PAFTRAC

Pan-African Private Sector Trade & Investment Committee

Trade Advocates for Africa

PAFTRAC Africa CEO Trade Survey Report 2024

Assessing the impact of the AfCFTA on African trade

In partnership with

Prof. Patrick Utomi
Chairperson
PAFTRAC

Foreword

In a world of rapid transformations and unprecedented challenges, the resilience and adaptability of Africa's business leaders stand as a beacon of hope. Now in its 4th edition, the *PAFTRAC Africa CEO Trade Survey Report* continues to provide an in-depth look into the minds of the continent's top executives as they navigate the intricate web of international trade.

Reflecting on the foreword prepared for the 2023 edition of this report, we observed the significant repercussions of rising interest rates in the West, which led to increased capital costs and a stronger US dollar. This scenario exacerbated inflation and living costs in developing nations. Additionally, the report highlighted the rise of new 'minilateral' trade agreements and a shift towards de-dollarisation, driven by a growing desire among emerging markets to reduce their dependence on the dollar. These trends have persisted into 2024, shaping the trade landscape and influencing strategic decisions across the continent.

Yet, despite these hurdles, Africa has shown incredible resilience, with GDP growth projected to hover around 4% in 2023 and 2024, buoyed by supportive policies and global efforts to cushion the impact of these external shocks. In fact, 7 out of 10 of the world's fastest-growing economies are in Africa, according to the IMF's latest World Economic Outlook.

Moreover, the removal of tariffs and trade barriers across Africa through the AfCFTA has the potential to increase Africa's prominence on the global stage, building a single market for goods and services of 1.7 billion people and a combined GDP of $3.4 trillion. Therefore, the African Continental Free Trade Area (AfCFTA) must continue to be a focus for policymakers on the continent.

Indeed, significant progress has been made with the AfCFTA in 2024. The Guided Trade Initiative, which began in October 2022, has expanded to include 24 new countries, in addition to the initial seven participants. This initiative aims to reduce barriers to trade, investment, and movement, acting as a catalyst for industrialisation and economic growth across the continent. As of early 2024, 47 State Parties have ratified the AfCFTA Agreement, with efforts ongoing to bring the remaining countries on board.

However, the AfCFTA is simply a tool, and it will be Africa's private sector that wields this powerful instrument of change. To ensure the success of the AfCFTA, the private sector's voice must be heard in the negotiations and future arrangements. It is evident in the responses this year, and in previous editions, that the continent's private sector is committed to the AfCFTA as a means to advance economic growth, innovation, and competitiveness.

We extend our heartfelt gratitude to the nearly 1400 executives who shared their invaluable insights and to the dedicated team that made this report possible. We hope that the *PAFTRAC Africa CEO Trade Survey Report 2024* will continue to serve as a crucial resource for all stakeholders committed to advancing Africa's trade and economic prosperity.


UASC
Hapag-Lloyd
BEACON
BEACON

Executive Summary

This fourth edition of the Pan-African Private Sector Trade & Investment Committee (PAFTRAC) CEO Trade Survey Report examines current and future trends in African trade flows, the progress made on implementing the African Continental Free Trade Area (AfCFTA), and the areas where support is most needed to make the free trade area a reality. The centrepiece of the report is our survey of business leaders across the continent operating in all sectors, to provide real insights into the situation on the ground, the extent of enthusiasm for the free trade project and the ongoing obstacles to making it a success.

Following this Executive Summary, Section 1 of the report will consider the outlook for African economies. Despite various challenges, including high levels of global inflation and interest rates, African CEOs are remarkably optimistic about the potential for future trade growth, with a growing number describing themselves as very confident. Unsurprisingly, high levels of debt, inflation and interest rates were the main concerns highlighted by the survey participants, with local security problems considered a more serious threat than global conflicts.

Section 2 will look at the progress that has been made so far on building the AfCFTA. The zone will celebrate its fourth anniversary in January 2025 but most of the benefits will only be achieved in the longer term, as the process of eroding cross-border tariffs and non-tariff barriers will be long and complicated. There also needs to be something of a cultural shift by all concerned. Although they have already signed up to the project, governments will have to be convinced of the benefits of reducing tariffs and opening up their economies to greater competition. While the AfCFTA will increase the number of threats to established businesses, the lion's share of survey participants are optimistic about the zone's potential benefits.

As last year, one of the clear messages to come out of our survey is that there is insufficient information available on the AfCFTA and its operational instruments. Most companies had never heard of the AfCFTA Adjustment Fund, Automotive Fund and AfCFTA E-tariff Book, while an incredible 46% were unaware of the Pan-African Payment and Settlement System (PAPSS). The System lies at the heart of the entire undertaking by providing payment, clearing and settlement facilities for African cross-border trade. If companies are unaware of key elements of the entire venture, then they will obviously be unable to make use of them.

The vast majority of companies also said that they had little or no access to relevant AfCFTA information for business purposes, with just 8% indicating that their companies received support in taking advantage of the new zone. They made it clear that they look to trade finance bodies and the AfCFTA more than national governments to provide that information in the future. Roughly half of all companies said that the new zone had had no impact on their businesses to date but the figure of 7% who have already experienced a high impact is likely to slowly increase over the next few years.

Current trade flows

This is followed by an analysis of existing trade flows, both within Africa and with the rest of the world in, Section 3. European and Asian markets dominate external African trade, with the continent mainly continuing to export raw materials and importing manufactured goods in return. However, the AfCFTA offers huge potential to build production chains within Africa itself to create more diverse and less vulnerable national economies.

South Africa, Nigeria and Egypt are predictably among Africa's biggest trading nations. However, the fact that our respondents are also particularly involved in trade with East African countries highlights the progress that has already been made by the East African Community in building trade in that region, which should generate confidence in the whole concept of continent-wide free trade.

UNCTAD calculates Africa's current untapped export potential at $21.9bn and believes that $9.2bn of this can be tapped through partial tariff liberalisation under the AfCFTA over the period 2023-28. Fully unlocking this potential will require substantial progress on eroding tariffs, infrastructural improvements and improved access to market information. The most urgent infrastructural need is for new logistics projects, so we also consider the main means of transport employed by our respondents in this section.

Sector breakdown

The report then examines current trends within the main sectors in Africa in Section 4, looking in turn at the agribusiness, financial services, manufacturing, mining, pharmaceuticals, tech & telecoms, and transport & logistics sectors. Across all sectors, two areas stand out for greater attention: greater access to financing and more investment in infrastructure to improve the prospects of African businesses.

The AfCFTA Secretariat will not have the financial muscle to provide the desired financing itself but it can support the financial services industry to do so, particularly as digital banks have begun to turn their attention to SMEs. The AfCFTA can also work to erode barriers to financial services within Africa to ensure that capital is able to flow more easily to where it is really needed.

The digital banking revolution is crucial to the success of the free trade zone. Spreading the provision of banking services across the entire population and allowing people to make payments in African currencies, even when trading with those in other countries, is a vital step forward. The PAPSS will therefore be crucial in giving companies the confidence to trade across borders.

Many of those participating in our survey named different types of infrastructure that they would like to see developed as a result of the AfCFTA. Here too, the AfCFTA Secretariat will not be able to finance the required cross-border rail, road and telecoms projects itself but it can encourage member states to create attractive domestic investment regimes, to harmonise regulations and standards, and to cooperate with each other to allow such projects to be built, whether with public money, by private companies or through a combination of the two. The report ends by drawing together the main conclusions into a set of policy recommendations.

Section 1
The Forecast

Introduction

As always, we start this year's PAFTRAC CEO Trade Survey by assessing the views of African companies on future prospects for the African economy. Despite profound headwinds in the form of political and economic instability, coupled with damaging global and African conflicts, the continent's corporate world is fairly positive about Africa's economic potential, while there are indications that inflation and interest rates may soon peak.

On balance, the African CEOs who participated in our survey were remarkably optimistic about the continent's economic outlook for 2024. A total of 67.36% were confident about Africa's general economic prospects for this year, suggesting some resilience and adaptability in the face of global uncertainty for both national economies and corporations. The proportion describing themselves as very confident had remained fairly constant in our 2022 and 2023 surveys at about 14% but this figure has doubled this year to 28.56%.

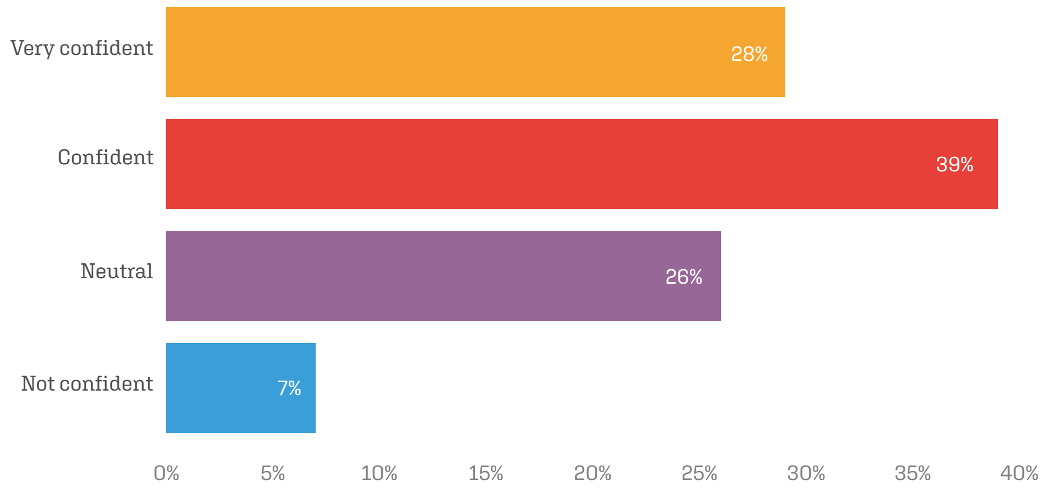
Only 6.91% expressed a low level of confidence in the continent's short-term economic future. There will be continued growth in key sectors such as technology, agriculture and renewable energy, with progress in implementing the African Continental Free Trade Area (AfCFTA) as new agriculture and digital trade initiatives are introduced. More growth will be driven by increased foreign direct investment in industrial projects and in the infrastructure required to support both foreign and local investors.

The situation varies substantially across the continent, with Sudan, South Africa and Equatorial Guinea all expected to experience low or negative growth this year, but the IMF forecasts growth in excess of 6% for Niger, Senegal, Libya, Rwanda, Côte d'Ivoire, Burkina Faso, Benin, the Gambia, Ethiopia, Tanzania, Djibouti and Burundi.

Although the African continent achieved average economic growth of 5% a year in the decade to 2019, that figure dropped considerably during and after the pandemic and has not yet recovered to the same level. The IMF expects continental African growth to gradually pick up from 3.4% in 2023 to 3.8% this year and 4% in 2025, with almost two-thirds of countries expected to enjoy higher growth. To drive up longer-term growth prospects, it has called for improved governance, transparency and domestic revenue collection, increased social protection and greater investment in digitalisation.

According to the African Development Bank's 'African Economic Outlook 2024', average real GDP in Africa slowed last year because of "persistently high food and energy prices on the back of sustained impacts of Russia's invasion of Ukraine, weak global demand weighing down export performance, climate change and extreme weather events on agricultural productivity and power generation, and pockets of political instability and conflict in some African countries".

Fig. 1: How confident are you about Africa's economic outlook for 2024?



The continent's economic health has been particularly badly affected by weak growth in key economies, including Egypt, Nigeria and South Africa. However, 31 African countries had higher real GDP growth rates in 2023 than in 2022, with six of them registering growth more than two percentage points higher: Burkina Faso, Djibouti, eSwatini, Libya, the Republic of Congo and South Sudan. Fifteen countries recorded real GDP growth of at least 5% in 2023.

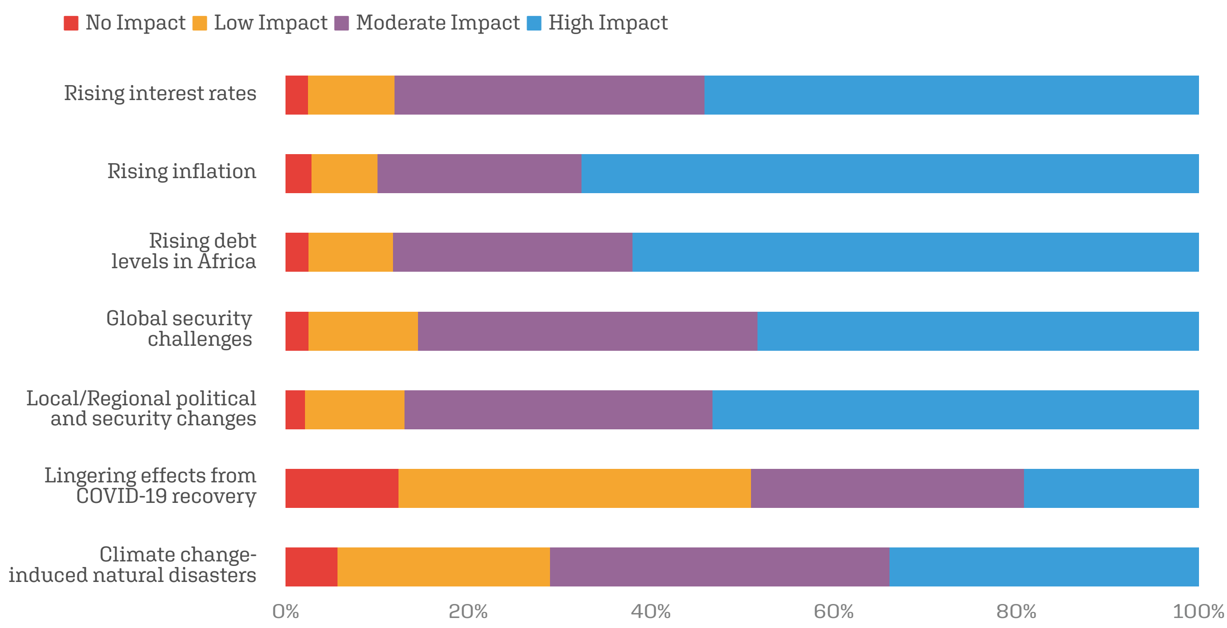
Debt, interest rate and inflation levels remain crucial

The past few years have seen a perfect storm of economic headwinds that pose challenges to Africa's growth trajectory, with high inflation and interest rates driven by post-Covid-19 pandemic dislocation and global conflict, particularly in relation to the Russian invasion of Ukraine. As the graph opposite demonstrates, these factors continue to have a big impact, with inflation, debt and interest rate levels considered to have the biggest impact by our participating CEOs.

A total of 67.61% stated that rising inflation would have a high impact on Africa's economic prospects this year, followed by the 62.03% who cited escalating debt levels and the 54.12% who indicated rising interest rates. All three factors were considered more important factors than last year. While there is a debate over exactly how worrying rising African sovereign debt levels are, the IMF calculates that Africa's total debt-to-GDP ratio has more than doubled over the past ten years. It increased by 39.3 percentage points between 2010 and 2020 but has actually fallen slightly since then to reach 68.6% in 2023, according to figures from Afreximbank.

About 67% of the continent's total external debt stock is borne by just ten African countries: Egypt (14.5%), South Africa (14.3%), Nigeria (8.4%), Morocco (5.9%), Mozambique (5.5%), Angola (5.3%), Kenya (3.7%), Tunisia (3.4%), Sudan (3.1%) and Ghana (3.0%). The ability of governments to stabilise or reduce their debt burdens will obviously depend on how well they cope with existing challenges but also on whether the continent manages to avoid any further huge shocks in the near future.

Fig. 2: Which of the following factors will have the most significant impact on Africa's economy in 2024?

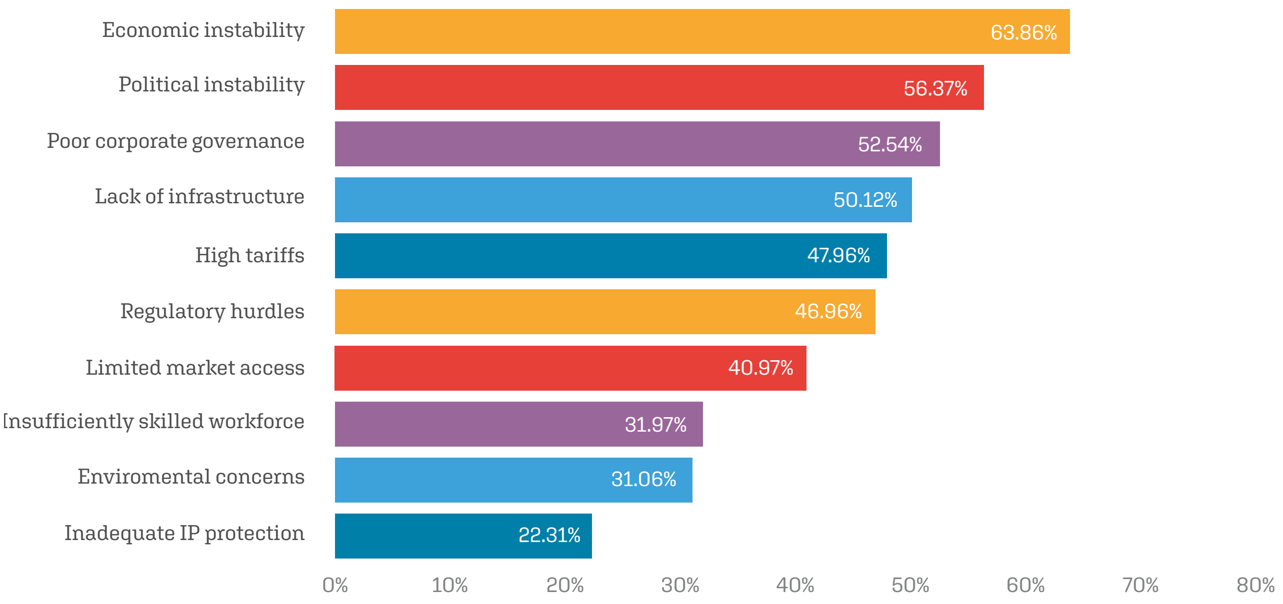


Nevertheless, some more successful economies have still been able to issue new lower-cost debt, with Kenya, Benin, Côte d'Ivoire and Senegal all completing Eurobond issues this year after a two-year hiatus for the continent from the market.

While some big global economies have begun to reduce their benchmark interest rates this year, the trend is still upwards in Africa. Since January 2024, 20 African central banks have raised their key rates and just five – Botswana, Ghana, Guinea, Mozambique and Zimbabwe – have lowered them. Among those increasing their rates are some of the continent's biggest economies: Egypt, by 8 eight percentage points, Nigeria (6%), Kenya (2.5%) and Angola (2%).

A number of African countries had worryingly high levels of inflation as of June 2024, led by Sudan with 157.9% but also including Egypt (35.8%), Sierra Leone (33.6%), Nigeria (31.6%), Malawi (27.3%), Zimbabwe (24.9%), Burundi (22.0%) and Ethiopia (21.0%). Inflation has eroded the value of the domestic currency to such an extent that Zimbabwe even launched a gold-backed currency, the ZiG, in April.

Fig. 3: What do you think are the main impediments to attracting investment in your sector of activity?



According to the AfDB's 'African Economic Outlook', average inflation rates should peak this year, then gradually decline as food and energy price inflation eases as a result of stringent monetary policies. The decisive actions taken by central banks in several African economies have already started to curb inflation, while global inflation rates have begun to fall from their 2022 highs. This trend suggests that the worst of the inflationary pressures may be over, setting the scene for a more stable near-term economic environment.

Security concerns

Interestingly, 53.29% of those surveyed said that local and regional political and security challenges would have a high impact, slightly more than the 48.38% who named global security challenges. While conflict in Russia-Ukraine and Israel-Palestine attracts most global headlines, wars in Africa garner far less attention outside the continent. However, violence is affecting much of the Sahel, with Islamist rebellions and military coups in Mali, Niger and Burkina Faso, devastating civil war in Sudan and renewed fighting in the Democratic Republic of Congo.

Indeed, the IMF forecasts that Sudan will have the worst economic performance of any country for which it produces figures this year, with a 4.2% economic contraction compounding the impact of last year's 18.3% decline in GDP. Yet this pattern of debt, inflation and interest rates being considered more important than either global or African insecurity or terrorism replicates the results of our 2023 survey.

Almost half of African CEOs believe that the Covid-19 pandemic and aftermath is continuing to affect the continent's economies, although only 19.15% rate it as a high impact. A total of 71.03% consider that climate change and associated natural disasters will have a moderate or high impact on Africa's economy in 2024, including 33.89% who said it would have a high impact, a figure that is steadily rising every year.

Economic and trade impediments

The investment landscape across Africa as a whole is improving but security, economic and political instability continue to act as brakes on investment across all sectors. Although these factors work together to depress growth, economic instability is considered the biggest impediment to investment by our survey participants, with fluctuating economic conditions and uncertainty making investors cautious.

While 63.86% of our surveyed CEOs named economic instability, almost as many (56.37%) cited political instability, with political unrest or changes in government policies creating an unpredictable investment environment. Poor corporate governance, a lack of infrastructure, high tariffs and regulatory hurdles were all significant factors. However, at the other end of the scale, inadequate intellectual property protection, environmental concerns and a lack of skilled workers were all viewed as more minor impediments in the survey as a whole, perhaps because – unlike with the other factors – they are only of great significance in specific sectors.

Political unrest and economic instability often go hand-in-hand, with much of the Sahel, Horn of Africa and Congo Basin affected on both counts. There is no easy answer to all these challenges and different solutions are needed in each country. However, creating greater capacity within the continent to tackle such problems together would be a big step in the right direction. It would also make Africa less exposed to global trends and less reliant on external actors, while promoting intra-African cooperation.

Section 2
Building Blocks

The AfCFTA and the journey so far

Introduction

The African Continental Free Trade Area (AfCFTA) came into force to great fanfare at the start of 2021. It aims to gradually erode and ultimately lift tariffs on goods and services traded between African states, while also weakening non-tariff barriers. The agreement to create it was signed by 54 African countries, with only Eritrea still to ratify it. The goal is simple and hugely ambitious: the creation of a single market for goods and services along the lines of the European Union but on a much bigger scale in terms of the population and geographical area involved.

Free trade was not – and will not be – enabled overnight. The AfCFTA's launch was largely a commitment to work towards creating a single market. Years of trade negotiations between different countries over individual goods are required to gradually break down the obstacles to trade. Each state or regional trade bloc submits its own plans, which are then published on the Africa Trade Observatory website. An ambitious target date of 2031 has been set to phase out tariffs on 90% of goods, with another four years allowed to tackle the remaining – and almost certainly most difficult – 10%. As the benefits of the first agreements begin to feed through, the process is likely to accelerate as confidence grows.

The AfCFTA project stands much more chance of success given that those involved appear to have recognised that such an undertaking cannot be imposed from above by a single overarching authority but must be created step by step by the governments involved. It is also important that the companies that will be affected by freer trade have mechanisms to provide feedback as they begin to utilise the opportunities presented to them.

It is well known that African states tend to trade far more with the rest of the world than with each other. According to United Nations figures from 2023, intra-African trade accounts for just 14.4% of total African exports, although this is a significant rise on the 10% recorded in 1995. Yet this compares to 59% of Asian exports being sold within that continent and a rate of 68% in Europe. However, UNCTAD calculates that the AfCFTA could boost intra-African trade by a third and cut the continent's trade deficit by 51%.

The economic patterns of the colonial period created territories built around exporting raw materials to the colonial power in question, with little economic interaction with their immediate neighbours. It took decades to significantly erode those patterns but although official statistics tend to exclude cross-border informal trade, the limited scale of internal African trade is one of the main causes of the continent's limited economic muscle. Africa's total GDP in 2023 was $3.1 trillion, which was roughly the same as that of the UK, but its untapped potential is huge.

The fragmentation of Africa into more than 50 markets, many of them very small in economic terms, helps constrain trade on the continent. However, it is now hoped that the free trade area will boost GDP, trade volumes, employment and living standards across Africa. It could also encourage the development of much greater manufacturing and processing capacity on the continent, with producers able to benefit from much larger markets for both customers and raw material supplies.

The AfCFTA implementation roadmap has included key policy interventions

Fig. 4: AfCFTA major event highlights

2021

January	**Trading** officially commences under the AfCFTA
March	**Operationalisation** of the African Virtual Trade Diplomacy platform
September	AfCFTA **signs** MoU with Trademark East Africa
October	**Establishment** of the AfCFTA Dispute Settlement Body

2022

January	**Launch** of the Pan-African Payment and Settlement System
February	**Inauguration** of the Trade and Industrial Development Council
April	UK **commits** £35m to the AfCFTA Support Programme
July	**Announcement** of the Guided Trade Initiative Launch of the AfCFTA Digital Hub

2023

February	**Announcement** of the draft Protocol for Digital Trade
March	**Launch** of the AfCFTA Adjustment Fund in Rwanda
April	**Convening** of the inaugural AfCFTA Business Forum

2024

January	**Establishment** of the Protocol on Digital Trade
June	**Announcement** of a 4-year fisheries program with Mastercard Foundation and TradeMark Africa
April	**Launch** of the Guide for Country Impact Assessments on Accelerated Industrial Development for Africa (AIDA) & the AfCFTA

Reducing punitive tariffs will help achieve this but much more investment needs to be funnelled into strengthening cross-border infrastructure. Too many rail and to some extent road networks fail to connect with neighbouring economies, while one stop customs infrastructure and processes can help speed up border crossings by avoiding multiple cargo checks. In the long term, modern logistics infrastructure can turn borders into conduits rather than barriers to trade.

Binding together so many countries with different cultures, languages and legal systems in one economic area will be very difficult. Yet the potential political, economic and security benefits are enormous. Much of the drive to create the European Union after the Second World War came from a desire to bind the countries of Europe together to make renewed conflict less and less likely.

Events elsewhere in the world have also shown that those who intensively trade together are unlikely to resort to warfare to settle their differences. Replicating this in Africa would obviously be a great advantage. Moreover, much greater internal trade activity should help drive living standards up, helping to calm internal conflicts in the process, as economic insecurity fosters terrorism, secessionist movements and general insecurity.

Limited awareness of the AfCFTA

A total 40% of respondents described themselves as familiar with the AfCFTA in our survey of African CEOs this year, a significant increase on the 27% recorded in 2023, so initiatives to promote the free trade area, such as the AfCFTA Hub and African Continental Free Trade Area Business Forum, are starting to have an impact even if there is still a long way to go. The AfCFTA Hub was launched in 2022 to provide a first-stop portal for all private and public sector engagement with the free trade area. It provides a common transactions reference framework to deepen interoperability among e-commerce, e-logistics, e-regulation and e-customs platforms.

Relatively low levels of familiarity with the AfCFTA as a whole mean it is no surprise that most respondents remain unaware of the zone's specific operational instruments. Awareness of the Pan-African Payment and Settlement System (PAPSS) was greater than for any other instrument and yet only 15% were fully aware of that platform, while 46% had never heard of it, which is 7% more than in last year's survey. The increase may be explained by the higher number of CEOs taking part in our survey, with some of the newcomers perhaps less involved in cross-border trade and so less aware of payment difficulties and solutions.

Fig. 5: How familiar are you with the African Continental Free Trade Area?

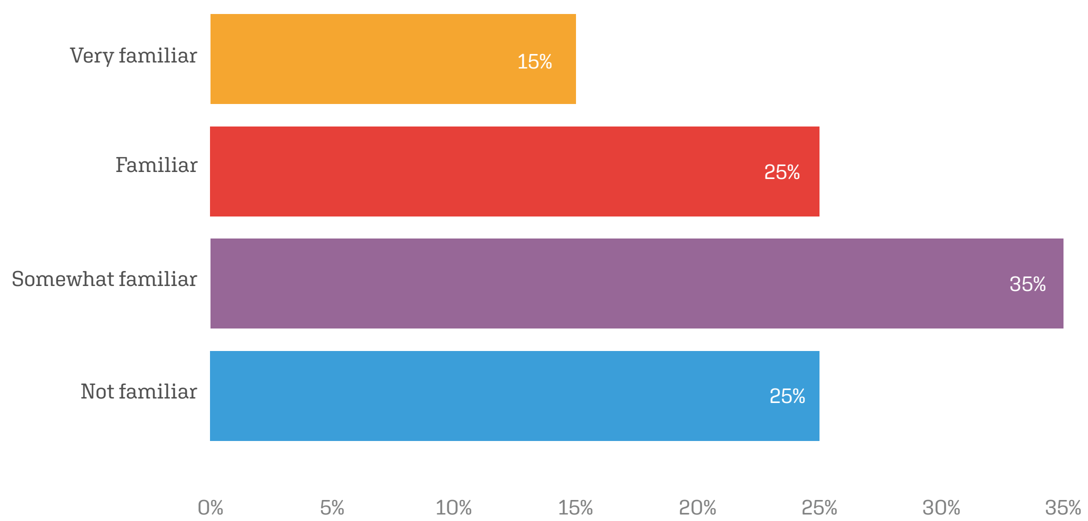


Fig. 6: How aware are you of the following operational instruments that support the AfCFTA?

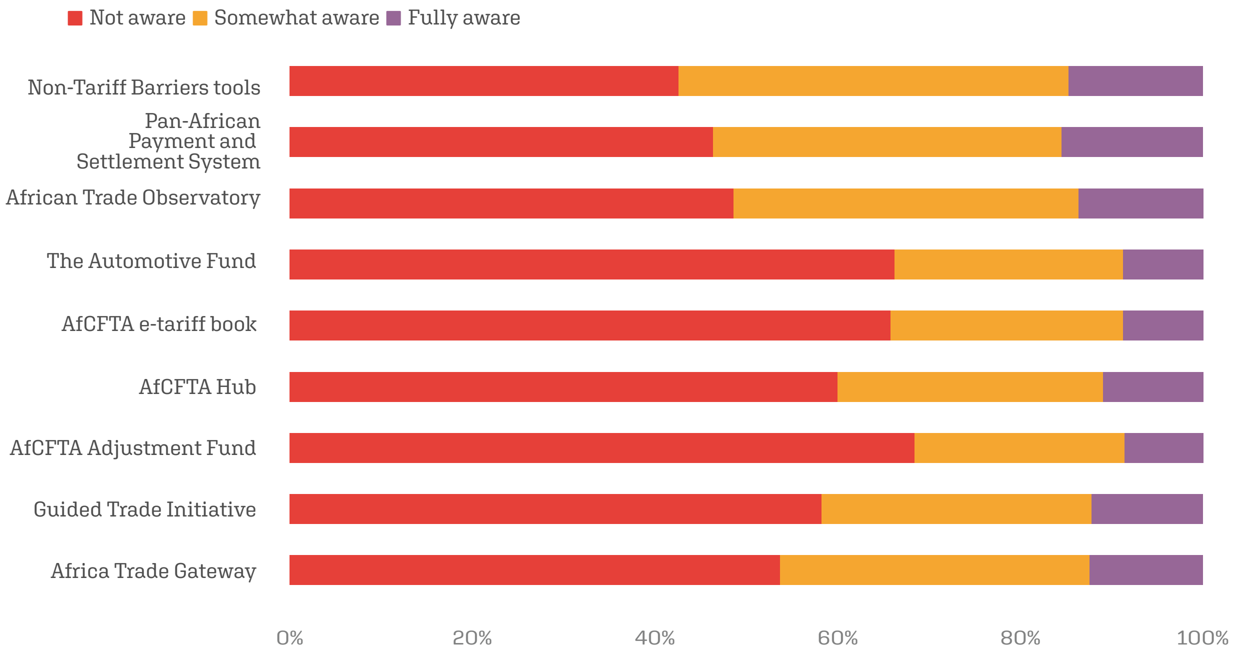


Fig. 7: To what extent does your company have access to relevant AfCFTA information for business purposes?

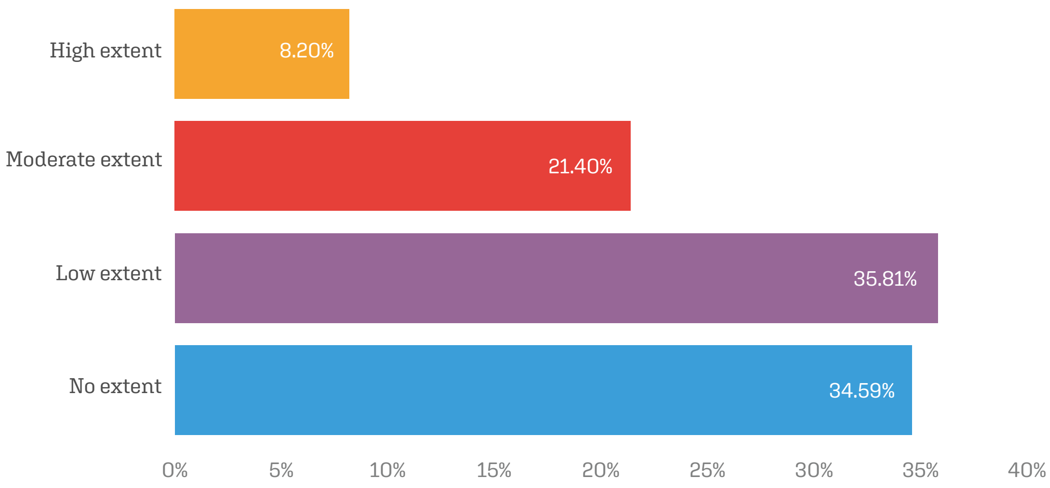
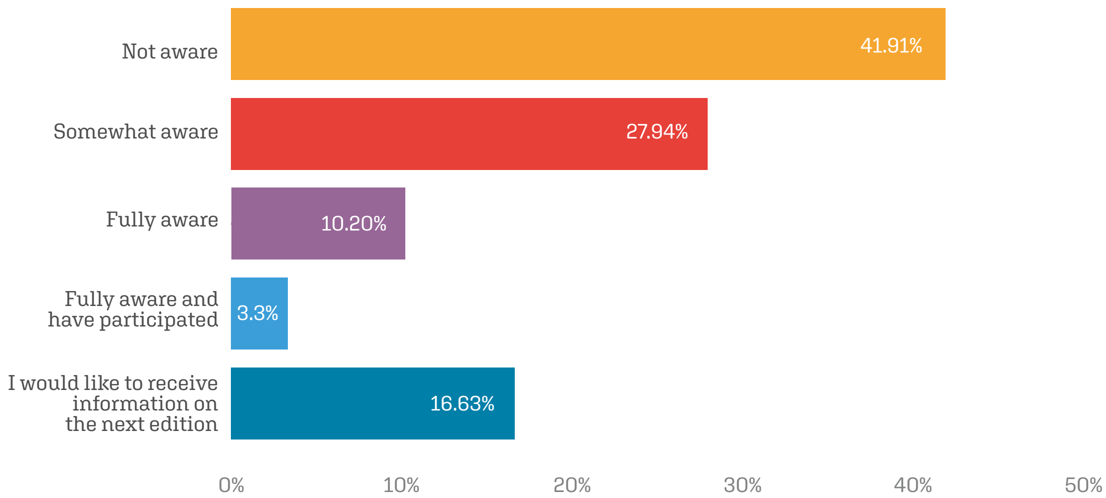


Fig. 8: Is your company aware of the IATF, the Intra-African Trade Fair?



PAPSS was developed by Afreximbank to provide payment, clearing and settlement facilities for African cross-border trade. Afreximbank itself acts as the main settlement agent, providing settlement guarantees and working with regional organisations, such as the West Africa Monetary Institute, to promote its use. It is hoped that the 500-600 banks operating in Africa will all eventually make use of it.

Awareness was lowest of the AfCFTA Adjustment Fund, Automotive Fund and AfCFTA E-tariff Book. Ignorance of the Automotive Fund is perhaps understandable given that it is only of relevance to specific companies but businesses operating in many industries can make use of the other two initiatives. Launched in July 2022, the AfCFTA E-tariff Book is a digital platform with updated information on tariff concessions that each country and customs union in Africa has accorded to goods imported from other AfCFTA states.

We specifically asked our survey participants about the Intra-African Trade Fair. A total of 58% were aware of the trade fair to some extent, with a sixth interested in participating in next year's event. The biennial IATF was launched in 2018 as a unique platform to connect African buyers, sellers and investors, and it is still the only Pan-African B2B cross-sector trade fair, bringing African buyers and sellers together and attracting investors and trade organisations from across the world. It is organised by Afreximbank in collaboration with the African Union and AfCFTA Secretariat, marking an important step to sustainably addressing the gap in trade and market information for the successful realisation of the AfCFTA objectives.

It is vital that more effort is put into promoting the AfCFTA to highlight its benefits and the various instruments on offer, if the free trade zone is to become a success. Traders are unlikely to take advantage of the free trade area if they have limited awareness of its benefits. Above all else, if more traders make use of the zone, then governments are more likely to negotiate the erosion of existing tariffs and work to break down non-tariff barriers.

Consultation and access to information

Given low awareness of the AfCFTA and related initiatives, it follows that most businesses have not engaged in any consultations or negotiations with the initiative. Following the pattern of our previous surveys, just 16% of respondents said that their

Fig. 9: What impact has the AfCFTA had on your business to date?

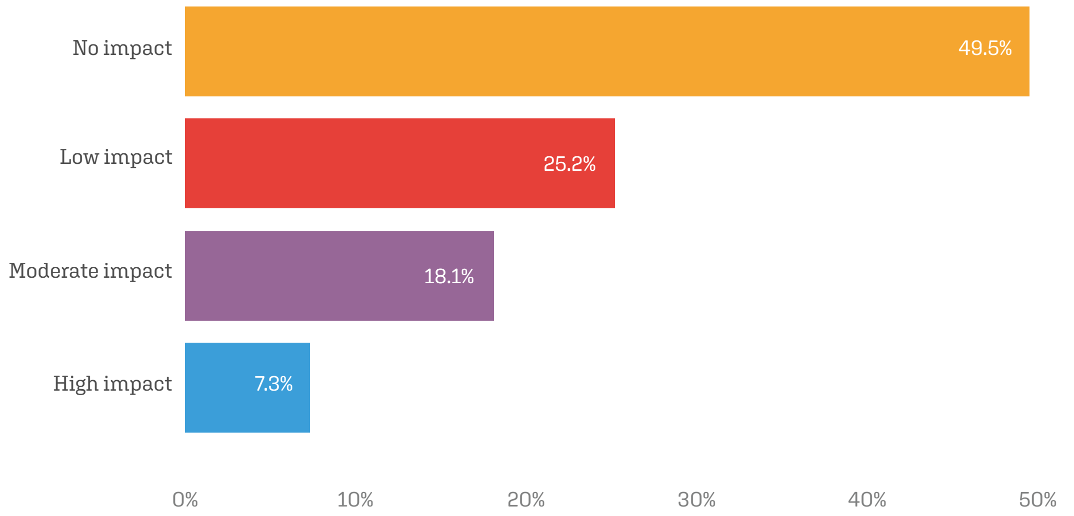


Fig. 10: How do you anticipate the AfCFTA will affect your business in the future?

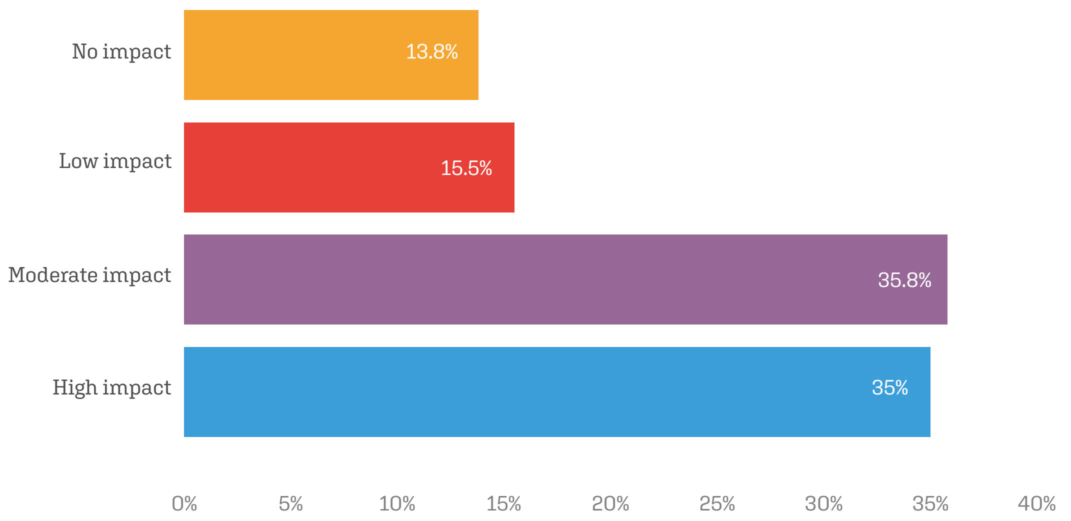
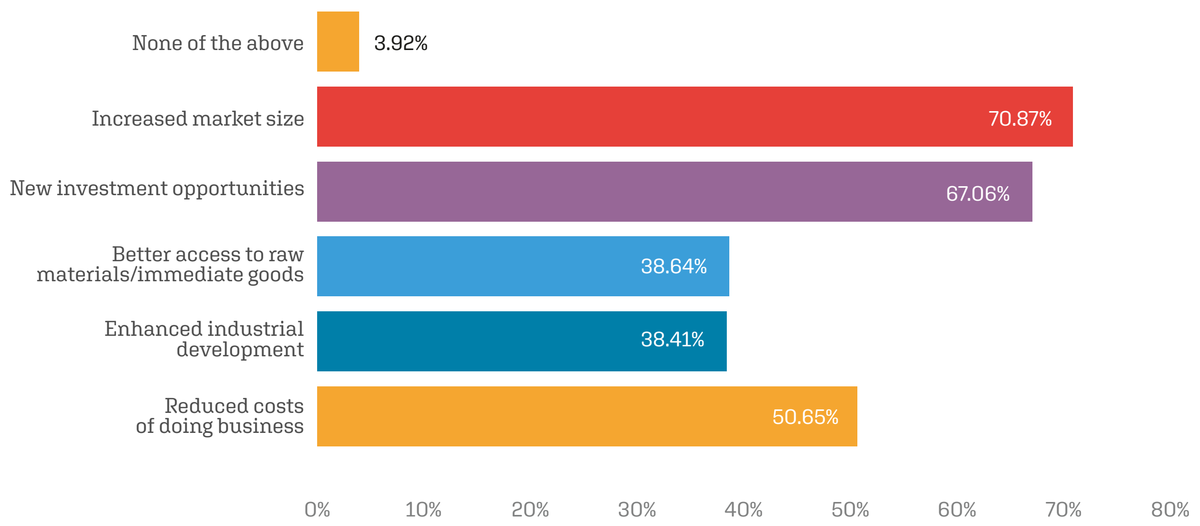


Fig. 11: What are the opportunities that you believe the AfCFTA can bring for your company?



company had interacted with the AfCFTA or the AfCFTA national implementation strategy. This is not unreasonable in terms of consultation given that only a small proportion of any given target audience is likely to be involved in the consultation process for any initiative.

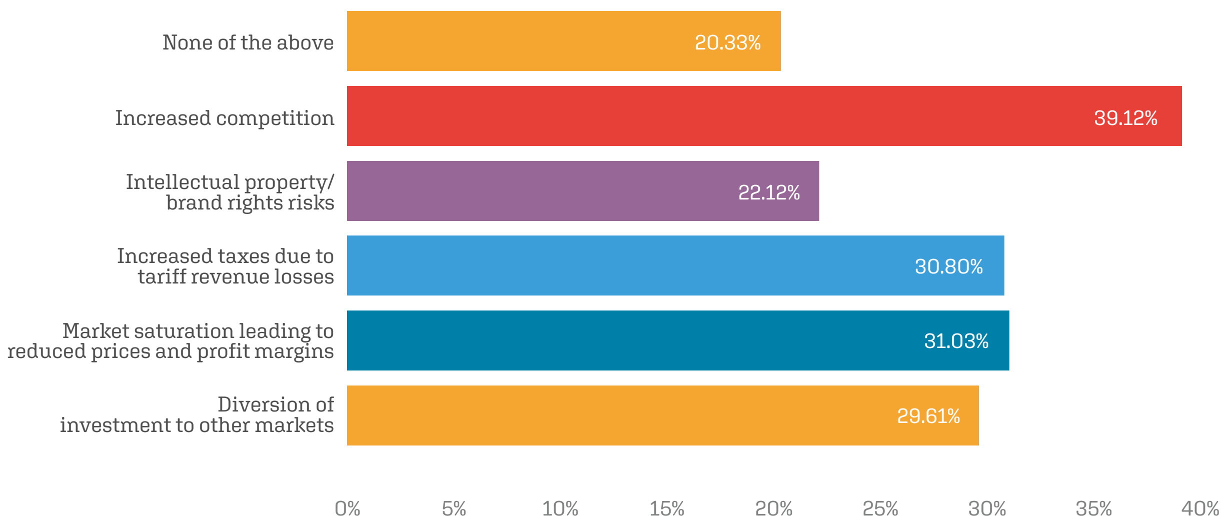
However, there may be some scope for more tailored and accessible platforms that encourage direct dialogue between the AfCFTA and the business community. Without meaningful engagement, businesses may miss out on the full range of opportunities that the AfCFTA offers, potentially limiting the area's overall impact on regional trade.

Very few of our participants said that their company had great access to relevant AfCFTA information for business purposes, suggesting either that the required information was not easily accessible, or that they had not attempted to locate it. However, given that 65% had access to at least some information, it appears that there are challenges in obtaining everything required, despite the fact that there has been a deliberate effort to promote the AfCFTA. The proportion stating that they had low or no access fell from 80% last year to 70% in this year's survey, indicating a modest step in the right direction.

The vast majority of those surveyed said that they accessed AfCFTA information via online resources rather than government or industry association sources, although obviously the latter two options may also be delivered online. A total of 79% stated that they used online resources, up from 58% last year. As long as the information on the AfCFTA provided is accurate, it makes little difference how it is delivered but these results are important in terms of focusing future investment in information resources.

Moreover, a more diversified communication strategy that includes offline channels, such as workshops, could ensure broader and deeper access to critical information, thereby promoting more inclusive participation in the AfCFTA. The IATF is one such platform but its impact will remain limited until more businesses are aware of its existence.

Fig. 12: What do you see as the biggest threat that the AfCFTA may bring to your business?



Impact of the AfCFTA

Almost half of all the CEOs we surveyed said that the AfCFTA had had no impact on their businesses to date, with another quarter stating that the impact had been low. Indeed, just 7.3% said that it had had a high impact. Again, this is unsurprising given that so many CEOs are still unaware of the AfCFTA or of its main mechanisms. It is important to emphasise that the creation of the free trade area will be a long process, rather than a big bang type event that revolutionised the potential and operations of all African businesses from its launch in 2021.

The benefits of the zone will grow year-on-year as hard-fought tariff reductions are introduced one by one, hopefully producing compound benefits in the process. The real test of the AfCFTA's success will be to measure the impact over the first decade of its existence, so it will be useful to track the responses to this question over our next few annual surveys.

It is clear that African CEOs are confident that the benefits of the free trade area will eventually filter through to their own companies. Only 14% said that they didn't expect the AfCFTA to affect their business in the future, with 70% predicting a moderate or high impact. Projections indicate that the AfCFTA has the potential to boost Africa's global exports by 32% between its launch and 2035, while also significantly stimulating annual foreign direct investment, which is anticipated to rise by between 111% and 159% as a result of improved access to markets and streamlining regional trade.

Trade facilitation measures associated with the free trade zone are expected to boost Africa's income by $450bn by 2035 and increase Africa's exports by $560bn, with a much greater focus on manufacturing. The World Bank calculates that if the free trade area is fully implemented, incomes could be 9% higher and that 50m people could be lifted out of extreme poverty by 2035.

While such optimism is to be welcomed, it is vital to identify exactly how companies expect the AfCFTA to benefit them. We therefore asked the CEOs participating in our survey what opportunities they expected to be created. Two factors above all others stood out: increased market size and new investment opportunities were mentioned by 71% and 67% of participants respectively, both of which specifically relate to the erosion of international economic

Fig. 13: Is your company receiving any support regarding implementation of the AfCFTA?

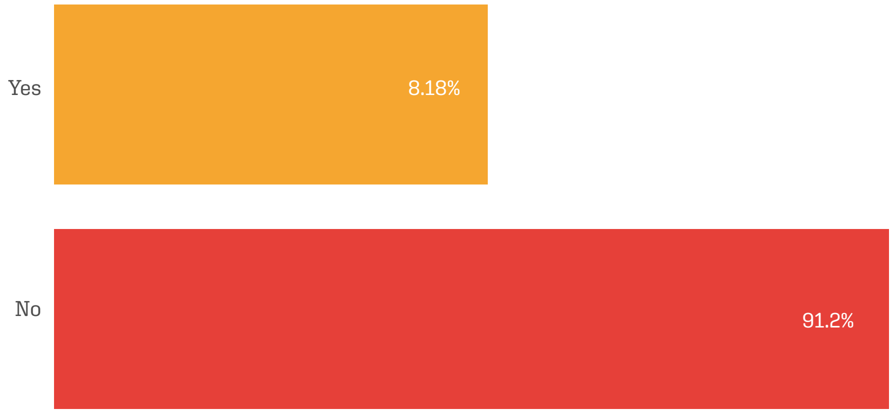
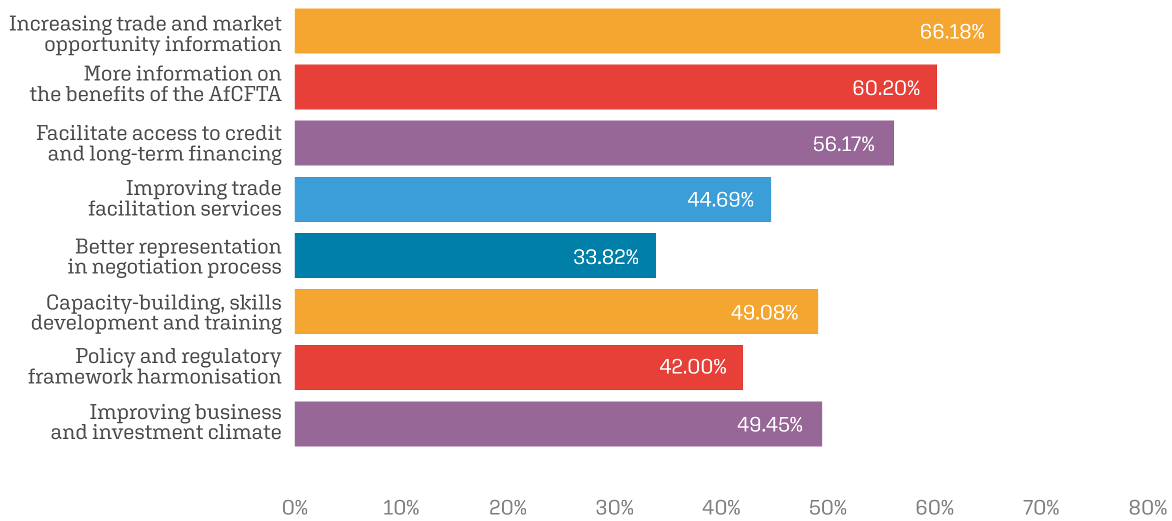


Fig. 14: What support does your company need to strategically benefit from the AfCFTA?

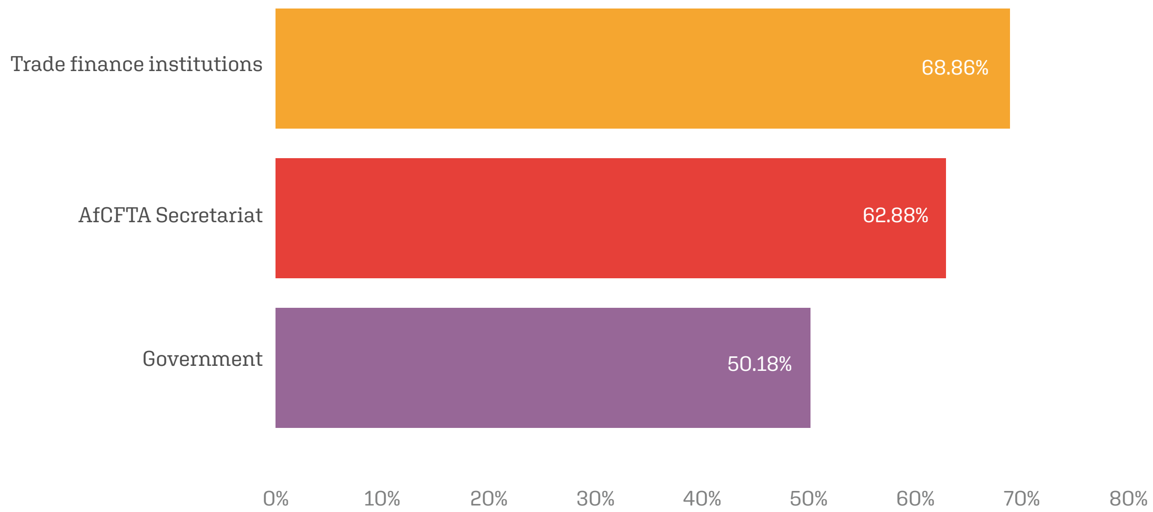


barriers. The reduction and eventual removal of cross-border tariffs will create much larger markets within which to market goods and services, creating new investment opportunities in the process. Just over half (51%) of our participants said that this would reduce the cost of doing business, a still sizeable proportion, but this point still seems up for some debate.

Potential threats from the AfCFTA

While the erosion of trade barriers should bring overall economic benefits to Africa through increased trade volumes, greater competition and higher levels of efficiency, some companies will benefit more than others, and some countries will have advantages in particular sectors. Opening up previously protected sectors to competition will mean that some businesses

Fig. 15: Which entities should be providing such support to your company?



– hopefully those that are more efficient – will prosper at the expense of their less efficient, more expensive counterparts. Such fears over losing out drove the introduction of protectionist tariffs in the first place and helped deter more open trade on the continent. Moreover, businesses exploring new markets are likely to encounter well-established local players within differing regulatory environments, which could challenge their ability to successfully expand.

While businesses acknowledge the potential benefits of the AfCFTA, such as increased market size and new investment opportunities, respondents remain wary that the creation of the free trade area could mean that their companies lose out in more intense competition. However, this fear could have a positive impact in terms of encouraging them to improve all aspects of their operations. All this would mirror the evolution of successful free trade areas in other parts of the world, such as the European Union, where the creation of more unified markets benefits consumers overall by driving down prices, although there are obviously always winners and losers. The key will be ensuring that no individual country is worse off as a result.

African governments generally accept that promoting intra-African trade will allow each country to maximise its advantages and compensate for its weaknesses. For example, agricultural products can be transported between countries according to the success or otherwise of their harvests. In addition, countries with strong solar and wind power production in particularly sunny or windy areas can export power to neighbouring states, while importing electricity from hydro schemes to ensure 24/7 supplies in return. Hydro-dependent markets can benefit by importing solar and wind power when they are affected by low reservoir water levels.

If companies operating in one sector lose out to new, foreign competition, then mechanisms need to be put in place to ensure that other firms in that country benefit in other sectors. This will not be an easy process. It is equally important to ensure that national governments are not unduly impacted by the loss of tariff revenues. It is precisely for this reason that the AfCFTA Adjustment Fund was set up – to mitigate the impact of lost duties by compensating the governments concerned.

Little direct support for companies in implementation

While access to information on the AfCFTA does not always appear to be straightforward, interested companies do at least have some information on the opportunities available to them and the relevant regulations. However, very few appear to be receiving any direct support on implementation. Just 8% of the CEOs surveyed said that their companies received support, up just 1% on last year.

Most effort since the creation of the AfCFTA almost four years ago has taken the form of the new instruments, the creation of the Guided Trade Initiative and setting up trade protocols, such as the digital trade protocol, which was launched earlier this year. More direct support could be made available over the next few years but it is likely that most firms will have to be proactive in terms of engagement. It will be largely up to them to seek out opportunities, further emphasising the need for easily accessible information.

All this raises the question of exactly what measures would be most helpful, so we asked our survey participants what support their company needed to strategically benefit from the AfCFTA. While more information on growing trade and market opportunities was regarded as by far the most important form of support last year, it was the second most important factor in our 2024 survey with 60%, having been displaced in top spot by increasing trade and market opportunity information (66%), although in fact both factors relate yet again to improved access to information.

Greater access to credit, an improved business and investment climate, and training are all also highly desired forms of support. Better representation in negotiations is the least most important factor, suggesting that the limited involvement of African companies in AfCFTA negotiations is perhaps not as important as it may appear at first sight.

As last year, respondents expect both the AfCFTA Secretariat and trade finance institutions to provide them with this support rather than their own national governments. This suggests that Pan-African institutions are growing in importance by breaking down economic divisions and promoting continent-wide thinking by African companies. It is therefore up to the Secretariat and trade finance institutions, such as Afreximbank, to put that support in place and make it as readily accessible as possible.

Section 3
Trading Dynamics

Introduction

Fragmented economic and trade patterns have stymied the development of cross-border supply chains and left Africa overly dependent on exporting raw commodities and importing processed and manufactured goods. African governments have sought to balance trade flows with the rest of the world and promote greater trade within the continent by launching the AfCFTA but it is vital that the evolving situation is accurately tracked. As a result, we asked the CEOs of companies participating in our survey about their current imports and exports, how payments are made and the main obstacles standing in the way of greater trade volumes.

While 48% of our survey's participants export goods or services, a solid 9% increase on last year, the proportion importing goods or services is steady at 58%. The rise in the proportion of exporters may reflect a positive shift towards deeper regional trade integration and could reflect the impact of the AfCFTA's protocols. While 89% of African countries had deposited the instruments of ratification by August 2024, others such as Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda, Tanzania and Tunisia have begun participating in mechanisms including the Guided Trade Initiative (GTI).

The fact that the proportion of companies importing goods or services has remained flat may suggest that companies are merely seeking out new markets for goods produced in their existing supply chains rather than opening up new supply chains.

Agricultural products, manufactured goods and services make up the bulk of exported products and services, highlighting their central role in driving trade and economic growth. However, the heavy reliance on agriculture also points to the need for diversification strategies to mitigate risks associated with global market fluctuations and climate change, while ensuring sustainable economic development. Changing weather patterns can adversely impact agricultural yields, so investments in resilient agricultural practices and the expansion of other sectors are needed as buffers against environmental and market uncertainties.

Fig. 16: Does your company export any goods or services?

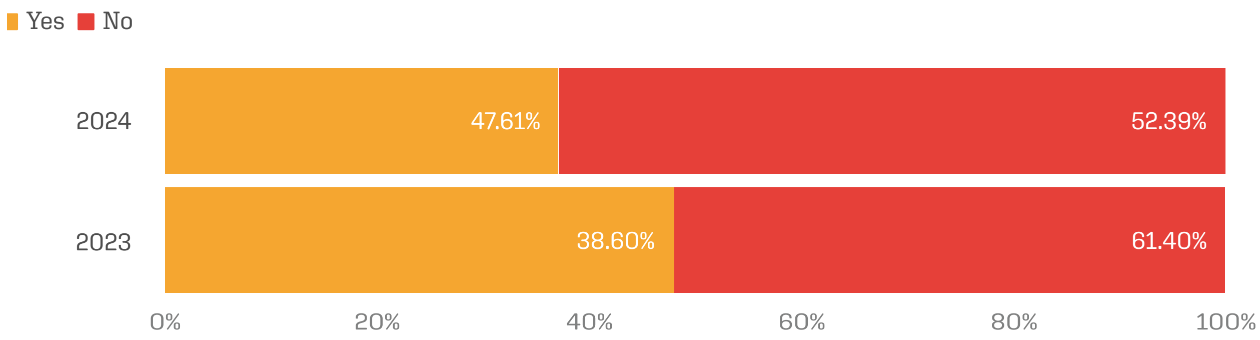
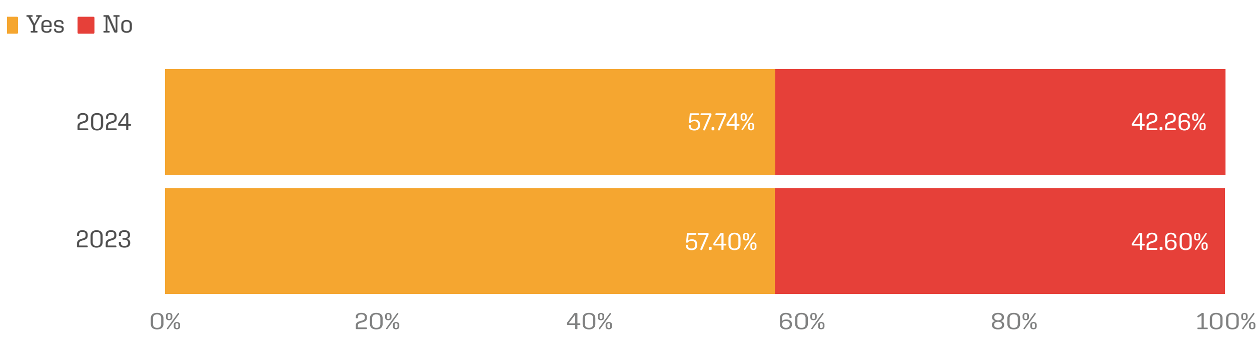


Fig. 17: Does your company import any goods or services?



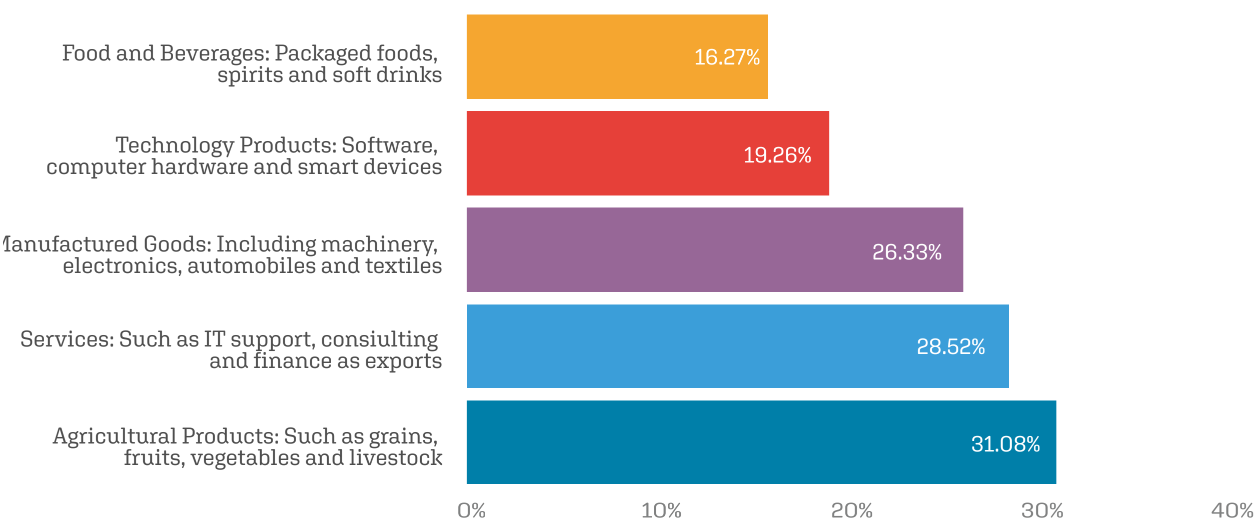
Manufacturing potential
Africa's contribution to global manufacturing capacity is relatively limited at less than 1%, while the continent's manufacturing output per person is just 10% of the global average for low income countries. This is because of poor transport infrastructure, unreliable power supplies, low levels of productivity and a lack of skilled labour. In fact, according to the African Union Development Agency-New Partnership for Africa's Development (AUDA-NEPAD), manufacturing's share of total African GDP actually declined from 18% in 2000 to 13% in 2020.

However, there are some areas of great strength, particularly in North Africa, where factories in Morocco, Tunisia and Egypt target European and Middle Eastern markets, as well as in South Africa. Ethiopia and Mauritius have strong textiles industries, while Morocco and South Africa both have strong and growing automotive sectors that can pivot towards electric vehicle manufacturing, taking advantage of the continent's plentiful critical mineral supplies in the process.

Although dominated by foreign firms such as Ford, Toyota and BMW in South Africa and Renault, Stellantis and BYD in Morocco, both countries have strong and growing supply chains with many domestically owned component manufacturers. The industry accounts for 4.3% of South Africa's GDP, accounting for 18.1% of total exports last year and employing more than 110,000 people.

At the same time, the continent can benefit from trends in global manufacturing. China currently controls about 32% of global manufacturing capacity but the rapid increase in Chinese wages and anti-dumping duties imposed on Chinese exports by the United States in particular has seen some Chinese manufacturing moved to lower cost destinations, particularly in Southeast and South Asia. In the longer term, it could also be moved to a much greater extent to Africa if the shortcomings of African economies mentioned above can be overcome. A handful of successful projects could result in the massive translocation of factory production to the continent.

Fig. 18: What type of goods does your company export?



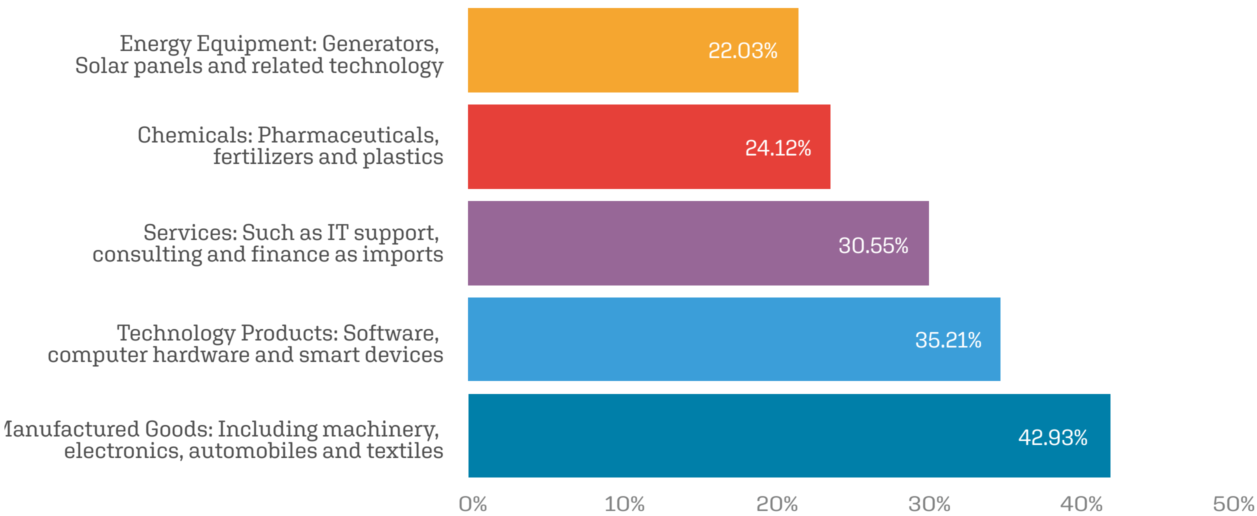
The AfCFTA can also play a huge role in attracting investment in all forms of value addition within Africa by helping to build supply chains. Instead of the current pattern of raw materials such as cobalt, copper, iron ore and agricultural commodities being shipped away from the continent for processing elsewhere, the removal of internal African tariffs could encourage processing closer to home.

This could not only increase the value of African exports to the rest of the world but could ensure that more of the finished products used by African consumers are completed on the continent. Indeed, achieving the latter could be a better test of whether the AfCFTA has had a significant impact on African trade volumes.

Manufacturing imports
Given the lack of manufacturing activity in most of Africa at present, it is no surprise that the biggest class of imported goods is manufactured goods, including high value products such as machinery, electronics and vehicles, imported by 43% of our participants. This is followed by technology products, such as computer hardware, software and smart devices at 35%, and services with 31%. The prominence of manufactured goods and technology products as leading imports highlights a significant gap in local processing and technical capabilities.

Agricultural products, food and beverages are imported by just 13-14% of the CEOs who expressed their views, indicating both that African economies are better equipped to produce such goods themselves but also perhaps that relatively few companies are involved in cross-border trade in these sectors. If African states are to enjoy a manufacturing boom in the longer term, it might be expected that they would focus on lower tech products, such as textiles and processed foodstuffs. However, the buoyant automotive industries already mentioned indicate that higher value manufacturing is possible.

Fig. 19: What type of goods does your company import?



Improving transport, power and IT infrastructure while enhancing existing technological expertise can stimulate innovation, create more resilient supply chains in the face of global disruptions, reduce reliance on imports and foster self-sufficiency. However, these supply chains do not need to exist within single African economies and the real test of the AfCFTA will be whether regional and continent-wide supply chains can be established that take advantage of the continent's own raw materials, skills and comparative advantages in terms of power prices and efficient port infrastructure across different countries.

Africa's main export markets

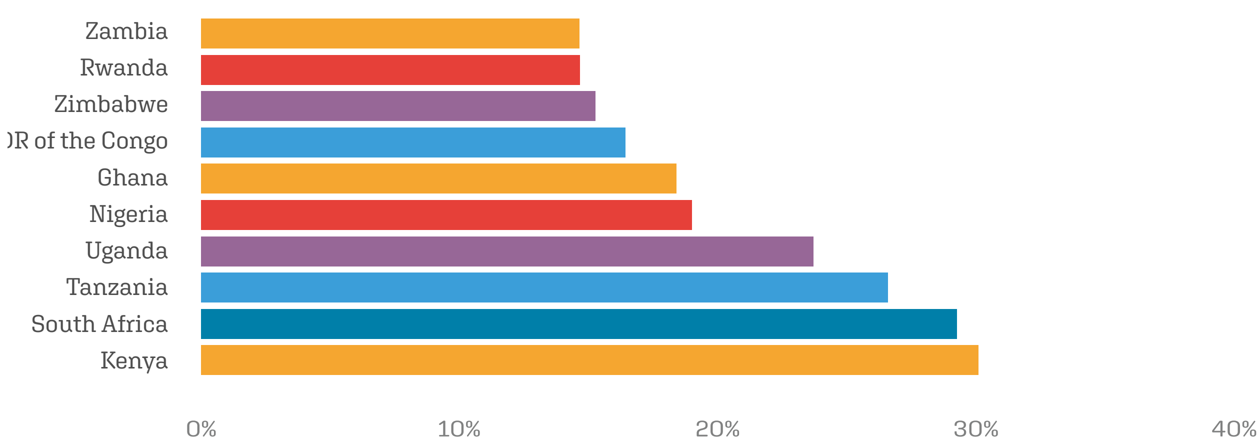
As might be expected, the five biggest African exporters by value in 2023, as for many years, were South Africa ($111bn), Nigeria ($61bn), Algeria ($57bn), Morocco ($42bn) and Egypt ($42bn), according to IMF figures. However, oil, gas and mining commodities account for a high proportion of these exports, which are sold to a relatively small number of customers outside Africa. By contrast, our survey of the most popular import and export markets in Africa looks at the number of export and import markets for each of the companies participating in our survey.

The countries at the top of our table of the most important export markets for African companies include some countries with the strongest, most diverse economies and substantial sources of consumption, including Kenya and South Africa. It is interesting that Tanzania and Uganda are ranked third and fourth. Although they both have rapidly growing populations and have enjoyed healthy economic growth over the past decade, they are not among the continent's biggest economies. Rwanda is also more highly ranked than its economic and demographic size would suggest but that is a function of its sustained economic success.

Their large populations see Nigeria and Democratic Republic of Congo (DR Congo) highly ranked but Ethiopia is placed behind both Namibia and Malawi despite having a population of 110m this year. Its economy grew by an average of 9.4% a year over the period 2010-20 but tight state control over many sectors has limited the extent to which it has traded with the rest of the continent.

Real steps have been taken over the past couple of years to open up the economy to foreign investment, with Kenyan companies in particular keen to invest in the telecoms and banking sectors. Morocco too is less important than might be expected for such an important trading nation but a high proportion of its trade is with the European Union and also the Middle East.

Fig. 20: Which countries in Africa do you currently export to?



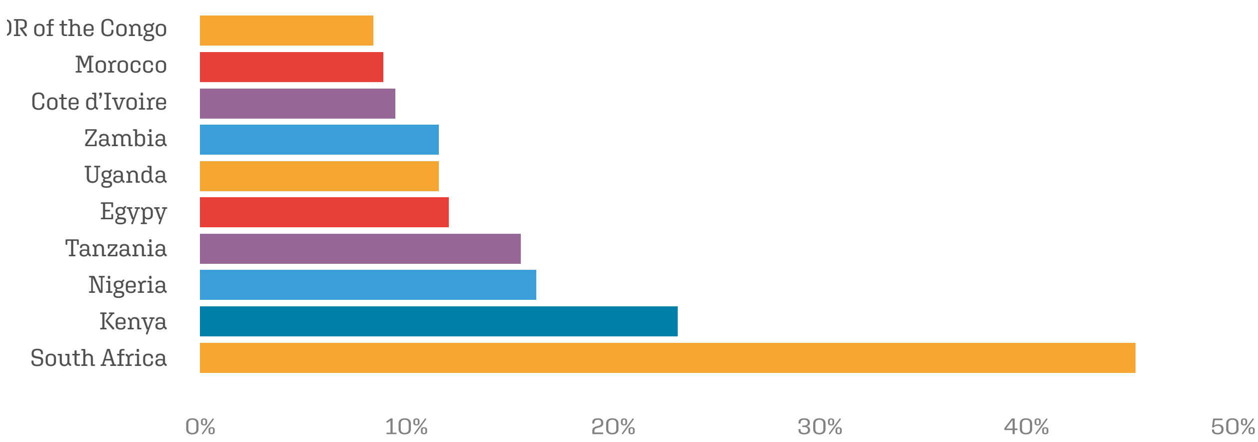
The continent's main import markets
Far more of our participants import goods and services from South Africa than anywhere else. Although the country's economy has stagnated over many years, it remains the most diverse economy on the continent, with a strong banking sector and a wide range of manufacturing and service sector businesses. Despite insufficient investment in power and transport infrastructure over the past 20 years, the country's more developed infrastructure and higher levels of industrialisation enable it to offer a diverse range of products to other African countries. This competitive edge not only drives South Africa's position as the dominant player in regional trade but also enables its exports to the rest of the world.

It is important to recognise the role that regional economic blocs have played and will continue to play in driving the success of the AfCFTA. Yet again, Kenya, Tanzania and Uganda rank highly as markets for goods from other African countries and the presence of these East African Community (EAC) member states near the top of these rankings suggests that opening up trade within East Africa has strengthened the region's biggest economies, making them more important in terms of their ability to import and export across the continent as a whole by gradually changing the economic and trade culture of the entire region.

Indeed, organisations such as the EAC and Southern African Development Community (SADC) play a huge role both in making free trade a reality across Africa and in demonstrating that eroding trade barriers can drive up levels of economic growth for all countries. The EAC's history also shows the pitfalls of reducing tariff protection. The Community was original formed in 1967 but collapsed ten years later because of disagreements between Kenya, Uganda and Tanzania, particularly over fears that Kenyan companies would overwhelm their counterparts in the other two countries if tariffs were lifted.

However, when it was reformed in 1999, companies across the region were given more time to adjust and more effort was put into ensuring that each country benefitted as a whole, even if it lost out in particular sectors. At the same time, Tanzania moved away from its African socialist strategy towards a more market-driven approach. As a result, the EAC averaged 5.2% average annual economic growth between 2000 and 2018, with significant reductions in poverty due to strong income growth in Tanzania, Uganda and Rwanda.

Fig. 21: Which countries in Africa do you currently import from?



Egypt is the fifth most important country from which to import goods and services, as North Africa's biggest economies continue to increase trade with the continent south of the Sahara. DR Congo, Zimbabwe, Rwanda and Mozambique also feature relatively highly, as African trade becomes more diverse, with more countries connecting with each other.

Although DR Congo features because of the sheer size of its population, Central Africa as a whole features relatively little. Although Cameroon is a bit of an outlier, the other economies in the region largely focus on exporting raw materials to the rest of the world, rather than trading with the rest of Africa. Changing this pattern will be a huge challenge for the new continent-wide free trade area.

Global regional markets

Africa is the most important global regional export market for our participants by some distance but this does not negate Africa's dependence on exports to the rest of the world. Many African economies are reliant on large foreign or state-owned companies exporting oil, gas, iron ore, copper, bauxite, iron ore, cobalt coal and agricultural commodities to the rest of the world. However, the companies represented in our survey represent a wide range of different sized organisations working across many sectors.

Europe is the main overseas export market for African companies, followed by Asia. Despite the global importance of the US economy, North and South America are both of far less importance. Although the Gulf states have a combined population of just 59m, one in six of the CEOs we surveyed said that their companies exported to the region.

Our graph of global regional import markets highlights the lack of cross-border trade within Africa. Roughly as many of our survey participants import goods or services from Asia and Europe as from other African countries, despite the proximity of so many African economies on their doorstep. Strong trading relationships with Europe partly stem from the colonial period, while Asia is the centre of global manufacturing, accounting for more than half of global manufacturing value-added, according to consultants McKinsey. It is therefore no surprise that half of our participants import goods or services from the region. Again, the Americas are of far less importance, while the Gulf states are less important in terms of imports than for exports.

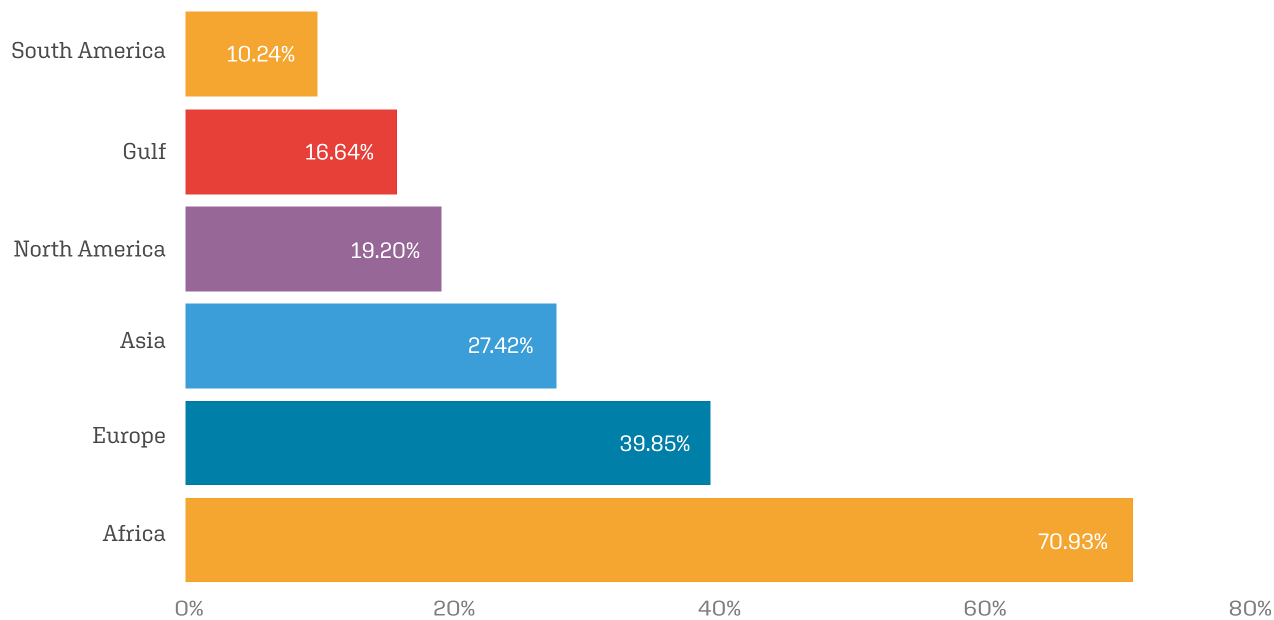
Within this broad picture, there are wide variations, with North Africa exporting a huge volume of goods to the European Union and importing goods from the Gulf. Angola and other Portuguese-speaking African countries are more heavily connected with Brazil and Mauritius has strong ties with India. Historic ties remain important but global trade patterns are becoming increasingly intricate.

A big challenge for African economies and the AfCFTA as a whole will be breaking the current pattern of exporting raw materials to Asia and Europe, and importing manufactured goods in return. This means that much – often most – of the profit made from African resources is generated outside the continent. Moreover, many of Africa's imported electronics and other consumer goods are made using African raw materials.

As figure 24 overleaf demonstrates, just 15% of the CEOs taking part in our survey have not interacted with the Arab Gulf region in the past in any form – whether importing or exporting – and have no plans to do so in the future. Roughly 36% trade with the region on an ongoing basis and another 42% would like to investigate potential interaction in the future. Businesses may prefer to engage with regions where they have more established networks and proven investment returns but as the Gulf region continues to develop and build its investment credentials, it may become a more attractive option for businesses seeking new opportunities.

Trade volumes with the Gulf are likely to increase on the back of more than $100bn in investment in Africa by Gulf states over the past decade, including $59.4bn from the United Arab Emirates alone. In 2023, the Gulf Cooperation Council countries announced over $53bn in investment pledges for the continent, much of it in infrastructural projects. Port operators DP World and AD Ports are two of the main investors in the bigger, more modern port terminals and other logistics infrastructure being rolled out across Africa.

Fig. 22: What are your most important global regional export markets?



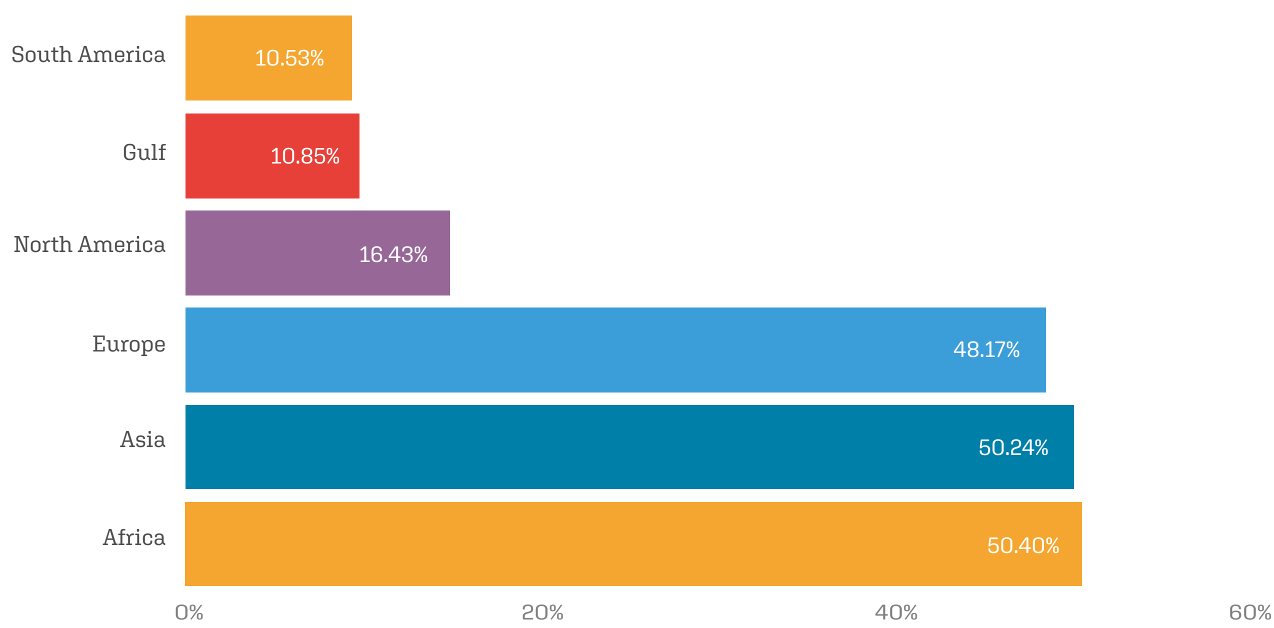
Rail seeks to catch up on freight volumes

In terms of the infrastructure required to promote intra-African trade, roads, railways, ports and air connections are by far the most important. The continent's transport systems were completely inadequate to support this goal in the first few decades after independence, with railways and major highway networks built around domestic needs and often stopping short of international boundaries.

However, the sector has enjoyed something of a renaissance in recent years. Modern container port facilities have been built across the continent, with new deepwater terminals competing for transhipment business in Kribi, Tema, Abidjan and Lekki among other ports on the Gulf of Guinea. Competition between Mombasa and Dar es Salaam in East Africa has driven the expansion of both, while a string of new projects have been completed in Egypt. Tanger Med at the opposite end of the Mediterranean coast has established itself as the biggest container port in Africa and a real competitor to older ports in France and Spain. South Africa badly needs new container capacity to reduce congestion at Durban, but otherwise the picture is generally improving.

New railways have also been built, are under construction or are planned, often to serve new mine projects in Guinea, Central Africa and Mozambique. Kenya's new standard gauge railway (SGR) has provided a modern link between Mombasa and Nairobi but the debt incurred in its construction has deterred the planned extension of the line into Uganda. By contrast, Tanzania's own rival SGR looks more likely to reach into the landlocked heart of the continent.

Fig. 23: What are your most important global regional import markets?



Services have now been launched on the first section to Dar es Salaam, with work already underway on the line as far as northwest Tanzania. Most interestingly, negotiations are underway to extend it into Burundi and Rwanda, with spur lines into Uganda and DR Congo also under consideration. It could soon also be feasible to shift freight by rail from Dar es Salaam right across the continent to the Port of Lobito in Angola, if plans to extend the existing Benguela railway into DR Congo and Zambia proceed. The construction of new infrastructure along these lines should speed up freight transport and make it more reliable.

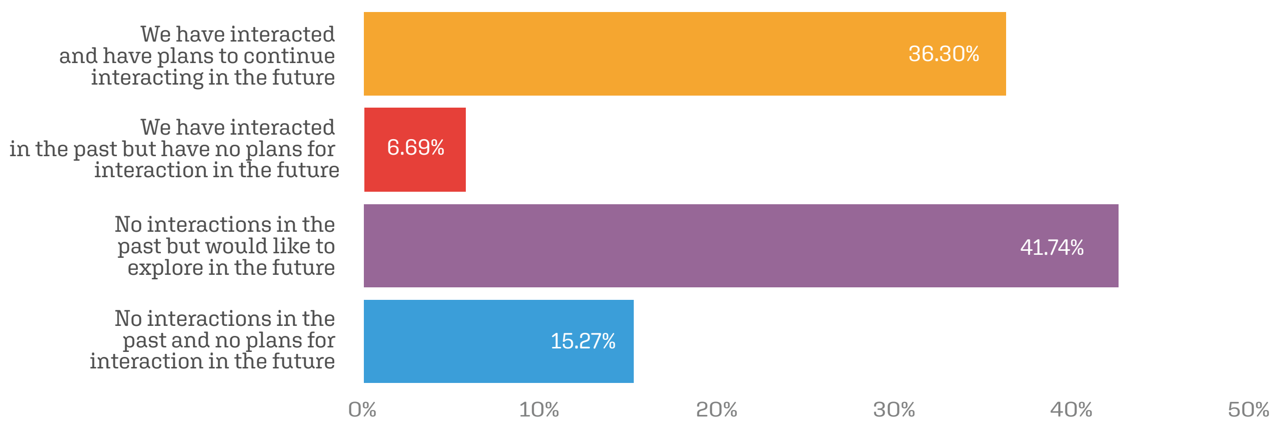
However, roads across the continent are being improved but much more investment is needed here, including to connect with the new ports and railways being built. Unreliable rail services and the lack of cross-border rail links have forced freight onto the roads, with the result that 36% of the companies in our survey currently use road transport for exports in comparison with the 7% that utilise rail. This figure will generally exclude the huge volumes of mining commodities produced and shipped from the continent by foreign companies.

Sea transport is actually the most important means of transport for exporting goods, cited by 49% of respondents, with smaller ports generally well connected to big international African ports by feeder services. Plans have been drawn up in several areas, including on the Great Lakes and on the River Niger to improve existing lake and river cargo services but this option is limited to only some areas.

It is surprising that air freight is the second most important option for exports but this may reflect the shortcomings of all forms of land transport. However, it is also crucial for higher cost items and for perishable goods, such as the fruit and flowers flown from Kenya, Uganda and South Africa to customers on other continents.

Moreover, most African trade is with the rest of the world rather than with other African states, so it makes sense that air and sea freight are so popular. According to UNCTAD, the implementation of the AfCFTA will lead to increases in demand for road, rail, maritime and air freight capacity of 22%, 8%, 62% and 28% respectively above what would otherwise have been the case.

Fig. 24: The Arab Gulf region has emerged in previous editions of the survey, as increasingly playing a role in trade with the continent. How do you describe your interactions with the region?



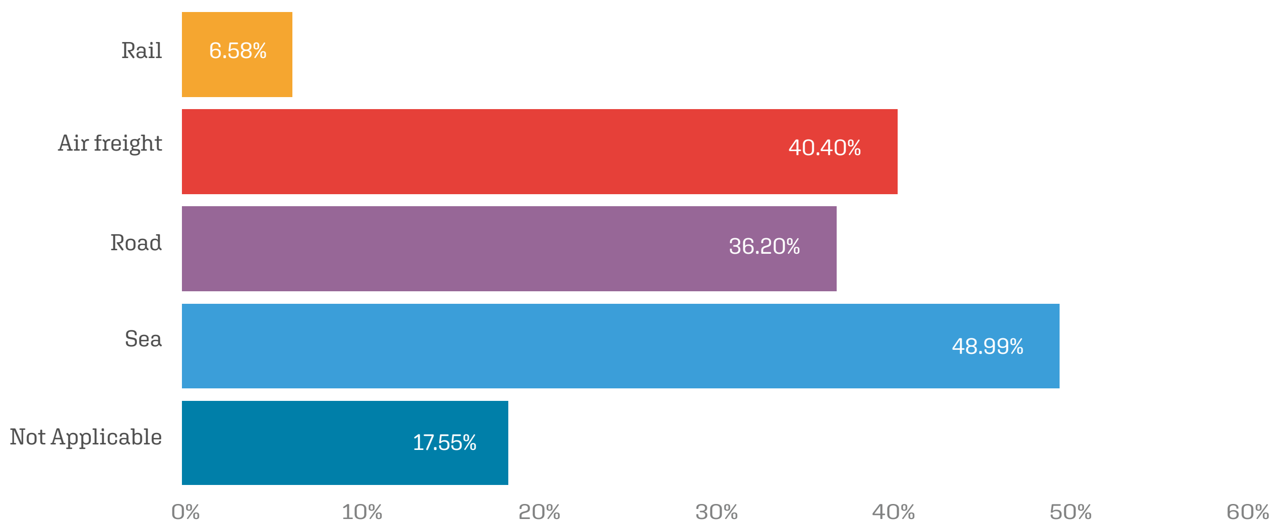
Restrictive terms of payment and other constraints
An established trend in African trade is the use of cash in advance as the preferred means of payment. About 52% of our survey participants said that they used it this year. As last year, it is followed by letters of credit and open account sales, with documentary collection the least common form of payment. This payment landscape reflects the ongoing lack of secure payment methods for cross-border trade but more secure methods, principally the Pan-African Payment and Settlement System, should create more confidence in contract terms.

Cash in advance is easier and less risky for exporters than letters of credit but is the least attractive option for buyers, so its continued heavy use deters intra-African trade. It is often combined with other terms, such as free on board, which requires the buyer to take possession of freight as soon as it is loaded onto a train, truck or vessel, so the buyer assumes the financial risk if the shipment is lost or damaged during transit. As a result, exporters who only accept cash in advance may lose out to competitors who offer more attractive payment terms.

While unattractive terms of payment can deter cross-border trade, currency exchange risks were cited by our participants as the biggest constraint on exporting to or importing from other African countries. Unstable exchange rates and the risk of currency devaluation can change the terms of a deal between the conclusion of the contract and payment being made. Speeding up the entire process would help but there are limits to this because some goods are made to order, although the payment process can be accelerated through direct payment in various currencies via the PAPSS.

Not far behind currency risks, participants named logistics challenges, tariff barriers, financial constraints and limited market information as constraints. Inadequate logistics infrastructure was discussed above, while the AfCFTA is designed precisely to erode prohibitive tariffs, but there is no doubt that a lack of access to credit is a huge constraint on trade. Businesses in most parts of the world are able to access finance when they have an attractive commercial proposition but African lending rates are generally very high and many commercial banks are reluctant to lend to anyone except very established clients.

Fig. 25: What mode of transportation do you frequently employ when exporting?



Digital banks are already improving finance for individual customers and are now rolling out products for small and medium sized borrowers (SMEs). This could kickstart a whole new approach to finance on the continent but greater macro-economic stability and lower interest rates are required before lending becomes as mainstream as it is in most of the rest of the world.

The AfCFTA aims to address all obstacles to cross-border trade through its comprehensive trade initiatives and protocols. The Guided Trade Initiative, for instance, is designed to ease the transition to full AfCFTA implementation by providing practical support for businesses navigating the new trade environment. Such initiatives will be important for overcoming barriers to trade and fostering greater economic integration in Africa.

Fig. 26: What mode of transportation do you frequently use when importing?

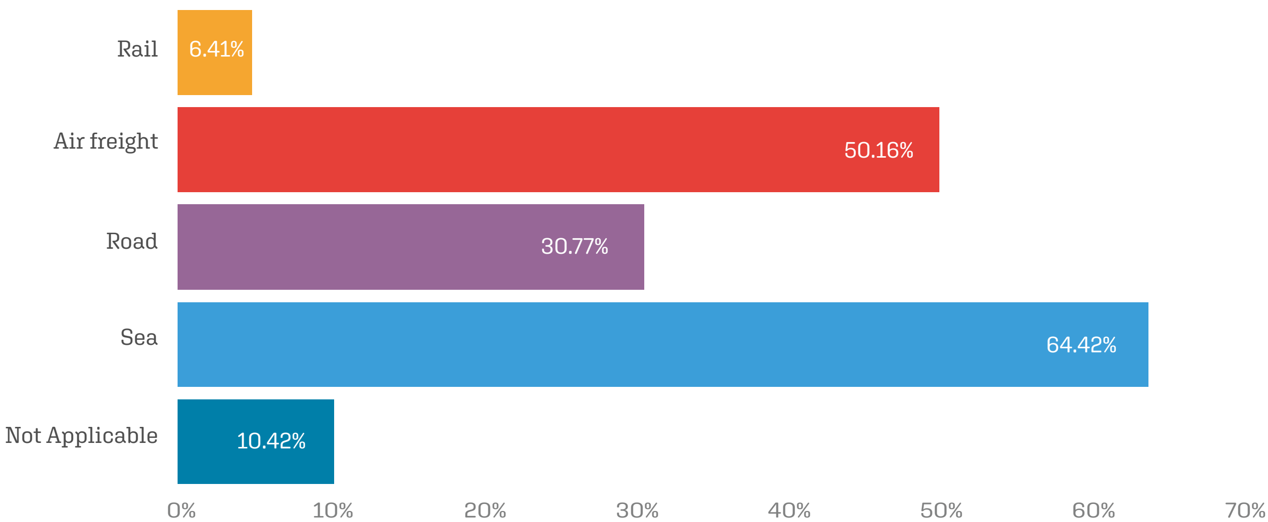


Fig. 27: What forms of payment terms do you frequently use for your import/export transactions?

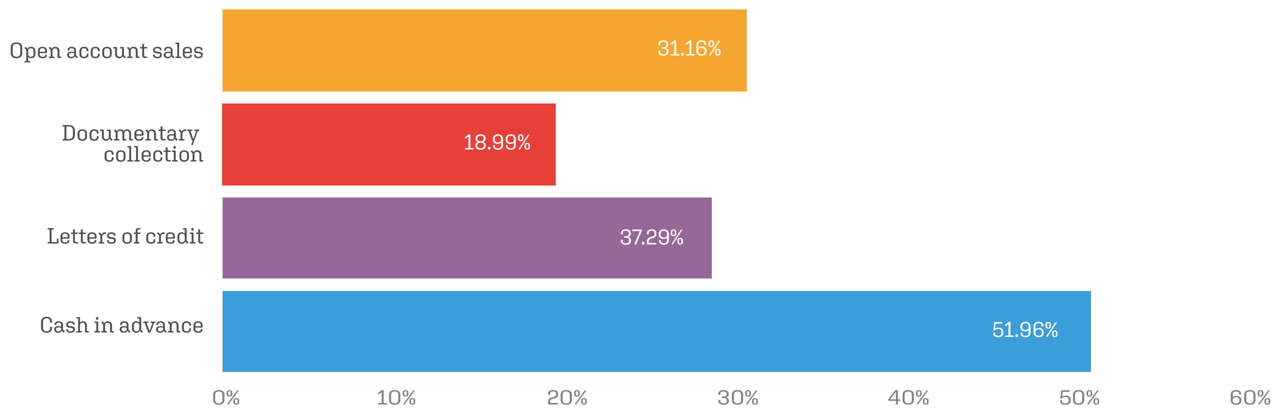
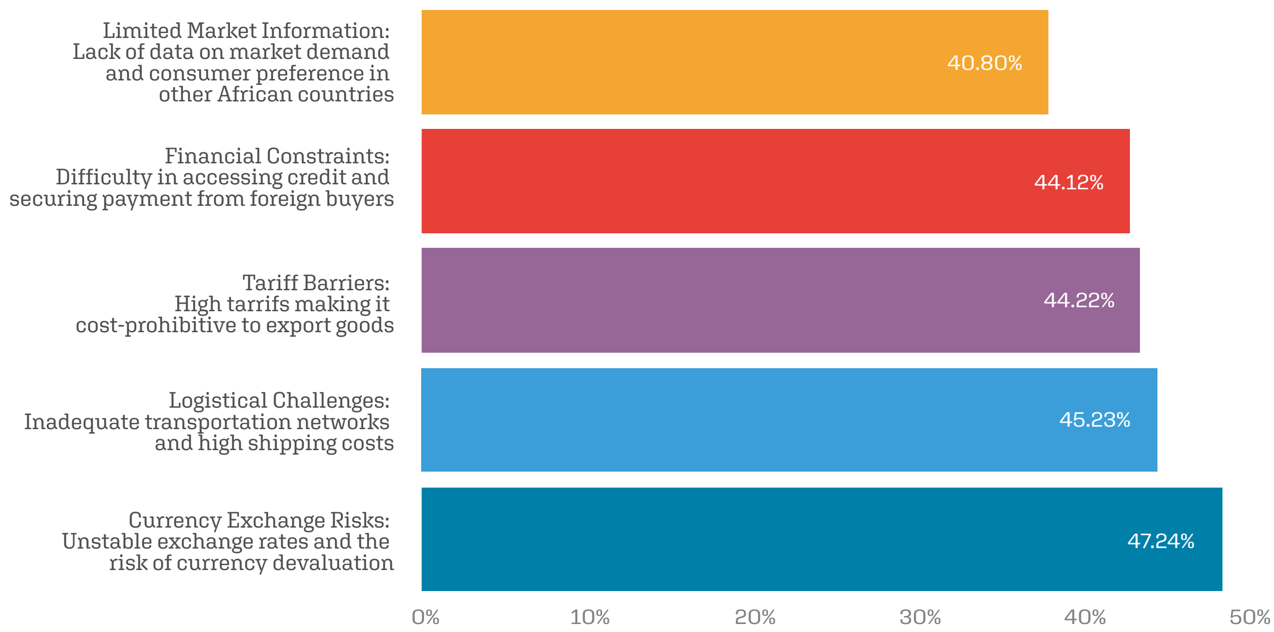


Fig. 28: What key constraints have historically prevented you from importing from or exporting to other African nations ?



Section 4
Zoom In

Deep dive sector-by-sector

Introduction

We sought to test the views of African companies operating in a wide range of different sectors to provide a complete picture of current economic and commercial life on the continent but also in order to investigate the specific situation in each sector. More survey participants come from tech and telecoms (20%) than any other sector this year, but it is closely followed by transport and logistics (19.3%) and agriculture (19.1%).

This section will start by examining the results of our survey across all industries before analysing the specific results in relation to the agriculture, mining, transport and logistics, manufacturing, tech and telecoms, financial services and pharmaceuticals sectors. Each industry is a centre of economic activity and job creation in its own right but most are heavily interconnected with each other.

The manufacturing, agriculture and pharmaceutical sectors bring added economic benefits in terms of reducing the level of imports to retain more wealth within the continent and shorten supply chains. They all require large workforces and so their expansion will create a great deal of employment.

The agriculture sector has traditionally been associated with lower paid work and has not been regarded as 'cutting edge', so has struggled to attract graduates but there are roles for those with all levels of skills. The benefits of more efficient production in terms of food security and wider economic development can be enormous. Yet even governments often overlook the agriculture sector, with their attention drawn by more high-profile big-ticket projects in oil, gas, mining and elsewhere.

Special zones

Special economic zones (SEZs) are becoming increasingly popular in Africa, partly as a result of the transport, power, water, telecoms and other infrastructure on offer but also because of the tax benefits offered by some governments. In addition, some SEZs target investors from specific sectors to encourage the creation of supply chains on site and enable the cross-pollination of best practice and knowledge transfer between domestic companies and international partners. Their popularity is underlined by the fact that 44% of the companies included in our survey are located in SEZs or other industrial clusters.

It is hoped that SEZs can help drive industrialisation and diversification by keeping more of the benefits of raw material production within Africa. World Economic Forum research demonstrates that such zones can catalyse African industrialisation and boost both intra-regional trade and exports to the rest of the world. According to the UN Conference on Trade and Development (UNCTAD), the first African SEZ was created in Mauritius in 1970 and there are now 237 such zones spread across the continent, including 61 in Kenya and 38 in Nigeria. Governments back many of them, while private developers such as Arise Integrated Industrial Platforms are driving the development of others.

Afreximbank is currently working with African governments on projects to develop and expand SEZs and industrial parks priced at $900m, including two in Malawi and one in Côte d'Ivoire, with talks ongoing for others elsewhere. The Magweru and Matindi industrial parks in Malawi will focus on the manufacturing, chemical, pharmaceutical, light engineering, mineral processing and construction material sectors that can take advantage of the AfCFTA. New SEZs in Democratic Republic of Congo (DR Congo) and Zambia will be dedicated to the electric vehicle (EV) sector, including battery precursors, batteries and possibly even EV assembly.

Fig. 29: Main sector of activity

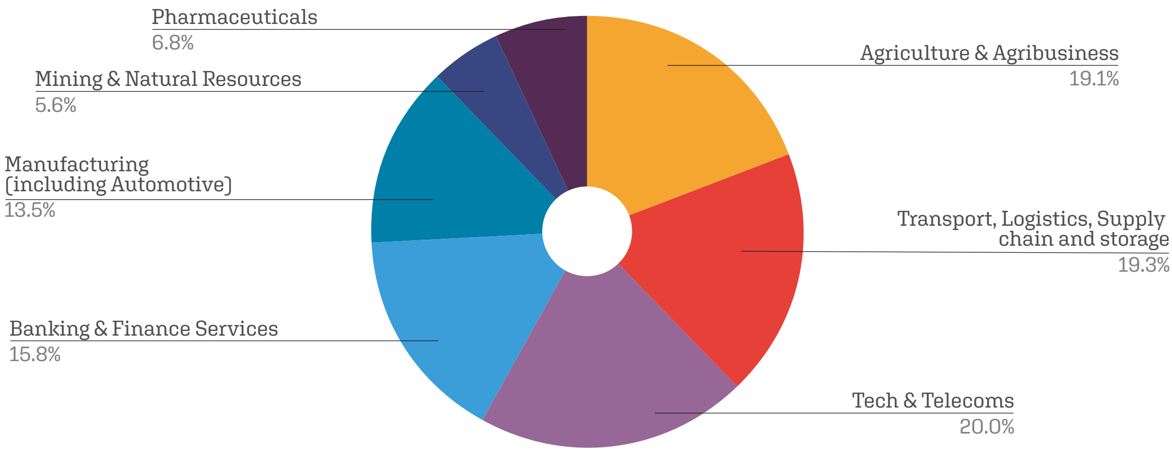
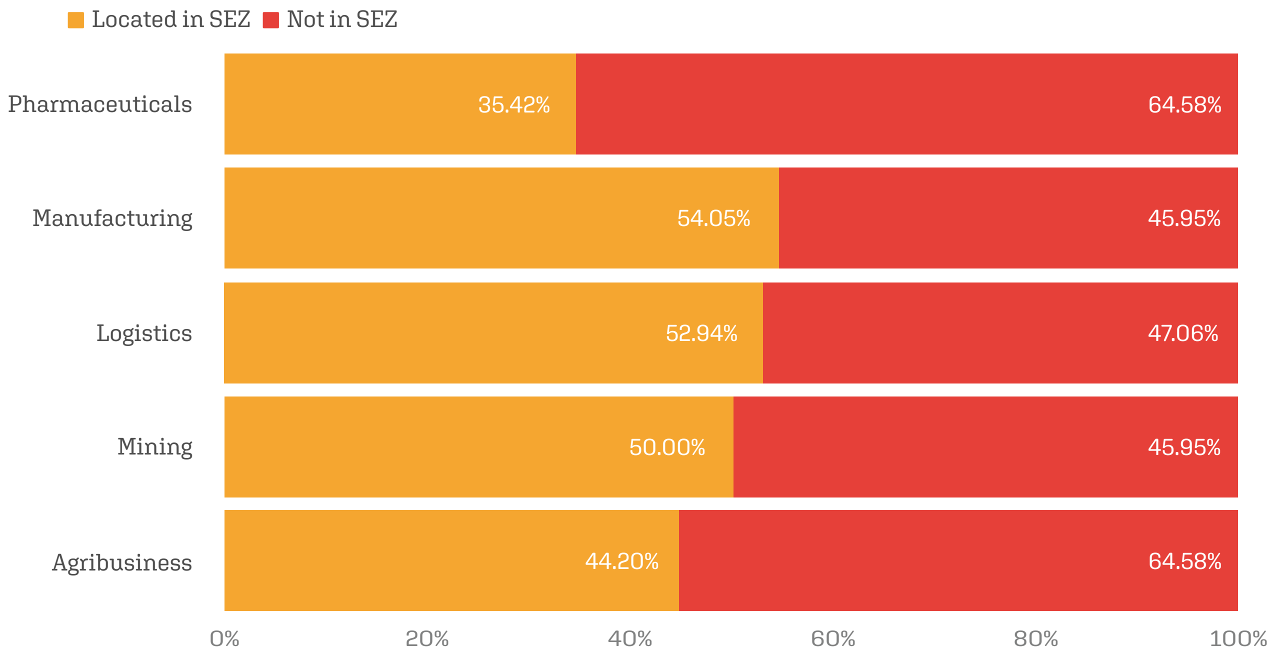


Fig. 30: Does your company export any goods or services?



Constraints on investment

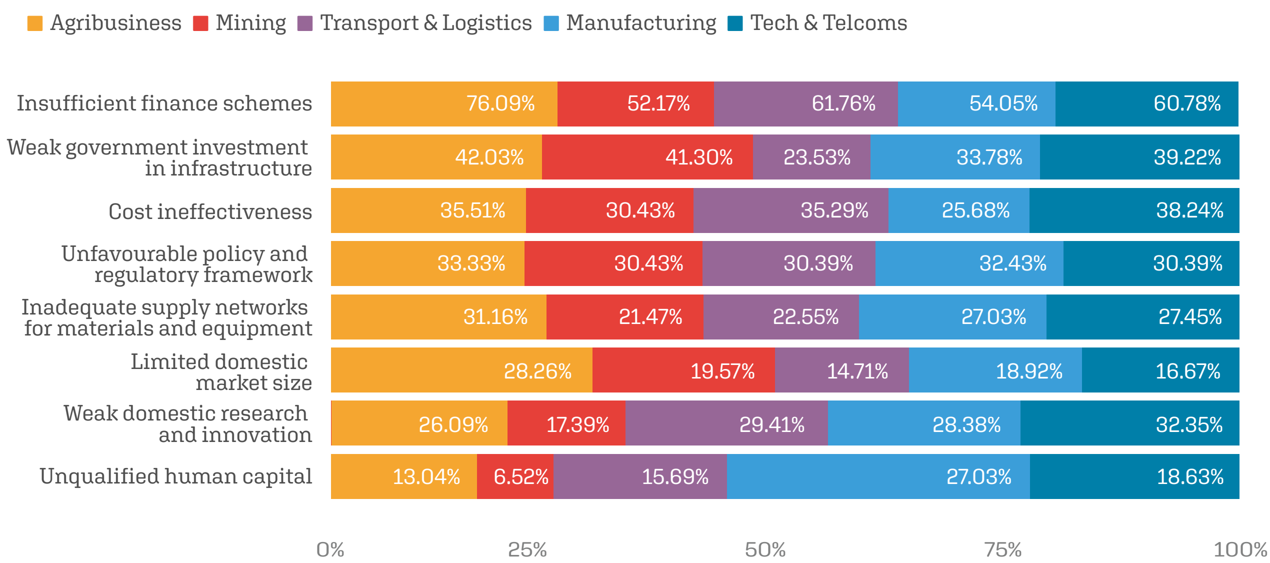
We asked participants to identify the main constraints on their businesses that prevent them from expanding and analyse these in the sector-by-sector analysis starting on page 44 but have also collated their responses to give the overall picture in Africa here. As last year, insufficient access to finance was by far the biggest factor, with 63% of all respondents citing it as a key constraint. This ranged from 76% in the agribusiness sector down to 52% in mining, which could be a result of the fact that mining businesses tend to be larger firms that are of more interest to banks and other lenders.

The agribusiness sector contains many smaller firms that continue to be overlooked by the financial services industry as a whole because of challenges in assessing risks. Moreover, the seasonal nature of farming, low levels of collateralisation and higher transaction costs of rural areas all deter traditional lenders from providing financing to the sector. The fact that so many respondents cite finance as a constraint suggests that there is a systemic problem in the way that the African financial services industry operates that could hamper overall economic growth and integration efforts.

Traditional banks have tended to avoid lending to SMEs in most sectors in the past, partly as a result of challenges in securing sufficient collateral but also because of the costs involved in processing loan applications. However, the digital banking revolution is greatly reducing the cost of the latter by allowing potential borrowers to submit identity verification information and apply for loans digitally, while also speeding up decision making.

Weak government investment in infrastructure emerges as the second most significant barrier, particularly impacting agribusiness (42%) and mining (41%). It should have far less of an impact in the transport & logistics sector but this industry is a form of infrastructure in its own right and one where our private sector participants develop their own projects.

Fig. 31: Overview: barriers to business expansion, by sector



The third biggest constraint varies by sector, with cost ineffectiveness affecting tech & telecoms (38%) and transport & logistics (35%). This counterintuitive result suggests that even traditionally efficiency-driven sectors, such as tech, are struggling with optimisation in the African context. Unfavourable policy and regulatory frameworks are important constraints that hinder manufacturing (32.43%) and mining (30.43%).

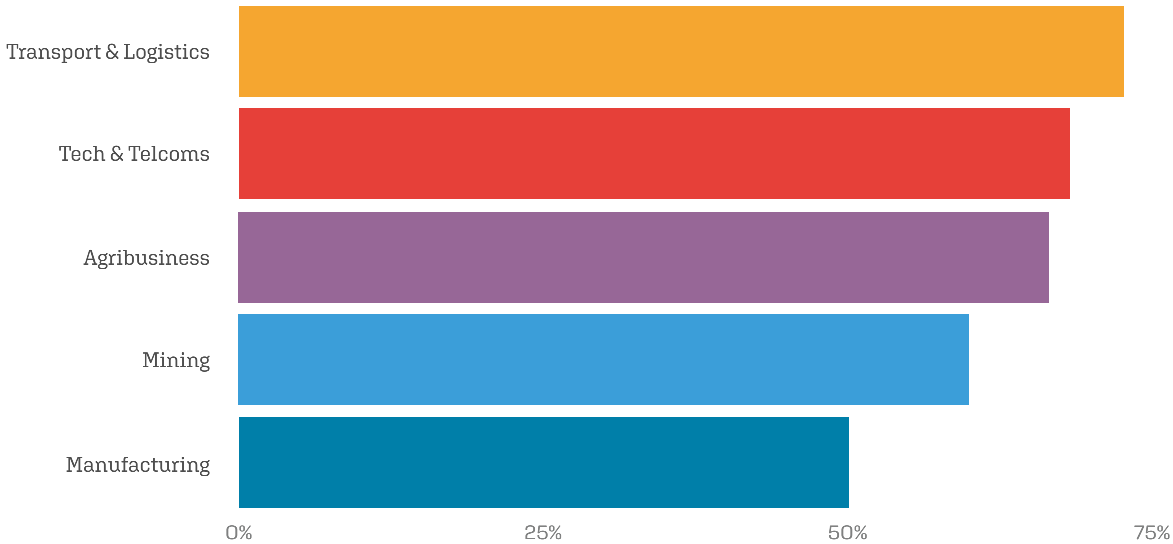
Infrastructural deficits

The AfCFTA will focus more on tariff reduction and regulatory change than project development but survey participants said they would like the AfCFTA to make infrastructure its main – or one of its main – priorities. While the AfCFTA Secretariat's financial capabilities will have only a moderate impact on the construction of new projects, it can perhaps encourage and facilitate development, particularly for badly needed infrastructure that connects member states.

Although weak government investment in infrastructure was listed as a main issue by just 24% of survey participants in the transport & logistics sector, a massive 73% of respondents in that industry said that infrastructure should be an AfCFTA priority. This suggests that the type of infrastructure they want to see completed involves more than one country and so is not the responsibility of national governments but is an area where the AfCFTA could play an important role.

Cross-border transport infrastructure in general and railways in particular are obviously also key priorities for those operating in the agriculture and mining sectors because railways are usually the cheapest means of transporting bulk items across large distances, including between different countries. As the chart opposite shows, participants across various sectors consider infrastructure a key AfCFTA priority, although it was slightly less of a concern for those in the mining sector than for those in other industries.

Fig. 32: Infrastructure should be a key AfCFTA priority – views across different sectors



Section 4.1
Agriculture

Lack of finance a huge worry

Introduction

Agriculture is by far the biggest source of employment in Africa, accounting for 43% of all jobs in 2021. However, this is a significant fall from the 48% recorded in 2010, as the sector slowly becomes more efficient and slightly less labour-intensive. The sector not only includes food production but also processing, transport, marketing and other ancillary operations. Interest in encouraging agro-processing within the continent was already increasing prior to the Covid-19 pandemic but the price spikes and food insecurity triggered by the Covid crisis and Russian invasion of Ukraine have driven up enthusiasm for it still further.

The value of Africa's agribusiness sector could increase from $280bn a year in 2023 to $1trn a year by 2030, according to the African Development Bank (AfDB), a huge jump in a very short space of time but this would require regulatory and legislative changes to support the sector, infrastructural improvements, adaptation to climate change, improved access to finance, a step increase in productivity and strengthened supply chains.

The results of our survey reveal that insufficient finance is rated as the biggest constraint on the expansion of African companies in the agribusiness sector, cited by 52% of participants, followed by weak government investment in infrastructure (41%), cost ineffectiveness (30%) and an unfavourable policy and regulatory framework (30%).

It therefore follows that our participants would like to see the AfCFTA focus on improved financing in the agriculture sector (72%) more than anything else. Small-scale farmers have huge challenges in securing financing for fertilisers, seeds, tools, machinery, irrigation works and other agricultural inputs, despite the fact that such investment can help lift yields and bring more land into production in the long term. Research has shown that farmers could double or even triple their cassava yields, for instance, by applying nutrient, water and soil management practices.

Close behind financing, 66% of respondents also called for the establishment of agriculture clusters and SEZs. This is perhaps surprising given that the sector is geographically spread over vast areas but the creation of more agribusiness SEZs would promote processing and food manufacturing. Half of the respondents are already located in an SEZ or industrial cluster.

Our participants are also keen to see the AfCFTA focus on standards' conformity and certification (49%), plus the development of electronic marketing platforms that would making it easier to connect buyers and sellers (48%). The AfCFTA Secretariat can certainly help on both counts, possibly directly but also by encouraging and facilitating initiatives and investments across different stakeholders. The current fragmentation of African agricultural supply chains hinders the efficient flow of products from farm to market and undermines Africa's agricultural sustainability.

Work on harmonising standards will be complicated but was crucial in creating a single market within the European Union and will certainly be vital in Africa. Even if all tariffs for a particular range of products were lifted, it may still be impossible to export the goods in question to another market if they do not meet the legal standards of that country. Regional trade blocks have already worked to harmonise standards, including Comesa, which began introducing common agriculture and food regulations in 2009.

As a result, there may be less need for 50-plus countries to agree standards than for a handful of regional organisations to do the same. Companies within the sector have already called for common standards, with Moroccan fertiliser producer OCP hopeful that the AfCFTA will lead to common fertiliser regulation.

Fig. 33: What key constraints have prevented your company from expanding in this sector?

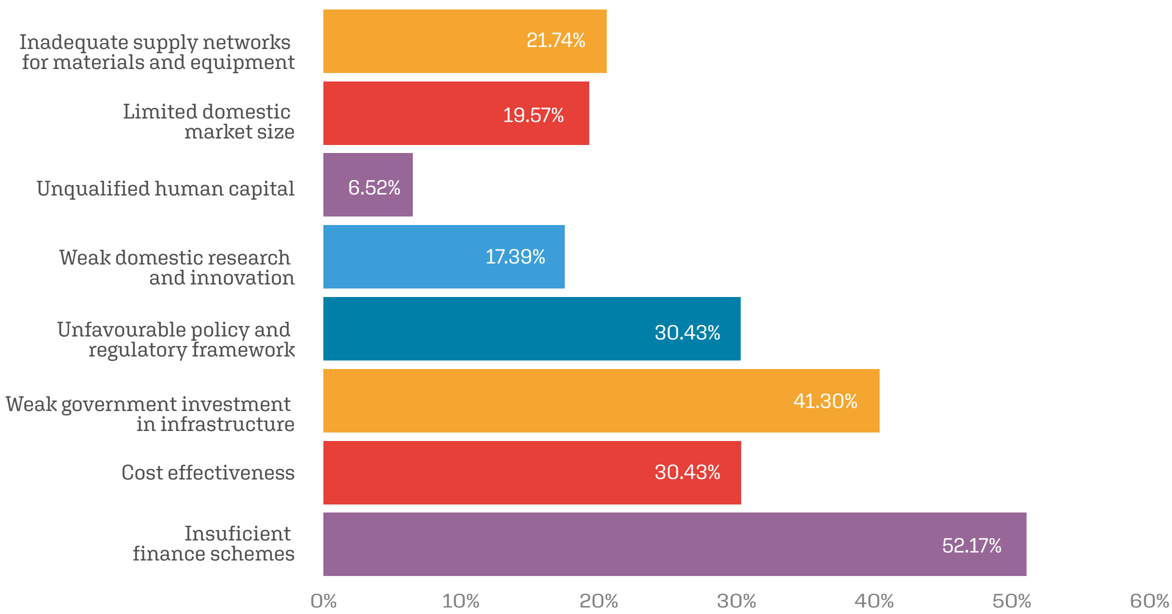
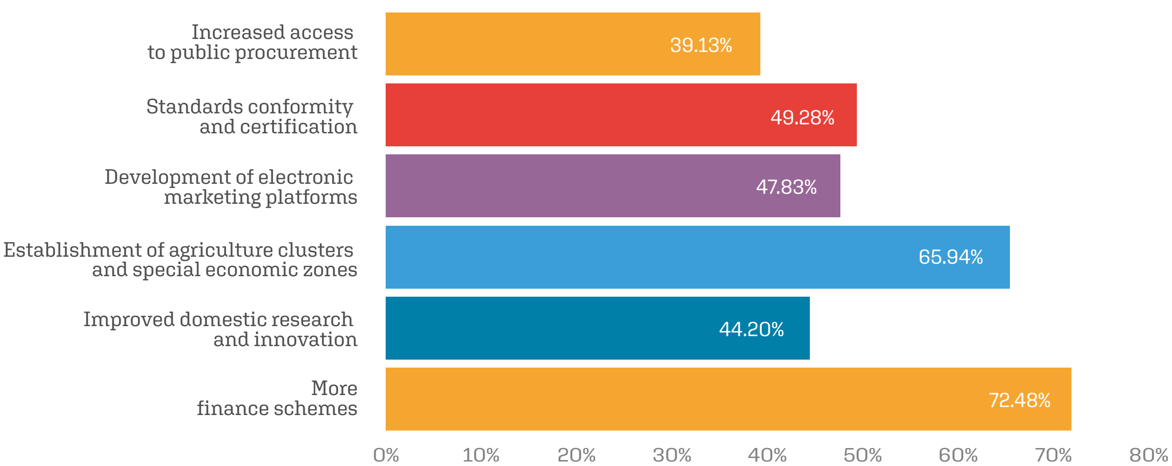


Fig. 34: What should AfCTA's policy-focus areas be within the agriculture sector?



Growing impact of climate change

Climate change is already affecting African agriculture with increasingly erratic rainfall patterns and higher temperatures in specific areas, with huge implications for planning and crop yields. A total of 73% of respondents reported moderate to high levels of impact due to changing weather patterns, of which nearly a quarter are experiencing high levels of disruption. Less than 6% of respondents reported no impact, suggesting that climate change effects are widespread across different parts of the sector and various climatic zones.

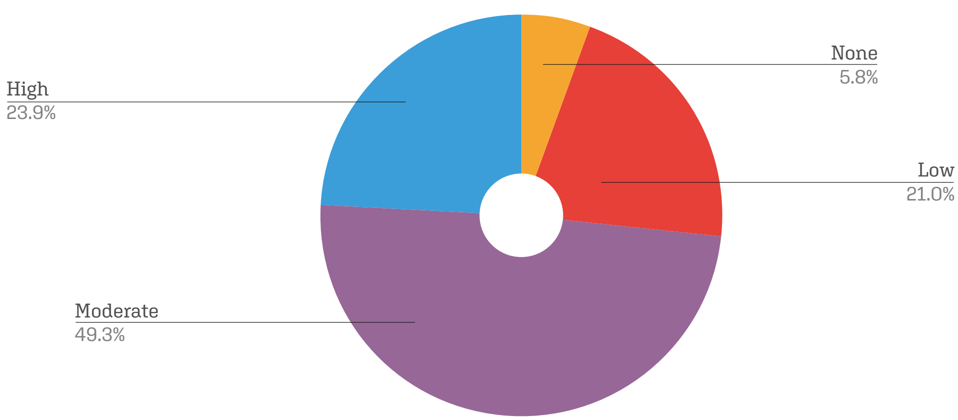
These findings highlight the importance of integrating climate adaptation strategies into agricultural policy and financial support mechanisms to ensure the long-term viability of the sector. The topic is of such great importance that Afreximbank made the climate implications of the AfCFTA the main theme of the *2024 Africa Trade Report*. The World Bank forecasts a 49% increase in intra-African agriculture trade volumes and a 10% rise in exports out of Africa as a result of the creation of the free trade area. Both figures are lower than for other sectors but still substantial. However, an average temperature rise of 3ºC by 2050 could see Africa lose up to 60% of its current growing areas for beans and 30% for maize and bananas, for example.

Some governments responded to droughts in 2023 but more comprehensive adaptation is needed. Ethiopia's Ministry of Agriculture began distributing drought resistant seeds and promoting water harvesting techniques, while South Africa's Department of Water and Sanitation introduced water restrictions in major cities to conserve dwindling resources, including for cultivation.

Despite the continent's very low share of global greenhouse gas emissions, African countries are already among the hardest hit and the least resilient against the impacts of climate change, exacerbating the fact that the continent is already very prone to adverse climate events. According to Afreximbank, it is the most vulnerable region in the world to drought and the second most vulnerable to flood events.

Temperatures are rising faster than anywhere else in the world and by the end of the 21st century could rise by an average of as much as 6ºC, according to Afreximbank, which would make some current forms of agriculture unsustainable. In addition, the ability of some African governments to respond to climate shocks is low, further intensifying the continent's vulnerability. Smallholders, who make up about 80% of all African farmers, may not always have the resources or capacity to adapt to the effects of climate change.

Fig. 35: What level of impact has your business seen due to changing weather patterns?



Section 4.2
Mining

Here too, finance in short supply

Introduction

Although mining and natural resource companies account for less than 6% of the total number of businesses that participated in our survey, this underestimates the industry's contribution to the continent's export revenues. South Africa is a globally important producer of coal, iron ore, manganese, gold and other minerals, while Guinea is the world's biggest producer of bauxite, which is used to make aluminium, and is in the process of developing the world's biggest untapped iron ore reserve, Simandou. DR Congo accounts for 88% of global cobalt exports, while Zambia and DR Congo jointly produce 11% of the world's copper, and new iron ore projects are at various stages of development across Central Africa.

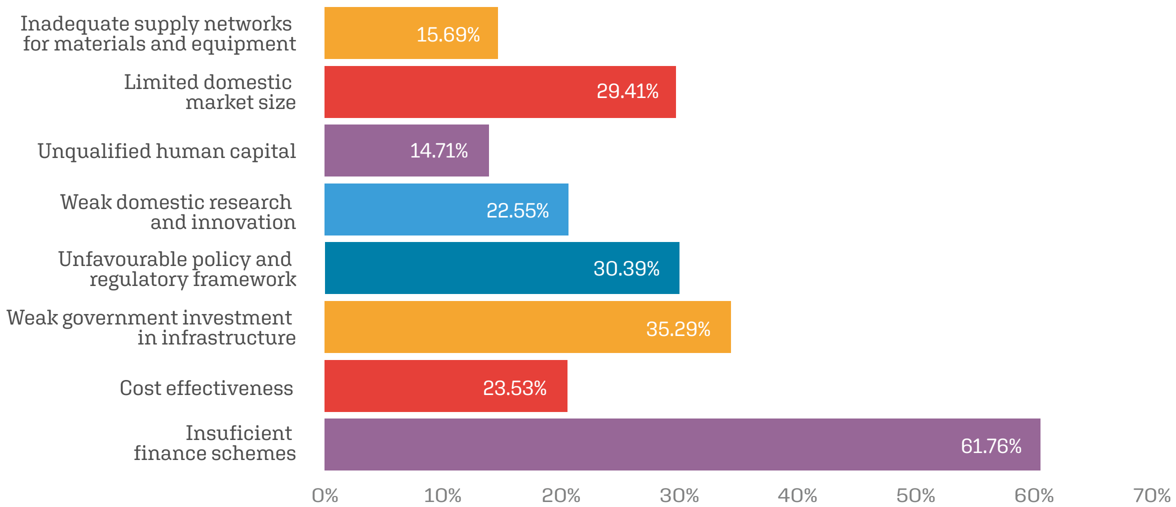
Our participants said that the lack of finance was by far the biggest constraint on their expansion and indeed, it is a very capital-intensive industry. Mine development is expensive but so too is the transport infrastructure required to move heavy raw materials from what are often remote areas to ports for export. The cost of building the new port of Matakong, south of Conakry, a new railway that will connect the Simandou mines with the port, and other fundamental infrastructure is put at $15bn.

Weak government investment in infrastructure was cited by 35% of respondents as a constraint, as miners look to state financial support for road and rail projects. Unfavourable policy and regulatory frameworks and the limited size of domestic markets were named by 30% and 29% of respondents respectively. At present, almost all African mining commodities are shipped to other parts of the world, with the continent producing just 1.9m tonnes of the 39m tonnes of steel it consumed last year. The lion's share of the iron ore it produces is therefore shipped overseas, even when the finished steel is needed in Africa.

Yet the Baobab steel plant in Maputo and Rusal's Friguia alumina refinery in Guinea, which is supplied with the country's own bauxite, demonstrate that the continent can process its own raw materials. Supply chains could be developed across the continent to keep more of the benefits of the continent's plentiful supply of metals and other commodities within Africa, creating high-skilled jobs in the process. This is backed up by the fact that 29% of our respondents said that the limited size of domestic markets also deterred investment in expanding their operations. While the domestic markets of individual African countries may be too small to justify investment, the creation of a vast single African market would present an entirely different investment landscape.

Respondents named a wide range of different policy areas on which they would like the AfCFTA to focus in the mining sector, led by the prioritisation of infrastructural development (61%) and facilitating cross-border collaboration and partnerships in the mining sector through regional integration (57%). Responsibility in both areas seems to rest rather more with mining industry interests than with those responsible for making the AfCFTA a reality. Where there are sound commercial considerations, governments and miners can generally reach agreement on cross-border project development.

Fig. 36: What key constraints have prevented your company from expanding in this sector?



The provision of training and resources to build mining expertise within member countries, local community development and greater support for informal miners were all listed by 54% of respondents but here too, in the case of the first two factors, it seems that funding should come from the mining investors themselves. Mining projects are often very destructive so local community development is crucial for securing social licences to operate, mitigating conflicts, and ensuring long-term project viability.

It is surprising that mining companies should call for greater support for informal miners, given that they could be seen as competitors for limited resources but helping small-scale informal operators to become part of the industry mainstream would help place more of the mining sector in the hands of African interests.

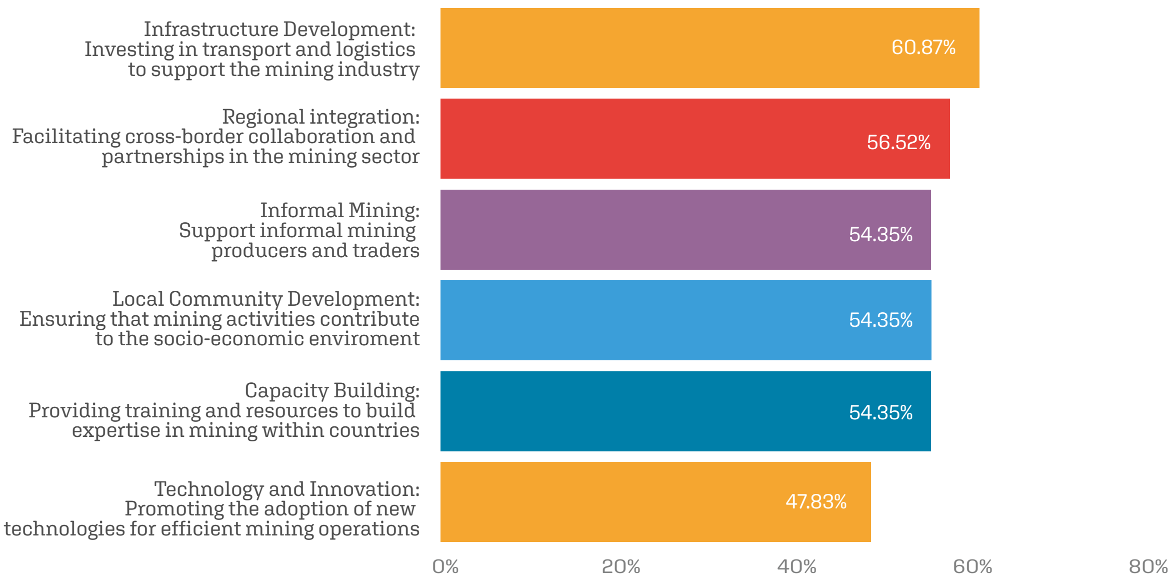
Critical minerals

The ongoing surge in demand for critical minerals, often for use in renewable energy projects and electric vehicles (EVs), presents new opportunities for the African mining sector. Most critical minerals are high value but low weight and so do not require or justify the construction of new railway lines. They can be transported with existing rail infrastructure, or even be moved by road if necessary.

Demand for nickel is set to double, for cobalt to triple, and for lithium, to rise tenfold between 2022 and 2050, according to figures from the International Energy Agency, with Africa well placed to make the most of this boom. However, about 60% of current global critical minerals production and 85% of processing capacity is located in China, with Chinese companies buying up critical mineral reserves in Africa, particularly in DR Congo and Zambia, on commercial grounds but also to protect their established position in the global industry. According to US think-tank, the Wilson Center, China controls about 8% of Africa's mining sector, less than half that of Western countries, but most of that investment has been focused on critical minerals.

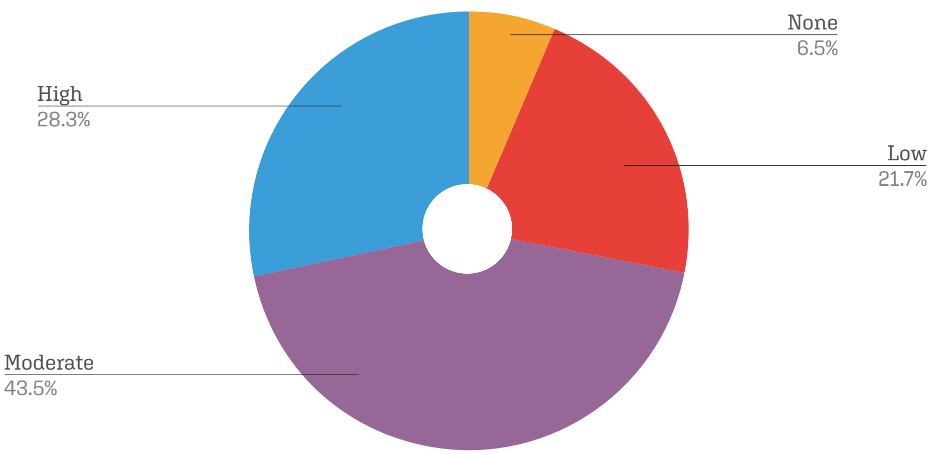
The IMF estimates that sub-Saharan Africa holds about 30% of the world's proven critical mineral reserves, with South Africa, Gabon and Ghana jointly controlling 60% of global manganese production. Africa also possesses reserves of rare earths, which are a specific category of 15 of these critical minerals, many of which are crucial for EVs and wind turbines, such as neodymium and praseodymium. Increased interest in critical minerals is already having a significant effect on African mining businesses, with 71.8% of respondents reporting a moderate to high impact, and only 6.5% reporting no impact on their operations.

Fig. 37: What should AfCFTA's policy-focus areas be within the sector?



Africa only has about 5% of proven global lithium reserves but the actual figure could be much higher because of the lack of investment in exploration to date. Yet coupled with its reserves of other minerals, the continent's lithium could help kickstart high-tech green energy and EV manufacturing. At least nine lithium mining projects are already under development on the continent: in DR Congo, Ghana, Mali, Namibia and Zimbabwe. In December 2022, the government of Zimbabwe banned the export of raw lithium to ensure that more of the mineral's supply chain benefits are retained within the country.

Fig. 38: What kind of impact has the increasing focus on critical minerals had on your business?



Section 4.3
Transport and Logistics

Putting the physical infrastructure in place

Introduction

The transport and logistics sector is both an industry in its own right and a vital plank in African infrastructure that is of benefit to the wider economy. As already discussed, the AfCFTA is unlikely to have a direct impact in building new roads and railways but it can help create an enabling environment that encourages the construction of such infrastructure.

The United Nations Economic Commission for Africa (UNECA) forecasts that the creation of the AfCFTA will increase intra-African trade volumes by almost 50%. This will not translate into a 50% rise in Africa's total logistics flows as this prediction does not relate to transport moved internally within countries, but it is still a big increase in cross-border trade. UNECA also forecasts that close to 40% of the increase in Africa's services output from the AfCFTA will be achieved in the transport sector.

New port terminals are being developed in all parts of Africa by the private sector on a regular basis, so the new trade area's impact here may be limited, accept with regard to supporting the development of inland river and lake transport. Even in South Africa, where current port capacity is heavily constrained, the government has finally decided to seek private sector investment alongside the state-owned Transnet to improve current performance.

As we discussed on page 33, new cross-border rail projects are being developed in East Africa and another is planned that will connect Angola, DR Congo and Zambia. Connections between Mozambican ports, Malawi and Zimbabwe are being strengthened, while the governments of Mali and Senegal aim to rebuild the Bamako-Dakar line.

Rail encouragement

Many African governments have a policy of encouraging more freight to switch from road to rail in order to tackle congestion and reduce road surface damage. However, achieving this will require many more modern cross-border rail links. Once land acquisition and bridge construction are factored in, new railways are expensive but the AfCFTA provides an excellent opportunity to build Africa's railway network and for neighbouring states to build new relationships with each other.

Relatively little freight is currently moved across long distances between West Africa and East and Southern Africa because of the lack of rail lines through Central Africa. Building new routes through the Congo Basin may be not feasible or environmentally desirable but the construction of lines bisecting less environmentally sensitive areas would enable much greater trade between East and West Africa for instance, and be much quicker than seaborne transport.

Similarly, new road connections would greatly ease freight transport between different African markets. The final sandy sections of the Trans-Sahara Highway now appear to have been surfaced, connecting Algeria to Niger via a tarmac road. The security situation in the area has deteriorated since the project was originally conceived but this vital link is much needed. Elsewhere, in May 2023 the governments of Ethiopia and South Sudan signed an agreement to build a new 220km road across their common border, but such schemes require ongoing maintenance budgets as well as construction costs if they are to be long-term successes.

Aside from road and rail projects, the sector needs inland container depots (ICDs) and one-stop border posts to speed up the movement of cargo. ICDs allow cargo to be seamlessly transferred between road and rail transport, and often to be processed inland rather than at congested port terminals. Integrated border posts with all customs and other bureaucratic processes for the two countries involved can prevent the very long delays that hold up trucks for many hours at a time at some African border crossings.

Financing

Such rail and road schemes are very expensive, so 54% of our survey participants say that insufficient finance is one of the key constraints to building more transport and logistics projects. Cost ineffectiveness, unfavourable policy and regulatory frameworks and the limited size of domestic markets were all named by respondents as limiting factors but none came close to the obstacle of securing finance.

Apart from in the mining sector, private companies do not generally finance and build railways on their own and it is largely up to governments to bankroll such projects. Funding from international partners would be welcomed but is unlikely to be forthcoming in the amounts needed. Chinese banks have funded large African infrastructural schemes, including road and rail projects, over the past 20 years but the amount available has declined in recent years, with increasingly commercial terms appearing to have been imposed on the loans that are still granted.

The AfCFTA Secretariat will not have the financial muscle to have much impact in financing projects but it can play a real role in terms of breaking down non-tariff barriers, such as conflicting regulations and standards. Trucks considered roadworthy and licensed in one country should qualify to operate in other countries but only if common standards can be agreed.

For instance, different countries have different rules on how much weight any particular vehicle can carry or what measures are needed to mitigate the risks associated with dangerous cargoes. The AfCFTA could also encourage the adoption of electronic documentation, of the kind now used in many ports, to speed up processing, avoid unnecessary paperwork and prevent the same checks being carried out multiple times.

Similarly, 73% said that the AfCFTA should focus on enhancing infrastructure, such as upgrading roads, ports and rail networks, to facilitate smoother intra-African trade but there is surely little the new free trade area can do here. It should, however, have far more capacity to harmonise regulations, simplify procedures and bureaucracy for exporters and importers and perhaps even support training programmes for logistics professionals, which 59%, 51% and 57% of our respondents would like to see. It could also work to facilitate public-private partnerships in which it takes no direct stake itself.

The proportion of companies in this sector located in SEZs or other industrial zones is roughly in line with that in other sectors at 54% but it is important that freight forwarders and other parts of the logistics network operate across the continent and not just in more industrialised areas.

Fig. 39: What key constraints have prevented your company from expanding in this sector?

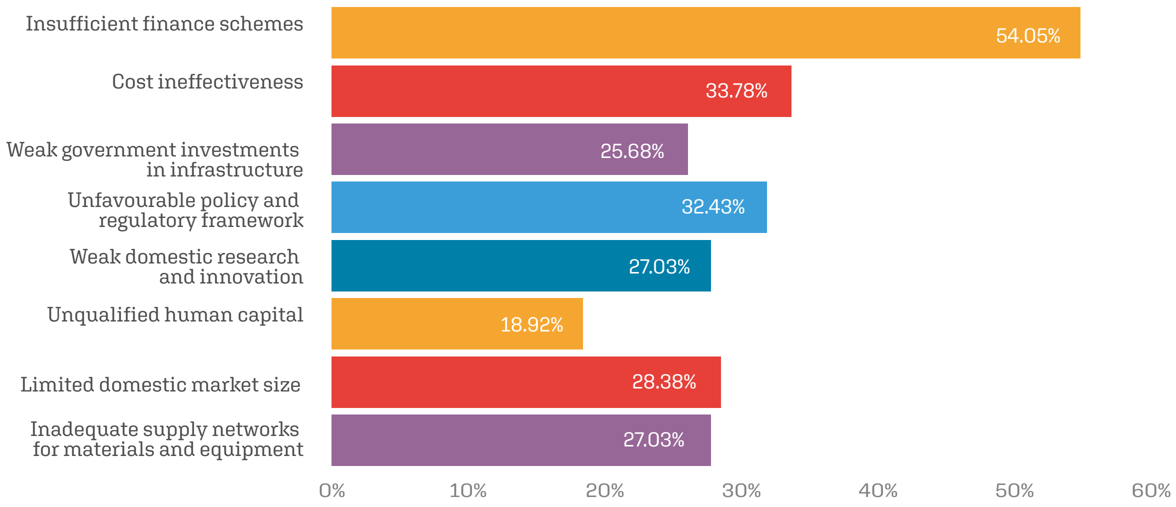
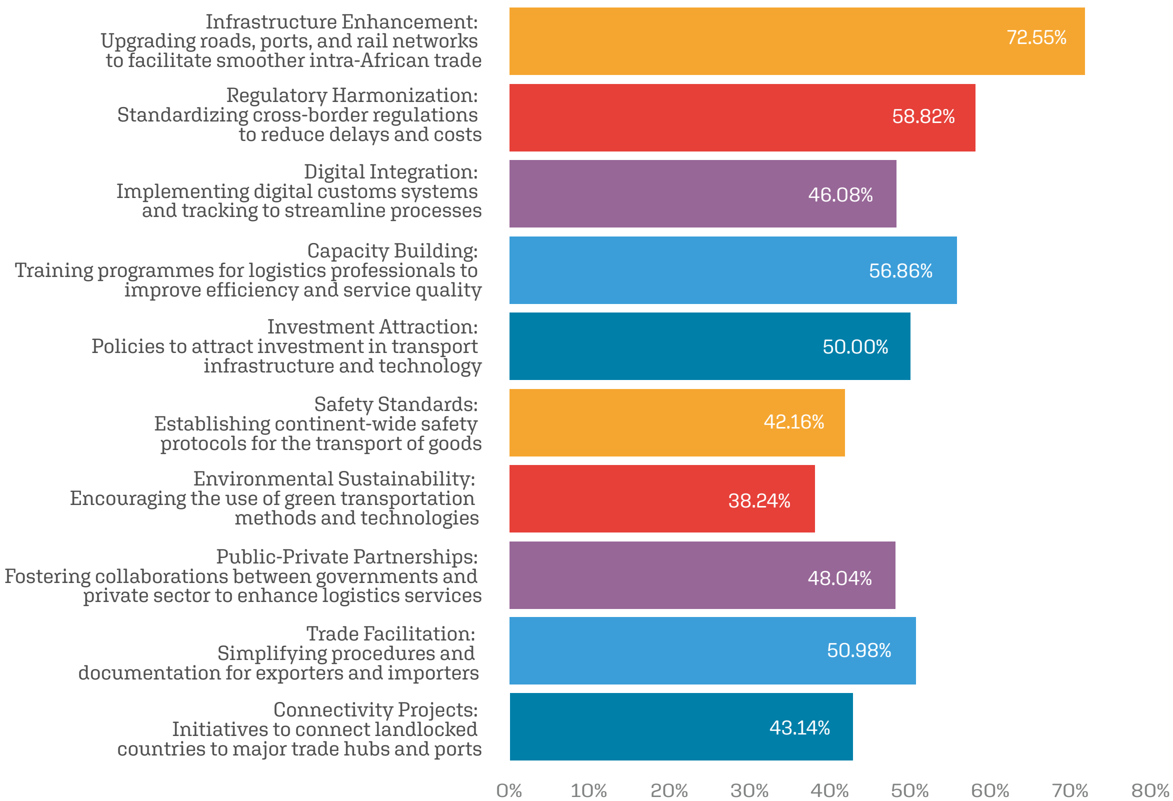


Fig. 40: What should AfCFTA's policy-focus areas be within the transport & logistics sector?



Section 4.4
Manufacturing

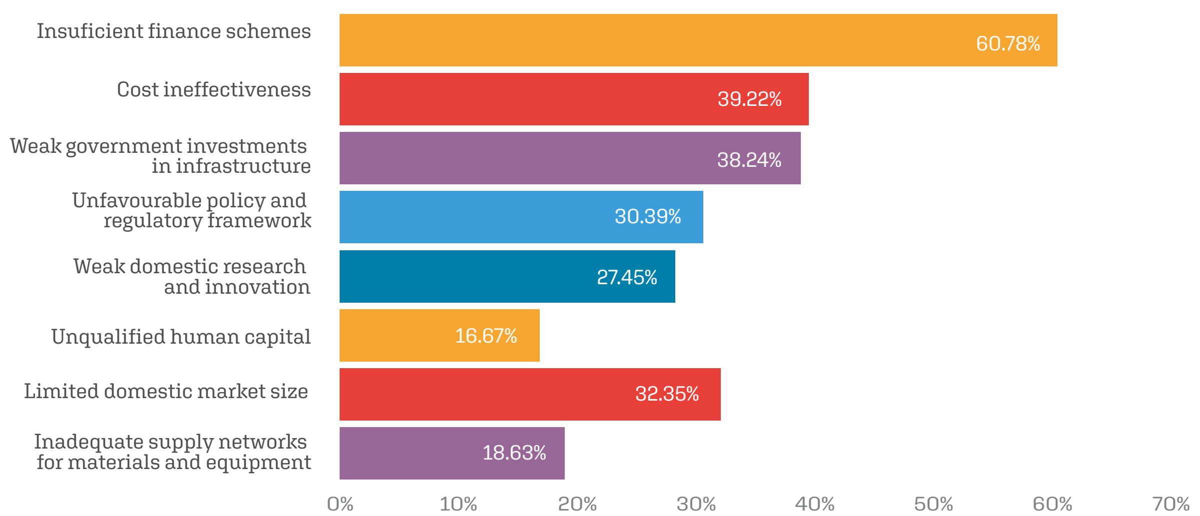
Time for an African production revolution?

Introduction

Africa as a whole has never enjoyed the same levels of economic growth as East or Southeast Asia. China's economy grew by an average of 9.5% a year over the period 1978-2013 and while the country's GDP is no longer growing at the same rate, this prolonged period of very strong growth completely revolutionised its economy. By contrast the economy of the African continent grew by an average rate of 5.1% a year between 2000 and 2010, slowing to 3.3% a year for 2010-19, slightly higher than demographic growth but far short of the levels required to rapidly improve living standards.

Much of the success of China and then Southeast Asia lay in their ability to attract a huge proportion of the world's manufacturing activity to the region because of the sizeable workforce on offer and the necessary improvements to infrastructure. With manufacturing capacity now being shifted out of China on the back of rising wages and to bypass trade restrictions, many African countries could become viable alternatives for new factories, providing the infrastructural deficit can be bridged.

Fig. 41: What key constraints have prevented your company from expanding in this sector?



Our survey participants revealed that by far the biggest obstacle to making this a reality is the lack of finance. Indeed, it is understandable that African or international banks are less than willing to lend money for factory construction, equipment acquisitions and staff training when there is a limited track record for such ventures on the continent. Governments may struggle to finance the infrastructure that 38% of our respondents would like to see the AfCFTA develop, but it would cost relatively little to improve policy and regulatory frameworks, which 30% regard as a constraint.

This in turn may have some effect on costs, which 39% of the survey participants acknowledge as an issue, but there is also something more intangible that could see more companies invest in manufacturing – and that is a cultural belief that it really is possible to turn Africa into a manufacturing centre of global importance. While Ethiopia has aimed high, including in terms of massively increasing its power generating capacity and attracting investment in garment and textile production, many other African governments do not seem convinced that they really can lure manufacturing investment away from Asia.

Unlike in most other sectors, the policy focus that our respondents would most like to see the AfCFTA adopt seems entirely within its remit. Enhancing intra-African trade by prioritising policies that reduce trade barriers and promote seamless intra-African trade to leverage the full potential of the manufacturing sector lies at the very heart of the project.

Demographic opportunity

Eroding and then removing trade barriers should have a huge impact on many types of African manufacturers. The continent is already an important global centre of consumption but this position will only be strengthened by a forecast rise in the total population from 1.46bn in 2023 to 2.5bn in 2050 and 3.9bn by 2100. Although much will depend on levels of economic growth over the next few decades, per capita consumption also looks set to increase alongside population growth.

This will make African consumers vital to the success of global manufacturers at a time when populations in other parts of the world are likely to peak and then fall. This provides huge opportunities for Africa, in that governments – through the AfCFTA – can insist on more products being produced within the free trade area, as long as they can work within World Trade Organisation rules. There has already been some discussion of promoting a 'Made in Africa' brand. Foreign companies should also be happier to invest if they know that setting up factories in one African country will give them access to the entire continent.

In addition, African governments can insist on some form of skills and knowledge transfer to build up local capacities. Finally, this single market could kickstart the emergence of new African manufacturers and the growth of existing ones, providing they are nurtured by the wider investment environment. All this depends on governments working together for the greater good by making the AfCFTA a reality.

In February 2022, eight African countries – Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda, Tanzania and Tunisia – joined the AfCFTA's Guided Trade Initiative (GTI) after meeting the minimum requirements on duty-free and quota-free trade. The GTI seeks to match businesses and products between different countries, covering specific items including batteries, rubber, sugar, horticultural products, pharmaceuticals, aluminium kitchenware, steel and wooden products. It is hoped that such initiatives can provide early examples of the advantages of duty-free trade to encourage other countries to take the same steps.

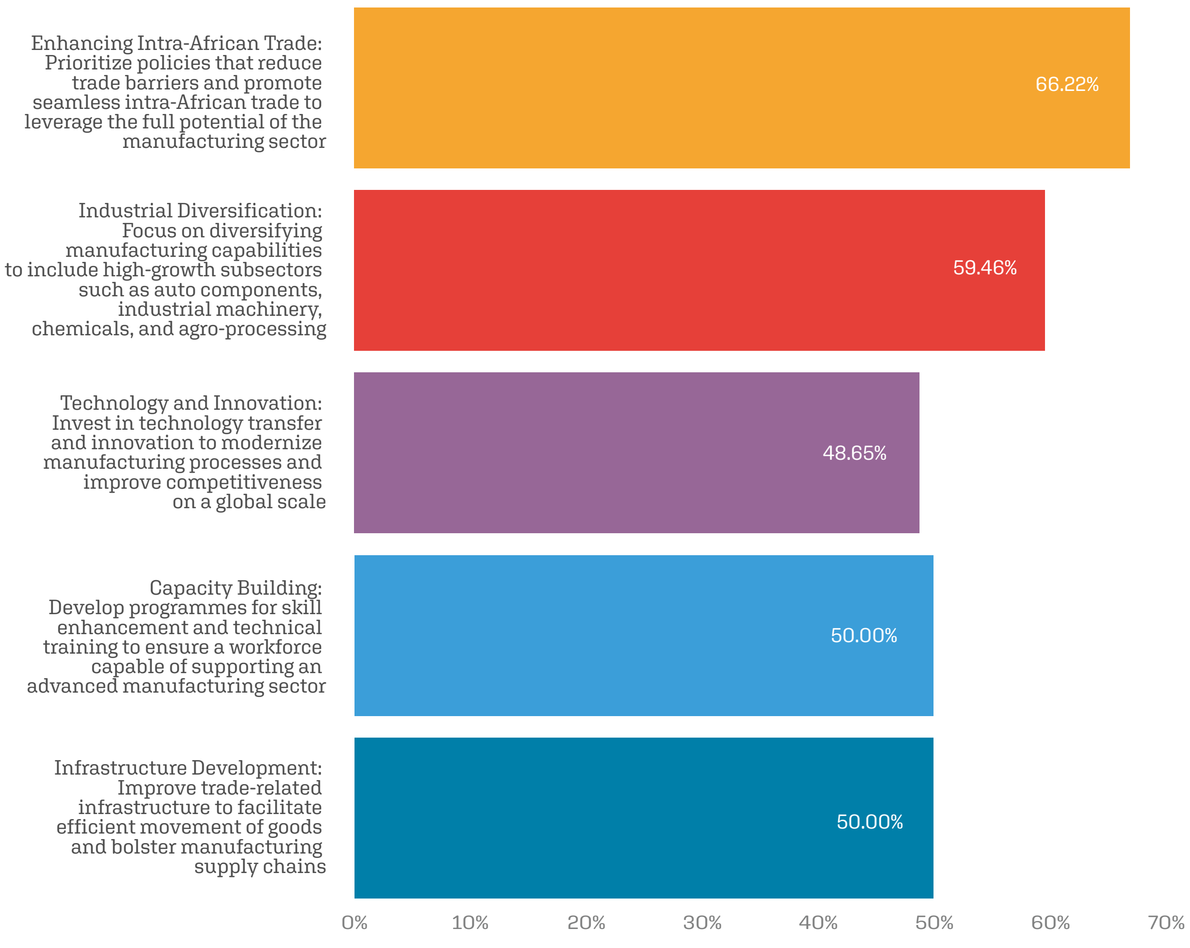
New thinking

Apart from the concrete steps that are being taken to create a free trade zone, the AfCFTA can also have an impact in encouraging companies and politicians to think differently. Some governments have already begun to identify which elements of their existing manufacturing capacity could most benefit from free trade.

As might be expected, the South African government hopes that its automotive sector can expand from its current focus on the domestic market and international exports to supplying vehicles to the rest of Africa. However, raw material suppliers could also become more involved in supply chains. Côte d'Ivoire and Liberia currently produce rubber for global export but tyre factories to supply vehicle plants within Africa would also be a viable option if it were easier to trade goods between different African markets.

Smaller countries may assume that they will lose out in manufacturing terms in a free trade zone but this is not a given and large factories can have a huge impact on small economies. In Europe, the tiny state of Liechtenstein has become the world's largest producer of dentures, which now make the biggest contribution to the country's GDP. Countries with more substantial populations could establish themselves as centres of manufacturing activity of continent-wide importance. Rwanda, for instance, already manufactures chemicals, detergents, plastic goods and construction materials and is now seeking to expand its early start with phone, vehicle and computer assembly.

Fig. 42: What should AfCFTA's policy-focus areas be within the manufacturing sector?



Section 4.5
Tech and Telecoms

Embracing the future

Introduction

Tech regulation is a hot topic in much of the world at the current time, with governments struggling to counter cybercrime and to exert any influence over social media in the face of rising levels of abusive communications. It will therefore be very difficult for African countries to agree common rules that can actually be imposed on tech companies, although this would help create an even playing field for companies operating in the sector.

At the same time, it is important that Africa's burgeoning tech start-ups are encouraged rather than smothered. Only 7% of our participants last year did not express some form of concern over excessive regulation. Centres of innovation have boomed in Kenya, Nigeria, Ghana and South Africa in particular but by its very nature, the digital economy lends itself to operating from anywhere the necessary infrastructure exists. Encouraging such start-ups also means that bespoke African solutions to African challenges can be developed, rather than relying on products and services being imposed from outside. The continent is expecting a spike in the number of tech start-ups over the next few years, partly because of the boom in artificial intelligence (AI) applications.

African tech and telecoms companies would like to see support from the AfCFTA for a wide range of policies within their industry but three areas stand out above all others. Firstly, 71% of our respondents would like more focus on digital trade facilitation, with policies introduced that streamline e-commerce and other forms of digital trade to boost cross-border collaboration within the tech sector.

Regulatory harmonisation

African businesses have made huge strides over the past few years in rolling out e-commerce platforms in the retail and also business-to-business sectors but their ability to expand has been hampered by differences in national regulations. Regulatory harmonisation is exactly the kind of area where the AfCFTA could be effective but the lack of harmonisation to date has even affected interoperability in the telecoms sector, as not all platforms can interact smoothly with each other on a national basis, so the situation is even worse internationally within Africa.

Secondly, 70% called for greater support for innovation by supporting tech entrepreneurs and start-ups with access to finance and mentorship programmes. The AfCFTA can support financial services integration and cajole that industry into backing the tech industry but it cannot finance the sector itself. The AfCFTA's work in financial services will also be crucial in opening up e-commerce as cross-border payments in Africa currently cost an average of 8.9% of the transaction value. Mentorship is certainly also a good idea and one that would not be expensive to support, so the AfCFTA could perhaps facilitate mentoring exchanges between different countries.

Finally, 69% of our participants would like the AfCFTA to focus on investing in robust digital infrastructure to support high-speed internet access and digital services across the continent. Some African digital infrastructure is among the best in the world, as fibre networks have been laid in parts of Lusaka and main urban areas in Rwanda, for example, where there was no need to replace existing copper connections, as in industrialised countries. This has provided excellent high speed data transfer. However, such infrastructure does not extend across most of the continent and so more geographically comprehensive mobile coverage is needed.

Above all else, the very high cost of mobile data in some countries needs to be tackled and it is here that the AfCFTA can make a real difference. It can encourage countries with very high data costs to follow the examples of their lower-cost counterparts in order to bring internet access within the reach of far more people. Research by Southern Africa–Towards Inclusive Economic Development (SA-TIED) concluded that the level of retail rates is heavily affected by domestic regulation. Tariffs relating to international calls, roaming and digital payments are also prohibitive in some markets.

North African data costs are generally low but those in sub-Saharan Africa vary massively. Malawi was the cheapest last year at an average rate of $0.38 per gigabyte (GB) but Zimbabwe was the most expensive in the world at an average $43.75/GB), followed by South Sudan ($23.70/GB), the Central African Republic ($10.90/GB) and Zambia ($8.01/GB). Even within national markets, tariff prices vary massively.

Digital Protocol

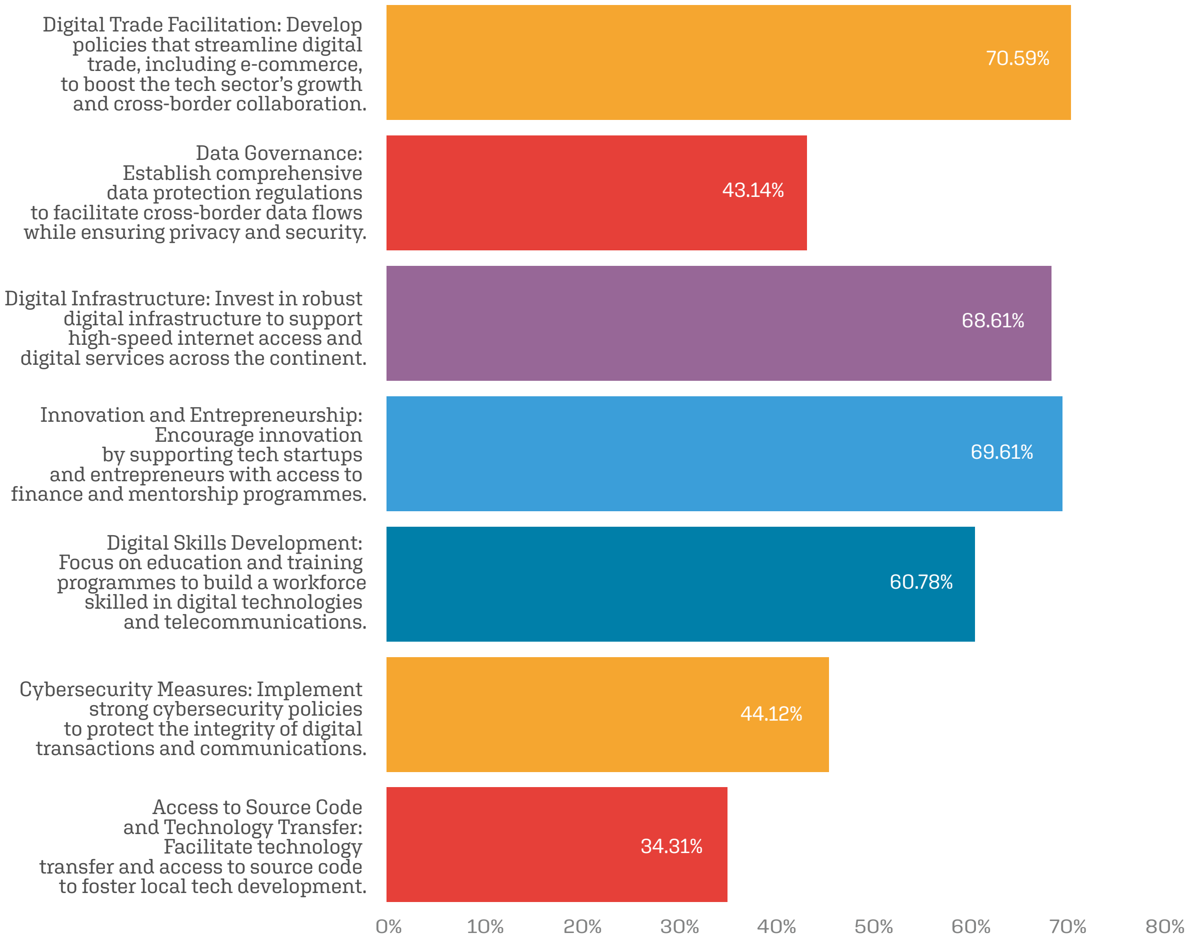
The AfCFTA Digital Protocol, which was adopted in February 2024 at the 37th African Union Heads of State Summit, aims to promote digital cooperation, trade and security in Africa. This builds on the African Union's Malabo Convention on Cyber Security and Personal Data Protection, which came into force in June 2023, nearly a decade after it was agreed. Hopefully more rapid progress can be made from now on.

Following long negotiations, the Protocol will finally harmonise standards, rules and principles, to support tech-driven innovation and commerce in Africa. It covers data protection, data governance, cross-border data flows, online consumer protection, cyber security and emerging technologies such as AI. Increasing interoperability between jurisdictions and reducing the high cost of compliance should make it much easier for tech companies based in one country to expand into other markets. A huge majority of respondents (89%) in our 2023 survey had said that harmonisation should be a policy priority under the AfCFTA. As a result, the creation of the Protocol is likely to be welcomed, although there will almost certainly be some debate over the details.

The AfCFTA could encourage the construction of cross-border infrastructure projects in the telecoms sector, such as fibre optic networks connecting different countries. Mostly importantly, it can encourage governments to reach agreement on common industry standards and regulatory agreements on such links, so any obstacles to the construction of such projects are removed.

It is hoped that the elimination of tariffs on most goods and services will reduce roaming charges across borders, which would greatly simplify access to mobile communications across the continent. This does not only affect business people who make regular trips to different countries but also migrant workers and truck drivers.

Fig. 43: What should AfCFTA's policy-focus areas be within the tech and telecoms sector?



Section 4.6
Financial Services

The heart of the AfCFTA

Introduction

Integration of financial services lies at the heart of the AfCFTA project. Like transport & logistics, banking is an important sector in its own right but also a crucial enabler for every other sector. If companies struggle to pay each other, in the currency they want and in the method they prefer, then they are far less likely to trade with each other. Much higher levels of financial integration are certainly needed now to unlock the continent's trade potential.

Our survey participants had two main areas that they would like the AfCFTA to focus on: regulatory banking and financial services harmonisation across member states (67%) and pan-African open banking systems (65%). These two preferences ultimately have the same goal: producing common financial services regulations to enable the creation of an open banking system. Banks that operate in multiple African jurisdictions currently have to apply for separate licences for each country, with their various subsidiaries operating under very different rules.

This is cumbersome for traditional banks that principally operate through branch networks, but for digital-first banks that could roll out the same mobile and online banking platforms in many different countries it can greatly curtail the rate at which they expand. Given that digital banks are bringing financial services to the previously unbanked and providing loans to those who were previously overlooked by established banks, this process is a real obstacle to efficiency in the industry. Separate licences may still be required but the regulatory process can certainly be streamlined.

A harmonised financial system could significantly reduce transaction costs and time, thereby addressing key challenges in sectors like agriculture and manufacturing. The East African Community (EAC), which is more advanced as a project than the AfCFTA, is already seeking to harmonise cross-border digital payment and banking regulations. Moreover, the creation of common banking rules could help the continent as a whole comply with international regulations on tax evasion and money laundering.

Use of African currencies

It had been hoped that the creation of the AfCFTA would promote the use of African currencies to both strengthen those currencies and help conserve reserves of US dollars and other hard currencies, which are often in short supply. However, there has been a distinct fall in the proportion of our survey participants using hard currency from 69% in 2022 to 58% last year and now 39% in this year's survey. This could be the result of the depreciation of many African currencies against the dollar, making them less attractive for those receiving payments.

It could also reflect more concern over the use of the South African rand, which was previously considered one of the continent's most stable currencies but which has experienced wider swings in value in recent years. Finally, it may be a result of the inclusion of more companies in our survey but the impact of that is difficult to quantify. It is worth noting that even many of those businesses that do use African currencies may also use non-African currencies for some transactions.

Participants' interest in a single African currency (63.33%) further emphasises the desire for smoother intra-African transactions, potentially alleviating currency exchange risks. There is already a longer-term ambition to create a pan-African currency, although it will be very challenging to persuade national governments to give up their existing currencies. Such a process took decades in the European Union and required the convergence of national economic indicators within specific parameters. The CFA franc is largely regarded as a success in francophone West and Central Africa but other regional currencies, perhaps in East Africa, will probably be launched before any attempt to set up a single African currency. Even if it is created, it is likely to be adopted by only some African countries in the first instance.

Fewer companies operating in this sector are located in special economic zones or industrial clusters than for any other sector (35%). This makes sense given that the financial services sector requires far less infrastructure, aside from IT and power connections.

Digital banking

Despite the technology's potential, just 56% called for the promotion of digital financial services but this could be because the private sector is already driving ahead in this area. The arrival of digital-first banks, also called neobanks, which generally do not have any physical branches, has forced established banks to speed up their own digitalisation processes in order to compete.

Digital platforms benefit banks by reducing recurring costs and enabling them to grow market share. The cost of building and maintaining digital platforms is significant because of the level of expertise required but it is cheaper than maintaining branch networks and their staff. There are also savings to be made in operational efficiency from digitising back office operations and automating onboarding and credit applications.

Fig. 44: What should AfCFTA's policy-focus areas be within the banking and financial services sector?

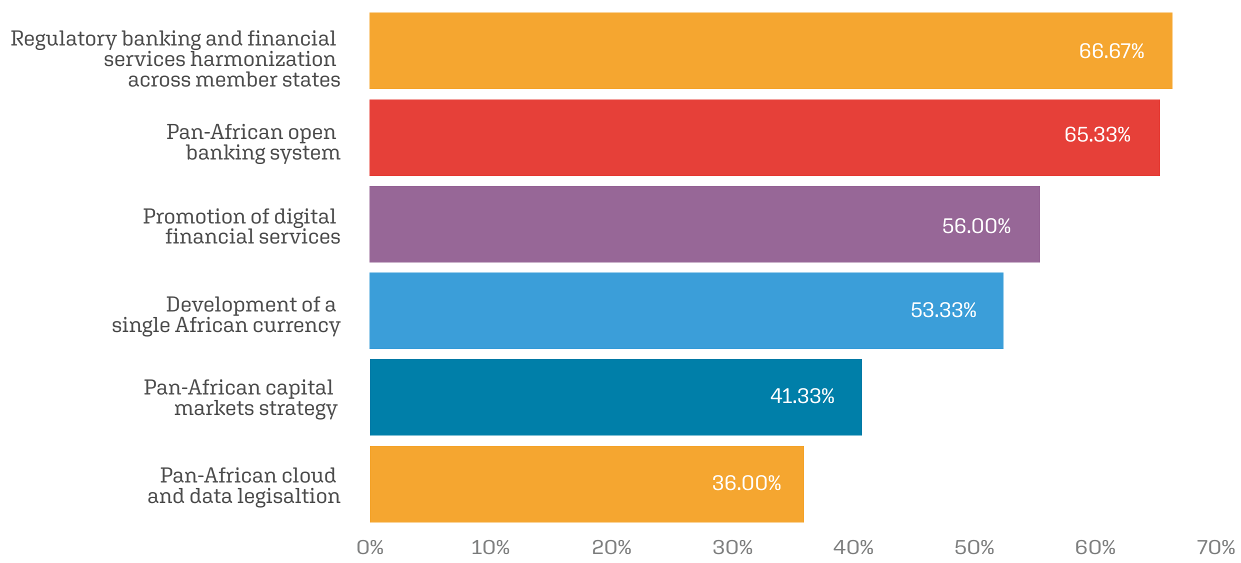
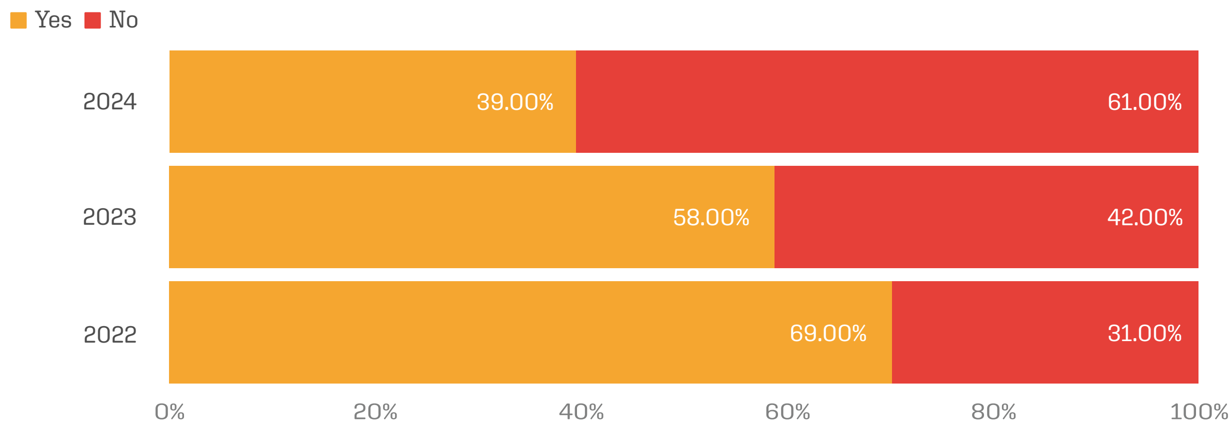


Fig. 45: Does your institution currently use African currencies for international trade financing?



The harmonisation of digital banking regulations make it easier for banks from one country to expand into another because of digital banking's lower costs. For example, when Egypt's biggest private sector bank, CIB, completed its takeover of Kenya's Mayfair Bank in January 2023, it decided to make digital services one of its main priorities rather than expanding its branch network. It is also worth pointing out that Kenya is an attractive market for foreign banks precisely because the market is relatively open and unafraid of competition.

PAPSS: the African payment system

The need to ease financial flows between African countries has long been recognised as a key element of the AfCFTA and prompted the African Export-Import Bank (Afreximbank) and the African Union to launch the Pan-African Payment and Settlement System (PAPSS) in January 2022. It is a cross-border payment, clearing and settlement system that speeds up intra-African transactions while reducing their costs, supporting real time transactions in local as well as international currencies across the continent. Membership is voluntary but more than 50 commercial banks, including Ecobank, Zenith, Stanbic and Absa, and at least 14 central banks, such as those in Nigeria, Zambia and Tunisia, are already using it. More are expected to join them in the near future. The ability of individuals, businesses and governments to make instant payments to complete cross-border transactions using more than 40 African currencies could have a huge long-term impact on financial flows and reducing the use of hard currency by African banks.

Section 4.7
Pharmaceuticals

Huge opportunities for cooperation

Introduction

The policy support called for by our pharmaceutical industry survey participants is somewhere different from that found in other sectors. Their main priorities are for support for local production (65%) and public-private partnerships (58%), in addition to the harmonised regulation (63%) desired by those in other sectors. Encouraging policies that support and facilitate the local production of pharmaceuticals is a more complicated matter than in many other industries because of the use of international patents based on the huge investment in research and development (R&D) required to produce new medications.

Pharmaceutical companies generally market medicines at vastly different prices around the world based on the ability of people in each area to pay for them, agreements with state health authorities and the need to recoup their R&D outlay. African markets are generally at the lower cost end of the scale but at the same time, the disease burden is higher in Africa than elsewhere, partly because of the triple threat of tuberculosis, malaria and HIV-Aids.

For the lowest income countries, foreign donors sometimes buy medicine on their behalf to reduce the retail cost of medicines, while some companies offer key products at reduced prices or as donations, often through bilateral agreements with governments. Moreover, some international pharmaceutical companies do not seek or enforce patents in the poorest countries.

Lower-cost medicines

Generic medicines are a key component of the market. When a patent held by a medicine's originator expires, other companies are able to produce their own versions of the same product but without the need to cover R&D costs, so they can often manufacture it for a tiny fraction of the original cost. Such arrangements, concluded under World Trade Organisation rules, have made some products much more affordable, although the cost of HIV anti-retrovirals is still prohibitive for many people.

Much of the progress on patents and generic medicines was made through strong pressure by Indian companies. The big question is whether African producers could have the same impact by working together, but the fact that African factories are often owned by foreign firms makes this less likely. However, the AfCFTA is supporting national and regional authorities to develop intellectual property laws to support innovation.

The main impediment to the creation of intra-African value chains for pharmaceutical products, according to our respondents, is varying regulatory standards and approval processes between different African countries (31%). They also cite heavy reliance on imported pharmaceuticals and raw materials (19%), insufficient local production of vaccines and essential drugs (17%) and lack of access to finance for pharmaceutical SMEs in the continent (17%).

Lack of access to finance is a common complaint in all sectors but all the other factors point to the same problem – the established pattern of huge reliance on non-African supply chains to satisfy African requirements. It is very surprising that only 2% of our survey participants mentioned how intellectual property rights restrict access to technologies and compounds but that may be an indication of how well the current patent system works, or of the fact that changing it would be a struggle.

The AfCFTA can help to overcome small fragmented markets that can be unattractive to investors. A single continental market would offer economies of scale because of the volumes involved, even in regional procurement. There will be new opportunities across the supply chain to invest in medicinal products, medical instruments, vaccines, bandages and packaging.

African factories

An important element in improving pricing and access to medicines in Africa is increasing the continent's manufacturing capacity. Africa consumes $18bn of packaged pharmaceutical products a year but 61% of this figure is imported from elsewhere in the world, 36% produced within the same African countries they are consumed in and just 3% traded within Africa.

This masks the fact that African factories focus on formulation and packaging, with limited production of active ingredients, which are overwhelmingly imported. There are about 600 manufacturers of packaged medicines on the continent but these are concentrated in North Africa and a handful of other markets. Nevertheless, existing production demonstrates that African countries such as Egypt, Ghana, Kenya, Morocco, Nigeria, South Africa, Tanzania and Tunisia are capable pharmaceutical manufacturers.

However, it is hoped that the AfCFTA will enable more production to be transferred to the continent, yet again by harmonising regulations to promote intra-African trade. Regulation is important in all sectors but nowhere more so than in the production of pharmaceuticals, particularly given the presence of so many fake medicines on the market. Indeed, harmonisation here could actually help tackle the trade in counterfeit medicines.

The African Medicines Regulatory Harmonisation (AMRH) initiative is already working to align regulatory frameworks in the sector. Standards have been agreed with four East African and five West African national medicine regulatory authorities, as well as reducing medicine approvals times across the SADC and EAC regions.

The need to locate more pharmaceutical factories in Africa was emphasised by the Covid-19 pandemic when the continent struggled to gain equitable access to vaccines. Producing more medicines in Africa would not be the same as developing products in the first place but it would be a step in the right direction in health terms. It would also support the continent's balance of payments and create new employment. A total of 54% of the companies we surveyed called for more support in innovation and research within the AfCFTA to help create new drugs tailored to the health needs of the African population.

The United Nations Industrial Development Organisation forecasts average annual growth in the African pharmaceutical industry of 5.13% over 2022-27, which is solid if not spectacular, but this rate could be lifted longer term by the AfCFTA. The new zone should encourage foreign companies to build out their manufacturing capacity on the continent with the greater security of knowing where they can market their products. Healthcare provision is likely to remain the domain of national governments and private sector providers but cross-border harmonisation is an area where the AfCFTA could be particularly effective.

Fig. 46: What are the main impediments to the development of intra-African value chains for pharmaceutical products?

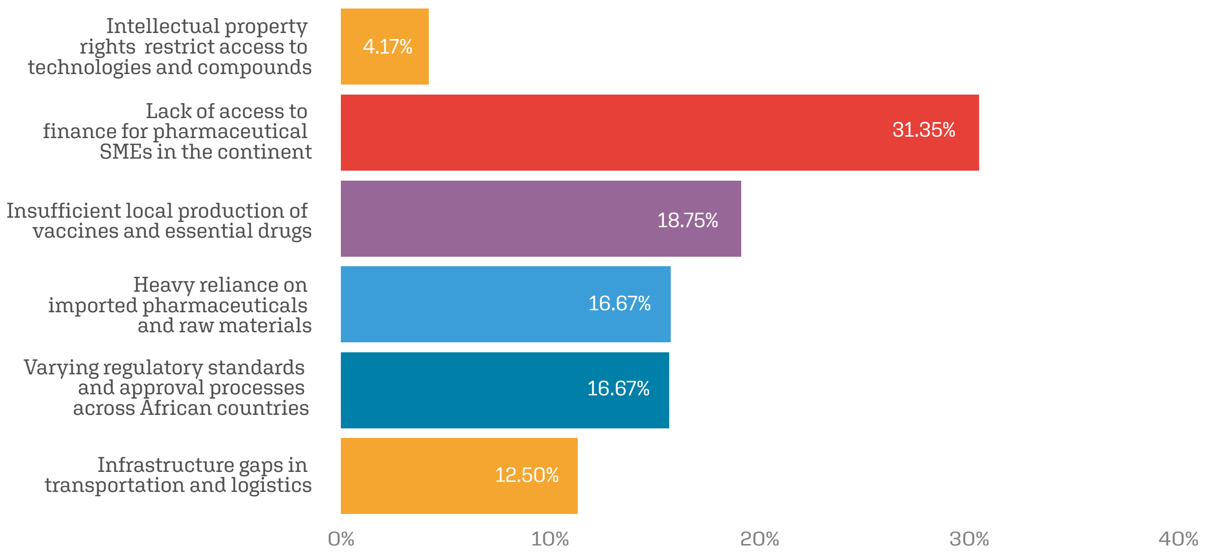
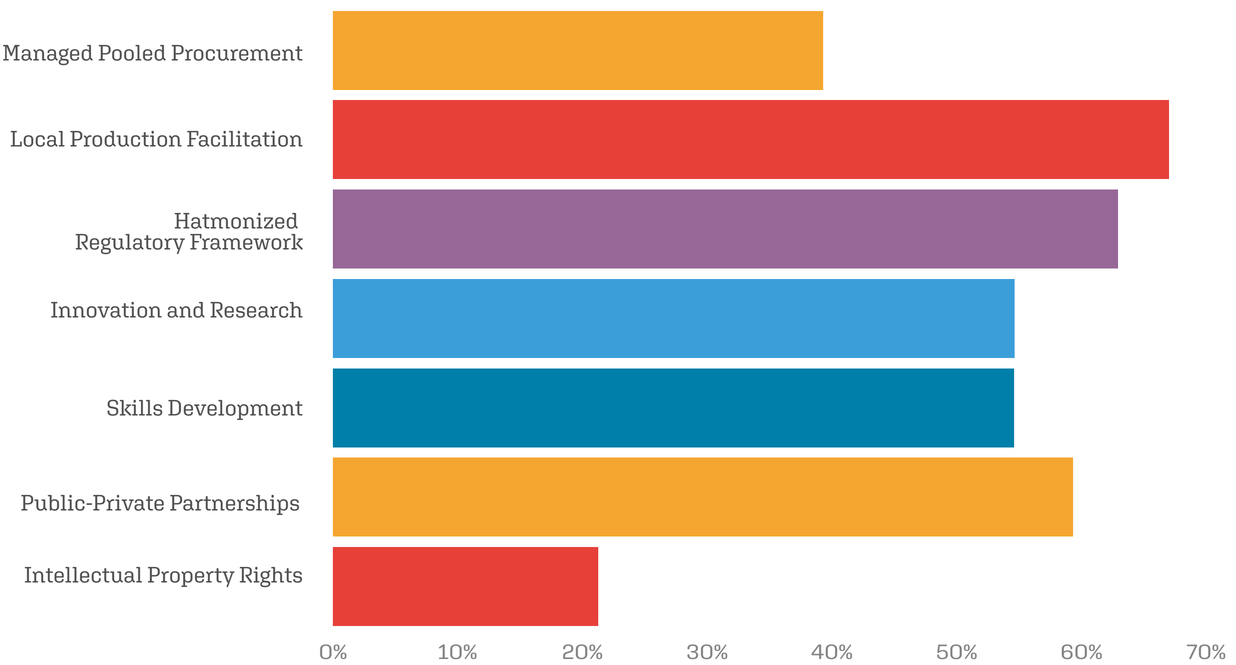


Fig. 47: What should the AfCFTA's policy-focus areas be in the pharmaceutical industry?



Section 5
Conclusion

This report has demonstrated the current challenges facing African economies in the form of inflation, high interest rates, rising debt levels and security challenges but also the undoubted potential of the AfCFTA. The new free trade zone can promote growth by boosting intra-African trade volumes, binding the continent closer together and making it less reliant on existing trade patterns with the rest of the world. Despite significant challenges, African CEOs are confident about the continent's economic prospects.

Main conclusions

Important instruments are being created to increase the reach of the AfCFTA, including the Pan-African Payment and Settlement System, the AfCFTA E-tariff Book and the Intra-African Trade Fair. However, there is too little awareness of these initiatives among the business community and of the opportunities for increased trade. Our survey respondents say that they have had little or no access to relevant AfCFTA information and have received little support. However, they do expect the AfCFTA to have a significant impact on their operations in the future. It is vital that those companies that can make use of the new trade zone can give their input and are well informed about the process.

Africa remains overly dependent on exporting raw materials to Europe and Asia, and on importing processed and manufactured goods in return. Cross-border trade within Africa itself is limited but some countries are more involved than others, notably South Africa, Egypt and most of East Africa. There are opportunities to expand these existing supply chains, with huge opportunities in the automotive and pharmaceuticals industries, and across the manufacturing sector as a whole.

Cross-border trade is often hampered by inconsistent regulations and a lack of cooperation between neighbouring countries. To maximise the opportunities offered by the AfCFTA, governments and the private sector need to work together and to develop sustainable industrial trade corridors, turning international borders into conduits for trade, rather than barriers.

There is insufficient access to finance across all sectors. Large corporations and SMEs would like to expand their operations to target new markets but it is very difficult for them to secure the required funding. Correcting this will be a huge undertaking and one that will require the concerted support of various parties, including Afreximbank, the AfDB, global multilaterals, African and international banks and also African governments. The AfCFTA can play a role in helping to break down barriers to financial services.

Much more investment in cross-border infrastructure, such as roads, railways and fibre cables is needed to integrate African economies. The AfCFTA can help to coordinate development and drive the harmonisation of continent-wide regulations and standards. However, securing funding for such expensive projects will be difficult, particularly as a result of the partial retreat of Chinese state banks from the continent.

Policy recommendations

1. Raise awareness of the AfCFTA and its operational mechanisms
2. Advocate for further infrastructure and financing to support trade
3. Foster cross-border cooperation and the development of industrial trade corridors
4. Promote digital skills and digital infrastructure development

Section 6
Methodology

Introduction

This year's Pan-African Private Sector Trade and Investment Committee (PAFTRAC) CEO Trade Survey has been completed by a total of 1,388 executives. It has been compiled by *African Business* in conjunction with Botho Emerging Markets Group.

We increased the number of questions in the survey from 44 in 2023 to 59 this year to provide more comprehensive coverage. Respondents were based in 49 African countries with a very small number based in 11 countries in the rest of the world. The questions were answered over a period of 9 weeks from 15 June until 15 August 2024. *African Business* and Botho then undertook quantitative and qualitative thematic analysis, creating data visualisations for presentation in this report.

Fig. 48: Main sector of activity

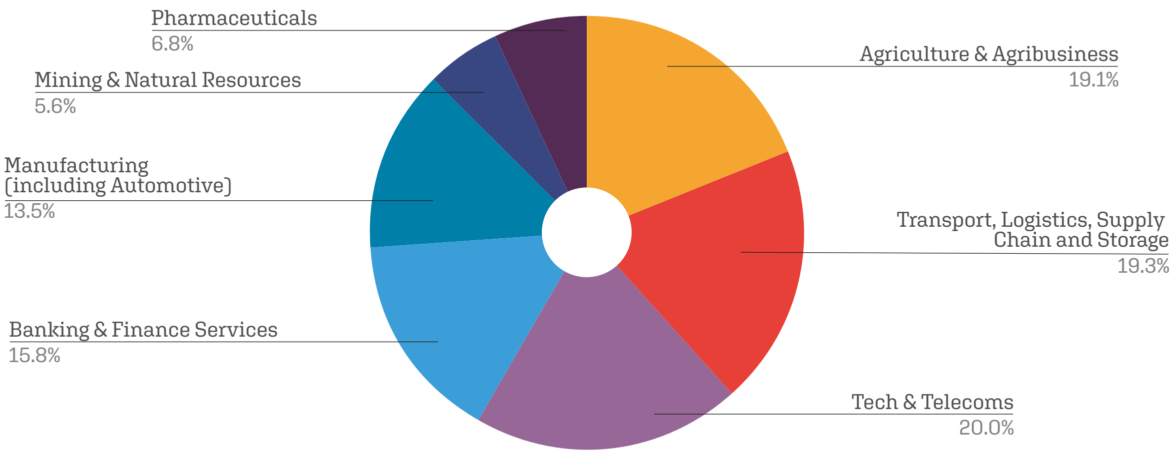
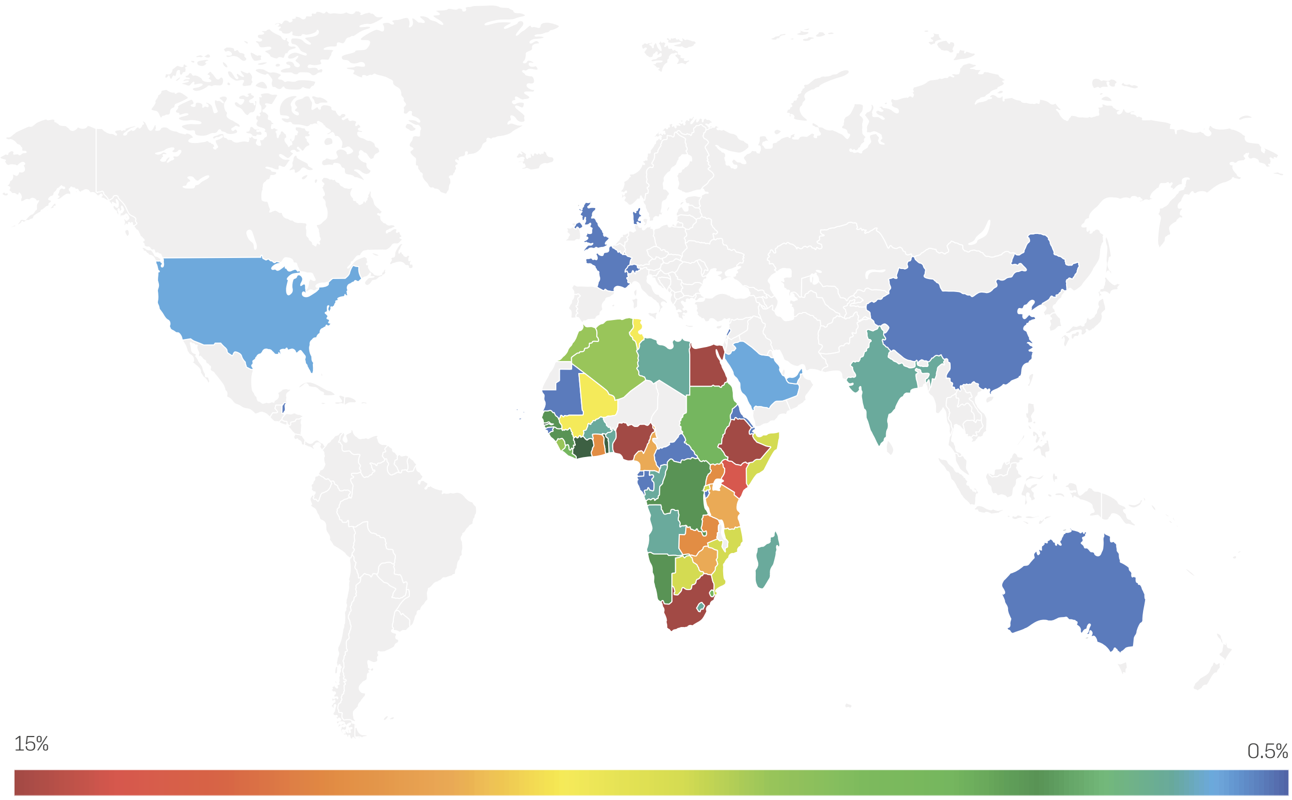


Fig. 49: Heat map of responses



Along the lines of our surveys in previous years, most businesses participating in the survey (55%) employ fewer than 50 employees, with the proportion of larger companies increasing from 33% to 45%. This range of different sizes should ensure a spread of views to go with the geographical spread of participants. Many very small business owners, such as sole traders, lack any access to digital platforms and so are unlikely to have taken part in our survey.

The companies surveyed come from a wide range of different sectors. While in previous years agriculture dominated, slightly more participants come from the tech and telecoms sector this year. Transport and logistics is also well represented, with slightly fewer firms from both banking and manufacturing, as we sought to source interested companies from across the African business world.

Just 10% of the companies involved have operated for less than a year, while 43% are more than a decade old. Given that 55% are SMEs, it is no surprise that 45% have annual revenues of less than $1m. Another 24% earn between $1m and $10m, with just 6% earning over $1bn. Again, this spread has enabled us to garner wide-ranging views.

Graphics covering most of the questions asked in the survey are included in this report where they help to illuminate the analysis.

Fig. 50: How many years has your company been in operation?

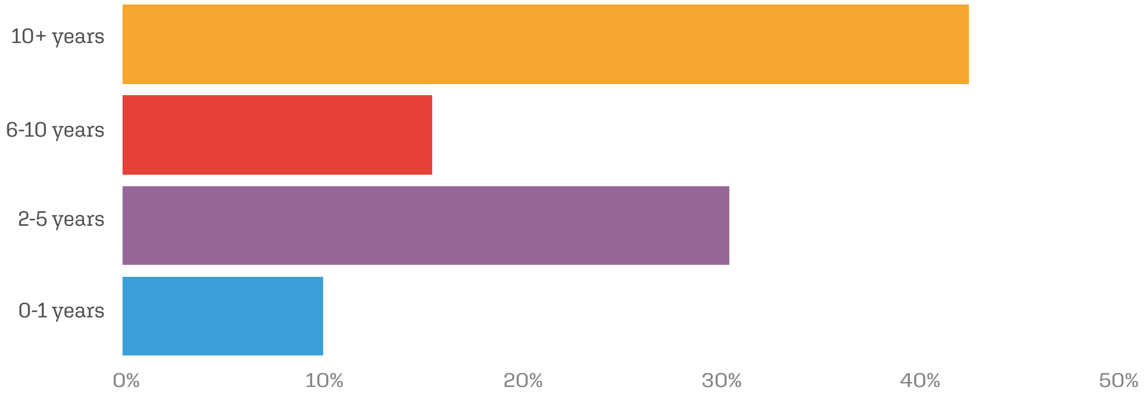
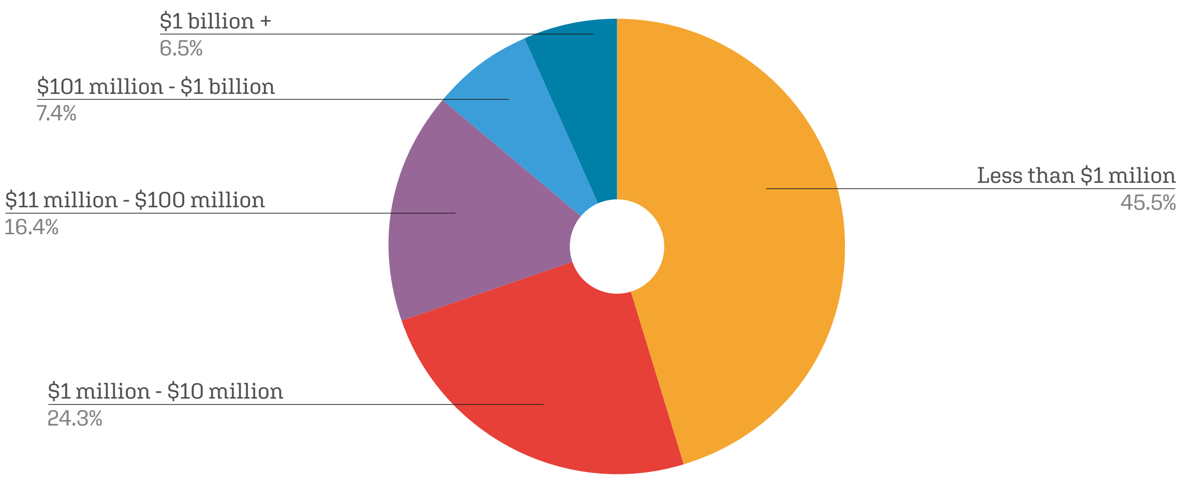


Fig. 51: Annual revenue



About PAFTRAC




The pan-African private sector trade and investment committee (PAFTRAC)

PAFTRAC unites African leaders from the private sector and provides a unique advocacy platform bringing together the African private sector and African policymakers to support extra and intra-African trade, investment and pan-African enterprise.

The platform drives pan-African results by providing a framework for private sector engagement in trade and investment issues in Africa, including policy formulation and trade negotiations to support African economies in line with the ambitions of Agenda 2063: “The Africa We Want”.

PAFTRAC enhances advocacy and supports policy actions and recommendations of the private sector on trade; and investment issues at the national, trade corridor, regional and multilateral levels.

Members of the Executive Committee (above, from left): Prof. Patrick Utomi, Chairperson; Mr Samuel Dossou-Aworet, Vice-Chair; Dr Amany Asfour, Vice-Chair; Mr Agostinho Kapaia, Vice-Chair; Mr Walid Loukil, Vice-Chair

Thank you to our partners

Though the **AfCFTA** is driven by its Member States, the Secretariat functions as the coordinating body for all its activities. The Secretariat is the administrative organ mandated to coordinate the implementation of the AfCFTA. The Secretariat is responsible for convening meetings, monitoring and evaluating the implementation process of the AfCFTA and other duties assigned to it by the AU Assembly of Heads of State, the Council of Ministers, and the Committee of Senior Trade Officials. The Secretariat houses experts, notably in legal affairs, economic policymaking, research, and communications, to assist the Member States, among other things, in ensuring easy progress of negotiations and that the rules set out in the Agreement are correctly applied and enforced.

African Export-Import Bank (Afreximbank) is a Pan-African multilateral financial institution mandated to finance and promote intra- and extra-African trade. For 30 years, the Bank has been deploying innovative structures to deliver financing solutions that support the transformation of the structure of Africa's trade, accelerating industrialization and intra-regional trade, thereby boosting economic expansion in Africa.

African Business is the leading publication for business news and analysis across Africa. With a stellar network of correspondents and experts across the continent, African Business provides exclusive insights and in-depth features on the sectors and industries that shape African markets. Whether you are an investor, entrepreneur, or policymaker, African Business is your essential guide to understanding Africa's dynamic and diverse business landscape.

The establishment of **AUDA-NEPAD** is part of the global reforms geared at improving the African Union's impact and operational efficiency. The mandate of AUDA-NEPAD is to coordinate and execute priority regional and continental projects to promote regional integration towards the accelerated realisation of Agenda 2063; and strengthen capacity of African Union Member States and regional bodies, advance knowledge-based advisory support, undertake the full range of resource mobilisation and serve as the continent's technical interface with all Africa's development stakeholders and development partners. The new mandate gives the organisation a wider role in terms of providing knowledge-based advisory support to AU Member States in the pursuit of their national development priorities.

Botho Emerging Markets Group is a leading advisor and consultant to investors, companies, governments and nonprofits navigating the world's fastest-growing markets. We're guided by a common set of values: curiosity, collaboration, and impact. Botho is the Setswana word for respect, which shapes our approach to business.

The International Trade Centre is the joint agency of the World Trade Organisation and the United Nations. ITC assists small and medium-sized enterprises in developing and transition economies to become more competitive in global markets, thereby contributing to sustainable economic development within the frameworks of the Aid-for-Trade agenda and the United Nations' Sustainable Development Goals.

The International Islamic Trade Finance Corporation (ITFC) is a member of the Islamic Development Bank (IsDB) Group. It was established with the primary objective of advancing trade among OIC Member Countries, which would ultimately contribute to the overarching goal of improving socioeconomic conditions of the people across the world. Commencing operations in January 2008, ITFC has provided US$70 billion to OIC Member Countries, making it the leading provider of trade solutions for the Member Countries' needs. With a mission to become a catalyst for trade development for OIC Member Countries and beyond, the Corporation helps entities in Member Countries gain better access to trade finance and provides them with the necessary trade-related capacity building tools, which would enable them to successfully compete in the global market.

The AATB Program is a multi-donor, multi-country, and multi-organizations program supported by the African Export-Import Bank (Afreximbank), Arab Bank for Economic Development in Africa (BADEA), Islamic Development Bank, the International Islamic Trade Finance Corporation (ITFC), the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) and the Islamic Corporation for The Development of The Private Sector (ICD). The Program aims to promote and increase trade and investment flows between African and Arab OIC Member Countries; provide and support trade finance and export credit insurance and enhance existing capacity-building tools relating to trade. The Program specifically focuses on supporting the key sectors of agriculture and related industries including textiles; the health industry including pharmaceuticals; infrastructure and transport; and petrochemicals, construction material, and technology.

The pan-African private sector trade and investment committee (PAFTRAC)

PAFTRAC unites African leaders from the private sector and provides a unique advocacy platform bringing together the African private sector and African policymakers to support extra and intra-African trade, investment and pan-African enterprise.

The platform drives pan-African results by providing a framework for private sector engagement in trade and investment issues in Africa, including policy formulation and trade negotiations to support African economies in line with the ambitions of Agenda 2063: “The Africa We Want”.

PAFTRAC enhances advocacy and supports policy actions and recommendations of the private sector on trade; and investment issues at the national, trade corridor, regional and multilateral levels.

Initiated by

African Union

Secretariat hosted by

AFREXIMBANK

Sector members

The AfroChampions Initiative

International Trade Centre