



United Nations
Economic Commission for Africa
Southern Africa Office

ECA-SA/AEGM.GI-MSMEs/2021/7

**Ad-hoc Expert Group Meeting on the Global Initiative towards
post-Covid-19 MSME Sector**

**Virtual
13 July 2021**

Concept Note

Themes: Opportunities for Micro, Small and Medium Enterprises (MSMEs) within the Green and Blue Economy: The case of the Southern African Development Community;

and

The Role of Digitalization in Strengthening Capacities MSMEs in Southern Africa to Take Advantage of the AfCFTA

I. Background

1. Covid-19 has had adverse effects on the African continent and in particular businesses and Small and medium-sized enterprises (SMEs). The United Nations Economic Commission for Africa (ECA) in collaboration with an external partner implemented one of the first online business surveys in the wake of the pandemic. A second-round survey, that also involved ECA Sub-regional office for Southern Africa (SRO-SA) was administered over the period 16th June-20th July 2020. Results from the second-round survey revealed a few salient interesting observations for the continent, namely:

- In the first April 2020 survey, **business closure** was reported as the major challenge faced. 3 months later, in July 2020, the perceived number one challenge was the **reduced opportunities to meet new customers**, while **drop in demand** and **lack of cash flow** remain high challenges;
- Breaking down the results by sector (either goods or services sectors), the results showed that drop in demand was a key challenge faced for over 68% of interviewed companies whose primary business was goods, whereas the most frequently mentioned challenges by services companies was the struggle to meet new customers;
- Fifty-six per cent of surveyed companies reported facing supply shortages due to border closures, high freight costs and border delays, as a result of which they switched suppliers, favoring national suppliers first, before African ones and before non-African ones.
- Companies have faced serious disruptions in both supply and demand due to COVID-19. Price has been a major concern during the pandemic. Whether on the supply-side or the market-side, businesses have suffered due to higher/unfair pricing; indeed market distortions were felt by the majority of respondents (64%) with **price fixing** between competitors as the most recurrent issue;
- Just over half (55 per cent) of the respondents in the first survey felt that the government responses to the COVID-19 crisis had been unsatisfactory. Asked about specific government intervention(s) they would like to see for their businesses, “*postponed tax payments*” was the most cited (by 55 per cent of the respondents), closely followed by “*providing working capital to firms*” (49 per cent), “*subsidising wages*” (48 per cent), “*access to low interest loans*” (46 per cent), and “*assistance to workers from the informal sector*” (40 per cent). In the second-round survey the numbers were lower in most categories. Only 21 per cent of surveyed firms reported “*postponed tax payments*” as a desired area of intervention by government, akin to “*providing working capital to firms*” (21 per cent), and followed by “*access to low interest loans*” (20 per cent), “*subsidising wages*” (14 per cent), “*assistance to workers from the informal sector*” (13 per cent) and “*delaying payment of bills*” (11 per cent).

2. However, when asked whether they had identified/reacted to any new business opportunities that might have been made possible with the new situation, the majority of companies responded by the affirmative; with the proportion increasing considerably with the size of the enterprise. Among the specific areas identified, and in similar proportion across company size, the increased use of technology and the possibility to conduct business remotely came back the most frequently among the respondents (around two thirds of the total for each), followed by online selling as well as shift to new products related to COVID-19 or entirely new product/service lines. The second-round survey conducted in June/July 2020 found that nearly 69 per cent of the

companies surveyed operating in Southern Africa had identified new opportunities in reaction to the crisis. Businesses operating in the goods and services sector, had both identified potential growth in markets as one of their top priorities.

3. In a report titled “*How South African SMEs can survive and thrive post COVID-19*”, McKinsey points out that in South Africa for instance small businesses were already facing significant headwinds prior to the outbreak of Covid-19 and that Covid-19 was going to aggravate the precarious financial situation of small businesses in a country where SMEs represent more than 98 percent of businesses, employ between 50 and 60 percent of the country’s workforce across all sectors, and are responsible for a quarter of job growth in the private sector. The same report identifies four areas where SMEs can take action to mitigate the challenges of the Covid-19 crisis. One such area relates to leveraging technology to reach new customers or provide a distinctive value proposition.

4. Another area relates to the development of clearer market access strategies. The development of new markets in new sectors can indeed be a viable post-Covid recovery strategy for many SMEs in the SADC region, in particular its Small Island Developing states (SIDS) such as Comoros, Mauritius and Seychelles, that are dependent on export-led strategies. As trading under the African Continental Free Trade Area (AfCFTA) has started, reaching new markets under the enlarged free trade area, beyond SADC could become a promising avenue of market growth for SMEs in the SADC region, not only as a way to recover from the impacts of Covid-19 but also to build resilience against future shocks by enhancing market diversification. Resilience against future shocks will also necessitate developing comparative advantages in new economic and sustainable sectors with robust growth prospects in a post-Covid world.

5. In order to support member states in addressing the impacts of Covid-19 on micro, small and medium-sized enterprises (MSMEs) and build back better, the United Nations Conference on Trade and Development (UNCTAD), the United Nations Department of Economic and Social Affairs (DESA), along with the five regional economic commissions including UNECA are implementing jointly a UN Development Account-funded project titled “*Global initiative towards post-Covid-19 MSME sector*”.

6. The objective of the project is to develop and implement capacity building tools for governments and MSMEs to facilitate resurgence and strengthen resilience of MSMEs in developing countries and economies in transition to mitigate the economic and social impact of the global Covid-19 crisis and to facilitate the contribution of MSMEs to the implementation of SDGs. The project is structured in five clusters addressing most critical areas of the MSME recovery:

- 1- Mobilize entrepreneurial ecosystem and strengthen business skills
- 2- Simplify business registration and facilitate formalization
- 3- Improve access to finance/financial literacy
- 4- Increase access to technology and innovation
- 5- Enhance access to markets

7. ECA SRO-SA is the entity at UNECA participating in this project and is the lead agency under cluster 4 - the thematic cluster on technology and innovation and also a participant under cluster 5 -enhance access to markets. The intended outcome under cluster 4 consists in *strengthening capacity of policy makers and MSMEs on access to technology* and cluster 5 in: *strengthening the capacity of policy makers and MSMEs on access to markets*. One of ECA SRO-SA's programmed outputs under cluster 4 is to produce a report on the role of digitalization in strengthening capacities of SMEs in Southern Africa to take advantage of the AfCTA . Its programmed output under cluster 5 is to produce a report assessing how SMEs in the SADC region (and its SIDS – Comoros, Mauritius and the Seychelles) can exploit and develop opportunities from emerging or future green and blue economies in Africa, leveraging the African Continental Free Trade Area (AfCFTA) in order to build resilience against future shocks and as part of their post-Covid recovery strategies.

8. It is against the above background that the Sub-regional office for Southern Africa (SRO-SA) of the United Nations Economic Commission for Africa is holding an Ad-hoc Expert Group Meeting under the twin themes of “*Opportunities for Micro, Small and Medium Enterprises (MSMEs) within the Green and Blue Economy: The case of the Southern African Development Community*” and “*Role of Digitalization in Strengthening Capacities MSMEs in Southern Africa to Take Advantage of the AfCFTA*”.

II. Objectives of the meeting:

9. The main objective of the meeting is to provide a platform for experts to deliberate on the two draft study reports prepared by the consultants in order to gather comments, inputs and recommendations that will inform the finalization of the reports, and ensure their relevance to policymakers and other relevant stakeholders in Southern Africa in the context of building back better post-Covid.

10. The thematic issues to be addressed by the study “*Opportunities for Micro, Small and Medium Enterprises (MSMEs) within the Green and Blue Economy: The case of the Southern African Development Community*” as detailed in the terms of reference are:

- i. Challenges and opportunities faced by SMEs in the SADC region, with attention to the SIDS and with an illustration based on case examples in specific sectors and countries;
- ii. How Covid-19 has compounded challenges for SMEs in SADC, with attention to the SIDS and with an illustration based on case examples in specific sectors and countries;
- iii. New opportunities that can be unleashed for SMEs in Africa and the SADC region by the emergence and growth of the blue and green economy and the role of science, technology and innovation in this process;
- iv. An analysis and explanation of the blue economy and green economy concepts and its applicability to Africa and the SADC region, with specific references to the SADC SIDS;
- v. An analysis of how the AfCFTA can be leveraged by the SADC countries and region to unleash growth opportunities for their SMEs in the green and blue economic sectors, with

- case examples; and with specific analysis on the potential for SMEs to integrate into regional and/or global value-chains;
- vi. An analysis of how exploiting opportunities from the green and blue economies can be a viable component of Post-Covid recovery strategies for SMEs in SADC;
 - vii. An analysis of how science, technology and innovation, including digitalization can contribute to this process (that is in the development of the blue and green economy in the SADC region and the creation of opportunities for SMEs).
 - viii. A 10-point agenda consisting of policy recommendations and actions to be undertaken by governments and private sector.
11. The thematic issues to be addressed by the study “*Role of Digitalization in Strengthening Capacities MSMEs in Southern Africa to Take Advantage of the AfCFTA*” as detailed in the terms of reference are:
- i. A definition of MSMEs for the study based on criteria (*informal sector v/s formal sector, number of Full-Time Equivalent workers employees (1 - 5, 1 - 20), revenue*) and addressing definitional and conceptual issues;
 - ii. Challenges and opportunities faced by MSMEs in Africa and how Covid-19 has compounded such challenges for MSMEs (to be covered under introductory chapter with specific references to SADC countries);
 - iii. A clear unpacking of the concept of “capacities” and “competitiveness” and “digitalization” (with an explanation of what digital technologies consist of and giving examples);
 - iv. An analysis backed by case examples of how digitalization can strengthen the capacities and competitiveness of MSMEs or have strengthened such capacities and competitiveness, including in regions other than Africa and the lessons that can be drawn for Africa;
 - v. New opportunities that can be unleashed for MSMEs in Africa and the SADC region by the operationalization of the AfCFTA with an emphasis on industrialization (agro-processing and manufacturing, services development including finance, education and health sectors, agricultural development including agritech) and the development of regional value-chains (illustrated by concrete case examples);
 - vi. The above analysis should clearly outline areas where opportunities lie and how the AfCFTA will help to unleash these opportunities with specific examples and references to the SADC region;
 - vii. An analysis of the challenges faced by MSMEs in Africa and the SADC region at harnessing digitalization (illustrated by examples);
 - viii. A highlight of how ECA is promoting the access of MSMEs to digitalization as a tool for strengthening capacities and competitiveness;
 - ix. A ten-point action agenda containing policy recommendations for governments and the private sector in order to promote access of MSMEs to digitalization as a tool to strengthen their capacities and competitiveness;
12. Overall, the deliberations will provide guidance and recommendations on how to:
- i. Improve the flow of the narrative in order to sharpen focus and readability;

- ii. Strengthen the substantive and empirical analysis of the studies in order to enhance relevance to stakeholders especially in the context of the AfCFTA;
- iii. Take better advantage of the sub-region's global and regional trade agreements in order to facilitate the resurgence of MSMEs post-Covid and strengthen their resilience to future shocks;
- iv. Facilitate the integration of informal MSMEs in the formal economy and develop linkages between the formal and informal sectors;
- v. Position and strengthen as necessary, the case studies and case examples in order to highlight best practices and lessons for the subregion;
- vi. Point out and correct factual errors and gaps, and provide/recommend relevant data and information sources
- vii. Strengthen the conclusions and policy recommendations of the studies;
- viii. Provide suggestions for dissemination at high-level and other fora;

III. Format

13. The AEGM will be virtual. It will consist of a morning segment focusing on the study on *“Opportunities for Micro, Small and Medium Enterprises (MSMEs) within the Green and Blue Economy: The case of the Southern African Development Community”* and an afternoon segment focusing on the study *“Role of Digitalization in Strengthening Capacities MSMEs in Southern Africa to Take Advantage of the AfCFTA”*. A presentation of the studies will be delivered by the external consultants. The meeting will be facilitated by the Chair of the Bureau of the 26th Intergovernmental Committee of Senior Officials and Experts (ICSOE) of the ECA SRO-SA. In addition to the opening and closing sessions, all presentations and discussions will be held in plenary.

IV. Expected Outcomes

14. The expected outcomes of the meeting are:

- Enhanced understanding of the challenges, and options available to MSMEs in Southern Africa to build back better post-Covid and take advantage of new opportunities in the blue, green and digital economies;
- Enhanced understanding of key capacity development issues of MSMEs in Southern Africa in relation to building back better post-Covid, and in harnessing the opportunities of the AfCFTA and other trade agreements;
- Well-articulated comments, inputs and recommendations for the finalization of the study reports.

V. Expected Outputs

15. The expected outputs are:

- Two high quality, timely and relevant reports titled respectively *“Opportunities for Micro, Small and Medium Enterprises (MSMEs) within the Green and Blue Economy: The case*

of the Southern African Development Community” and “Role of Digitalization in Strengthening Capacities MSMEs in Southern Africa to Take Advantage of the AfCFTA”.

- These reports will provide case studies and policy recommendations to Regional Economic Communities (RECs), MSMEs, policy makers and stakeholders on strengthening capacities of MSMEs to take advantage of the AfCFTA and build back better post-Covid.
- A short meeting report detailing the main issues arising from the deliberations, and recommendations for the finalization of the study reports;
- Strategies for disseminating the two reports at subregional events, and the 27th ICSOE meeting scheduled for October 2021.
- Two videos highlighting main messages and recommendations of the report.
- Two Op-eds based on the reports.

VI. Meeting documents

16. The meeting will be informed by the concept note, programme and the draft study reports on (1) *Opportunities for Micro, Small and Medium Enterprises (MSMEs) within the Green and Blue Economy: The case of the Southern African Development Community* and (2) *Role of Digitalization in Strengthening Capacities MSMEs in Southern Africa to Take Advantage of the AfCFTA*.

VII. Participants

17. Participants will consist of a select group of experts from the Southern African Sub-region, and include representatives of RECs, member States, United Nations entities, public and private sectors, and civil society.

VIII. Dates and Venue

18. The meeting will take place on Tuesday July 13th from 09:00 to 17:00 hrs. It will be facilitated from Lusaka, Zambia on Ms Teams.

IX. Working language

19. The meeting will be conducted in English.

X. Contacts

20. Further information on the meeting and any other related matters should be addressed to:

Ms. Bineswaree Bolaky
 Economic Affairs Officer
 Sub-Regional Initiatives unit
 United Nations Economic Commission for Africa
 Sub regional Office for Southern Africa
 P.O. Box 30647, Lusaka, ZAMBIA
 Tel: (260) 211 228 502-5
 Fax: (260) 211 236 949
 E-mail: bineswaree.bolaky@un.org