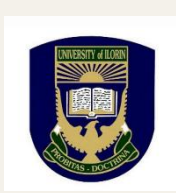




Project Report

University of Ilorin Participation in
the AFEL Economic Impact Challenge

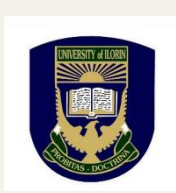


Abstract

Since the era of the oil boom, Nigeria has earned a significant amount of its foreign revenue from oil exportation with 82.5% Q3 2023 according to recent data from the National Bureau of Statistics(NBS). The reliance on this oil has caused fluctuations in foreign income leading to fluctuations in government revenue and unbalanced development of the economy hence the need to diversify the economy for better economic conditions. The AFCFTA agreement is an agreement signed in 2018 with intended commencement in 2021 to liberalize the market and eliminate Tariff and nontariff barriers to create a single large market that facilitates easy movement of persons, businesses, and investments. This has been seen as an opportunity for Small and medium enterprises (SMEs) which account for about 96% of business in the Nigerian economy.

A case study of **RANS PAINT**, a Small paint producer company in Ilorin Kwara state. The major problems based on the information from the CEO were emphasized and a corresponding solution was given. The report concluded by looking at how RANS PAINT could capitalize on the agreement and take the best advantage of it focusing on Improving Processes, Promoting Gender Equality Empowering Women, and Providing Opportunities for Youth Entrepreneurs

Keywords: AFCFTA, SMES, RANS PAINT



INTRODUCTION

Walter Edward Block, an American economist and anarcho-capitalist theorist said “Free trade is the only philosophy compatible with international peace and prosperity.” Free trade refers to a system whereby trade restrictions between countries are liberalized. In a free trade agreement, a group of countries agrees to eliminate tariffs and other barriers to facilitate trading activities between them. In line with the African Union’s objective of accelerating the process of integration in the continent to enable Africa to play its rightful role in the global economy, the African Continental Free Trade Agreement was signed and ratified in 2018 by 44 of the 55-member states of the African Union in Kigali, Rwanda with trade commencing as of 1 January 2021. The AfCFTA seeks to drive sustainable and inclusive socio-economic development of the African continent through a single market for made-in-Africa goods and services facilitated by the free movement of persons, investments, and businesses. The AfCFTA intends to cover a market of more than 1.2 billion people among all 55-member states of the African Union. Since the formation of the World Trade Organization, the agreement plans to be the world’s largest free trade area since the formation of World Trade organization. Additionally, The World Bank estimates show that the AfCFTA could raise Africa’s exports to the rest of the world by 32% by 2035 and catalyze foreign direct investment, which is expected to increase between 111% and 159% (World Bank,2022).

Importance of The African Continental Free Trade Area (AfCFTA)

The AfCFTA agreement being the largest in terms of the number of participating countries has been a significant agreement with the potential to largely impact the African continent as evidenced in the following.

- 1. Unified Market and Expansion:** AfCFTA creates a single market encompassing an estimated of above 1.2 billion people across 54 countries and a \$2.5 trillion economic bloc. This vastly expands the business customer base, providing opportunities to scale operations and increase sales. For instance, access to a larger market for Nigeria will stimulate economic growth by enabling businesses to expand their reach beyond domestic boundaries, fostering innovation and competitiveness.
- 2. Trade Liberalization and Investment Attraction:** By reducing tariffs and eliminating trade barriers, AfCFTA makes it easier and more cost-effective for countries to trade with each other, leading to increased intra-African trade. A more integrated and stable economic environment will attract foreign direct investment (FDI) and encourage local investments, as businesses seek to capitalize on the new market opportunities. It will be easier for Nigeria and other African countries to export farm produce extracted from animal rearing to other African countries without barriers and this will lead to a more stable economic environment.



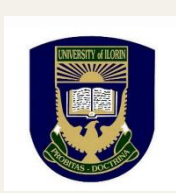
3. **Economies of Scale:** Access to a larger market allows businesses to produce at a greater scale, reducing per-unit costs and enhancing efficiency. This makes African products more competitive both within the continent and globally. A manufacturing company in an African country like Ghana will have access to a larger market thereby operating and producing on a very large scale, producing on a large-scale basis will reduce per unit cost and enhance the efficiency of the company.
4. **Trade Rules Harmonization and Standards:** Harmonizing trade rules and standards reduces the complexity and costs associated with trading across different regulatory environments. This simplifies compliance for businesses and facilitates smoother trade flows. A country like Togo will not have to go through strict regulations to trade with an African country like Nigeria as the rules and standards are harmonized to reduce the associated costs and complexities. Additionally, standardized regulations ensure that products meet certain quality and safety benchmarks, protecting consumers and fostering trust in African-made products.
5. **Trade Partnerships and Stronger Regional Ties:** AfCFTA encourages stronger economic ties among African nations, creating a network of trade partnerships that will lead to mutual economic benefits and reduced reliance on external partners. A unified African market will negotiate more effectively in global trade discussions, ensuring better terms and conditions for African countries in international agreements.

The Role of SMEs in the Nigerian Economy

Small Medium enterprises (SMEs) refer to a significant segment of the economy representing businesses larger than sole proprietorship or family-run operations but smaller than large corporations (Gibbet Magaisa, 2015). They are essential in propelling economic transformation and industrialization in both developed and developing countries. According to The Director General of NAFDAC, Prof Mojisola Adeyeye emphasized that the significance of SMEs in the nation's economy cannot, be over-emphasized, stressing that if an enabling environment was provided, SMEs could get the country out of the present predicament of unacceptable rate of unemployment.

The SMEs being majorly labor intensive contributed largely to job creation in the country operating in various industries contributing to 96% of businesses and 84% of employment (Monipont MFB, 2023). They often acted as an incubator for innovation in the economy making them adapt to market changes and develop new products and services fostering a culture of entrepreneurship and driving economic growth.

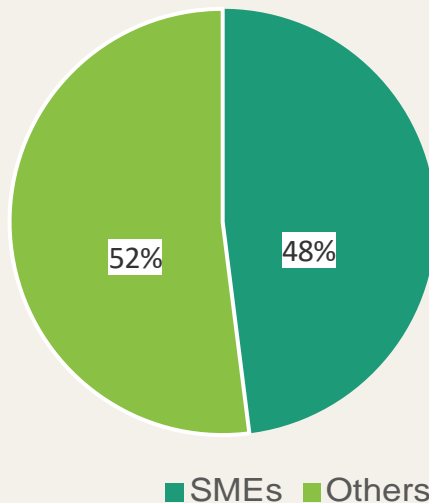
Additionally, Through the creation of jobs, SMEs empower individuals and families and contribute to poverty reduction. In the same way, taxes paid by these companies to the government help from the below classification, A small company is a company with a total cost (excluding the cost of land but including working capital) of N1.5 million and number of employees ranging between 11 – 100 while a medium company is a company with a total cost (excluding the cost of land but including working capital) of N50 million and number of



employees ranging between 101 to 300 increase tax revenue of the government in turn further redistributing this income as a tool to further eliminating poverty.

Figure 1

Average Contributions to GDP



Source:(MoniepointMFB,2023)<https://moniepoint.com/blog/nigeria-small-business-statistics>

The chart shows the average contributions of Small and Medium Enterprise to Nigeria GDP

Figure 2: NCI CLASSIFICATION OF BUSINESS ORGANIZATION IN NIGERIA

S/N	TYPES OF CLASSIFICATION	TOTAL COST (excluding cost of land but including working capital)	NUMBERS OF EMPLOYEES
1.	Micro/Cottage Industry	N1.5 million	1-10
2.	Small Scale Industry	N50 million	11 - 100
3.	Medium scale Industry	Over N50 million but less than 200 million	101 - 300
4.	Large Scale Industry	Over N200 million	Over 300



A Case Study of RANS PAINT

RANS PAINT is a small business that engages in the production of different kinds of paint used for house painting and any paint-related projects. It is located at Tipper Garage, Tanke-Ilorin, Kwara State, Nigeria. RANS PAINT started in the early periods of 2020 during COVID-19 as a business offering little services to its customers. After the COVID-19, RANS paint CEO, Mr. Michael decided to go fully into the production of paint of different kinds. It's an organization with 11 employees Paints and produces drums of paints on a regular day due to its size and capacity at the moment. RANS paint is involved, not only in the production of paint, it also in distributing it to customers and other companies that engage in the sales of the finished products of paint across Nigeria. The organization buys the raw materials needed in large quantities and in different colors which are later used for producing different kinds of paint and in different colors of paints including, Emulsion, Mat Emulsion, Satin paint, Glass paint, Texcoat Paint, etc.

Economic Problems Faced by RANS PAINT

During our discussion with Michael who is the CEO of RANS PAINT and also a son of the owner of PASCAL Paint. We were able to chat about the following as the top challenges affecting the business growth and expansion.

- 1. Inability to Access Funds** - The issues with accessing funds have been a major challenge eating businesses up with RANS paints not an exemption. The Company lacks collaterals such as buildings, cars, and other properties required by banks. The funding for business through financial institutions is only easy for top firms in the painting industry.
- 2. Increase in transportation cost** - The emergence of subsidy removal by the Nigerian government led to a hike in fuel prices and by extension, transportation costs affected RANS. The company experienced a hike in the cost of transporting raw materials from Lagos and Aba down to Ilorin. This transformed into an increase in prices which affected the business evidenced by the loss of customers.
- 3. Expansion barriers** - Importation and exportation before AFCFTA require a lot of paperwork works including registrations, the need to connect with those at the top in those countries, etc. The cost of selling to other countries is high due to either tariffs or tariff barriers imposed by the other countries. For example, Ghana charges a 20% import tariff for finished goods into the country making exportation costlier to Ghana



4. Inflation - Nigeria has maintained double-digit inflation even before the establishment of the business with current rate being 33.2% as at April 2024 making business operations difficult for the business in the recent period. The business has witnessed a major increase in the cost of raw materials with the most basic material acrylic which cost increased by 187.5% from N800 in 2013 to N2300 in 2023. The increase in the price of paint caused by this has limited the sales revenue of the business making business operations for the business in recent periods.
5. **Unpopular brand:** The company is a small business with its brand (RANS PAINT) struggling to stand the competition with top firms in the industry. The CEO spent a lot of time convincing some potential customers in the immediate community except those that have had a taste of its brand. Most people believe in the already popular brand to have been the best of paint. RANS gets more customers mainly from referrers from existing customers.

How AfCFTA Can Create A Conducive Environment for Rans Growth for Growth and Prosperity.

The report strategically used the objectives quoted from the AfCFTA agreement in tackling each of the problems facing RANS stated above evidenced in the following:

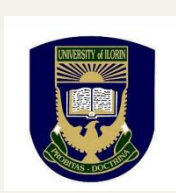
1. **Financial Accessibility:** AfCFTA is devoted to contributing to the movement of capital and access to financial services to facilitate investment building and initiate developments. For RANS Paint, this contribution to financial services will enable the firm to work towards expansion programs, invest in modern tools, and increase its overall efficiency to gain competitiveness in the paint industry.
2. **Establishment of the Continental Customs Union:** Another problem experienced by RANS Paint is the high cost of transportation. The coming together of businesses and persons will help stand against any factors leading to increasing cost of transportation or placing barriers on the free movement of businesses and persons
3. **Single Continental Market:** As was previously indicated, RANS's third issue is the expansion problem. Deepening the economic integration of the African continent by facilitating the movement of people is another important goal of the AfCFTA, which aims to establish a single market for goods and services. This will make it possible for RANS goods to be featured in a range of African markets.
4. **Export Promotion Opportunities:** Another bottleneck encountered by RANS PAINT is the increase in inflation rate hitting a time high in the Nigeria business environment to 33.2 % as of April 2024, according to NBS. The AfCFTA objectives encourage intra-African trade. RANS can explore new export markets, diversify their revenue sources, and mitigate risks associated with inflation.



5. **Large Market Access:** AfCFTA provides a large market accessibility. RANS is experiencing the problem of unpopular brands where it is not known by a large coverage of the population. Since one of the objectives of AfCFTA is the provision of a large market, RANS can gain a wide range of audience by engaging in exportation within African countries which enables it to become a well-known brand across African countries and the world at large.

Capitalizing on AfCFTA for RANS Paint: Improving Processes, Promoting Gender Equality, Empowering Women, and Providing Opportunities for Youth Entrepreneurs

1. **Improving RANS Paint's Processes:** The African Continental Free Trade Area (AfCFTA) aims to reduce tariffs and simplify customs procedures across Africa, which can significantly benefit RANS Paint in several ways:
 - *Streamlined Import of Raw Materials* - By reducing tariffs and standardizing trade regulations, AfCFTA can lower the cost and time associated with importing raw materials for RANS Paint. This improvement will lead to cost savings and increased efficiency in production.
 - *Access to a Larger Market* - With AfCFTA's goal of creating a single market, RANS Paint can expand its distribution network beyond Nigeria. This can increase sales and economies of scale, making the production process more efficient and cost-effective.
2. **Promoting Gender Equality and Empowering Women:** AfCFTA, along with its supporting frameworks like the AfCFTA Protocol on Women in Trade, aims to support gender equality and women's empowerment in trade:
 - *Support for Women Entrepreneurs:* RANS Paint can benefit from programs and initiatives aimed at empowering women in business. These programs provide training, funding, and networking opportunities for women in the company or potential female entrepreneurs looking to start their paint-related businesses.
 - *Inclusive Workplace Policies:* By promoting gender equality, RANS Paint can adopt policies that ensure equal opportunities for women in hiring, promotion, and pay. This can improve the company's reputation and performance by fostering a diverse and inclusive work environment.
3. **Providing Opportunities for Youth Entrepreneurs:** AfCFTA's objectives include fostering economic growth and creating job opportunities, particularly for the youth:
 - *Job Creation and Skills Development:* The expanded market access and increased business activities resulting from AfCFTA can create more job opportunities at RANS Paint. This can particularly benefit young people seeking employment in manufacturing, distribution, and sales
 - *Entrepreneurial Support:* AfCFTA's emphasis on youth entrepreneurship can provide support mechanisms such as funding, mentorship, and training programs. RANS Paint can collaborate with these initiatives encourage young entrepreneurs to start their ventures in the paint industry or related sectors.



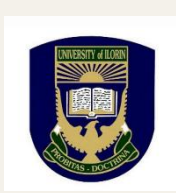
- *Innovation and Collaboration*: By engaging with other businesses across Africa, RANS Paint can access new ideas, technologies, and business practices. This can foster innovation and improve the company's processes and products.

CONCLUSION

The AfCFTA presents a transformative opportunity for Nigerian SMEs at large. By addressing the existing challenges and barriers and leveraging the agreement's benefits, Nigerian SMEs become key players in the continent's economic growth through financial accessibility, establishing a single market and elimination of both tariff and non-tariff barriers. The AfCFTA agreement is one of its kind which can help redeem the glory of Africa through free trade that brings with it common growth among the participating African countries.

REFERENCES

- Frempong, G., & Qureshi, S. (2015). The role of SMEs in economic development: A review of the literature. *Journal of Small Business & Entrepreneurship*, 27(4), 333-349.
- Institute of Chartered Accountants of Nigeria ICAN. (ICAN; 2022). *Advanced Taxation*. (5th Edition): Institute of Chartered Accountants of Nigeria
- Magaisa, G. (2015). *Defining SMEs* (PDF) Research gate
- Moniepoint MFB. (2023). *Small Business Statistics in Nigeria for 2024*. Retrieved on May 17, 2024, from <https://moniepoint.com/blog/nigeria-small-business-statistics>
- MSME Africa. (2020). *NAFDAC Organises Investment Summit for MSMEs*. Retrieved on May 17, 2024, from <https://msmeafricaonline.com/nafdac-organises-investment-summit-for-msmes/>
- Umar et al. (2015). *Contemporary Entrepreneurship Development*. Technical Entrepreneurship Centre, University of Ilorin.



THE TEAM'S AfCFTA ADVOCACY PLAN

Introduction

This report details a campaign aimed at raising public awareness about the African Continental Free Trade Area (AfCFTA) agreement. The campaign sought to educate individuals on the importance of understanding AfCFTA and its potential impact on the African economic landscape.

Activity 1: Direct Interviews

The campaign kicked off at the main school market, where the team approached traders and business owners. Through interviews, we gauged existing awareness of AfCFTA and its potential impact on various business endeavors. The team also provided information on the agreement's benefits. Students and colleagues were also engaged, with many expressing a lack of prior knowledge about AfCFTA. They were encouraged to learn more and spread awareness actively. A Google Drive link attached to this report provides access to the interview recordings.

Activity 2: Branded Shirts and Cardboards

To generate curiosity on campus and surrounding areas, the team donned branded shirts and displayed cardboards with the AfCFTA logo prominently displayed. This approach prompted colleagues and even strangers to inquire about the agreement. We provided clear and concise explanations, highlighting the potential impact on individual businesses, the Nigerian economy, and Africa's overall economic growth. Videos and images captured during the campaign are attached to this report.

Challenges

A significant portion of the target audience lacked basic knowledge about AfCFTA, necessitating detailed explanations.

Some participants were hesitant to be video recorded, making impact measurement more challenging.

Conclusion

These activities successfully generated significant awareness about the AfCFTA agreement. Entrepreneurs, business owners, and future African leaders were educated on the transformative opportunities it presents. The team remains committed to ongoing advocacy, recognizing that increased African awareness of AfCFTA is crucial to addressing the continent's economic challenges.