



Project Report

University of Ibadan Participation in
the AFEL Economic Impact Challenge



Abstract

Nigeria's economy, transitioning post-oil era, underscores the significance of its agricultural sector, constituting 24% of the GDP in 2022. Nigerian CPO SMEs face multifaceted economic challenges constraining their growth. The AfCFTA presents opportunities for these SMEs by enabling trade facilitation and collaboration. Leveraging this agreement can bolster productivity, broaden market reach, empower women entrepreneurs, engage youth participation, and stimulate innovation, paving the way for sustainable growth and resilience in the evolving trade landscape. This paper delves into the implications of the African Continental Free Trade Area (AfCFTA) Agreement on Small and Medium Enterprises (SMEs) in Nigeria, with a specific focus on crude palm oil (CPO) production exemplified by Pantaleon Axis Limited. It seeks to demonstrate how these SMEs, through AfCFTA, can navigate challenges, foster economic growth, and establish a competitive edge in the Nigerian CPO industry. Combining qualitative surveys with statistical data, this research aims to comprehensively evaluate AfCFTA's influence on the Crude Palm Oil (CPO) sector.



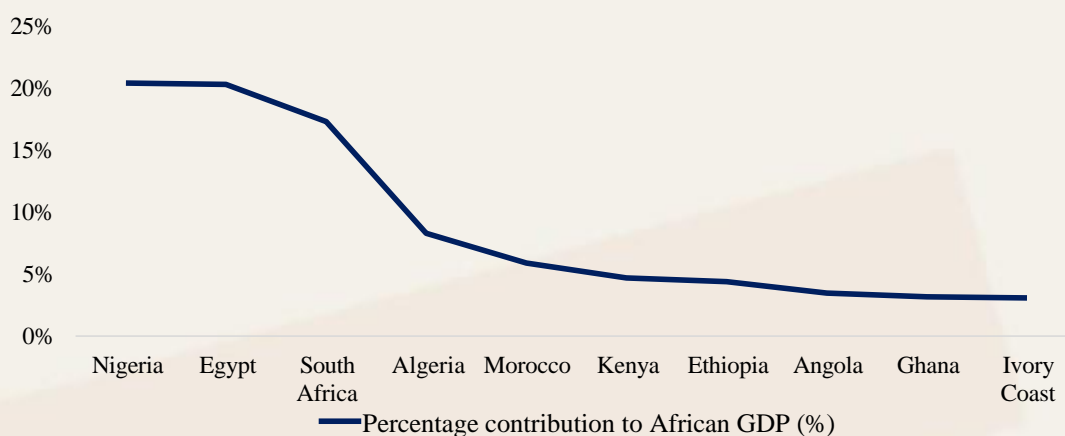
Introduction

The African continent is a vast and diverse region with immense economic potential. A thriving intraregional trade among African countries can position the continent as a formidable player in the global economy. The recent progress with the establishment of AfCFTA as endorsed by 54 African countries in July 2019 is a reassurance given its potential to reduce the presence of barriers to trade on the continent. As at August 2023, 47 of the 54 signatories (87%) have deposited their instruments of AfCFTA ratification. Specifically, some objectives of AfCFTA include establishment of a unified continental market for goods and services, the eradication of trade tariffs, enhancement of efficiency, and the bolstering of socio-economic development (Tralac, 2023). The AfCFTA policy is expected to be the largest free trade area since the formation of the World Trade Organization in 1995, given Africa's current population of over 1.2 billion people, which is expected to grow to 2.5 billion by 2050.

Nigeria's Economic Landscape: AfCFTA's Potential for Economic Growth

The Nigerian economy falls within the lower middle-income bracket based on its average national income and holds the rank of the thirty-seventh largest global economy by total GDP (World Bank, 2020). As the foremost economy in Africa, it contributed approximately 20.4 percent to the region's overall output in 2022 (Figure 1). The AfCFTA is expected to bring a number of benefits to Nigeria, including increased access to raw materials, a larger market for Nigerian goods and services, and increased employment.

Figure 1: 10 African countries by GDP in 2022



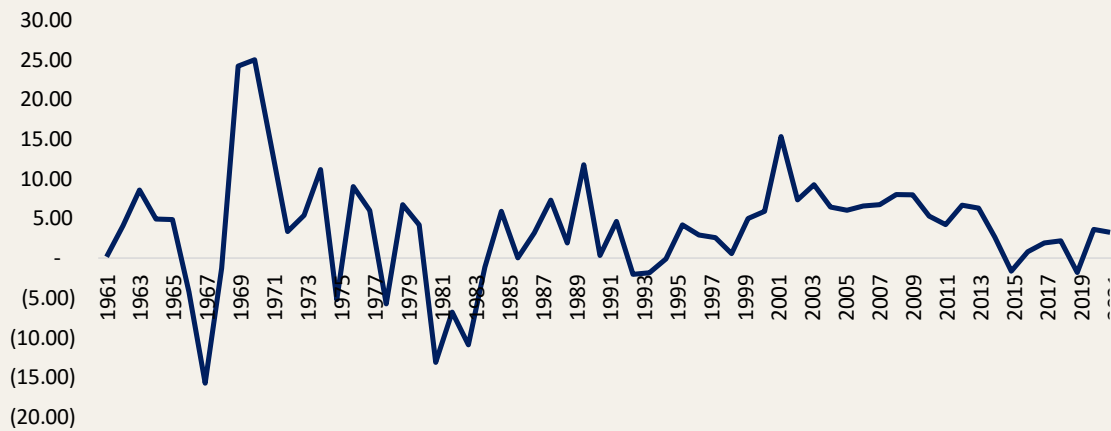
Source: Statista, 2023

Despite varied annual economic growth rates since independence in 1960, recent years have displayed relative stability, as illustrated in Figure 2. The full implementation of the AfCFTA policy across various sectors holds immense potential to bolster Nigeria's foreign earnings and contribute to a significant rise in its GDP.



Figure 2

Nigeria Annual GDP Growth Rate (1961 - 2022)



Source: World Bank, 2023

By eliminating trade barriers and creating a unified market for goods and services, the AfCFTA will open up new avenues for. Additionally, the AfCFTA will attract foreign direct investments, as multinational corporations seek to capitalize on the expanded market opportunities and access a growing consumer base.

The Significance of SMEs in the Nigerian Economy

According to the World Bank, SMEs account for 90% of businesses and more than 50% of employment worldwide. SMEs are critical constituents of the Nigerian economy, as they represent about 96 percent of Nigerian businesses and contribute 75 percent to the national employment (SMEDAN, 2019). The benchmark for defining SMEs varies from country to country, mostly depending on the size of an economy (Okuma et al., 2019). This implies This implies that a business enterprise could be categorized as large in one country, whereas it may be considered small in another. In Nigeria, the basis for classification includes number of employees, asset base, and turnover as shown in Table 1.

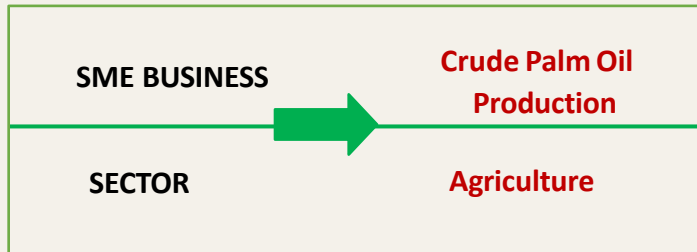
Table 1: Classification of SMEs in Nigeria

S/N	Type of enterprise	Staff Strength	Asset base (N Million) (excluding land/buildings)	Annual revenue (N Million)
1	Micro	Less than or equal 10	less than 5	less than 20
2	Small	11 to less than or equal 50	5 to less than 50 (for BOI)	less than 100
3	Medium	50 to less than or equal 200	50 less than 500	less than 100

Source: National Policy on SMEs | Bank of Industry (BOI)



SME Business Case Study: A case study of Pantaleon Axis Limited



Nigeria is the world's sixth-largest producer of CPO, with an annual production of over 3 million metric tons. The Nigerian palm oil industry is very fragmented and dominated by numerous small-scale farm holders, which account for over 80% of local production, while established plantations account for less than 20% of the total market (PwC, 2021). Nigeria's oil palm industry accounting for 43% of global output in the early 1960s has seen a substantial decline, currently occupying the fifth position globally with less than 2% of the market.

Pantaleon Axis Limited, established in Ibadan, Nigeria, is a distinguished Small and Medium Enterprise (SME) specializing in the production of premium palm oil. Since its inception in 2002, the company has mastered the art of blending traditional and modern methods to craft exceptional palm oil known for its distinct flavor and exceptional nutritional content. Pantaleon Axis Limited stands as a noteworthy Small and Medium Enterprise, renowned for its provision of top-tier palm oil. Its dedication to sustainability and ethical practices establishes it as a valuable partner for businesses and a preferred choice for consumers seeking quality and reliability.

Economic Challenges Encountered by Pantaleon Axis Limited

Pantaleon Axis Limited, a leading palm oil producer in Nigeria, faced several economic challenges that hindered its growth and expansion.

- 1. Complex Trade Procedures:** Lengthy and complex trade procedures were a major bottleneck for Pantaleon Axis Limited. Export documentation and border compliance procedures took an average of 96 hours and over 18 documents, significantly higher than the global average.
- 2. Limited Market Access:** Pantaleon Axis Limited faced restrictions on accessing key markets due to regulatory barriers and insufficient trade facilitation measures. These restrictions hindered the company's ability to expand its customer base and revenue growth, limiting its potential to tap into new markets and scale its operations.
- 3. High Cost of Production:** Increased in the cost of production due to the removal of fuel subsidy has huge effect on transportation and energy supply which hampered Pantaleon Axis Limited's operations. Also, unreliable power supply led to frequent



disruptions in production, forcing the company to rely on costly alternative sources, such as generators, to maintain operations.

- 4. Financial Constraints:** Access to finance was a significant hurdle for Pantaleon Axis Limited. The high lending rates in Nigerian banks averaged between 20% to 30%, making it difficult for the company to secure the capital needed for expansion and modernization. These high interest rates limited Pantaleon Axis Limited's ability to invest in new technologies, improve production efficiency, and expand into new markets.
- 5. Tariff Barriers:** African countries are often faced an average tariff of about 6.1% on intra-African exports. For Pantaleon Axis Limited, these tariffs often exceeded this average, ranging from 8% to 12%. These tariffs made Pantaleon Axis Limited's palm oil less competitive in regional markets, reducing their ability to expand their market share and increase their exports.

How AfCFTA Can Create a Conducive Environment for Pantaleon Axis Limited

The African Continental Free Trade Area (AfCFTA) agreement has emerged as a transformative force, revolutionizing the African business landscape and paving the way for unprecedented growth and prosperity.

- 1. Tariff Elimination to Unleash Competitive Advantage:** One of the most significant benefits of the AfCFTA is the elimination of tariffs on 90% of goods traded within the continent. This landmark decision is projected to save businesses around \$2.5 billion annually in tariff costs, a game-changer for Pantaleon Axis Limited. With the removal of these trade barriers, the company can now price their palm oil products competitively, penetrating new markets and expanding their customer base across Africa.
- 2. Streamlined Trade Procedures:** The AfCFTA's commitment to streamlining trade procedures is another key factor driving business growth. The simplification of documentation and border procedures is anticipated to reduce the time and cost of exports by up to 15% and 25%, respectively. For Pantaleon Axis Limited, this translates into faster and more efficient export processes, reduced logistical costs, and an enhanced ability to meet customer demands.
- 3. Widened Market Access:** The AfCFTA's creation of a single market for goods and services represents a remarkable step towards economic integration across Africa. With a combined market of over 1.2 billion people, the AfCFTA presents a vast consumer base for businesses like Pantaleon Axis Limited. This expanded market access provides the company with the opportunity to diversify its customer base, tap into new revenue streams, and establish a stronger foothold in the African palm oil sector.
- 4. Infrastructure Development:** The AfCFTA recognizes the crucial role of infrastructure in facilitating trade and economic growth. The agreement prioritizes infrastructure development, with investments expected to reduce trade costs by 15% to 25%. For Pantaleon Axis Limited, these investments will translate into improved logistics,



enhanced transportation networks, and access to reliable energy sources, all of which will contribute to operational efficiency and cost reduction.

- 5. Financial Support Mechanisms:** The AfCFTA's commitment to financial inclusion is evident in its initiatives promoting access to capital for SMEs. These support mechanisms, including financial support programs and access to credit facilities, are expected to lead to a 20% increase in SME lending. For Pantaleon Axis Limited, this increase in accessible financing will enable the company to pursue expansion plans, invest in technological advancements, and enhance its overall competitiveness in the palm oil market.

Leveraging AfCFTA for Enhanced Earnings, Gender Equality, and Youth Empowerment at Pantaleon Axis Limited

- 1. Market Expansion and Enhanced Earnings:** AfCFTA's pivotal role in abolishing tariffs and simplifying trade processes positions Pantaleon Axis Limited to reach broader markets across Africa. This translates to increased sales and revenue opportunities, directly impacting the company's earnings. By capitalizing on the AfCFTA's market accessibility, Pantaleon Axis Limited can significantly bolster its financial growth trajectory.
- 2. Gender Equality in Palm Oil Industry:** The AfCFTA's emphasis on inclusive trade policies aligns with Pantaleon Axis Limited's commitment to fostering gender equality in the palm oil sector. Leveraging this agreement, the company can intensify support for female palm oil farmers and entrepreneurs. Offering targeted training, resources, and access to markets amplifies women's roles, further contributing to the economic growth of these communities and bolstering overall industry resilience.
- 3. Empowering Women in Management Positions:** Utilizing the AfCFTA's facilitation of streamlined trade procedures, Pantaleon Axis Limited can fortify its commitment to increasing female representation in management. Beyond adhering to gender equality principles, this initiative brings diverse insights to the company's leadership, fostering innovation and adaptability in a dynamic market landscape.
- 4. Youth Entrepreneurship and Financial Inclusion:** The AfCFTA's provisions create an ideal environment for Pantaleon Axis Limited to empower young entrepreneurs within the palm oil industry. By offering mentorship, financial access, and employment opportunities, the company can harness the trade agreement's momentum to nurture a new wave of innovative thinkers and leaders. This not only augments youth engagement but also fosters long-term sustainability and adaptability within the industry.
- 5. Impact on Earnings and Sustainable Growth:** The convergence of these strategies under the AfCFTA umbrella holds the promise of driving not only social impact but also substantial financial gains for Pantaleon Axis Limited. Enhanced market access, empowered women's roles, and the cultivation of youthful innovation collectively

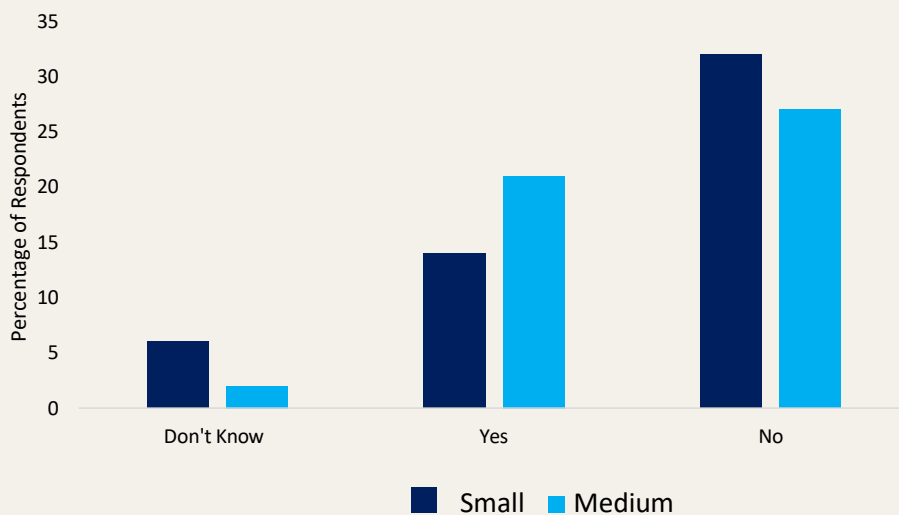


contribute to a more robust, inclusive, and prosperous business model, fostering sustained earnings growth over time.

Survey: SMES Perceptions of AfCFTA

In order to gauge the awareness level of Nigerian SMEs regarding the African Continental Free Trade Area (AfCFTA) Agreement, we carried out a survey among SME business owners in Ibadan,

Figure 3: Survey Results on Perception



Source: Team Research

Table 2: Survey Sections

S/N	Section	Research Question	Remark
1	International Business Operations	What are the current international business operations of the firm?	Captures firms' current disposition in business operations involving international activities.
2	Awareness and Perception of the AfCFTA	What is the perception and level of awareness about the AfCFTA by firms?	Highlights the firm's perception and awareness level about prominent features of the AfCFTA.

Source: Team Research

Analysis of the SMEs' survey by enterprise size shows that only about 8% of the small and medium enterprises were aware of the AfCFTA policy.



CONCLUSION

The AfCFTA stands as a beacon of promise for Nigeria's Crude Palm Oil (CPO) Small and Medium Enterprises (SMEs), offering a gateway to overcome hurdles and unlock untapped potential. By embracing this pivotal agreement, Nigerian CPO SMEs have the opportunity to transcend barriers, amplify productivity, and tap into expansive markets across the African continent.

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The Team's AfCFTA Advocacy Plan

The African Continental Free Trade Area (AfCFTA) is a landmark agreement that has the potential to significantly boost intra-African trade, create economic opportunities, and drive sustainable growth. To promote awareness and understanding of AfCFTA among Nigerian university students, they proposed a creative 3- agenda advocacy plan:

1. Entrepreneurship and Youth Engagement Campaign

Objective: Empower Nigerian youth, particularly university students, to leverage AfCFTA for entrepreneurship and economic growth.

Activities:

- **Interactive Workshops:** Conduct engaging workshops in universities, featuring guest speakers and experts to educate students on the advantages of AfCFTA for entrepreneurial ventures.
- **Student Unions Engagement:** Collaborate with student union governments to establish dedicated platforms for AfCFTA awareness within universities. These platforms can include webinars, seminars, and social media campaigns.
- **Business Plan Competitions:** Organize AfCFTA-focused business plan competitions with enticing prizes, encouraging students to develop ideas for cross-border businesses. Students with feasible business ideas can be paired with mentors to guide and inspire them

2. Creative Campus Events and Activities

Objective: Create a vibrant atmosphere of AfCFTA awareness within Nigerian universities.

Activities:

- **AfCFTA Awareness Days:** Designate specific days for AfCFTA-themed events, featuring food festivals, art exhibitions, and cultural showcases from different African regions, emphasizing the diversity and opportunities the agreement brings.
- **Innovative Student Projects:** Encourage students to create projects and presentations that explore the practical benefits of AfCFTA just like the AFEL Initiative for various sectors, such as agriculture, technology, and healthcare.
- **Trade Fairs:** Organize trade fairs within campuses, allowing students to showcase their products and ideas, promoting entrepreneurial spirit.



3. Digital Awareness and Competition

Objective: Utilize digital platforms and friendly competition to spread AfCFTA knowledge.

Activities:

- **Social Media Challenges:** Create engaging challenges that require students to share their AfCFTA- related ideas, innovations, and knowledge on platforms like TikTok, Instagram, and Twitter.
- **Digital Campaigns:** Launch a digital marketing campaign targeting university students, featuring informative and visually appealing content like short videos, infographics, and blogs.
- **AfCFTA Ambassador Program:** Appoint student ambassadors in each university to lead and promote AfCFTA awareness activities.

Measuring Success of the Advocacy Plan

In order to validate their proposed advocacy plan, they carried out a short interview among campus entrepreneurs. Their short interview revealed that 75% of respondents (entrepreneurs) are eager to learn more about AfCFTA. Additionally, a striking 85% admitted to having no prior knowledge of the policy, emphasizing the need for an advocacy plan to bridge this knowledge gap. These findings indicate a promising start in the mission to foster informed engagement in AfCFTA.

Conclusion

In the context of African trade, the idea of making it simple for countries to exchange goods is a game-changer. AfCFTA represents a pathway toward a future of economic growth, prosperity, and opportunity. However, the full realization of this transformative vision hinges on a crucial element: awareness. Their advocacy plan, tailored for university students' entrepreneurs, is a beacon of enlightenment amidst the obscurity of this policy. By implementing the recommended advocacy plans in the paper, we expect to witness an exponential rise in awareness, ultimately driving greater adoption of the policy.