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DRIVING DIGITAL COMMERCE FOR SMALL AND MEDIUM-SIZED BUSINESSES: SUB-SAHARAN AFRICA

On 30 September 2020, the Financial Times held a Digital Dialogue in partnership with Visa on the challenges of Driving Digital Commerce for Small and Medium-Sized Businesses in Sub-Saharan Africa. Moderated by the FT's Africa Editor, David Pilling, the discussion addressed several key questions including: How is consumer behaviour changing across Sub-Saharan Africa? How is the financing of SMBs changing? How are digital tools and resources evolving to enable faster and more secure ecommerce?

MODERATOR

David Pilling, Africa Editor, *Financial Times*

PANELLISTS

Tanya Cohen, Co-ordinator, *Public Private Growth Initiative, South Africa*

Aida Diarra, SVP and Head of Sub Sahara Africa, *Visa*

Uzoma Nwagba, Chief Operating Officer, *Government Enterprise and Empowerment Programme (GEEP), Nigeria*

Peter Zemsky, Deputy Dean, Dean of Innovation and Eli Lilly Chaired Professor of Strategy and Innovation, *INSEAD*

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THE IMPACT OF COVID-19

The arrival of Covid-19 and the national lockdowns and social caution that followed has generated significant challenges for micro, small and medium enterprises (MSMEs) across Sub-Saharan Africa. Recent research by Visa, for example, has highlighted that 65% of consumers are no longer visiting restaurants and bars, or retail and fashion outlets. Reports from organisations such as Visa and the Government Enterprise and Empowerment Programme in Nigeria, also suggest that between 85-90% of MSMEs (particularly those at the bottom of the pyramid) have experienced significant negative impacts as a result of Covid-19, including severe income losses.

As noted by Tanya Cohen, Co-ordinator at the Public Private Growth Initiative in South Africa, this trend was particularly damaging for businesses with informal supply chains (such as spaza shops, hawkers, and street traders) and led to “a social dependency on grants as opposed to people being able to develop a livelihood for themselves”. This trend highlights not only the human cost of a pandemic that has disproportionately affected the poorest in society, but also the major economic threat it poses for the region, given that MSMEs represent around 90% of all businesses and contribute to around 100-140 million jobs across Sub-Saharan Africa.

THE GREEN SHOOTS OF DIGITISATION

“with the importance of SMEs in the economy [...], there's been an urgency for all the stakeholders in the industry to enable and help SMEs to go online. What is very interesting is that the ones that have gone online at the time of the crisis, have indicated to us that they've seen an increase in their activities. So the trend has started, but it is only the beginning and there's a lot that we should be doing to help small businesses come back to business.”

Aida Diarra, SVP and Head of Sub Sahara Africa for Visa

Alongside the challenges and threats posed by Covid-19 to MSMEs, there have been signs of hope. Despite the overall economic downturn faced by countries across the region, national lockdowns resulted in a major surge in e-commerce. Research from Visa has shown that up to 70% of consumers tried online shopping for the first time. Alongside this, as shown in data from Yoco, the number of businesses using digital and cashless rose from 8% to 32%. This increasing digitisation is helping MSMEs grow their income by enabling them to optimise their business model whilst simultaneously accessing new and alternative markets.

This rise in digital uptake has been supported by wider market shifts. For example, as noted by Uzoma Nwagba, Chief Operating Officer of the Government Enterprise and Empowerment Programme (GEEP) in Nigeria, the rise of smaller logistics companies has helped to drive down delivery costs, thus gradually increasing the ease with which MSMEs can enter the e-commerce market.

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The region has also seen exciting innovations, from ongoing trials by the Public Private Growth Initiative to aggregate food supply opportunities into South African townships (enabling local economies of scale), to the work of GEEP in creating 'digitization by proxy' by deploying 20,000 agents with smartphones to engage with, educate and help digitise the services of MSMEs. These innovations not only help entrepreneurs directly, but also create wider benefits, such as GEEP's generation of data on aspects such as transaction patterns, repayment histories, business models and outputs of MSMEs. Similar benefits are gained by the work of financial services providers such as Visa and Paystack in providing training, software support and payment systems for MSMEs.

These ongoing trends demonstrate that whilst the shift to digital economies requires capital investment and forward-thinking policies, it can generate substantial local entrepreneurship at relatively marginal costs. National investment in telecommunications and mobile technologies, for example, can enable MSMEs to access new payment systems and cloud services through basic smartphones. Although such investment existed prior to the pandemic, Covid-19 has acted as a major catalyst for capital allocation by governments.

Rapid digital growth, however, can be seen as a double-edged sword. As noted by Peter Zemsky, Deputy Dean, Dean of Innovation and Eli Lilly Chaired Professor of Strategy and Innovation at INSEAD, the traditional link between digitisation and the increasing scale of businesses, has created "a sense of urgency for small businesses that if you get left behind, this window of opportunity may close". At the same time, the need for continued customer insight should generate ongoing opportunities for MSMEs who are close to customers and who understand local needs.

ENABLING INCLUSIVE DIGITAL ECONOMIC GROWTH

A significant amount of work is required, however, to ensure that the predicted digital economic growth across the region remains inclusive. Essential to this is the combination of four key enablers: access to digital ecosystems, suitable government policy, capital investment, and knowledge and skills development. As noted by Uzoma Nwagba, for example, whilst many SMEs may have the resources required to access digital ecosystems, there exist many "micro enterprises that are largely unsophisticated and informal, are very entrepreneurial, are very driven but [...] their closest access with digitalization is a feature phone".

Overcoming this disparity does not necessarily require costly or cutting-edge technologies. The provision of basic smartphones with WhatsApp, for example, can enable micro entrepreneurs to coordinate pricing structures and suppliers to achieve economies of scale. Similarly, the digital infrastructures required to support these technologies can be relatively simple. As noted by Uzoma, rather than investing in high-speed internet in urban centres, governments should focus on creating basic infrastructures in rural or non-urban areas where many MSMEs are located, grounded in the understanding that "it doesn't have to be perfect., it doesn't have to be 5G or broadband, it just needs to be good enough".

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The creation of mobile payment systems by organisations such as M-Pesa across East Africa demonstrates how basic digital services can radically enhance financial inclusion for such enterprises. Unfortunately, such systems are not integrated across the region. As noted by Tanya Cohen, whilst the formal economy in South Africa has significant access to digital opportunities, the informal sector is still a largely cash-based system. Investment in basic systems not only creates the foundation for entrepreneurialism and further digitisation, but also enables governments to capture data to better inform national policies.

This feeds into the second important enabler of inclusive digital growth, creating “fit for purpose” government policies that increase the opportunities and reduce the administrative barriers facing businesses with limited resources. This factor requires the generation and analysis of larger dataset on the finances and operations of informal traders and MSME’s, in combination with increased participation of MSMEs in policy development consultations. One potential route for achieving this is to register micro entrepreneurs, thus formalising and giving a greater voice to the informal economy. Increased data gathering and consultation, would also enable governments to enhance the third enabling factor for digital inclusion, which is the provision of holistic capital investment strategies. As noted by Aida Diarra, Covid-19 has already resulted in significant support for increasing disbursements, tax relief, loans and working capital for MSMEs by governments together with banks, FinTechs, financial services providers and NGOs, to drive access to financial inclusion and expand the payment ecosystem.

The final enabler for inclusive digital economic growth and a key focus area that governments should prioritise for economic recovery funds, is the enhancement of knowledge and skills. A fundamental aspect of this is providing greater transparency for MSMEs on topics such as labour obligations, as well as investment and market opportunities. At the same time, however, governments and financial services providers must help to actively deliver education and outreach programmes on digital and financial literacy, to demystify technology for MSMEs. Perhaps most importantly, governments should seek to enhance trust across the general public that cash which cannot be physically held or handled is still secure, in order to lay the foundations for increasing rollout of contactless and digital payment systems.

HOPE FOR THE FUTURE

Despite the devastating impact of Covid-19 on MSMEs in Sub Saharan Africa and the scale of change required to enable inclusive digital economic growth, panellists of the FT Digital Dialogue remained generally hopeful about the prospects for countries in Sub-Saharan Africa to invest in infrastructures, technologies and education that could open new markets, digitise payments, and transform economies. As concluded by Peter Zemsky:

“there's a real opportunity to take this movement, this moment, and move this whole ecosystem forward in a way that's going to have really positive impacts on people's lives.

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KEY TAKEAWAYS FROM THE EVENT

THE PANDEMIC EFFECT: Covid-19 has caused major disruption to MSMEs and consumers across Sub Saharan Africa. Yet it has also led to a radical jump in the number of people using digital commerce, with this trend likely to continue.

WIDER MARKET FACTORS: The growth of e-commerce has been supported by wider trends and initiatives, such as government stimulus packages, lower logistics costs, the by proxy digitisation of MSMEs by travelling agents, and the provision of training, software support and payment systems by financial services providers and FinTechs.

LOW MARGINS, BIG RETURNS:

Entrepreneurs in the region can gain a lot of value from basic technologies and infrastructures, such as smartphones. The marginal cost of a phone or cloud service is low considering the potential benefits for MSMEs and digital commerce growth.

ENABLING INCLUSIVE GROWTH: There are four key enablers required to ensure that digital economic growth across the region remains inclusive for MSMEs: access to digital ecosystems, suitable government policy, capital investment, and knowledge and skills development.

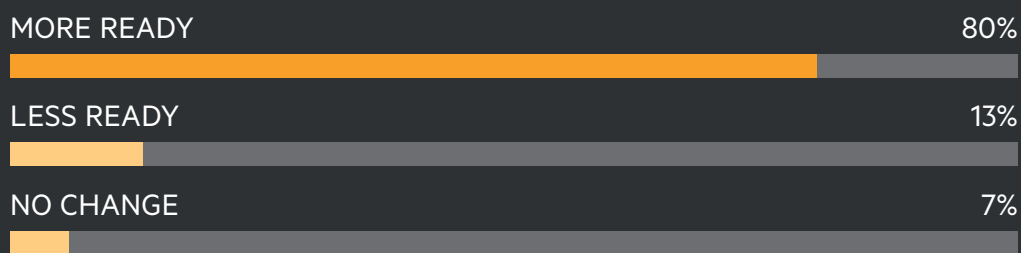
DATA, DATA, DATA: Capturing data on how MSMEs operate is a vital component of government, NGO and private sector activities and remains crucial to helping MSMEs benefit from digital ecosystems and enhancing economic policy, capital allocation and financial inclusion strategies.

OPTIMISTIC OUTLOOK: There is a massive opportunity for countries in Sub-Saharan Africa to invest in technologies that could open new markets, digitise payments, and transform economies. There is also huge potential for FinTechs to help finance MSMEs and give them digital access in a way that can have a positive impact on people's lives.

AUDIENCE POLL RESULTS

Two polls were carried out during the interview to gauge the audience's view on the readiness of countries in the region to support the growth of start-ups, as well as the level to which there has been a noticeable shift towards digital payments over the past decade.

How ready is your country to support the growth of start-ups as compared to the past 10 years?



How would you describe the shift in the type of payments in your country today as compared to the past 10 years?

