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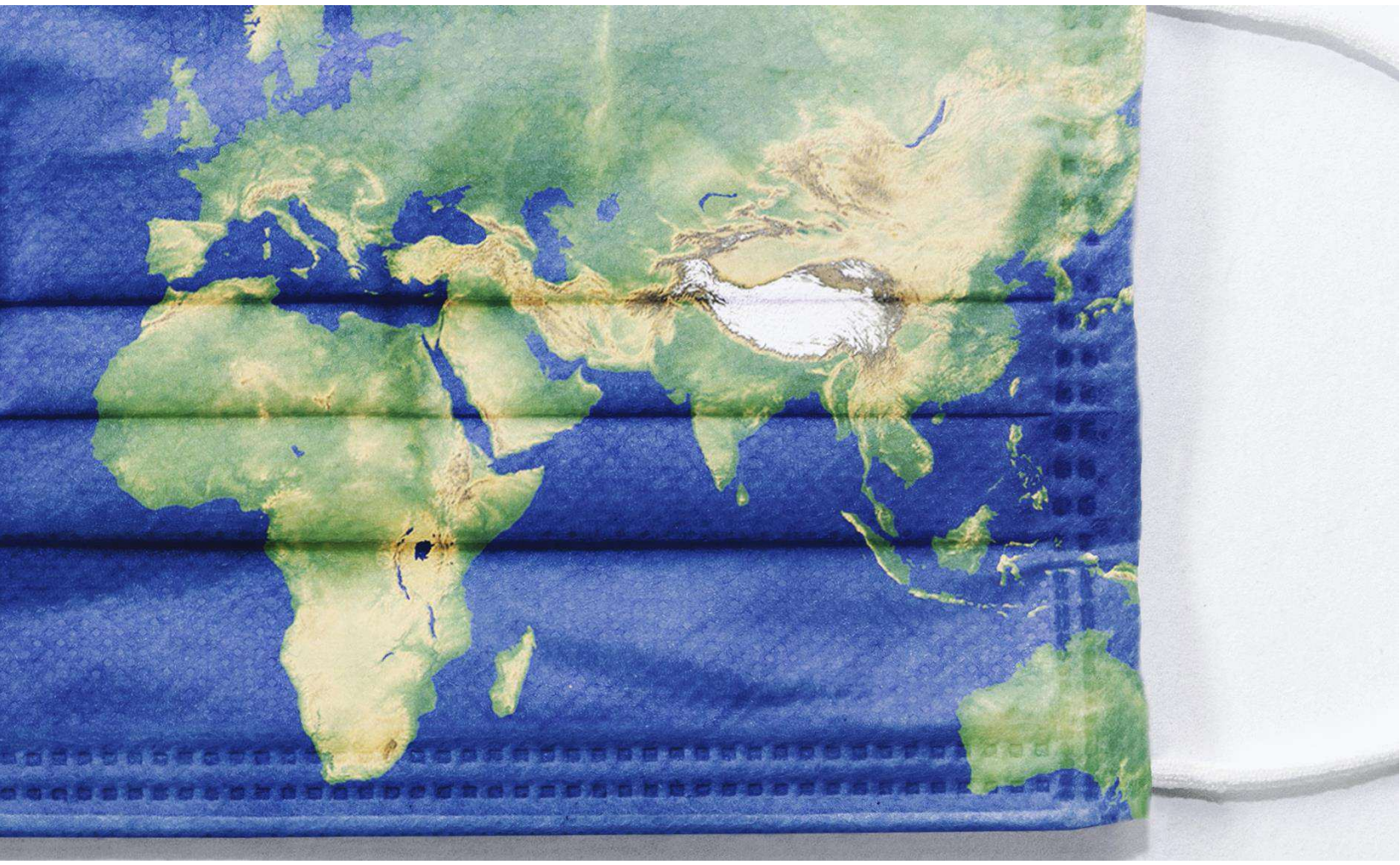
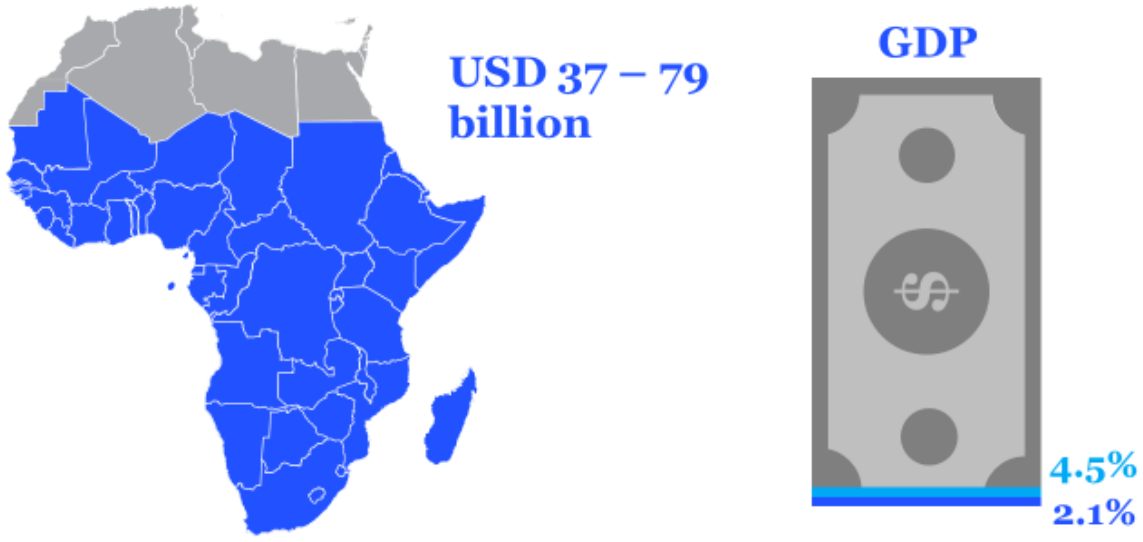
# Reimagining Africa

*This white paper is part of the preparatory materials for THE AFRICA ROUNDTABLE on Green Transition & COVID-19 Recovery, hosted by GPI.* ***While GPI is organizing and hosting this roundtable, McKinsey is supporting this roundtable as a knowledge partner and as such authored the whitepaper at hand.*** *The whitepaper outlines ideas that are intended to provide inspiration for the roundtable discussions. To this end, it synthesizes key thoughts from McKinsey's recent research on African growth – mainly building on the article "Reopening and reimagining Africa: How the COVID-19 crisis can catalyze change" – and links them to the roundtable's key topics, namely the transition to an environmentally sustainable economy and the recovery from the COVID-19 pandemic.* ***McKinsey is not responsible for the content of any discussions by the roundtable participants that occur before, during or after the event.***

*May 2021*



The prolonged global economic slowdown in light of COVID-19 combined with health-related restrictions in Africa have created an economic recession that could affect the jobs and incomes of millions of Africans. The World Bank estimates that the pandemic cost sub-Saharan Africa alone between USD 37 billion and 79 billion in 2020 – the equivalent of approximately 2.1 to 4.5 percent of the total GDP of sub-Saharan Africa in 2019 (Exhibit 1).[1] At the same time, the debt burden of countries in sub-Saharan Africa is growing – the IMF approved USD 20 billion in emergency financing for 36 countries in the region in 2020. In light of this situation, France and Germany have recently taken steps towards debt forgiveness for Sudan. Meanwhile, the pandemic is accelerating and amplifying trends such as digitization, sustainability, market consolidation, and regional cooperation. Therefore, despite evident challenges, there is also an opportunity to reimagine Africa's economic structure, product and service-delivery systems, and social contracts.




Source: "COVID-19 economic impact: Sub-Saharan Africa," World Bank Group, 2020.

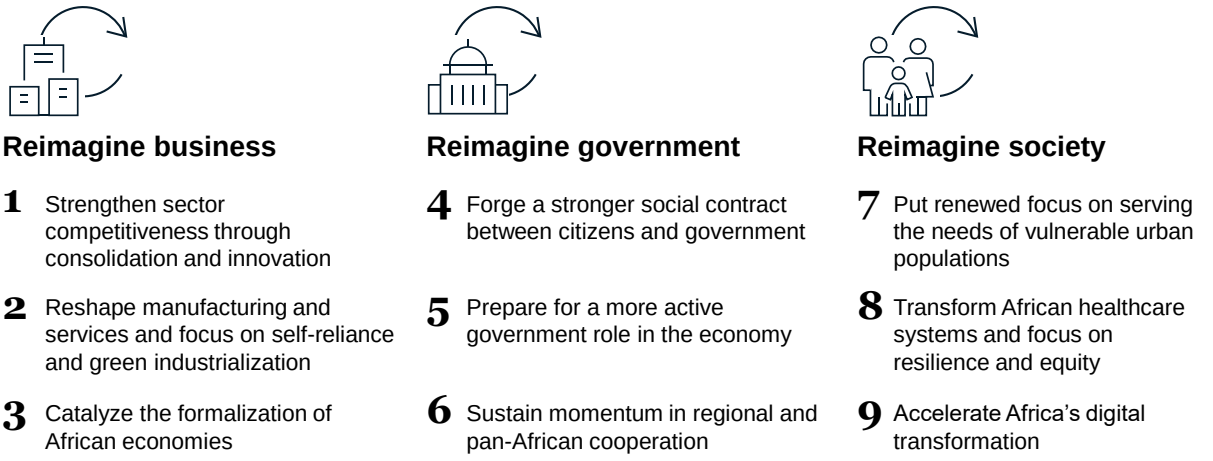
*Exhibit 1:* **Estimated cost of the pandemic to sub-Saharan Africa in 2020.**

Other regions – including Europe – are experiencing similar trends and have announced ambitious plans to leverage post-COVID-19 recovery packages to drive their green transitions. For instance, European policy makers intend to enable a fast and sustainable post-COVID-19 economic recovery by funding measures that promote a green energy transition through the EU Green Deal. Since Europe is Africa's main trade partner, the continent will likely be affected by the implementation of Green Deal measures (e.g., new trade requirements, including a planned carbon border adjustment mechanism to ensure that prices of imports more accurately reflect their carbon footprint). This could be an opportunity for Africa to develop its own agenda for shaping its recovery and simultaneously driving its green transition.

McKinsey's above-mentioned research highlighted nine opportunities, clustered along the intertwined areas of business, government, and society, that could accelerate long-term change to solve the continent's greatest challenges (Exhibit 2). In the area of business, these

[1] "COVID-19 economic impact: Sub-Saharan Africa," World Bank Group, 2020.

relate to strengthening competitiveness and manufacturing industries, as well as formalizing African economies. In the area of government, the identified opportunities cover a stronger social contract, a more active role for governments, and sustained momentum in supranational cooperation. In the area of society, they relate to serving vulnerable urban populations, transforming African healthcare systems, and accelerating Africa's digital transformation.




Source: Reopening and reimagining Africa: How the COVID-19 crisis can catalyze change McKinsey & Company

*Exhibit 2:* **Overview of opportunities that could accelerate long-term change.**

All nine opportunities and their potential to contribute to Africa's COVID-19 recovery are described below. For the roundtable's focus on a green transition in light of the COVID-19 recovery, three opportunities appear particularly relevant:

- Reshaping manufacturing, as this could directly affect Africa's pathways to a carbon-neutral economy
- Preparing for a more active government role in the economy, as this might include actions intended to incentivize or promote green technologies
- Accelerating Africa's digital transformation, as increased digitalization could act as an enabler for a greener economy

### 1. Strengthen sector competitiveness through consolidation and innovation

The COVID-19 crisis is highly disruptive to the African business landscape. Bankruptcies, in particular in sectors such as tourism, are inevitable. For example, four African airline carriers have suspended operations while two others have gone into receivership in 2020 as a result of a 58 percent drop in passenger capacity compared

to 2019 levels.[2] However, it is highly likely that a group of African companies that successfully rethink their business models and corporate structure and consequently create significant higher shareholder return compared to their peers[3] will emerge in key sectors of the economy. These "resilients" could deliver much needed innovations and positive long-term returns for investors.

There are three actions for business decision makers to consider that could help facilitate the development of such resilients and thus strengthen sector competitiveness:

- Ramp up operating efficiency by digitizing processes and embarking on lean transformations.
- Innovate on existing business models, e.g., by pivoting product, target-customer, channel, or pricing strategies to adapt to changing market conditions.
- Move boldly on divestures and acquisitions as resilients have successfully done in the past.

**2. Reshape manufacturing and services and focus on self-reliance and green industrialization**

The current crisis has shown that strong local supply and value chains can enable global competition. To reshape a more resilient local manufacturing sector, long-standing barriers to industrialization need to be tackled. Governments and businesses could cooperate to seize new opportunities like intra-African trade and global supply-chain realignments to reduce the reliance on global supply chains. Currently, for every USD 1.00 of goods manufactured in Africa, USD 0.40 is spent on imports – higher than most other regions in the world, showcasing the significant dependence on global supply chains (Exhibit 3). Analysis shows that over a five-year period, a serious push on sustainable industrialization could reduce reliance on global supply chains and increase the continent's manufacturing output by an initial USD 10 billion to USD 20 billion if 5 to 10 percent of imported intermediates could be produced on the continent. This push could be sustainably fueled with clean energy produced in Africa as the energy potential in the continent is estimated to be 8.8 times the total installed base of 2016.[4] Ambitious energy investment projects, such as when the African Development Bank invested about USD 12 billion between 2016 and 2020 into the African energy sector,[5]

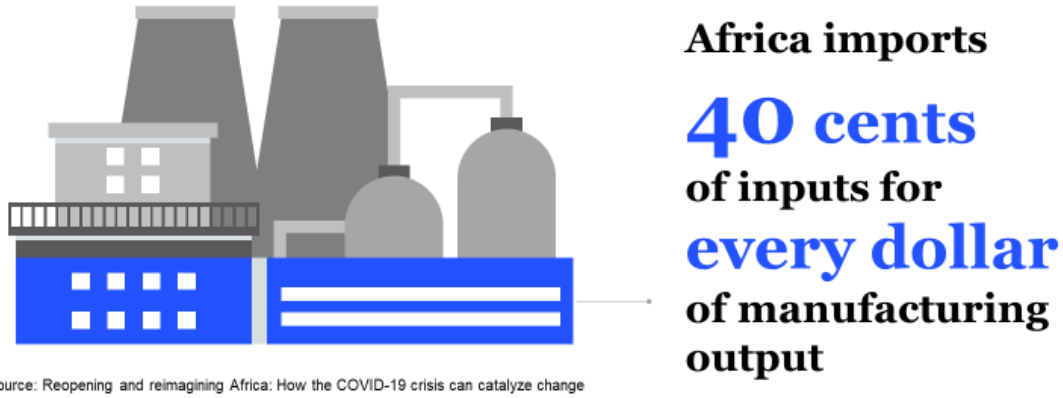
[2] International Civil Aviation Organization (2021).

[3] Global McKinsey research after the 2008-09 financial crisis showed that there is a group of companies – the resilients – that deployed such strategies and generated twice the shareholder returns of their non-resilient peers over the next decade; source: "Stronger for longer: How top performers thrive through downturns," McKinsey podcast with Kevin Laczkowski and Mihir Mysore, December 20, 2019, McKinsey.com.

[4] Renewable energy potential is estimated to be 350 GW for hydroelectric, 110 GW for wind, 15 GW for geothermal, and 1,000 GW for solar; source: "Sustainable industrialization and diversification of Africa in the digital era in the context of COVID-19," Economic Commission for Africa, Committee of Experts of the Conference of African Ministers of Finance, Planning and Economic Development, 2021.

[5] "The new deal on energy for Africa," African Development Group, 2016.

are driving this rapid increase in capacity expansion. In addition, given this significant clean energy capacity, Africa could support the green transition of Europe through partly producing and delivering green energy for Europe.




Source: Reopening and reimagining Africa: How the COVID-19 crisis can catalyze change

*Exhibit 3:* **Africa's dependence on global supply chains.**

There are four actions for decision makers in government and business to consider that could help reshape the African manufacturing and services sectors:

- Accelerate the implementation of the African Continental Free Trade Area in order to foster intra-African trade that is essential for regional value chains.
- Improve the ease of doing business across borders, e.g., by facilitating logistics and harmonizing standards and regulations for intra-African commerce.
- Coordinate industrial strategy and policy at the regional level. Regional economic communities, with the help of governments and development finance institutions, could identify and build up industries that align with countries' comparative advantages so that Africa can create truly regional value chains.
- Explore new industries and product-space opportunities that could be competitive regionally and eventually globally. Opportunities in the agricultural and pharmaceutical industries could be particularly compelling related to the governments' renewed prioritization of food security and capacity to produce critical drugs.

### 3. Catalyze the formalization of African economies

The response to the COVID-19 crisis could be an opportunity to accelerate the formalization – that is, the formal registration of businesses with governments and regulators – of African micro, small, and medium enterprises (MSMEs). Formalization could not only improve their access to financing and integration into the supply chain of larger businesses and the public sector, but also generate additional tax revenue in the long run. The formalization of African economies could also be key for Africa to open up the opportunities offered by the European Green Deal: greater formalization

could allow African economies to play a more significant role as trade partners for Europe given the requirements of European institutions and organizations to conduct business with formally registered African counterparts, which could in turn boost economic growth in home markets.

There are three actions for policy makers to consider that could help catalyze the formalization of African economies:

- Channel stimulus funding towards MSMEs and a greater proportion of funding to the informal economy as more than USD 50 billion in funding is required over three months for Africa's 90 million MSMEs to survive the crisis.
- Create links between MSMEs and the corporate sector through market access schemes for MSMEs that act as incentives. For example, governments could strengthen government-guaranteed offtake schemes and incentivize large companies to integrate MSMEs into their supply chains.
- Launch a targeted campaign to formalize MSMEs by offering, e.g., favorable borrowing terms, multiyear tax holidays, or capability building.

**4. Forge a stronger social contract between citizens and government**

The COVID-19 crisis has led to greater reliance by citizens on their governments. At the same time, citizens have become accustomed to regular, transparent, and data-driven communication from their governments and have seen public servants held to higher standards of responsibility and accountability. In Morocco, for example, the government has shared daily online and televised updates of coronavirus cases, while Kenya and South Africa have held biweekly presidential press conferences. Trust between citizens and government is likely to be crucial to generate and sustain momentum for both the post-COVID-19 recovery and Africa's green transition, which would need to happen in parallel.

There are four actions for policy makers to consider that could help strengthen the social contract between citizens and governments:

- Achieve citizen buy-in through transparency and accountability, for example, through investments in accountability mechanisms in public health measures and stimulus spending. If the control measures are not only effective but also widely supported and upheld by citizens, a renewed social contract could be forged by increasing citizens' trust that governmental activities are conducted in the people's interest.
- Invest in efficient and accountable service delivery that would directly benefit citizens as the consumers of public services such as education, healthcare, transport, or administrative procedures.

- Establish a more systematic and coordinated social-protection system that builds on interventions rolled out during the pandemic, such as cash and in-kind transfer programs in Nigeria targeting the 11 million poorest and most vulnerable people.[6] This would allow citizens to feel that the social contract provides protection in challenging times.

- Channel money where it is needed most: social-protection schemes should truly benefit those with the greatest needs, for example, the 238 million vulnerable people living in slums[7] in sub-Saharan Africa (out of 1033 million globally).[8] Such expenditure would increase (but also require) social cohesion by using the social contract as a way to support those most in need with financing from the taxes of those who can afford it.

**5. Prepare for a more active government role in the economy**

Governments' support of businesses during the crisis might translate into more active industrial policy and more centrally managed interventions in the years to come. New levels of decisiveness and speed and an increased willingness to collaborate with the private sector could evolve. A more active role for government in African economies could be especially relevant in green development for the continent. Governments could build trade partnerships and provide public financing to boost green industrialization and thus leverage Africa's potential to be a significant supply chain partner for the European clean energy transition.

There are three actions for policy makers to consider that might help government play a more active role:

- Governments could outline a strategy for where they want to play which role (e.g., regulator, operator, owner, client) in the economy. For instance, certain sectors such as manufacturing may be strategically relevant or especially vulnerable and applicable for employment.

- The private sector could proactively engage with governments. In the context of a potentially severe economic recession that requires new and decisive action, governments may want to hear different perspectives on the impact of various interventions. Business leaders will need to understand the potential impact of these decisions on their companies and sectors and could offer their advice and expertise to the government to ensure that interventions and programs are well designed and implemented.

[6] UN/DESA Policy Brief #93: Social policy and social protection measures to build Africa better post-COVID-19, 2021.

[7] The term "slum" is used here as defined by UN-HABITAT: https://mirror.unhabitat.org/documents/media_centre/sowcr2006/SOWCR%205.pdf.

[8] "Rapid urbanization and population growth are outpacing the construction of adequate and affordable housing," UN Statistics (2018 data), unstats.un.org.

- Both governments and the private sector could scale up and innovate public-private partnerships to attract investment and deliver critical projects and services. For instance, long-term concessions could aid in the development of large irrigation projects or diagnostic centers.

**6. Sustain momentum in regional and pan-African cooperation**

African unity and cooperation have strengthened during the crisis and many institutions such as the Africa CDC are achieving a new degree of maturity and recognition. A new sense of unity has, for example, been demonstrated by significant progress in central procurement efforts for critical medical supply.

Cooperation across regions or the entire continent could also help African governments forge balanced partnerships with neighboring regions, especially Europe. This is particularly relevant with regard to the EU's new approach to trade, which more strongly reflects climate considerations as the EU plans to include carbon emission considerations into the taxation of products produced outside the EU. A united African position could increase negotiation leverage with the EU with regard to challenges such as documentation of carbon emissions or the consideration of regional idiosyncrasies.

Three actions for policy makers to consider could help sustain momentum in regional and pan-African cooperation:

- Accelerate planned reforms of pan-African institutions as the pandemic is helping to clarify which institutions will be most relevant in shaping Africa's future. The African Union (AU) and its institutions in particular will be critical to strengthening cooperation, coordination, and economic integration. Thus, the ongoing reform of the AU should be accelerated and completed.

- Strengthen regional institutions, such as the West Africa Health Organization, to play a critical role in the continent's recovery. Regional economic communities can act as a resource for member countries in designing and executing coordinated development strategies, such as human capital development.

- Build closer relationships between the public, private, and development sectors that can translate into cooperation in new areas. The collaboration between the African private sector under the coordination of Strive Masiyiwa with Africa CDC, Africa Export-Import Bank, and the UN Economic Commission for Africa Fourth for setting up efficient procurement and distribution systems can serve as an example for the benefits of such closer relations.

**7. Put renewed focus on serving the needs of vulnerable urban populations**

COVID-19 exposed the vulnerability of the 250 million people living in Africa's poor urban communities, which are often underserved in the context of greater attention

and donor focus on rural poverty. For example, more than 65 percent of sub-Saharan Africa's urban population continues to lack access to basic sanitation services.[9] Any improvement in sanitation would likely increase resilience against future health and economic shocks. The fact that African cities are expected to double in size over the next 25 years and that two-thirds of this urbanization boom will happen in urban slums makes the challenge all the more urgent as population density in slums is more than 10 times that of other urban areas, which makes social distancing nearly impossible and increases vulnerability to infections.[10]

There are three actions for policy makers to consider that could help better meet the needs of vulnerable urban populations throughout Africa:

- Scale up delivery of basic services such as healthcare, education, and waste management by working with private-sector partners to decrease vulnerability in urban slums.
- Leverage mobile data (e.g., on location, movement, and payment patterns) to design better programs and interventions to support the vulnerable population.
- Strengthen urban infrastructure and planning, e.g., by granting formal recognition to informal settlements to unlock investment in permanent infrastructure for water and electricity.

## 8. Transform African healthcare systems and focus on resilience and equity

The COVID-19 crisis has disrupted essential healthcare services in many areas, e.g., the number of malaria deaths could double in 2021 as a result of the pandemic due to potential suspensions of insecticide-treated net campaigns and a reduction in access to effective antimalarial medicine.[11] COVID-19 has also highlighted the existing inequality in access to healthcare between a smaller group of privileged people and the large less-privileged urban population. Some people can quarantine safely at their homes, afford PPE and hand sanitizer, have tests done in private labs, or use telemedicine services, but the majority of the rural and urban poor have few options to access healthcare. In response to this, development partners, e.g., the Africa CDC, have suggested that at least USD 10 billion of the USD 100 billion in funding sought by African countries should be invested in health systems – beyond the temporary emergency response – to create a more resilient and equitable system for the long run,

[9] "People using at least basic sanitation services (urban)," WHO/UNICEF Joint Monitoring Programme (JMP) for Water Supply, Sanitation and Hygiene, World Bank, data.worldbank.org.

[10] Bird, J., Montebruno, P., & Regan, T. "Life in a slum: Understanding living conditions in Nairobi's slums across time and space," Oxford Review of Economic Policy, 33(3), 496-520, 2017.

[11] "WHO urges countries to move quickly to save lives from malaria in sub-Saharan Africa," WHO press release, April 23, 2020, who.int.

e.g., by increasing the number of epidemiologists on the African continent from 1,500 to 6,000.

Six actions for policy makers to consider that could transform African healthcare systems for more resilience and equity:

- Build enduring systems for outbreak prevention and response by institutionalizing large parts of emergency supply chains.
- Accelerate public-sector investment in primary healthcare (including equitable access at community level) to contribute to early detection and surveillance of future outbreaks.
- Develop Africa-wide procurement platforms and end-to-end supply chains to leverage bulk purchasing.
- Facilitate private-sector investment in healthcare systems, especially in diagnostic services, pharmaceuticals, and healthcare facilities.
- Facilitate local manufacturing of critical medical supplies and drugs; African leaders can decide which production capabilities are essential for health security and support those industries.
- Invest in digital health ecosystems and innovations in service delivery, e.g., telemedicine and remote case management.

## 9. Accelerate Africa's digital transformation

Despite the continent experiencing the world's fastest growth rate of new broadband connections, significantly increased mobile data traffic, and a booming e-commerce market,[12] most African sectors still lag behind in digitization. The COVID-19 pandemic has begun to accelerate the digital transformation, e.g., in sectors such as ICT and education. The attitude towards transacting and paying online is changing, as more than 30 percent of respondents in a recent survey said they were increasing their use of online and mobile banking tools.[13] 61 percent of a sample of businesses surveyed by the Economic Commission for Africa (ECA) reported an increased level of online sales since the COVID-19 pandemic began, while in another ECA survey, 75 percent of businesses in the goods sector and 61 percent of microenterprises cited online sales as one of the most important new opportunities in response to the crisis (Exhibit 4).[14] This emerging digitization provides a significant opportunity for the African continent. When scaled, it could help Africa sustainably industrialize and diversify within a global

[12] Africa has seen the world's fastest rate of new broadband connections, while mobile data traffic was forecast to increase sevenfold between 2017 and 2022. E-commerce has also been growing quickly: online retailers in Nigeria, e.g., have experienced a doubling of revenue each year since 2010; source: Acha Leke, Mutsa Chironga, and Georges Desvaux, "Africa's Business Revolution," Harvard Business Review Press, 2018.

[13] McKinsey survey of consumers in key African economies during the crisis; over 30 percent said they were increasing their use of online.

[14] "Sustainable industrialization and diversification of Africa in the digital era in the context of COVID-19," Economic Commission for Africa, Committee of Experts of the Conference of African Ministers of Finance, Planning and Economic Development, 2021.

digital economy worth more than USD 11.5 trillion in 2019[15] and unlock opportunities for greater sustainability through digital-led optimization and innovation.

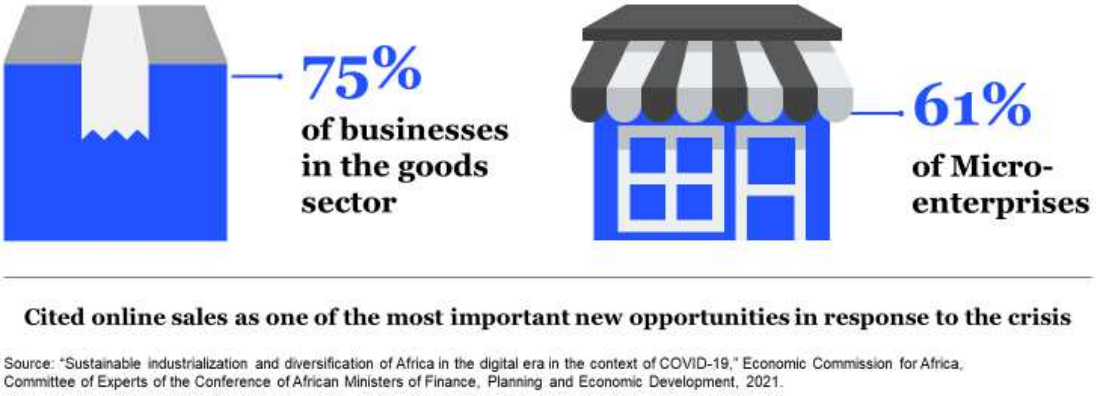



*Exhibit 4:* **Relevance of online sales in response to the crisis.**

Five actions for policy makers to consider that could accelerate Africa's digital transformation:

- Expand companies' online presence and broaden their digital offerings to respond to customers' strong appetite, e.g., in the online insurance and retail sphere.
- Foster an enabling environment for rapid digitization from the governmental and technological side.
- Bring the public sector into the digital age by offering digital services and information and deploying data collection and management tools.
- Speed up infrastructure investments such as broadband networks, last-mile connectivity, and electricity supply.
- Scale up both basic and advanced digital skills by offering a training infrastructure.

Africa's path through the COVID-19 crisis and beyond will likely be determined in large part by the actions the private sector, governments, and development partners take in the coming months. In the near term, it will be important for African countries to find smart approaches to further reopening the economy while ensuring that populations are protected from the virus. Looking ahead, the pandemic offers an opportunity to reimagine fundamental aspects of African societies, businesses, and governments to

[15] "Sustainable industrialization and diversification of Africa in the digital era in the context of COVID-19," Economic Commission for Africa, Committee of Experts of the Conference of African Ministers of Finance, Planning and Economic Development, 2021.

drive a transformation that is positive, sustained, and widely shared among Africa's people and institutions.

As a key trade and development partner for Africa, Europe could play an important role in this transformation. As a new forum for decision makers from politics, business, and society on European-African cooperation, The Africa Roundtable might well spark discussions and ideas for how Europe could support Africa's transformation.

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