AfCFTA Consultancy

Consultancy Team

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The AfCFTA as one of the biggest regional economic integration block in the world promises inclusive economic growth and sustainable development across Africa (Obeng-Odoom, 2020).

It is poised to advancing economies of scale and enhancing competitiveness, regional economic integration supports structural transformation and enables countries to more effectively allocate productive resources, better attract investment and promote peace and security.

The Gambia being a small country as well as a historically important trading hub in West Africa has a vital interest and a big role to play in regional integration efforts (Apiko et al., 2020; Ndonga et al., 2020)
According to the MSME mapping study of 2018, **MSMEs contribute more than 26% to real GDP** and employ the largest share (62.9%) of the active labour force (15 – 64 years).

To assess the impact of AfCFTA on the Gambia, it is important to understand the potential effect of the AfCFTA on The Gambian MSME Ecosystem.
To gather the information needed to achieve the goals of the study, **multiple data collection methods were used**: Survey of MSMEs; interviews with key stakeholders; and gathering of secondary data through desk research.

The survey was the primary source of collecting information for the study.

To sample MSMEs for interviews, **a multi-stage sampling method was used using MSMEs data from multiple databases** (2018 MSME mapping, GBOS, GCCI, Ministry of Justice, Directory of Gambian manufacturer etc) was used as a frame.
First, MSMEs were grouped into two strata based on informality.

Second, within each stratum a representative number of MSMEs was drawn using proportional sampling where the proportion is determined by the formality status in the frame.

To ensure that the study captures a good number of registered enterprises, the study included all the formal businesses in the frame and the same proportion of informal businesses were include from the other sources (mainly the GBOS and MSME mapping survey).
Since data were gathered from multiple sources, duplicates were deleted before sampling.

In total 46,925 enterprises formed the frame, which is less than the total number of MSMEs in the Gambia according to 2018 Mapping survey but was considered the most appropriate method of determining the frame.

Using appropriate sampling size determination criterion, 600 MSMEs was arrived at as a the required sample for the survey.

To account for non responses, the sample was increased by 10 percent and the final sample was 660 MSMEs, and were randomly sampled from the frame.
To collect information from the respondent sampled, a questionnaire was developed on survey solution designer.

The questionnaire consists of the following modules: Enterprise business information; international business operations; import and export operations; awareness of AfCFTA; and perception about AfCFTA, and MSMEs competitive capacity to meet process requirements under AfCFTA; and their awareness of other trade agreements (ETLS and AGOA).

Furthermore, the survey was used to collect information on the challenges MSMEs face in producing and exporting to other African countries.

Due to the COVID-19 situation and other challenges in doing a person-to-person interview, the questionnaire was administered via telephone using tablets.
Enumerators were recruited through a competitive process and a **three-day training** was organized for them.

After the training, a **pre-test of the instrument was done**, and all issues identified were addressed before the start of the actual survey.

Furthermore, **the survey instrument was shared with the client** for their feedback before it was finalized.

The data collection **lasted for weeks** due to delays caused by non-responses.
KIIS were conducted with official of key institutions in the implementation of AfCFTA in The Gambia such as Ministry of Trade (MOTIE), GWCC, GYCC, Gambia Standards Bureau, Gambia Competition Commission, and Association of Gambian Manufacturers (AGM).

The key informant guide was focused on the following: Knowledge and perception of AfCFTA; AfCFTA and the economy; AfCFTA on MSMEs; Impact of COVID-19 and on the AfCFTA.

Furthermore, a detailed review of all relevant documents that touch upon AfCFTA design, implementation and previous analytical studies elsewhere were also carried out to map out the relevant challenges and opportunities presented by AfCFTA in the Gambia.
Results on the profile of the surveyed MSMEs in terms of age, gender, and education level of the owner shows most are 36-45 years old; 84% are male; attained secondary level of education.
Demographic profiles according to ownership structure, registered enterprises and sector of activity
Furthermore, the results indicate that a substantially higher proportion of MSMEs surveyed (85%) are in the GMD 0-500,000 annual turnover range, majority (79%) have 0-4 employees, and most (about 54) have an asset ownership of GMD 0-25000.
About 41% of the enterprises surveyed reported that they target foreign markets, but only 20% said they have access to foreign markets with 67% reporting that they have access to a foreign market in ECOWAS, followed by EU (27%) and AU (11%) then Asia and North America (each 10%).

[Graphs showing international business engagement, foreign markets accessed, mode of transporting goods, type of international business engagement, and main challenges enterprises face in accessing foreign markets]
MSMEs are heterogeneous in their international business engagements across sector.
The proportion of MSMEs currently targeting foreign markets is highest for MSMEs in the manufacturing sector (56%) and agricultural sector (51%).
There is **heterogeneity in awareness across sector**; Lack of awareness of the trade liberalization is highest among MSMEs in the wholesale/retail trading sector (86%), followed by the services sector (80%).

Interestingly, the MSMEs in the agriculture and manufacturing sector are more aware of AfCFTA than MSMEs in the other sectors.
A substantial proportion of MSMEs are still not aware of the AfCFTA.
Although they are more aware about the agreement, MSMEs in the agriculture and manufacturing sector have less knowledge on how to benefit from the AfCFTA.

For instance, while about 25% of MSMEs surveyed in the manufacturing sector reported that they know how to benefit from the AfCFTA, 47% and 67% of the MSMEs in services and wholesale/retail trading sector, respectively, reported that they know how to benefit from the AfCFTA.
Also, lack of knowledge of the coordinating local institution for the AfCFTA is highest for MSMEs in manufacturing (all those surveyed said they do not know the local coordinating institution), which followed wholesale retail (78%) and services (77%).

Overall, the level awareness of the AfCFTA is fairly the same across all type of MSMEs. Again, this reinforces that there is a need for more sensitization campaign on the AfCFTA for MSMEs.

In the expert interview, one of the private sector institutions highlighted that they were not involve in the negotiations and as a result they are not aware about it.
Study results indicate that 9 in 10 enterprises believe that AfCFTA will have a positive impact on market size and cost of labour.

78 percent of the enterprises are of the view that the Agreement will have positive effect on production level, while about 3 in 4 enterprises are of the view that AfCFTA will have a positive effect on material cost and prices.

On the perception of MSMEs on potential challenges from AfCFTA, 93 percent of enterprises surveyed think that increase in foreign competition will be a challenge, while 81 percent view the influx of cheaper goods to compete local goods will be a challenge.
Reduction in demand for local goods is considered a challenge by 57 percent of MSMEs and less than half of the enterprises think that government will neglect other factors affecting MSMEs under the AfCFTA.
Regarding the challenges that MSMEs will face due to the AfCFTA, there are heterogeneity across sector.

More enterprises in services than in the other sectors reported that the agreement will increase competition to the disadvantage of Gambian MSMEs, followed by MSMEs in agriculture and manufacturing.

The perception that AfCFTA will increase the availability of cheaper international goods that will compete with local goods is highest among firms in agriculture than any of the sectors.

Furthermore, at least 50 percent of the MSMEs surveyed reported that the AfCFTA will increase availability of cheaper foreign goods that will compete with local goods.
The perception that the agreement will lead to reduce demand for local products is highest for enterprises in the services sector followed by manufacturing and agriculture.
MSMEs were asked their capacity to deploy financial, technological, institutional, structural, and market assets to benefit fully from the AfCFTA.

This is highest for reputational, institutional and market assets.
Profile of MSMEs
International Business Operations of MSMEs
Awareness of AfCFTA
Perception of MSMEs on AfCFTA
Import and Export Operation Pre-AfCFTA
Introduction
Methodology
Study Findings
Summary and Discussion
Recommendations

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While general optimism could be perceived among participants during the key informant interviews, again, many MSMEs are not aware of the deal in the first place. This reveals how stakeholders are worried about potential adverse effects of the AfCFTA to MSMEs in the Gambia. Most prominent among the threats is the lack of appropriate infrastructure (i.e. Ports, Roads, Transportation System and Tariff policy, etc.) to benefit from the AfCFTA agreement.

Other threats to MSMEs in Gambia that could be associated with the AfCFTA include high level of taxation, access to finance, high electricity cost, increase in foreign competition, reduction in the demand for local goods, and dumping of sub-standard products. The issue of corruption was cited across the board.
Business leaders indicate that while AfCFTA provides opportunities for expanded market, there are internal conditions that need to be in place for the Gambia to maximize these opportunities.

Lack of access to electricity and cheap alternative energy sources means that companies generate their energy needs, which raises the cost of production to uncompetitive levels.

Another infrastructure that is lacking is storage facilities, the lack of which drives many MSMEs to non-competitiveness.

The efficiency of the port system is also a concern. In one of the interviews, an expert said “The Gambia port cannot accommodate large vessels (large vessels either disembark in Lome or Gilbrata) which takes 6 months before you get your goods. This has discouraged lot of people and they eventually use the port of Senegal.”
On import of sub-standard products that will compete with local products, a lot of experts said this is a huge possibility, especially if the country fails to put in place the needed infrastructure to ensure that goods that enter the country can be tested for quality.

One expert said “it will be hard for us to export to other countries and countries that meet the requirements can’t be stopped from exporting to The Gambia.”
AfCFTA has a great potential to benefit MSMEs in the Gambia but the level of awareness of Gambia’s ratification of AfCFTA among MSMEs is as low as 12%.

The knowledge and perception of enterprises about AfCFTA is crucial if firms are to exploit such potential benefits and avoid possible threats as a result.

More than half of the enterprises surveyed reported that they know how to benefit from the agreement, while more than 90% said they need more information about the agreement to be able to know how to benefit from it.
Knowledge of firms about national institution responsible for AfCFTA is low. Out of every 100 enterprises, 78 don’t know of any national institutions responsible for AfCFTA.

This is low level of awareness of AfCFTA is highest among MSMEs in the wholesale/retail trading sector (86%), followed by the services sector (80%).

About 25% of MSMEs surveyed in the manufacturing sector reported that they know how to benefit from the AfCFTA, 47% and 67% of the MSMEs in services and wholesale/retail trading sector, respectively, reported that they know how to benefit from the AfCFTA.
The key expert interview revealed high level of awareness about the existence of the Agreement among key stakeholders. However, the level of engagement of some stakeholders on AfCFTA like the manufacturing sector is low. Also, local coordinating institution play a crucial role in facilitating the implementation of AfCFTA. The lack of knowledge of the coordinating local institution for the AfCFTA is highest for enterprises in manufacturing (100%) followed by wholesale/retail (78%) and services (77%).
Re-export trade is a major contributor to economic development of The Gambia. In terms of the implication of AfCFTA on re-export trade in The Gambia, there are huge opportunities to boost it.

Some experts believe re-export trade is on the decline. African countries tend to trade more with other countries (inter Africa trade) than within Africa (intra-Africa).

For AfCFTA to succeed fully, more countries need to diversify their production of goods to better match the import needs of their continental neighbors.
AfCFTA affects market size, cost of labor, production level, material cost and prices. 9 in 10 enterprises believe that AfCFTA will have a positive impact on market size and cost of labour, 78 percent of the enterprises are of the view that the Agreement will have positive effect on production level, while about 3 in 4 enterprises believe that AfCFTA will have a positive effect on material cost and prices.

Enterprises engage in international business operations to benefit from AfCFTA and other regional free trade agreements.

The main sectors involved in AfCFTA in The Gambia are MSMEs in manufacturing and MSMEs in agricultural sector. The survey revealed that 56% of enterprises in manufacturing sector and 51% in agricultural sector are involved.
Access into foreign market is a necessary condition for countries to benefit from trade liberalization. The main mode of transportation to foreign markets is road followed by air and sea, hence the need to invest and improve such infrastructure to benefit from AfCFTA.

More than 40% of enterprises surveyed target foreign markets but only 20% said they have access to foreign markets in ECOWAS, EU, AU, Asia and North America. 53 out of every 100 enterprises surveyed do only import operations, 9 out of every 100 reported that they do export only and 7 out of every 100 do both import and export.
Therefore, AfCFTA is likely to benefit more enterprises that specialize imports than those that specialize in exports or both. It is recommended that Government should promote MSMEs that involve is export operations.

By type of international business operation, MSMEs in the agriculture and wholesale and retail sector do more import only (67% and 64%, respectively), followed by MSMEs in services with MSMEs in manufacturing.

Export only is dominated by MSMEs in the agriculture sector (11%) followed by MSMEs in manufacturing (10%). The number of enterprises engaged in export is low and therefore the need for government to promote export-led policies to support MSMEs in such sectors that are into export.
MSMEs access to foreign markets is dominated by ECOWAS market which entails provision of services followed by wholesale and retail, manufacturing and agriculture.

Access to the EU and North American market is dominated by MSMEs engaged in agricultural activities. Few MSMEs in the Gambia access the AU market by providing services or wholesale/retail activities (no more than 16 out of every 100 enterprises).

Challenges faced by MSMEs surveyed in accessing foreign markets to benefit from the AfCFTA agreement is access to finance, currency fluctuations, transport and price instability, electricity shortages, poor storage facilities, NTBs and quality.
According to experts interviewed, the main threats is posed by lack of appropriate infrastructure (i.e. ports, roads, transportation system and tariff policy, etc.).

Expert interviews highlighted threats to MSMEs in Gambia that could be associated with the AfCFTA include high level of taxation, access to finance, high electricity cost, increase in foreign competition, corruption, reduction in the demand for local goods, and dumping of sub-standard products.
MSMEs need to enhance their capacities to fully benefit from AfCFTA.

More than 50% of the enterprises either agreed or strongly agreed to the need for capacity to deploy complementary assets, structural assets, institutional assets, reputational assets, technological assets, and market assets and that they have capacity to meet the process requirement in terms of their potential to combine their resources, assets, and capabilities in several aspects to reduce cost to competitive level under the AfCFTA.
To defend against Threats and challenges, the percentage of enterprises that disagree to the suggestion that they have the assets and capabilities to defend against the potential threats under AfCFTA are higher for financial, complementary, and structural assets, while the percentage of “agree” is higher for market, institutional, reputational, and technological assets.

To mitigate the potential threats and maximize the potential benefits of the AfCFTA, government should provide low-cost financing (66%), improve security (54%), and electricity supply (42%).
The level of awareness and utilization of ECOWAS Trade Liberalization Scheme (ETLS) is low among MSMEs. Out of every 100 firms, 13 are aware of ETLS and 78 are planning to use it while 4 are currently using it.

The reason for non-utilization of ECOWAS ETLS include it provides no advantage in export destination, high cost of getting and using certificate of origin, rules of origin create too many obstacles, complicated procedures in obtaining a certificate of origin, suppliers are not aware of ETLS and complexity in rules of origin.

Furthermore, the firms surveyed stated the major reason for not using ETLS is complex rules of origin (RO) followed by suppliers’ lack of awareness of ETLS and complex procedures in obtaining a CO.
Level of awareness and utilization of AGOA is low among Gambian enterprises surveyed. Out of every 100 firms, 89 are not aware of AGOA, 3 are currently using it and 83 are planning to use it.

Half of the firms are not aware of AGOA because it provides no export advantage, complex procedures and RO is a hurdle.

AGOA is not being used by some enterprises because of the cost of getting and using CO and complexity in rules of origin.

Therefore, there is a need to create awareness for firms to realize the benefits of AGOA to the country.

There exist many trade agreements in the African continent.
The main objective of the trade agreements includes inter alia free movement of factors of production, free movement of capital and services, harmonization of tariffs and same currency.

Free trade agreement such as AfCFTA has the potential to spur economic growth. Agriculture, Service and Manufacturing sectors has great potentials to benefit from AfCFTA and these are among the main drivers of the Gambian economy.

The implementation of AfCFTA will add an additional layer to existing regional trade agreements within the ECOWAS bloc. Expert interview showed that membership of AfCFTA can lead to value additional in the country.
For the country to be competitive, there is a need to invest in value addition.

This, coupled with political will has the potential to increase receipts from re-export trade in The Gambia. There is a possibility of a negative impact of AfCFTA if MSMEs are not competitive. Gambia’s industrialization objectives of enhancing productive capacities to achieve growth in MSMEs can be facilitated with the implementation of AfCFTA but there is need for improved access to infrastructure, human resources, quality products, and capital among others.
COVID-19 restricts movement of people and goods and services among countries. Trading blocs are seriously affected by the advent of the virus.

Stakeholders stated that the pandemic had a significant impact on access to finance, market, and business development services.

A successful implementation of the AfCFTA requires doing business differently to deal with the new normal. The Gambia government should support MSMEs during Covid-19 to leverage the AfCFTA through cash injection or tax breaks or tax holidays.

According to experts, COVID 19 will encourage countries to ratify AfCFTA to benefit from the huge African market.
Government and policymakers need to do more sensitization (even within government, not many people are aware of AfCFTA). This will ensure a smooth implementation of the AfCFTA in The Gambia.

Clearly, Gambian stands to benefit more from the AfCFTA with better business environment and improved infrastructure.

In this regard, more concerted efforts are required to bridge the internal inadequacies especially in areas of appropriate infrastructure (i.e., Ports, Roads, Transportation System and Tariff policy, etc.), high level of taxation, access to finance, high electricity cost, increase in foreign competition, reduction in the demand for local goods, and dumping of sub-standard products, which most businesses identify as their top challenges.
Policymakers should see the AfCFTA as an opportunity for Gambia to pursue and achieve its goals of export-led growth and set up the institutional capabilities needed to take advantage of the offers contained in the agreement while minimizing the threats it may pose;

A platform to track progress of AfCFTA in terms of awareness and economic impact on MSMEs should be set up. Businesses that are negatively impacted should be reintegrated and supported to compete favourably;

The Gambia Standard Bureau should ensure adherence to standards. This will boost the capacity of Gambian businesses to compete under the AfCFTA. The infrastructure needed to facilitate must be made available;
There should be a partnership between government and donors for a targeted funding to support the government and the stakeholders in trade facilitation and other modalities for aid to trade;

To position industrialization and export-led growth at the centre of the country’s economic policies and galvanize stakeholders around it, the need to invest in the tradable sectors of the economy and bring them at par with counterparts in the region;

Conduct regular studies on the structure, progress, and challenges of industry value-chains with a view to adjusting and providing policy support necessary to reposition the industrial sector on the path to competitiveness;
- Develop, reinforce, and implement an active industrial policy that takes full advantage of the provisions of the agreement and provides opportunities and support for learning and growth of the MSMEs sector;
- **Customs and border patrol needs to be strengthened** to minimize smuggling and dumping of substandard products. Similarly, regulatory agencies such as GCC, GIEPA, Standard Bureau, etc, need to be strengthened to enable businesses take advantage of export opportunities under the AfCFTA;
There is the need for the country to invest in increasing the efficiency of the ports to become competitive among counterpart seaports in the region.

To mitigate the impact of potential revenue losses from tariffs due to the AfCFTA implementation in The Gambia, the country must seek for alternative ways of raising revenue through taxation bearing in mind the unique features of the Gambian economy.