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POLICY BRIEF No. 182

Fostering investment and inclusivity in the African Continental Free Trade Area

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As the African Continental Free Trade Area (AfCFTA) enters its fifth year, the rules of origin for trade in goods are still being finalised, but the institutional architecture is nearly complete with increased capacity, technical committees and new supporting instruments.

Despite this progress in AfCFTA 'policy supply', meaningful trade under the AfCFTA is still to begin. For this to happen, there must be 'policy demand' from the private sector to use the agreement's range of protocols in shaping their investment and trade decisions and relations. Private sector engagement has so far varied across member states, with some demonstrating robust integration of business feedback while others lag in private sector consultation and involvement.

Recommendations focus on enhancing private sector engagement and thus the use and impact of the AfCFTA through:

- Increased awareness and practical application of AfCFTA protocols.
- Sector-specific support aligned with AfCFTA's goals.
- Strengthening the roles of AU, RECs and the AfCFTA secretariat in national strategy alignment.
- Promoting regional value chains with strategic financing and partnerships.
- Improving the investment climate to facilitate cross-border trade and investment.

Ultimately, AfCFTA's success depends on robust implementation, dynamic private sector involvement and tailored strategies to meet diverse economic needs across Africa.

Introduction

2023 was the African Union (AU) year of 'Accelerating Implementation of the African Continental Free Trade Agreement (AfCFA)'. While some progress was surely made, as this brief will discuss, in an address to Heads of State in early 2024, AfCFTA Secretary General Wamkele Mene cited the need for heads of state to ensure that "the implementation of the AfCFTA is not only accelerated but also effective and sustainable" (Mene 2024a). The 37th Heads of State Assembly in February 2024 re-elected SG Mene to lead the AfCFTA Secretariat for a second mandate as the agreement enters its fifth year since coming into force.

The AfCFTA has made a lot of progress on an institutional level. Though the finer points of the rules of origin for trade in goods are still being finalised, the institutional architecture is nearly complete. The AfCFTA Secretariat is increasing in capacity, technical committees have been formed, accompanying instruments including an AfCFTA Adjustment Fund and the Pan African Payments System have been launched, and three annual AfCFTA-REC coordination meetings have taken place. Beyond trade in goods and services, dispute settlement and customs, AfCFTA protocols have also been adopted on investment, intellectual property, competition, digital trade, and on women and youth. As such, all foreseen AfCFTA protocols have now been agreed and adopted.

Although the AfCFTA is a trade agreement, its ambitions go beyond mere tariff liberalisation to include industrialisation through regional value chain creation. In that regard, the AfCFTA investment protocol is particularly important in complementing trade in goods and services, seeking to encourage firms to invest in serving the newly connected continental market, paving the way for a 'private sector supply response' to the opportunities of the market-required investment. But for this to happen, much will depend on how the AfCFTA agreement and its protocols are implemented and responses to the business environment challenges that companies often face, whether related to credit access and regulations or the political economy dynamics that undermine how trade and investment policies are designed and applied in practice.

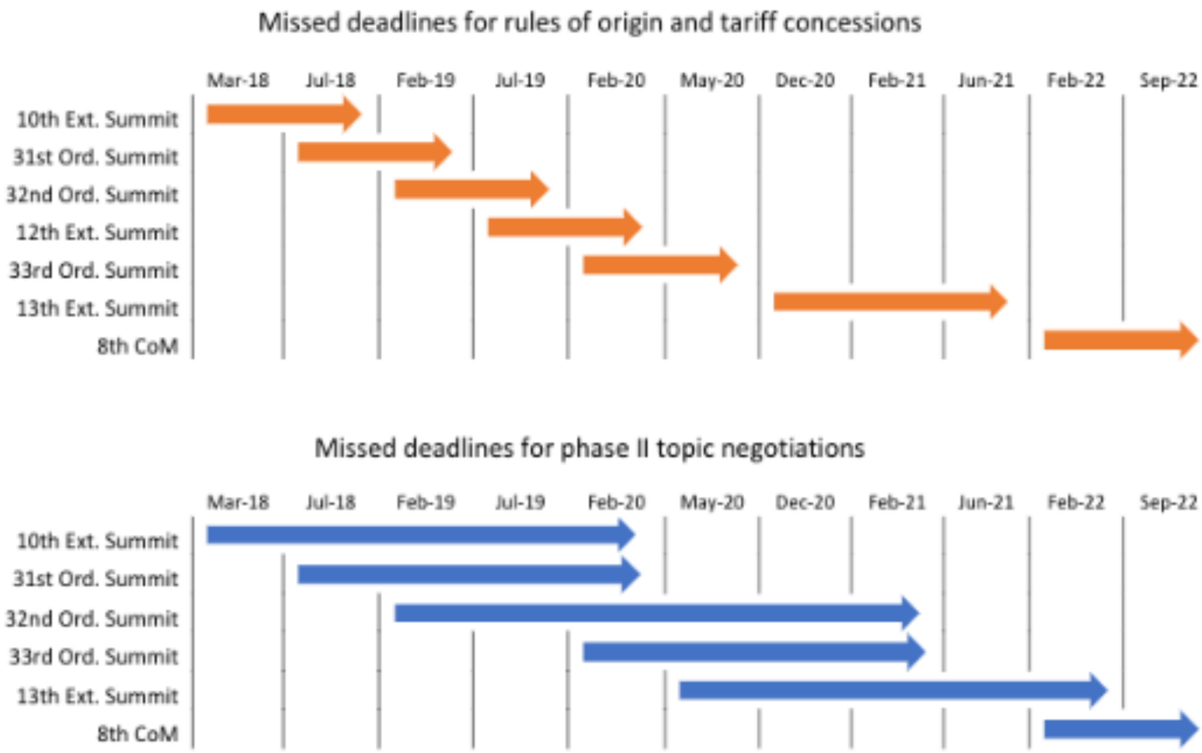
This paper discusses the following challenge: how can the full AfCFTA framework be put into practice to include the private sector, especially SMEs? Section 2 provides a brief state of play of the AfCFTA policy process in terms of Mattli's (1999) framework of 'policy supply' - the creation of the institutional frameworks - and 'policy demand' - the demand from users, in this case, the private sector. Taking this further, section 3 looks at the perspectives, challenges and pathways to enhanced private sector participation in the broader AfCFTA project. Section 4 offers some brief conclusions and recommendations for policymakers and international partners such as the European Union (EU).

State of play – linking AfCFTA policy 'supply' and 'demand'

The AfCFTA process is at a crossroads. While "the ideological battle for the AfCFTA has been won" (Luke 2023) and much progress has been made in establishing institutional structures and negotiating protocols (Luke 2023), meaningful trade under the AfCFTA is still to begin. To employ the terms used by Mattli's (1999) historical overview of regional economic integration, policy 'supply' must still be met by 'demand' from businesses (Mattli 1999). The importance of private sector 'policy demand' for the AfCFTA is further underlined by Mold (2023) in his attempt to draw lessons for the AfCFTA from the EU experience: "the pressure for [regional policy] coordination stems largely from the desire of big firms to establish regional production networks to reduce costs and maintain international competitiveness". That suggests that, in addition to policy frameworks to reduce trade barriers and statements on the desire to create regional value chains (RVCs), as laid out in the AfCFTA Agreement, there must be demand from firms to use the agreement in shaping their investment and trade decisions and relations.

But 'policy supply' goes beyond agreements to implementing them. "Even willing political leaders may be unable to supply regional rules, regulations, and policies because of collective action problems" (Mattli 1999). Indeed, despite high levels of political buy-in, the AfCFTA process has faced many delays, as shown in Figure 1 (Luke 2023). Nonetheless, with political momentum still high, and the institutional frameworks now in place, implementation and private sector utilisation can now begin in earnest.

Figure 1. AfCFTA Missed deadlines



Source: Luke 2023

This section summarises that progress before looking in more detail at some of the key challenges to be faced in advancing implementation of the agreement and thus further engaging with the private sector to turn AfCFTA from ambitions into reality.

AfCFTA institutional 'policy supply'

Signed at the African Union Summit in Kigali March 2018, the AfCFTA entered its operational phase in June 2019 when ratifications reached the requisite 24 countries. That brought the agreement legally into force. Although trade in goods under the agreement was formally launched on 1 January 2021, actual trade has been slow to take off in practice. This is in part due to continuing negotiations on the rules of origin - these have been agreed for 92.3% of tariff lines, accounting for 95.5% of intra-African trade (Mene 2024a), remaining just short of the 97% of tariff lines to be liberalised under the agreement (with 3% of tariff lines excluded) (Mene 2024a).

At the same time, a range of countries have begun using the agreement under the so-called Guided Trade Initiative (GTI). South Africa recently joined this initiative with its first shipment of machinery, agricultural products, electronics, and refrigerators destined for Kenya, while in return Kenya is expected to export tea, coffee, fruits and vegetables in the coming weeks under the same initiative (The East African, 2024). The GTI pilot scheme, launched in October 2022 and initially covering just eight countries and a limited number of goods, was set up to test trade procedures using the AfCFTA, with plans to expand the initiative to some 31 countries (Mene 2024).

Much of the envisaged AfCFTA institutional and legal architecture is taking shape. The AfCFTA Secretariat counts 150 staff, 52% of whom are women (Mene 2024b). Beyond the Protocols on Trade in Goods and Services and on Settlement of Disputes adopted along with the AfCFTA Agreement itself in 2019, the protocols on Competition, Investment and Intellectual Property were adopted in February 2023, with those on Digital Trade, and Women and Youth Protocols adopted at the Au Summit in february 2024.

The past years have seen the launch of numerous supporting measures in the form of the Pan-African Payment System to lower cross-border payment transactions costs; the AfCFTA Adjustment Fund, launched in March 2023 and hosted by Rwanda to provide support to negatively affected state parties to the agreement; the AfCFTA Business Forum, first held in March 2023; the Non-Tariff Barrier Reporting Mechanism that began operations in 2020 (UNCTAD 2022), and the Dispute Settlements Body (Mahamdou 2023). A growing number of countries are setting up National AfCFTA Implementation Committees (Sebahizi et al. 2023) and designing AfCFTA Implementation Strategies (UNECA 2024). All of these represent different complementary aspects to the protocols on trade in goods and in services that lie at the heart of the AfCFTA, highlighting that more than a trade agreement, the AfCFTA is "an ecosystem of programmes and activities to support trade in Africa" (Luke 2023).

The AfCFTA Investment Protocol is seen as particularly important for promoting private sector engagement. Beyond a shift from investor protection to investment promotion and facilitation, and a commitment to establish a Pan-African Trade and Investment Advisory Council with national focal points, the protocol also seeks to balance investor and state rights, and to harmonise existing regional investment protocols "to achieve alignment with the Protocol within a period between five to ten tears from the entry into force of this Protocol" (AU 2023). This approach differs from the protocol on trade in goods that seeks to build on *existing* regional trade agreements. The investment protocol is also notable in its references to "investments to support regional climate mitigation and adaptation programmes" (AU 2023), where such climate-related language was absent in other AfCFTA protocols. Actors such as Afreximbank increasingly talk of not just foreign but African Direct Investment (ADI) (EABC 2023).

At the same time, some analysts see challenges in moving from policy to practice. They suggest that "it is difficult to view African economic integration as a truly rules-based enterprise" (Erasmus 2024) as African States rarely litigate against each other over trade disputes. Of course, they might change their behaviour under the AfCFTA, but as the same author notes, this would have "far-reaching implications for the REC FTAs and will upset the bigger scheme of things underpinning the AfCFTA" (Erasmus 2023). That raises questions about how the agreement and its protocols will be implemented in practice.

The need for private sector 'policy demand'

Although there has therefore been considerable 'policy supply', to use Mattli's term, with the above missed deadlines, "a well of pressure has spilled over into others where advancements with the AfCFTA can be made" (Luke 2023). That is, the focus on institutional frameworks is arguably a consequence of slow progress in concluding the technical aspects of the negotiations.

Progress on the 'policy demand' or utilisation side in terms of using the agreement to actually trade has so far been far more limited. Indeed, some worry that "private sector interest (here and abroad) …might peter out, while trade under REC FTA rules continues and the Guided Trade Initiative (GTI) sees more expansions" (TRALAC 2024), resulting in a patchwork of trade arrangements rather than a continental framework.

The potential impact of the AfCFTA is clear, if fully implemented. According to a World Bank study on the AfCFTA and investment (Echandi et al. 2022), Africa could see an increase of Foreign Direct Investment flows of between 111 and 159 percent. Assuming full implementation of the agreement, this would combine increases in intra-Africa FDI of between 54 and 68 percent and a rise in FDI from the rest of the world of between 86 and 122 percent. The same model estimates that Europe would account for some 60 percent of increased FDI in Africa, with the currently least integrated economies standing to gain most in relative terms.

But the simple assumption of 'full implementation' entails multiple steps and processes, all of which can be subject to administrative delays and contestation. These include: completion of *negotiations*; *domestication* of agreements into national law; *compliance*, implying also training of staff and rollout of new procedures; *utilisation* of the agreement, where estimated preference utilisation rates for existing regional trade regimes vary widely between 78% of eligible imports for Uganda in the EAC, and just 5% for Nigeria's eligible exports into Ghana (UNECA 2020); and *enforcement* of the rules against breaches, and the socio-political capabilities to pull these off in a coordinated fashion across government agencies.

The risk of the AfCFTA losing momentum has been raised before (e.g. Macleod and Luke 2022), but others have hastened to point out the decades it took for the

EU to become a coherent single market (Mold 2021).[1] A further key lesson from the EU experience, as identified by Mattli (1999) is the importance of having enough private sector awareness of the agreement and interest in using it by pushing governments to implement the agreements in place so that businesses can reap the rewards, creating jobs and raising livelihoods in the process.

The next section summarises some of the ways in which private sector 'policy demand' for the AfCFTA is being sought and encouraged. It discusses some of the different approaches taken during negotiations and implementation, but also private sector perspectives on the AfCFTA as captured through different surveys. The section concludes by highlighting the heterogeneity of the private sector and thus the need for diverse, targeted strategies to ensure business participation, with RVC creation stemming from their use of the AfCFTA agreement.

Private Sector Perspectives, Challenges and Pathways to AfCFTA Participation

Approaches to Engage the Private Sector in the AfCFTA

On paper, the AfCFTA represents unparalleled opportunities for the African private sector to engage in trade and regional value chains. Businesses stand to benefit from access to a larger market, reduced costs associated with cross-border trade and investment, and increased competitiveness (Signé and Munyati 2023). These opportunities seem especially important for small and medium-sized enterprises (SMEs), which form the backbone of most African economies and are disproportionately affected by cross-border trade barriers. The private sector accounts for about 80% of total production, two-thirds of investment, three-quarters of credit, and 90% of employment (UN 2023). Private sector engagement - AfCFTA 'policy demand' - is therefore crucial for the full realisation of the Agreement's objectives.

At the same time, as described above, the AfCFTA process has so far been primarily focused on agreements and institutional structures, and thus public sector driven. The AfCFTA Secretariat acknowledged this with the launch of a Private Sector Engagement Strategy in 2021 (AU 2023).[2] While a useful step to focus continental efforts, AfCFTA success will hinge on widespread knowledge about utilisation of the agreement.

This section discusses some of the approaches being undertaken to engage the private sector in the AfCFTA process through the negotiations and in terms of implementation.

Private Sector Engagement: AfCFTA Negotiations

While FTAs are negotiated by governments, the role of other stakeholders, particularly the private sector, cannot be overstated. Potential involvement ranges from consultation to active participation in negotiation delegations, providing a practical perspective – reflecting economic realities, catering to specific business requirements, and addressing prevailing challenges – that complements the political and economic analyses typically brought by governments.

Private sector engagement in the negotiation phase of the AfCFTA took various forms across countries and regions. Continent-wide and regional platforms, such as the Pan African Chamber of Commerce and Industry (PACCI), the African Business Council (Council on Development and Support for Africa) and the East Africa Business Council (Kagina 2022) have played an active role, alongside events like the AfCFTA Business Forum (Games 2023). All reflect efforts to facilitate dialogue and channel business concerns and insights to policymakers. Additional bodies have been established by the private sector, including the AfroChampions Initiative (The AfroChampions Initiative, n.d.), or the African Private Sector Summit with the goal of increasing private sector awareness about the AfCFTA, and raise the level of private sector consultation and engagement in AfCFTA discussions (APSS, n.d.).

However, as the AfCFTA is agreed on by state parties, during negotiation private sector engagement was left mostly to individual countries through established national consultation channels (Byiers and Grant 2021). As such, it has often been faced with criticisms for not engaging the private sector enough. In South Africa, the AfCFTA consultation process was seen by some as rushed and less comprehensive than other trade agreements, attributed to its broad scope and the extensive travel commitments of trade negotiators that limited in-depth engagement with the private sector and civil society (Parshotam 2018). Similarly, a study by Offei et al. (Offei et al 2020) on 200 SMEs in Ghana pointed out a significant lack of awareness about the AfCFTA's negotiation process, indicating insufficient consultation efforts by the Ghanaian government prior to the country's accession to the agreement (Offei et al. 2020). A survey by the East African Community (EAC) and the Economic Commission for Africa (UNECA 2021) carried out in 2020 reveals that only 30% of African enterprises felt actively involved in the negotiations, with many respondents unaware of the ongoing discussions and expressing a need for more proactive engagement by governments and private sector apex bodies to increase awareness and provide necessary information and assistance (UNECA 2021).

At the same time, domestic political economy dynamics are key in shaping member states' approaches to AfCFTA negotiation. (Apiko et al. 2019) discuss Nigeria's cautious approach to opening its domestic market to regional trade in connection to its economic reliance on oil coupled with the neglect of other sectors and an unfavourable business environment (Apiko et al. 2019). This raises concerns about the manufacturing industry's vulnerability to import competition and limited export potential. In addition, Nigerian industrialists and various interest groups actively resisted regional trade liberalisation, lobbying the government to adopt protectionist measures and policies. These policies not only hinder regional trade integration in Nigeria, but also foster rent-seeking practices among certain private and public actors. Fears of trade liberalisation are also fueled by scepticism among the Nigerian private sector about the government's capacity to implement AfCFTA rules effectively. But what Apiko et al. (2019) highlight in particular is the influence that specific private sector groups have had on government decisions around AfCFTA signing and then negotiation which was initially delayed. This raises some concerns about how the agreement will be implemented in practice.

But approaches to engaging the private sector have varied across countries: Box 1 offers a summary of how this took place in Morocco, reflecting the importance of cross-Ministerial coordination but also the way that the AfCFTA was framed as an opportunity rather than a threat

Box 1 - Case Study: Private Sector Engagement in the AfCFTA Negotiations in Morocco

The groundwork for the AfCFTA negotiation and implementation in Morocco involved studies and research by the Moroccan Ministry of Economy and Finance. This preliminary phase was crucial for identifying strategic orientations and guidelines to fully leverage the trade and investment opportunities in the African Market. Based on these guidelines, the Ministry conducted national consultations with key ministerial departments, including Agriculture, Finance, Energy and Mines, and Foreign Affairs, as well as the private sector. These discussions were aimed at (i) ensuring the active participation of various stakeholders in the negotiation process, (ii) enhancing the protection of national interests through a deep understanding of specific challenges associated to the targeting of particular products, services and countries, and (iii) assessing potential threats to the nation's industrial base and the economic environment.

A series of thematic workshops were held for the benefit of various sectoral federations. The debates were instrumental in formulating national positions on a wide range of issues such as trade in goods and services, export and investment opportunities across diverse sectors, products and markets, and solutions to overcome obstacles to the internationalisation of businesses. In addition, they also identified some necessary support measures to seize the opportunities offered by the African market and discussed opportunities for value chain integration. A significant focus was also placed on the importance of raising awareness and providing information on the AfCFTA, its stakes, and its implications on Morocco's sectoral strategies and trade policy. Additionally, the workshops sought to share key conclusions from ongoing discussions and decisions reached in the course of the negotiations.

Under the coordination of the Ministry of Economy and Finance, three types of workshops were conducted. First, a set of workshops focused on cross-sectoral aspects, during which meetings were held with key organisations such as the General Confederation of Moroccan Enterprises (CGEM), the Moroccan Association of Exporters (ASMEX), and the Chambers of Commerce and Industry. A second category of workshops targeted sector-specific issues and involved sectoral meetings engaging 13 industry associations and federations. These meetings covered a broad spectrum of industries, including Leather, Electronics, Plastics, Construction, Energy, Aerospace, Agri-food, Automotive and Textiles among others. Lastly, the third group of workshops focused on institutional stakeholders, involving various ministerial departments and regulatory bodies such as the Central Bank.

Overall, the Moroccan private sector expressed satisfaction regarding the Ministry's consultative method and fully endorsed the process of regional integration, which represents a significant opportunity for Moroccan businesses expansion.

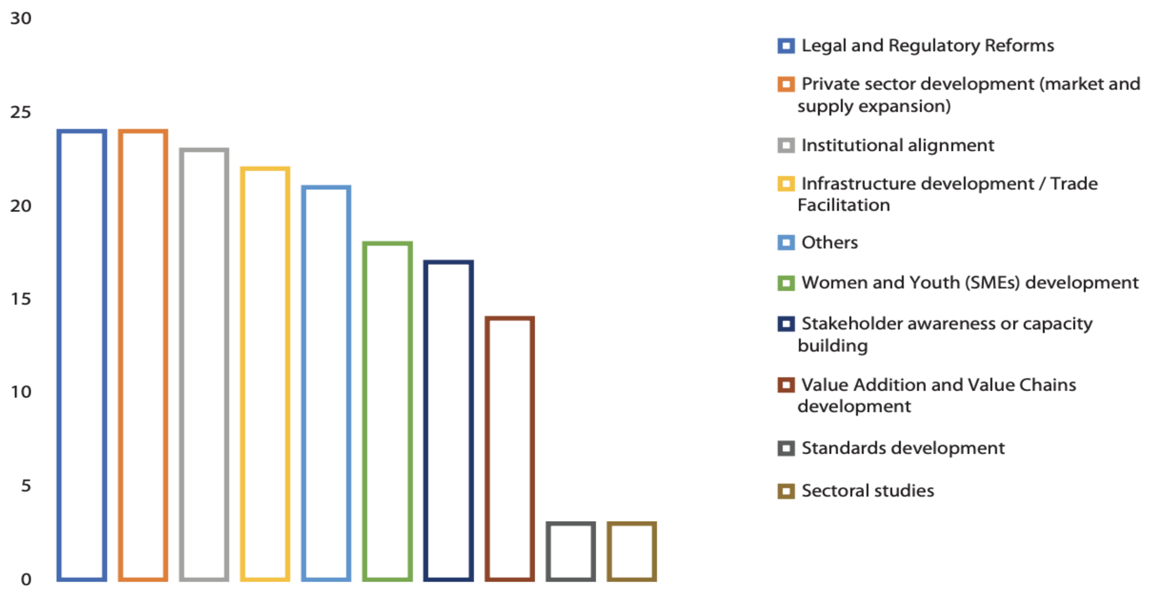
Overall, preferential or free trade agreements (FTAs) are complex and can have wide-ranging impacts on various economic sectors and stakeholders. While they therefore require an inclusive and collaborative approach in their formulation, this has varied markedly across countries. The way the agreement has been negotiated and the sense of legitimacy given it by the private sector may also shape how the agreement is implemented.

Private Sector Engagement: AfCFTA Implementation

With negotiations nearing completion and attention turning to implementation, a range of initiatives and implementation strategies are being developed by stakeholders at different levels. These include African governments, Regional Economic Communities (RECs), the AfCFTA Secretariat, international organisations, and development partners, where approaches to engage the private sector and improve readiness to operate within the AfCFTA framework are a core part of what they seek to do.

As highlighted by a recent UNECA (UNECA 2024) study, among the categories or strategic priorities included in 33 national AfCFTA implementation strategies, private sector development was listed as a key area for action in 24 (See Figure 1). Women and youth (SME) development also features in more than half, underlining the ambition, at least, to better engage the private sector in some countries. Governments are also being encouraged to establish AfCFTA National Implementation Committees, with a mandate that includes outreach to the private sector (e.g. Sebahizi et al. 2023).

Figure 2. 10 categories or strategic pathways listed in 33 national implementation strategies



Source: *UNECA (2024) AfCFTA implementation strategies - synthesis report*

Several RECs are also in the process of preparing AfCFTA implementation strategies where private sector engagement is likely to feature, while other regional initiatives are underway. The Economic Community of West African States (ECOWAS) has initiated several capacity-building and export readiness programs targeting the region's enterprises. These efforts seek to empower specific groups and sectors, such as women and e-commerce, through training sessions and workshops (ECOWAS 2021a, ECOWAS 2021b). Similarly, in East and Southern Africa, the Common Market for Eastern and Southern Africa (COMESA) Business Council, alongside its partners, has been conducting training programs aimed at enhancing small businesses' awareness and readiness for the AfCFTA (Chibomba 2023).

The AfCFTA Secretariat has also developed various strategies to boost private sector participation within the AfCFTA framework. The AfCFTA Private Sector Strategy seeks to focus efforts on building regional value chains in four key sectors where there is a potential to meet local demand and existing production capabilities on the continent (AU 2023). These are: agriculture and agro-processing; automotive; pharmaceuticals; and transportation and logistics. For these, they identify 23 priority interventions, from a long list of some 50 interventions, of which the AfCFTA Secretariat could take either a leading role or a coordinating role. The AU has also undertaken analytical work to identify potential RVCs to support industrialisation under the AfCFTA - there, pharmaceuticals, baby food, apparel and textiles as well as automobiles were identified as priority sectors for investment in the AfCFTA (Muchanga 2024).

In seeking to support the AfCFTA RVC ambition, an AfCFTA Trade and Industrial Development Advisory Council was established and has initiated a dialogue with the private sector and other stakeholders on how to build and implement RVCs across the African continent in specific sectors. In particular, the AfCFTA Secretariat and the Nelson Mandela School of Governance at the University of Cape Town have initiated a platform for the cotton, textiles, apparel sector to help discuss with firms how to build regional value chains in Africa. This ongoing experience will be able to offer lessons for initiating other similar regional value chains, such as: critical minerals/batteries and electric vehicles; agro-processing, food staples/cassava and horticulture. Renewable Energy, Pharmaceuticals and the Digital Economy regional value chains are also high priority sectors with great potential to attract investment for the building of regional value chains on the Continent.

In addition, the AfCFTA Secretariat launched the Guided Trade Initiative in October 2022, aimed at operationally initiating trade under the AfCFTA for a group of eight self-selected countries and in a limited range of goods (TRALAC 2023). Additionally, the Export and Investment Readiness Programme stands out, targeting African businesses, particularly those led by women and youth, equipping them with the essential skills and knowledge to leverage AfCFTA opportunities effectively.[3]

International organisations and development partners are also seeking ways to support this ecosystem. The United Nations Economic Commission for Africa with the financial support of the European Union, has launched the AfCFTA Country Business Index (ACBI) to assess the African private sector's perceptions regarding the AfCFTA's implementation and better inform African policymakers to craft strategies that address the private sector's concerns and challenges within the AfCFTA framework. (Karuhanga 2022)[4]. Moreover, entities like the International Trade Centre and the German Agency for International Cooperation (GIZ) have been key in raising awareness and assisting the private sector in leveraging the AfCFTA through initiatives such as SheTrades AfCFTA and How to Export with the AfCFTA, focusing on capacity building and creating networking platforms for African private sector actors.

Multiple initiatives are therefore underway at different levels to increase private sector engagement in the AfCFTA as it enters the implementation phase.

Private Sector Perspectives on the AfCFTA

Despite these efforts, data from various enterprise-level surveys reveal an awareness gap among African businesses. The PAFTRAC CEO Trade Survey (2023), involving over 1000 CEOs from across the continent, cites that nearly 73% of respondents had low to moderate awareness of the AfCFTA. Over 80% reported poor access to AfCFTA-related information, with many relying on research engines as their source of information, rather than chambers of commerce, trade support institutions, academic institutions and government platforms. As such, 84.8% of surveyed business owners across the continent reported that their company had not engaged in any consultations or negotiations regarding the AfCFTA, including discussions on the national implementation strategy. An even larger proportion (92.8%) stated that their firm has not been provided with any support for implementing the free trade area (PAFTRAC 2023). This limited access to information about the AfCFTA results in a notable lack of awareness of the AfCFTA's key operational instruments such as the Automotive Fund, the Pan-African Payment System and the African Trade Observatory.

A survey report by UNECA (UNECA 2021) on East African Community businesses mirrors these findings. Although half reported a moderate awareness, in-depth interviews uncovered that the respondents' knowledge is mostly related to superficial information on the signing and ratification status of the AfCFTA. A substantial gap in understanding the agreement's protocols and the advantages it can potentially offer was pointed out.

This is problematic. If businesses, as potential exporters and importers, lack awareness of the agreement's provisions and mechanisms, they are unlikely to maximise its potential utilisation and therefore fall short of the wider ambitions of promoting trade, investment and industrialisation through regional value chains.

Despite limited AfCFTA awareness among the African private sector, the PAFTRAC CEO Trade Survey report nonetheless suggests that 80% of respondents are optimistic about the AfCFTA's potential impact on their businesses. They see the removal of trade barriers as a key advantage for increasing market size, investment opportunities, and access to raw materials. The above-cited UNECA survey on the East African Community's private sector again echoes these findings, with over 80% viewing larger market access as a significant opportunity, alongside benefits like reduced costs, greater economies of scale, and improved external trade. Additionally, 87% believe the AfCFTA will boost value chain development on the continent, identifying key areas such as coffee, maize, manufacturing, horticulture, and more as crucial for their businesses.

On the other hand, businesses have also identified several barriers to realising the AfCFTA's benefits. These include protectionism, negotiation delays, lack of political will, and limited implementation/enforcement capacity. Businesses from the EAC emphasised the importance of harmonising customs procedures and rules of origin, aligning regulatory frameworks within the EAC with those of other regions, addressing infrastructure deficits, establishing fair competition policies, implementing the intellectual property rights protocol to encourage innovation, and standardising investment policies. These measures were deemed extremely important by over 70% of respondents. Additionally, more than 70% of surveyed enterprises considered the investment protocol and the protocol on digital trade crucial for their business expansion across the continent, highlighting the urgency in effectively implementing these protocols (UNECA 2021).

The African private sector encounters multifaceted challenges in conducting cross-border trade, underscoring the need for specific attention from policymakers at the national, regional and continental levels. The PAFTRACT CEO Survey (PAFTRAC 2023) highlights several barriers, including insufficient market information, excessive customs controls, and a lack of coordination among border agencies. In addition, the need for more financing schemes and limited access to finance were also highlighted as major obstacles faced by African enterprises. Inadequate infrastructure further affects everything from transportation networks to power and telecommunications access, leading to high transportation costs, delays, and decreased global competitiveness. It was noted by Ugandan private sector actors that importing goods from China to Uganda is often less expensive than importing from Nigeria to Uganda, illustrating the huge costs associated with intra-African trade (PSFU 2023). Additional challenges identified include concerns about firms' readiness to face emerging competition, the removal of non-tariff barriers, the effective enforcement of intellectual property rights, and policy issues like protecting nascent industries and restrictive visa regimes. The need for sector-specific information and the harmonisation of regulations across regional economic communities is also emphasised. Finally, other obstacles raised include inadequate human capital and socio-cultural norms, further compounding the complexity of conducting trade within the continent.

Beyond one-size-fits-all: Recognising the African private sector's heterogeneity

While the above discussion underlines that more effective engagement of the private sector at multiple levels and across policy areas will be key to realising AfCFTA ambitions, a one-size-fits-all approach will not suffice due to the diversity of contexts across the continent. This section discusses the need for tailored strategies that acknowledge the heterogeneity of the private sector, distinguishing in particular between the leading African enterprises with extensive experience and the SMEs that hold significant potential yet face numerous challenges.

SMEs in the Face of the Single African Market

There is a general consensus on the crucial role that SMEs have in income generation and employment on the African continent, and thus their potential to support successful implementation of the AfCFTA. However, despite their potential, these enterprises struggle with making investments, lack the knowledge and networks required for entering foreign markets, and often avoid the more demanding routes of improving managerial and technological capabilities. This challenge is compounded by recent economic instability, which has heightened tensions and uncertainties. The recent crisis has destabilised public finances, slowed private financing, and led to unsustainable debt levels, further exacerbating existing structural financial issues.

Local financing remains a pressing issue in Africa. Businesses within the continent have less access to bank lending services than their counterparts in other developing regions. Specifically, 20% of small enterprises, 30% of medium-sized businesses and 40% of large businesses use banking services in Africa, compared to 30%, 50% and over 65% respectively, in other developing economies. This makes it particularly difficult to start a business in Africa with local funding (Sadeski et al. 2019).

Numerous public programs to upgrade and modernise SMEs have been launched, including dedicated financing programs and investment support. However, despite these efforts, support remains fragmented and calls for a more coordinated approach. This underscores the need for a regionalisation and resource pooling to enhance efficiency.

Moreover, International and bilateral cooperation efforts involving partners like the EU and the US, along with international financial organisations such as the World Bank and the African Development Bank (AfDB), have also been directed towards supporting SMEs. These programs focused on assisting SMEs in improving their managerial skills, securing financing on reasonable terms, and overcoming the challenges of market failures. For example, the Africa SME Programme by the AfDB aims to enhance access to finance for SMEs by providing long-term liquidity and technical assistance to local financial institutions across Africa (AfDB, n.d.-a) In parallel with these initiatives, significant efforts have been made to develop SMEs human resources through retraining and continuing education programs. Notable initiatives include the Boost Africa initiative, a joint effort by the AfDB and the European Investment Bank, which targets young African entrepreneurs, providing them with funding, capacity building, and mentorship (AfDB, n.d.-b). Finally, actions have also been undertaken to align domestic products with international quality standards, thereby facilitating their entry into foreign markets. However, the effectiveness of these initiatives remains unclear due to a lack of comprehensive assessments of their impact on SME performance.

SMEs often find accessing finance complex, involving numerous intermediaries and bureaucratic procedures. In particular, the plurality of administrative layers and the complexity of processes paradoxically render these structures less accessible. In addition, the diverse financing options, offering both opportunities and complexity, raises the issue of choosing between these different means. This issue is exacerbated by the fact that not all SMEs are fully aware of the diverse financial resources available.

Furthermore, SMEs themselves are a heterogenous group and have distinct characteristics and expectations in terms of financing. Beyond their differences, businesses often face an unfavourable economic and regulatory environment, and a cultural environment that is not conducive to business growth - what Pritchett et al (Pritchett et al. 2018) call a 'Deals environment' rather than a rules-based system. Their analysis suggests that the "business environment" faced by firms varies considerably across firms within the same region, country, and sector, even where they ostensibly face the same requirements and constraints (Hallward-Driemeier and Pritchett 2010)[5] . To take advantage of the AfCFTA will therefore require expanding the range of firms that can take advantage of the agreement even in “unfriendly environments”.

Encouraging SME engagement and use of the AfCTTA will therefore require governments and international partners to evaluate SME financing policies and support programs to enhance their effectiveness and relevance. By establishing clear linkages to emerging AfCFTA market-related opportunities, the AfCFTA may offer an opportunity to ensure that support and financing programs are well-designed, impactful, and adaptable to evolving conditions.

African Champions: Strategies for Gradual Market Penetration

While developing strategies to boost SME participation in the AfCFTA is key, it is equally important to recognise the role of leading African companies within the AfCFTA framework - the top 1% of trading firms account for 75% of the total value of exports in Africa (Mangeni and Mold 2022). Similarly, only some 7% of SMEs export to other African countries, lower than the 13% who engage in exports including to markets like the EU and the US. These large businesses are pivotal to the continent's economic integration and development. Thus, achieving a balanced approach that supports both SMEs and large enterprises is crucial for maximising the AfCFTA benefits, ideally while also finding ways to connect SMEs with large firms (Cusolito et al. 2016).

Successful companies from South Africa, Morocco, Nigeria, and Kenya exemplify the high success rate of pioneering firms in unexplored markets. Companies like MTN, Maroc Telecoms, and Safaricom have become models of successful market penetration, leveraging their early-mover advantage. The banking sector has also seen significant continental expansion, with banks like the South African Standard Bank and the Moroccan Attijariwafa Bank becoming key players across diverse African markets.

These large African corporations have leveraged their experience to expand into neighbouring markets that share common languages, cultures, or other factors, which makes these markets more accessible. This strategic expansion has not only facilitated their growth but also proven their ability to thrive beyond their home markets. After decades of limited interest in nearby markets, these companies are now poised to fully capitalise on the growth potential of the African market. Moreover, by regionalising their operations, they can also attract new investors which will further fuel their expansion (Das Nair and Dube 2017). Furthermore, as regional entities, they can leverage their regional brand identity to influence target markets across the continent, enhancing their reach and impact.

African leading enterprises have developed the skills and expertise to compete internationally, particularly against companies from more developed regions. Despite the extensive logistic and support networks of foreign multinationals, African companies possess unique advantages for operating within the continent. They have become regional champions by combining managerial and technical skills with a deep understanding of market-specific opportunities and risks. For example, Safaricom, Kenya’s leading telecommunications operator, has managed to successfully bridge the gap in mobile money transfer services within Kenya before expanding its operations to other countries like Tanzania and South Africa. Similarly, in the retail sector, large retail chains have secured significant positions in traditionally fragmented markets previously dominated by small, informal businesses. For instance, South Africa’s Shoprite Holding now operates in over 15 African markets. This intimate knowledge of African markets, coupled with their agility, allows these companies to swiftly adapt to challenges and evolving business environments. By developing tailored offers and innovative business models to meet local consumer demands, these pioneers have not only secured dominant positions but also set the stage for other companies to benefit from their groundwork.

Strategic acquisitions and partnerships have also been instrumental for companies entering new markets, allowing them to navigate the complexities of various African markets through alliances with experienced local partners. These partnerships, often critical for understanding market nuances, facilitate access to influential networks and decision-making channels and, in principle, will be made easier under the AfCFTA Investment Protocol. Diversification is another common strategy among these enterprises, broadening their product and service offerings into new sectors to mitigate risks associated with dependence on a single industry. This approach not only spreads operational risks but also enhances profitability and revenue sources. For instance, conglomerates like the Nigerian Dangote Group and the Algerian Cevital have successfully diversified their operations, contributing to their rapid growth across Africa and beyond.

Therefore, within the AfCFTA framework, shaping policies which focus on harnessing the capabilities of African large firms will also be important. These enterprises, with their vast experience and regional influence, are not just participants but key drivers of regional integration and economic growth. By addressing barriers to cross-border business activities, simplifying trade regulations, and providing incentives for regional expansion, governments can empower these corporations to exploit the full potential of the African market.

Conclusions and recommendations

From the above discussion we can draw a number of conclusions and recommendations for policymakers and their international partners. In broad terms, this brief highlights the focus to date on 'policy supply' that now needs to be matched by 'policy demand' for the AfCFTA and its multiple protocols and instruments from the private sector. Although a range of initiatives, events and strategies have been or are being prepared to better involve the private sector in AfCFTA design and implementation, the scale of the potential as well as the challenges to reach it will require continued and broader efforts. We summarise these in eight key recommendations for policymakers and their international partners.

1. Engage the private sector in policy dialogue and awareness-raising at multiple levels.

AfCFTA 'success' and ultimate impact will only come about if **firms are aware of and able to trade using the AfCFTA rules**. That has implications for implementation of the protocol on trade in goods, but as the above discussion highlights, also underlines the need for them to be aware of the suite of AfCFTA protocols and annexes. The benefits of the AfCFTA will stem from the combination of these different tools, their mutual support of one another *and* their utilisation by firms. Finalisation of negotiations and support to transpose and put the AfCFTA legislation into practice will therefore remain key, and can build on and learn from existing initiatives such as the Guided Trade Initiative, though support to expand this should be made priority.

The series of business fora that are discussed above should also be continued and indeed scaled-up to further encourage trade and trade-related investments with a focus on continental value chains, and focusing on specific priority RVCs.

The main level through which the private sector can engage with AfCFTA negotiation and implementation is at the national level within each state. While some countries have effectively functioning dialogue forums, others require strengthening and could draw on lessons from other countries in the same region.

Greater institutionalised and long-term private sector dialogue around the AfCFTA and RVC creation will make identification of obstacles to investment easier and help support the implementation of projects within specific sectors. Involving the private sector in the policy dialogue between the EU and African states could further contribute to eliminating barriers to trade, investment, and growth, including FDI. While numerous EU-Business fora have taken place bilaterally with African states, for example in Namibia, Angola and Mozambique in 2023, and Zambia in 2024 with others planned for Nigeria and Cameroon, these should not only be continued and expanded, but explicitly linked to the AfCFTA and supporting achieving its RVC ambitions.

2. Identify roles for the AU, RECs and AfCFTA Secretariat in implementing the AfCFTA.

A key aspect for greater private sector awareness and utilisation of the AfCFTA will be the **'division of labour' between the RECs and the AfCFTA Secretariat**. While REC FTAs will continue to govern intra-regional trade, the role of the AfCFTA particularly comes into play for trade in goods in inter-REC trade. A clear pathway for how the RECs and AfCFTA Secretariat can collaborate to mutually promote the two trade frameworks is of fundamental interest to the private sector, for whom trade is trade, regardless of which regime it uses. That implies a need to identify ways to align implementation and cooperation between the RECs and the AfCFTA Secretariat, whether for publicising trade opportunities and information on the available suite of accompanying tools, such as Non-tariff barriers (NTB) reporting mechanisms at the regional and continental levels and wider trade information systems. Given that RVCs are a key component of the AfCFTA objectives, support at the continental and regional levels might begin by identifying entry points to support these and the roles the AU, RECs and AfCFTA might usefully play (see below).

The EU has provided financial support for the implementation of the AfCFTA and other key policy frameworks for economic integration. This contribution should be reinforced by technical assistance at the national and regional levels; towards supporting harmonisation of African customs systems in applying rules and standards for trade facilitation; the further development and implementation of national and regional implementation plans for the AfCFTA and advocacy for ratification in collaboration with the United Nations Economic Commission for Africa; the establishment of the AU Trade Observatory with the International Trade Centre and the African Union Commission. It might also include the development of an African position for strategic dialogue on the investment climate between key stakeholders in Africa and Europe, from the private sector to academia.

3. Support sectoral RVC platforms towards problem-based regional cooperation.

A third recommendation for raising private sector involvement in the AfCFTA **relates specifically to regional value chain development**. This will depend to some degree on the first two points above, but crucially will also depend on information sharing and cooperation among firms currently operating in different markets. The ambition is for the AfCFTA to encourage trade within the continent, thus creating new business connections but also profitable opportunities. These are being discussed in different sectors, including the priority sectors identified by the AfCFTA Private Sector Engagement Strategy, but also beyond. With rising attention to 'critical raw materials' and the potential, for example, of a battery value chain including DRC and Zambia, connecting with existing processors, producers and users in South Africa and elsewhere, (e.g. Karkare and Medinilla 2023), this will only come to fruition if it actors can be encouraged to identify and address current barriers to RVC creation.
Policymakers and other actors can provide support to help multi-stakeholder platforms, as is happening already around the battery value chain, but this will depend on establishing trust and risk-sharing mechanisms between affected companies and countries - again highlighting the potential role of the AfCFTA legal frameworks if these can be supported and implemented correctly. But beyond these top-down frameworks, supporting value chains will also require more focused 'troubleshooting' or 'problem-driven regionalisation' that seeks to identify the nature of the problem before defining which frameworks and key actors are necessary to overcome it. Sectoral platforms are being created in the context of the AfCFTA, and these could be further supported along with the research necessary to help inform their decisions and ultimately investment agreements.

In this context, the European Union could offer support through its delegations, which aid in fostering public-private dialogue platforms country by country. These platforms might evolve into structured and regular regional fora for addressing genuine trade and investment barriers. It would be useful for partners to initiate or strengthen public/private dialogue mechanisms across Africa at the continental, regional, and national levels. This effort aims to assess the African private sector's involvement in regional integration initiatives and processes.

4. Explicitly connect trade in goods to services, investment and value addition policies.

All of the above link to the **need to further promote investment and build on the protocols going beyond trade in goods**. As discussed, the AU now talks not just of Foreign Direct Investment (FDI), but also African Direct Investment. While FDI will be necessary, the AfCFTA is also clearly focused on moving away from an 'extractive' economy towards encouraging more processing and value added within the affected economies. Though some talk of 'resource nationalism' and 'local content policies' are frowned on by some as an inefficient means of promoting local value addition, they are being adopted and depending on the measure taken, in some cases having success (Karkare 2024). This again raises the need for policy makers and their partners to focus on working with companies to encourage effective local engagement that takes account of local context and needs, and can adapt linkages to local capabilities.

Beyond the above, technical support jointly mobilised by the local and international policy communities could build on African expertise and talent and aim to: implement reforms in the areas of corporate legislation, financial regulation and support to central banks and regulators in fulfilling their mission of financial inclusion of entrepreneurs; encouraging partnerships between the African private sector and those of other countries to better integrate African companies into international value chains and boost regional value chains. A pan-African capacity development structure could promote African expertise, making it more visible, facilitating its mobilisation by African States and encouraging the exchange of good practices among countries on the continent.

The AfCFTA's drive towards deeper integration, encompassing service liberalisation, intellectual property, and competition, necessitates that AfCFTA leadership consider consultations with the private sector at a continental scale in their decision-making processes. It is through dialogue between the private sector – proposing standards that would then be reviewed and discussed by continental institutions and experts, who would then take into account other points of view such as the African general interest – that African bodies could reach a consensus and establish standards that reconcile political and private sector interests.

5. Channel strategic finance towards AfCFTA investment.

The above points lead to a fifth key element - **how to channel sufficient and appropriate financing to sovereign and private sector actors in a way that facilitates FDI and in turn economic transformation through such investments**. African financing institutions have been increasingly active in finding ways to support the AfCFTA - including, the African Development Bank, and the Afreximbank supported AfCFTA Adjustment Fund, discussed above - but there is a greater need to link such funding to private sector needs. Similarly, multilateral development banks and finance institutions are expected to play an important role. This is for instance the case of the such as the European Investment Bank, currently charged with helping to roll out the EU's Global Gateway investment package in Africa, which could optimise its use of innovative finance mechanism (risk-sharing mechanism, blending etc.) and further partner with African institutions to support the development of markets in a way that responds to the needs and priorities of the local/regional private sector, and contributes to RVCs and industrialisation endeavours promoted by the AfCFTA.

It could be useful in this context to develop and institutionalise:

- European Chambers of Commerce and Industry in African countries, which are responsible for facilitating dialogue between businesses and disseminating information on the financing available in a clear manner.
- A Euro-African arbitration chamber could thus be set up to deal with commercial, financial and judicial disputes affecting European companies in Africa and African companies in Europe.
- The EU can also play an important role in improving the business climate by developing its technical assistance policy. This should be targeted at businesses, as well as at what is a barrier to investment – in particular the implementation of cross-border projects and the harmonisation of legislation.

6. The establishment of a guarantee fund for the financing of SMEs and mid-caps.

The creation of a new guarantee fund could be useful for the financing of enterprises by presenting guarantee and support mechanisms. Although solutions like credit lines from credit unions or banks have been implemented, they fall short of addressing the core issue: the critical financing gap faced by Very Small Enterprises (VSEs), which could be mitigated with better guarantees.

Such a guarantee fund would make it easier for banks to extend credit to SMEs and VSEs across Africa, backed by tools that could validate loans and cover most of the loaned amounts. Additionally, it needs to be accompanied by a simplification of the procedures requested by African banks and a removal of barriers to international trade for SMEs and VSEs.

The provision of guarantees to International Development Institutions and financial intermediaries should be encouraged. With the support of resources from the European Union, these financial intermediaries could be encouraged to take higher risks than they currently undertake.

Within this, access to finance for SMEs is a challenge in most African countries. Although various financing mechanisms exist, SMEs and mid-cap companies often struggle to allocate the necessary resources to comply with these requirements. To address this, establishing a one-stop shop where businesses can access information and apply for funding from all institutional and public financiers through a single entry point would be beneficial. Furthermore, creating a comprehensive information channel that details all available financing mechanisms could help mitigate competition among different institutional and public entities.

7. Leverage Public-Private Partnerships (PPPs).

Though the private sector is rightly expected to seek out and build on opportunities offered by the AfCFTA, and the public sector to simply 'implement the agreements', there is a clear **need for more focused support on building both public and private capabilities and the wider infrastructures around them, in terms of regulatory procedures and standards,** among others. A trade deal does little if companies have little to trade, or cannot meet the criteria, or are unable to overcome the bureaucratic requirements. Nor, if when they do, they are hit by uneven application of the rules, and a 'deals-based' rather than 'rules-based' environment by public officials. This cannot be changed overnight, but focused efforts at key ports and borders, with support for priority sectors and value chains might offer a way to offer gradual improvement in high impact sectors.

Public-private partnerships (PPPs) can offer solutions to the problems of excessive public debt in addressing these public investment challenges. They would directly address the massive need for infrastructure investment. To be considered a win-win situation, these PPPs must be both transparent for companies and profitable for governments, allowing public authorities to free up fiscal space. Moreover, while public investments are sometimes sluggish and hindered, these partnerships meet the need for swift investment and therefore expedited decision-making processes.

8. Understand and engage in the political nature of trade and the business environment.

Though trade liberalisation can be construed as a technical exercise, and many point to the great upswell of 'political will' around the AfCFTA project, the incessant reference to the benefits arising 'if fully implemented' point to the importance of understanding political incentives within sectors, within countries, along transport corridors and between countries and regions in the continent. By its nature, trade liberalisation offers opportunities but can also harm existing firms. Depending on the political settlement in a country, firms that stand to lose market share or face increasing competition may find ways to undermine or slow down implementation, while the risk of declining access to rents for firms or public sector officials may have a similar effect. These cannot be ignored, but rather must be taken into explicit consideration through political economy analyses.

The business environment and its legal uncertainty are key factors in the difficulties and additional costs of firms, and arguably lead to an overestimation of economic risk in Africa. The search for security and stability is a prerequisite for investment for companies. Similarly, the emergence of African SMEs and mid-caps requires greater ease of setting up a business, access to unsecured loans and cross-border trade.

Promoting trade while understanding the political economy factors that shape the business environment will help identify openings that can be more conducive to private investment. The overall improvement of the investment climate in all its components is crucial for generating the millions of jobs needed in Africa.

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Endnotes

1. By 1997, 4 years into the [European] Single Market, nearly 30% of directives were not yet implemented by at least one member state and a number of the original 279 measures had not even been adopted by the Council of Ministers.
2. The strategy highlights four priority value chains. These are: agriculture and agro-processing, automotive, pharmaceuticals, and transportation and logistics
3. A programme run by ITC and Afreximbank.
4. The ACBI explores several dimensions, including challenges in trade in goods, businesses' awareness and utilisation of FTAs, and perceptions of the commercial environment. However, it has been criticised in not going far enough into why certain perceptions are held or ways to address them.
5. Halwward-Driemeier and Pritchett (2010) compare Doing Business ("de jure") data with reported data from enterprises ("de facto") on certain business procedures, such as the time taken to get a construction permit. They find enormous differences in the average "de facto" conditions compared to the "de jure" estimate from Doing Business estimates. They also find large dispersions in the "de facto" conditions suggesting enormous variations in conditions faced by firms.

This brief was written in the framework of a joint project: Africa-Europe relations: Balanced narrative and reality check. A closed-door workshop on AfCFTA was held on the 23rd of November 2023 with experts from the following think tanks and institutions: Futures Studies Forum for Africa and the Middle East, ODI, European University Institute, Africa Policy Centre Institute, Finacco Group, Africa Private Sector Group, University of Cape Town, ACET, PCNS, ECDPM, International Trade Center, AfCFTA Secretariat, African Union and the EU Delegation. This was followed by a public event on the 24th of November 2023. This policy brief is derived from the discussions held in those two dialogues.

About the project

ACET, ECDPM, ISS and the Policy Center for the New South, we are joining forces in the project 'Africa-Europe relations: A balanced narrative and reality check' in an effort to enrich the policy dialogue between the AU and EU and better connect Brussels and Addis-based policymakers with practical insights and substantial input. The overall aim is to have a joint reality check towards a more balanced narrative on Africa-Europe relations.

This project, supported by the European Delegation to the African Union, wants:

- To broaden the policy research community feeding into the AU-EU partnership, bringing in views beyond Brussels- and Addis-centric conversations as a 'reality check' to the policy discourse by integrating national-level expertise

- To feed into the discussions around the EU-AU partnership in the selected policy areas, with a specific focus on: climate action and green transition, digitalisation, economic transformation and integration (through the AfCFTA), peace and security

- To help ensure that future policies are based on a clear understanding of past successes and failures and to highlight the need for follow-up measures announced after each summit.

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