



Grassroots Innovation Communities Communique to Policy Makers

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Summary

We are social innovators, entrepreneurs, innovation spaces and startups across Africa that have come together to articulate and share our views and recommendations for policies that we believe will accelerate digital transformation and contribute to more equitable, inclusive and sustainable development of our economies and societies. The actors who have undersigned this document are ready and willing to engage with policymakers to further this agenda:

We recommend funding for independent and multidisciplinary research; an emphasis on e-learning tools, digital literacy and software education; and improving access to innovation labs and civic spaces to encourage do-it-yourself hands-on learning, experimentation, failure, and critical thinking...

We acknowledge the efforts in place to leverage technologies for fostering pan-African integration. Further progress must be made to integrate and expand digital infrastructure to reduce costs and increase access, including efforts to close the growing digital gender gap...

We recommend that Governments adopt the [African Declaration on Internet Rights and Freedoms](#), to ensure that the Internet is considered a safe and secure space for Africa's citizens to engage, and from which they can create and consume content and applications for their social, economic and civic empowerment...

We recommend that Governments invest in public spaces, and remove restrictions for diverse citizens to gather and discuss socially and commercially relevant issues and to co-design and co-create solutions...

We advocate for government institutions to investigate and remove the barriers to registering and closing businesses...

We posit that governments have an important role to play in addressing the financial challenges facing entrepreneurs and innovators, and can work to reduce uncertainty and the risks associated with financing innovators...

We recommend improvements in public procurement procedures to catalyse industrial development and innovative startups, and the easing of regional trade...

We recommend a wide variety of tax incentives for startups and reduced import taxes for inputs to software and hardware fabrication, experimentation, and innovation...

Finally, governments must assess how to ease mobility in the continent, both of goods and services, as well as people. The diversity of perspectives, skills and experiences of migrants plays a key role in fostering innovation and job-creation...

Background and Justification

We are living in a fast-changing society. Digital technologies, start-up companies and SMEs in the nascent ICT industries have brought forth new opportunities for economies and societies across Africa. At the same time, governments, policy makers, private sector and members of civil society are challenged to respond to complex problems and propose solutions that are sustainable and inclusive, while also embracing citizen-centered innovation.

Social innovation hubs are physical and virtual spaces that have strong collaborative and multidisciplinary communities with heterogeneous skills, and are interested in solving complex social problems and boosting civic participation through entrepreneurship, design, technology, culture and art. They are tapping into the creative potential and entrepreneurial spirit and supporting the emergence of grassroots solutions to complex social problems.

Hubs are critical spaces for engaging and connecting communities, the youth, tech entrepreneurs and innovators. Emerging from these spaces are innovations in the form of new companies, products and services that could drive visions for the digital development of the continent further.

Many improvements need to be made before the continent can fully capture the potential for innovation that exists in our communities. And whilst we acknowledge that some governments are working hard to encourage entrepreneurship, innovation and job-seeking youth, we believe there needs to be inclusive dialogue amongst policy makers, innovators and local communities in order to create policy frameworks that foster local, bottom-up innovation.

We believe that the social innovation communities can be an ally in the development of progressive policies that will increase Africa's competitiveness in the global economy. We want to contribute to Africa's digital and social transformation. In order to best contribute to this process, we have gathered recommendations and examples from innovation communities across Africa with the aim of sharing them with policy makers.

This communique addresses some of the most pressing issues and challenges for innovation from a grassroots perspective. It offers suggestions based on the experience of entrepreneurs and innovators from across the continent. *We believe these recommendations will develop strong social innovation hubs across the continent,*

accelerate digital transformation and, ultimately, contribute to a more equitable and sustainable development of our economies and societies.

Policy Vision and Recommendations

Innovation, as we have seen repeatedly, often emerges from unexpected places--the fringes or grassroots--and from unexpected interactions. Top-down policy designs are often incompatible with innovation processes; instead, policymaking must adopt participation and openness as a standard process of policy development, including search, experimentation, monitoring, learning and adaptation.

Moreover, if emerging solutions and enterprises are to benefit our communities, then actors and catalysts in technology innovation and entrepreneurship cannot be left out of policy making processes. Policy making, in unexplored digital territories in particular, must involve all stakeholders, including the users and creators.¹

Emerging lessons and insights from social innovation spaces, and other collectives of young entrepreneurs across the continent can be leveraged by governments and initiatives like Smart Africa.

The policy vision articulated below highlights key areas identified by social innovation stakeholders to unlock the potential of the smart agenda in Africa. Where applicable, short case studies to underscore the issue raised have been provided for more context on the challenges and opportunities. These key areas include Education and R&D; Digital Infrastructure; Public Multidisciplinary Spaces; Business Registration; Finance for Innovation and Entrepreneurship; Local and Regional Markets; and Taxation Systems.

1. Education and R&D

We recommend funding for independent and multidisciplinary research, an emphasis on e-learning tools, digital literacy and software education, and improving access to labs and civic spaces to encourage DIY hands-on-learning, experimentation, failure, and critical thinking.

Additionally, education in Arts, Culture and Humanities remains just as important to empowering citizens to drive the continent's digital transformation, as the current

¹ It is increasingly common for governments to invite entrepreneurs and innovators to share perspectives, and to do so in an open and transparent manner. While developing a Smart City initiative, Boston invited "Smart City Providers" to the table. In an open call to innovators and entrepreneurs the city issued a request for information on how to help in creating better, more efficient services utilizing technology:
http://www.govtech.com/fs/Boston-Invites-Smart-City-Providers-to-the-Table.html?utm_content=bufferf8839&utm_medium=social&utm_source=twitter.com&utm_campaign=buffer

emphasis on education in Science, Technology, Engineering, Arts and Mathematics (STEAM).

To drive the vision of unlocking entrepreneurship and digital economy transformation in Africa, education and research must be at the center of the debate and resulting interventions. Teaching programming is not enough. There has to be an effort of creating enabling environments for children and adults to be critical, analytical and multidisciplinary thinkers and doers. An atmosphere that encourages them to take risks, to fail, to try again, to be inquisitive and solvers of problems must be fostered.

The skills needed to capitalise on the digital era also call for Arts, Culture and Humanities studies to be encouraged and invested in, as much as Science, Technology, Engineering, Arts and Mathematics. The former definitely strengthen the latter in unlocking creativity, and instilling a strong sense of ethics.

Research and experimenting are cornerstones of innovation and entrepreneurship. To realise Africa's true potential in this fourth industrial revolution, support for research and development (R&D) must be addressed, in word and deed.

Increasing budgetary allocation for research, creating incentives for the private sector to supplement public sector research investment, and linking the research to private and public sector developments to create pipelines are practical examples of what can be done to start improving the education and R&D landscape on the continent. However, this cannot translate to a zero-sum situation, where funding and support for non-scientific training is sacrificed to achieve this. As mentioned above, well-rounded and innovative scientists benefit greatly from also exploring the Arts, Culture and Humanities.

SUPPORTING FACTS AND EXAMPLES OF EDUCATION REFORM EFFORTS

Africa's research output in Science, Technology, Engineering, Arts and Mathematics (STEAM) – key pillars for unlocking digital transformation – is wanting. Sub-Saharan Africa accounts for less than 1 per cent of the world's research output while being home to 12 per cent of the global population.²

Kenya³ and Rwanda⁴ have already taken steps to reform education policy to address the imparting of skills needed in today's job market and information society, which is a welcome move. Furthermore, the role of private sector, especially in absorbing talent from tertiary education systems means that they are a crucial stakeholder in informing what is taught based on present and future market trends.

² Closing the Research Gap between Africa and the Rest of the World:

<https://theconversation.com/closing-the-research-gap-between-africa-and-the-rest-of-the-world-47401>

³ How New Education System (2-6-3-3-3) Will Work

<https://www.kenyans.co.ke/news/how-new-education-system-2-6-3-3-3-will-work>

⁴ Rwanda Education Board: New competence based curriculum is aligned to national development goals

<http://www.newtimes.co.rw/section/advertorial/744/>

Innovation hubs are great spaces for experimentation, and could serve as alternative nodes for Research and Development. Digital fabrication labs and makerspaces allow innovators to build and prototype their products to test user experience and market fit. Incubators, pre-incubation hubs and coworking spaces provide opportunities for peer-learning and serendipitous interactions and insights that generate innovation.

Involving in hubs in rethinking education –as well as investing or supporting them– especially in technical fields will be important, as they are increasingly go-to spaces for young dreamers, makers and builders. This is particularly significant, given that often formalised spaces (such as universities, technical training centres) are either inaccessible, unaffordable or unavailable. Furthermore, connections between hubs and universities can be encouraged and facilitated.

Developing linkages between private sector and university R&D by creating policy incentives for companies to form partnerships with local universities. Oftentimes, especially in developing countries, research focuses on areas of poverty alleviation in the social sciences (ie. agricultural research, financial inclusion, public health, etc.) without considerations for the needs of local businesses. There should be policies which reward private companies for enlisting local university systems to provide research and development that can boost company bottom line. This is a clear pathway to scale and an opportunity to raise the profile of scholarly work.

2. Digital infrastructure

There are numerous areas where digital infrastructure can be integrated to achieve the economies of scale needed to reduce the cost of internet access and to increase the amount of African-hosted content to reduce the dependency on international fibre connections and their associated costs.

We also recommend that Governments adopt the African Declaration on Internet Rights and Freedoms, to truly unlock the potential of the internet for transformational change and social mobility.

We applaud the leadership of the Smart Africa Secretariat for making bold progress in pan-African integration, notably through the elimination of roaming charges across Smart Africa member nations. This is an encouraging start to the reforms we all must work towards to ensure that digital technologies serve to further connect African citizens and facilitate integration in line with the African Union's "Agenda 2063", as well as the Sustainable Development Goals.

However, a lot of work lies ahead – to get the necessary devices and technologies that will connect citizens in their hands in an affordable manner.

Currently, the economic and social cost to connect to digital infrastructure is prohibitive, particularly for women and youth. As noted in the Alliance for

Affordable Internet’s 2015-16 Affordability Report⁵, the high cost of devices, Internet access and the complexities of income inequality are hindering meaningful connection to requisite digital infrastructure that is a key driver for entrepreneurship and realising the envisioned digital economies in Africa.

One of the key tenets of enabling digital infrastructure is affordable access to the Internet in its entirety. *Unfettered access to the open Internet is a key enabler of ICT-enabled innovation as envisioned for digital transformation in our societies.* While most Internet connectivity on the continent is mobile-first, there are strong limits to what one can do, in terms of creating, using a mobile device and mobile Internet.

Access beyond mobile broadband and to other devices beyond mobile also needs to be affordable. To achieve this, *investment in public access facilities must be prioritised.* As noted in the 2015-16 Affordability Report, “These facilities may also serve as anchor points for community WiFi systems and networks that can also reach those people with their own mobile and computing devices.”

Additionally, “Public access facilities offer broadband-enabled services, but they also double up as entities that provide educational opportunities, digital literacy training and, in many cases, skill development and distance learning opportunities.”

ASSESSMENTS OF MOBILE DATA COSTS AS A FUNCTION OF AVERAGE NATIONAL INCOME.

Comparisons of the cost of 500MB⁶ of prepaid mobile data further indicate the work needed to not only connect citizens, but to ensure that data and broadband become affordable.

Country	Cost of 500 MB data per month (USD)	Cost as a % of average national income
Kenya	5.69	5.9
South Africa	9.12	1.5
United Kingdom	48.94	1.1
United States	16.45	0.47

Table 1: Country comparisons of cost of 500MB prepaid mobile data. Data from the Measuring the Information Society Report.⁷

⁵ 2015-16 Affordability Report <http://a4ai.org/affordability-report/report/2015/>

⁶ 500 MB of data is defined by the UN Broadband Commission as an affordable entry-level broadband if priced at five per cent or less of average national income. See more at Broadband Commission for Digital Development, Broadband Targets for 2015 http://www.broadbandcommission.org/Documents/Broadband_Targets.pdf

⁷ Measuring the Information Society Report, 2015 <http://www.itu.int/en/ITU-D/Statistics/Documents/publications/misr2015/MISR2015-w5.pdf>

This comparison also sheds insight on the fact that measuring affordability as a function of average national income is misleading; in most African countries, a significant population does not earn anywhere near the average national income.⁸

In South Africa, 60 per cent of the population earn less than the average income (GNI per capita); this means that 500MB of data costs a majority of South Africans anywhere between 6 per cent to 19 per cent of their income.⁹ In Kenya, 500MB of data costs those living on less than US\$1.90 per day (or US\$58 a month) approximately 22% of their income.¹⁰

Furthermore, as noted by the Alliance for Affordable Internet, 500MB per month offers only very limited opportunities to use the Internet meaningfully.

Social innovation hubs that have physical spaces, for instance, can serve as critical nodes for accessing the Internet, especially in places where individual access may be limited to mobile connectivity, or too expensive. Supporting the existing spaces (including other public access facilities such as libraries and community centers) would go a long way in connecting communities, as these are community-oriented spaces.

Furthermore, they can serve as useful locations for promoting digital literacy and interdisciplinary, curiosity-driven education in science, technology, and the arts. This corroborates the finding that public access goes a long way in connecting communities and serves as a useful supplement, if not a primary means of connectivity for many.¹¹

WHY WE NEED TO CLOSE THE DIGITAL GENDER GAP ON THE CONTINENT

The digital gender divide in access is real and getting worse.¹² The differences between how men and women use digital technologies extend beyond access into use and appropriation. A 2015 Web Foundation study in poor urban communities in 10 countries (six in Africa)¹³ found that women in these communities are 50 per cent less likely to be online than men, and are 30–50 per cent less likely to use the web to access information related to their rights or to speak out online. Policymaking must be part of the solution.

⁸ See chapter 3 of the 2015-16 Affordability Report http://a4ai.org/affordability-report/report/2015/#poverty_income_inequality_and_the_case_of_mistaken_affordability

⁹ Redefining Broadband Affordability: Adopting a “1 for 2” Target to Enable Universal, Affordable Access <http://a4ai.org/1for2-affordability-target/>

¹⁰ See Table 3.1 of the 2015-16 Affordability Report

¹¹ Ibid.

¹² Where are the girls? Digital divide worsens in new ITU report <http://www.vanguardngr.com/2016/09/girls-digital-divide-worsens-new-itu-report/>

¹³ Women’s Rights Online, 2015 <http://webfoundation.org/about/research/womens-rights-online-2015/>

A 2016 study¹⁴ to assess measures taken by governments towards gender equality online found dire neglect of gender considerations across policies and programmes related to women's access, affordability, digital skills, relevant content and services and online safety. Gender-blind ICT policy is simply not creating digital gender equality.¹⁵

Closing this divide requires immediate action from governments and private sector to adopt gender responsive ICT and sectoral policies that further the rights and interests of women. Policy-driving bodies on the continent can ensure that ICT policies are gender-responsive by design¹⁶ if we want women and men alike to reap the benefits of the digital transformation, as well as contribute to its enrichment of lives on the continent.

To stimulate digital entrepreneurship, we also require sound policies related to digital security, safety and privacy for all users. These are important tenets to not only attract people to the Internet and its vast potential, but also retain them- as consumers and creators, on a platforms and networks considered trustworthy, stable and reliable.

The African Declaration on Internet Rights and Freedoms¹⁷ outlines principles (such as Right to Information, Cultural and Linguistic Diversity, the Right to Development and Access to Knowledge) and their applications to enforce digital rights for all citizens on the continent. We posit this with the hope that the Smart Africa Secretariat can endorse and, where applicable, ratify this declaration. This will send a strong signal to current and new users that the Internet is a safe and secure space for them to engage, and from which they can create and consume content and applications for their social, economic and political empowerment.

3. Public Multidisciplinary Spaces

We recommend that governments invest in public spaces, and remove restrictions for diverse citizens to gather and discuss socially and commercially relevant issues and co-design solutions.

When governments invest in civic spaces, it is critical that they do not crowd out other stakeholders by imposing outcome-based metrics which prevent or hinder the emergence of new ideas and relationships from being formed. Where possible, Governments can partner with credible, local, grassroots and community-based groups and organizations, such as hubs and labs to foster bottom up innovation, mutual learning, exchange and serendipity.

To strengthen our economies, we must also strengthen our public spaces for the sharing of ideas, for creative expression, cultural exchange and serendipity. Civic

¹⁴ Women's Rights Online, Gender Report Card Overview
http://webfoundation.org/docs/2016/09/WRO-Gender-Report-Card_Overview.pdf

¹⁵ Gender Issues in ICT Policy in Developing Countries: An Overview
<http://www.un.org/womenwatch/daw/egm/ict2002/reports/Paper-NHafkin.PDF>

¹⁶ Ibid.

¹⁷ <http://africaninternetrights.org/articles/>

spaces – ranging from libraries and parks to museums, performing art venues and business incubators– are the catalysts in which the creative and social economy is born and fostered. Socially relevant innovations need time and space and the convergence of diverse ideas, opinions, perspectives, experiences, and skills to emerge.

Research is very clear, social interaction is one of the key drivers of innovation in cities and communities around the world¹⁸. Parallel to investments in digital infrastructure to provide access to information and exchange, there must be investment in physical infrastructure—outside of traditional schools and universities—where citizens can learn from each other, prototype ideas, share, and develop their human resources. Investing in human resources also means social inclusion and income generation.

Investments in public art are also important, as a means of celebrating cultural expression, fostering ownership of public space and sharing ideas. The “per cent for the arts” policy¹⁹ is a proven mechanism to support artists and creativity, whereby a percentage of new public construction must be allocated to public art installations.

However, behind all government efforts, it is important to recognize that civic spaces require bottom-up ownership and community control to flourish. The outcome-based accounting for innovations and business development of governments are incompatible with the experimentation and peer-learning processes that generate truly new and appropriate innovations.

It is also worth calling attention to the fact that public-funded infrastructure can be unsustainable and it is, therefore, important to value already existing infrastructure and communities such as local hubs and local makerspaces and to ensure that new initiatives do not crowd out private and community-based initiatives that are serving an important civic role.

CASE STUDY OF PUBLIC INVESTMENTS IN CIVIC SPACES IN BRAZIL AND THE U.S.

The city councils of São Paulo and Barcelona created networks of public Fab Labs²⁰ with the idea of valuing local knowledge and open access. On a national scale, the Brazilian Ministry of Culture established a network of grassroots bottom up civic spaces in 2003²¹. The Cultura Viva program was a transformative effort by the Ministry of Culture to identify grassroots cultural projects that proved to be active and genuinely related to local contexts. These projects were then recognized as *Pontos de Cultura* (cultural hotspots) and would simultaneously be offered a 18-month grant, receive a kit of digital production equipment (computers running free/open source software for multimedia production,

¹⁸ <http://www.pnas.org/content/104/17/7301.long>

¹⁹ <http://www.nyc.gov/html/dcla/html/panyc/percent-for-art.shtml>

²⁰ Tooling Up: Civic Visions, Fablabs and Grassroots Activism

<https://www.theguardian.com/science/political-science/2015/apr/04/tooling-up-civic-visions-fablabs-and-grassroots-activism>

²¹ Digital Culture- short report <http://redelabs.org/blog/digital-culture-short-report>

cameras, scanners, printers, microphones, sound equipment, etc.) and join the network of Pontos.

One strategy is to provide access to underutilised and derelict physical assets on a permanent or even interim and 'pop-up' basis to social and cultural entrepreneurs. Local governments can use this approach to encourage experimentation and innovation.

A good example is the Make It at Your Library²² project, a platform for people to explore, document, and share projects and possible ideas. In the words of the creators: "One mistake that many people fall into is to think that they have to have expensive equipment like a 3D printer or a complete workshop to build creative spaces. The idea of this platform was to lessen these anxieties..." The importance is bringing diverse people together, not only does this build trust and foster empathy, which has far-reaching social consequences related to economic development, safety, and cohesiveness; it is also the primordial soup of innovation.

4. Business Registration

In order to unlock the potential of citizens to provide new business solutions and services, it is imperative that barriers to register and close businesses are reduced. Business registration must be available online and the costs—financial and transactional—must be reduced to open up access and availability.

New business owners can also be provided a comprehensive list of their regulatory compliance obligations, so they can avoid fines and other complications that may reduce their ability to grow and employ more people. In addition, closing businesses and declaring bankruptcy must be eased to provide entrepreneurs with an opportunity to try again. These processes must also involve feedback from citizens to ensure that services are improved, inclusive and responsive.

In many countries in Africa, the business registration process is bureaucratic and expensive. This limits the legal formation of new businesses, particularly from poorer communities.

A SNAPSHOT OF THE PROCESSES INVOLVED IN REGISTERING BUSINESSES IN TANZANIA, ZIMBABWE, GHANA AND RWANDA:

The Tanzania Investment Centre (TIC) from the Ministry of Industry, Trade and Investment, for example, has an online tool that outlines the necessary steps for starting a business: registering a local "Schedule A" company takes 22 steps, a total of 32 different documents and visits to 9 different offices (five of which require multiple interactions, ranging from 2-6 visits).²³

²² <http://makeitatyourlibrary.org/>

²³ TIC, Summary of Procedure, <http://www.tic.co.tz/procedure/207/95?l=en>

The TIC provides a “one stop shop” to simplify these procedures, but that is only available for investment projects worth US\$500,000 for foreigners and US\$100,000 for Tanzanian Nationals. These processes are biased against small businesses, entrepreneurs and startups.

In Zimbabwe, company registration typically costs more than US\$250 and takes more than 30 days. In response to this challenge, the federal government created a new type of formal registration process that costs 10% of the cost and that can be done in 14 days, by introducing a different class of registration.²⁴

There are also efforts to take business registration online and reduce the time it takes to complete the process that must be applauded, as is the case in Rwanda (six hours) and Ghana²⁵. However, it is important to highlight that in order to make registration more efficient and accessible, it is not enough to simply migrate these services online. Business registration needs to be expedited, less bureaucratic, and the language of registration can be clarified to ensure that it does not preclude different education and economic backgrounds from understanding and participating in the formal economy.

Closing a business and declaring bankruptcy is also extremely difficult and time-consuming across the continent. This raises the cost of failure, when it is already very high for cultural and other reasons. Governments must make it easier for startups to close, so that those entrepreneurs can try again.

Emerging innovations and enterprise may also not fit with traditional business registration classifications. New institutional formats arise, such as the ones born from internet-inspired initiatives: self-managed collectives, co-working spaces, experimental labs, freelancing networks, incubators, social enterprises with double- or triple-bottom lines.

At the nexus of technology innovation and entrepreneurship is an emerging approach to setting up social enterprises and new business formats. Such entities do not necessarily fit within the not-for-profit or for-profit categorisations; they tend to be hybrid entities.

It is important that local governments design processes of listening and understanding these new business profiles and how can they be mirrored in new forms of legislation that facilitate innovation. There is an opportunity in defining and setting parameters for these new forms of enterprises, where policymakers and social innovators work together to co-create viable alternatives.

²⁴ Private Business Corporation, Zimbabwe.

<https://nurturingchampions.com/2010/10/28/privatebusinesscorporation/>

²⁵ E-Register Portal Launched in Accra

<http://www.ghana.gov.gh/index.php/media-center/news/975-e-registrar-portal-launched-in-accra>

5. Finance for Innovation and Entrepreneurship

Governments and public policy have an important role to play in addressing the financial challenge and can work to reduce uncertainty and risks associated with financing innovators.

Access to finance has been identified as a key obstacle to the development of the innovation ecosystem on the continent.²⁶ It is important that the public institutions tasked with the development and strengthening of innovation ecosystems address the system of financing by absorbing risks; as seed funders, for early stages ideas and models.

This can be done through agencies developed specifically for this end: government-funded institutions that provide guarantees and other financial stimulus to drive private sector innovation.²⁷

Examples of this can be found in the U.S., Israel, Austria and the United Kingdom. On another level, governments can encourage the private sector to work as co-funders giving credit to innovators that have already reached a certain level of maturity and need funding to grow and scale.

The Ministry of Industry and Commerce in Mozambique, for instance, offers competitive funding for entrepreneurs--primarily running small to medium-sized enterprises--looking to invest in their business and their managerial skills. Started in 2011, the program organizes and subsidizes training from private service providers.²⁸

Often these initiatives and youth funds giving seed capital to young entrepreneurs--such as in South Africa, Kenya and Zimbabwe-- fail to achieve their goals primarily because of corruption and lack of access to information. The solution must be increased transparency, user-centered design and management to ensure that programs are relevant for entrepreneurs.

International grants and support from international financial institutions could play a significant role in maintaining and developing credit guarantee frameworks directed to social innovators.²⁹ Public sector loan guarantee or equity guarantee

²⁶ Lack of access to finance hinders East African entrepreneurs

<http://disrupt-africa.com/2015/01/lack-access-finance-hinders-east-african-entrepreneurs-spring>
ccess to Finance is the Biggest Challenge to Entrepreneurs in Africa
<https://vc4a.com/blog/2011/06/17/access-to-finance-is-the-biggest-challenge-to-entrepreneurs-in-africa/>

²⁷ <http://www.nesta.org.uk/publications/how-innovation-agencies-work>

²⁸

<https://openknowledge.worldbank.org/bitstream/handle/10986/18776/886570PUB0978100Box385230B00PUBLIC0.pdf?sequence=1&isAllowed=y> p43-44

²⁹

http://vienna-initiative.com/wp-content/uploads/2014/11/2014_credit_guarantee_schemes_report_en.pdf

programmes can be used to reduce risks associated with financing innovative SMEs, but according to a EU Working Group on Credit Guarantee Schemes³⁰ excessive administrative requirements and narrow definitions of eligible clients can be discouraging for entrepreneurs to use credit guarantees.

Moreover, there could be scope for the private sector to share both downside risk and upside return. One solution can be to enable hubs, labs and entrepreneurs' grassroots associations to access funds and be accountable for them, since they are working on the ground and face to face with entrepreneurs on a daily basis.

The second and very important aspect is to articulate the information asymmetry in many ways, something that can be addressed through government agencies tasked with supporting innovation and entrepreneurship ecosystems. Such entities could serve as aggregators and repositories of industry insights and market research, as well as catalysing the interaction of various stakeholders in the innovation ecosystem.

There are also indirect ways in which Governments can encourage and attract financing for innovation, such as improvements in intellectual capital frameworks. Governments can also provide increased opportunities to public procurement, regional markets, and reduce regulatory compliance costs and taxation (see below) to stimulate new businesses and innovations.

All of these elements are related and must involve feedback from diverse social and commercial sector stakeholders. Government investment in the financial system and broader ecosystem for entrepreneurship must be accompanied by networking between entrepreneurs, investors, policymakers- all while creating feedback mechanisms.

6. Local and regional markets

We recommend improvements in public procurement procedures and the easing of regional trade. Government budgets can be used to stimulate local businesses, research and development, and job creation. Moreover, improving market access for African businesses must be addressed in concert amongst African governments. The transaction costs of trade will reduce as the levels of trade increase, and vice versa.

Across the continent, young people are being encouraged to explore job-creation opportunities, rather than rely on job-seeking. Entrepreneurship is increasingly seen as a key form of employment and absorbing Africa's bulging youth dividend. For enterprises to achieve this, however, there have to be ready markets for them to scale and become sustainable.

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http://vienna-initiative.com/wp-content/uploads/2014/11/2014_credit_guarantee_schemes_report_en.pdf

To this end, it is imperative that governments support local and regional markets and consume more products from local, innovative SMEs by creating means, for example, of public procurement support. It must be easier for smaller organisations or consortia of these to compete with bigger corporations and multinationals for public contracts. This can be seen as an important and strategic supplement to initiatives that provide direct investment in innovative companies and small businesses.

Kenya, for instance, has a provision dictating that 30 per cent of contracts to be given to the youth, women and persons with disability without competition from established firms.³¹ This is a good example of a practice that can serve to stimulate markets for innovations from emerging enterprises from social innovation hubs and other spaces. In South Africa, the National Treasury introduced an electronic tender portal (eTenders) to make it “easier, as well as more affordable and more transparent for small businesses to do work for the government”.³²

For such opportunities to fully benefit youth as intended, strong institutions and systems supporting these mechanisms must be built, to block out exploitation of such initiatives from cartels and incumbents. The urgency of creating markets that stimulate local enterprises is evident in the growing youth unemployment, and the slow pace in which such enterprises are able to scale.

Moreover, we must unlock the opportunities of regional trade. Intra-African trade accounts for just 10 per cent. This is in stark contrast with North America (40 per cent) and Western Europe (60 per cent), where regional trade is a much more significant chunk of overall commerce. Our continent is dependent on overseas trade, which represents over 80 per cent of trade flows on the continent.³³

There is a direct link between increased trade flows, government revenue and improved trade facilitation. In fact, increased trade facilitation also has a positive effect on a country’s attractiveness to foreign direct investment.³⁴ There are numerous positive examples of successful policies in Africa to expedite border procedures, such as the Ghana Single Window³⁵, “a portal that provides a comprehensive set of online services to the trading community.”

Governments must also assess how to ease mobility of people, as well as goods and services, as well as people. From prohibitive visa regimes to poor intra-continental infrastructure, Africa’s people are unable to move freely within their continent, and acquire or exchange perspectives, skills, collaborate and/or scale their enterprises.

³¹ Access to Government Procurement Opportunities, Kenya <http://agpo.go.ke/pages/about-agpo>

³² <http://www.etenders.gov.za/>

³³ http://www.uneca.org/sites/default/files/PublicationFiles/aria_vi_english_full.pdf

³⁴ [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=TD/TC/WP\(2005\)12/FINAL&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=TD/TC/WP(2005)12/FINAL&docLanguage=En)

³⁵ <http://www.ghanasinglewindow.com>

The ease of mobility of people, goods and services across the continent must be realised. It is closely interlinked to the stimulation of regional markets, as discussed above.

*Africans need visas to travel to 55 per cent of countries within the continent, and it is easier today for North Americans to travel within Africa than it is for Africans themselves.*³⁶ Ethiopia, which hosts the African Union, does not allow the majority of African nationals to arrive in its country without prior application.

According to the 2016 McKinsey report on Africa³⁷, fostering closer regional integration is one of the key ways that African governments can help encourage African-owned companies to build scale, and especially to enable them to tap the potential of manufacturing and meet internal demand.

The diversity of perspectives, skills and experiences of migrants plays a key role in fostering innovation and job-creation, and only requires courageous policymaking.

7. Taxation Systems

We recommend a wide variety of tax incentives for startups, such as tax holidays for startups and reduced import taxes for inputs to software and hardware fabrication, experimentation, and innovation.

Tax regimes in most countries are either unsuitable for or out of touch with developments in entrepreneurship. Early stage companies could do with tax incentives such as tax holidays in the formative years, reduction or elimination of indirect taxes that can adversely impact maturity of companies.

EXAMPLES OF TAX INCENTIVES FOR BUDDING SECTORS IN NIGERIA, SOUTH AFRICA AND KENYA.

The Nigerian Government has offered a “pioneer status” in 71 industries (including ICT) which grants companies a 5 year tax holiday “...as a means of encouraging industrial technology, companies and other organizations that engage in research and development activities for commercialization.” These companies also receive an investment tax credit on their qualifying expenditure.³⁸

In South Africa, there is a reduced tax rates for small business. Moreover, recognizing the limited compliance capacity, the South African Revenue Service set up small business desks in revenue offices to assist such companies with tax filing and payment.³⁹

³⁶ Africa visa openness report 2016, African Development Bank, February 2016: https://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/Africa_Visa_Openness_Report_2016.pdf

³⁷ Realizing the Potential of Africa's Economies <http://www.mckinsey.com/global-themes/middle-east-and-africa/realizing-the-potential-of-africas-economies>

³⁸ Nigeria Investment Promotion Commission, Investment Incentives <http://www.nipc.gov.ng/index.php/invest-in-nigeria/investment-incentives.html>

³⁹ <http://www.sars.gov.za/ClientSegments/Businesses/SmallBusinesses/Pages/default.aspx>

Taxes on imports of manufacturing materials and inputs is a hindrance to setting up of enterprises. Governments like Kenya have realised this and to incentivise enterprise formation in the manufacturing sector, provide perpetual exemption from Value Added Tax (VAT) and customs import duty.⁴⁰ This, we expect will stimulate local hardware businesses, especially with the advent of the Internet of Things, that has been identified as a key driver of smart cities.

As Youssef Boutros-Ghali, a former Egyptian Finance Minister told the Global African Investment Summit (TGAIS) in Kigali recently,⁴¹

“Give them [Small and Medium Enterprises] room to grow first. Governments need to support them. In my 10-year period as a finance minister, we are obsessed with attracting foreign direct investments (FDIs) and large corporations. But we tend to forget that the vast majority of enterprises generating jobs in our economies are SMEs. And these, therefore, have specific requirements in terms of macro-policy.”

Budgetary constraints may limit the ability of Governments to invest directly in small businesses, but tax policies can be seen as another strategic means of providing support to small businesses and entrepreneurs. Instead of taking resources away from innovative and job-creating organizations--financial and human resources, as startups and small businesses dedicate significant staff time to regulatory compliance--Governments can reduce the tax and compliance burden on entrepreneurs to provide them a greater opportunity to build sustainable value-creating engines of economic development that ultimately increase the tax base. If designed well, tax reductions for new businesses can also be an equitable mechanism for supporting entrepreneurs and businesses owners.

Moreover, if we acknowledge that ICT is an enabler of equitable economic transformation, it is important that Government policies don't reduce access to goods and services. Research has shown that a price increase of 1 per cent on ICT goods and services leads to a decrease in consumption by consumers of anywhere from 0.2 per cent to 3.8 per cent.⁴² Total taxes and tariffs on ICT products, according to research in 2014, range from less than 5% in Swaziland to over 50% in the Republic of Congo.⁴³

It is also imperative for stakeholders to work together in raising awareness on and reforming existing tax regimes. Governments, through their revenue authorities could leverage centres of innovation to inform young entrepreneurs on how respective tax systems work and even co-create modules and policies for viable tax plans.

⁴⁰ Kenya: Plenty of Incentives for Investors in Manufacturing Sector

<http://allafrica.com/stories/201508280071.html>

⁴¹ Rethink SME Taxation Policy <http://www.newtimes.co.rw/section/article/2016-11-22/205561/>

⁴² <http://www2.itif.org/2014-ict-taxes-tariffs.pdf>

⁴³ Ibid.

Conclusion

In conclusion, we posit that social innovation spaces and hubs are critical actors in fulfilling this policy vision. In order to create an enabling environment for social innovation hubs to thrive in Africa, there is an *urgent* need for education that promotes critical thinking, support of rigorous research and development, investment in accessible digital services, open spaces to spur innovation, financing schemes which support risk taking in business, coordination between local and regional markets, and the creation of tax incentives for innovative businesses. Going forward, we hope that this communique is read by policymakers across the continent, the SMART Africa Secretariat, and other stakeholders working on interventions on behalf of the innovators and entrepreneurs across the continent.

We are ready and willing to engage, and we hope that this document conveys the commitment on our end as grassroots actors, to translate innovative energy to proactive, consultative and visionary policies to realise the numerous visions we have for prosperity of all across Africa.