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# Identifying, developing, and strengthening continental value chains in the context of the AfCFTA

## Value Chain Diagnostic



**7<sup>TH</sup> EABF EU-AFRICA  
BUSINESS FORUM 2022**



15 February 2022

# Context and motivation

Two coinciding recent developments:

## **COVID-19 pandemic and resulting economic downturn**

- Inputs into essential supplies available on the continent, transformation used to take place elsewhere
- Need for a resilient African economy to resist external shocks

## **AfCFTA**

- Single market connecting 1.3 billion consumers across 54 signatory countries
- Significantly improved conditions for continent-wide value chain development
- Unprecedented opportunity and political will to strengthen regional integration

## **Value chains with high value addition, combining countries in different regions:**

- Key drivers for economic recovery, resilience and integration on the African continent
- Move towards more value-added trade and more diversified export basket

**But where should governments and businesses channel their investment and efforts?**

# Value chain diagnostic: Key questions

## Which continental value chains are the most promising for Africa...

- Which value chains with high value addition, linking different countries and regions across Africa are **feasible given current comparative advantages**?
- Which ones have the **highest impact potential** in terms of employment, participation of SMEs or other economic, strategic and sustainability considerations?

## ...and what is needed to make them work?

- Why is the **potential** for greater trade and value chain development **not fully exploited** yet? What do businesses say? What do policy makers and other stakeholders say?
- Which **investments** are needed (and where) to unlock the potential? Which technical assistance could have the greatest impact?
- What are the **key recommendations** to decision makers at the national and pan-African level, to make AfCFTA work for promising value chains ?

## → Objective: create the evidence base to:

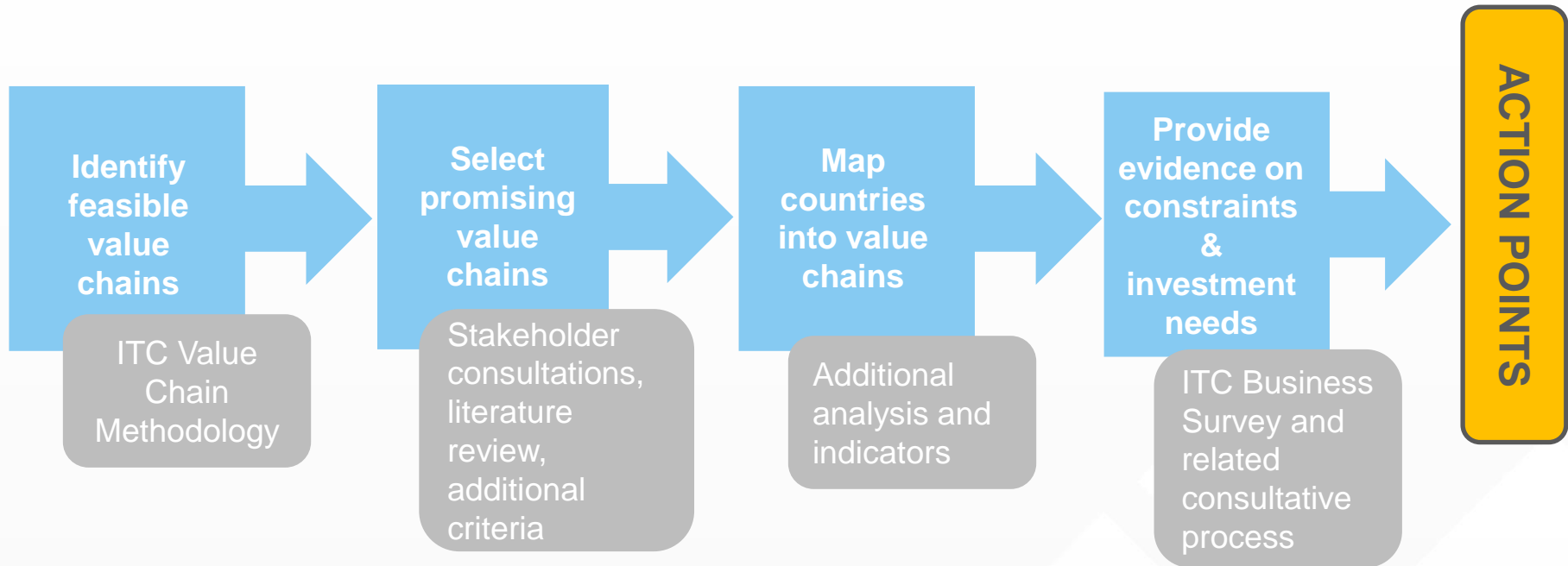
→ Determine priorities for change

→ Identify ground for common projects to contribute to a resilient, sustainable economy in Africa

# Value Chain Diagnostic: Innovation

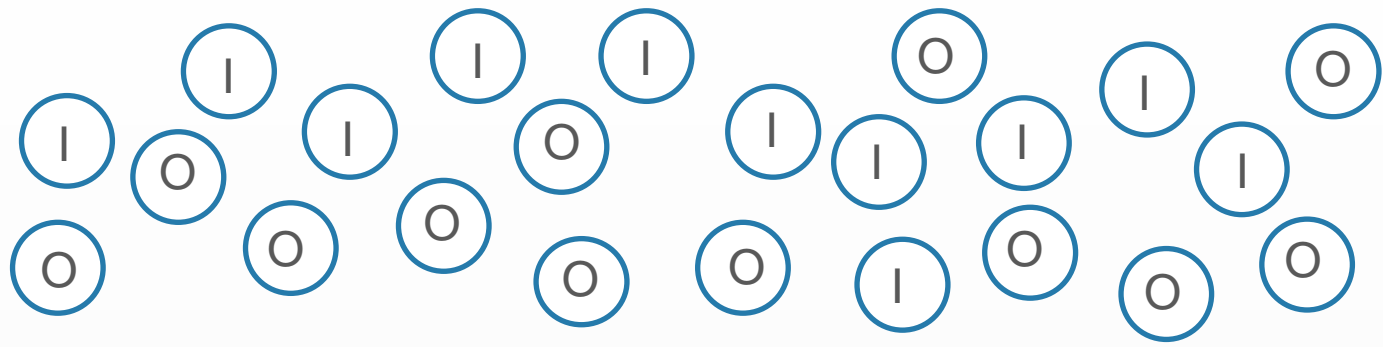
- **Synergies** with existing efforts
  - Build upon existing work
  - Consultations with the African Union, UNECA, UNIDO, the OECD and other institutions
- Adding **two key innovative elements**
  - 1. Data-driven analysis**
    - Combine trade information and input-output analysis
    - Assess availability of inputs and outputs on the African continent, and feasibility of developing value chains across several African countries
  - 2. Extensive consultations with hundreds of African firms**, sector experts, and other stakeholders

# Value Chain Diagnostic: Process

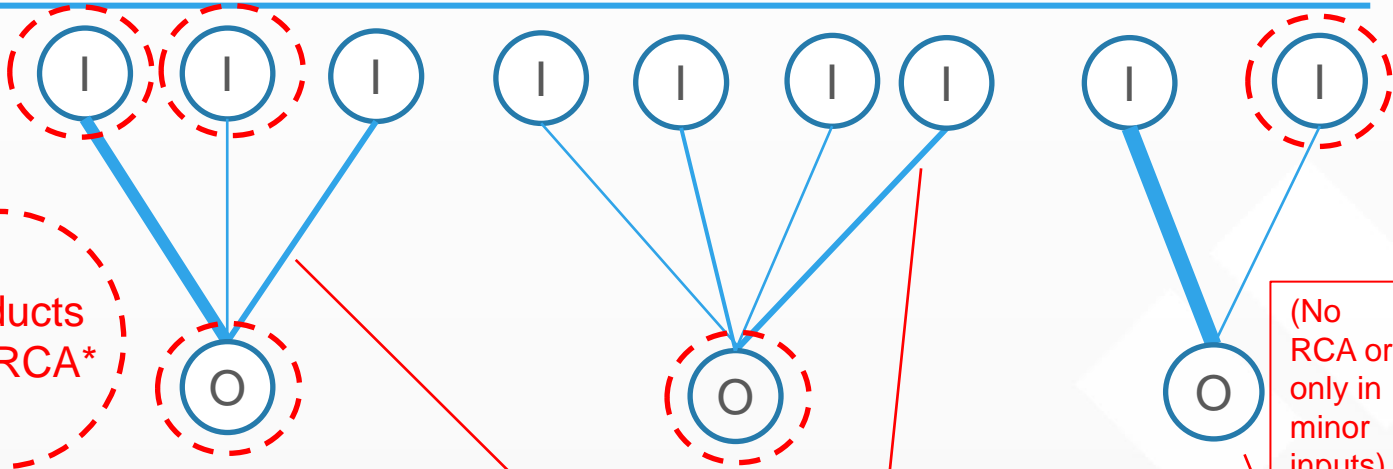


- Innovative methodology combining trade data and input-output tables that capture the interaction between different economic sectors
- Consultations with AU, EU, ITC sector experts, African private sector experts
- Broad literature review, incl. UNDP-AfCFTA study
- Promising VCs identified based on economic and strategic considerations
- Production data (UNIDO)
- ITC-ILO employment calculations (Northern Africa)
- Bilateral trade and tariffs
- (...)
- Interviews with value chain participants across the continent
- Structured consultations with other stakeholders
- Web-based consultation: [www.ntmsurvey.org/africa](http://www.ntmsurvey.org/africa)
- **> 900 interviews and responses so far**

# 1. Identification of feasible value chains



**5,000+**  
products



**415**  
value chains



	RCA in output	No RCA in output
RCA in input(s)	14	63
No RCA in input(s)	15	323



\*RCA = comparative advantage for 1) Africa as a whole and 2) at least 5 countries

## 2. Selection of promising value chains

- Stakeholder consultations, literature review and additional quantitative indicators to **deepen the analysis** and **identify additional promising sectors**
- Additional criteria:
  - **Supply:** Production, trade, export potential in inputs and / or the output
  - **Demand:** Relative import demand, import dependency (for pharma and agrifood)
  - **Market access:** Ease of trade (incl. post-AfCFTA), tariffs, tariff advantages
  - **Business:** Attractiveness for investors, supplier diversification, nearshoring
  - **Strategy:** Alignment with / complementarity to other national and regional development plans and initiatives, employment and income generation, crisis resilience
  - **Sustainability:** Possibility for green transformation, female / SME participation



Selection of promising value chains

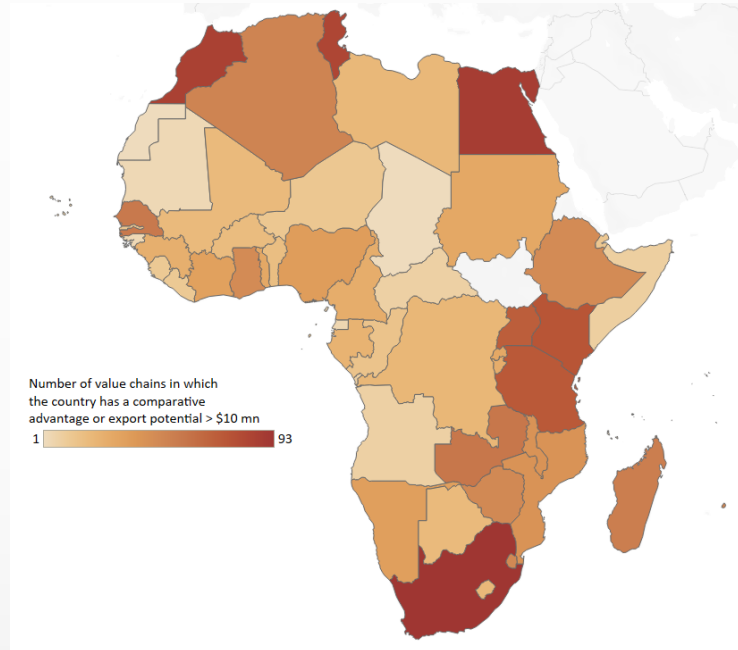
# Promising value chains

**94**  
promising value  
chains in **24**  
sectors

Most in  
processed food  
(28) and  
machinery and  
electricity (11)

**Up to 33** African  
countries  
can connect to  
each value  
chain (inputs,  
outputs, or both)

On average, an African country can  
connect to **31** of these value chains



In **73** value  
chains, Africa  
has enough  
immediate  
inputs to cater  
to regional  
and  
international  
consumers

These are just the  
opportunities that  
already exist – with  
the necessary  
support, they could  
**grow much further**



# 3. Mapping of countries into value chains

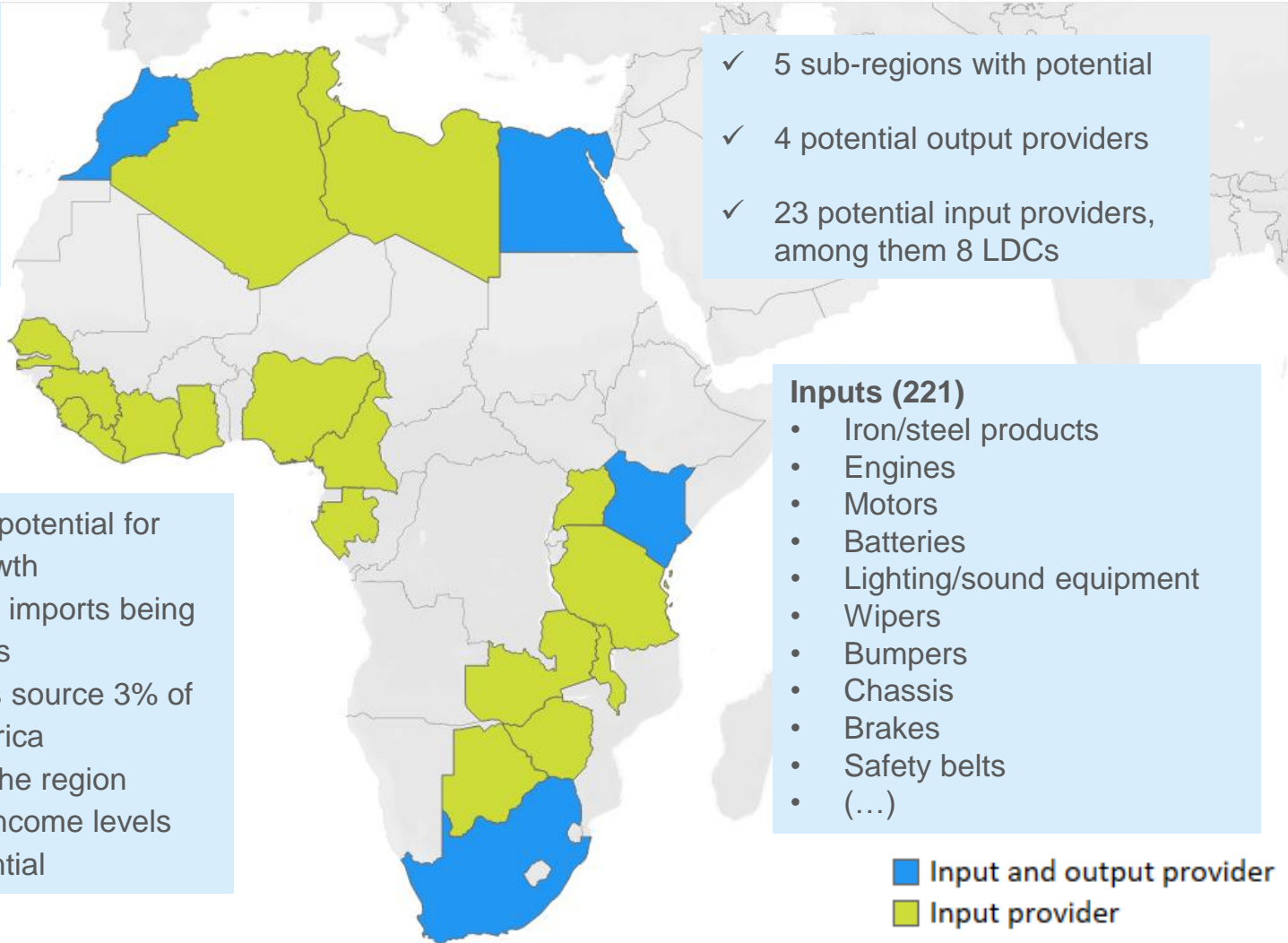
## Example: Motor Cars

4<sup>th</sup> most exported product from Africa

Africa's export potential

- To the world: \$10.3 bn
- To Africa: \$1.1 bn

- Sector with the highest potential for intra-African export growth
- Trade deficit of \$6.7 bn, imports being 70% higher than exports
- African output providers source 3% of imported inputs from Africa
- Recent investments in the region
- Decent jobs that raise income levels
- Green technology potential



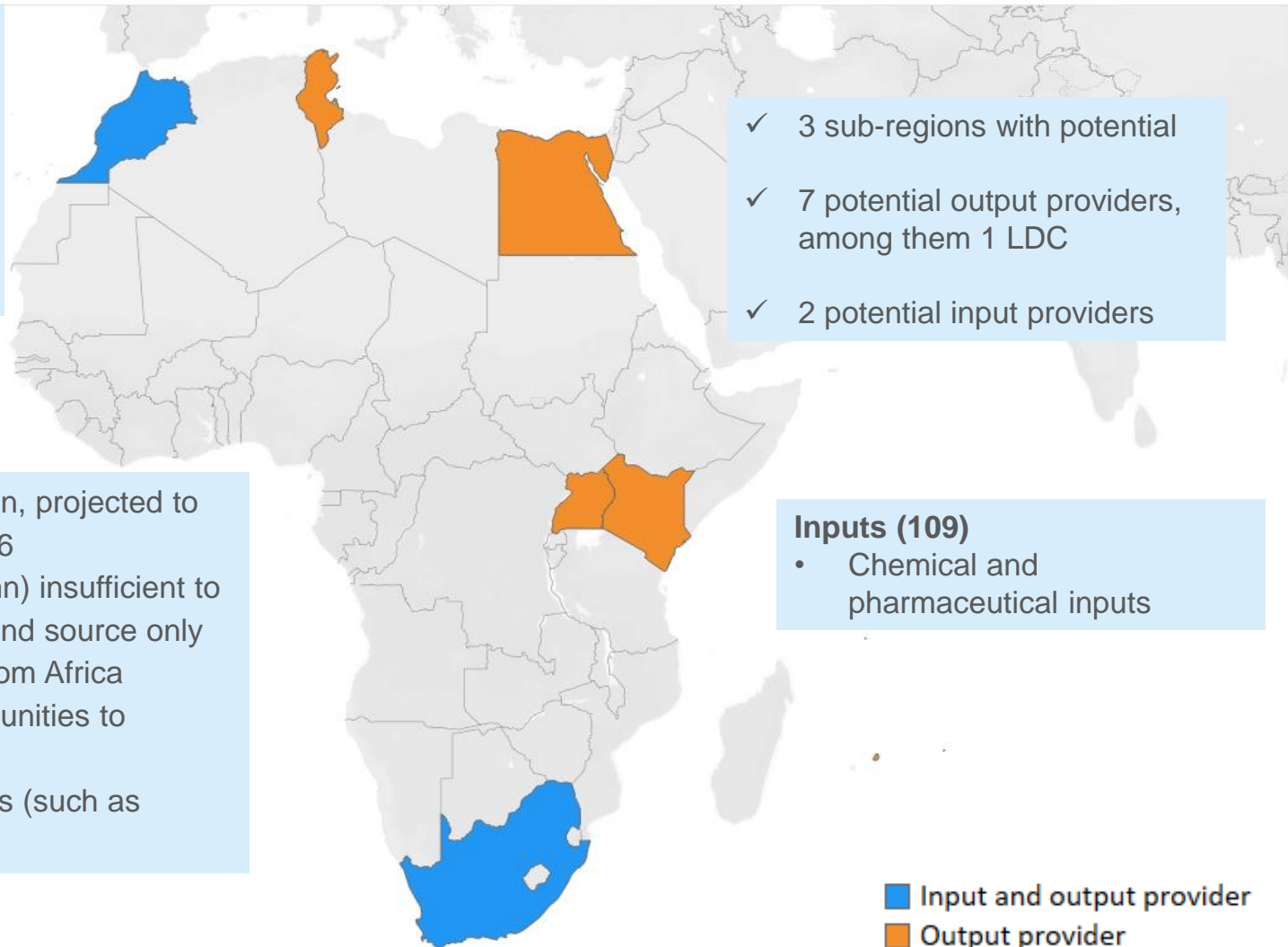
# 3. Mapping of countries into value chains

## Example: Pharmaceuticals

**High import dependency**  
creates incentives for  
exploiting local capabilities

**Trade deficit of \$14.4 bn,**  
imports 16 times as high  
as exports

- Current imports: \$14.8 bn, projected to increase by 79% by 2026
- Current exports (\$833 mn) insufficient to meet regional demand and source only 2% of imported inputs from Africa
- Large investment opportunities to develop the value chain
- Build resilience to shocks (such as Covid-19 pandemic)



- ✓ 3 sub-regions with potential
- ✓ 7 potential output providers, among them 1 LDC
- ✓ 2 potential input providers

### Inputs (109)

- Chemical and pharmaceutical inputs

■ Input and output provider  
■ Output provider

# Conclusion

- AfCFTA: Unprecedented business opportunities in Africa
- Potential for 94 promising continental value chains including 5 or more African countries
- But these value chains are not fully developed yet
  - Immediate inputs are available to serve domestic and foreign consumers in 73 value chains... but African producers source only a small share of inputs from Africa
- **What is needed to make these value chains work?**
  - Step 4 of the value chain diagnostic: Evidence on constraints & investment needs
  - **Stay tuned for preliminary findings from consultations with entrepreneurs from all over the continent!**