# MADE BY AFRICA - CREATING VALUE THROUGH REGIONAL INTEGRATION

## 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.[1] 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

Today, Africa represents 15% of the global population, but only 2.3% of world exports. 14% of the exports are destined to African markets, marginally more than a decade ago. Yet, a relatively high share of African exports to Africa consists of semi-processed or processed products whereas exports to the world continue to be dominated by commodities and natural resources. Exports within the region are also more diversified and technologically advanced than exports overseas. Intra-African value chain integration is therefore key to reducing the dependency on unprocessed goods' and natural resources' exports and paving the way towards higher value addition and a more diversified export basket. Increasing the competitiveness of African value chains also helps increase resilience to supply chain shocks, the need for which has been made even more evident by recent crises.


## 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:

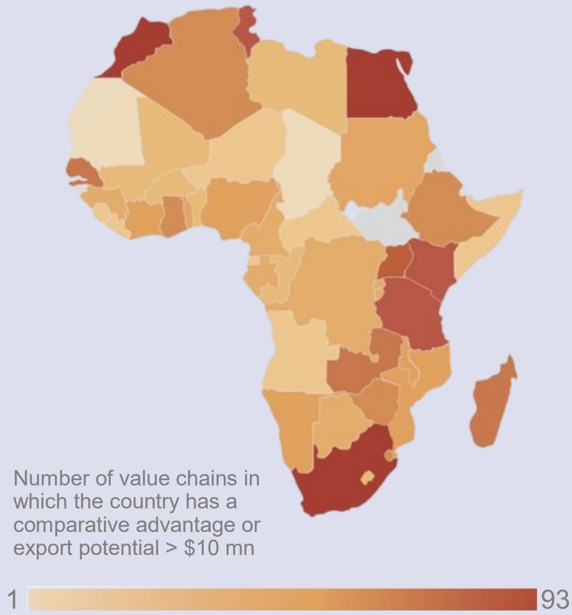
**First, a robust and data-driven analysis of the availability of inputs and outputs on the African continent, and an assessment of the feasibility of developing a subset of those across several African countries. It goes beyond traditional approaches by combining trade information and input-output analysis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

## 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 **23 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. African import demand across the 94 value chains is expected to grow by 97% until 2026, more than the average demand growth of 68% across all sectors. 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.




## Selection of pilot value chains

The 94 value chains were further evaluated based on quantitative and qualitative factors, identified through a literature review and additional consultations with stakeholders and sector experts. These factors comprise various economic, political, social, and environmental considerations related to the development of the different value chains as well as their impact – in the African context, but also at regional or national level. Discussions with AUC representatives gave rise to indicators of strategic importance for African economic development (such as food security and resilience to shocks).

Some of the information identified as relevant was of qualitative nature, while other factors could be measured quantitatively. The additional quantitative variables considered during the selection process comprise the following:

### Current trade patterns

- Exports to the world and share in world trade
- Share of products in African exports
- Existing trade along the value chain within Africa
- African export potential within the region and to the world

### Supply

- Production of input and output products
- Geographic coverage: Number of subregions, countries and LDCs in Africa that are potential contributors to a value chain

### Demand

- Demand in Africa and the EU
- Size of the value chain
- Import demand: Current and projected (by 2026)
- Import dependency

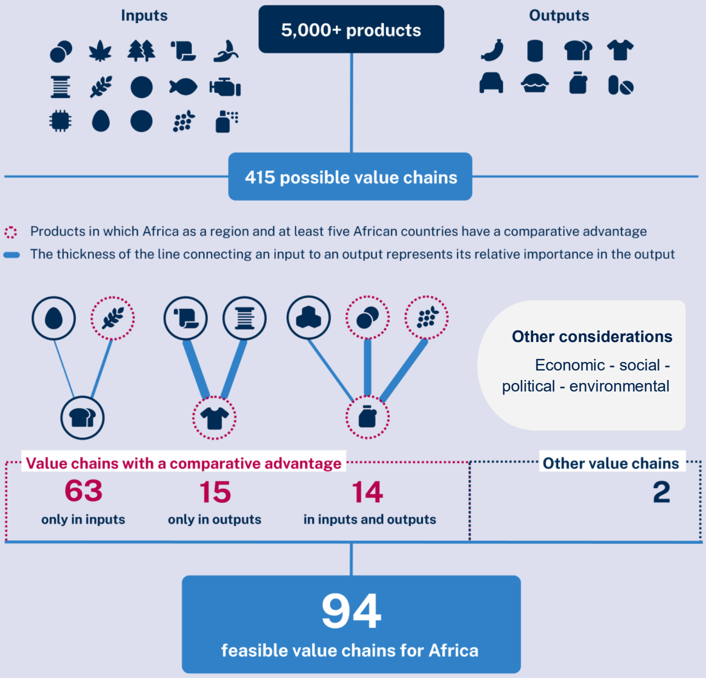
### Market Access

- Tariffs on inputs
- Ease of trade
- Impact of AfCFTA

### Sustainable development indicators

- SME presence
- Female labour force participation
- Green technology

.




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 benefiting 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.




## 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 22 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.

Consultations with 101 Business Support Organisations (BSOs), including e.g. chambers of commerce and sector associations, served to contextualize and complement the responses obtained from individual businesses and obtain more information on existing projects, strategies and lessons learnt from these in the given sectors

### The business consultations explored

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

**Key factors for enabling change**

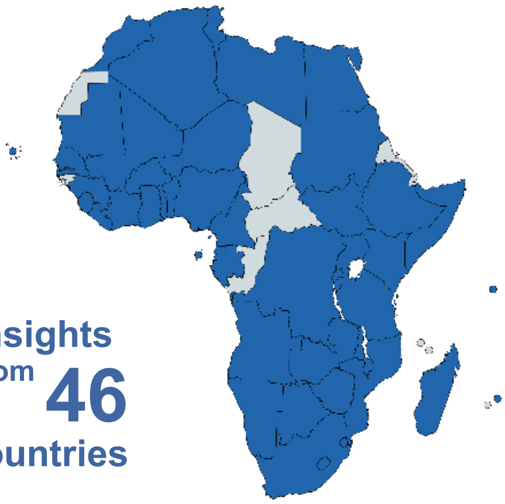
**Firms' expectations in relation to the AfCFTA**

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

## Consultations with African businesses and stakeholders

*The diagnostic drew insights from two major survey initiatives*

*Value chain diagnostic survey in Africa*



**Insights from 46 countries**

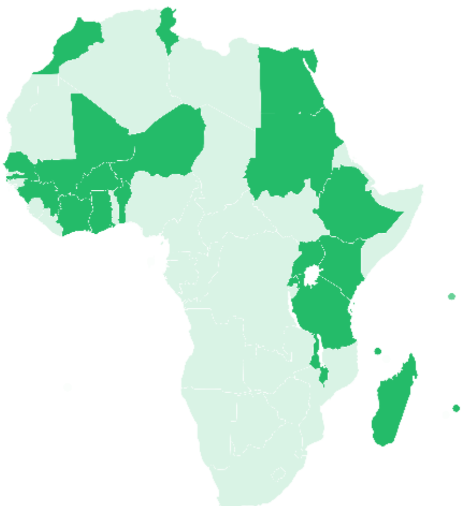
*Expert-led interviews with businesses along the value chains* — **531**

*Expert-led interviews with Business Support Organisations* — **101**

**1275** *Interviews*

*Responses to the web-based consultation (www.ntmsurvey.org/africa)* — **643**

*NTM Business Surveys in Africa: 2011-2020*



**22** — *Countries in Africa where NTM Business surveys have been implemented*

*Interviews with African exporters and importers of all sectors* — **9691** *Interviews*

*Interviews conducted during* — **2011-2020**

## 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

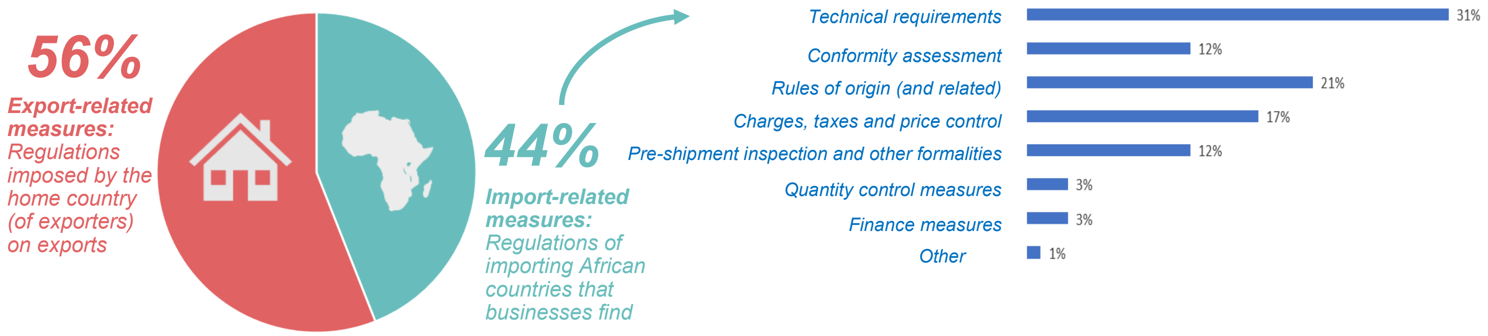

**Lack of trust in the quality of products made on the continent**


**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 techno-logy and skills**

### Types of non-tariff measures African exporters find burdensome in intra-African trade




## Doing business in Africa

Few companies currently have production plants or affiliates in other African countries (28%). Automotive is the sector with the largest share of businesses with production plants or affiliates in other African countries (46%) followed by Pharmaceuticals (36%). In the Apparel and baby food sector, this share is 15% and 17% respectively. These companies are to a large extent those with some degree of foreign ownership. Very few companies that are fully locally owned have plants or affiliates in other countries. However, a significant share of companies (42%) plan on expanding in Africa.

Most of the interviewed companies are oriented towards the domestic market with 83% selling their products locally, 40% to other African countries and 50% to other non-African countries. Roughly one in three companies are catering exclusively to the local market with no foreign exports.

In terms of sales, an average firm generates 63% of its sales domestically. A company generates more from its export to non-African countries (29% of the sales) compared to exports within Africa (7%).

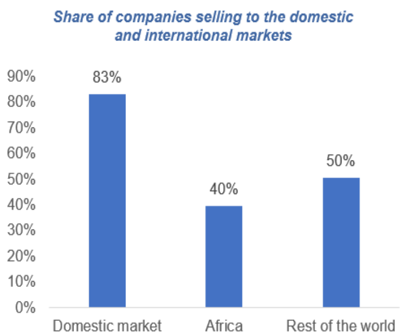
Awareness about AfCFTA among African businesses is also low with only 46% reporting to know about the agreement. Likewise, only 9% of businesses have participated in public-private consultations preceding the adoption of the AfCFTA.

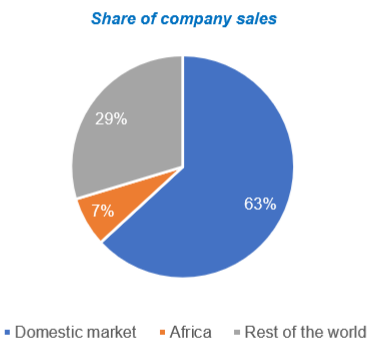
> *Sourcing inputs from Africa? For us, this is the future. Yet to date, we have no knowledge about fabrics supplied by African countries.*

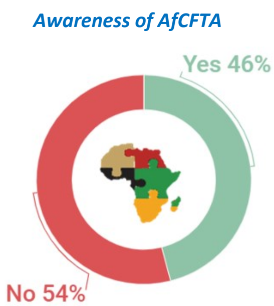
> *I don't know any African company which supplies the inputs that we would need.*

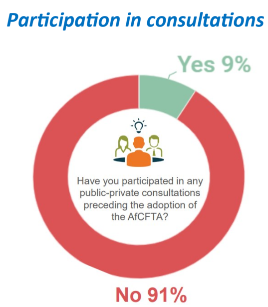
> *We need information on the available offer in African countries. There should be more African suppliers participating in our national trade fairs, but also those in Europe.*

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



# Opportunities and challenges in four example sectors

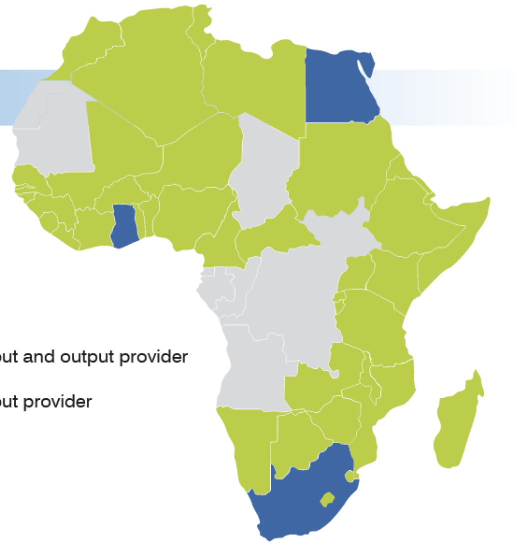
## Food preparations for infant use

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, 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** Sub-regions with potential

**3** Output providers with comparative advantage or export potential >$10 m

**39** Input providers with comparative advantage or export potential >$10 m, among them 23 LDCs

> *Our technical teams require intensive training on different technical skills like GAP, GMP, GHP, HACCP and food processing technology.*

> *The laboratory lacks major quality assurance parameters to test raw, intermediate and finished goods in line with market requirements .*

## Pharmaceuticals

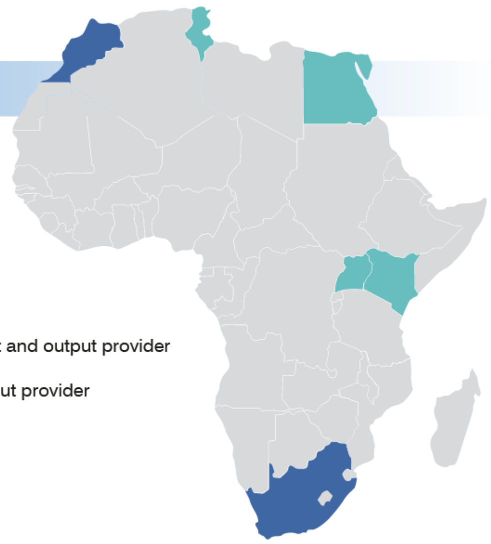
Import dependency is also high in pharmaceuticals. With current imports of €13 billion – projected to increase by 79% by 2026 – and a large trade deficit of €12.6 billion, this value chain is important for building resilience to supply chain shocks, such as those caused by the Covid-19 pandemic. At the 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** Sub-regions with potential

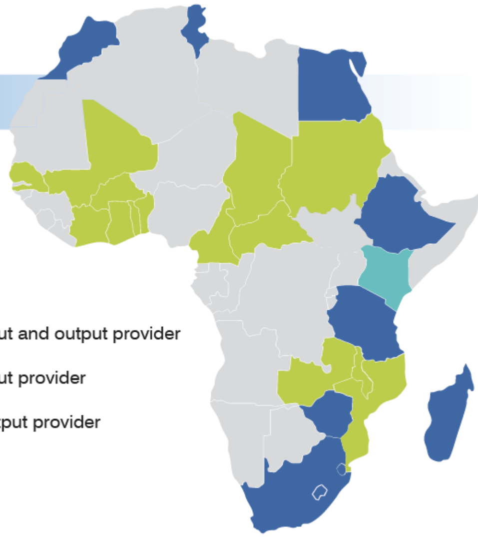
**2** Input providers with comparative advantage or export potential >$10 m

**7** Output providers with comparative advantage or export potential >$10 m,

> *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 .*

> *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.*

## Apparel of cotton



Input and output provider

Input provider

Output provider

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.

**5** Sub-regions with potential

**13** Output providers with comparative advantage or export potential >$10 m, among them 4 LDCs

**26** Input providers with comparative advantage or export potential >$10 m, among them 16 LDCs

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

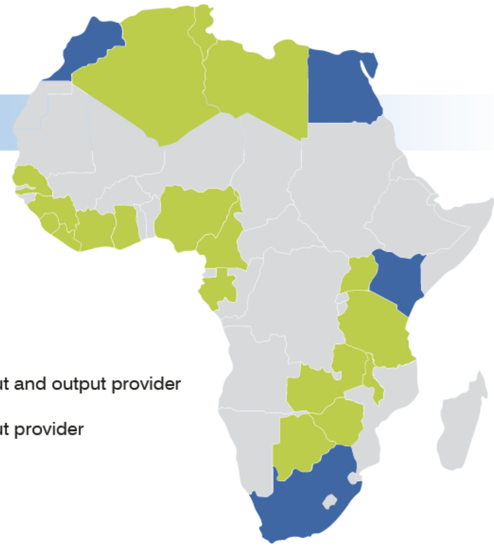
**"Missing middle" for value chain inputs.** Key inputs such as yarn and fabric are not readily available from suppliers on the continent, and when they are, it is often at a price to quality mismatch relative to other suppliers. African fi rms export raw cotton and often assemble and transform garments 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.

> *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.*

> *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 .*

## Motor cars



Input and output provider

Input provider

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 produce inputs for the value chain with the 4 countries that 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** Sub-regions with potential

**4** Output providers with comparative advantage or export potential >$10 m

**23** Input providers with comparative advantage or export potential >$10 m, among them 8 LDCs

> *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).*

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

# Women in African businesses

Results from NTM business surveys in 22 African countries, which cover close to 10,000 businesses and are representative by export sector, show overall low participation of women in businesses engaged in cross-border trade. On average, women make up 28% of the workforce of trading firms. There are however significant variations across countries and regions. For example, in North Africa, 23% of the companies employ more women than men, compared with 33% in East Africa and 57% in Southern Africa. There are also strong variations across sectors, with very high female employment rates in firms trading clothing and textiles versus much lower rates in chemicals or transport equipment.

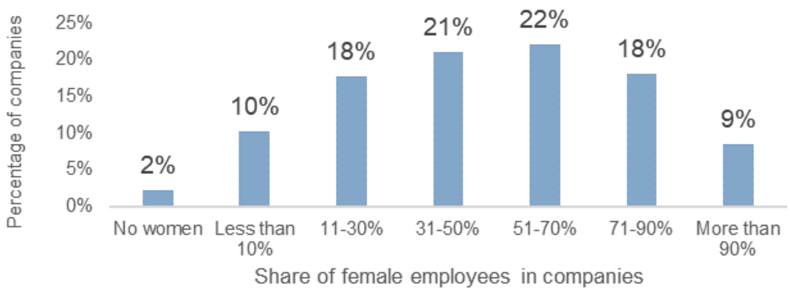
Across the continent, 16% of exporters and importers do not employ a single woman and in 30% of the companies less than 1 in 10 employees are women. At the other extreme, 4% of the companies have an almost all-female workforce (with more than 90% of the workforce being female).

Women's entrepreneurship also varies significantly within and across regions. At the continental level, only 18% of the trading firms are women-led – i.e. firms that are either owned or managed by a woman. Women's entrepreneurship is highest in Southern African Countries (36%), followed by East Africa (23%) and North Africa (18%). Women-owned and managed trading firms are most rarely encountered in West Africa (15%), where in some countries, the share of women-led firms is as low as 6% or even 3%.

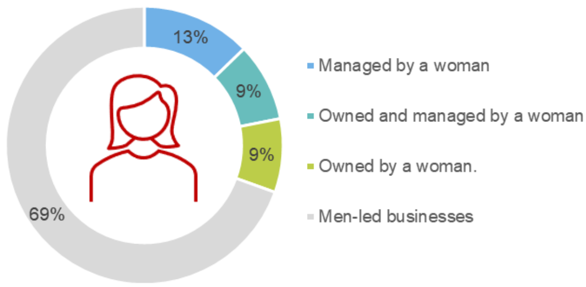
Employment of women is especially low in the automotive value chain. While companies in this sector are known to be large employers, the number of female workers is significantly lower than in the other sectors. For one-third of the interviewed companies along the automotive value chain, less 10% of employees are female – with 7% of them employing no women at all.

In contrast, the apparel of cotton value chain has a large female workforce. More than 73% of the companies in this sector employ more women than men. On average 63% of the workforce in the apparel sector are female. Likewise, women represent about half of the workforce in the food and pharmaceutical value chains respectively.

*Women in the pilot value chains: Female employment (Survey of four African value chains)*




*Women in the pilot value chains: Share of women-led businesses*




# Becoming more inclusive—increasing the participation of women in value chains

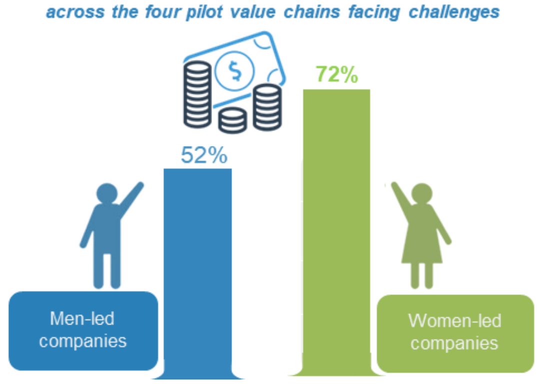
It is important to make AfCFTA work for women and to pay specific attention to inclusiveness when it comes to (further) developing continental value chains. The conclusion of AfCFTA and the current design of implementation strategies offers an opportunity by giving new momentum to addressing old challenges.

At the outset, this requires a (more) systematic data collection and monitoring of basic indicators on female employment, the share of women-led businesses in the targeted value chains and their participation in capacity building and other support programmes. Any strategy on value chain development and integration across countries should hence foresee data collection and the design of indicators and targets related to the participation of women in value chains.

When asked about key factors that would help increase the participation of women in value chains in Africa, businesses, business support organisations, industry experts and other stakeholders cite:

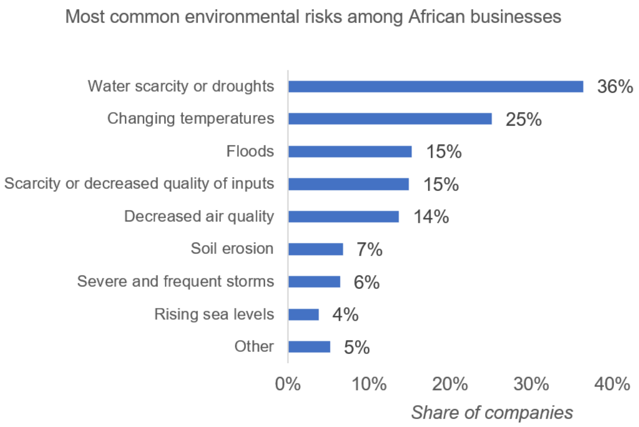
- Eliminating legal constraints impeding women's economic opportunities.
- Improving access to finance to successfully start and run businesses.
- Tackling cultural biases that hinder women’s participation in the economy in general and in leadership positions.
- Increasing the participation of women in business networks, including through dedicated women’s business associations and a better inclusion of women-led businesses in sector associations and chambers of commerce.
- Implementing targeted education and vocational training programmes. Targeted capacity building of women entrepreneurs is also essential for them to enhance their business acumen, expand and promote their businesses, and utilise the benefits arising from AfCFTA, modern technology and e-commerce.
- Sourcing more from women vendors through public procurement at national and regional levels. Improving transparency, embracing online procurement, targeted capacity building and provisions on privileging sourcing from MSMEs can contribute to increasing women's participation in procurement processes.

***Accessing finance and investment: Share of companies across the four pilot value chains facing challenges***



# Going green – Value chain development and environmental sustainability

Rising temperatures, floods and water scarcity are among the most common environmental risks African business face. Over 60% of African businesses consulted along the four pilot value chains acknowledge environmental risks to be a major factor affecting their operations. In fact, Africa is among the regions most affected by climate change despite contributing the least to it. Extreme temperatures and unexpected changes of temperature are particularly problematic in cities. These environmental impacts can hamper efforts to develop value chains at the continental scale.




While African companies are vulnerable to environmental risks, their current production processes also pose a risk to the environment. High carbon footprint of automotive production is well documented, and businesses along the value chain are conscious about the air pollution stemming from the vehicles they (help) produce. Many businesses and other stakeholders consulted hence underline the need to make the right choices when further developing the industry in Africa.

While many companies see the need - and are willing - to adopt greener practices, there is little pressure on them to do so. On the public sector side, environmental regulations are often weak and where existing, they are often not effectively enforced, leaving compliant companies at a (cost) disadvantage vis-à-vis non-compliant competitors. Transparency of existing regulations is also a problem, with many companies reporting to be unaware of what regulations they would have to comply with at the national level.

Overall, 30% of the businesses along the four value chains are facing obstacles with their current or planned production due to environmental regulations or the lack thereof. Lack of adequate waste disposal and recycling systems is one of the most cited challenges companies are struggling with, including those in export processing zones.

Demand for environmentally friendly products is not yet very pronounced in local markets, according to companies and stakeholder interviewed. With baby food being the notable exception, business clients and end consumers are not willing or simply unable to pay a price premium for more sustainable products. This is particularly apparent in the car market where cheap, sub-standard vehicles face high demand due to the low purchasing power of many clients. In contrast, export-oriented companies, particularly those focusing on markets outside the continent, face more pressure from their clients to supply eco-friendly products or prove sustainable production processes.

Many interviewed businesses expressed the desire to transition towards greener production, including for economic reasons, e.g. as a means to reduce cost related to energy and water use in production, as investment in anticipation of increasing government pressure or client demand or as they consider exporting to markets outside the continent. However particularly MSMEs often lack the know-how, technology, and financial capability to move towards a more environmentally friendly production. Nearly all interviewed MSMEs deplore the lack of government support for the green transition, such as tax incentives, financial support, access to low-interest loans or capacity building programmes. Many are worried that they will not be able to stay in business if market requirements and domestic regulations become stricter.

Surprisingly and despite the challenges and lack of incentives, most interviewed companies (77%), including businesses of all sizes across countries and the four pilot value chains, have already started implementing initiatives and in-house solutions to make their production more sustainable, within the limits of their financial and technical capacities.

**The way forward: Africa is ready to "go green" – all it needs are the right incentives and targeted support**


The evidence from the ground demonstrates that a strong focus on environmental sustainability in further developing pan-African value chains is not only necessary in the light of climate change, but also possible given the widespread awareness of businesses of environmental challenges at large and their own footprints in particular, as well as their readiness to contribute to mitigating them. In the formulation of continental, regional and national value chain development strategies, due consideration should hence be given to environmental concerns and risks, and specific monitoring indicators designed, e.g. for waste recycling rates or the efficient use of water and energy.

## Moving forward….

The value chain diagnostic and related analysis of challenges and recommendations are a starting point, designed to facilitate policy discussions and inform strategy and project design as well as investment decisions at the continental, sub-regional and national levels. As such, early results of the diagnostic have informed the sector focus of the 7th EU-Africa Business Forum in February 2022 and recommendations fed into the associated Business Declaration. Results and recommendations are also being used by ITC and partners in the design of technical assistance projects and feed into the AUC-led inter-agency steering committee on value chains.