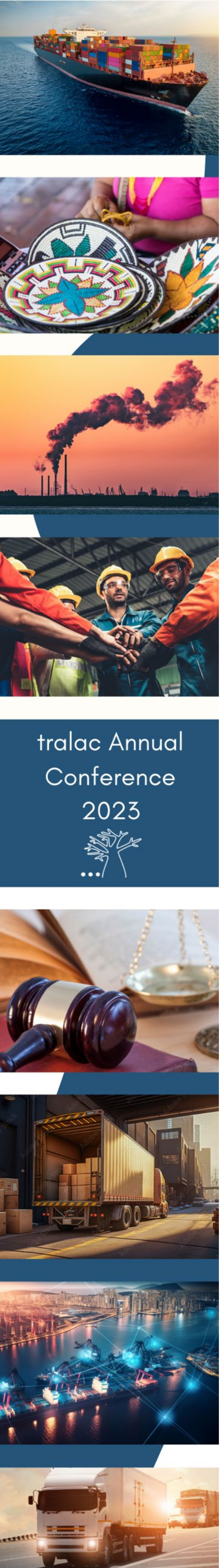

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Facilitating MSME participation in intra-Africa trade through value chains: case study of Namibia

One of the principles of the African Continental Free Trade Area (AfCFTA) is the 'preservation of the *acquis*' which provides that the Regional Economic Communities' Free Trade Areas (REC FTAs) are the building blocks for the AfCFTA. In the case of Namibia, the role of the SACU (customs union) and the SADC Trade Protocol as instruments for facilitating cross-border trade for Micro, Small and Medium Enterprises (MSMEs) are key building blocks for the AfCFTA.

Effective implementation of the AfCFTA: tariff liberalisation, trade facilitation, the provisions of the Phase 2 and Phase 3 Protocols – including the Women and Youth in Trade Protocol and the Digital Trade Protocol – as well as freer movement of businesspersons are all essential for MSMEs to benefit from the new preferential market opportunities. The agreement has already entered into force, but negotiations on tariff concessions and Rules of origin (RoO) are still ongoing. A pilot programme – the Guided Trade Initiative (GTI) – was launched in October 2022 to test the operational instruments of the AfCFTA. Eight State Parties are trading select goods for which the RoO have been agreed. This pilot is currently under review to assess challenges and how these can be addressed to assist with the full implementation of the AfCFTA.

To assess the level of readiness of Namibian traders and more generally, traders in the SADC region, to take up AfCFTA trade opportunities, it is important to highlight what the SADC FTA has achieved. The SADC FTA member states (13 of the 16 SADC member states belong to the SADC FTA) have achieved more than 85% of tariff liberalisation. Do MSMEs benefit from this liberalisation, especially valued added trade? Trade data for Namibia's intra-SADC and intra-Africa trade, reveals primarily exports of primary products such as livestock and minerals. Key markets are Zambia and Botswana for minerals and South Africa for livestock and other

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agricultural produce. For food imports, Namibia's largest sourcing market is South Africa – accounting for 90% of value-added products. For South Africa, Namibia and the other SADC countries are key export markets.

What needs to be done to support MSMEs in SADC and Africa?

I. Trade Compliance

Traditional capacity building on how to start a business and how to manufacture products has been a success for the many MSMEs registered and operating in Namibia and the SADC region. However, to upscale for cross-border trading under the AfCFTA, much more capacity on trade compliance is required. Many MSMEs trade informally along the Namibia-Angola borders and Namibia-Zambia borders, because they are not aware of, or able to meet the technical requirements to trade formally across borders. In most cases, they require an import permit, perhaps a police declaration and in some cases a fee of not more than 17USD to import. Namibia's import permits are obtained online from the Ministry of Industrialisation and Trade (MIT).

Second-hand clothing is much traded between Namibia and Angola and Zambia, particularly by women and young people. To import second-hand clothing from Angola and Zambia, an import permit, a fumigation certificate, and police declaration are required. Many MSMEs are unaware of these requirements, and this means that they are trading illegally across the border. This creates fear associated with police operations as products are confiscated and traders are apprehended.

Many traders are also exploited by so-called 'briefcase officers', claiming to help move their products across the border by charging exorbitant fees compared to what would be paid to the authorities through the compliance route. Other compliance issues include packaging, labelling, food safety standards etc. Compliance should not be about control and regulating but also facilitating. Much needs be done to support MSMEs to become formal, compliant traders.

II. Rules of Origin

The 85% tariff liberalisation under the SADC FTA offers opportunities to the MSMEs provided they meet the Rules of Origin (RoO) of the Trade Protocol. Many MSMEs are manufacturing great products, however, they are not aware of the applicable rules to benefit from tariff preferences under the SADC FTA. Consider the importation of ground nuts from Zambia by a small peanut butter manufacturer in Namibia; the Most-Favoured Nation (MFN) import duty is 10%. Under SADC preferences, it is duty free. For the small manufacturer to be able to import the ground nuts duty free, to be used as inputs into manufacturing, the ground nuts must originate in Zambia. Because it is an agricultural product, it must comply with the wholly obtained rule of origin, which is one of the straightforward rules of origin criteria. But for MSMEs lack of information about the RoO may well constitute a non-tariff barrier.

III. Intellectual Property Rights

Cross-border MSME value chains face tough competition from global imports; branding can play an important role to support regional MSMEs. The cosmetics value chain in Namibia has significant potential - in SACU, SADC and under the AfCFTA. The Namibian cosmetics sector has seen gradual success in both the emergence of companies and expanding the variety of products and with MSMEs achieving Good Manufacturing Practice (GMP) under the national standards institution. The GMP is critical because the cosmetics sector, just like the food sector, is a highly regulated sector, with priority to safeguard human health and safety.

The AfCFTA Intellectual Property Rights Protocol (IPR) is important not only to protect intellectual property rights in product development and innovation, but for building brands which can compete on the continent. Awareness of IP rights is important so that MSMEs in cross-border trade can register their patents, formulas, designs, copyrights, and trademarks. There is much to do to stimulate open innovation and building of brands to attract investment for growth and expansion of MSMEs.

IV. Pricing

Many MSMEs lack basic understanding of effective pricing for their products and services. In Namibia there has been a rise in complaints about high prices of locally made products, which are struggling to compete with lower priced imported products. If an average price for an imported bar soap is under USD1, but the locally manufactured bar soap sells at around USD3, then it becomes difficult to move local products off retail shelves. Product development, branding – including telling the story of the local product – are essential to secure share of these competitive markets. During a Trade Compliance training hosted by Trade Africa on 24th April 2023, in Windhoek, Patricia Hangula, CEO at GS1 Namibia and former sourcing manager for ShopRite Namibia, noted the importance of targeting the appropriate consumer market segment. Understanding market segmentation and demographics are key to compete effectively in these complex markets, and to price effectively. In a nutshell, pricing is a key component in determining the competitiveness of MSMEs to trade in domestic markets and to engage in cross-border trade. MSMEs need information and training to become export-ready, including to determine compliance costs, including logistics, to deliver a product, affordably – and to price competitively.

V. Supply Chain Management

Understanding the supply chain is essential for MSME manufacturers to access markets, both domestic and foreign. Namibia launched in 2021, GS1 Namibia, a national institution that offers a barcode and supply chain management services, with the objective to secure shelf space in retail chains. The supply chain is automated to facilitate transparency and efficiency and the barcode carries metadata required for decision making throughout the supply chain. Supply chain management is also important in the rules of origin compliance process, as it allows a manufacturer to capture key data points required necessary for securing compliance. The challenges for MSMEs are understanding the supply chain system and costs of building a good supply chain management system.

In conclusion, these are important considerations in the design of support initiatives and interventions for cross-border MSMEs, to unlock AfCFTA benefits. According to Erasmus (2021)[1], the AfCFTA decisions about maintaining existing benefits under the trade regimes of the RECs, makes sense, as they are the result of deliberate economic integration over time. A key border for Namibia's MSMEs is Angola, however, since Angola is not a member of the SADC FTA has undermined the potential of cross border trading between the two countries. It may well be that trade under the AfCFTA between Namibia and Angola becomes possible before trade under the SADC FTA!

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[1] https://www.tralac.org/blog/article/15085-afcfta-parallelism-and-the-acquis.html