UNLOCKING OPPORTUNITIES FOR REGIONAL VALUE CHAINS WITHIN AFRICA

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 tackle 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.

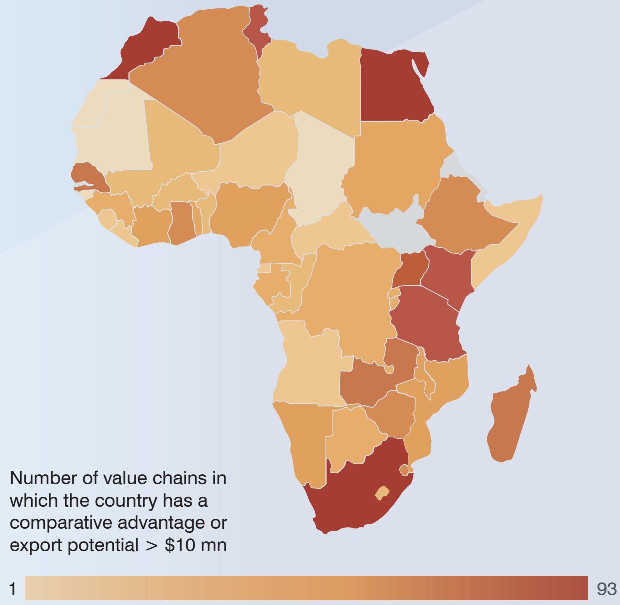
[1] ITC and UNCTAD (2021): Unlocking Regional Trade Opportunities in Africa for a More Sustainable and Inclusive Future. https://umbraco.exportpotential.intracen.org/media/1238/regionaltradeafrica_20211206.pdf. This number excludes extractive resources, most importantly oil and gas.

[2] Idem.

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.



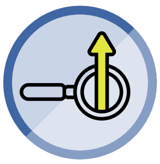
What is needed to unlock value chain potential across Africa?

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

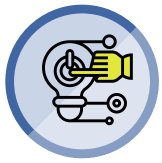
The business consultations explored

Top challenges of cross-border business expansion and integration among African countries

Key factors for enabling change



Firms' expectations in relation to the AfCFTA



Business challenges in terms of sourcing of inputs and technical aspects of production

Consultations with African businesses and stakeholders - current progress

Expert-led interviews with businesses along the value chains — **441**

Expert-led interviews with Business Support Organisations — **55**

Responses to the web-based consultation (www.ntmsurvey.org/africa) — **415**

911

1000

What are the **key challenges** reported by businesses on the ground across value chains?

A recurrent issue mentioned across countries and sectors is **lack of awareness. Over 50% of respondents are simply not aware of the AfCFTA** and the business opportunities it may create for them. This indicates the importance of effectively engaging the private sector in creating a single African market and helping it integrate into new and existing value chains.

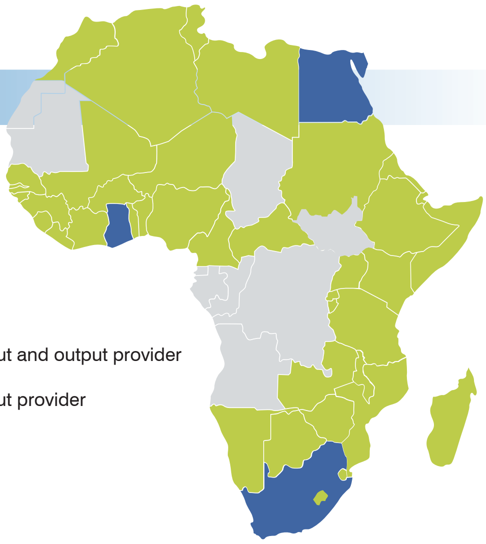
Of course, every sector and country has specific opportunities and challenges that need to be identified and addressed. Talking to key players including value chain participants, trade support institutions, and policymakers is essential to acquire a deep understanding of the industry structure and sector dynamics. Existing production factors in each country are mapped and projected to the continental level to identify value chain opportunities. Examples from four different sectors are presented below to illustrate these realities.

Other cross-cutting issues include

- Lack of trust in the quality of products made on the continent
- Elevated trade and transport costs affecting price competitiveness
- Poor payment systems and lack of credit for cross-border trade transactions
- Limited access to financial resources for upgrading technology and skills

Opportunities and challenges in four example sectors

Food preparations for infant use



Input and output provider

Input provider

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 are the key challenges faced by firms in this sector?

Constraints in access to relevant machinery and technology hamper competitiveness. Limited access to relevant production technology and machinery, including for food dehydration and processing, and restricted production capacities hamper the cost efficiency and economies of scale necessary to serve the regional market.

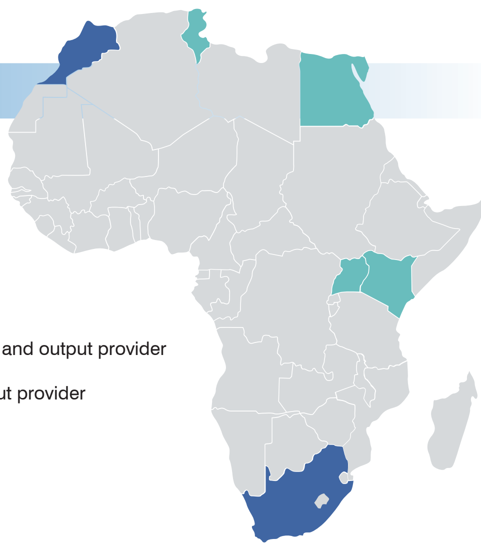
Quality and conformity assessment, crucial for ensuring food safety, is limited. Export capacities are constrained by limited access to laboratories and testing facilities for conformity and quality assessment, which are critical for meeting relevant food safety standards.

5
5 sub-regions with potential

3
3 potential output providers

39
39 potential input providers, among them 23 LDCs

Pharmaceuticals



Input and output provider

Output provider

Import dependency is also high in pharmaceuticals. With current imports of €13 billion – projected to increase by 79% by 2026 – and a large trade deficit of €12.6 billion, this value chain is important for building resilience to supply chain shocks, such as those caused by the Covid-19 pandemic. At the same time, the strong expected rise in demand opens attractive investment opportunities.

Developing intra-regional value chains in medicaments indeed requires massive investment in the production of both outputs and inputs. Current exports of medicaments, worth €833 million, are insufficient to meet regional demand and only source 2% of their inputs locally.

What are the key challenges faced by firms in this sector?

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.

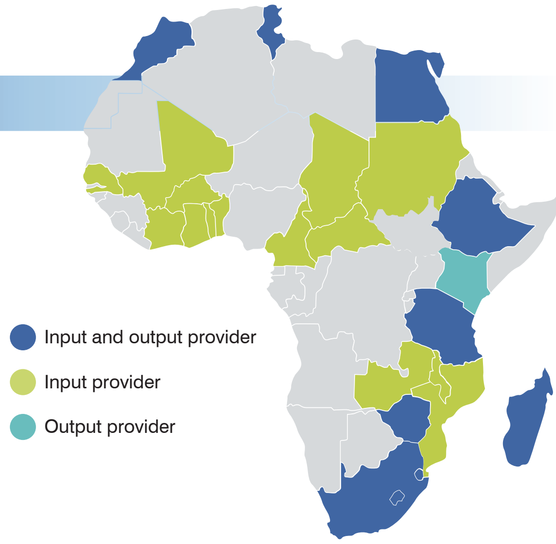
Strong formal competition from Asian suppliers and strong informal competition from the counterfeit and expired drug markets. The cost of small scale, principally domestic market-focused production also makes the sector uncompetitive vis-à-vis mass production coming from countries such as India and China. 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.

3
3 sub-regions with potential

2
2 potential input providers

7
7 potential input providers, among them 1 LDC

Apparel of cotton



Africa has the potential to export €5.8 billion in cotton garments by 2026. 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 yarn and fabrics. 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 in the EU to reduce the risk of supply-chain disruptions. Developing the sector could also create a large number of jobs on the continent. In Egypt alone, a realization of the sector's export potential could generate over 200,000 new jobs, many of them for women. Similarly, the sector could contribute to employment creation in 27 other African countries, at different steps along the value chain.

What are the key challenges faced by firms in this sector?

"Missing middle" for value chain inputs. Key inputs such as yarn and fabric are not readily available from suppliers on the continent, and when they are, it is often at a price to quality mismatch relative to other suppliers. African firms export raw cotton and often assemble and transform garments from yarn or fabric, but little of the transformation in between occurs on the continent.

Difficulties to comply and certify against sustainability criteria and environmental challenges. These are linked, among others, to inadequate waste management, treatment and recycling systems, including for hazardous and water waste, and to the water intensity of textiles and clothing production.

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5 sub-regions with potential

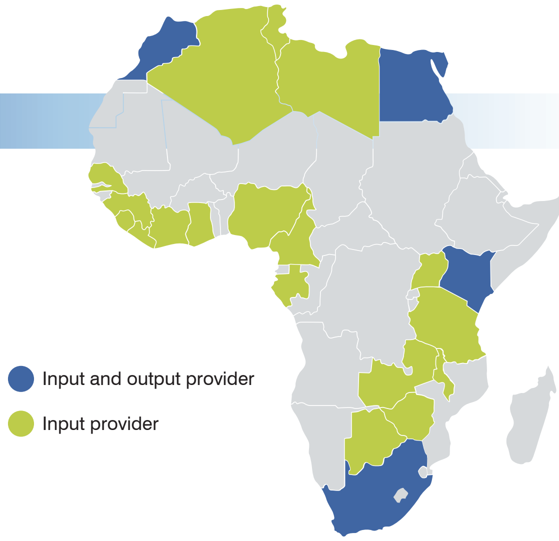
13

13 potential output providers, among them 4 LDCs

26

26 potential input providers, among them 16 LDCs

Motor Cars



The automotive sector has an export potential of €9 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. 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.

What are the key challenges faced by firms in this sector?

Fragmented, small-scale production of finished products. As a consequence, the production of high-quality technical components is not economically viable, leading companies to source inputs primarily from other continents.

Differing standards across countries and limited institutional infrastructure for certification. In this context, it is challenging for companies to comply with complex rules of origin and quality criteria, e.g. for engine emissions or the safety of seat belts.

5

5 sub-regions with potential

4

4 potential output providers

23

23 potential input providers, among them 8 LDCs

The 94 identified value chains hold significant promise in terms of value addition and creation of highly skilled jobs across African economies. Furthermore, strengthening intra-regional trade supports inclusive growth by benefitting more women-owned enterprises. Together, these aspects can support more sustainable economic and social development and curb dependence in many areas. Through attracting investment to economically promising and strategic sectors, and building a conducive regional business ecosystem, policymakers and firms will be better placed to realize these opportunities.

We are looking forward to having you join us on February 15 to learn more!