



Implications of IFFs for the African Continental Free Trade Area (AfCFTA)

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UNITED NATIONS
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Economic Development in Africa Report 2020 briefing on
Tackling illicit financial flows for sustainable development in

OUTLINE

- AfCFTA rationale and framework
- IFFs and AfCFTA : linkages elements
- EDAR policy recommendations within AfCFTA Context
- Key messages and policy implications



- High dependence of African economies to commodities (low value added) and remote world markets increase vulnerability to shocks (e.g. COVID-19, financial crisis, etc.)

Fragmentation of African economies with 22 African countries have populations under 10m and regional trade frustrated by more than 107 unique land borders
- AfCFTA by removing/reducing tariffs and non-tariffs barriers consolidates Africa into more than \$2.3tr market of 1.3bn people
- AfCFTA to contribute to building stronger African economies Post COVID-19

AFCFTA : MORE THAN A “TRADE DEAL”

General Objectives

- 1 Create a **single market** for goods, services, facilitated by **movement of persons** in order to deepen economic integration
- 2 Create a **liberalized market for goods and services** through successive rounds of negotiations
- 3 Contribute to the **movement of capital and natural persons and facilitate investments** building on the initiatives and developments in the State Parties and RECs
- 4 Lay the **foundation for the establishment of a Continental Customs Union** at a later stage
- 5 Promote and attain **sustainable and inclusive socioeconomic development, gender equality** and structural transformation of state parties
- 6 Enhance **competitiveness** of the economies of State Parties within the continent
- 7 Promote **industrial development** through diversification and regional value chain development, agricultural development and food security
- 8 Resolve the challenges of multiple and **overlapping membership** and expedite the regional and continental integration process

Specific Objectives

- 1 Progressively eliminate tariffs and non-tariff barriers to trade in goods
- 2 Progressively liberalize trade in services
- 3 Cooperate on investment, intellectual property rights and competition policy
- 4 Cooperate on all trade related policies
- 5 Cooperate on customs matters and the implementation of trade facilitation measures
- 6 Establish a mechanism for the settlement of disputes concerning their rights and obligations

AFCFTA FRAMEWORK: AN OVERVIEW

Agreement establishing the African Continental Free Trade Area (AfCFTA)

Protocol on Trade in Goods

Elimination of duties and quantitative restrictions on imports
Imports shall be treated no less favourably than domestic products
Elimination of non-tariff barriers
Rules of Origin
Cooperation of customs authorities
Trade facilitation and transit
Trade remedies, protections for infant industries and general exceptions
Cooperation over product standards and regulations
Technical assistance, capacity-building and cooperation

Protocol on Trade in Services

Transparency of service regulations
Mutual recognition of standards, licensing and certification of services suppliers
Progressive liberalization of services sectors
Service suppliers shall be treated no less favourably than domestic suppliers in liberalized sectors
Provision for general and security exceptions

Protocol on Dispute Settlement

Rules and Procedures for Settlement of Disputes within the African Continental Free Trade Area

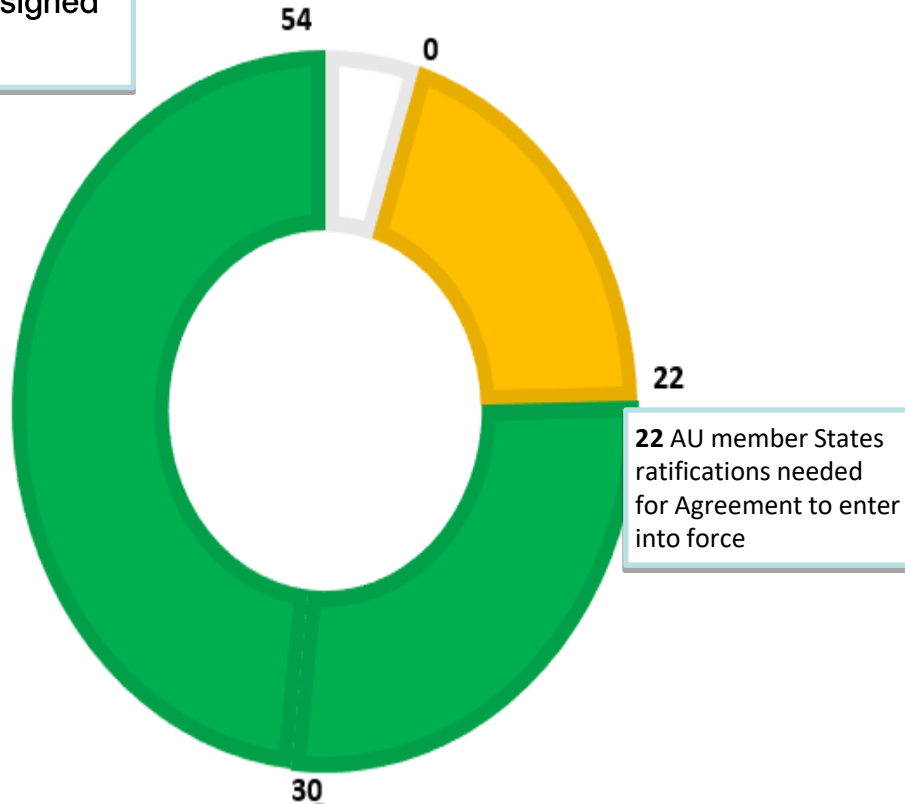
Phase 2 negotiations : Intellectual property rights, **Investment , Competition policies (ongoing)**

Phase 3 negotiations : e-commerce (to be negotiated)



AfCFTA AGREEMENT: SIGNATURE AND RATIFICATION

54 AU member States have signed so far the Agreement.



22 AU member States ratifications needed for Agreement to enter into force

30 countries have ratified the AfCFTA (as of June 2020)

- **54 out of 55 AU member States have signed the Agreement establishing the AfCFTA ; Eritrea is still to sign it**
- **The Agreement entered into force on 30 May 2019 (after 22 ratifications) but its “effective operational phase” — expected to start on 1 July 2020 — has been delayed due to COVID-19 related challenges;**
- **Trading under AfCFTA expected to start now from 1 January 2021;**
- **Outstanding issues : submission of tariffs concessions; some RoOs, Services offers, etc.**
- ***AfCFTA secretariat hand over : 17 August 2020***

AFCFTA AND IFFS : LINKAGES ELEMENTS

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IFFs

IFFs remain key impediment to Africa's inclusive development

IFFs from Africa underpinned by challenges related to regulatory frameworks & institutional capacity & trade

IFFs prominently linked with Africa's dependence on commodity trade with the RoW

IFFs widen Africa's financing gaps

Curbing IFFs to retain financial resources, in support of AfCFTA implementation

AfCFTA as a vehicle to build cooperation, strengthen capacity, promote transparency, to help curb IFFs

AfCFTA

AfCFTA to build resilient African economies incl. post-COVID-19 and foster inclusive growth

AfCFTA to undertake reforms with a view promote cooperation & strengthen institutions (trade, investments, etc.) & trade governance

AfCFTA likely to increase value added within Africa and reduce exports of commodities

AfCFTA implementation needs significant financial resources

**IFFs remain key
impediment to Africa's
inclusive development**

**AfCFTA to build resilient African economies
incl. post-COVID-19 and foster inclusive
growth**

- **New/expanded business opportunities by the AfCFTA to contribute to increasing wages, with larger gains for unskilled workers, youth and women;**
- **AfCFTA could bring 30 million people across Africa out of extreme poverty and raise the incomes of 68 million others who live on less than \$5.50 per day (*WB estimate in 2020*);**

IFFs from Africa underpinned by challenges related to regulatory frameworks & institutional capacity & trade

AfCFTA opens a new era of trade governance to undertake reforms with a view promote cooperation & strengthen institutions (trade, investments, etc.)

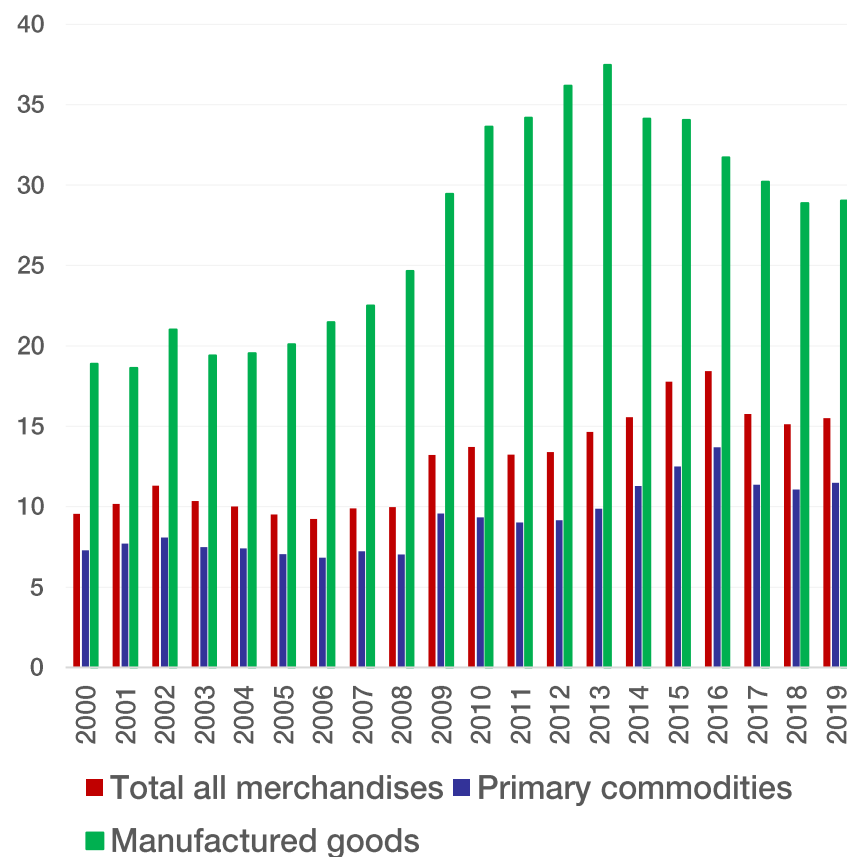
- AfCFTA to promote custom cooperation — *increase bargaining power* —, strengthen institutions needed to track and fight IFFs.
 - *the Annex 3 of the AfCFTA protocol on Trade in goods calls for cooperation in all areas of Custom administration, Mutual assistance, Harmonization of Tariffs and statistics nomenclature as well as valuation systems and goods, automation and exchange of information*
- AfCFTA Protocol on investments could deal directly with IFFs
 - The protocol to provide common understanding and definition of IFFs
 - Harmonization of investments laws and practices, promotion of transparency and accountability at both the states and private sector levels:

AfCFTA AND IFFS : LINKAGES ELEMENTS

IFFs prominently linked with Africa's dependence on commodity trade with the RoW

AfCFTA likely to increase value added within Africa and reduce exports of commodities

Intra-African exports (% of total exports) for primary commodities and manufactured goods



Source: UNCTADStat

- Intra-African trade dominated by value added content: AfCFTA to be a catalyst and reduce dependence on export of unprocessed goods;
- Evidence by most empirical studies : most of the AfCFTA gains found in the manufacturing sector (WB, UNCTAD, UNECA, etc.) – AfCFTA Rules of Origin requirements;
- Risks that extra-African IFFs are diverted to intra-African IFFs is real. *Outcome will depend on how effective the AfCFTA promote cooperation and the rules of laws among regional economies.*

IFFs widen Africa's financing gaps

AfCFTA implementation needs significant financial resources

- Financial resources needed to ensure that required institutional frameworks are in place to implement the AfCFTA to the financing of productive capacities.
- Current Africa's infrastructure needs amount to USD 130 – 170 billion a year, with a financing gap of USD 68 – 108 billion (according to AfDB)
- Afro Champions estimate the continent's trade finance gaps amount US\$ 91 billion annually.
- At national and regional levels, hundreds of thousands of dollars are needed to raise awareness and build capacities of various economic actors around the AfCFTA provisions, a key condition for its success.

AfCFTA AND IFFS : LINKAGES ELEMENTS

EDAR 2020	AfCFTA elements
ECONOMIC	
Strengthen African engagement in international taxation reform	AfCFTA Protocol on Investments and other protocols to support Africa's common position within international taxation reforms
Intensify the fight against corruption and money-laundering	Custom cooperation under the AfCFTA & Protocol on investments to help fight corruption / money laundering
Devote more resources to the recovery of stolen assets	AfCFTA (implementation) & its resources requirements make it critical to recovery stolen assets
SOCIAL	
Engage on IFFs and ethics	Corporate social responsibilities to be promoted from existing/news businesses within AfCFTA markets
Protect civil society, whistle-blowers and journalists	Promotion of human rights for inclusive AfCFTA

EDAR 2020 POLICY RECOMMENDATIONS WITHIN AfCFTA CONTEXT

EDAR 2020	AfCFTA elements
INSTITUTIONS	
Strengthen domestic regulatory framework	Institutional reforms under the AfCFTA at domestic levels should deal with trade-related IFFs regulatory issues
Invest in data infrastructure and transparency	Strengthening of national/regional capacity to collect and disseminate trade data under the AfCFTA
Rekindle trust in multilateralism to fight IFFs	AfCFTA to unify African countries and strengthen their bargaining power at international levels which could boost trust of the continent in multilateralism
ENVIRONMENT	
Engage MNEs on taxation and sustainable development Invest in research on IFFs and climate change	AfCFTA and promotion of corporate social responsibility / Climate change

KEY MESSAGES AND POLICY IMPLICATIONS

- **Curbing IFFs which drain out of Africa, billions USD per year could contribute to providing resources to invest in AfCFTA implementation**
- **The AfCFTA framework could possibly provide a vehicle to building cooperation and institutional capacity to fight IFFs**
- **Reforms under AfCFTA : opportunity for African governments to put in place sound regulatory frameworks, institutional arrangements and strengthen capacities at all levels to track and curb IFFs through cooperation and information exchanges;**
- **AfCFTA protocol on investments shall contain provisions that support Africa's fight against IFFs (agreed definition of IFFs, commitments to curbs the flows through reforms, etc.)**
- **Momentum to be kept behind AfCFTA implementation/monitoring, recognizing its potential to address more than trade related challenges**

- *Curbing IFFs in the context of the African Continental Free Trade Area*, forthcoming publication by Komi Tsowou (2020)
- *How Africa can curb illicit financial flows to strengthen economies post COVID-19*, by Paul Akiwumi (October 2020) available at <https://unctad.org/news/how-africa-can-curb-illicit-financial-flows-strengthen-economies-post-covid-19> and <https://mg.co.za/africa/2020-10-06-how-africa-can-curb-illicit-financial-flows-to-strengthen-economies-post-covid-19/>



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