



International  
Trade  
Centre

# UNLOCKING OPPORTUNITIES FOR REGIONAL VALUE CHAIN INTEGRATION WITHIN AFRICA

Preliminary findings from ITC's value chain diagnostic

Draft as basis for further consultation



*Working document for the  
7<sup>th</sup> EU-Africa Business Forum 2022  
(14 – 18 February 2022)*





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### Disclaimer

This working paper has been prepared for the purpose of discussing with the EU-Africa Business Forum audience the preliminary findings of an ongoing study, financed by the European Union. A full report for the ongoing study will be made available at a later stage.

The content of this working paper is the sole responsibility of the International Trade Centre and it can in no way be taken to reflect the views of the European Commission.



## Acronyms

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AfCFTA	African Continental Free Trade Area
AMA	African Medicines Agency
APIs	Active pharmaceutical ingredients
ARSO	African Organisation for Standardisation
ASR	Automotive shredder residues
B2B	Business-to-business
ELVs	End-of-life vehicles
ESG	Environmental, Social, Governance (criteria)
EU	European Union
GDP	Gross Domestic Product
GMP	Good Manufacturing Practice
GOTS	Global Organic Textile Standard
ILO	International Labour Organization
IP	Intellectual Property
ISO	International Organization for Standardization
ITC	International Trade Centre
LDCs	Least developed countries
MSMEs	Micro-, Small and Medium-sized Enterprises
NMRA	National Medicines Regulatory Agency
NTM	Non-tariff measure
OECD	Organisation for Economic Co-operation and Development
OEM	Original Equipment Manufacturer
PAPSS	Pan-African Payment and Settlement System
R&D	Research and Development
SPS	Sanitary and phytosanitary
TBT	Technical Barriers to Trade
UNECA	United Nations Economic Commission for Africa
UNIDO	United Nations Industrial Development Organization
USD	United States dollar
VAT	Value added tax
WRAP	Worldwide Responsible Accredited Production

# Introduction

## The AfCFTA is creating unprecedented opportunities for growth and transformation across the African continent

The African Continental Free Trade Area (AfCFTA) serves as a framework for boosting intra-African trade and developing intra-regional value chains. The start of trading under the AfCFTA as of 1 January 2021 sets a key milestone to the operationalization of a single market with a combined GDP close to €2.5 trillion. Liberalizing tariffs alone is estimated to increase intra-regional trade potential by more than €17 billion. Building a single market with a clear and strong regulatory framework across 54 signatory countries will present an opportunity to develop new regional value chains with enormous additional potential to increase value-added trade and employment. It will open doors to a potential consumer base of 1.3 billion people, which is projected to reach 2.5 billion by 2050, creating strong incentives for investment.

### Intra-African value chain integration can boost regional growth

Considering the growth of the continent, commitments to regional economic integration and the support of governments and development partners to removing bottlenecks, tapping into African value chains holds significant potential for investors. At the same time, strengthening regional value chains can foster sustainable growth in the region. Today, Africa represents 15% of the global population, but only 2.3% of world exports. Furthermore, mineral fuels and other raw goods make up 59% of African exports. Intra-African value chain integration is key to reducing export dependency on unprocessed goods and natural resources and paving the way towards higher value addition and a more diversified export basket. 61% of intra-African trade occurs in processed and semi-processed goods, and exports to Africa are more diversified and technologically advanced than those to other regions. Increasing the competitiveness of African value chains also helps increase resilience to supply chain shocks, made even more evident by the Covid-19 pandemic.

### Where should governments and businesses channel their investments and efforts?

ITC, mandated by the Directorate-General for International Partnerships of the European Commission, implemented a Value Chain Diagnostic to identify sectors with high potential for sustainable value chain development in Africa and the bottlenecks preventing businesses from fully realizing this potential.

This new ITC Value Chain Diagnostic brings an innovative approach to identifying and assessing the feasibility of value chains on the continental scale as well as understanding how private companies can connect to them. To ensure synergy between the work of different institutions, the diagnostic was implemented in consultation with the African Union, UNECA, UNIDO, the OECD and other national, regional and international organizations. It builds upon existing studies initiated and implemented by these and other organizations, and complements them by adding two key innovative elements:

First, a robust and **data-driven analysis** of the availability of inputs and outputs on the African continent, and an assessment of the feasibility of developing a subset of those across several African countries. It goes beyond traditional approaches by **combining trade information and input-output analysis** and takes account of the proportions of inputs required to produce every target output.



Second, **extensive consultations** with hundreds of African firms, sector experts, and other stakeholders to **get direct and strategic feedback** about business and institutional constraints, investment needs, and avenues for unleashing potential in specific sectors.

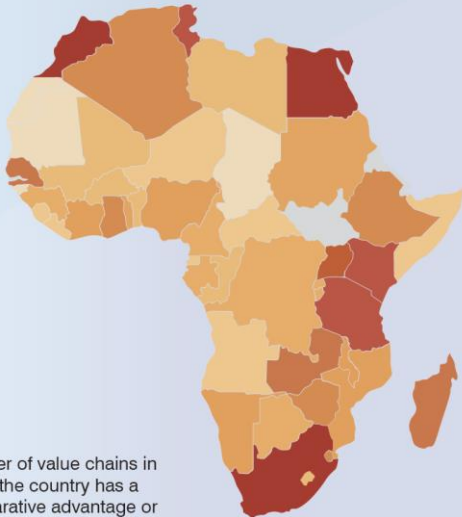
This document contains preliminary results of the work, to be presented at the EU-Africa Business Forum in February 2022. Final results will be published in the course of 2022.

# Value chain development in Africa: the opportunity

## What are the most promising value chain opportunities for Africa?

An integrated, data-driven approach in which over 5,300 products are classified as inputs or outputs, linked by production coefficients, allows the mapping of 415 value chains. Next, the feasibility of these value chains is evaluated taking account of the competitiveness of African countries across different stages of the value chain. This competitiveness analysis is then complemented with other economic and strategic considerations.

Across the continent, **94 promising value chains** have been identified in **24 sectors**. At least five African countries have a comparative advantage in the inputs and/or the output of these value chains, ensuring that they can be developed on a continental scale. While in some of these sectors (e.g., textiles and automotive), the relocation of intermediate steps disrupts the value chain and leads to dependencies, in others, only the final output is produced elsewhere. Currently, Africa imports more than €53 billion worth of the final output from these value chains from outside the continent every year. By connecting immediate inputs from several African countries that are currently exported for further processing in other world regions, one third of African demand in these value chains could be met locally. In 73 out of the 94 value chains, Africa would have enough immediate inputs to cater to regional and international consumers, thereby adding value and creating jobs on the continent. These value chains present numerous investment opportunities, to optimize value chains and maximize their potential by further connecting African input and output providers.



Number of value chains in which the country has a comparative advantage or export potential > \$10 mn

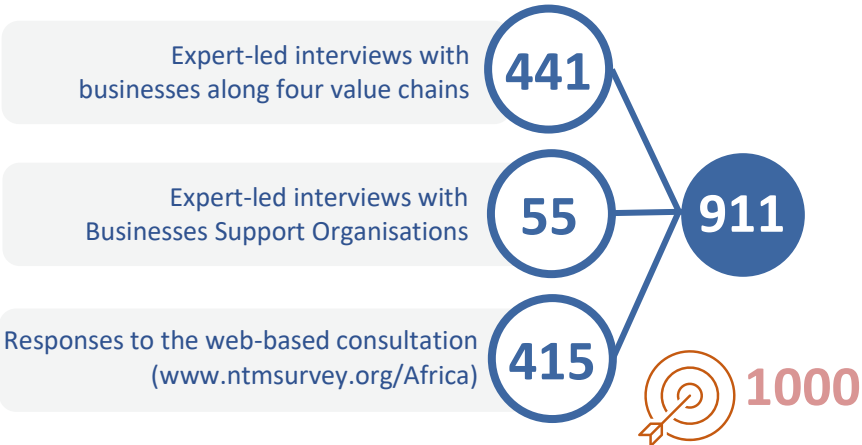


## What is needed to unlock value chain potential across Africa?

Business opportunities exist in numerous promising value chains across the continent. The identification of strategies to develop these requires insight into the obstacles to intra-regional trade and value chain development. Past ITC business surveys have covered nearly 10,000 exporters and importers across 24 countries in Africa. To evaluate the opportunities and challenges faced by firms, ITC conducted additional in-depth interviews with hundreds of value chain participants as well as a series of targeted interviews and broad-based consultations with business support organizations, industry experts and other stakeholders.

Elements covered in the consultations and interviews include firms' expectations in relation to the AfCFTA, challenges in terms of sourcing of inputs and technical aspects of production, difficulties to expand business across borders and integration among African countries as well as key factors for enabling change.

### Consultations with African businesses and stakeholders – current progress



## CROSS-SECTORAL FINDINGS

### Key challenges

What keeps input suppliers and output producers in Africa from connecting, and hence from untapping the value chain development and related trade potential?

The evidence from the ground suggests: **They often do not know each other – and they currently do not necessarily look for each other either because of:**

**1** Lacking trust in conformity assessment systems and hence lacking trust in the quality of products made on the continent.

**2** Poor payment systems and lack of safe credit lines for cross-border trade transactions.

**3** High incidence of trade obstacles related to non-tariff measures, including not only measures imposed by importing countries, such as SPS and TBT measures, origin requirements and related certifications or customs inspections, but also a disproportionately high incidence of trade obstacles related to measures imposed by countries on its own exporters, such as licenses, inspections or taxes. Overall, 63% of exporters in Africa are affected by NTM-related trade obstacles – compared with 56% on average for developing countries.

**4** Transport and logistics cost and inadequate transport routes. Value chains that operate across borders require reliable and efficient logistics chains, with predictable time and cost. Missing connectivity between many African countries and poor road infrastructure represent a significant challenge for any efforts to increase intra-African trade and continental value chain development.

**5** Uncompetitive prices linked to abovementioned factors as well as:

- High cost of loans preventing companies to invest in R&D, modern production technology, compliance with quality standards and environmentally friendly production processes
- Low volumes of production lacking economies of scale
- High cost of utilities and unreliable power supply in many countries

*“I don’t know any African company which supplies the inputs that we would need.”*

*“No reliability in terms of commitment, communication and respect of deadlines. Unclear procedures. Complex regulations.”*

*“Currently there is no sourcing of inputs from African countries. However, there will be consideration if the price, quality and volume of inputs are competitive.”*

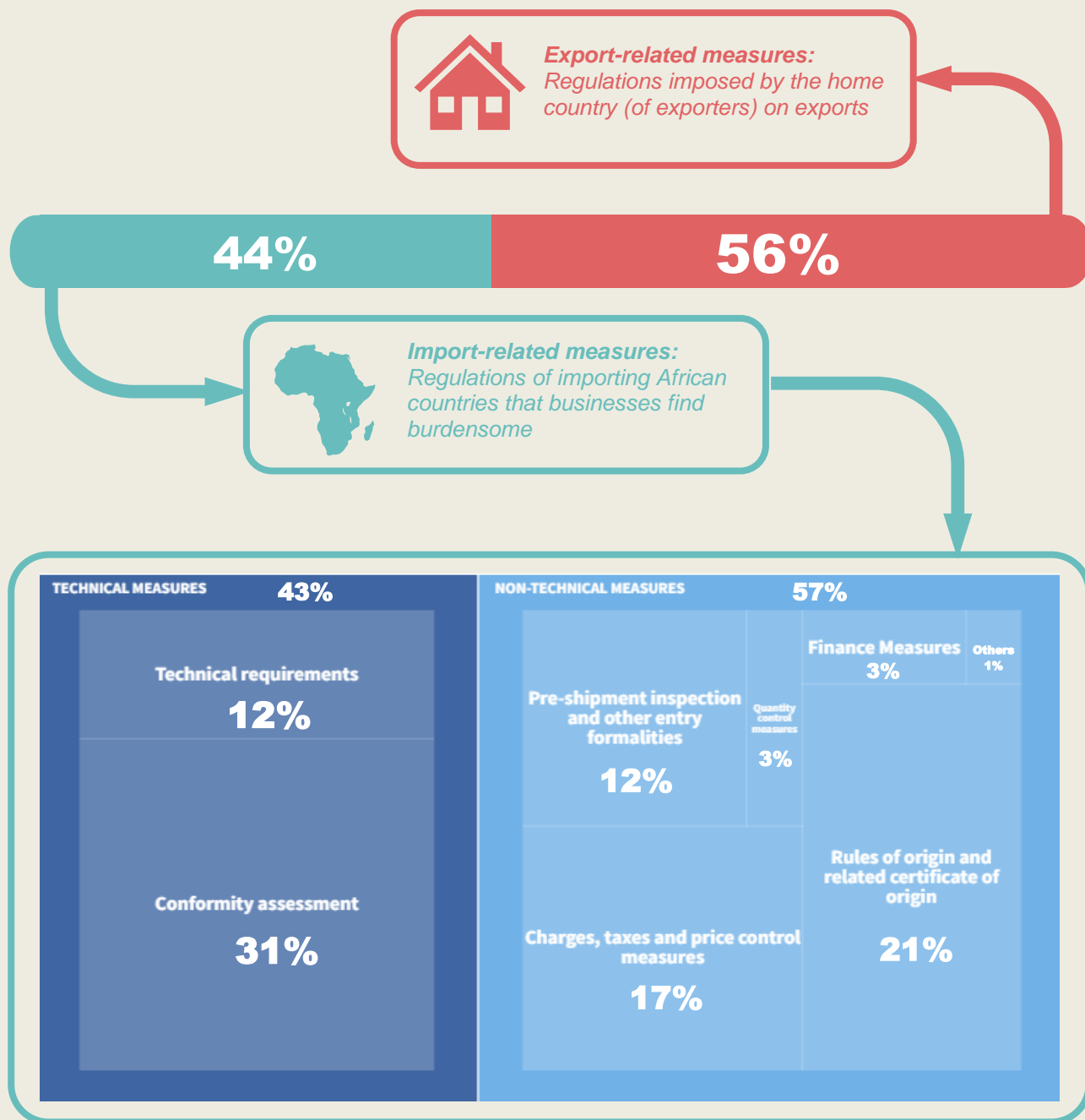
*“Actually, we have never tried it. And we don’t have any information that such raw materials are available in any African country.”*

*“We haven’t dared importing from Africa yet because everybody imports from China and Turkey – it’s the reputation that makes us choose these countries. We have no idea about the quality or availability of inputs from Africa.”*

Typical answers of interviewed businesses across value chains to the question why they are not sourcing (more) inputs from Africa.

*“Shipping inputs from Africa is as expensive as shipping inputs from China. Yet the price of inputs is lower in Asia.”*

**Figure: Types of non-tariff measures African exporters find burdensome in intra-African trade**



Source: ITC business surveys on non-tariff measures in Africa, [www.ntmsurvey.org](http://www.ntmsurvey.org)



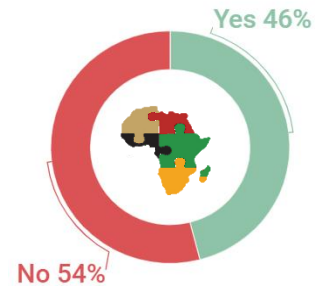
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Insufficient implementation of trade agreements, among others due to high turnover of personnel and inadequate training of border officials, lacking awareness by MSMEs of trade agreements and their implications in terms of possible preferential treatment, mutual recognition of certification or other concrete advantages or of how to practically take advantage of these.

*“Most of the trade agreements are yet to be implemented or are not implemented in the way it was stated.”*

Typical statement from businesses in Africa that are sceptical about the success of AfCFTA

Share of African businesses aware about AfCFTA



7

Inefficient border clearance processes: businesses report unpredictably long processes even when all required documentation is presented, damaged goods due to unnecessary or unprofessional handling of inspections and insufficient storage infrastructure (e.g. cooling facilities) as well as high charges and fees related clearance itself as well as storage of goods at the border awaiting clearance.

## What needs to change?

### Preliminary recommendations

1

Build trust in “Made in Africa”. In this context, it will be key to:

- Invest in a continental quality framework and conformity assessment infrastructure that is reliable as well as accessible including for MSMEs. Facilitate access to testing capacity across borders, particularly for businesses in LDCs and for very specialized testing and certifications the provision of which may not be cost-effective for each country. In the shorter term, mutual recognition of standards and certifications should be implemented where feasible. In the longer term, regulatory convergence should be privileged. Strengthen the African Organisation for Standardisation (ARSO) and support ARSO in its efforts to establish African Standards and achieve its declared goal of “one standard – one test – one certificate – accepted everywhere”. A strong conformity assessment infrastructure will be key also to enable quality transformation of raw materials (such as copper for automotive, inputs into the production of APIs for pharmaceuticals or cotton for apparel) as well as for proving compliance with increasingly strict environmental standards.
- Ensure maximum transparency of applicable regulations and certification procedures; facilitate comparison of standards and regulations across countries and against international standards, e.g. through self-assessment tools for businesses.
- Build the capacity of companies, particularly MSMEs and including women and youth-led companies, to comply with high quality standards and to obtain the related certifications. Certifications against internationally recognized standards such as GMP and various ISO standards should be privileged. Ensure that certification can be obtained within a reasonable, predictable timeframe and for reasonable cost, e.g. through establishing financial support schemes to cover part of the certification cost for smaller enterprises. Sensitize and train businesses on ESG and due diligence frameworks and best practices and incentivize and support compliance with such frameworks as these become increasingly mandatory.
- Monitor and effectively enforce existing quality standards, both for imported and domestically produced products. Sensitize consumers about the need for quality products for reasons of health, safety and the environment. Strong enforcement of existing standards will be a necessary

*“We need a mind shift to start believing in our products”*

*“There is potential but there must be the will to do it.”*

first step to improve the reputation of and the interest in products made on the continent. In the longer term, aligning national quality requirements with international standards and best practices should be considered to facilitate businesses' integration in regional and global value chains.

2

**Improve the transparency of market access conditions, trade-related procedures, business opportunities and trade agreement negotiation processes.** Run regular information campaigns targeted at businesses to inform about trade agreements and negotiation processes. Create and raise awareness on existing trade-related information tools such as the African Trade Observatory. Improve the availability of “how to export”-guides for key products and markets. Build capacity of businesses on how to identify market opportunities in Africa, the trade agreement(s) which govern intra-African trade, and how to use the available information tools to take evidence-based decisions when it comes to exploiting trade opportunities. Involve customs authorities as well as business associations in negotiation processes / trade policy making. Actively reach out to key stakeholders to raise awareness on provisions being discussed and seek feedback on potential implications.

*“We need better access to market intelligence for African countries. And induction training and awareness sessions for the AfCFTA.”*

3

**Step up the investment in trade corridors and better logistics infrastructure** to connect countries on the continent and to create reliable logistics chains that would enable timely delivery of inputs for value chains operating across countries.

4

**Effectively implement and monitor the implementation of existing trade agreements, including but not limited to AfCFTA,** particularly regarding provisions on trade facilitation, non-tariff measures and related procedures as well as mutual recognition. Improve reporting mechanisms through which businesses can alert authorities on practical issues encountered to facilitate follow-up and targeted action. Ensure capacity building of customs officials, including those serving in remote border stations, on trade agreements and their implication for border clearing processes.

5

Undertake a **critical review of rules of origin** under existing and new agreements, to assess the incentives they give with regard to regional integration of value chains as well as sustainable and green production. **Consider facilitated market access** (e.g. exclusion from negative lists, relaxation of local / regional value content, facilitated access to Authorized Economic Operator schemes) **for products or inputs into production supplied by ESG-compliant companies.** **Decentralize and, where possible, digitalize the origin certification process,** increasing its transparency and reducing time and cost involved. Improve the interlink between different authorities, e.g. through automatic forwarding of origin certification between the issuing and border agencies. Particularly for manufactured products relying on various inputs, build the capacity of businesses on the documentation requirements and paperwork related to proving origin.

6

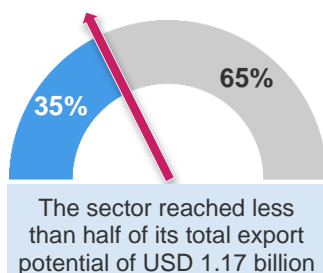
**Improve access to affordable finance, particularly for MSMEs,** including for investments in skills, technology and innovation. Introduce or expand **guarantee schemes for short-term pre-shipment loans** and sales order advances, working capital loans against specified and agreed measurable ESG product improvement indicators, and asset financing loans bridging order deposits for ESG equipment procurement until the asset is brought into productive use. Ensure that such financial instruments is equally accessible for women and men, taking into consideration already in the design stages potential gender differences, e.g. related to asset ownership rights. **Invest in safe and reliable payment systems across countries, and raise awareness on existing solutions such as the Pan-African Payment and Settlement System (PAPSS).**

7

**Continue investing in the efficiency of border clearance processes.** More specifically: Support the implementation of national single windows. Improve inter-agency communication and collaboration, including across countries. Eliminate duplicate procedures for intra-continental trade. Improve or introduce risk management systems. Improve the infrastructure at border stations (e.g. storing and cooling facilities, scanners etc.) and invest in automatization and digitalization. Introduce or extend Authorized Economic Operator schemes and make them accessible for smaller companies. Introduce or increase the use of advance rulings wherever possible. Improve the complaints mechanisms through which businesses can challenge decisions and request further explanation and justification of decisions.

## Pharmaceuticals

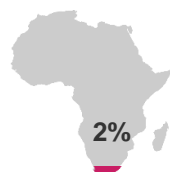
### Significant trade and investment opportunities in the pharmaceuticals sector



Africa has an **export potential in medicaments of USD 1.17 billion**, 65% of which remains unrealized. Yet, **import dependency is high**, with **current imports of USD 14.8 billion**

**projected to increase by 79% by 2026**, and a large trade deficit of USD 14.4 billion. Developing this value chain is hence important for building resilience to supply chain shocks, such as those caused by Covid-19. At the same time, the strong expected rise in demand opens attractive investment opportunities.

Currently, **African medicaments manufacturers source only 2% of imported inputs from Africa**



### Low awareness of existing trade agreements' impacts but high optimism

**About 75% of interviewed businesses** along the value chain in Africa **have not seen or are not aware of any impact of existing trade agreements** but nearly the same share (69%) are optimistic that a continental agreement would boost regional trade in the sector. This said, **over 40% of respondents in the sector are not aware of AfCFTA**, and **over 90% have never participated in any form of consultation on trade agreements**.



### Unprecedented chance to boost the sector at regional level

Businesses see significant opportunities particularly for the development of herbal and traditional medicines given the organic resource abundance on the continent, as well as the local production of active pharmaceutical ingredients (APIs) – provided that existing key challenges and investment needs are being addressed.

Businesses feel that there is an **unprecedented window of opportunity right now to further developing the sector at continental scale** following the massive supply chain disruptions related to the COVID pandemic that has led to greater political will to cooperate across countries and tackle existing challenges.

## What prevents businesses from exploiting the value chain integration potential?

### Sector-specific challenges

**1** **Reconciling the cost of production with the purchasing power on the continent.** Key cost drivers mentioned by businesses are the shortage of skilled labour specialized in disciplines relevant to the pharma sector (such as pharmacology, chemistry, biology) and hence high labour and company-borne training cost as well as fragmented production across countries with a focus on national markets that lack the necessary scale for more cost-effective production.

**2** **Strong formal competition with suppliers from Asia and strong informal competition from the counterfeit and expired drug markets.** The cost of a principally domestic market focused production with low scale also makes the sector uncompetitive vis-à-vis mass production coming from countries such as India and China. At the same time, producers of pharmaceuticals are under

*“The main challenge in Africa is infiltration of counterfeit and substandard products. If this is not addressed and harmonized across the continent, it will be difficult to achieve self-reliance in raw material production.”*

pressure from the supply of and local demand for counterfeit and expired drugs that are sold at much lower price than local certified production, [making significant investments in technology, skills and innovations currently unviable](#). Investment in R&D is further hampered by inadequate protection of intellectual property.

3

As a result of 1&2: [Absence of local production of APIs and of quality transformation of raw products](#), due to lack of investment in the necessary skills and technologies, and the lack of an overall vision for the continent to ensure smart choices in prioritizing the development of certain types of APIs and to organise production across countries such that there is sufficient scale for it to make economic sense.

4

[Inadequate waste management systems, including for water waste](#). Environmental challenges cited by value chain actors include air and water pollution putting the quality of local production at risk. The central problem highlighted by businesses across different countries however is linked to waste management systems: firms are concerned about the lack of clarity of regulations on how to deal with contaminated and hazardous waste and the often inadequate systems to treat such waste so that it does not harm the environment or human health. In addition, companies unanimously report an absence of government support and little domestic demand or pressure for greening their production.

5

[Regulatory and procedural barriers, including trade barriers](#). In the pharmaceuticals sector, 80% of trading companies face obstacles when exporting to African markets and about 60% face trade obstacles when sourcing inputs from the continent. This percentage is much higher than the incidence for other sectors.<sup>1</sup> Particular concerns raised in the pharmaceutical sector relate to the time, cost and bureaucracy that is associated with product registrations, which need to be done for each country separately with differing requirements, and limited recognition of quality certifications between countries.

6

[Lack of transparency of public tenders and related processes](#) leading to the lack of awareness of business opportunities in other countries and hence unrealized trade and business development potential.

## What needs to change?

### Preliminary recommendations

Investment is key to enable the sector to grow and integrate at continental scale. But any investment needs a good strategy. Businesses and other interviewed stakeholders hence recommend:

#### At the pan-African level:

*"We need a mind shift to start believing in our products"*

1

Based on existing and ongoing initiatives, [\(re\)formulate a vision and explicit strategy for the development of the sector at the continental level and take advantage of the current window of opportunity](#), in the light of COVID and the conclusion of AfCFTA, [to effectively implement it](#). More specifically, it is necessary to take stock of progress against and articulate lessons learnt from the implementation of the Pharmaceutical Manufacturing Plan for Africa, validated in 2012, and to update the Plan to reflect recent developments and the opportunities created e.g. by AfCFTA or the establishment of the African Medicines Agency (AMA).

- Strong emphasis should be given to establishing a continental quality infrastructure system for pharmaceuticals, including a network of accredited laboratories that are accessible beyond national borders, and to advancing towards a [continental product registration system](#) that would allow selling medicaments in all countries once registered and approved – through a central agency or individual NMRAs.
- A specific strategy should be elaborated for [investment priorities to support local production of APIs and essential medicines](#). This should be based on a critical, detailed assessment of which types of APIs and essential medicines will have a chance in the medium-to-long-term to be competitively produced on the continent as one integrated market, and strategic choices on how to target investments geographically such to ensure complementarity across Africa (e.g. in regional clusters

<sup>1</sup> Source: ITC business surveys on non-tariff measures: [www.ntmsurvey.org](http://www.ntmsurvey.org).

focusing on different products) and the necessary market size for each API and final product for production to be economically viable.

*“Africa is among the continents with the richest biodiversity. The earlier we join forces to exploit our own heritage and biodiversity to meet our medical needs, the better for us.”*

- A specific objective and implementation strategy should be formulated for the **development of new treatments based on traditional medicines and the unique medicinal plants on the continent**. It is recommended to establish a continental mechanism of documenting indigenous knowledge on plants and natural remedies as well as traditional medicines, and to invest into research and development (and ensure related IP protection) **to transform this knowledge into new, commercialized treatments**, particularly for diseases in Africa that to date have received little attention from multinationals.

**2** Invest in **skills and better-tailored trainings to serve the sector**. For example, establish regional or continental centres of excellence and specific schools focusing on the technical skills needed in the industry, thereby reducing the training burden on individual companies. To ensure that women can benefit on equal footing with men from the growth potential of the sector, such schools should **strive for gender parity**, e.g. by reserving at least 40% of their places for female students.

*“We need more specialized training, particularly skilling in the area of organic chemistry.”*

**3** Improve the **transparency of public tenders and related processes and review the selection criteria for procuring medicines**, which currently is often primarily based on the price. The inclusion of other criteria, such as supply security and diversification, may improve the likelihood of regional suppliers to be able to compete.

**4** Establish **specific financial instruments and access to low-interest capital for companies** in the pharmaceutical sector that support start-ups, including for young and female entrepreneurs, and investments in technology, quality (particularly GMP certification), skills and innovation.

**5** Improve the **protection of intellectual property** at the continental level.

**6** Ensure a **strong mandate and role of the African Medicines Agency** in driving regulatory convergence and **strengthening the financial, technical and human resources available to NMRAs**, particularly in **least-developed countries**.

#### **At the national level:**

**7** Enforce **regulatory oversight related to counterfeit and expired drugs**, encouraging greater cooperation and sharing of best practices between countries, and **invest in better systems to authenticate products**, e.g. through making use of artificial intelligence and blockchain technology. Sensitize consumers about the risks related to counterfeit and expired drugs.

**8** Improve **waste management systems, including for water waste** and introduce or clarify and enforce environmental regulations related to pharmaceuticals and their production, e.g. how to dispose of expired drugs or contaminated water. Invest in more sustainable packaging of pharmaceuticals and related recycling systems. Facilitate investment and technology transfer in this particular area.

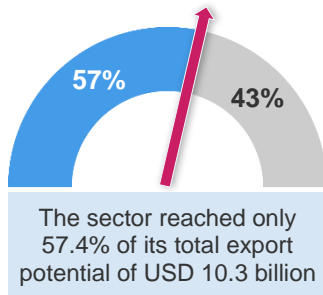
**9** Increase **transparency and predictability of time and cost of administrative processes**, especially related to national product registrations, quality and origin certifications and export licencing.

**10** Review **taxation** systems and related incentives, notably the cost and benefits of VAT levied on inputs into pharmaceutical production. Consider introducing or expanding refund schemes for taxation levied on inputs into the production of pharmaceuticals, particularly essential medicines.

*“For locally manufactured medicines, VAT is applied on inactive and packaging materials but not on APIs. For imported medicines, VAT is not applied. This leads to unfair competition.”*

# Automotive

## A significant share of the sector's export potential remains unexploited



The African automotive sector has an **export potential of \$10.3 billion** by 2026, nearly 10% of which is on the African continent. Motor cars are Africa's fourth most important export product. However, **the sector currently**

**sources only 3% of its inputs from Africa.**

Vehicle manufacturing in Africa is currently very limited and concentrated on few countries. Connecting the 23 countries that could potentially produce inputs for the value chain with the 4 countries that could potentially produce the outputs could further boost the sector's potential and create decent manufacturing jobs across the continent.

## Heavy reliance on motor car imports exacerbates trade deficit

Overall, African imports of motor cars are significant at USD 15.8 billion and are projected to increase by 62% as of 2026. The continent's **trade deficit for motor cars is USD 6.6 billion, imports being 70% higher than exports.** This negative trade balance and expected import demand growth create incentives for **exploiting the potential for domestic car manufacturing** and strengthening regional value chains. The case for developing motor cars value chains is further reinforced by its linkages with other sub-sectors and value chains such as leather and leather products as well as electric machinery (batteries).

African trade in motor cars



## Very low awareness of existing trade agreements' impacts and even their existence

While the African market is large and promising, **87% of interviewed businesses have not seen or are not aware of any impact from any existing trade agreement with other African countries.** Compared with other pilot sectors, businesses in the automotive value chain are also relatively less optimistic about the effect of a continental agreement: only 60% believe that such an agreement would boost regional trade in the sector. **About half of the respondents in the sector are not aware that such an agreement exists already,** many others are uncertain about what exactly it entails and about the implications of AfCFTA for their business operations.

## Female employment and women leadership of firms in the sector remains to be developed



Less than 10% of interviewed businesses are owned or managed by a woman, which is a significantly lower share of women-led businesses than in other sectors. In every third company women constitute less than 10% of the workforce – with some employing no women at all. On average, only 28% of employees are women. Only one in five companies employ more women than men.



## Sector-specific challenges

1 Visions and strategies for sector development have to date mostly been formulated with a national focus and for few countries only, with a continental vision for the sector emerging more strongly only recently, the private sector being an important driver therein. The conclusion of AfCFTA creates an important momentum in this context to further intensify efforts in that direction.

2 As a result of the national focus: fragmented production of finished products lacking the necessary scale to make the production particularly of high-quality technical components economically viable leading companies to source inputs primarily from other continents.

3 Despite the abundance of raw materials such as copper, lacking refinement possibilities on the continent. Currently, most quality transformation of raw materials happens outside the continent and businesses source refined inputs from Europe, the United States and Asia.

4 Limited capacity to comply with complex quality and origin criteria and related documentation requirements. High levels of investment and technical know-how are required to be able to start manufacturing at the level of quality that is needed for the production of modern and safe cars. Businesses deplore the scarcity and hence cost of specialized, high-skilled labour (e.g. engineers), limited access to modern technology, and difficulty in accessing the significant amount of investment that is needed for research and development to ensure and further improve quality production, both of inputs and finished products. Know-how in the sector is hence reportedly mostly owned by large international brands. Detailed documentation requirements to demonstrate compliance with origin criteria lead to only few companies being able to trade under existing preferential schemes, mostly as part of value chains driven and controlled by large OEMs.

*“There is a lack of validation facilities and automotive accredited laboratories. We certify our products in Spain and Thailand.”*

5 Limited infrastructure to certify against complex origin and quality criteria, e.g. for engine emissions or the safety of seat belts. Sophisticated production processes require corresponding institutional capacity, among others in customs administrations, standards bodies and laboratories, to certify against and control quality and origin criteria. Differing standards across countries further complicate value chain integration across borders.

*“Consumers prefer buying a cheaper fully built imported car than assembled semi-knockdown cars that are more expensive because of the government duties.”*

6 Limited demand for new cars influenced both by the high cost of production of new cars (see factors above) and low price of imported used vehicles due to incentives given by current tariff and tax structures, rules of origin and the inadequate enforcement for second-hand cars of quality requirements, including environmental standards.

7 Challenges related to waste disposal. Proper disposal of hazardous waste derived from production represents a challenge for most interviewed companies along the value chain. Lack of information on proper waste disposal requirements, inadequate waste disposal systems, and the absence of effective environmental regulations are contributing factors. Furthermore, there is high cost associated with waste treatment and disposal, which requires exporting waste to other countries where national infrastructure is missing.

*“There is too little demand. We previously tried to start business with some OEMs in Africa, but their required quantities are very small and didn’t fill a full container load (FCL). Given the nature of our product (hazardous), we cannot do less than container load (LCL).”*

8

**Limited readiness**, in terms of strategies, policies, incentives, investment, infrastructure and production technology, to face the trend towards more environmentally friendly vehicles, including electric cars and vehicles using green hydrogen fuels. While businesses and other stakeholders agree that such vehicles represent the future also for the African market, the (few) companies that are currently involved in the production of electric and solar vehicles report being considered as high-risk investments and hence face even more problems than others when it comes to accessing finance to start, maintain, improve or expand production.

*“Yes, we produce electric vehicles. But people still largely prefer fuel cars. This is partly because the government has not put in place the needed infrastructure to assure users that their vehicles can be adequately powered. For the vehicles we sell, we build our own charging stations.”*

## What needs to change?

### Preliminary recommendations

AFCFTA represents a milestone in creating an enabling environment for the development of the automotive sector, directly addressing some of the abovementioned challenges, notably linked to market size and ease of trade. As such, AfCFTA has the potential to significantly contribute to making high-quality cars, including both new vehicles but also used cars that abide by quality and environmental standards, more affordable for clients on the continent.

To realize the full potential for automotive value chain development and integration in Africa, additional efforts will however be necessary. Key recommendations include to:

1

**Accelerate the formulation and adoption of an African Automotive Development Plan** that clearly articulates the vision for the sector, including on which type of cars Africa would want to privilege in the light of rising air pollution, climate change and increasingly congested cities, and spells out the corresponding implementation strategy for the further development of the industry on the continent. Embed the sector development plan in a wider vision for the future of mobility in Africa. In the Plan:

- Determine whether sector development objectives should be achieved solely by **attracting investments of OEMs** and tier 1 suppliers driving the local production of components and assembly of the finished product or to what extent it may be feasible to also **(further) develop own brands**, building on and scaling some existing successes of African brands serving niche market segments.
- Give due consideration to the development of supporting infrastructure and services, such as aftersales and repairing services, recycling and waste management systems and production of green hydrogen fuels.
- Define a strategy to increase female employment as well as the presence of women-led firms in the value chain

*“In my opinion, to have a significant exchange between countries in Africa, there are two possibilities: 1) Development of the automotive parts and components market through the establishment of OEMs or tier1 suppliers in Africa. 2) Develop our own brands. In both cases we have to invest in modernization, production capacity and industrial infrastructures”*

*“We must push OEMs to direct production lines of certain models to Africa, which will logically pull afterwards the auto parts components manufacturers. Also, the OEMs should extend their approved lists of sourcing raw materials.”*

2

**Invest in and step up the current efforts**, led by ARSO and supported among others by Afreximbank, to **harmonize automotive sector standards in Africa**.



3

### Stimulate the green transition.

- Devise a strategy to support the gradual shift towards manufacturing of low emission vehicles through awareness raising, skills development, necessary investments in infrastructure and technological advancements as well as conducive policy and regulatory frameworks.
- Strengthen, effectively enforce and work towards harmonization of legislation, particularly safety and environmental requirements, that regulates the imports of used cars. Introduce and enforce vehicle emission standards, including for imported used vehicles and consider fiscal incentives for low and no emission vehicles, both new and used.
- Facilitate investment in the charging and hydrogen fueling infrastructure for electric and hydrogen vehicles, e.g. through tax incentives or rent-free land for charging stations.
- Invest in environmentally safe recycling facilities, including for used lead-acid batteries, with strong pollution control mechanisms and related oversight to minimize the currently widespread illegal recycling practices that are damaging to human health and the environment.
- Develop a strategy for recycling of end-of-life vehicles (ELV) that emphasizes awareness raising around eco-friendly management of ELVs. Establish a regulatory framework that encourages proper waste management and recycling of automotive shredder residues (ASR) that are landfilled and implement policies around vehicle deregistration. In the longer term, plan to optimize car manufacturing processes such that the share of ASR in ELVs is reduced. With adequate technical support and recycling technologies, this will contribute to prevention of oil spills and leaching of other hazardous substances to the environment from ELVs, much necessary in Africa where a large proportion of vehicles sales are second-hand.

4

Enable the local transformation and refinement of raw materials, such as copper, leather, iron, steel, aluminium, cobalt and rubber, into value-added products that can be used in the manufacturing of components and finished cars – on the continent and beyond.

5

Strike the delicate balance in defining rules of origin such that they encourage investments in local manufacturing (e.g. through high local content requirements) while at the same time enabling preferential trade despite their complexity. The latter hinges upon the clarity of the definition of rules, leaving little room for interpretation for both businesses and certifying and controlling agencies, including related to required transformation processes to obtain originating status for non-originating inputs, cumulation and origin-related documentation requirements to prove compliance. Build capacity of companies to comply with documentation requirements around origin certification. Raise awareness of participants along the value chain on how the rules at the continental level stand in relation to the ones that have been agreed under regional agreements as well as those defined in existing trade agreements with third countries outside the continent.

6

Improve and strengthen market information systems at the regional level by establishing coordinates of potential regional input providers on a single platform and organizing sector-specific regional events and trade fairs to bring together businesses from across Africa.

7

Set up industry-wide research and development facilities and networks, including cooperation with universities, to encourage new technology adoption, quality control, lean manufacturing and computer aided designs. Set up specialized training and incubation centres and skills development institutions to train in relevant disciplines including engineering, design, manufacturing and quality. Promote knowledge transfer through cooperation with foreign and international institutions as well as with OEMs and through dual vocational trainings with the industry, to build a pool of qualified and specialized personnel.

8

Review tax and tariff structures on inputs and final products. Where feasible, accelerate the implementation of tariff reductions foreseen under AfCFTA.

9

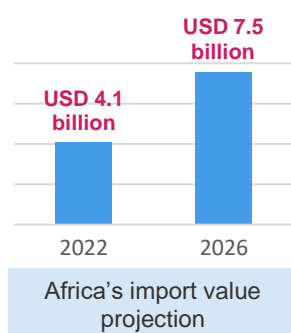
Introduce tailored vehicle financing schemes and car loans to enable more clients to afford high-quality cars.

*“What support is needed to develop for us to do more business in Africa? It is not a question of one specific support but rather the creation of a whole ecosystem. Everything else will follow.”*

# Apparel of cotton

Africa has the **potential to export \$6.6 billion in cotton garments by 2026**, nearly **15% of which is on the African continent**.

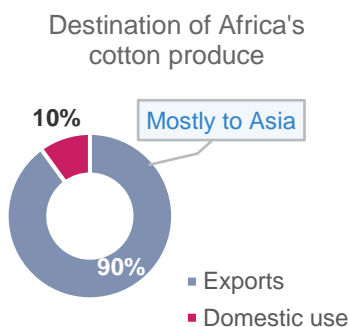
## High and growing import demand for cotton garments



Two thirds of intra-regional export potential in the sector remain to be unlocked, and despite the high current exports and export potential, **import demand is high, reflected in an import value of USD 4.1 billion, projected to increase by 84% as of 2026.**

## Africa remains at the low steps of the cotton apparel value chain ladder

The continent is a significant producer and exporter of raw cotton and is involved in the final assembly of certain textiles. However, Africa exports **90% of its raw cotton to Asia** and is a net importer of cotton fabrics and yarn. At present, African cotton apparel manufacturers **import a mere 7% of cotton yarn and 6% of cotton fabric from within the continent.**



Export potential in cotton garments could increase significantly if intermediate steps in the value chain

were also performed on the continent. This presents **strategic investment opportunities with a view of diversifying production locations** and near-shoring close to major markets, e.g. in the EU, to reduce the risk of supply-chain disruptions.

## The need of enhancing businesses' awareness of existing trade agreements and their impacts

**More than 80% of interviewed businesses** from the sector value chain in Africa **have not seen or are not aware of any impact of existing trade agreements.** At the same time about two-third are optimistic that a continental trade agreement would boost regional trade in the apparel of cotton sector. **About 60% of respondents in the industry are however not aware of AfCFTA, and over 90% have never participated in any form of consultation on trade agreements.**

Given a current trend in the industry towards diversification of production locations and near-shoring close to major markets, Africa is in a strategic position, which may create opportunities to develop this value chain.

## The apparel of cotton value chain also promises a high job creation potential.

An ongoing study by ITC and the ILO estimates that realizing the export potential of apparel of cotton could give rise to over 200,000 jobs in Egypt and over 50,000 jobs in Tunisia alone. This could benefit women in particular, who are very present in the sector: 73% of interviewed value chain participants across Africa currently employ more women than men and **one out of four companies are led by a woman.**

## What prevents businesses from exploiting the value chain development potential?

### Sector-specific challenges

1

The “missing middle”: only few spinning mills and little production of yarn and fabrics on the continent leading to missing vertical integration of the value chain. Currently, little refinement of cotton happens in Africa. Raw cotton is mostly exported to other continents for value addition and then re-imported in the form of yarn and fabrics. Lack of technical know-how, modern production machinery and related investments are cited as contributing factors.

*“Sourcing inputs from Africa? For us, this is the future. Yet to date, we have no knowledge about fabrics supplied by African countries.”*

2

Competitive pressure from low-cost production in Asia as well as the informal and imported second-hand markets. Fragmented markets and hence lacking scale of production in Africa, lack of investment in production techniques and modern machinery, and scarcity of qualified personnel, e.g. technicians for knitting and fabric printing, limits the competitiveness of the sector in Africa.

*“We need information on the available offer in African countries. There should be more African suppliers participating in our national trade fairs, but also those in Europe. We never see African suppliers there. Furthermore, there are few continental trade fairs to which we are invited. There is a real visibility problem, a lack of communication on what exists in the textiles sector in Africa.”*

3

Lack of information on business opportunities and matching buyers and sellers. Producers of clothing tend to focus on the domestic markets or engage in licenced production for brands outside the continent. Many are unaware of intra-regional trade opportunities as well as trade fairs or other means facilitating connecting buyers and sellers on the continent.

4

Little awareness of trade agreements, including but not limited to AfCFTA, and possible advantages derived thereof for the sector. About 60% of respondents along the value chain across Africa are not aware of AfCFTA, more than 80% of interviewed businesses have not seen or are not aware of any impact of other existing trade agreements. For those that have been trading (or trying to trade) under preferential schemes, **rules and certification of origin are a major concern**, due to lack of clarity of rules, including related to cumulation, differing rules across agreements both within Africa and with third countries, difficulties to trace and document the origin of inputs, cost and at times lack of recognition of origin certification.

5

Significant environmental challenges linked to inadequate waste management, treatment and recycling systems, including for hazardous and water waste, and the **water intensity of textiles and clothing production**. Waste management for companies located in special economic zones appears to be particularly challenging. Recycling infrastructure, including for the waste related to the significant amounts of imported second-hand clothing of low quality.

*“We started separating textile waste, notably fabrics according to their composition. We tried to sort this waste, but in the end it was useless – we did not find anyone to take charge of it.”*

6

Limited capacity to obtain certification against sustainability standards. In the case of raw cotton, rather than compliance itself (e.g. qualifying as organic cotton), it is often the cost of certification and **demonstrating compliance**. Further down the value chain, there are also significant challenges with the capacity to comply with the various sustainability standards and the increasingly demanded, traceability and ESG reporting requirements.

*“Compliance with social, health and safety, environmental and ethical standards have not negatively affected our competitiveness, it brings about good practices that will enable a long-term sustainability. However, the cost of certification and periodic renewal is very high and has a significant impact on us. A single certificate can cost € 6,800. And our clients requested us to have four...”*

7

Limited visibility of African brands both at the continental and the global level. Key contributing factors are limited training and expertise of businesses in terms of digital skills, marketing and outreach, including through social media and online presence.

## What needs to change?

### Preliminary recommendations

1

Building on successes and lessons learnt from existing initiatives at sub-regional level, **create Textile Industry Hubs across Africa**, focused on creating added value in proximity to natural resources and providing common infrastructure, tools and services. Facilitate investments in yarn spinning mills, modern machinery and technical know-how.

2

Raise awareness and build the capacity of textiles and apparel producers on sustainability, particularly compliance with labour standards, manufacturing practices that have less environmental impact and best practices related to ESG traceability and due diligence. Incentivize the production and use of sustainably produced cotton, provide incentives, e.g. through tax advantages and access to affordable finance, to invest in technological improvements to reduce the use of water and chemicals in the production of textiles and clothing and enhance the wider auxiliary infrastructure needed for greener production, including recycling

*“As we want to go toward ‘zero waste to landfill’ we need to invest in R&D to find as many options as possible for all the different types of leftover we have. Research Grants help us to do so, otherwise it’s hard to find the resources as we’re still a very small enterprise and need to focus on day-to-day activities as well.”*

systems and infrastructure for the treatment of water and disposal of hazardous waste. Create dedicated financial instruments to support companies, particularly MSMEs, to obtain certification against industry-specific quality and sustainability standards such as GOTS, WRAP and OEKO-TEX.

3

Improve traceability systems and conformity assessment infrastructure in proximity to production, particularly in LDCs, improve the transparency and hence predictability of time and cost of the certification process and where possible reduce it.

4

Improve the availability of industry-specific information, particularly on suppliers on the continent. Company contact information in existing tools such as the Global Trade Helpdesk could serve as basis and could be expanded to further improve the coverage of African companies.

5

Intensify efforts to create business networks across countries and sub-regions through B2B exchanges and trade fairs. Raise awareness of existing continental trade fairs such as Origin Africa, and facilitate the participation of smaller businesses, e.g. through cost-sharing models and guidance in the preparation and follow-up of trade fairs and buyer-seller meetings.

6

Strengthen the business support infrastructure for value chain participants. Support regional business associations in their efforts to provide market intelligence, market studies, guidance and support for trade fairs, the identification of business opportunities and partners and awareness raising and guidance on trade-related intelligence available through the African Trade Observatory and other information sources.

#### **In addition, at the national level:**

7

Critically review the management of and legislation related to imported second-hand clothing, to reduce environmental and health challenges related to imported sub-quality products (reportedly, up to 90% end up as waste). Options to consider include import restrictions, enforced quality standards, documentation and traceability requirements, cooperation with exporting countries to limit shipments of second-hand products that are unsuitable to further serve as clothing, and support for the creation of innovative business lines focusing on recycling second-hand clothing and to transform it into new products of higher value. Exchange best practices with other countries on the continent on how to deal with imported second-hand clothing in the light of both the competitive pressure it puts on domestic producers and the limited purchasing power that is driving the demand for such clothing.

8

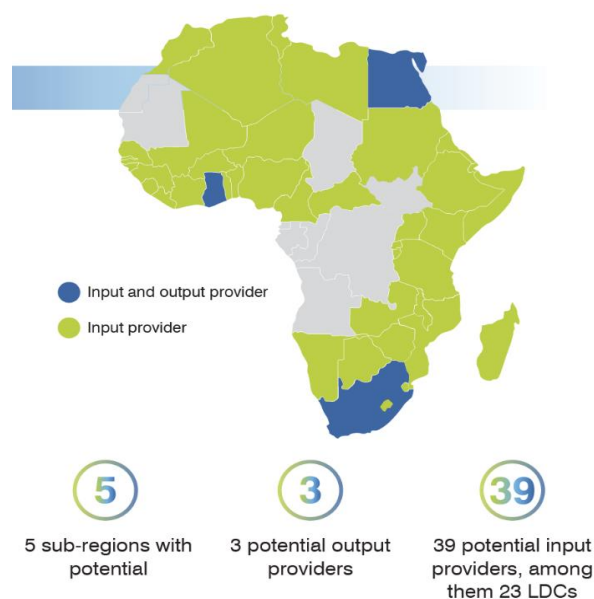
Establish and financially support dual training programmes, combining vocational school trainings or university studies with hands-on experiences in companies, to enhance the availability of qualified personnel specialized in the sector. In particular, include managerial and business skills, e.g. related to market analysis, business strategy and market segmentation, marketing, digital skills, online and social media presence, as an integral part in such training programmes. Improve the availability of dedicated courses on such topics to existing entrepreneurs.

# Food preparations for infant use

African imports of baby food currently stand at €570 million and are projected to exceed €1.1 billion by 2026. This expected demand growth offers important investment opportunities in the baby food value chain in Africa.

Import dependency in the sector is currently still high, but the continent has an abundance of fruits and vegetables, cereals and other ingredients used in baby food preparations, which are often exported without transformation.

The few firms that already produce baby food in Africa currently source only 16% of their inputs from African producers. With 39 potential input providers and an export value of €14 billion, the development of this value chain appears promising for investors, producers and consumers alike.



## What prevents businesses from exploiting the value chain development potential?

### Sector-specific challenges

- 1
**Reconciling the cost of production with the purchasing power on the continent.** Key cost drivers mentioned by businesses are the shortage of skilled labour specialized in disciplines relevant to the pharmaceuticals sector and fragmented production across countries, with a focus on national markets that lack the necessary scale for more cost-effective production.
- 2
**Strong formal competition from Asian suppliers and strong informal competition from the counterfeit and expired drug markets.** The cost of small scale, principally domestic market-focused production also makes the sector uncompetitive vis-à-vis mass production coming from countries such as India and China. Investment in R&D is further hampered by inadequate protection of intellectual property and limited public and private investments in healthcare and research and innovation.

**Disclaimer:** *The survey of enterprises involved in the infant food value chain is currently ongoing. This results summary is based on the first 50 interviews with African businesses producing baby food. Final results on the constraints of the infant food value chain together with the recommendations for the businesses to overcome these challenges will be put forward in the final report upon completion of the survey.*



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