



small business
development

Department:
Small Business Development
REPUBLIC OF SOUTH AFRICA

SPEAKING NOTES FOR MINISTER STELLA NDABENI-ABRAHAMS

AFRICAN STARTUP CONFERENCE: ALGERIA

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Honourable Prime Minister Aymen Benabderrahmane; the Algerian Minister of Knowledge Economy Start-Ups and Micro Enterprises Yacine El-Mahdi Oualid; Ministers and leadership from Algeria and other African countries present; South African Ambassador Billy Masetla; GEN President Jonathan Ortmans, esteemed stakeholders and guests, and most importantly the entrepreneurs, allow me to pass my greetings to you all,

The Department of Small Business Development (DSBD) of the Republic of South Africa is honoured to be invited to speak at this Ministerial Summit, the very first edition of the African Start-up conference. It is a great pity that I could not be there in person. Leading a democratic country and organisation with an active parliament presents its own advantages and at times disadvantages. We are products of that robust process.

Ladies and gentlemen,

COVID-19 has had a devastating impact on African countries. Millions of our people lost jobs and have had their livelihoods destroyed. COVID-19 has left many countries highly indebted and unable to finance their own recovery. More recently, the Chinese slow-down and conflict in Ukraine has increased global volatility, with high inflation and tighter monetary policy resulting in reduced investment flows to the developing world.

As much as there are serious risks at present, there are also interesting opportunities that have arisen since COVID. Global value chains have been restructured to mitigate risks of over-concentration in China. The focus now is on building local and regional value chains, where disruptions in global trade or disasters in one part of the world will be less catastrophic. This presents huge opportunities for Africa. The pandemic has also greatly accelerated processes of digitalization and fundamentally changed production processes and the world of work. These could bring development opportunities if constraints which perpetuate the digital divide can be addressed such as technology, skills, and infrastructure.

Africa is the home of future global demand. We have the youth dividend. By 2024, one out of three people under 24 will be Africans. By 2050 our population as the continent will double to almost 3 billion. By the end of the century, it will triple in size to 4.3 billion. But to realize the benefits of this demographic dividend my African brothers and sisters, we need to undergo a paradigm shift that puts innovation and entrepreneurship at its centre. Currently, evidence suggests that our entrepreneurial activity is improving but still lags other developing regions like East Asia and Latin America. Our 'early-stage entrepreneurial activity' is lower and our start-up failure rate is also higher than comparative regions.

We need to build a coherent African eco-system to support start-ups and scale-ups. This should be built around the following core platforms:

First, we must address issues of red-tape and regulatory impediments that constrain entrepreneurs and high growth start-ups. Some countries like Rwanda, Nigeria, the DRC, and many others have developed Start-Up Acts to cut red-tape and enable start-ups. In South Africa, we don't have a Start-Up Act, but have established a Red-Tape Office in the Presidency to look at regulatory constraints and how to address them. This is aligned to our National Development Plan which suggests that 90% of the 13 million new jobs we plan to create by 2030 will come from SMMEs. To unlock our digital economies, we must get the policies right and be consistent in their implementation. As Governments, we must

continually learn from the eco-system players themselves – the innovators, the start-ups, the incubators and accelerators, the investors – about what works and what doesn't.

Second, we must address the very real risk of Africa falling behind in the global digital divide. Digital technologies offer Africa a chance to unlock new pathways for rapid economic growth, innovation, job creation and access to services. Yet current constraints and the slow pace of growth of the digital economy in Africa leaves the continent at risk of falling behind a growing digital divide. Digital transformation requires a concentrated effort in each country to build up the core foundations of the digital economy, including digital infrastructure, digital platforms, digital skills, digital payment systems, and an environment supportive of digital business and entrepreneurship. Key to this will be widely accessible broadband communication networks, and affordable data. A simultaneous effort will be needed to ensure cybersecurity and an open digital market. What we have found in South Africa is that both data access and secure digital payment systems are a prerequisite for other digital platforms, like the online purchases of goods and services. Systems for sending and receiving money via mobile devices is bringing an increasing proportion of our population into the economic mainstream and is enabling greater access to grants and government services. Digital access must be the continent's core priority.

Third, we must enable access to finance for early-stage start-ups who are under-served by banks and financial institutions. A recent report by the International Finance Corporation found that Africa, the Middle-East, Central Asia and Pakistan collectively receive less than 2% of the USD 643 billion of global venture capital funding. Let me repeat that – less than 2% of global venture capital. This is a crisis that this conference needs to deliberate on. The IFC's new VC facility of USD 225 million is a good start, but much more needs to be done to leverage VC capital onto the continent. What we have found is that many of our best start-ups move to tech hubs abroad to access funding. Collectively, we must put a stop to this and keep our innovations on the continent.

To do this, we need our own start-up financial instruments as individual countries and as the AU and AfDB. In South Africa, we have seen a rapid increase in VC of 167 deals in 2020 worth R1.4 billion, compared to 3 in 2010. But much more needs to be done, and

we are engaging with the SAVC Association to address bottlenecks. We are also as government designing new instruments that are able to leverage private funding – blended finance, credit guarantees and the like, through our Small Enterprise Finance Agency.

Fourth we must integrate financial support with the full ambit of Business Development Services, including incubation for start-ups, and acceleration for scale-ups. We also need to do far more to promote entrepreneurial culture and education. It is encouraging to see more high school students, TVET and university students across the continent seeing entrepreneurship as a preferred career choice, but we still have a long way to go. We need to learn from countries where entrepreneurial education has been successful, such as Singapore and Denmark.

Fifth, we need to better integrate and alignment our national systems of innovation (ideation, testing, IP registration, pre-commercial investment) and entrepreneurship (incubation, early-stage start-up support, commercialization, loan and equity investment, scale-up support). This is something we are working closely on in South Africa, to ensure that our innovations get commercialized.

Sixth, and finally, we eco-system co-ordination. This conference is a great innovation in this regard. We have key organizations such as the Global Entrepreneurship Network, the AU, and others which all play some co-ordination and eco-system building role. We are guided by the Digital Transformation agenda that was adopted by the African Union at its Summit of Heads of State in February 2019, and which aims to ensure that by 2030, every individual, business and government in the continent are digitally enabled and ready to thrive in the digital economy, identify challenges, and recommend solutions for startups.

How do we construct a support network that allows individual African countries to lead and customise policy to their own socio-economic needs, while tapping into a continental knowledge base around which good practice and proof of concepts can be resourced and scaled? Can we build common research and data platforms, in partnership with the continent's universities and knowledge organizations. How do we collectively monitor our start-up eco-system, and develop joined up approaches to strengthening its health?

I'm sure this conference will provide important direction on these and other questions. I look forward to further engagement with my peers on this critical game-changer for the continent.

I Thank you,