

Terms of Reference

FOR CONSULTING FIRMS

Assessing the Potential Benefits and Costs of the African Continental Free Trade Area (AfCFTA) on African Economies with an Application to the North African Region

1. CONTEXT AND BACKGROUND

1.1 Promoting trade and investment towards Sub-Saharan Africa has been recently at the heart of North Africa countries' strategic priorities. This was further reinforced through the establishment of the African Continental Free Trade Area (AfCFTA), which was signed by the region's six countries (Algeria, Egypt, Libya, Mauritania, Morocco, and Tunisia). Launched in May 2019, the AfCFTA provides a framework for trade liberalization of goods and services across the continent. It covers all African countries, with an estimated combined GDP of US\$2.5 trillion and a population of over 1.2 billion. In terms of population, the AfCFTA will be the largest free trade area in the world. Within Africa, the North African region accounts for around 200 million consumers, occupies a strategic geographical position and represents a large reservoir of human, natural and mining resources. The region also has a diversified industrial base and quite developed economic infrastructure which could enable the North Africa region to foster growth and trade through a more stimulating regional integration process. The private sector, particularly Small and Medium Enterprises (SMEs), plays a crucial role within the North African region. However, there is a growing need to create a favorable enabling environment across the region to ensure the effective participation of the private sector in advancing the regional integration agenda through investment and trade activities.

1.2 Based on this context, the African Development Bank (AfDB) and the European Bank for Reconstruction and Development (EBRD) have joined forces to accelerate the regional integration of the North African region with the rest of the continent. The objective of the consultancy project is to design a framework to assess the potential benefits and costs of the African Continental Free Trade Area (AfCFTA) on North African economies. It is a pilot project that will be generalized to all African economies in the future upon successful implementation. Several trade agreements and regional economic communities have been formed over time and currently coexist in Africa. However, the AfCFTA is the most ambitious initiative in this vein. The AfCFTA can support the realization of the continent's economic promise by raising productivity and private investment, and thereby increasing economic growth, income levels and reducing poverty in the medium to long run. Accelerating the integration processes between the North Africa region and the rest of the continent is expected to provide new opportunities to boost diversification and competitiveness, improve industrial specialization and job creation, and develop value chains. Conversely, the AfCFTA is expected to entail costs in terms of fiscal income losses by governments, especially for countries with low tax-capacity. Also, the liberalization process may create unemployment and income losses

on the household side in the short run depending on the characteristics of the countries' economies such as (1) the relationship between the different economic sectors, labor intensity, and the degree of initial economic protection, and (2) the extent to which factor markets, especially the labor market, are flexible.

2. PURPOSE AND SCOPE OF THE PROJECT

2.1 The developed framework will allow identifying business opportunities for the North Africa's private sector to trade and invest with the rest of the Continent in the context of the AfCFTA, with a particular focus on SMEs and green growth opportunities. The project will increase our knowledge on the role of the private sector, particularly SMEs, and their implication in North Africa's integration efforts in the context of the AfCFTA. It will thoroughly discuss the role, priorities, and perspectives of the private sector in the regional integration agenda in North Africa. It will provide policy recommendations to improve regional value chains, infrastructure development, trade quality and quantity, competitiveness in the export sectors, human mobility, and macroeconomic stability. Finally, it will provide a better understanding of the climate change and green growth risks and opportunities associated to increased trade within Africa.

2.2 The project will cover the six countries of the North Africa region, namely Algeria, Egypt, Libya, Mauritania, Morocco, and Tunisia. The framework will be used for specific country analysis. Then, the findings will be synthesized to provide a high-level analysis at the regional level.

2.3 The consultancy firm is expected to:

- Design a framework to assess income and welfare gains from trade liberalization under the AfCFTA and potential transitional costs for North African countries participating in the agreement. The analysis will focus on the potential effects of the AfCFTA on (i) GDP growth, industrial production and employment; (ii) Gross Capital Formation, FDI and trade flows; (iii) tax revenues and other macroeconomic variables; (iv) Income distribution and poverty.
- Design a framework to identify opportunities for private sector and SMEs' development, including the analysis of efficient value chains, comparative advantages, areas of specialization as well as the main constraints and challenges surrounding the implication of the private sector in North Africa's integration process.
- Identify concrete business opportunities for the private sector, particularly SMEs, in each North African country to trade and invest with the rest of the continent. For each country, the study will detail the impact of the AfCFTA and outline the strengths and opportunities for the private sector, particularly SMEs, and potential impacts on green growth.
- Provide a synthesis at the regional level, including policy reforms and recommendations to promote the implementation of the AfCFTA and maximize its benefits in North Africa.

3. MAIN ACTIVITIES AND DELIVERABLES

Several types of models will likely be implemented to meet the objectives of the project. The consulting firm is expected to make a proposal regarding the methodologies that will be used for the different analyses together with the requirements to run the models (e.g. Social accounting matrices).

The Following Outputs will be delivered by the consulting firm:

Work stream	Activities	Brief motivation	Deliverables
Backward economic assessment in each individual country	Assessment of the private sector in individual North African countries in terms of business environment and private sector development strategies	<ul style="list-style-type: none"> - The business environment is country specific - Private sector and export products are different across the region - Private investment development strategies 	Private sector profiles of North African countries.
	Analysis of trade terms, regimes, and barriers to trade in North African countries.	<ul style="list-style-type: none"> - Trade in North Africa is relatively low and dominated by food and manufactured goods. - Existing North African trade arrangements have been underperforming. <p>While intra-North African trade agreements have gradually facilitated a large reduction in tariffs on goods, Non-tariff barriers (NTBs) remain high for most North African countries.</p>	<ul style="list-style-type: none"> - Current state of Trade in each North African country. - Implementation assessment of the existing arrangements in each North African country. <p>Mapping of NTBs in each North African country by: (1) non-tariff trade measures; (2) infrastructure gaps; and (3) other trade-related transaction costs.</p>
Assessing the potential benefits and costs of the AfCFTA	Role of a regional-wide trading hub in the North Africa.	A regional-wide trading hub would provide a bridge for North African countries to generate more downstream integration into GVCs and reap more gains from their participation in international trade.	Simulation of the existence of regional-wide trading hub.
	FDI, and Trade Effects	The AfCFTA would increase foreign direct investment and trade for most of North African countries.	Impact of AfCFTA on FDI and trade in each North African country based on simulations using multisector, multi-country models such as computable general equilibrium model.
	Private sector development and Employment Effects	<ul style="list-style-type: none"> - The AfCFTA would promote the private sector development in North African countries - Labor markets in North Africa feature high unemployment, widespread informality, skills mismatch, and rigidity. 	Impact of AfCFTA on private sector development and employment in each North African country

	Fiscal Revenue Impact	The reduction in trade barriers stemming from the AfCFTA would affect tax revenues	Analysis of revenues in each North African country using partial equilibrium model (TRIST, Tariff Reform Impact Simulation Tool).
	Income distribution, poverty, and inequality impacts	On the households' side, the AfCFTA will create winners and losers in the short run depending on the characteristics of the countries' economies such as (1) the relationship between the different economic sectors, labor intensity, and the degree of initial economic protection, and (2) the extent to which factor markets, especially the labor market, are flexible.	Simulate the impacts of AfCFTA on households' income distribution, welfare, poverty and possibly on inequality using a dynamic computable general equilibrium model (CGE). To achieve this, the household account in the Social Accounting Matrixes should be disaggregated by income decile and the labor factor disaggregated accordingly (skilled, unskilled, female, male, etc.). Alternatively, the use of a top-down microsimulation approach whenever data is available, is possible.
	Identifying potentialities and challenges for value chains and private sector and SMEs' development.	Identifying efficient value chains, comparative advantages and areas of specialization, with a special focus on green growth opportunities, as well as the main constraints and challenges surrounding the implication of the private sector in each North African country.	<ul style="list-style-type: none"> - Presenting the priorities and the potentialities of the private sector in the integration agenda in each North African country - Presenting a SWOT analysis to point out strengths, weaknesses, opportunities, and threats surrounding the development of the private sector in each North African country
Analysis of the role played by the private sector in each North African country and a strategy to reinforce its development within the AfCFTA	Developing a strategy for the private sector to be a key enabler of the integration process in each North African country	The successful implementation of industrialization and the value chain approach will allow the private sector to benefit from new investment opportunities.	Provide an action plan over time and policy recommendations for boosting private sector development in North African countries towards the implementation of the AfCFTA.
	Overview of the private sector in North Africa, SMEs' role, and potential opportunities to trade within the AfCFTA	Identifying value chains, and areas of specialization as well as a strategy for enhancing the implication of the private sector in North Africa's integration process.	Provide a synthesis at the regional level as well as policy recommendations for the Bank and development partners to promote the implementation of the AfCFTA in North Africa.
	Synthesis report at the regional level		

4. ASSIGNMENT DURATION

The duration of this contract will be thirty-two (32) weeks and all deliverables are expected to be submitted and formally accepted by Management. The contract is a lump-sum contact which is expected to start on 15th December 2021 and end no later than 15 August 2022.

5. PROFILE OF THE CONSULTING FIRM

The consulting firm shall have experience in the macro, micro and social economic analysis, and possess the requisite human capacity, communication, organizational and managerial skills. Key experts should have:

- At least 20 years' experience and expertise in modelling using different methodologies such as CGE and producing relevant analytical economic studies, particularly trade integration and Free Trade agreements in Africa.
- Proven experience with African institutions working in trade integration (essential), complemented by previous experience in free trade agreements and fiscal issues.
- Proven track record of strategies and development of reports and indicators in the field of trade integration, private sector development and economic impact studies. Good
- knowledge of the private sector in the North African region is desirable.
- Proven expertise working in/and preparing knowledge products in English and/or French.

6. DUTIES AND RESPONSIBILITIES OF THE CONSULTING FIRM

Before commencement of the Assignment, the consulting firm shall provide a work plan detailing the proposed approach and methodologies to meet the requirements of the Assignment. The consulting firm shall liaise with the AfDB and the EBRD Task Managers. The AfDB and the EBRD will make available necessary documentation (including policies, strategies, project reports, economic and sector reports) from relevant Departments. The consulting firm shall also liaise with external actors deemed necessary to fulfill the requirements of the Assignment, including but not limited to Regional Economic Communities and North African countries, UNECA, the African Union etc. The consulting firm will work closely with the Task Managers and will manage the process smoothly.

7. TIMELINE OF EXPECTED DELIVERABLES

The pilot project focuses on North African countries, but the model and its application should be replicable in any other African region / country.

Deliverables	Timeframe
Inception report detailing proposed approach including work program with a list of periodic deliverables, corresponding time frames, and methodology. The work program needs to include a list of potential risks to completion of the assignment, and ways in which these risks have been addressed.	2 weeks after start of assignment
Private sector profile (business environment, key business sectors, and development strategies) of the North African countries	4 weeks after start of assignment
Backward assessment and analytical work , including: <ul style="list-style-type: none"> - Current state of trade in North African countries; - Implementation assessment of the existing arrangements; 	10 weeks after start of assignment

<ul style="list-style-type: none"> - Mapping of NTBs in North African countries by: (1) non-tariff trade measures ; (2) infrastructure gaps; and (3) other trade-related transaction costs; - Simulation of the existence of regional-wide trading hub. 	
<p>Assessing the potential benefits and costs of the AfCFTA in each North African country including:</p> <ul style="list-style-type: none"> - FDI, and Trade Effects; - Private sector development Effects; - Employment and income distribution Effects; - Fiscal Revenue Impact 	20 weeks after start of assignment
<p>Analysis of potentialities and role of the private sector to reinforce its implication and development with the AfCFTA in each North African country</p> <ul style="list-style-type: none"> - Value chain and export development - Analysis of the constraints - Key enablers to reinforce its development and implication 	22 weeks after start of assignment
<p>Final reports incorporating peer reviewers' comments and remarks:</p> <ul style="list-style-type: none"> - Six individual studies with strategy and policy recommendations in each North African country - Synthesis report at the regional level 	32 weeks after start of assignment
Total	32 weeks (8 months).