Sensitization Forum for the Private Sector

Virtual
16 November 2020

Theme: Post-COVID Recovery Strategies and Regional Integration in Southern Africa: Challenges and Opportunities for the Private Sector

Concept Note
1. Context


The United Nations Economic Commission for Africa (ECA) Sub-Regional Office for Southern Africa (SRO-SA) held the 26th Session of the Inter-Governmental Committee of Senior Officials and Experts (ICSOE) of Southern Africa virtually on 28-29 October 2020 on the theme: “Policies and strategies towards effective private sector-led growth and job creation in Southern Africa.” The 26th Session was hosted by the Kingdom of Lesotho.

The thematic paper presented during the Session noted that the private sector in Southern Africa was dominated by micro, small and medium-sized enterprises (MSMEs), with 55 per cent of companies being small, 30 per cent medium and 15 per cent large. MSMEs were productive drivers of inclusive economic growth and development in Southern Africa – with some estimates suggesting that they constituted over 90 per cent of formalized businesses in Southern Africa; provided employment to between 50 per cent and 60 per cent of the workforce and in many Southern African countries, contributed at least 34 per cent to GDP. MSMEs are particularly important to addressing unemployment which at the beginning of 2018 was as high as 30 per cent on average across all member States.

However, Southern Africa, like much of the rest of the continent suffers from high levels of informality in its private sector and from the “missing middle” phenomenon, that is, many enterprises find it difficult to survive beyond the early stages of business activity to grow into medium-sized and larger enterprises. There is a lack of linkages between MSMEs and larger enterprises supporting a diverse business ecosystem. Southern Africa, like the rest of the continent, indeed has yet to develop a business eco-system comprised of enterprises of diverse sizes, at various stages of their life cycle.

Economic crises and shocks such as COVID-19 aggravate the prospects of survival and growth for MSMEs in the region and throughout the world. The COVID-19 crisis is adversely impacting businesses operating both in the tradable and non-tradable sectors. As noted by the SME Competitiveness Outlook 2020 (International Trade Center - ITC)¹, the slowdown in leading economies such as the People’s Republic of China, the European Union and the United States will have adverse repercussions on exports by SMEs in developing countries and their participation in global value-chains in export sectors such as skins and leather products, footwear, vehicles and clothing. Together, ITC notes, these three major trading hubs are responsible for 63 per cent of world supply chain imports and 64 per cent of supply chain exports. ITC estimated that the global disruption of manufacturing inputs will amount to US $126 billion. The great economic slowdown triggered by the lockdown measures associated with COVID-19 along with the induced adverse demand and supply shocks, depreciation of local currencies relative to the US dollar, slowdown in domestic and foreign direct investment and rising trade costs associated with border delays, border closures and higher transportation costs has inevitably led businesses in Southern Africa to operate in a harsher economic environment where it is harder to achieve profitability and reap gains in competitiveness, investment and trade.

South Africa is a major importer of goods and services in the Southern African region as well as a major foreign investor, it plays a critical driving role in the Southern African economy and its regional integration processes namely the Southern African Development Community (SADC). In 2019, based on data from the United Nations Conference on Trade and Development (UNCTAD), Eswatini, Zimbabwe, Lesotho, Namibia and Mozambique exported respectively 64.2 per cent, 34.9 per cent, 32.6 per cent, 18.0 per cent and 15.5 per cent of its total world exports to South Africa. All countries of the Southern African region, with the exception of Angola and Mauritius sourced more than 19 per cent of their imports from South Africa in 2019 (more than 70 per cent in the case of Eswatini and Lesotho, more than 60 per cent in Botswana and more than 50 per cent in Namibia and Zimbabwe). South Africa is being severely hit by Covid-19. According to the latest IMF Regional Economic Outlook (IMF, 2020), South Africa will contract by 8 per cent in 2020 and this will have deleterious effects on economic activity in neighboring countries in the Southern African region that are dependent on South Africa for trade and investment. Based on data available for 45 African countries, the IMF calculations (IMF, 2020) show that the 5 countries in Africa that will record the sharpest economic slowdown in real GDP growth rates in 2020 are in descending order: Mauritius (14.2 per cent), the Seychelles (13.8 per cent), Zimbabwe (10.4 per cent), Botswana (9.6 per cent) and South Africa (8.0 per cent) – 4 out of 5 are in Southern Africa.

The COVID-19 crisis, like any crisis, is also an opportune time for countries to reassess their progress at sustainable development and rethink current development strategies and trajectories, including trade and investment strategies. The dependence of Southern African countries on key tradable goods sectors such as extractives, on participation in global value-chains in a narrow range of manufacturing activities and in tradable services sectors such as tourism and business services should be discussed and reassessed. More than ever, enhancing economic and export diversification through higher levels of industrialization and structural transformation, and building resilience to both natural and man-made shocks should be high on the agenda of Southern Africa. The same IMF report notes for instance, that though growth in more diversified economies will slow significantly, in many cases it will still be positive in 2020. The United Nations Economic Commission for Africa (ECA) report titled: “COVID-19 in Africa: Protecting lives and economies” reiterated the call echoed in the United Nations Secretary General March 2020 report: “Shared responsibility, Global solidarity: Responding to the socio-economic impacts of COVID-19” for countries to “build back better,” by ensuring that there is an abiding climate consciousness in the rebuilding and by leveraging the digital economy. The UNECA report also calls on countries to be “firm and clear on good governance to safeguard African health systems, ensure proper use of emergency funds, hold African businesses from collapse and reduce worker lay-offs” (UNECA, 2020).³

Building back better necessitates a rethink of domestic development strategies. The IMF October 2020 report stresses the need for transformative domestic reforms to promote resilience, particularly in the areas of revenue mobilization, digitalization, trade integration, competition, transparency and governance, and climate-change mitigation. The COVID-19 crisis has exposed the world to the need for their businesses to participate in regional value-chains, that are closer to home, in addition to global value-chains; it has highlighted the role that technology, innovation and digitalization can play in helping countries, businesses and citizens address the impacts of unexpected shocks as part of coping strategies (e.g. telecommuting, online sales, telemedicine, digital payment transfers etc.). It has also more than ever

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highlighted the need to support the private sector and businesses to address the impacts of shocks and build resilience against future unexpected shocks through greater diversification in markets and products and greater application of science, technology and innovation.

Every crisis is a wake-up call for better preparedness (ECA, 2020). How can businesses in the private sector build resilience to future shocks? What lessons can be drawn from the current COVID-19 crisis to help the private sector build back better in a post COVID-world and reduce informality in its midst? What opportunities can a post-COVID context offer to the private sector, especially as part of industrialization, greening the economy and digitalization that can at the same time address issues of informality and the “missing middle” phenomenon? How to enhance the driving role of the private sector in industrialization and structural transformation processes? These are some of the critical questions that merit further reflection as the Southern African region prepares itself to build back better and faster in the years ahead.

In his speech “Tackling the Inequality Pandemic: A New Social Contract for a New Era”, delivered at the 18th Nelson Mandela Lecture in July 2020, the United Nations Secretary General had called for a New Global Deal, one in which power, wealth and opportunities are shared more broadly and fairly at the international level and a New Social Contract, that gathers Governments, their people, civil society, business and others in common cause. The Southern African region hosts some of the most unequal countries in Africa. The COVID-19 crisis has exposed inequalities world-wide and aggravated inequalities of several kinds in the region. In the post-COVID-19 context, countries of the Southern African region would need to adopt economic development, inclusive industrialization and private sector development strategies that can make sizeable dents in informality and inequality of many kinds (income, gender etc.).

The achievement of the Sustainable Development Goals (SDGs) more than ever cannot be achieved without significant involvement by the private sector and mobilization of private capital. This would call for a new compact with the private sector and civil society and greater inclusion of the private sector in decision-making processes and enhanced dialogue between the public and private sectors. Part of that public-private dialogue could center on a common reassessment of existing development and industrialization strategies in Southern Africa as well as the identification of emerging challenges, and new opportunities for the private sector to leverage in a post-COVID context.

b. Post-COVID rebuilding, the African Continental Free Trade Area (AfCFTA) and the role of the private sector.

The COVID-19 crisis has put a spotlight on the contribution that regional integration can make in reducing the vulnerabilities of countries in Africa to global shocks and global markets. The African Continental Free Trade Area (AfCFTA), due to start trading in principle at the start of next year, is being increasingly hailed as an opportunity for African countries to develop more resilient development strategies that rest on higher levels of intra-African trade and investment and the development of regional value-chains (ECA, 2020). As part of building back better post-COVID, countries of the Southern African region should consider stepping up efforts to accelerate regional integration within SADC and the

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AfCFTA and leveraging on the opportunities of the AfCFTA to create avenues of growth and development for its private sector and its businesses – MSMEs and large enterprises alike. Research from both UNECA and UNCTAD have shown that intra-African trade is more intensive in manufactures than its trade with the rest of the world, the latter dominated by primary commodities. Regional integration in Africa and its sub regions, it is argued, can be used to promote the development of manufacturing and engage the continent in the industrialization and structural transformation processes it needs to progress toward sustainable development.

The Southern African Development Community (SADC) Industrialization Strategy and Roadmap (2015-2063) and its Action Plan indeed identifies deeper regional integration as one of its three strategic pillars to achieve inclusive long-term modernization and economic transformation, along with three potential growth paths – agro-processing; mineral beneficiation and downstream processing and industry- and service-driven value chains. The issue is not that Southern African countries participate more in Global Value Chains (GVCs) rather than Regional Value-Chains (RVCs) but also where in the value chain participation occurs -whether at the low value-added end or the higher value-added end. There is need for greater value-chain participation as well as higher levels of upgrading. Furthermore, the SADC Strategy and Roadmap recognizes that investments by the private sector in these industrial sectors of higher value-addition need to be encouraged and this requires closer public-private collaboration. The Action Plan notes that the “key challenge for corporate and government policy makers is to identify and prioritize entry points into value chains, as well as tasks that can be undertaken competitively and how they might be shared within value chains in the region” (Page 5) and further that “the industry 'discovery' process in value chain policymaking is heavily reliant on close collaboration between the two main actors to remove the infrastructural, institutional and financial constraints to value chain development, and to encourage investment by private sector players” (Page 5) (SADC, 2017).6 The Action Plan also recognizes the necessity to implement action programmes supporting interface development across SMEs, clusters and regional value-chains and business linkage programmes.

The time is now ripe for the Southern African region to engage in an accelerated implementation of the SADC Industrialization Strategy and Roadmap and its Action Plan and to do so in the further context of the AfCFTA. ECA SRO-SA, through a technical assistance project funded by the UN Development Account, is currently supporting SADC member States to implement their national industrial policies and harmonize these with the SADC regional framework. The advent of COVID-19 has made it even more imperative for Southern Africa to place accelerated industrialization and the building of RVCs higher on its agenda through unleashing the potential of regional markets through its regional integration processes (SADC, COMESA7 and the AfCFTA). The SADC Business Council is currently developing a position paper to advise policy makers on how to stimulate post-COVID trade.

The private sector should be a key driver of both industrialization and regional integration in the sub-region. Enterprises are at the end of the day the implementers/executors of industrialization strategies and policies and of regional integration protocols and provisions.

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7 Southern African countries of Eswatini, Malawi, Mauritius, Zambia and Zimbabwe are members of both the Common Market for Eastern and Southern Africa (COMESA) and SADC. COMESA has an Industrialization Strategy for a ten-year period 2017 to 2026.
Setting up platforms of dialogues where the private sector can express its voice in relation to its perceived challenges and opportunities for participating in industrialization and regional integration processes and sharing its experiences is critical and should be encouraged in the sub region.

Against this background, the United Nations Economic Commission for Africa (ECA) Sub-Regional Office for Southern Africa (SRO-SA), in joint collaboration with the SADC Business Council, is organizing a two-part Sensitization Forum for the private sector to facilitate dialogue on the twin issues of (i) Post COVID-19 strategies and policies for Southern Africa – and assessing the challenges and opportunities for the Southern African private sector within these Post COVID-19 strategies and policies; and (ii) the role of the private sector in regional integration processes in Southern Africa – in particular the challenges and opportunities faced by the private sector in such processes.

2. Objectives of the Forum

The main objective of the joint ECA SRO-SA/SADC Business Council virtual event with the theme: “Post-COVID-19 Recovery Strategies and Regional Integration in Southern Africa: Challenges and opportunities for the private sector” is to stimulate reflections and discussions on the potential post-COVID-19 strategies and policies that can unleash opportunities for the private sector in Southern Africa as part of building back better. This also includes assessing the challenges and opportunities that regional integration in Southern Africa (e.g. SADC and AfCFTA) can present for the private sector as part of building back better and building resilience in a post-COVID context. Another related objective is to stimulate public-private dialogue in the areas of industrialization and regional integration and the role of the private sector in these processes in Southern Africa, as a follow up to the ECA SRO-SA 26th ICSOE.

The virtual event will be organized in two distinct but inter-related sessions.

The first session is titled “Post-COVID recovery strategies in Southern Africa: Challenges and opportunities for the private sector.”

This session will review:

1. the impact of COVID-19 on businesses and their productive/sectoral/cross-border activities and lessons learned and policy implications for building resilience against future shocks;
2. potential post-COVID strategies and policies for Southern Africa including in agriculture, industry, green economy and the role of digitalization as part of building back better; and
3. potential challenges and opportunities that can be faced by the private sector in a post-COVID context;

The second session is titled “The private sector in regional integration in Southern Africa.”

This session will review in particular:

1. the contents of the AfCFTA in order to inform the private sector participants on the scope, objectives, protocols and provisions of the AfCFTA;
2. the role of regional integration in a post-COVID context of building back better;
3. the challenges and opportunities that the private sector can face in trying to take advantage of the AfCFTA, SADC and COMESA, including challenges in complying with provisions;
4. experiences of the private sector in the region when trying to take advantage of regional integration agreements such as SADC and COMESA and lessons to be learnt for the AfCFTA; and
5. policies and measures to be put in place to better support the private sector in the region and enhance their effectiveness as drivers of industrialization, structural transformation and regional integration in order to support member States at building back better post-COVID;

Overall, the deliberations will provide recommendations in three major areas:

a. delineating strategies to enable the private sector and businesses in Southern Africa to build resilience against future shocks and build back better post-COVID;
b. enhancing the effectiveness of the private sector as a driver of industrialization, trade and regional integration in Southern Africa; and
c. how to better assist the private sector to implement regional trade and integration agreements and take advantage of them;

Through substantive presentations from panelists and active discussions, participants from the public and private sectors will deepen their understanding on the impact of COVID-19 on businesses, better understand the new opportunities that can open up to the private sector post-COVID in order to help it recover and build resilience against future shocks and better understand how regional integration can benefit private sector development in the sub region.

3. Format

The event will be held virtually and will comprise of presentations by international and regional experts from the private sector, public sector and international organizations. The deliberations in both sessions will be further enriched through discussions and experience sharing.

4. Expected Outcomes

The expected outcomes will be: -

- Enhanced understanding of the impact and implications of COVID-19 on businesses in Southern Africa;
- Enhanced understanding of the challenges and opportunities faced by the private sector post-COVID in Southern Africa;
- Enhanced understanding of the challenges and opportunities faced by the private sector in taking advantage of regional integration in Southern Africa;
- Strengthened dialogue with the private sector of the region in post-COVID recovery strategies and role of regional integration.

5. Expected Outputs

The outputs of the event will be mainly:
• A summary report highlighting the substantive and policy issues discussed at the meeting.
• A roadmap for ECA and SADC Business Council on how to better assist policy makers on private sector development in the region post-COVID.

6. Participants

The participants will comprise mainly of members of the business community across the 11 SADC member states of ECA SRO-SA, namely members of the SADC Business Council. It will also include government officials and experts who participated in the 26th ICSOE, representatives from the SADC Business Council and members of the UN family while other ECA Divisions and Sub-Regional offices will be invited to participate in the meeting.

7. Dates and Venue

Virtually Monday November 16, 2020. An invitation will be sent electronically to all participants on Wednesday November 11 to attend the event.

8. Contacts

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

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