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

Value Chain Diagnostic
Context and motivation

Two coinciding recent developments:

COVID-19 pandemic and resulting economic downturn
- Inputs into essential supplies available on the continent, transformation used to take place elsewhere
- Need for a resilient African economy to resist external shocks

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

Value chains with high value addition, combining countries in different regions:
- Key drivers for economic recovery, resilience and integration on the African continent
- Move towards more value-added trade and more diversified export basket

But where should governments and businesses channel their investment and efforts?
Value chain diagnostic: Key questions

Which continental value chains are the most promising for Africa…

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

…and what is needed to make them work?

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

→ Objective: create the evidence base to:
  → Determine priorities for change
  → Identify ground for common projects to contribute to a resilient, sustainable economy in Africa
Value Chain Diagnostic: Innovation

• **Synergies** with existing efforts
  - Build upon existing work
  - Consultations with the African Union, UNECA, UNIDO, the OECD and other institutions

• Adding **two key innovative elements**
  1. **Data-driven analysis**
     - Combine trade information and input-output analysis
     - Assess availability of inputs and outputs on the African continent, and feasibility of developing value chains across several African countries
  2. **Extensive consultations with hundreds of African firms**, sector experts, and other stakeholders
Value Chain Diagnostic: Process

**Identify feasible value chains**
- Innovative methodology combining trade data and input-output tables that capture the interaction between different economic sectors

**Select promising value chains**
- Consultations with AU, EU, ITC sector experts, African private sector experts
- Broad literature review, incl. UNDP-AfCFTA study
- Promising VCs identified based on economic and strategic considerations

**Map countries into value chains**
- Additional analysis and indicators

**Provide evidence on constraints & investment needs**
- ITC Business Survey and related consultative process

**ACTION POINTS**

- Interviews with value chain participants across the continent
- Structured consultations with other stakeholders
- Web-based consultation: www.ntmsurvey.org/africa
- > 900 interviews and responses so far
1. Identification of feasible value chains

Table: RCA in output vs. No RCA in output

<table>
<thead>
<tr>
<th>RCA in input(s)</th>
<th>RCA in output</th>
<th>No RCA in output</th>
</tr>
</thead>
<tbody>
<tr>
<td>RCA in input(s)</td>
<td>14</td>
<td>63</td>
</tr>
<tr>
<td>No RCA in input(s)</td>
<td>15</td>
<td>323</td>
</tr>
</tbody>
</table>

*RCA = comparative advantage for 1) Africa as a whole and 2) at least 5 countries
2. Selection of promising value chains

- Stakeholder consultations, literature review and additional quantitative indicators to **deepen the analysis** and **identify additional promising sectors**

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

- **94** promising value chains in **24** sectors
- Most in processed food (28) and machinery and electricity (11)
- **Up to 33** African countries can connect to each value chain (inputs, outputs, or both)
- On average, an African country can connect to **31** of these value chains
- In **73** value chains, Africa has enough immediate inputs to cater to regional and international consumers
- These are just the opportunities that already exist – with the necessary support, they could grow much further

Number of value chains in which the country has a comparative advantage or export potential > $10 mn

TRADE IMPACT FOR GOOD
3. Mapping of countries into value chains

Example: Motor Cars

4th most exported product from Africa

Africa’s export potential
- To the world: $10.3 bn
- To Africa: $1.1 bn

✓ 5 sub-regions with potential
✓ 4 potential output providers
✓ 23 potential input providers, among them 8 LDCs

Inputs (221)
- Iron/steel products
- Engines
- Motors
- Batteries
- Lighting/sound equipment
- Wipers
- Bumpers
- Chassis
- Brakes
- Safety belts
- (…)

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

Example: Pharmaceuticals

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

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

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

**Inputs (109)**
- Chemical and pharmaceutical inputs

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

- AfCFTA: Unprecedented business opportunities in Africa
- Potential for 94 promising continental value chains including 5 or more African countries
- But these value chains are not fully developed yet
  - Immediate inputs are available to serve domestic and foreign consumers in 73 value chains… but African producers source only a small share of inputs from Africa

- What is needed to make these value chains work?
  - Step 4 of the value chain diagnostic: Evidence on constraints & investment needs
  - Stay tuned for preliminary findings from consultations with entrepreneurs from all over the continent!