

What is the positioning of SMES in the African Continental Free Trade Area (AfCFTA): Key findings based on the AfCFTA Country Business Index¹

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Abstract:

Africa's development prospects have been widely constrained by the social and economic implications of the Covid-19, Climate change, Conflicts and Ukraine Crisis. The African Continental Free Trade Area (AfCFTA) holds incredible promises to help African countries foster a more inclusive development dynamic. The AfCFTA is a free trade area launched in 2019 by African countries to create a single continental market with a population of about 1.4 billion people and a combined GDP of approximately US\$ 8.9 trillion in 2023.

The AfCFTA fully implemented by 2045, can boost African GDP by around \$55 billion and welfare by \$3 billion. Therefore, African countries should accelerate the full implementation of the African Continental Free Trade Area by ensuring a conducive business environment to improve the private sector participation in one of the largest free trade areas in the world.

For the AfCFTA to deliver on these promises, the participation of the private sector especially small and medium size enterprises (SMEs) is critical. This is because SMEs are the 1st employer in Africa (80 per cent of jobs) and have the potential to generate work opportunities, income, and thereby reduce poverty and inequality at the national and regional levels. From that perspective, the SMEs can play a catalytic role in unlocking the developmental potential of the AfCFTA.

Cognizant of this catalyst role, the United Nations Economic Commission for Africa (ECA) has developed the AfCFTA Country Business Index (ACBI) as a key instrument through which

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businesses can articulate their main trade challenges to policy makers. Specifically, the ACBI enables to identify bottlenecks in intra-African trade at a country level, which informs the barriers impeding effective AfCFTA implementation from the perspective of the private sector⁴.

After its piloting phase, the ACBI has been rolled out in 13 countries namely Angola, Côte d'Ivoire, Democratic Republic of Congo, Egypt, Gabon, Kenya, Namibia, Nigeria, Morocco, Rwanda, Senegal, South Africa, and Tunisia. The index has 3 main dimensions namely 1- The Goods restrictiveness and costs, 2- African FTA knowledge and 3- Use and the Commercial environment.

The ACBI results enable to identify 3 major intervention areas that can support AfCFTA implementation. First, an important and immediate action is the need to build and raise awareness on the AfCFTA opportunities and its mechanisms of operation both at national and continental levels. This will enable unlocking the trade development potential. If directed efficiently, trade can be a powerful conduit for Africa to reduce poverty, enhance gender equality, and create decent jobs.

The AfCFTA country Business Index findings make a significant contribution to Africa's development Agenda 2063 and the sustainable development agenda 2030 by identifying bottlenecks in trade regimes that need to be addressed to ensure a more inclusive trade under the AfCFTA. The ACBI results show a clear distinction in perceptions between businesses owned by women and those owned by men. Overall, trading across borders appears to be more challenging for businesses owned by women. All seven subdimensions of the goods restrictiveness and costs dimension were perceived as greater challenges for businesses owned by women than for those owned by men.

More specifically, the survey results reveal that SMEs are disproportionately impacted by several aspects of the trading regime. It is critical to accompany SMEs especially women-owned ones

⁴ <https://www.uneca.org/the-afcfta-country-business-index%28acbi%29-report-summary-report-for-angola%2C-cote-d%27ivoire%2C-gabon%2C>

using specific tailored trade policy measures to ensure their active participation in intra-African trade and investment.

At the operational level, the AfCFTA Country Business Index report shows that it is crucial to simplify administrative procedures for the ease of doing business from and across Africa. In this regard, the development of simplified regimes around rules of origin can not only serve to improve utilization of existing FTAs but also spur deeper value chain integration across borders.

From that perspective, the ACBI can evaluate and monitor the inclusiveness of the AfCFTA implementation at national, subregional, and continental level and shall be utilized to inform the formulation and monitoring of AfCFTA national strategies namely the efficiency of trade policies in supporting SMEs and adequate gender mainstreaming in AfCFTA trade strategies. This is key to ensure the AfCFTA can deliver on its expected gains in terms of sustainable development and support to AU's Agenda 2063 and the UN Agenda 2030 on sustainable development.