

# A COMPARATIVE STUDY ON ASIA AND EUROPE ON START-UP LED INNOVATIONS AS A VEHICLE FOR DEVELOPMENT: ANY LESSON FOR AFRICA CONTINENTAL FREE TRADE AREA



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## ABSTRACT

*This study investigates opportunities that African governments can pursue in furthering their development agenda by leveraging the market's affinity for mobile technology and the momentum built by fintech firms in mobile-based innovation. The study reviews secondary data on innovation-led development initiatives and compares strategies adopted by countries across Europe, Asia, and Africa. The results reveal that Europe and Asia have inculcated structured use of Research and Development in start-up ecosystems to ensure that innovation addresses specific development agendas. In contrast, Africa abounds with high-value natural resources, yet the continent's manufacturing sector is regressing, with intra-Africa trade in consumer goods stagnating at 13% for decades. The study's findings point out that African governments recognize the role start-ups play in addressing unemployment and attendant poverty in Africa. Fintech start-ups and innovators have been at the forefront of delivering financial services using mobile telephony to communities hitherto financially excluded. The success of African mobile money innovations is widely published, and fintech start-ups have attracted the interest of venture capitalists – where 62% of investment funds flowing to start-ups are committed to the fintech sector. There is limited traction in using innovation to address issues like access to potable water, clean energy, affordable healthcare, and quality education.*

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## INTRODUCTION

A start-up in the context of this paper is a business focused on providing innovative technology-based solutions to business and societal challenges. Such an enterprise is typically less than ten years old, and solutions proffered can be scaled quickly in terms of geographical reach and use cases (African Union Commission, 2020).

Innovation for development bears three distinct characteristics: (1) significant time is spent in Research and Development with the engagement of academia and research organizations, (2) innovation is systematically aligned to the country's industrialization strategy, and (3) route to market is clearly defined at a national or regional level (European Union, 2020).

Developed start-up ecosystems across Asia and Europe inculcate research and development in innovation workstreams (Degelsegger et al., 2014). Academia and research organizations play a vital role in ensuring the appropriate use of science and technology in innovations. This is not just at the start-up level - effort is being applied within European and Asian countries to ensure the introduction of creative use of science and technology in public education institutions (Nicita et al., 2021).

A scan of Asian start-up innovations reveals a focus on the production of consumer goods and services for consumption within domestic markets. The approach is supported by the sheer size of domestic markets, which are able to support the scaling of start-up innovations. China and India, for instance, each have populations exceeding a billion - which

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is equal to Africa's and more than Europe's population (World Economic Forum, 2019). Europe's start-up ecosystems lean more toward export markets. The focus is thus on improving manufacturing technology so that industries can create products destined for global markets more efficiently (Rossetti et al., 2018). European industries collectively strive at being the global benchmark for standards and quality.

Start-up ecosystems are on an upward trajectory, fuelled by the creative use of technology and the creation of new regional market opportunities (Startup Genome, 2021). The rapid growth of start-ups in mature markets presents significant innovation challenges to budding start-up ecosystems in Africa. First, defining unique aspects of tech products is becoming more difficult with the explosion of generic solutions to meet shared needs. Secondly, high levels of funding available to start-ups in developed markets enable them to offer solutions to global markets using freemium pricing models. Third, innovation hubs in Africa are yet to develop to the level of those found in Europe, Asia, and the United States in terms of Research and Development support available to innovators. Implementation of the Africa Free Trade Area should take cognizance of these dynamics to improve the competitiveness of African innovations (Muathe & Otieno, 2022).

### **Start-ups in Africa**

Africa's start-up ecosystem is still in its infancy. The Global Ecosystem Startup Report for 2021 assigns a value of USD 6.6 billion to African start-up ecosystems. 90% of this value is in five cities across four countries. Foreign investors dominate the ecosystems, and there are limited scale-up activities reported. Africa has only seven unicorns (privately held start-ups with a valuation of at least USD 1 billion) (Startup Genome, 2021).

The operationalization of the Africa Continental Free Trade Area should open up a vibrant market for African businesses. The opportunity for consumer goods and services is 1.3 billion people with a USD 3.4 trillion (CFTA - Continental Free Trade Area, n.d.). The opportunity notwithstanding, the African Union, individual governments, and businesses will need to address the decade-long stagnation of intra-African exports at 13% (UNCTAD, 2022). As the governments leverage the Free Trade Area to spur the development of start-ups, plans need to be in place to ensure the availability of African consumer products that meet market needs, communicate awareness of the products, and instil market confidence in the products.

There is limited traction in innovation for the delivery of citizen services (Startup Genome, 2021). Regulations governing community services such as water, energy, healthcare, and education limit distribution activities that would benefit from innovation to state agencies (UNCTAD, 2018). It is not easy for such a state agency to engage start-ups due to procurement regulations that dissuade single-sourcing specific solutions from particular start-ups. Regulations also limit access to sources of natural resources which start-ups would otherwise use to deliver citizen services (Smart Africa Secretariat, 2020). For instance, it is common to find African countries forbidding competition with state-owned electricity supply companies.

### **LITERATURE REVIEW**

According to the World Economic Forum, AfCFTA can double or triple the current throughput of Africa intra-regional trade provided there is harmonization of border post clearing processes, and regulatory requirements across the continent (Cloete, 2019). The individual governments will need to put in place interventions to increase capacities of businesses through entrepreneurial skills development, increase access to credit/capital and build strong production bases that can integrate with manufacturing networks across the continent.

Briter Bridges (2021) reports that 62% of venture investment deals over year 2021 were concentrated in the Fintech sector. It is noteworthy that another 33% of deals were committed to other tech-based solutions. Africa's Fintech sector has thrived over the years evidenced by increase of the financially included from 23% in 2011 to 43% by 2018 according to a report from MasterCard Foundation and International Finance Corporation (2018). Financial inclusion as presently delivered benefits the banking sector alone – where more money is brought into the formal banking system. It was largely assumed that the mopped-up funds would be channelled as capital for ventures in other sectors. However, very little traction, if any, has been witnessed in diversification of investment funds to start-ups in other sectors. Trade logistics, green energy and consumer distribution are some of the opportunity areas where large enterprises seek innovative ideas from start-ups.

AfriLabs states that there are more than 1,000 privately run innovation hubs in Africa whose focus is in offering business training, idea pitching sessions and workspaces to start-ups (Sarange & Chuku, 2021). There are also some government-sponsored hubs coming up in countries such as Kenya, Tunisia, and Rwanda which are more inclined towards building entrepreneur's technical skills in the development of cottage industries. The hubs play a critical role in offering start-ups access to resources, markets and support. What is lacking for many is a clear pathway for start-ups to develop from being micro-enterprises to well established organizations capable of attracting significant investor funds and executing cross-border business deals. India has in place processes that ensure consistent review of policies and interventions impacting start-ups that they deliver desired outcomes – a model that should be emulated by Africa start-up ecosystem stakeholders (Korreck, 2019).

Start-ups in Asia have the benefit of having domestic markets for their innovations that are large enough to grow their business to scale. Countries like India and China have individual population's sizes that match the whole of Africa (World Economic Forum, 2019). Multiple reports indicate that Nigeria has the largest number of start-ups in Africa and it could be due to the high population, which like in the case of Asia, is attractive to both entrepreneurs and investors. It is noteworthy that Africa's first start-up unicorns originate from Nigeria (Collon & Dème, 2019).

The Global Ecosystem Startup Report by Startup Genome (2021) observes that a relatively young population, quality national education system, and domestic wealth (for investment and consumer spending) are critical for the success of start-up ecosystems. Southeast Asian countries exhibit these qualities and by converging under a regional economic

commission, they were able to create a sizable intra-regional market for businesses as well as for export to other regions (KPMG, 2020). Africa can immediately leverage the youthfulness and education level of the population to drive uptake of technology-driven innovations. Operationalization of the Africa Free Trade Area would contribute to opening up a market that can progress start-ups to large enterprises.

The European Commission has placed SMEs at the centre of their current industrialization strategy. The reported 25 million SMEs in the regional block contribute 50% of the continent's GDP and account for every 2 of 3 jobs created (European Union, 2020). Innovation is a key driver of the SME input to the overall strategy and as at 2021, half of the SMEs were involved in innovation activities. To facilitate their growth, development and contribution, the Commission has implemented interventions that address three core challenges synonymous with SMEs globally – access to finance, access to markets and ease of doing business. Unlike in Asia or India where focus is on particular sectors or industries, the European Commission, being a mature bloc, is open to supporting innovation in any sector and by any size of business.

Smaller African Regional Economic Commissions have commenced harmonization of policies and programmes (COMESA Secretariat, 2017). The Common Market for Eastern and Southern Africa, the East Africa Community and the Southern Africa Development Community, for instance, agreed to create a Free Trade Area – which brings together half of Africa, over half a billion people and more than USD 1 trillion in GDP. Such collaborations shall chart the pathway to enforcement of the Africa Continental Free Trade Area as they open channels for negotiations on specific terms of cooperation.

Southeast Asian member states and free trade partners signed the Regional Comprehensive Economic Partnership agreement in November 2020 (KPMG, 2020). The new regional community, which came into force on January 1, 2022, is designed to provide businesses better levels of certainty and consistency across value chains. Operationalization of the partnership comes at a time when European start-ups are adjusting to changes brought about by Brexit. Brexit introduced new regulations and limited movement of talent between the United Kingdom and the rest of Europe. It is noteworthy that London is among the top-three start-up hubs in Europe and 40% of technical talent are sourced from countries outside of businesses' headquarters (Startup Genome, 2021). The ensuing impact was limited talent for development of innovative products and shrinking markets for commercialization of the same. Start-ups in Asia, on the other hand, are being given greater access to bigger markets, with UNCTAD estimating a redirect of USD 25 billion in trade away from the Regional Comprehensive Economic Partnership non-members to members (Nacita et al., 2021).

Africa's Creative Economy has made inroads into global markets, particularly in heritage and cultural products markets. A report by UNCTAD states that informal handcraft makers are the majority producers in the countries, thus making it hard to quantify market size, opportunities and consumption (UNCTAD, 2022). The same report nonetheless estimates the commercial market size for crafts to be in the region of US\$650–720 billion and asserts availability of opportunities in jewellery, apparel, and home accessories for export to Developed nations. North America is said to have a high appetite for handcrafted products that fuse ethnic and contemporary design.

A report by Collon and Dème (2019) shows that tech start-ups receive most, if not all, investor funding in Africa. Financial inclusion platforms attract half the total investments. B2B tech solutions and consumer services attract 30% and 20% of the funds. Fintech, Enterprise Tech and e-Commerce are the dominant verticals in financial inclusion, B2B tech and consumer services (Briter Bridges, 2021). This has seen an influx of fintech start-ups in African countries that show little differentiation in value propositions to the market. Therefore, traction and growth to scale remain elusive for start-ups – particularly markets where mobile network operators have mobile money services in operation. Fintech start-ups rely on mobile money services offered by mobile network operators for last-mile delivery of payment services and are therefore vulnerable to the operator's product strategy (MasterCard Foundation and International Finance Corporation, 2018). In Kenya, where Safaricom M-PESA is a dominant mobile payments player, fintech start-ups have been pushed out of some SME market segments by the M-PESA *Kapu la Biashara* offering.

Global markets are increasingly competitive. First, many consumer goods and services have become generic to the extent that producers find it increasingly challenging to differentiate their products. Secondly, advancement in trade infrastructure and agreements between governments has made it easier to move goods and services across borders. Therefore, producers now have competition from abroad added to domestic competition. Third, the internet has made it easier for consumers to access information that informs their product preferences and options. It is increasingly challenging for producers to keep abreast with consumer feedback and needs that would be critical in determining product development (European Union, 2020). This scenario has galvanized innovation in eCommerce.

Changes in market dynamics have impacted governments' development agendas. In principle, governments rely on small businesses to employ a majority of the population – particularly those with limited education. The sustained population growth makes this need more apparent in African countries. As the market shifts to become more global and digital on the back of innovation, the traditional role of SMEs in facilitating the last-mile delivery of goods and services is becoming diminished. Add to this the creation of regional economic communities that could subject domestic industries (that feed SME value chains) to stiff international competition, demonstrating the need to diversify areas where start-ups can participate (Obiang, 2015). The European Commission, for instance, has programs that present value chain options to start-ups and SMEs. The programs incorporate training, capacity building, and market linkages that inspire innovation (European Union, 2020).

## RESEARCH METHODOLOGY

This study was an exploratory study using desktop research focusing on the comparative study on Start-up led Innovations as a Vehicle for Development as observed by Muathe (2010) and Swedberg (2020) an exploratory research is qualitative in nature and tries to gain more insight to unclear problem like it was the case in this comparative study. The study involved

summarizing and collating existing secondary data relevant to start-ups in Europe, Asia and Africa. Reports and strategic plans authored by regional economic communities, as well as yearly reports on performance of innovation hubs documented by well-known incubator reviewers, was evaluated to enrich this study.

## FINDINGS AND DISCUSSION

Governments recognize the importance of start-ups in their individual economies. Their contribution is evident in the employment opportunities generated and growth of certain sectors through innovation. The creation of an optimum environment that encourages entrepreneurship, spurs business growth and prepares small enterprises for global value chains is the core challenge that countries continually contend with.

Countries across Europe, Asia and Africa have been implementing regulatory reforms that aim at simplifying business formation procedures, access to markets, and access to capital. Government efforts are being complimented by innovation hubs that focus on capacity building and provision of workspaces. These efforts together with tax incentives on strategic sectors are expected to disrupt global value chains and blur trade boundaries.

The Organisation for Economic Co-operation and Development recommends that start-ups venturing into new sectors within developing and low-income countries focus on innovation fit for local circumstances (Korreck, 2019). Academia and research organizations should participate strongly in the Research and Development phases. Ideal innovations, in this context, target the quality of life of low-income households and increase access to business opportunities for micro-enterprises. Given that the solutions target the bottom of the pyramid, organized networks (like business associations) or tie-ups with large enterprises should be engaged to accelerate the distribution of created products. Scaling of innovations for international markets should be after the concepts are proven locally.

### Lessons from the COVID Pandemic

Start-up ecosystems need to instil agility to survive the unpredictable markets and business environments. Europe faced a funding crisis at the outbreak of COVID-19 as investors cut back funding, leading to reduced activity at innovation hubs and in ongoing projects. The immediate impact was job losses and a lack of investor funding. While the European Commission and angel investors moved to provide liquidity to small businesses, start-ups' ability to pivot to the more urgent healthcare solutions made the difference.

Start-ups need to keep abreast with end-users changing requirements to keep their innovations relevant. In Asia, at the outbreak of COVID, businesses changed the utilization of resources for better efficiency. The immediate need was collaboration tools and infrastructure to enable remote working. Start-ups that could quickly spin off solutions in this regard benefited immensely. Businesses procuring solutions would engage more than one start-up to deliver the different pieces of technology - which called for innovators to focus on core competencies.

The COVID-19 pandemic disrupted business transaction routines. Governments enforced containment rules that restricted physical interactions that disrupted food, health services, and education delivery. Central banks across Africa abolished fees for low-value digital payments and increased transaction volume thresholds for mobile money platforms to encourage the digitization of SME transactions. It is noteworthy that SMEs account for at least 90% of all private businesses and employ 80% of the labour force across Africa (UNCTAD, 2018). The COVID-19 pandemic demonstrated that a mix of market needs and enabling interventions result in increased uptake of fintech innovations. Kenya's Communication Authority, for instance, reported a 97% rise in mobile money transactions following the increase in the utilization of digital services by consumers.

Meinck et al. (2022) estimate that closures of in-person learning at the outbreak of COVID-19 affected 74% of students worldwide. This forced education sector stakeholders to look into ways of delivering quality education remotely. Digital channels were the most viable – incorporating web-based solutions and mass media broadcast services. EdTech innovations proved to be a challenge in Africa since only 28% of the population uses the internet – according to telecommunications reports. Start-ups are now looking into using mobile telephony given its relatively high penetration - 46% as per a report by Awanis and Gamble (2021). In response to emerging innovations, Rwanda ramped-up infrastructure for innovation by providing 90% of its inhabitants with access to the internet and device incentives that pushed mobile phone penetration to 75% of the population. It is noteworthy that start-up innovations rely on digital technology for delivery.

### Start-ups and Product Development

Governments and large corporations in mature markets rely on start-ups in addressing complexities brought to the fore by shifts in the global marketplace and changes to macro-economic factors. In organizing its start-up ecosystem, India acknowledged that (1) large corporations had sufficient market experience to have a good understanding of consumer requirements and (2) start-ups can innovatively use technology in the resolution of market challenges the corporations face – with an innovation focus on productivity improvements, consumer interactions and trade logistics. It explains why the government's start-up agenda ensures innovation remains relevant to domestic industries. A survey conducted by the Economist Intelligence Unit revealed that 42% of top-tier Indian industries had engagements with start-ups for product or market development. Apart from improving India's competitiveness, the focus on local innovation birthed a sustainable and scalable start-up ecosystem. As a result, only the United States and China have larger start-up ecosystems than India's (Startup Genome, 2021; Muathe & Otieno, 2022).

Southeast Asian countries, also known as the Asian Tigers, took a similar approach as India in linking innovative start-ups to large corporations. Government-sponsored Science, Technology, and Innovation programs ensured the

systematic development of industries and human capital. The Asian Tigers' approach to innovation focuses on specific sectors and harmonization of standards across the Southeast Asian regional economic community.

Being relatively late entrants into the global value chain, Singapore, Indonesia, Malaysia, and Thailand opted to focus on electronics, chemicals, and manufacturing machinery, where they believed they had the highest chances of success in the global value chain (Nacita et al., 2021). Though each country has its innovation program, there is collaboration in the design of the programs to ensure the quality of final products is at par with market requirements. Focus on specific areas of core competence has seen the Asian Tigers rapidly develop into high-income countries.

### **Start-ups and Market Development**

Relatively new entrants into global value chains such as Singapore, Malaysia, and India have spurred the more established actors in Europe to use innovation to defend their share of the market. The European Commission rolled out the Startup Europe and SME programs to strengthen their market position. The European programs cover a range of themes like market opportunities, market data, investment mobilization, green technology, financial technology, start-up scale-up, and media. Commercialization of the created products is either through engagements with large industries or by providing start-ups with opportunities to sell directly to consumers around the globe (Rossetti et al., 2018).

Innovation in many European countries has to do with improvements in manufacturing processes. Germany's *Industrie 4.0*, Austria's *Pilotfabrik für Industrie 4.0*, and Italy's *Fabbrica Intelligente* are some projects that aim at improving industrial productivity (Rossetti et al., 2018). The initiatives under the projects bring together start-ups, SMEs, academia, established corporations, and government, all in pursuit of innovative improvements to existing processes. The European Commission has made resources available to facilitate the process. The resources include funding, research, data, and ideation forums.

Dubai is reliant on global travel. The travel ecosystem supports the main economic activities of trade, transport, financial services, real estate, construction, and tourism. The six mentioned activities account for 66% of Dubai's GDP (World Economic Forum, 2019). The government and other stakeholders set up the Dubai Smart City Accelerator program to keep Dubai competitive. The program pursues innovation in the travel experience – connectivity, artificial intelligence (sifting traveller preferences), data, digital shopping, and e-government. As in the case of Europe's manufacturing sector, Dubai is using innovation to differentiate her travel experience from that of competing destinations.

### **Made in Africa**

There is an urgent need for African governments to spur innovation tied to the production of consumer goods if Africa's industries are to develop. The bulk of the consumer spending within the continent does not trickle up to African producers. A MasterCard Foundation and International Finance Corporation (2018) report states that small-scale traders receive USD 1 trillion in consumer payments for goods and services per annum, and UNCTAD (2022) reports that intra-African exports have stagnated at 13 percent for more than a decade.

The European Commission, the Association of Southeast Asian Nations, China, and India, have demonstrated the importance of having specific innovation programs and policies that ensure up-scaling local industries in manufacturing technologies, product competitiveness, and business models to align with the evolving markets (Fisher, 2012). As a result, intra-regional trade in Europe stands at 68% and 59% in Asia (UNCTAD, 2022). African producers and start-ups are missing out on intra-Africa value chain opportunities.

Free Trade Area treaties usually deliver intra-region trade advantage to local businesses through goods and services origin rules. The Africa Continental Free Trade Area seems to have glossed over this item - yet it is critical in motivating start-up innovations. Nigeria, Africa's largest economy, had initially declined to sign the agreement citing ambiguity on the source of produce, with the country demanding that free movement privileges be for goods made in Africa (Adebayo, 2019). Made in Africa means goods and services produced within Africa using locally sourced raw materials (Ogunmade & Ajimotokan, 2018).

Africa has an abundance of raw materials. UNEP reports that Africa holds 65% of arable land, 30% of mineral reserves, 40% of gold, and 90% of chromium and platinum (UNEP, 2022). It is not clear whether the strategy is to pursue value addition to the raw materials and, if so, whether Africa will go the route of specialization in specific sectors, as in the case of Southern Asia, or cover a wide range like Europe. A value-addition strategy will provide innovation opportunities to start-ups in emerging sectors such as green energy, process automation, and extractive sector – and expand income sources for African countries (Obiang, 2015).

### **New Opportunities for Start-ups in Africa**

Africa is recognized as a global leader in digital financial services following the prevalent use of mobile technology for financial transactions (MasterCard Foundation and International Finance Corporation (2018)). As a result, Fintech start-ups receive most of the support and investor funds available to the continent. In leveraging the fintech momentum, eCommerce is a deliverable of the enforcement of the Africa Continental Free Trade Area (Smart Africa Secretariat, 2020). The inclusion of the segment should organize and strengthen eCommerce, which currently only attracts 3% of African investor funding. 60% of eCommerce transactions across Africa are undertaken by 1% of marketplaces – signifying low development compared to market potential (Briter Bridges, 2021). The challenge seems to be in the consummation of transactions, as many eCommerce marketplaces complete sales offline. Once a transaction goes offline, it becomes subject to inefficiencies synonymous with trade in Africa.

It is encouraging to note that the Free Trade Area secretariat is implementing the Pan-African Payments and Settlement System that will work at aggregating clearinghouses and therefore reduce the cost and time taken to clear cross-border cash transactions. Again, models like the one-border posts in East Africa will ease the physical movement of goods (Moyer et al., 2020). These developments and a high appetite for e-commerce should bolster interest in African eCommerce start-ups (African Union, 2020). Statista predicts that Africa's eCommerce revenue will reach USD 46.1 billion by 2025, almost double the 2020 value of USD 27.97 billion (E-Commerce Revenue in Africa in 2017 to 2025 in Million U.S. Dollars, 2022).

Agriculture and fisheries are areas of great potential for African start-ups. Opportunity areas include climate-smart solutions, blue energy, aquaculture technologies, and disease and climate-resistant crop varieties.

Governments should review regulations that limit the participation of start-ups in the distribution of citizen services. The outbreak of COVID-19 provided the opportunity to innovate the provision of health services via mobile technology. The distribution of solar energy among rural communities is another area where start-ups have made considerable progress (Kene-Okafor, 2022). There is now an emergence of start-ups using simple water purification equipment to produce clean drinking water. A scan of these solutions reveals a reliance on other markets, particularly China and Southeast Asia, for sourcing of underlying technology.

### **Reforms and Interventions**

The Africa Union's Action Plan for Boosting Intra-African Trade offers limited interventions to spur innovation and creation consumer products and services in Africa (Moyer et al., 2020). This is a major difference in strategy between Africa and other Regional Economic Communities. The European Union, for instance, has specific innovation programmes and policies in place to ensure their industries continually improve on manufacturing technologies, products remain competitive, and business models align with the evolving markets. Member-states of the Association of Southeast Asian Nations have systematically incorporated science and technology to support innovation within the country and, by extension, the regional trading block. The role of start-ups and SMEs in the Europe and Asia is recognized and specific programmes are in place to ensure they contribute to the broader trade agenda. Roll out of the Africa's Trade Area should similarly galvanize African start-up businesses to generate innovative ideas for global value chains.

COMESA calls for reforms or interventions in five areas that will change Africa's competitiveness; (1) infrastructure, (2) business environment, (3) use of technology, (4) upskilling human capital and deterring brain-drain, and (5) stimulating domestic markets for goods and services (COMESA Secretariat, 2017). State-actors should resolve issues touching on infrastructure and creation of enabling business environments. Businesses can then invest in technology, human capital development and market stimulation. There needs to be a paradigm shift from protectionism to competitiveness to push growth of industries. Kenya, for instance, opted to protect the local sugar industry by limiting sugar imports from other COMESA states (Anyanzwa, 2017). Article 61 of the COMESA Treaty allows member states to provide protection to emerging sectors until they are considered mature for competition. However, Kenya invoked Article 61 in 2004 yet the country's sugar industry was 82 years old at the time. As it stands, Kenya's sugar industry is struggling despite the decades-long protection.

In contrast, the European Union champions modernisation by driving innovation, technology and improvement of business models. The Commission develops policies and programmes cutting across social innovation, business innovation, work innovation, and regional innovation - all coordinated to speed up the broad commercialisation of innovation and related activities (European Union, 2020). SMEs and start-ups play a role in creating innovative solutions to emerging challenges like climate change, resource efficiency and social cohesion. President Buhari of Nigeria once quipped, "Our industries cannot compete with the more efficient and highly technologically driven industries in Europe." (Ogunmade & Ajimotokan, 2018).

As in the case of the EU, ASEAN countries have placed a premium on funding Research and Development that upgrade their technological and industrial capabilities (Degelsegger et al., 2014). SMEs and start-ups play a role in innovation, and the emphasis remains on strengthening manufacturing value chains. ASEAN member states regard manufacturing as the engine for growth and development (Degelsegger et al., 2014).

### **AfCFTA Implementation**

There is no record of a trade transaction undertaken under the auspices of the Africa Free Trade treaty. The only requirement placed on signatories is the 30-day wait period between deposit of ratification instrument and enforcement of the treaty. 53 countries have signed and 41 ratified the treaty – with a number having completed these preliminaries in 2019 (Trade Law Centre, 2022). Delayed implementation means delays in delivering the promise of pan-African opportunities to start-ups and attendant delays in absorbing the growing populations into gainful employment.

According to the IMF, many African businesses do not have the capacity engage in regionally and globally, as they are small-scale, remote, and with low productivity levels. In addition, African industries are not well developed, and therefore, most limit their participation in global value chains to either export of natural resources and unprocessed agricultural produce or import of finished goods. Unless these factors are addressed, the Africa Free Trade area may not stimulate the production and consumption of African goods and services – thus start-ups may not be the development agents desired by the continent (Cloete, 2019).

Harmonization and simplification of regulations across the continent is another key area that needs to be addressed in the implementation of Africa Free Trade Area (COMESA Secretariat, 2017). Southern Asian countries and European Commission member-states have elaborate approaches to ensuring easy movement of goods, talent and services across

borders. In addition, they continually work toward having similar requirements among trading partners – such that goods and services produced within a region can be sold to any country within the region without the need for additional regulatory compliance requirements. Individual countries are responsible for the quality and reliability of goods and services originating from their territories - that they meet consumer expectations and global standards. Academia and research institutions have a role to play in providing technical training, insights, and guidance on global standards in this regard.

At least 70% of African businesses are start-ups, SMEs, or even smaller outfits. These play a vital role in in-country value chains – particularly in last-mile delivery of goods/services to consumers and production of low-value household products (cottage industries) (African Union Commission, 2020). Interventions are required to empower cottage industries to innovate in product creation so that there are African products that would benefit from the Free Trade Area incentives. The “Make in India” scheme is an apt model that can be gleaned from. Under the scheme, India set out to empower the local population with skills, funding, access to technology and access to markets to encourage creation of goods and services that can be sold globally. Before the scheme, majority of Indians depended on Agriculture. Make in India targeted creating opportunities across 25 sectors and placed India on a path to becoming a design and manufacturing hub of note (Korreck, 2019).

## CONCLUSION AND POLICY IMPLICATION

### Conclusion

Free Trade Agreements generally assume that a significant demand exists for consumer goods and services produced within the countries establishing the cooperation. Thus, incentives are provided to give competitive advantage to goods and services produced by cooperating member countries compared to imports from other regions. The natural effect expected is stimulation of business growth, with each member country focusing on sectors where they have clear competitive advantages over the other members. Africa’s strategy in galvanizing this kind of development remains unclear and opportunities available to start-ups have not been articulated.

Unlike in the case of Europe and Asia, Africa’s start-up entrepreneurs do not have access to information that they can use to decipher market gaps that they are well-positioned to address. Very little, if any, has been invested in ensuring start-ups have robust technology and product development skills for creation of consumer goods.

Consumer awareness of quality African products is wanting. As previously stated, African consumers do not primarily buy African products and services. There is a great need to investigate possible reasons for this situation as it has a direct impact on the kind of innovation required in Africa. Some of the issues that need further investigation include adequacy of product information distribution among the public, market confidence in African products, and value consumers associate with African products.

### Made in Africa

Africa has done well in Creative Economy – particularly in use of mobile technology to deliver services (Esaith, 2022). There is now an urgent need to support start-ups and SMEs harness the creative power to facilitate movement of African goods across borders – leveraging technology for distribution and harmonization of cross-border trade regulations. Nigeria, South Africa, Egypt, and Kenya, being the main tech hubs of Africa carry the greatest potential to lead distribution of “Made in Africa”.

### Policy Implications

Origin rules governing the source of goods and services need to promote the creation and growth of African industries. Start-ups and SMEs can participate through innovation of certain value chain aspects and the generation of new products through cottage industry mechanisms.

Harmonization of regulations, requirements, tariffs, and product documentation are required to simplify cross-border trade. The Africa Free Trade Area Secretariat should establish a one-stop shop for compliance processes (licensing, standards, and other statutory obligations). The Secretariat can then leverage the support delivery systems to analyse the impact of regulations on start-ups.

Tariffs are important sources of government revenue for many African states. As it stands, governments make more income from extra-African trade compared to intra-African trade. The impact of any revenue losses would need to be considered carefully in the rollout of AfCFTA.

### Limitation and Future Research

The research focused on start-up programmes sponsored by Regional Economic Cooperations in Europe, Asia and Africa, and did not include the involvement of other ecosystem, stakeholders. The study relied on secondary data obtained through desk research and therefore may present unvalidated data.

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