

Rethinking the Foundations of Export Diversification in Africa:

THE CATALYTIC ROLE OF BUSINESS AND FINANCIAL SERVICES

Presented by Anja Slany, UNCTAD



ECONOMIC
DEVELOPMENT IN
AFRICA
Report 2022



Introduction

- The benefits of export diversification include absorbing shocks, increasing access to intermediate inputs and services, creation of spillovers in technology and skills, and production networks.
- Despite efforts to diversify, still 83% of African countries are commodity-dependent

➔ Need to rethink export diversification strategies in Africa

➤ **The report looks at**

- the potential for African economies to transform and achieve a higher level of diversification
- the potential new avenues and actors that can strengthen forward/backward linkages and sectoral linkages of financial services to foster structural change.

➤ **The report highlights** the potential of the services sector to act as a backbone of productive activities for industry, manufacturing and agriculture.



ECONOMIC
DEVELOPMENT IN
AFRICA
Report 2022

1. Export diversification in merchandise: Trends and opportunities

(1) Analysis of bilateral diversification trends and determinants (using bilateral Theil index)

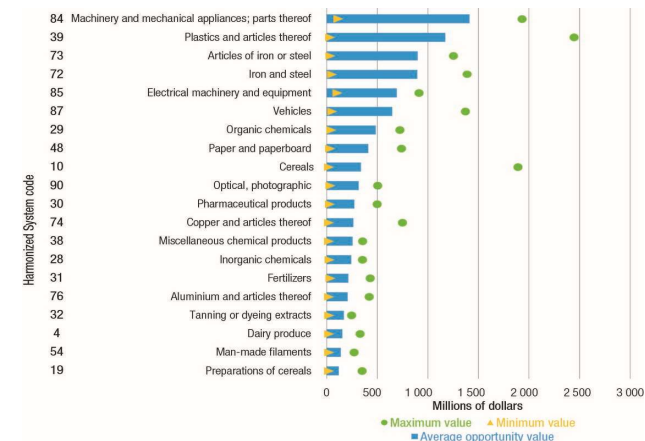
- Only 21 out of 54 African countries realized overall export diversification
 - 46 African countries added new products to their export basket
 - Distribution of export shares over products has become less concentrated in only 9 countries
- At increasing trend, intra-African exports are most diversified

Main drivers of Africa's export diversification



(2) Identification of feasible export diversification opportunities with high world/regional demand using the product space method

Product diversification export opportunities to Africa, country average, top 20 sectors



1. Export diversification in merchandise: Trends and opportunities

- The ability of a country to increase productive capacities and structural change heavily depends on the availability of inputs, technology and services.
- Services serve as key inputs in the production process and are vital in providing suitable linkages between suppliers and users in various stages of the value chain
 - Providing business services and market knowledge, information and communications technology (ICT) services facilitate tapping into new markets with new or existing products.
 - Access to financial services and research and development are essential to the innovation of new products and the improvement of products to survive in markets.
- Leveraging the AfCFTA to realize export diversification
 - Access to intermediate inputs, services and output markets
 - Harmonized policies in investment, competition and IPRs
 - Market information, customs and transport infrastructure
 - Coordinated regional production



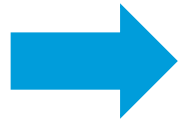
2. Trade in services: A niche for export diversification in Africa

Methodology:

- Use of trade in services data obtained from UNCTADstat database and value chain linkages based on Export of Value Added Database

Results:

- Africa doubled its services exports from 2005 to 2019, reaching \$124 billion in 2019
 - Travel and transport services represent more than two thirds
 - High knowledge-intensive and technology-embedded services represent only 20% of total services exports in Africa.
- Services provide only 1/3 of inputs to manufacturing in African countries
 - Business and ICT services value-added content across sectors remains low at about 10% (on average) in both the production process and the exported goods.



Need for more complementarities between services and the manufacturing sectors in African countries



ECONOMIC
DEVELOPMENT IN
AFRICA
Report 2022

2. Trade in services: A niche for export diversification in Africa

The modernization and revitalization of financial services, through digitalization, can facilitate trade, either in goods or in services, and facilitate SMEs access to capital to set up their businesses, and manage daily operational costs

Policies that protect against foreign competition create an uncompetitive business environment embedded with tariffs, subsidies, import quotas and other restrictions.

Key barriers to trade in services

DIFFICULT
ACCESS TO
FINANCIAL
SERVICES

LOW LEVEL
OF REGIONAL
INTEGRATION OF
SERVICES

LACK OF A
COMPETITIVE
ENVIRONMENT

LIMITED ACCESS
TO INFORMATION
AND ADVANCED
TECHNOLOGIES

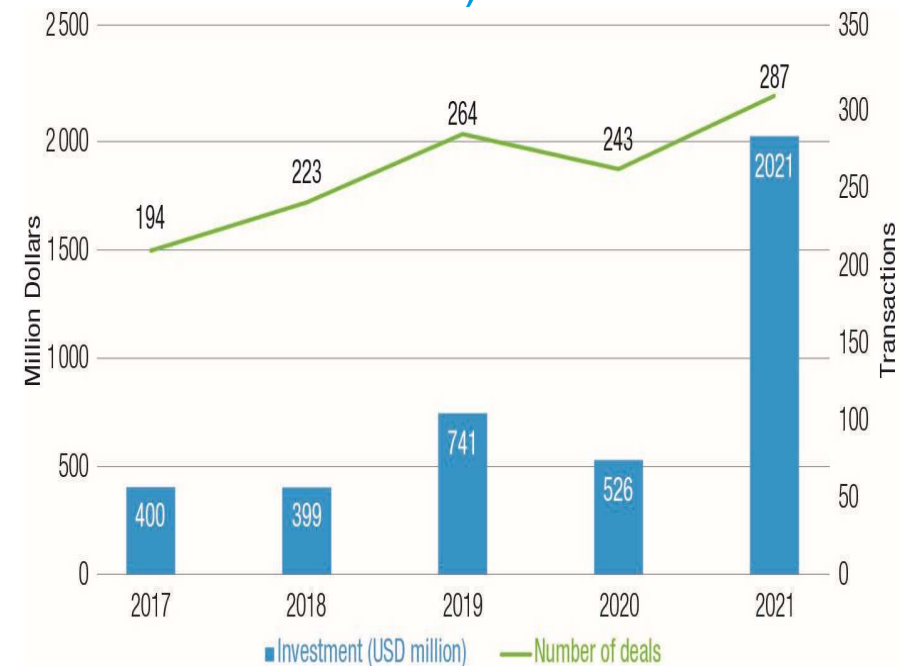
Low level of regional integration hampers the development of trade in services, many of which are provided by monopoly or exclusive services providers, especially in the freight and logistics services sector.

Poor Internet access limits the networking opportunities of SMEs and their access to markets and therefore, participation in regional and global value chains.

3. Financial services and private sector: The future of export diversification in Africa

- African firms' access to finance (through traditional financial sources) is inhibited by high capital requirements and transaction costs, thus reducing opportunities for investing to expand and diversify.
- Financial technology could be optimized to secure African firms' access to credit and external financing (debt or equity).
- Financial technology has been spreading in Africa, reaching over \$2 billion in investments in 2021.

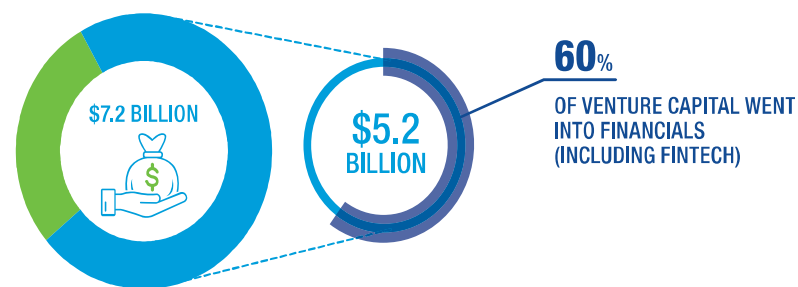
Financial technology investment in Africa (2017–2021)



3. Financial services and private sector: The future of export diversification in Africa

- There are a wide range of innovative and alternative funding mechanisms available to SMEs that can better meet their financial needs and support their business development and export targets.
 - These include private equity, venture capital and private debt-financing platforms.
- Benefits of equity funding and venture capital with specialized investments according to a firm’s stage of development include:
 - Providing working capital or external financing
 - Building business and institutional knowledge
 - Increasing companies’ success and growth rates
 - Support enterprise development in Africa.

- ❖ In Africa, the number of private capital transactions reached a record high of 429 in 2021, valued at \$7.2 billion; an 85% increase over 2020 (\$3.4 billion).
- ❖ Venture capital, critical for SMEs, accounted for \$5.2 billion of the \$7.2 billion private capital investment.



*Source: African Private Equity and Venture Capital Association (2022).

3. Financial services and private sector: The future of export diversification in Africa

The adoption of innovations in private sector finance and the uptake of alternative funding mechanisms by SMEs can be limited by various factors, the most critical ones being legal, regulatory, and financial infrastructure uncertainties.

IMPROVING DIGITAL INFRASTRUCTURE



SUPPORTING THE INNOVATION OF NEW FINANCE PRODUCTS



SIMPLIFYING THE REGISTRATION OF DIGITAL IDENTIFICATION

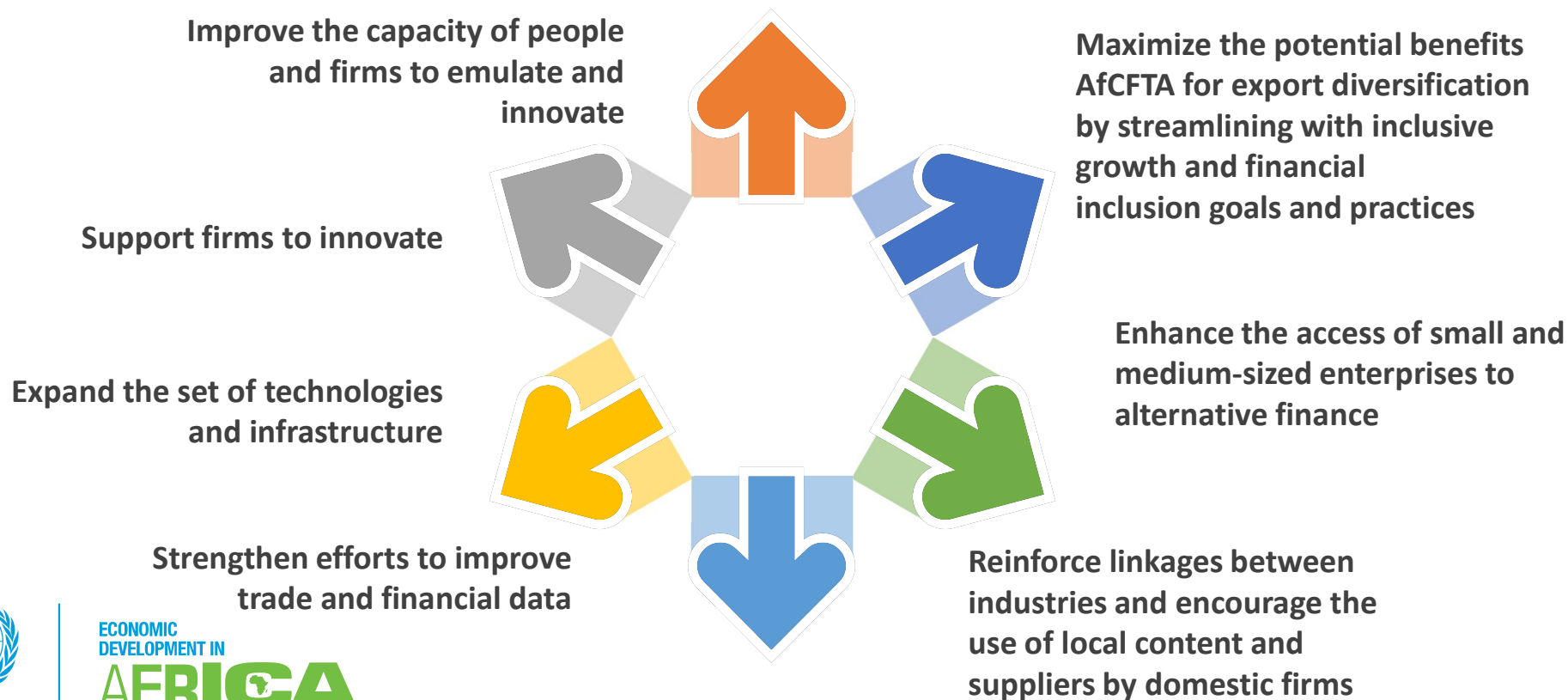


ESTABLISHING A REGULATORY BODY



Technology and smart services can provide conducive platforms for efficiently linking output and markets, enabling intermediate inputs of key intensive services in production that facilitate complexity and diversity of manufacturing outputs

Conclusion and policy recommendations



THANK YOU

[Economic Development in Africa Report 2022](#)



UNITED NATIONS
UNCTAD