UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

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REAPING THE POTENTIAL BENEFITS OF THE

African Continental Free Trade Area

FOR INCLUSIVE GROWTH

ECONOMIC DEVELOPMENT IN AFRICA

Report 2021

UNITED NATIONS

“I call on African policymakers to read the 2021 edition of the *Economic Development in Africa Report* as it provides valuable and unique insights on the challenges to sustainable development on the African continent. Above all, the recommendations in the report on the African Continental Free Trade Area, including the development of a practicable and effective dispute settlement mechanism, are essential reading for all of us who wish to see Africa prosper and achieve the Sustainable Development Goals in a timely, inclusive and united manner.”

Rebeca Grynspan

Secretary-General of the United Nations Conference on Trade and Development

“The UNCTAD *Economic Development in Africa Report 2021* makes an important contribution to the understanding of the benefits of the African Continental Free Trade Area. It is unique in that it considers elements of inclusive growth and how the African Continental Free Trade Area could foster economic diversification and stronger resilience, although the gains will not be immediate. Complementary measures to support women and young people in trade, small businesses and the least developed African countries are required to achieve a more inclusive African Continental Free Trade Area.”

Wamkele Mene

Secretary-General of the African Continental Free Trade Area Secretariat

“African economic transformation must be inclusive, and not just about growth. Stronger African regional cooperation through an effective implementation of the African Continental Free Trade Area is expected to unlock new opportunities for diversification and trade. The UNCTAD *Economic Development in Africa Report 2021* makes a significant contribution to achieving Agenda 2063 by emphasizing the important role of equipping women and marginalized groups with the necessary productive resources to promote prosperity on the continent.”

K. Y. Amoako

Founder and President of the African Centre for Economic Transformation and former Executive Secretary of the Economic Commission for Africa

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Economic Development in Africa Report 2021

Reaping the Potential Benefits of the African Continental Free Trade Area for Inclusive Growth

UNITED NATIONS
Geneva, 2021

United Nations Publications
405 East 42nd Street,
New York, New York 10017
United States of America
Email: publications@un.org
Website: https://shop.un.org

United Nations publication issued by the United Nations Conference on Trade and Development.

UNCTAD/ALDC/AFRICA/2021

ISBN: 978-92-1-113004-1
eISBN: 978-92-1-005602-1
ISSN: 1990-5114
eISSN: 1990-5122
Sales No. E.21.II.D.3

Acknowledgements

Economic Development in Africa Report 2021: Reaping the Potential Benefits of the African Continental Free Trade Area for Inclusive Growth was prepared, under the overall supervision of Paul Akiwumi, Director of the Division for Africa, Least Developed Countries and Special Programmes of the United Nations Conference on Trade and Development (UNCTAD), by Junior Davis (team leader), Grace Gondwe, Carlotta Schuster, Anja Slany, Sine Tepe, Komi Tsowou and Ali Yedan, with research assistance by Cynthia Adzika, Chiara Maero, Tinotenda Mataire, Esther Joseph Mpagalile and Anele Simon. The analysis draws on insights from institutional collaboration with the International Trade Centre.

An ad hoc expert group meeting on reaping the potential benefits of the African Continental Free Trade Area for inclusive growth was held on 22 April 2021 to conduct a peer review of the draft report. The meeting brought together specialists in African trade, investment, trade law, tax, gender-related issues and development economics. The following experts participated in the meeting and/or provided comments on the draft report: Olayinka Lawal Bandele (Commonwealth Secretariat), Lance Hadley (Sauti East Africa), Romain Houssa (University of Namur, Belgium), Kholofelo Kugler (Advisory Centre on World Trade Organization Law), Azwimpheleli Langalanga (Tutwa Consulting Group), Joy Waruguru Ndubai (Vienna University, Global Tax Policy Centre), Ify Ogo (United Nations Development Programme, Regional Bureau for Africa), Julia Seiermann (International Trade Centre), Julia Spies (International Trade Centre) and Frederik Stender (German Development Institute). The following UNCTAD staff members participated in the meeting and/or provided comments: Celine Bacrot, Vincent Beyer, Lisa Borgatti, Stefanie Garry, Mahlet Girma, Taisuke Ito, Christian Knebel, Janvier Nkurunziza, Patrick Osakwe, Ralf Peters, Matfobhi Riba, Antipas Touatam, Rolf Traeger, Yves Kenfack Tsafack, Giovanni Valensisi, Anida Yupari and Simonetta Zarrilli.

At UNCTAD, the Intergovernmental Support Service provided editing of the report, with support from the Editing Section of the Languages Service at the United Nations Office at Geneva; Nadège Hadjemian prepared the overall design and the cover; Gilles Maury designed the infographics; and Ngadjie Siani and Elena Stroganova provided administrative support. Layout of the report was undertaken by Juan Carlos Korol, of the United Nations Office at Geneva.

Notes

Use of the term “dollar” ($) refers to United States dollars.

Detailed country-level figures are available from UNCTAD on request.

The term “billion” signifies 1,000 million.

Use of a dash between years (for example, 2000–2001) signifies the full period involved, including the initial and final years.

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Foreword

The African Continental Free Trade Area is expected to be a game changer for development ambitions in Africa. It arrives at a crucial time, marked by the increased poverty levels and socioeconomic setbacks African countries have experienced due to the coronavirus disease pandemic, and its related financial, climatic and food-related shocks.

The launch of the African Continental Free Trade Area is therefore a unique opportunity to promote inclusive growth and accelerate the achievement of the post-pandemic recovery, the 2030 Agenda for Sustainable Development and Agenda 2063 of the African Union. Economic Development in Africa Report 2021 seeks to understand and build upon these much-needed opportunities.

To start, it is important to consider the task in detail. Key among the objectives of the African Continental Free Trade Area is to "promote and attain sustainable and inclusive socioeconomic development, gender equality and structural transformation of the State Parties". However, there remains an urgent need to have a better understanding of how the African Continental Free Trade Area can best achieve this, given the significant challenges faced on the continent and the increasing levels of inequality both between and within countries.

In Africa, 34 per cent of households are below the international poverty line and, with a regional Gini coefficient of around 0.40, they form part of some of the most unequal societies in the world. In addition, members of the African Continental Free Trade Area range from large countries to small countries and include both resource-rich and resource-poor countries, least developed countries and middle-income countries. The process of trade integration and the elimination of tariffs will thus affect these countries differently, both within and among them, and potentially create distributional effects if these asymmetries are not accounted for.

A more inclusive African Continental Free Trade Area can become a beacon of continental peace, prosperity and security. This Report provides an assessment of how the region can inclusively benefit from its unexploited trade potential under the African Continental Free Trade Area. This question – how can regional integration and inclusive growth be mutually beneficial? – has concerned researchers and policymakers over many years but has been particularly unexplored in the context of the African Continental Free Trade Area. We have sought to give a compelling answer to it here.

The Report adds additional insights on the vulnerabilities of women and youth, particularly in informal employment and informal cross-border trade. It also highlights the importance of partnerships in operationalizing the African Continental Free Trade Area, to effectively foster inclusive growth and post-pandemic resilience in the region.

The fifteenth session of the United Nations Conference on Trade and Development is held this year, and it is our hope that the evidence and recommendations presented in this Report will improve policy approaches to regional integration and inclusive growth in Africa, a double task now more urgent than ever.

Rebeca Grynspan
Secretary-General of UNCTAD

Abbreviations

COVID-19	coronavirus disease
FAO	Food and Agriculture Organization of the United Nations
GDP	gross domestic product
OECD	Organisation for Economic Co-operation and Development
REC	regional economic community
UNCTAD	United Nations Conference on Trade and Development
UN-Women	United Nations Entity for Gender Equality and the Empowerment of Women
WTO	World Trade Organization

Introduction

Reaping the potential benefits of the African Continental Free Trade Area for inclusive growth

Over the past decades, regional integration in Africa has not involved a purely trade liberalization agenda, but rather been based on a pillar of collective self-reliance or, in current terms, been a step towards a peaceful, prosperous and integrated continent. The African Continental Free Trade Area is expected to be a game changer for development ambitions in Africa. The design of the Agreement Establishing the African Continental Free Trade Area reflects an explicit commitment to create a framework for deeper socioeconomic integration and improved cooperation that enables trade, investment and the mobility of people, to support industrialization and the development of a dynamic services sector. Such achievements could ultimately generate decent jobs and increase revenue and thereby contribute to inclusive growth on the continent. A greater emphasis on deeper intraregional trade, cross-border investments in infrastructure and fostering “made in Africa” trade and industrialization policies is key to the continent’s future prosperity and resilience to global financial, food-related, climatic and pandemic-related shocks. For the African Continental Free Trade Area to be a game changer, countries in Africa need to adopt policies that enhance consistency between trade measures, diversification objectives and inclusivity. Unless this is accomplished, the Free Trade Area may be restricted to a trade liberalization agenda and thereby not fulfil the hopes and aspirations of the people of Africa. If effectively implemented, the African Continental Free Trade Area can help address challenges emanating from the excessive reliance in Africa on the supply of primary commodities and goods embodying limited value added to world markets.

ECONOMIC GROWTH IS INCLUSIVE IF THERE IS A

simultaneous reduction of

POVERTY AND INEQUALITY

across all segments of the population

The transformational ambition of the African Continental Free Trade Area requires that it be effectively implemented, whereby a level playing field is created for African businesses and workers. This entails, for example, that producers and traders (large, medium-sized and small firms) all have good access to markets and productive resources. Workers need to acquire better skills to respond to evolving labour market demands. An African Continental Free Trade Area that yields inclusive growth requires that disparities between diverse entities between and within countries (including, among others, disparities or inequalities between men and women; informal and formal actors; and different regions, with regard to growth) are both effectively and sustainably addressed. Governments need to foster a conducive enabling environment in which the private sector remains the backbone of dynamic industrial and services-led growth. Regional integration is critical because it has the potential to foster international and regional cooperation in overcoming barriers to trade that impede the flow of people, goods, services and knowledge. Greater cooperation among economies is also essential in order to promote peace among countries which, in turn, is a driver of prosperity. National efforts of economies in Africa to promote growth, curtail inequality and reduce poverty will, to some extent, be linked to the success or failure of the African Continental Free Trade Area.

Africa needs to pursue institutional improvements and structural reforms to maximize the potential of regional integration in achieving the goals of the 2030 Agenda for Sustainable Development and Agenda 2063 of the African Union. However, the extent to which the potential benefits of the African Continental Free Trade Area will be seamlessly achieved depends on several factors, including the level of integration and the policies and other complementary interventions in place that allow for the efficient exploitation of the opportunities accorded by deeper integration. These issues are all the more important and timely because, in January 2021, free trading officially commenced under the African Continental Free Trade Area. The relative sophistication of intra-African trade suggests that the regional market may offer greater (and, to date, largely untapped) scope for supporting economic diversification, provided that the Free Trade Area is approached and implemented as an opportunity to enhance consistency in the trade policy framework of Africa and the structural transformation agenda of the continent.

Rapid and sustained poverty reduction requires inclusive growth that allows people from different groups (e.g. based on gender, ethnicity and/or religion) and in different sectors (agriculture, manufacturing, industry and/or services) to contribute to and benefit from economic growth. Inclusive growth refers to both the pace and distribution of growth that ensures equity and equality in opportunities and protection in market and employment transitions, allowing all segments of the population equitable access to the benefits of growth. High levels of inequality undermine the impact of growth on poverty reduction (Adeleye et al., 2020; Fosu, 2015; Ianchovichina and Lundström, 2009). African economies experienced a period of unprecedented growth in the 2000s partly due to improved macroeconomic policies on the continent, followed by a slowdown since 2010. Yet recent trends in poverty and growth suggest the opposite of an inclusive growth process. The continent continues to host the majority of the world's poor, amid high and increasing levels of inequality (Schoch and Lakner, 2020). The gap between rich and poor has continued to grow in most countries in Africa and it is the second-most unequal continent; around 40 per cent of the total wealth in Africa is owned by a handful of the richest people; approximately 0.0001 per cent of the continent's population (Seery et al., 2019). In comparison with other developing countries, with regard to within-country income inequality, the estimated average Gini index of Africa is 0.43 and that of all other developing countries is 0.39 (Bhorat and Naidoo, 2017). Furthermore, levels of gender inequality in the region are among the highest in the world, which, coupled with high levels of economic inequality, creates a "suffocating web of exclusion" (Seery et al., 2019). The current pandemic has further demonstrated that high levels of inequality in the region increase the vulnerability of marginalized groups to external shocks, in particular those with inferior access to health facilities, education and economic and political participation. As such, understanding the extent to which vulnerable and marginalized groups can fully participate in and benefit from the growth opportunities accorded by the African Continental Free Trade Area remains imperative in enhancing the achievement of Agenda 2063. Finally, with regard to trade, the share of Africa in world trade has declined steadily over the past 50 years. The continent has a high level of dependence on imports and commodity-based natural resource exports. In 2019, Africa accounted for 2.8 per cent of world trade and intraregional trade accounted for only 14.4 per cent of total continental trade. Countries in Africa have not yet identified effective means of fostering sustained growth and increasing living standards. A basic insight underlying the process of regional integration in Africa is that there is a major unrealized potential for increased intraregional trade under the African Continental Free Trade Area.

Against this backdrop, the African Continental Free Trade Area could be instrumental in reversing current trends in poverty, inequality and growth, and help place Africa on an inclusive and sustainable growth path, as contended in this report. An investigation is provided of how recent policy trends and practices, mainly those expected to prevail under the Free Trade Area, will impact prospects for more inclusive growth, given increasing inequalities both between and within countries in the region and the negative effects of the coronavirus disease (COVID-19) pandemic. An analysis is included of how the expected gains from trade, production, investment and growth opportunities under the Free Trade Area can be inclusive. Focusing on the three of the five Ps under the 2030 Agenda that anchor inclusive growth (people, prosperity and partnership), the challenges faced in informal cross-border trade are assessed, particularly among marginalized groups, to ensure that the Free Trade Area will be inclusive across sectors and that the growing labour force in the region will be efficiently utilized. In addition, an assessment is provided of how the region can inclusively benefit from its unexploited trade potential through the Free Trade Area. Finally, the importance of partnerships in operationalizing the African Continental Free Trade Area is highlighted, to effectively foster inclusive growth and post-pandemic resilience in the region. Sections 2 and 3 below review the concepts and definitions of inclusive growth and regional integration and section 4 presents the objectives and structure of the report.

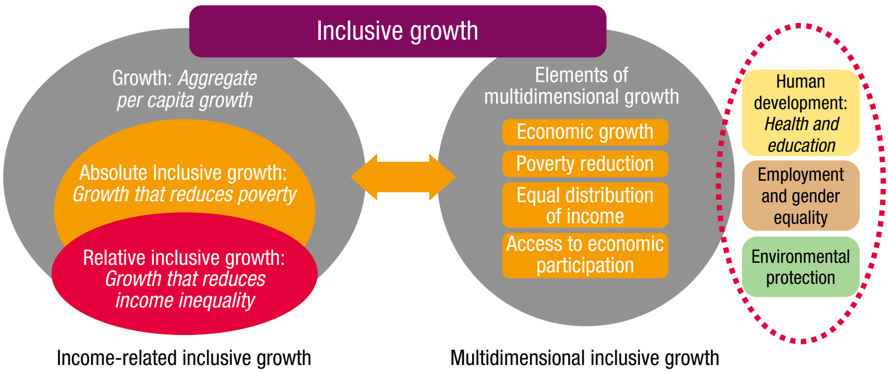
1. Inclusive growth

The period of unprecedented growth in the 2000s has not translated into significantly improved livelihoods for most people in Africa, as the income gap between rich and poor has widened. Economic development complemented by economic growth is a vital process, to ensure sustained progress, yet also depends on how the benefits of development are distributed across diverse groups within countries (Sen, 1999; Sen, 2001). This raises the question of how economic growth can contribute to poverty reduction and foster inclusive development. In Africa, inclusive growth and sustainable development are the main objectives of Agenda 2063 and both issues are addressed in this report. There is no generally agreed definition of the term inclusive growth (Ali and Son, 2007; Ali and Zhuang, 2007). However, its importance in development discourse is increasing. The term is understood to refer to “growth coupled with equal opportunities” (Rauniyar and Kanbur, 2010). Varied arguments about inclusive growth focus on the equitable sharing of the benefits of growth and the related distribution of well-being in society across different classes, cultures, communities and genders.

The literature distinguishes between two main notions of inclusive growth, namely income-related inclusive growth and inclusive development or multidimensional inclusive growth; the former is based solely on household income or consumption and the latter relates to growth that allows for human, social, economic and environmental development (figure 1). Inclusive development is a process whereby improved average achievements are accompanied by less inequality and it therefore involves the improvement of the distribution of well-being along dimensions beyond growth, while the average level of achievement improves (Van Gent, 2017). Such development can be transformative and benefit marginal groups, such as women and youth. The term inclusive development is often used interchangeably with inclusive growth. The causes of inclusive growth and methods of measurement are complex, but some factors have been identified as key determinants, including improvements in human capital, financial inclusion, foreign direct investment inflows, digitalization and fiscal redistribution (taxes and transfers), as well as greater labour force participation among women, productivity growth and structural changes (Alekhina and Ganelli, 2020; Anand et al., 2013). The main channels through which regional integration and trade can drive inclusive growth include job creation through better access to wider markets by leveraging trade, investment and regional value chains; and more inclusive regional integration measures, whereby regional economic communities (RECs) and member States support women's participation in trade, business and labour markets, foster cross-border infrastructure development and deepen financial integration (African Development Bank, 2014a).

Figure 1

Two definitions of inclusive growth



Source: UNCTAD.
Note: Items inside the dotted line are elements of non-income inclusive growth (see Klasen, 2010, and Ranieri and Ramos, 2013).

1.1 Inclusive growth and pro-poor growth

Conceptually, the African Development Bank (2020) considers growth as inclusive if its benefits are widely shared across all segments of the population, that is, if it simultaneously reduces extreme poverty and inequality. Given the definition of inclusive growth as growth that leads to decreases in both poverty and inequality, inclusive growth may be confused with pro-poor growth as defined in both absolute and relative terms (Ranieri and Ramos, 2013). Klasen (2010) draws a useful distinction between pro-poor and inclusive growth based on the groups that are the recipients of the outcomes from growth; accordingly, pro-poor growth focuses on people below the poverty line and inclusive growth is "arguably more general; it wants growth to benefit all stripes of society, including the poor, the near-poor, middle-income groups and even the rich". Agenda 2063 focuses on inclusive growth and all segments of society rather than merely on pro-poor growth. Inclusive growth is empirically analysed in this report using pro-poor growth as a proxy, defined in absolute and relative terms. The absolute definition of pro-poor growth measures the benefit to the poor from growth in an economy, without the consideration of income distribution. The relative definition of pro-poor growth measures growth in an economy among the poor that have a higher growth rate than the rest of the economy; this can affect the income distribution in a country.

1.2 Multidimensional inclusive growth

The pandemic has demonstrated how interconnected the world is and the importance of inclusivity in ensuring socioeconomic sustainability (including a lack of social turmoil and political instability) and of the protection of those most vulnerable to pandemics and other shocks. In attempting to "build back better", it should also be acknowledged that economics cannot be fully separated from health-related and environmental dynamics and there is therefore a need to adopt a multidimensional approach.

Inclusive development relies on the capacity of social, economic and political systems to provide the circumstances for well-being on a sustainable, long-term basis. Therefore, inclusive development should be measured along the interconnected dimensions of human, social and economic development and environmental considerations. In this regard, the capability approach framework in Sen (1999) entails two normative claims, namely, that the freedom to achieve well-being is of primary moral importance and that well-being should be understood in terms of people's capabilities and functionings. McKinley (2010) proposes an inclusive growth index that includes indicators in the areas of growth, productive employment and economic infrastructure; income poverty and equity, including gender equity; human capabilities; and social protection. Ranieri and Ramos (2013) also propose an extensive list of key elements in defining inclusive growth, including poverty, inequality, growth, productive employment, capabilities and/or empowerment, gender inequality, access to infrastructure, social protection, participation, targeted policies, basic social services, good governance, opportunity, barriers for investment and benefits of growth.

Other important components of inclusive growth include institutions and the performance of the social sector. Health and education are drivers of social mobility and enable people to achieve their capabilities. Poor access to health and education facilities undermines the possibility of people (in particular those living in rural areas) to develop, increase productivity and build knowledge. It should be noted that pre-pandemic economic growth in most economies in Africa was not sufficient to create decent employment opportunities and the situation has worsened because the pandemic has placed increased pressure on economies. Simultaneously, disparities in terms of accessing health and education services, as well as related productive resources, remain pervasive between and within regions, countries and communities. Social inclusion is an essential dimension of inclusive development, related to the need to fully include marginalized groups currently excluded from societal gains.

With regard to employment, the African Development Bank (2012a) and Bhalla (2007) highlight the importance of productive employment as a fundamental element of inclusive growth and sustainable development.

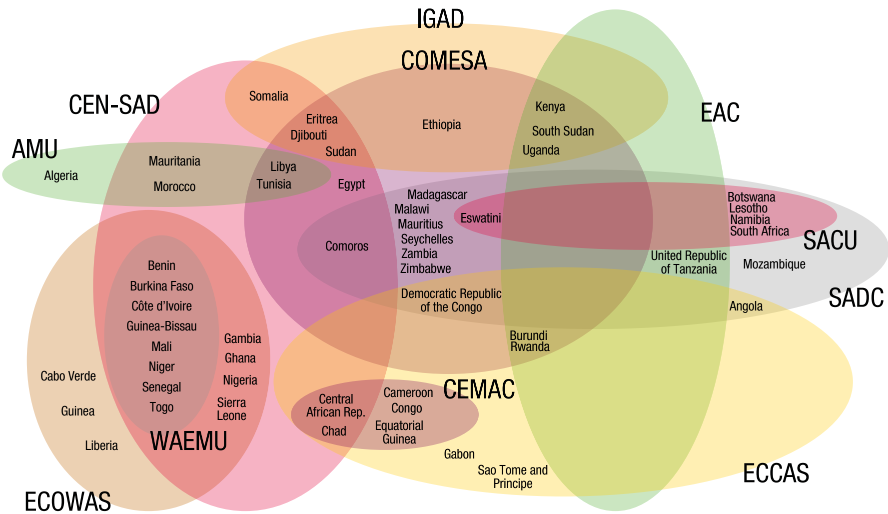
Finally, for development to be inclusive, environmental considerations should be integrated alongside social, economic and political factors, mainly because the livelihoods of the poor and vulnerable, who are often the groups most excluded from social development processes, greatly depend on environmental resources (Gupta et al., 2015). Inclusive development cannot be achieved if the environment is not protected, to support livelihoods. However, the consideration of environmental protection as an element of inclusive growth is beyond the scope of this report.

2. Regional integration

The African Continental Free Trade Area aims to reinforce regional integration in Africa. Progress towards regional integration has, to date, been uneven, with some countries well integrated at the regional and/or subregional level and others less so. It should be noted that, from an institutional perspective, some RECs have already established a customs union and agreed on common external tariffs but others have not yet been able to consolidate free trade areas as originally envisaged in the Treaty Establishing the African Economic Community (Abuja, 1991). Regional integration has been particularly shallow across RECs, with many economies in Africa not members of the same community and still trading on a most-favoured nation basis (figure 2). The African Continental Free Trade Area is aimed at redressing the situation whereby intra-African exports often face higher tariffs within the continent than in the rest of the world, partly due to preferential trading arrangements such as the African Growth and Opportunity Act of the United States of America and the Everything but Arms scheme of the European Union. Among others, the African Continental Free Trade Area is aimed at boosting intra-African trade and harmonizing the heterogeneity of trade rules across RECs and under regional trade agreements. Its establishment could also lead to the reorientation of trade towards the regional market, leading to significant overall output, gains in welfare and employment expansion in the long term (Economic Commission for Africa et al., 2019; UNCTAD, 2019a).

Figure 2

Africa: Overlapping memberships in subregional trade agreements



Source: UNCTAD.
Abbreviations: AMU, Arab Maghreb Union; CEN-SAD, Community of Sahelo-Saharan States; CEMAC, Economic and Monetary Community of Central Africa; COMESA, Common Market for Eastern and Southern Africa; EAC, East African Community; ECCAS, Economic Community of Central African States; ECOWAS, Economic Community of West African States; IGAD, Intergovernmental Authority on Development; SACU, Southern African Customs Union; SADC, Southern African Development Community; WAEMU, West African Economic and Monetary Union.

Regional integration refers to a process of strengthening interconnectivity undertaken by the economies of a region through enhanced collaboration and unified policies, along several dimensions. Park and Claveria (2018) identify the following six key facets of regional integration: trade and investment; money and finance; regional value chains; infrastructure and connectivity; the movement of people; and institutional and social integration. The Economic Commission for Africa et al. (2019) focus on the following seven dimensions of regional integration in Africa: macroeconomic convergence and monetary and financial integration; trade and investment integration; migration and the free movement of persons; infrastructure integration; health integration; mining sector integration; and governance, peace and security. This report is focused on the dimensions of trade and investment. There are many economic advantages accruing from trade integration, as it is integral to achieving economic growth and reducing poverty.

In developing countries, regional integration provides an opportunity for countries with similar levels of development to trade and derive mutual benefits from the gains of trade (Palley, 2003). Regional trade can enhance the prospects for continental peace through deeper regional interdependence and help reduce the vulnerability of the continent to external dynamics and the costs of trade facilitation, that is, the specific measures that streamline and simplify the technical and legal procedures for products entering or leaving a country to be traded internationally (African Union and UNCTAD, 2019; UNCTAD, 2019a). Regional integration has many advantages yet, as with all types of trade liberalization agreements, regional trade agreements can also have drawbacks, some of which are particularly pronounced in countries in Africa. Trade agreements, whether multilateral, regional or bilateral, entail some loss of national sovereignty and tariff revenue, as nations may find that they must give up more of their economic and political flexibility (Saylor Academy, 2012). However, it is possible to turn the limitations into potential opportunities; in so far as Africa can shift towards manufacturing, the scope for intra-industry trade within the continent should broaden, strengthening the mutually supportive relationship between regional integration and industrialization. International trade can also generate interregional knowledge spillovers, which can increase efficiency, diffuse technology and redistribute wealth. Extensive literature and theoretical backgrounds are available with regard to regional integration and how it can foster growth, yet the slow pace of implementing trade rules and recent regional trade-related frictions may pose challenges in the implementation of the African Continental Free Trade Area. These could lead to questions among citizens of the effectiveness of regional integration; there are already some doubts about the potential of the Free Trade Area to foster more inclusive growth and less poverty and inequality. Uncertainty about trade being sufficiently inclusive may be rooted in concerns about the potential distributional effects, through changes in the prices of goods and services and changes in output, income and employment (Artuc, 2021). The lack of data makes it challenging to empirically measure the distributional effects of international and regional trade on key elements of inclusive growth, such as employment and income, yet assertions continue to be made with regard to the costs and benefits or the winners and losers from international and regional trade (Artuc, 2021).

Artuc (2021) outlines three key observations about the distributional effects of trade in terms of gains and losses. First, the gains from trade are often overlooked because, unlike losses, they are not concentrated but instead are often distributed thinly across a population. Losses from trade are often concentrated in some locations or skill groups because of regional disparities in growth (regions with a greater concentration of export industries tend to benefit more and most directly from trade in terms of higher incomes, rather than traditional industrial or import-competing regions); and workers with transferable and/or high-level skills employed in exporting industries are more likely to command higher incomes (Hakobyan and McLaren, 2016). Labour mobility is key to explaining the distributional impacts of international trade because export and import-competing industries are clustered in different locations and workers cannot move seamlessly between regions and sectors; the impact of international trade on workers therefore critically depends on their initial geographical location and, under the African Continental Free Trade Area, on the freedom of movement of labour (Artuc et al., 2021; Autor et al., 2013; UNCTAD, 2018a). Second, it is difficult to empirically measure labour mobility and the distributional impact of trade on income based on labour market data, as the required time series data are largely non-existent. In addition, some of the existing empirical methods for identifying the distributional effects of trade have significant methodological limitations that understate the potential gains from trade, such as the local labour markets approach of Autor et al. (2013). Third, it may be argued that there is a need for more effective dispute settlement and compensation mechanisms. The latter could help attenuate losses from international and regional trade within the context of the African Continental Free Trade Area for the least developed countries in Africa, and, with sufficient political commitment, could be economically feasible to implement. A major challenge in Africa is with regard to the accurate measurement and determination of both the benefits and losses from regional trade.

Santos-Paulino et al. (2019) raise questions about how the benefits of integration may be distributed and the extent to which lower-income countries can capture development gains. Their empirical analysis of the impact of regional integration on development, particularly the effects on growth and welfare, using both regional and bilateral integration measures, shows that the ability to capture gains from integration varies across developing country regional groups, with developing Asia benefiting on a par with developed countries. Two channels linking regional trade integration and inclusive growth are identified, namely, a direct link captured by internal regionalization at the national level and an indirect link captured by exposure to regionalization at the regional level. Santos-Paulino et al. (2019) argue that, where there is a regional trade agreement, non-member States are impacted by changes in trade flows, that is, through the indirect link. There are also potential development impacts in countries that are not parties to a formal regional trade agreement but that trade extensively with countries that are parties to such an agreement. The authors find that both a country's regionalization and exposure to the regionalization of others positively contribute to economic growth globally (but that sub-Saharan Africa has experienced relatively lower levels of growth), a smaller increase in inequality and reduced poverty. Finally, the authors show that trade and trade policy play an important role in reducing poverty and inequality in developing countries and that regionalism can function as a channel through which to make multilateralism a more adept way of addressing national challenges.

In the context of the African Continental Free Trade Area, it is likely that the least developed countries in Africa will initially gain less than more economically advanced neighbours, although this may change over time. It may therefore be better to consider the potential benefits of regional integration in dynamic terms. In this regard, the paradigm of development in terms of flying geese may be pertinent, as it presents a broadly positive picture of evolving economic relationships between more advanced and less advanced developing economies, which occurs as the former industrialize. It explains the successes of newly industrializing economies by relating the life cycles of particular sectors over their course of development with the relocation of industries from more advanced to less advanced countries in a region in response to shifts in competitiveness (UNCTAD, 1996; UNCTAD, 2011). The entrance of some of the least developed countries in Africa in regional and subregional production networks may create new opportunities for structural transformation, skills acquisition and technological upgrading. This process is particularly evident in Asia, where policy plays an important role in facilitating the dynamic development of the regional division of labour and growing regional interdependence. Trade liberalization always creates winners and losers, yet the contention in this report is that it is important to ensure that complementary mechanisms are in place to facilitate adjustments, including sectoral labour reallocation; redistribute gains, in both a traditional sense and by focusing on labour creation; and establish some basic safety nets.

3. Objectives and structure of the report

The launch of the African Continental Free Trade Area accords countries in Africa a unique opportunity to promote inclusive growth and accelerate the achievement of both the 2030 Agenda for Sustainable Development and Agenda 2063 by boosting intra-African trade and welfare gains among the population (East Africa International Arbitration Conference, 2021). With the full liberalization of a large economic space, firms in Africa have a chance to rationalize production by increasing their scope, exploring new product lines and participating in value chains while expanding seamlessly across the continent, guided by the customer base (market) and linkages in production and supply chains. Furthermore, participation in continental value chains provides a better foundation for immersion into competitive global value chains. This should enable firms to exploit economies of scale for growth and build relevant resilience against future global economic shocks. Notably, the expansion and growth of both large and small firms under the African Continental Free Trade Area could potentially improve the scope of employment for skilled and unskilled labour in the region, as each category is provided with a wider range of employment opportunities. Economic integration is an important element of regional integration. The growth of firms in different industries through the reduction of tariff and non-tariff barriers could trigger the movement of not only capital but also labour, as more employment opportunities emerge across the continent. Furthermore, the Free Trade Area could increase opportunities for the growth of small and medium-sized enterprises and productive self-employment and contribute to effective reductions in the widespread informality prevalent in Africa. Overall, these factors will have a net impact on the incomes and poverty levels of individuals in the region. Estimates show that, by 2035, the African Continental Free Trade Area could potentially raise incomes and lift about 30 million people out of extreme poverty (World Bank, 2020a). However, it should be noted that the achievement and sustainability of such benefits greatly depend on both the policies (and trade facilitation measures) and partnerships that will be put in place in the region to guide the implementation of the Free Trade Area. In this regard, this report is aimed at providing policymakers with guidance on how the expected gains from trade, production, investment and growth opportunities from the African Continental Free Trade Area will impact prospects for more inclusive growth given increasing inequalities in the region and the negative effects of the COVID-19 pandemic. Accordingly, the objectives of this report are to analyse the channels through which key elements of inclusive growth can be achieved under the African Continental Free Trade Area and to sensitize stakeholders to the importance of strategic policies, complementary interventions and partnerships for inclusive exploitation of the benefits. In addressing these objectives, the focus in the report is on specific elements of both the 2030 Agenda and Agenda 2063 as they pertain to inclusive growth (figure 3).

The report is structured as follows. An overview of inclusive growth in Africa is provided in chapter 1, focusing on both income and non-income dimensions and shedding light on the key channels through which the African Continental Free Trade Area may contribute to inclusive growth and help build more resilient economies. The analysis of inclusive growth is broadened in chapter 2 in the context of regional trade integration by focusing on informal cross-border trade; assessing the challenges faced by informal cross-border traders and the relevance of the informal economy in the inclusive growth process; and showing that market liberalization under the Free Trade Area is important for the growth of businesses, yet the inclusive trade policies and strategies that will accompany its implementation can also contribute to promoting fair trade, particularly in order to assist small and often marginalized businesses. The discussion in chapter 3 addresses how the region can inclusively benefit from unexploited trade potential under the Free Trade Area; the low complementarity of trade and low economic diversification as key factors undermining the region's inclusive growth process in the context of trade; the role of the African Continental Free Trade Area in unleashing equal export opportunities for small and medium-sized enterprises and small-scale traders; and the need to address both regulatory and structural barriers to bilateral trade beyond tariff liberalization through the Free Trade Area. In chapter 4, the discussion highlights the importance of both effective trade reforms and partnerships for an inclusive African Continental Free Trade Area; contends that unless implementation is guided by an efficient integrated framework (from the design of policy actions to implementation and monitoring), including through a strong institutional set-up and cost-effective trade dispute settlement mechanism, achieving an inclusive free trade area will remain elusive, given its multidimensional characteristics; and addresses the opportunities and challenges under the Free Trade Area resulting from the commitment of countries to global trading systems. Chapter 5 concludes with key policy findings and recommendations.

Figure 3

Inclusive growth: Linkages between the 2030 Agenda, Agenda 2063 and *Economic Development in Africa Report 2021*

(Numbers in circles refer to report chapters)

2030 Agenda	Goal 2 Target 2.3	1 2 3	*Zero hunger* *By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment*
	Goal 5 Target 5.5	1 2	*Gender equality* *Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life*
	Goal 8 Target 8.2	1 3	*Decent work and economic growth* *Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors*
	Target 8.3	1 2 3 4	*Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services*
	Goal 9 Target 9.2	1	*Industry, innovation and infrastructure* *Promote inclusive and sustainable industrialization and, by 2030, significantly raise industry's share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries*
	Goal 10	1 2	*Reduced inequalities*
	Goal 17 Target 17.10	1 2 3 4	*Partnerships for the Goals* *Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization, including through the conclusion of negotiations under its Doha Development Agenda*
Agenda 2063	Aspiration 1 Goal 4	1 2 3 1 3	*A prosperous Africa, based on inclusive growth and sustainable development* *Transformed economies* *Sustainable and inclusive economic growth* *Economic diversification and resilience* *Industrialization and value addition*
	Aspiration 6 Goal 17	1 2 4	*An Africa whose development is people driven, relying on the potential offered by African people, especially its women and youth, and caring for children* *Full gender equality in all spheres of life* *Women and girls empowerment*
	Aspiration 7 Goal 19	1 4	*An Africa as a strong, united, resilient and influential global player and partner* *Africa as a major partner in global affairs and peaceful co-existence* *Africa's place in global affairs* *Partnership*

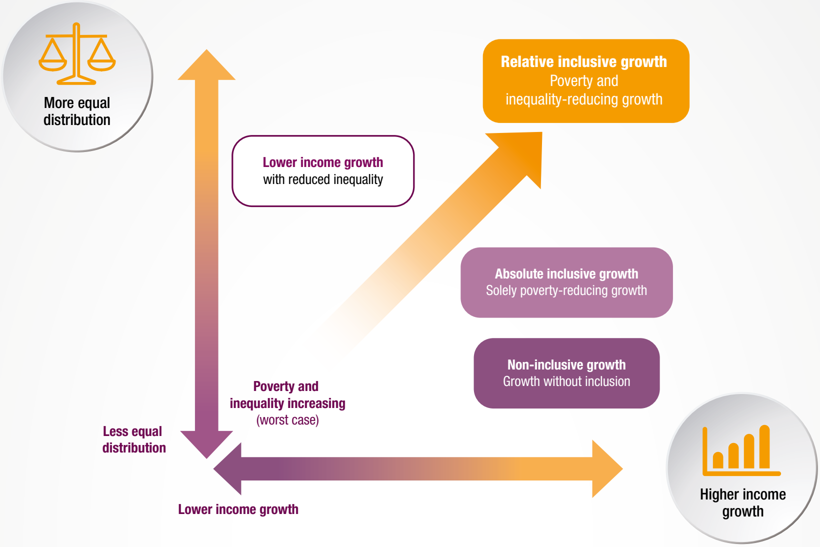
Source: UNCTAD.

Chapter 1

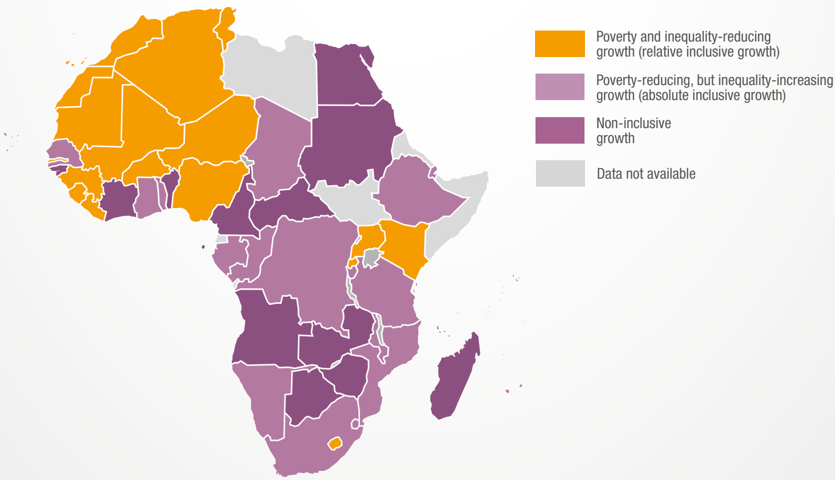
Inclusive growth in Africa

Inclusive growth in the context of regional integration and the African Continental Free Trade Area is discussed in this chapter and the ways in which the regional integration agenda is reflected in the Free Trade Area as an instrument to foster inclusive growth and "build back better" in the aftermath of the pandemic are clarified. In particular, recent trends in inclusive growth, taking into account income and non-income dimensions, are discussed and assessed in sections 1.1 and 1.2. Country-based case studies exploring three broad categories of income inclusive growth are presented in section 1.3. Finally, a review of recent trends in intra-African trade and a discussion of how the African Continental Free Trade Area can help overcome the adverse effects of the pandemic on inclusive growth are provided in sections 1.4 and 1.5.

INCLUSIVE GROWTH AS A TARGET OF AGENDA 2063



LESS THAN HALF OF COUNTRIES IN AFRICA HAVE EXPERIENCED INCLUSIVE GROWTH OVER RECENT DECADES*



* Inclusive growth is assessed for each country between the two years for which household data are available from the Povcal Net database of the World Bank, from 2000 to 2020.

1.1 Recent trends: Poverty and inequality in Africa

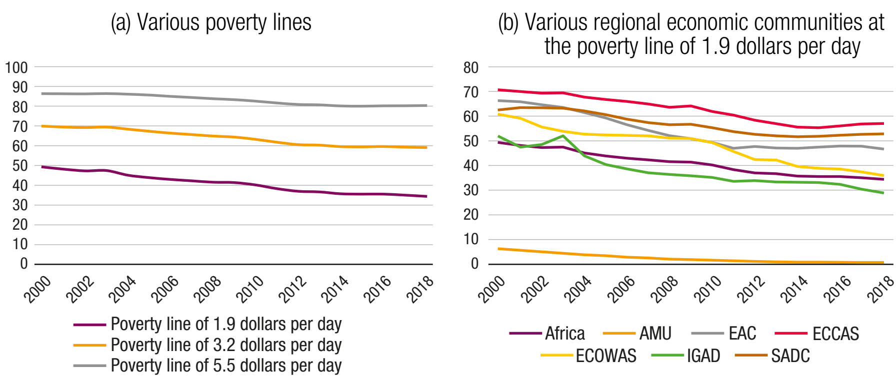
Recent trends related to inclusive growth in Africa in the areas of poverty, inequality and the non-income components of inclusive growth are described in this section, highlighting regional disparities. Reductions in poverty and inequality are critical features of inclusive growth. In the period 2010–2019, real gross domestic product (GDP) per capita in Africa grew by 0.25 per cent, varying by regional economic community (REC).

In the period 2010–2018, poverty decreased in Africa, as measured by the poverty line and headcount rates, with variations across RECs. The proportion of households with an income or consumption level at below $1.9 per day fell from 40.2 per cent in 2010 to 34.4 per cent in 2018; at $3.2 per day fell from 63.2 to 59.1 per cent; and at $5.5 per day fell from 82.5 to 80.2 per cent (figure 4 (a)). The pandemic has led to increased poverty. With regard to extreme poverty, as Valensisi (2020) shows, Africa (excluding North Africa) is the most-affected region in the world: the 2020 poverty headcount rate is estimated to have increased by 2.7 percentage points as a result of the pandemic, corresponding to an additional 31 million people living in extreme poverty (at the poverty line of $1.9 per day). Similarly, Mahler et al. (2020) note that the pandemic could lead to 40 million additional poor in Africa (excluding North Africa) at the poverty line of $1.9 per day. There are also wide disparities in poverty rates across RECs, as shown in figure 4 (b).

Figure 4

Africa: Poverty headcount rates

(Percentage)



Source: UNCTAD calculations, based on data from the Povcal Net database of the World Bank.
Note: Poverty lines are calculated at purchasing power parity.

The lowest poverty rate is in the Arab Maghreb Union, and the Economic Community of Central African States has the highest, irrespective of the poverty line used in the calculation. Generally, there is an observable relationship between inclusive growth and lower poverty rates; poverty decreased in all countries with inclusive growth, except in Seychelles, and poverty increased in all countries that did not have inclusive growth, except in Cameroon.

With regard to inequality, UNCTAD estimates for countries in Africa based on the Povcal Net database of the World Bank show that the Gini index ranges from 27.6 per cent (Algeria) to 63.3 per cent (South Africa). Countries with the lowest indices are mainly part of the Arab Maghreb Union and the Economic Community of West African States (Algeria, Guinea, Mali, Mauritania and Tunisia) and the countries with the highest indices are mainly in the Economic Community of Central African States and the Southern African Development Community, including the Central African Republic, Eswatini, Namibia, Sao Tome and Principe, South Africa and Zambia.

Overall, poverty rates have fallen in Africa, but reducing inequality remains a challenge. In addition to reductions in poverty and inequality, improved economic performance should be reflected through better human development outcomes, lower levels of unemployment and greater gender equality and environmental protection. Beyond income and wealth, people’s well-being is shaped by a range of non-income dimensions, such as their health, education and employment status (Asian Development Bank, 2017). Recent data on the key non-income components of inclusive growth in Africa are summarized in box 1.

Box 1
Non-income components of inclusive growth

Human capital

Education should foster the development of skills, entrepreneurship and behaviour for leading a rewarding life compatible with sustainable and inclusive growth. Countries should ensure that all children complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes by 2030, in line with target 4.1 under Sustainable Development Goal 4. However, countries in Africa are far from achieving this target. Girls continue to face discrimination in terms of access to quality education in many countries, yet this lack of equality appears to be decreasing. For example, 25 per cent of parliamentarians in Africa are women, which is above the global average of 21 per cent. However, closing the gender gap for women and girls in all spheres of life is urgent in Africa, as many girls continue to be denied access to education. The disadvantages faced by women and girls in education and training start in the early years. In addition, the current pattern of skills production in Africa does not match labour market demands or development needs; there is a mismatch between unemployed graduates and the lack of a skilled workforce. The University of the People (2017) states that a degree from a university in Africa will not necessarily translate into employability for graduates and that there is "a seeming paradox at work: while Africa faces a shortage of skilled workers in many fields such as science, mathematics, technology engineering and health, graduates of African universities still find themselves underemployed". This observation could also be linked to the limited access to the productive resources needed to translate skills into job creation and businesses. Africa needs to develop and improve technical and vocational training focused on jobs in secondary and tertiary schools, and there is a need for better collaboration and partnerships between industry and universities in Africa, to address the multiple challenges confronting higher education.

Health is another critical dimension of inclusive growth; the role of health investments and their distribution is increasingly recognized as an integral component of the debate on inclusiveness. The health of a country is primarily reflected by life expectancy at birth; this measure has increased in Africa since 2000 yet remains below the world average. Africa lags behind Asia, the continent with the second lowest average life expectancy, by nearly 10 years for both men and women. However, the gap between life expectancy at birth in Africa and that in the rest of the world is narrowing. Data from the World Health Organization shows that, while men in Africa born in 2000 can expect to live 51.1 years on average, compared with 64.4 years worldwide, those born in 2019 can expect to live 63.4 years on average, compared with 70.9 years worldwide. Countries should reduce the global maternal mortality ratio to less than 70 per 100,000 live births by 2030, in line with target 3.1 under Sustainable Development Goal 3. However, countries in Africa are far from achieving this target, with a maternal mortality ratio of 500 per 100,000 live births in 2017. Data from the UNCTADstat database shows that while the maternal mortality ratio has been slowly falling since 2000, it remains high in all RECs except for in the Arab Maghreb Union, in which target 3.2 (to reduce under-5 mortality to at least as low as 25 per 1,000 live births by 2030) has also, on average, already been achieved. Significant efforts have been made in RECs to reduce child mortality since 2000, yet efforts should be redoubled, to achieve the target by 2030.

Employment and gender inequality

Many countries in Africa have experienced significant economic growth yet employment challenges remain, as this economic growth has not created enough jobs. Unemployment can lead to violence and unrest because unemployed young people are often the most vulnerable to crime, political violence, religious radicalization or human traffickers. Growth cannot be considered inclusive without decent work for the population. With regard to the population aged 25 or over, the employment-to-population ratio was 68 per cent in 2019, that is, one in three Africans aged 25 or over was unemployed. In 2019, the female labour force participation rate of 54 per cent in Africa compared favourably with the global average of 47 per cent. Women account for more than 50 per cent of the population in Africa, but in 2018, generated only 33 per cent of continental GDP. Inclusive growth requires higher rates of female labour force participation, yet women remain marginalized in the labour market in Africa. Progress made in Africa towards gender parity in the world of work appears positive given the high rate of labour force participation, yet too few women are in high-quality professional and technical jobs and most women work in low-paid, often subsistence-level jobs in the informal economy. Backhaus and Loichinger (2021) find a positive association between female labour force participation and female educational attainment across working age. Female education is further positively related to female employment in the non-primary sector. In contrast, early motherhood is associated with lower levels of schooling among females and a widening gender gap in labour supply. Gender inequality in labour force participation is not expected to decline sharply in the short term. According to the McKinsey Global Institute (2019), in 2019, gender parity in Africa was 0.58 (1 = full parity). Without radical action, it could take 140 years for Africa to achieve full parity. However, advancing women's equality could add 10 per cent or $316 billion to the continental GDP by 2025. Employment in most countries in Africa does not contribute to sustainable development, given the dominance of the primary sector. In 2019, agriculture accounted for almost half of all jobs in Africa, yet agricultural employment is declining in favour of services. However, the secondary sector (manufacturing, industry, etc.) only accounted for 13 per cent of employment in 2019, despite its importance for economic diversification and the building of productive capacities.

Sources: Asian Development Bank, 2017; Backhaus and Loichinger, 2021; ILOstat database, International Labour Organization; International Labour Organization, 2020; McKinsey Global Institute, 2019; Mba, 2017; United Nations Educational, Scientific and Cultural Organization, 2016; University of the People, 2017; World Development Indicators database, World Bank; World Health Organization, 2021.

1.2 Assessment

Trends in inclusive growth in countries in Africa are assessed in this section, using pro-poor growth rates and growth incidence curves (Ravallion and Chen, 2003). Data on income and consumption shares by decile are derived from the Povcal Net database of the World Bank and, in most cases, data on consumption shares by decile are used, with income shares by decile used for countries for which data on the former are unavailable. Economists debate on whether poverty measurements based on consumption are better indicators of welfare than those based on income. For example, Meyer and Sullivan (2003) opt for consumption measures, stating that consumption should be used to set benefit standards and evaluate transfer programmes, and Moratti and Natali (2012) state that consumption expenditure is probably the most common and preferred welfare indicator. Inclusive growth is assessed by comparing the two years for which data are available in the period 2000–2020 for each country (box 2).

Box 2

Measuring inclusive growth

Inclusive growth benefits all social segments of a population, in particular the poorest. The pro-poor growth rate is a proxy for the measurement of inclusive growth, and it is possible to calculate this rate and the growth incidence curve, to measure inclusive growth in Africa. Data on income or consumption share by decile are drawn from the Povcal Net database of the World Bank; the data used are estimated directly from available household surveys and are identical to the estimates in the World Development Indicators database and the Poverty and Equity Data Portal. The distributional data used are drawn from nationally representative household surveys. The Povcal Net database uses per capita household income or consumption expenditure, that is, every household member is assigned an equal share of household income or consumption, regardless of age and without taking into account economies of scale. It should be noted that estimated growth reflects average annual growth based on household surveys and differs from GDP growth based on national accounting data. It is at present difficult to empirically assess inclusive growth based on GDP, as it is not typically disaggregated by quantiles of population.

The analysis utilizes a data series beginning in 2000. The comparative year *(t-1)* is the first year in which data on deciles are available since 2000 and the year to be compared *(t)* is the most recent year in which data on deciles are available. The growth rate in income of the decile *(d)* between the years *t-1* and *t* is calculated using the following equation:

$$g_t\,(di) = \frac{y_t\,(di)}{y_{t-1}\,(di)}\ -1$$

where $y_t\,(di)$ is the income or consumption of the decile at year t

As the years *t-1* and t are not the same for all countries, for the purposes of comparison, the annual growth rate in income of the di decile is determined for each country as given in the following equation:

$$\overline{g_t}\,(di) = \left(\frac{y_t\,(di)}{y_{t-1}\,(di)}\right)^{\frac{1}{T1-T0}}\ -1$$

where *T0* and *T1* are the years *(t-1)* and *(t)*, respectively

Growth incidence curves are constructed from the $\overline{g_t}\,(di)$ of the 10 deciles. The estimated pro-poor growth rate is measured by the mean growth rate of the poor and this is compared with the average growth rate, that is, the growth rate of the overall mean. The mean growth rate of the poor is calculated using the following equation:

$$pro\ poor\ growth\ rate = \frac{1}{H_t}\int_0^{H_t} \overline{g_t}\,(di)\ d\,(di)$$

where H_t is the poverty headcount (calculated at the poverty line of $1.9 per day (purchasing power parity))

The average growth rate is calculated using the following equation:

$$\overline{g_t} = \left(\frac{\overline{y_t}}{\overline{y_{t-1}}}\right)^{\frac{1}{1-T0}} -1$$

where $\overline{y_t}$ is the average income or consumption at year *t*

The following categories of growth may be obtained:

average growth rate > pro poor growth rate > 0

where growth is considered absolutely inclusive. In this case, on average, the situation of the poor has improved but less than that of the non-poor (i.e. those with an income or consumption level at above $1.9 per day)

pro poor growth rate > average growth rate > 0

where growth is considered relatively inclusive (best-case scenario). In this case, the pro-poor growth rate is higher than the average growth rate

average growth rate < 0

where there has not been any growth, because the overall average real income or consumption level has decreased

average growth rate > 0 > pro poor growth rate

where, on average, the situation of the poor has not improved, while the overall average real income or consumption level has increased; therefore, growth has not been inclusive

Sources: Ravallion and Chen, 2003; UNCTAD calculations, based on data from the Povcal Net database of the World Bank.

The inclusive growth patterns in countries in Africa are shown in table 1, comparing the mean growth rate of the poor with the growth rate of the overall mean (in relative and absolute terms). It can be seen that growth has been relatively inclusive in 17 countries, namely, Algeria, Burkina Faso, Cabo Verde, the Gambia, Guinea, Kenya, Lesotho, Liberia, Mali, Mauritania, Morocco, the Niger, Nigeria, Rwanda, Sierra Leone, Tunisia and Uganda. In these countries, the average income or consumption of the poor has increased and their situation has improved. In addition, as the mean growth rate of the poor is higher than that of the non-poor, growth is likely to be poverty- and inequality-reducing.

Table 1

Africa: Inclusive growth patterns

Growth pattern		Variation in poverty headcount	Variation in Gini index	Country	Year 1	Year 2	Pro-poor growth rate (Percentage)	Average growth rate (Percentage)
Growth in average per capita income	Relatively inclusive (best case)	Decrease	Decrease	Lesotho	2003	2017	7.00	5.16
				Niger	2005	2014	6.83	4.53
				Gambia	2003	2015	6.75	3.68
				Liberia	2007	2016	5.16	4.81
				Guinea	2002	2012	5.13	2.96
				Tunisia	2000	2015	4.62	2.83
				Cabo Verde	2002	2015	4.48	1.95
				Algeria	1995	2011	3.85	1.64
				Sierra Leone	2003	2018	3.77	3.07
				Morocco	2001	2014	3.61	3.40
				Burkina Faso	2003	2014	3.54	1.42
				Mauritania	2000	2014	3.14	1.68
				Rwanda	2000	2017	2.88	2.26
				Uganda	2000	2017	2.69	2.68
				Mali	2001	2010	2.61	0.70
				Nigeria	2004	2019	2.54	1.58
				Kenya	2005	2016	1.75	0.21
	Absolutely inclusive	Decrease	Decrease	Dem. Rep. of the Congo	2005	2012	10.57	10.59
				Namibia	2004	2015	4.04	4.49
				Gabon	2005	2017	2.77	2.89
				Senegal	2001	2011	1.05	1.30
		Decrease	Increase	Chad	2003	2011	4.65	6.12
				Congo	2005	2011	4.50	5.77
				United Rep. of Tanzania	2000	2018	4.48	4.77
				Mozambique	2003	2014	2.92	4.52
				South Africa	2001	2015	2.86	4.54
				Ghana	2006	2017	2.68	3.73
				Eswatini	2001	2016	2.23	3.17
				Ethiopia	2000	2016	2.13	2.83
				Mauritius	2007	2017	1.67	2.28
				Malawi	2004	2016	0.41	1.12
				Burundi	2006	2014	0.40	1.65
				Djibouti	2002	2017	0.13	0.95
				Togo	2006	2015	0.05	0.80
		Increase	Increase	Seychelles	2000	2013	0.54	1.39
Decline in average per capita income	Yet growth for the poor	Decrease	Decrease	Botswana	2003	2016	3.54	-0.62
				Sudan	2009	2014	2.66	-0.48

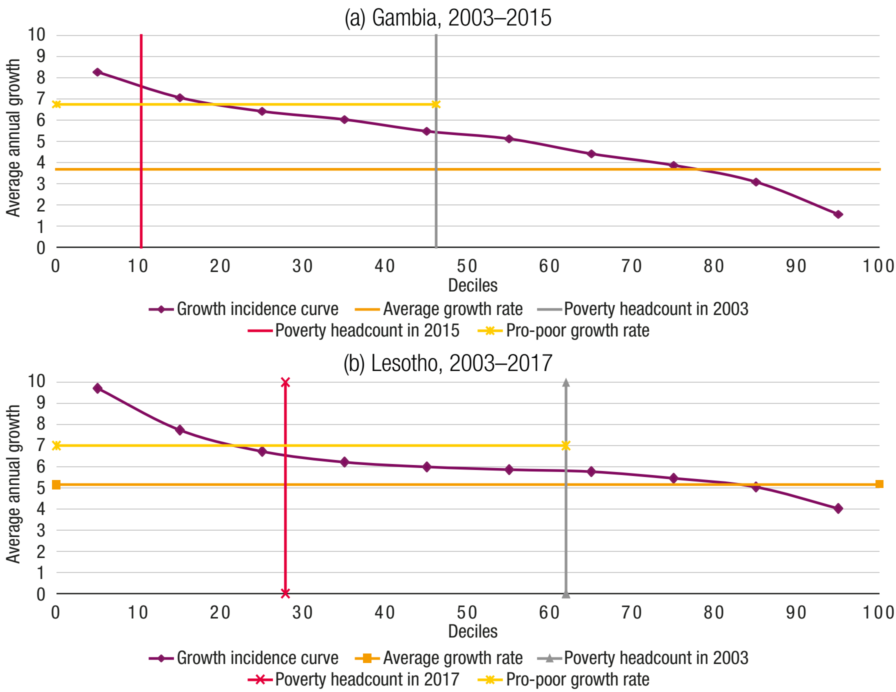
Source: UNCTAD calculations, based on data from the Povcal Net database of the World Bank.
Notes: The poverty headcount is calculated at the poverty line of $1.9 per day (purchasing power parity). The assessment of inclusive growth is based on the pro-poor and average growth rates (see box 2). Periods of conflict are not accounted for due to data limitations. Data are not available for Equatorial Guinea, Eritrea, Libya, Somalia and South Sudan.

The growth incidence curves of the Gambia in 2003–2015 and Lesotho in 2003–2017, as shown in figure 5, were both downward sloping and above the *x*-axis, and the line representing the mean pro-poor growth rate was well above that representing the growth rate of the overall mean. The curve also presents a negative slope, which suggests that the growth episode benefited the poorest. The average income or consumption of the poor has increased and their situation has improved in 18 countries, but at a lower rate than the non-poor; inclusive growth was absolute in these countries.

Figure 5

Growth incidence curves

(Percentage)



Source: UNCTAD calculations, based on data from the Povcal Net database of the World Bank.
Note: Poverty headcounts are calculated at the poverty line of $1.9 per day.

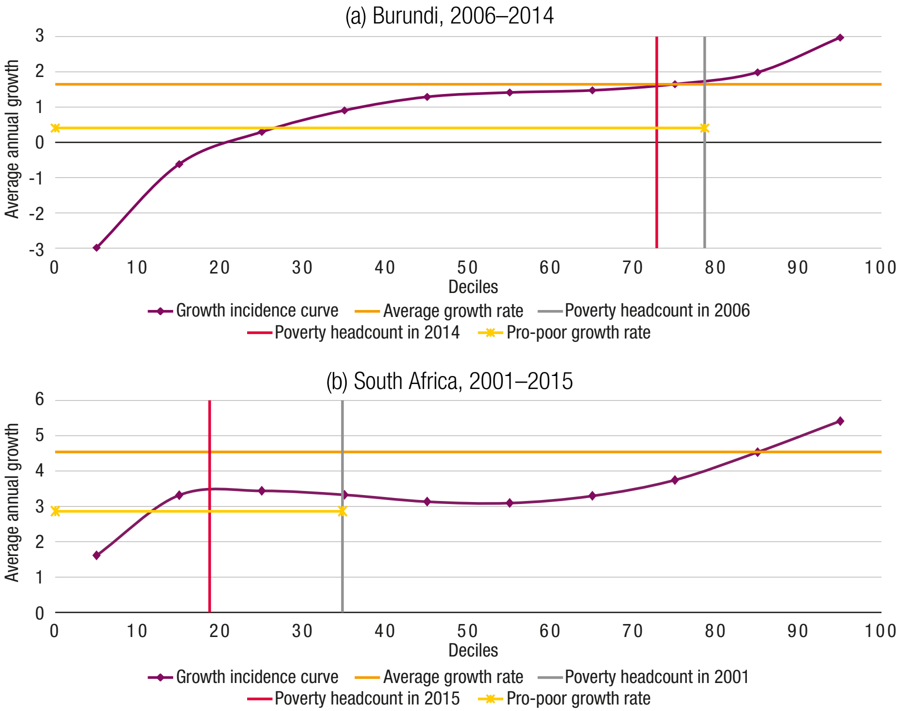
In 14 countries, namely, Burundi, Chad, the Congo, Djibouti, Eswatini, Ethiopia, Ghana, Malawi, Mauritius, Mozambique, Seychelles, South Africa, Togo and the United

Republic of Tanzania, growth was followed by an increase in inequality. Inequality decreased in the Democratic Republic of the Congo, Gabon, Namibia and Senegal, yet the mean pro-poor growth rate remained slightly lower than the growth rate of the overall mean. In Burundi in 2006–2014, the mean pro-poor growth rate was positive and was much lower than the growth rate of the overall mean and that the consumption of the poorest 20 per cent decreased (figure 6 (a)). The growth incidence curve in Burundi also increased by decile. South Africa experienced poverty-reducing but inequality-increasing growth, as the growth incidence curve in 2001–2015 increased by decile (figure 6 (b)).

Figure 6

Growth incidence curves

(Percentage)



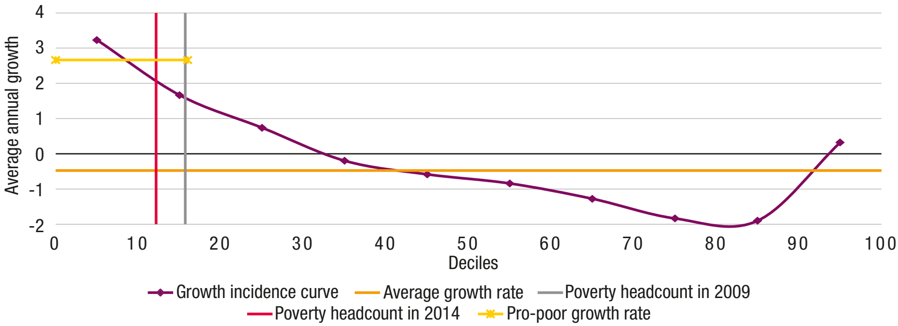
Source: UNCTAD calculations, based on data from the Povcal Net database of the World Bank.
Note: Poverty headcounts are calculated at the poverty line of $1.9 per day.

The experiences of Botswana in 2003–2016 and of the Sudan in 2009–2014 are engaging, because the average income or consumption of the poor increased and poverty and inequality decreased, yet there was a lack of relatively inclusive growth because overall average real income or consumption fell; growth was inclusive only for the poor. In the Sudan in 2009–2014, the real income or consumption of the fifth to the ninth decile decreased (figure 7). The situation in Botswana was similar.

Figure 7

Sudan: Growth incidence curve, 2009–2014

(Percentage)



Source: UNCTAD calculations, based on data from the Povcal Net database of the World Bank.
Note: Poverty headcounts are calculated at the poverty line of $1.9 per day.

The pro-poor growth rate and the average growth rate in countries in Africa that did not experience inclusive growth are shown in table 2. There was increased poverty and a lack of inclusive growth in Angola, the Comoros, Côte d'Ivoire, Egypt, Madagascar and Zimbabwe. The mean pro-poor growth rate and the growth rate of the overall mean were both negative. In Angola, the Comoros, Madagascar and Zimbabwe, the decrease in growth was less for the poor than the non-poor; this was not the case in Côte d'Ivoire and Egypt.

In Benin, Cameroon, the Central African Republic, Guinea-Bissau, Sao Tome and Principe and Zambia, growth was not inclusive. On average, the growth situation of the poor deteriorated. Growth was followed by an increase in inequality and a lack of poverty reduction in these countries, except in Cameroon in 2001–2014, when poverty decreased (figure 8). The growth incidence curve of Cameroon in 2001–2014 increased, except for the last decile; growth in the poorest deciles was negative.

Table 2

Africa: Non-inclusive growth patterns

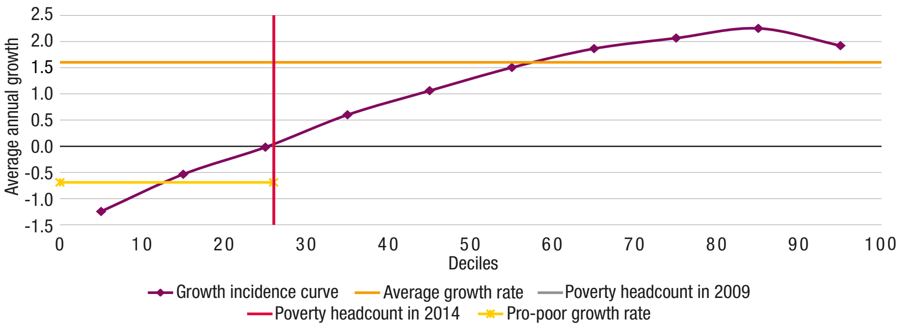
Growth pattern		Variation in poverty headcount	Variation in Gini index	Country	Year 1	Year 2	Pro-poor growth rate (Percentage)	Average growth rate (Percentage)
Decline in average per capita income of the poor	Growth is not inclusive	Decrease	Increase	Cameroon	2001	2014	-0.69	1.60
		Increase	Increase	Sao Tome and Principe	2001	2017	-1.64	2.44
				Central African Rep.	2003	2008	-2.41	4.18
				Benin	2003	2015	-2.87	0.41
				Zambia	2003	2015	-3.95	0.82
				Guinea-Bissau	2002	2010	-4.58	0.01
	Relatively small decline in growth among the poor	Increase	Decrease	Madagascar	2001	2012	-0.89	-2.06
				Angola	2000	2018	-1.29	-1.86
				Comoros	2004	2014	-2.21	-2.97
		Increase	Increase	Zimbabwe	2011	2017	-3.16	-3.50
	Sharp decline in growth higher among the poor than the non-poor	Increase	Decrease	Egypt	2000	2018	-0.41	-0.31
		Increase	Increase	Côte d'Ivoire	2002	2015	-0.90	-0.44

Source: UNCTAD calculations, based on data from the Povcal Net database of the World Bank.
Notes: The poverty headcount is calculated at the poverty line of $1.9 per day (purchasing power parity). Variations in poverty headcount and the Gini index are not taken into account in the assessment of inclusive growth. Periods of conflict are not accounted for due to data limitations. Data are not available for Equatorial Guinea, Eritrea, Libya, Somalia and South Sudan.

Figure 8

Cameroon: Growth incidence curve, 2001–2014

(Percentage)



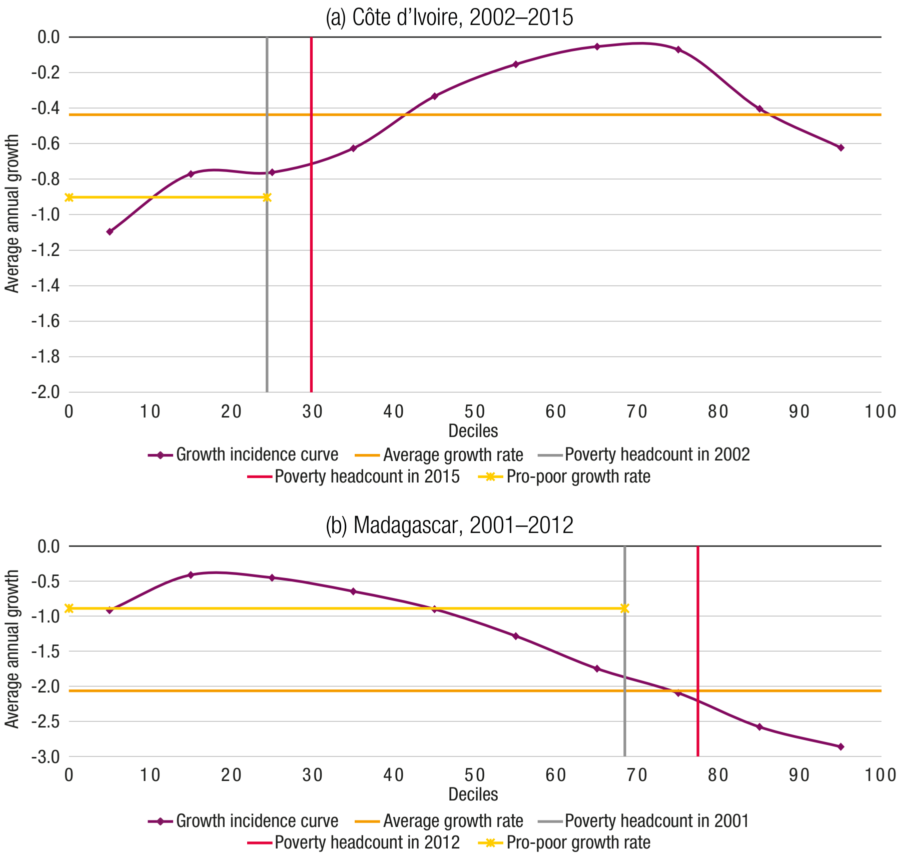
Source: UNCTAD calculations, based on data from the Povcal Net database of the World Bank.
Note: Poverty headcounts are calculated at the poverty line of $1.9 per day.

In Côte d'Ivoire in 2002–2015 and Madagascar in 2001–2012, among all deciles, there was a lack of growth (figure 9). However, Côte d'Ivoire is among the fastest-growing economies in Africa. Conflicts during the period considered might partly explain these results. In addition, a country may experience economic growth without this being fully reflected in household survey data.

Figure 9

Growth incidence curves

(Percentage)



Source: UNCTAD calculations, based on data from the Povcal Net database of the World Bank.
Note: Poverty headcounts are calculated at the poverty line of $1.9 per day.

1.3 Case studies of different types of inclusive growth

Empirical measures of inclusive growth are the most interesting at the country level, yet they do not explain why results differ across countries. In this section, the aim is to advance one step further by presenting case studies of developing countries that illustrate three broad categories of inclusive growth, namely, relative, absolute and non-inclusive growth. The situation in the Gambia provides an example of inclusive growth in which poverty and inequality decreased; the case study explores some of the policies and measures that made this possible. The situation in South Africa provides an example of absolute inclusive growth and illustrates the importance of deepening the analysis of the statistical results presented above, by documenting such a situation with a view to providing useful information for other policymakers in Africa. The situation in Zambia provides an example of non-inclusive growth in which poverty and inequality increased despite significant revenues from copper during the commodity boom; the data cover the period 2003–2015, from the beginning of the commodity boom to four years after the end.

1.3.1 Gambia: Poverty-reducing and inequality-reducing inclusive growth

In 2003–2015, the Gambia witnessed an increase in mean and median household consumption, combined with a significant decrease in poverty and inequality. Almost half of all households in the Gambia had a per capita consumption level at less than $1.9/day in 2003 and, in 2015, only one household in 10 had a per capita consumption level at less than $1.9/day (table 3). In addition, poverty decreased sharply in 2003–2015. The Gini index and mean log deviation index also decreased during the period.

Table 3

Gambia: Growth, poverty and inequality

	Consumption		Headcount	Poverty gap	Square of poverty gap	Watts index	Gini index	Mean log deviation index	Population
	Mean	Median							
	(Dollars per month)		(Percentage)					(Millions)	
2015	148.74	115.27	10.30	2.26	0.77	2.83	35.92	21.37	2.09
2010	128.95	90.75	25.35	7.59	3.27	10.32	43.57	32.51	1.79
2003	96.40	61.96	46.14	17.94	9.26	26.79	47.33	38.99	1.45

Source: UNCTAD calculations, based on data from the Povcal Net database of the World Bank.
Note: Poverty measurements are calculated at the poverty line of $1.9 per day (purchasing power parity).

Relatively inclusive growth may also be the outcome of several projects and strategies implemented in the Gambia. In 2003–2015, three poverty reduction strategy papers were implemented with support from the International Monetary Fund. The first did not achieve satisfactory results; according to the International Monetary Fund (2007), the programme was suspended due to misreporting and a lack of transparency, particularly with regard to government borrowing from the central bank. After the Gambia successfully addressed the concerns and following effective implementation of an International Monetary Fund staff-monitored programme, the second poverty reduction strategy paper was implemented in 2007–2011 and achieved satisfactory results, particularly under pillar 1, focused on rapid economic growth and poverty reduction (International Monetary Fund, 2011). During this period, the Gambia recorded annual economic growth rates of above 6 per cent and maintained macroeconomic stability, which is important for inclusive growth. The development of the agricultural sector, as well as expenditure on poverty reduction programmes, also helped to alleviate rural poverty (International Monetary Fund, 2011). The third poverty reduction strategy paper was supported by international development partners and had as its principal strategic objective the acceleration of growth and employment (African Development Bank, 2012b).

In addition to the poverty reduction strategy papers, the International Monetary Fund has implemented other poverty reduction projects in the Gambia, such as the poverty reduction and growth facility; all but one of the quantitative performance criteria and indicative targets of the facility have been met (International Monetary Fund, 2007). The Gambia also benefited from two joint assistance strategies prepared jointly by the African Development Bank and the World Bank, implemented in 2008–2011 and 2012–2015, respectively. These strategies did not directly aim to reduce poverty and inequality but supported and strengthened the three poverty reduction strategy papers. According to the African Development Bank (2012b), the objectives of the second joint assistance strategy, to enhance productive capacities and accelerate growth and competitiveness, were successfully achieved. A particular focus was on economic governance and agriculture and the special focus on agriculture was “a deliberate attempt at effecting inclusive growth as recent research has found agriculture to be more poverty reducing than other economic activities and given the fact that over 70 per cent of the population in the Gambia are engaged in agriculture” (African Development Bank, 2012b). Finally, in 2013, a food and agriculture sector development project aimed to reduce rural household poverty, food insecurity and malnutrition through improved agricultural productivity and commercialization (African Development Bank, 2013). Strategies focused on agriculture, a sector on which most of the poor depend, help to improve livelihood security. Some of the strategies also made it possible to increase youth employment levels. The success of such projects has contributed to inclusive growth in the Gambia.

Regional integration has also supported inclusive growth in the Gambia. In 2011, the African Development Bank initiated a regional integration strategy paper for West Africa for 2011–2015, covering the Economic Community of West African States. The strategy was based on two pillars, namely, linking regional markets and building capacity for the effective implementation of the regional integration agenda (African Development Bank, 2014b). The strategy, aligned with Vision 2020 of the Community, aimed to reduce poverty and inequality through regional integration. A final assessment of the strategy is not yet available. However, analysis by UNCTAD finds that in most countries in the Economic Community of West African States, growth has been relatively inclusive.

The Gambia progressed in human development and the quality of institutions in 2003–2015, enhancing inclusive growth during this period (table 4). The Human Development Index, which is a proxy for a decent standard of living, improved in the Gambia in 2003–2015, with an average annual growth rate of 0.94 per cent; the global equivalent average annual growth rate was 0.82 per cent. The index of economic freedom and the corruption perceptions index also increased, indicating a higher quality of institutions.

Table 4

Gambia: Human Development Index, Index of Economic Freedom and Corruption Perceptions Index

	2003	2015	Annual increase, 2003–2015 (Percentage)
Human Development Index (1 = the most developed, 0 = the least developed)	0.42	0.47	0.94
Index of Economic Freedom (100 = maximum freedom, 0 = minimum freedom)	50.3	57.5	1.12
Corruption Perceptions Index (100 = highly clean, 0 = highly corrupt)	25	28	0.95

Source: UNCTAD calculations, based on data from the World Data Atlas.

1.3.2 South Africa: Poverty-reducing but inequality-increasing inclusive growth

South Africa is among the countries in which growth has been absolutely inclusive. In 2001–2015, the average level of consumption of the poor increased and the mean pro-poor growth rate was lower than the mean growth rate of the non-poor. South Africa successfully doubled average and median household consumption. Poverty decreased at the poverty line of $1.9 per day, perhaps partly due to the growth, employment and redistribution strategy introduced in 1996 and the accelerated and shared growth initiative launched in 2006 (table 5). The former strategy, based on free-market principles, with a strong focus on economic growth, aimed to ensure a strengthened financial situation and lowered interest rates and that inflation would be brought under control, allowing for significant growth in household consumption and a reduction in poverty in 2001–2005 (Mosala et al., 2017). However, the strategy was accompanied by an increase in unemployment and strict austerity measures that perpetuated entrenched inequalities (Mosala et al., 2017). Despite a slight decrease in inequality in 2005–2015, inequality remained higher in 2015 than in 2001. The accelerated and shared growth initiative was implemented by the Government of South Africa to improve the country's economic performance and job creation, with the aim of supporting an inclusive growth path (Mosala et al., 2017). The main objective was to halve poverty and unemployment in 2004–2014 and enable South Africa to achieve and sustain average economic growth rates of 4.5 per cent in 2004–2009 and 6 per cent in 2010–2014 (African Development Bank, 2008).

Mosala et al. (2017) state that it is difficult to measure the success of the initiative, although the poverty headcount at the poverty line of $1.9 per day fell from 25.7 to 16.2 per cent in 2005–2010, the implementation period of the initiative. In 2010, the new growth path superseded the accelerated and shared growth initiative, to address joblessness, poverty and inequality. In 2012, the national development plan was introduced to complement the new growth path (Mosala et al., 2017). Inequality decreased in 2010–2015, the first period of implementation of the path and the plan.

Table 5

South Africa: Growth, poverty and inequality

	Consumption (Dollars per month)		Headcount (Percentage)	Poverty gap (Percentage)	Square of poverty gap	Watts index	Gini index	Mean log deviation index (Millions)	Population (Millions)
	Mean	Median							
2015	340.15	135.38	18.70	6.11	2.86	8.58	63.03	75.03	55.39
2010	361.11	141.55	16.17	4.81	2.05	6.55	63.38	75.29	51.22
2009	342.50	135.36	16.74	4.73	1.95	6.30	63.01	73.51	50.48
2005	271.59	100.90	25.68	8.23	3.69	11.37	64.76	77.83	47.88
2001	182.72	88.78	34.77	13.02	6.13	18.73	57.77	60.47	45.57

Source: UNCTAD calculations, based on data from the Povcal Net database of the World Bank.
Note: Poverty measurements are calculated at the poverty line of $1.9 per day (purchasing power parity).

National strategies were reinforced by country strategy papers of the African Development Bank, which provided the framework for the collaboration of the Bank with South Africa and the necessary flexibility to respond to new demands, yet South Africa made limited use of development assistance and donor resources (African Development Bank, 2008). In 2001–2015, the World Bank also implemented a series of projects and strategies to help stimulate growth and reduce poverty in South Africa, such as the Maloti Drakensberg Transfrontier Conservation and Development Project (Zunckel, 2007).

To support regional integration, the African Development Bank implemented regional assistance strategy papers for Southern Africa in 2004–2008 and 2011–2015. The first strategy paper established complementarities between the client-focused country strategy papers of the Bank and interventions in the Southern African Development Community, and coincided with the implementation of the accelerated and shared growth initiative. During this period, household consumption increased and poverty and inequality decreased. During the implementation period of the second strategy paper, in South Africa, household consumption decreased and poverty increased.

In 2001–2015, the Human Development Index improved, yet the quality of institutions, as proxied by the Index of Economic Freedom and the Corruption Perceptions Index, decreased (table 6).

Table 6

South Africa: Human Development Index, Index of Economic Freedom and Corruption Perceptions Index

	2001	2010	2015	Annual increase, 2001–2015
				(Percentage)
Human Development Index (1 = the most developed, 0 = the least developed)	0.61	0.66	0.70	0.99
Index of Economic Freedom (100 = maximum freedom, 0 = minimum freedom)	63.80	62.80	62.60	-0.14
Corruption Perceptions Index (100 = highly clean, 0 = highly corrupt)	48.00	45.00	44.00	-0.62

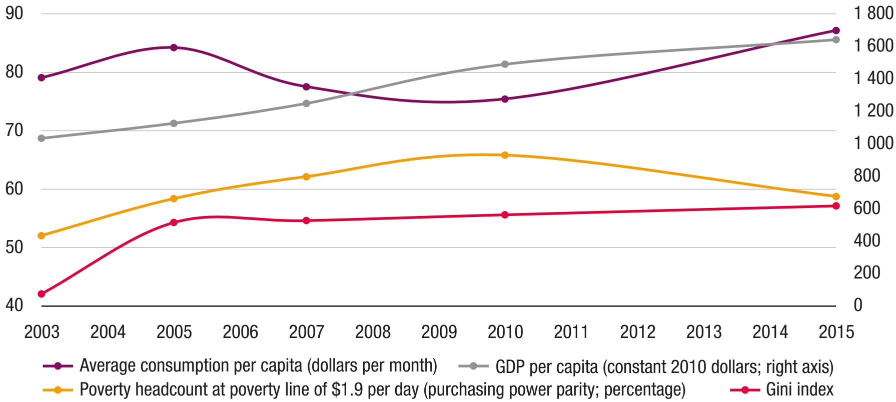
Source: UNCTAD calculations, based on data from the World Data Atlas.

1.3.3 Zambia: Exploring non-inclusive growth

Zambia is a landlocked country with poor access to services and markets. Continued commodity export dependence on copper means that agriculture has been neglected in government policy. Trade has decreased and droughts have impacted agricultural production, worsening rural conditions and poverty. High levels of external debt and debt service, resulting in under-resourced education and health services, have also exacerbated poverty. Zambia experienced non-inclusive growth during a period of continued GDP per capita growth in 2003–2015. However, this growth did not always lead to improved household consumption, which declined in 2003–2010, or to poverty reduction. Both poverty and inequality continued to increase in 2003–2010 (figure 10).

Figure 10

Zambia: Consumption, poverty headcount, Gini index and gross domestic product per capita



Source: UNCTAD calculations, based on data from the Povcal Net and World Development Indicators databases of the World Bank.

On average in 2003–2015, the situation of the poor deteriorated and the consumption level of the non-poor increased. In 2015, more than half of households in Zambia consumed less than $1.9 per day (table 7). Several poverty reduction strategy papers were implemented with the International Monetary Fund and the World Bank, with the aim of halving poverty in line with the Millennium Development Goals, boosting economic growth, accelerating agricultural development and improving education and rural infrastructure in Zambia. The poverty reduction strategy papers supported the transitional national development plan implemented in 2002–2005; the fifth national development plan, in 2006–2010; and the sixth national development plan, in 2011–2015. The strategic focus of the fifth national development plan on human resources and economic infrastructure development was an essential step towards the realization of Vision 2030, which aimed to significantly reduce hunger and poverty and ensure that

Zambia became a middle-income country by 2030; and the theme of the sixth national development plan was sustained economic growth and poverty reduction, human and infrastructure development, diversification and rural development (Government of Zambia, 2006). In 2003–2015, Zambia benefited from poverty reduction budget support from the African Development Bank, aimed at poverty reduction and inclusive and sustainable economic growth. Zambia is a lower middle-income country (Government of Zambia, 2018). However, there are high levels of income inequality and the national strategies have not yet reduced poverty and inequality. Silungwe and Silungwe (2019) state that increasing poverty is due to structural adjustment programmes, which disproportionately affect the poor, as well as the HIV/AIDS pandemic and increased unemployment due to the privatization of Zambia Consolidated Copper Mines in 1998.

Table 7

Zambia: Growth, poverty and inequality

	Consumption		Headcount	Poverty gap	Square of poverty gap	Watts index	Gini index	Mean log deviation index	Population
	Mean	Median							
	(Dollars per month)		(Percentage)					(Millions)	
2015	87.16	45.46	58.75	30.68	19.61	53.14	57.14	60.47	15.88
2010	75.44	39.15	65.82	32.95	19.87	53.43	55.62	53.91	13.61
2007	77.54	42.40	62.14	31.36	19.30	52.03	54.62	52.89	12.17
2005	84.22	46.56	58.37	28.49	17.14	46.48	54.29	52.44	11.86
2003	79.07	55.87	52.05	18.81	9.06	26.75	42.06	29.87	11.26

Source: UNCTAD calculations, based on data from the Povcal Net database of the World Bank.
Notes: The mean and median are of consumption for growth. Poverty measurements are calculated at the poverty line of $1.9 per day (purchasing power parity). The indices are measures of inequality.

1.4 Intra-African trade for inclusive growth

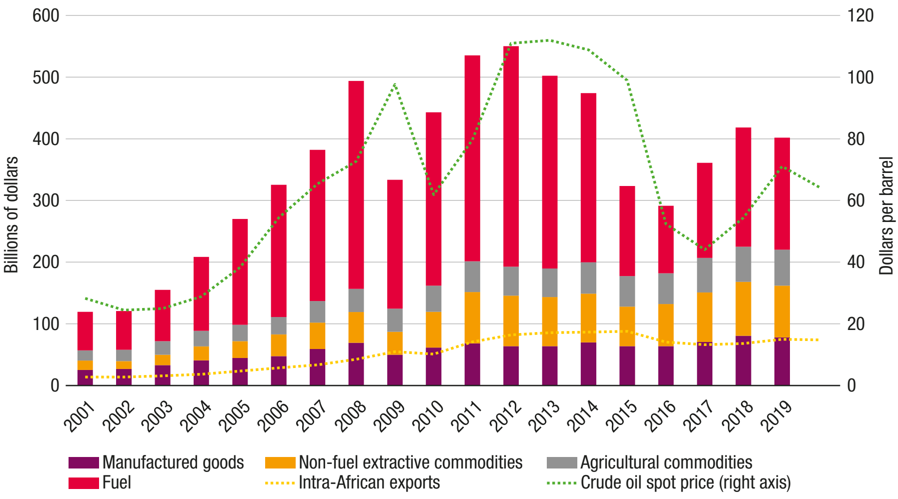
Trade is pivotal for economic growth and for poverty and inequality reduction. Under the African Continental Free Trade Area, countries need to remove tariffs on 90 per cent of goods, progressively liberalize trade in services and address a number of other non-tariff barriers in order to improve regional cohesion and trade. An overview of intra-African merchandise and services trade performance is provided in this section, to highlight the potential of the region to inclusively enhance trade performance through the Free Trade Area.

1.4.1 Trade in merchandise

The export potential of Africa is undermined by a significant dependence on primary commodities, which account for about 70 per cent of extra-African exports; manufactured goods account for only 15 per cent of extra-African exports. The dependence on primary commodity exports makes the continent vulnerable to external shocks such as volatile commodity prices. Fuel exports constitute more than half of all extra-African exports and crude oil prices are a strong driver of overall export value (figure 11). The value of the total exports of Africa, at $400 billion, has decreased since 2010, mainly driven by lower fuel prices.

Figure 11

Extra-African exports

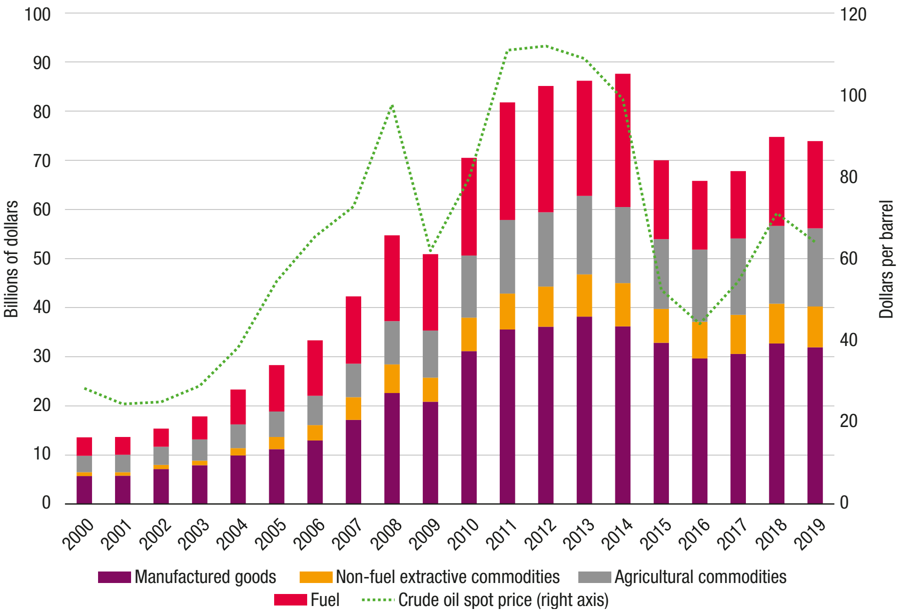


Source: UNCTAD calculations, based on data from the UNCTADstat database.

In 2019, intra-African merchandise exports totalled $70 billion and accounted for 14.4 per cent of total exports from Africa. In 2000–2019, Africa had the highest level of export dependence on the rest of the world and the lowest share of intraregional exports in total exports, compared with other regions, except Oceania. Countries in Africa trade more manufactured and agricultural commodities between themselves and fewer extractive commodities than with the rest of the world (figure 12). This is because most mineral and metal refining activities take place outside of the continent.

Figure 12

Intra-African exports



Source: UNCTAD calculations, based on data from the UNCTADstat database.

Extracontinental exports are dominated by mineral fuels and raw products, which together account for 62 per cent of exports. In contrast, 61 per cent of intra-African trade is comprised of semi-processed and processed goods (International Trade Centre and UNCTAD, 2021), indicating the greater potential benefits from increased regional trade for transformative and inclusive growth. Countries with more diversified exports tend to have greater shares of intra-African exports than countries with less diversified exports (UNCTAD, 2019a). There is a bidirectional relationship: on the one hand, exploiting regional import demands offers opportunities for export diversification and, on the other hand, countries that have already managed to diversify their exports are able to serve the regional market to a greater extent. A major objective of RECs is to generate higher levels of trade between member States, yet intra-REC exports as a share of total exports have remained low. In all RECs, intra-REC exports and imports are less than 20 per cent of total exports and imports, except for in the Southern African Development Community (20.2 per cent of total exports).

1.4.2 Trade in services

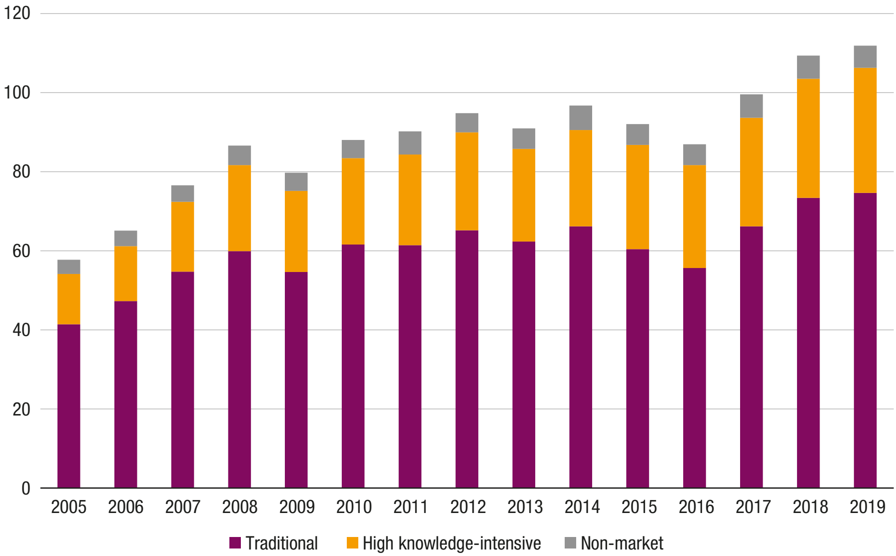
International trade in services is changing rapidly and new technologies broaden the tradability of services across borders. The World Trade Organization (WTO) General Agreement on Trade in Services specifies the following four modes of supplying services: cross-border supply electronically; consumption of services abroad (e.g. a museum visit as a tourist); establishment of firms; and/or temporary presence of natural persons in a partner country. Services, unlike goods, which can be measured when they cross the border, are delivered in a variety of modes, including electronically. Typically, therefore, only the financial flow related to a transaction is observable. For this reason, trade in services data are usually based on balance of payment statistics and do not distinguish between trading partners. The availability, quality and cross-country comparability of trade in services data are unsatisfactory, in particular when compared to merchandise trade statistics. Because of their nature, services are more difficult to measure than goods.

According to estimates by the Organisation for Economic Co-operation and Development (OECD) and WTO through their joint Balanced Trade in Services database, extra-African services exports grew by 27 per cent in 2010–2019, to $112 billion (figure 13; bilateral services transactions are not reported by countries in Africa and the database uses official statistics and estimates for missing data, such as through a gravity model, as described in Liberatore and Wettstein (2021)). The decomposition of services exports has stayed relatively stable since 2010, with traditional services constituting around 70 per cent of total extra-African services trade. High knowledge-intensive services exports increased from 25 per cent in 2010 to 28 per cent in 2019.

Figure 13

Extra-African services exports

(Billions of dollars)



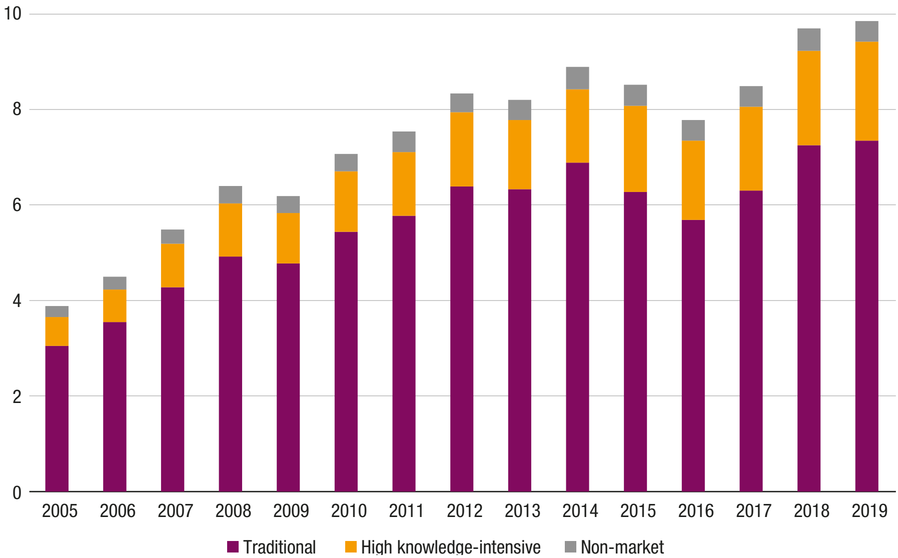
Source: UNCTAD calculations, based on data from the Balanced Trade in Services database of OECD and WTO.
Note: Traditional services include transport, travel and maintenance and repair services not included elsewhere; high knowledge-intensive services include manufacturing services, construction, insurance, financial services, telecommunications and information services, personal, cultural and recreational services and other business services; and non-market services include public administration services, community services and health and education services.

Estimated intra-African services exports are relatively low, at $10 billion, which is equivalent to about 8.1 per cent of total services trade, including both intra- and extra-African services trade (figure 14). With regard to the decomposition of services exports, intra-African and extra-African trade are similar, with around 70 per cent of traditional services exports, 20 per cent of high knowledge-intensive services exports and a small percentage of non-market services in this broad categorization. As with trade in merchandise, the low level of officially reported services trade values may be linked to a large share of services being traded informally; however, this requires further in-depth research. For instance, Grover and Dihel (2016) provide anecdotal evidence that informal transactions across Africa have grown in the education, health, construction, housekeeping, entertainment and hairdressing sectors.

Figure 14

Intra-African services exports

(Billions of dollars)



Source: UNCTAD calculations, based on data from the Balanced Trade in Services database of WTO and OECD.
Note: Traditional services include transport, travel and maintenance and repair services not included elsewhere; high knowledge-intensive services include manufacturing services, construction, insurance, financial services, telecommunications and information services, personal, cultural and recreational services and other business services; and non-market services include public administration services, community services and health and education services.

Overall, the regional trade trends for both merchandise and services illustrate the opportunities in the region to increase trade through the African Continental Free Trade Area. UNCTAD (2019a) highlights the following three major categories of obstacles to intra-African trade: low complementarity of regional trade due to low economic diversification and weak productive capacities; tariff-related trade costs associated with the slow implementation of the tariff liberalization schedules underpinning free trade agreements; and high non-tariff trade costs that hamper both the movement of goods and services and the competitiveness of firms in Africa. The African Continental Free Trade Area is expected to address these trade frictions, as discussed in chapters 3 and 4. As argued in this report, another reason for low regional trade might be the underestimation of official trade figures and the high prevalence of informal trade.

In Africa, the share of informal trade in total trade is high and, if it is to function well, the African Continental Free Trade Area needs to be able to capture informal trade. Informal traders, both within and between countries, are among the most vulnerable economic actors. More evidence is needed about how informal trade is characterized and how targeted provisions can support the inclusion of vulnerable and marginalized groups within the trade system.

1.5 Inclusive growth in the aftermath of the pandemic

The year 2020 saw the worst recession since the Second World War (World Bank, 2020b), as economies around the world closed businesses and frontiers to curb the COVID-19 outbreak, resulting in a dramatic fall in domestic activity and international trade. In Africa, this was the first recession in 25 years (World Bank, 2020c). The significant decline in international trade has had profound repercussions, in particular as most countries in Africa have a high level of commodity dependence and heavy reliance on world markets. As such, low productivity and disruptions in key value chains in the United States, as well as in Asia and Europe, compounded by a slump in the international price of primary commodities, have led to a contraction in the value and quantities demanded of exports from Africa. The average annual export growth rate of the region contracted by an estimated -20.3 per cent in 2020, with the smaller economies contracting most in terms of GDP (Gondwe, 2020). Consequently, most countries in Africa registered considerable revenue losses, which significantly constrained the capacity of their Governments to extend the public services that were key in responding to the crisis.

The impact of these external shocks was further intensified by pandemic-related disruptions within the region, as most countries in Africa simultaneously imposed restrictions on the movement of people and goods. These measures greatly undermined regional value chains and regional integration efforts and also had far-reaching direct effects on the lives of the most vulnerable groups. Given that close to 86 per cent of Africans are informally employed (International Labour Organization, 2018), such measures resulted in a loss of income and livelihood for many daily wage earners. Coupled with shortages of essential commodities, including food and pharmaceuticals, owing to the heavy dependency on international markets, the pandemic further reinforced the vulnerability of the region to poverty, inequality and food insecurity (Akiwumi, 2020). Addressing the pandemic ultimately dampened inclusive growth prospects in the region in pursuit of both the 2030 Agenda for Sustainable Development and Agenda 2063 of the African Union. This has underscored the importance of regional self-sustenance, particularly by extending the breadth (increased participation) and intensifying the depth (extended product range) of intra-African value chains, for inclusive growth and development.

Achieving this optimal level of self-sustenance is possible under the African Continental Free Trade Area, the objective of which is to integrate, diversify and industrialize economies in Africa. However, it remains imperative to account for the negative impact that the pandemic has had on trade and integration in the region. Recovery plans have been initiated in many countries and vaccination schemes are under way, bringing optimism that economic activities will return to full mode, both the social and economic repercussions of the pandemic will continue to affect the world in the short to medium terms, as most economies remain depressed by the uncertainties. The full operationalization of the African Continental Free Trade Area will therefore take place against this pandemic-related background of uncertainty, in which both global and regional value chains remain weak. Nevertheless, the African Continental Free Trade Area presents Africa with a chance to reconfigure supply chains, with the aim of reducing dependence on external trading partners and insulating from future shocks. Strengthening and/or developing viable regional value chains through the Free Trade Area requires an ambitious implementation plan accompanied by policies focused on reducing commodity dependency. In addition, rationalizing the industrial sector to support regional value chains, while leveraging the digital economy through the African Continental Free Trade Area, would help to foster regional resilience against future pandemics.

Chapter 2

People, informality and inclusivity

This chapter provides an analysis of how the African Continental Free Trade Area Agreement can be implemented in order that the benefits lead to more inclusive gains for informal actors, specifically for women and young people – especially after a global pandemic that has exacerbated the challenges faced by such informal actors.

INFORMALITY MAKES THE PEOPLE OF AFRICA VULNERABLE TO ECONOMIC CRISES AND EXTERNAL SHOCKS

86%
of total employment is informal*

30-40 %
of intra-SADC and
40%
of intra-COMESA trade is informal**

Informal microenterprises and small enterprises often function as employment of last resort

Women and youth in poor households make up a large share of informal traders

The African Continental Free Trade Area can foster **INCLUSIVE GROWTH** by empowering these vulnerable groups through targeted support measures

* Median of informal employment in total employment (percentage) for 36 countries in Africa based on latest available data from the International Labour Organization statistics database, indicator 8.3.1 under the Sustainable Development Goals, July 2021

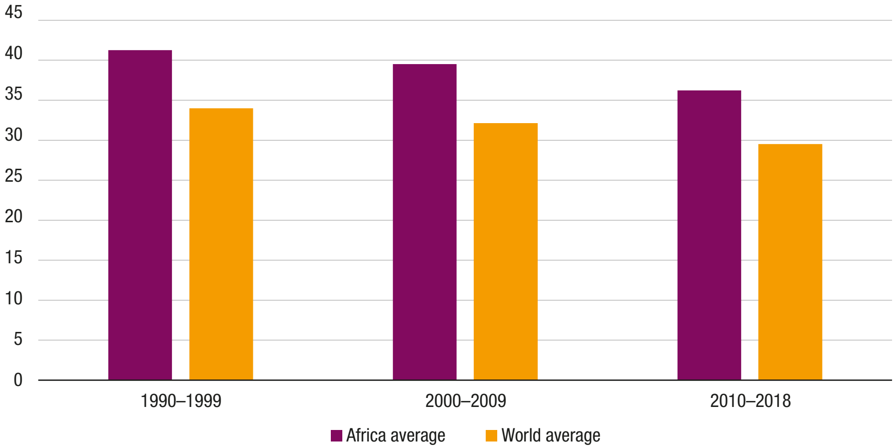
** Afrika and Ajumbo, 2012; Moyo, 2018

Informal employment and trade play a large part in terms of livelihoods on the continent. It is estimated that informal employment constitutes a large share of total employment, with 72 per cent of non-agricultural employment and 98 per cent of agricultural employment being informal (International Labour Organization, 2018). In many countries in Africa, the informal economy, albeit in gradual decline over the past 30 years, remains pervasive and constitutes a significant share of the total economy (figure 15), ranging from a low of 21 per cent in Mauritius to a high of 59 per cent in Zimbabwe in 2018 (Ohnsorge and Yu, 2021).

Figure 15

Africa: Size of informal economy

(Percentage of gross domestic product)



Source: UNCTAD calculations, based on Ohnsorge and Yu, 2021.
Note: Purple bars show unweighted averages of the informal economy of the region. Orange bars show the unweighted world average. The dynamic general equilibrium model used provides an estimate of the size of the informal sector as a percentage of official GDP. Data are available for 46 countries in Africa.

A practice predating modern Africa, informal cross-border trade contributes to job creation, especially for women and young people, and food security through the trade of agricultural goods and economic growth; it is therefore a key pillar of intra-African trade integration. The role of informal cross-border trade for inclusive growth and poverty reduction, inasmuch as it functions as an employer of last resort and can be a survival strategy for vulnerable groups for which formal employment opportunities are not available, is analysed hereunder.

The present chapter contains a review of definitional and conceptual issues linked to the measurement and understanding of informal cross-border trade and an analysis of how the availability of informal trade data, especially disaggregated by gender, can be improved, to allow for better research and targeted policies aimed at women, poverty reduction and inclusive growth. The role that technology can play in creating complementary, informal cross-border trade data is highlighted, and the potential of mobile telephone data collection, based on the Trade and Market Information Platform of Sauti East Africa, is showcased.

The chapter also contains a summary of the challenges faced by women informal entrepreneurs and of gender-specific barriers to entrepreneurial activities and success. The case of Rwanda is used as an example of informal enterprises where data disaggregated by gender is available. The analysis reveals that there are gender-related differences in terms of access to capital and the performance of firms, suggesting unequal entrepreneurial outcomes for women. The analysis further shows that youth-led enterprises are likely to employ less working capital and generate lower annual turnover.

Although informal cross-border trade is not explicitly reflected in the African Continental Free Trade Area Agreement and mentioned only indirectly in the Protocol to the Treaty Establishing the African Economic Community Relating to Free Movement of Persons, Right of Residence and Right of Establishment, the African Continental Free Trade Area has the potential to generate significant benefits for informal cross-border traders. Complementary measures in favour of an inclusive African Continental Free Trade Area can entail the adoption of simplified trade regimes, trade information portals and one-stop border posts, building on the initiatives in the Common Market for Eastern and Southern Africa and the East African Community.

Defining informal cross-border trade

There is no streamlined definition for informal cross-border trade, given that it covers an array of activities, from formal to informal production and trade. The diverging conceptual approaches to informal cross-border trade have posed difficulties for the collection of data on the activities of informal cross-border traders within RECs and at the national level (Food and Agriculture Organization of the United Nations (FAO), 2017).

Debates on the definition of informal cross-border trade usually revolve around the term “informal” and whether it applies to the recording of the trade, namely, whether goods are recorded by customs authorities, or to the status of the traders, in terms of whether they are registered or not. According to Lesser and Moisé-Leeman (2009), informal cross-border trade is “trade in legitimately produced goods and services, which escapes the regulatory framework set by the Government, as such avoiding certain tax and regulatory burdens”. Informal cross-border trade therefore refers to goods and services traded by unregistered traders and firms that operate entirely outside the formal economy or by registered firms that fully evade trade-related regulations and duties by avoiding official border-crossing posts and passing their commodities through “unofficial routes”. In other cases, such firms may partially evade trade-related regulations and duties, even as they pass their goods through official routes that have border-crossing points and customs offices, through illegal practices such as underinvoicing, which entails reporting a lower quantity, weight or value of goods so as to pay lower import tariffs, misclassification, in terms of falsifying the description of products so that they are misclassified as products subject to lower tariffs, misdeclaration of the country of origin and/or bribing customs officials (Lesser and Moisé-Leeman, 2009).

Informal cross-border trade is sometimes wrongly equated with smuggling, given that both practices evade duties and regulations, but the difference is essentially motivational, in that informal cross-border traders avoid formalities for more legitimate reasons, such as the higher costs associated with formal trade and/or a lack of skills or knowledge to be able to comply with trade regulations. A distinction should also be drawn between informal cross-border trade and illicit trade, whereby illicit trade refers to the trade in illegal goods, such as arms or drugs, or trafficking in persons, which are criminal and deemed socially undesirable (Meagher, 2003). Although informal trade is also unreported and can fail to comply with regulations, the products involved are not illegal to trade or use (Golub, 2015). In this regard, institutions such as the World Bank and the Common Market for Eastern and Southern Africa use the term “small-scale cross-border trade” to distinguish between illegal activities and informal cross-border trade (African Export-Import Bank, 2020). The present chapter is focused on informal traders that operate outside of the formal economy and are often small-scale producers that sell their goods at nearby markets in neighbouring countries.

Informal cross-border trade actors

Informal cross-border trade involves a complex interplay and overlap of formal and informal practices and actors, due to the strong interlinkages between formal and informal trade. In some cases, informally traded goods can enter formal value chains in another country and be captured by official statistics downstream. In other cases, goods acquired informally may go through formal clearance processes at border points, except that they might have been smuggled at unofficial border posts, misclassified and/or declared with a wrong origin at official border crossing points (FAO, 2017). Such goods can be, for example, agricultural products or second-hand clothes that are prohibited from import to some countries (UNCTAD, 2018b; UNCTAD, 2019b).

Informal cross-border trade is undertaken by unregistered and vulnerable traders, farmers, microenterprises, small and medium-sized enterprises and sometimes even formal workers seeking to supplement their salaries as part of a household livelihood diversification strategy.[1] In border areas where employment opportunities are limited, informal cross-border trade often represents the only available opportunity, especially for unskilled workers with limited access to capital to start a business; women more often than men tend to fall into that category, as do refugees and internally displaced persons, in particular in East and Central Africa (African Export-Import Bank, 2020). Many entrepreneurs begin their business activities as vendors, using personal savings, and later shift into cross-border trading. The shift into informal cross-border trade may be motivated by arbitrage opportunities, due to variations in production capacities, trade barriers and regulatory compliance costs, all of which remain quite high in many countries in Africa. Traders who aim to expand their activities beyond local markets, where many businesses of the same nature proliferate, may seek opportunities for diversification across the border. For many traders, cross-border business may provide more profits than buying or selling locally (Lesser and Moisé-Leeman, 2009; UNCTAD, 2019a; UNCTAD, 2019b).

For vulnerable informal cross-border trade actors to benefit from the African Continental Free Trade Area it will be important to move beyond a purely trade policy focus towards formalizing and upgrading the performance of such entrepreneurs, firms and traders. Moreover, a continental effort for the development of a common definition of informal cross-border trade and a common data collection framework would allow for a better understanding of actors and drivers and would enhance policies supporting vulnerable groups.

2.1 Measuring the magnitude of informal cross-border trade

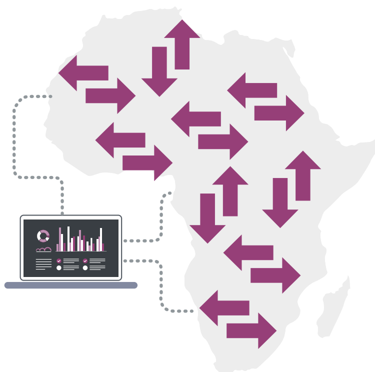
Due to its undocumented nature, informal trade, in particular small-scale activities, is difficult to quantify. Although estimates concerning the size of informal cross-border trade vary, studies show that it represents a significant proportion of official imports

[1] See https://globalinitiative.net/analysis/formalization-of-informal-trade-in-africa-trends-experiences-and-socio-economic-impacts/.

and exports, in value and volume (Bensassi et al., 2017; Brenton and Işık, 2012; FAO, 2017; Lesser and Moisé-Leeman, 2009). The results of surveys indicate that informal cross-border trade can account for up to 90 per cent of official trade flows in some countries in Africa (Economic Commission for Africa, 2013) and contribute to 30–40 per cent of total trade within the Southern African Development Community and about 40 per cent of trade in the Common Market for Eastern and Southern Africa (Afrika and Ajumbo, 2012; Moyo, 2018).

While initiatives for measuring informal cross-border trade in Africa are growing in size and scope, they remain largely fragmented and unsystematic. For some initiatives, data collection is a by-product of core trade facilitation efforts, as in the case of the trade information desks of the Common Market for Eastern and Southern Africa. Other initiatives that are aimed at analysing food security only survey specific agricultural products and selected trade routes, such as initiatives of the Famine Early Warning Systems Network and the World Food Programme.

Without accurate **informal cross-border trade data**, it is impossible to paint a complete picture of intra-African trade



Another form of data collection is through statistical exercises by central banks and national statistical authorities, with the objective of complementing formal trade records for compiling national accounts and balance of payments statistics (table 8). East Africa is an advanced subregion in terms of the systematic collection of data on informal cross-border trade. The Governments of Rwanda and Uganda have been monitoring informal cross-border trade at their borders since 2009 and 2005, respectively.[2]

[2] Approaches of the two countries to data collection differ: enumerators in Rwanda conduct brief interviews of traders and record their findings on tablets and data collectors in Uganda rely on unobtrusive observation and record information on paper. Rwanda collects data on small-scale cross-border trade daily and Uganda places enumerators at border crossings for two weeks every month and then extrapolates the data.

Table 8

Selected informal cross-border trade initiatives, by country

	Agency conducting survey	Borders with	Value of informal trade (Millions of dollars)
Benin	National Institute of Statistics and Economic Analysis	Burkina Faso; Niger; Nigeria; Togo	Exports 2010, $211 Imports 2010, $833 Re-exports 2010, $596 Transit trade 2010, $172
Kenya	Kenya National Bureau of Statistics	Ethiopia; Somalia; Uganda; United Republic of Tanzania	Exports 2011, $16.6 Imports 2011, $14.5
Namibia	Namibia Statistics Agency	Angola; South Africa; Zambia	Exports 2019, $1.1 Imports 2019, $0.2
Nigeria	Central Bank of Nigeria	Benin; Cameroon; Niger	Total trade June 2013 – May 2014, across the selected borders, $6,913
Rwanda	National Bank of Rwanda, National Institute of Statistics	Burundi; Democratic Republic of the Congo; Uganda; United Republic of Tanzania	Exports 2019, $110 Imports 2019, $12
Uganda	Uganda Bureau of Statistics, Bank of Uganda	Democratic Republic of the Congo; Kenya; Rwanda; South Sudan; United Republic of Tanzania	Exports 2019, $531.9 Imports 2019, $57.8

Source: UNCTAD calculations, based on data from the official national sources and the ComStat database.
Note: If reported in national currency, conversion to dollars uses the annual average exchange rate.

In Southern Africa, regular data collection is limited to Namibia, where surveys were conducted in 2014, 2015, 2016 and 2019.[3] At the other extreme, North Africa is the region in which data on informal cross-border trade is the most scarce; the results of several studies show that it is likely that informal cross-border trade with neighbouring countries exceeds formal bilateral trade in the region (Ayadi et al., 2013; Gallien, 2017). More recently, the Zambian Statistical Office has undertaken a pilot study on small-scale cross-border trade monitoring at four of the country's border crossings, namely, with the Democratic Republic of the Congo, Malawi, the United Republic of Tanzania and Zimbabwe (World Bank, 2020a). In West Africa, the Bank of Nigeria undertook a study to monitor and document informal cross-border trade across Nigerian international land borders in 2013/14, with updates planned at intervals of, at a minimum, five years.[4]

3 See https://d3rp5jatom3eyn.cloudfront.net/cms/assets/documents/Informal_Cross_Border_Trade_Survey_(ICBTS)_2019.pdf.

4 See https://www.imf.org/en/Data/Statistics/informal-economy-data/Reports/nigeria-informal-trade-with-neighboring-countries.

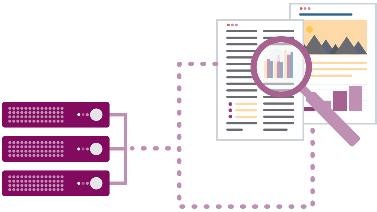
In Central Africa, Cameroon is undertaking follow-up work to a survey conducted in 2013 to integrate informal cross-border trade data into national trade statistical databases (World Bank, 2020a). The drawback of most of the statistical exercises, however, is that they are focused on trade volume and products and usually do not cover any demographic information, such as gender or age.

Approaches to quantifying informal cross-border trade

There is currently no permanent and continent-wide system for monitoring and quantifying informal cross-border trade in Africa. A census-like survey approach can be costly and time-consuming, given that most informal cross-border trade is small in scale. Checking on the volume and value of a small-scale transaction may take as much time as assessing a larger consignment at the border, potentially limiting the ability for systematic documentation. Informal cross-border traders may also be reluctant to reveal the true value and origin of their goods.

Several researchers and organizations have evaluated the magnitude of informal cross-border trade, through surveys and one-off studies consisting of snapshot views of specific borders, rather than the entire region, and goods transported by land (Lesser and Moisé-Leeman, 2009). One challenge when interpreting the findings from one-off studies with short durations is the seasonal variation in trade flows, in particular with regard to trade in agricultural commodities (World Bank, 2020a). Another challenge is the limited scope of monitored commodities under some initiatives, as discussed above. Informal cross-border trade in Africa covers a wide range of agricultural and non-agricultural and/or manufacturing commodities, yet the most consistent commodities being monitored have been trade in maize, rice and beans in East and Southern Africa and rice in West Africa (Economic Commission for Africa, 2013; World Bank, 2020a).

Monitoring informal cross-border trade is essential for determining sensitive products and corresponding tariff reduction modalities for which a country should actively seek enhanced market access under the African Continental Free Trade Area. Informal cross-border trade data can inform the formulation of appropriate policies to exploit its potential impact on job creation and the development of microenterprises and small and medium-sized enterprises, through the linkages between formal and informal trade. Most cross-border traders are also small-scale producers, which is also evident in the analysis of the data from the Trade and Market Information Platform of Sauti East Africa (as detailed in box 4). Better understanding of traded commodities and their origins could enable government support to boost the efficiency and competitiveness of such small-scale producers, availing them opportunities for value addition and to enter regional value chains (World Bank, 2020a).



Innovative data collection initiatives based on information and communications technology hold great potential to supplement and enrich traditional data collection techniques

Technology-enabled, innovative approaches to understanding and assessing informal cross-border trade are detailed in box 3. Outlined below are some of the main processes for obtaining relevant data on informal cross-border trade; a comprehensive assessment often requires a combination of the following:

(a) Monitoring official border posts. Systematically documenting collected micro-observations from individuals at the most active official border crossings and their surroundings, an approach which can be complemented by interviewing selected cross-border traders for any qualitative information and clarifications needed concerning cross-border flows. A census approach can be used to cover major agricultural and industrial commodities during randomly selected weeks from each month; the data can then be extrapolated for monthly and/or annual estimates for all border monitoring posts. The method is focused on goods that pass through official border crossings, however, some cross-border traders might actively try to avoid contact with border officials, due to corruption, harassment or a lack of awareness of border requirements (Economic Commission for Africa, 2013);

(b) Monitoring unofficial border posts. Posting people to observe trading activities at the most active unofficial border-crossing points could complement monitoring activities at official border posts;

(c) Monitoring of border markets. Informal cross-border trade often takes place in areas that are peripheral within States, given that such traders are distant from the respective capitals. Border markets function as storage and relay sites that provide for the distribution of goods to neighbouring countries (Economic Commission for Africa, 2013);

(d) Monitoring trade among neighbours engaged in conflict. Informal cross-border trade tends to be prevalent in conflict zones. Conflict provokes a strong movement of refugees in many areas, playing a significant role in the development of informal cross-border trade (Meagher, 2003; Titeca, 2009; World Bank, 2020a);

(e) Other approaches focused on registered firms in informal cross-border trade. Stocktaking at open markets or warehouses provides estimates of net import and export and the volume of goods sold and bought by traders and buyers from either country, considering stock carryover and replenishment (Economic Commission for Africa, 2013).

Box 3

Technology-enabled, innovative approaches to understanding and assessing informal cross-border trade

Technological innovation, coupled with the broader use of electronic devices, even in some of the poorest, most remote communities, has contributed to generating vast amounts of data through devices enabled with global positioning systems, mobile telephones, online tools, platforms, payment services and digital sensors and meters, such as satellite imagery, in real-time at a low cost.[a]

Artificial intelligence

Artificial intelligence technology is spreading rapidly across the globe and is being deployed in applications from speech recognition to monitoring traffic congestion. According to the Carnegie Endowment for International Peace, at least 75 of 176 nations surveyed globally are actively using artificial intelligence technologies for surveillance purposes, including facial recognition systems, smart policing tools and the establishment of safe city platforms. The leading suppliers of artificial intelligence systems globally are companies in China. Most countries in Africa still lag behind in adopting artificial intelligence technologies; less than one quarter have invested in them, however, the situation is likely to improve with the Belt and Road initiative. Artificial intelligence techniques, especially video surveillance systems software, can be used at border crossings to detect and monitor the movement of individuals, capture some of their demographic characteristics, such as gender and age, and determine the direction of trade.

Mobile telephone data collection

Growth in mobile telephone access and ownership presents an opportunity for more frequent data collection, from more people, at substantially lower costs than through the use of traditional means.

For example, Sauti East Africa established the mobile telephone-based Trade and Market Information Platform in 2017 to address the digital information gap facing cross-border traders, especially women traders, across East Africa. Ipsos Nigeria, a market research firm, has been piloting innovative data collection tools for monitoring small-scale cross-border trade in West Africa. More specifically, Ipsos analysed cellular phone data to understand the duration and frequency of trade and to differentiate modes of transport in the subregion, including whether the trader travelled on foot or by vehicle through measuring the speed of travel along the trade corridors.

Data collection through the use of mobile telephones may offer particular advantages in comparison with traditional survey and data collection efforts, yet such efforts are not without caveats. Potential caveats include sampling bias, which could arise when only a fraction of the population has access to mobile telephones and the subpopulation concerned does not have the same characteristics or behaviours as the population of interest. This is likely to be the case in most countries in Africa; despite increasing mobile telephone subscriptions, mobile services penetration reached only 45 per cent of sub-Saharan Africa's population in 2019. There was also a considerable mobile telephone gender gap of 13 per cent in 2019. Making population-level inferences is therefore complicated by differential ownership of mobile telephones among demographic groups that are involved in informal cross-border trade.

Satellite data collection

Access to satellite imagery has greatly improved in recent years. Complementing traditional data collection mechanisms, such as censuses and surveys, satellite imagery can provide useful data to capture informal cross-border trade. Ipsos Nigeria used satellite imagery to assess trade activity at border crossings in West Africa, in the context of the Trade Facilitation West Africa programme.[b] Satellite imaging has been used to identify the market size, including volume of trade in city markets, the total number of covered and uncovered stalls, traffic along trade corridors, such as total number of trucks and cars present, and the security situation through street lighting and remote sensing.

Sources: African Development Bank, 2012a; Global System for Mobile Communications Association, 2020; World Bank, 2020d.

[a] See https://gmdac.iom.int/data-bulletin-5-big-data-and-migration.

[b] The Trade Facilitation West Africa programme is managed by the World Bank Group and the German Development Cooperation Agency, the programme's implementing partners, with strategic oversight by the Economic Community of West African States and the West African Economic and Monetary Union.

2.2 Demographic dimension of informal cross-border trade

Women and young people make major contributions to trade in most countries in Africa, through their involvement in the production of tradable goods, as cross-border traders, small-scale producers, home-based entrepreneurs usually in the areas of handicrafts, garments and food, in the services sector, mostly as informal and casual workers, and as managers and owners of firms involved in trade. Nevertheless, little comparable data are available to help to understand the role of women and young people in informal cross-border trade. The characteristics of women and young people as informal cross-border traders, entrepreneurs and small-scale producers, and the conditions, barriers and challenges encountered by them, are considered below.

Given the nature of informal cross-border trade, the exact characteristics, in terms of trader profiles with such demographic variables as gender, education and age, and economic significance are statistically difficult to establish. The analysis hereunder is focused on the demographic characteristics of informal cross-border traders and the goods that they are trading. Although many empirical studies highlight the relevance of informal cross-border trade in the context of regional integration and trade in Africa, the profiles of traders and traded goods may vary across countries and border crossings. In that context, the findings below draw on data from a novel database, the Trade and Market Information Platform of Sauti East Africa (box 4). The analysis of the data is aimed at complementing earlier efforts to understand the demographic characteristics of traders by analysing information needs for trading, such as inquiries from platform users regarding market prices of agricultural commodities and border procedures, and the main destinations of traders, which can inform improved policy responses.

Box 4

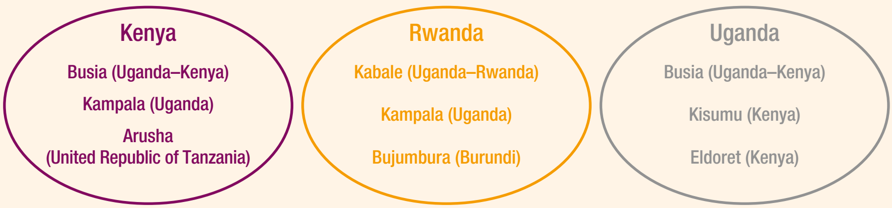
Using mobile telephones in data collection: Sauti East Africa Trade and Market Information Platform

Launched in 2017 in East Africa, this platform is aimed at empowering cross-border traders, especially women traders, to trade safely, legally and profitably, by reducing information asymmetry. Relying on unstructured supplementary service data technology, the platform enables users to access real-time and accurate market and trade information, including commodity prices, border procedures and real-time international exchange rates, using their mobile telephones.

Analysis of two sets of data collected through the platform, namely, user profiles generated by Sauti through demographic surveys and behavioural data collected through the information needs of users, is set out below. Figure 4.I displays the top three most frequently searched for foreign marketplaces on the platform. Under the assumption that users seek market prices in their existing or desired trading destination countries and markets, the data provides an indication of the trade corridors used most frequently by cross-border traders.[a] For Kenyan cross-border traders, the data suggests that Busia, Uganda; Kampala, Uganda; and Arusha, United Republic of Tanzania, comprise the three most important foreign buying and selling markets, in order of relevance, whereas Busia, Kenya; Kisumu, Kenya; and Eldoret, Kenya, are among the three foreign markets most often searched for by Ugandan traders. Most Rwandan traders requested price information for the foreign markets of Kabale, Uganda; Kampala, Uganda; and Bujumbura, Burundi (results consistent with Ogalo, 2010).[b]

Figure 4.I

Market price search frequency, by foreign destination marketplace



Source: UNCTAD calculations, based on data from Sauti Trade Insights.
Note: Data availability: Kenya, since 1 June 2017; Uganda, since 1 June 2017; Rwanda, since 1 September 2018. Data analysed until 22 March 2020 (aligned with border closures in Burundi, the Democratic Republic of the Congo, Kenya, Rwanda and Uganda; Kenya closed its border with the United Republic of Tanzania on 16 May 2020). Limitations and exceptions: Options available to users include up-to-date commodity and country market prices. As a result, marketplaces or commodities with limited accessible price information will be poorly represented in the data series. Sample size: Kenya, 10,063 users; Rwanda, 4,993; and Uganda, 2,886.

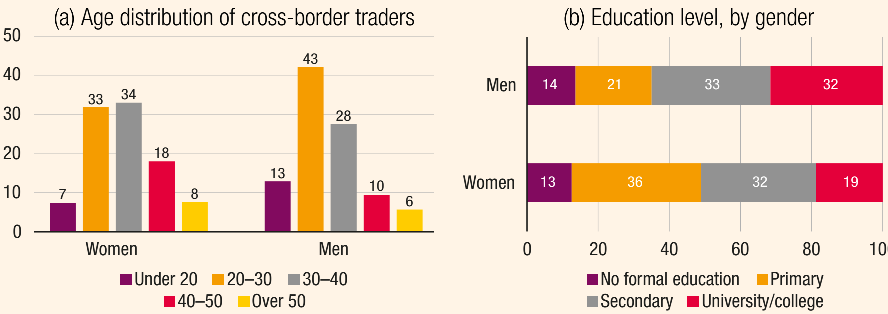
Several results stand out from the marketplace analysis. Data show a higher frequency of market price information searches in border towns, such as Busia and Kabale, consistent with the findings from earlier studies (e.g. African Development Bank, 2012a; Brenton and Işık, 2012), suggesting that a large share of cross-border trade takes place by cross-border traders residing in border regions, given that transport options are limited over long distances. Urban centres, such as Arusha, Bujumbura and Kampala, also constitute an important share of marketplace searches, which might suggest that some users of the platform are urban entrepreneurs and retailers leveraging price information.

Due to data limitations for Rwanda, a comparative analysis is presented for demographic features of traders for only Kenya and Uganda (figure 4.II).[c] Although the platform is mainly marketed to women cross-border traders to help them to negotiate better prices and identify new markets and products, the results of the analysis show an almost equal distribution among women and men cross-border traders. However, due to the significant digital gender divide, including the wide gender gaps in mobile telephone ownership and the literacy and skills needed to use digital technologies, in Africa, in particular in rural areas, where informal cross-border trade is particularly prevalent, the overall results should therefore be interpreted with caution.[d] Crossing frequency data shows that most Kenyan and Ugandan women cross-border traders trade either weekly or monthly, whereas there is not a significant variation in crossing frequency for men cross-border traders. The analysis shows that cross-border trade is the primary, or only, source of income for most traders in both Kenya and Uganda and that they tend to sell products grown and produced by themselves and/or family members.

Figure 4.II

User insights from Kenya and Uganda

(Percentage)



Source: UNCTAD calculations, based on data from Sauti Trade Insights.

Note: For (a): sample size: 683 users from Kenya and 83 users from Uganda. For (b): sample size: 686 users from Kenya and 78 users from Uganda. Age reflects the self-reported answer of users of the Trade and Market Information Platform of Sauti East Africa to the question, “Your age”. Users have six options: 10–20, 20–30, 30–40, 40–50, 50–60 and 60–70. Level of education is based on the self-reported answer of users to the question, “Your education”. Users have four options: No formal education, primary, secondary and university/college.

Figure 4.II (a) shows that, in terms of age distribution, most men cross-border traders are young (20–30 years of age), and a lack of formal jobs pushes them into the informal sector, including engaging in informal cross-border trade. Most women cross-border traders fall within the age

group of 30–40 years of age, and women cross-border traders proportionately outnumber men in older age groups. There could be several reasons behind that phenomenon, as follows: women between 30 and 40 years of age tend to have children, and therefore often have the attendant financial needs of their families, including shelter, food and school fees, as well as a need for the greater flexibility that informal cross-border trade affords in order to ensure remunerative and manageable work-life balance, given family commitments; owing to poor conditions of transport, insecurity and harassment young women are often deterred from seeking opportunities in informal cross-border trade, but, with time, women tend to establish strong networks with other women cross-border traders, making informal cross-border trade relatively easier for them; and women stay longer in cross-border trade, compared with men, often due to limited job opportunities elsewhere.

The analysis (figure 4.II (b)) shows high literacy levels among both women and men; more than 50 per cent of cross-border traders have attained at least secondary education, challenging much of the conventional wisdom that cross-border traders are illiterate or partially literate (e.g. UNCTAD, 2019b). Although not shown in the results set out herein, the finding is more pronounced for younger men than for younger women, which can be explained by the following: the requirement of a certain level of literacy to use a digital platform (i.e. indirect sampling approach of Sauti East Africa); and unemployment or lack of start-up capital to establish formal business ventures, especially for recent graduates, and skills mismatch, with several studies documenting pervasive underemployment in African labour markets. Figure 4.II (b) further shows that men cross-border traders are on average better educated than women cross-border traders, with a higher proportion of men cross-border traders having completed secondary and tertiary education.

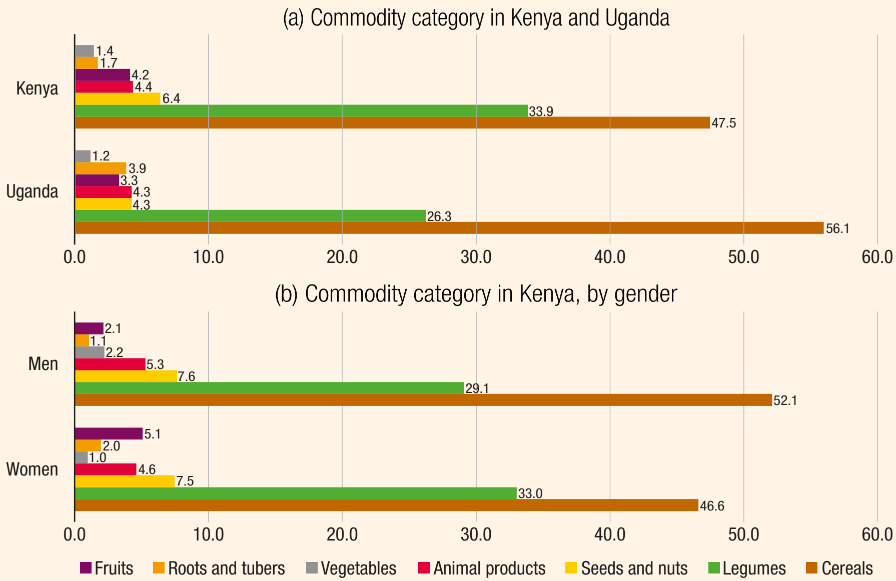
The Trade and Market Information Platform of Sauti East Africa also allows for insights into general and gender-related trading through user inquiries for market prices and border-crossing procedures. Figure 4.III shows that market price searches for staple goods, such as cereals, in particular maize, and legumes, lead for both men and women cross-border traders in both countries, followed by seeds and nuts and animal products, a finding also reflected in cross-border trade monitoring studies in East Africa by the Famine Early Warning Systems Network.[e] Among cross-border traders in Kenya, men seek information on the price of cereals and animal products more often than women, whereas women seek market prices of fruits more frequently than men, with small differences between genders for other products. These findings are consistent with other evidence in East Africa, given that women dominate in sales of low market value agricultural goods, whereas men dominate in sales of high-value agricultural goods (figure 4.III).[f]

Information sessions for border crossing procedures can be used as a proxy for the frequency of goods being traded and those desired to be traded, by younger and less experienced cross-border traders, as this feature of the platform is most frequently used by younger cross-border traders who are unfamiliar with border procedures. The feature allows for a unique perspective into cross-border trade market behaviour, given that product categories under the feature are broader, compared with market price searches, which are limited to agricultural products only. Results from the product category search show that cereals and low-quality goods, such as clothing and shoes, constitute an important share of inquiries about border procedures for cross-border traders in both Kenya and Uganda. Among cross-border traders in Kenya, men seek border procedure information for higher value commodities, such as livestock and livestock products, poultry and bees and their products, more frequently than women cross-border traders. Border procedure searches for fruits are more popular with women cross-border traders than men, consistent with the findings shown in figure 4.III (b).

Figure 4.III

Market price search frequency

(Percentage)



Source: UNCTAD calculations, based on data from Sauti Trade Insights.
Note: Sample size for (a): Kenya, 4,764 users, and Uganda, 744 users. For (b): Kenya, 3,531 users. Limitations and exceptions: Options available to users include up-to-date commodity and country market prices. Consequently, marketplaces or commodities with limited accessible price information will be poorly represented in the data series. Results from Uganda are not shown in (b) due to data limitations.

Such findings reiterate the importance of improved understanding of the most traded commodities, in particular agricultural goods, for which countries should actively seek enhanced market access under the African Continental Free Trade Area. Government support will be key for boosting the competitiveness of small-scale producers and cross-border traders in adding value to their produce to enter regional and global value chains and/or gain access to larger-scale commercial trading, such as supermarket retail chains.

Without accurate informal cross-border trade data, it is impossible to paint a complete picture of intra-African trade. Systematic informal cross-border trade data collection can support targeted policymaking to ensure that the full potential of the sector is harnessed under the implementation of the African Continental Free Trade Area. As shown above, innovative information and communications technology-based data collection initiatives, such as the Trade and Market Information Platform of Sauti East Africa, hold great potential to supplement and enrich the analysis, and often reduce the cost of traditional data collection techniques; they therefore should be supported by Governments and development partners.

Sources: African Development Bank, 2012a; Brenton and Işık, 2012; Golub, 2015; Hadley and Rowlatt, 2019; Ogalo, 2010; UNCTAD, 2019b.

[a] See https://www.researchgate.net/publication/347473284_Innovating_Past_Data_Collection_Obstacles_for_East_Africa%27s_Women_Cross-_Border_Traders_Evidence_from_Sauti_East_Africa.

[b] See https://www.wcoesarocb.org/wp-content/uploads/2018/07/Informal-Cross-Border-Trade-in-EAC-Implications-for-Regional-Intergration-Development.pdf.

[c] After being piloted on the Kenya-Uganda border in 2017, the platform became operational in Rwanda in late 2018, and user specific demographic data was not collected until late 2019.

[d] The digital gender divide has the following three components: access to and use of digital technologies and the Internet; development of skills needed to use digital technologies and participate in their design and production; and advancement of women to visible leadership and decision-making roles in the digital sector (see https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2019/02/Digital-Equity-Policy-Brief-W20-Japan.pdf).

[e] See https://fews.net/sites/default/files/documents/reports/East_Africa_2021_01_PB_EN.pdf.

[f] See https://www.un.org/africarenewal/magazine/august-2014/raw-deal-african-women-traders.

Although informal cross-border trade cuts across gender, age, religious and ethnic groups, several studies suggest that a large proportion of cross-border traders in Africa are women and young people, a majority of whom fall into the age range of between 20 and 40 years of age (African Development Bank, 2012a; Eastern African Subregional Support Initiative for the Advancement of Women, 2012; FAO, 2017). A field survey conducted in the Great Lakes region found that 85 per cent of small-scale traders were women, with an average age of 32 (Brenton and Işık, 2012). For example, in Botswana, more women (61 per cent) than men (39 per cent) are participating in informal cross-border trade and that most of the traders (60 per cent of men and 52 per cent of women) are between 26 and 35 years of age (Ama et al., 2014). The share of women traders in West Africa is estimated at between 70 and 90 per cent of all small-scale traders in the region (African Development Bank, 2012a). More recently, an informal cross-border trade survey conducted by the Economic Commission for Africa and African Export-Import Bank (2020) on the Abidjan-Lagos corridor in West Africa found that women traders conducted 61 per cent of all such transactions.

Depending on the region and border posts, the results from field surveys and studies can also be mixed, in terms of gender differences in informal cross-border trade. For example, one study found that the picture of informal cross-border traders was more complex, with the proportion of women cross-border entrepreneurs varying between countries of the Southern African Development Community and at different border posts. The study found that women constituted most traders, crossing almost half the border posts surveyed. However, men were in the majority at the border posts into Lesotho (52 per cent), Malawi (68 per cent), Namibia (65 per cent) and Zambia (78 per cent). The results also revealed that a significant cohort of traders appeared to be survivalist entrepreneurs (Peberdy et al., 2015).

The results from a recent field survey conducted through the Trade Facilitation West Africa programme indicated that traders were predominantly men (60 per cent), with an even more pronounced presence in the Lagos-Kano-Niamey corridor, where women were severely underrepresented, owing to cultural and security concerns.[5]

With regard to the type of goods involved in informal cross-border trade, studies show that such trade involves almost all types of goods – staple food commodities, processed food, livestock, fish and related products that have a direct impact on regional food security, low-quality manufacturing goods, such as textiles, clothing and cosmetics, and services, such as hairdressing and microfinancial services (African Export-Import Bank, 2020; Trade Facilitation West Africa, 2020; UNCTAD, 2019b).

2.3 Vulnerability of informal cross-border trade actors

There are inherent challenges and obstacles that informal cross-border traders, in particular women, face that prevent them from leveraging their full potential. The array of challenges and obstacles can be broadly categorized into two dimensions: border challenges and supply-side challenges.

[5] See https://pubdocs.worldbank.org/en/426931590681026830/West-Africa.pdf.

Border challenges include lack of trade facilitation, including the time and cost associated with logistics and required documents and certifications, harassment by customs officials, insecurity, the inconsistent application of existing rules, including rent-seeking behaviour, the confiscation of goods, bribery and corruption at the border, poor infrastructural facilities and difficulties in access to travel documents and/or trading licences (African Export-Import Bank, 2020; UNCTAD, 2019b), with compounded impacts for women cross-border traders (FAO, 2017; Jawando et al., 2012; UNCTAD, 2019b). For example, women cross-border traders are more vulnerable to physical and verbal harassment and abuse than men, and the former spend longer hours, sometimes days, clearing their goods away from home, owing to prolonged inspections (UNCTAD, 2019b).

Supply-side challenges are factors hampering the capacity of traders to scale up their businesses and trade in higher value added goods. A lack of access to affordable finance and credit facilities is one of the most pressing challenges for traders, especially women (Afrika and Ajumbo, 2012; UNCTAD, 2019b). Without sufficient capital, informal cross-border traders are often compelled to rely on their own minimal savings or to try to raise capital from expensive informal moneylenders, such as usurers in Kenya and *mashonisas* in South Africa, to run their businesses (African Export-Import Bank, 2020). Education is another factor limiting opportunities for cross-border traders, in particular rural women. Poor literacy and low education levels limit the abilities of traders to adopt technical and business skills in order to produce and trade higher-value products. Where access to a reliable market remains critical to succeeding in business, cross-border traders, especially women traders, struggle to find profitable markets where they can sell their products beyond occasional street vending in border areas, due to their limited access to information and communications technology, including low ownership of cellular phones and poor network coverage in remote areas. As a result, word of mouth often remains the only information channel to which cross-border traders can resort (UNCTAD, 2019b).

Gender-specific constraints leave women cross-border traders more vulnerable to the impacts of shocks and crises. Due to border closures resulting from the pandemic – in most cases, such interdictions have concerned the free movement of persons, whereas the traffic of trucks shipping goods has remained authorized – women cross-border traders have experienced a complete depletion of their savings and have struggled to provide necessities for their families. The pandemic has also adversely affected food security (International Trade Centre and UNCTAD, 2021; Lambert et al., 2021). Containment and sanitary measures and curfews have also led to longer transport times, resulting in significant losses and waste of agricultural commodities, and to increased illicit collections by gendarmes, customs officers and police officers, in particular along West African trade corridors (Antoine et al., 2020; Bouët et al., 2020).

2.4 Entrepreneurship in the informal sector among women and young people

The level of informal employment in Africa is high (exceeding 80 per cent); studies show that wage employment is relatively limited on the continent, whereas various forms of self-employment, including as employers, own-account workers and contributing family workers, are the most prevalent, notably in rural areas and the urban informal sector (UNCTAD, 2018c). Although there is considerable variability among individual economies, most self-employed workers in countries in Africa can more accurately be defined as own-account workers. Although men and women on the continent have a similar likelihood of being in self-employment, the tendency to work as contributing family workers, typically in agriculture or as survivalist entrepreneurs in the informal sector, is greater among women (International Labour Organization, 2020; UNCTAD, 2018c).

The contribution to economic growth differs by type of entrepreneur and firm. Survivalist enterprises are often confused with microenterprises and small and medium-sized enterprises, due to similarities in the obstacles faced. However, unlike opportunity-driven microenterprises and small and medium-sized enterprises, survivalist entrepreneurs depend on their income for the basic survival of their families, which serves as a shield from poverty. Whereas dynamic, opportunity-driven entrepreneurship may have significant positive effects on economic growth, survivalist entrepreneurs operate mostly in low-productivity and low value added activities and produce traditional goods and services with established technologies. Their growth potential is therefore limited, and most related firms remain at a microenterprise stage (UNCTAD, 2018c).

Africa has the highest entrepreneurship[6] rate in the world, at 22 per cent, and African women are more likely to start their own businesses than women elsewhere. Women entrepreneurs are much more likely to work in non-tradable services than men entrepreneurs, with 63 per cent of such women working in retail trade, hotels and

6 No consensus exists on the definitions of entrepreneurship and entrepreneurs. Entrepreneurs can be employers paying employees and own-account workers with no employees (self-employed) (African Development Bank et al., 2017). Informal entrepreneurs refer to employers and own-account workers in the informal sector (International Labour Organization, 2018).

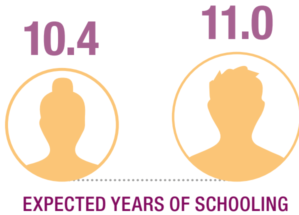
restaurants, compared with 46 per cent of men. Entrepreneurs in Africa are also younger, with a median age of 31, than in other developing regions (African Development Bank et al., 2017). Entrepreneurship has proven fruitful for providing employment. However, few African entrepreneurs are truly innovative and competitive, and challenges remain for women entrepreneurs and young adults, which are amplified for those in the informal sector, given that they are unable to expand their businesses beyond subsistence operations and sectors with low productivity and profits (African Development Bank et al., 2017). Studies comprising a range of survey techniques and evaluation studies confirm this observation (Brixiová and Kangoye, 2019; World Bank, 2019).

Women face disadvantages in terms of barriers to gender equality in business, including regarding access to equal opportunities as producers and entrepreneurs, which are compounded by the concentration of women entrepreneurs in the informal sector. For example, the reduction in returns (income) to education associated with informality is higher among women than men (World Bank and OECD, 2017).

Gender differences in the performance outcomes, including lower profits, and the competitiveness of women-led microenterprises and small and medium-sized enterprises may be explained by the different choices that men and women make, which are often driven by gender-specific constraints. Such constraints include contextual factors, such as legal discrimination, social norms and gender-based violence, gender gaps in endowments, such as education and skills, start-up financing and access to resources and networks, and a restricted range of economic choices that women can make, due to household responsibilities. The barriers that women face put them at a competitive disadvantage and impede the development of women-led businesses and their participation in downstream activities in value chains, such as marketing, processing and distribution. Consequently, women-operated firms tend to be focused on national markets, with a minority of them involved in international export activities (United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), 2019).

An important feature of a start-up with growth potential is the entrepreneur's level of education. Typically, highly educated entrepreneurs are better able to innovate, maintain and manage business activities. Despite progress made towards greater gender equality in expected years of schooling over the past 20 years, gender gaps in expected years of schooling persist in Africa (figure 16), gaps which are particularly pronounced in countries affected by conflict and instability, such as those in the Sahel Region. Such gender gaps might have far-reaching consequences and significant opportunity costs, not only because longer education for girls reduces the likelihood of early marriage and paves the way for the productive participation of women in the labour market, but also because girls tend to have better learning outcomes than boys in harmonized test scores, as evidenced in about one third of African countries.[7]

Lower levels of educational attainment are an internal barrier for **WOMEN**'s participation in economic activities



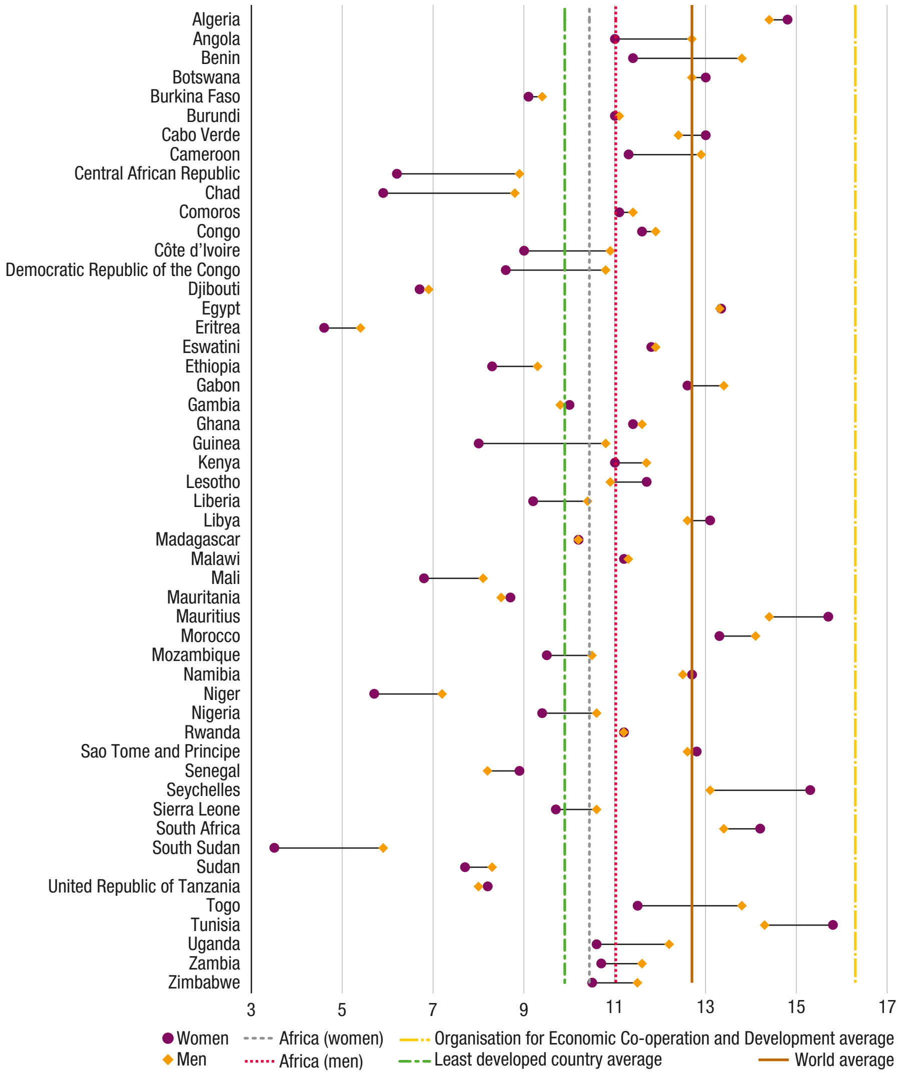
Further, the number of educational opportunities for developing entrepreneurial skills are likely to be greater for men than for women, even more so in rural areas; young men may have greater opportunities to receive formal training either through specialized providers or a member of their network (World Bank and OECD, 2017). Moreover, inadequate access to education among women hampers their abilities to start and expand their businesses and to gain access to financial institutions (Brixiová and Kangoye, 2019; Nwakanma, 2020). In contrast, women with higher levels of education tend to start their firms with more capital than their less educated counterparts (Brixiová and Kangoye, 2019).

Another constraint on women's entrepreneurship concerns how statutory and customary laws, and patriarchal systems, influence the gender divide in access to productive and financial resources. Women entrepreneurs are denied equal economic opportunities where a country's laws restrict a woman's ability to operate a business (box 5). Similarly, secure property rights for women, including land and other assets, are an important factor driving investment decisions, allocative resources and economic development (Acemoglu and Zilibotti, 2001; O'Sullivan, 2017). Many countries in Africa have made progress in removing formal legal barriers that have prevented women entrepreneurs from operating businesses. For example, Mali, in 2012, removed legal restrictions that prevented married women from registering a business; the Democratic Republic of the Congo, in 2016, eliminated provisions that prevented married women from signing contracts, registering companies and opening bank accounts, among other things. However, despite regulatory advances, many countries struggle to implement such laws. Even where statutory law seeks to promote gender equality, women entrepreneurs may face barriers derived from customary law, which often takes precedence in settings with legal pluralism (Nwakanma, 2020).

[7] See https://govdata360.worldbank.org/indicators/hc58163b0?country=BRA&indicator=40961&viz=line_chart&years=2010,2020.

Figure 16

Expected years of schooling, selected countries in Africa, 2019



Source: UNCTAD, based on data from the Human Development Data Centre of the United Nations Development Programme.

Box 5

Rwanda: Gender gaps translate into competitive disadvantages for women-owned enterprises in the informal sector

Empowering women entrepreneurs in the informal economy is essential for expanding their opportunities and options and for improving their livelihoods. However, there are still notable gender differences in terms of access to resources and wider socioeconomic opportunities on the continent, arising in large part from gender-related discrimination in laws, customs and practices. Such constraints can reduce both women's willingness to engage in entrepreneurial activities and their chances of entrepreneurial success.

Rwanda has become a role model in Africa, given its dedication to, and progress made on, gender equality and the empowerment of women in post-conflict reconstruction. Despite strong political commitment, however, there remains work to be done, in particular regarding access for women to economic assets and financial resources.[a]

Access to finance is generally perceived as the most important constraint on the growth of women-owned enterprises. The ways in which gender gaps translate into competitive disadvantages for women-owned enterprises, in terms of access to finance (with employed capital serving as a proxy)[b] and business performance (with annual turnover as proxy), in Rwanda are set out as a case study below.

The analysis uses data from the Rwanda Establishment Census, conducted in 2017, which is a nationally representative census of formal and informal enterprises across all sectors, excluding agriculture, collecting information on several attributes of businesses, including size (micro, small, medium and large), location, industry and ownership.[c] The main novelty of the data is that they allow for a focus on informal enterprises, as well as export and import enterprises, the data for which are usually unavailable in countries in Africa. The sample consists of 166,988 informal enterprises, after data cleaning for head unit establishments, which is more than 90 per cent of the establishments covered by the census, of which 53 per cent are in wholesale and retail trade, 30 per cent in accommodation and food service activities, 8 per cent in manufacturing and 9 per cent in other activities.

A limitation of the census data is that continuous data are lacking for annual turnover and employed capital, and corresponding values are categorical with significant variation. The capital variable has ranges of between RF 500,000 (approximately $500) and below; from RF 500,000 to 15 million; between RF 15 and 75 million ($75,000); and above RF 75 million.[d] However, given the small number of observations in the last two categories, in particular for informal enterprises, they are combined with the second category to create an indicator taking the value of 1 when the capital employed by the enterprises exceeds RF 500,000 and 0 otherwise. A similar exercise is done for annual turnover, whereby an indicator takes the value of 1 if the annual turnover in 2016 exceeded RF 300,000 (approximately $300) and 0 otherwise.

A logit regression model is then estimated, linking the probability of an enterprise – model A, employing more than RF 500,000 in capital, and model B, generating annual turnover of more than RF 300,000 – to owner and enterprise characteristics, the results of which are shown in the table below.

Results of estimation using logit model for informal enterprises in Rwanda

Dependent variables		Employed capital	Annual turnover
		Odds ratio	
Models		A	B
Constant		0.211***	0.628***
Gender of business owner	Female (base=male)	0.578***	0.621***
Age group of business owner	Over 35 years (base=35 years or under)	1.381***	1.057***
Trades in goods and/or services	Yes (base=no)	4.709***	2.029***
Keeps financial accounts	Yes (base=no)	1.933***	1.106
Industry	Accommodation	0.561***	1.003
	Manufacturing	1.808***	1.52***
	Wholesale and retail	1.776***	1.874***
Size of business	Small, medium or large (base=micro)	6.243***	4.911**
Location	Rural (base=urban)	0.559***	1.644***
Number of years in operation		1.043***	1.025***
Number		*163 747*	*95 676*
Wald chi2 (df)		*11 308.19(10)*	*4 661(10)*
p>chi2		*0*	*0*
Pseudo R2		*0.087*	*0.041*

Source: UNCTAD calculations.
Note: Constant estimates baseline odds. Financial accounts could be in the form of ledgers, journals, balance sheets, income statements or invoices.
* Level of significance 10 per cent.
** Level of significance 5 per cent.
*** Level of significance 1 per cent.

The regression results show that both models A and B as a whole fit significantly better than a model with no predictors. The overall effect of economic activity by the first level under the International

Standard Industrial Classification is significant, although the coefficient for accommodation and food services is not significant in model B. The odds of investing capital greater than RF 500,000 and having an annual turnover of more than RF 300,000 decreases by about 40 per cent (i.e. (0.6-1)x100) for enterprises owned by women. The odds of investing capital (and generating annual turnover) greater than RF 500,000 (annual turnover of RF 300,000) is 1.4 (1.1) and 4 (2) times greater for enterprises with owners over 35 years of age (i.e. more experienced) and exporting and importing goods and/or services, respectively.

The results show the following:

- Informal exporting and/or importing enterprises require larger amounts of working capital (increasing access to finance is therefore important) and are likely to achieve higher annual turnover, relative to non-trading informal enterprises.
- There are gender-related differences in terms of access to capital and performance of an enterprise (proxied by annual turnover). The likelihood of investing more capital and generating annual turnover over the threshold level, namely RF 500,000 and RF 300,000, respectively, declines for women-owned enterprises.
- Youth-led enterprises are likely to employ less capital and generate lower annual turnover.

Sources: International Labour Organization, 2018; UNCTAD, 2018b; UNCTAD, 2019b.
[a] See https://stats.oecd.org/Index.aspx?DataSetCode=GIDDB2019.
[b] The capital employed is the value of the assets that contribute to the ability of an establishment to generate revenue.
[c] See https://statistics.gov.rw/publication/establishment-census-report-2017.
[d] As at 29 May 2021, 100 Rwandan francs is equivalent to 0.840516 dollars.

Access to finance is an essential element of enterprise performance. However, access is only one part of the equation: the conditions under which loans are granted also matter. Impediments to generating personal savings, gaining access to sources of finance, such as engaging the interest of loan officers and angel investors, influence the types of ventures that men and women entrepreneurs begin and their subsequent performance. Women-run businesses are often smaller and less profitable (Carranza et al., 2018), which in turn reinforces stereotypes about self-employment among men and women (Greene et al., 2003).

Facilitating access to physical and human capital by enabling young people to start businesses or existing firms to scale up and hire young people is essential for addressing youth unemployment. However, access to formal financial institutions and financial services for a business start-up is constrained for young people, even more so for young women, in Africa (African Union, 2020).

Networks are critical to career-related decisions and job prospects, however, young people in most countries in Africa have inadequate networks, excluding them from employment opportunities. Young women may experience network constraints more acutely, with less exposure to the world of work, facing more discrimination and having fewer role models and smaller networks due to limited mobility (Chakravarty et al., 2017).

Like all free trade agreements, the African Continental Free Trade Area Agreement will inevitably create winners and losers. Many women small-scale entrepreneurs, producers and cross-border traders may not be able to immediately exploit the expanded market opportunities and/or compete with the influx of new strong competitors from other economies (box 6). Success will hinge on gender mainstreaming in national strategies for the implementation of the African Continental Free Trade Area, in particular in strategic sectors, such as agriculture and food processing, where there is strong potential for the participation of women, given that the presence of women in various sectors is characterized by informality, subsistence activities and unequal access to productive resources, most notably land ownership and finance, which leads to their poor value chain positioning (UNCTAD, 2020a; UN-Women, 2019).

Box 6

Developing capabilities of informal small and medium-sized enterprises in agrifood markets: Case study of South African supermarket chains

Over the past 20 years, supermarket chains, in particular South African chains, have expanded into the Southern African Development Community region and, less successfully, into other regions in Africa. Four large retailers, Shoprite, Pick n Pay, Spar and Woolworths, collectively have a market share of 72 per cent, based on turnover figures for 2015.[a] Some of the factors attributed to the "supermarketization" of food retail in countries in the Southern African Development Community are increased urbanization and the newly developing middle class.

Opportunities

Supermarkets are potential catalysts for stimulating food processing and light manufacturing industries under the African Continental Free Trade Area. Although countries in Africa rely on alternative retail routes, such as wet markets and small traditional informal retailers, to varying degrees, the expansion of supermarket chains and their procurement methods and requirements have important implications for the participation and success of local suppliers, including women cross-border traders, small-scale entrepreneurs and producers, and the competitive landscape in Africa.

The multinational nature of supermarkets opens much larger regional and international markets for small local suppliers, allowing them to attain the scale necessary to potentially make them more competitive in national, regional and international markets. For example, women entrepreneurs can supply house brands or private labels to supermarket chains, which are often cheaper than branded products, offering an opportunity for such suppliers to get a foot in the door of large retailers.

Challenges

Despite the benefits, there are also challenges, resulting from uneven power dynamics, hindering the participation and growth of new entrants and smaller suppliers. Procurement strategies of supermarket chains shrink the supply base by using only preferred suppliers. Supermarkets tend to source only indirectly from smaller farmers, through wholesalers and processors, but even smaller farmers are those that have better capital assets and equipment and access to infrastructure and are more commercially oriented. Moreover, large supermarkets impose high-quality packaging and other standards on suppliers, which makes it harder for local suppliers with limited capabilities to meet such requirements and compete. Therefore, the supplier base continues to be dominated by a few large suppliers that are able to meet the requirements. Suppliers require significant capital, technological, managerial and financial investment to develop and upgrade their capabilities to meet such requirements. Yet upgrading and developing capabilities does not automatically ensure access to retail space. The substantial purchasing power of supermarkets, given that retailers are the last link between products and consumers, skews bargaining power between local suppliers and retailers, in favour of retailers, leading to supermarkets imposing trading terms that prevent small suppliers from gaining access to the retail space. For example, in Botswana and South Africa, the exertion of market power by large supermarket chains has been an area of concern for competition authorities.

Potential role of the African Continental Free Trade Area

There is a large, versatile and dynamic informal sector, dominated by women cross-border traders, small-scale entrepreneurs and producers in agroindustry. Despite significant opportunities available under the African Continental Free Trade Area, trade liberalization alone will not guarantee existing and potential suppliers shelf space in the supermarket chains; overcoming the challenges described above requires active collaboration, coordination and public–private partnerships in formal and informal markets.

Adaptation is key to delivering on the benefits of the African Continental Free Trade Area. Local suppliers must continue to invest in building their capabilities to ensure that they meet the requirements of retailers, with the goal of becoming self-sufficient at a certain point. Developing the capabilities of local suppliers should ideally involve both non-government entities, such as supplier development programmes led by supermarket chains, and government institutions. Investments in infrastructure development, the construction of distribution and warehouse facilities and cold chains are also critical to supporting supplier development initiatives.

Suppliers are regularly audited to ensure that they meet the range of requirements to successfully supply supermarket chains. Investment in meeting such requirements and the recommendations resulting from audits come at a cost, which is often out of the reach of vulnerable women entrepreneurs and producers, given that they face more difficulties in gaining access to finance. The solution is to create the right financing packages catering to the unique and evolving needs of those suppliers, while addressing barriers to entry in value chains.

For a more balanced distribution of benefits under the African Continental Free Trade Area, the competitiveness of local suppliers can be developed through appropriate and coordinated regional industrial and competition policies as part of the Free Trade Area, such as under phase II of its implementation, and the Boosting Intra-African Trade Initiative. For example, under a protocol on competition policy, the impact of anticompetitive conduct on woman-owned businesses could be explicitly considered.

Codes of conduct or a retail charter between suppliers and buyer multinational corporations can serve as an effective approach to controlling the exertion power of buyers and reduce information asymmetries between suppliers and buyers. An example of such an initiative is the Retail Sector Charter of Namibia (2016), enacted as part of efforts to increase the procurement of locally produced goods and to boost local manufacturing and value added processing. The Charter is a valuable example of the importance of political commitment from the Government, given that the Government of Namibia was instrumental in spearheading the Charter. Such charters could be extended to different regions in Africa, with commitments for the fair treatment of local suppliers and supplier development elements.

Sources: Das Nair, 2018; Das Nair and Landani, 2021; Humphrey, 2017; Nkhonjera and Das Nair, 2018; Reardon and Hopkins, 2006.
[a] See https://www.compcom.co.za/wp-content/uploads/2019/12/Grocery-Retail-Market-Inquiry-Sumary-002.pdf.

2.5 Formalization of informal traders and entrepreneurs

2.5.1 Informal cross-border trade and the formalization of microenterprises and small and medium-sized enterprises: Role of trade facilitation

The difficulties of conforming to the trade requirements applicable in the formal sector for informal traders, in particular women, encourage the avoidance of the customs controls, rules of origin documentation and cumbersome regulatory requirements and procedures necessary to formally register a business. The profit margins in informal cross-border trade are typically tight, so compliance with formal requirements that increase the costs of trading is not a viable option for most informal actors.

Trade facilitation measures can be a means for informal and small-scale traders to scale up their activities and graduate from the "informality trap" to improved economic inclusivity. Trade facilitation measures that target the better integration of informal cross-border traders into formal trade, such as the simplified trade regime and cooperative enterprise model, in particular the implementation of simplified trade regimes in the Common Market for Eastern and Southern Africa and the East African Community, are considered below. A continental simplified trade regime from which the African Continental Free Trade Area can draw concrete lessons and on which it can build during its implementation, is recommended.

The Common Market for Eastern and Southern Africa simplified trade regime is aimed at reducing barriers to trade within member countries (UNCTAD, 2019b).[8] The key features of this regime are a simplified common list of goods, a simplified customs document and a simplified certificate of origin.[9] Traders carrying goods included in the common list and valued up to $2,000 per consignment can clear them with limited paperwork, using the simplified customs document available at border posts, without the involvement of clearing agents. The list of qualifying

[8] The common list of goods that are eligible for the simplified trade regime are bilaterally negotiated. For example, there is a common list agreed between Malawi and Zimbabwe, one between Zambia and Zimbabwe and a common list of products that will be harmonized between the Democratic Republic of the Congo and Uganda.

[9] The simplified certificate of origin includes a declaration by the exporter, producer or supplier stating that the goods to which the certificate refers have been produced in accordance with the Common Market for Eastern and Southern Africa rules of origin.

products is jointly agreed upon by member States with shared borders based on goods that are commonly traded by small-scale traders; each list applies only to the traders of the respective participating countries who are party to that agreed list. Participation in the simplified trade regime in the Common Market for Eastern and Southern Africa is voluntary; only about half of the member countries have taken steps to implement it.

Although the implementation of the Common Market for Eastern and Southern Africa simplified trade regime has produced some successes, there remain several challenges that negate the full uptake of the regime. A range of non-tariff barriers, such as the arbitrary application of rules and requirements by border officers for goods eligible for simplified treatment, continue to exist at the borders, and many of the requirements associated with formal trade remain in place. For example, although the simplified trade regime allows for the duty-free entry of products to neighbouring countries, application of the regime does not exclude the requirement to obtain import and export permits for agricultural goods or animal products. Many such documents are costly and difficult to obtain, which remains an important constraint to cross-border trade. Nor does the regime provide exemptions from border requirements regarding immigration or sanitary and phytosanitary measures or value added tax, excise duties and associated processing fees (World Bank, 2014).

Furthermore, the common list that identifies goods eligible for simplified treatment is limited and not regularly updated and therefore fails to reflect changing market conditions over time. For example, Malawi has not updated the common list of goods eligible under the simplified trade regime since 2010, as have other member States of the Common Market for Eastern and Southern Africa (UNCTAD, 2019b). In addition, there is still a lack of understanding with regard to the existence, role and application of simplified trade regimes. Frequently, traders observe that information on clearance procedures and the list of eligible goods is not available and that the required forms are not always easy to understand, sometimes due to language barriers, and they have concerns about approaching customs officials to seek clarification (UNCTAD, 2019b). To address this, trade information desk officers have been deployed at some border posts to provide information and assistance on clearance procedures and the list of goods qualifying for the simplified trade regime (World Bank, 2014). Lack of resources, however, has resulted in the inconsistent provision of such services, which coincides with the drop in the uptake of the simplified trade regime (UNCTAD, 2019b).

The East African Community simplified trade regime, premised on that of the Common Market for Eastern and Southern Africa, was introduced in 2007, with the adoption of a simplified certificate of origin that exempts consignments of goods that originate in the East African Community, are valued at or under $2,000 and are on the list of qualified products. The introduction of this simplified trade regime has had limited success, as has been the case with that of the Common Market for Eastern and Southern Africa. This is because the East African Community regime, while introducing streamlined paperwork and exemptions from cumbersome formal customs clearance procedures, does not provide exemptions from certain domestic taxes and other border requirements. Another inhibiting factor has been the lack of awareness, knowledge and understanding of the implications of the regime; trade procedures remain complex and lengthy for small-scale traders with limited capacities who frequently cross the border. In order to ease compliance by businesses and enhance the transparency of trade procedures, the East African Community trade information portal, an online platform linked to national trade facilitation portals in Kenya, Rwanda, Uganda and the United Republic of Tanzania, was launched in 2018.

2.5.2 Trade facilitation through one-stop border posts

One-stop border posts, also known as joint border posts, have been introduced under the New Partnership for Africa's Development[10] to reduce formalities, costs and delays at border crossings. Currently, one-stop border posts are being rolled out across Africa as part of the regional integration agenda and to complement the implementation of simplified trade regimes. Currently, more than 80 one-stop border posts have been planned or implemented in various parts of Africa, however, not all of them have aligned operations (African Export-Import Bank, 2020). Studies suggest that, in sub-Saharan Africa, an average reduction of 5 per cent in the time spent at the border could achieve a 10 per cent increase in regional exports.[11] By simplifying trading requirements and procedures and harmonizing border policies, such as those regarding visas and immigration, one-stop border posts could encourage the formalization of trade.

[10] The New Partnership for Africa's Development is an economic development programme of the African Union, which was adopted at the thirty-seventh session of the Assembly of Heads of State and Government of the Organization of African Unity, in July 2001.

[11] See https://www.rural21.com/english/opinion-corner/detail/article/boosting-trade-with-better-border-infrastructure.html.

2.5.3 Continental simplified trade regimes

Apart from trade facilitation through the simplification of customs procedures and by reducing non-tariff barriers associated with informal trade, a continental simplified trade regime, including simplified customs documents, simplified clearance procedures, a common list of products, a threshold for the value of consignments and a common passport or pass for traders, could potentially improve the collection and reliability of official trade statistics between RECs. Specifically, the collection of gender-disaggregated data would effectively guide the integration of concerns relating to gender equality into policies and legal frameworks in the implementation of the African Continental Free Trade Area. Moreover, good quality data helps informal traders to move towards formalization. A continental simplified trade regime would appropriately utilize the market diversity of member States, which would strengthen a coordinated response for sustaining small-scale traders. For example, the continental simplified trade regime could increase the threshold value, extend the list of traded products, with a focus on products of particular significance to informal cross-border traders, and importantly, include women and young people who are major actors in informal trade.[12]

Evidence from both the Tripartite Free Trade Area non-tariff barrier reporting mechanism and the regional simplified trade regimes suggests that informal traders face an information gap, which indicates the need for customs arrangements and procedures modified according to their needs and circumstances. For example, in the wake of restrictions put in place to address the COVID-19 pandemic, more cross-border traders in the Common Market for Eastern and Southern Africa found themselves excluded from trade, because regulations favoured traders with larger consignments and means of transport. Moreover, amendments to routes have led to delays at border posts, thereby increasing costs to trade. A coordinated response, through the African Continental Free Trade Area, focusing on processes for small-scale cross-border traders is therefore vital. Bilaterally, Governments should ensure that implementation teams are fully supported.

The lack of representation of informal trade among complaints raised through the non-tariff barrier reporting mechanism (0.06 per cent of active complaints) highlights the extent of the digital exclusion of informal cross-border trade traders.[13] Limited access to mobile telephones and Internet connectivity or Internet service data packages undermines the use of online reporting mechanisms. In addition to the digital divide, there is likely also

[12] See https://www.uneca.org/sites/default/files/keymessageanddocuments/22May_Final_WhitePaper_Advancing_gender_equitable_outcomes.pdf.

[13] See https://www.tradebarriers.org/active_complaints.

a lack of knowledge about how to lodge complaints, making capacity-building and sensitization efforts all the more important. The African Continental Free Trade Area could further support reporting mechanisms, such as that of the Tripartite Free Trade Area, that would benefit from encouraging engagement among informal traders, which would enhance the effectiveness of the continental simplified trade regime as a tool to formalize informal cross-border trade.

2.5.4 Free movement of persons

Labour mobility is key to reaping the benefits of regional trade for inclusive growth. The International Organization for Migration has emphasized that cross-border human mobility and trade are connected and emphasized the need for the greater integration of human mobility and border management into trade facilitation programmes.[14] Facilitating transactions and communications between buyers and sellers across borders requires reducing the costs of obtaining visas and obstacles to obtaining residency and work permits (Simo, 2020; World Bank, 2016). The protocol on the free movement of persons, a flagship project of the African Union in the implementation of Agenda 2063, will work together with the African Continental Free Trade Area framework to help achieve economic integration and free mobility. More than just an opportunity for cross-border traders, the facilitation of the free movement of people between countries in Africa could have significant implications for women and young people, including their ability to pursue job prospects within Africa. The opportunities that could stem from implementation of a protocol on the free movement of persons for essential services sectors, such as health and education, could be particularly important for girls and women who are medical practitioners, teachers and students. Across Africa, there is a shortage of labour with specialized skills in certain sectors, including engineering and information and communications technology, and for seasonal jobs, for example with regard to cash crops, requiring foreign labour (UNCTAD, 2018b; UNCTAD, 2019a).

Some countries envisage removing labour market restrictions only for the movement of certain categories of workers, such as truck drivers, due to concerns about sovereignty and the ability to regulate the entry, exit and stay of persons.[15] This has hindered the ratification of the African Union protocol on the free movement of persons since January 2018; there have been only 32 signatories and 4 ratifications to date, and 15 ratifications are needed for the protocol to enter into force.

[14] See https://publications.iom.int/books/making-case-integrate-human-mobility-cross-border-trade-and-trade-facilitation.

[15] See https://ecdpm.org/talking-points/connecting-people-markets-africa-2021/.

2.5.5 Cooperative enterprise model

The cooperative enterprise model is a tool that can be used in formalizing the informal sector. Most small entrepreneurs and cross-border traders, in particular women, are highly vulnerable to deficits in decent work, given that they are unprotected, have no formal recognition and have little representation or voice, and their transition from informality to formality is rather slow. Cooperatives could play an important role in formalization by transforming what are often marginal survival activities into legally protected work and are therefore an option for the formalization of the informal economy (Mshiu, 2019).

Cooperatives represent a practical and efficient model for generating an array of instruments and opportunities for entrepreneurial development, including in the following scenarios:

(a) Informal economy workers in the same line of business often work individually or in small groups and, quite often, compete. By using the services of a cooperative, for example, through bulk purchases of the commodities they deal in (i.e. economies of scale), they could strengthen their businesses and the production and marketing of their goods or services;

(b) Cooperatives could provide an effective platform for advocacy and/or representation;

(c) Cooperatives often provide social protection, including health insurance, through self-funded and mutually established insurance systems;

(d) Cooperatives are stakeholder-based enterprises established for the long term. Their members often benefit from stable employment or production conditions. Joining a cooperative credit and savings system could also provide informal workers with productive credit, enabling them to start their businesses and consolidate their economic activities, forming the basis for a transition towards the formal economy;

(e) Members of cooperatives develop their skills and resources, enhancing business management, productivity and market competitiveness, which will be important under the African Continental Free Trade Area.

To overcome some of the obstacles to formalizing microenterprises and small and medium-sized enterprises through cooperatives, the following strategies may be considered: promote the creation of cooperatives and their key sectors for trade, such as consumer and agricultural cooperatives; enhance the capacities of microenterprises and small and medium-sized enterprises and cooperatives through grants and development support; streamline registration procedures; and promote mass campaigns to mobilize such enterprises to formalize.

2.5.6 Formalizing the informal sector through the use of digital technology

Technology has a role to play in formalizing the informal sector. Technology can facilitate trade by fostering market access, information-sharing and innovation. Moreover, such innovative technologies as mobile telephone-enabled solutions can expand the access of informal cross-border traders to basic financial services, by providing solutions for two important challenges that cross-border traders face, namely, limited alternatives for converting foreign currency for transactions and insufficient access to formal credit to scale up their businesses.[16] Along with mobile money platforms, a continental regulatory framework on harmonizing regional payment systems to facilitate cross-border payments and eliminate informal cross-border payments could provide an opportunity to formalize informal cross-border trade (African Export-Import Bank, 2020).[17]

Harnessing digitalization in the African Continental Free Trade Area could potentially open opportunities for young people and women to participate in the continental marketplace and value chains. Digital tools have proven to be a significant way to reduce the costs required to start a business and to facilitate formalization. For example, UNCTAD has developed a platform to support businesses in Cameroon to enter the formal market, and the initiative has reduced time-related inefficiencies and allowed 25,000 small and medium-sized enterprises to register their business (UNCTAD, 2020b).

2.5.7 Using business support centres to formalize the informal sector

Business support centres were successfully introduced in Colombia, with the assistance of the Inter-American Development Bank for the first phase of the programme,

[16] Existing regional payment systems induce financial exclusion, given that they are linked to formal banking channels. Mobile money providers may be able to create a qualifying credit score for individuals previously excluded from formal credit markets, by leveraging data, such as those relating to airtime, mobile money usage and social media (see https://unctad.org/news/leveraging-digital-solutions-seize-potential-informal-cross-border-trade).

[17] Regional payment systems have already been adopted in the East African Community, the Economic Community of West African States and the Southern African Development Community, which expand the scope of options for informal payments concerned with cross-border trade (FAO, 2017).

in 2001–2004, and the Government of the Netherlands for the second phase, in 2006–2008. According to an evaluation undertaken by Cárdenas and Rozo (2007), cities that had business support centres experienced a 5 per cent increase in business registration, because more advice on documentation reduced operational costs for small enterprises. Such advisory services can play a key role in the African Continental Free Trade Area. By operating as a one-stop shop, business support centres can encourage business registration, inclusion and greater coordination, thereby ensuring that informal traders do not lose out on trade liberalization under the Free Trade Area.

2.6 Concluding remarks

Mapping the economic and social dimensions of informal cross-border trade accurately is challenging. The conduct of regular surveys is needed to collect information on informal cross-border trade and supplement merchandise trade statistics data from customs authorities.

For the benefits of the African Continental Free Trade Area to be fully harnessed and inclusive, both informal forms of trade and their relevant stakeholders should be considered in the design and implementation of policy reforms and trade facilitation measures related to the Free Trade Area. There is a need to acknowledge that women and young people, in particular in the informal sector, face barriers that are higher relative to other groups. Policy interventions should seek to harness emerging opportunities and address structural barriers to women and young people, which will require a targeted mix of interventions that go beyond trade policies, to include ensuring equal access to resources and educational opportunities, such as technical education and vocational and specialized skills development, including digital skills and literacy. To ensure that the Free Trade Area delivers on the commitments made in the Agreement, to empower women and young people, it will be necessary to develop mechanisms to monitor the implementation of the Agreement from the perspective of inclusion.

The informal economy is not necessarily organized and is therefore not readily represented in discussions on the implementation of the African Continental Free Trade Area. However, the views of informal economy actors, in particular those of women and young people, should be considered in discussions on implementation and phase II, in particular with regard to investment (including targeted investment for specific sectors that would benefit such actors), intellectual property rights and competition policy, for the development of provisions catering to their needs.

The implementation of the protocol on the free movement of persons could benefit women and young people, in particular girls, given that many countries in Africa have skills shortages, and it would allow them to take up employment opportunities in neighbouring countries, thereby also facilitating intra-African knowledge and skills transfer. There is a need to enhance advocacy efforts and popularize the protocol and continental passport scheme.

The simplified trade regime and the cooperative enterprise model are potential means of bringing informal traders into formal trading systems in the context of the African Continental Free Trade Area, including by enhancing access to financial resources for market access for microenterprises and small and medium-sized enterprises, helping them to digitalize their processes and building their capacities through training programmes.

Electronic commerce offers tangible opportunities for women and young people, yet policy reforms and legislative frameworks in the context of the African Continental Free Trade Area should create a nurturing environment for women and young people to increase their footprint in this sector. The informal sector cannot be eliminated; rather, the focus of Governments should be on creating opportunities for them to scale up and expand their operations and promoting innovation and an entrepreneurial spirit. Some successful enterprises begin as informal firms and eventually graduate into the formal sector, and informal enterprises contribute to economic development by providing jobs and livelihoods.

Chapter 3

Shared prosperity through the African Continental Free Trade Area: Realizing export potential and challenges towards greater inclusiveness of trade

A key obstacle to greater intra-African trade is the low complementarity of regional trade, which can be overcome through greater market access under the African Continental Free Trade Area. The present chapter contains an examination of the benefits of the Free Trade Area for merchandise and services trade, the ways in which it can support inclusive growth in Africa, an outline of some of the benefits of the export potential for transformative and inclusive growth, including emerging value chains in the manufacturing sector, and avenues for a commodity-based export diversification strategy for inclusive growth. Reaping the benefits of the Free Trade Area is hindered by several market distortions and trade frictions. Set out below are the ways in which regulatory and structural barriers to bilateral trade are an impediment to inclusive participation in trade, and insufficient and unequal access to productive capacities, as the main challenge to the ability to contribute to inclusive growth in Africa under the Free Trade Area, is also addressed.

INCLUSIVE GROWTH THROUGH SHARED PROSPERITY

INTRA-AFRICAN EXPORT

potential is expected to increase by

$9.2 billion

through **partial tariff liberalization** by 2025 under the African Continental Free Trade Area

The discourse on trade and industrial objectives often overlooks the overlap of domestic interests and competition dynamics between member States in specific sectors. The African Continental Free Trade Area has the potential to harmonize national and regional objectives through a coherent and integrated policy framework, including in the context of phase II of implementation of the African Continental Free Trade Area Agreement, on investment and competition policies.

3.1 Regional trade provides greater opportunities for export diversification

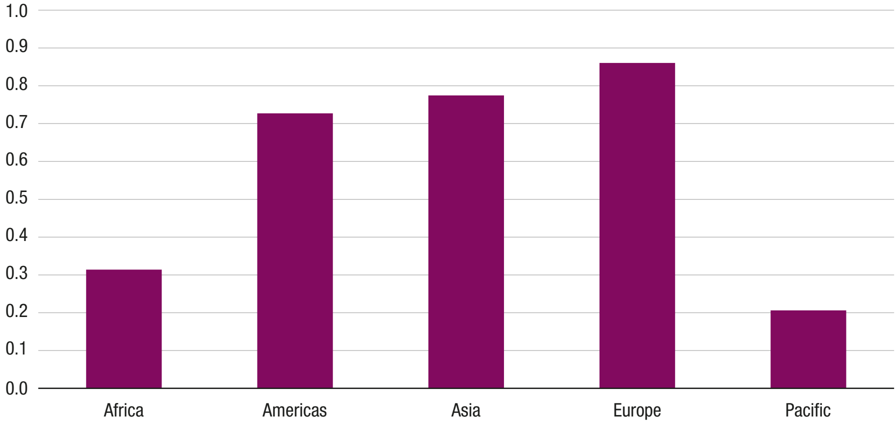
Greater regional integration offers more opportunities to climb the technological ladder than do exports outside the continent, given that intra-African exports are technologically more advanced, as indicated by a larger share of medium- and high-technology manufactures (International Trade Centre and UNCTAD, 2021; Saygili et al., 2018). Moreover, intra-African trade consists of a higher share of processed goods (41 per cent) than exports to the rest of the world (17 per cent), and it is much more diversified in terms of traded products (International Trade Centre and UNCTAD, 2021).

Despite the advantages of greater intraregional trade for export diversification, the level of intraregional complementarity in Africa is below that of the Americas, Asia and Europe (figure 17), which currently limits the potential of the African integration process. Africa's export profile does not correspond as much with its import basket as in other continents, which partly explains why the level of intra-African trade is not higher. Low complementarity of intra-African trade is rooted in a narrow export basket, limited diversification, regulatory and structural barriers to trade and overlapping trade strategies (International Trade Centre, 2019).

Rising demand through GDP and population growth triggers high import demand and guides countries in Africa towards greater economic diversification. A simulation of the potential for additional exports, by combining information on import demand with potential export supply, is set out below. Currently untapped trade opportunities, explained by trade frictions and expected growth, and additional opportunities that could arise through tariff liberalization under the African Continental Free Trade Area are also identified.

Figure 17

Complementarity index of intraregional exports and imports, yearly average, 2015–2019



Source: International Trade Centre and UNCTAD, 2021.
Note: The complementarity index is a measurement of the degree to which the export and import structures of two trade partners overlap. There is a value of 1 if every product accounts for the same share of an exporter's exports and its partner's imports, and a value of 0 if there is no correspondence between the products exported by one and those imported by the other.

3.2 Unlocking new export opportunities in merchandise through the African Continental Free Trade Area

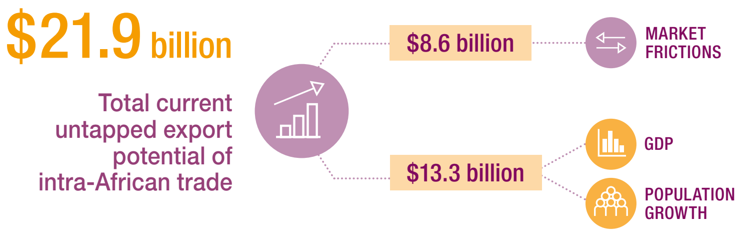
In the present section, opportunities for increasing intra-African merchandise trade are identified. The export potential methodology of the International Trade Centre is used to highlight both existing and new opportunities that can arise with tariff reductions under the African Continental Free Trade Area.

The export potential indicator developed by the International Trade Centre provides an estimate of the potential value of exports for a given exporter-importer-product combination. Comparing export potential to actual exports helps to identify countries and markets with untapped export potential. Export potential is computed below, for current tariff conditions and where tariff reductions are expected under the African Continental Free Trade Area.

3.2.1 Intra-African export potential under current tariff conditions

The baseline scenario, without the implementation of the African Continental Free Trade Area, is as follows. Despite a continuous reduction of tariff rates within RECs over the past decade, the simple average applied intra-African bilateral tariff rate was 5.25 per cent in 2019. Differentiated by product categories, the intra-African applied tariff rate was 4.93 per cent on raw materials, 3.76 per cent on intermediate goods, 8.9 per cent on consumer goods and 3.4 per cent on capital goods. Although the trade weighted average tariff rate yields 2.4 per cent, there is still considerable scope for tariff liberalization between countries in Africa. East Asia and Latin America show a lower trade weighted average of intraregionally applied tariffs, of 1.56 per cent and 1.16 per cent, respectively, whereas intraregional trade in South Asia is on average more restrictive, with a trade weighted average of 7.33 per cent.

Under current tariff conditions, the total untapped potential of intra-African trade is already large



Based on the combination of supply, demand and ease of trade, total intra-African export potential is estimated as indicated in box 7. Comparing export potential to actual trade reveals that the total untapped export potential of intra-African trade is around $21.9 billion, equivalent to 43 per cent of intra-African exports (yearly average for 2015–2019), in the goods covered in the export potential analysis. More than one third of that export potential is explained by frictions, namely, static untapped export potential, which implies that $8.6 billion in trade could be realized by engaging actively in efforts to identify and address current market frictions in African trade today.[18] The remaining $13.3 billion in untapped export potential is driven by GDP and population growth, which are expected to translate into increased supply and demand.

[18] Export potential is computed at the exporter-importer-product level. The static untapped export potential therefore captures frictions that inhibit exports of a specific product to a specific market. Addressing additional frictions not captured by the model that affect intra-African trade more generally would yield additional export potential.

Box 7

International Trade Centre methodology for determining export potential

Under the methodology for determining export potential, developed by the International Trade Centre, the export potential of a country or region, across products and markets, is quantified through an assessment of detailed trade and market access information. It is aimed at identifying potential export values based on supply capacities in an exporting country, demand conditions in the target market and bilateral linkages between the two.

The export potential indicator is computed for products that a country already exports.[a] It uses a weighted average of the five most recent years for which trade data are available. The underlying trade data, sourced from the International Trade Centre trade map, have undergone thorough treatment to ensure that results are not driven by misreported trade flows, measurement errors or incorrect attribution. A reliability assessment identifies and filters out unreliable reporters whose reported trade flows significantly deviate from those of their trade partners. When the exporter and importer are reliable reporters, the geometric average of the direct and mirror data is used for the transaction. When data are missing or a reporter is unreliable, reliable mirror data are used whenever possible. The export potential indicator is a computation of expected values of trade for each exporter-importer-product combination, determined by combining information on the exporter's projected supply capacity for a given product, the importer's projected demand and the ease of trade between the two trading partners.

Supply is captured by the exporter's global market share in the product, and demand by the trading partner's imports of the product. They are augmented by forecasts of GDP and population growth for the following five years, to provide a forward-looking assessment that accounts for the expected evolution of supply and demand. Revenue elasticities of demand are computed separately for developed and developing countries, at the two-digit level of the Harmonized Commodity Description and Coding System of the World Customs Organization. Furthermore, current tariff conditions and future tariff changes, if applicable, are introduced to account for differences in market access conditions. Geographical distance is equally accounted for, using a product-specific distance correction. A revealed measure of ease of trade between the exporter and the importer captures their overall trade relationship. It is a comparison of the actual trade between them with the hypothetical trade that would occur if the exporter had the same share in the importing country as it has in the world market.

Any gap between a country's export potential and its actual exports is interpreted as untapped export potential and therefore an opportunity for future export growth. Such a gap can result from two types of factors, namely, dynamic or growth-based export potential, in terms of future economic growth in the country itself or demand growth in the target market; and static or friction-based export potential, namely, factors that trade advisers may address, together with local companies, such as a lack of information about the rules and regulations of a target market or difficulties in complying with them or meeting the preferences, such as in terms of quality, of its consumers.[b]

Source: UNCTAD.

[a] The list of products considered excludes products covered by international conventions on waste, pollutants, arms and ammunitions, tobacco, extractive industries, products that cannot be produced, such as antiques, and products that are irrelevant for market intelligence, such as commodities not elsewhere specified. A second indicator, the product diversification indicator, can be used to identify opportunities for diversification into new export products. The product diversification indicator is not used in the analysis set out in the present report.

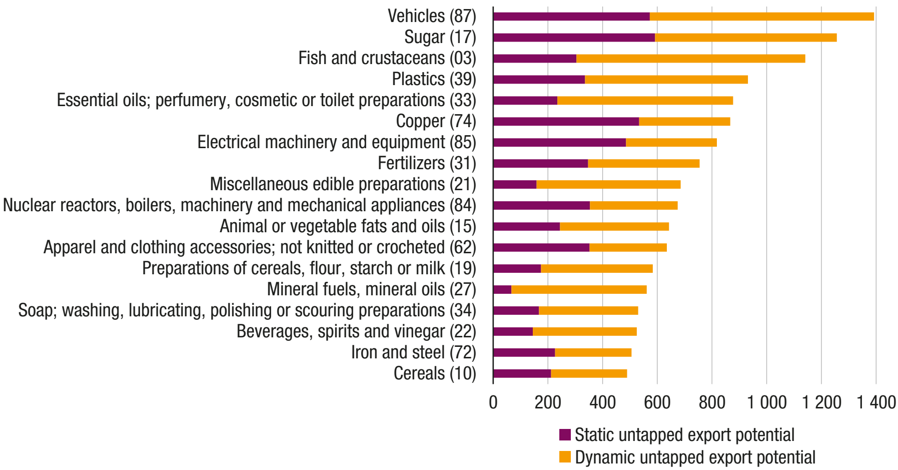
[b] For more information on the export potential methodology, see Decreux and Spies, 2016.

Figure 18 shows the static (friction-based) and dynamic (growth-based) export potential under current tariff conditions for the 18 sectors benefiting the most under those conditions, aggregated at the two-digit level of the Harmonized System. The largest untapped potential is expected in the vehicles, at $1.4 billion, and sugar, at $1.3 billion, sectors. There is a large untapped potential in food products, in particular in the following sectors: sugar; fish and crustaceans; miscellaneous edible preparations; preparations of cereals, flour, starch or milk; and beverages, spirits and vinegar. Export potential in food manufactures is more equally distributed across countries in Africa, as many countries have at least some basic supply capacities. In contrast, export potential in the vehicles sector is strongly concentrated among a few exporters; it is also the sector with the second largest dynamic export potential, after fish and crustaceans, which is largely driven by expected GDP and population growth over the next five years, triggering rising continental import demand. The untapped export potential varies greatly across countries in Africa. Relative to their realized export potential, the largest untapped potential is projected for Cabo Verde (86 per cent), Equatorial Guinea (86 per cent) and the Gambia (84 per cent). In absolute terms, South Africa ($7.9 billion) has the largest untapped export potential, followed by Egypt, Morocco and Côte d'Ivoire.

Figure 18

Untapped static and dynamic export potential, by sector

(Millions of dollars)



Source: International Trade Centre and UNCTAD, 2021.
Note: Numbers in parentheses refer to the sector classification code under the Harmonized System.

3.2.2 Anticipated tariff scenario under the African Continental Free Trade Area

Phase I of the implementation of the African Continental Free Trade Area Agreement is aimed at fully eliminating tariffs, allowing for different liberalization schedules for the least developed countries and countries not in that category. Beginning in 2021, tariffs will be eliminated for 90 per cent of product categories, over a period of five years, and over a period of 10 years for the least developed countries. If customs unions, such as the Central African Economic and Monetary Community, the East African Community, the Economic Community of West African States and the Southern African Customs Union, consist of members that are least developed countries and members that are not, the customs union can decide to which group tariff offers will be submitted. The Central African Economic and Monetary Community, the East African Community and the Economic Community of West African States have submitted their group tariff concessions for a phase-down period of 10 years, following the modalities granted to the least developed countries. Tariff liberalization under the African Continental Free Trade Area includes two exceptions: sensitive goods (7 per cent of tariff lines), to be liberalized over a period of 10 years, and over 13 years for the least developed countries, and excluded goods (3 per cent of tariff lines), which are those that can be excluded from liberalization. At the time of writing, exact tariff reductions under the Free Trade Area are not yet known, but the following scenario is anticipated: by 2025, full tariff elimination for countries liberalizing according to the schedule for countries other than least developed countries and partial tariff liberalization, and elimination by 50 per cent gradually within five years for countries liberalizing according to the least developed country schedule, across all product groups. For comparative purposes, a scenario is computed in which all countries in Africa, irrespective of their development status, eliminate all tariffs within five years. The export potential projections are limited to five years to achieve a more realistic approach with regard to GDP and demand growth. The obtained results for the continent are expected to be driven by trade creation between RECs, rather than within RECs, given the already low applied tariff rates within RECs.

3.2.3 Additional export potential under the African Continental Free Trade Area

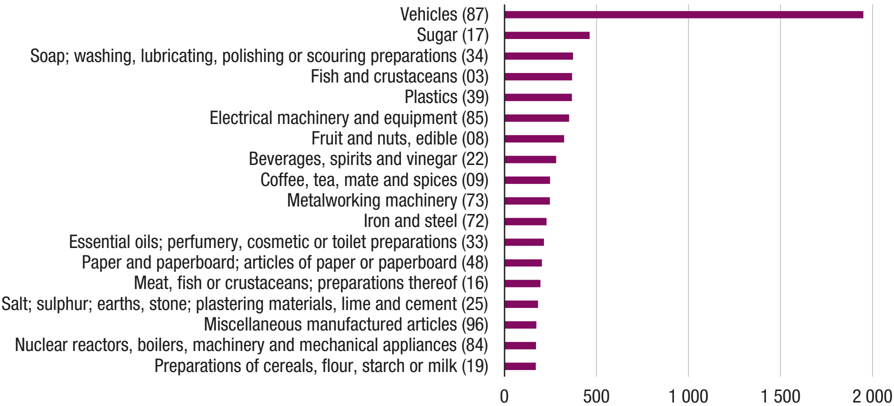
Overall, partial tariff liberalization by 2025 is expected to increase the intra-African export potential by $9.2 billion. As a comparison, export potential could increase by $20 billion in the same time period, if all countries liberalized fully within five years. The surprisingly large difference between the two scenarios is driven by the following two factors: export potential increases more than proportionally with tariff reduction (in the case at hand, the effect of a 50 per cent reduction in tariffs is less than half of the effect of a full reduction); and some large economies, such as Kenya and Nigeria, liberalize markets under the schedule for the least developed countries, i.e. 50 per cent liberalization, but drive the additional export potential under the assumption of full liberalization without the special treatment for least developed countries (International Trade Centre and UNCTAD, 2021).

Figure 19 includes the sectors with the highest intra-African additional export potential that could arise under the partial tariff liberalization scenario of the African Continental Free Trade Area over the next five years. The sector expected to realize the largest export potential following the tariff liberalization is the vehicles industry. Overall, tariff liberalization promises an additional export potential of 18 per cent by 2025. The sectors gaining the most from the tariff liberalization are the ones that also promise to have a growing export potential based on supply and demand developments over the next five years. The exporters that would benefit the most from partial and full tariff liberalization, and that are expected to increase their export potential in Africa by more than 100 per cent, face on average the highest tariff rates; they are Cabo Verde, the Gambia, Sao Tome and Principe, Somalia and South Sudan (International Trade Centre and UNCTAD, 2021).

Figure 19

Additional export potential through anticipated partial tariff liberalization under the African Continental Free Trade Area, by sector

(Millions of dollars)



Source: International Trade Centre and UNCTAD, 2021.
Note: Numbers in parentheses refer to the sector classification code under the Harmonized System.

The expected additional export potential under the African Continental Free Trade Area in high value added sectors, such as vehicles and electrical machinery and equipment, points towards benefits for transformative growth. However, much of that potential is currently concentrated in countries other than the least developed countries and presents limited benefits in terms of inclusiveness (International Trade Centre and UNCTAD, 2021).

The findings from three case studies concerning sectors that are of particular interest with respect to COVID-19 pandemic recovery plans and inclusive and transformative development, are set out below. The sectors are as follows: potential for regional value chains to tackle medical supply shortages; food manufacturing, motivated by the observations that the pandemic shone a light on the lack of self-reliance on food products in the region and that almost all countries in Africa have some export potential in the industry; and assessing the potential of the automotive industry to yield inclusive benefits under the African Continental Free Trade Area through regional supply chains, given that the sector has the largest untapped export potential and the largest export potential growth under the Free Trade Area.

3.2.4 Tackling medical supply shortages through regional value chains

At the beginning of the COVID-19 pandemic, it quickly became apparent that countries in Africa did not have the capacity to supply sufficient health-care products and that they depended greatly on imports, mainly from China, India and the European Union. Over the course of the pandemic, the export of medical supplies has been restricted, uncovering the dependency and vulnerability of Africa.

Although investment in the health sector has increased, it remains small in scale. According to UNCTAD (2020a), about two thirds of announced greenfield projects were in the manufacturing of pharmaceuticals and medical devices. The International Trade Centre (2020) has found that there is scope for building productive capacities in Africa based on available raw materials and exports of certain inputs in the production of masks, gloves and disinfectants. The leading medical supply imports to Africa include disinfectants and sterilizers, medical consumables, test kits and medical and surgical equipment. However, the high average tariff rate of 10.3 per cent applied by countries in Africa on such products restricts access for producers and consumers to affordable medical products (International Trade Centre, 2020).[19] In addition to tariffs, many businesses face difficulties in importing intermediate inputs, due to non-tariff measures. Two of the three main inputs in the production of disinfectants, ethanol and plastic bottles, are already supplied in reasonable quantities on the continent, with the main suppliers being Egypt and South Africa. The other input, glycerol, is not yet produced in a sufficient capacity, and producers of disinfectants rely on imports from outside Africa (International Trade Centre, 2020). Trade policy needs to ensure that producers have access to adequate and affordable inputs, from both inside and outside Africa.

As a response to the pandemic, several countries have started to build capacities in medical supplies. Multinational enterprises in the health-care industry have increased productive capacities and have been supported by Governments in producing critical equipment (UNCTAD, 2020b). In order to successfully build productive capacities in the future, policymakers must identify which inputs are necessary for their industries and how trade policies can facilitate access to local, regional or global sourcing.

[19] For comparison, the applied tariff rate on the import of medical products is 7.9 per cent in non-African developing countries and 2.9 per cent in developed countries.

The pharmaceutical industry is characterized by centralized research and development, causing networks of market-seeking, with a concentration in a few hub locations. The pandemic may trigger a shift towards the greater geographical diversification of supply chains, with increasing attention being paid to replication production processes, such as three-dimensional printing. Although such a growth trajectory has less potential to drive inclusive growth overall, due to limited application in agriculture-based industries and a reduced use of labour, it may be a realistic option for the specialized, geographically distributed pharmaceuticals and medical supply industries (UNCTAD, 2020b).

3.2.5 Challenges for the food processing sector in supporting inclusive growth

Higher production and productivity in the food manufacturing sector speaks directly to the targets under Agenda 2063, including increasing the share of labour-intensive manufacturing output and reducing food import dependency. The COVID-19 crisis has exposed the vulnerability of countries in Africa to the import of food items, in particular given that Africa imports about 85 per cent of its food from outside the continent (Akiwumi, 2020).[20]

Among the leading sectors with untapped export potential, preparations of cereals, flour, starch or milk and miscellaneous edible preparations hold the greatest promise in terms of sustainable and inclusive growth. Both sectors have a high value share of processed goods and a high level of participation of women. Although both sectors are not among the 10 sectors with the highest expected gains under the African Continental Free Trade Area, due to currently relatively low intra-African applied tariffs (4.8 per cent on miscellaneous edible preparations and 4.38 on preparations of cereals, flour, starch or milk), compared with, for example, sugar (8.9 per cent), intra-African export potential in preparations of cereals, flour, starch or milk is still expected to increase by $170 million, and in miscellaneous edible preparations, by $152 million, under partial liberalization (International Trade Centre and UNCTAD, 2021).

Untapped and additional export potential under the African Continental Free Trade Area in manufactures of food products is spread among countries, with nearly all economies in Africa having some potential in realizing additional intracontinental exports, as illustrated in figure 20. Due to the strong value chain linkages of agroprocessed goods

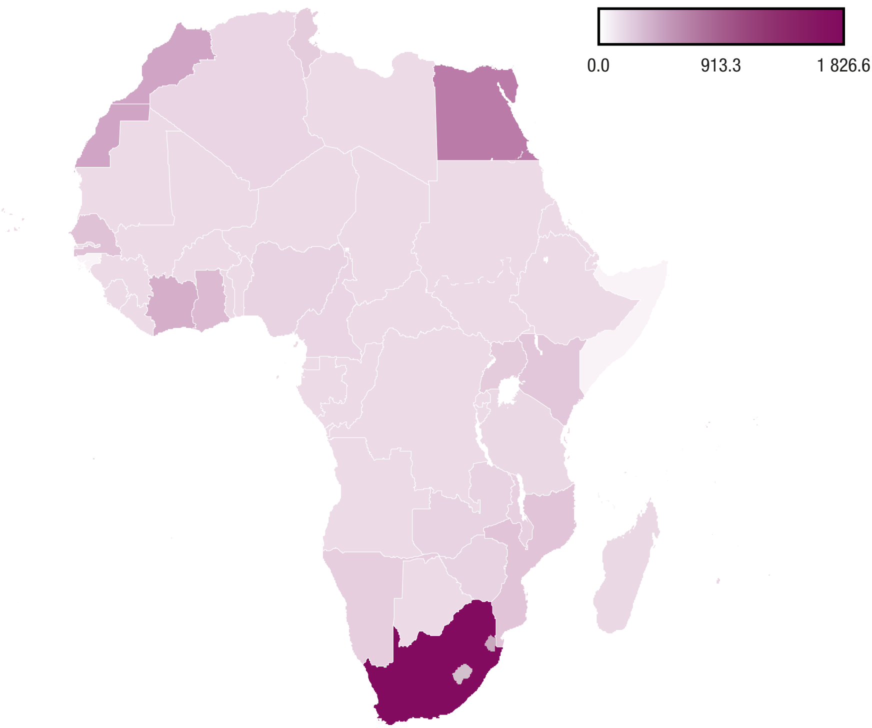
[20] Given the risk of food insecurity, national policy responses to ensure domestic availability included a reduction of value added tax, such as in Kenya, from 16 to 14 per cent, and a ban on food exports, such as in the Sudan, where sorghum exports were banned in April 2015 (Akiwumi, 2020).

upstream in the value chain, including agriculture, retail services and business services, and downstream in the value chain, including hotel and restaurant services and retail services, the sector is an important driver of inclusive and transformative growth on the continent. Moreover, food production and trade are characterized by a greater share of participation of women. On average among countries in Africa, the manufacturing of food products and beverages sector employs more women than men, based on employment statistics from the database of the International Labour Organization.

Figure 20

Untapped and additional export potential of manufactures of food products under the African Continental Free Trade Area

(Millions of dollars)



Source: UNCTAD calculations, based on International Trade Centre and UNCTAD, 2021.
Note: Manufactures of food products refers to the sum of the classification codes 16 to 22 under the Harmonized System.

Agroprocessing is also beneficial for socially, environmentally and economically sustainable growth, because of the reduction in post-harvest losses and food wastage, the income generation for farmers through buyer-seller linkages to processing enterprises and the large proportion of women employed in agriculture and the manufacturing of food and beverages (Owoo, 2018).

Despite the currently untapped and dynamic growth potential of fresh and processed food items, the limited productive capacities are unlikely to be sufficient to serve the high demand for food imports.

Similar to the medical supply industry, food processing is characterized by strong regionalization and geographically distributed production networks (UNCTAD, 2020b). Regional integration plays a core role in the evolution of shorter supply chains, and the regionalization of production has a greater impact on development and sustainability (UNCTAD, 2020b). In the East African Community, which has an average tariff rate of zero across all products, regional integration efforts have been insufficient to reduce dependency on food imports from outside the continent or to stabilize and converge prices. Price data from FAO for maize, one of the most traded food commodities in Africa, shows that the large price differences between States members of the Community and within countries remain. For example, in January 2021, the price per kg of maize ranged from $0.58 in Burundi to $0.49 in South Sudan and $0.16 in Uganda; in South Sudan, the price per kg ranged from $0.17 in Yambio to $0.70 per kg in Juba. The lack of price convergence is associated with several non-tariff barriers to trade and oligopolistic market structures.

Regional productive capacities remain insufficient to increase self-sufficiency. Recent export growth in countries of the East African Community in the food processing sector, with the largest percentage change in exports of miscellaneous edible preparations, has mainly taken place at the intensive product margin, with little diversification. An examination of the trade balance of these countries with the rest of the world uncovers the concentration of exports in a few product groups and the low degree of complementarity of export supply and import demand. Product diversification through supposedly small jumps, due to similar production technologies within a sector, could increase self-reliance and food security. Higher output and export growth in the food processing sector is constrained, due to various obstacles to conducting business. As indicated in the World Bank enterprise surveys, the largest constraints are adequate access to electricity and high transport costs, which are more restrictive for trade in food products. Further evidence of the restrictive role of non-tariff trade barriers, and the constraints on enterprises aiming to build sufficient productive capacities, is set out below.

3.2.6 Potential for building a regional automotive value chain

The vehicles sector has the largest untapped export potential of all sectors under the current tariff conditions, driven by an expected increase in the continental demand for vehicles. In addition, the sector holds promise for transformative growth, given its high share of processed goods. However, labour force participation among women in the sector is low, which limits its potential to contribute to inclusive growth. Nevertheless, the automotive sector has received a lot of attention, due to a recent increase in investment on the African continent. In 2016–2019, based on greenfield project data, investment increased from $2.7 billion to $4.0 billion, with a drop to $1.1 billion in 2020. However, only a few countries currently have the potential to export in the automobile industry. Current production and exports are highly concentrated in Morocco and South Africa, which together accounted for 92.9 per cent of vehicles produced in 2019, followed by Algeria and Egypt, according to the International Organization of Motor Vehicle Manufacturers.[21] Production in other countries in Africa is emerging, but remains limited to small-scale operations, such as the Volkswagen plants in Kenya and Rwanda. Algeria, Ethiopia, Ghana and Nigeria also have ongoing production or production plans. For example, the membership of Ghana in the Economic Community of West African States and its central location in the West African market, in addition to the enabling institutional environment, were among the main reasons for investment by Volkswagen.[22]

According to UNCTAD (2019a), only 6 per cent of imports to the automotive sector are sourced from within Africa, which is also due to strong supply chains with developed countries through multinational companies, such as Volkswagen.[23] The main inputs are in the areas of electrical machinery, iron and steel, plastics and rubber. An assessment of the potential to build regional value chains by sourcing inputs from within the region suggests that the potential of supply in Africa is significantly lower than the export potential of non-African exporters. Therefore, in the short to medium term, an important share of imported inputs to vehicle production on the continent would still stem from other continents. Furthermore, the export potential of African producers of inputs to the vehicles industry are concentrated in a few countries, including Botswana, Côte d’Ivoire, Egypt, South Africa and Tunisia (International Trade Centre and UNCTAD, 2021).

21 See https://www.oica.net/category/production-statistics/2019-statistics/.

22 See https://www.fdiintelligence.com/article/78752.

23 UNCTAD has identified challenges faced in connecting automotive value chains, namely, access to the regional market, including infrastructure and logistics, realizing economies of scale and fostering the emergence of competitive suppliers, skills development and value chain management (market linkages).

As current productive capacities seem to be insufficient to build a regional vehicles industry, strict rules of origin hinder access to inputs and productive capacities in the long term, especially for emerging markets, and may hamper the creation of value chains (UNCTAD, 2019a). Building regional value chains and attracting additional investment require robust cooperation and harmonized investment policies. For automotive value chains, issues such as the import of used cars, tax agreements and investment incentives may need to be addressed at the regional level. According to Madden (2020), 40 per cent of used car exports by Japan, the United States and the European Union go to Africa. Although used cars are often sold at a lower price than new cars, they may come with environmental costs. Flooding the market with old and polluting vehicles could be addressed by applying a maximum age and technical requirements on the imports of used goods. With regard to used car imports, as at July 2020, in Africa, 30 countries did not have a maximum age and 20 countries applied a maximum age of up to 20 years. Four countries, namely, Egypt, Seychelles, South Africa and the Sudan, protect their industries by banning used car imports (United Nations Environment Programme, 2020).

Despite a regulatory framework, the quality and implementation thereof are often insufficient to have an impact (Madden, 2020). Other industrial policies could include a reduced tariff rate for component imports and tariff-free import credits based on the extent of local value added investment, as done in South Africa (Black et al., 2017). The market dominance of South Africa may make it difficult for infant industries arising on the continent, but, with the significant growth in demand, more productive capacities should be built. A regional policy has been envisaged under the tripartite free trade area agreement between the Common Market for Eastern and Southern Africa, the East African Community and the Southern African Development Community. Other countries and regions, such as the East African Community, also jointly discourage the import of second-hand vehicles, imposing an eight-year age limit and a 25 per cent tariff on fully built new cars. Although it was intended to encourage local production, policy uncertainties, small internal markets and underdeveloped regional integration arrangements have resulted in limited investment and production (Black et al., 2017). Competitive manufacturing capability clearly remains a challenge in Africa; unit labour costs are high, due to weaknesses in skilled labour, the unreliability of utilities provision, especially of electricity, and limited access to inputs, services and capital goods. Sectoral policies to attract investment should include the development of skills and entrepreneurship, including for women, who are largely underrepresented in the sector.

Established leading automotive firms dominate the industry in Africa.[24] Despite their important role in building productive capacities through investment and knowledge spillover,[25] the market power that multinational companies have cannot be ignored. In order to attract investment into the sector, Ghana signed a memorandum of understanding with Nissan and Toyota, offering a 10-year tax break for fully manufactured cars in Ghana, a tax holiday for five years for semi-manufactured vehicles and agreeing to raise import taxes to 35 per cent, from 5–20 per cent.[26] The restriction is aimed at making sure that investment creates employment through backward linkages to the economy. On the one hand, such strong local provisions could provide incentives for international manufacturers to invest locally in skills development and create partnerships with universities to develop local knowledge.[27] On the other hand, it discourages the creation of regional value chains. International investment agreements concluded by countries in Africa and continental competition policies should ensure that in Africa, countries and investors benefit from more and better foreign direct investment, in particular sustainable foreign direct investment that makes a positive and lasting contribution to development in countries in Africa. Shared benefits from the export potential in the vehicles industry could be realized through tax distribution, global initiatives for a minimum tax and avoiding aggressive tax avoidance.[28] Due to such potential risks, an institutionalized dispute settlement mechanism under the African Continental Free Trade Area is important and should include investment and industrial policies and ensure tax justice.

3.3 Prosperity through liberalization in services trade

Services are key to promoting inclusive growth through various channels, such as the following: backward and forward linkages, such as retail services, financial services, information and communications technology and business services; reducing transaction

24 See https://www.globenewswire.com/news-release/2020/03/03/1994714/0/en/The-automotive-industry-in-Sub-Saharan-African-countries-is-relatively-small-with-only-422-611-new-vehicles-sold-in-2018-The-market-is-highly-dominated-by-the-used-car-sales-which-.html.

25 For example, the agreement between Nigeria and Volkswagen included the development of a programme to provide skills and technical training for academics.

26 The import duties for new and used vehicles was raised from the 5–20 per cent range to 35 per cent, to encourage the purchase of locally assembled cars. Furthermore, a new law will prohibit the import to Ghana of cars that are more than 10 years old (see https://www.fdiintelligence.com/article/78752; https://www.industryweek.com/leadership/article/22028086/volkswagen-nissan-to-get-tax-breaks-for-plants-in-ghana; and https://www.bloomberg.com/news/articles/2019-08-15/volkswagen-nissan-to-get-10-year-tax-breaks-for-ghana-plants).

27 See https://www.theafricareport.com/16546/ghana-needs-skills-upgrade-and-free-trade-to-make-automotive-tax-breaks-work/.

28 See https://www.ft.com/content/847c5f77-f0af-4787-8c8e-070ac6a7c74f.

costs through information and communications technology liberalization; facilitating access to finance and financial instruments, including cross-border investments and facilitating the sending and receiving of remittances; and improving human well-being through health and education services. Trade in all services is positively correlated with GDP growth (UNCTAD, 2015a). Proportionally more small firms are active in services, especially in the health and social work sector, retail trade and activities auxiliary to insurance and pension funds. The tertiary sector is also characterized by a higher share of women-owned enterprises; for example, 17 per cent of enterprises in the tourism sector are owned by women, and 13 per cent in retail trade, compared with only 7 per cent in the manufacturing sector, according to World Bank enterprise surveys.

Although services liberalization, especially in producer services, such as finance, consulting, accounting and information and communications technology, has been envisaged and covered under RECs, legal enforcement lags behind. Barriers to trade in services are more difficult to quantify than tariffs on trade in goods, but research suggests that the barriers to trade and investment in services are often much higher than for goods (Hoekman, 2020; Jafari and Tarr, 2017). Estimated ad valorem tariff equivalents of barriers to trade in services amount to an average of 70 per cent across member States of the African Union (African Development Bank, 2019a). The lowest ad valorem equivalent of trade in services barriers is reported for mobile line communications services (3 per cent), retail trade (3 per cent) and banking services (15 per cent) and is highest for fixed line communications services (485 per cent), rail transport services (59 per cent) and legal services (47 per cent). The high tariff equivalent in fixed line services is attributed to the high entry barriers and the pure nature of a less tradable fixed service. In comparison with member countries of the Association of Southeast Asian Nations, for example, trade barriers to services average 52 per cent, ranging from 175 per cent in fixed line services to 1 per cent in mobile line services (African Development Bank, 2019a). Among four RECs in Africa, namely, the Common Market for Eastern and Southern Africa, the East African Community, the Economic Community of West African States and the Southern African Development Community, the Economic Community of West African States has the lowest restrictiveness index in financial services, retail and transportation services, and the East African Community has the lowest index in telecommunications. The Common Market for Eastern and Southern Africa is the most restrictive with regard to trade in services.

The high barriers to trade in services impede the productivity growth of firms. Policies that restrict foreign access to upstream services reduce the productivity of firms (Duggan et al., 2013; Hoekman, 2020). Liberalization in services is therefore expected to have positive impacts on productivity across enterprises.

Through trade liberalization under the African Continental Free Trade Area, services trade could gain 4 per cent overall and 14 per cent in intra-African trade by 2035, which is modest compared with gains in intra-African trade in manufacturing (110 per cent) and agriculture (49 per cent), according to a computable general equilibrium model estimated by the World Bank (2020a). Among services, the highest increases will be in the health and education services, transport services and business services sectors, on the assumption that 50 per cent of non-tariff barriers are actionable and can be reduced (World Bank, 2020a).[29] Estimates suggest that services contribute 30 per cent to the value added exports of goods (Simo, 2020).

Measures included in the WTO Agreement on Trade Facilitation are focused on lowering the costs of trading physical goods across borders, ensuring transparency in trade rules and simplifying compliance. To leverage the benefits of services liberalization for inclusive growth, it is crucial to ensure equal access to services.

3.3.1 Financial services liberalization for financial inclusion

Financial liberalization under the African Continental Free Trade Area has great potential to increase financial inclusion, but requires regulatory changes to reduce the risk of contagion and the transmission of financial instability (Economic Commission for Africa, 2020). Financial markets remain underdeveloped, which restricts the availability of credit for firms. Technology-enabled innovations in financial services have become a powerful vehicle for financial inclusion through the provision of basic services and longer-term financing to excluded populations, which is important for women-led start-ups in Africa, given that they only receive 2 per cent of funding, despite Africa having the most women entrepreneurs globally.[30] M-Pesa, introduced in Kenya in 2007, was a landmark project that enhanced financial services through the use of mobile telephones to supplement the banking infrastructure and, consequently, reduce transaction costs; there are now more than 500 financial technology companies providing such services across Africa (African Union and OECD, 2021).

[29] Reduction in non-tariff measures is modelled as ad valorem tariff equivalents. Liberalized market services include trade services, road and rail transport services, water transport services, air transport services, communications services, other financial services and insurance and real estate services. Non-tradable services education and health benefits come through income increases and are driven by demand and not tariff reductions (see https://www.worldbank.org/en/topic/trade/publication/the-african-continental-free-trade-area).

[30] Entrepreneurial activity rates among women in sub Saharan Africa range from 21.8–25.0 per cent, whereas the global average rate is only 10.2 per cent (African Union and OECD, 2021).

In the context of the COVID-19 pandemic, the use of financial technology is expected to further increase. In a report on the impact of the pandemic on the digital economy in Africa, the Economic Commission for Africa (2021) has illustrated how electronic commerce has been an important driver of pandemic recovery efforts. Electronic commerce platforms across the region can supply clients while they stay at home, which is a benefit not only during a pandemic, but also for enabling access to finance for women, who may often be the caretakers at home, and vulnerable groups with reduced mobility. The role of digital transformation in enhancing resilience and in pandemic recovery efforts is widely acknowledged. According to greenfield project announcements, investment in Africa in information and communications technology has increased, from $4.6 billion in 2019 to $9 billion in 2020. However, although Governments aim to support start-ups and entrepreneurs, governmental and licensing fees are high, and discounts on rents can be delayed. Financial liberalization and the close coordination of banking supervision could be a step towards a monetary union, as the highest form of regional integration, in the future.[31] Adopted in 2019, the Pan-African Payments and Settlement System is expected to support the implementation of the African Continental Free Trade Area by facilitating the convertibility of currency for multicurrency trade and formalizing some of the unrecorded informal trade.[32]

3.3.2 Digital services and digital inclusion

An estimated 29 million young people will reach the working age every year until 2030 (African Union and OECD, 2018), therefore, leveraging the digitalization and liberalization of access to digital services under the African Continental Free Trade Area to create jobs is vital. In the digital transformation strategy for Africa 2020–2030, the African Union envisages a digital transformation on the continent.

The mobile money revolution in East Africa suggests how digitalization could foster significant job creation through spillover effects on households and businesses. In Kenya, the number of active mobile money agents rose from 307 in March 2007 to over 290,000 in May 2021, and 185,000 women moved from subsistence agriculture to small business or retail occupations in 2008–2014 (Suri and Jack, 2016).[33]

[31] The free movement of labour, goods and services and capital should be a condition for a monetary union to function, not a goal (African Development Bank, 2019). To date, even the weaker requirements of free trade areas and customs unions have not been met.

[32] See https://www.afreximbank.com/the-governing-council-of-the-pan-african-payment-and-settlement-system-holds-inaugural-meeting/.

[33] See https://www.centralbank.go.ke/national-payments-system/mobile-payments/.

The challenges for harnessing digitalization for economic gains lie in energy shortages and inadequate infrastructure (UNCTAD, 2020c). In the medium term, the scope and contribution of digitalization under the African Continental Free Trade Area is limited, given that digital connectivity is still low. In 2019, only 17.8 per cent of households in Africa had Internet access, 28.2 per cent of the population used the Internet and 34 per cent of the population had active mobile broadband subscriptions (International Telecommunication Union, 2019). According to the UNCTAD business-to-consumer electronic commerce index, in 2018, Africa lagged behind the rest of the world in electronic commerce readiness. Small businesses in particular are constrained in adopting digital technologies by the lack of adequate infrastructure. Few businesses are adopting digital technologies, a small number of individuals have digital identities and few Governments are, as yet, investing sufficiently in developing digital infrastructure, services, skills and entrepreneurship.

Such challenges must be addressed as the implementation of the African Continental Free Trade Area proceeds; they merit serious attention on the part of policymakers, with a view to providing sufficient digital infrastructure, investing in digital skills acquisition and harmonizing legislation on technology, including intellectual property and data privacy.

3.4 Tackling trade frictions for inclusive growth

The dynamic and untapped trade potential through tariff liberalization was quantified above. The case studies suggest that realizing export potential does not automatically imply inclusive and transformative development. According to Melitz (2003), reducing trade and transaction costs across sectors increases the productivity levels of all enterprises and makes more firms competitive enough to step into foreign markets. A view through an enterprise lens on the harmful non-tariff barriers to reaping the benefits of inclusive participation in trade is set out below.

3.4.1 Non-tariff measures as the new frontier in trade policy

Non-tariff measures are differentiated into technical measures, including sanitary and phytosanitary measures, technical barriers to trade and pre-shipment inspections, non-technical measures and export-related measures, according to a classification system of the Multi-Agency Support Team established by UNCTAD. Sanitary and phytosanitary measures and technical barriers to trade have important objectives related to health and environmental protection, which should apply equally to domestic producers. While such mandatory technical measures are not quantitative or price-based, non-technical measures comprise the instruments of trade policy that are specifically aimed at changing the quantities or prices of imported goods, such as contingent trade protective measures, price control measures, rules of origin and intellectual property rules. They are often termed non-tariff barriers,[34] due to their discriminatory and protective nature (Vanzetti et al., 2016). The number of non-tariff measures based on the latest data collection efforts conducted by UNCTAD, covering 22 countries in Africa is highest in the category of technical barriers to trade, followed by sanitary and phytosanitary measures and export-related measures. Such measures can cover up to 100 per cent of traded products (figure 21).

The sectors with the greatest coverage of sanitary and phytosanitary measures are live animals and animal products, with 94 per cent coverage for classification codes 1–5 under the Harmonized System, and vegetable products, with 89 per cent coverage for codes 6–14. Technical barriers to trade are most relevant for live animals and animal products (68 per cent coverage), vegetable products (78 per cent), food products (46 per cent, for codes 16–24) and textiles and clothing (44 per cent, for codes 50–63). Sanitary and phytosanitary measures and technical barriers to trade have the objective of ensuring food safety, in order to protect the health of humans, animals and plants. Such measures can be restrictive to trade, because of their technical complexity or procedural obstacles or if they are unjustified. They may have a protectionist purpose. Attempts to estimate a tariff equivalent of non-tariff measures give an idea of the associated restrictive market access. Across countries in Africa, the highest average ad valorem equivalent of technical measures is reported for fish products, with 73 per cent, followed by vegetable plaiting materials, with 38 per cent. Across all product groups and countries in Africa reporting, the average ad valorem equivalent amounts to 8.5 per cent of non-technical measures and 4.5 per cent of technical measures.[35]

Non-tariff measures are often considered the new frontier in trade policies, given that regional tariff liberalization may have contributed to the use of non-tariff measures (Crivelli and Groeschl, 2016; Orefice, 2017; Stender and Vogel, 2021). The political economy

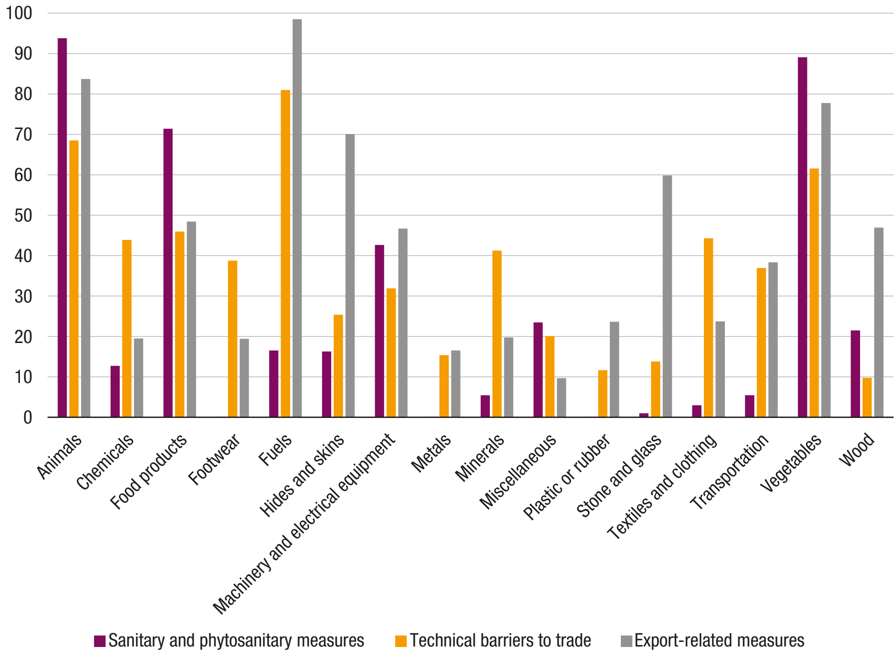
[34] There is no agreed WTO definition of non-tariff barriers, but it is understood to include all measures, other than tariffs, that discriminate or restrict market access. It is a broad term that includes all government imposed or sponsored actions that act as prohibitions or restrictions on trade, other than tariffs, in addition to all other measures that distort international trade without necessarily restricting it.

[35] Data on the ad valorem equivalents of non-tariff measures is obtained from the World Bank (see https://datacatalog.worldbank.org/dataset/ad-valorem-equivalent-non-tariff-measures) and the methodology is based on the estimation method developed in Kee and Nicita (2017). Countries with data availability on ad valorem equivalents include Benin, Ethiopia, Ghana, Mali, the Niger, Nigeria and Togo.

Figure 21

Average product coverage ratio of non-tariff measures in countries in Africa, by sector, 2015

(Percentage of product lines)



Source: UNCTAD calculations, based on data from the UNCTAD Trade Analysis and Information System.

Note: The countries considered were Algeria, Benin, Botswana, Burkina Faso, Cabo Verde, Cameroon, Côte d'Ivoire, Ethiopia, Ghana, Guinea, Liberia, Mali, Mauritania, Mauritius, Morocco, the Niger, Nigeria, Senegal, the Gambia, Togo, Tunisia and Zimbabwe. Product groups are based on the World Customs Organization sector classification for the Harmonized System product nomenclature (see https://wits.worldbank.org/tariff/non-tariff-measures/metadata/en/product/). The figure shows the product coverage of the three types of measures with the most regulations, as follows:

Technical measures	Sanitary and phytosanitary measures Technical barriers to trade Pre-shipment inspection
Non-technical measures	Contingent trade protective measures Quantity control measures Price control measures *Other measures:* finance measures, measures affecting competition, trade-related investment measures, distribution restrictions, restrictions on post-sales services, subsidies and other forms of support, government procurement restrictions, intellectual property, rules of origin
Export-related measures	Export-related measures

behind trade policies, where national objectives often contradict regional commitments (Apiko et al., 2020; Bünder, 2018; Byiers et al., 2018), is in fact the main challenge of successfully reducing the costs of non-tariff measures. However, the costs associated with non-tariff measures are especially harmful for small-scale traders and firms with limited resources, thereby causing inequalities in trade participation.

Reducing the potential negative effect of costly non-tariff measures on the exports of developing countries and the least developed countries can have a greater impact on trade flows than reducing remaining tariffs and on welfare increases for all countries from reducing non-tariff barriers (International Monetary Fund, 2020; Saygili et al., 2018; Vanzetti et al., 2016; Vanzetti et al., 2018).[36] In addition, while tariff elimination could reduce welfare, often due to potential tariff revenue losses, welfare gains through both consumption and output from less burdensome non-tariff measures would be positive for all countries in Africa. Reducing the burdensome costs of complying with non-tariff measures can therefore strongly contribute to more inclusive participation in the African Continental Free Trade Area. Moreover, empirical evidence clearly shows the ways in which restrictive non-tariff measures increase the relative costs of living among poor households in Africa, especially due to a higher share of foodstuffs in household expenditure (Cadot and Gourdon, 2014; Treichel et al., 2012; Vanzetti et al., 2016). A relatively higher burden of costs of non-tariff measures is not only carried by households, through higher prices, but also by small enterprises, through costs from technical requirements in production processes and administrative costs.

The results of surveys of non-tariff measures conducted by the International Trade Centre suggest that, among the types of burdensome regulations faced by exporters, conformity assessment is the most burdensome non-tariff measure for enterprises (42 per cent and 25 per cent of cases in Kenya and Uganda, respectively). Moreover, the results show that small firms face a relatively higher burden in complying with non-tariff measures, due to knowledge gaps and higher relative administrative costs. The empirical literature on non-tariff measures confirms the negative association with exports (Nicita and Murina, 2017; UNCTAD, 2016) and highlights that the effect of the regulatory burden is greater for small firms (Fugazza et al., 2017).

Although the restrictive effect of rules of origin is difficult to quantify, the results of business surveys conducted by the International Trade Centre indicate that compliance

[36] Estimated welfare gains of reductions in non-tariff measures amount to $20 billion and for tariff liberalization, to $1.5 billion, allowing for the exclusion of sensitive products (Vanzetti et al., 2018). A reduction of costs of non-tariff measures is modelled through a productivity shock, which results in positive welfare gains for all countries in Africa.

with rules of origin is the main obstacle. For instance, within the East African Community, conformity assessments and rules of origin are the non-tariff measures that are the most burdensome, according to the results of a survey conducted in Uganda (International Trade Centre, 2018). Stringent rules of origin can be especially burdensome for low-income countries with the remaining low capacity and the need to import inputs. Under bilateral rules of origin, value chain participants often have no option other than to source from higher-income countries with a comparative advantage (De Melo and Twum, 2020; UNCTAD, 2019a). Rules of origin must be flexible at the product level, without being too complex, to certify compliance (for an overview of applied rules of origin in RECs, see UNCTAD, 2019a).

Stringent, complex and costly non-tariff measures under the African Continental Free Trade Area can effectively make such measures barriers to trade (Tsowou and Davis, 2021). Evidence from the Southern African Development Community suggests that businesses have not used regional preferences for processed food and clothing, but have instead opted to pay full tariffs due to high rules of origin compliance costs (Gillson, 2010). To make non-tariff measures beneficial for sustainable development, the African Continental Free Trade Area is key to harmonization and transparency. A stronger regulatory framework for non-tariff measures could increase consumer confidence in African exports within the region and to the world (Cadot et al., 2018a). The efforts of UNCTAD to support countries in Africa in lowering the costs of compliance with non-tariff measures under the African Continental Free Trade Area are detailed in chapter 4.

3.4.2 Regional infrastructure gaps

It has been widely acknowledged in the literature that logistics infrastructure is vital to lowering transport costs and that it is an important element in poverty alleviation (Balistreri et al., 2018; Global Trade Review, 2021). To date, however, there remains a gap in the literature comparing intracontinental and extracontinental transport costs to guide investment in regions where it is most needed (Hoffmeister and Dalheimer, forthcoming).

The UNCTAD-World Bank data set on transport costs for international trade distinguishes between different modes of transport.[37] Policymakers may use the data set to guide decision-making on where investment in infrastructure might be most needed and

[37] See https://unctad.org/news/why-and-how-measure-international-transport-costs.

have the most inclusive results across countries. The transport costs, measured as the difference between the cost, freight and insurance and free-on-board values, relative to the reported free-on-board value is highest in extra-African trade, due mainly to the larger distance that must be overcome. On average, transport costs are as high as 15.5 per cent of intracontinental, and 18.7 per cent of extracontinental, free-on-board trade values. However, considering the distance between trading partners, intra-African transport costs, measured as the share of trade value per 10,000 km, are much higher than extraregional transport costs (figure 22). For road transport, estimates suggest that costs per 10,000 km comprise 29 per cent for intra-African traded goods, but only 7 per cent for goods traded outside Africa. Although there are scale effects at play when trading over larger distances, the high road transport costs within RECs of up to 99 per cent of trade value for countries within the Intergovernmental Authority on Development and 84 per cent within the East African Community emphasize the restrictive impact of poor infrastructure on intra-African trade. The differences in regional averages are driven mainly by large differences among countries in transport costs, where landlocked least developed countries in Africa face the highest transport costs, which undermines their competitiveness and potential to benefit from tariff liberalization. The particular constraints faced by landlocked economies in Africa are largely owing to the large gaps in road network density across African regions (African Development Bank, 2019a). Sea transport is the least expensive mode of transport across observed groups, except for countries in the Economic Community of Central African States and the Economic Community of West African States, where goods are mainly traded through road transport. Due to the poor rail network in Africa, this mode is rarely used for freight transport in the region, and has therefore been omitted from the analysis.

The African Continental Free Trade Area is expected to be a catalyst for boosting intra-African infrastructure projects. Historically, paved roads have evolved mainly in an interior-to-coast direction, in order to export natural resources, a pattern that can be explained by colonial and political structures. Countries in Africa need to take action to reverse this trend, establishing greater interior-to-interior links (Bonfatti and Poelhekke, 2020). The need for infrastructure investment is estimated at between $130 billion and $170 billion per year, based on estimates by the African Development Bank.[38] Interim solutions to facilitate trade can include cross-border special economic zones such as the Sikasso-Korhogo-Bobo Dioulasso Triangle between Mali, Côte d'Ivoire and Burkina Faso, the first cross-border special economic zone in West Africa.[39]

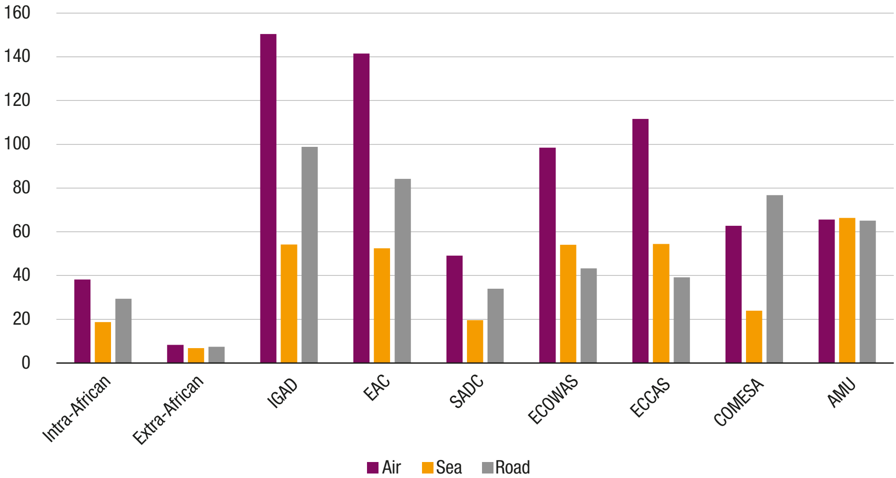
[38] See https://www.fdiintelligence.com/article/76336.

[39] See https://documents.worldbank.org/en/publication/documents-reports/documentdetail/452631564064496467/cote-d-ivoire-agricultural-sector-update.

Figure 22

Transport costs in Africa, by region and transport mode, 2016

(Percentage)



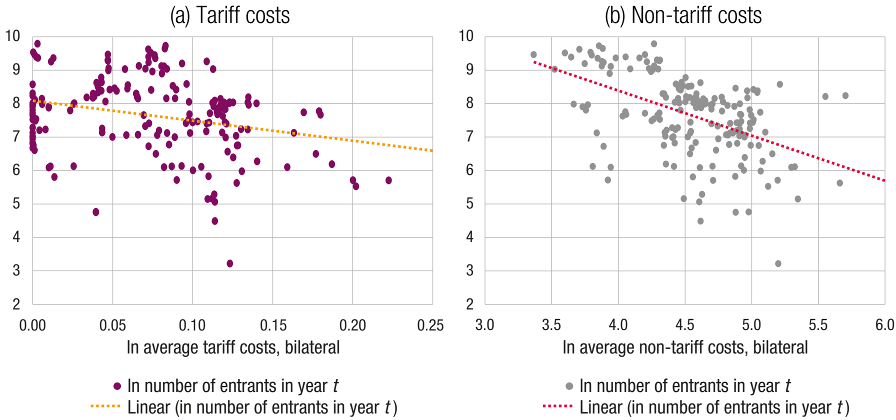
Source: UNCTAD calculations, based on data from the UNCTADstat database.
Note: Transport costs are measured as the share of trade value per 10,000 km.
Abbreviations: AMU, Arab Maghreb Union; COMESA, Common Market for Eastern and Southern Africa; EAC, East African Community; ECCAS, Economic Community of Central African States; ECOWAS, Economic Community of West African States; IGAD, Intergovernmental Authority on Development; SADC, Southern African Development Community.

3.4.3 Market information and market linkages gap

The key instrument for boosting economic diversification and exploring new export opportunities is the facilitation of market entrance through increased transparency of trade rules (Disdier et al., 2019) and accessible market information, such as through the African Trade Observatory. The results of a survey of 1,804 microenterprises and small and medium-sized enterprises in Nigeria, conducted by the Brookings Institute, suggest that only 36 per cent of firms in the manufacturing sector and only 3 per cent of firms in the agricultural sector are aware of the African Continental Free Trade Area (Madden, 2021). With regard to inclusive growth, a reduction in trade and transaction costs reduces costs for all firms, making more firms productive enough to enter and survive in the domestic and export market (Melitz, 2003). Using data at the bilateral, six-digit level of the Harmonized System, for 1998 to 2013, on the number of market entrants and surviving entrants, a simple correlation exercise suggests that there is a negative association between trade costs and market entrance, confirming the hypotheses that a reduction in trade costs facilitates market entrance (figure 23).

Figure 23

Export entrants among intra-African exporters, 1998–2013



Source: UNCTAD calculations, based on data from the trade cost database of the Economic and Social Commission for Asia and the Pacific and the World Bank and the exporter dynamics database of the World Bank.
Note: In (a): adjusted R-squared 0.28; and in (b): adjusted R-squared 0.46. Trade costs are measured based on microtheory using macroeconomic data.

Market intelligence can play an important role in reducing the experimental costs of entering a new export market and supporting exporting firms in destination markets. According to customs data reported in the exporter dynamics database for the years 2010–2012, the average survival rate of African exporters in African markets in their first year was low, at 24 per cent. In the second year, only 10 per cent of new entrants survived in foreign markets. Market entrance was greatest among the leading export sectors, with a strong negative correlation with the export survival of enterprises in their first year. The strong correlation between entry rate and survival rates is confirmed in the literature (Cebeci et al., 2012). On the one hand, small and medium-sized enterprises have a low chance of survival because of business supply constraints and volatile production (Economic Commission for Africa, 2020). On the other hand, the low survival rates are also caused by potential mismatches of supply and demand across borders. Enterprises seem to be more attracted to markets that are currently successful export markets, but may face limited opportunities due to dominant regional and global market actors.

The costs of export experimentation can be largely reduced through market knowledge platforms that connect buyers and suppliers, and industry associations or intermediaries. Intermediaries and contractual arrangements between buyers and sellers can play an important role by providing access to inputs, extension services and knowledge. Such market linkages are especially relevant in food supply chains (Dihel et al., 2018).

3.5 Tackling supply-side constraints for inclusive growth

The previous sections focused on tariff liberalization and the removal of other trade barriers, which should be addressed through the successful implementation of phase I of the African Continental Free Trade Area Agreement. Similar to the findings discussed in section 3.2, Jensen and Sandrey (2015) estimate an uneven distribution of trade gains under the African Continental Free Trade Area, whereby countries in Africa with strong productive capacities and greater competitiveness benefit the most. The main obstacle to increasing productivity across enterprises and countries is an unequal access to productive resources and institutional quality.

3.5.1 Access to intermediate inputs

The liberalization of tariffs on goods that domestic enterprises use as capital or intermediate inputs in production would reduce the price of production inputs and potentially increase productivity. High tariffs on intermediate and capital goods are an impediment to the creation of value chains in developing countries, including in Africa (Amiti and Konings, 2007; Bown et al., 2020; De Melo and Twum, 2020; Hsieh and Klenow, 2007; International Trade Centre, 2010; Slany, 2019; Tralac, 2018), to a firm's competitiveness (Antràs et al., 2017; Blaum et al., 2018; Halpern et al., 2015), to product diversification (Goldberg et al., 2010) and to a firm's investment rate (Amiti and Konings, 2007; Bernard et al., 2007; Meleshchuk and Timmer, 2020).

Similar to their restrictive impact on exports, non-tariff measures impede imports and may be harmful for a domestic firm's competitiveness (Navaretti et al., 2018; UNCTAD, 2016). Policymakers should streamline non-tariff measures into national competitiveness agendas, given that they may cause inefficiencies if they are poorly regulated, as is the case in many countries in Africa with limited administrative capacity; and may raise prices, especially for agrifood products, increase import costs and disproportionately affect smaller producers (Cadot et al., 2018a; Cadot et al., 2018b). In Uganda, for example, in surveys conducted by the International Trade Centre on non-tariff measures, even more importers than exporters reported being affected by procedural obstacles. The main difficulties arise from conformity assessment requirements, import prohibitions or authorization requirements (International Trade Centre, 2018).

Tariff concessions made at the REC level may negatively disadvantage countries that rely heavily on food imports. More importantly, high common external tariff rates are likely to disadvantage small and fragile countries in Africa that depend much more on imports and do not yet have the productive capacities to replace them (box 8). The balance between commitments and flexibility in tariff policy affects how regional trade can benefit poverty and inequality reduction, and the effect depends on the economic structure and underlying institutions (Santos-Paulino et al., 2019).

Box 8

High tariffs on sensitive products restrict access to intermediates and consumer goods and are expected to affect the poorest the most

Although, as at the time of writing, the lists of sensitive products under the African Continental Free Trade Area have yet to be submitted by many member States and RECs, it is likely that similar products, such as rice and sugar, will remain protected. The common external tariff is unfavourable to low-income households and potentially driven by producer interest in economically strong markets, and lobby groups. For example, the East African Community sensitive product list under the common external tariff was intended to protect competitive but infant markets, to increase regional productive capacities. As at August 2021, the common external tariff is structured as follows: 0 per cent on raw materials, capital goods, agricultural inputs, certain medicines and medical equipment; 10 per cent on intermediate goods; 25 per cent on final goods; and 35–100 per cent on sensitive items covering 1.2 per cent of tariff lines. Using trade data from the World Bank world integrated trade solution database and partial equilibrium analysis, one study shows that, although trade within the East African Community of sensitive products, including cement, cigarettes and tobacco, rice, sugar and milk, increased, imports from outside the Community and the negative trade balance increased more, indicating that the demand exceeded regional supply (Shinyekwa et al., 2016). The high import tariff rate on sensitive products increases their price and has negative welfare implications for the poorest members of the population. Specific findings on products suggest that, on hard wheat, a tariff rate of 0 should be applied, due to the lack of regional capacity to serve the demand; the tariff on raw sugar should also be reduced, given that it is an important product for food processing, and the common external tariff on cement should also be set to 0, to reduce the costs of infrastructure development.

The African Development Bank has noted that, for the East African Community and the Economic Community of West African States, the common external tariff raises the cost of living among poor households and that small, low-income countries would benefit from closer cooperation. For example, in the food sector in Kenya, household survey data, including households as producers and consumers, suggest that a fall in sugar prices by 20 per cent through the reduction of trade barriers and increasing competition leads to welfare gains for all income deciles; this is supported by the observation that the poor are mostly net consumers, instead of producers, which is why the net welfare effect of higher prices through import tariffs can depress real income. On the producer side, high tariffs on finished products can also reduce the competitiveness of manufacturers who use the products as inputs in industrial production. For example, clinker is imported with a common external tariff of 10 per cent from outside the East African Community, but the material is used to manufacture cement. The insufficient supply of and high tariffs on some sensitive products and inputs to productive capacities limit competitiveness. Ongoing tariff negotiations concerning sensitive products should follow a rational, empirically based framework to determine which commodities should be included or excluded from lists of tariff concessions.

Sources: African Development Bank, 2019a; Argent and Begazo, 2015; Bünder, 2018; Karingi et al., 2016; Shinyekwa et al., 2016.

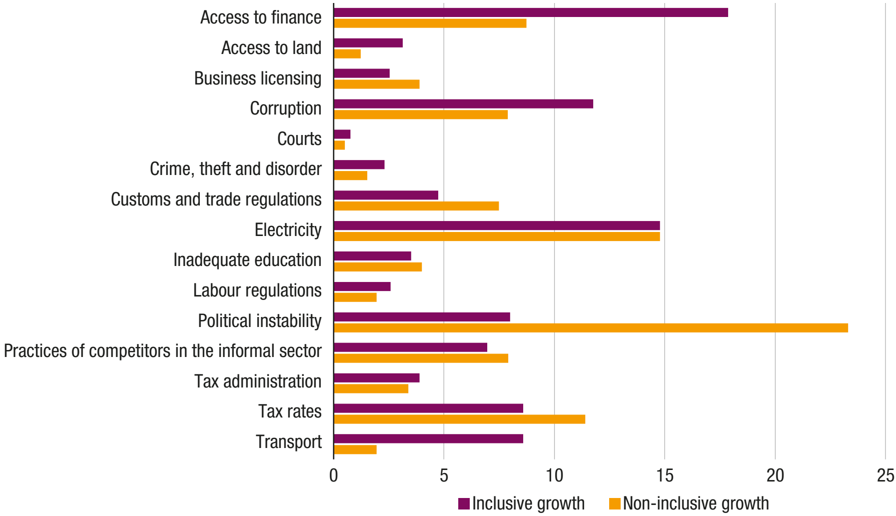
3.5.2 Access to productive resources

Across countries, the greatest obstacle to conducting business cited by exporters is access to finance (for 16.5 per cent of firms), followed by electricity (15.8 per cent) and political stability (10.5 per cent), based on data from the World Bank enterprise surveys. Figure 24 sets out the greatest obstacles to business, as reported by exporters, comparing inclusive and non-inclusive growth countries (see box 2 in chapter 1). Exporters in countries with inclusive growth identify poor access to finance, electricity constraints and corruption as the greatest obstacles. In contrast, exporters in countries without inclusive growth list political instability, electricity and tax rates as major hurdles. Khorana and Martínez-Zarzoso (2018) emphasize the positive association of institutional quality with trade performance and growth.

Figure 24

Obstacles faced by exporting African enterprises

(Percentage)



Source: UNCTAD calculations, based on data from the World Bank enterprise surveys (various years).
Note: The latest survey year available for individual countries was used, ranging from 2006 to 2020. Classification into inclusive and non-inclusive countries is based on the lists in tables 1 and 2 (see chapter 1). Countries in the group of absolute inclusive growth are not considered here for comparative purposes.

Major differences in the constraints on conducting business across enterprises by firm size are observed in the tax rates and the insufficient availability of an adequately educated workforce, which are considerably more constraining issues for large firms. The COVID-19 pandemic further exacerbated such inequalities across enterprises. In a round of the World Bank enterprise surveys on the pandemic response, conducted in April–August 2020 in 18 countries in Africa, a quarter of enterprises reported being closed, with a significant drop in sales among other enterprises. The largest drop in sales was reported by enterprises in the accommodation and food services (74 per cent), food preparations (63 per cent), transport and storage services (56 per cent) and personal services (54 per cent) sectors. The negative impact on sales was greatest for small firms, at 50 per cent, compared with large firms, at 39 per cent (Arezki et al., 2021).

Similarly, in a joint study by the Economic Commission for Africa and International Economics Consulting (2020), surveying 76 microenterprises, 59 small enterprises, 42 medium-sized enterprises and 33 large businesses in Africa in April 2020, small firms were found to have been disproportionately affected. While small firms had to reduce capacity utilization to 30–40 per cent on average, large firms were able to keep operating at 50–60 per cent of production. The main challenges reported by microenterprises and small and medium-sized enterprises related to the lack of revenue and income and surviving the pandemic. In contrast, large enterprises reported a reduction in opportunities to meet new customers and changing business strategies as the main challenges. Such observations are linked with the business constraints reported before the pandemic, with limited access to finance being a much greater concern for small firms than for large firms (Economic Commission for Africa and International Economics Consulting, 2020). During the pandemic, digital technologies providing services and access to market information have been increasingly used by firms, but only 22 per cent of enterprises in Africa started using digital platforms, compared with 32 per cent of firms in other low-income and middle-income countries (Arezki et al., 2021).

Various research (e.g. Beall and Piron, 2005; De Haan, 1999) shows that certain groups are systematically disadvantaged, including by gender, class and ethnicity, factors which overlap with various poverty dimensions, such as social capital, vulnerability and capability deprivation (Adera et al., 2014). With regard to gender inequality, the Ibrahim Index of African Governance indicates that, although improvements have been made in the area of gender balance in education and employment, the increasing trend of weakening legislation on combating violence against women is highly worrying. The observation that countries that have experienced inclusive growth score on average higher on gender policies emphasizes the important role of institutions in promoting inclusive growth. There is a need to collect comparable data on legal frameworks on combating discrimination and to discuss evidence of how laws that protect minorities from discrimination contribute to economic growth and economic activity among vulnerable groups (Panter et al., 2017).

3.6 Coherence in trade, investment and competition policies

Investment policies, competition policies and industrial policies should be closely linked to each other. While industrial policies tend to be aimed at strategic sectors supporting and protecting domestic market actors in their exports,[40] competition policies should

[40] Industrial policies are understood as proactive State support with a view to spurring productive capacities and development in significant sectors, especially those with strong backward and forward linkages.

be aligned in such a way that market actors do not abuse market power and restrict market entry once an industry has grown. Investment policies come into play when the rents from industrial policies, and the potentially increasing domestic concentration of export revenues, do not transform into local investment and the building of productive capacities. Complementary measures need to be adopted to support the least developed countries in Africa from experiencing worse conditions.

3.6.1 Investment policies

Cross-border private investment has significantly declined during the COVID-19 crisis. Foreign direct investment to Africa declined by 20 per cent in 2020, exacerbated by a decline in commodity prices. Announced cross-border greenfield projects are a good indicator of sectoral and bilateral private foreign investment, along with international project finance, mainly observed for large-scale infrastructure projects, including multiple investors. For the continent of Africa, the announced value of cross-border greenfield projects dropped by more than 60 per cent, from $77 billion in 2019 to $29 billion in 2020. While investment in the manufacturing sector dropped by 74 per cent, project value in the human health sector tripled in 2019–2020. Nevertheless, health services only account for less than 1 per cent of all greenfield projects (UNCTAD, 2020a; UNCTAD, 2021a). Investment in information and communications technology increased in 2019–2020, contributing 31 per cent to all announced projects in 2020, compared with only 6 per cent in 2019, which indicates the sharp shift of investment from manufacturing to services during the pandemic.

In 2016–2020, the largest share of investment in the manufacturing sector was realized in the manufacture of coke and refined petroleum products, with 10 and 8 per cent of total investment in 2019 and 2020, respectively, due to the resource dependency of most countries in Africa. As shown in table 9, investments announced in 2019 by African investors were concentrated in chemicals and chemical products (30 per cent), coke and refined petroleum products (12 per cent) and information and communications technology (15 per cent). The concentration of investment in a few sectors is in contrast to the ideas of increasing productive investment and investment diversification, and it leaves economies more exposed to systemic risks (UNCTAD, 2020b). The manufacturing of food and beverages accounted for only 0.28 per cent of foreign direct investment projects announced by African investors in 2018 and 2.33 per cent in 2019. Along with a high level of concentration of economic activity among a few firms in these sectors, proportionally greater investment in the sectors is expected to increase the productivity of a handful of companies, with few benefits for inclusive growth.

Table 9

Announced greenfield foreign direct investment projects by sector and industry, 2016–2020

(Percentage)

Industry	Africa as destination					Africa as investor				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Manufacturing	*19.57*	*24.32*	*42.87*	*42.88*	*29.20*	*53.33*	*52.33*	*33.42*	*57.84*	*13.50*
Food, beverages and tobacco	0.88	2.18	6.04	3.18	4.76	1.54	2.32	0.28	2.33	1.59
Chemicals and chemical products	5.04	7.71	14.47	8.03	3.53	41.97	20.36	13.80	30.78	0.32
Coke and refined petroleum products	5.18	1.70	8.41	10.03	7.98	0.00	0.16	0.00	11.72	0.00
Pharmaceuticals and medicinal chemical products	0.42	0.35	0.30	0.72	0.33	1.55	2.01	0.73	0.60	1.30
Motor vehicles and other transport equipment	2.89	1.65	3.32	5.21	3.83	0.77	0.78	0.48	0.00	1.14
Primary	*4.23*	*12.36*	*22.09*	*3.67*	*4.76*	*0.00*	*0.00*	*0.48*	*0.94*	*0.00*
Agriculture, forestry and fishing	0.13	0.13	0.32	0.25	0.98	0.00	0.00	0.45	0.00	0.00
Mining and quarrying	4.11	12.24	21.77	3.43	3.78	0.00	0.00	0.03	0.94	0.00
Services	*76.20*	*63.32*	*35.04*	*53.45*	*66.04*	*46.67*	*47.67*	*66.11*	*41.22*	*86.50*
Construction	16.77	6.34	6.20	12.43	1.42	19.54	3.44	15.68	0.71	1.86
Education	0.11	0.04	0.07	0.34	0.49	0.70	0.06	0.07	0.25	1.12
Electricity, gas and steam	15.97	43.00	7.41	13.27	18.32	0.23	0.45	7.47	8.43	12.50
Financial and insurance activities	0.77	0.88	0.98	2.73	2.37	5.39	13.52	10.04	8.26	6.33
Human health and social work activities	0.02	0.00	0.01	0.05	0.58	0.00	0.00	0.00	0.00	0.00
Information and communications technology	2.19	2.56	5.09	6.02	30.90	8.15	12.49	14.82	15.07	57.42
Transportation and storage	15.09	7.13	6.75	7.01	4.41	7.28	9.76	5.52	1.76	1.71
Total (millions of dollars)	93 841	86 516	77 104	77 061	28 997	10 935	5 507	8 885	12 056	6 131

Source: UNCTAD calculations, based on data from the Financial Times (see https://www.fdimarkets.com/).

Inclusive foreign direct investment requires the active engagement of Governments of countries in Africa, in particular the least developed countries, to attract investment into the poorest nations and into the sectors with significant benefits for inclusive development. The challenge for policymakers is to identify the sectors in which investment is most needed and most beneficial. It requires a deep understanding of market potential and the characteristics of industries. Countries should conduct individual assessments of opportunities for investment for inclusive growth, with the assistance of development partners. Investment agreements, both bilaterally and regionally, play a crucial role in regulating provisions and the obligations of investors to ensure sustainable investment. However, by 2020, only 141 of the 733 bilateral investment treaties, excluding other investment agreements, signed by countries in Africa were intra-African investment agreements.[41] For example, the Reciprocal Investment Promotion and Protection Agreement between Morocco and Nigeria has been acknowledged as one of the most innovative and inclusive bilateral investment treaties, given that it includes a provision that investment must contribute to sustainable development while ensuring the protection of the investment at the same time (article 24 (1)). Investors need to uphold human rights in accordance with labour-related and environmental standards and comply with the Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy of the International Labour Organization, as well as internationally accepted standards of corporate governance (Gazzini, 2017). Such agreements can serve as a role model to guide negotiations on the African Continental Free Trade Area investment protocol.

3.6.2 Role of the African Continental Free Trade Area investment protocol

Attracting foreign direct investment that contributes to sustainable development and inclusive growth is a central objective of the African Continental Free Trade Area investment protocol. Given that countries in Africa are at different stages of development, discussions on the investment protocol may prove complex. Member countries began negotiations in March 2021, with UNCTAD providing technical support and facilitating expert discussions on the key provisions of the protocol. The protocol will cover all aspects of international investment policymaking, namely, investment facilitation, promotion and protection. The protocol is also expected to include innovative provisions on investor obligations and on the right of host countries in Africa to regulate in the public interest. To ensure that benefits from investment and innovation are realized, intellectual property rights should also be agreed upon (Songwe, 2020).

Within RECs, regional investment agreements have emerged, however, the overlapping membership of member States in RECs makes the harmonization of investment inefficient and complex. Examples of regional investment agreements and instruments include the following: Investment Agreement for the Common Market for Eastern and Southern Africa

41 See the international investment agreements navigator at https://unctad.org/topic/investment/international-investment-agreements.

Common Investment Area (not yet in force); Supplementary Act to the Revised Treaty of the Economic Community of West African States, Adopting Community Rules on Investment and the Modalities for Their Implementation with the Economic Community (in force); and Southern African Development Community Protocol on Finance and Investment (in force). Also of note are the East African Community Model Investment Code and the Southern African Development Community Model Bilateral Investment Treaty Template. In 2016, the African Union Pan-African Investment Code was adopted as a non-binding model investment treaty, preserving national interests. The Code, which refers to the UNCTAD investment policy framework in its preamble, is a new generation model that includes many of the reform-oriented features promoted by UNCTAD and included in its newly launched international investment agreements reform accelerator.[42] The Code also includes provisions on due diligence and obligations for investors in relation to human rights, corporate social responsibility, the use of natural resources and land grabbing.

UNCTAD has reviewed investment laws and policies and investment promotion agency programmes from around the world, finding that less than 50 per cent of States Members of the United Nations have investment policy measures that promote target investment in sectors relevant to the realization of the Sustainable Development Goals, such as infrastructure, water, sanitation and health. In *World Investment Report 2020*, UNCTAD outlined some policy instruments to promote investment in such sectors. Such instruments include conditioning investment on investor performance and environmental and social impact; and special economic zones to attract investment relevant to the realization of the Sustainable Development Goals. For example, Rwanda allows for a preferential tax rate on investments in solar, geothermal, hydro, biomass, methane and wind energy projects, and South Africa provides cash grant incentives for critical infrastructure investments (UNCTAD, 2020b). With regard to international investment agreements to promote and protect inclusive foreign investment, agreements should not only state the realization of the Goals as a core objective, but also opt for minimum tax rates to avoid a race to the bottom in attracting investment through favourable tax provisions for large companies. The importance of multilateral cooperation in increasing tax revenues, mobilizing domestic resources and tackling illicit financial flows was emphasized in *Economic Development in Africa Report 2020*. Some of the challenges relate to compliance with laws and the administrative capacity to collect taxes (UNCTAD, 2020e). Moreover, in joint ventures, the State acts as an investor itself, and communities may have limited rights to act against large foreign investors. A dispute resolution mechanism that is accessible by communities and private companies is the way forward.

[42] See https://unctad.org/webflyer/international-investment-agreements-reform-accelerator.

3.6.3 Competition policies

The damages to developing countries caused by anticompetitive practices have implications for the purchasing power of consumers through increased prices (UNCTAD, 2008). Imperfect competition in African markets tends to lower welfare gains from tariff elimination and the reduction of non-tariff barriers (International Monetary Fund, 2020; Saygili et al., 2018). Moreover, due to scale effects, some larger economies, such as Nigeria and South Africa, gain more from non-tariff barrier reduction under imperfect competition, which further increases inequalities. The export potential assessment suggests that large economies benefit the most, due to supply-side economies of scale, which are relevant in some capital intensive sectors, such as the automotive industry.

Competition policies can help ensure that limited competition due to monopolistic or oligopolistic market structures does not reduce welfare; such policies are not aimed at simply increasing the number of firms or eliminating market power to achieve perfect competition, but rather generating incentives for firms to improve their economic performance and to benefit consumer welfare. Tackling barriers to increased participation and creating inclusive markets is a key element of ensuring dynamic and inclusive growth in the long term (Banda et al., 2015).[43] Anticompetitive behaviour in transport and distribution networks, for example, is often identified as a reason behind intranational transport costs being higher than international transport costs in many countries (Kunaka, 2011; World Bank and OECD, 2017).

The importance of a regional competition policy is also seen in the example of the cement industry, where nine regional firms produce more than 50 per cent of cement, and dominant market actors have cartelized an entire region (International Monetary Fund, 2019; UNCTAD, 2019a). The concentration in certain industries heavily depends on the endowment of natural resources. Similar trends are seen in the fertilizer supply chain (World Bank, 2016).

While tariff liberalization increases competition through greater market access, the effect on firm-level investments and building productive capacities is ambiguous. It is often argued that greater competition can stimulate firms to invest in product and process upgrading, but that may not work for most firms in Africa, which

[43] The research paper on the study on the link between barriers to entry and inclusive growth is part of a research programme by the Centre for Competition, Regulation and Economic Development at the University of Johannesburg, with the intention of formulating policy recommendations to facilitate greater levels of entry and competition in various sectors in South Africa to drive inclusive growth (Banda et al., 2015).

have identified access to finance as the main constraint to conducting business. Therefore, the role of competition in fostering innovation, investment and job creation remains disputed. On the one hand, the efficient allocation of resources incentivizes innovation and productivity among firms, which can translate in the long term into the creation of productive jobs. On the other hand, when market distortions hinder the levels of investment, innovation and productivity, greater competition may not be able to increase productivity. In such cases, increased competition from foreign entrants can reduce output and employment in the domestic industry, leading to greater concentration in domestic markets, since only a few enterprises are productive enough to survive. Such effects of cross-border competition call for a continental approach to reducing anticompetitive behaviour among dominant firms (Gachuiri, 2020; Saygili et al., 2018).

One of the diverse channels through which competition affects productivity and export growth is the role of innovation and technological progress. In assessing the impact of increasing competition on exports, the Herfindahl-Hirschman index can be used as a measure of competitiveness across sectors, whereby a higher index value indicates a lower level of competition (Babuscu et al., 2019).[44] There is a non-linear relationship between greater competition and export growth, indicating that, in highly competitive sectors, exports increase with increasing competition, whereas in less competitive sectors, exports are positively associated with higher market concentration (Babuscu et al., 2019). In already competitive markets, firms are forced to be efficient in order to survive in the market. With increasing levels of market entry, enterprises must retain high levels of efficiency and strong business management. As a result, higher productivity levels allow more firms to enter foreign markets and export. In contrast, exports in sectors with high concentration rates are driven by economies of scale, and increased competition would reduce economies of scale advantages for each enterprise, which would cause a decline in exports. A differentiation by sectors suggests that, in the food sector, increasing competition generates an export promoting effect even at higher concentration levels (Babuscu et al., 2019). The non-linear relationship implies the need for differentiated competition policies. For capital-intensive industries, such as the vehicles and the machinery sectors, the goal of competition policies might not be to increase competition in the sector or prevent all kinds of mergers. Rather, due to higher costs of investment and technology requirements, a greater concentration of economic activity can be beneficial for export creation.

[44] Data are obtained from the exporter dynamics database and include 31 developing countries. The database derives the Herfindahl-Hirschman index from the export value per firm.

The role of competition policies and investment policies should be defined according to the impact of dominating firms on employment and any tendency for anticompetitive behaviour or abuse of market power. In labour-intensive sectors, with lower sunk costs of market entry, structural and regulatory barriers to entry should be reduced to support inclusive market participation. Moreover, competition policy to reduce market power and lower prices are most effective in sectors that provide a significant share to the consumption basket of poor households, such as food products and beverages, which account for 40 per cent of the consumption basket of the lowest income decile (World Bank and OECD, 2017). Under the constraint of available public administrative resources, competition policies could be focused on the sectors that would potentially bring the most benefits to consumers and reduce poverty. Moreover, given that competition is strongly linked to market liberalization and sectoral industrial policies, competition policies should not be discussed in isolation from tariff liberalization. Any policies directing firm behaviour should include an assessment of local backward and forward linkages, as suggested in the case studies in section 3.2.

Through the UNCTAD Research Partnership Platform, a study was conducted on the harmful impact of 249 cartels across 20 developing countries in 1996–2013, in terms of prices and consumer welfare losses. The results show the substantial negative effects of cartels on GDP and the production levels of affected sectors, and on welfare through higher prices. Gachuiri (2020) discusses how competition authorities in Africa increasingly face cases that have a regional, cross-border dimension, and the African Continental Free Trade Area is likely to further allow domestic cartels to spread anticompetitive behaviour across borders (see Economic Commission for Africa et al., 2019).

3.6.4 Role of the African Continental Free Trade Area competition protocol

The COVID-19 pandemic has affected small businesses and small-scale traders more negatively than larger firms. Due to bankruptcies, small firms may be forced to exit the market, which will increase the concentration of economic activity among fewer market actors. It is crucial that Governments in Africa act together to protect small and medium-sized enterprises from anticompetitive behaviour and maintain competition (Gachuiri, 2020). In this regard, UNCTAD has urged competition authorities to closely monitor market developments and protect competition, by allowing cooperation arrangements, when necessary, to supply affordable products, and enforcing competition laws against companies that abuse market power.[45]

[45] See https://unctad.org/news/defending-competition-markets-during-covid-19.

In 2021, 25 countries in Africa had competition laws in place with functional competition authorities; eight countries had enacted the law, four had reached advanced stages of competition legislation and 18 did not have competition laws or were in the early stages of developing legislation. National competition policies operate on a territorial basis (Economic Commission for Africa et al., 2017). The continental approach under the African Continental Free Trade Area competition protocol has the potential to address anticompetitive practices from both domestic and foreign firms affecting domestic markets in Africa (Gachuiri, 2020). As shown in table 10, at the REC level and below, competition regulatory frameworks exist within the Central African Economic and Monetary Community, the Common Market for Eastern and Southern Africa, the East African Community, the Economic Community of West African States and the Southern African Customs Union, as well as, to some extent, in the Economic Community of Central African States, with a high degree of heterogeneity and harmonization among national frameworks (Dawar and Lipimile, 2020) (table 10).

Table 10

Regional competition policy frameworks

Regional economic commission	Competition law or institution	Enforcement	Legal framework
Central African Economic and Monetary Community	Competition provisions and competition and consumer protection law developed	Enforced in 1999 Amended in 2019 to create a regional authority	Decisions by regional authority legally binding on partner countries when anticompetitive practices impact trade among partner countries Gender balance in composition of executive board of regional authority
Common Market for Eastern and Southern Africa	Competition Commission	Enforced in 2012 Case law on cross-border mergers	Common Market for Eastern and Southern Africa court handles dispute resolution
East African Community	Competition Authority	Enforced in 2018 Ad hoc discussions since 2015 No formal merger applications	Decisions by Competition Authority legally binding on partner countries Lack of enforcement of national competition laws (only Kenya and the United Republic of Tanzania have national competition authorities)
Economic Community of West African States	Regional Competition Authority	Enforced in 2018	
Southern African Development Community	No regional competition authority Treaty of Southern African Development Community prescribed cooperation network, the Competition Committee		
West African Economic and Monetary Union	Competition provisions include State aid that affects competition in the common market	Enforced in 2002	Decisions by regional authority legally binding on partner countries

Source: UNCTAD, based on Gachuiri, 2020.

Despite the legal arrangements, there remains a lack of regulatory bodies and financial and human resources to effectively address anticompetitive behaviour. UNCTAD remains an active partner of countries and RECs in Africa in developing competition regimes and enforcing competition policies, through analytical work and capacity-building activities within an intergovernmental framework. The African Continental Free Trade Area has the mandate to harmonize existing operations among all RECs and can draw lessons from, for example, the experience of the Common Market for Eastern and Southern Africa Competition Commission, which provides the most advanced legal framework for addressing cross-border mergers and cartels. The UNCTAD Research Partnership Platform can serve as a starting point for the African Continental Free Trade Area secretariat to draw on existing experiences (Gachuiri, 2020).

A continent-wide competition authority, established within the purview of the African Continental Free Trade Area secretariat, is envisaged as a way to effectively address cross-border anticompetitive practices. It would allow for the extension of the positive experiences gained by RECs on the continent, including countries that belong to a REC that does not have enforceable competition provisions, such as the Arab Maghreb Union, the Community of Sahelo-Saharan States and the Intergovernmental Authority on Development. The objectives of the competition protocol should include poverty eradication, access to markets for small and medium-sized enterprises and consumer protection (Gachuiri, 2020).

Case-dependent competition polices require substantive resources, but can be a driver of employment. In Kenya, the Competition Act is aimed at considering the impact that a merger has on employment, the participation of small and medium-sized enterprises in markets and international competitiveness (World Bank and OECD, 2017). For example, in a merger of the Real Insurance Company and the British-American Investments Company, the competition authorities in Kenya had concerns with regard to employment, owing to duplicative positions. Therefore, the authorities negotiated employment conditions to facilitate competitiveness and the creation of jobs. Gachuiri (2020) notes that sectors prone to anticompetitive behaviour, such as fertilizers, telecommunications, air transport, energy, retail and road freight, could be reviewed in a preparatory phase on the implementation of the competition protocol.

The civil law systems in countries in Africa are based on colonial history, which adds to the challenges of having a continental competition protocol (Gachuiri, 2020). Although national competition laws cover areas of anticompetitive agreements, such as cartels, mergers and abuse of dominance, existing national policies vary in the application of public interest in merger analysis. To date, although 50 per cent of trade agreements have included obligations to prohibit abuses of market power, most trade agreements exclude the competition clause from dispute settlement, which calls into question the effectiveness of such clauses. Given the interconnection between trade, investment and competition policies, it is crucial to build a dispute settlement mechanism to ensure coherence between protocols.

3.7 Concluding remarks

Given the opportunities for strengthening regional trade and making trade more complementary identified in this chapter, countries in Africa can tap into currently unexplored trade opportunities by addressing market frictions. The current untapped export potential amounts to $8.6 billion and the dynamic potential from supply and demand increases was calculated to be $13.3 billion by 2025. Through partial tariff liberalization under the African Continental Free Trade Area over the next five years, an additional $9.2 billion of export potential could be realized. To unlock the untapped potential, various intra-African non-tariff barriers, including non-tariff measures, infrastructure gaps and market information gaps, need to be successfully addressed, which requires joint efforts under the African Continental Free Trade Area. Regulatory and structural barriers to market entrance are significant obstacles to realizing greater opportunities of export diversification across countries and enterprises.

Enterprises experience business constraints differently, and access to inputs and productive resources are not equally distributed. Such market distortions in terms of equal access are the main challenge to inclusive growth. Services liberalization plays a strategic role in reducing trade, transaction and production costs. The African Continental Free Trade Area can provide solutions to the various constraints to distributing gains equally, but requires long-term cooperation in investment and competition policy and strong political commitment. Aspects of implementation are discussed in chapter 4.

Chapter 4

An integrated framework and cost-efficient trade measures

As discussed in the previous chapters, the African Continental Free Trade Area can support post-pandemic recovery and inclusive growth across the continent through job creation, the expansion of business opportunities and the promotion of regional value chains for trade in goods and services. With appropriate policies, it can help to create a conducive environment for small-scale traders and often-marginalized businesses to produce and trade goods and services fairly in intra-African markets. The inclusive benefits of the African Continental Free Trade Area as discussed in the previous chapters can materialize if trade reforms and the necessary complementary interventions are efficiently implemented and the costs of compliance minimized. The multidimensional characteristics of the Agreement suggest that achieving this will entail cooperation to optimize synergies among the various stakeholders. This, in turn, will require reforms to be implemented in an integrated manner that ensures not only coherence among regional and national regulatory and policy frameworks but also alignment with multilateral agendas.

An inclusive African Continental Free Trade Area requires partnerships

Complementary measures and differentiated provisions at the national and regional levels

FOR STAKEHOLDERS SUCH AS

WOMEN-OWNED BUSINESSES

SMALL-SCALE TRADERS

YOUNG ENTREPRENEURS

Achieving an inclusive free trade area will depend significantly on the extent to which non-tariff measures are streamlined, as posited in this chapter. Drawing on the main issues addressed in the previous chapters, critical elements of an integrated framework that can foster cooperation at all levels in support of the inclusive implementation of the Free Trade Area are discussed in this chapter. Streamlining trade measures is critical to ensuring an inclusive free trade area, as discussed in section 1, and an integrated framework, from the design of policy actions to their implementation and monitoring, including through a strong institutional set-up, is a prerequisite to creating enabling conditions for the Free Trade Area to yield inclusive benefits, as discussed in section 2. In section 3, the interplay between international trading systems and the African Continental Free Trade Area is explored, to identify how synergies can be built to reduce the burden of trade measures on policymakers and businesses and, in section 4, the dispute settlement mechanism of the Agreement and related challenges are discussed. Concluding remarks are provided in the final section.

4.1 Streamlined trade measures across Africa, to achieve continental integration

The discussions in the previous chapters suggest that, besides tariff liberalization, achieving gains under the African Continental Free Trade Area requires streamlined trade facilitation measures, that is, trade rules that are simple to comply with and less disruptive to the production of and trade in goods and services. Conversely, stringent and costly trade measures could become barriers to an inclusive free trade area by affecting, in particular, small and medium-sized enterprises and informal cross-border traders, a large number of whom comprise women and young entrepreneurs (UNCTAD, 2020f).

4.1.1 Lowering the costs of non-tariff measures

Technical barriers to trade and sanitary and phytosanitary measures that have the objective of ensuring food safety and protecting human, plant and animal health could help to improve sustainability. In addition, compliance with non-tariff measures can help build consumer confidence and trust and thereby help to reduce transaction costs. However, such compliance can often be costly and burdensome, in particular for small and medium-sized enterprises with limited resources. To reap the potential benefits of non-tariff measures for sustainable growth, it is essential to reduce the costs of compliance through the transparency and harmonization of trade rules. Additional trade facilitation measures included in regional trade agreements can help increase trade flows (Disdier et al., 2019; Duval et al., 2016). Such regulatory cooperation has the potential to harmonize non-tariff measures and reduce the associated costs of compliance.

In this regard, UNCTAD has collected regulatory data in collaboration with Governments, disseminated on online portals such as the UNCTAD Trade Analysis and Information System database and the global trade help desk hosted by the International Trade Centre, UNCTAD and WTO. In addition, UNCTAD recently led a study on measuring the similarity in regulations between countries; measuring regulatory distance helps to provide evidence of the lack of regulatory cooperation and harmonization between countries in Africa, including within RECs (UNCTAD, 2020g). These initiatives help respond to the transparency provisions in several annexes of the African Continental Free Trade Area Agreement. Provisions on non-tariff measures related to goods are in the following annexes to the protocol: annex 2, rules of origin; annex 3, customs cooperation and mutual administrative assistance; annex 4, trade facilitation; annex 5, non-tariff barriers; annex 6, technical barriers to trade; annex 7, sanitary and phytosanitary measures; annex 8, transit; and annex 9, trade remedies. In addition, one of the objectives of the protocol on trade in services is to progressively liberalize trade in services by eliminating barriers to trade in services, including through transparency, the mutual recognition of standards and certification and the elimination of anticompetitive practices, among others. These provisions reflect the commitment by the member States of the African Union to address non-tariff barriers to trade with a view to improving the competitiveness of economies in Africa.

In Africa, challenges related to non-tariff measures are compounded by overlapping trade schemes and heterogeneous rules, with several countries belonging to more than one REC. The situation makes compliance with trade rules costly and has impeded trade within RECs (Chacha, 2014; Keane et al., 2010). Efforts are being made to harmonize trade rules among RECs, for example through the tripartite free trade area agreement between the Common Market for Eastern and Southern Africa, the East African Community and the Southern African Development Community. The African Continental Free Trade Area can also contribute to these efforts. If the proliferation and heterogeneity of trade rules across the various regional trade agreements continue unchecked, a situation that is likely to prevail in the short term, compliance with non-tariff measures under the Agreement may be costly for businesses, particularly small and medium-sized enterprises that constitute the bulk of the private sector in Africa.

4.1.2 Advancing the implementation of trade reforms

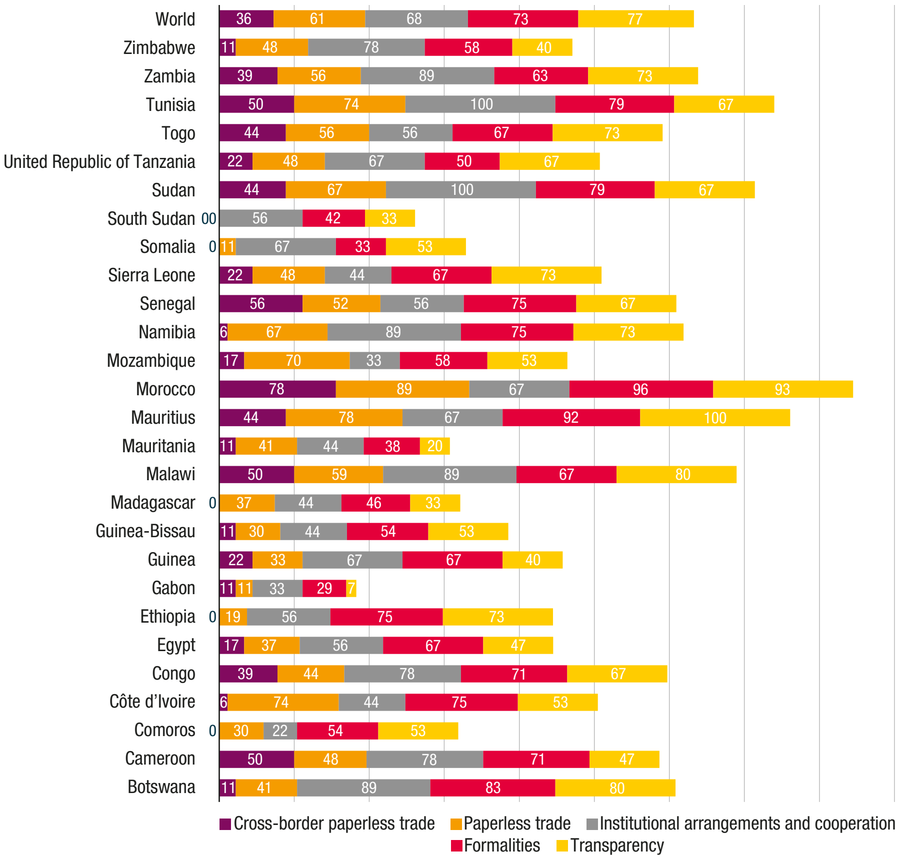
The implementation of trade reforms in Africa is underpinned by the commitments of countries at the global level (e.g. most countries in Africa have ratified the WTO Agreement on Trade Facilitation, which entered into force in 2017) and at the regional level (including in the context of the African Continental Free Trade Area). Implementing such commitments effectively at the regional and national levels has been slow across the continent. For example, in the Economic Community of West African States and the Southern African Development Community, regional integration efforts have been impeded by the limited translation of regional trade commitments into the domestic laws of member States (UNCTAD, 2015b; UNCTAD, 2018d).

The Implementation of trade reforms varies widely across the continent. In 2019, data were collected through regional and national surveys, with implementation rates computed as indices using several indicators that captured commitments under the WTO Agreement on Trade Facilitation and several other measures, including cross-border paperless trade; trade facilitation measures accounting more specifically for inclusiveness and sustainability included indicators for the following: trade facilitation for small and medium-sized enterprises; agricultural trade facilitation; and women in trade facilitation (United Nations, 2019). Overarching trade facilitation measures, including general and digital measures, are grouped into the following five categories (figure 25): a) cross-border paperless trade (in the surveys, this category included laws and regulations for electronic transactions, electronic collections of payment through letters of credit, electronic exchanges of certificates of sanitary and phytosanitary measures, recognized certification authority issuing digital certificates and electronic exchanges of customs declarations); b) paperless trade (automated customs systems, electronic applications for customs refunds, electronic payments of customs duties and fees, electronic applications for and issuance of preferential certificates of origin, electronic applications for and issuance of import and export permits, electronic submissions of air cargo manifests and customs declarations and whether there were electronic single window systems and Internet connections available to customs and other trade control agencies); c) institutional arrangements and cooperation; d) formalities; and e) transparency.

The overall slow pace of trade reform implementation across Africa contributes to undermining the competitiveness of regional and national economies in global markets. Higher rates of implementation of trade facilitation reforms are globally associated with lower trade costs and better logistical performances, a key determinant of economic competitiveness (United Nations, 2019). In addition, the digitalization of cross-border trading procedures has significant potential to foster inclusiveness.

Figure 25

Average implementation rates of trade facilitation measures, 2019



Source: UNCTAD calculations, based on United Nations, 2019.

However, the implementation of cross-border paperless trade procedures has yet to take off; only five countries have implemented more than half of the commitments related to digital trade, as shown in figure 25. If economies in Africa continue to fall behind in implementing global and regional trade facilitation measures, including those under the African Continental Free Trade Area, this is likely to undermine intra-African trade. For example, producers and traders may find it more cost effective to import intermediate goods from extracontinental markets, compromising the objectives of the Free Trade Area. In addition, there may be a positive correlation between GDP per capita and the rate of implementation of trade facilitation measures in countries in Africa, whereby more advanced economies tend to achieve higher rates of implementation than smaller economies or the least developed countries (United Nations, 2019). Correlation does not imply causation, however; further investigation is needed to establish this relationship. Yet countries with limited economic resources and capacities such as landlocked developing countries and the least developed countries may find it more difficult to implement trade facilitation measures. It should be noted that, as trade facilitation measures are a key determinant of trade costs, countries facing persistent non-tariff barriers are also likely to have relatively low economic and trade performance levels (United Nations, 2019). Countries that have experienced inclusive growth over the past decade face lower import and export costs. The slow pace of trade reform implementation in the least developed countries may also be underpinned by the special treatment (e.g. a longer period in which to implement trade reforms) often granted to this group of countries. Within the context of the African Continental Free Trade Area, fragile and vulnerable economies are therefore likely to require the most dedicated technical and financial assistance and capacity-building support in order to implement trade reforms.

4.1.3 Digitalizing trade and building hard infrastructure assets

The application of information and communications technology in the trading landscape contributes to increasing efficiency in processes such as logistics and distribution channels, as well as administrative procedures in ascertaining compliance with trade rules. For small and medium-sized enterprises that are greatly affected by trade barriers, digital trade provides significant opportunities to transcend physical constraints and minimize logistical costs (Nanyang Technological University Singapore, 2020; UNCTAD, 2020h). Digital trade facilitation measures are estimated to reduce trade costs for businesses by up to 40 per cent in the least developed countries in Asia and the Pacific (Duval et al., 2018). The COVID-19 pandemic has accelerated the digitalization of trade and promoted business-to-consumer sales and business-to-business electronic commerce across Africa (Economic Commission for Africa, 2021). In addition, some countries began to issue digital certificates of origin. It is important for such digital processes to be mutually recognized by partner countries and for customs officials to be trained to accept such certificates (African News Page, 2021). The most common barrier is with regard to the time required and the costs of obtaining the relevant certificate of origin from the relevant authority. The creation of one-stop points and electronic single windows can reduce the amount of paperwork required and may reduce the time required and transaction costs by 30 per cent (International Trade Centre, 2018). Mainstreaming digitalization in trade reforms under the African Continental Free Trade Area may not only help to increase efficiency in production and trade systems but also to reduce cross-border trade costs for both goods and services. The adoption of electronic certificates of origin, for example, allows producers and traders to electronically submit, on a dedicated web-based platform, all relevant documents for the issuance of electronic certificates of origin. Beyond contributing to efficiency gains associated with any electronically based system, electronic certification of origin allows for security and the traceability of goods while preventing businesses from having to store excessive copies of physical documents. By lessening compliance costs and delays, such a certification scheme has great potential to help level the playing field in order to assist small businesses to better integrate into regional value chains (UNCTAD, 2019a). To date, however, despite available systems such as the electronic certification of origin under the Common Market for Eastern and Southern Africa and the Southern African Development Community, progress in practical adoption by member States has been slow (Mafurutu, 2020). Other examples of digital applications in trade include automated customs clearance, electronic administration systems for trade procedures and the use of smart containers, that is, containers featuring devices and sensors that enable advanced monitoring functions such as of environmental conditions and hacking attempts, as well as location identification and handling and tampering controls. The digitalization of border procedures has already yielded some tangible outcomes in Africa. For example, in Rwanda, digitalized border management systems and biometric solutions have been credited for the increased efficiency and effectiveness of services provided to travellers at airports and other borders (United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, 2017). The Rwanda electronic single window, building upon the UNCTAD Automated System for Customs Data, also helped the country to implement at borders the physical distancing required during the pandemic, as it permitted the cross-border processing of goods, from declaration to the payment of duties and clearance, to be executed electronically (UNCTAD, 2020h). In Senegal, the digitalization of customs procedures such as through automated customs clearance, an electronic trade data platform and a paperless administration system for cargo, has contributed to significantly reducing the time required and the transaction costs; the time required for the registration of customs declarations declined from 2 days to 15 minutes; for pre-clearance customs procedures, from 2 days to 7 hours; and for the clearance of imports and exports, from 18 and 14 days, respectively, to 1 day (United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, 2017).

Streamlining trade processes, including through simplified, efficient and cost-effective non-tariff measures, can only partly contribute to unlocking production and potential intra-African trade. Building physical infrastructure, including development corridors (e.g. in transport, trade, agriculture and industry) that facilitate socioeconomic development activities, is essential. Despite some progress in recent years, transport and trade corridors that are critically needed to move people and goods efficiently within and across borders remain poor. Access to energy, required by manufacturers for cost-effective production, remains costly or unreliable in many countries. In addition, digital infrastructure gaps persist, both among economies in Africa and between the latter and economies worldwide (Calderón et al., 2018). In many parts of the continent, cross-border trading businesses have a lack of storage space, cold rooms or similar facilities that are critical for perishable goods, including those handled by small-scale traders. Such challenges are often compounded by lengthy manually conducted processes, malfunctioning Internet networks that make it difficult to use digital tools and electricity shortages, which are prevalent in rural and remote border areas. For women traders in particular, inexistent or poor sanitation and sleeping facilities, among others, often make cross-border trading a difficult activity (UNCTAD, 2019b).

Circumventing infrastructure bottlenecks also entails establishing well-functioning special economic zones as self-inclusive production and trade hubs. Such zones can provide businesses with cost-effective infrastructure assets and services to produce and trade in African Continental Free Trade Area markets. Economies of scale of industrial and services-related activities in such zones can translate into benefits such as growing inflows of foreign direct investment and transfers of knowledge, ideas and technologies, which are vital for innovation and growth among small and medium-sized enterprises (African Development Bank et al., 2016; UNCTAD, 2019c). In addition, such zones can provide businesses with access to a pool of workers, suppliers and inputs, which can help to achieve greater productivity and efficiency (African Development Bank et al., 2017; Economic Commission for Africa, 2017). In 2019, there were 237 special economic zones in Africa, of which 51 were under development, and an additional 53 were planned (UNCTAD, 2019c). Existing special economic zones in Egypt, Ethiopia, Kenya, Nigeria and South Africa, driven in most instances by strong public–private partnerships, have recorded high rates of capacity utilization, created jobs and linked businesses, including small and medium-sized enterprises and services-related start-ups, to larger companies (UNCTAD, 2019c). A number of such zones have created jobs for women in some industries. In 2020, of over 39 special economic zones surveyed across Africa, more than two thirds indicated a level of women's employment at between 20 and 50 per cent, with a greater prevalence of women's labour in light manufacturing, such as in apparel and electronic assembly industries (UNCTAD, 2021b). Negotiations with regard to the applicable rules for goods produced in such zones, such as rules of origin, are ongoing.

4.2 Integrated framework for the implementation of an inclusive free trade area

The limited success of regional trade agreements in Africa to date has been partly due to failures in trade governance and a lack of harmonized regulatory regimes (Erasmus, 2020; Keane et al., 2010). Timely compliance with the tariff dismantlement calendar and the cost-efficient implementation of non-tariff measures should be coupled with complementary policies, to ensure an inclusive African Continental Free Trade Area. By mid-January 2021, two weeks after the launch of trading under the African Continental Free Trade Area, only a few countries, including Egypt, Ghana and South Africa, had the required customs procedures in place to start trading (Daily Maverick, 2021). Ensuring the coordinated implementation of trade rules and complementary measures, to foster inclusiveness under the African Continental Free Trade Area, therefore requires a strong and integrated institutional set-up.

4.2.1 Integrated policy framework to achieve inclusive gains: How and why

The African Continental Free Trade Area is multidimensional and cross-cutting in nature. The Agreement covers a wide range of development issues in Africa, from trade in goods and services and industrialization to investment, competition policy, intellectual property rights and electronic commerce, among others. It recognizes other critical thematic issues, including gender and trade, public health, safety, the environment, public morals and the promotion and protection of cultural diversity, among others. Therefore, mutually reinforcing policy interests and the actions of different entities are required to create synergies towards achieving common objectives. This requires an integrated framework that ensures coherence and coordination between and across various policies and entities that guide development under a strong leadership. The coherence of policies is essential, to reap the benefits of a free trade area, since national interests may tend to incentivize the protection of domestic industries and thereby may jeopardize regional integration efforts. For example, the experience of the Southern African Development Community shows that the regional integration agenda has been hindered by conflicting national trade and industrial policies. Countries in the region have used non-tariff barriers in order to protect national industries despite the commitment to a regional industrialization agenda, such as by banning the imports and exports of products from other member States, such as cement, maize, poultry, salt, sugar and timber (Byiers et al., 2018). In some instances, such national policies are legitimated by imperatives to protect infant industries. In recognition of this, the protocol on trade in goods of the African Continental Free Trade Area Agreement allows up to 3 per cent of tariff lines to be excluded from the tariff liberalization scheme, thereby giving room to countries willing to do so to protect infant industries. States Parties to the Agreement should avoid instituting national policies or any action that could limit intra-African trade. Finally, recurrent border closures resulting from trade disputes or non-trade matters often impede trade flows across the continent (see section 4.4). If national policies and trade frictions continue to undermine regional integration, gains from the African Continental Free Trade Area cannot be achieved.

4.2.2 Complementary policies to ensure an inclusive free trade area

Inclusive growth led by ambitions under the African Continental Free Trade Area cannot be achieved without appropriate complementary policies, in order to address issues in a holistic manner. Inclusiveness is usually achieved through dedicated policies targeting specific sectors or groups. Such policies may aim to address specific issues faced by small and medium-sized enterprises, women's businesses, young entrepreneurs and informal producers or traders. The goal of such policies is to better mainstream such actors into formal economies. Specific policies and legislation include affirmative action schemes to support targeted groups in public procurement (UN-Women, 2019). In Kenya, for example, public procurement rules aim to ensure that 30 per cent of all types of contracts are awarded to young people, women or persons with disabilities, without competition from established firms, and this scheme has yielded tangible outcomes; women have been able to expand businesses, increase profit margins and provide jobs in local communities, and survey results suggest that participation in such schemes has helped to reduce poverty among such marginalized groups, despite some challenges (Nganga, 2017). Within the context of the African Continental Free Trade Area, public procurement can provide for wealth creation and help small and medium-sized enterprises and women-owned businesses to grow (UN-Women, 2019). Affirmative actions in public procurement almost entirely target national businesses. Better integrated markets could therefore help ensure that domestic industries achieve improved access to markets, to assist their growth. Some of the inputs needed by such businesses could be sourced from regional markets under the African Continental Free Trade Area. Existing regional trade agreements make general references in their objectives to providing support to the informal sector and other groups, such as in articles 151 and 154 of the Common Market for Eastern and Southern Africa treaty; and the treaties of the East African Community and the Southern African Development Community, which aim to foster broader development that benefits all actors. The African Continental Free Trade Area Agreement does not include specific provisions on public procurement, yet States Parties may consider expanding the number of targeted groups intended as beneficiaries of affirmative action, in particular small and medium-sized enterprises operating at the continental and regional levels.

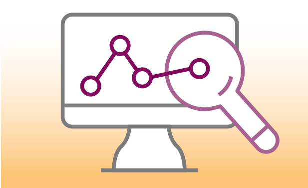
Simplified trade regimes can also provide significant opportunities to implement a free trade area that is inclusive and to make cross-border trade more efficient, allowing small-scale traders (whether formal or informal) to clear goods through a limited number of customs procedures, providing that the value of traded items does not exceed a certain threshold (e.g. up to $1,000 among member States of the Common Market for Eastern and Southern Africa that have adopted a simplified trade regime). In addition, simplified trade regimes may encourage the formalization of small and medium-sized enterprises. The simplified trade regime of the Common Market for Eastern and Southern Africa could provide a foundation for such a regime under the African Continental Free Trade Area.

Member States of the African Continental Free Trade Area are expected to have national strategies in place (African Union, 2018a). By March 2021, more than 40 member States were at various stages of preparing such strategies. National strategies can facilitate the identification of measures, including policy interventions (ranging from trade-related policies to policies related to, among others, industry, investment, competition, intellectual property, migration, infrastructure, the environment and gender) and the capacities required for a State to take full advantage of global, regional and national markets (Economic Commission for Africa, 2019). African Continental Free Trade Area national strategy documents should identify several priority actions dedicated to small and medium-sized enterprises, women and young traders, including, for example, with regard to capacity-building, awareness-raising, setting up trade infrastructure and establishing a simplified trade regime, as well as inclusive representation in institutional mechanisms of the Free Trade Area. The implementation of such actions will be supported by continental, regional and national partners.

4.2.3 Monitoring of implementation through integrated institutional arrangements

Proactive monitoring of the implementation of inclusive trade reforms

Monitoring the implementation of trade rules under the African Continental Free Trade Area is necessary in order to identify bottlenecks and address them in a timely manner. The online mechanism for reporting, monitoring and eliminating non-tariff barriers under the African Continental Free Trade Area is a key operational instrument available to businesses, in particular small and medium-sized enterprises, in order to report and resolve perceived non-tariff barriers to trade (box 9).



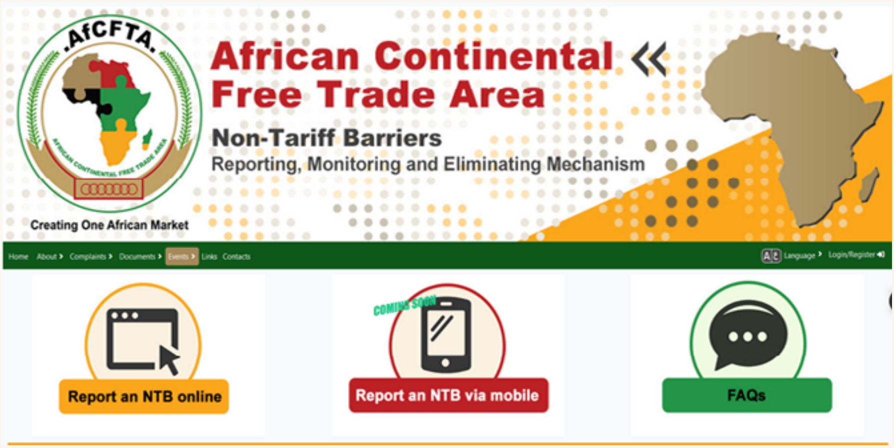
Monitoring the implementation **of trade rules under the African Continental Free Trade Area** is necessary to identify bottlenecks and address them in a timely manner

Box 9

Online mechanism for reporting, monitoring and eliminating non-tariff barriers

The African Continental Free Trade Area Agreement, in annex 5 of the protocol on trade goods, provides for a mechanism for reporting, monitoring and eliminating non-tariff barriers, in the form of an online platform. The platform was developed by the African Union Commission and the secretariat of the African Continental Free Trade Area, in collaboration with UNCTAD, and is aimed at the reporting and resolution of non-tariff barriers experienced by businesses. The landing page is shown in the figure.

Online platform for reporting, monitoring and eliminating non-tariff barriers



Source: African Continental Free Trade Area Agreement, 2021, Non-tariff barriers, available at https://tradebarriers.africa/ (accessed 9 July 2021).

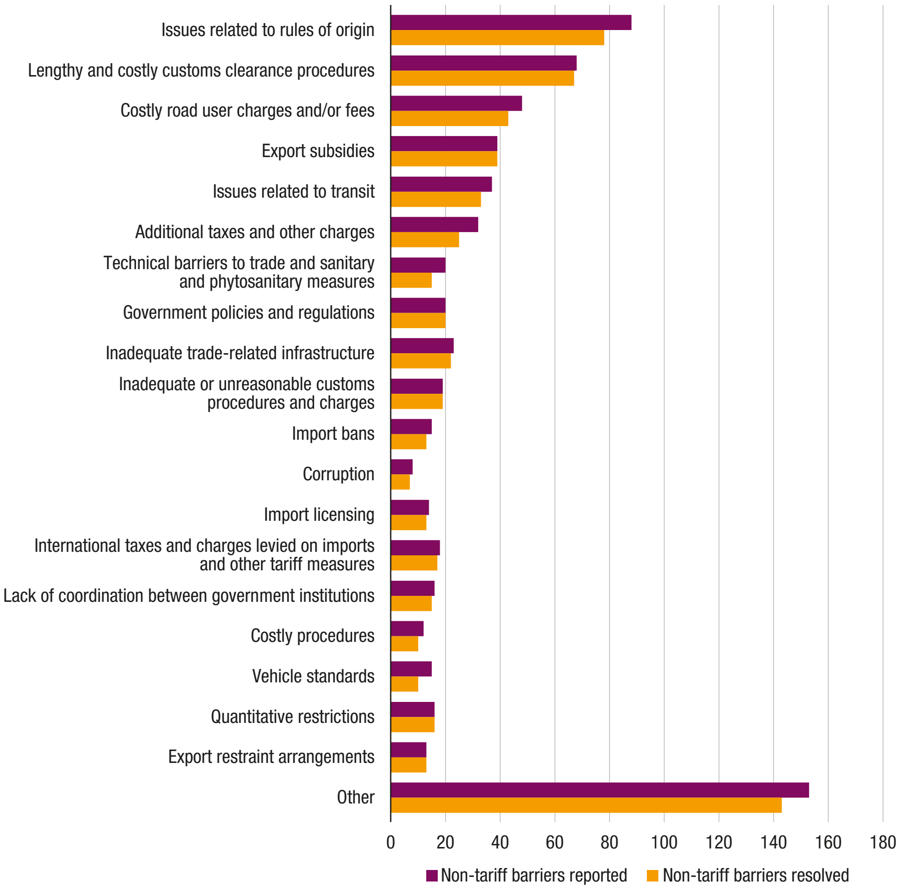
The platform offers an innovative approach to dealing with non-tariff measures that may be perceived (rightly or wrongly) as barriers to trade. The digitalization of the mechanism makes the identification and monitoring of non-tariff barriers transparent and inclusive, providing ease of access for small-scale businesses, including women-owned businesses and informal cross-border traders. The platform serves as the starting point of the process for reporting, monitoring and eliminating non-tariff barriers, allowing for the submission of complaints through the website or through short message services. Once a complaint has been registered by a user from the reporting country or submitted by the national focal points for non-tariff measures on behalf of the complainant, a notification is immediately sent to the national focal points of partner countries, who categorize the reported non-tariff barrier(s). If the complaint is accepted, the case is processed until the non-tariff barrier has been resolved. The resolution of non-tariff barriers can also involve dispute settlement mechanisms (see section 4.4).

Source: UNCTAD.

Such an online mechanism has contributed to addressing challenges related to non-tariff measures under the tripartite free trade area agreement between the Common Market for Eastern and Southern Africa, the East African Community and the Southern African Development Community (figure 26).[46]

Figure 26

Tripartite free trade area online platform on non-tariff barriers, January 2009–January 2021



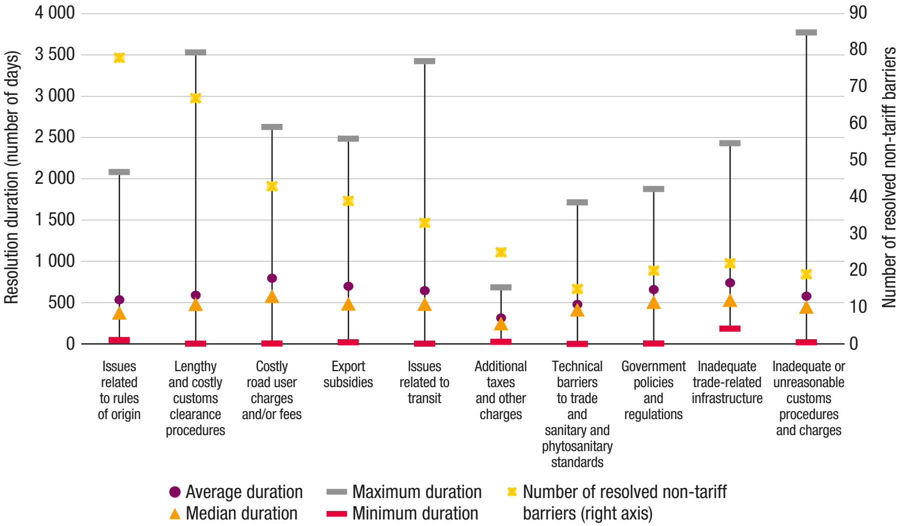
Source: UNCTAD calculations, based on data from the online platform.
Note: "Other" refers to all other types of non-tariff barriers reported on the platform but not separately indicated in the figure.

[46] See https://www.tradebarriers.org.

The resolution of barriers to trade often requires a long period of time. For example, within the tripartite free trade area, the time needed to resolve issues varies between 46 and 2,082 days (figure 27). One of the most-often perceived non-tariff barriers, namely, issues related to rules of origin, takes on average 536 days to be resolved, with half of all issues related to rules of origin only being resolved in about one year. The average time needed to resolve issues related to costly road user charges and/or fees is 796 days (over two years). Similarly, the time needed to resolve issues related to inadequate trade-related infrastructure is 741 days (about two years) and to government policies and regulations is 660 days (nearly two years).

Figure 27

Tripartite free trade area: Most-reported non-tariff barriers and resolution times, January 2009–January 2021



Source: UNCTAD calculations, based on data from the tripartite free trade area online platform on non-tariff barriers.

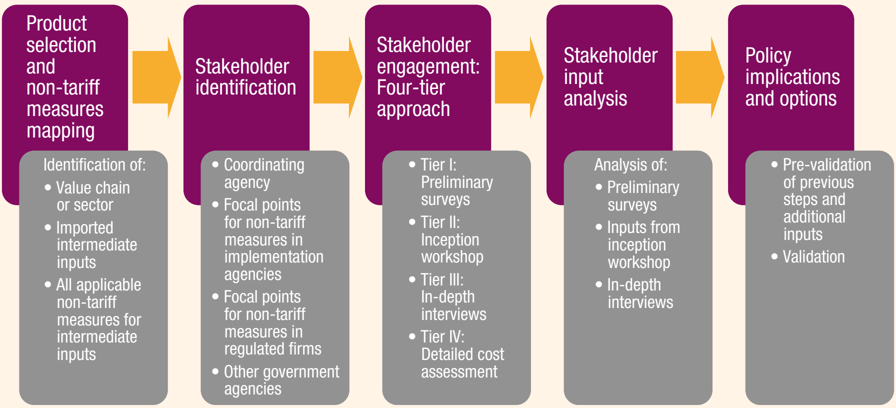
The lengthy resolution times for trade barriers require a proactive review of trade rules and practices, embedded in a strong monitoring mechanism, to assess their effectiveness and reduce cost-burden effects. Periodic reviews of trade rules permit corrective actions to be undertaken while avoiding trade-related disputes. Such reviews may be perceived as a regulatory audit and may imply post-enactment performance evaluations, that is, assessments of the extent to which the trade measures contribute to achieving the intended outcomes. States may also carry out regulatory impact assessments, usually undertaken prior to enactment (Economic and Social Commission for Asia and the Pacific and UNCTAD, 2019). A five-step toolkit proposed by UNCTAD may serve as a valuable tool in reviewing and assessing the effectiveness of non-tariff measures in States Parties to the Agreement, in support of inclusive policymaking (box 10).

Box 10

Assessing the effectiveness of non-tariff measures: UNCTAD toolkit

UNCTAD has proposed a five-step toolkit for assessing the effectiveness of non-tariff measures by understanding their design, how they are being implemented and the compliance challenges they pose to producers and traders, as shown in the figure.

UNCTAD toolkit for assessing the effectiveness of non-tariff measures



Source: UNCTAD.

Applied within the context of the African Continental Free Trade Area, the toolkit can help countries analyse the non-tariff measures applicable to imported goods and services in a specific value chain. For example, in Kenya, the toolkit has been successfully used to assess the cost effectiveness of non-tariff measures associated with the cotton, textiles and apparel value chain in the country.

Sources: UNCTAD, 2020f; UNCTAD, 2020i.

At the continental level, African Continental Free Trade Area subcommittees overseeing the implementation and monitoring of the non-tariff measures of the Agreement deliberate on ways to address persistent barriers to trade while encouraging members to eliminate them. The effective monitoring of implementation also depends on the extent to which transparency is fostered through the dissemination of trade reforms. In addition, transparency can contribute to reducing the costs associated with such measures, making them more accessible to small and medium-sized enterprises, women entrepreneurs and small-scale traders (Economic and Social Commission for Asia and the Pacific and UNCTAD, 2019). UNCTAD supports member States in collecting, classifying and disseminating data related to non-tariff measures through the UNCTAD Trade Analysis and Information System database and this could be complemented by national-level portals to provide up-to-date access to all trade-related laws, regulations and procedures.

Continental structure for implementation and monitoring

At the continental level, the institutional framework for the implementation of the African Continental Free Trade Area consists of the Assembly of the Heads of States and Governments; the Council of the ministers in charge of trade; the committee of senior trade officials; and the secretariat. The governance bodies also include several committees and subcommittees with regard to the protocols and annexes, including the protocols on trade in goods and trade in services, and the negotiations on investment, competition policy, Intellectual property rights and electronic commerce (African Union, 2018b). The protocol on rules and procedures on the settlement of dispute has also been adopted (section 4.4); a formal decision has not yet been made on a committee on electronic commerce. The effectiveness of the governance of the African Continental Free Trade Area at the continental level depends on the human and financial resources provided to these entities in carrying out their mandates. In addition, the enforcement of trade rules and regulations at the national level will be critical. The secretariat aims to promote transparency in trade rules and practices and to ensure that member States domesticate the Agreement by promulgating and notifying of laws, regulations and administrative procedures. Relevant data, including on non-tariff measures and conditions for accessing markets for goods and services under the Agreement, are vital to ensure that the private sector can make timely investment decisions.

Regional structures for implementation and monitoring

At the regional level, the practical responsibility of institutions, particularly RECs, under the African Continental Free Trade Area (beyond serving as building blocks, as recognized in the Agreement) has yet to be fully understood, yet their role cannot be overstated. Institutional mechanisms for facilitating the implementation and monitoring of the Free Trade Area can benefit from the established expertise of RECs. Given the extent of overlapping regional arrangements across the continent, the African Continental Free Trade Area is expected to build on ongoing regional initiatives. The coexistence of regional trade agreements with the African Continental Free Trade Area Agreement places an additional burden on member States. Therefore, the proper governance of the relationship between the African Continental Free Trade Area and RECs needs to be defined, to ensure that synergies are maintained among institutions in order to achieve common objectives. The secretariats of the African Continental Free Trade Area and of RECs need to develop procedures which ensure trade rules and their respective mandates based on constructive collaboration; limit asymmetries; and converge over time. For instance, to ensure coordination of the implementation of the WTO Agreement on Trade Facilitation, among others, the secretariat of the East African Community has had a regional committee on trade facilitation in place since 2015, which has been effective in supporting the member States of the Community in implementing the Agreement at the regional and national levels (UNCTAD, 2020j).

RECs can also support the mapping of opportunities for the development of regional value chains through regional trade and industrialization strategies. Similarities in production and limited complementarities in trade remain an impediment to intra-African integration. Therefore, trade liberalization should be complemented by efforts to build productive capacities in economies in Africa, with a view to developing regional value chains while attracting investment in sectors with significant potential. Appropriate industrial policies could drive such efforts at the regional and national levels. Regional strategies led by RECs and other regional institutions can map priority products for processing and trade in African Continental Free Trade Area markets and identify specific segments of value chains in which member States can (re)position themselves, to reduce or avoid unnecessary regional competition. Such efforts should be complemented by the identification of the key elements of the productive capacities needed to ensure that identified production and trade hubs can play their roles. For example, in 2011, the Common Market for Eastern and Southern Africa developed a strategy for the leather value chain, providing member States with an integrated framework to support interventions and build the capacity of businesses, particularly small and medium-sized enterprises, to position themselves in nodes of the value chain in the region, from downstream to upstream industries (UNCTAD, 2018b). This initiative has contributed to adding value to the processing of leather products in the region (Byiers et al., 2018).

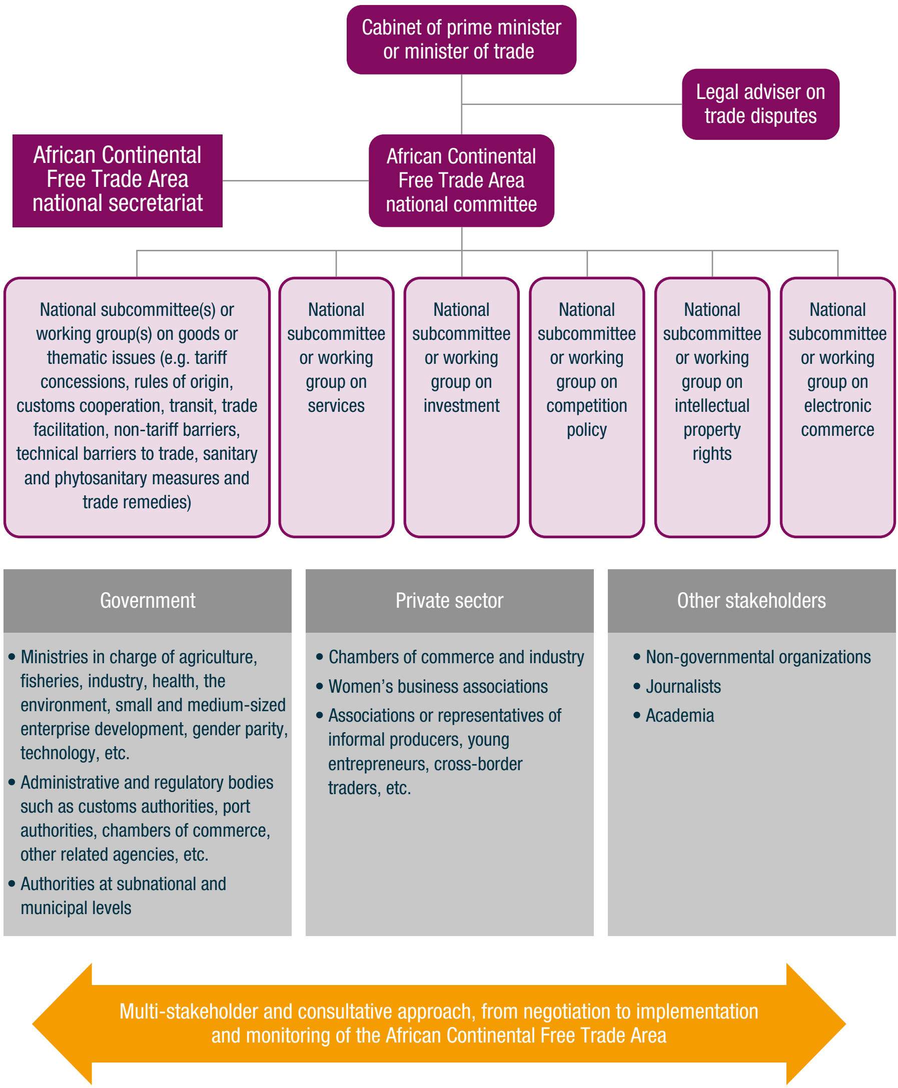
National structures for implementation and monitoring

At the national level, the implementation of the African Continental Free Trade Area Agreement is expected to be overseen by national committees and provisions have been made for establishing different national subcommittees dealing with various thematic issues, such as trade facilitation, and national monitoring committees on non-tariff barriers (African Union, 2018a; African Union, 2018b). Considering both human and financial resource constraints and the sustainability requirements of national institutional mechanisms, national committees will have full oversight over the implementation and monitoring of the Agreement at the national level. National committees can encompass permanent or ad hoc subcommittees or technical working groups dealing with the various thematic issues under the Agreement, rather than several subcommittees being established, a process that can contribute to ensuring that national institutional governance of the African Continental Free Trade Area is effective. A structure for a national committee that can be cost efficient and inclusive, with permanent or ad hoc technical committees or working groups to deal with specific provisions of the Agreement, is proposed in figure 28. Not all countries need to establish new committees; in countries with strongly established trade committees, for example, under the WTO Agreement on Trade Facilitation or REC free trade agreements, mandates can be expanded to include the coordination and implementation of the provisions of the African Continental Free Trade Area Agreement. The proposed national committee structure is inclusive in that it comprises representatives from relevant ministries and public agencies, private sector organizations, women's business associations, youth organizations, academia and civil society organizations.

Lessons learned to date across the continent and among other developing countries is that deliberate efforts are needed to increase inclusiveness in institutional mechanisms to implement and monitor trade reforms. Recent data show that national trade facilitation committees formed in Africa under the WTO Agreement on Trade Facilitation have obtained fair representation of both the public and private sector, yet gender mainstreaming in trade reforms remains limited (UNCTAD, 2020j). National committees therefore need to devote attention to these specific issues and also to ensure that reforms under the African Continental Free Trade Area are designed, implemented and monitored in an inclusive manner. An example of an inclusive institutional set-up is provided in box 11.

Figure 28

Proposed structure of national committee



Source: UNCTAD.

Box 11

Côte d'Ivoire: African Continental Free Trade Area institutional set up

The implementation and monitoring of the African Continental Free Trade Area Agreement in Côte d'Ivoire is coordinated by a national committee established through a presidential decree in May 2018. Financial resources are provided through the national budget and contributions from development partners. The committee is under the oversight of the Prime Minister and its organizational structure comprises three bodies, as follows:

(a) Advisory and decision-making council, with members comprising the Prime Minister, other relevant ministers and the presidents of business chambers and confederations, that oversees the national committee and takes all strategic decisions, providing strategic orientations to negotiations and taking the necessary measures to ensure implementation of the Agreement;

(b) Technical committee under the authority of the minister of trade and industry and comprised of key high-level representatives of the institutions represented on the council and the directors general of different government agencies and ministries, as well as representatives of producer, trader and consumer associations, and which defines strategic interventions, proposes relevant actions to the council, raises awareness and builds consensus on the African Continental Free Trade Area at the national level; its functioning relies on several technical working groups, each in charge of thematic issues under the Agreement;

(c) Executive secretariat, led by an executive secretary, which is the technical, financial and administrative body of the national committee and is tasked with disseminating decisions of the Government in the context of the Agreement, coordinating related activities, including the functioning of technical working groups, and elaborating annual working plans for the national committee, among others.

The structure of the national committee in Côte d'Ivoire is multidimensional and shows a high-level commitment to the Agreement.

Source: UNCTAD, based on information provided by the executive secretariat of the Côte d'Ivoire national committee.

4.3 Cooperation, peace and political stability for an inclusive free trade area

Ensuring a peaceful environment is a precondition for moving goods and services freely across borders and to achieving inclusive growth. Enterprises in countries with non-inclusive growth state, on average, that political instability is the main constraint to doing business (see chapter 3). Conflicts disrupt not only trade flows but also trade-enabling infrastructure, leading to fragile States (African Development Bank, 2019a). Free trade through the fostering of mutual economic interdependence promotes peace (Lee and Pyun, 2016). By maximizing the allocation of resources and reducing inequality, trade can be a powerful tool in improving resilience and promoting peace in fragile States (Calì, 2015). Recurrent conflicts across Africa, driven by poor governance, political tensions, tensions over the control of natural resources and terrorism have weakened the prospect of economic integration. The African Development Bank (2019b) partly attributes limited integration in central Africa to terrorism, border insecurity and political instability, among other factors. For example, the activities of Boko Haram have impeded the Lake Chad trade route vital for the region (Institute for Security Studies, 2021). The high level of prevalence of unemployment and poverty are likely to lead more young people to join terrorist groups in the hope of economic gains (Adelaja et al., 2018; Ayegba, 2015). The African Continental Free Trade Area could promote peace by helping to reduce inequalities, create wealth across communities and disincentivize youth from joining terrorist groups. At the same time, stability and peace among countries are required to achieve the full potential of free trade and this requires that countries place cooperation, to safeguard peace and address insecurity, at the top of the integration agenda.

4.3.1 Navigating between the African Continental Free Trade Area and commitments under multilateral trade systems

The African Continental Free Trade Area is implemented at the same time that countries in Africa also have commitments as part of global trading systems, including multilateral and bilateral agreements. The African Continental Free Trade Area offers a unique framework under which economies can foster cooperation in global trade.

African Continental Free Trade Area to strengthen cooperation among economies within multilateral trading systems

The African Continental Free Trade Area is emerging within a changing trade landscape. The COVID-19 pandemic has undermined trust in multilateralism, with several countries imposing short-term trade-restricting measures throughout 2020 (WTO, 2020). Following the global financial crisis of 2008/09, new protectionist measures such as antidumping, countervailing duties and safeguards, most of which were consistent with WTO rules, were disproportionately imposed by developing countries on other developing countries (Bown and Kee, 2011). Such developments pose challenges to the multilateral trading system, in particular given the limited progress made under the Doha Development Round. In the meantime, in recent years, the rise of emerging market economies has been modifying the external trade structure of economies in Africa, partly shifting trade patterns from traditional partners (e.g. the United States and the European Union) to emerging market economy partners (e.g. Brazil, China, India and Turkey). There has also been a proliferation of mega-regional and regional trade arrangements, such as the Transatlantic Trade and Investment Partnership between the United States and the European Union; the Regional Comprehensive Economic Partnership between the Association of Southeast Asian Nations and Australia, China, Japan, the Republic of Korea and New Zealand; and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. A key implication for Africa is with regard to greater competition in global systems and the erosion of preferences in global markets that results in significant trade diversion (Economic Commission for Africa et al., 2017). However, extracontinental trade arrangements can provide expertise and technical and financial support to advance the behind-the-border agenda of Africa. The African Continental Free Trade Area, by rationalizing and harmonizing trade rules and practices, provides economies in Africa with a unique opportunity to strengthen cooperation and negotiate trade arrangements as a consolidated group. This, in turn, can lead to better negotiations with extracontinental trade groups, help to penetrate higher value added segments of global and regional value chains and ultimately help to retain more value locally.

The African Continental Free Trade Area Agreement does not prevent States from entering into regional and bilateral trade agreements with extracontinental partners. If rules and measures are well aligned with the Agreement, trade agreements with third parties could contribute to the greater integration of economies in Africa with global markets, leveraging value added opportunities brought about by the African Continental Free Trade Area. World Bank (2020e) states that the African Continental Free Trade Area can contribute to increasing extracontinental exports by 19 per cent by 2035 and that the removal of non-tariff barriers, not only under the African Continental Free Trade Area but also under global commitments such as the WTO Agreement on Trade Facilitation, can act as a catalyst for gains. Emerging trade issues at WTO include, among others, electronic commerce, intellectual property rights, in particular of small and medium-sized enterprises, investment facilitation and the domestic regulation of services. The lack of harmonized positions and common regulations across member States of the African Union has lessened the weight of Africa in WTO discussions to date (Economic Commission for Africa et al., 2017). The African Continental Free Trade Area, by helping to address some of these issues through dedicated protocols, can strengthen the common position of Africa in discussions, particularly with regard to implications in developing countries. For example, electronic commerce is shaping the future of trade, particularly during the pandemic. The electronic commerce agenda aims to harmonize national-level policy space while promoting more openness, to ensure greater access to regional and national markets for actors in the sector. Proposed new rules include rules on greater transparency, the prohibition of customs duties and safeguards for network competition and non-discrimination (International Trade Union Confederation, 2019). The global electronic commerce market is currently dominated by well-established international companies and Africa is a marginal actor, yet electronic commerce in Africa is expected to expand significantly in the coming years, boosted by the upward pressure on online marketing during the pandemic, as well as African Continental Free Trade Area negotiations on electronic commerce and digital trade (Oxford Business Group, 2021). A key concern in Africa is that continental actors in this area, most of which are start-ups and small and medium-sized enterprises, require specific measures to enable them to grow and compete on a level playing field (WTO, 2017). A common position for member States of the African Union, under a protocol on electronic commerce, can help economies in Africa establish a harmonized framework for regulatory settings, to support digital development and the positioning of Africa in the global trade arena. This is essential in order to build vibrant digital economies across the continent, considering the significant potential of electronic commerce to generate jobs and benefit small and medium-sized enterprises, particularly women entrepreneurs, as social norms and family duties may have kept them out of the workforce (International Trade Centre and World Economic Forum, 2019).

Potential challenges in connection with commitments under multilateral trading systems

Trade arrangements with external partners pose the risk of the diversion or trans-shipment of trade flows from extracontinental markets for both the inputs and outputs of goods and services. The African Continental Free Trade Area is not a customs union and therefore cannot apply common external duties on trade flows, meaning that each State Party or existing customs union at the REC and subcommunity levels has room to define applied duties to trade partners outside the Agreement. Countries with regional competitive advantages may be incentivized to negotiate more multilateral or bilateral trade arrangements in an effort to become trade and production hubs for markets under the African Continental Free Trade Area. This could undermine regional efforts and cooperation pursued under the Agreement. The risk of trans-shipment is associated with goods sourced from a third party at preferential costs shipped as originating goods to markets under the African Continental Free Trade Area. For example, the smuggling of goods and the trans-shipment of non-originating merchandise from the Economic Community of West African States as originating items, among other factors, results in recurrent border closures between Benin and Nigeria (Omale et al., 2020).

There is evidence across the continent of members of custom unions, among which goods can circulate freely, that have decided to unilaterally pursue trade arrangements with other countries not members of the customs union. For example, Cameroon (member of the Economic and Monetary Community of Central Africa) and Côte d'Ivoire and Ghana (members of the Economic Community of West African States) have signed interim economic partnership agreements that grant duty-free access to European union products in their markets and, by extension, other countries in the customs unions. This can potentially undermine mutual trust and regional cooperation and result in trade deflections. Contentious issues in trade arrangements between countries or groups of countries in Africa and trade partners are also common. For example, most-favoured nation clauses in interim economic partnership agreements require members of the East African Community and the Economic Community of West African States to grant European Union partners any more favourable treatment applicable to any major trading country, meaning that any favourable treatment given by RECs to a third party (e.g. a developing country such as Brazil, China and India) shall be automatically granted to member States of the European Union. The article can potentially undermine South–South cooperation and is not consistent with WTO rules. Some of the impediments emanate from the weaker bargaining position of countries in Africa, as they tend to be disunified (Krapohl and Van Huut, 2020). Challenges could also emerge whenever preferential treatment under the African Continental Free Trade Area Agreement does not match the other treatment accorded under trade schemes between countries in Africa and partner countries not members of the Agreement. The Agreement establishes different levels and scopes of liberalization commitments (e.g. lists of products and services excluded from the liberalization scheme) and this can undermine the achievement of an inclusive free trade area that primarily aims to foster intra-African trade and the creation of local value added. Rules of origin would imply that producers and traders might have to choose between markets within or beyond the African Continental Free Trade Area, leading them to miss out on alternative business opportunities.

4.3.2 Maximizing synergies through integrated partnerships

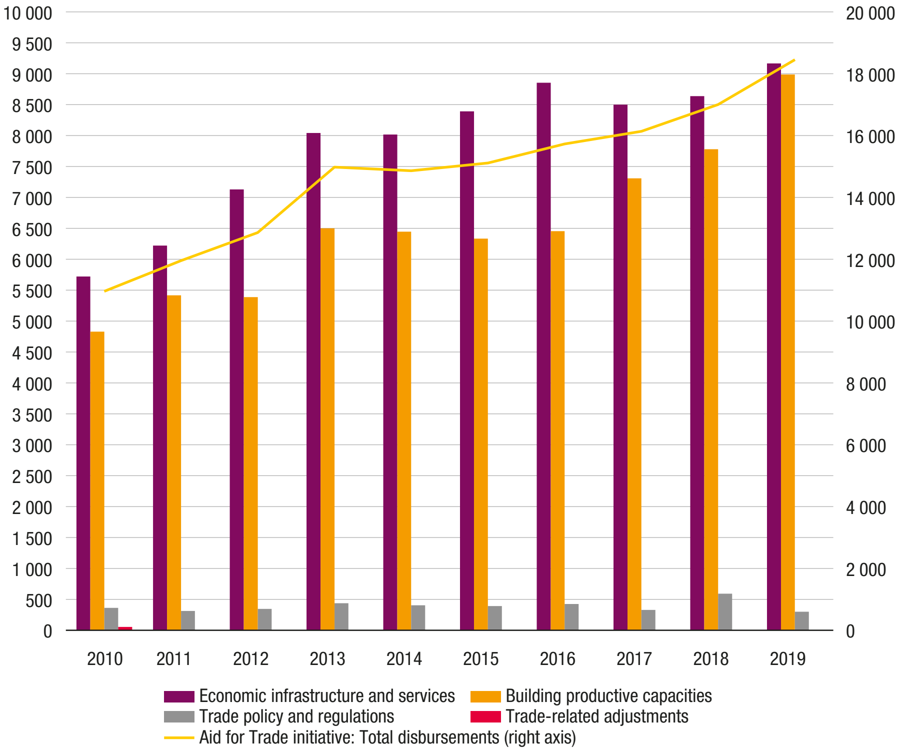
One way to maximize synergies between member States and non-member States of the Agreement is to ensure cooperation among countries in Africa and coherence between commitments to rules under the Agreement and beyond the Agreement (Krapohl and Van Huut, 2020). The African Continental Free Trade Area is not yet a customs union and does not prevent States Parties from entering into bilateral agreements, yet coherence and alignment remain critical. In the medium to long term, as almost all member States of the African Union adhere to the Agreement (and rules of origin not extended to trade partners that are non-member States of the Agreement), with many economies in Africa also negotiating other agreements (e.g. that between Kenya and the United States), the optimal strategy is for States Parties to negotiate as a group, to ensure alignment. The decision by the United Kingdom of Great Britain and Northern Ireland to leave the European Union, for example, provides economies in Africa with opportunities to renegotiate trade agreements with the United Kingdom at a time when emerging market economies such as China, India and Turkey are also seeking to conclude partnerships with countries on the continent. The African Continental Free Trade Area framework can be used, in addition to other arrangements at the REC level, as economies in Africa enter into such arrangements. In addition, bilateral agreements between economies in Africa and trade partners, most of which are donors and development partners of these economies, can support regional initiatives, including the African Continental Free Trade Area.

Significant support has been provided to African Continental Free Trade Area Agreement negotiations and implementation by, among others, the European Union. Donors through the Aid for Trade initiative contribute to supporting economies in Africa in addressing supply-side capacity and trade-related infrastructure constraints that are of particular importance for small and medium-sized enterprises; in 2010–2019, total disbursement increased from nearly $11.95 billion to $18.50 billion, with the majority channelled to economic infrastructure and services and programmes aimed at building productive capacities (figure 29). Aid for Trade has supported inclusiveness through the participation of women and youth in sectors such as agriculture, financial services and business support services (Economic Commission for Africa and WTO, 2019). Active support to the integration agenda in Africa also entails that partners not members of the Agreement deal with regional entities across the continent in strong win-win partnerships and such partners can also incentivize economies in Africa to achieve an appropriate balance between regional and national interests.

Figure 29

Africa: Aid for Trade initiative disbursements by sector

(Millions of constant 2018 dollars)



Source: UNCTAD calculations, based on data from OECD.

Complementary and targeted actions are needed to support vulnerable industries in navigating global and regional markets. To support local industries, economies in Africa can use trade and industrial policies within the framework of international and regional commitments. It is important to note that the competitiveness of national economies is critical in production and trade within the continent. As demonstrated throughout this report, tariff removal is not enough; addressing non-tariff barriers and devising complementary actions and policies are additional layers in ensuring an inclusive free trade area.

4.4 Well-functioning dispute settlement mechanisms to ensure an inclusive free trade area

A practicable and effective dispute settlement mechanism needs to be in place if Africa is to successfully achieve the behind-the-border agenda and is essential in order to foster mutual trust, accountability and the rule of law in operationalizing the Agreement and addressing any disputes that may arise. Experiences in RECs may be learned from and built upon to ensure the successful establishment of such a mechanism.

A practicable and effective dispute settlement mechanism must be in place to foster **mutual trust, accountability and rule of law**

4.4.1 Existing dispute settlement mechanisms

Dispute settlement mechanisms established by RECs with free trade agreements ensure that any challenges that may arise may be settled by following clear rules. REC treaties prescribe a dispute settlement process to be followed in the event that a member is believed to be in non-compliance with treaty obligations. For example, the treaty of the Economic Community of Central African States provides for the amicable resolution of trade disputes by direct agreement between the concerned parties. If this fails, parties may refer the matter to the court of justice for a binding decision. Despite the existence of such procedures at the REC level, members have been disinclined to initiate disputes against partner States (Bore, 2020). This may be for many reasons, including the fact that litigation has the negative connotation of being antagonistic and damaging to inter-State relations (Kessie and Addo, 2007). In addition, States in Africa may not be in favour of relinquishing sovereignty to regional institutions that would effectively relieve them of legal authority and decision-making power (Nathan, 2013). The absence of State-to-State litigation in RECs does not mean the absence of trade-related disputes; rather, intra-African State-to-State disputes occur in RECs. In 2019–2020, for example, several border closures were in direct contravention of the respective REC treaties and the disputes had direct negative impacts on intraregional trade, affecting in particular small-scale producers and traders (box 12).

Box 12

Recent trade disruptions within regional economic communities

In 2019, tensions between Kenya and Somalia (members of the Common Market for Eastern and Southern Africa) led Kenya to ban all cross-border trade with Somalia and, in December 2020, Somalia severed diplomatic ties with Kenya. The trade ban affected in particular khat farming in Kenya, which generally earned exporters to Somalia upwards of $400,000 per day. In January 2021, Somalia lifted the ban on khat imports. The dispute settlement mechanism of the Common Market for Eastern and Southern Africa allows for the Court of Justice to intervene, yet neither State approached the Court.

In 2019–2020, the customs service of Nigeria announced the closure of land borders, effectively halting the free movement of goods, aimed at reducing the smuggling of rice and arms. The closure affected the cross-border trade of several basic food items, including poultry, rice, sugar and tomatoes, and constrained informal traders from Benin and Togo, whose livelihoods depend on selling food items across the border and who obtain trade benefits through the treaty of the Economic Community of West African States.

In 2019, political tensions between Rwanda and Uganda (members of the East African Community and the Common Market for Eastern and Southern Africa) resulted in recurrent border closures. Rwanda is the fifth greatest export market of Uganda and the disruption in trade resulted in losses of more than $400 million for exporters in Uganda; the direct impacts of border closures were felt by manufacturers of cement, roofing materials and steel. In February 2020, the Heads of State agreed to the reopening of borders and the stabilization of relations.

Sources: Africa News, 2019; BBC News, 2016; *Foreign Policy*, 2016; Kenyan Tribune, 2019; Nantulya, 2019; *The East African*, 2021; Voice of America News, 2019.

At the global level, the dispute settlement understanding of WTO, comprising a set of rules and procedures to address disputes, is the central element in providing security and predictability in the multilateral trading system (Ranjan, 2009). Developing country member States in Asia and South America actively and regularly use this dispute settlement mechanism. Despite some shortcomings, the dispute resolution process under WTO has been relatively effective, with on average 19 disputes brought annually in 2010–2020 (WTO, 2021). States in Africa have had minimal interaction with dispute settlement at the WTO level, indicating that this is partly due to a lack of expertise in litigation under WTO and the extensive legal fees associated with dispute resolution (WTO, 2002).

The majority of the ministries of trade in Africa are inadequately staffed and many do not have lawyers trained in international trade law, meaning that they require the services of international law firms (Kessie and Addo, 2007). Capacity-building and technical assistance are therefore important for countries in Africa to be able to effectively engage in dispute settlement and ensure the implementation of rulings and recommendations. The Advisory Centre on WTO Law is an intergovernmental organization that provides advice on WTO law and supports developing countries and the least developed countries in dispute settlement proceedings at subsidized costs (Advisory Centre on WTO Law, 2015). However, the low level of participation of countries in Africa at WTO shows that they are not yet taking full advantage of this resource. In addition, engaging a law firm to represent a State is prohibitively expensive; for example, the legal fees charged to private sector companies exceeded $10 million in a case in which Japan was alleged to have violated the General Agreement on Tariffs and Trade (Kessie and Addo, 2007; WTO, 1998).

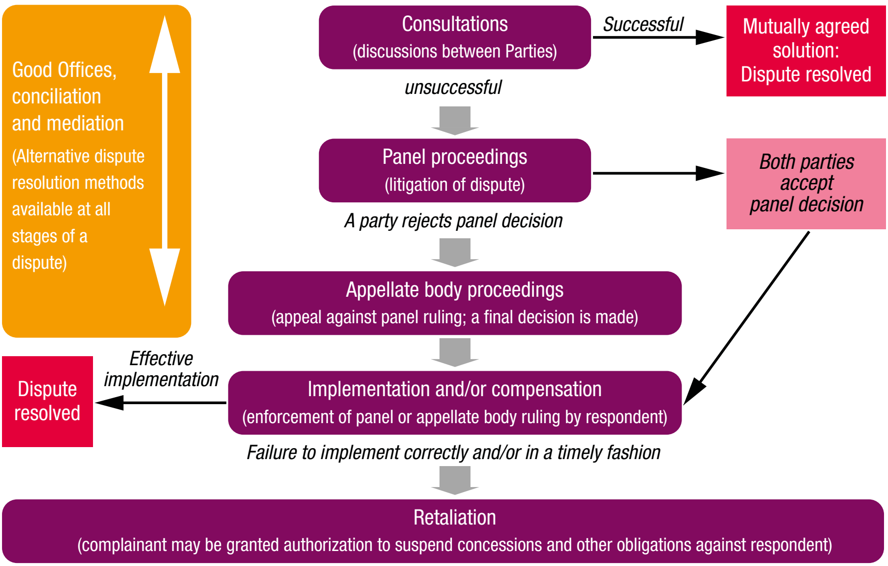
4.4.2 Dispute settlement under the Agreement: An overview

The African Continental Free Trade Area Agreement establishes the dispute settlement mechanism to be administered in accordance with the protocol on rules and procedures on the settlement of disputes (article 20). The mechanism is modelled on the dispute settlement understanding of WTO (Kigwiru, 2020). It combines adversarial procedures, that is, arbitration and a panel process, and diplomatic approaches, that is, good offices, conciliation and mediation. The protocol only applies to disputes arising under the African Continental Free Trade Area, including disputes on trade in goods and services. Negotiations are currently ongoing with regard to issues under phase II (investment, intellectual property rights and competition) and phase III (electronic commerce) and it is therefore unclear whether and how the mechanism will be used to deal with these issues. In addition, the Agreement (article 20 (1)) and the protocol (article 3 (1)) provide legal standing exclusively to member States, meaning that the private sector and individuals do not have recourse to bring a matter before a panel and non-State actors must therefore rely almost entirely on the Government to initiate trade dispute settlement proceedings on their behalf. There are three stages in the formal dispute settlement process under the African Continental Free Trade Area, as follows (figure 30): consultations between parties, providing an opportunity to negotiate and attempt to find a mutual solution without resorting to litigation; panel adjudication, if consultations are not successful, which is litigation similar to a court hearing at which parties are represented by lawyers and the panel gives a ruling, yet if either party is unsatisfied with the ruling, it may appeal to the appellate body, which reassesses the case and gives a final ruling;

and implementation of the ruling, which includes the possibility of countermeasures such as the suspension of trade benefits under the treaty in the event that the losing party fails to implement the ruling. At each stage, the parties may, by mutual agreement, resort to alternative dispute resolutions, such as good offices, conciliation and mediation. The time frames prescribed in the protocol envisage that a dispute settlement may take one year, from the request for consultations to the circulation of the review of the appellate body. Disputing parties may also agree to refer the case to a third party designated as an arbitrator. Such a decision must be notified to the secretariat of the African Continental Free Trade Area and the ruling must be implemented in the same manner as a ruling by a panel or appellate body (African Union, 2018b).

Figure 30

African Continental Free Trade Area dispute settlement mechanism



Source: UNCTAD, based on African Union, 2018b.

The dispute settlement mechanism under the Agreement mirrors the dispute settlement understanding of WTO, yet a key improvement is in the set up of the appellate body under the former. The structure of the appellate body of WTO, which considers State appeals of panel findings, has posed impediments to dispute settlement processes, as it is possible for States to block new appointments (Hoekman and Mavroidis, 2019). This has resulted in the appellate body being inadequately staffed to hear appeals and has therefore immobilized dispute settlement (Kugler and Nyaga, 2020). The protocol under the Agreement establishes a mechanism to avoid such a scenario by empowering the secretariat and the chair of the dispute settlement body to fill a vacancy in the appellate body if States cannot reach consensus regarding appointments (article 20 (6)). This innovative safeguard is an improvement on the WTO process as it guarantees the continuous availability of designated persons to address appeals and deliver definitive outcomes on disputes. A potential challenge, however, is related to the fact that the protocol does not clarify the type of consensus (positive or negative) required for the establishment of the panel and this could complicate the process, for example by prompting a respondent to a dispute to block it. In addition, the protocol does not provide for private sector actors to institute a trade dispute against a State and this has implications for both large businesses and small and medium-sized enterprises. Usually, financially robust business actors can lobby Governments to take action. For example, a key reason Brazil has been able to successfully navigate WTO litigation is due to strong partnerships with the private sector, which is engaged as a key pillar in advancing and defending national trade interests (Bahri, 2016). States in Africa may not currently have such an enhanced level of partnership with the private sector, yet can aim to resourcefully leverage the latter to strengthen participation in dispute settlement. Small-scale actors in particular may be empowered through representation in the institutional set up (e.g. national committees) or interest groups that can engage Governments through public and private consultation platforms.

4.4.3 Ensuring an effective and efficient dispute settlement mechanism

Countries in Africa have not yet reaped the benefits of existing dispute settlement mechanisms under current trade arrangements. This has been underpinned by several factors, ranging from high political and financial costs to capacity constraints and a reluctance to litigate. Addressing such issues is critical to ensuring that the mechanism under the African Continental Free Trade Area Agreement achieves its objectives.

Addressing political and financial costs

The African Group has noted that the WTO dispute settlement process presents major challenges, including both political and financial costs (WTO, 2002). The latter are also implied in the requirement in the protocol that each State must pay for its legal representation and also cover other costs associated with a dispute, such as the travel and lodging expenses of panellists, arbitrators and experts (article 26 (2)). Such costs make it expensive for parties to assert their rights under the African Continental Free Trade Area Agreement. Legal fees for trade disputes can amount to millions of dollars (Kessie and Addo, 2007). In addition, litigating a trade dispute is no quick feat. For example, the protocol under the Agreement stipulates that a trade dispute process should take around 14 months, from the request for consultations to the adoption of the report of the panel by the dispute settlement body. In contrast, in 2019, the duration of dispute processes at WTO ranged from 15 to over 40 months (Cato Institute, 2019). The lengthy process of dispute settlement can further impede trade while businesses are unable to exercise their rights under free trade agreements. The adversarial system of dispute resolution can result in significant political costs as litigation has the negative connotation of being antagonistic and damaging to inter-State relations. Entering into consultations is not done by mutual agreement of the parties to the dispute, rather, such a request must be responded to within a few days or the party may be brought before a hearing that will have binding consequences. In the event that an economically smaller State is the winner in a trade dispute against a State that does not enforce the recommendation and ruling of the dispute settlement body, the former may request that concessions against the losing party be suspended (article 25). Yet suspending trade concessions against a large economy may prove more damaging for the economically smaller State and amount to "economic self-harm" (Olayiwola, 2020). This is one of the deterrents to engaging with the WTO system, as States in Africa find that it is skewed against economically weaker States (WTO, 2002). Diplomatic approaches to dispute resolution, namely, good offices, conciliation and mediation, unlike arbitration, may not be accessed in isolation. In addition, arbitration limits sovereignty as States need to abide by prescribed decisions. By contrast, isolating alternative dispute resolution from the adversarial process makes it approachable and accessible. In addition, States are familiar with this form of dispute settlement as it is mandated in several REC treaties. For example, the treaties of the Economic Community of Central African States, the Economic Community of West African States and the Southern African Development Community refer to diplomatic dispute settlement as the first recourse for inter-State disputes. Accessing and notifying of diplomatic dispute resolution in the same manner as arbitration and independently of adversarial processes can reduce the political costs. If diplomatic approaches are unsuccessful, States can proceed to arbitration or directly to litigation by a panel.

Making the dispute settlement process cost effective

Prior to escalating to a dispute, member States can use the platform provided by the technical committees (e.g. on trade in goods and on trade in services) that meet periodically to provide peer reviews of trade policies to ensure compliance with the African Continental Free Trade Area Agreement and raise any trade-related concerns. The WTO trade policy review mechanism, for example, is a platform for non-confrontational discussions, under which parties can openly discuss trade and trade-related policies and raise complaints (Grollier, 2017). Such a peer review mechanism encourages transparency and benefits States by providing for an objective assessment of trade policies to ensure a smoothly functioning multilateral trading system. Implementing a similar monitoring platform among the committees of the African Continental Free Trade Area could serve as a means of dispute avoidance and encourage States to enact trade policies that comply with obligations under the Agreement.

The use of online mechanisms for dispute settlement also has significant potential to reduce financial costs as it is less expensive than the traditional method requiring all participants to travel to a central, usually extracontinental, location. Online dispute resolution is a digitalized form of dispute resolution and is compatible with the panel process, arbitration and the recommended good offices, conciliation and mediation model. Domestic courts worldwide have incorporated online dispute resolution into judicial procedures, and this has accelerated during the pandemic; for example, courts in South Africa adopted video conferencing technology to ensure that the legal system was not disrupted during the pandemic and European Union member States have adopted online dispute resolution for certain civil matters (Lexis Nexis, 2020; Lexis Nexis, 2021). Affordable access to dispute resolution through online systems, in particular for the least developed countries and economies with limited resources, can make the dispute settlement mechanism of the African Continental Free Trade Area more inclusive.

A culture that is conducive to rules-based dispute settlement and that results in legal certainty should be encouraged (Olayiwola, 2020). States may be accustomed to proceeding directly to the retaliation stage without engaging in lengthy and expensive processes, even at the REC level. Instead, States should be encouraged to use rules-based good offices, conciliation and mediation or arbitration until challenges with regard to capacity have been overcome. The political costs of dispute settlement can be circumvented by allowing States to access the non-adversarial dispute settlement methods of good offices, conciliation and mediation independently of adversarial mechanisms. In contrast to the consultation process, diplomatic methods of dispute settlement should be initiated by mutual agreement between States. Diplomatic approaches allow the parties to accept or reject the proposed outcomes, thereby preserving decision-making power. Access to a dispute settlement process that protects sovereignty and is based on mutual understanding better encourages States to resolve differences. If diplomatic approaches are unsuccessful, States can proceed to arbitration or directly to litigation by a panel. The more opportunities there are for resolution, the more inclusive the process will be. Formalizing alternative dispute resolution mechanisms would increase the certainty and transparency of the system. This entails the notification of diplomatic dispute resolution in the same manner as that of the notification of arbitration and agreed outcomes of settlements to the secretariat. This is the same format as detailed for arbitration under the protocol; it can help achieve the diplomatic resolution of disputes in a formal and quicker manner, which is familiar but less affected by capacity limitations. Finally, digitalizing such processes would make them faster, less expensive and more accessible by States.

Building the capacity of relevant actors to engage in trade disputes

Lawyers and other stakeholders in Africa, including those supporting policymaking, should be well acquainted with the dispute settlement mechanism, as there will be a demand for dispute settlement lawyers specializing in international trade law (East Africa International Arbitration Conference, 2021). An institution similar to the Advisory Centre on WTO Law could be fundamental for capacity-building among legal practitioners under the African Continental Free Trade Area Agreement and could assist States that do not have adequate resources to engage in dispute settlement under the Agreement. Trade facilitation committees can be useful in emphasizing the need for international trade law practitioners, domestic commercial law firms and universities that offer international trade law-related subjects to market this legal specialization more strongly. Empowering more lawyers and policymakers in Africa with skills in international trade law is in line with the endeavour to achieve a deeper level of integration and expand intra-African trade in services.

Empowering small-scale businesses to raise their voices in the dispute settlement process

It is essential to empower small and medium-sized enterprises, women and young entrepreneurs and informal cross-border traders through regional and national platforms that allow them to collectively bring attention to trade practices that violate the Agreement and are detrimental to their businesses. Traders of all sizes should be given an opportunity to voice their experiences in order for the African Continental Free Trade Area to have an impact in alleviating and eradicating poverty on the continent. Such regional and national platforms can take the form of business associations and trade unions, the members of which should also be trained to understand the African Continental Free Trade Area. Trade experts can lead in overseeing implementation of the Free Trade Area and compliance with the Agreement and can encourage States to engage in dispute settlement processes instead of resorting to retaliatory means of trade dispute resolution (East Africa International Arbitration Conference, 2021). For example, the Nigerian Union of Traders Association Ghana petitioned the Government of Nigeria to intervene on behalf of informal traders whose businesses had been closed in Ghana and this action by the Union was cited as a key component in restoring the trade environment between the two members of the Economic Community of West African States (This Day, 2020).

4.5 Concluding remarks

The effective implementation of coherent policies and strategies and the harmonization of trade rules are important, along with policy sequencing, and will be key to delivering on the potential of the African Continental Free Trade Area Agreement to support inclusive growth and prosperity in Africa, in line with the 2030 Agenda for Sustainable Development and Agenda 2063 of the African Union. The multidimensional feature of the African Continental Free Trade Area makes integrated frameworks and cooperation essential to its achievement and this can support effective policymaking, as well as a strong regulatory and institutional environment, from the design of actions to their implementation and monitoring, and strong partnerships and cooperation at all levels, whether global, continental, regional or national. Another critical element is political leadership and the ability to articulate visions that incorporate the interests and needs of all stakeholders. At the global level, the operationalization of the African Continental Free Trade Area is anchored within multilateral trade systems, stemming from the fact that most economies in Africa have adhered to many multilateral and/or bilateral trade arrangements, which can provide economies in Africa with opportunities to build the trade capacities and boost the trade facilitation needed to achieve the benefits of the Free Trade Area. The importance of aligning multilateral and bilateral agreements with the framework of the African Continental Free Trade Area, to build synergies with the aim of achieving common continental objectives, cannot be overstated. Conversely, misalignment is likely to undermine the ambition in the Agreement for Africa to produce more of what it consumes. Finally, the African Continental Free Trade Area provides for a dispute settlement mechanism with a view to fostering mutual trust, accountability, the rule of law and the peaceful settlement of trade disputes that may arise. Challenges in this regard, including both political and financial costs and capacity constraints, need to be addressed, along with the need to empower small-scale businesses to raise their voices and protect their rights.

Chapter 5

Main messages and policy recommendations

The analysis in this report sheds light on how recent policy trends and practices, mainly those expected to prevail under the African Continental Free Trade Area, will impact prospects for more inclusive growth, given increasing inequalities both between and within countries in the region and the negative effects of the COVID-19 pandemic. Recommendations are provided in this chapter for Governments in Africa and the multilateral community, which aim to support policymaking across the continent by outlining how expected gains from trade, production, investment and growth opportunities from the Free Trade Area can be more inclusive. In the final section, a toolbox is proposed for streamlining elements of inclusive growth into the ongoing negotiations under the African Continental Free Trade Area.

“Effective implementation of the African Continental Free Trade Area is crucial for the prosperity of African countries. Through increased regional integration and an avenue for inclusive growth, the Agreement will encourage harmonized intra-African and extra-African trade. It is critical that countries accelerate efforts to maximize the long-term gains from trade by eliminating structural and institutional barriers to integration. Against the backdrop of the coronavirus, countries should ensure sustainability is at the fore, with vulnerable groups prioritized and hindering realities mitigated. The recommendations presented in the 2021 edition of the Economic Development in Africa Report should guide policy decisions made to harness the creation of an African trading bloc.”

Trudi Hartzenberg,
Executive Director of Tralac Trade Law Centre

5.1 Main messages

The African Continental Free Trade Area is one of the flagship projects under Agenda 2063 of the African Union, which includes various targets related to sustainable and inclusive growth. One of the objectives of the African Continental Free Trade Area is to "promote and attain sustainable and inclusive socioeconomic development, gender equality and structural transformation of the State Parties". Accordingly, specific elements and channels are addressed in this report through which complementary interventions and partnerships under the Free Trade Area can support the inclusive exploitation of potential benefits, which include economic diversification and stronger resilience; an increase in the trade shares of women, youth and locally owned enterprises; and support for the graduation of informal ventures to small and medium-sized enterprises. The discussion underscores the strategic role of the African Continental Free Trade Area in unleashing equal export opportunities for all actors in support of inclusive growth and development. High levels of unexploited trade potential reveal opportunities for inclusive growth under the African Continental Free Trade Area. However, as contended in the report, this can only be achieved if implementation is accompanied by coherent trade policies and strategies that focus on reducing commodity dependence in the region and that promote fair trade. The effectiveness of such policies is contingent on the quality of institutional mechanisms, both for monitoring implementation and for dispute settlement, and partnerships that support the realization of the African Continental Free Trade Area. Key stylized facts include the following:

- On average, the proportion of households in Africa with an income or consumption level at below $1.9 per day (purchasing power parity) declined from 40.2 per cent in 2010 to 34.4 per cent in 2019. With regard to inequality, countries in Africa have a Gini Index ranging from 27.6 per cent (Algeria) to 63.3 per cent (South Africa). The pandemic risks jeopardizing many of the growth gains made in recent years, halting the decline in poverty while exacerbating inequality.

- Inclusive growth includes elements of income-related inclusive growth and multidimensional inclusive growth; the former, across all segments of the population, as illustrated through growth incidence curves, has been inclusive (that is, growth that reduces poverty and inequality) in only 17 countries in Africa; poverty-reducing but inequality-increasing in 18 countries; and non-inclusive (that is, growth that does not reduce poverty or inequality) in 14 countries.

- Strengthening regional trade integration could help enhance inclusive development. Removing intra-African tariff and non-tariff barriers under the Free Trade Area could unlock new trade opportunities.

- The total untapped export potential of intra-African trade is $21.9 billion, more than one third of which is due to trade-related frictions. The remaining $13.3 billion is driven by GDP and population growth that is expected to translate into increased supply and demand on the continent.
- Partial tariff liberalization by 2025 under the African Continental Free Trade Area is expected to increase the intra-African export potential by an additional $9.2 billion.
- The scope of the African Continental Free Trade Area for strengthening regional value chains can increase the resilience of countries in Africa in the post-pandemic period, in particular with regard to medical supplies and food products. This may also be relevant with regard to renewable energy because different countries have different energy resources and more intense trade can support the diversification of the energy mix and harness complementarities. This may be important in Africa given the growing prominence of a green growth agenda as part of post-pandemic scenarios.
- To further increase the inclusivity of intra-African trade, it is necessary to facilitate the participation of domestic and women-owned enterprises. Facilitating market entrance and reducing the costs of starting a business, as well as strengthening productive linkages between exporters and the domestic economy, are critical for more inclusive growth.
- Ongoing trade-related frictions, including non-tariff measures, infrastructure gaps and inadequate market information, pose particular burdens on small and medium-sized enterprises and marginalized groups. Firms experience business constraints differently and access to inputs and productive capacities is not equally distributed. Addressing the dominance of a few market actors and structural and regulatory barriers to entering domestic and foreign markets requires long-term cooperation in investment and competition policies. Moreover, some trade barriers entail fixed-cost elements and smaller actors are therefore disproportionately affected, notably with regard to non-tariff measures.
- The effective implementation of coherent policies and strategies and the harmonization of trade rules is important and policy sequencing is key in delivering on the potential of the African Continental Free Trade Area Agreement.
- Challenges related to the dispute settlement mechanism of the African Continental Free Trade Area Agreement, including both financial and political costs and capacity constraints, should be addressed, to empower small and medium-sized enterprises to raise their voices and protect their rights.

5.2 Policy recommendations

The implementation of the African Continental Free Trade Area starts a new era of trade governance in Africa and should be considered an opportunity to undertake much needed structural reforms across the continent, to support inclusive growth and recovery in the post-pandemic period.

Streamline trade rules and practices

Promote efficient trade measures, including through the digitalization of rules and practices

The implementation of trade measures under the African Continental Free Trade Area, including tariff and non-tariff measures, determines cost-effectiveness and the competitiveness of economies in Africa. The digitalization of trade and the promotion of paperless trading systems has significant potential to support small-scale traders and should be a leading priority for policymakers and trade practitioners (chapter 2). The adoption of technologies, which has increased during the pandemic, should be accelerated across economies in Africa, including through dedicated efforts to support digital skill upgrading and awareness-raising among the largest segments of the population. These are key elements with regard to the choice of a business to source inputs from within the Free Trade Area (chapter 3). In addition, the establishment of the mechanism for reporting, monitoring and eliminating non-tariff barriers through an online platform reflects continental ambitions to mainstream digital issues in trade reforms (chapter 4). It should be effectively used by businesses to report any barriers they might encounter while trading across borders. The use of the tool should be encouraged across the continent through sensitization events, dedicated in particular to small-scale businesses and women traders. The adoption of electronic certificates of origin will also be instrumental in digitalizing procedures and the African Continental Free Trade Area secretariat could design an integrated electronic system for the certification of origin under the Free Trade Area. This would allow not only for reductions in trade costs but also help ensure the security, traceability and efficiency associated with electronically based systems. In practice, such a system can allow manufacturers and exporters to electronically submit, on a dedicated web-based platform, all relevant documents for the issuance of certificates of origin. The African Continental Free Trade Area Agreement provides for the use of electronic certificates of origin, to be issued and accepted in accordance with the legislation in each country. The adoption of electronic certification is not compulsory under the Agreement. However, existing initiatives across RECs and the increasing digitalization of trade processes and cost-saving advantages of such procedures can help encourage its adoption by States Parties. The electronic certification of origin under the Common Market for Eastern and Southern Africa, for example, is expected to replace manual certification. Such actions should be complemented by investments in hard infrastructure assets and development corridors (e.g. transport, trade, agriculture, industry and other corridors). Short-term to medium-term actions can include the establishment of efficient, well-connected and self-inclusive regional and national special economic zones (e.g. cross-border special economic zones, industrial zones and technology parks), preferably under strong public–private partnerships (chapter 4).

Ensure the convergence of trade rules and practices under the African Continental Free Trade Area and between the Free Trade Area and regional economic communities

Heterogeneous trade agreements among countries in Africa could undermine the efficiency of rules under the African Continental Free Trade Area (chapters 2, 3 and 4). Concerted efforts and cooperation among States Parties, across RECs, are required to reduce the complexity of the regulatory landscape with regard to regional trade, build synergies among the various trade arrangements and achieve integration. This is recognized in the various provisions of the African Continental Free Trade Area Agreement that emphasize cooperation and mutual assistance. Achieving such objectives implies that States Parties need to foster the gradual harmonization (e.g. joint definitions of objectives and requirements, preferably converging towards international and continental standards), equivalence (e.g. recognition of technical regulations, standards and conformity assessments of other States as equivalent in achieving policy objectives) and mutual recognition (accepting the procedures of other States) of trade-related measures. States Parties may need to relinquish certain aspects of sovereignty in favour of harmonized systems and greater cooperation, to achieve common objectives. Convergence in quality infrastructure systems can be driven by continental quality infrastructure institutions, such as the African Organization for Standardization, the Intra-Africa Metrology System, the African Electrotechnical Standardisation Commission and the African Accreditation Cooperation, working closely with member States, RECs and the African Continental Free Trade Area secretariat. Some diverging provisions, such as rules of origin criteria, among RECs and the African Continental Free Trade Area might not be easily reconcilable (chapter 4). Such divergence could encourage the private sector to produce and trade towards a specific REC, which would undermine the achievement of the African Continental Free Trade Area objective of promoting increased continental trade. In this context, it is important for RECs and customs unions to gradually converge towards the development of new sets of rules of origin that can be aligned with the rules of origin provisions under the African Continental Free Trade Area. This can also help address issues related to overlapping and proliferating rules of origin across the continent.

Promote market intelligence, to provide knowledge on market opportunities, trade rules and other regulations

Industry associations, including women's trade associations and networks at the regional and national levels, intermediaries and business services should be supported and provided with market-driven information, to facilitate linkages, strengthen women's participation and reduce potential mismatches between demand and supply, both between and within countries. Women entrepreneurs and producers also need to be given opportunities to participate in international exhibitions and trade fairs, as a means of identifying niche markets and connecting with international buyers. The African Trade Observatory is expected to serve as a repository for data and relevant information on measures, policies and intra-African trade. Data collected through the platform could serve to assess the implementation of different trade measures. Regional arrangements at the REC level could also support the tracking of progress on implementation.

Ensure that the private sector is a driver of transformative growth: A bottom-up approach is necessary

The central role of the private sector can be supported through stronger industry associations and intermediaries, to connect businesses and facilitate access to human and physical capital and intermediate inputs and services. An effective bottom-up approach that begins with addressing the obstacles to participating in economic activity at the micro level requires increased data collection and sharing knowledge from enterprise surveys. Trade, investment and competition policies that are implemented without an understanding of the market structure and the needs of the private sector will not be able to reap the full benefits of the African Continental Free Trade Area for inclusive growth. A top-down approach risks being influenced by dominant lobby groups and may protect industries owned by a few market actors. Yet a bottom-up approach alone is insufficient to effect sustainable change on behalf of the private sector. Rather, it should be combined with meso-level action, aimed at leveraging industry associations, trade unions and civil society organizations.

Promote an inclusive free trade area through complementary measures targeting vulnerable groups

Harnessing the inclusive growth potential of the African Continental Free Trade Area is not automatic; to achieve this potential, complementary measures are essential (chapters 1 to 4). The Agreement does not include differentiated provisions for stakeholders that are often disadvantaged in formal trading systems, such as women-owned businesses, small-scale traders and young entrepreneurs, and complementary measures at the regional and national levels are essential, to achieve an inclusive free trade area (chapters 2 and 4). Such measures include, for example, the prioritization of support to actors among which and sectors in which trade reforms have the greatest potential for inclusiveness, such as women in trade, agriculture and small and medium-sized enterprises. At the policy level, it is important to mainstream into formal economies the following actors: women-owned businesses; young entrepreneurs; informal producers and traders; and small and medium-sized enterprises. Affirmative action schemes to support such groups, including in public procurement, can be developed by the States Parties. For example, national public procurement rules can award a portion of all types of contracts to continental and regional businesses without competition with well-established firms. Complementary measures in favour of an inclusive African Continental Free Trade Area also entail the development of one-stop border posts and the adoption of simplified trade regimes (chapters 2 and 4). Experiences at the REC level show that simplified trade regimes can increase the profit margins of small-scale traders, including women-owned businesses. Such regimes allow for clearance through a limited number of customs procedures, providing that the value of traded items is below a certain threshold. Best practices from RECs could serve as a foundation for a continental simplified trade regime. The promotion of suitable financing solutions is critical for small-scale traders with limited start-up capital and savings. Policymakers may consider developing structured financial products with flexible lending schemes, offering preferential terms for informal cross-border traders. Harmonized policy and legal frameworks for mobile money and cross-border electronic payment systems could be established to reduce the risks and inefficiencies associated with cash-based transactions. Electronic payment systems could provide a means of affordable and effective cross-border funds and/or remittance transfer systems, as well as an opportunity to formalize some informal cross-border trade. Existing regional payment systems largely exclude informal cross-border traders as they are linked to formal banking channels. Advocacy efforts need to focus on the integration of banking products targeting cross-border traders into these payment systems, to address information asymmetries between traders and financial institutions.

Develop a framework for the collection of data on informal cross-border trade and improve the availability of relevant gender-disaggregated data

Given the estimated magnitude and prominence of informal cross-border trade and its positive consequences for food security and incomes among poor households, the lack of data and statistics in this regard hinders the adequate determination of intra-Africa trade, making it difficult to capture and understand the different dynamics at play, to inform evidence-based policymaking. Part of the reason for such a lack is that there is no universally agreed definition of informal cross-border trade. A common definition and methodology are essential in order to establish a coherent statistical database, including, for example, the utilization of commodity descriptions aligned with formal trade statistics, and thereby enable monitoring, comparison and analysis across countries in the implementation of the African Continental Free Trade Area. Longitudinal surveys of informal cross-border trade could be supplemented by socioeconomic surveys, to provide insights into the demographic, social and economic status of informal cross-border traders and convey trader perceptions of the quality of infrastructures and experiences at borders. The collection of data on informal cross-border trade could go beyond data on merchandise trade, including trade-related costs (e.g. transport, storage and accommodation costs), to assess the impact of trade facilitation measures. National Governments should intensify their efforts to collect gender-disaggregated data, to enable deeper analysis of women's participation in value chains and trade. To ensure ownership and sustainability, the monitoring of informal cross-border trade should be led by national statistical offices. In instances of national-level resource and capacity constraints, Governments should be supported by RECs and other stakeholders in addressing gaps, building capacity and compiling and harmonizing gender-disaggregated data and statistics.

Establish integrated institutional mechanisms for implementation and monitoring

Implementation of the African Continental Free Trade Area requires a strong and integrated institutional set-up. The Agreement is multidimensional and cuts across various sectors. National-level institutional arrangements for implementation and monitoring should therefore include, as much as possible, representatives from relevant public and private entities. To be more inclusive, institutional arrangements should include representatives from among women producers and traders, small-scale businesses and other groups, and account for their voices in policy design, implementation and monitoring processes. Several countries are establishing African Continental Free Trade Area national committees, with a mandate to coordinate implementation and monitoring under the Agreement. Other countries have this mandate incorporated in the work of existing trade committees (e.g. national trade facilitation committees under WTO). A proposed architecture for national committees aims to ensure inclusiveness, with members drawn from various national agencies, customs authorities and businesses (chapter 4). National committees could establish ad hoc or permanent technical committees or working groups to deal with specific provisions of the Agreement. In addition, regional and national institutions need to develop and implement effective monitoring and evaluation mechanisms for trade rules under the African Continental Free Trade Area, to track progress. The toolkit proposed by UNCTAD to assess the effectiveness of non-tariff measures can help States Parties undertake regulatory audits of trade-related measures, to understand the challenges faced by manufacturers and traders (chapter 4). This objective can also be achieved through the country business index proposed by the Economic Commission for Africa, which aims to assess the extent to which businesses in countries in Africa find trading across borders challenging, with a view to identifying the main challenges with regard to trade competitiveness. Such tools can help policymakers take proactive corrective measures and alleviate the trade-related burdens faced by businesses. Regular consultations between Governments and businesses, including through formal and informal public–private platforms, should also be encouraged across the continent, as this is instrumental in designing appropriate interventions to support businesses. Given the multiplicity of institutions and stakeholders involved in the implementation of the Agreement, effective policy coordination needs to be well organized between the African Continental Free Trade Area secretariat, various ministries and entities with potentially contrasting mandates. Ideally, the design of policies should be aligned with the African Continental Free Trade Area and regional frameworks, with States Parties refraining from trade-restrictive practices. The protection of Infant industries should fit into the modalities provided for under the African Continental Free Trade Area, that is, that up to 3 per cent of tariff lines may be excluded from the liberalization scheme. However, given the structure of production and export in most economies, countries in Africa need to pursue active industrial policies in sectors that are critical for inclusive development and economic diversification. This should not result in undue protectionism beyond the allowed transition periods however, and policies should gradually be coordinated at the regional and subregional levels. Finally, there is an intrinsic relationship between peace, trade and inclusive growth, and it is critical for countries to fight insecurity and terrorism and to build cooperation towards peace (chapters 2 and 4). The integration agenda and related interventions need to have, as leading priorities, security, good governance and peace.

Build the capacity of relevant stakeholders with regard to inclusive rules and practices

Countries in Africa already have trade agreements at the international and regional levels. However, the capacity of countries to implement the African Continental Free Trade Area Agreement, given the development constraints that they face, should not be underestimated. The effective implementation of the African Continental Free Trade Area and specific trade facilitation procedures depends on the training and skills upgrades provided to government officials involved in the processing of import and export flows and the collection and monitoring of data. Capacity-building in the implementation of the African Continental Free Trade Area is necessary to ensure that the private sector is aware of the Agreement and to obtain buy-in at both the regional and domestic levels. For policymakers and trade officials, including customs authorities, this is a prerequisite to implementing the provisions of the Agreement while accounting for heterogeneity in the trade landscape at all levels, whether international, continental, regional or national. For businesses, which are pivotal in the production and trade of goods and services, undertaking the Agreement is essential, to reap its full benefits. In addition, for the private sector to understand the texts, rules and regulations under the African Continental Free Trade Area and to use them cost effectively, it is desirable that the legal texts should be translated into different languages at the regional and national levels. Capacity-building could also address the available tools, from those related to awareness-raising to printed media and electronic tools such as online toolboxes, training materials and information. *Economic Development in Africa Report 2019: Made in Africa – Rules of Origin for Enhanced Intra-African Trade* proposed a digital toolbox for rules of origin that could be easily expanded to cover other themes under the African Continental Free Trade Area, such as trade facilitation measures and technical barriers to trade. Such a toolbox could include, among others, online training materials and information-sharing, web-based information in the form of a repository of the provisions of the Agreement and a help desk. Toolboxes could be developed by the African Continental Free Trade Area secretariat at the continental level, RECs at the regional level and national committees at the domestic level.

Target technical and financial support to the least developed countries, to address trade constraints

Trade reform in the least developed countries is associated with a relatively slow pace of implementation of agreements and the capacity to harness trade benefits is relatively limited in these countries compared with in most non-least developed countries (chapters 2 and 4). The least developed countries have not been granted differentiated treatment other than the longer period of tariff liberalization under the African Continental Free Trade Area. Most of these countries face structural constraints, such as a weaker manufacturing and services base. In addition, landlocked least developed countries (14 of the 33 least developed countries in Africa) face higher trade costs, which is likely to undermine their competitiveness within the African Continental Free Trade Area (chapter 3). The Agreement does not provide for differentiated rules of origin for the least developed countries, which could have helped to reduce gaps related to productive capacities in comparison with other groups of countries. Therefore, technical and financial assistance programmes under the African Continental Free Trade Area should first and foremost target the least developed countries. For example, the Enhanced Integrated Framework, a multi-donor fund led by WTO, and the Aid for Trade initiative, support the least developed countries at the international level in addressing trade-related constraints. Similar programmes could be created under the African Continental Free Trade Area, hosted by the secretariat. The ultimate objective would be to channel financial and technical support through programmes that primarily target the least developed countries in Africa, with a view to providing assistance in addressing trade-related constraints and strengthening integration in regional value chains.

Strengthen cooperation at the international and continental levels

The African Continental Free Trade Area is being implemented within a dynamic trading landscape, with several multilateral and bilateral agreements, and at a time of significant competition in global markets and ongoing pandemic-related measures (chapters 1–4). In this context, beyond rationalizing trade rules and practices, the Agreement can be considered by both members of the African Continental Free Trade Area and non-member States as an integrated framework for consolidating continental approaches with regard to negotiations beyond the continent. The Agreement can help to strengthen the position of Africa, to weigh in on debates on topical trade issues at WTO, including electronic commerce; intellectual property rights, particularly for small and medium-sized enterprises; investment facilitation; and the domestic regulation of services. In this regard, partner States that are not members of the Agreement can help economies in Africa to achieve a balance between regional and national interests. At the same time, countries in Africa need to fast track implementation of the African Continental Free Trade Area, consider the impact of any trade agreement with third parties on regional integration and avoid undermining the latter for short-term gains. In addition, the African Union could accelerate achievement of the ambition to make the African Continental Free Trade Area a customs union.

Adopt cost-effective measures and strengthen dispute settlement mechanisms

Evidence from international trade arrangements and those under RECs suggests that countries in Africa have had limited recourse to formal dispute settlement mechanisms due to factors ranging from high financial and political costs to capacity constraints and a reluctance to litigate (chapter 4). In this context, with a view to reducing the costs associated with physical representation, trade dispute resolution under the African Continental Free Trade Area may be digitalized through the use of online dispute resolution mechanisms whenever possible and practicable. Online mechanisms can make the process more accessible to States facing significant financial constraints. In addition, to reduce the political costs associated with dispute settlement mechanisms, countries may use, to the extent possible, diplomatic approaches as a first recourse in dispute resolution, as provided for in the formal dispute settlement process under the African Continental Free Trade Area. Such approaches, including good offices, conciliation and mediation, are rules-based dispute settlement mechanisms that allow States to mutually seek a resolution, uphold commitments to the Agreement and preserve inter-State relations. States Parties could also establish a capacity-building institution, namely, an advisory centre on African Continental Free Trade Area law, along the lines of the Advisory Centre on WTO Law. Such a centre could be mandated to support training and provide advisory services to States Parties, in particular the least developed countries, to help resolve trade disputes. The centre could also work with universities across the continent to support training programmes in international trade law, with a focus on African Continental Free Trade Area rules and regulations.

Implement the Protocol to the Treaty Establishing the African Economic Community Relating to Free Movement of Persons, Right of Residence and Right of Establishment, to facilitate labour mobility and reap inclusive benefits

The assessment in this report of the export potential under the African Continental Free Trade Area suggests that large economies and those with better-equipped production facilities can reap the greatest gains from increased market access, through the realization of economies of scale. Labour mobility is key to explaining the distributional impacts of international trade because export and import-competing industries are clustered in different locations and workers cannot move seamlessly between regions and sectors. The implementation of the Protocol Relating to Free Movement of Persons is therefore a crucial element in ensuring that the African Continental Free Trade Area is more inclusive. In particular, implementation of the protocol has the potential to generate significant benefits for informal cross-border traders; to reduce the vulnerabilities associated with illegal border crossings and income losses due to lengthy visa applications; and to help recognize informal cross-border traders in formal trade. In addition, with regard to trade in services, implementation of the protocol can facilitate transactions and communications between buyers and sellers, through reductions in the costs of obtaining visas and the removal of costs related to residency and work permits. The facilitation of the free movement of people between countries in Africa, beyond providing opportunities for cross-border traders, could also have significant implications for women and youth, including with regard to the ability to migrate between regions and countries in pursuit of job prospects.

Ensure tax justice and coherent provisions in investment and competition policies

The most significant aspects with regard to continental integration, namely, building productive capacities and competitiveness, are addressed under phase II of the implementation of the African Continental Free Trade Area. Trade policies alone are unlikely to support inclusive growth. Instead, potential distributional gains from regional integration should be addressed through strong cooperation in the development of investment and competition policies. Governments should seek to ensure that fair taxes are paid in order to finance infrastructure that facilitates linkages to rural remote areas. Tax redistribution and justice is understood as a determinant of inclusive growth. Current investment policies often involve tax holidays, yet to promote inclusive growth, domestic resource mobilization and the equal distribution of benefits from trade and investment, Governments should cooperate in the minimum taxation of multinational firms. The dispute settlement mechanism under the African Continental Free Trade Area could help address such issues in investment and competition policies, to avoid race-to-the-bottom tax policies.

Ensure the enforcement of equal rights for the development and protection of marginalized groups

The African Charter on Human and Peoples' Rights aims to protect human rights and ensure equal access to education, health, productive resources and legal protection. However, certain groups, based on gender, class or ethnicity, are systematically disadvantaged, and there continues to be insufficient protection for women against violence. Governments should work to adopt and enforce antidiscrimination laws, to help ensure inclusive development.

5.3 Future avenues of research

Future research should assess the domestic income distribution effects of the African Continental Free Trade Area, to help support those who may benefit less. Such analyses could also examine the differential impacts of initiatives on women and men. Ongoing tariff negotiations with regard to sensitive products should follow a rational framework that is empirically based, to determine the commodities that should be included. In this regard, it is important to monitor preference utilization, to determine the preferential regime that is utilized the most along key corridors, as this could inform future negotiations on potential improvements in provisions on rules of origin and non-tariff measures. Additional research is also needed on the determinants of sustainable market entrance for new firms and how the firm-level concentration of exports from both international and domestic companies may be a structural barrier to reaping inclusive benefits. Policymakers need to understand the market structure and power of established firms, to either increase competition through support for market entrance or, in instances of high sunk costs and economies of scale, be aware of potentially anticompetitive behaviour. There is no one-size-fits-all solution. The analysis in this report can be used as a toolbox by countries in assessing the inclusiveness of trade patterns and how trade agreements can promote the economic participation of marginalized groups in labour-intensive and high value added sectors.

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Africa has experienced remarkable growth since 2000, yet this has not translated into significantly improved livelihoods for most Africans. Fewer than half of countries in Africa have experienced inclusive growth in recent decades. This report aims to equip Governments in Africa and development partners with knowledge of how the African Continental Free Trade Area can be beneficial for inclusive growth and how complementary policies are necessary to make the Free Trade Area inclusive within and across countries in Africa. To realize the export potential of Africa, intra-African tariff barriers and non-tariff barriers need to be reduced, and productive capacities need to be increased to facilitate regional trade. Regional productive capacities, value chain development in agrifood processing and the vehicles industry are identified as potential drivers of transformative growth. An analysis is provided of how the expected gains from trade, production, investment and growth opportunities under the African Continental Free Trade Area can be inclusive. For the benefits of the Free Trade Area to be fully harnessed and inclusive, informal trade and its stakeholders should be considered in both design and implementation.

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"I call on African policymakers to read the 2021 edition of the *Economic Development in Africa Report* as it provides valuable and unique insights on the challenges to sustainable development on the African continent. Above all, the recommendations in the report on the African Continental Free Trade Area, including the development of a practicable and effective dispute settlement mechanism, are essential reading for all of us who wish to see Africa prosper and achieve the Sustainable Development Goals in a timely, inclusive and united manner."

Rebeca Grynspan,
Secretary-General of the United Nations Conference on Trade and Development

"The UNCTAD *Economic Development in Africa Report 2021* makes an important contribution to the understanding of the benefits of the African Continental Free Trade Area. It is unique in that it considers elements of inclusive growth and how the African Continental Free Trade Area could foster economic diversification and stronger resilience, although the gains will not be immediate. Complementary measures to support women and young people in trade, small businesses and the least developed African countries are required to achieve a more inclusive African Continental Free Trade Area."

Wamkele Mene,
Secretary-General of the African Continental Free Trade Area Secretariat

ISBN 978-92-1-113004-1

Printed at United Nations, Geneva
2112401 **(E)**–October 2021–3,030

UNCTAD/ALDC/AFRICA/2021

United Nations publication
Sales No. E.21.II.D.3