in Africa" section, all virtually, without any in-person meetings or layers of bureaucracy. Regional bodies such as the African Union and the UN Economic Commission for Africa (ECA) can play a significant role of facilitators and enablers of solutions of this nature by using their convening power to engage and support member states actively.

[266] https://www.afro.who.int/health-topics/coronavirus-covid-19/vaccines

4. **Covid-19 has increased the vulnerability of formal and informal MSMEs, yet the shift to digitalisation arising from the outbreak appears long-lasting and is leading to greater use of technology, which may result in advantages in new business models and practices and help in the quest for African economies to rebuild better.**

Digitalization is proving a key factor in the post-pandemic outlook for Africa and based on a review of new research, certain trends are beginning to emerge. Covid-19 has led to an explosion of innovation within the African tech community and start-ups are eager to support the efforts of government at containing the pandemic with digital solutions to complex problems in different economic sectors including health, agriculture and financial services, among others, yet the digitalisation of society and enterprises is taking place by necessity rather than as a direct result of government policy. The key question then is this: how can the observed transition to digitalisation by MSMEs arising from the shock and realities of the pandemic be sustained and institutionally supported to help African economies build back better? The Covid-19 pandemic can be used as an opportunity to speed the transition of MSMEs to digitalisation. Measures such as the development of toolkits and online information services, the setup of digital teams to assist MSMEs with digitalisation, linking financial aid to digitalisation and programs to help businesses overcome the challenges brought up by the pandemic may be initiated. Increased MSME digitalisation arising from the outbreak appears long-lasting and is leading to greater use of technology, which may result in advantages in new business models and practices.

5.2 Summary of Chapter Five

There are a number of conclusions drawn from the study. There are no clear digitalisation strategies targeted at MSMEs in Southern African countries which help implement the AfCFTA. The wide gap between better performing and non-performing countries in advancing their respective national digital ecosystems should be addressed. Furthermore, MSMEs will find it difficult to participate and take advantage of the AfCFTA without significant capacity development, institutional support, digitalisation upgrades and the removal of barriers to business across border. Covid -19 has increased the vulnerability of formal and informal MSMEs.

CHAPTER SIX: RECOMMENDATIONS

Government	**Institutional Coverage to Enable MSME Participation in AfCFTA** 1. Work in collaboration with the AU, ECA, and regional economic communities in any consolidated regional or sub-regional initiative designed to deliver a steady stream of MSME goods and services into AfCFTA. 2. Work with RECs to (a) define MSMEs and capture up-to-date data on MSMEs within the country using digital tools, (b) harmonise MSME regulations, and (c) eliminate barriers to cross-border trade. 3. Develop a solid pool of MSMEs that will be assisted through training programs and business development services to participate in AfCTA. 4. Accelerate the implementation of the recommendations of national AfCFTA implementation strategies regarding digitalisation, and channel greater effort and resources into making MSMEs and the private sector aware of the continental trade area. 5. Setup a national legal aid service that grants MSMEs participating in the AfCFTA free access to trade attorneys who will assist in resolving cross-border trade disputes. 6. Work with the private sector and development partners to create accessible, user-friendly databases of digital solutions, information exchanges and time-sensitive market data pointing to opportunities in and around the country that can be leveraged upon by MSMEs to boost sales. 7. Work with the private sector, development partners, and business associations to identify initiatives and value-chain connections that will grow and deepen the MSME sector. **MSME Digitalisation** 8. Take direct actions to deal with constraining factors to MSME digitalisation, especially relating to physical and digital infrastructure, affordability of data products and devices, and e-payments interoperability, among others. 9. Develop a functional domestic tech community through the encouragement of innovation, tech hubs, incubators, and

accelerators that will create a digital ecosystem of entrepreneurship and digital skills available to assist MSMEs to transform into the digital economy and create linkages between these hubs and MSMEs.

10. Develop coherent, comprehensive MSME digital economy strategies for the development of the MSME sector based on a consultative diagnostic approach. Where these already exist, deploy resources towards MSME engagement and policy implementation with measurable outcomes.
11. Improve national education systems especially Science, Technology, Engineering, and Mathematics (STEM), and Technical Education Vocation and Training (TVET) to demystify technology and entrepreneurship so as to increase digital literacy and digital skills within the population.
12. Work with the AU, ECA and development partners to access capacity-building programs and resources to deepen public sector capacity in digitalisation, digital regulation and MSME development.
13. Involve key local and international stakeholders and the general public in any proposed e-commerce, data protection and privacy legislation.
14. Allocate and release budgetary provisions for the improvement of the MSME sector and consider setting up funds within existing investment structures (e.g., at the central bank or sovereign wealth fund) to support the development of start-ups and the digital MSME ecosystem.

Business Environment

15. Undertake to put an end to onerous regulation of the MSME sector.
16. Review and revise any legislation or portions of existing law that conflict with the AfCFTA protocols, the progressive development of the MSME sector, or the adoption of digitalisation within the country.
17. Review existing competition policies governing the mobile communications sector to remove any abuse of market dominance practices so as deepen the penetration and affordability of devices, connections and broadband data.

	MSME Formalisation 18. Create incentive-based digital registries to aid the on boarding of informal enterprises. 19. Establish and operationalise a one-stop government organ for MSME registration, book-keeping, and BDES and harmonise institutional arrangements for the management of the MSME sector.
Continental Bodies & Development Partners	1. Work together to develop a consolidated multi-country arrangement for the development of the African MSME sector. 2. Continue working with national governments to develop national AfCFTA implementation strategies, interoperable trusted networks for cross-border transactions, marketplace information exchanges, and MSME onboarding strategies. 3. Assist ministries and agencies responsible for the MSME sector to develop human capacity and digital skills. 4. Work with the African Union and other stakeholders to develop consolidated MSME-focused Covid-19 relief packages or stimulus funds to "rebuild better". 5. Work with regional bodies and responsible ministries to drastically reduce the high levels of MSME informalisation in Africa. 6. Organise practical digital capacity-building programs targeted at MSMEs in collaboration with super platforms, Big Tech, and home-grown platform creators. 7. Develop a competitiveness index for measuring the capacities and competitiveness of African MSMEs to enable benchmarking across and between African countries and the rest of the world.
Private Sector	1. Work with national AfCFTA implementation bodies towards effective participation of businesses in the continental trade agreement. 2. Work with responsible ministries to implement 'Made in Africa' and 'Buy local' policies, through value-chain development, MSME clustering and digitalisation. 3. Identify and encourage value-chain linkages with local MSMEs.

MSME Business Associations	1. Work with the government, regional bodies, the private sector and development partners to locate resources for MSME policy advocacy, research, market intelligence support, capacity-building, digitalisation of MSMEs and participation of smaller operators in the AfCFTA. 2. Work with development partners and international organisations to create monitoring and evaluation arrangements for national MSME policy implementations. 3. Promote and support citizen digital education and entrepreneurship.

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APPENDICES

Appendix A: MSME Definitions in SADC Countries

MSME Definitions by Turnover[267]

Country	Year	Currency	Micro	Small	Medium
Democratic Republic of Congo[268]	2019	USD	≤10,000	10,000 - 80,000	80,000 – 400,000
Eswatini[269]	2017	SZL	≤60,000	≤3,000,000	≤ 8,000,000
Malawi[270]	2019	MK	≤ 5,000,000	5,000,001 - 50,000,000	50,000,001 - 500,000,000
Namibia	2016	NAD	0 - 300,000	300,001 - 3,000,000	3,000,001 - 10,000,000
South Africa[271]	2019	ZAR	≤7m Agriculture; ≤7.5m Retail & Motor Trade & Repair Services; ≤7.5m Finance & Business Services; ≤10m Electricity, Gas & Water; ≤7.5m Transport, Storage & Communications; ≤5m Community, Social & Personal Services; ≤10m Construction; ≤5m Catering, Accommodation & other Trade; ≤15m Mining and Quarrying;	≤17m Agriculture; ≤25m Retail & Motor Trade & Repair Services; ≤35m Finance & Business Services; ≤60m Electricity, Gas & Water; ≤45m Transport, Storage & Communications; ≤22m Community, Social & Personal Services; ≤75m Construction; ≤15m Catering, Accommodation & other Trade; ≤50m Mining	≤35m Agriculture; ≤80m Retail & Motor Trade & Repair Services; ≤85m Finance & Business Services; ≤180m Electricity, Gas & Water; ≤140m Transport, Storage & Communications, Construction; ≤70m Community, Social & Personal Services; ≤170m Construction; ≤40m Catering, Accommodation & other Trade;

[267] IMF (2019).
[268] World Bank (2019b).
[269] Ministry of Commerce Industry & Trade (2018).
[270] Ministry of Industry, Trade & Tourism (2019).
[271] Department of Small Business Development South Africa (2019).

			≤20m Wholesale; ≤10m Manufacturing	and Quarrying; ≤80m Wholesale; ≤50m Manufacturing	≤210m Mining and Quarrying; ≤220m Wholesale; ≤140m Manufacturing
Zambia	2014	ZMW	<150,000,000	150,000,000-300,000,000	300,000,000-800,000,000
Zimbabwe	2018	USD	<30,000 Agriculture, Arts, Entertainment, Culture, Education & sport, Manufacturing, Financial services, Transport, Services, Tourism & hospitality, Retail; <50,000 Mining & quarrying, Construction, Energy	<500,000 Agriculture, Arts, Entertainment, Culture, Education and sport, Manufacturing, Financial services, Transport, Services, Tourism & hospitality, Retail; <1,000000 Energy, Construction; < 1,500,000 Mining & quarrying	<1,000,000 Agriculture, Arts, Entertainment, Culture, Education and sport, Manufacturing, Financial services, Transport, Services, Tourism & hospitality, Retail; <2,000,000 Energy, Construction; <3,000,000 Mining & quarrying

Definitions by Assets[272]

Country	Year	Currency	Micro	Small	Medium
Democratic Republic of Congo[273]	2019	USD	<10,000	10,000–150,000	150,000–350,000
Eswatini[274]	2017	SZL	<50,000	50,000-2,000,000	2,000,001-5,000,000
Malawi[275]	2019	MK	<1,000,000	20,000,000	250,000,000
South Africa	2017	ZAR	≤10,000	10,001 - 3,000,000 Agriculture, Retail & Motor Trade and Repair Services, Transport, Storage & Communications, Finance & Business Services, Community, Social & Personal Services; 10,001 - 6,000,000 Mining and Quarrying; 10,001 - 5,000,000 Manufacturing, Electricity, Gas & Water, Wholesale Trade, Commercial Agents & allied Services; 10,001 - 1,000,000 Construction, Catering, Accommodation & other Trade	3,000,001 - 5,000,000 Agriculture, Finance & Business Services; 3,000,001 - 6,000,000 Retail and Motor Trade & Repair Services, Transport, Storage and Communications, Community, Social & Personal Services; 6,000,001 - 23,000,000 Mining & Quarrying; 5,000,001 - 19,000,000 Manufacturing, Electricity, Gas and Water; 5,000,001 - 10,000,000 Wholesale Trade, Commercial Agents & allied Services; 1,000,001 - 5,000,000 Construction, Catering,

[272] IMF (2019).
[273] World Bank (2019b).
[274] Ministry of Commerce Industry & Trade (2018).
[275] Ministry of Industry, Trade & Tourism (2019).

					Accommodation & other Trade
Tanzania	2012	TZS	<5,000,000	5,000,001-200,000,000	200,000,001-800,000,000
Zambia	2014	ZMW	<80,000,00	80,000,000-200,000,000 Manufacturing; 80,000,000-150,000,000 Trade & Services	200,000,000-500,000,000 Manufacturing; 150,000,000-300,000,000 Trade & Services
Zimbabwe	2018	USD	<10,000	<250,000 Agriculture, Arts, Entertainment, Culture, Education & Sport, Financial services, Retail, Transport, Tourism & hospitality, Services; <500,000 Energy, Manufacturing; < 1,000,000 Mining & Quarrying, Construction.	<500,000 Agriculture, Arts, Entertainment, Culture, Education & Sport, Financial services, Retail, Transport, Tourism & hospitality, Services; <1,000,000 Energy, Manufacturing; <2,000,000 for Mining & Quarrying, Construction

Appendix B: Covid-19 Relief Measures Of SADC Countries For MSMES

Country[276]	Relief for Business	Broad Assessments
Botswana[277]	• Wage subsidies (1billion Pula - c. US$92m) • A 24-month loan guarantee of up to P25 million for loans with commercial banks • Concessions and deferrals on taxes and levies in eligible sectors • Covid-19 emergency response fund of P40million • Moratoriums on loan repayments • Expedited VAT refunds to businesses	• High uptake of wage subsidies and Covid-19 emergency response fund • Limited business appetite for loans • A low number of moratorium beneficiaries
Democratic Republic of Congo	• The government encouraged the use of e-payments to reduce infection risks using cash notes • Reduction in the monetary policy rate to 7.5bps from 150bps. • Moratorium on liquidity loan repayments	
Mauritius[278]	• Wage Assistance Scheme for employees of SMEs • Self-Employed Assistance Scheme for micro-enterprises • Covid-19 fund of 10b Rupees for SMEs and cooperatives • Special loans of up to 10m euros at 0.5 per cent annual interest • One-off grants for local production of up to Rs50,000 • Directive for public procurements to be targeted at SMEs • Accelerated payment of invoices by government agencies • Rs 2m technology & innovation fund	

[276] Economist Intelligence Unit (2020).
[277] Business Botswana (2020).
[278] Padayachy, R. (2020), "Building resilience through SMEs and entrepreneurship", September 29, 2020, Ebène Conference, Port Louis.

Mozambique[279]	• Reduction in fees for digital transactions, mobile banking, and e-currency • US$500m line of credit accessible through commercial banks • Lowering of taxes incl. VAT offsets • Income tax deferral • Easing of customs measures • Reduced reserve requirement • 10 per cent reduction in electricity bills & payment moratorium extended to SMEs	• Limited impact on Mozambican businesses despite government efforts
Tanzania	• Expedited payment of arrears due to MSMEs by the public sector	
South Africa	• Funding to small businesses incl. emergency cash transfers to vulnerable MSMEs and disaster relief funds, • Wage support through the Unemployment Insurance Fund • Tax relief • Coronavirus grant • Emergency procurements • Debt moratorium, waivers, and reliefs through reduction of repo rate, capital requirements, and coverage ratio of banks	
Zambia	• Measures to encourage the use of digital financial services and mobile payments incl. waiver of all charges for transfers up to K150. • Suspension of excise duty on imported ethanol for use in hand sanitisers. • Suspension of export duty on minerals.	
Zimbabwe	• Z$1b Covid-19 relief fund for businesses with half dedicated to MSMEs.	• Businesses report negligible access or uptake of the relief fund. • Some MSMEs in health benefitted

[279] Confederation of Business Associations of Mozambique (2020).

Appendix C: List of MSME Stakeholders & Key Informants

No.	Name	Organisation
1.	Dr Johansein Rutaihwa	Southern Africa Development Community
2.	Takunda Mugaga Dumisani Sibanda	Zimbabwe National Chamber of Commerce
3.	Stacey Susa-Pinto	Namibia Agricultural Trade Forum
4.	Norman Moleele	Business Botswana
5.	Juanita Maree Jacob van Rensburg Lisa de Jager Mandelie Pienaar	Business South Africa
6.	Kudakwashe Matare	Confederation of Zimbabwe Industries
7.	Farai Mutambanengwe	SME Association of Zimbabwe
8.	Sebastian Ionnitis-McColl	International Trade
9.	Kivelege George	Tanzania Spices Association (TASPA)
10.	Dr Christoph Stork	Research ICT Solutions South Africa
11.	Zindzi Letsididi	The One Hub Botswana
12.	William Babigumira	Trade Expert
13.	Sahin Mohabeer Pratima Sewpal Kheeran Bahadoor	Economic Development Board Mauritius
14.	Sofia Dias Cassimo	Confederation of Business Associations of Mozambique
15.	Ravin Rampersad Michael Pompeia	SME Mauritius
16.	Ishmael Sunga	Southern Africa Confederation of Agricultural Unions

Appendix D: Semi-Structured Interview Questions

The following questions will guide the in-depth interviews with key informants and knowledgeable stakeholders. Each interview session will last between 30 to 60 minutes.

MSME Situation Analysis

1. Can you describe what you do and how it affects MSMEs?
2. What are the challenges and constraints facing MSMEs in the country?
3. Can you describe the impact Covid-19 has had (or is having) on MSMEs in the country?
4. Are there any government initiatives to cushion the effect of Covid-19 on MSMEs?
5. Are there clear government policies designed to enable the formalisation and digitalisation of MSMEs? Are these policies being implemented in practise?
6. In your view, how can MSMEs be assisted to effectively make the transition into the digital economy?
7. Are there any capacity gaps among MSMEs that limit their ability to compete in a digital world?

Digital Ecosystems

8. Which digital tools or platforms are being adopted by MSMEs and how widespread is this adoption?
9. What constraints are mitigating against wider deployments of digital tools and platforms?
10. What new business models are emerging among MSMEs that are based on digitalisation?
11. In your view, who are the most active digital players in the country, and why are they gaining prominence with MSMEs?

Regional / Continental Integration

12. Are there specific value-chains that are undergoing digital transformation and are any of these transformations being driven by policy?
13. Which MSMEs are participating in AfCFTA and what have been the benefits observed or complaints shared?
14. What opportunities can MSMEs exploit towards regional integration?
15. Can you describe any successful MSME examples in the country demonstrating the benefits of the early adoption of AfCFTA?