



THE AFRICAN CAPACITY
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FONDATION POUR LE RENFORCEMENT
DES CAPACITÉS EN AFRIQUE



Transforming Africa's Trade

African Export-Import Bank
Banque Africaine d'Import-Export

Policy Brief 8

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**Overcoming Trade
Facilitation Barriers
for MSMEs: Enhancing
Opportunities under
the AfCFTA**



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KEY TAKEAWAYS

Trade facilitation (TF) is crucial for Africa's economic progress, particularly under the African Continental Free Trade Agreement (AfCFTA), aiming to reduce trade barriers and enhance the efficient movement of goods and services. However, micro, small, and medium-sized enterprises (MSMEs) face disproportionate challenges due to Non-Tariff Barriers (NTBs), complex Technical Barriers to Trade (TBTs), and stringent Sanitary and Phytosanitary (SPS) measures. These hurdles, combined with corruption and burdensome Rules of Origin (RoO), impede their ability to fully capitalise on trade opportunities. This policy brief delves into these TF challenges, offering recommendations to policymakers and MSMEs on overcoming them and highlighting successful case studies from companies or TF initiatives that have navigated these barriers effectively. Some of the recommendations are geared towards policymakers to enable MSMEs uptake of trade preferences, while others encourage MSMEs to actively leverage opportunities. Policymakers should simplify Rules of Origin (RoO) and harmonise standards across borders, while also providing targeted support and capacity-building for MSMEs to navigate trade complexities. MSMEs should be encouraged to leverage digital tools such as electronic certificates of origin and take advantage of streamlined procedures for non-tariff barriers (NTBs) to enhance their competitiveness under the AfCFTA.

1 THE ISSUE

Trade facilitation, which refers to the simplification, modernisation, and harmonisation of export and import processes, is vital for fostering economic growth and development in Africa.¹ In the African context, TF is particularly crucial under the AfCFTA, where it plays a central role in reducing trade barriers and promoting the efficient movement of goods and services across borders. Key TF measures in Africa include simplifying trade documentation, enhancing transparency in trade rules, and harmonising regulations between countries, with initiatives such as one-stop border posts and simplified trade regimes easing cross-border flows. With 47 countries ratifying the AfCFTA by 2024, the agreement seeks to boost intra-African trade by liberalising goods and services and addressing TF constraints.² Achieving the AfCFTA's potential developmental impact relies on effectively tackling these barriers, as intra-African trade could grow more than fourfold by 2045.³ The AfCFTA significantly builds on the principles and frameworks established by the World Trade Organisation's (WTO) Trade Facilitation Agreement (TFA). The WTO's TFA has, since 2017, aimed to streamline trade processes globally. The TFA is significant because it involves all 164 WTO members, with 156 WTO Members having domestically ratified the agreement, including 35 African countries.⁴

TF is critical for Africa's economic growth and development, as it leads to numerous economic benefits, including enhanced trade performance, increased economic activity, and job creation. By streamlining trade processes, African countries can boost trade flows, which, in turn, foster competition, promote innovation, and could boost socio-economic improvements in education and health by generating greater revenues for countries. TF also plays a key role in regional integration, facilitating smoother cross-border trade by improving infrastructure and harmonis-

costs and improving efficiency, TF enhances the global competitiveness of African firms, attracting investment and promoting innovation, which ultimately reduces poverty and improves social welfare across the continent.

MSMEs play a vital role in Africa's economy, contributing significantly to employment and economic growth. However, they face key challenges in taking full advantage of TF measures under the AfCFTA. While TF efforts aim to simplify customs procedures and reduce trade barriers, MSMEs are disproportionately affected by NTBs such as roadblocks, excessive trade charges, and quality control inspections, which often have a more significant impact than tariffs. Additionally, TBTs and SPS measures, including inconsistent standards and health and safety regulations, further complicate cross-border trade for MSMEs. Corruption and burdensome RoO also add to the complexities. MSMEs typically have fewer resources to navigate complex trade environments, less representation through business associations and operate on smaller margins than larger counterparts, hence the disproportionate impact on them. This policy brief will unpack these TF challenges within the context of the AfCFTA, offering recommendations to policymakers and MSMEs on how to address them, while showcasing case studies of companies or initiatives that have successfully overcome these obstacles.

2 BACKGROUND

The UN Global Survey on Digital and Sustainable Trade Facilitation (UNTF Survey)⁵ shows that African countries lag behind other regions in TF implementation. Developed economies lead with an 85% adoption rate of TF measures, while Sub-Saharan Africa stands at 57% (Figure 1).

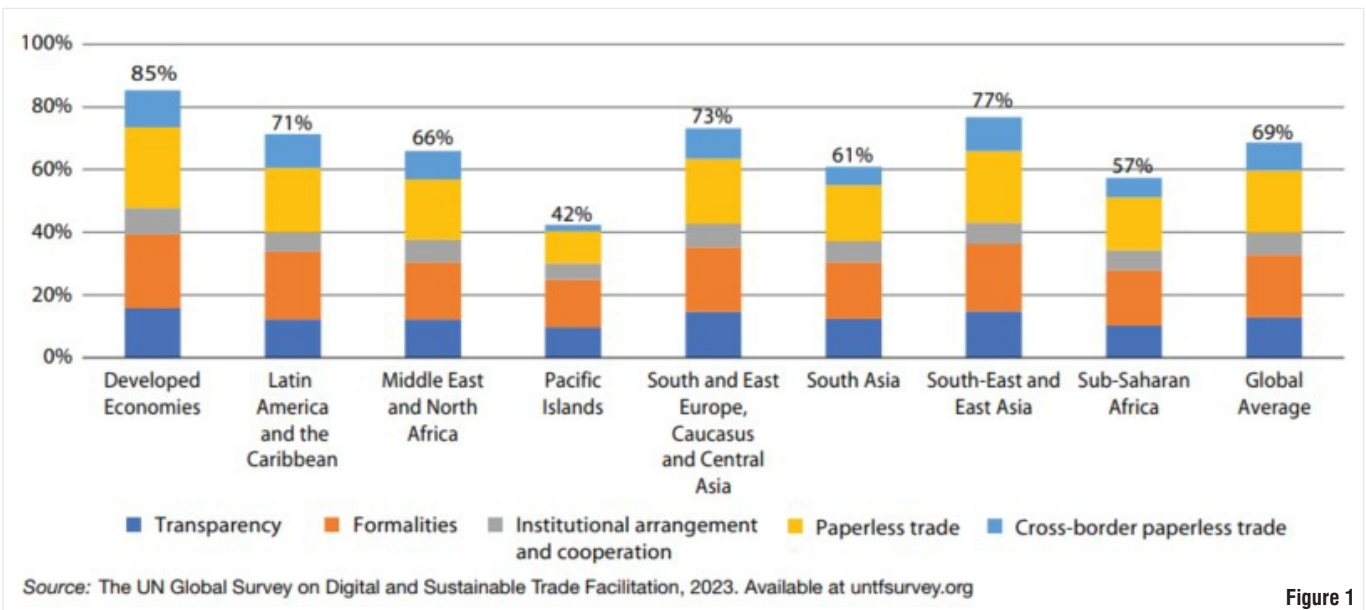


Figure 1

ing regulations. This is essential for African countries to participate more effectively in regional and global value chains (RVCs and GVCs), leveraging their comparative advantages. Moreover, by reducing trade

Figure 1 - Average Implementation Rates of TF Measures Globally
Source: Global Survey on Digital and Sustainable Trade Facilitation 2023 - <https://www.unftsurvey.org/>

Despite African countries falling short in terms of implementation of TF measures compared to developed and developing peers, there has been an uptick in trade facilitation implementation across African countries in 2023, compared to previous years (). Average implementation performance across the UNTF Survey indicates an increase of nearly 10%, from 49,98% in 2021 to 58,51% in 2023.

North African countries lead implementation of trade facilitation measures, closely followed by Southern African economies. Central African countries, while having increased their implementation rate over the past two successive iterations of the Survey, maintains the lowest

Considering that 40 diverse African economies participated in the UNTF Survey, attributing TF implementation gains in 2023 to any one factor is impossible. Instead, various factors attributed to gains made including: subsiding of the pandemic and 'normal trade activities' beginning to resume; greater uptake and roll-out of trade facilitation measures such as OSBPs; continued trade facilitation capacity building support from development partners in line with commitments under the TFA; and renewed impetus under the AfCFTA, among others.

When the latest survey findings are compared to historical findings, it is clear that African countries made the biggest relative gains in

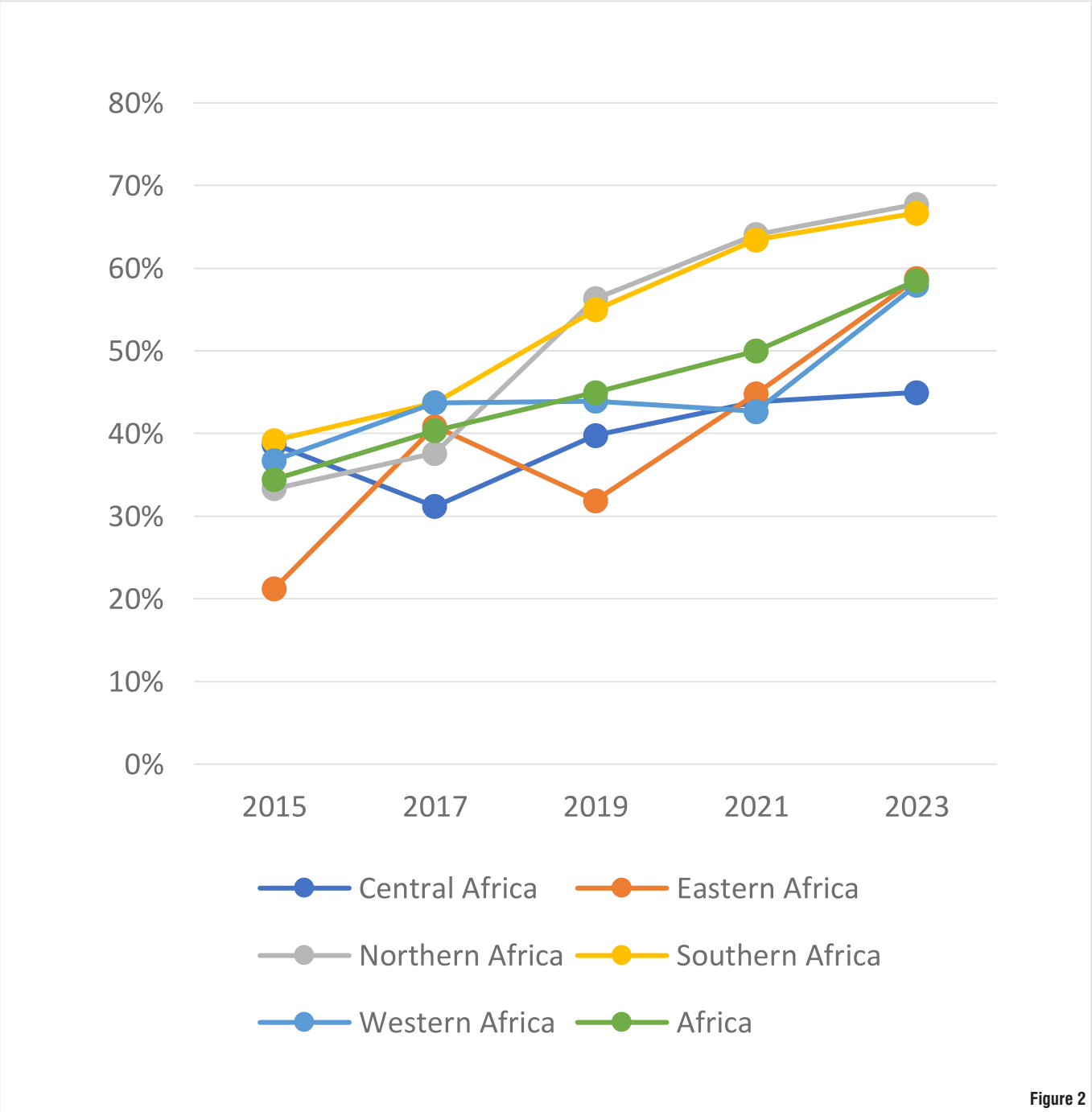


Figure 2

implementation rates in 2023 at 44,98%.

Figure 2: Comparison of TFI between 2015 and 2023

Source: Global Survey on Digital and Sustainable Trade Facilitation 2023 - <https://www.untfsurvey.org/>

implementing measures related to cross-border paperless trade and increasing transparency of trading procedures (Figure 3).

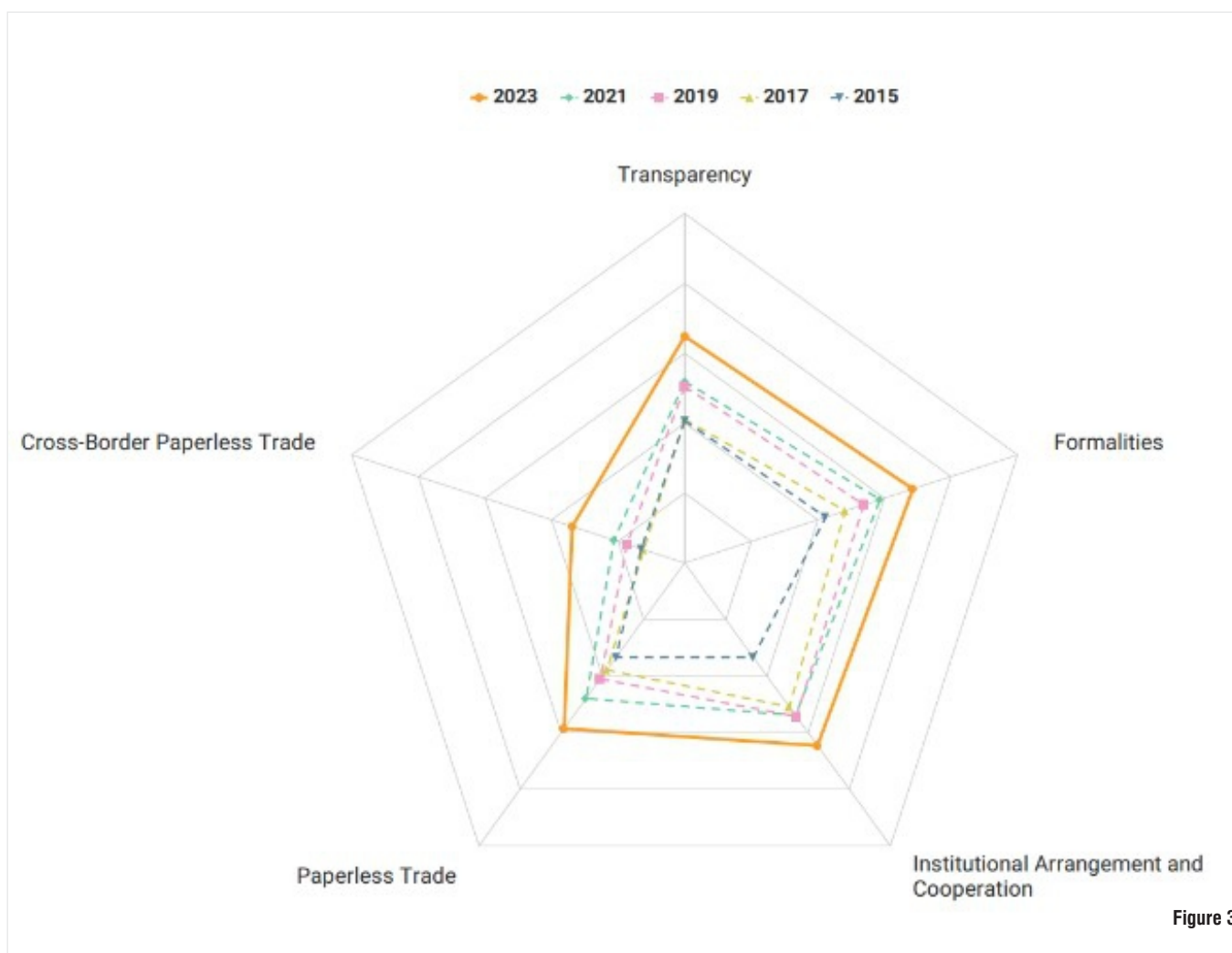


Figure 3: Historical Comparison of TFI, Africa

Source: Global Survey on Digital and Sustainable Trade Facilitation 2023 - <https://www.untfsurvey.org/>

3 TRADE FACILITATION CHALLENGES AND PRIORITIES FOR POLICYMAKERS

According to the UNTF 2023 Survey, African countries' average implementation of trade facilitation measures to support MSMEs remains low. The most successful indicator under this category relates to availability of trade information specifically for MSMEs, of which 35% of countries provide fully, and 36% of countries provide partially (Figure 4). Nevertheless, all other measures remain woefully under implemented. Without measures designed to support MSMEs, these enterprises, which are the backbone of African economies, may encounter significant challenges in engaging in international trade and expanding their market reach and even within the context of the AfCFTA.

Figure 4: Status of implementation, Africa, MSME Measures

Source: Global Survey on Digital and Sustainable Trade Facilitation 2023 - <https://www.untfsurvey.org/>

The absence of trade facilitation measures that cater to the needs of MSMEs could result in these businesses' isolation from the benefits of

international trade and the AfCFTA, which could ultimately hinder their ability to innovate, invest, and create jobs.

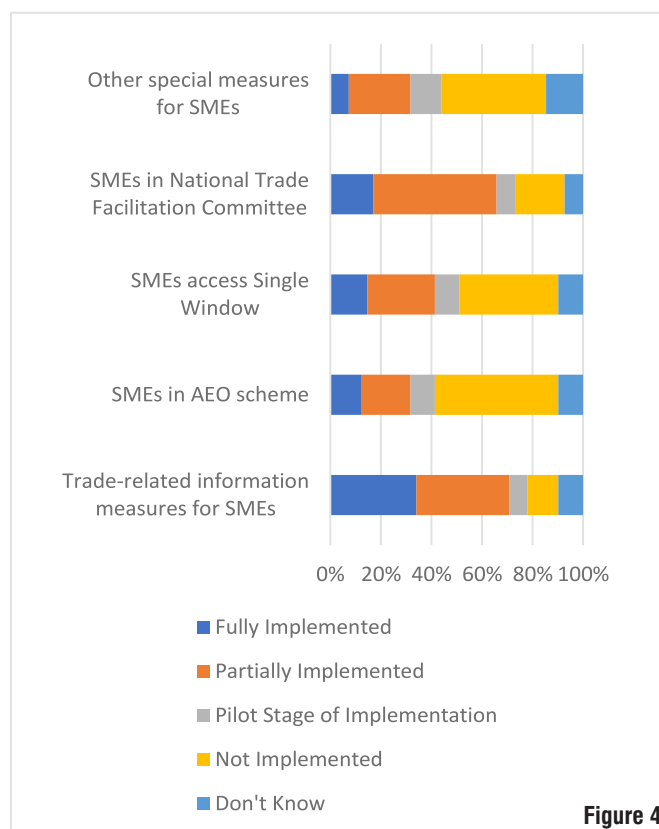


Figure 4

This scenario not only limits the contribution of MSMEs to economic development but also exacerbates the broader challenge of economic diversification and resilience within African economies. Thus, ensuring the effective implementation of tailored trade facilitation measures for MSMEs is crucial for their sustained growth, enhanced competitiveness, and meaningful participation in the global and continental trade landscape. The following section unpacks some of the key trade facilitation-related challenges faced by MSMEs on the continent.

The challenges and priorities identified in this policy brief are based on a comprehensive qualitative and quantitative review of trade facilitation across the continent. This methodology involved an extensive literature review, drawing on sources from international organisations, think tanks, development partners, and academia. In addition, stakeholder interviews were conducted to validate the findings from the literature review. These interviews included representatives from public, private, and civil society organisations (CSOs) across Africa, providing a well-rounded understanding of the key issues impacting trade facilitation efforts.

3.1 Rules of Origin

The AfCFTA presents significant opportunities for MSMEs to integrate into RVCs and GVCs by providing a framework that ensures fair competition and protects against trade deflection. However, the complexity and compliance costs associated with RoO can pose significant barriers to MSMEs, limiting their ability to fully benefit from trade agreements.

RoO are essential for determining the national source of a product, which in turn affects the application of tariffs and trade preferences. On one hand, they facilitate fair competition and provide preferential market access, thereby helping MSMEs integrate into larger value chains. On the other hand, the intricate requirements and high compliance costs can be overwhelming for MSMEs, which often lack the resources to navigate these complexities. This dual nature of RoO means that while they are designed to protect and promote regional production, they can inadvertently become obstacles for smaller businesses.⁶

MSMEs in Africa face significant challenges due to the complexity of RoO under various trade agreements. The overlapping memberships in different regional economic communities, each with its own set of rules, create a fragmented trade environment. This fragmentation increases the cost of doing business and hampers regional integration, as MSMEs must comply with multiple and often conflicting requirements. For instance, SADC applies strict RoO criteria, while the EAC and COMESA have more relaxed criteria. Less strict RoO are generally more beneficial for LDCs, allowing them to use a higher proportion of intermediate inputs to qualify for tariff preferences.

This flexibility helps countries with low manufacturing bases to participate in regional trade by undertaking modest levels of transformation.

Conversely, strict RoO, as favoured by South Africa to enhance domestic industrialisation, can be a significant administrative burden, potentially negating the benefits of tariff concessions under the AfCFTA.⁷ The AfCFTA will significantly help mitigate the complexity of RoO across RECs by harmonising the RoO regime. Nevertheless, lessons from the past underscores the need for RoO to be coherent and simple in order for MSMEs to effectively use them.

Different sectors face varying levels of complexity with RoO. For example, the automotive sector often has simpler RoO, requiring a certain percentage of local content for products to qualify for tariff concessions. However, the textile and clothing sector faces more complex rules, distinguishing between single-stage transformation (SST) and double-stage transformation (DST). SST allows manufacturers to import fabric and produce clothing eligible for tariff concessions, while DST requires both stages of transformation (from cotton to fabric and fabric to clothing) to occur within the region.

These complexities make it challenging for MSMEs to comply with RoO, especially in sectors like textiles where the requirements are stringent. The administrative burden and costs associated with strict RoO can lead firms to forgo tariff concessions altogether, undermining the potential benefits of the AfCFTA.⁸ Again, this underscores the need for the AfCFTA to have a coherent, simple and effective RoO regime.

Policymakers must design RoO that facilitate trade rather than hinder it, ensuring they are clear, transparent, and aligned with the capabilities of MSMEs. Simplifying RoO, harmonising them across different regional economic communities (RECs), and introducing digital initiatives such as electronic certificates of origin (see Box 1⁹), can reduce the regulatory burden on MSMEs and support their integration into RVCs and GVCs. Governments and development partners should also support MSMEs with capacity building on RoO to ensure they can benefit from tariff liberalisation under the FTAs.

Box 1 - SADC Electronic Certificate of Origin

The electronic Certificate of Origin (eCoO) implementation is a significant milestone in the Trade Facilitation Programme (TFP) supported by the European Union, and GIZ under the “Cooperation for the Enhancement of SADC Regional Economic Integration” (CESARE) programme. The eCoO replaces the manual SADC Certificate of Origin by introducing online applications and real-time tracking, resulting in improved efficiency. Thanks to advanced security features, like online authenticity verification and optical watermarking, it effectively reduces fraud at border posts

3.2 Non-Tariff Barriers, Technical Barriers to Trade, and Sanitary and Phytosanitary Measures

MSMEs in Africa face significant challenges due to NTBs, TBTs, and SPS measures. These barriers can be even more restrictive than tariffs, adding layers of complexity and cost that disproportionately affect smaller businesses. Beyond tariff preferences, NTBs present substantial obstacles for MSMEs. Ex-ante studies consistently show that removing NTBs can have a greater impact on trade than tariff liberalisation.

Some of the main NTBs include the high cost of obtaining export licenses, stringent product standards, limited quality infrastructure outside major cities, inefficient and costly border procedures, and complex bureaucratic compliance processes.¹⁰ For instance, in Mozambique, 96% of non-exporting firms cite the high cost of obtaining export licenses and stringent product standards as significant barriers.¹¹ Additionally, limited awareness and use of programs like the Authorised Economic Operator (AEO) programmes further hinder MSMEs from taking full advantage of trade preferences.

TBTs involve standards and regulations that products must meet to be sold in a particular market. In Southern Africa, inconsistent standards and health and safety specifications are significant obstacles. For example, the lack of harmonisation in standards for products like sugar, maize, wine, soaps, detergents, and cosmetics hampers trade. For maize, mandatory inspections, certifications, and national testing requirements create significant hurdles. Overlapping authorities and non-harmonised standards complicate the process, making it difficult for MSMEs to comply.

In the sugar industry, differences in national standards between countries, such as South Africa and Zambia, lead to challenges where South African supermarkets do not recognise Zambian standards as equivalent. Additionally, private standards imposed by supermarkets, such as Hazard Analysis and Critical Control Points (HACCP) accreditation, add further costs for suppliers. For products like soaps, detergents, and cosmetics, the lack of alignment with internationally accepted standards limits exports to regional markets.

Many countries require certificates of free sale for cosmetic products, and restrictions on importing certain finished products further complicate trade. For example, Zimbabwe's restriction on importing 43 finished products, including soaps and beauty creams, presents significant barriers for MSMEs trying to enter regional markets.¹² Nevertheless, by investing in quality testing, firms can enhance their exports and competitiveness (Box 2¹³).

Box 2 - Addressing NTBs: Kombeza Foods

Kombeza Foods, a dairy producer in Malawi, faced significant challenges related to quality control and non-tariff barriers to export. To overcome these hurdles, the company implemented in-house quality testing and extension services to ensure their products met high standards. Additionally, Kombeza Foods leveraged social media platforms to expand their market reach, especially among tech-savvy consumers. The company also underscored the importance of a supportive regulatory framework to navigate export challenges effectively. These strategic actions helped Kombeza Foods improve their quality control processes and better manage non-tariff barriers, enhancing their overall export potential.

SPS measures aim to protect human, animal, and plant life from risks arising from the introduction of pests, diseases, or contaminants. However, inconsistent SPS measures across countries pose challenges for MSMEs. For example, mandatory inspections, certifications, and national testing requirements for agricultural products like maize can be particularly onerous. The lack of harmonised SPS standards and the involvement of multiple authorities' complicate compliance for MSMEs, increasing both costs and administrative burdens. Tradebarriers.org – an online NTB reporting and monitoring platform - reports various SPS-related challenges, such as raw cane sugar shipments detained in Mombasa due to bureaucratic import procedures and third-party agencies in Zambia applying higher-than-international standards for wine testing. These inconsistencies create barriers to trade, making it difficult for MSMEs to compete effectively in regional and international markets.¹⁴

3.3 Corruption

Corruption remains a pervasive challenge that hampers trade facilitation efforts in Africa. It manifests at various stages of the trade process, from border controls to the issuance of permits and licences, creating an environment of uncertainty and inefficiency that disproportionately affects MSMEs.

Corruption at border points exacerbates delays and increases the costs of trade. Customs officials may demand unofficial payments for expedited services, while opaque procedures and the discretionary power of officials create opportunities for rent-seeking behaviour. This not only undermines the integrity of the trade system but also places additional financial burdens on MSMEs, which often lack the resources to navigate or counter such corrupt practices.

Box 3 - Ghana's Trade Facilitation and Border Reforms

Ghana has undertaken several initiatives to improve trade facilitation, including the modernisation of its ports and the implementation of electronic customs management systems. These reforms have streamlined the customs clearance process, reduced delays, and minimised the opportunities for corruption. As a result, MSMEs in Ghana have benefited from more efficient trade processes and reduced costs, enabling them to compete more effectively in both regional and international markets.

Corruption distorts the competitive landscape by favouring businesses that can afford to pay bribes, thereby marginalising smaller firms and new market entrants. It also leads to the misallocation of resources, as businesses divert funds meant for productive investment towards illicit payments. The lack of transparency and predictability in customs procedures further discourages foreign direct investment, as potential investors are wary of entering markets where corruption is rampant. Many countries, for example Ghana (Box 3)¹⁵, have introduced TF measures and border reforms to address the issue of corruption, among others. Numerous examples from across Africa highlight the detrimental impact of corruption on trade facilitation. In some instances, transport routes are plagued with multiple checkpoints where unofficial payments are demanded. For example, the cost of transporting goods through certain corridors can increase by 10% to 30% due to bribes paid at these checkpoints. Additionally, the lack of harmonised regulations and standards across regions creates opportunities for corrupt officials to exploit the system, demanding payments to overlook discrepancies in documentation or compliance.¹⁶

4 MAIN POLICY RECOMMENDATIONS

To address the specific challenges faced by MSMEs under the AfCFTA, the following policy recommendations are proposed to assist policymakers and MSMEs in navigating the complexities of trade facilitation:

Enhance Transparency and Streamline RoO:

- Policymakers should simplify RoO to be clear and less burdensome, particularly for MSMEs. The AfCFTA presents a unique opportunity to harmonise RoO across various RECs.
- Development of digital tools such as eCoO should be prioritised to facilitate easier verification processes and reduce fraudulent practices.

Reduce NTBs and Streamline Standards:

- Governments should commit to reducing NTBs by streamlining procedures at borders, simplifying the issuance of export licenses, and eliminating excessive trade charges that disproportionately affect MSMEs.

- Promote the harmonisation of standards and certification processes across countries to ease the burden of TBTs and SPS measures. This includes aligning national standards with international benchmarks to enhance competitiveness in global markets.

Strengthen Institutional Support for MSMEs:

- Implement targeted capacity-building programmes that help MSMEs understand and meet TF requirements. This should include training on how to effectively navigate RoO, NTBs, TBTs, and SPS measures.
- Establish dedicated TF desks within government agencies to provide MSMEs with the necessary support and information, particularly in the areas of trade compliance and market access.

Foster a Transparent and Corruption-Free Trading Environment:

- Introduce and enforce strict anti-corruption measures at all levels of trade processes to ensure a level playing field. This includes the adoption of modern and secure electronic customs management systems that reduce human intervention and potential for corruption.
- Encourage transparency in trade operations by implementing systems that allow for the tracking and reporting of corruption cases, ensuring that incidents are addressed swiftly and effectively.

In conclusion, addressing the trade facilitation challenges facing MSMEs is critical for unlocking the full potential of the AfCFTA and ensuring their active participation in regional and global markets. Simplifying RoO, harmonising standards, and reducing NTBs will create a more supportive trade environment for MSMEs. The implications of these actions are far-reaching, as they could foster greater economic resilience, boost innovation, and create employment opportunities across the continent. By implementing these recommendations, policymakers can not only enable MSMEs to grow and compete but also contribute to the broader goals of regional integration and economic development.

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