

Boosting intra-African trade in the automotive sector

Automotive focus group 2

PRE-READ DOCUMENT – CONTENT SUBJECT TO CHANGE
BASED ON FURTHER DISCUSSION

Last updated: October 5th 2021

Today's discussion

Context

- AfCFTA Secretariat is leading a private sector strategy to identify high potential value chains and interventions to boost intra-African trade and production under the AfCFTA
- Automotive has been selected as one of the high potential sector
- Last session, we discussed 10 possible interventions and 5 high potential interventions that should be implemented in priority



Agenda for today















Duration

1. Recap context and approach
Pre-read only
2. For each **priority interventions** :
1h20 minutes
~20 minutes / intervention
 - What are the **objectives to achieve** ?
 - Which **stakeholders** should be involved?
 - What **timelines** should be considered to deliver interventions ?
3. What are the main **transportation and logistics barriers** in automotive?
35 minutes
4. Discuss next steps
5 minutes

Introductions

Potential participants¹

1. Final list of participants to be confirmed

Name	Location	Company
Jim Dando	Kenya	 AAAM African Association of Automotive Manufacturers
Nicolas Guibert	South Africa	 MOBIUS MOTORS
Serge Kamuhinda	Rwanda	
Nthato Ntsoko	South Africa	
Gerhard Botha	South Africa	
Thomas Pelletier	East Africa	
Fabrice Decreisquer	Africa	
Victor Mukete	USA	
Frederick Seidu	Ghana	
Themba Khumalo	Ghana	
Gandharv Vig	India	
Topsy Kola-Oyeneyin	Nigeria	
Olivia Robinson	Ethiopia	
Amadou Thiaw	Morocco	

1. Recap context and approach (pre-read only)

2. What are the objectives, stakeholders, and timelines required for each priority intervention?
3. What are the main transportation and logistics barriers for automotive?
4. Wrap up and next steps

Barriers to production and trade, and potential interventions

HIGHLY PRELIMINARY

xx Intervention

xx Barrier



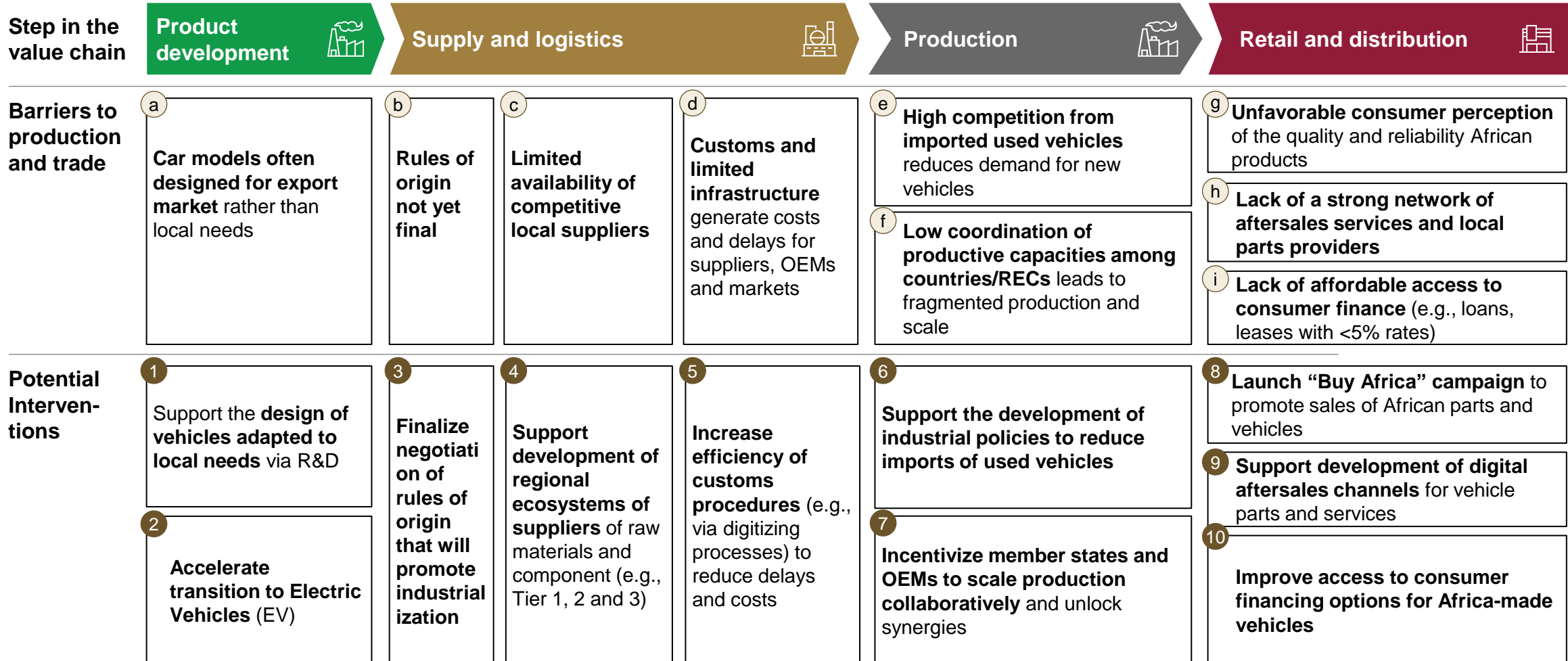
Original Equipment Manufacturer (OEM)



Local/global manufacturer of car component



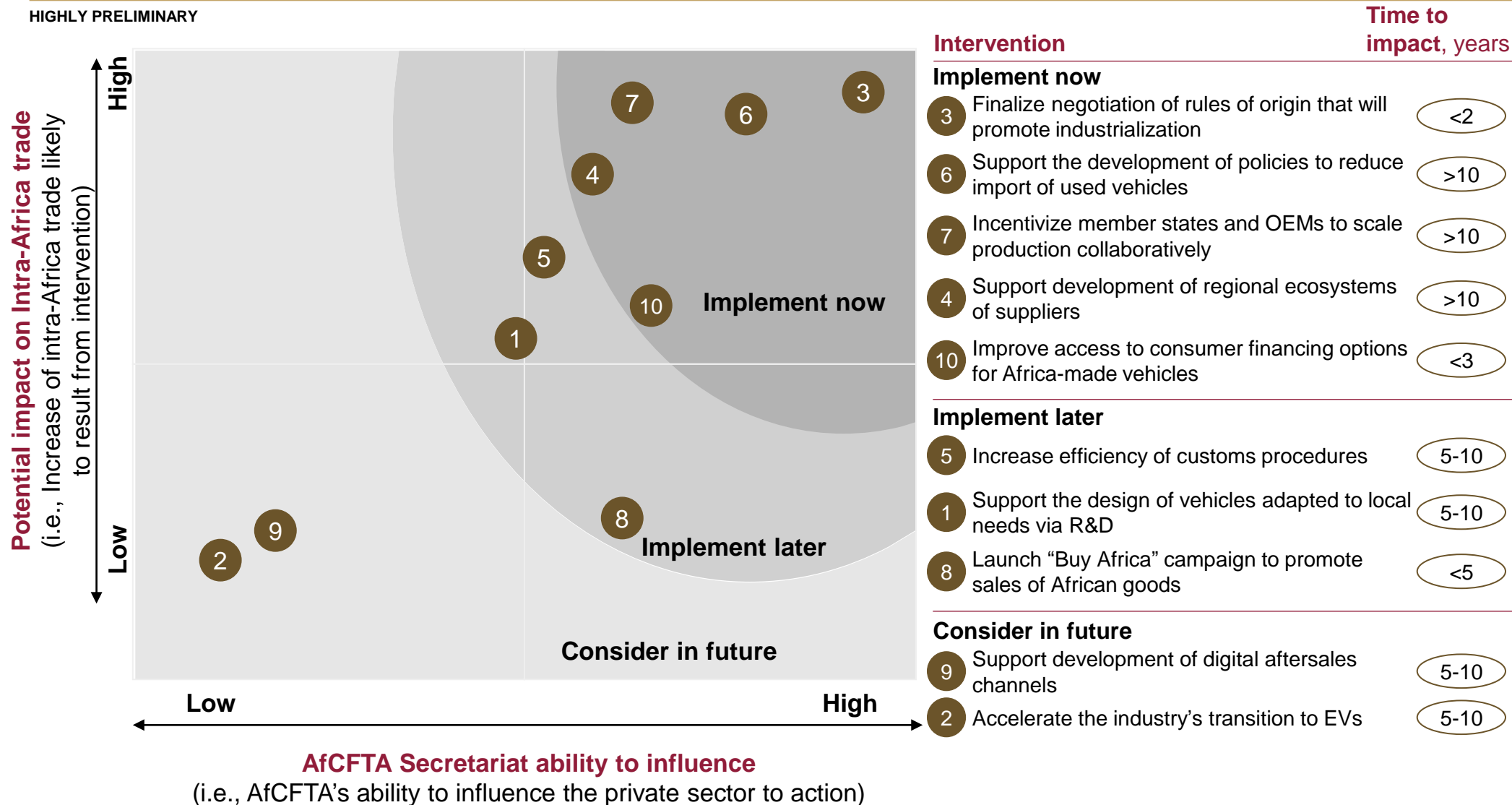
Authorized dealer and other distributors



Note: As we detail out each intervention, we will aspire to solve for inclusivity – of women, SME's, youth and environmental sustainability as a requirement in intervention design.

Interventions can be prioritized based on potential impact on intra-African trade, and ability for the AfCFTA Secretariat to influence

HIGHLY PRELIMINARY



All prioritized interventions will be designed to be inclusive of women, youth, or SMEs, and/or to be environmentally sustainable.

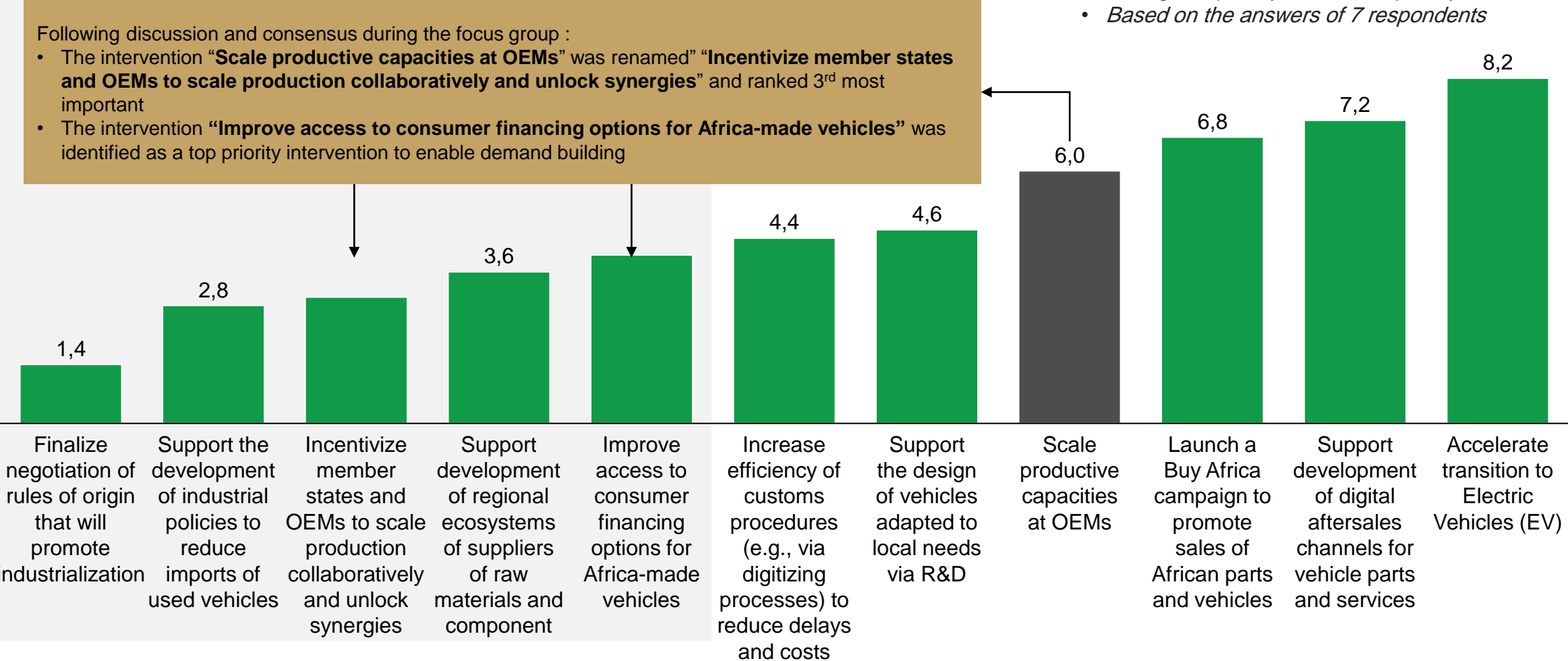
Finalizing rules of origin, reducing imports of used cars, collaborating regionally to scale production and improving access to consumer finance are priority interventions

Average rank per intervention

Priority Deprioritized

Top 5 priority interventions according to this group

Notes :
• 1 = highest priority, 9 = lowest priority
• Based on the answers of 7 respondents



1. Recap context and approach (pre-read only)

2. What are the objectives, stakeholders, and timelines required for each priority intervention?

3. What are the main transportation and logistics barriers for automotive?

4. Wrap up and next steps

For each intervention we aim to identify objectives as well as resources and stakeholders required for implementation

Focus of today in this document

For today, we will focus on 5 prioritized interventions...

- 3 Finalize negotiations on rules of origin
- 6 Support the development of policies to reduce import of used vehicles
- 7 Incentivize member states and OEMs to scale production collaboratively
- 4 Support development of regional ecosystems of suppliers
- 10 Improve access to consumer financing options for Africa-made vehicles



...and review the following questions

- i What are the **objectives** of the intervention?
- ii Which **stakeholders** should be involved ?
- iii What **timelines** should be considered for to deliver interventions?

Overview – Reduce imports of used vehicles

HIGHLY PRELIMINARY

Objective



This intervention aims to reduce imports of used vehicles by 50% over the next 10 years by introducing policies to limit imports of used vehicles (based on age and emissions levels) and ensuring the availability of affordable alternative vehicles

Levers



- **Creation and adoption of a continental regulatory framework** that countries could decide to adopt to progressively phase out imports used cars (e.g. bans, tariffs, age restrictions, etc.)
- **Identification and mobilization of short term and long term affordable alternatives** (e.g., availability of new \$5-10k “small” and “small family” entry-level cars, access to consumer loans)
- **Adoption of common vehicle emission standards** to restrict imports of highly polluting used vehicles (e.g., minimum Euro 4 standards)
- **Creation of a continental digital tracing and certification system** to facilitate enforcement and reporting of used car imports

Time to impact



- **2 years** for design and adoption
- **5 years** for policy implementation and enforcement
- **10 years** for mobilization of a local affordable alternative

Stakeholders



Role of AfCFTA: Coordinator and convener

Example leader & driver:



Example potential partners¹

Government



National customs agencies



National port agencies



COMESA



Financial institutions



IFC



AFREXIMBANK

Commercial banks

Associations



NRCS



AMICA

AAAM

Private sector

OEMs

Distributors

Other

Tech. companies



For discussion:

1. Do you agree with the objective and levers?
2. Are these the right stakeholders to involve, are there any missing ?
3. Are these the right timelines to consider ?

7 Overview – Incentivize member states and OEMs to scale production collaboratively

HIGHLY PRELIMINARY

Objective



This intervention aims to double Africa's auto-motive production capacity in 10 years, through the creation and implementation of a manufacturing strategy coordinated at a continental level

Levers



- **Formulation of a continent-wide manufacturing strategy, business case and roadmap** to lay out a sustainable path to scaling Africa's production by identifying locations for production, role and contribution of countries and resources required
- **Development of standard policy incentives programs for OEMs** that members states can use to incentivize existing OEMs and attract additional OEMs in order to scale
- **Identification and mobilization of other enablers required to scale production**, including capital finance for OEMs, and investments in physical and human infrastructure

Time to impact



- **2 years** for design and adoption
- **10 years** for implementation

Stakeholders



Role of AfCFTA: Coordinator and convener

Example leader & driver:



Example potential partners¹

Government



Financial institutions



Associations



Private sector

OEMs (global and local)

Other

Tech. companies



Other

Education and training Institutions















For discussion:

1. Do you agree with the objective and levers?
2. Are these the right stakeholders to involve, are there any missing ?
3. Are these the right timelines to consider ?

4 Overview – Support development of regional ecosystems of suppliers

HIGHLY PRELIMINARY

Objective	Levers	Stakeholders
<p>This intervention aims to identify and create regional clusters of automotive components suppliers and identify priority components to localize in order to enable scaling of local vehicle production</p>	<ul style="list-style-type: none">• Identification of locations for regional clusters of automotive components suppliers (Tier 1-3), and priority components to develop first• Identification and mobilization of financial and technical support required to scale production of components (e.g., capital investment from FDIs, process improvement with OEMs, training, etc.)• Development and adoption of digital monitoring and collaboration tools to measure local content addition and enable transparency in supply and demand between OEMs and suppliers	<p>Role of AfCFTA: Coordinator and convener</p> <p>Example leader & driver:  </p> <p>Example potential partners¹</p> <p>Government <i>Member states</i>    </p> <p>Financial institutions   </p> <p>Associations   </p> <p>Private sector <i>Large scale suppliers</i> <i>OEMs</i> <i>Small scale suppliers (e.g., SMEs)</i> <i>Transportation & Logistics players</i> <i>Tech. companies</i></p> <p>Other <i>Education and training Institutions</i></p>
	<p>Time to impact</p> <ul style="list-style-type: none">• 2 years for design and adoption• 10 years for implementation	



For discussion:

1. Do you agree with the objective and levers?
2. Are these the right stakeholders to involve, are there any missing ?
3. Are these the right timelines to consider ?

Overview – Improve access to consumer financing options for Africa-made vehicles

HIGHLY PRELIMINARY

Objective



This intervention aims to enable improved access to consumer finance options in order to ensure consumers can afford to buy Africa-made vehicles instead of imported used vehicles

Levers



- **Identify characteristics and needs of Africa's main automotive consumer segments** (e.g., socio-demographics, purchasing power, credit worthiness, price elasticity, typical car usage)
- **Partner with stakeholders** (e.g., financial institutions, OEMs, distributors, insurance companies) **to fund, develop and deliver consumer financing products** (e.g., loans, leasing, pay-as-you go, shared mobility)

Time to impact



- **2 years** for design and adoption
- **1 years** for roll out and implementation

Stakeholders



Role of AfCFTA: Coordinator and convener

Example leader & driver:



Example potential partners¹

Financial institutions



Commercial banks

Private sector

OEMs

Financial Tech. companies

Associations

Distributors

Insurance companies




For discussion:

1. Do you agree with the objective and levers?
2. Are these the right stakeholders to involve, are there any missing ?
3. Are these the right timelines to consider ?

-
1. Recap context and approach (pre-read only)
 2. What are the objectives, stakeholders, and timelines required for each priority intervention?
 - 3. What are the main transportation and logistics barriers for automotive?**
 4. Wrap up and next steps

Within the automotive value chain, barriers faced include customs delays, infrastructure, lack of quality transportation

PRELIMINARY		Out of scope due to low/ no usage by selected value chains		
		Automotive		
Transport	Passenger transport			
	Freight transport	<div>a</div> Customs delays and costs: Frequent delays at sea of 4-6 days at ports and land checkpoints (e.g., average 7 days delay travelling from Accra to Lagos for 10% of journeys) due to different paperwork requirements, lack of understanding of procedures, varying standard requirements and clearing systems. Costs of customs compliance can be ~20% of product value <div>b</div> Limited transport infrastructure for roads, rails and ports increases costs of transportation; e.g., in West and Central Africa, with only ~50% of roads in the regions in good condition, only 25% of Uganda railway network is operational, high port congestion levels due to inefficient port management <div>c</div> Lack of access to quality truck fleets due to limited production in Africa and high import duties of up to 120%, as well as high maintenance costs (e.g., inefficient fuel consumption, tyre replacement), and limited availability of skilled drivers <div>g</div> Lack of harmonization of trucking regulations for motor insurance requirements, truck dimensions, and cabotage. E.g., truck dimensions vary between and within RECs, a 70ft truck can go from Namibia to South Africa but cant go directly from Namibia to Botswana (need to pass through South Africa, incurring an 8 hour delay); restrictions on cabotage can result in empty trucks during return trips <div>h</div> High port charges and cost of export in Africa e.g., when exporting low value products like agriculture products, charges are about 20-30% of production cost		
Logistics	Contract logistics & freight forwarding	<div>i</div> Lack of data standards and data sharing between stakeholders prevents tracing of goods along value chain, and limits route optimization <div>k</div> Limited warehouse capacity and warehouse management – lack of enough both ambient and cold chain warehouses, some regulations state warehouse cant be within 10km of a border, inadequate security for warehouse		
	Courier, Express and Parcel (CEP)			



For discussion:

- Are there major barriers missing ?
- Which are the largest barriers to trade?
- What interventions would be required to address these barriers?

-
1. Recap context and approach (pre-read only)
 2. What are the objectives, stakeholders, and timelines required for each priority intervention?
 3. What are the main transportation and logistics barriers for automotive?

4. Wrap up and next steps

Appendix

6 Step-by-step approach – Reduce imports of used vehicles

HIGHLY PRELIMINARY



Objective

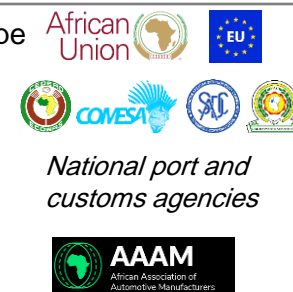


Steps to take

Stakeholders to involve

Creation and adoption of a continental regulatory framework on used car imports

- **Lay out current state of play in Africa** of limits on used car imports by country, and develop understanding of type of cars imported (e.g., port of entry, age, etc.)
- **Understand lessons learned from other regions** with similar interventions and implications for Africa
- **Develop strategy to gradually limit imports of used vehicles** (e.g., phase 1: reduce imports of vehicles older than X years and younger than Y years, phase 2: expand to vehicles older than X and younger than Y years, etc.)
- **Table proposal for African Union (AU) to recommend Africa-wide stance on used car imports** and engage with country governments / RECs to agree on policy changes in line with Africa Union recommendation



National port and customs agencies

Mobilization of affordable alternative vehicles

- **Estimate economic impact of reducing used car imports** on consumers (e.g., impact on purchasing power and economic inclusivity), on government revenues (e.g., customs, etc.) and other stakeholders (e.g., distributors, etc.)
- **Identify affordable alternatives for the short term** (e.g., within first 5 years of limiting imports of used cars) that customers can transition to (e.g., import low cost new cars such as Dacia from Morocco, or Suzuki from India)
- **Identify affordable alternatives for the long term** (e.g., >5 years after limiting imports of used cars) that customer can transition to (e.g., tax incentives for OEMs to produce affordable entry level cars, consumer loans, etc.)
- **Mobilize and incentivize investors and OEMs to produce and to finance cheaper vehicles** (e.g., tax incentives, potential for partnerships, etc.) at scale



Adoption of common vehicle emission standards for vehicle imports

- **Lay out current state of play in Africa on environmental impact of used car imports** (e.g., fuel consumption, gas and particles emission, standards, etc.). Assess impact of these emissions on air quality and health.
- **Develop strategy to improve sustainability by gradually reducing imports of highly polluting vehicles** through the adoption of environmental standards at a continental level (e.g., Euro 4 and higher)
- **Table proposal for AU to recommend Africa-wide stance on emissions levels restrictions** for vehicle imports



Creation of a digital tracing and certification system

- **Partner with technology players to develop digital certification and tracing systems** to create transparency on used car imports (e.g., age, standards, etc.) and facilitate enforcement, and create real time tracking via dashboards
- **Engage with country governments and RECs to adopt and implement common tracing and certification systems**

Tech. companies
National port and customs agencies



For discussion:

Do you agree with the steps to take? Are there additional steps?

7 Step-by-step approach - Support development of regional ecosystems of suppliers

HIGHLY PRELIMINARY



Objective



Steps to take

Stakeholders to involve

Identification of locations for regional clusters of automotive components suppliers (Tier 1-3),

- **Assess current landscape of Tier 1, 2 and 3 suppliers** (e.g., number, components produced, share of SMEs) and existing regional flows of components (e.g., tires from Egypt to East Africa)
- **Identify key components that could be localized in phases**, based on ability to be cost competitive and availability of raw materials
- **Identify potential locations for regional clusters of suppliers** where there are existing suppliers, and additional potential suppliers based on existing raw materials or capabilities (e.g., natural endowment, productivity edge, geographic location)
- **Onboard a group of core stakeholders** (e.g., existing suppliers, investors, OEMs, etc.) to raise awareness of and collaborate extensively on the need for regional clusters of suppliers



Suppliers *OEMs*



Identification and mobilization of financial and technical support required

- **For prioritized components/regions, identify financial, operational and labor requirements** required by suppliers (existing and new) to meet OEMs' volumes and quality requirements
- **Collaborate with investors** (e.g., national governments development bank, OEMs, FDIs, etc.), **industry players** (e.g., global OEMs, startups), **associations and institutions** (e.g., AAAM, training centers, etc.) to design and implement development and capability building programs for local suppliers
- **Evaluate opportunities and threats created by new industry trends and innovation** (e.g., renewable energy, EVs, etc.) and assess leapfrog opportunities for suppliers and investment required to help suppliers innovate

Education and training Institutions



Development and adoption of digital monitoring and collaboration tools

- **Drive the creation of digital dashboard and simulators to facilitate transparent measurement and verification of local content** of local content addition for locally produced cars (e.g., SKD/CKD)
- **Drive the creation of digital tools to facilitate regional supply chain integration between suppliers and OEMs** (e.g., volume forecasting, digital procurement, etc.)

Suppliers *OEMs*
Tech. companies
Transportation & Logistics players



For discussion:

Do you agree with the steps to take?

Are there additional steps?

4 B: Step-by-step approach - Incentivize member states and OEMs to scale production

HIGHLY PRELIMINARY



Objective



Steps to take

Stakeholders to involve

Formulation of a continent-wide manufacturing strategy, business case and roadmap

- **Lay out baseline of existing production** and planned future production locations and volumes (e.g., volumes, vehicle type, local content achieved, etc.)
- **Forecast Africa's demand over next 10-20 yrs** under strategic scenarios (e.g., reduced used cars, transition to EVs) to inform production capacity planning (e.g., volumes requires, number of plants, number of hubs)
- **Identify potential locations for additional assembly lines and roles that each country/region could play in the supply chain**, in coordination with members states
- **Identify costs, benefits, impact and profitability** for each to demonstrate viability of business case
- **Work closely with decision makers, investors and financial institutions** to mobilize the political and financial capital required to drive, fund and implement a 10 year manufacturing strategy



OEMs (global and local)



Development of standard policy incentives programs for OEMs

- **Engage with OEMs across the continent to identify pain points** (e.g., tax burden, FOREX risk) in their investment-to-production journey and design policy incentive levers (e.g., SEZs¹, tax breaks) required to enable existing OEMs to scale and attract new ones
- **Develop standard set of policies that member states could copy and adapt** to encourage local production
- **Identify human and financial resources to stimulate R&D and promotion of environmentally sustainable technologies and business models** (e.g., EVs, hydrogen, shared mobility)



OEMs (global and local)



Identification and mobilization of other the enablers required to scale

- **Identification and mobilization of enablers required by OEMs to scale production :**
 - **Loan facilities** to partially fund capital requirements, offset risk and improve profitability
 - **Transportation and logistics infrastructure** required to connect production and demand centers and integrate production from regional suppliers faster (e.g., 2 day delivery from Abidjan-to-Accra)
 - **Upskilling programs to enable access to skilled workforce** required throughout the supply chain

Suppliers OEMs
Commercial bank
Education and training Institutions
Transportation & Logistics players



For discussion:

Do you agree with the steps to take?

Are there additional steps?

1. Special Economic Zones (SEZ)

10 B: Step-by-step approach - Improve access to consumer financing options for Africa-made vehicles

HIGHLY PRELIMINARY



Objective



Steps to take

Stakeholders to involve

Identify characteristics and needs of Africa's main automotive consumer segments

- **Establish diagnostic of existing consumer finance products** and benchmark their affordability and efficiency (e.g., terms and conditions, interest rate) against best practice
- **Launch quantitative surveys among consumers for a sample of countries representative of Africa** (e.g., producing/non producing, low/high banking rate, stable/volatile currency) to collect sociodemographic, economic (e.g., revenue, elasticity) and product usage and preferences (e.g., personal vs. commercial use, frequency)
- **Identify Africa's automotive consumer segment in Africa** and for each, detail out consumer pain points (e.g., high interest rates, high warranty required low/no credit rating, lack of local dealer, etc.) and needs (e.g., loan value, repayment terms)
- **Identify new customer trends and evaluate the opportunities created by innovative technologies and business models** (e.g., shared mobility, e-mobility, pay-as-you-go models)



Partner with stakeholders to deliver consumer financing products

- **Interview automotive consumer finance institutions active today** to develop an understanding of typical risks and barriers faced (e.g., low repayment rate, lack of credit rating, lack of local dealerships, low penetration of insurance)
- **Design financial products to reduce financial risk for institutions and increase accessibility for African consumers** (e.g., providing guaranties on behalf of consumers to offset risk, funding 6 month grace periods, using pay-as-you-go models, financing working capital to reduce interest rates)
- **Evaluate the value at stake and size the economic opportunity** (e.g., new car sales, effect of economic inclusion, additional revenues for banks) and develop a business case
- **Engage with investors, banks and financing institutions** to mobilize the financing required
- **Partner with OEMs, distributors and Telcos/Fintech** to develop the physical (e.g., network of dealers) and digital (e.g., mobile payment, credit scoring) infrastructure required



Commercial banks

OEMs

Distributors

Financial Tech. companies



For discussion:

Do you agree with the steps to take?

Are there additional steps?