



**AfCFTA/
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Original: English**

AfCFTA Trading Companies

CONCEPT NOTE

February 2023

A. BACKGROUND

1. The 7th Meeting of the Council of Ministers responsible for Trade adopted the Ministerial Directive 1/2021 on the Application of Provisional Schedules of Tariffs Concessions (PSTC) on the 10th of October 2021. This Ministerial Directive provided a legal basis for the 29 countries that had submitted their tariff schedules in accordance with the agreed modalities to trade preferentially amongst themselves. The Ministerial Directive was adopted by the Assembly of Heads of State and Government in February 2022 paving the way for various activities and initiatives towards the start of commercially meaningful trade under the AfCFTA.
2. The Decision of the 17th Extraordinary Session of the Assembly of the African Union Heads of State and Government on the AfCFTA held in Niamey, Niger, in November 2022¹ encouraged State Parties to “support their private sector to take advantage of the Guided Trade Initiative and DIRECTS the Secretariat to expand the Guided Trade Initiative to cover other State Parties that have met the minimum requirements for trade as set by the council of ministers, to take advantage of the AfCFTA market”. The Assembly also directed “the AfCFTA Secretariat to support the state parties in the establishment of the Trade Aggregating Companies, including exploring the possible legal framework required for finance and equity support to harvest the benefits of the AfCFTA.”
3. This Decision followed the successful piloting of the AfCFTA Guided Trade Initiative (GTI), which was launched on 7th October 2022 on the side-lines of the 10th Meeting of the AfCFTA Council of Ministers held in Accra.
4. Acting on the directive of the Heads of State and Government and the Council of Ministers for urgent start of trading using the AfCFTA instruments, H.E the Secretary General, Mr. Wamkele Mene, announced the AfCFTA Secretariat Guided Trade Initiative (GTI) to the 9th Meeting of the Council of Ministers in July 2022. The Initiative was subsequently launched at the 10th Meeting of the Council of Ministers on 7th October 2022.
5. The objective of the Guided Trade Initiative was to support trading under the preferences of the AfCFTA Agreement among interested State Parties that have met the minimum threshold for the start of commercially meaningful trade. The Guided Trade Initiative sought to:
 - a. demonstrate the efficiency of the legal framework of the AfCFTA instruments;
 - b. obtain feedback on the effectiveness of the legal and institutional national systems in the participating countries;
 - c. test the readiness of the private sector to participate in trade under the AfCFTA; and
 - d. identify possible future interventions to increase intra-African trade and maximize the benefits of the AfCFTA.

¹ Ext/Assembly/AU/Draft/Dec.2(XVII), Nov. 25, 2022.

6. Seven (7) State Parties – Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda and Tanzania, representing the five regions of Africa, expressed interest in the Initiative. The Committee on the AfCFTA Guided Trade Initiative was established to progressively coordinate and operationalise activities. From the State Parties that participated in the pilot phase of the Initiative, a total of over 100 potential trades were identified for trading, ranging from ceramic tiles to tea.
7. The pilot phase of the Guided Trade Initiative highlighted several lessons for the AfCFTA Member States. These include: (a) the need for State Parties to mobilize businesses interested in both export and import for the progress of the Initiative; and (b) the need for Trade Aggregators to leverage economies of scale.
8. While the Initiative kick-started commercially meaningful trading under AfCFTA instruments, the ultimate success of the Initiative will be the dismantling of the Initiative itself when it morphs into seamless trading under the AfCFTA with little to no guidance from the AfCFTA Secretariat on actual trading.
9. This can be achieved by (a) increasing the number of State Parties participating in the GTI, and (b) establishing AfCFTA Trading Companies to serve as intermediaries or trade aggregators for African SMEs and smallholder farmers.
10. One of the lessons learnt from the pilot phase of the GTI was the need for Trade Aggregators to leverage economies of scale. The 17th Extraordinary Session of the Assembly recognised this need and directed the Secretariat to support State Parties in the establishment of trade aggregating companies.
11. There are several trading companies in the form of Export Trading Companies (ETCs) in Africa. These include Ghana Cocoa Board (Ghana), Kenya National Trading Corporation (Kenya), Ethiopia Trading Business Corporation (Ethiopia), Indian Ocean Export Company (South Africa), Dangote Group (Nigeria), Group Mansour (Egypt), and OCP Group (Morocco).
12. A recent study commissioned by the Afreximbank revealed that existing ETCs are “predominantly engaged in the agricultural and agribusiness sectors.”² The study further observed that in terms of ownership structure, about 91% of existing ETCs are African wholly owned, 5% are foreign wholly owned and 5% are joint ventures with foreign ownership.

The Purpose of this Concept Note

13. In compliance with the decision of the 17th Extraordinary Session of the Assembly, this Concept Note proposes a mechanism to upgrade trading under the GTI through the establishment of AfCFTA Trading Companies as trade aggregators.
14. Feedback from participating firms and State Parties shows that the pilot phase of the GTI was a good test for the AfCFTA trading instruments. More importantly, it

² Afreximbank Consultancy Services for the Development of Regulatory Framework to Facilitate the Emergence and Expansion of Export Trading Companies (ETCS) in Africa (AB&David and Kofidans), February 2021.

demonstrated the readiness of State Parties and African businesses to trade under the AfCFTA. The increasing number of enquiries the AfCFTA Secretariat continues to receive from African SMEs is a testament to the private sector's recognition of the potential of AfCFTA to boost their export/import potential.

B. RATIONALE FOR AfCFTA TRADING COMPANIES

15. Intra-Africa trade is low, standing at less than 18%. There is limited intra-regional trade and trade in manufactured products. Among the reasons for this performance are concentration in raw and primary agricultural products, mineral resources and low value-added products, Non-tariff barriers (standards and SPS measures), and limited integration in regional and continental value chains.
16. In the wisdom of Summit, the creation of AfCFTA Trading Companies as trade aggregators has the potential to stimulate and facilitate intra-African trade both in volume and diversity of products. This will require the active participation of African SMMEs and smallholder farmers through trade aggregation to reduce transaction costs and barriers currently associated with intra-African trade.
17. One of the lessons learnt from the pilot phase of the GTI is that the sustainability of the Initiative lies in its ownership by the private sector.
18. African ETCs are still dominant in the agricultural sector and commodity space, but with low value-addition that includes cocoa, coffee, tea, maize or cereal purchasing boards. This stems out of the broader challenges related to low levels of value addition and industrialisation across the continent.
19. ETCs have played significant roles in the development of export trade and the economies of many countries. Afreximbank, in its presentation³ to the 10th Meeting of the Council of Ministers, noted the significant role ETCs played in promoting trade, industrialization and economic growth in Asia. At the same time, trading companies can offer capacity building to equip SMMEs with the requisite technical skills to prepare and present persuasive business proposals.
20. The challenges interested firms faced in the pilot phase of the GTI demonstrated the need to create AfCFTA Transport/Logistics agenda and solutions and to establish National or Regional AfCFTA Trading Aggregators to assure the level of demand required by transport sector and the creation of predictable supply chains.
21. Unlike traditional ETCs, the Secretariat proposes the establishment of general trading companies whose primary focus will be intra-Africa trade using AfCFTA instruments and tools. While some traditional ETCs engage in export/import of diverse goods and services, most of them tend to focus on exports as their main target. AfCFTA Trading Companies will focus on the duality of international trade as aggregators: import and export from and to several markets within Africa. They will provide support services such as warehousing, shipping, insurance, among others.

³ Afreximbank presentation to the 10th Meeting of the AfCFTA Council of Ministers, (Oct. 2022), *Export Trading Companies as Operational Instruments to facilitate Trade and Industrialization under the AfCFTA*.

C. THE NATURE OF PROPOSED AfCFTA TRADING COMPANIES

22. AfCFTA Trading Companies will provide aggregation for SMEs and small holder farmers on the continent. This will encourage the private sector to take advantage of the opportunities that are exists within the AfCFTA.

Ownership Structure

23. The AfCFTA Trading Companies may take different forms, depending on national laws and industrial policies.

(a) Public/Private Partnerships (PPPs)

24. While the structure to be adopted by AfCFTA Trading Companies may depend on national policies and laws, the Secretariat proposes the setting up of AfCFTA Trading Companies as joint ventures between the State and private sector.
25. The overarching objective of the AfCFTA Trading Companies is to create trade aggregators that will facilitate intra-Africa trade by serving as levers for African SMMEs and smallholder farmers. From the perspective of market efficiency and integration, private sector-led ventures in Africa hold the biggest potential for the realisation of that objective.
26. One of the ways of encouraging private sector participation is to employ private-public ventures. This structure will create partnerships between governments and the private sector. Public sector can complement private sector by mobilising capital, innovation, market penetration, improving standards and quality infrastructure.
27. Depending on the preference of participating players and national laws, the PPP trading company may be a privately owned or publicly listed entity. From the perspective of shared prosperity and opportunity, it would be preferable to have publicly listed AfCFTA Trading Companies in the medium to long term.

(b) Private-sector Ownership

28. The legal form may vary from partnerships (limited or unlimited) to limited liability companies (limited by shares). As much as possible, AfCFTA Trading Companies should be wholly owned by Africans (individuals or legal entities).
29. A privately wholly owned AfCFTA Trading Company may be constrained in mobilising resources to provide aggregation services to SMMEs and smallholder farmers. In addition, trade facilitation cost, export penetration in foreign markets will be challenging to privately owned firms as compared to joint ventures with State participation.

(c) State-owned

30. State Parties may establish state-owned enterprises as AfCFTA trading companies. the legal nature of the state-owned enterprise varies from State to State. For example, in some State Parties, the trading company could be established under an act of parliament, by decree, ordinance or other legislative instrument as a statutory corporation. In some other States, the state-owned trading company incorporated as a private company wholly owned (100%) by the State.
31. While there are advantages to having state-owned trading companies, most of the State-owned ETCs in African have not been as successful for reasons of inefficiencies associated with government institutions, lack of accountability and transparency, and monopolistic tendencies leveraging on the protection of the State.

D. ADDITIONAL KEY FEATURES

(a) Aggregation

32. In the context of the African market where SMMEs are the prevalent trading entities, they are the firms with the greatest export opportunities and the firms that create most jobs. Yet African SMEs suffer the greatest challenges to entering the export market. Prominent among those challenges are lack of access to market information and financial resources. The export trade procedures and practices can be overwhelming for SMMEs not well-versed in international trade and finance.
33. Using aggregators has proven to be key for integrating SMMEs and smallholder farmers into global value chains. For example, a 2021 study by Afreximbank⁴, noted that 22% of ETCs in Egypt operate as aggregator-ETCs which aggregate agricultural commodities from individual and smallholder cooperatives.

(b) African ownership

34. The Secretariat proposes that ownership of the AfCFTA Trading Companies should be limited to Africans (individuals and legal entities). However, the Secretariat recognises that for reasons of finance and technology transfer, AfCFTA Trading Companies in some State Parties may opt for non-African foreign participation. In those instances, the controlling ownership should be African. The nature and extent of foreign participation and African-controlling interest will be a matter for national laws.

E. FINANCING

35. One of the immediate challenges to establishing and operating privately-owned AfCFTA Trading Companies will be finance. We outline here the various sources from which funds may be mobilised to support the work of AfCFTA Trading Companies.

(a) *Equity and internally generated funds*

⁴ Policy Framework for the Regulatory Framework to facilitate the Emergence and Expansion of Export Trading Companies in Africa (prepared by AB & David and Konfidant)2021.

36. Depending on the subscribers/owners of the entity, initial activities (especially capital expenditure) of the AfCFTA Trading Company may be financed by the business owners through equity or debt financing. As demonstrated by West African Trading Company, where the aggregator is set up as a subsidiary of an established firm, the parent company may provide sufficient capital for the initial operations of the aggregator.

(b) *Export/Import Finance*

37. Various banks and financial institutions provide some form of international trade finance products targeted at exporters/importers. However, some of those funds are not accessible to African SMMEs because of credit requirements and high interest rates (especially from domestic banks). For AfCFTA Trading Companies to succeed, there will be the need to provide access to trade finance to SMMEs based on flexible rules and requirements.

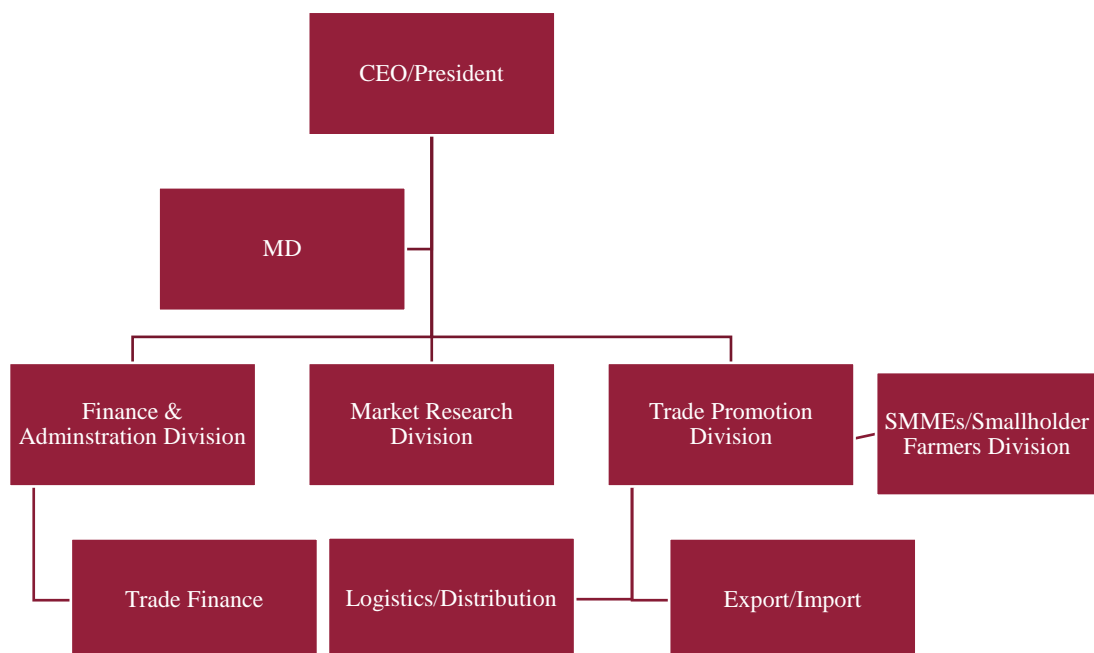
38. Existing African multilateral financial institutions like Afreximbank and the African Development Bank should be encouraged to develop specific products tailored to provide financial support to AfCFTA Trading Companies.

(c) *National Export-Import Banks (Exim Banks) and Special Trade Finance Schemes*

39. Exim Banks have been known to provide various forms of trade finance and incentives to exporters/importers. For example, Ghana and Nigeria have national Exim Banks that provide incentives related to trade and project financing.

40. State Parties that do not have Exim banks should be encouraged to put in place similar arrangements to provide trade finance to their national AfCFTA Trading Companies.

F. PROPOSED BASIC ORGANOGRAM FOR AfCFTA TRADING COMPANIES



G. THE ROLE OF MEMBER STATES AND THE SECRETARIAT

(a) The Role of Member States

41. Governments should play a key role in facilitating, regulating, and supporting trade. Part of that role may include instituting guidelines for documentation, registration, logistics and freight selection.
42. While it may not be ideal to have homogenous regulatory frameworks for national AfCFTA Trading Companies across the continent, it will be useful (for the sake of predictability) for State Parties to have specific regulatory frameworks detailing the role of the State as a regulator of AfCFTA trading companies.
43. Furthermore, Member States should create a reporting mechanism to monitor and evaluate the contribution of their respective AfCFTA Trading Companies to intra-African trade using AfCFTA tools.

(b) The AfCFTA Secretariat

44. Following the directive of Summit in Niamey, November 2022, the Secretariat plans to conduct State Party engagements and collaborations with funding partners to support the establishment of AfCFTA Trading Companies.

i. Member States and Private Sector Engagements

45. The Secretariat plans to engage with national authorities and private sector to discuss expansion of trading under AfCFTA and the mechanics for establishing AfCFTA Trading companies. There will be an opportunity for trading companies like West African Trading Company to collaborate and build B2B partnerships. It is hoped that these engagements will boost the creation of a network of aggregators and trading partners for intra-African trade.

ii. Partnerships for Financial and Technical Support

46. The Secretariat will collaborate with other institutions like Afreximbank (the Bank) and African Development Bank to develop programs in support of AfCFTA Trading Companies focused on SMEs and small holder farmers.

47. The Secretariat has collaborated with the Bank on how to leverage the GTI to promote the establishment of ETCs across Africa. In June 2019, the Bank launched its Strategy on ETCs which “provides a range of financing⁵ and trade facilitation services to facilitate the emergence and expansion of ETCs.”⁶ In addition, the Bank has developed a model regulatory framework to facilitate the establishment of ETCs across Africa.

48. The AfCFTA Secretariat will partner the Bank to adapt the model regulatory framework to suit the nature of AfCFTA Trading Companies. State Parties may then adopt the AfCFTA-modified model Regulatory Framework to facilitate the establishment and promotion of AfCFTA Trading Companies.

⁵ For example, in August 2020, Afreximbank granted a USD400M three-year revolving global credit facility to Export Trading Group to strengthen African agricultural networks and bolster food security <https://www.afreximbank.com/afreximbank-provides-400m-to-the-export-trading-group-to-drive-agricultural-productivity-and-resilience/> [Accessed on Feb. 3, 2023].

⁶ Afreximbank presentation to the 10th Meeting of the Council of Minister in Accra (Oct. 2022).