

Trade Integration in Africa:

What can SMEs look for?

Introduction

Africa offers a huge potential in terms of a market for exports of goods and services and an investment destination for small & medium enterprises (SMEs). Over the past two decades, initiatives have been undertaken to encourage regional integration at pan-African level and at sub-regional levels. Through such initiatives, efforts are made to create a harmonised market across borders of different countries for free movement of goods, services and people, improve infrastructure, provide finances and remove at-border and beyond-border hurdles for facilitation of trade. It would pay for SMEs looking to export to or establish presence through investment in African countries to learn about various policies and schemes adopted by institutions, which are involved in promoting regional integration in Africa. It may be useful for SMEs to know about the progress in trade negotiations under various African integration mechanisms so as to capitalise opportunities when markets become more open and favourable policies are adopted in different countries. The present article discusses the initiatives undertaken for fostering regional integration in Africa, the progress in these negotiations and broad prospects for SMEs in Africa.

Integration at Pan-Africa Level

Regional integration efforts began in Africa with the formation of the Organisation of African Unity in 1963. At present, a number of organisations within Africa are involved in regional integration efforts and many of the African countries are members of more than one such organisations. *At the pan Africa level, the African countries are united under the African Union (AU), which has 53 Member States and was established by the Heads of State and Government of the Organisation of African Unity in 1999.*¹ Within the AU, New Partnership for Africa's Development (NePAD) is the strategic framework for vision and policy structure for pan-African socio-economic development. The NePAD Secretariat/Executive reports annually at the African Union Summit and is formed by the elected NePAD heads of states and the Government Implementation Committee.²

In January 2012, the AU adopted a decision to set up a Continental Free Trade (CFTA) to create a single continental market for goods and services, with free movement of business persons and investments, and thus pave the way for accelerating the establishment of a Customs Union. When formed, the proposed CFTA is expected to increase African intra-regional trade to about 40 percent of Africa's total trade from the present 15 per cent.³

In December 2017, African countries concluded an intense month of talks as part of the negotiating process towards the establishment of the CFTA. Reportedly, substantial progress has been achieved on the drafting of the CFTA agreements – the Agreement Establishing the CFTA, the Protocol on Trade in Goods, and the Protocol on Trade in Services. The members are expected to put in additional efforts to bridge remaining differences towards adopting the CFTA texts at a Summit in March 2018.⁴

¹ <https://au.int/en/memberstates>

² <http://www.sadc.int/about-sadc/continental-interregional-integration/sadc-african-union/>

³ African Economic Outlook 2017

⁴ <https://www.ictsd.org/bridges-news/bridges-africa/news/african-countries-make-headway-towards-the-creation-of-the-cfta>

To this end (of forming the CFTA), the AU encourages work of individual Regional Economic Communities (RECs) to set up free trade areas in different regions of Africa. RECs are primarily trade blocs but in some cases also organisations for political and military cooperation.

The AU recognises eight RECs⁵:

- Arab Maghreb Union (UMA)
- Common Market for Eastern and Southern Africa (COMESA)
- Community of Sahel–Saharan States (CEN–SAD)
- East African Community (EAC)
- Economic Community of Central African States (ECCAS)
- Economic Community of West African States (ECOWAS)
- Intergovernmental Authority on Development (IGAD)
- Southern African Development Community (SADC).

In addition, the Eastern Africa Standby Force Coordination Mechanism (EASFCOM) and North African Regional Capability (NARC) both have liaison offices at the AU. Another regional body related to the AU is the International Conference on the Great Lakes Region (ICGLR)⁶.

The Table below has details on the RECs. It is clear some RECs are far more advanced than the others in terms of trade liberalisation and harmonisation of rules and practices among them. *This wide disparity is a stumbling block in achieving any form of pan-African integration such as the one targeted through the proposed CFTA. Some countries are members of more than one REC, which has created a layer of complexity in their tariff and trade regimes.* For example, some COMESA member countries have commitments elsewhere such as Swaziland is committed to the South African Customs Union (SACU) (see below) as well as SADC and Angola, Swaziland, Zimbabwe, Mauritius and Congo are tied to the Southern African Development Community (SADC).

REC	No of members	Progress on trade liberalisation	Remarks	Common External Tariff (CET)
UMA	5 <i>Algeria, Libya, Mauritania, Morocco, Tunisia</i>		Practical implementation has been slow and a desired free trade area remains distant; one of the least integrated of the African communities	
CEN-SAD	29 ⁷ <i>Benin, Burkina Faso, Central African Republic, Cape Verde, Chad, Comoros, Djibouti, Egypt, Eritrea, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Kenya, Liberia, Libya, Mali, Mauritania, Morocco, Niger, Nigeria, Senegal, Sierra Leone, Somalia, Sudan, Togo, Tomé and Príncipe, Tunisia</i>		Not advanced in terms of regional trade integration; has the lowest overall ranking in the 2016 African Regional Integration Index but among the top-five blocs with the least restrictions on free movement of people.	
COMESA	19 ⁸ <i>Burundi, Comoros, D.R. Congo,</i>	Operates a free trade area among fifteen	A number of obstacles regarding the CET. COMESA has a low score	Proposed CET is 0%, 5%, 15% and 30% on capital

⁵ <https://au.int/en/organs/recs>

⁶ <https://au.int/en/organs/recs>

⁷ https://en.wikipedia.org/wiki/Community_of_Sahel-Saharan_States

⁸ <https://www.uneca.org/oria/pages/cen-sad-trade-and-market-integration>

	<i>Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, Zimbabwe</i>	member States. It also launched its Customs Union in June 2009- yet to be operational ⁹ .	in the 2016 African Regional Integration Index	goods, raw materials, intermediate goods and final goods respectively ¹⁰ . For more info see http://www.comesa.int/comesa-common-tariff-nomenclature-and-common-external-tariff-hs-2017/
EAC	6 <i>Burundi, Kenya, Rwanda, South Sudan, Tanzania and Uganda</i>	Became a full-force Common Customs Territory in 2015.	Process of applying CET not complete; according to the Office for the United States Trade Representative approximately 90% of all goods entering the EAC through the ports of Mombasa and Dar es Salaam clear customs once on entry and are then taken to their final destination, even crossing borders, without new customs checks; it the most integrated region in Africa.	CET: three tariff bands (zero, 10%, and 25%) apply to the large majority of imports; higher rates, ranging from 35% to 100%, and alternate duties apply to 58 tariff lines of "sensitive" items. For more, see: http://customs.eac.int/index.php?option=com_docman&task=doc_details&gid=5&itemid=164
ECCAS	11 <i>Angola, Burundi, Cameroon, Central African Republic, Chad, Congo, Democratic Republic of the Congo, Equatorial Guinea, Gabon, Rwanda and Sao Tome and Principe</i>	Launched its free trade area in 2004 with the aim of establishing a customs union of common external tariff by 2008; ultimate goal: establish a Central African Common Market; facilitates trade between members through mechanisms including one-stop border posts	Lay dormant for many years because of financial difficulties (non-payment of membership fees) and the conflict in the Great Lakes; a revived ECCAS now focuses on removing custom duties and restrictions on free movement of people and on promoting the establishment of a CET, harmonised national policies and other initiatives to further co-operation.	
ECOWAS	16 <i>Benin, Burkina Faso, Cape Verde, Ivory Coast, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo</i>	Implementing a trade liberalisation scheme (TLS) since 1990; CET began to be implemented in January 2015	It is the top-ranked regional community for facilitating free movement of persons across borders; third overall in the Africa Regional Integration Index 2016; non-implementation is one of the main factors holding back progress in many of ECOWA's regional integration initiatives.	CET: rates set at 0%, 5%, 10%, 20% and 35%. For more see http://www.aidfortrade.ecowas.int/programmes/ecowas-common-external-tariff-cet
IGAD	8 <i>Djibouti, Eritrea, Ethiopia, Kenya, Somalia, Sudan, South Sudan, Uganda</i>	Focus for regional economic cooperation and integration is to create an open, unified, regional economic space for the business community – a single market open to competitive entry and well integrated into the continental and global economies ¹¹ .	Set up mainly to tackle drought in the region; expanded its activities in 2008 with initiatives to improve the investment, trade and banking environments of member states; the 2016 Africa Integration Index ranked IGAD number one in terms of infrastructure; member countries - Djibouti, Ethiopia, Kenya and Uganda have bilateral free movement agreements.	
SADC	15 <i>Angola, Botswana, Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Swaziland, Tanzania, Zambia Zimbabwe, South Africa and Seychelles</i>	An FTA with 85% duty-free trade achieved in 2008; for countries part of the Southern African Customs Union (SACU) (see below), the process was completed in	Protocol on Trade in Services was developed and signed in Aug 2012 as a step towards achieving a Free Trade Area in Services; it's the second most integrated regional community on the continent	For more, please see http://www.aidfortrade.ecowas.int/programmes/ecowas-common-external-tariff-cet

⁹ <http://www.comesa.int/comesa-strategy/>

¹⁰ http://training.itcilo.it/actrav_cdrom1/english/global/blokit/comesa.htm#Common%20External%20Tariff

¹¹ <https://www.igad.int/about-us/the-igad-region>

		January 200;thirteen out of fifteen SADC Member States are part of the Free Trade Area ¹²		
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Two other significant regional integration efforts are:

- *Southern African Customs Union (SACU), established in 1910, which may be considered as a subgroup of SADC, it is much more advanced in terms of trade integration than the broader group.* It is the oldest customs union of the world- includes Botswana, Lesotho, Namibia, South Africa, and Swaziland. The Member States form a single customs territory in which tariffs and other barriers are eliminated on substantially all the trade between the Member States for products originating in these countries; and there is a common external tariff that applies to nonmembers of SACU. All SACU countries participate in the SADC.

Trade policies so far harmonised in the SACU are the applied customs tariff, excise duties, duty rebates, refunds and drawbacks, customs valuation, non-preferential rules of origin, and contingency trade remedies. To further harmonise trade policy, SACU members have agreed to negotiate new preferential trade agreements as a group. Its CET is as following: simple average tariff of 8% and maximum applied tariff of 55%; over half the tariff lines are duty free; the highest ad-valorem rates are concentrated mostly among textile and clothing products. SACU's simple average MFN applied rate declined from 15% in 1997 to 11.4% in 2013.

- *EAC-COMESA-SADC Tripartite Arrangement:* A tripartite FTA between COMESA, EAC and SADC - consisting of 28 countries (the TFTA) - is considered as a stepping-stone of the CFTA. The Tripartite Free Trade Area was officially launched in June 2015 setting the stage for the establishment of a single market for the 26 African countries with a combined population of some 632 million in the Eastern and Southern African Region.¹⁴ One of the objectives of the Tripartite FTA is rationalization of the integration processes in the Southern and Eastern Africa region, in line with the African Union Action Plan for the harmonisation of RECs throughout the continent through initiatives aimed at harmonising the policies and programmes of the three regional economic communities RECs in the areas of trade, customs, and infrastructure development.

The negotiations are being carried out in two phases. The first phase covered tariff liberalisation, rules of origin, dispute resolution, customs procedures, non-tariff barriers etc. The second phase will cover trade in services, intellectual property rights, competition policy etc. This is expected to take time to come into force as the countries are at different stages of development. When the TFTA was launched in 2015 much technical work on tariff liberalisation, rules of origin and trade remedies were not completed.

Some Issues faced in African Regional Integration

Regional integration within Africa, however, has been uneven and saddled with difficulties such as lack of finances, civil war and poor governance. African countries experience difficulties in achieving macroeconomic convergence criteria (targets on inflation, debt-to-GDP ratios and budget deficit-to-GDP ratios) set by their RECs. Most African countries are unable to participate fully in global trade and

¹² <http://www.sadc.int/about-sadc/integration-milestones/free-trade-area/>

¹³ WTO Trade Policy Review

¹⁴ http://www.comesa.int/comesa-eac-sadc-tripartite-launched__trashed/

forge backward and forward links with global value chains because of poor infrastructure, high transaction costs and low levels of industrialisation.¹⁵

Most of Africa's trade is with regions and countries outside Africa: in regions, the EU is its largest trading partner with a share of 30% in Africa's trade. In terms of countries that trade with Africa: China and India held the first two spots in 2015 with 16% and 6% shares respectively. While Africa's trade with the world has grown by four times in the last two decades and trade in services grew by 93% in a decade, 25% of the African countries depend on one or two commodities for 75% or more of their export revenues and about 60% of the countries rely on up to five commodities. In other words, a major share of Africa's exports is not diversified. Moreover, most African countries depend on unprocessed resource commodities for export revenues (such as oil and minerals). This makes Africa's trade highly vulnerable to external shocks and fluctuations.

*In contrast to trade with the rest of the world, intra-African trade is more diversified and resilient, and holds an enormous promise in providing sustainable economic growth to African countries. However as noted above intra-African trade is just about 15% of its total trade though its growth potential is enormous.*¹⁶

Prospects for SMEs in the context of African Regional Integration efforts

Given the issues faced by African countries in fostering greater trade integration within the region and linking with global value chains, it can be reasoned that the situations offers opportunities for SMEs in terms of setting up of manufacturing bases and promoting trade between their home countries and African countries. SMEs already play an important role in Africa's economies. Small and growing businesses have created around 80 percent of the region's employment, which in turn has helped to establish a new middle class and fuelled demand for new goods and services. *SMEs could invest in infrastructure, manufacturing and processing industries, technology and innovative services which provide solutions to problems of daily lives of the people of Africa (such as mobile banking or microfinance).*

Many individual SMEs and SME associations have recognised Africa's immense growth potential. One example is the SMEs affiliated to Saurashtra Vepar Udyog Mahamandal, Rajkot, India which is the apex body of small-scale industries in the region, proposing to help the growing African nations, to start with, by setting up units to manufacture consumer and household items used in daily life¹⁷. *Since individual SMEs especially those from developing countries have limited finances and other resources, they might find it easier to approach a vast continent such as Africa with socially and economically disparate countries as groups or through their industry associations.*

SMEs wishing to establish or expand their presence in African countries should look at support facilities provided by African institutions. The importance of SMEs in African economies has been recognised by pan-African institutions and governments. The African Union has launched an SME Strategy and Master Plan 2017-2021, which aims, among others, at improving the continental business environment, increasing business formation, supporting formalisation of growth-oriented informal enterprises and startups, increasing SME/Is, MSMEs and entrepreneurs' participation in regional and global value chains and promoting innovative financing. In October 2016 the African Union Commission

¹⁵ <https://www.ictsd.org/bridges-news/bridges-africa/news/the-tripartite-free-trade-area-agreement-a-milestone-for-africa's>

¹⁶ African Economic Outlook

¹⁷ <https://timesofindia.indiatimes.com/city/rajkot/rajkot-smes-to-help-africa-create-jobs-slash-imports/articleshow/60049756.cms>

– the Secretariat of the African Union – began validating the SME Strategy and Master Plan 2017-2021¹⁸. Individual RECs too have adopted formal or informal strategies to encourage growth of SMEs. For example, the SADC Development Finance Resource Centre (DFRC) aims to assist the development finance institutions (DFI) Network through supporting the development and financing of the SME sector capable of exploiting the vast business opportunities that the region’s scarcely tapped natural and other resources offer. Through targeted business support strategies for SMEs, the DFRC aims to assure the DFI’s sustainability through a stronger client base.¹⁹ *SMEs, which have presence in Africa as traders or investors should be involved in processes of institutions such as the African Union Commission to understand the benefits that are relevant for them, provide feedbacks on working of these schemes and policies, and request for any modification or changes which might be beneficial to SMEs.*

One of the greater challenges faced by SMEs is access to credit, in particular long-term credit. Addressing the issue has been a priority for governments and regional organisations for several years. Notable examples include the African Development Bank, which runs an SME programme designed to support micro, small and medium enterprises. The four-year programme provides \$125 million of funding, combined with a \$3.98 million technical assistance package granted by the Fund for African Private Sector Assistance. Also, a \$250 million private equity fund was established by the Angola’s sovereign wealth fund (FSDEA) to support entrepreneurs that are struggling to make their projects bankable²⁰. In individual countries as well, there are a few funding sources available from respective government (such as in South Africa).²¹ Financial help for SMEs have come from outside sources notably China. China's Development Bank (CDB) has set up a \$100million (R1.3billion) Special Facility Agreement to fund SMEs in Africa²². *It is important for SMEs to study these different sources of financing to optimise their funding sources bearing in mind many of these schemes are for the benefit of SMEs, which are present in Africa.*

SMEs should look into their home country sources for support too e.g. Indian SMEs have been promised they would receive support from the Indian government under India-Africa Framework for Strategic Co-operation (adopted in 2015 in India-Africa Forum Summit in Delhi)²³. *SMEs, which plan to establish presence in Africa, should check with their own government sources to assess the sources of financing that are available to them.*

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¹⁸ <https://au.int/en/pressreleases/20161013-5>

¹⁹ <http://www.sadc-dfrc.org/sme-support-and-development>

²⁰ <https://www.weforum.org/agenda/2015/08/why-smes-are-key-to-growth-in-africa/>

²¹ <http://www.gaaaccounting.com/government-funds-available-to-smes-in-south-africa/>

²² <https://www.iol.co.za/business-report/new-agreement-to-aid-struggling-smes-10872800>

²³ http://www.mea.gov.in/Uploads/PublicationDocs/25980_declaration.pdf