PAFTRAC

Pan-African Private Sector Trade & Investment Committee

Trade Advocates for Africa

PAFTRAC Africa CEO Trade Survey Report 2022

Assessing the impact of the AfCFTA on African Trade

In partnership with

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Foreword

2022 is once again underlining the devasting costs of Africa's continued reliance on external markets and the imperative of building resilience through stronger intra-African trade. According to the United Nations Economic Commission for Africa (UNECA), Africa's real GDP growth is projected to contract by 0.7 percent due to the Ukraine crisis, and inflation is expected to rise by 2.2 percent, pushing more people into food insecurity and poverty. This follows the COVID-19 pandemic which led to the worst economic recession in Africa in almost 50 years and pushed 47 million people into extreme poverty, threatening to all but erase the strong gains Africa has made in recent decades.

The COVID-19 pandemic and now the Ukraine crisis has revealed the economically devastating impact of Africa's continued dependence on external markets, even for basic agricultural commodities. Africa imports around US$40 billion worth of food annually and the soaring wheat and sunflower prices in the wake of the Ukraine crisis threatens food security in the region. Russia and Ukraine are major exporters of wheat and sunflower to Africa. Wheat consumption in Africa is projected to reach 76.5 million tonnes by 2025, with 63.4 percent of this projected to be imported from outside of the continent. Already the region is facing acute price shocks and supply chain disruptions. This is compounded by concerns over fertilizer shortages which could potentially disrupt local agricultural production and place further pressures on food security. In a context where Africa accounts for 16 percent of the global population the food security implications of the Ukraine crisis could prove even more far reaching than the impacts of the COVID-19 pandemic.

However, just as COVID-19 catalyzed collective African action and a united response, the current geopolitical crisis must be viewed as opportunity. With 60 percent of the world's arable land, the fastest growing population and an integrated market under the AfCFTA, the opportunity exists for Africa to take the necessary steps to ensure food security through greater intra-African trade and reduce reliance on food imports from outside the continent.

The AfCFTA which creates a single continental market for goods and services, with free movement of businesspersons and investments, provides an opportunity for Africa to take a strategic approach to wean itself of the dependence on external partners for its development ambitions. The AfCFTA, which seeks to bring together 55 African countries and create an integrated market of 1.3 billion people, with a combined GDP of over US$3 trillion, holds enormous potential for Africa's trade-led development.

This report presents the findings of an annual private sector survey conducted by PAFTRAC. The survey, which was administered to over 800 respondents, sought to assess African private sector sentiment regarding the AfCFTA and African trade prospects. The survey explored the major constraints faced by the African private sector with a view to informing policy discourse and reform. The report sheds light on the private sector's perspectives on Africa's current and future economic and trade environment, particularly in the context of the start of trading under the AfCFTA and post-pandemic recovery. The positive sentiment expressed by survey respondents demonstrates the potential of the AfCFTA and the eagerness of Africa's private sector to take advantage of the market access opportunities it offers. However, access to trade information, trade-enabling infrastructure and trade finance again emerged as key constraints that need to be addressed to ensure that intra-African trade opportunities can be exploited to the benefit of African SMEs. One major advantage of the AfCFTA is that it can enable aggregation across borders so that African countries can pool products in the volume and quality that make them more competitive in global markets. This is especially attractive if large trading companies can do for Africa through aggregation, what companies like Marubeni did for Japan.

PAFTRAC members hope that this survey proves instructive and helps shape policy discourse and public-private sector engagements on policy, as well as the regulatory reforms required to support African SMEs to take full advantage of the AfCFTA.

Prof. Patrick Utomi

Chairperson
PAFTRAC

About PAFTRAC




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

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.

Introduction & Executive Summary

This is the second edition of our PAFTRAC CEO Trade Survey. We have greatly increased the scale of our research this year, with more in-depth questions and far more chief executives taking part. It is now approaching 18 months since the start of trading under the African Continental Free Trade Area (AfCFTA) was announced, so African businesses are gaining more insight about it's potential benefits and challenges. As the world's largest free trade area initiative, the AfCFTA is a much-needed project given that companies of all sizes across the continent are desperate to identify new markets and boost exports.

Implementing the continental free trade area will be a long process that will be achieved by thousands of small steps. Making the required legislative and regulatory changes depends on the political will of all of the governments involved to make it a reality. However, mistrust could easily restrict implementation, particularly where businesses on one side of the border fear increased competition from perhaps more economically developed, markets.

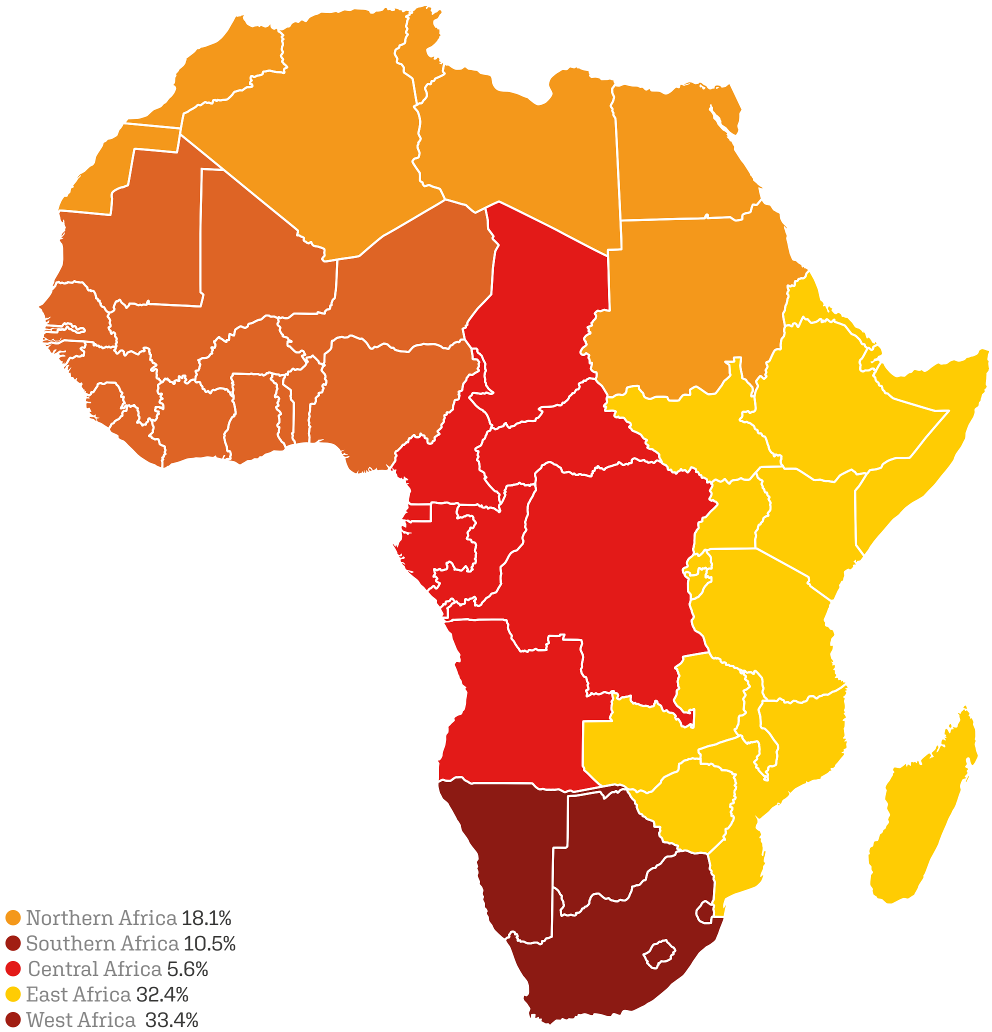
One of the more surprising results of our survey was that 70% of respondents said that despite all the obstacles and the fact that intra-African trade accounts for just 16% of total African trade, they already export goods or services to other African countries. It is even more unexpected given that most of our participants lead small and medium sized enterprises (SMEs) rather than large corporations. However, the vast majority export services rather than goods within Africa, underlining the fact that physical and regulatory obstacles continue to deter trade in goods.

At present, the vast majority of African CEOs believe that the AfCFTA will have a positive impact on both levels of intra-African trade and on their own companies, even as early as 2023, with just 4% expecting it to have a negative impact. The AfCFTA is widely expected to help businesses open up new markets for goods and services, while reducing the cost and bureaucracy attached to exports.

Some of the findings of our report are less surprising. For instance, the transport infrastructure required to trade goods between African states is lacking in most areas. Rail and road networks were developed on a national basis, with far too few cross-border links on which to carry freight. There are often too few customs posts, while many of those that do exist are slow and cumbersome. Regulations often demand that the same cargo is checked on each side of a border, while some countries have been slow to adopt digital bills of lading, letters of credit and other trade documents. Regulatory changes come down to a matter of political will and administrative competence but upgrading transport infrastructure requires financing that will be difficult to secure.

The growing penetration of digital banking services should make paying for imports easier but it is vital that the digital transformation is supported by both regulators and governments. Half of the exporters surveyed for our report said that their companies still required cash in advance on cross-border deals, although letters of credit are also fairly popular. This may be the result of a lack of trust as well as difficulty in securing hard currency, while many banking platforms still do not allow the use of African currencies. However, a solution is already on the horizon in the form of Afreximbank's Pan-African Payment and Settlement System (PAPSS), so it will be interesting to see how quickly that is embraced by traders.

Geographic breakdown of African respondants



Our report clearly demonstrates that African businesses find it difficult to locate detailed information on the AfCFTA. Progress will be much slower if the rules on trade are not widely understood and kept up to date. Moreover, the results of the survey reveal that the lack of information on markets, opportunities and trading partners is the biggest constraint on exports. Indeed, 70% of our respondents called for a fully functioning online one stop information shop but sufficient resources need to be put in place to make such an undertaking operate effectively. Solutions to the information deficit could come in the form of digital platforms provided by the AfCFTA Secretariat or private sector information providers. Other constraints to increased levels of trade cited by our participants include unfair competition, subsidies, political stability in target markets and a lack of security.

The ease of trade varies considerably across the continent, with East and Southern Africa considered to be the best places to do business. North Africa was rated almost as a difficult a region in which to trade as Central Africa. Despite the fact that Morocco, Tunisia and to some extent Egypt are thriving manufacturing centres, their economies are geared around exporting goods to Europe and elsewhere, rather than to the rest of Africa. Greatly improving trade flows in Central Africa could have a huge impact on the continent as a whole because it lies at the heart of the continent. In particular, new railways across the region would benefit not only local companies but would boost trade between West and East Africa.

Methodology

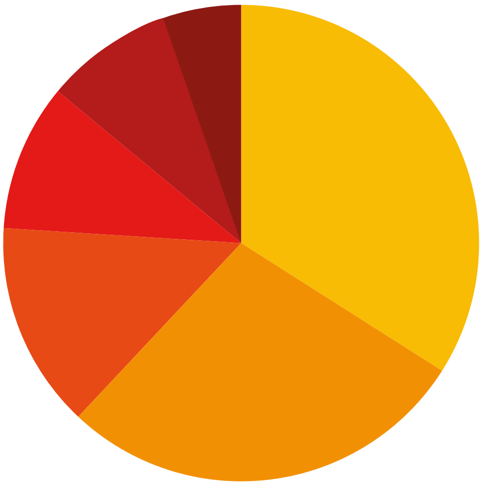
This year's Pan-African Private Sector Trade and Investment Committee CEO Trade Survey has been compiled by IC Publications in conjunction with Afreximbank. CEOs from companies operating in Africa were entitled to take part, most representing firms registered on the continent. More than 800 private sector players completed the survey between March and June 2022, allowing us to gauge their views on the implementation of the African Continental Free Trade Area, current African trade flows and trade-related ambitions for their own companies.

The research builds on the 2021 PAFTRAC CEO Trade Survey report by expanding the range of sectors covered, increasing the number of questions posed from 44 to 63 and covering perceptions of the AfCFTA and the opportunities it will create. In addition, the wider scope of the survey allowed us to question participants on the benefits of the AfCFTA to the specific sectors within which they operate, as well as the obstacles that still have to be overcome.

Operational breakdown of respondents

Fig. 1: How many years has your company been in operation?

Fig. 2: How many people does your business employ on a full-time basis?



A large proportion of the CEOs (40%) that participated in the survey represented companies that had been in operation for less than five years. This could reflect that the rate at which new companies are being set up in Africa is increasing over time, hence the demographic profile of the continent's companies has a wide base of new enterprises.

It may also suggest that the CEOs of information technology companies or those with a strong web profile are more likely to engage in online research, and indeed are more likely to have been set up relatively recently. Finally, it could demonstrate that the leaders of newer companies are more eager to discuss intra-African trade opportunities and the opportunities created by the AfCFTA.

However, the survey also revealed a balance in respondents as regards enterprise maturity, with 16% of our participants heading up companies that have been in existence for more than two decades.

While it is not possible to ensure that any survey of this kind is entirely representative of the size of African businesses, as sole traders, partnerships and very small companies are much less likely to have the human resources available to participate in research of this type, what is evident is that SMEs dominate the African economic landscape. For instance, the Central Bank of Kenya's 2021 National Economic Survey calculated that small and medium sized enterprises (SMEs) constitute 98% of all businesses in Kenya.

Yet while SMEs do not account for 98% of the respondents to our survey, that the survey reveals that most do indeed represent smaller companies. 62% have twenty or fewer full-time employees, while 10% have more than 500. The results of our research should therefore be reasonably representative of the real opinion of African business leaders of companies of different sizes. Medium sized firms with 50-500 employees are often overlooked. Yet it is this demographic that forms of the bedrock of many industrialised economies and which is particularly rare in Africa, accounting for just 14% of our respondents.

Fig. 3: What is your annual revenue?

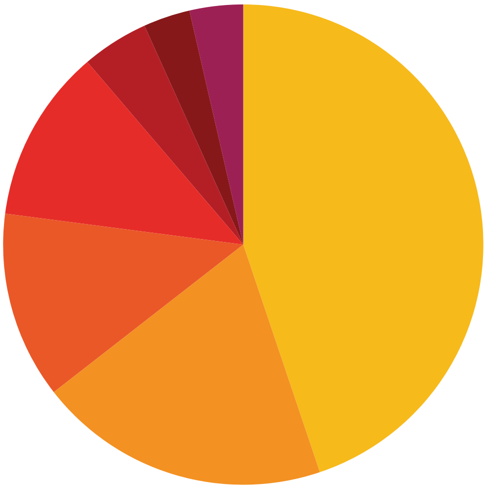


Fig. 4: What sector does your business operate in?

The dominance of SMEs in the African economic landscape is also reflected in the annual revenues of participants. A massive 45% represent companies with revenues below $50,000, about the same figure as in last year's survey, while only 10.65% generate more than $10 million a year in revenue. It is important to note however, that the biggest corporations operating in Africa are also represented, and while very few African companies fall into this latter category , 0.60% of respondents came from corporations with income in excess of $10 billion.

It is helpful that our participants are drawn from a wide range of sectors. Agriculture employs 44% of the African population, so it is fitting that 23% of those surveyed work in the agricultural and agro-processing sectors. This was was a big increase on last year's figure with only 12.6% of respondents from the agricultural and agro-processing sector. Manufacturing with 13%, followed by 9% for education and 7% for the banking & financial services sectors were the other leading sectors surveyed.

An African manufacturing boom has long been predicted but has not yet fully materialised. Not withstanding, significant manufacturing capacity has been built up in recent decades in Morocco, Tunisia and to some extent Egypt with a particular focus on supplying the European Union. Morocco's strategy—building on its early success in textile and food production, with new investment in pharmaceuticals, aerospace and automotive production—could prove instructive for those African countries keen to focus on manufacturing, to take advantage of opportunities created under the AfCFTA.

3. AfCFTA sentiment & the macroeconomic outlook

3.1 Where is Africa now?

At present, the African continent comprises 55 separate economies, each of which generally trade far more with non-African markets, particularly in Europe and Asia, than with neighbouring African states. Morocco and Tunisia have exploited their geographical positions on the edge of Europe to conclude trade agreements with the European Union that have enabled them to export to into an integrated European market.

Africa's island economies, Mauritius, Seychelles and Cabo Verde, have also enjoyed a great deal of economic success by promoting themselves as tourist destinations. In the case of Mauritius, tourism has been complemented with sugar cultivation, clothing manufacturing, IT and offshore banking to create what is one of the most diverse economies on the continent.

East Africa has joined its island nation counterparts in developing the tourism sector, although visitor numbers have been vulnerable to international economic and security crises, and particularly also to the Covid-19 pandemic. Indeed, African tourism as a whole has relied too heavily on visitors from other continents, drawing too few tourists from other African nations, an opportunity that the services negotiations under the AfCFTA could potentially unlock.

South Africa was for a long time the most advanced, most industrialised and most diverse economy on the continent but has experienced anaemic economic growth over the past two decades. As a result, it has not been able to use its position to drive growth across the rest of the continent. However, despite deep-seated problems in the coal and energy sector, the country is making the most of its plentiful mineral resources, exporting a record of more than R1 trillion ($63 billion) in mineral commodities during 2021-22.

Indeed, most African countries continue to rely heavily on commodities, from tea, coffee, cocoa and sugar, particularly in Eastern Africa, to oil, gas coal, iron ore, bauxite, manganese, copper and diamonds in West, Central and Southern Africa. Commodity prices are notoriously prone to price fluctuations, and continued dependence on one or just a handful of raw material exports leaves African economies extremely vulnerable to changes in global markets.

Nonetheless, some countries have been able to cope with such uncertainty through sound economic management, notably Botswana with its diamond exports while other countries have struggled to balance out economic growth given commodity boom and bust cycles. In others, mineral wealth has diverted attention away from other sectors and wider economic development leading to de-industrialisation .

As a result, most African economies continue to rely on exporting commodities, with most processing or manufacturing of those raw materials – and the accompanying economic benefits – taking place outside the continent. Africa is then forced to import the lion's share of its manufactured goods, many produced using African raw materials. This has much to do with the fact that the GDP of the entire African continent stood at $2.7 trillion in 2021, less than that of the United Kingdom alone. At the same time, all African continental economies lack much needed infrastructure in the water, power and transport sectors. The current commodity price boom on the back of the post-pandemic rebound and the Ukraine crisis could therefore prove to be a double-edged sword for Africa and should not distract African governments from enacting much needed economic reforms and investments in economic diversification and trade facilitating infrastructure.

The inherited colonial era structures laid down the basis for most of Africa's trade patterns, with commodities exported to the colonial power and processed goods imported, with very little trade between neighbouring African territories. This was reflected in the way that most African rail and road systems developed, with tree like patterns leading cargo from the hinterland to the nearest port for export and very few cross-border transport links.

And while progress has been made since independence on connecting national transport systems, more needs to be done. Investment in infrastructure also needs to be accompanied by robust trade facilitation measures to reduce non-tariff barriers that continue to hamper intra-African trade. Intra-African trade currently accounts for just 16% of total African trade, in comparison with about 67% within the European Union. While a few neighbouring states do trade intensively with each other, trade between many others – even fairly substantial economies – occurs at a very low level. For instance, bilateral trade between Kenya-Nigeria is worth just $50 million a year despite clear trade opportunities existing. For instance, Kenya is one of the world's largest horticultural exporters, but Nigeria imports flowers from Europe rather than Kenya.

3. AfCFTA sentiment & the macroeconomic outlook

3.2 How can the AfCFTA change things?

After years of discussion, the Agreement establishing the AfCFTA was signed in 2018 and came into force in May 2019 with the aim of eroding and then eliminating both tariff and non-tariff barriers to trade between African states to create a single market for goods and services trade.

It partly drew its inspiration from the European Union and its earlier incarnations, which have managed to boost cross-border trade in Europe between countries with different legal systems, languages and often difficult histories. The AfCFTA has been signed by 54 of the 55 African Union member states, with only Eritrea yet to sign. To date 43 countries have ratified the Agreement and deposited their instruments of ratification to become "State Parties" to the AfCFTA.

It is hoped that the free trade area will boost GDP, trade volumes and employment across the continent. It is hoped that AfCFTA will also encourage the emergence of larger manufacturing and processing sectors, as producers will be able to take advantage of economies of scale and market goods to far more potential customers.

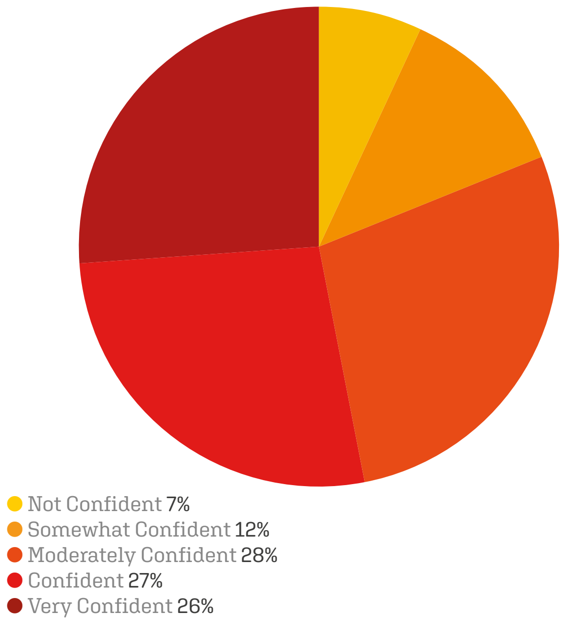
However, it is important to recognise that creating an integrated African market is a process – and a long one at that – rather than an event. Full implementation has been held up the Covid-19 pandemic but tariffs on 90% of goods are to be phased out by 2031, reaching up to 97% thereafter.

Most African governments recognise that promoting intra-African trade would allow each country to make the most of their own strengths, while compensating for their weaknesses. For instance, continental power sector integration would allow countries with plentiful rainfall to maximise their hydroelectric production through exports, while importing electricity from solar and wind power projects in sunnier and windier neighbours when water levels are low. In the same way, agricultural products can be traded between countries according to the success or otherwise of their harvests.

3. AfCFTA sentiment & the macroeconomic outlook

3.3 Private sector sentiment towards the AfCFTA and their own economic prospects?

Fig. 5: How confident are you that the AfCFTA will boost intra-African trade?



Our survey clearly shows that the vast majority of African CEOs believe that the implementation of the AfCFTA will have a positive effect on the levels of intra-African trade, even as early as 2022-23. A total of 93% were confident to some extent that it would have a positive impact, with 25% describing themselves as very confident.

This appears to be borne out of a general understanding that trade barriers between African economies, whether in the form of duties, quotas or other restrictions, have had a huge effect on restricting the growth of national economies and trade volumes. Even agreeing to break down these barriers is a huge step forward and the AfCFTA can hardly have a negative impact. Sentiment is even more optimistic than in our 2021 survey, when 86.7% of African CEOs believed that the AfCFTA would result in an increase in intra-African trade.

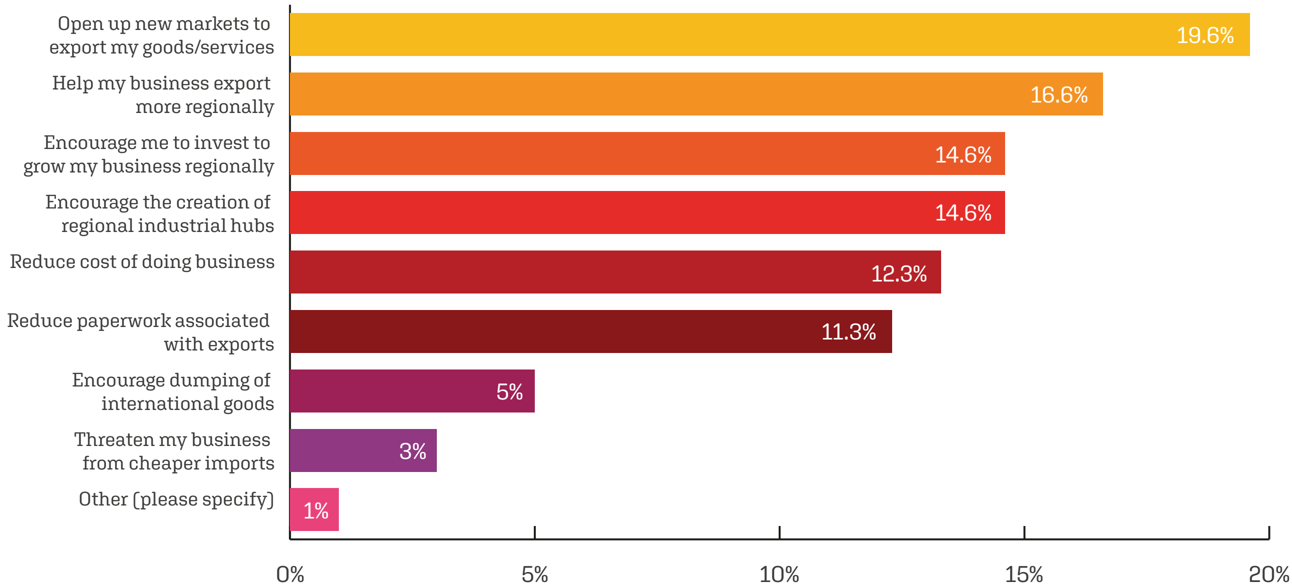
Fig. 6: What kind of an impact do you think the AfCFTA will have or has had on your business?

- Very negative 2%
- Negative 2%
- Neither positive nor negative 28%
- Positive 48%
- Very positive 20%

Only 4% of participants believe that the AfCFTA will have, or has already had, a negative impact on their businesses largely motivated by concerns that the erosion of trade barriers and other forms of protectionism will open up previously sheltered sectors to competition es. This 4% is slightly up on the 2.2% who predicted a negative effect in last year's survey.

A combined 70% of respondents describe the impact upon their companies as either positive or very positive, highlighting their optimism over their own firm's ability to compete and thrive in more open markets. However, it should be noted that 28% feel ambivalent about the impact of the free trade agreement on their own company, in comparison with the 7% who do not expect it to have a positive effect on African intra-trade volumes. This suggests that a sizeable minority expect the agreement to have a positive effect overall but perhaps not on their own businesses. This is perhaps because they feel they operate in a niche that will not become a target for potential competitors in other countries.

Fig. 7: Specifically, do you believe the AfCFTA will...?



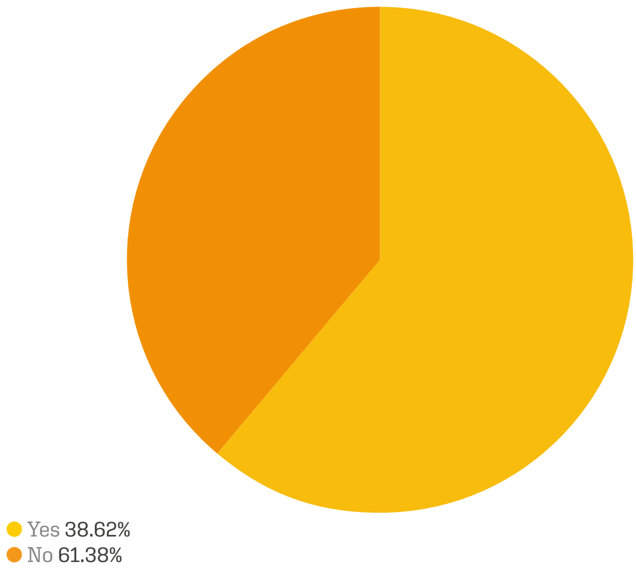
Rather than merely asking survey participants whether they were optimistic about the AfCFTA, we decided to seek more detail on exactly how they thought the agreement would benefit their companies and wider African economic development. The two most popular factors were opening up new markets for goods and services, and helping export more regionally, with a massive 81% citing the former. The encouragement that the agreement provides was also cited by a majority of respondents, while reduced costs and paperwork are also regarded as important benefits. All these figures are similar to the results of our 2021 research.

As previously, a small minority fear negative implications from lowering trade barriers. About 12% fear that cheaper imports will threaten their own businesses, while 20% predict that free trade will encourage dumping of goods. These fears may have been borne out by developments in other parts of the world that have embarked upon the creation of free trade areas. However, the overwhelmingly positive sentiment towards developments is also backed up by the global experience of the benefits of free trade greatly outweighing the downsides. Moreover, most businesses will have time to adapt to the changing environment, with both tariff and non-tariff barriers lowered gradually.

3. AfCFTA sentiment & the macroeconomic outlook

3.4 Outlook for the AfCFTA

Fig. 8: Do you know where and how to access useful information about the AfCFTA?



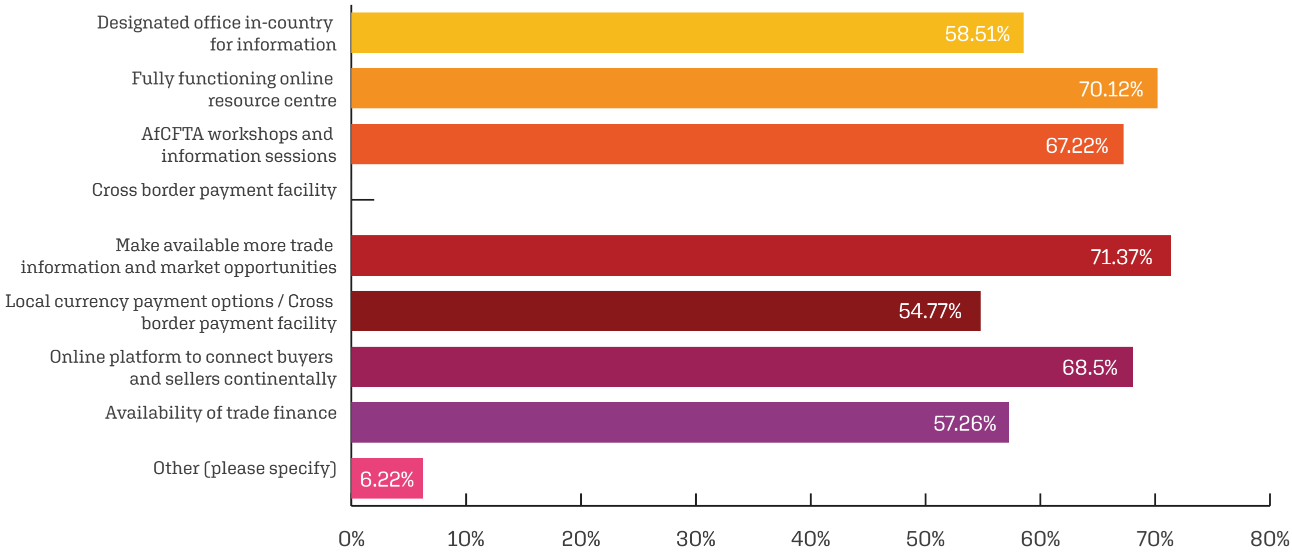
Consistent with the findings of the 2021 survey, many CEOs are uncertain about where and how to access AfCFTA information. An incredible 62% said that they did not know where and how to access useful information, the same as last year, pointing to the need for more efforts to be put into providing the required information.

While free trade has the potential to greatly boost trade volumes between African countries, it is vital that the AfCFTA is actually implemented, that the rules are clear and widely understood, and that African businesses are easily able to access the various rules and regulations when required. The lack of freely available information makes it more difficult for the agreement to be effectively implemented. Even when specific regulations surrounding the AfCFTA are made more readily accessible, it is important that the information is kept up to date.

Our 2021 survey revealed that companies rate digital access to information more highly than physical solutions, such as designated AfCFTA in-country offices, as most companies find import and export regulation information online. Rising internet penetration rates across Africa means that even very small companies are generally able to access online data.

This finding was replicated this year, although 59% of the CEOs surveyed did call for a designated in-country office for information. This may be because they want someone to refer specific enquiries to that are not easily explained by published regulations. Still more respondents, 70% called for a fully functioning online one stop shop for information.

Fig. 9: What more should be done to help your business benefit from the AfCFTA?



Beyond problems related to accessing information, a variety of other barriers are likely to stymie the implementation of AfCFTA, including a lack of will of the part of national governments, mistrust, and reduction of non-tariff barriers. Progress on eroding trade barriers could prove to be slow given the challenges in creating free trade areas and customs unions by regional economic communities .

Aside from governments actually enacting what has been agreed, the physical infrastructure needs to be put in place to enable much greater cross-border trade. While African ports have been hugely expanded and modernised over the past 15 years, with a string of new container terminals built, these facilities mainly enable trade between Africa and the rest of the world. At present, it is often cheaper to transport goods between an African state and China or Western Europe than it is between two African states. Intra-African trade needs more modern cross-border roads and railways.

Some progress has been made, with new road and rail links developed between Djibouti and Ethiopia, and new lines planned between Zambia and Angola, and between Zimbabwe and Mozambique. Yet even where new railways are built, it often proves difficult to secure funding for linking transport infrastructure across borders. For instance, Kenya's new standard gauge railway (SGR) runs between Mombasa and Nairobi but not yet between Nairobi and Kampala.

In addition, cargo needs to be processed quickly at border crossings to reduce costs and enhance competitiveness. The digitisation of trade documents is making it increasingly easy to export goods or services to another country, with bills of lading and letters of credit being digitised and the same banking platforms becoming available in multiple jurisdictions. Digital, paperless customs and security documentation can allow freight to be inspected and approved at inland container terminals and other registered centres, long before it reaches a border.

However, a lack of regulatory and technological standardisation slows down the process in many cases. If inspection and processing has to take place at the border, then it should be undertaken at a jointly operated point. All too often, goods have to examined on both sides of an international boundary, often at customs' posts that are just a mile apart. In the long term, continental free trade will require harmonisation of customs regulations and product standards.

Just 0.41% of those surveyed called for cross-border payment facilities because these are generally already in place. However, many online banking options do not offer cross-border payment options in local currency, with 55% of those surveyed suggesting that such an option would help their businesses.

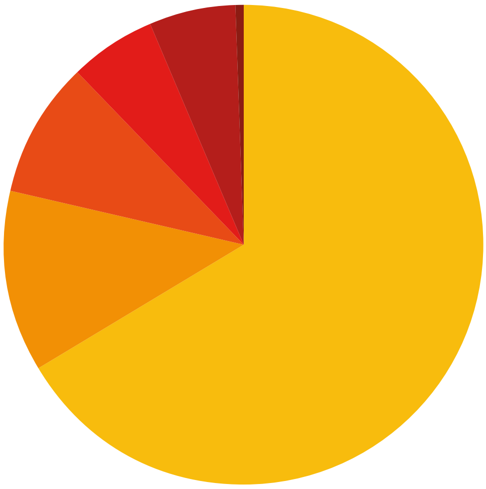
4. The private sector direction of trade

4.1 Export flows

Fig. 10: How important is export to your business?

Not Important 23.87% Somewhat Important 9.68%
Moderately Important 21.54% Important 23.87%
Very Important 21.04%

Fig. 11: Which regions do you export to?



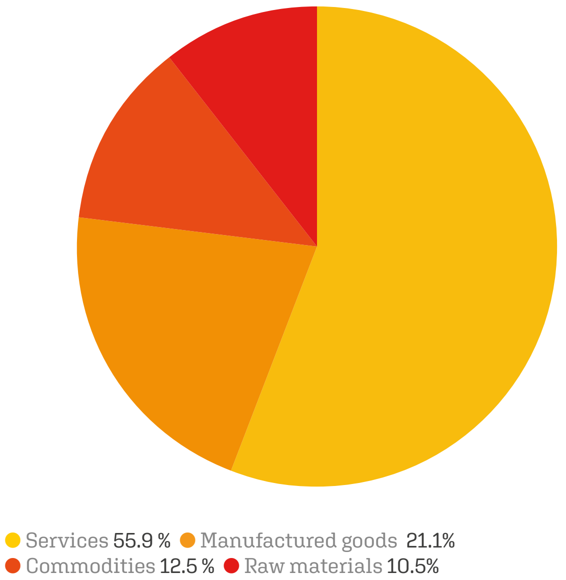
Africa 66.2% Europe 12.4%
Middle East 9.2% Americas 5.9%
Asia 5.9% Oceania 0.4%

A total of 76% of our respondents said that exports were important to them. That might be surprising, given the small size of most of the companies surveyed, the low levels of intra-African trade and that a small number of large corporations dominate exports from Africa to the rest of the world. However, there is no indication whether exports are already important to them or merely have the potential to be so. At the very least, the results demonstrate that exporting is of interest to a majority of African enterprises.

Interestingly, over 66% of the companies surveyed for this report already export to the rest of Africa, despite being mostly smaller commercial ventures. Again, this may be because exporters are more interested in participating in regional cross-border trade as a means to gain experience before expanding to other regions and globally. It also shows that Africa already has many companies interested in targeting neighbouring economies.

By contrast, relatively few export to other continents. Europe and the Middle East are the favoured non-African destinations but just 5% of all firms export goods or services to Asia. Given that African economies import so much from Asia and that 60% of the world's population lives there, African companies have made little progress in targeting Asian markets for products beyond commodities. This is partly because Asia supplies much of the world's manufactured goods but there is huge potential to increase African exports to Asia beyond primary commodities.

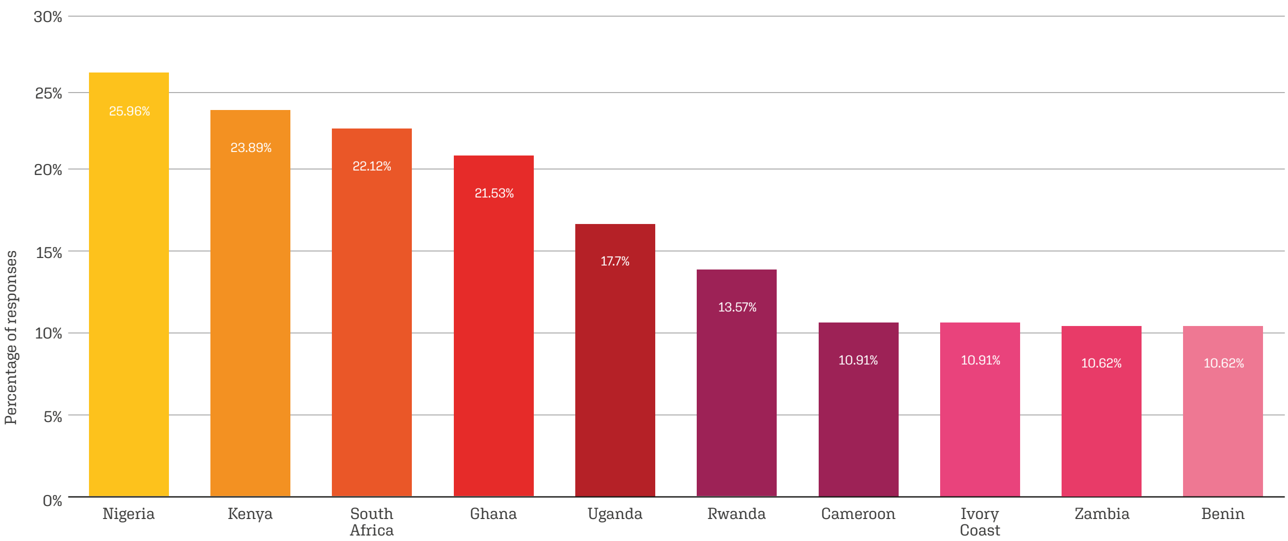
Fig. 13: What types of products do you export to Africa?



This question shed more light on the mismatch between the number of respondents exporting to other African countries and the fact that African bilateral trade levels are so low. A huge 55.9% of the companies undertaking cross-border trade in Africa export services rather than goods. Some of our participants work in the financial services sector but three times as many work in agriculture, so it seems likely that many of those provide services to agri-business.

Commodity and raw materials exporters account for a combined 28% of participants but, as already stated, companies exporting raw materials tend to be large firms working in the hydrocarbon, mining or agricultural sectors, so they are likely to account for a much higher proportion of exports by value. It is heartening that so many manufacturers are already supplying goods to other African countries and it is likely that many of those will be best placed to drive intra-African trade over the next decade and beyond.

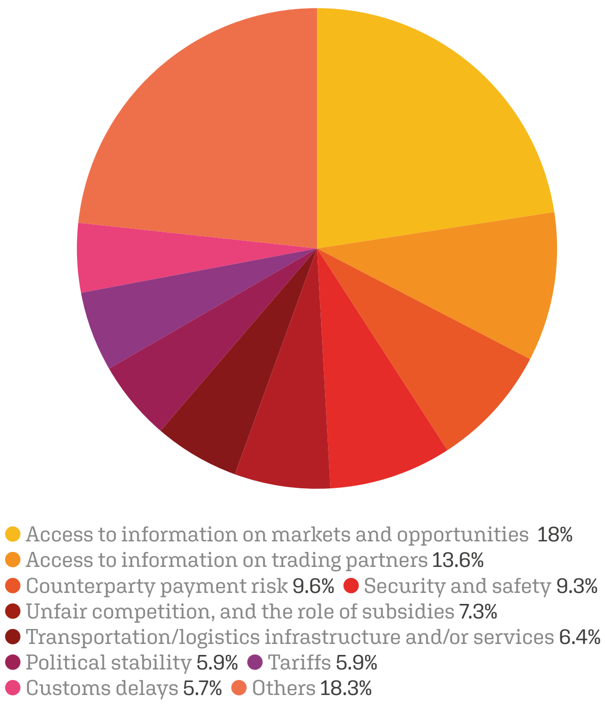
Fig. 14: Please specify the top countries in Africa you export to?



The list of the countries that most African companies export to is mostly fairly predictable. The large markets such as, Nigeria, Kenya, South Africa and Ghana, lead the way as might be expected. This replicates the results of our 2021 survey, although the proportion of companies exporting to Nigeria has increased from 19% to 25% over the past year. Some variation is to be expected but a further increase next year may be demonstrative of a real trend. The inclusion of Rwanda and Benin among the top ten, with 13.5% and 10.6% of those surveyed already exporting to them respectively, is a big surprise.

Some of the continent's most populous countries, such as Ethiopia and Democratic Republic of Congo are nowhere to be seen on this list, highlighting the potential they hold for intra-African trade. Similarly, countries that have built their wealth on single commodities are often overlooked by the vast majority of African exporters. For instance, fewer than 1% of those companies surveyed currently export to oil rich Equatorial Guinea. It will therefore be interesting to see whether such companies begin to target these markets as the AfCFTA begins to take effect over the next few years.

Fig. 15: What key constraints have prevented you from exporting to other African countries?



Identifying the main constraints to intra-African trade from the point of view of current and potential exporters is perhaps the most important part of this project. It is easy to point out tariffs, a lack of cross-border transport infrastructure and regulatory difficulties from a theoretical point of view but hearing it directly from those involved in African trade provides a true picture of the current situation.

It is clear from the results that a lack of information on markets, opportunities and trading partners is a binding constraint for exporters. Coming on top of the revelation that most CEOs do not know where or how to access information on AfCFTA, it highlights a real information shortfall. This is a problem that attracts relatively little attention, yet it is one that should be relatively easy to tackle through web-based platforms. Some information can be provided online by the AfCFTA Secretariat, while there is clearly scope for match-making services for potential trading partners. Business intelligence is generally provided by the private sector but is far more readily available in the industrialised world than in Africa at present. Service providers will surely exploit this obvious gap in the market in the future.

The other main factors cited by participants include many that we have already discussed in this report, including customs delays and inadequate transport and logistics infrastructure. Counterparty payment risk could be tackled by greater availability of export credit insurance. In addition, to Afreximbank, the national export credit agencies of Algeria, Ghana, Morocco, Nigeria, Senegal, South Africa, Sudan, Tunisia and Zimbabwe are already making a difference.

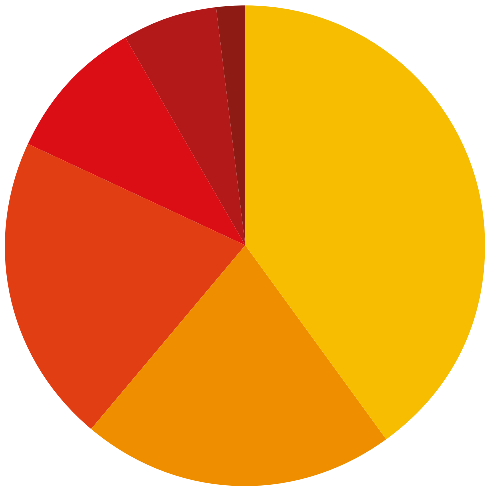

UASC
Hapag-Lloyd
BEACON
BEACON

4. The private sector direction of trade

4.2 Import flows

Fig. 16: How important are imports to your business?

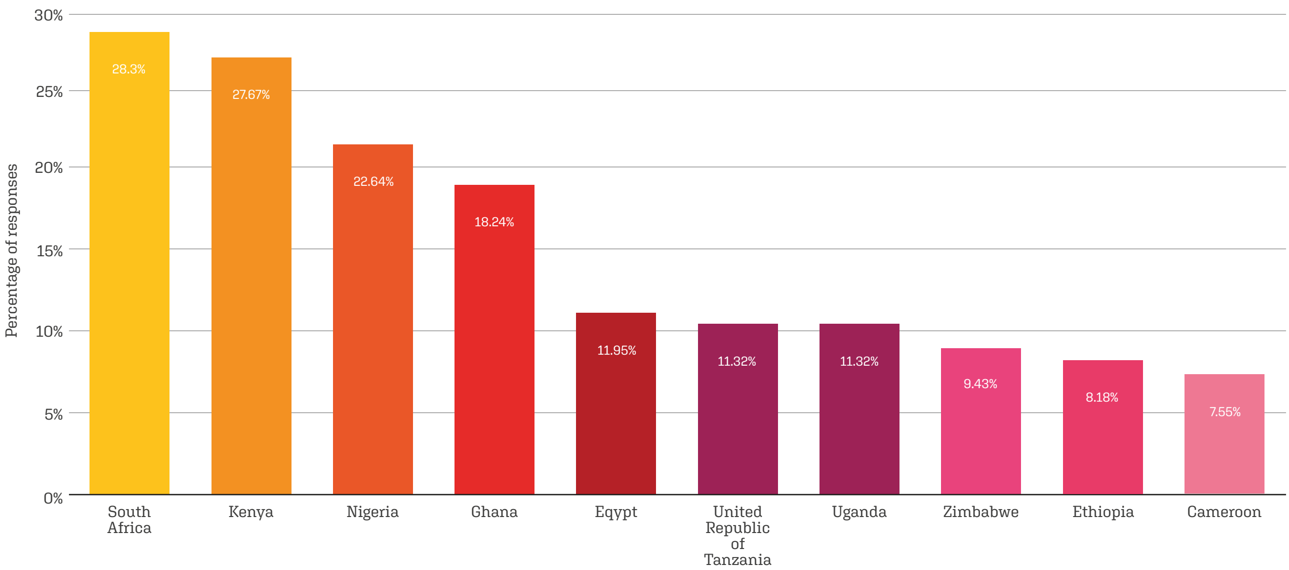
Fig. 17: Which regions do you import from?



At 77%, the proportion of respondents who indicated that imports were to some extent important to them is almost exactly the same as for those who said that exports were important to them. It is clear that most of those who took part in our survey are already traders, which is particularly interesting given how many of them head up companies with five or fewer employees. It seems likely that the two-thirds who rely on imports, are also significant exporters. That such a high proportion of African companies are already involved in cross-border trade, despite all the obstacles, is a clear indication of the opportunities that exist and the entrepreneurial spirit of people across the continent.

While our survey showed that African companies overwhelmingly export to other African countries, there is far more balance in the range of import markets. Other African countries are still the main source of imports, accounting for 40% of the total but just as many import from either Europe or Asia. Given that Africa tends to export raw materials and import processed and manufactured goods, it seems likely that our respondents are indeed importing finished Asian and European goods. Far fewer participants reported importing goods and services from the Middle East, which is a little surprising given the role of the Gulf states in African investment.

Fig. 18: Please specify the top countries in Africa, you import from

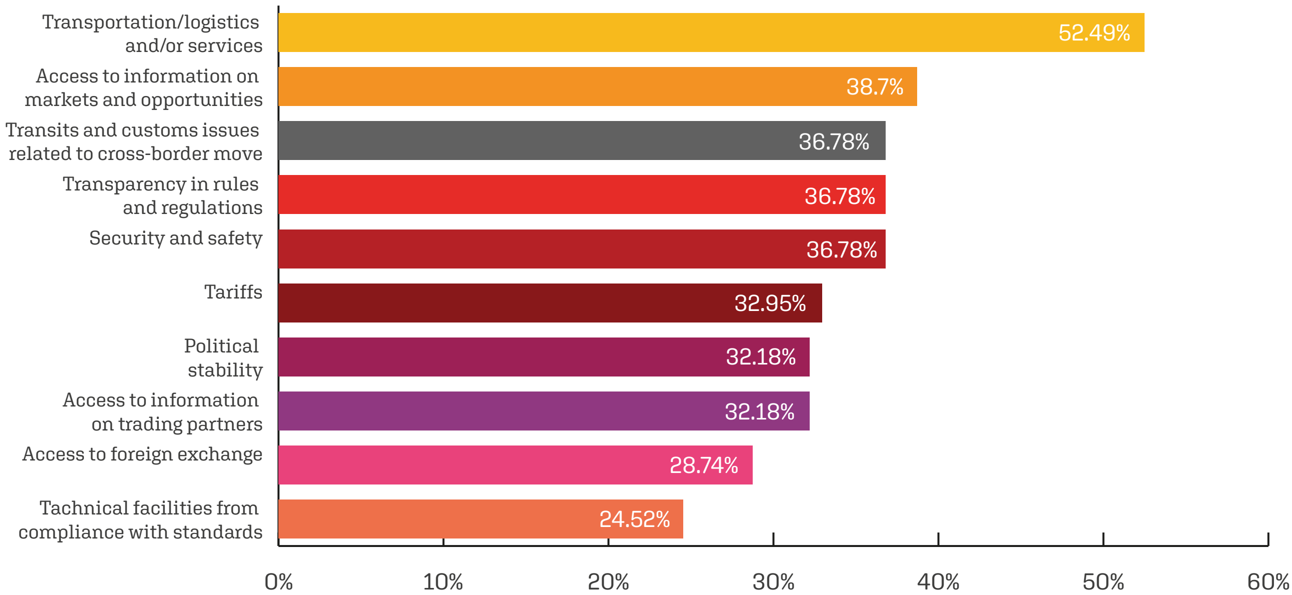


As with exports, the main Anglophone markets are the main source of imports for the companies we surveyed. Kenya performs particularly well, cited by 28% of participants, marginally behind South Africa in first place. Ghana and Nigeria complete the top four. The next three biggest sources of imports are closely bunched together with 11-12%: Egypt might be expected to be among this group, particularly because of its textile production, but Tanzania and Uganda are less obvious. Their inclusion is perhaps indicative of the economic development that both have achieved over the past 15 years and the level of integration in the East African Community.

The inclusion of South Africa, Ghana and Kenya among the leading trading nations is partly the result of the role that their international ports play in regional trade. Shipping lines use ports such as Durban, Tema and Mombasa as transhipment facilities, with goods taken there to be distributed to smaller ports in their respective regions on feeder services. In addition, road, rail and shipping feeder links between other countries and those ports can be used as conduits for intra-African trade.

Cote d'Ivoire is cited by just 6% of CEOs, behind even Benin. Surprisingly, no companies listed Mauritius as one of its five main sources of imports, perhaps because Mauritius is tied to trade with markets in other parts of the world.

Fig. 19: What key constraints prevent you from importing from other African countries?

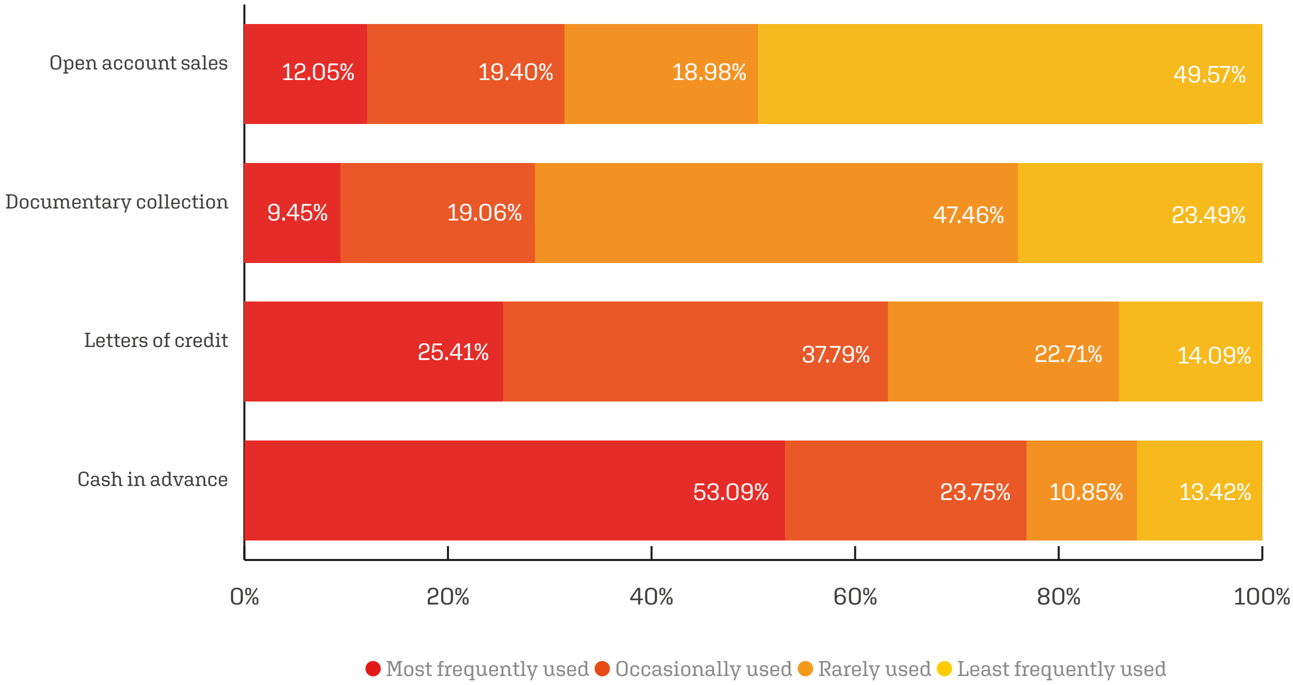


All the same factors that deter African companies from exporting to other African markets also affect their ability to import, although the weight allocated to different factors varies. The lack of information on markets, opportunities and trading partners is slightly less important with regards to imports but poor transport infrastructure and services emerge as bigger factors.

Apart from unfair competition and the role of subsidies, which the AfCFTA is designed to erode, the other main constraint on both imports and exports named by those surveyed are political stability and a lack of security. These factors are invariably included among the main factors hampering economic development on the African continent. There is no easy fix to such challenges, as building democratic, accountable, transparent political systems is a long process.

Yet not only can it improve political stability but it generally also results in improved security situations. While there has been an increase in social unrest on the continent over the past few years, the overall trend in recent decades has been a positive one. Indeed, those countries that have built sounder political systems have generally benefitted economically and are now in a better position to make the most of the AfCFTA.

Fig. 20: What forms of payment terms do you use for your import/export transactions?



Our survey revealed that for half of African businesses cash in advance is still their most frequently used method of payment for cross-border trade. This may be indicative of a lack of secure payment methods. Intra-African trade would benefit from much improved access to export credit and trade finance more generally to instil the confidence that orders will be paid for. A total of 57% of those asked in our question, 'What more should be done to help your business benefit from the AfCFTA?' said that the availability of trade finance would help their business benefit from the AfCFTA.

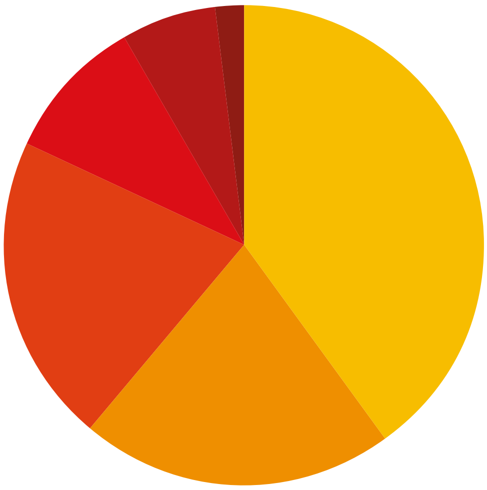
Letters of credit, which have a long track record of uptake in Africa, particularly for sea-borne trade, are the second most widely used method. Just 12.5% of our CEOs said that open account sales were their primary method of payment with 48.99% listing them last but that balance would surely change if both confidence and volumes of intra-African trade were to increase.


K LINE
HANJIN
YM UNISON
MAJURO
CONTAINER TERMINAL TOLLERORT
YANG MING

4. The private sector direction of trade

4.3 Transport and logistics

Fig. 21: What mode of transportation do you employ when importing to Africa?



- Sea 33.98%
- Airfreight 32.36%
- Multimodal 21.79%
- Road 10.08%
- Rail 1.79%

Fig. 22: What mode of transportation do you employ when exporting to Africa?

- Road 37.3%
- Airfreight 22.78%
- Multimodal 21.77%
- Sea 15.32%
- Rail 2.83%

Despite major shortcomings in African road systems, particularly between countries, it is no surprise that road haulage is the most common type of transport used to both import and export goods. Gaps in the road networks perhaps explain the popularity of air freight, particularly as there is so little trade between different African regions, so a large proportion of air cargo must be being moved because economies in the same region. The popularity of sea freight between African countries might be a surprise to some but is probably explained by transhipment between coastal states.

It is well known that most African railway lines have suffered from decades of underfunding and badly need upgrading or replacing. However, new projects have also been well publicised, including the standard gauge lines being built to connect the ports of Mombasa and Dar es Salaam with inland areas of East Africa. It might therefore be surprising to see that just 3% of those surveyed said that they used rail when exporting goods and 1.79% when importing.

This is partly because a great deal of African rail freight is produced by a very small number of companies, principally those involved in bulk trade, either mining commodities such as coal and iron ore; agricultural goods, such as wheat and cotton; or liquid bulk, including refined petroleum products and vegetable oils. A small number of companies would therefore represent a high volume of trade in goods.

However, it should also be noted that multimodal transport is utilised by 21.77% of exporters and 21.79% of importers. Many of these will transport their goods by containers that are then carried by road to the nearest rail freight collection point, to be transported by train over longer distances. However, it should also be noted that far too little cargo is carried by rail on the continent and there is huge scope for the construction of new lines and the rehabilitation of existing lines. Eastern Africa has led the way on this front, while railways have also been rebuilt or are planned from Mozambican ports to South Africa, Zimbabwe and Malawi. West and Central Africa lag behind, although new mine railways are planned.

Fig. 23: What mode of transportation do you employ when exporting outside of Africa?

- Airfreight 30.06%
- Sea 26.71%
- Multimodal 22.58%
- Road 15.87%
- Rail 4.78%

Fig. 24: What mode of transportation do you employ when importing outside of Africa?

- Sea 33.98%
- Airfreight 32.36%
- Multimodal 21.79%
- Road 10.08%
- Rail 1.79%

As might be expected, air and sea freight are the most popular means of transporting goods between Africa and other continents. The continent's ports have been greatly improved over the past 20 years, with many new container terminals being built and managed by the world's leading port operators. Many, particularly in West Africa, have deepwater access that allow them to serve the ever-increasing size of the world's biggest container ships, some of which can now carry in excess of 24,000 TEU, or standard-sized containers. Most have acquired the latest cargo handling equipment and operating systems, while digitising documentation, including for customs processes. African ports have become one of the continent's biggest infrastructural assets.

The continent's airports have not benefitted from quite the same level of investment, but the need to adopt international safety standards means that they, too, offer modern facilities. Although air freight services are somewhat limited by the frailty of many African airlines, those serving Kenyan horticulture, for instance, operate efficiently in moving Kenyan flowers to European markets for next-day sale.

Solely using road transport might seem an unlikely option for most African companies but is cited by 15.87% of exporters and 10.8% of importers. There is certainly some freight movement between Egypt and the Middle East across the Sinai but the high figure for road haulage alone may be explained by participants attributing some multimodal transport to road alone. This is particularly likely to be true if their goods are driven very long distances to port for relatively short sea crossings, such as to Tanger Port in Morocco for the short trip across the Mediterranean to Spain, before again being moved long distances across Europe by truck. The same explanation may account for the 2-5% of African companies that employ rail transport into and out of Africa, given that there are no railways connecting Africa with other continents.


CAUTION
HIGH TRAILER

4. The private sector direction of trade

4.3 Where are the opportunities to increase private sector trade?

Fig. 25: How do you rate the following regions in terms of ease of trade?

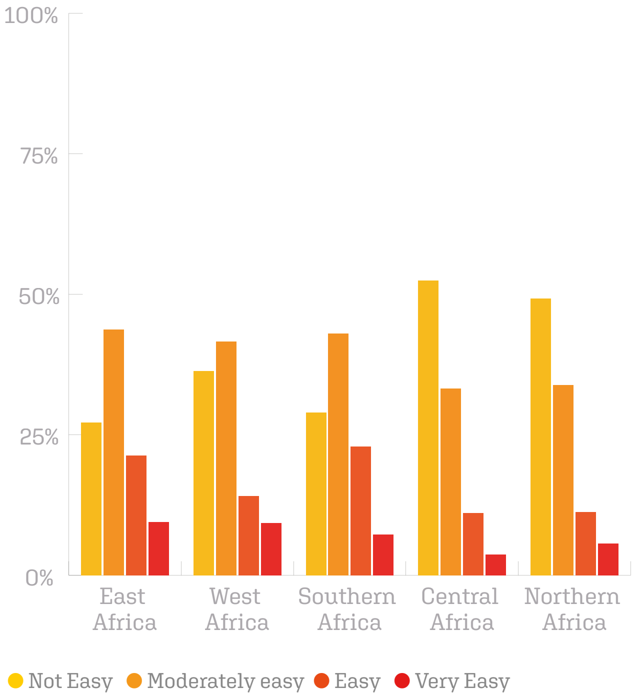


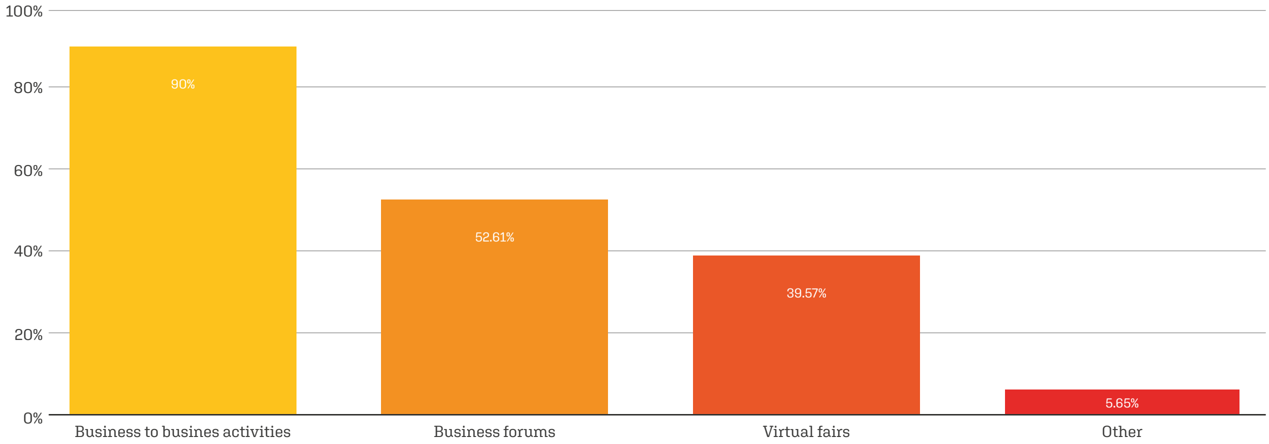
Fig. 26: Which other regions would your company like to prioritise exporting to, outside of Africa?

One of the many new questions that we have added to this year's survey was to ask Africa's CEOs how they rated each African region in terms of ease of trade. East Africa came out marginally on top, with 9.45% considering it very easy and 27% not easy. It is a little surprising that Southern Africa did not perform better, as the Southern African Development Community has made great strides in terms of encouraging trade, including by creating a free trade area and setting up one stop shops at border crossings. However, the situation varies considerably across the region and even South Africa's reputation has been badly affected by violent attacks on foreign owned and driven trucks.

Central Africa is regarded as the most difficult place to trade with, scoring the lowest in every category. Given the lack of competition and economic diversification, plus high levels of state control in most markets in the region, this is not surprising. In addition, transport infrastructure outside Cameroon and perhaps Gabon and the coast of Congo-Brazzaville is fairly limited.

African companies do not seem to greatly favour exporting to any one region of the world over another. Our survey showed that the Middle East is particularly popular given growing trade and economic relations with the region. At 53%, Europe remains the favoured export destination for CEOs, slightly ahead of the Americas. Despite its demographic and economic importance, Asia comes third, with the region still viewed more as a destination for commodities and a source of imports.

Fig. 28: Which kind of activities would you be interested in to expand/develop trade and investment opportunities with the Arab region?



Given that the Middle East has repeatedly been mentioned by those surveyed as a region with which they would like to increase trade, it is fortuitous that we asked participants which trade and investment activity they would interested in pursuing with the Arab region, although obviously not all of the Middle East is Arab and indeed the Arab region extends beyond the Middle East.

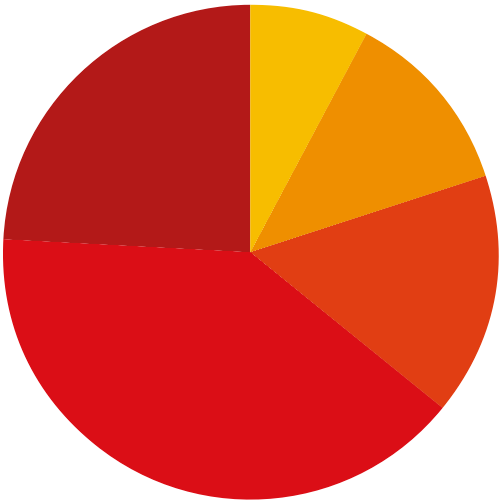
Business to business activities emerged as the most important activity, cited by 90% of respondents.

The prominence of business forums and virtual fairs indicates that many CEOs are eager to network with Middle Eastern business leaders in order to identify opportunities. From fairly low levels, the increasing presence of African companies at big Middle Eastern gatherings, such as the Abu Dhabi International Petroleum Exhibition and Conference (ADIPEC) and Dubai Expo suggest that progress in this direction is being made.

5. Sector Profiles

5.1 Financial services

Fig. 29: How confident are you the AfCFTA will have a positive impact on the financial services sector?



● Not Confident 8% ● Somewhat Confident 12%
● Moderately Confident 16% ● Confident 40%
● Very Confident 24%

Fig. 30: Which of the following policy recommendations would you prioritize to facilitate your institution financing SMEs exporting to within Africa?

● Availing trade intelligence, and trade and market information and capacity building to identify markets for their products and services under the AfCFTA 28%
● Investments in trade-enabling infrastructure and building export logistics by facilitating linkages through the value chains from producers to large exporters 24%
● Building SME capacity to comply with quality standards, packaging requirements and customs procedures 24%
● Ensuring assistance and capacity building to formulate long-term business plans that include product upgrades, innovation and diversification 8%
● Facilitating access to alternative credit and long-term financing mechanisms

Our respondents working in the financial services sector were particularly confident that the AfCFTA will have a positive impact on their sector, with only 8% describing themselves as not confident. Many of the obstacles to other forms of cross-border trading, such as the lack of transport infrastructure and border delays, simply do not affect financial services. Moreover, it is an industry that has long operated internationally.

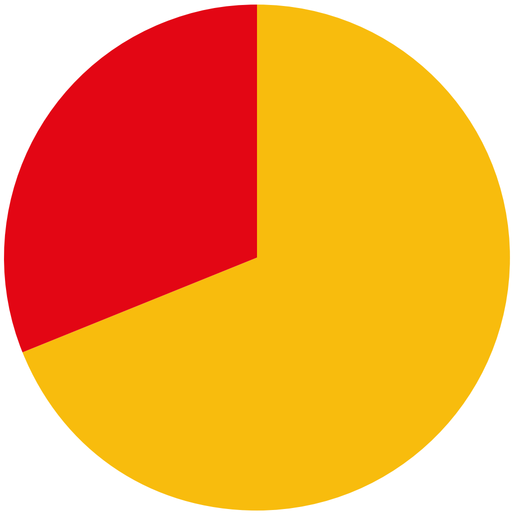
In order to drill down into the real improvements that have to be made to enable the sector to make full use of the continental free trade area, we asked financial services CEOs which policy recommendations they would like to see prioritised to support export-orientated SMEs. Building SME capacity to comply with quality standards and other requirements was one of the main factors that were cited. Customs procedures, quality and packaging standards vary greatly from country to country, with goods often being held up by customs inspections.

It is difficult enough for larger corporations to identify and implement the regulatory requirements of any particular market but the process can be enough to deter smaller firms from even considering export markets. Improving transport and logistics infrastructure was the other big factor identified by the financial services sector, confirming our earlier assessment of its importance.

Fig. 31: Which of the following should be prioritized for liberalisation under the AfCFTA

- Allowing the supply of a service from your country to the consumer of any other country 44%
- Allowing remote provision of services from your country to another company in an African country 32%
- Allowing commercial establishment such as opening a physical branch or office in another country 16%
- Allowing the movement of persons such transferring an employee from one country to another for work duties 8%

Fig. 32: Does your institution currently use African currencies in international trade financing?



- Yes 69%
- No 31%

The results of our next question highlighted the importance of the digital revolution for the financial services sector. The CEOs of banks and other financial services institutions are relatively little concerned with the free movement of staff from one country to another, nor of their ability to open physical branches in other markets.

By contrast, 76% regarded allowing them to provide cross border services to either individual consumers or companies in other countries as the biggest priority for AfCFTA liberalisation of their sector. A growing proportion of banking and other financial products are provided via apps or websites that could be marketed to consumers in any country if the sector were liberalised.

It may be surprising to those outside the continent but a huge proportion of African trade is financed in non-African currencies, particularly the US dollar. As our survey shows, just over two-thirds of financial institutions do not even offer international trade financing in African currencies. Their use is more common in Africa's existing currency unions: the two incarnations of the CFA franc used in francophone West and Central Africa, which are backed by the euro.

Greater use of African currencies in trade financing would increase confidence in them, providing greater stability for all concerned. The Pan-African Payments and Settlements System which will allow for the payment and settlement in local currencies will go a long way to help in this regard.

VIEW FROM THE TOP

Interview with **Shaahien Mottiar**

Head of Trade & Working Capital Portfolio Management, Standard Bank

Q. Would an increase in intra-African Trade benefit your business?
A. Standard Bank Group operates in 20 markets in Sub-Saharan Africa and we are an African focused bank, so any increase in economic activity on the continent will certainly be a benefit to us. However, we actually look at it the other way around. Our slogan is: Africa is our home. We drive growth in intra-African trade. The challenge right now is that it only accounts for 15-20% of all African trade. Unfinished goods are exported out of Africa and finished goods are imported into the continent. If we can localise trade, we can invest in businesses within Africa, boosting the economy and in turn benefitting Standard Bank.

Q. What key challenges does your business face when trading within the continent?
A. Standard Bank has been operating in Africa for some time, and we are tied at the hip to the growth of the continent and its economies. The mistake people are quick to make is that they will look at the mercator projection of Africa, which shows it as a relatively small place. It's easy to forget that it is a massive continent with 55 countries, 41 currencies and 2000+ languages. It is not homogeneous by any means, and we should not treat it as such. Having said that, a challenge across Africa is the movement towards ESG. Africa accounts for a 3.8% share of global greenhouse gas emissions, but it is being pushed in the same direction as the rest of the world, putting unnecessary constraints on trade within the continent.

Q. What kind of an impact do you think the AfCFTA will have on your business?
A. The AfCFTA will have a positive impact on African imports and exports, financial services and tourism, and as these businesses grow, Standard Bank's business grows. However, it is not only about trade. We are here as part of the overall African community and not simply extractors of wealth. We are not just a trade bank, we are also a consumer bank and a business bank, so we can participate in multiple aspects of the individual economies and help them grow. It's important to note that coming out of the Covid pandemic and stepping into the global effects of the Russian invasion of Ukraine, global supply chain disruptions and food disruptions have and will continue to affect Africa.

Q. How optimistic are you about Africa's economic outlook for 2022/23 period and why?
A. I am going to steer clear of saying whether or not I am optimistic or not. Africa is resilient and always has been. African people navigate the current circumstances and find a way. Overall, for the rest of 2022, I expect the same volatility from the first half, hopefully easing up a bit by 2023. For African economies, we will need to understand how to manage the risk that global inflation brings onto the continent. As food prices go up, other problems arise that are more social than economic and we need to be prepared to deal with them.

Q. What impact do you believe the AfCFTA will have in the growth of the Financial Services sector?
A. We already have some initiatives in play that assist in the growth of the financial services sector, such as the Pan African Payment Settlement System (PAPSS). However, I believe AfCFTA will indirectly drive growth in the financial services sector, through facilitating growth of trade and the growth of economies.

Q. Financing was highlighted in our previous survey as one of the key hurdles that businesses need to overcome when looking to export. What policy recommendations do you think would facilitate your industry financing companies, particularly SMEs, looking to export within Africa?
A. That's a multi-faceted question. My counter response to that would be: which SMEs are actually properly exporting? Generally, medium, small and micro enterprises are domestically driven. With cross border trade, it's mainly through larger companies, or SMEs feeding into the larger companies. We could take inspiration from the Japanese Kairetsu model, where large corporates source a lot of their supply from smaller companies to create a working eco-system in the country. Over time, we also need to allow SMEs better access to finance, but more importantly, better access to education. We need to train these SMEs to think and act like businesses. Government funding can only go so far. We need to understand how to drive each market specifically and educate small businesses so that they can build a track record and accelerate development in their respective market.

5.2 Health and pharmaceuticals

Fig. 33: What should be AfCFTA's policy-focus areas within the Health Industry & Pharma sector?

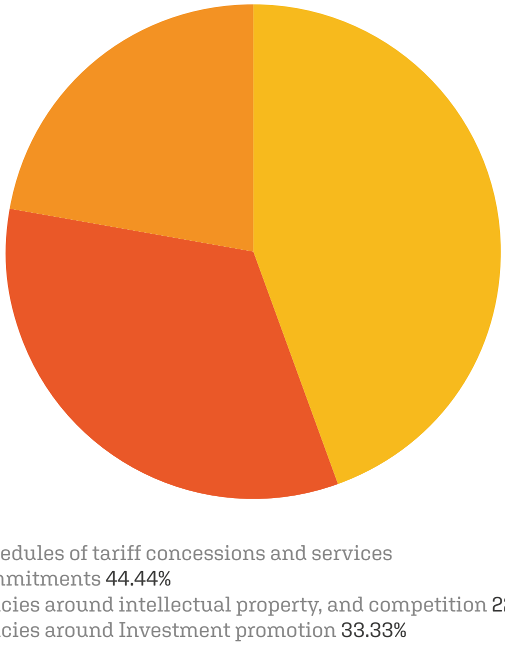
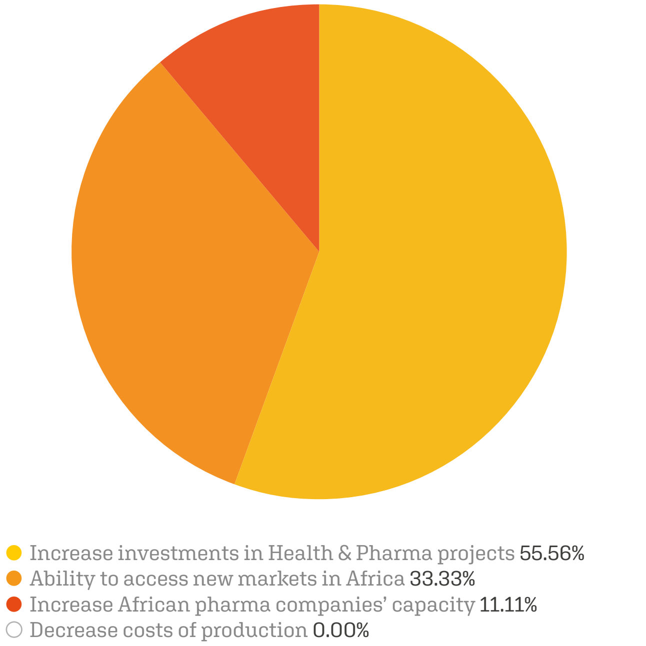


Fig. 34: How do you see the key challenges, in the sector, the AfCFTA may be able to address in the future?



The African health and pharmaceutical industries shoulders a heavy burden at the best of times given that the continent bears 24% of the global disease burden. Communicable diseases such as HIV/AIDS, tuberculosis and malaria place a huge strain on limited health resources. . In addition, longer lifespans combined with lifestyle changes, including higher fat and sugar intake and a shift from agricultural work to service sector employment, are already starting to trigger a rise in non-communicable diseases, such as diabetes and cardiovascular conditions.

As figure 33 above demonstrates, our respondents identified three main ways in which the AfCFTA could benefit the sector. The most commonly identified area was tariff concessions, with tariffs on medical imports preventing those in need from securing much needed medicine and other forms of treatment.

At present, African health sectors are fairly isolated from each other. It is hoped that this will change as the free trade area is implemented, with sector integration improving efficiency and cooperation. The CEOs participating in our survey indicated that the AfCFTA may be best placed to increase investment in health and pharmaceutical projects, even ahead of improving access to new markets.

Fig. 35: How confident are you the AfCFTA's policies will be fully implemented in the near future?

- Not Confident 0.00%
- Somewhat Confident 44.44%
- Moderately Confident 22.22%
- Confident 22.22%
- Very Confident 11.11%

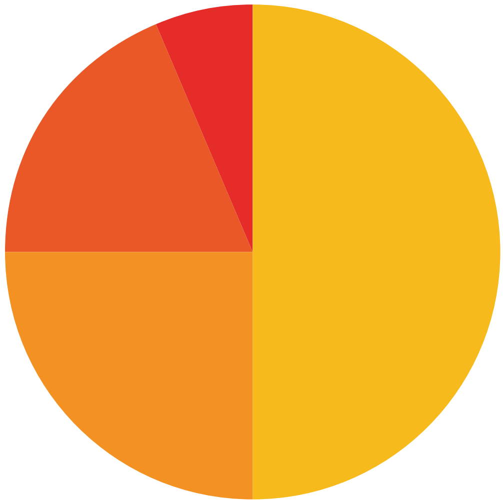
Figure 35 above indicates that those working in the health and pharmaceutical industry are hopeful rather than confident that the planned erosion of tariff and non-tariff barriers by the AfCFTA will be implemented in the near future. Nevertheless, a third of the participants in our survey said that they were confident or very confident that the health sector policies would be fully implemented in the near future.

5.3 The energy sector

Fig. 36: What should be AfCFTA's policy-focus areas within the energy sector?

- Policies focusing on renewable energy investment incentives 43.75%
- Policies focusing on Oil & Gas investment incentives 25.00%
- Policies around intellectual property, and competition 18.75%
- Policies around Investment promotion 12.50%

Fig. 37: Which key challenges should the AfCFTA focus on in the near future?



- Increase investments in energy projects 50.00%
- Increase African power generation capacity 25.00%
- Ability to access new markets in Africa 18.75%
- Decrease costs of power/electricity production 6.25%

The energy transition from high emissions oil, gas and coal to renewables is well underway in many countries,. Solar and wind power development costs are lower than for fossil fuel alternatives in many markets, although the transition is less advanced in transport and heating fuels. While Morocco, Egypt and South Africa all have significant renewable energy sectors, the process has been slower to take off in Africa as a whole.

44% of our respondents said the policies focusing on renewable energy investment incentives should be the AfCFTA's priority in the energy sector, just 25% opted for oil and gas incentives.

The responses to this question clearly highlight the fact that there is less interest in the cost of power production than in having sufficient generating capacity to maintain supplies to existing customers and indeed drive further electrification. Many African countries have set ambitious targets on electrification, including in rural areas, which will require the rollout of new transmission and distribution infrastructure.

In terms of AfCFTA, the key will be building cross-border transmission infrastructure to enable much greater trade in electricity. This in turn will drive prices down and maintain supplies by allowing different countries to leverage their strengths.

Fig. 38: How confident are you the AfCFTA's energy policies will be fully implemented in the near future?

- Not Confident 6.25%
- Somewhat Confident 12.50%
- Moderately Confident 25.00%
- Confident 43.75%
- Very Confident 12.50%

Confidence that the AfCFTA will support Africa's energy sector is relatively high, with 81% of participants in our survey at least moderately confident that planned policies will be fully implemented. This may be because the required physical solutions– the cross-border interconnectors – are relatively easy to put in place; although as ever securing the required financing will be the big challenge.

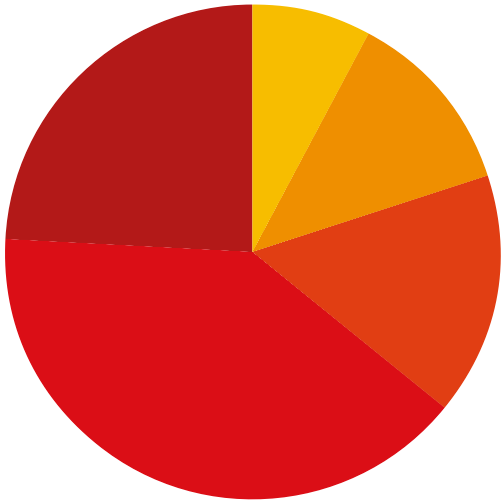
Bilateral agreements on power sharing are also fairly straightforward but more general power sharing agreements are more difficult to devise, particularly from a regulatory point of view. An Africa-wide power pool would be the best solution but is likely to be created through a long series of more modest agreements rather than via the implementation of a grand, over-arching plan from above, at least in the first instance.

5.4 Agriculture

Fig. 39: What should be AfCFTA's focus areas within the agriculture and agri-processing sector?

- Strengthening local food production 37.74%
- Develop regional value chains 26.42%
- Increase export credit facilities to support agriculture exports 26.42%
- Import substitution policy via higher import taxes 5.66%
- Fiscal incentives for agri-processing companies 3.77%

Fig. 40: How confident are you the AfCFTA will support the processing of higher value-added agriculture products made in Africa?

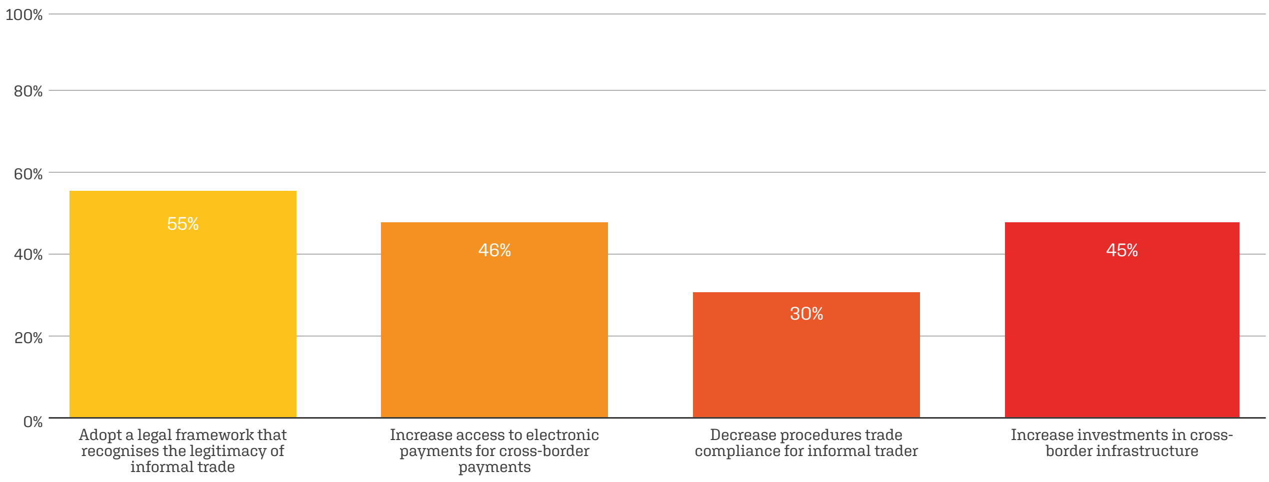


- Confident 6%
- Somewhat Confident 6%
- Moderately Confident 19%
- Confident 47%
- Very Confident 23%

Agriculture is the sector that employs more people than any other in Africa. In addition, facilitating trade – both in terms of infrastructure and tariff barriers – would allow basic foodstuffs to be traded far more easily, helping to promote food security. The main objection cited with regard to more open trade in agricultural commodities is that it would overwhelm producers in some countries, leaving consumers more vulnerable if that trade dried up.

Those respondents who lead companies operating in the agriculture and agro-processing sectors indicate that strengthening local food production should be the priority in the sector. Different CEOs will have different priorities but many are likely to be concerned about the impact on small-scale or less efficient local producers. Just over half of those surveyed want the focus of the AfCFTA to be on promoting cross-border trade, both through developing regional value chains and on increasing the availability of export credit to encourage agricultural exports. Huge benefits are on offer from both strategies.

Fig. 41: Informal cross-border trade plays a crucial role in contributing to food security but also poses major challenges for traders and local businesses. How should trade policies address informal cross-border trade in the context of AfCFTA?



An overwhelming majority of respondents are confident that the implementation of the AfCFTA will support processing of higher value-added goods. Anything that encourages more food processing and manufacture within Africa is surely to be welcomed. It will allow more of the benefits of the agro-production chain to be retained within the continent while providing far more diversity in food trade, helping to stimulate the backward and forward linkages important to employment creation.

Analysis of trade in agricultural commodities and indeed of wider trade flows in Africa often overlooks the crucial and substantial role played by informal cross-border trade. At present, different countries impose different levels of taxation on various agricultural products, encouraging people to smuggle goods across borders.

The majority of our respondents would like to see this trade legitimised through the adoption of a legal framework, including by reducing the administrative burden associated with such trade. In addition, roughly half called for greater investment in cross-border infrastructure, be it road and rail lines, or border posts facilities, as well as increasing access to electronic payments for cross-border trade.

VIEW FROM THE TOP

Interview with **Amit Agrawal**

President & Regional Head, Olam Agri Limited

Q: Would an increase in intra-African trade benefit your business?
A: If I talk from the perspective of the Ghana operation, it has significant potential in terms of the export of manufactured goods. We currently take advantage of the Economic Community of West African States (Ecowas) treaty. This allows duty free access to the 15 member countries that are located in the Western African region.

Now, when we look at AfCFTA, theoretically, the number of countries we can access would increase, except that, as always, the challenge in Africa is the cost of logistics, the cost of goods reaching a country that you want to export to.
The reason that Ecowas works so well is that we are able to reach them in terms of logistics at a viable economic cost.

Q: What are the key challenges?
A: Practically speaking, we are restricted to the West Africa region. To get from Ghana to East Africa or Southern Africa, the logistical networks do not exist. Shipping lines don't work within Africa; goods will probably travel to Europe and then come back to Africa. Costs are prohibitive. To ship a container from, let's say Ghana to South Africa, or to Uganda, is more expensive than shipping that container to China!

Q: What sort of impact do you think AfCFTA will have on your business?
A: Theoretically, a huge impact. Transitioning from the Ecowas treaty to the AfCFTA would be beneficial. If we take the example of Nigeria, which is within the Ecowas area, it is a very large market that could be unlocked with the AfCFTA. Today the market is not accessible to many companies

Q: What should be the free trade agreement's focus areas within the agricultural and agro processing sector?
A: The various governments will have to invest in transport and logistics infrastructure within Africa to support the movement of trade goods. The second part being is also that countries that have traditionally not been open or not have not been providing access to Africa products is that the AfCFTA can help open those markets. That can be a big boost for African products.

Q: How confident are you that the AfCFTA will support the processing of higher value-added agricultural products made in Africa?
A: There is very little intra-Africa trade. Commodities tend to go outside of Africa for processing and then are reimported as processed goods.

Many of Africa's basic food commodities are imported into Africa: We have rice imported from Asia, wheat imported from the US and Canada, even palm oil imported from Malaysia or Indonesia,

And our own commodities such as coffee, cashews and cocoa are exported for processing and are reimported to Africa as elite products. They largely leave Africa for elsewhere. The issue very simple; the market remains outside of Africa for these elite products,

But this will change if we can harness the political will. We are looking forward to the full implementation of AfCFTA. Olam Agri will use its African footprint – we are really very well placed – to take advantage of the agreement as things fall into place.

VIEW FROM THE TOP

Interview with **Antoine Turpin**

COO, Moringa Partnership

Q. Would an increase in intra-African trade benefit your company? How and why?
A: West Africa is not only a region of production and sourcing of raw materials, but also increasingly a place of transformation and is becoming a real market. Although Moringa's partners are still interested in exporting, they are also offering products to local markets. This makes a lot of sense because sub-regional needs are still largely covered by imports. Sobéma brand beverages are sold in the sub-region, Tolaro Délice cashew nuts are sold in Benin and Nigeria, and soon in Ghana and Cote d'Ivoire. B-BOVID's crude palm oil is sold in Ghana and Nigeria.

Q. What are the main challenges your company faces when trading on the African continent? How/why?
A: One of the first challenges is the effective absence of a common market in West Africa. For the moment, it is very theoretical, the transit from one country to another is very complicated. One of the companies in the portfolio, Tolaro Global (based in Benin), has invested a lot of time to get the right to export to Nigeria. There are also the geopolitical challenges of the continent with, for example, embargoes or closed borders. In Mali, ComaFruits has difficulties importing equipment from Europe. It is difficult for companies to find qualified workers, especially those with industrial expertise, capable of meeting international standards. Companies are sometimes located in the heart of production basins in remote areas, which makes it difficult to recruit expatriates. Finally, even if the duration of the Moringa fund is "long", it is short for agricultural activities subject to the vagaries of climate and significant market variations. A relationship of trust between entrepreneurs and buyers is a long-term one.

Q. What kind of impact do you think AfCFTA will have on your business? How and why?
A: We expect this agreement to increase the fluidity of regional transactions. It would facilitate the sale of products in the sub-region. It should also complement local resources: and increase the fabric of companies in the sub-region by avoiding the constant import of products from other continents.

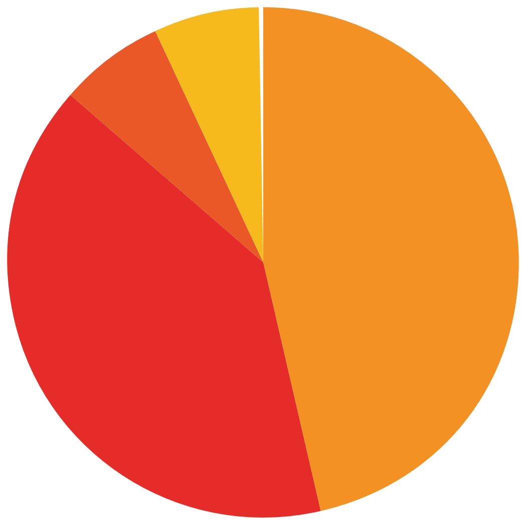
Q. How optimistic are you about Africa's economic prospects for the period 2022/23 and why?
AT: It depends on the country. The support for local processing that we are seeing more and more is very good news. The decree in Benin in March 2022 that encourages local processing of cashew nuts (through the ban on the export of raw cashew nuts) is very good news.

5.5 Telecoms & ICT

Fig. 42: Should harmonization of data regulation be a policy priority under the AfCFTA?

Strongly Disagree 7% Disagree 7%
Neither Agree or Disagree 40%
Strongly Agree 27%

Fig. 43: With e-market growing in importance, is the data infrastructure in Africa where it needs to be?



Strongly Disagree 6.67% Disagree 46.67%
Neither Agree or Disagree 6.67%
Agree 40.00% Strongly Agree 0.00%

The telecoms sector is often cited as an outstanding example of private sector innovation and growth in Africa. Private sector operators made the most of the mobile telecoms boom by providing services to the bulk of the population, with close to half of the population having at least one mobile subscription.

Many service providers already operate in multiple jurisdictions, however some barriers to the cross-border provision of services remain, including with regard to the thorny issue of data regulation. The vast majority either agreed or strongly agreed that harmonisation of data regulations should be a priority, with just 7% disagreeing.

While the infrastructure required to drive high mobile penetration rates has been put in place, the next stage of the communications revolution will prove more difficult. With high numbers of customers, service providers are now focusing on driving up average revenue per user (ARPU) rates, which will require far higher data consumption. This will be an expensive process that will need huge investment in data storage and data transfer facilities.

As well as helping to drive continued growth in the telecoms sector itself, it will support e-commerce and wider economic growth in Africa. When we asked sector players whether data infrastructure was where it needed to be in Africa, the results were split fairly evenly, with 40% saying that existing infrastructure was sufficient but 47% arguing that more investment and capacity is needed

Fig. 44: To what extent, do you agree that over-regulation in digital services will stifle competition in the Telecoms & ICT sector?

Strongly Disagree 13.33% Disagree 6.67%
Neither Agree or Disagree 20.00% Agree 40.00%
Strongly Agree 20.00%

Telecoms providers have been able to grow so quickly and expand their operations precisely because of open competition in the sector. It is therefore no surprise that they are concerned that over-regulation will stifle competition. A total of 21% disagreed with this notion but 60% agreed or strongly agreed. The AfCFTA is expected to encourage competition in the provision of telecoms and ICT services but care should be taken that continent-wide regulatory frameworks do not place a brake on new innovation and investment.

VIEW FROM THE TOP

Interview with **Christian Jekinnou**

Founder, Fanaka

Q. Would an increase in intra-African trade benefit your business?
A. An increase in intra-African trade would benefit our business, and we are optimistic about the AfCFTA. Similar regional trade agreements in Asia, Europe and North Africa have proven to be beneficial to businesses and we anticipate that the AfCFTA will follow suit. We operate in 48 countries across the continent and have 16 ports in the Western part of Africa. If our trade were to op erate exclusively in Africa, we could ensure that imports and exports go from one Bolloré port to another Bolloré port, benefitting both ends of the same network and ensuring that the continent will be less affected by disruptions to global supply chains.

Q. What key challenges does your business face when trading within the continent?
A. Since road transport is common within Africa, infrastructure often presents challenges. Trucks carrying cargo across Africa often have to travel up to 3,000 km to deliver goods, and it can take 3-5 times longer than it would in the US or Northern Europe. If conditions on roads and bridges were to be improved, goods could be transported at a significantly higher rate. Another key challenge is administrative procedures. Excessive customs documentation creates time constraints on the movement of cargo. Because of this, the cost per km transported is high. If we improve infrastructure and administrative treatment of cargo in transit, the turnaround time will be quicker, and the overall cost will be reduced.

Q. What kind of an impact do you think the AfCFTA will have on your business?
A. It will be a growth accelerator. Africa has been sourcing goods from overseas for a long time. Just a few years ago, intra-African trade accounted for 12% of all African trade, whereas intra-European was at 60% and intra-Asian at 40%. Out of that 12% of intra-Africa trade, 50% came from South Africa. It was very limited, concentrated in a few countries, and accounted for a very small proportion compared to areas with established free trade agreements. We are anticipating that the AfCFTA will boost our business and many others within Africa.

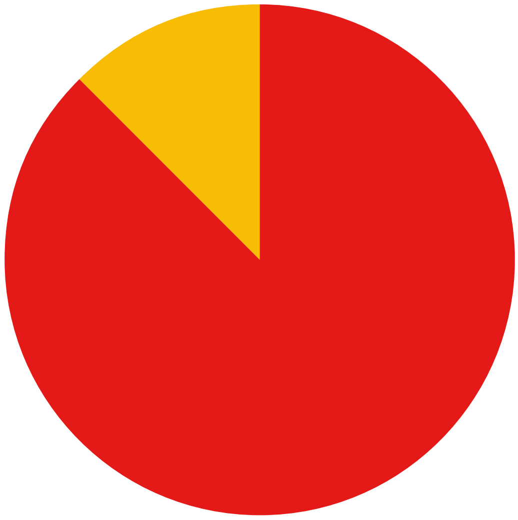
Q. How optimistic are you about Africa's economic outlook for 2022/23 period and why?
A. Due to the sharp increase in fuel prices, oil and gas projects are rapidly developing. Gas is becoming a highly sought-after commodity due to the war in Ukraine, and the development of new gas fields in countries such as Mauritania and Mozambique should accelerate. Gold, copper and cobalt mining projects are also doing very well, as are soft commodities such as cotton. On the contrary, security and political turmoil is an issue within Africa. In 2021 alone, we had 5 military coups, and we are still dealing with sanctions across the continent. For example, one of our biggest exports is cotton from Mali, but as of now, most of the country's corridors are blocked due to these sanctions. Nonetheless, we have to remember that Africa is a continent and discrepancies between regions is to be expected. Overall, we are optimistic about the economic outlook in the 2022/23 period.

Q. In your experience what are some of the favoured regions for exports from Africa? And for imports?
A. South Africa, Egypt and Morocco are some favoured regions for imports and exports. We are also seeing growth in Kenya, Senegal, and The Ivory Coast. Many countries are now limiting exports to force transformation in the country to create value and boost employment. When we see the volume of cashew nuts, cocoa and timber that is exported to countries outside of Africa, such as Vietnam or India, we see no reason for them not to be processed in the region that they are grown in instead. Some countries are taking a very active stance and banning or limiting these exports.

Q. Have you seen an increase in demand or interest in services between African countries? Which regions seem to be most active?
We have definitely seen an increase, though I'm not sure if it is driven by the implementation of the free trade agreement. Recently, buying cheap and efficiently from areas such as Turkey and China has become less popular thus allowing African trade to flourish, particularly in South Africa, Nigeria, and Morocco. It's too early to suggest that the free trade agreement is responsible for this increase, but we are optimistic that it will boost the African economy in the long term.

5.6 Transport and logistics

Fig. 46: Have you seen an increase of demand for providing transport & logistics services to other countries?



The need for better cross-border road and rail connections, plus other freight handling infrastructure, such as inland container terminals and customs offices, has been one of the main themes of this report. While airports and ports have benefitted from large scale investment to ease trade with non-African markets, too few links have been financed to connect national road and rail networks.

However, there is little doubt that demand for such infrastructural improvements is growing. A massive 88% of the CEOs polled for this report said that they had already seen an increase in demand for the provision of transport and logistics services to other countries. Demand set to rise further as the AfCFTA eliminates both tariff and non-tariff barriers to trade.

A few countries are clearly recognised as biggest sources of or destinations for trade in Africa, such as South Africa, Nigeria and Kenya. However, some of those countries that do not regularly appear in such lists have a potentially huge role to play. The lack of trade between East and West Africa has already been mentioned in this report. This is partly a function of distance and of the legacy of colonial era development and trade patterns.

The lack of rail connections and even highways between the two regions continues to pose a significant challenge. Developing such infrastructure would benefit the entire continent, including transit countries like the Democratic Republic of Congo and Central African republic but financing the required infrastructure, remains a huge challenge.

Fig. 45: What countries do you often transport goods in Africa to?

Top 10 countries

Fig. 47: What regions do you often transport goods to outside of Africa?

Europe 62.50%
Americas 37.50%
Middle East 37.50%

The geographical pattern of African trade is well known: with the main exceptions in South Africa and in Northern Africa, Africa tends to export raw materials and import processed and manufactured goods, mainly from Asia. Changing this pattern will require time but the AfCFTA can have a big impact. Of the CEOs we spoke to for this survey, none exported to Asia, underlining the one sided nature of that manufacturing relationship.

European markets were by far the most popular, targeted by 63% of our respondents, with the Americas and Middle East the next most popular. Given the fact that most of the world's population lives in Asia, it would benefit African companies if they could target consumer markets in that continent.

European and North American companies do manage to ship large volumes of higher cost manufactured goods to Asia, but much of this trade is based on trade in high value goods, so African firms face a challenge in breaking into most markets there. Existing shipping patterns also do not favour exporters as most shipping services that connect Africa and Asia are based on moving manufactured goods from the former to the latter on container vessels, with raw materials moving in the opposite direction on bulk carriers.

VIEW FROM THE TOP

Interview with **Jérôme Petit**

CEO, Bolloré Logistics, Africa

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A. An increase in intra-African trade would benefit our business, and we are optimistic about the AfCFTA. Similar regional trade agreements in Asia, Europe and North Africa have proven to be beneficial to businesses and we anticipate that the AfCFTA will follow suit. We operate in 48 countries across the continent and have 16 ports in the Western part of Africa. If our trade were to operate exclusively in Africa, we could ensure that imports and exports go from one Bolloré port to another Bolloré port, benefitting both ends of the same network and ensuring that the continent will be less affected by disruptions to global supply chains.

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VIEW FROM THE TOP

Interview with **Geoffrey White**

CEO, Agility Africa

Q. Would an increase in intra-African trade benefit your business?
A. From our perspective, we are in the process of building the infrastructure for intra-Africa trade. We are building warehouses across the continent, and we've seen every day our clients frustrations at how difficult intra-Africa trade is. Probably equally as important is that we have lost FDI for African companies. Potential investors, when they do their research, decide that individual national markets are not viable. I think the opportunities for moving to a continental free trade agreement, are going to be huge.

Q. What are the key challenges?
A. Everybody understands the opportunity of a free trade agreement – which today is a 1.3 billion population market, and the potential of being able to trade with 54 African countries. The challenge is managing expectations as to when that will work in practice. Free trade zones take decades to be fully operational. I think what needs to be clear is the timeline for when the actual free trade in African goods will become operational. And then for the non-tariff barriers perspective that need to be removed to be addressed simultaneously. But I think there's the latent demand and people are watching. They want to set up business and access African markets, but don't want to do it if they're stuck in a specific single country. So I think aligning and enabling them to understand when is the right time for them to press the button is key. The best advice is probably a three to five year investment to get them to be up, established and operational for when free trade becomes a reality.

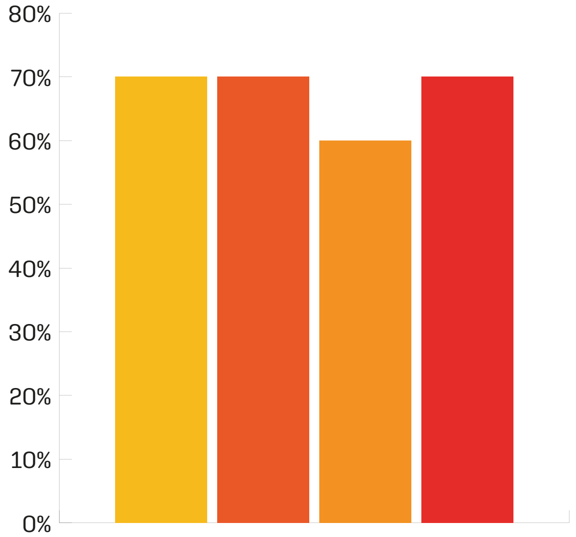
Q. Are you optimistic about Africa's economic outlook?
A. Yes, very, very optimistic about the economic outlook for Africa, specifically, the benefits of the free trade agreements and what that will bring to all countries, both economic powerhouses and smaller countries.

Q. In your experience, what are some of the favoured regions for exports from Africa?
A. Currently, many exports from Africa are commodity related. I think one of the great benefits of the AfCFTA will be that it will enable and facilitate adding value to raw materials. So you'll get people importing raw materials, being able to manufacture in the continent and move goods around the continent. And likewise, you'll be able to take raw materials that are sourced in the continent, from copper and cobalt through to agricultural produce, and add value by processing in the continent, and then exporting to global markets. But Africa still faces the logistics challenge, that moving containers and moving goods in and out of Africa is much more expensive than elsewhere in the world. However, McKinsey came out recently with a report that said that emerging markets will be responsible for 60% of the purchasing of all manufacturing companies a year. I think ultimately, the continental Free Trade Agreement just enables you, rather than coming into Kenya with a 50 million population market, today you can set up the manufacturing plant in Kenya, and with the current East Africa community day have 300 million population market. But potentially, with AfCFTA, you could set up a manufacturing business in Kenya and target a continent's 1.3 billion population market.

Q. Have you seen an increase in demand or interest in services between African countries?
A. No, we have not. I mean, some of the economic bloc's that exist currently have the benefit of barriers that are still there. The process is so simple. So we see a lot of pent-up frustrated appetite, but in practice, it is still very difficult to trade with continental neighbours. I suspect we're probably still five years away from the reduction of trade barriers, and for non-tariff barriers being eliminated, and the AfCFTA really having an economic impact. But from an SME perspective, and from a multinational perspective, the AfCFTA is going to have a multiplier effect of creating jobs and prosperity across the continent when it becomes operational.

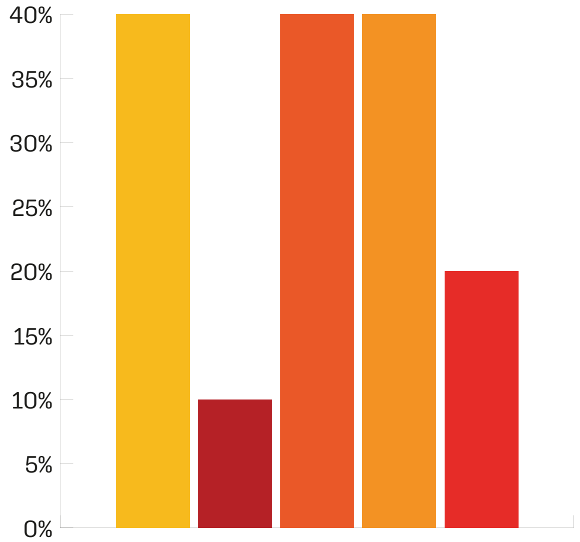
5.7 Manufacturing

Fig. 48: What more can be made to raise awareness and improve the perception of Manufactured goods made in Africa?



- Develop Online Manufacturers E-commerce platform 70.00%
- Export promotion activities 70.00%
- Improve International Media on African goods 70.00%
- Stronger lobby by African governments 60.00%

Fig. 49: Where are your main competitors based in?



- Africa 40.00%
- Asia 40.00%
- Europe 40.00%
- Middle East 20.00%
- Americas 10.00%

Manufacturing is one of Africa's biggest weaknesses but also one of its greatest hopes. The sector accounts for just under 10% of African GDP, a small percentage by international standards. Yet rising labour costs in East Asia, particularly in China where factory worker wages were increasing by 12-15% a year prior to the Covid pandemic, could allow African producers to compete. The big obstacle, however, is the lack of infrastructure required to support manufacturing in most African countries, including with regard to transport, power and water capacity.

Beyond such infrastructure, much can be done to raise awareness and improve the perception of goods manufactured in Africa. Our CEOs rated four factors of roughly equal importance: export promotion activities, such as trade fairs; developing online e-commerce platforms for manufacturers; and stronger lobbying by African governments. The fourth factor – improving international media coverage of African goods – will be far harder to influence from within the continent. However, international perceptions of African art and the creative sector have greatly improved over the past decade, so there is no reason to believe that the same cannot be achieved with manufactured goods.

The African manufacturers who took part in our survey have as many main competitors based in Asia and in Europe as in other parts of Africa. This partly reflects the limited size of the African manufacturing sector but also the continent's relationship with Asia and Europe.

The U.S. and to some extent Canada traditionally had a similar economic relationship with Latin America as Europe has with Africa: importing raw materials and exporting manufactured goods. However, much of Latin America's economic growth over the past 20 years has been built on manufacturing outsourcing from North America, as U.S. firms first began producing low cost items further south and then more high value goods, such as automotives. Africa must hope that it can replicate this success while also exploiting rising labour costs in Asia.

VIEW FROM THE TOP

Interview with **Farouk Zouhir**

Founder & CEO, Sancella Group

Q: Will an increase in intra- Africa trade benefit your business?
A: Yes, it will, because we are currently suffering from custom duties between countries, specifically Tunisia and other African countries. And we are we are industrially produced and of course, exports are important to us. So, yes, definitely it will, it will be beneficial.

Q: But what are the key challenges your business faces when trading with others in the continent?
A: Custom duties is one problem. Logistics is another. It's very difficult to ship from Tunisia to other African countries, especially by sea. Because we ship by sea. So we have our products are quite heavy, and they take a lot of space. So we need to ship by by sea, it's so difficult to ship Western and Central Africa.

We also have restrictions in terms of various barriers, like registration, some of the products have to be registered before we can send them to some countries. All these processes are very cumbersome sometimes. We also have issues with the banking system. It's difficult to get paid and also to pay suppliers sometimes. Tunisian banks are not well represented. And communication between Tunisian banks and the rest of the Africa is not perfect.

So this is also challenging, in addition to the loans we have here that are very, let's say, complicated with respect to currency transfer and these kind of things. So these are the main challenges.

Q: What kind of impact do you think the trade agreements will have on your business?
A: If the agreement leads to some concrete changes in terms of customs duties, and the free circulation of goods, it will have a very positive impact for us.

But the thing is, I don't know if the political will happen. We see, for example, Tunisia and Algeria, which are two neighbouring countries sharing a border and we still have customs duties in Algeria imposed on products. We are not really optimistic that this agreement will be properly executed. So this is something that is still a challenge. I guess it will still take time.. The question is, is there the political will for this agreement so that it is properly executed?

Q: How important is e-commerce to you?
A: We are active in in North and West Africa, mainly in Tunisia and Morocco, and e-commerce is growing quite fast. But it's still a small proportion of our trade – it's probably between 2% to 3% of our business. So it is growing but it's not yet at the moment very important when we talk about numbers.

African Business: What are the key infrastructure investments that would enable a stronger regional distribution for your products?
A: More shipping lines between our production sites and our export destinations – mainly Tunisia to Morocco and to West Africa. This is something very important.

Also improvements to roads in some African countries to make distribution easier. It's sometimes a challenge to transport goods from, for example Dakar, to another city in Senegal . So if the road infrastructure was improved, it will help get our goods to markets.

Some agreements on the banking system to make transfers and exchanges easier.

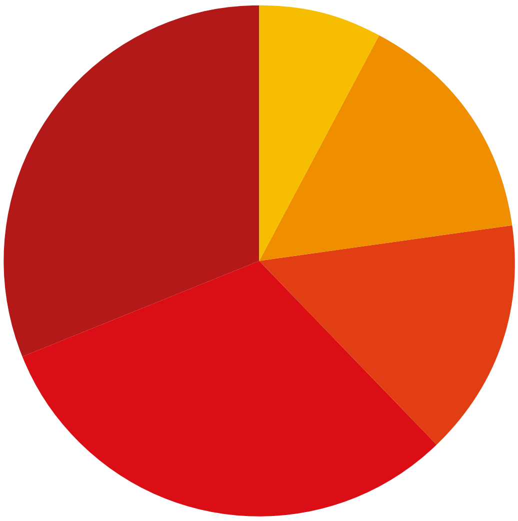
Q: Given your experience, how do consumers in the continent view African brands versus international brands?
A: I would say, at the moment, international brands are still more powerful than local or African brands. It is changing a little bit because in some areas like North Africa, purchasing power is going down. So now consumers are starting to consider local, less expensive brands.

In West Africa and Central Africa, where we are active, international brands are still much more powerful than then local brands. But we also have to seek to say that local brands are developing but they are limited in number

When we have more production in Africa, more local players that will develop brands. This is what we've seen in in Tunisia and Morocco, where 15-20 years ago, it was international banks that were dominant. Now local players are getting better and better and that is changing the situation.

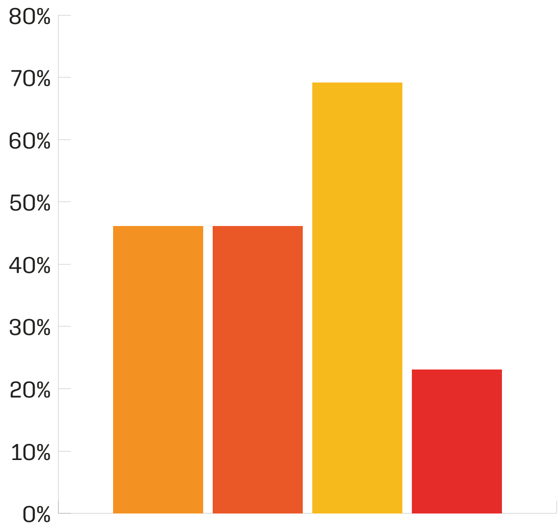
5.8 E-commerce

Fig. 50: How important is e-commerce to your business at the moment?



Not Important 8% Somewhat Important 15%
Moderately Important 15% Important 31%
Very Important 31%

Fig. 51: What key infrastructure investments would enable you to become a stronger regional distribution hub for your products?



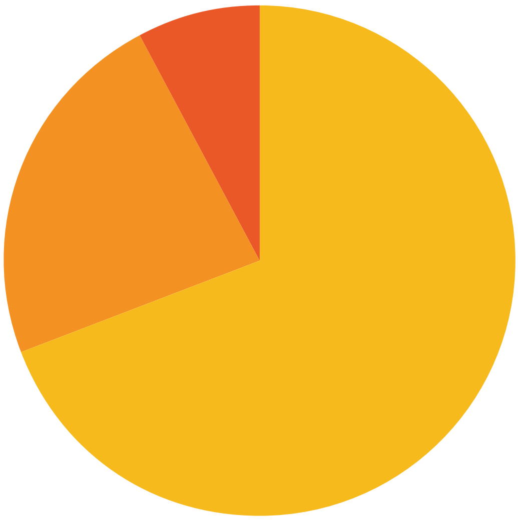
Roads 69.23% Ports 46.15%
Airports 46.15% Train 23.08%

African economies have already begun to develop substantial e-commerce sectors. An impressive 62% of our respondents say that e-commerce is already important or very important to their businesses and this proportion is set to increase markedly over the next few years. Only 8% said it was not important.

These results may have been influenced by the fact that our survey was completed online and therefore attracted those CEOs who are more comfortable with online interactions. Nevertheless, it highlights the growth in the e-commerce sector in Africa, with international and home-grown platforms playing an increasingly important role, both in marketing and selling goods to retail businesses and in business-to-business transactions. It will be interesting to see how these figures develop over the next few years.

Improving road infrastructure is unsurprisingly the transport upgrade most favoured by African e-commerce companies, as transporting goods to homes, businesses and other distribution points usually requires road transport. Inadequate highway networks in most of Africa slows down distribution over long distances, while the poor condition of many local tarmac and unsurfaced roads in both cities and rural areas makes it difficult to deliver goods to consumers. The number of CEOs calling for better port and airport infrastructure to enable them to become more important regional distribution hubs is perhaps more unexpected.

Fig. 52: Where do most of your products come from?



In Country 69.23%
Other Countries outside Africa 23.08%
Other Countries in Africa 7.69%

One of the most heartening results of our survey was that 69% of African e-commerce providers were able to source most of their products from within their own country. This process will surely support the emergence and growth of small scale African producers. Yet at the same time, just 8% of e-commerce firms buy most of their goods from other countries in Africa in comparison with 23% who import from outside the continent.

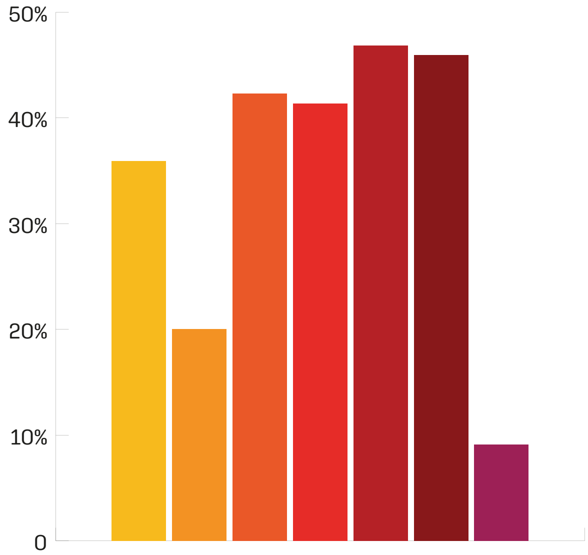
This showcases the lack of cross-border trade in Africa that the AfCFTA is designed to counter. There are so many potential markets for African manufacturers within their own continent but so few are able to exploit this potential. The free trade area could provide a solution but it will also take corporate innovation and government support for the single market of 1.3 billion people to become a reality.

Conclusion

Fig. 53: How optimistic are you on Africa's economic outlook for 2022/23?

Not optimisitc 4.09% Somewhat optimisitc 15.91%
Moderately optimisitc 29.55% Optimisitc 31.36%
Very optimisitc 19.09%

Fig. 54: What key events can potentially slow down Africa's economic recovery?



New Covid-19 infection wave 35.91%
Strict lockdown rules 20.00% Russia/Ukraine 42.27%
Commodity price volatility 41.36%
Higher inflation prospects 46.82%
Africa government debts burden 45.91% Other 9.09%

Despite overwhelmingly positive sentiment towards the AfCFTA, the agreement will not be a panacea for economic development on the African continent. It is one piece of the jigsaw and a very important one at that but improving political stability, resolving conflict, tackling inflation and bringing sovereign debt under control would all improve the continent's trading and economic prospects. Yet given the wide array of threats, it is heartening to find that so many African business leaders are positive about the future prospects for both their own businesses and wider economic development.

The African business community is cautiously optimistic about the prospects for the African economy over financial year 2022-23. As figure 53 shows, just 4% of the CEOs who participated in our survey said that they were not at all optimistic, with 50% describing themselves as either optimistic or very optimistic. The latter figure is a big fall from the 67% recorded in our survey last year, at the height of the pandemic. Nevertheless, these results are very encouraging, particularly given the range of factors that rein in growth, from the emergence of a new strain of Covid-19 to ongoing disruption in international supply chains and the impact of the war in Ukraine on the global economy.

Yet none of these global factors are rated as being the biggest threats to the continent's economic recovery. Figure 54 reveals that higher inflation and African sovereign debt are considered to be the biggest challenges, by 47% and 46% of respondents respectively. Commodity price volatility, which was cited by a further 41%, creates more uncertainty around government revenues and customer costs, and also makes it more difficult for investors to know when to commit to new projects. It is perhaps not surprising that domestic problems are viewed as greater challenges to our participants than global trends given that most of them lead SMEs rather than large corporations.

Survey optimism, challenges & policy recommendations

The AfCFTA is designed to change the structure of African economies by encouraging them to trade much more with each other, eroding the current reliance on exporting raw materials and importing processed and manufactured goods. This will make them both more resilient and allow them to keep more of the benefits of production and supply chains within the continent. Boosting cross-border trade should also promote investment in Africa's borderlands, which are currently among the most underdeveloped parts of most African states. This will have direct economic benefits but will also increase political stability and strengthen security, as countries that trade more with each other are likely to put more effort into maintaining good bilateral relations.

The results of our survey are clear. Firstly, there is huge support for the AfCFTA and the potential benefits that it could bring. Business leaders are generally optimistic that the free trade area will benefit both their own companies and African economies more generally. Secondly, most of the CEOs who took part in the survey already export to other African markets, although of course exporters may have been more interested in taking part in the survey than other businesses.

Thirdly, the lack of cross-border transport infrastructure makes it difficult to export goods to other African countries. In addition, inadequate administration at border crossings and time consuming regulations both act as deterrents on trade. Fourthly, despite the digital banking revolution, it is still difficult to ensure payment for exports, although the growing use of digital banking systems, with Afreximbank's Pan-African Payment and Settlement System now also on the horizon, offer potential solutions, providing there is sufficient support from banking sector regulators.

Finally, the lack of information on the details of the AfCFTA and on potential markets, opportunities and trading partners is the biggest constraint on exports, according to our respondents. This would be the easiest and cheapest obstacle to overcome, so provision of much greater information should be made a priority by the AfCFTA Secretariat and member governments.

Ultimately, cooperation between countries is the only real solution to the lack of intra-African trade and the need for more rapid economic growth. Only cooperation will erode trade duties and build new road and rail links. Only cooperation will overcome mistrust and fear over the introduction of open trade. And it is only cooperation that will allow the implementation of the many thousands of tiny changes to trade regimes that will enable the world's largest free trade area initiative to become a success.

Policy recommendations

- With SMEs dominating Africa's trading landscape it is imperative to avail trade information and market opportunities as well trade facilitation services
- Fully functioning one-stop shops for traders will enable businesses, particularly SMEs, to benefit from AfCFTA.
- Investments in trade enabling infrastructure, particularly road infrastructure, is key to facilitating intra-African trade in the immediate and short term
- Facilitating the formalization of ICBT through easing cross border payments and customs facilitation through the value chains from producers to large
- Facilitate access to credit and long-term financing mechanisms.
- Facilitate the free movement of people to unlock trade potential and opportunities
- Building SME capacity through export support services including complying with quality standards, packaging requirements and customs procedures

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.

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