

MADE BY AFRICA - CREATING VALUE THROUGH REGIONAL INTEGRATION

◦ Value Chain Factsheet ◦

Automotive

Motor Vehicles and Parts
(including batteries and leather)

INPUTS: 221

- Iron/steel products
- Engines
- Motors
- Batteries
- Lighting/sound equipment
- Wipers
- Bumpers
- Chassis
- Brakes
- Safety belts



One of the sectors with the highest growth potential for intra-African trade

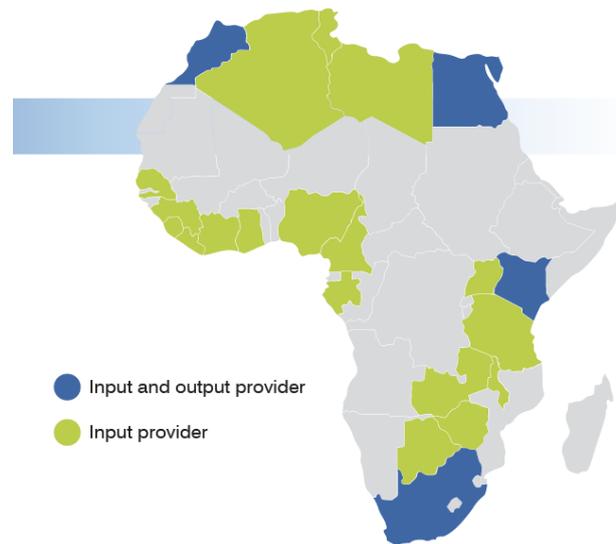
The African automotive sector has an **export potential of €9 billion** by 2026, nearly 10% of which is on the African continent. Motor cars are Africa's fourth most important export product, accounting for 2.1% of total exports. Automotive is among the sectors with the highest growth potential for intra-African trade. This is the case under current tariff conditions, but even more so under the AfCFTA: Under full tariff liberalization, intra-African export potential in the sector could increase by €3.7 billion.

Vehicle manufacturing in Africa is currently very limited and concentrated on few countries. In addition, **the sector currently sources only 3% of its inputs from Africa**. Connecting the countries that could produce inputs for the value chain with those that could produce the outputs could further boost the sector's potential and create decent manufacturing jobs across the continent.

Opportunities to reduce trade deficit and create links to other value chains

Overall, African imports of motor cars are significant at €14.3 billion and are projected to increase by more than 60% as of 2026. The continent's **trade deficit for motor cars is €5.8 billion**, imports being 70% higher than exports. This negative trade balance and expected import demand growth create incentives for **exploiting the potential for domestic car manufacturing** and strengthening regional value chains.

The case for developing motor cars value chains is further reinforced by its linkages with other promising sub-sectors and value chains such as leather and leather products as well as electric machinery (batteries). For both these value chains, ITC estimates that 22 and 16 countries respectively could provide inputs and outputs.



5

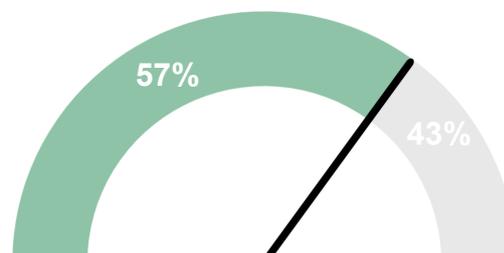
Sub-regions with potential

4

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

23

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



The sector reached only 57.4% of its total export potential of €9 billion

23 African countries, including 8 LDCs, could produce inputs for the automotive value chain. Four of them – Egypt, Kenya, Morocco, and South Africa – competitively assemble the final product.

Very low awareness of existing trade agreements' impacts and even their existence

While the African market is large and promising, **87% of interviewed businesses have not seen or are not aware of any impact from any existing trade agreement with other African countries.** Compared with other pilot sectors, businesses in the automotive value chain are also relatively less optimistic about the effect of a continental agreement: only 60% believe that such an agreement would boost regional trade in the sector. **About half of the respondents in the sector are not aware that such an agreement exists already,** many others are uncertain about what exactly it entails

and about the implications of AfCFTA for their business operations.

Female employment and women leadership of firms in the sector remains to be developed



Less than 10% of interviewed businesses are owned or managed by a woman, which is a significantly lower share of women-led businesses than in other sectors. In every third company women constitute less than 10% of the workforce – with some employing no women at all. On average, only 28% of employees are women. Only one in five companies employ more women than men.

What prevents businesses from exploiting the value chain development potential?

Sector-specific challenges

1

Visions and strategies for sector development have to date mostly been formulated with a national focus and for few countries only, with a continental vision for the sector emerging more strongly only recently, the private sector being an important driver therein. The conclusion of AfCFTA creates an important momentum in this context to further intensify efforts in that direction.

2

As a result of the national focus: fragmented production of finished products lacking the necessary scale to make the production particularly of high-quality technical components economically viable leading companies to source inputs primarily from other continents.

3

Despite the abundance of raw materials such as copper, lacking refinement possibilities on the continent. Currently, most quality transformation of raw materials happens outside the continent and businesses source refined inputs from Europe, the United States and Asia.

4

Limited capacity to comply with complex quality and origin criteria and related documentation requirements. High levels of investment and technical know-how are required to be able to start manufacturing at the level of quality that is needed for the production of modern and safe cars. Businesses deplore the scarcity and hence cost of specialized, high-skilled labour (e.g. engineers), limited access to modern technology, and difficulty in accessing the significant amount of investment that is needed for research and development to ensure and further improve quality production, both of inputs and finished products. Know-how in the sector is hence reportedly mostly owned by large international brands. Detailed documentation requirements to demonstrate compliance with origin criteria lead to only few companies being able to trade under existing preferential schemes, mostly as part of value chains driven and controlled by large OEMs.



There is a lack of validation facilities and automotive accredited laboratories. We certify our products in Spain and Thailand.

5

Limited infrastructure to certify against complex origin and quality criteria, e.g. for engine emissions or the safety of seat belts. Sophisticated production processes require corresponding institutional capacity, among others in customs administrations, standards bodies and laboratories, to certify against and control quality and origin criteria. Differing standards across countries further complicate value chain integration across borders.

6

Limited demand for new cars influenced both by the high cost of production of new cars (see factors above) and low price of imported used vehicles due to incentives given by current tariff and tax structures, rules of origin and the inadequate enforcement for second-hand cars of quality requirements, including environmental standards.



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

7

Challenges related to waste disposal. Proper disposal of hazardous waste derived from production represents a challenge for most interviewed companies along the value chain. Lack of information on proper waste disposal requirements, inadequate waste disposal systems, and the absence of effective environmental regulations are contributing factors. Furthermore, there is high cost associated with waste treatment and disposal, which requires exporting waste to other countries where national infrastructure is missing.



There is too little demand. We previously tried to start business with some OEMs in Africa, but their required quantities are very small and didn't fill a full container load (FCL). Given the nature of our product (hazardous), we cannot do less than container load (LCL)

Limited readiness, in terms of strategies, policies, incentives, investment, infrastructure and production technology, to face the trend towards more environmentally friendly vehicles, including electric cars and vehicles using green hydrogen fuels. While businesses and other stakeholders agree that such vehicles represent the future also for the African market, the (few) companies that are currently involved in the production of electric and solar vehicles report being considered as high-risk investments and hence face even more problems than others when it comes to accessing finance to start, maintain, improve or expand production.



Yes, we produce electric vehicles. But people still largely prefer fuel cars. This is partly because the government has not put in place the needed infrastructure to assure users that their vehicles can be adequately powered. For the vehicles we sell, we build our own charging stations .

What needs to change?

Preliminary recommendations

AFCFTA represents a milestone in creating an enabling environment for the development of the automotive sector, directly addressing some of the abovementioned challenges, notably linked to market size and ease of trade. As such, AfCFTA has the potential to significantly contribute to making high-quality cars, including both new vehicles but also used cars that abide by quality and environmental standards, more affordable for clients on the continent.

To realize the full potential for automotive value chain development and integration in Africa, additional efforts will however be necessary. Key recommendations include to:

1

Accelerate the formulation and adoption of an African Automotive Development Plan that clearly articulates the vision for the sector, including on which type of cars Africa would want to privilege in the light of rising air pollution, climate change and increasingly congested cities, and spells out the corresponding implementation strategy for the further development of the industry on the continent. Embed the sector development plan in a wider vision for the future of mobility in Africa. In the Plan



In my opinion, to have a significant exchange between countries in Africa, there are two possibilities: 1) Development of the automotive parts and components market through the establishment of OEMs or tier1 suppliers in Africa. 2) Develop our own brands. In both cases we have to invest in modernization, production capacity and industrial infrastructures.

- Determine whether sector development objectives should be achieved solely by **attracting investments of OEMs** and tier 1 suppliers driving the local production of components and assembly of the finished product or to what extent it may be feasible to also **(further) develop own brands**, building on and scaling some



We must push OEMs to direct production lines of certain models to Africa, which will logically pull afterwards the auto parts components manufacturers. Also, the OEMs should extend their approved lists of sourcing raw materials.

existing successes of African brands serving niche market segments.

- Give due consideration to the development of supporting infrastructure and services, such as aftersales and repairing services, recycling and waste management systems, including for batteries, and production of green hydrogen fuels.
- Define a strategy to increase female employment as well as the presence of women-led firms in the value chain

At the national level and where relevant, update existing national strategies for the development of the automotive industry to align to the continental vision

2

Invest in and step up the current efforts, led by ARSO and supported among others by Afreximbank, to **harmonize automotive sector standards in Africa**. At the national level, adopt and implement the standards once available

3

Stimulate the green transition.

- **Devise a strategy to support the gradual shift towards manufacturing of low emission vehicles** through awareness raising, skills development, necessary investments in infrastructure and technological advancements as well as conducive policy and regulatory frameworks.
- Strengthen, effectively enforce and work towards harmonization of legislation, particularly safety and environmental requirements, that **regulates the imports of used cars**. Introduce and enforce **vehicle emission standards**, including for imported used vehicles and consider fiscal incentives for low and no emission vehicles, both new and used.
- **Facilitate investment in the charging and hydrogen fueling infrastructure for electric and hydrogen vehicles**, e.g. through tax incentives or rent-free land for charging stations.
- Invest in **environmentally safe recycling facilities**, including for used lead-acid and lithium-ion batteries, with strong pollution control mechanisms and related oversight to minimize the currently widespread illegal recycling practices that are damaging to human health and the environment.
- **Improve the quality of fuel supplied** and ensure that the Sulphur content is reduced to levels compatible with Euro IV/Euro V engines.

- Develop a strategy for recycling of end-of-life vehicles (ELV) that emphasizes awareness raising around eco-friendly management of ELVs. Establish a regulatory framework that encourages proper waste management and recycling of automotive shredder residues (ASR) that are landfilled and implement policies around vehicle deregistration. In the longer term, plan to optimize car manufacturing processes such that the share of ASR in ELVs is reduced. With adequate technical support and recycling technologies, this will contribute to prevention of oil spills and leaching of other hazardous substances to the environment from ELVs, much necessary in Africa where a large proportion of vehicles sales are second-hand.

4

Enable the local transformation and refinement of raw materials, such as copper, leather, iron, steel, aluminium, cobalt and rubber, into value-added products that can be used in the manufacturing of components and finished cars – on the continent and beyond

5

Strike the delicate balance in defining rules of origin such that they encourage investments in local manufacturing (e.g. through high local content requirements) while at the same time enabling preferential trade despite their complexity. The latter hinges upon the clarity of the definition of rules, leaving little room for interpretation for both businesses and certifying and controlling agencies, including related to required transformation processes to obtain originating status for non-originating inputs, cumulation and origin-related documentation requirements to prove compliance. Build capacity of companies to comply with documentation requirements around origin certification. Raise awareness of participants along the value chain on how the rules at the continental level stand in relation to the ones that have been agreed under regional agreements as well as those defined in existing trade agreements with third countries outside the continent.

6

Improve and strengthen market information systems at the regional level by establishing coordinates of potential regional input providers on a single platform and organizing sector-specific regional events and trade fairs to bring together businesses from across Africa.

7

Set up industry-wide research and development facilities and networks, including cooperation with universities, to encourage new technology adoption, quality control, lean manufacturing and computer aided designs. Set up specialized training and incubation centres and skills development institutions to train in relevant disciplines including engineering, design, manufacturing and quality. Promote knowledge transfer through cooperation with foreign and international institutions as well as with OEMs and through dual vocational trainings with the industry, to build a pool of qualified and specialized personnel.

8

Review tax and tariff structures on inputs and final products. Where feasible, accelerate the implementation of tariff reductions foreseen under AfCFTA.



What support is needed to develop for us to do more business in Africa? It is not a question of one specific support but rather the creation of a whole ecosystem. Everything else will follow .

9

Introduce tailored vehicle financing schemes and car loans to enable more clients to afford high-quality cars.

Other value chains in focus:



Moving forward....

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