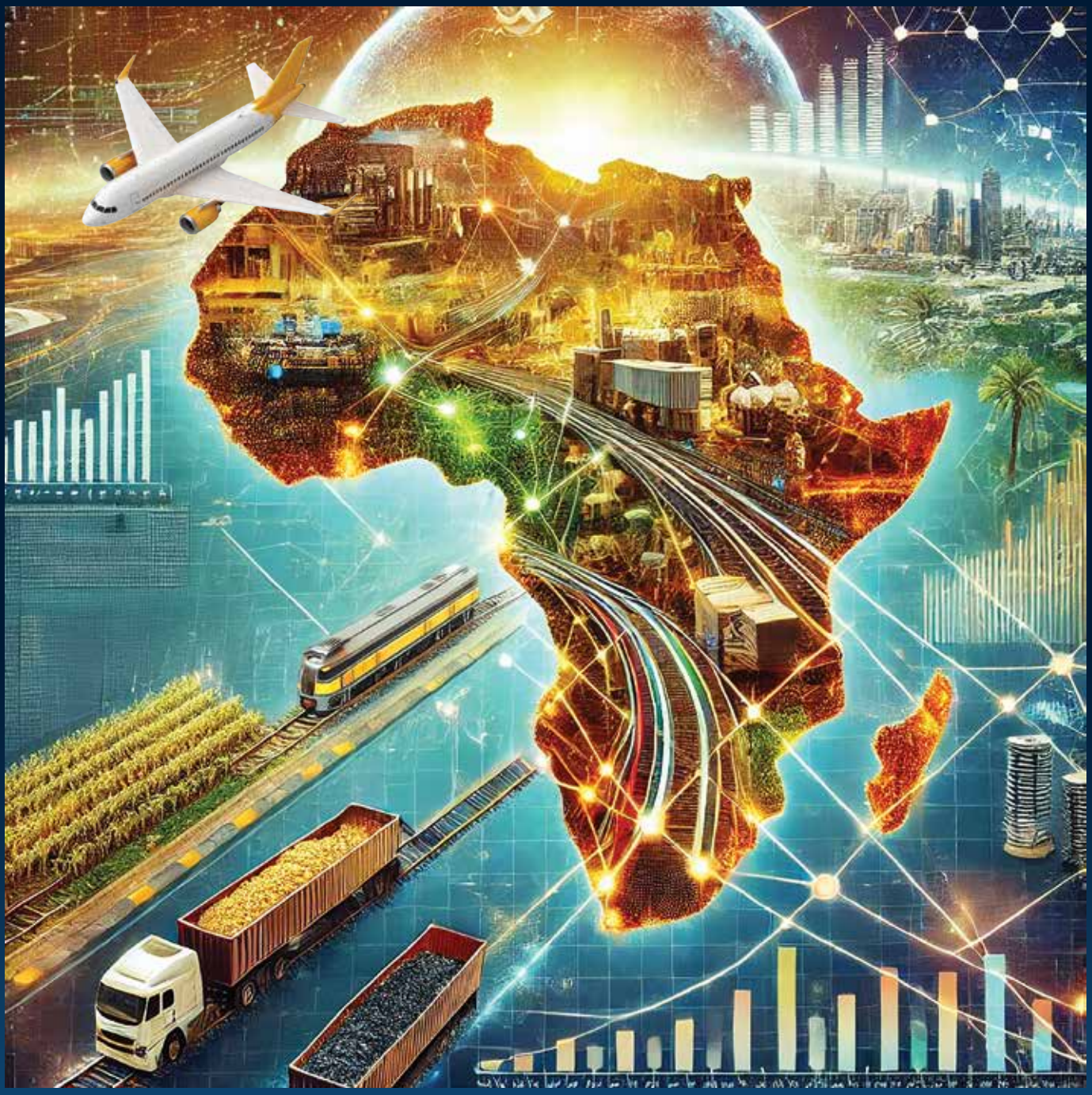
ADVANCING THE IMPLEMENTATION OF THE AFRICAN CONTINENTAL FREE TRADE AREA: **PROPOSING TRANSFORMATIVE STRATEGIC ACTIONS**



ECONOMIC REPORT ON AFRICA

United Nations
Economic Commission for Africa

2025

PUBLICATIONS

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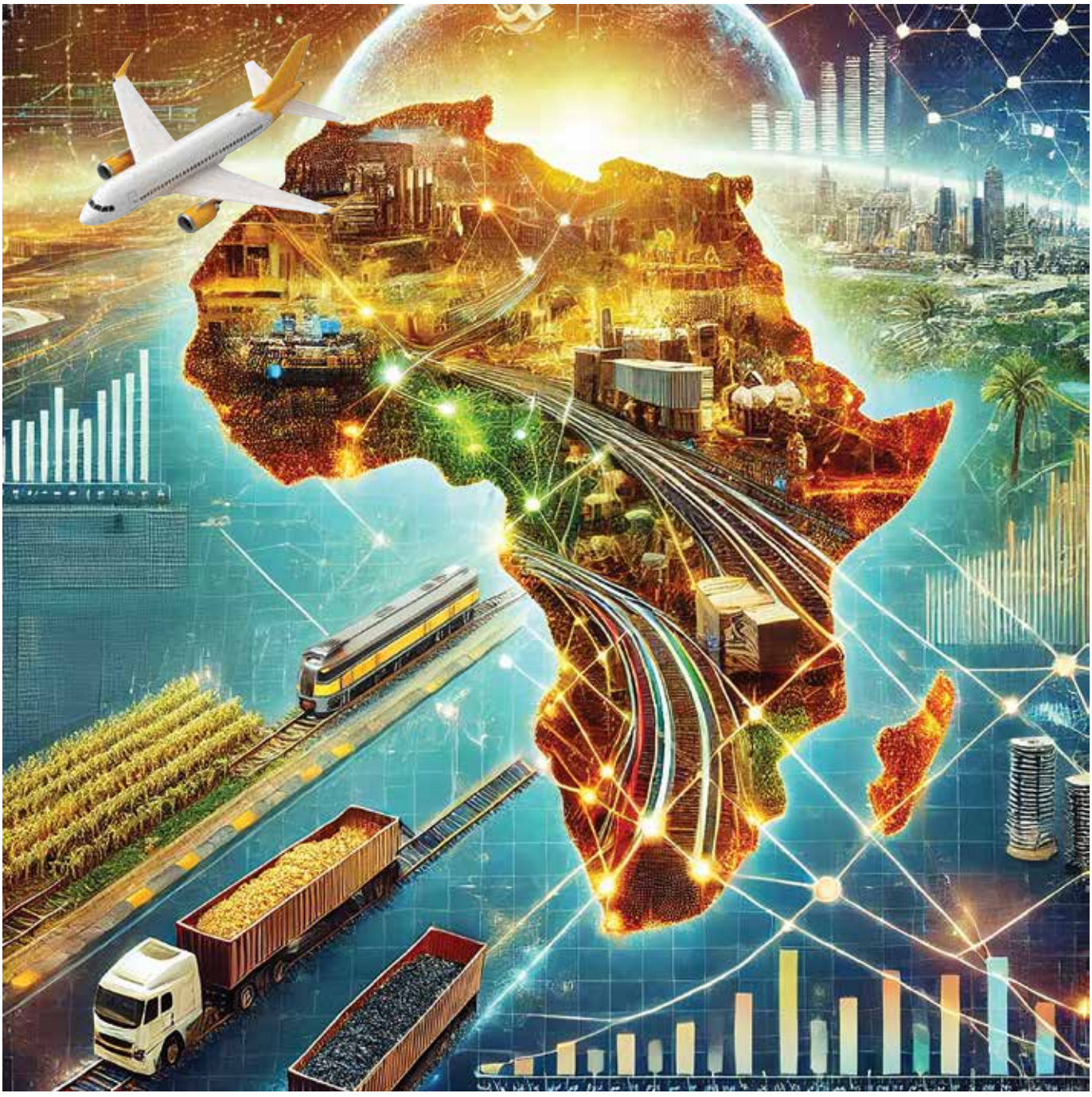

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CONTENT

CHAPTER 3 AFCFTA PROMISES FOR AFRICA'S INCLUSIVE AND SUSTAINABLE DEVELOPMENT: EMPIRICAL EVIDENCE 45

LIST OF FIGURES

LIST OF TABLES

LIST OF BOXES

ABBREVIATIONS AND ACRONYMS

4IR	Fourth Industrial Revolution
ACBI	AfCFTA Country Business Index
ACTReF	African Technical Regulation Framework
AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
AFFM	Africa Fertilizer Financing Mechanism
AFSEC	African Electrotechnical Standardization Commission
AI	Artificial intelligence
AMU	Arab Maghreb Union
ARIA	Assessing Regional Integration in Africa
ARSO	African Organization for Standardization
ASEAN	Association of Southeast Asian Nations
ATEX	African Trade Exchange
ATIDI	African Trade and Investment Development Insurance
AU	African Union
AUC	African Union Commission
BASAs	Bilateral air services agreements
BaTIS	Balanced Trade in Services
BEAC	Bank of Central African States
BEVs	Battery and electric vehicles
BIAT	Boosting Intra-African Trade
CBAM	Carbon Border Adjustment Mechanism
CEMAC	Economic and Monetary Community of Central Africa
CEN-SAD	Community of Sahel-Saharan States
CEPII	Centre d'Etudes Prospectives et d'Informations Internationales
CET	Common external tariff
CETMs	Critical energy transition minerals
CGE	Computable general equilibrium
COMESA	Common Market for Eastern and Southern Africa
CRED	Centre for Research on the Epidemiology of Disasters
DSTRI	Digital Services Trade Restrictiveness Index
EAC	East African Community
ECA	United Nations Economic Commission for Africa
ECCAS	Economic Community of Central African States
ECLAC	United Nations Economic Commission for Latin America and the Caribbean
ECOWAS	Economic Community of West African States
EIU	Economist Intelligence Unit
ENVISAGE	Environmental Impact and Sustainability Applied General Equilibrium
ERA	Economic Report on Africa
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign direct investment
FTAs	Free trade agreements
GDP	Gross domestic product
GHG	Greenhouse gas
GNI	Gross national income
GSP	Generalized System of Preferences
GTAP	Global Trade Policy Analysis
GTI	Guided Trade Initiative
GVCs	Global value chains
HS	Harmonised System
ICBT	Informal cross-border trade
ICPF	nternational Carbon Price Floor
ICT	Information and communication technology
IEA	International Energy Agency
IFPRI	International Food Policy Research Institute
IGAD	Intergovernmental Authority for Development
ILO	International Labour Organization
IMF	International Monetary Fund
IPB	ICT Price Baskets
IPN	Instant Payment Network
IPRs	Intellectual Property Rights

IPS	Instant Payment Systems
IRA	Inflation Reduction Act (United States)
ITC	International Trade Centre
ITU	International Telecommunication Union
LAPSSET	Lamu Port-South Sudan-Ethiopia-Transport
LDCs	Least developing countries
MBDs	Multilateral development banks
MIRAGE	Modelling International Relationships in Applied General Equilibrium
MRIO	Multi-Regional Input-output
MSMEs	Micro, small and medium enterprises
NAFTA	North American Free Trade Agreement
NDCs	Nationally Determined Contributions
NEDS	National Export Development Strategy (Ghana)
NEET	Not in employment, education or training
NICs	National Implementation Committees
NTBs	Non-tariff barriers
NTMs	Non-tariff measures
ODA	Official development assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
OOPs	Out-of-pocket payments
OSBPs	One-Stop Border Posts
PAP	Priority Action Phase
PAPSS	Pan-African Payment and Settlement System
PAQI	Pan Africa Quality Infrastructure
PCI	Productive Capacities Index
PIDA	Programme for Infrastructure Development in Africa
PIP	Pilot Implementation Project
PPI	Private Participation in Infrastructure
PPPs	Public-private partnerships
PTAs	Preferential trade agreements
PV	Photovoltaic
QI	Quality infrastructure
RDTII	Regional Digital Trade Integration Index
RECs	Regional economic communities
RoO	Rules of Origin
RVCs	Regional value chains
SAATM	Single African Air Transport Market
SADC	Southern African Development Community
SDGs	Sustainable Development Goals
SEZs	Special economic zones
SIIPS	State of Inclusive Instant Payment Systems
SMEs	Small and medium enterprises
SPS	Sanitary and phytosanitary
STEM	Science, technology, engineering and mathematics
TAH	Trans African Highway
TBT	Technical barriers to trade
TCIB	Transactions Cleared on an Immediate Basis
TFA	Trade Facilitation Agreement
TFTA	Tripartite Free Trade Area
UEMOA	West African Economic and Monetary Union
UN	United Nations
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
UNDESA	United Nations Department of Economic and Social Affairs
US	United States
VA	Value added
VAT	Value-added taxes
WAEMU	West African Economic and Monetary Union
WCO	World Customs Union
WEO	World Economic Outlook
WTO	World Trade Organization
YD	Yamoussoukro Decision
ZTK	Zambia-Tanzania-Kenya (interconnector)

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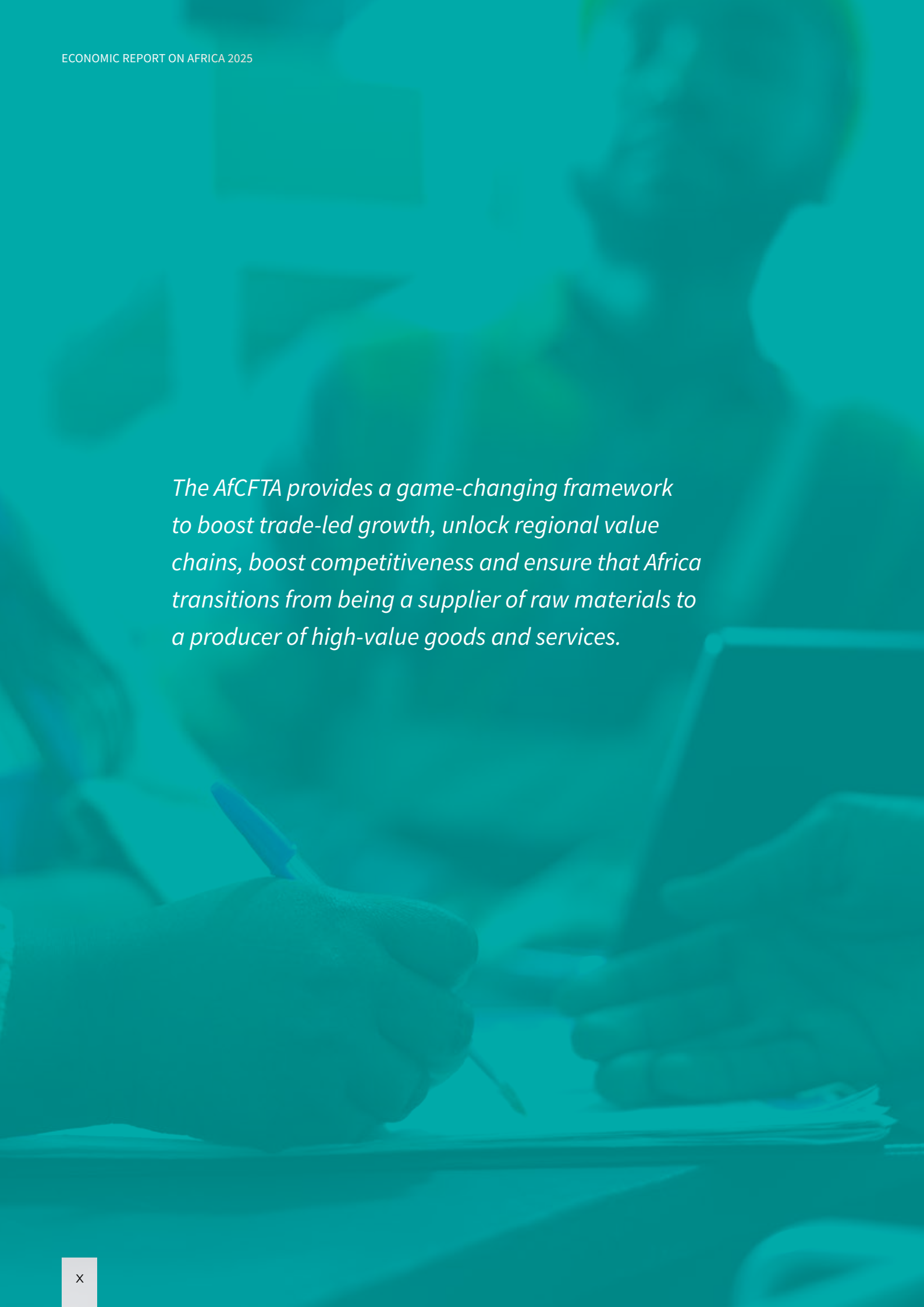


The AfCFTA provides a game-changing framework to boost trade-led growth, unlock regional value chains, boost competitiveness and ensure that Africa transitions from being a supplier of raw materials to a producer of high-value goods and services.

FOREWORD

The *Economic Report on Africa 2025* arrives at a crucial moment in Africa's economic evolution. With the African Continental Free Trade Area (AfCFTA) gaining momentum, success will hinge on clear vision, resolute commitment, and strategic action to maximize its potential.

Our world today has been reshaped by profound economic shifts. To thrive, Africa must not merely traverse this change but harness it by using the AfCFTA as a strategic tool to fuel industrialization, structural transformation, and sustainable development.

Africa's economic terrain is characterized by both resilience and challenges. While growth has rebounded, it is yet to reach prepandemic levels and is not adequate to achieve the Sustainable Development Goals (SDGs). Furthermore, the continent faces persistent high inflation, fiscal deficits and rising debt vulnerabilities, though it's debt-to-GDP ratio is estimated to decline from 67.3 per cent in 2023 to 62.1 per cent in 2025.

Despite these challenges, the continent has an unparalleled opportunity to redefine its trajectory. The AfCFTA provides a game-changing framework to boost trade-led growth, unlock regional value chains, boost competitiveness and ensure that Africa transitions from being a supplier of raw materials to a producer of high-value goods and services. The AfCFTA is projected to increase intra-African trade by up to 45 per cent in 2045, and raise Africa's GDP by 1.2 per cent. This year's report shines a spotlight on the AfCFTA's transformative potential. It provides empirical evidence of its capacity to drive Africa's trade-led integration and highlights critical enablers such as investment in infrastructure, digitalization, climate resilience and governance reforms that are crucial for realizing the agreement's full benefits. It also charts a strategic course for policy interventions to break down trade barriers, improve efficiency and create a unified economic space conducive to business growth and innovation.

Yet, Africa's economic transformation will be realized not through isolated efforts, but through bold and coordinated action at national, regional and continental levels. African governments must prioritize trade facilitation, regulatory harmonization and industrial policies that enhance value addition. At the same time, the private sector, development partners and financial institutions must step forward as co-architects of this new economic paradigm by working to shape an ecosystem that will drive inclusive growth and sustainable development.

In this critical moment, Africa has the opportunity to redefine its economic trajectory. If fully implemented, the AfCFTA can help reduce Africa's vulnerability to global shocks, enhance industrial competitiveness and create new market opportunities for the continent's rapidly urbanizing population.

The United Nations Economic Commission for Africa remains a steadfast ally in Africa's transformative journey. We are committed to providing the technical expertise, policy guidance, and capacity-building support necessary to translate the AfCFTA's promise into tangible economic gains.

I extend my sincere appreciation to the team of experts, policymakers, and stakeholders who contributed to this report. Their dedication ensures that this publication serves as a critical tool for decision-makers across the continent.

The future is Africa's to define.

Claver Gatete

Under-Secretary-General and Executive Secretary

United Nations Economic Commission for Africa

EXECUTIVE SUMMARY

Africa is at a pivotal point on its development path. With a young population, abundant natural resources, and growing consumer markets, it can play a key role in the global economy. However, while Africa's growth has rebounded from the Covid–19 pandemic, it is below pre-pandemic levels and insufficient to meet the SDGs. Africa is again projected to be the second fastest growing region globally, but most of its middle-income countries—which now account for more than half of African countries—are not on a trajectory to escape the middle-income trap in the medium term. At the same time the global economy and world at large are experiencing unprecedented turmoil, disruptions, and uncertainty driven both by megatrends (technology adoption, climate shocks, demographics) and deliberate policy actions by major actors.

These developments point to the need for Africa to reinforce the ongoing trend and look for its own, Africa's-grown solutions for its development challenges. The African Continental Free Trade Area (AfCFTA) Agreement, which was signed in 2018 with trading starting in 2021, is a prime example of such approach. As a flagship project of the African Union Commission, it provides an Africa-driven roadmap for sustainable and inclusive development on the continent.

Against this background, the objectives of the Economic Report on Africa 2025 (ERA 2025) on Advancing the implementation of the Agreement Establishing the African Continental Free Trade Area: Proposing Transformative Strategic Actions, are to:

1. Assess the state of AfCFTA implementation and highlight the key achievements and challenges and outline the AfCFTA's envisaged role.
2. Provide empirical evidence showing AfCFTA's potential to drive Africa's trade-led integration and become a critical pillar for its inclusive and sustainable development.
3. Identify key challenges to realizing and capitalizing on the transformative potential of the AfCFTA.
4. Propose actionable recommendations for bridging the gaps preventing successful AfCFTA implementation

The ERA 2025 finds that the AfCFTA can play a crucial role in addressing key Africa's sustainable development challenges. Despite growing global uncertainty, Africa can benefit from the new global trade landscape, characterized by fragmentation, regionalism, and near-shoring, as it incentivizes the continent to pursue deeper regional integration. The adverse and uncertain external environment presents not only an opportunity but also an imperative for Africa to double down on its economic diversification and structural transformation efforts. This would further enhance intra-African trade and connect Africa to the global economy.

The ERA 2025 shows that the AfCFTA can help address continent's key challenges like energy gaps and food insecurity by fostering cross-border trade in energy products and encouraging African countries to adopt renewable energy technologies. This, in turn, can spur industrialization, technology adoption, and agro-processing as well as move Africa up in global value chains (GVCs). Implementing climate policies could boost Africa's renewable energy usage by 5–12 per cent by 2045. The AfCFTA can also tackle food insecurity by enhancing food market integration and boosting intra-African food trade, helping reduce the impact of climatic events on production and prices. The AfCFTA could also leverage Africa's digital and demographic trends, supporting its readiness for digital trade and participation in e-commerce.

Driven by industrialization and diversification, a successful AfCFTA could thus significantly boost Africa's trade and drive transformational change. It could shift Africa from primary commodity exports to higher-value industrial products, while raising intra-African trade by almost half. The agreement also positions Africa to strengthen trade ties with rapidly growing emerging markets like China, India, and Turkey, strengthening its resilience against global shocks. As the world's largest free trade area, successful implementation over the medium term could also contribute to global trade and growth, enhancing Africa's competitiveness and its position as a global growth pole. If accompanied by supportive policies fostering trade and investment, the AfCFTA can build livelihoods and social cohesion, thus contributing to the integrated, peaceful, and prosperous Africa envisaged in the Agenda 2063: The Africa We Want.

In sum, successful AfCFTA implementation could boost Africa's trade, inclusive growth, and sustainable development. However, full AfCFTA implementation requires strategic investment, well-designed policies, and synchronized reforms at national, subregional, and continental levels.

KEY MESSAGES

- The AfCFTA is a pivotal opportunity for Africa to boost intra-African trade, diversify economies, and enhance industrialization. It has the potential to increase intra-African trade by 45 per cent in 2045, with significant gains in manufacturing, agro-processing, and services.
- The AfCFTA is expected to raise Africa's GDP by 1.2 per cent and welfare by 0.9 per cent in 2045. However, high inflation, fiscal deficits, and debt vulnerabilities remain significant barriers to growth. Africa's debt-to-GDP ratio is projected to decline from 67.3 per cent in 2023 to 62.1 per cent in 2025, but debt servicing costs remain prohibitively high, crowding out development outlays.
- Africa is disproportionately affected by climate change, with annual economic losses at $7 to $15 billion, and projected to rise to $50 billion a year by 2030. The AfCFTA can support climate-resilient development through green industrialization and renewable energy investments.
- To support the AfCFTA, Africa will need an invesment of $120.83 billion in transport equipment by 2030, while also streamlining regulations to enhance market acess and foster innovation. Trade facilitation measures, such as harmonizing customs procedures and reducing non-tariff barriers, are critical for maximizing the benefits of AfCFTA.
- Digitalization is key to Africa's transformation, with digital trade accounting for 25 per cent of global trade in 2020. However, Africa lags in internet connectivity, with only 37 per cent of the population connected. Investments in digital infrastructure, such as data centres and internet exchange points, are essential.
- Rapid urbanization presents both opportunities and challenges. By 2050, 60 per cent of Africa's population will live in urban areas, contributing significantly to GDP but also straining infrastructure and services.
- The AfCFTA offers opportunities for women's economic empowerment, particularly in manufacturing and trade-intensive sectors. However, women face major barriers, including limited access to finance, education, and digital skills. Strategic actions—such as promoting science, technology, engineering, and math education for women, enhancing access to finance, and addressing gender-specific challenges in cross-border trade—are needed to ensure inclusive growth.

KEY POLICY RECOMMENDATIONS

The primary purpose of the Economic Report on Africa 2025 is to accelerate implementation of the agreement establishing the AfCFTA. Accordingly, the report's key recommendations are:

- Governments should prioritize the full implementation of the AfCFTA, including reducing tariffs, eliminating non-tariff barriers, and harmonizing trade policies. This requires strengthening national AfCFTA implementation committees and enhancing private sector engagement.
- Develop robust regional value chains in key sectors such as agro-processing, automotive, pharmaceuticals, and renewable energy. This requires targeted industrial policies, investment in productive capacity, and support for small and medium enterprises (SMEs).
- Integrate climate policies into AfCFTA implementation, including carbon pricing and investments in renewable energy. Africa's transition to renewables, in the AfCFTA context and leaving aside specific climate policies, could require a cumulative $22.4 billion in investments between 2025 and 2040, with a focus on solar and wind power.
- Streamline customs procedures and adopt digital technologies, such as blockchain and electronic data processing, to reduce trade costs and improve efficiency. Investing in digital infrastructure will include broadband networks, data centres, and internet exchange points to support digital trade and innovation.
- Implement gender-sensitive policies under the AfCFTA, such as promoting women's access to finance, education, and digital skills. This includes addressing barriers to women's participation in cross-border trade and supporting women-led SMEs.
- Harmonize trade policies and regulations across regional economic communities (RECs) to reduce fragmentation and enhance coherence in AfCFTA implementation. Promoting the free movement of people, goods, and capital across borders will be supported by initiatives like the Single African Air Transport Market and the Pan-African Payment and Settlement System.
- Invest in sustainable urban development, including affordable housing, clean water, and sanitation, to manage the challenges of rapid urbanization. Promoting job creation in urban areas, particularly in the services and informal sectors, will harness the demographic dividend and reduce youth unemployment.

CHAPTER 1
RECENT ECONOMIC AND SOCIAL DEVELOPMENTS IN AFRICA IN THE CONTEXT OF AfCFTA IMPLEMENTATION

KEY MESSAGES

- Africa's growth is expected to gradually recover to 3.8 per cent in 2025 and 4.1 per cent in 2026, on the back of increased private consumption and improved trade performance. However, growth remains subdued and is well below Africa's potential and that needed to improve people's living standards and reach the Sustainable Development Goals.
- Risks to Africa's growth are heavily tilted to the downside, due to global economic tensions and fragmentations, including risks of an escalated US-China trade war, transnational, regional and domestic conflict, and more frequent and intense climate shocks.
- While public debt has been gradually declining as a percentage of GDP, levels remain uncomfortably elevated. Concerns over a looming debt crisis remain, and unfairly high borrowing costs are crowding out essential development outlays.
- The share of Africans in extreme poverty (at international poverty line of $2.15 per day) has been gradually declining. But the number of people living in poverty has increased to an estimated 468 million, exacerbated by recent crises.
- Accelerated implementation of the AfCFTA has the potential, over the medium term, to support growth, create jobs, improve food security, and promote industrial development through diversification and regional value chains (RVCs).

Africa is at a critical juncture of its development journey. Possessing some key assets that the world lacks, it is poised to chart a new development path**.** With its young and rapidly growing population, abundant natural resources, opportunities to leapfrog technological advances, and growing consumer markets with most countries in the middle-income category, the continent's role in the global economy is rising. Africa is well positioned as a key strategic region amid a global shift to geographically diversified supply chains, and it can leverage this for trade, stronger integration in global value chains (GVCs), and sustainable growth.

Yet, challenges remain to strengthening trade, in terms of overall volume, quality and geographical diversification. Despite significant rebound after the Covid–19 pandemic in 2021 and 2022, Africa's trade fell in 2023 and is projected to have grown only by 3.3 per cent in 2024, with its share in global trade stagnating at below 3 per cent. Africa's exports remain dominated by primary commodities—with almost 40 per cent taken up by fuels and 15 per cent by ores and metals—as manufacturing accounts for only 24 per cent (details below). Trade continues to be impaired by low global and domestic demand, limited fiscal space, disrupted supply chains, geopolitical tensions, tight global financial conditions, elevated food and energy prices, exchange rate risks, and other shocks.

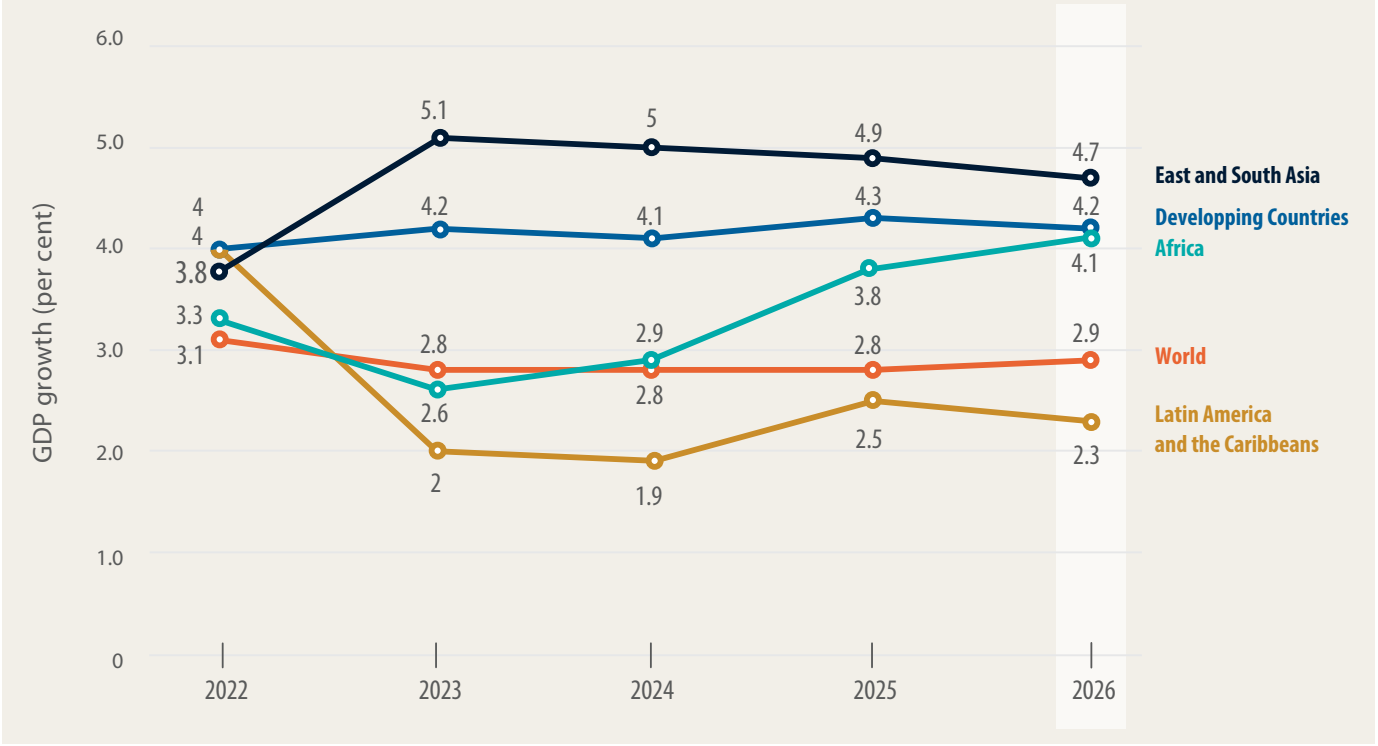
Seizing the untapped opportunities for trade integration through the AfCFTA is critical, especially amid heightened geopolitical tensions and uncertainties, intensified repercussions of climate change, and rapid technological change. With the increasingly fragmented global trade system and low-for-long global growth, the AfCFTA—through trade, investment and growth linkages—can act as an enabler of Africa's trade, growth, and competitiveness. It also has the potential to improve the lives of African people by addressing grand societal challenges such as poverty, food insecurity, unemployment, and limited social cohesion (see chapter 3 for details). As the largest regional free trade area by membership, population, and area, successful implementation of the AfCFTA can also contribute meaningfully to global trade and growth.

ECONOMIC GROWTH PERFORMANCE

Africa's growth, while recovering, is well below the potential level that is needed to reach the SDGs. However, substantial differences have emerged across African countries and subregions, with 9 of the world's 20 fastest growing countries from Africa. At the continental level, diverging growth paths have continued, with resource-intensive countries, especially fuel intensive ones, on a slower path than non-resource-intensive countries.[1] This divergence reflects, in part, the suboptimal natural resources management of many resource-intensive economies. This in turn prevents economic diversification, erodes fiscal space, and prevents African countries from deploying countercyclical fiscal policies when needed. Further, their weak governance and business environments, especially in resource-exporting countries, discourage quality investors and thus the transfer of needed technology and skills.

Africa's growth, after bottoming out at 2.6 per cent in 2023, is estimated to have reached 2.9 per cent in 2024 and to rebound to 3.9 per cent in 2025 and 4.1 per cent in 2026 (figure 1.1). The rebound has been mainly driven by greater private consumption growth resulting from easing inflationary pressures, thus boosting the purchasing power of household incomes. Improvements in trade performance and a gradual relaxation of tight global financial conditions have also contributed.[2] But growth in resource-intensive economies is expected to be subdued due to softening of commodity prices reflecting improved supply conditions mainly for energy and food commodities despite heightened geopolitical tensions.[3] Notably, Africa's growth is anticipated to exceed average global GDP growth, which is expected to stabilize at 2.8 per cent over 2024–26, mainly underpinned by declining inflation rates with the associated monetary easing supporting economic activity in both developed and developing economies. But Africa's short- to medium-term growth may face global economic risks, adverse weather patterns, geopolitical tensions disrupting supply chains, and elevated shipping costs, which could drive up commodity and food prices.

Figure 1.1 Annual GDP growth in global regions, 2022–26(f)



Note: e = estimate and f = forecast.

Source: UNDESA 2025.

Africa's growth, after bottoming out at 2.6 per cent in 2023, is estimated to have reached 2.9 per cent in 2024 and to rebound to 3.9 per cent in 2025 and 4.1 per cent in 2026.

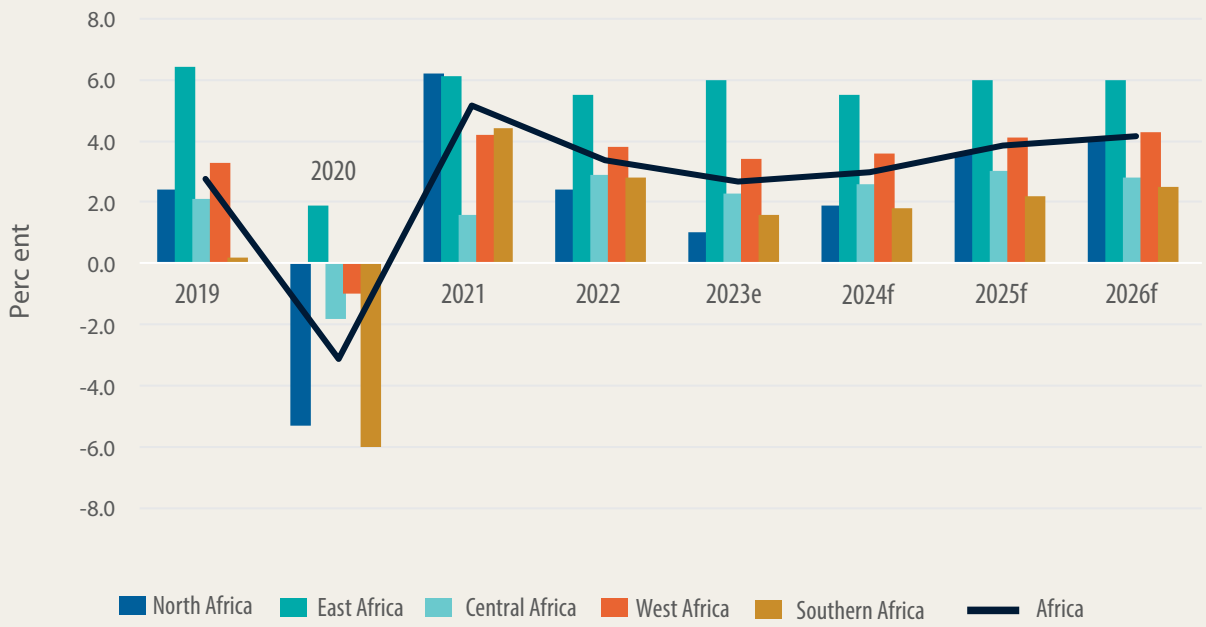
East Africa again leads Africa's regional growth

Growth in **East Africa** is expected to be faster than in other subregions, at 6.0 per cent in 2025 and 2026 (figure 1.2). It is mainly driven by comparatively strong growth in Ethiopia, Kenya, Rwanda, Uganda, and the United Republic of Tanzania, bolstered by continued domestic demand and a strong rebound in international tourism.[4] **West Africa** is expected to grow at an average of 4.2 per cent in 2025 and 2026, with Senegal growing at the fastest pace within the subregion, at an average of 7.0 per cent thanks to higher mining activity, the start of gas production, a new course for fiscal consolidation, and persistently low inflation. Growth in Côte d'Ivoire is strengthened by robust oil and gold production, high export performance, revenue based fiscal consolidation, and moderating inflation pressures.

The economic outlook for **North Africa** is expected to remain robust in the near term with real GDP growth projected to rise by 3.6 per cent in 2025 and 4.1 per cent in 2026. Higher growth is expected for Libya and Mauritania, with Mauritania forecast to grow by an average of 6.9 per cent in 2025–26. Strong growth prospects are expected in Libya on the back of recovery in oil production following a political resolution in September 2024, and ongoing investments in the railway, aviation and renewable energy sectors. The slow recovery of the Central African Republic's economy and the stagnation of crude oil production in Chad, Equatorial Guinea, and Gabon are expected to keep **Central Africa's** growth as the second lowest among subregions.

Growth in **Southern Africa** is expected to be the lowest, averaging 2.4 per cent in 2025–26. The subregion's largest economy, South Africa, is projected to recover to prepandemic levels as electricity supply stabilized since 2024. Growth in the smaller economies including Eswatini, Lesotho, and Malawi, is projected to remain modest in the

Figure 1.2 Annual real GDP growth by subregion, 2019–26(f)



Source: UNDESA 2025.

medium term. Lesotho is expected to continue its broader trend of stagnation that has persisted for the past decade with minimal growth attributed to construction. Malawi's growth is dragged down by low agricultural production and slow debt restructuring as the country struggles to meet the IMF Extended Credit Facility program targets.[5]

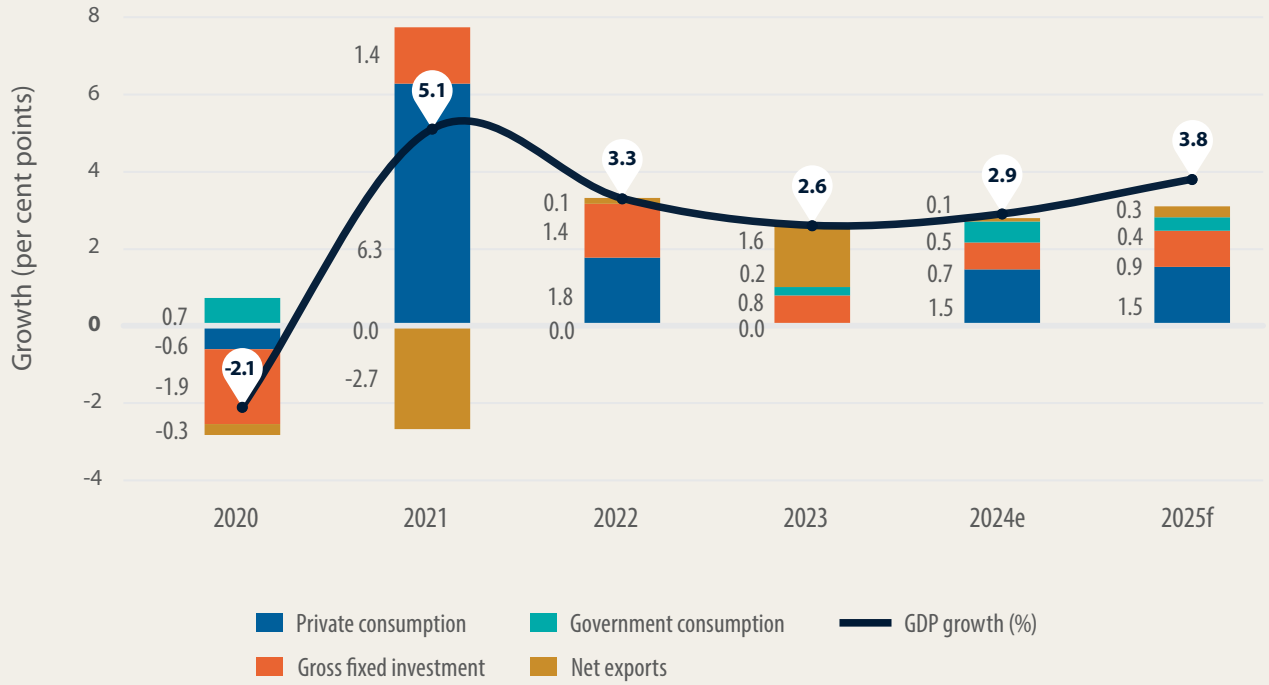
Increased private consumption and investment remain the main drivers of growth over the short-to-medium term in Africa (figure 1.3). Although it played a crucial role in Africa's economic growth rebound in 2023, Africa's trade has been on a declining trajectory in many countries and has had minimal impact on Africa's growth since the Covid–19 pandemic (figure 1.4). Going forward, it will be important for most African countries to rebalance the sources of growth away from consumption towards trade and investment. Countries that draw most of their GDP from trade tend to grow faster, pointing to the need for strategic trade-supporting policies (figure 1.4 captures trade openness as the ratio of the sum of imports and exports to a country's GDP). Enhanced implementation of the AfCFTA, combined with well-designed industrial policies, may help improve competitiveness, including by enhancing productivity through technological innovation and adoption as well as upskilling.

Even so, the accelerated implementation of the AfCFTA is expected to be a major step forward in boosting Africa's trade over the medium and longer terms. If successful, together with fast population growth and a growing middle class, it can reposition the continent in the global economy and turn it from exporter of raw materials to an important source of global demand and a growth pole.

The accelerated implementation of the AfCFTA is expected to be a major step forward in boosting Africa's trade over the medium and longer terms.

The composition of Africa's exports varies substantially depending on their destinations. Africa's total exports continue to be dominated by primary commodities—with an average of 38 per cent of total African exports dominated by fuels and 15 per cent by ores and metals over 2019–23—as manufactured goods accounted for only 24 per cent (figure 1.5). But manufactured products continue to dominate intra-African exports, at 46 per cent of total intra-African trade, followed by food items at 21 per cent. The AfCFTA has huge potential to reduce the dependency on primary commodities as it will transform African economies and diversify the sources

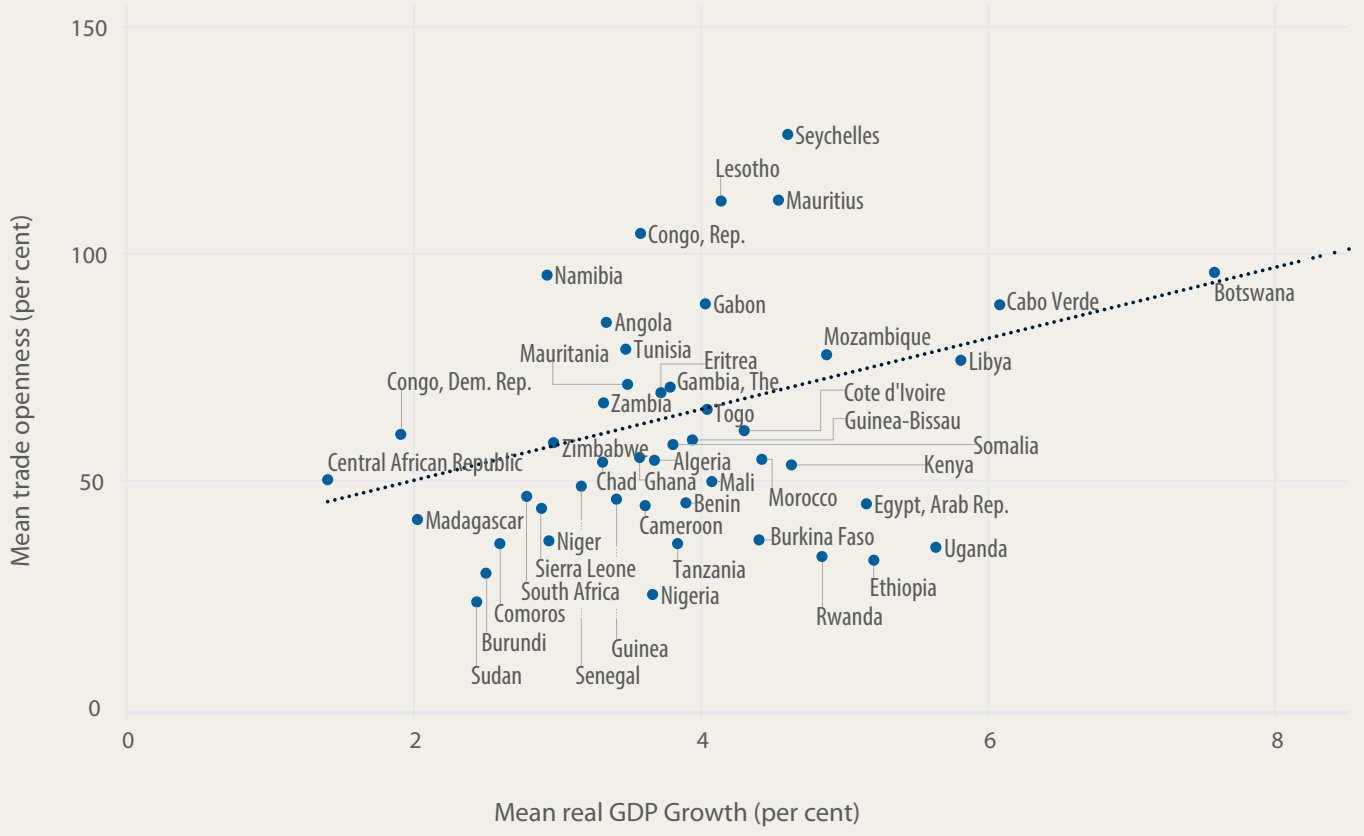
Figure 1.3 Economic growth components in Africa, 2020–25(f)



Note: e = estimate and f = forecast.

Source: ECA calculations based on data from EIU (2024) and UNDESA (2025).

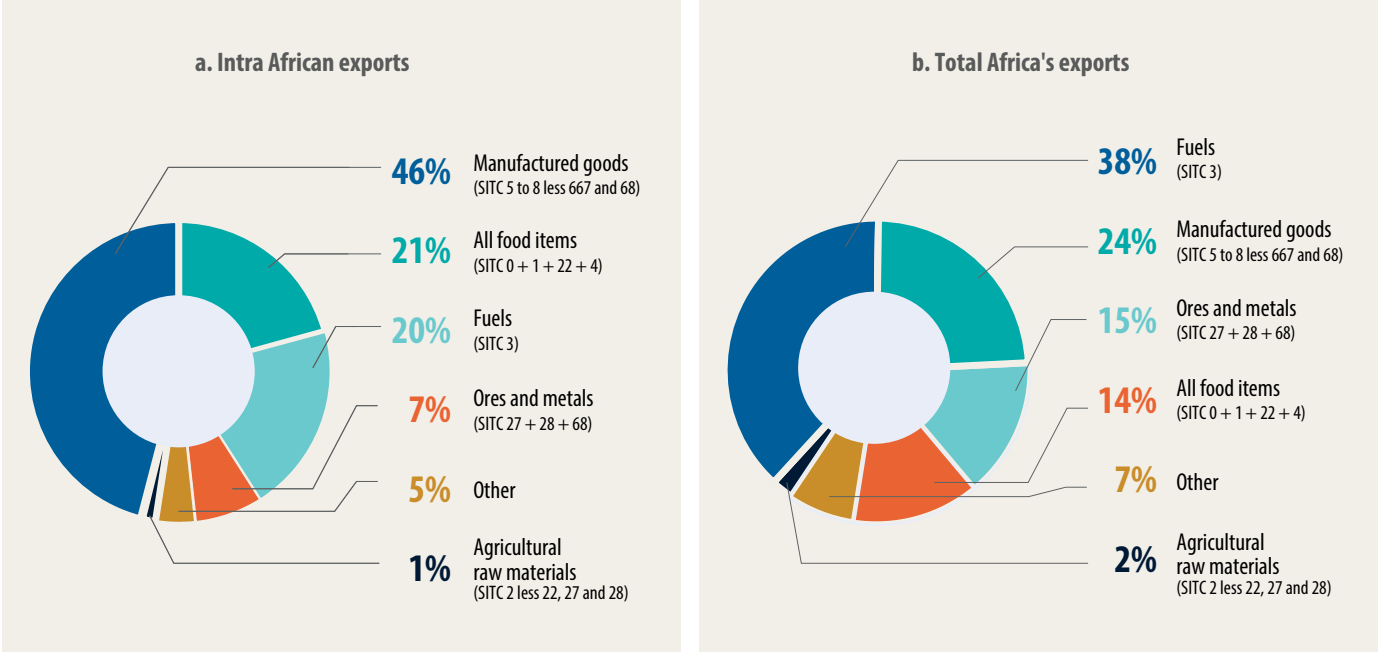
Figure 1.4 Trade openness and economic growth in Africa, 1960–2019



Note: e = estimate and f = forecast.

Source: ECA calculations based on data from EIU (2024) and UNDESA (2024).

Figure 1.5 Sectoral composition of Africa's exports, per cent of total (average 2019–23)



Source: UNCTADstat database (2024a).

Africa's total exports continue to be dominated by primary commodities—with an average of 38 per cent of total African exports dominated by fuels and 15 per cent by ores and metals over 2019–23—as manufactured goods accounted for only 24 per cent.

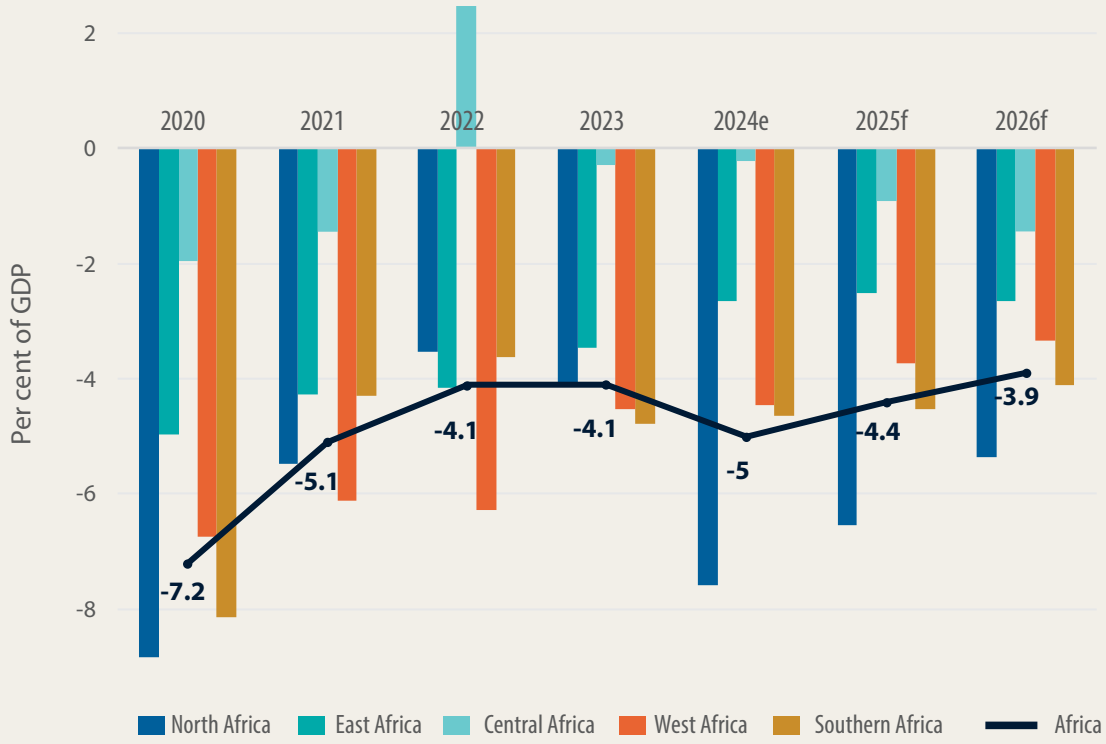
of its exports and growth.[6] Africa needs to enhance the structural transformation of its economies, which must emphasize diversification away from primary products towards increased manufacturing, technology, and modern service sectors.

Fiscal performance is set to improve in 2025

African countries have faced significant fiscal challenges in the post-Covid–19 period while trying to balance high public debt, elevated interest rates, and increasing public spending needs. Their fiscal space remains severely constrained by elevated debt, high interest rates, the strengthening United States dollar, and subdued global economic growth. As a result, most governments are expected to tighten their fiscal policy to reduce budget deficits and public debt burdens. The average fiscal deficit is projected to widen marginally in 2024 before returning to pre-pandemic levels in 2025–26, as countries gradually restore their fiscal positions by reducing spending and implementing strategies to generate domestic revenues. Fiscal deficits are projected to narrow on average from -5.0 per cent of GDP in 2024 to -4.4 per cent in 2025, before reaching -3.9 per cent in 2026 (figure 1.6). The increase in 2024 can be attributed mainly to a slight expansion of the primary balance as a result of measures to alleviate the impact of rising food prices; increased net capital outflows and subdued export revenues mainly in resource-intensive economies, to some extent attributed to subdued demand from China.

Fiscal deficits are estimated to widen in 2024 only in North Africa, from 4.1 per cent of GDP to 7.6 per cent, owing to tax revenue deficits and rising debt payments; and other subregions will have their average fiscal deficits narrow. Southern Africa will likely be at 4.6 per cent of GDP due to accelerated debt servicing costs eating into the fiscal spending envelope. West Africa strengthened its fiscal position by reducing its budget deficit from 4.5 per cent in 2023 to 4.4 per cent in 2024, with improvements in Côte d'Ivoire, Ghana, Nigeria, and Sierra Leone, helping reduce the subregion's deficit.[7] Central Africa will have the lowest average deficits in 2024 and 2025 followed by East Africa. Performance in Central

Figure 1.6 Fiscal balances in Africa by subregion, 2020–2026(f)



Note: e = estimate and f = forecast.

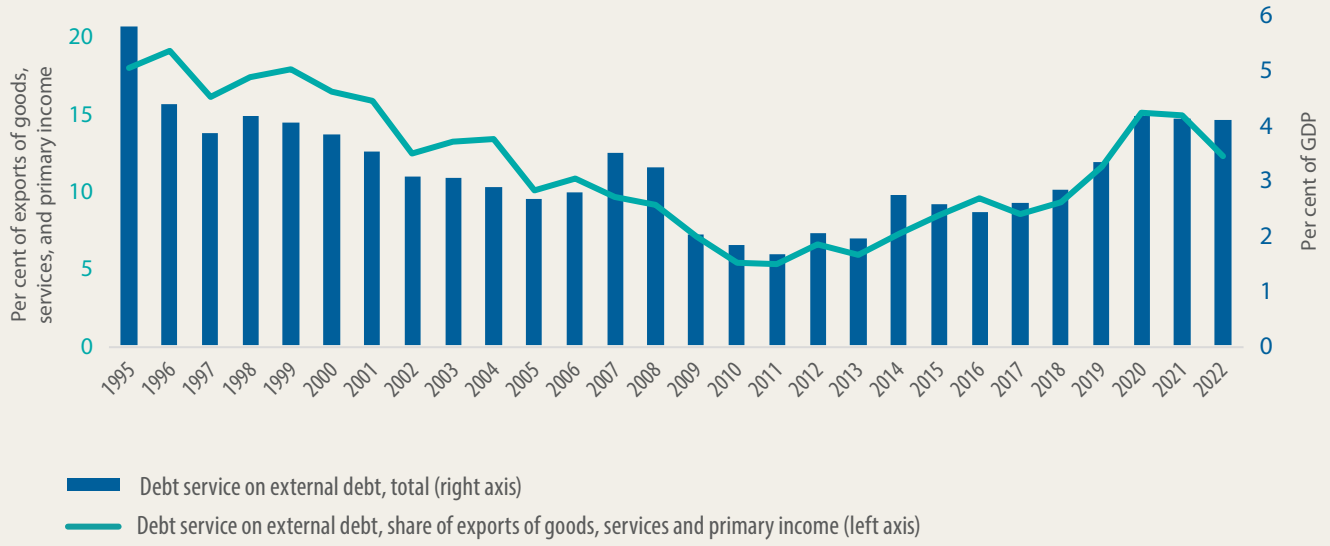
Source: ECA calculations based on IMF (2024b).

Fiscal deficits are projected to narrow on average from 5.0 per cent of GDP in 2024 to 4.4 per cent in 2025, before reaching 3.9 per cent in 2026.

Africa is mainly underpinned by renewed economic activity driven by favourable commodity prices, not only of crude oil but also minerals and other commodities.[8]

Fiscal policies in Africa have tended to be procyclical, with notable exception of the continent's response to the global financial crisis.[9] The lack of countercyclical policies has reinforced economic cycles instead of stabilizing them. Between 1980 and 2000, fiscal policies were procyclical in nearly two-thirds of 45 African countries, but this share dropped to below 40 per cent after 2000 as many adopted countercyclical or acyclical policies.[10] The adoption of countercyclical policies in Africa gained prominence mainly during the 2009 global financial crisis and was further reinforced during the Covid–19 pandemic. Both crises saw African countries implement coordinated fiscal and monetary measures to stabilize their economies, though the scale of intervention was more significant during Covid–19 due to its widespread and prolonged economic impact. Countercyclical policies enhance resilience to external shocks and create fiscal space for countercyclical interventions, but high debt levels in many African countries constrain these measures, limiting their ability to maintain countercyclical policies or support public investments.

Figure 1.7 Debt service on external debt in Africa, 1995–2022



Source: World Bank International Debt Statistics database and World Development Indicators database.

External debt service rose from 1.6 per cent of GDP in 2011 to 4.1 per cent in 2022, and rose by nearly 8 percentage points of goods, services and primary income.

Growing debt service crowds out development outlays

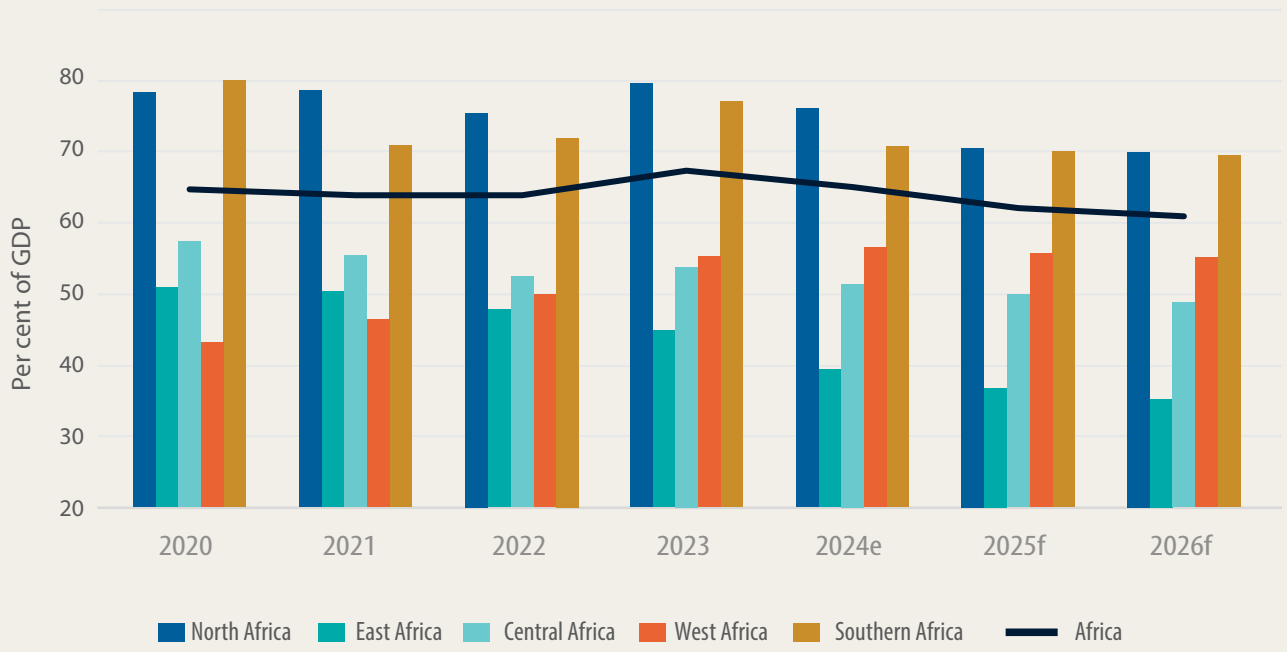
The rapidly growing debt-servicing burden is increasingly crowding out resources for essential public services and investments. External debt service rose from 1.6 per cent of GDP in 2011 to 4.1 per cent in 2022, and rose by nearly 8 percentage points of goods, services and primary income (figure 1.7). Africa's average interest payments reached an estimated 27 per cent of government revenues in 2024, up from 19 per cent in 2019. In some of the continent's largest economies including Angola, Egypt, Ghana, Nigeria, and Uganda, their interest payments have exceeded their total expenditures on education and health in recent years, highlighting the severe tradeoffs faced by African countries when financing their development priorities.[11]

Debt vulnerabilities are elevated and raise concerns about looming crisis

Africa's debt-to-GDP ratio declined from 67.3 per cent of GDP in 2023 to 65.2 per cent in 2024 and is projected to fall marginally further to 62.1 per cent of GDP in 2025 (figure 1.8). However, the levels are still high and comparable to those before the debt relief initiatives in the mid-2000s.

The gradual fall is supported by a return to normalcy in fiscal policy, following unprecedented support during multiple crises, alongside robust growth and narrowing fiscal deficits. Significant debt repayments are expected to have peaked in 2024, and the ongoing financing challenges are compelling countries to reduce essential public spending and redirect resources to debt servicing. In 2024, Africa was projected to incur a staggering US$163 billion in debt service costs, up about 12 per cent from the previous year. While debt servicing was expected to peak in 2024 before declining, it will remain well above prepandemic levels in the short to medium term. And vulnerabilities continue to be elevated, as some countries face high interest rates, public finance volatilities, accumulations of arrears, and the prolonged impact of external shocks. In 2024, North Africa is estimated to have the highest debt-to-GDP ratio at 76.0 per cent, followed by Southern Africa at 70.7 per cent, West Africa at 56.4 per cent, Central Africa at 51.2 per cent, and East Africa at 39.2 per cent (see figure 1.8).

Figure 1.8 Gross government debt in Africa by subregion, 2020–26(f)



Note: e = estimate and f = forecast.

Source: International Monetary Fund (IMF), World Economic Outlook Database (WEO), April 2024 edition, for Africa. ECA calculations based on IMF, WEO, April 2024 edition for subregions. Available at https://www.imf.org/en/Publications/WEO/weo-database/2024/April (accessed on 22 August 2024).

Vulnerabilities continue to be elevated, as some countries face high interest rates, public finance volatilities, accumulations of arrears, and the prolonged impact of external shocks.

According to the latest assessment by the IMF on October 31, 2024, nine African countries were classified as being in debt distress, with 11 countries at high risk of debt distress.[12] Debt sustainability, solvency, and liquidity indicators show that in 2024 debt-to-exports ratio, debt service-to-revenue ratio, and debt service-to-exports ratio will be above prudent levels in 2024, signifying debt sustainability challenges for African countries.[13] However, the full operationalization of the AfCFTA is expected to boost revenues, despite its negative impact on revenues in the short to medium term (see chapter 3 for more details).

Countries' debt utilization

At the onset of the Covid–19 pandemic in 2020, a larger share of debt was directed towards consumption (26 per cent of GDP) than to investment (22 per cent of GDP) in Africa. But by 2021, as economic growth rebounded, government consumption stabilized, and public expenditure fell to 25 per cent of GDP, reflecting the countries' fiscal consolidation. Concurrently, investment rose to nearly 24 per cent of GDP, suggesting a shift in debt allocation towards stimulating investment. After 2021, the ratio of investment to GDP declined more sharply than government spending, while debt servicing costs rose significantly. This trend indicates that debt incurred during this period was primarily allocated to servicing expensive existing debt rather than fostering new investments.

The share of commercial debt, including eurobonds and loans from private lenders, has risen substantially, enhancing many African countries' exposure to international capital markets. While this increased the countries' access to finance, it also raised debt servicing costs due to high interest rates. Although bond issuance can ease immediate repayment pressures, much of the

proceeds are directed towards refinancing rather than investing in productive sectors, further undermining long-term debt sustainability. Credit rating agencies' low ratings for most African countries have further increased borrowing costs and restricted their access to financing, especially after the 2021 wave of sovereign downgrades.

Current accounts to remain in deficit in 2025 and 2026

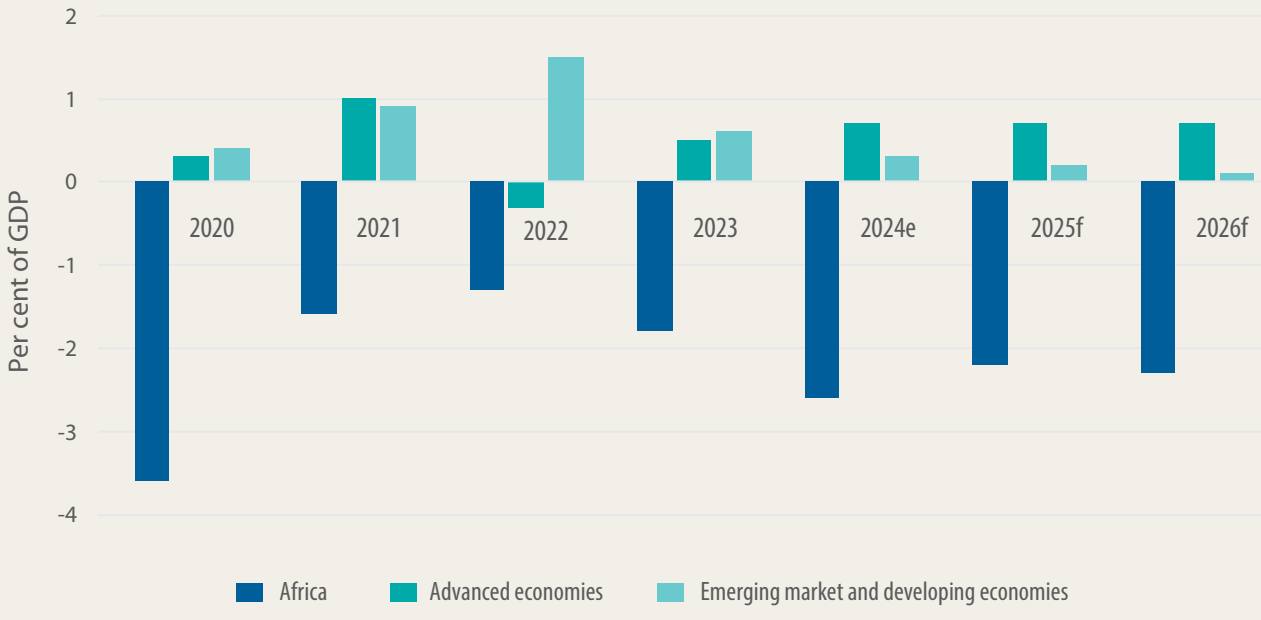
Africa's current account balance hit a historical deficit of 3.6 per cent of GDP in 2020, before narrowing to 1.6 per cent and 1. 3 per cent in 2021 and 2022, respectively (figure 1.9). The large deficit in 2020 can be attributed to reduced economic activity, tightening global financial conditions, and lower commodity prices—and contracting tourism and declining remittances.[14]

Current account balances then started to deteriorate from 2022 and are estimated to reach –2.6 per cent of GDP in 2024 before narrowing to an average of –2. 3 per cent in 2025–26 (see figure 1.9), mainly attributed to increasing official grants and foreign loan repayments induced by high debt levels.[15] Despite the positive impact of the region's trade performance, the negative impact of exchange rate devaluations and inflation outweighed the positive impact of trade on current account balance.[16] However, the establishment and implementation of the AFCFTA is expected to reverse this narrative and improve intra-African trade (see chapter 3).

Geopolitical conflicts, trade tensions, and tight financial conditions continue to suppress investor appetite, leading to a modest decrease of 2 per cent in global FDI inflows in 2023 to US$1.3 trillion. Mirroring the global trends, FDI inflows to Africa diminished by 3 per cent in 2023, down to US$53 billion (figure 1.10). Despite this drop, some countries attracted greater FDI inflows, notably Namibia (+119 per cent) and Nigeria (+109 per cent). European investors continue to dominate the FDI stocks in Africa, with the Netherlands (US$109 billion), France (US$58 billion), the United States (U$46 billion), and the United Kingdom (US$46 billion) maintaining their top ranks.[17]

Current account balances then started to deteriorate from 2022 and are estimated to reach –2.6 per cent of GDP in 2024 before narrowing to an average of –2. 3 per cent in 2025–26.

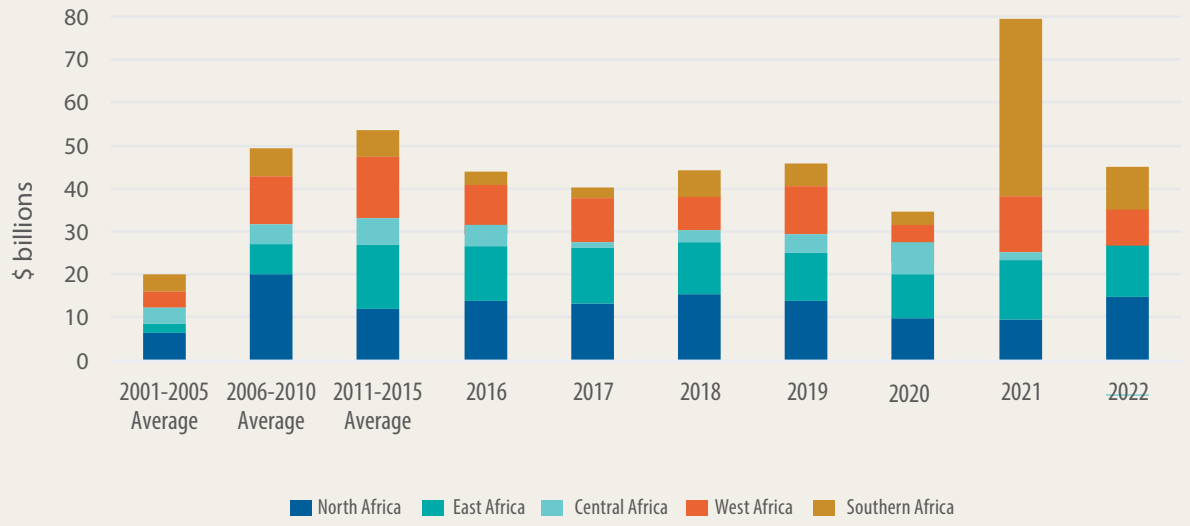
Figure 1.9 Current account balance, Africa and other economies, 2020–26(f)



Note: e = estimate and f = forecast.

Source: ECA calculations based on IMF (2024a).

Figure 1.10 Foreign direct investment flows, by subregion, 2018–23



Note: The surge in 2021, which saw FDI inflows peak at $83 billion, was influenced by a single intrafirm transaction in South Africa, related to a major corporate reconfiguration.

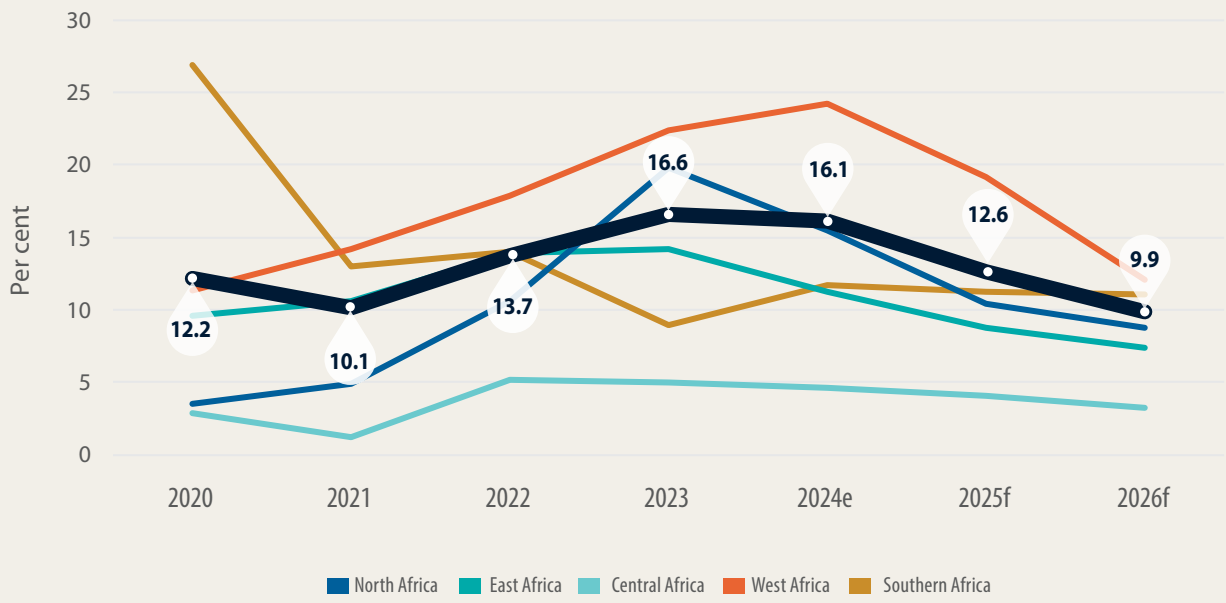
Source: UNCTAD World Investment Report 2024.

Geopolitical conflicts, trade tensions, and tight financial conditions continue to suppress investor appetite, leading to a modest decrease of 2 per cent in global FDI inflows in 2023 to US$1.3 trillion.

Players from the Middle East have become more prominent in Africa's investment portfolio. Their greenfield announcements to Africa surged to US$53 billion in 2023, continuing the previous year's trend, when the amount reached US$60 billion. This marks a massive jump from earlier figures that hovered around just US$5 billion. This significant uptick is driven by a strategic drive by oil-rich Gulf countries to diversify away from hydrocarbons, most notably into green hydrogen and other renewable energy projects, as well as data centres.[18]

The share of intra-African investment, though modest, is notably higher in services and selected manufacturing industries, which account for 20 per cent of projects funded by African investors, as opposed to 13 per cent in resource-based processing industries.[19] This trend shows that African investors are taking the lead in seizing the opportunity presented by the anticipated surge in demand for services and manufactured goods across the continent, thus contributing to the diversification of the African economy. Implementation of the AfCFTA could further unlock intra-African investment flows by streamlining investment regulations, providing continental protection and facilitation services, and eliminating obstacles to capital flows.[20]

Figure 1.11 Annual consumer price inflation, 2020–26(f)



Source: UNDESA 2025.

Headline inflation, while subsiding, remains in double digits in some subregions

Despite the tightening of monetary policy in many countries, consumer price inflation remains persistently high but is projected to decline marginally from an average of 16.1 per cent in 2024 to 12.6 per cent in 2025 before reaching 9.9 per cent in 2026 (figure 1.11). The relatively high levels in 2023 and 2024 reflect the continually high food prices, currency depreciations and the imbalance between supply and demand in both domestic and global food markets.[21] However, the effect of the expected decline in international food and energy prices due to increased global energy supply, as well as the weak second-round pass-through effects to headline inflation are expected to contribute to disinflation in 2025 and 2026.[22]

West Africa is projected to record the highest inflation rate of 24.2 per cent in 2024, followed by North Africa at 15.5 per cent, Southern Africa at 11.7 per cent, East Africa at 11.2 per cent and with Central Africa having the lowest rate at 4.6 per cent (see figure 1.11). The high prices in most subregions reflect the effect of predominantly dry weather conditions leading to widespread scarcity of food and higher prices due to lower agricultural yields and exchange rate pass-through from substantial currency depreciations raising domestic prices of imports, thus exacerbating inflationary pressures.[23] The relatively low inflation rate in Central Africa reflects the tighter monetary policy adopted by the regional central bank (BEAC) and lower prices of most commodities.

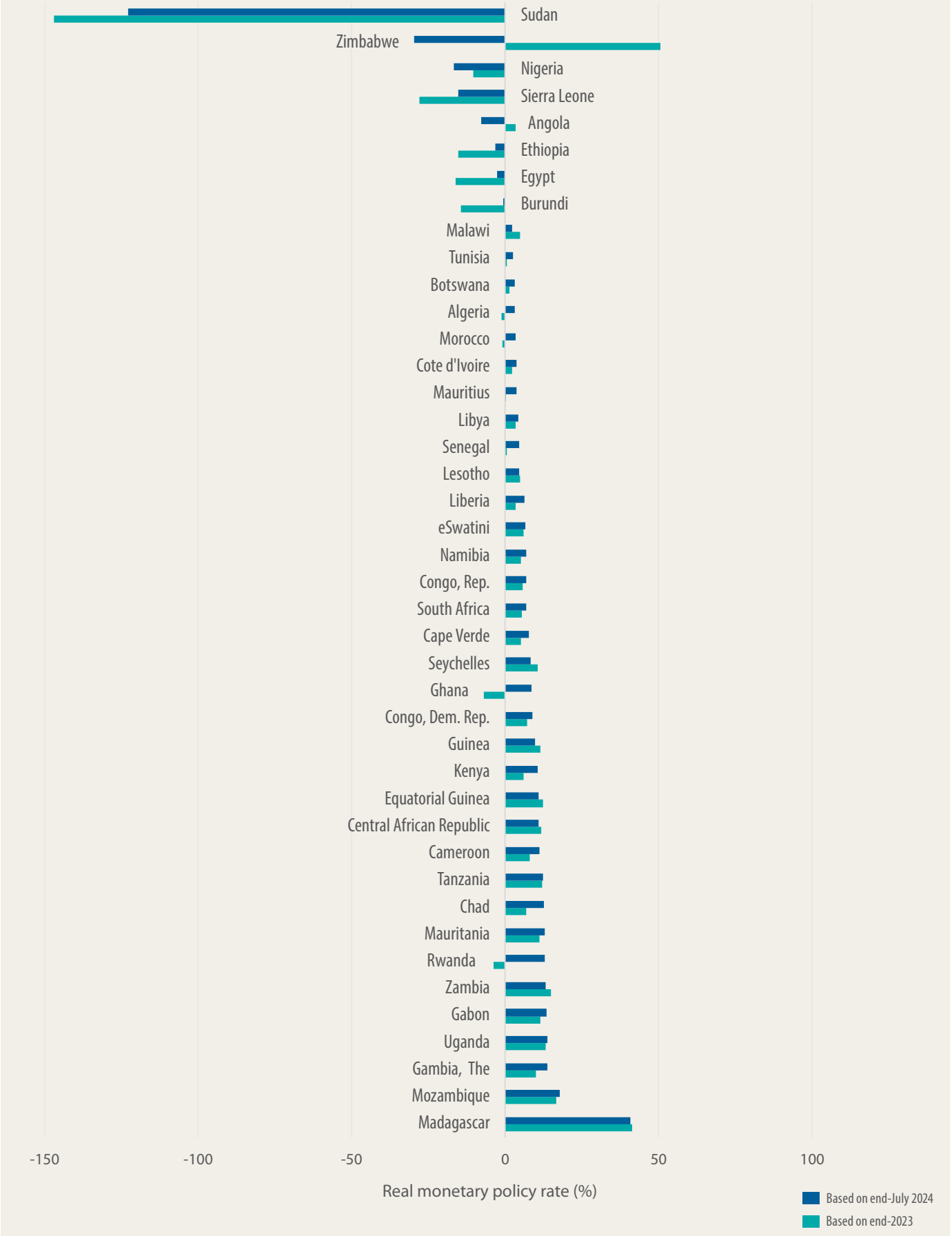
Data from July 2024 indicate the prevailing potential of monetary policy to complement fiscal efforts and support Africa's growth, as most African countries could have more space to reduce interest rates in the near term. Monetary policy rates in real terms are becoming increasingly positive across the continent except for a few countries (figure 1.12). For countries with declining inflation rates, loosening monetary policy could be of significant benefit in achieving price stability. But for countries where inflation continues to rise or still exceeds target policy rates, they may need to further tighten monetary policy until inflation reverses to a downward trajectory and returns to the target policy rate range.[24]

Risks to Africa's macroeconomic performance

Macroeconomic vulnerabilities

Despite the encouraging growth recovery since the pandemic, macroeconomic vulnerabilities in price stability and fiscal and external positions pose a significant threat to Africa's growth in the short to medium term. Inflation remains in double digits in most countries, eroding the purchasing power of households. And fiscal deficits and debt levels remain relatively high with rising debt service burdens with significant

Figure 1.12 Real monetary policy rates, July 2024



Source: ECA calculations based on Oxford Economics data.

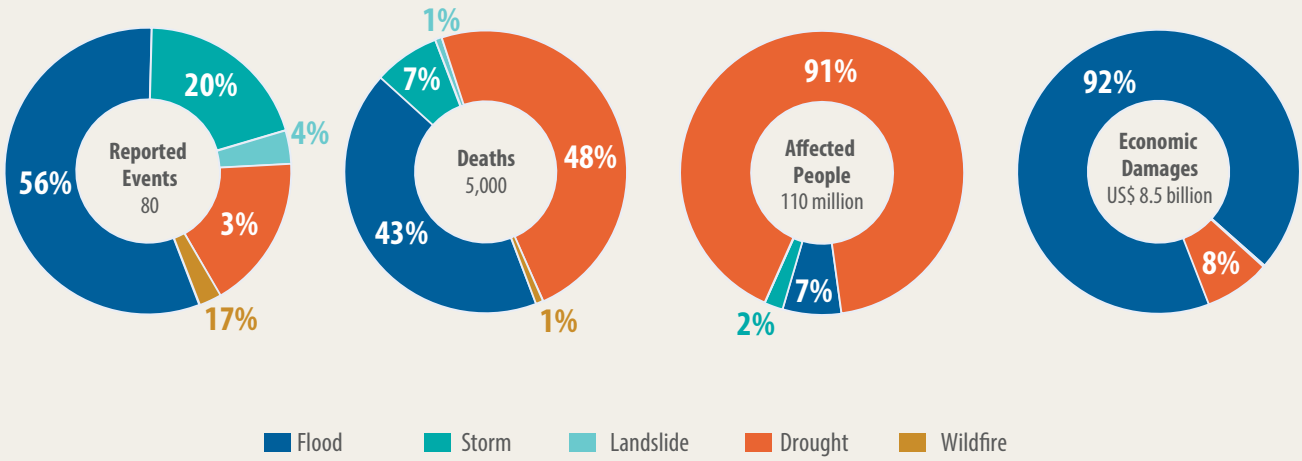
impact on the resources available for development spending. Countries still find it difficult to access development financing as interest rates remain high on the international market. Further, political and social pressures are making it increasingly challenging to implement reforms due to political fragility as a result of conflicts and coups, especially in the Sahel region.[25]

Climate change effects

Africa, despite contributing less than 10 per cent of the world's greenhouse gas emissions, is disproportionately affected by the impacts of climate change and is the least equipped to mitigate its negative effects. The continent's increasingly frequent and severe weather events—droughts, floods, heatwaves, heavy rains, and tropical cyclones—pose significant threats to biodiversity, food security, and human livelihoods. The economic consequences of climate change in Africa are particularly severe, posing profound risks that threaten to undermine decades of development progress and exacerbate poverty and inequality across the continent. Climate change is projected to have severe macroeconomic impacts on African economies as early as 2030, with the effects expected to intensify over time.

In 2022, weather, climate, and water hazards directly affected more than 110 million individuals on the continent, resulting in economic losses exceeding US$ 8.5 billion (figure 1.13). Of 5,000 fatalities, 48 per cent were linked to drought and 43 per cent to flooding. However, the actual toll is likely to be much higher due to underreporting.

Figure 1.13 Weather, climate, and water disasters in Africa in 2022



Note: The economic damages of some disaster occurrences are not presented in the figure due to data unavailability.

Source: Data as of June 2023 from EM-DAT.[26]

Currently, the economic cost of climate-related disasters in Africa is significant, with an annual financial burden estimated between US$7 billion and US$15 billion, a figure projected to rise dramatically, potentially reaching US$50 billion a year by 2030. These escalating costs will further drain resources that could otherwise be directed to economic development and poverty reduction.[27] Climate change-induced instability in global commodity markets poses additional risks to African economies heavily reliant on the export of agricultural products, minerals, and other natural resources. Fluctuations in commodity prices, driven by droughts, floods, and other extreme weather events, can lead to economic instability, reducing government revenues and heightening vulnerability.

In 2022, weather, climate, and water hazards directly affected more than 110 million individuals on the continent, resulting in economic losses exceeding US$ 8.5 billion.

Agriculture contributes significantly to GDP and employs a large portion of the population in many African countries and is highly vulnerable. Climate shocks have contributed to the decline in Africa's productivity, down

by more than 31 per cent since the 1960s. Every degree of warming above historical levels is expected to lead to a 5 per cent decrease in crop productivity. Building resilience is therefore urgent, since studies show that a rise in temperatures of 2°C could reduce yields by up to a fifth. In addition, irregular rainfall could lead to drought and famine.[28] Temperature increases also affect agricultural production by fostering crop pests and diseases, heightening food insecurity, worsening existing economic vulnerabilities, threatening millions of livelihoods, and exacerbating poverty and inequality.

Climate change also affects Africa's trade, particularly in regions dependent on exports of agricultural products, minerals, and other natural resources. Fluctuations in global commodity prices, driven by climate-induced supply disruptions, can lead to economic instability, particularly with many African economies heavily reliant on a narrow range of export commodities. Without significant investment in climate resilience and diversification, the continent's economic stability could be at risk. This calls for greening Africa's industrialization to achieve the type of structural transformation that yields sustainable and inclusive growth, thus creating jobs while safeguarding the productivity of natural resources.[29]

Africa's infrastructure is threatened too, particularly in rapidly urbanizing and coastal areas where rising sea levels and extreme weather events can cause substantial damage, especially in coastal cities, where much of Africa's economic activity is concentrated. The cost of climate-related infrastructure damage could reach US$4 billion annually by 2030 if adaptation measures are not implemented.[30] Such damage would not only strain national budgets but also hinder economic development and growth, particularly in rapidly urbanizing regions.

Economic threats due to risks of the US–China trade war escalation

China is Africa's largest bilateral trade partner (US$282 billion in 2023), a major provider of development finance and an important source of FDI, reaching US$1.8 billion in 2022, up from US$75 million in 2003), so whatever happens to China would have knock-on effects on Africa.[31]

While a trade conflict between US and China had been ongoing since 2018, risks of escalation rose in early 2025. After the Trump administration has levied additional 10 per cent on Chinese imports effective February 4, China

The cost of climate-related infrastructure damage could reach US$4 billion annually by 2030 if adaptation measures are not implemented.

announced a 15 per cent tariff on US coal and liquified natural gas, along with a 10 per cent tariff on crude oil, agricultural machinery and some cars effective February 10. Beyond US–China relations, President Trump's team has been considering a variety of new tariffs for his second term starting in 2025, ranging from universal baseline tariffs to country-specific ones. These ongoing skirmishes are concerning for the global economy and for Africa, including through their impacts on inflation, growth and employment.

The stakes are high. Already in 2019 it was estimated that trade tensions could cause a 2.5 per cent reduction in GDP in resource-intensive countries and a 1.9 per cent reduction in oil-exporting countries by 2021.[32] Recent protectionist measures taken or announced by the United States and China could depress global commodity prices and reduce Chinese demand for imports from Africa, adding to Africa's economic vulnerabilities. Apart from the trade war, China is experiencing an ageing population and a slowdown in economic growth.[33] That could push up labour costs as a result of the shrinking working age population.[34] This situation should be an impetus for increased intra-African trade and realizing the huge potential of implementing the AfCFTA.

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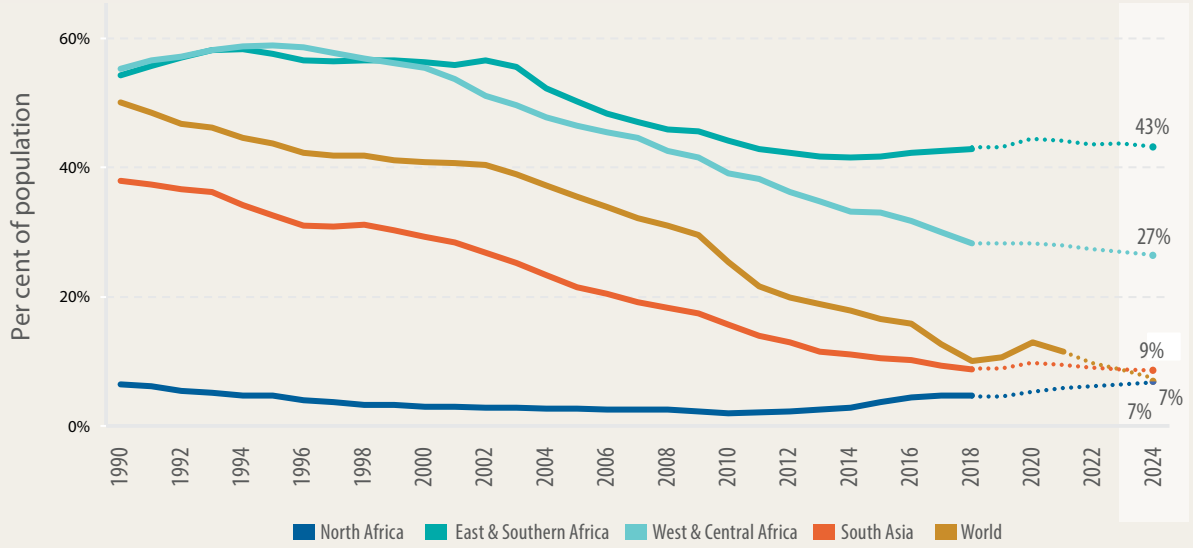
RECENT SOCIAL DEVELOPMENTS

Gradual decline in relative poverty, slowed by the pandemic setback and low growth

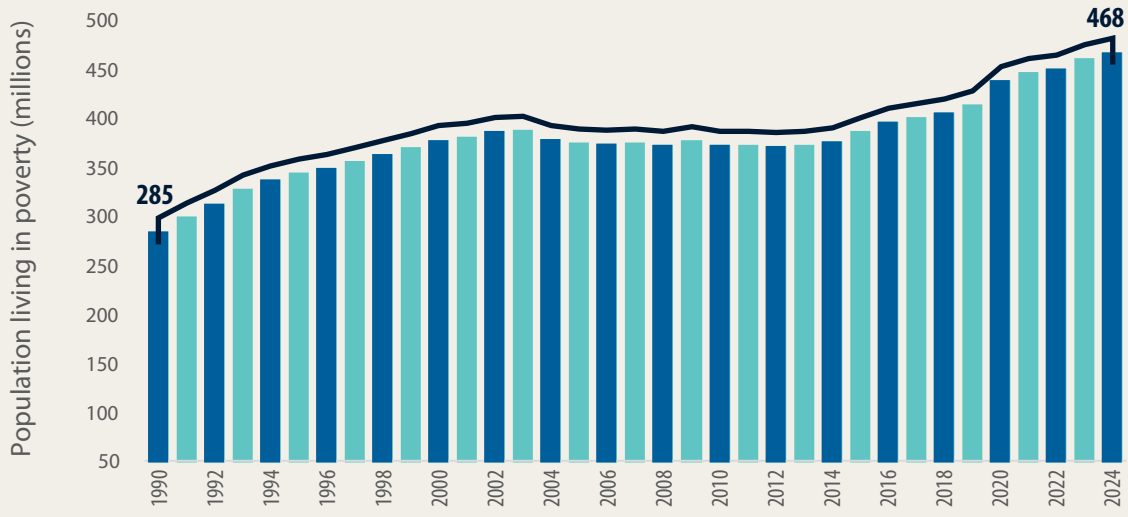
Extreme poverty in Africa has declined in line with the downward global trend but remains high in almost all the subregions in 2024 (figure 1.14). East and Southern Africa's poor population at 43 per cent is much higher than that of West and Central Africa at 27 per cent, while North Africa's fairly low at 7 per cent. However, owing to recent multiple and overlapping crises, the number of people living in poverty has increased, with an estimated 468 million Africans now living in extreme poverty, up from 285 million in 1990 (figure 1.15). Unsurprisingly, much of this extreme poverty is in least developed countries, driven by conflicts, droughts, floods, and other crises.

Figure 1.14 Global and African subregional relative poverty, 1990–2024



Source: Compiled by ECA using data from the World Summit for Social Development 2025 Report. Available at https://social.desa.un.org/second-world-summit-for-social-development.

Figure 1.15 Global and subregional absolute poverty trends, 1990–2024



Source: Compiled by ECA using data from the World Summit for Social Development 2025 Report. Available at https://social.desa.un.org/second-world-summit-for-social-development.

Of global extreme poverty, 55 per cent is concentrated in Africa. Of the 28 countries with extreme poverty above 30 per cent globally, 23 are in Africa, underscoring the gravity of the challenge.[35] However, middle income Algeria, Mauritius, Seychelles, and Tunisia have less than 1 per cent of poor people and are on target to achieve SDG1 of no poverty by 2030. Cabo Verde, Egypt, Gabon, Mauritania, Morocco, and Senegal have poverty rates of 10 per cent or lower.

Low productive employment remains a key challenge

Africa has the second largest share of female unemployment globally after Latin America and the Caribbean (figure 1.16) and the highest share of male unemployment globally, exceeding all global regions. While working poverty has fallen globally, the percentage of employed persons living in poverty in Africa has increased, making Africa to have the highest share of working poverty, with more than 145 million employed people living in extreme poverty.[36] Nearly three-quarters of the working poor are in Central and East Africa, with 43 per cent and 38 per cent respectively, far above the continent's 29 per cent (figure 1.17). Southern and North Africa have the lowest proportions of working poor with 10 per cent and 5 per cent, respectively.

Africa is home to the youngest labour force, with almost 76 million young Africans not in employment, education or training (NEET). West and East Africa and to less extent, Central Africa have a disproportionate number of NEET youth, underscoring the lack of sufficient jobs.[37]

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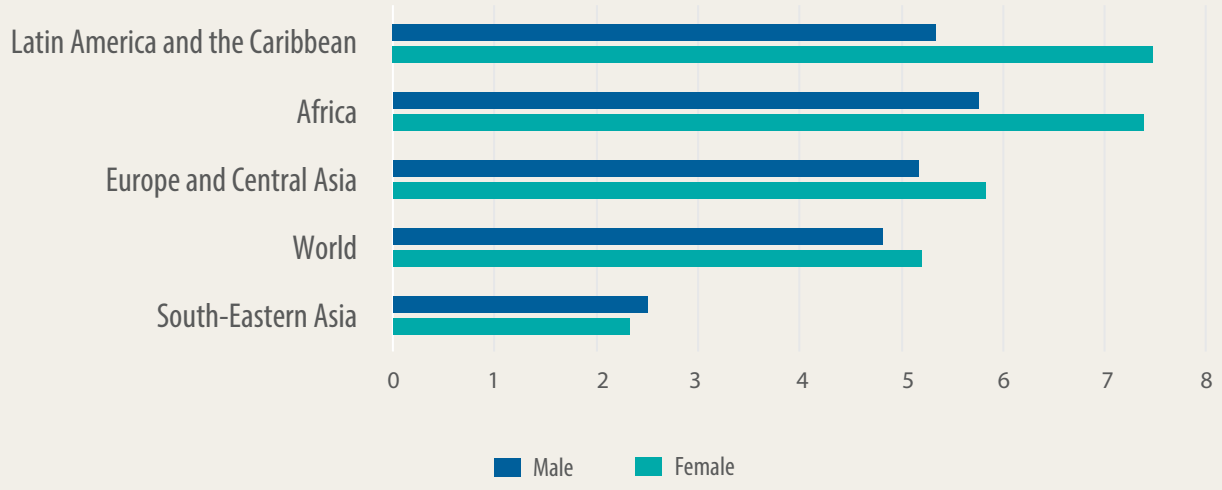
African labour markets are characterized by informality, job insecurity, and vulnerability.[38] During 2014–22, 84 per cent of people on average were employed in the informal sector with men and women comprising 57 per cent and 43 per cent of the labour force, respectively—and less than 20 per cent in the formal sector.[39] The reduction in the proportion of people employed in the agricultural sector led to a rise in informality, with most small enterprises outside formal wage employment. In Kenya, 95 per cent of the country's businesses and entrepreneurs operate in the informal sector.[40] Only a few countries, including Mauritius and Tunisia, show a decline in the number of businesses in informal sector, while Comoros, Eswatini, Rwanda, and Mauritania show a slight decline in informal employment.

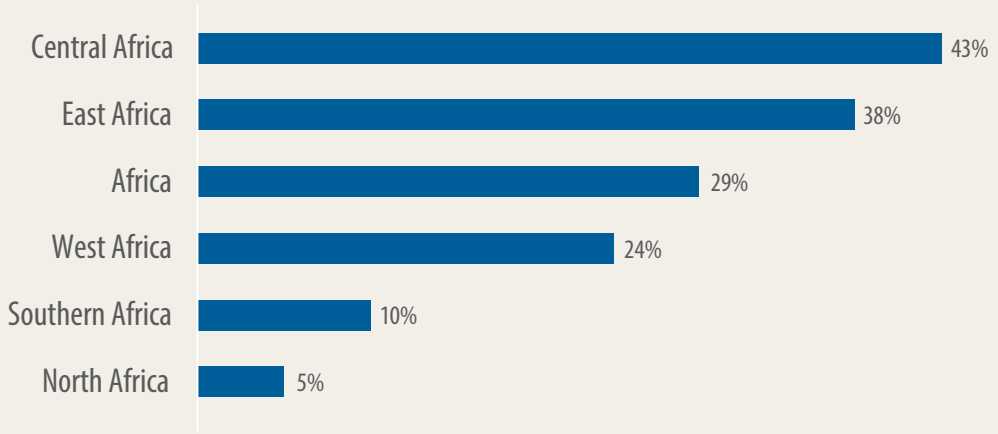
Increasing productivity remains key to any country's growth and development.[41] Unfortunately for Africa, the sectors with the highest labour productivity—mining, finance, and business services and utilities—account for

Figure 1.16 Unemployment rate in Africa by gender, 2024 (per cent of total labour force)



Source: International Labour Organization. ILOSTAT. Accessed August 2024 at https://ilostat.ilo.org/data/.

Figure 1.17 Working poverty rate, 2023 (per cent of employed living below US$2.15 PPP)

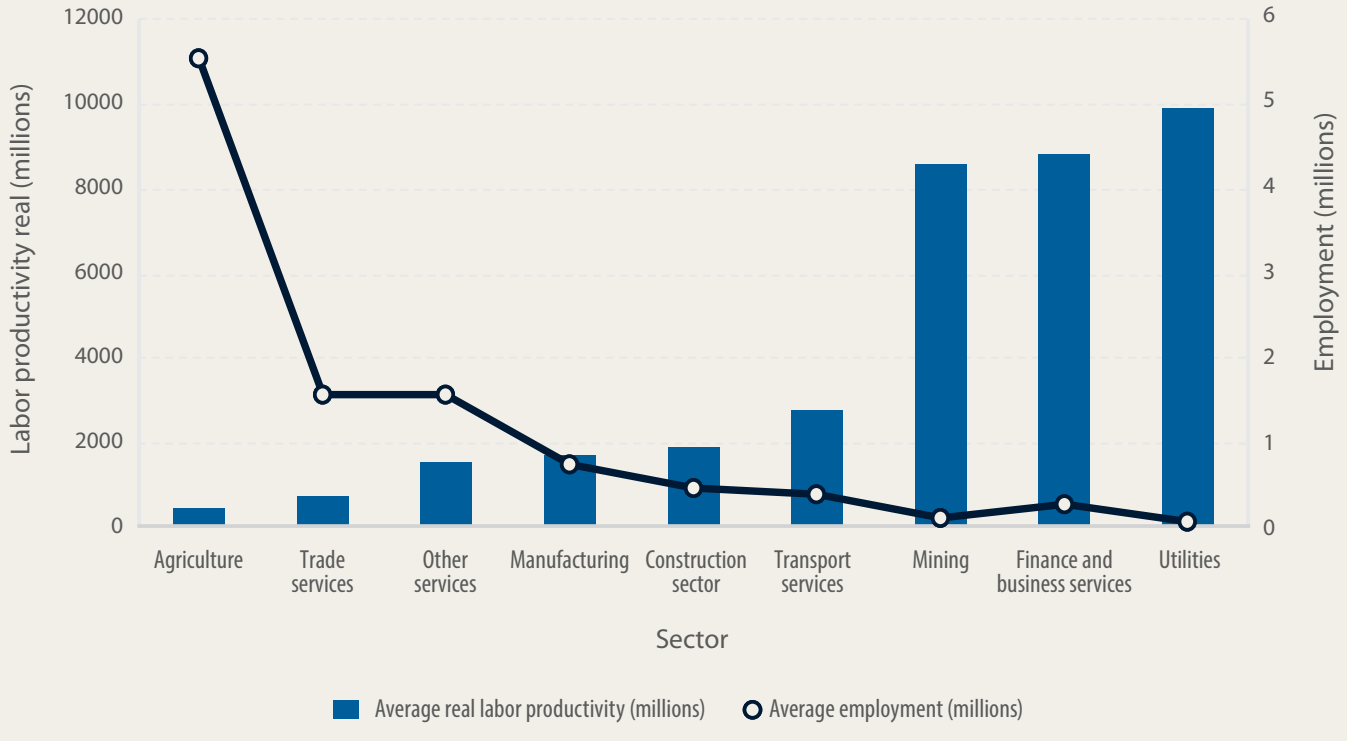


Source: International Labour Organization. ILOSTAT. Accessed August 2024 at https://ilostat.ilo.org/data/africa/#.

less than 5 per cent of employment, while the sector with the lowest labour productivity—agriculture—employs around 52 per cent of the workforce (figure 1.18) despite labour shifting to the informal sector. These numbers underscore the need to transform agriculture to enhance the continent's social and economic transformation.

Informal work often means underemployment, low productivity, high vulnerability, poor working conditions, low wages, and precarious tenure. More than 65 per cent of workers in Africa are in vulnerable employment, more than twice the number in regular employment, with African women facing considerably more vulnerabilities.[42] Moreover, 68 per cent of informal workers had only primary education or less compared with 26 per cent of formal workers in 2019. The share of women with no education was 14 percentage points higher than men in informal employment. As a consequence, limited formal sector job creation and a

Figure 1.18 Employment and labour productivity in Africa by sector, 2002–18



Source: ECA calculations, using data from Global Productivity Trends in Dieppe, Celik, and Kindberg-Hanlon 2020.

growing informal sector exacerbates income inequalities, poverty, and unemployment.

Africa rapid urbanization creates opportunities for AfCFTA acceleration

Africa is the least urban yet fastest urbanizing region with significant regional disparities and substantial socioeconomic impacts (figure 1.19). The number of cities has doubled since 1990—from 3,300 to 7,600—and their population has increased by 500 million people. About 45 per cent of Africa's people live in urban areas, and this ratio is projected to rise to 60 per cent by 2050.

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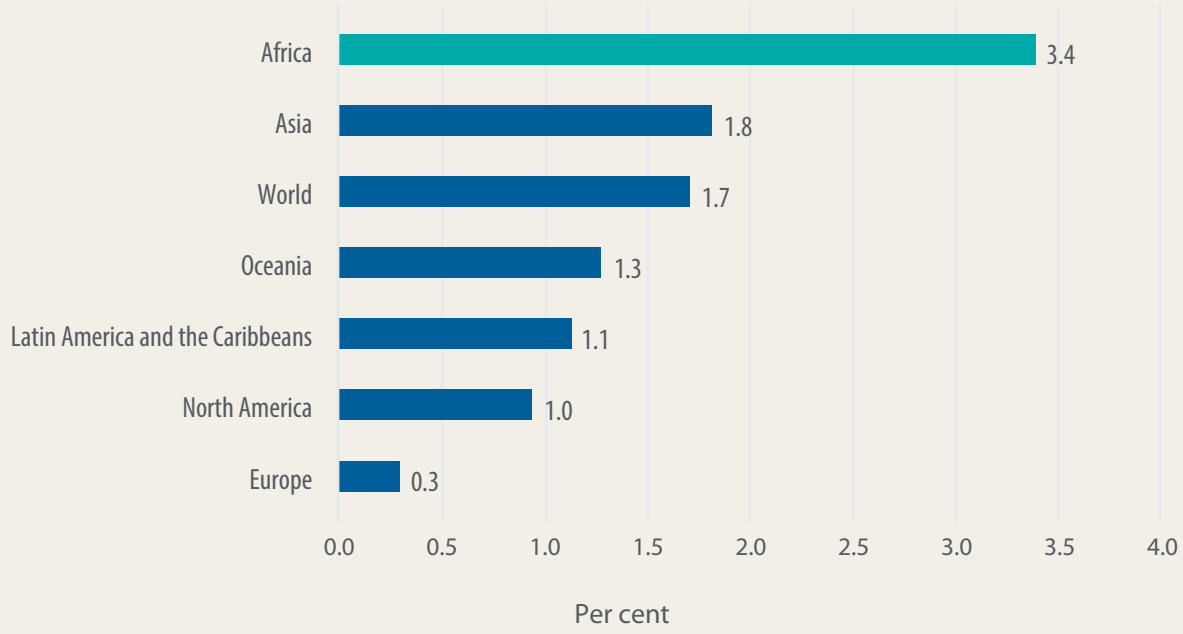
With 1.5 billion urban dwellers in 2050, Africa will have 22 per cent of the world's urban population, and one in every three young people (age 15–24) globally will be African.[43] This growth and composition are fuelled by both natural population increase and rural-to-urban migration in search of better lives.[44]

Figure 1.19 Average annual rate of change of the urban population by region, 2020–25 (per cent)



Source: ECA calculations based on data from World Urbanization Prospects 2018 at https://population.un.org/wup/Download/.

Africa's megacities—such as Cairo, Kinshasa, and Lagos—will be among the 10 most populous cities globally by 2035 (figure 1.20). Despite their size and economic significance, they face common urban challenges, including traffic congestion, inadequate infrastructure, and informal settlements. Emerging urban areas in Africa—such as Accra, Addis Ababa, and Kigali—are also experiencing rapid growth, driven by economic expansion and government initiatives focused on sustainable urban development, and African cities have 8 of the 10 fastest growing cities globally.[45] They represent a dynamic and evolving urban landscape, highlighting both the opportunities and challenges.

However, many cities face infrastructure deficits, environmental issues, and socioeconomic inequalities. Inadequate housing, poor sanitation, and limited access to clean water are common. A significant proportion of urban dwellers live in slums, and experience one or more deprivations: lack of access to improved water and sanitation facilities, overcrowded and precarious housing conditions and location, and a lack of tenure security. Current infrastructure and service challenges affecting African cities will need to be gradually addressed for Africa's potential, stemming from AfCFTA and a young population, to materialize (figure 1.20).

African cities have youthful populations, with a significant proportion under the age of 25. This trend is driven by high birth rates and rural-urban migration, as young people move to cities seeking better opportunities. Migration

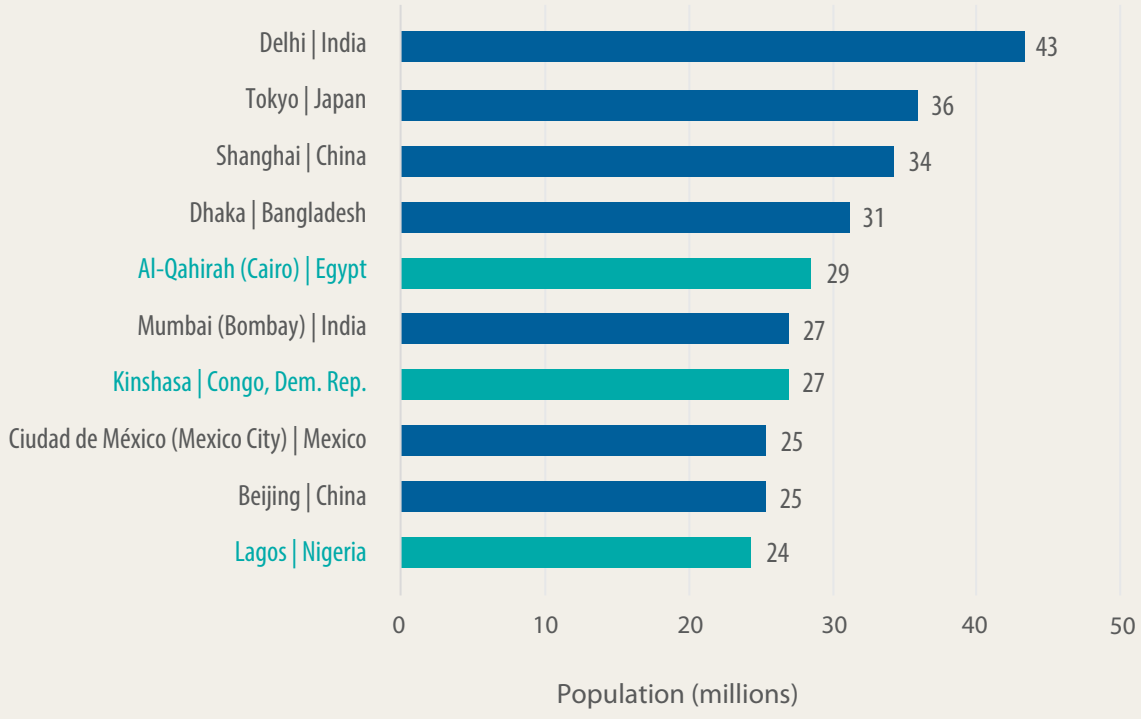
patterns include both domestic and international flows, contributing to the diversity and dynamism of urban population. But high population densities in cities pose challenges for infrastructure and service delivery, requiring effective urban planning and management. Urban sprawl in African cities is characterized by the expansion of urban areas into surrounding rural lands. This growth often leads to inefficient use of land, loss of agricultural land, and increased pressure on natural resources. Environmental degradation, including air and water pollution, is a concern, particularly in rapidly growing urban areas.[46]

As urbanization progresses, there has been a notable shift to services, especially to finance, retail, telecommunications, and hospitality, which lead in leveraging agglomeration economies, urban innovation, and scale economies. Urban growth is likely to drive demand in value-added sectors under AfCFTA, creating opportunities for economic transformation and decent job creation.[47] The informal sector is also significant in urban job creation, particularly in areas with high unemployment and underemployment. But the informal sector's growth also poses challenges related to regulation, taxation, and social protection.[48]

African cities have youthful populations, with a significant proportion under the age of 25. This trend is driven by high birth rates and rural-urban migration, as young people move to cities seeking better opportunities.

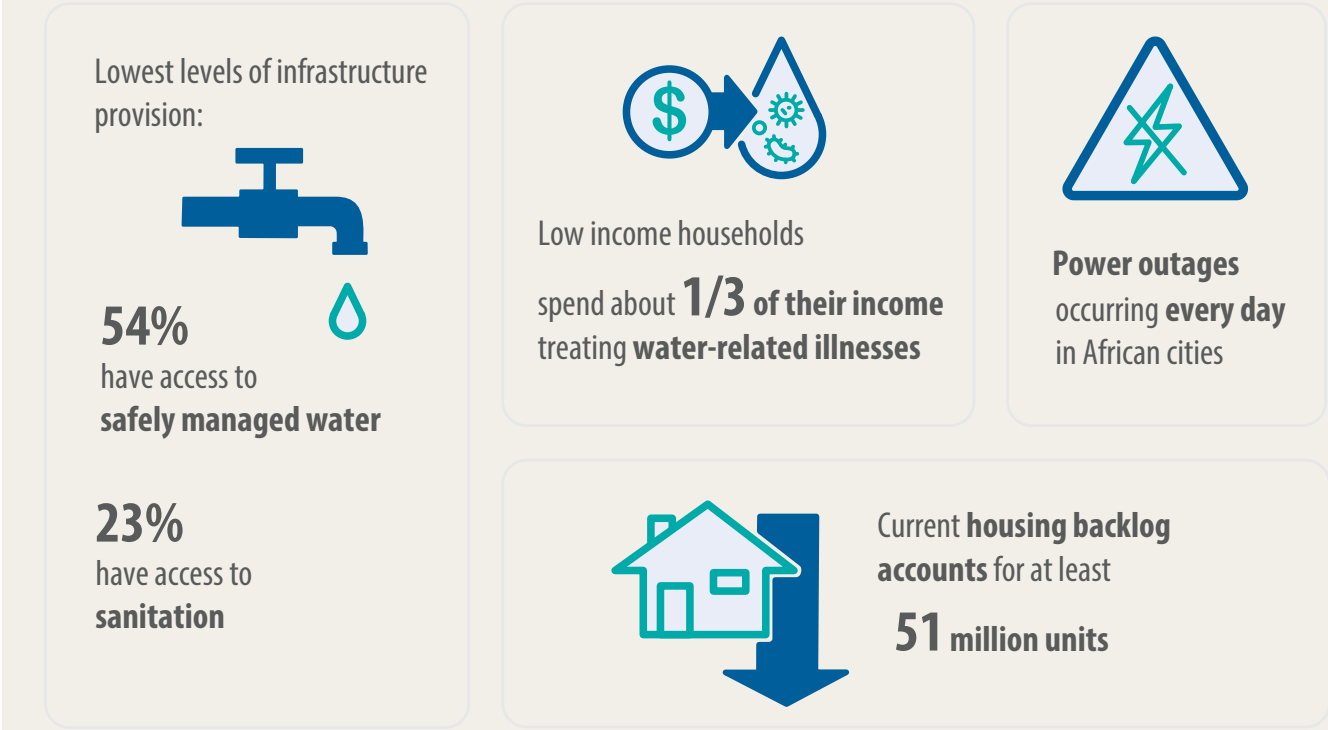
Policy responses are critical in managing these dynamics and seizing opportunities emerging from the AfCFTA implementation as well from such megatrends as technological progress, demographic transitions, and the shift from globalization to regionalism. African countries have put more emphasis on sustainable urban development, improved urban governance, and comprehensive urban planning. Initiatives like the Africa Urban Agenda aim to align urbanization with broader developmental goals, including the SDGs and Africa's Agenda 2063. These frameworks promote not only inclusive urban growth, innovation and green transition stemming from conglomeration, but also intra-African integration and overall continent's transformation.

Figure 1.20 Top 10 urban agglomerations by 2035



Source: Africa Urban Agenda Programme, available at: https://unhabitat.org/africa-urban-agenda-programme.

Figure 1.21 A snapshot of the infrastructure and service challenges of African cities



Source: ECA calculations based on data from UN-Habitat (2022) and Bah et al. (2018).

As urbanization progresses, there has been a notable shift to services, especially to finance, retail, telecommunications, and hospitality, which lead in leveraging agglomeration economies, urban innovation, and scale economies.

Persistent gender inequality creates social tensions and constrains AfCFTA potential

In recent years, Africa has made progress towards gender equality, especially education, but substantial gender gaps remain in the areas of economic empowerment as well as political and public life. Major subregional differences prevail, with North Africa one of the subregions with the lowest female labour force participation globally (together with Middle East). Several major challenges and barriers have been identified as detrimental to achieving multidimensional gender equality, including deep-rooted social and cultural norms and traditions.

Social and cultural mindsets continue to keep girls out of school and out of productive employment. Women and girls grow up in patriarchal cultures in many countries and communities, preventing them from going to school, attaining gainful employment, or developing digital skills.[49] Occupational segregation is confining women to less productive sectors and low-level value chains often revolving around social services, education, housing, family, as opposed to finance, defence, planning, science or technology.[50] This suboptimal distribution of talent disadvantages women in making the most of the AfCFTA opportunities.

Gender digital divide (both in terms of access and skills excludes women from reaping the full benefits of a digital revolution, including digital cross-border trade. The global percentage of women and men using the internet in 2023 stood at 65 per cent and 70 per cent respectively, with Africa at 32 per cent female and 42 per cent male. The low penetration and use can be attributed to a lower skills base for women than for men. Surprisingly, in what

Africa has made progress towards gender equality, especially education, but substantial gender gaps remain in the areas of economic empowerment as well as political and public life.

has been described as the STEM/ICT gender equality paradox,[51] there are more female technology graduates in countries with lower gender equality than in those with higher levels of gender equality.[52] So technology can provide an opportunity and act as a vehicle to address wider inequalities for women and girls.

Four strategic action areas can have a transformative impact on gender equality within the context of implementing the AfCFTA for women's economic empowerment.

- **Enhancing inclusion of women and girls in education, training and employment opportunities.** Education should focus on equipping women with both soft and technical skills. Soft skills could be developed by promoting women's voice, leadership and rights in both the public and the private sectors. It is essential to understand that women's different perspectives and experiences can enrich democratic and other processes.[53] Mentorship, business networks, and supply chain opportunities can also help in facilitating equal opportunity. Apprenticeships in male-dominated sectors are also important to encourage women to crossover into more profitable sectors.

- **Promoting STEM education (science, technology, engineering, and mathematics) and digital literacy for women and girls.** The goal is to leverage the economic benefits of the 4th Industrial Revolution (4IR) as the foundation for new technologies. Advances in artificial intelligence (AI), 3D printing, automation, augmented reality, nanotechnology, biotechnology, blockchain and materials science are fuelling key trends in the 4IR. Digital literacy can help understand how such scientific and technological concepts are intertwined through digital access, tools, and services. Concerns about online and offline safety and harassment may also discourage many women and girls from benefiting from digital technologies.[54]

- **Promoting women's access to digital finance, fintech, payment systems and credit.** Africa has the highest number of digital finance providers, increasingly providing alternatives for people to transact, and mobile money has enabled more women than other financial services to save money.[55] Digital financial services have the potential to provide women with greater control over their finances, improve their access to formal credit and reduce the cost of accessing financial products and services.[56] Fintech solutions can lower the cost of transactions for women entrepreneurs and traders. However, digital finance and fintech solutions require proper oversight by financial regulators and sound fiscal policies to facilitate their development, use and overall security, which some African countries still do not have in place. As women increasingly benefit from access to digital finance, restrictions and limitations from formal financial institutions should be lifted.

- **Addressing gender specific challenges that influence women's perceptions, activities, and decision making.** The financing gap for women entrepreneurs, is estimated at $42 billion in Africa.[57] This figure cannot be met by grants, subsidies, or development initiatives alone. Most of this gap will need to be raised by individual entrepreneurs themselves as capital, likely borrowed against existing assets as part of a wider business plan. However, women face many barriers to formal financial banking and access to credit as well as the ownership of assets, all linked to raising capital through collateral. So, financial policies and tools need to be developed to support women entrepreneurs with access to finance and credit for business and trade. Relatedly, a key barrier to women traders, especially to their using online trading platforms, is the concern that their designs and ideas (intellectual property rights) would be copied by others. Knowledge of trademarks, patents, registration, and infringement and dispute resolution mechanisms can build trust and reassure women traders. So can capacity

in regulation and procedures and institutional strengthening to address and resolve disputes—and knowledge of customs procedures, tariffs, duties, and regulation.

AFCFTA IMPLEMENTATION AND ITS IMPACTS

Strengthened intra-African trade through the AfCFTA can stimulate growth and reduce its volatility, reducing African vulnerability to global shocks. It has the potential to advance structural transformation, through enhanced diversification and industrialization. Chapter 3 indicates that the AfCFTA could boost intra-African trade by about 45 per cent through 2045, with manufactured products like agro-foods, pharma, chemicals, automobiles, and other manufactured products, along with tourism and health services, to benefit the most. By increasing the size of markets and reducing vulnerability to shocks, greater regional integration can also improve credit ratings and reduce borrowing costs of African sovereigns.

Intra-African trade and integration are key for strengthening food security by creating just-in-case instead of just-in-time linkages. The AfCFTA could enhance food security through collaboration in the agriculture sector, contributing to more stable and accessible food supplies. It can transform food systems by reducing trade barriers and tariffs among African countries, promoting movement of food across borders, and making it easier for countries to source and distribute food from surplus regions to those in need. And through regional value chains, it will lead to more processing and value addition within Africa, create a larger and more integrated market for agricultural products, and increase access to a wider consumer base and diversified food production.[58] Recent estimates show that intra-African trade in agrifoods would increase by around 60 per cent by 2045 with the greatest potential for an increase being in milk and dairy products, processed food, cereals and crops, and sugar.[59]

By advancing intra-industry trade, AfCFTA also can deepen regional integration and contribute to greater convergence among African countries, facilitating the eventual move to Africa's monetary union. Having a common currency would boost intra-African trade by reducing transaction costs and exchange rate fluctuations risks and promoting a single market. It could also boost harmonization and facilitate a regional monetary policy.[60] The Pan-African Payment and Settlement System (PAPSS), the latest milestone towards financial integration, is a financial platform that supports instant payment, prefunding, and net settlement. It also helps harmonize the legal and regulatory environment across the continent and support the larger AfCFTA objective of promoting intra-African trade. And it could reduce the currency conversions cost in Africa by as much as $5 billion annually (see chapter 4).[61]

Given the political attention the AfCFTA has generated among leaders and development partners, it can play a key role in addressing challenges related not only to Africa's trade but also to industrial policies. But this will require new industrial policies and effective application of the existing ones amid economic shocks, volatile inflation, and geopolitical tensions.[62] The AfCFTA thus provides a major opportunity for countries to boost growth, reduce poverty, and broaden economic inclusion (see chapter 3 for more details).

To support economic growth and enhance people's living standards, countries need to focus on boosting revenues instead of reducing essential expenditures, including enhancing the efficiency of these expenditures.[63] Broadening the tax base requires focusing on hard-to-tax sectors and boosting efficiency and effectiveness of tax administration including improving tax compliance and using digital technologies. It also requires tackling illicit financial flows and targeting nontax-revenue sources, which remain an undertapped source of government revenues in many countries.[64] Curbing debt vulnerabilities due to high debt levels requires enhancing coordination among creditors and restructuring debt through the G20 Common Framework for Debt Treatment.

With more than 80 per cent of the countries showing signs of easing inflationary pressures, countries with inflation below or within their target bands could

Strengthened intra-African trade through the AfCFTA can stimulate growth and reduce its volatility, reducing African vulnerability to global shocks.

consider reducing their policy rates to boost private investment. Countries with high inflation need to tighten their monetary policy until the inflationary pressures show some signs of easing.

Urbanization's infrastructure deficits, environmental degradation, and socioeconomic inequalities, as well as the flourishing of informal economies require policy responses to manage these dynamics, with emphasis on sustainable urban development, improved urban governance, and comprehensive urban planning. Initiatives like the Africa Urban Agenda, which aim to align urbanization with broader developmental goals including the SDGs and Africa's Agenda 2063, need to be promoted and popularized to contribute to the continent's transformation.[65]

With the AfCFTA envisaged to enhance economic diversification and industrialization, and for countries to fully exploit its potential, new industrial policies have to consider climate policies, renewable practices, low carbon strategies to mitigate any negative consequences—as well as digital technology and AI policies and strategies. Countries must ensure that these industrial policies do not reverse the gains of trade openness or the underlying trade enhancement objectives of the AfCFTA, but instead support the convergence of macroeconomic and trade policies.

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CHAPTER 2
THE AFRICAN CONTINENTAL FREE TRADE AREA: AN OVERVIEW

KEY MESSAGES

- **The AfCFTA is geared to ensure policy coherence on the African Continent and lay the ground for a prosperous and peaceful Africa.**
- **Given the ambitious scope of the AfCFTA agreement, critical instruments for its operationalization have been developed for its effective implementation.**
- **Lessons learned so far from the AfCFTA Guided Trade Initiative can help in adopting pragmatic policies to improve country participation in the AfCFTA and the effective implementation of the agreement.**

MAKING THE CASE FOR THE AFCFTA

Ensuring greater policy coherence within the African continent

The global economy is in a state of flux. Geopolitical tensions, high debt, the rise of nationalism, and climate challenges are all creating great uncertainty about the future trajectory of the global economy. There are signs, after decades of globalization, that the world economy is starting to fragment. The current global environment—a slowing Chinese economy, anaemic growth in Europe, volatile commodity prices, and the risks of global financial instability as the advanced economies normalize their monetary policy—may make matters even more challenging. Since 2022, significant declines in trade and FDI flows between countries in geopolitically distant blocs have already occurred.[1] Institutions for governing the global economy are also under stress. For instance, the role of the WTO has been increasingly challenged, and matters are likely to come to a head in 2025 if the new US administration is openly antagonistic to the global trading system.[2]

Strategically, it is opportune for the African continent to renew its commitment to regional integration. The adverse and uncertain external environment provides a unique opportunity for Africa to refocus on policies of economic diversification and on fostering its own structural transformation.

There is a wider backdrop to all of this. The birth pains of a new techno-economic paradigm[3] means that old certainties are giving way to increased risk and volatility in global markets.[4] Driven by information and communication technologies (ICTs) and the Fourth Industrial Revolution (4IR), the emerging techno-economic paradigm is rapidly replacing the former one based on scale economies and the Fordist model of mass production. This is not just about digitization, data flows, and the internet part of the Third Industrial Revolution, it is also about integrating new technologies into the way goods and services are produced, thanks to sensors, advanced materials, and robotics with digital platforms, artificial intelligence, and big-data analytics, linked by the Internet of Things. This enables the customisation of goods through additive manufacturing (3-D printing) and new business models, such as on-demand production. While some analysts see promise for Africa in the new technologies,[5] others see them with trepidation—and claim that the labour-saving technologies associated with the 4IR make it even more difficult for lower income countries to have a significant role in global manufacturing.[6]

Strategically, it is opportune for the African continent to renew its commitment to regional integration. The adverse and uncertain external environment provides a unique opportunity for Africa to refocus on policies of economic diversification and on fostering its own structural transformation. History shows that necessity can be the mother of invention. South America in the 1930s and 1940s made significant strides in its own economic diversification and industrialisation when its traditional export markets in Europe and the United States were closed off by protectionism in the aftermath of the 1929 Great Depression, and subsequently by the Second World War.[7] For Africa too, the prevailing uncertainties in the global economy may end up helping the continent move forward decisively with its own economic integration. A number of supporting trends are converging that favour continental integration.

First, ICTs are facilitating the decentralisation of production, thus bringing location, production and consumption closer together. This opens a window of opportunity for African. Although the continent starts from a relatively low knowledge base, it can turn adversity into an advantage and significantly benefit from the 4IR, through rapid adoption of the new technologies. Put simply, the 4IR will facilitate greater local and regional production to meet the demands of African consumers.

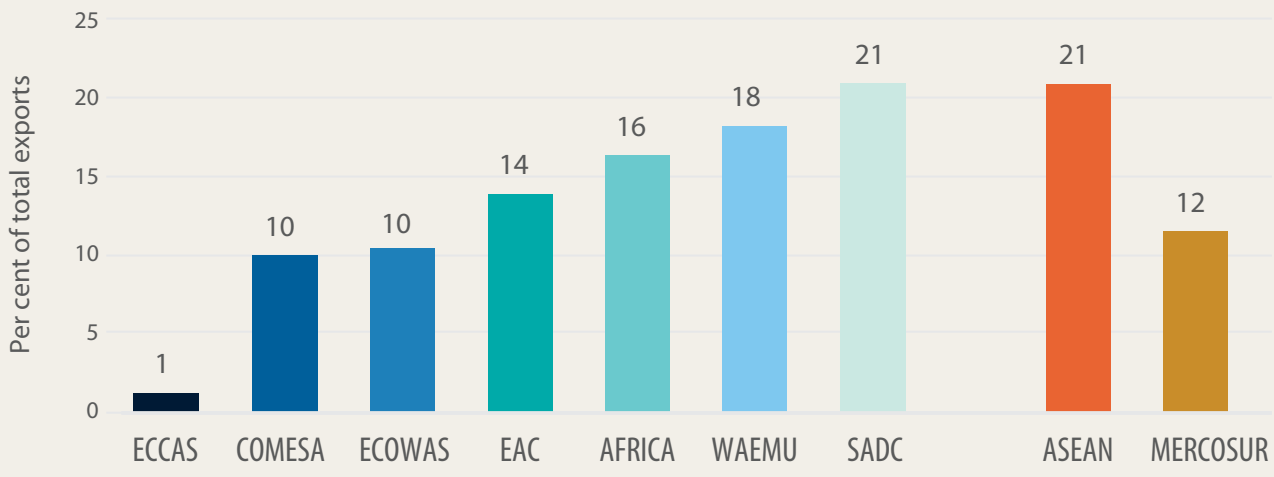
Second, an imperative exists to catalyse a green industrial revolution on the continent. In November 2022, the first Climate Change Conference in more than a decade to be held on African soil was convened in Sharm El-Sheikh, Egypt. Amid the concerns of western countries about their own energy security, the conference very much focussed on what African priorities should be. By embracing the technologies of the Fourth Industrial Revolution, leveraging the continent's vast renewable energy sources, promoting better access to electricity and accelerating the development of regional value chains, the continent should be able to leapfrog to a more energy-efficient future. Stronger regional energy markets could also prove extremely useful in reducing emissions. For instance, Eastern Africa is rich in sources of renewable energy, whether geothermal, wind power, or hydro-electric. Yet the region is highly dependent on oil imports and other refined products from the Middle East. With greater reliance on intra- and inter-regional power pools, that dependence could be significantly reduced, as with the Zambia-Tanzania-Kenya (ZTK) interconnector for the Eastern Africa and Southern Africa Power Pools.[8]

Third, the demographic boom on the continent is stimulating another related and promising transformation: a rapid acceleration in the pace of urbanisation and an associated growing concentration of human settlement.[9] In parallel, an intensification and diversification of rural–urban exchange networks is fuelling a process of *domestic* market integration. As the trajectories in recent decades of China and India have shown, domestic market integration is important for the functioning of factor markets (land, labour, capital). It also creates opportunities for scale economies in tradable commodities and services that enjoy a natural degree of protection against foreign imports (perishables, culture-specific products), products with high per unit transportation costs (bottled beer, cement), and services that require local knowledge (banking, public transportation).[10] This creates conditions propitious for the expansion of local and regional firms to cater to these demands.

All these profound changes militate for of the success of the AfCFTA, but policy must be duly aligned to these new realities. Fairly or not, there has been much criticism of past efforts at regional integration on the African continent. Overlapping membership across Africa's regional economic communities (RECs) has at times created conflicts and contradictions stemming from the "spaghetti bowl effect."[11] The consequences of belonging to multiple RECs by a country include multiple financial obligations, different meetings, policy decision incoherence, and conflicting procedures and schedules.[12] Yet despite the challenges, regional integration efforts performed reasonably well under the circumstances,[13] boosting intra-regional trade by 28–32 per cent on average[14] and much higher for manufactured goods.[15] The RECs also perform quite well against their peers in other world regions, with MERCOSUR and SADC and EAC on par with ASEAN (figure 2.1).

However, by the time negotiations for the AfCFTA officially began in June 2015 during the 25th Ordinary Session of the African Union, in Johannesburg, South Africa, there was a

Figure 2.1 Intraregional exports in total exports, 2023



Source: ECA calculations from ITC (2024).

realization of the need to go further. Around 80 per cent of existing intra-African trade was within RECs, and while trade within some RECs has proven to be quite dynamic, trade between RECs remained a challenge. Note that these statistics on the existing intra-African trade capture only formal trade without considering informal cross-border trade, so prevalent in Africa. Through reducing tariffs and non-tariff barriers (NTBs) within Africa, the AfCFTA is expected to boost trade between RECs and help harmonize policies across the continent.

New developments like the recent ratification of Tripartite Free Trade Area (TFTA) are also believed to provide an additional impetus to continental integration. The Tripartite Agreement between the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC), and the East African Community (EAC) was officially launched on 10 June, 2015, in Sharm El Sheikh, Egypt. Despite delays, the agreement finally came into force on 25 July 2024 following the attainment of the required threshold of 14 ratifications out of the 29 Member/Partners states. The TFTA objectives overlap with the AfCFTA, prioritizing market integration, infrastructure, and industrial development. So they present significant step towards achieving the broader objectives of the African Union, which include accelerating economic integration and sustainable development across the continent.[16]

Paving the way for a prosperous and peaceful Africa

The AfCFTA is expected to stimulate intra-African trade and promote Africa's industrialization and competitiveness. It is a critical step towards greater Africa's regional integration objectives (ultimately the creation of an African Economic Community): "The AfCFTA could therefore contribute directly and indirectly to the realization of 2030 Agenda for sustainable development and Agenda 2063 for "The Africa We Want" with aspirations to make Africa a prosperous and peaceful Continent."

From an economic perspective, Africa's priorities are job creation and structural transformation, as well as making sure that Africa is not marginalized from innovation and the 4IR. The AfCFTA is a tool to help achieve these goals. Africa is a large diverse continent, and African integration must be *sui generis* if it is to succeed. So, a creative path to continental integration must be established.

By embracing the AfCFTA, Africa is not turning its back on the world. Far from it. The continent is simply seeking to be more effectively represented and heard and to make constructive inputs into global outcomes that adequately reflect its own priorities.[17] The vision of the African Union is to achieve an integrated, prosperous, and peaceful Africa, driven by its own citizens and representing a dynamic force in the global arena. This vision is articulated in Agenda 2063—an admittedly aspirational document but rooted in the historic and contemporary realities of the continent. However, to achieve these goals, it is of paramount importance that Africa is internally strong as a precondition for international diplomatic agency—making the AfCFTA an idea whose time has come. Symbolic of those changes are moves to include the African Union with a permanent seat at the G–20, just as the European Union already has.

One of the biggest gains from the AfCFTA will be obliging member states to adopt common positions in their negotiations with the rest of the world. Speaking with one voice is not an easy goal to achieve—it is certainly not going to happen immediately. However, member states need to at least avoid outright conflict and the taking up of contradictory positions. For instance, the AfCFTA will operate within WTO regulations, as the European Union operates. Each African WTO member will represent itself during WTO negotiations, but the AfCFTA will use the Geneva-based group of Ambassadors that speaks for the entirety of the agreement on the basis of common African positions at all WTO meetings until Africa develops a supranational mechanism with exclusive competences in trade negotiations and trade-related matters. Like the European Union, the AfCFTA may in due course become a member of the WTO in its own right.[18]

The vision of the African Union is to achieve an integrated, prosperous, and peaceful Africa, driven by its own citizens and representing a dynamic force in the global arena.

SCOPE AND OPERATIONALIZATION OF THE AFCFTA AGREEMENT

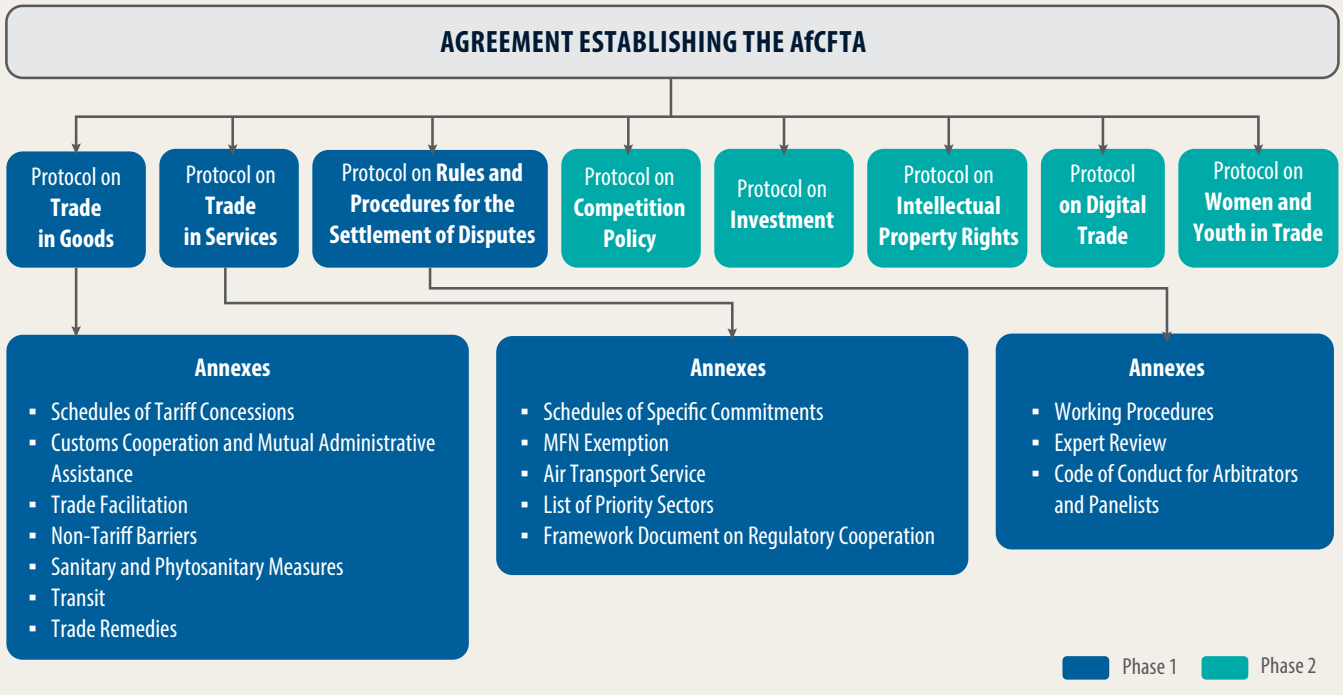
The AfCFTA is the world's largest free trade area in the number of member states and the scope. As of January 2025, all except one African country had signed the agreement, with Eritrea the only exception. Among the signatories, 48 have also ratified the agreement,[19] which includes a series of protocols and annexes negotiated in two phases (figure 2.2). Phase 1 covers trade in goods, trade in services and the procedures for dispute settlement. Phase 2, adopted in February 2024, includes protocols such as investment policy, competition policy, intellectual property rights, digital trade, and women and youth in trade.

The schedule for liberalization of the protocol in trade in goods of the AfCFTA agreement identified three types of products—non-sensitive products, sensitive products, and excluded products—and two groups of countries—least developing countries (LDCs) and non-LDCs (table 2.1). The LDCs have a longer period for tariffs liberalization, with 10 years to liberalize 90 per cent of tariff lines for the non-sensitive products and 13 years to liberalize sensitive products. Non-LDCs have 5 years to liberalize 90 per cent of their tariff lines for non-sensitive products and 10 years for sensitive products, which can constitute up to 7 per cent of tariff lines. Moreover, LDCs and non-LDCs have the possibility to exclude up to 3 per cent of their tariff lines if this does not represent more than 10 per cent of intra-African import value (table 2.1). In practical terms, by 2033—13 years from the date of entry into force of the AfCFTA agreement—trade in 97 per cent of all goods originating in Africa should be traded across borders free of any customs duties or other charges having equivalent effect.

The AfCFTA is the world's largest free trade area in the number of member states and the scope. As of January 2025, all except one African country had signed the agreement, with Eritrea the only exception.

The AfCFTA agreement entered into force on 30 May 2019, however, trading under the AfCFTA rules did not begin until 1 January 2021. However, at the time of writing (October 2024), few member states had actually

Figure 2.2 AfCFTA agreement protocols



Source: Adapted from ECA (2023).

operationalized the tariff reductions in a systematic way. Respecting the tariff reduction schedules will be of fundamental importance in operationalizing the AfCFTA—and there will be a need for member states to play catch-up. Thus far, however, the focus has gone towards the Guided Trade Initiative—an initiative to test both member states and private sector actors on their readiness to trade under AfCFTA rules and regulations. The first round of the Guided Trade Initiative in October 2022 and the second round in 2024 attracted more than 38 countries. Clearly, there is a demand and eagerness to start trading under AfCFTA rules. More on this in the next section.

Respecting the tariff reduction schedules will be of fundamental importance in operationalizing the AfCFTA.

Table 2.1 Schedule of liberalization of trade in goods under the AfCFTA

Products/countries	LDCs	Non-LDCs
Full liberalization	90 per cent of tariff lines (10 years)	90 per cent of tariff lines (5 years)
Sensitive products	7 per cent of tariff lines (13 years)	7 per cent of tariff lines (10 years)
Excluded products	3 per cent of tariff lines	3 per cent of tariff lines

Source: ECA 2023.

Five operational instruments were created under the AfCFTA to adjust to the new liberalized and integrated trading environment established under the agreement:

- E-Tariff Book, which is a digital platform containing the tariff schedules with applicable tariff rates for all AfCFTA State Parties based on the WCO 6-digit Harmonised System (HS).[20]
- Rules of Origin (RoO) Manual to serve as a guide to the operationalization of annex 2 on Rules of Origin. It provides detailed information on how to determine the national origin of goods so that they can be traded between state parties under the AfCFTA preferential tariff rates.
- A mechanism to eliminate NTBs. It is a portal for online reporting of identified NTBs, including for reporting by SMS.
- The Pan-African Payments and Settlement System.[21]
- The African trade observatory platform.[22]

For the rules of origin, 92.3 per cent of tariff lines have been finalized; the outstanding rules are related to textiles and clothing, and automotive sectors.[23] Other important operational instruments include the AfCFTA Adjustment Fund established to support both the public and private sectors to address short-term disruptions from implementation of the AfCFTA agreement. While enabling the private sector to develop capabilities to produce value added goods and services that can be traded competitively within the continent and catalyse the emergence of regional value chains. The instruments also include the automotive fund, aimed at increasing local content development in the automotive value chain.[24]

TOWARDS AN EFFECTIVE AFCFTA IMPLEMENTATION

Significant progress has been made in the implementation process of the AfCFTA with the launch of the Guided Trade Initiative (GTI) in October 2022. The GTI started with seven countries (Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda, and Tanzania) plus Tunisia and covered limited products (ceramic tiles, batteries, tea, coffee, processed meat products, corn starch, sugar, pasta, glucose syrup, dried fruits, sisal fibre). The scope and coverage of the GTI has since expanded with the second phase, now underway, with the entry of new countries (more than 30), including the two largest economies on the continent, Nigeria and South Africa.[25]

The GTI is a creative and innovative way of stimulating and enhancing the start of trade under the AfCFTA.[26] Some of the key findings of the GTI experience are that: i) The establishment of an institutional framework to support the implementation of the AfCFTA at the national level is critical for state parties to maximize the benefits of the AfCFTA; ii) The limited awareness and understanding of the AfCFTA tariff liberalization process has led to some discouragement among exporters and importers, who have been under the impression that trading under the AfCFTA preferential regime means zero tariffs from the outset and no payment of other domestic taxes; iii) transportation and logistics are key to facilitating trade flows; iv)The Diplomatic Commercial Presence is a catalyst for the growth of AfCFTA trade as the Trade

Significant progress has been made in the implementation process of the AfCFTA with the launch of the Guided Trade Initiative (GTI) in October 2022.

Attaches and Commercial Representatives play an important role in the facilitation of business-to-business engagement, conducting market intelligence, and identifying new markets and more export opportunities for their companies.

What are some key lessons? The existence and functioning of a national AfCFTA institutional mechanism is essential to coordinate stakeholder participation in trade under the AfCFTA, such as national implementation committees (box 2.1). Regulatory bodies such as standards bodies, customs authorities, and other agencies involved in trade facilitation need to cooperate and coordinate their activities to minimize cross-border delays. Private sector engagement in the AfCFTA implementation needs to be strengthened through dedicated and intensive awareness and capacity building programs. Also important is realizing the potential that exists under the AfCFTA requires an effective implementation of the agreement. This can be done by overcoming several challenges and identifying policy options and reforms to alleviate these constraints.

Box 2.1 Synthesis on the AfCFTA National Implementation Committees (NICs)

The NICs assist stakeholders in designing and implementing institutional and policy frameworks for the operationalisation of the AfCFTA. They are also the interface between the AfCFTA Secretariat, the Ministry in charge of Trade and Industry, and other stakeholders (e.g., private sector).

A key lesson from countries trading under the GTI is the important role of NICs in creating institutional and policy frameworks, such as Ghana's National AfCFTA Framework and Action Policy, to enable private sector trade under the AfCFTA.[27] NICs are also crucial in developing national export policies, like Ghana's National Export Development Strategy (NEDS), and in assisting companies with obtaining certificates of origin for AfCFTA trade, including through the GTI. As a concrete example, the government of Ghana, with the support of its NIC, has assisted 30 companies in acquiring certificates of origin to be able to participate in the GTI and, subsequently, the AfCFTA.[28]

The NICs can also improve the private sector's capacity and provide market information on trade opportunities and export procedures. Ghana's NIC, with the support of ODI, identified (an initial) 200 enterprises (one of which is Keda Ceramics, which traded under AfCFTA rules) to build their capacities to boost their export competitiveness. In Kenya and Rwanda, the NICs in connection with the EAC, have designed a schedule of tariff concessions for certain products, include those traded under the GTI.[29]

Eliminating non-tariff barriers to increase cross-border trade is among the challenges and will be critical in implementing the AfCFTA. Although, the agreement prioritizes tariff liberalization, African countries must address non-tariff barriers. In fact, the persistence of non-tariff barriers that stifled cross-border trade in the past could continue to be a major impediment during the AfCFTA implementation. Moreover, empirical literature on trade also confirms that lifting non-tariff bottlenecks could be more effective in boosting intra-African trade than reducing tariffs. [30] Accelerating the AfCFTA implementation process requires eliminating both tariffs and non-tariff barriers as it would have a much higher development impact and raise the growth and development dividends.

Four non-tariff factors were most significant in explaining the level of intra-African trade: the quality of infrastructure, the availability of credit to the private sector, the business environment, and trade logistics such as customs-related services, clearance procedures, harmonization of transport procedures and regulations, and brokerage services.[31]

Other research points in the same direction. All else equal, lower tariffs, better infrastructure, and easier access to credit favoured larger trade flows.[32] The gap to be breached on the African continent was large—with the quality of infrastructure about 50 per cent lower in the region than elsewhere in the world, credit-to-GDP ratios about 25 per cent lower, and tariffs on average four times higher.

Such evidence could guide policy priorities for AfCFTA implementation.[33] For instance, governments, regional organizations, and donors could work with institutions like the African Development Bank or Afreximbank to increase the resources available for investments in infrastructure, and by supporting the African Union's Action Plan for Boosting Intra-African Trade and the Associated Programme for Infrastructure Development in Africa (PIDA). Of 409 projects launched by PIDA in 2012, only 155 (38 per cent) are under construction or already operational, 15 per cent are in the pre-feasibility or feasibility study phases, while 10 per cent are still in the stage of project definition.[34]

The payoffs could be large from completing these programmes.[35] Trade flows within seven West African Economic and Monetary Union (WAEMU) countries would be 3.2 times higher if 100 per cent of interstate roads were paved. The coordinated upgrading and maintenance of road networks could expand intra-African trade by 18 per cent annually over a 15-year period.[36] These massive impacts point to the potential gains from providing better funding and a more coordinated response to the continent's infrastructure challenges.

The African Continental Free Trade Area is one of the most ambitious initiatives aimed at promoting greater trade between African countries. This transformative

development will help state parties achieve high growth rates, diversify their economies, and reduce their exposure to external shocks. However, the success of the AfCFTA will require an enabling environment that enhances domestic capacities. The following chapter will explore the potential impacts of the AfCFTA on different economic, social and environment indicators.

The African Continental Free Trade Area is one of the most ambitious initiatives aimed at promoting greater trade between African countries.

Proposed transformative strategic actions

- Member states must speed up the implementation of their commitments made under the AfCFTA agreement and make use of available operationalization instruments.
- Having national AfCFTA implementation committees in place and functioning well is essential to coordinate stakeholders' participation in trade under the AfCFTA.
- Regulatory bodies such as standards bodies, customs authorities, and other agencies involved in trade facilitation need to cooperate and coordinate their activities to minimize cross-border delays.

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19 https://au-afcfta.org/?jet_download=b5067657acd85d1f83b691b34a17fd2876808e56, (accessed on 17 January 2025).

20 http://etariff.au-afcfta.org/.

21 See https://papss.com/ for more details on PAPSS.

22 See https://ato.africa/en.

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24 For more details, see https://au-afcfta.org/operational-instruments/.

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28 Kwofi 2023.

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31 Abrego et al. 2019.

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35 Coulibaly and Fontagné 2006.

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CHAPTER 3
AFCFTA PROMISES FOR AFRICA'S INCLUSIVE AND SUSTAINABLE DEVELOPMENT: EMPIRICAL EVIDENCE

KEY MESSAGES

- It is anticipated that intra-African trade will increase by 45 per cent in 2045, subject to agreed tariff liberalizations under the AfCFTA agreement and significant reductions of non-tariff barriers within Africa realized by all African Union member states.
- Developing regional value chains (RVCs) is required for AfCFTA implementation to have a transformative impact. The greatest potential is in processed food, tourism, health, pharmaceuticals, automotive, wood, paper, metals, other manufactured products, and to some extent textile, apparel, and leather.
- AfCFTA implementation has the potential to accelerate Africa's transition to renewables, with an estimated $22.4 billion of cumulative investments required in electricity generation, transmission, and distribution infrastructure between 2025 and 2040, with around 80 per cent of this total for renewables.
- An African common external tariff (CET), if set carefully and following successful AfCFTA implementation, can help reduce existing trade unbalances between Africa and its external partners.

This forward-looking chapter, grounded in empirical evidence largely drawn from recent ECA modelling work, helps in assessing how much the AfCFTA reform can contribute to Africa's inclusive and sustainable development. It addresses four main issues. First is the anticipated economic impacts of AfCFTA implementation on Africa, with insights on the potential contribution of the reform to inclusivity through the perspectives offered in inequality and poverty reduction among across various segments of the African population. Second is Africa's performance in value chains, and the identification of sectors with potential for development of regional value chains. Third is what AfCFTA implementation means for climate change and energy, and what climate policies of African countries and external partners mean in the AfCFTA context. Fourth is moving beyond the AfCFTA and examining how that matters for Africa's development.

The AfCFTA, envisaged to help in reducing tariffs and non-tariff barriers within the continent, offers an unprecedented opportunity to widen today's small base of formal intra-African trade.

FORESEEN ECONOMIC IMPACTS OF AFCFTA IMPLEMENTATION

The composition of Africa's exports to the rest of the world, mostly unprocessed primary commodities, contrast greatly with that of intra-African trade, dominated by industrial goods. In this context, the AfCFTA, envisaged to help in reducing tariffs and non-tariff barriers within the continent, offers an unprecedented opportunity to widen today's small base of formal intra-African trade, since its composition has promising characteristics for Africa's transformation.

In fact, there is a consensus among researchers, think tanks, and international organizations,[1] about the AfCFTA potential to transform African economies, including the expected benefits for poverty reduction in Africa. The only difference among them lies not on whether the AfCFTA can contribute to Africa's development, but on the extent to which the AfCFTA could do so due to different techniques or assumptions used to model the impact of the AfCFTA agreement (annex 3.1). Main differences in AfCFTA scenario's assumptions and comparison of key results between ECA and CEPII (forthcoming a) and World Bank (2020) empirical studies are provided under the section looking beyond the AfCFTA below; comparisons among other similar empirical analyses can be found in European Commission (2025). Unless otherwise indicated, all those studies rely on multicountry, multisector dynamic computable general equilibrium (CGE) modelling techniques, which are also the technique for the estimates in this chapter. CGE models—which can capture economic interactions taking place within and between sectors and within and between countries—are particularly well suited to analyse complex policy reforms that involve and affect multiple countries and sectors, such as the reforms related to the establishment of the AfCFTA. Annex 3.2 provides further insights on general equilibrium, brief technical description of the CGE models, and their key data sources used for the analyses in this chapter.

It should be clear that the foreseen impacts from AfCFTA implementation, presented in this chapter and based on empirical evidence, need to be considered carefully. Indeed, such outcomes are not guaranteed as they will require tangible actions (including building necessary productive capacity and skills, infrastructure, mobilizing trade finance, implementing required national reforms, and more) to ensure that anticipated benefits can materialize on the ground. The enablers and required actions for the success of AfCFTA implementation are discussed in depth in chapters 4 and 5.

AfCFTA implementation to stimulate Africa's main macroeconomic aggregates but not overwhelmingly

ECA's latest empirical assessment[2] of the macroeconomic implications of the AfCFTA agreement tried to mimic as closely as possible what was agreed by the member states in reducing tariffs and non-tariff barriers under the AfCFTA agreement.[3] Results show that, when the above-mentioned reforms are considered and fully implemented by all

African Union member states[4] (referred to as AfCFTA implementation), Africa's GDP, output,[5] trade, and welfare[6] will all increase from a baseline without the agreement. Indeed, Africa's GDP is expected to increase by 1.2 per cent (or $140.6 billion), output by 0.5 per cent (or $104.4 billion), exports by 7.3 per cent (or $245.7 billion), imports by 6.9 per cent (or $244.4 billion), and welfare by 0.9 per cent (or $9.0 billion) (table 3.1). Unless otherwise stated, all the results from CGE modelling in this chapter are presented for the year 2045,[7] following AfCFTA agreement's implementation and compared with a situation without AfCFTA.

Table 3.1 Impact of the AfCFTA agreement on macroeconomic aggregates in 2045

	Per cent	$ billion
GDP	1.2	140.6
Output	0.5	104.4
Exports	7.3	245.7
Imports	6.9	244.4
Welfare	0.9	9.0

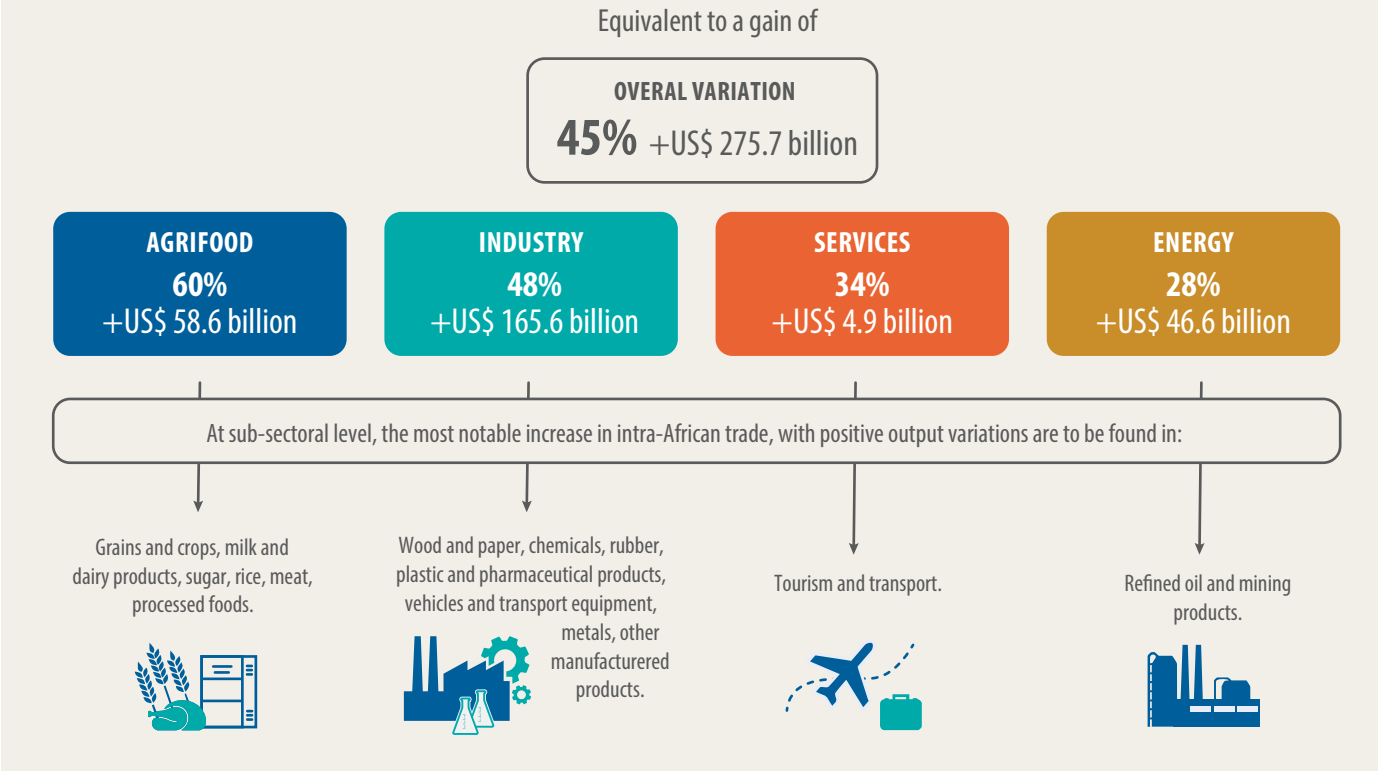
Source: ECA calculations based on ECA and CEPII (forthcoming a).

Intra-African trade to be most increased by AfCFTA implementation

It is not surprising that the most impressive expected macroeconomic benefits from the implementation of the AfCFTA agreement, considering just tariff and non-tariff barrier reductions within the continent, would be for intra-African trade. ECA estimates that, in relative terms, overall intra-African trade (exports) would increase by about 45 per cent (or $275.7 billion)[8] in 2045, while intra-African trade is expected to increase by 60 per cent (or $58.6 billion) for agrifood, 48 per cent for industry (or $165.6 billion), and 34 per cent for services (or $4.9 billion), from a baseline situation without the agreement. The expected increase in intra-African trade for energy and mining, while significant at an estimated 28 per cent (or $46.6 billion), would therefore be notably less than that of other main sectors (figure 3.1).

This clearly attests to the potential of the AfCFTA to help African countries move away from the production and exportation of commodities made up with relatively low value-addition into more industrial products as well as processed foods and services. In absolute terms, about 60 per cent of the expected intra-African trade gains from

Figure 3.1 Change in intra-African trade (exports) in 2045 with full implementation of the AfCFTA agreement compared with no implementation, globally and by main sectors



Source: ECA calculations based on ECA and CEPII (forthcoming a).

AfCFTA implementation would be felt in the industrial sector according to ECA estimates, offering invaluable opportunities for Africa to diversify and industrialize through trade.

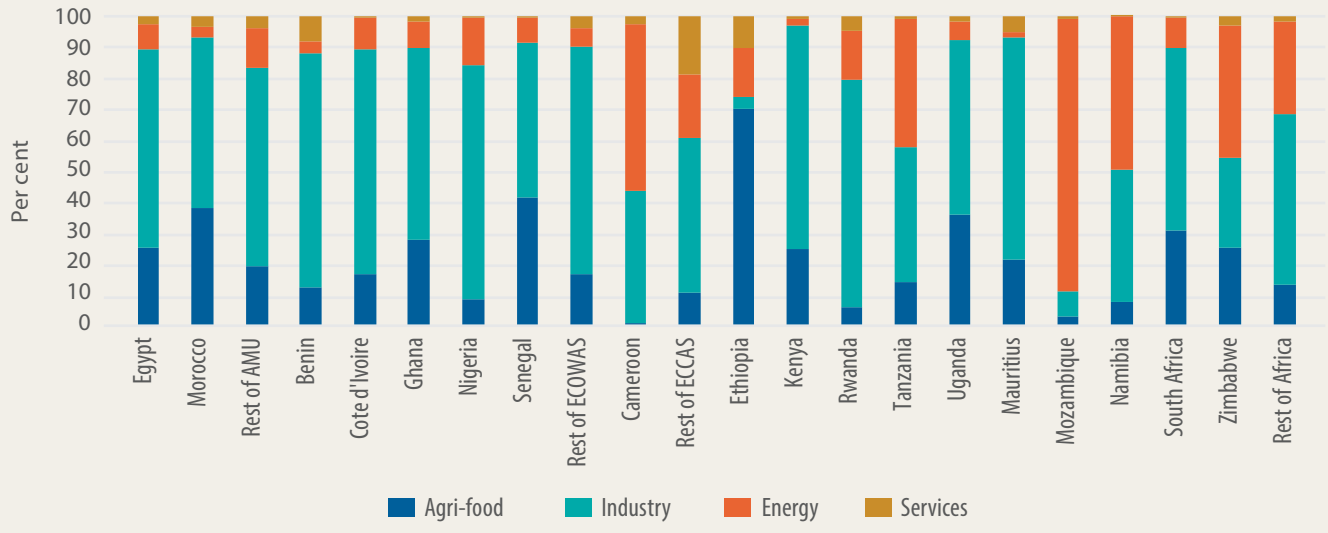
Subsectors offering the greatest potential for intra-African trade expansion and at the same time would support Africa's production[9] following AfCFTA implementation include wood and paper, chemicals, rubber, plastic and pharmaceutical products, vehicle and transport equipment, metals, other manufactured products (within industry), grains and crops, milk and dairy products, sugar, rice, meat, other processed foods[10] (within agrifood), tourism and transport (within industry), and refined oil and mining products (within energy).[11] Expected benefits in refined oil need to be analysed with caution, considering environmental concerns associated with CO2 emissions from fossil fuels (see section on AfCFTA and climate resilience below). Similarly, expended intra-African trade base of mining products should be carefully investigated with a view to promote value addition (see section on AfCFTA and regional value chains below).

The dominant share of the industrial sector products in overall absolute intra-African trade gains is also found in most African countries' or groupings' exports to their African partners (figure 3.2). In fact, even in the few countries where industry would not account for the largest share of the benefits, gains would still be sizable in relative terms (as a percentage) as exports of industrial products to their African partners would increase from Cameroon by 141 per cent, Ethiopia by 104 per cent, Mozambique by 32 per cent, Namibia by 66 per cent, or Zimbabwe by 59 per cent.

AfCFTA implementation to help reduce inequality and poverty in Africa, if unevenly

The inclusivity of the AfCFTA reform largely depends on its potential impact on inequality and poverty reduction. Recent studies by the World Bank and by the ECA do indicate that the expected macroeconomic and particularly intra-African trade benefits from AfCFTA implementation are indeed anticipated to contribute to inequality and poverty reduction in Africa.[12] ECA's empirical research shows that if AfCFTA implementation will reduce inequality and poverty in all the countries covered in the analysis, the magnitude of the impacts would vary greatly across countries and be subject to the socioeconomic characteristics of the respective countries' households (box 3.1). Even so, for such foreseen outcomes to materialize, it will be critical to redouble efforts to ensure adequate education and skill development for a sufficient workforce, especially in new industrial jobs.

Figure 3.2 Distribution of absolute gains in African country or grouping's exports to Africa in 2045 with full implementation of the AfCFTA agreement compared with no implementation, by main sectors



Source: ECA based on ECA and CEPII (forthcoming a).

Note: If the GTAP database used for calibration of the CGE model (annex 3.2) provides information for the entire African continent, it does not provide details for all single African countries and a few countries are themselves aggregated further within groups in the CGE model itself, thus the results for rest of groups in the figure 3.2 (i.e. rest of AMU, rest of ECOWAS, rest of ECCAS) gathering countries not included individually or in previously listed rest of groups (i.e. rest of Africa).

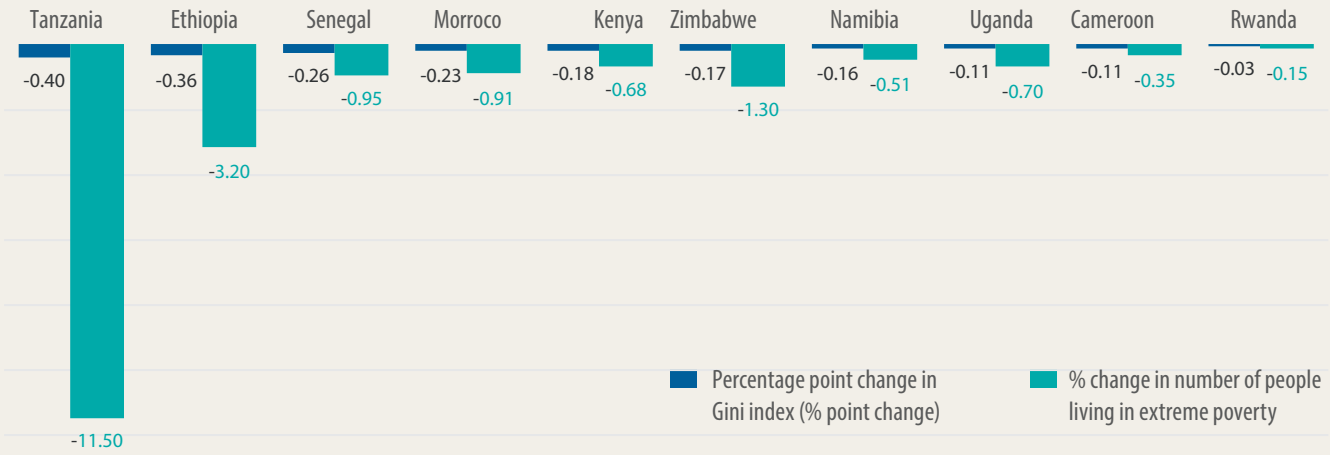
The latter is particularly important in light with the expected positive impact of AfCFTA implementation on the industrial sector (see figure 3.2). The adoption of an industrial policy in parallel to AfCFTA implementation could facilitate employment generation and ultimately reduce inequality and poverty.[13]

Box 3.1 Implications of the AfCFTA agreement's implementation for inequality and poverty in Africa

Building on ECA and CEPII (2021) analysis of the AfCFTA reform, an analysis was undertaken by ECA (2024) to assess inequality and poverty implications of the implementation of the AfCFTA agreement. The assessment was conducted for 10 African countries for which recent and detailed household survey data were available.[14]

Computation and comparison of the Gini index to assess income distribution with and without AfCFTA implementation indicate lower inequality levels in 2045 with AfCFTA implementation than without in all 10 countries. Note, however, that the results show rather marginal and quite variable reductions across countries (box figure 3.1.1).

Box figure 3.1.1 Inequality and number of people living in extreme poverty in Africa with full implementation of the AfCFTA agreement, 2045



Note: Extreme poverty is measured using the international poverty line of $1.90 per person per day for low-income countries. Note that it was revised up to $2.15 in September 2022, but that ECA's analysis was conducted prior to the change.

Source: ECA 2024a.

Although relatively more pronounced than inequality reductions across all African countries targeted, poverty reductions (assessed through microsimulation[15]) that are expected to be driven by the AfCFTA reform would still not be considerable in most countries (see figure 3.3).

While AfCFTA implementation is expected to help reduce poverty across all the segments of the population in the 10 countries analysed—whether living in urban or rural areas, being man or woman, across all education levels, and employment status—a few key features from the results are worth highlighting. For instance, poverty, which today is predominantly rural, would decline in both rural and urban areas due to the AfCFTA implementation. But the urban-rural poverty gap is expected to remain after AfCFTA implementation. Specific complementary actions to improve agricultural productivity of small-scale farmers and their living conditions—such as improved access to healthcare, education, electricity, and drinking water—will be required to reduce the poverty gap between urban and rural households. Interestingly, poverty reduction from AfCFTA implementation would tend to favour relatively more men than women, who are often engaged in informal trade with relatively more precarious living conditions. Closing the gender poverty gap on the continent will require not only effective implementation of the unique AfCFTA Protocol for women and youth in trade, but also redoubling efforts aimed at formalizing women traders, providing greater incomes to them, facilitating their access to trade finance, and improving the education of girls and women, to better prepare them for jobs in the industrial and service sectors, which are foreseen to gain considerably from AfCFTA implementation.

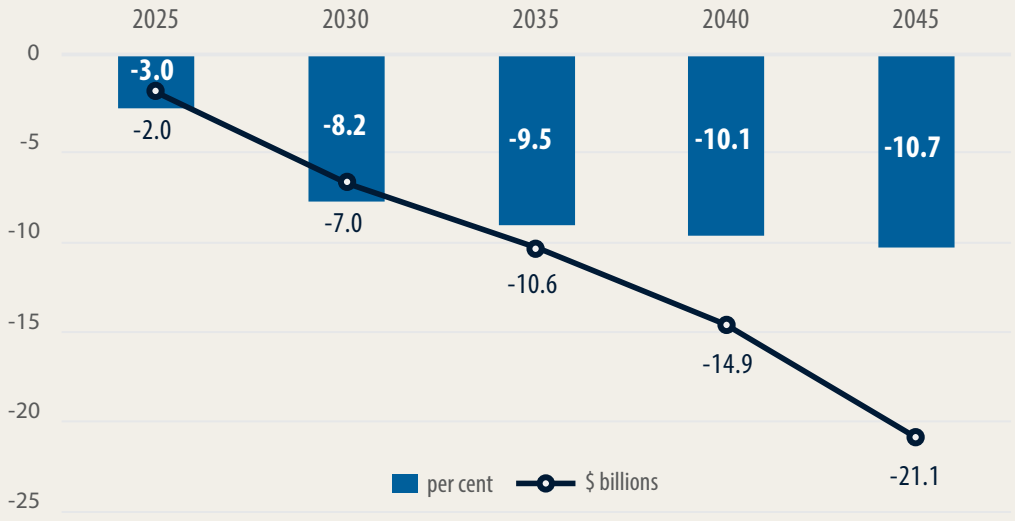
Tariff revenues for African governments will decline as the AfCFTA is implemented, but the decline will be progressive and compensation mechanisms exist.

The reduction in customs duties due to the implementation of the AfCFTA agreement will inevitably reduce tariff revenues collected by African governments. ECA's latest empirical assessment foresees a 10.7 per cent (or $21.1 billion) decline in Africa's total tariff revenues in 2045 and following the full implementation of agreed tariff concessions under the AfCFTA agreement, compared with a situation without the reforms. However, this loss would be progressive in line with agreed liberalization schedules under the AfCFTA protocol on trade in goods, thus giving time for countries to implement mitigating measures.

Indeed, Africa's non-LDCs would in principle[16] have to bring 90 per cent of their tariff lines deemed nonsensitive—and representing not less than 90 per cent of the value of a country's total imports from African partners, and in principle generating relatively limited levels of tariff revenues—imposed on their imports from the rest of Africa to zero between 2021 and 2025, with another five years to bring an additional 7 per cent of their tariff lines deemed sensitive to zero. The remaining 3 per cent of tariff lines (to represent not more than 10 per cent of the value of a country's total imports from African partners), being excluded from tariff liberalization, would still generate tariff revenues during and after AfCFTA implementation. However, Africa's LDCs would be granted longer timeframes for tariff liberalization, with non-sensitive products to be brought to zero between 2021 and 2030, while tariffs on sensitive products are to be removed by 2033.[17] As a result, the decline in tariff revenues would be rather marginal in the early years of AfCFTA implementation, with an estimated marginal 3.0 per cent (or $2.0 billion) reduction of tariff revenues for African governments in 2025. The decline in tariff revenues would accelerate in 2030 with an anticipated 8.2 per cent (or $7.0 billion) reduction, before progressively reaching 10.7 per cent (or $21.1 billion) reduction in 2045 (figure 3.3).

The decline in tariff revenues would accelerate in 2030 with an anticipated 8.2 per cent (or $7.0 billion) reduction, before progressively reaching 10.7 per cent (or $21.1 billion) reduction in 2045.

Figure 3.3 Change in Africa's tariff revenues due to the full implementation of the AfCFTA agreement, 2025–45



Source: ECA based on ECA and CEPII (forthcoming a).

Even so, the decline in Africa's tariff revenues following AfCFTA implementation will be uneven—Cameroon, Ethiopia, and Zimbabwe are anticipated to be among the most affected, with estimated reductions of tariff revenues of over 15 per cent in 2045 (table 3.2). However, governments have other sources of revenues at their disposal to compensate for such losses. Revenues generated from the large increase in intra-African trade would also be important and still help in reaching higher levels of welfare, despite reduction in revenues from customs duties. An AfCFTA Adjustment Fund has been established as an integral part of the AfCFTA Secretariat structure with the support of Afreximbank to assist vulnerable countries, including to mitigate tariff revenue losses.[18]

Table 3.2 Change in tariff revenues due to AfCFTA agreement implementation by countries and groupings, 2025–45

	Per cent					$ billion				
	2025	**2030**	**2035**	**2040**	**2045**	**2025**	**2030**	**2035**	**2040**	**2045**
Egypt	0.7	2.0	3.1	3.4	3.8	0.0	0.1	0.3	0.3	0.5
Morocco	–0.3	0.8	2.0	2.6	3.3	0.0	0.0	0.1	0.1	0.2
Rest of AMU	–4.4	–5.9	–6.7	–7.0	–7.1	–0.4	–0.6	–0.9	–1.1	–1.3
Benin	–1.2	–3.7	–4.8	–5.0	–5.1	0.0	–0.1	–0.1	–0.1	–0.2
Côte d'Ivoire	–0.7	–5.6	–7.3	–10.2	–13.1	0.0	–0.1	–0.2	–0.4	–0.8
Ghana	–2.2	–6.5	–8.4	–8.7	–8.9	0.0	–0.2	–0.3	–0.5	–0.6
Nigeria	–0.8	–2.9	–3.1	–3.3	–3.3	–0.1	–0.3	–0.4	–0.5	–0.7
Senegal	–0.8	–4.0	–4.2	–4.6	–4.9	0.0	–0.1	–0.1	–0.1	–0.2
Rest of ECOWAS	–3.2	–9.0	–11.2	–11.6	–11.7	–0.2	–0.6	–1.0	–1.5	–2.1
Cameroon	–6.2	–20.8	–24.2	–27.3	–30.3	–0.1	–0.4	–0.6	–1.0	–1.5
Rest of ECCAS	–6.9	–23.5	–27.4	–29.1	–30.4	–0.1	–0.6	–0.9	–1.1	–1.5
Ethiopia	–1.6	–10.1	–13.8	–15.5	–17.1	0.0	–0.4	–1.0	–1.8	–3.2
Kenya	–1.5	–5.2	–4.4	–3.6	–2.9	0.0	–0.2	–0.2	–0.2	–0.3
Rwanda	–3.5	–10.3	–13.2	–13.3	–13.3	0.0	–0.1	–0.1	–0.1	–0.2
Tanzania	–0.9	–2.4	–3.9	–4.1	–4.1	0.0	–0.1	–0.2	–0.4	–0.5
Uganda	–2.1	–8.3	–8.5	–7.4	–6.5	0.0	0.0	–0.1	–0.1	–0.1
Mauritius	–0.3	–0.3	–0.1	0.6	1.4	0.0	0.0	0.0	0.0	0.0
Mozambique	–2.5	–5.4	–8.2	–8.3	–8.4	0.0	–0.1	–0.1	–0.2	–0.2
Namibia	2.6	4.8	5.3	5.0	5.0	0.0	0.0	0.0	0.0	0.0
South Africa	2.2	3.5	3.7	3.4	3.5	0.1	0.2	0.3	0.3	0.4
Zimbabwe	–20.9	–23.0	–23.3	–22.2	–21.1	–0.1	–0.1	–0.2	–0.3	–0.4
Rest of Africa	–9.3	–25.2	–26.7	–26.2	–25.5	–0.9	–3.3	–4.7	–6.3	–8.5
Africa TOTAL	**–3.0**	**–8.2**	**–9.5**	**–10.1**	**–10.7**	**–2.0**	**–7.0**	**–10.6**	**–14.9**	**–21.1**

Source: ECA based on ECA and CEPII (forthcoming a).

THE AFCFTA AS A PATHWAY FOR REGIONAL VALUE CHAIN DEVELOPMENT, FOOD SECURITY, AND SUSTAINABLE INDUSTRIALIZATION

Anticipated improvements in most of Africa's macroeconomic performance due to the AfCFTA implementation, especially as far as intra-African trade is concerned, certainly offer promising perspectives for Africa's development. However, value addition through the robust RVCs could further help improving Africa's performance in global value chains (GVCs) and will be critical to make such prospects transformative and sustainable for African economies.

Africa mostly operates at the lower end of GVCs, with particularly low backward participation in GVCs

While Africa's participation in GVCs has slightly increased over the past two decades and is today relatively comparable to that of other main developing regions, it still mostly performs at the lower end of the GVCs, with particularly low backward participation in GVCs (figure 3.4).

The observed positive trend of Africa's overall participation in GVCs hides differentiated evolutions of the two key components of GVCs' participation—namely forward and backward participations in GVCs. While the continent has managed to increase its exports of goods and services further transformed by other countries (forward participation), the evolution of Africa's imports of intermediates or inputs themselves further transformed by African countries to produce intermediate or final goods and services for export (backward participation) has remained rather flat (figure 3.5).

While Africa's participation in GVCs has slightly increased over the past two decades, it still mostly performs at the lower end of the GVCs, with particularly low backward participation in GVCs.

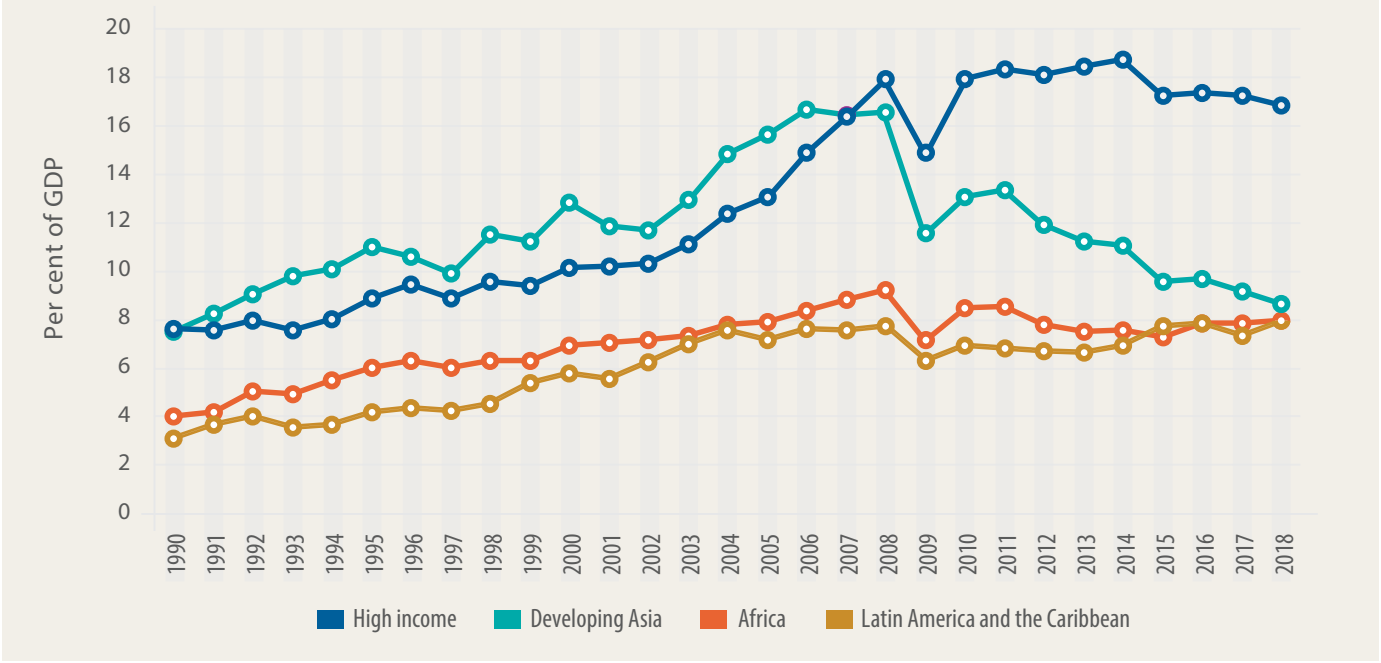
In fact, Africa's backward participation contributes only 25 per cent to its total GVC participation, much lower than in the rest of the world: 36 per cent for developing Asia, 50 per cent for Latin America and the Caribbean, and 54 per cent for high income countries (table 3.3). This relatively weak performance of Africa in backward participation in GVCs is particularly prejudicial as backward participation is assessed to be the most effective as far as income generation is concerned.[19] Nonetheless, since backward participation tends to be higher (including within Africa) as the level of income of countries increases and their industrial base expands, the AfCFTA is anticipated to lead to enhanced income and industrialization through trade (see table 3.1 and figures 3.1 and 3.2) may well help improve Africa's backward participation in GVCs.

Table 3.3 Forward and backward participations in GVCs in selected regions, 2018

	Forward participation (per cent of GDP)	Backward participation (per cent of GDP)	Ratio of backward participation in total GVC participation (per cent)
Africa	6.0	2.0	25
Developing Asia	5.6	3.1	36
Latin America and the Caribbean	4.0	4.0	50
High income	7.7	9.2	54

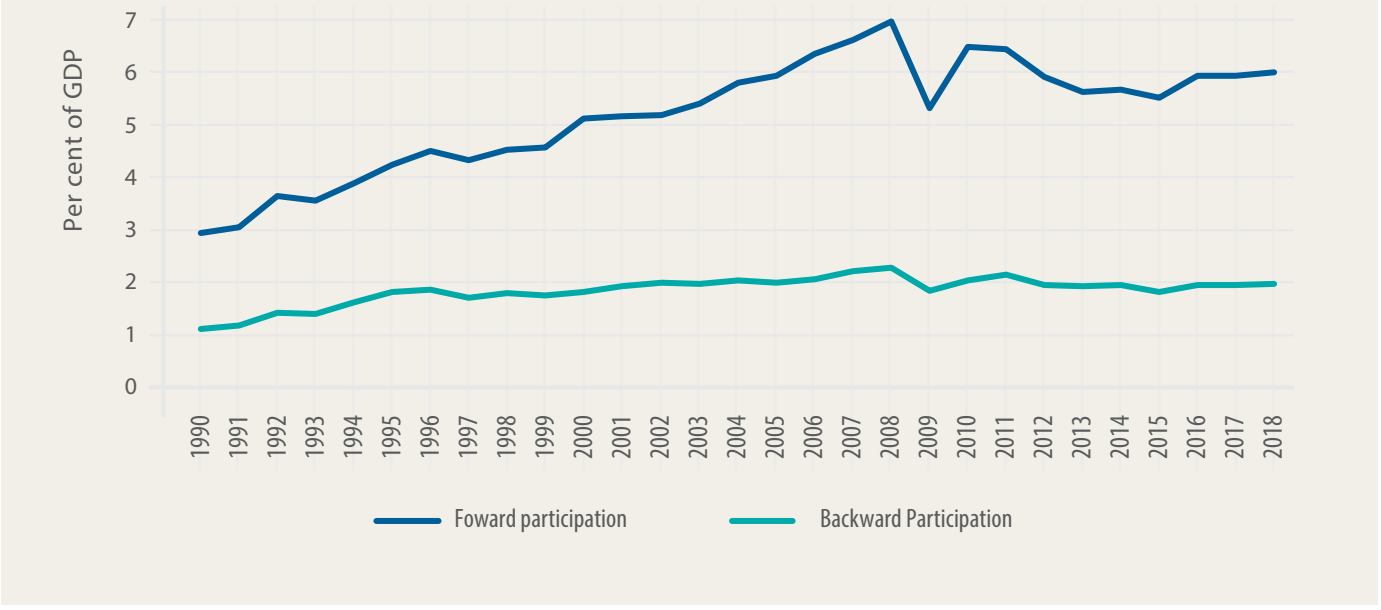
Source: ECA and CEPII (forthcoming a).

Figure 3.4 Regional participation in GVCs (per cent of GDP), 1990–2018[20]



Source: ECA and CEPII (forthcoming a) calculations based on UNCTAD-Eora Global Value Chain database.

Figure 3.5 Africa's forward and backward participations in GVCs, 1990–2018



Source: ECA and CEPII (forthcoming a) calculations based on UNCTAD-Eora Global Value Chain database.

Backward participation is itself limited by undermined RVCs largely due to significant tariffs and non-tariff measures on goods and services within Africa—AfCFTA implementation is expected to make a difference

Low productivity, limited productive capacity, inadequate skills, and high informality limit Africa's performance in GVC participation and backward participation in particular.[21] Tariffs and non-tariff measures also matter, especially in the intra-African context and for the development of RVCs that can pave the way for greater participation in GVCs. Indeed, even if tariffs have been decreasing within African RECs, they remain fairly high between the RECs. Current intra-African tariffs stand at around 10.6 per cent average on goods for final consumption and 5.5 per cent on goods for intermediate consumption. Surprisingly, average tariffs

Africa's backward participation contributes only 25 per cent to its total GVC participation, much lower than in the rest of the world.

that Africa applies to itself tend to be slightly higher than ones that Africa imposes on its imports from outside the continent. The same is true for non-tariff measures, with estimates respectively averaging 51.4 per cent and 40.9 per cent for intra-African NTMs on goods for final and intermediate consumption from within Africa, against 46.6 per cent and 39.5 per cent on average for NTMs imposed by African countries on their imports from the rest of the world on goods for final and intermediate consumption (figure 3.6). Although not shown in Figure 3.7, NTMs imposed by Africa on its imports of services for final and intermediate consumption from within Africa or from the rest of the world are even greater, at about 101.3 per cent on average.[22]

This signifies the need for the AfCFTA implementation to considerably reduce tariffs and NTMs within the continent to make a difference and offer unprecedented opportunities for increased intra-African trade in goods and services for both final and intermediate consumption. Distinguishing tariffs, NTMs, and trade is essential between those related to final consumption and what relates to intermediate consumption. Reducing trade barriers on intermediate consumption is expected to be most beneficial to the development of RVCs and ultimately raising Africa's position on GVCs through improvement of backward participation and to some extent also increased forward participation. And easing final consumption of goods and services within Africa is expected to favour most forward participation, with some anticipated benefits to backward participation.

AfCFTA implementation to boost intra-African trade in goods and services for both final and intermediate consumption

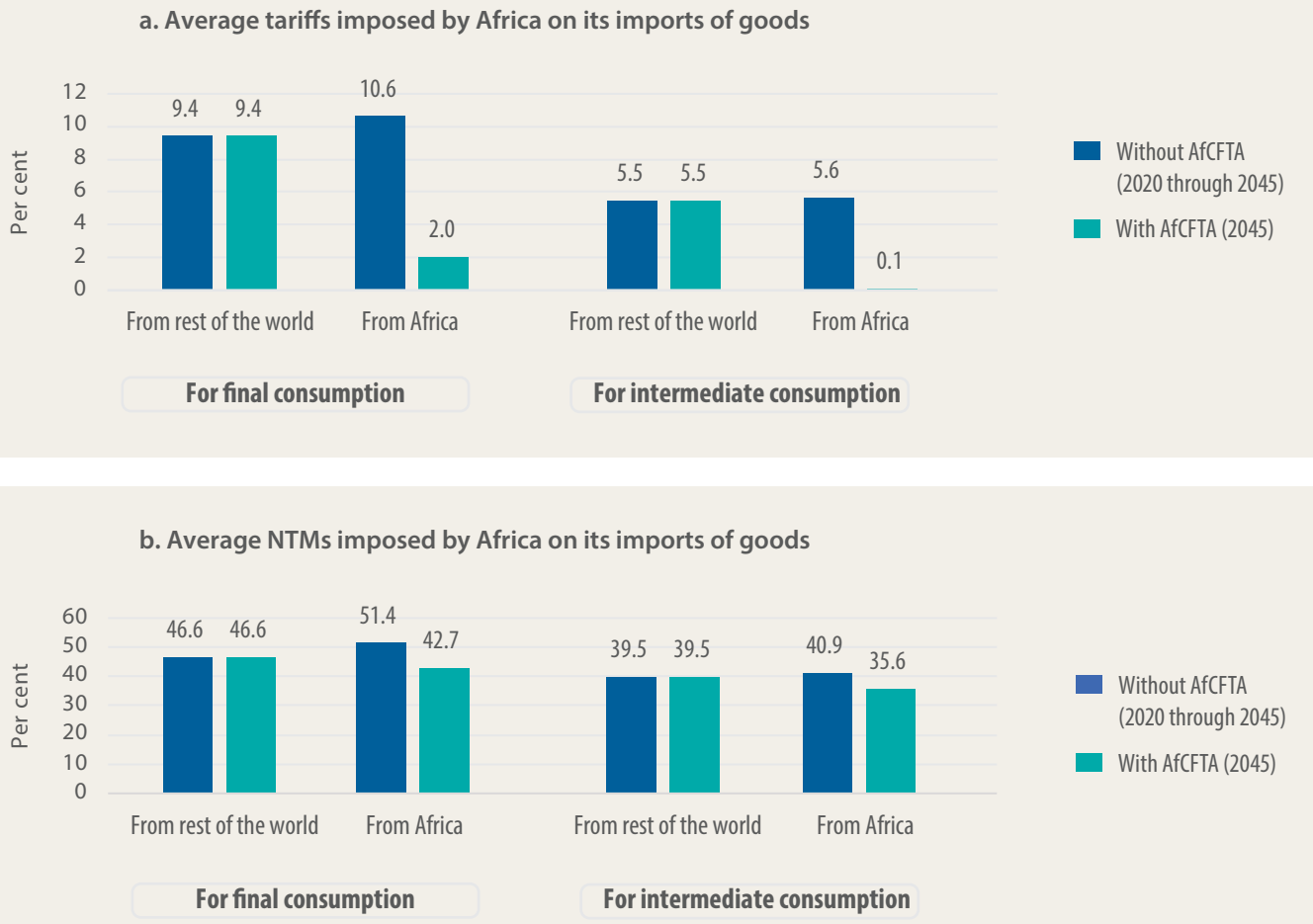
Intra-African trade is expected to be nearly 45 per cent (or $275.7 billion) higher in 2045 due to the AfCFTA implemented (table 3.4). Narrowing down on consumption types, intra-African trade for both final and intermediate consumption is expected to increase considerably in all main sectors. Interestingly, intra-African trade in industry and services would increase relatively more for intermediate than for final consumption in both relative and absolute terms. The increase in processed agrifoods for intermediate consumption would also be considerable. This tends to suggest a stronger potential for the development of RVCs in those sectors, in the AfCFTA context, considering the relatively greater importance of trade in intermediate consumption in the creation of value chains and contribution to backward participation.

Table 3.4 Change in intra-African trade due to full implementation of the AfCFTA agreement, by main sectors and consumption types, 2045

Main sectors	Consumption types	Variation	
		$ billion	Per cent
Agrifood (non-processed)	Final	7.1	81.6
	Intermediate	3.9	30.6
Agrifood (processed)	Final	35.2	62.8
	Intermediate	12.4	59.7
Industry goods	Final	63.7	43.6
	Intermediate	101.9	51.7
Energy goods	Final	2.0	30.0
	Intermediate	44.6	28.4
Services	Final	1.6	25.0
	Intermediate	3.4	40.4
Total goods and services	Final	109.6	49.0
	Intermediate	166.1	42.0
	All consumption types	275.7	44.5

Source: ECA and CEPII (forthcoming a).

Figure 3.6 Average ad-valorem tariffs and NTMs imposed by Africa on its imports of goods for final and intermediate consumption from within Africa or from the rest of the world, without and with AfCFTA (per cent), 2020 and 2045



Source: ECA based on ECA and CEPII (forthcoming a).

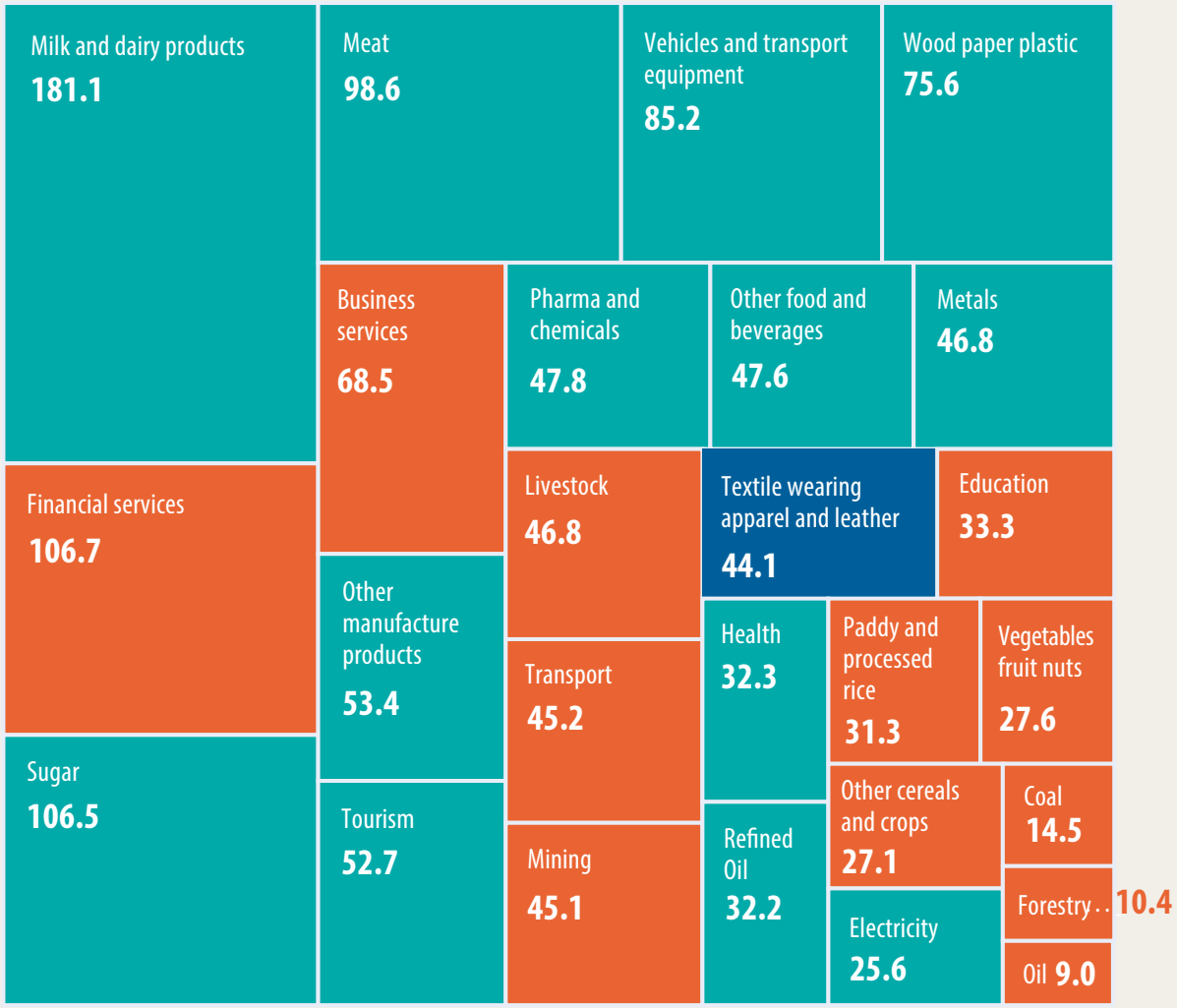
The greatest potential for RVC development is found in processed food, tourism, health, pharma, automotive, wood and paper, metals, other manufactured products, and to some extent textile, apparel, and leather

If the increase in intra-African trade for intermediate consumption is a useful indicator of the potential for trade expansion and to some degree value chain development, it must be accompanied by increased value addition to be economically transformative and to facilitate the effective development of RVCs. Against this backdrop, findings from ECA's analysis show that the greatest potential for RVCs' development in AfCFTA context is expected mostly in agrifood and industrial sectors (such as automotive, pharma and chemicals, wood and paper, metals, and other manufactured products) as well as a few services sectors (such as health and tourism) (figure 3.7).

Such outcomes provide a clear rationale for the development of the four initial priority regional value chains already identified under the AfCFTA processes: agroprocessing, automotive, pharmaceuticals, and transportation and logistics. They also suggest other key sectors that shouldn't be overlooked for RVC development.

Ensuring effective RVC development in agrifood, industrial, and services sectors across Africa has important policy implications for the continent's industrialization, noting the mutually reinforcing contributions of services to spur manufacturing—and of industrial goods production in making services more effective. Findings from ECA's analysis (ECA and CEPII,

Figure 3.7 Changes in intra-African trade for intermediate consumption with positive (teal) or negative (orange) variations in value addition due to full implementation of the AfCFTA agreement, by subsector, 2045 (per cent)



Note: Highlighted in blue are subsectors for which value-added would decrease for Africa globally but still increases in most African countries.
Source: ECA based on ECA and CEPII (forthcoming a).

forthcoming a) show that the AfCFTA implementation indicates clear potential for RVC creation in both pharmaceutical industry and health services. Producing and trading more pharmaceutical goods and equipment within Africa is essential to improve health services across the continent, while the use of pharmaceutical goods and equipment cannot be effective if health care practitioners and providers are not well trained.

Developing agrifood-related RVCs cannot be overemphasized, especially for their contribution to Africa's food security. AfCFTA implementation can facilitate the creation of agrifood RVCs in Africa, which

The greatest potential for RVCs' development in AfCFTA context is expected mostly in agrifood and industrial sectors (such as automotive, pharma and chemicals, wood and paper, metals, and other manufactured products) as well as a few services sectors (such as health and tourism).

could further support the creation of a more robust, stable and predictable agrifood sector (see figure 3.7). And if Africa's overall currently negative trade balance in processed agrifood (–$36.2 billion in 2023) would continue deteriorating over time, it would be relatively more pronounced by 2045 without the AfCFTA (reaching –$105.2 billion) than with it (reaching –$103.6 billion),[23] thanks to a relative narrowing net trade balance in processed agrifood for final consumption under the AfCFTA (–$81.3 billion) than without it (–$84.0 billion).[24] While small, such differences are still indicative of the potential that AfCFTA implementation would have in adding more value to processed agrifood products available for final consumption within the African continent.

Overall, AfCFTA implementation is foreseen to facilitate the development of RVCs, and in turn to spur Africa's forward but even more backward participation in GVCs. Providing production incentives, particularly attracting investment, through industrial policy in those sectors identified with the greatest potential for RVC development in the AfCFTA context, could ease the process and help improve Africa's overall economic performance and competitiveness.

AFCFTA IMPLEMENTATION AND CLIMATE RESILIENCE

As much as AfCFTA implementation may foster Africa's development, it is critical not to overlook its sustainable dimension, particularly in the face of climate change and more broadly environmental challenges.

Despite its potential to boost intra-African trade with increased industrialization and greater transportation needs, AfCFTA implementation is not expected to pose a significant threat to climate change

Africa has so far been heavily hurt by the consequences of climate change (drought, flooding, and so on), while having contributed little to it. Even so, greenhouse gas (GHG) emissions are estimated to grow on average at a relatively faster pace in Africa than in the rest of the world in the coming decades, if from a relatively lower base. Africa's share of total global GHG emissions, is expected to rise from around 7 per cent in 2023 to nearly 12 per cent in 2045 under a business-as-usual scenario.[25] And as demonstrated earlier in this chapter, the implementation

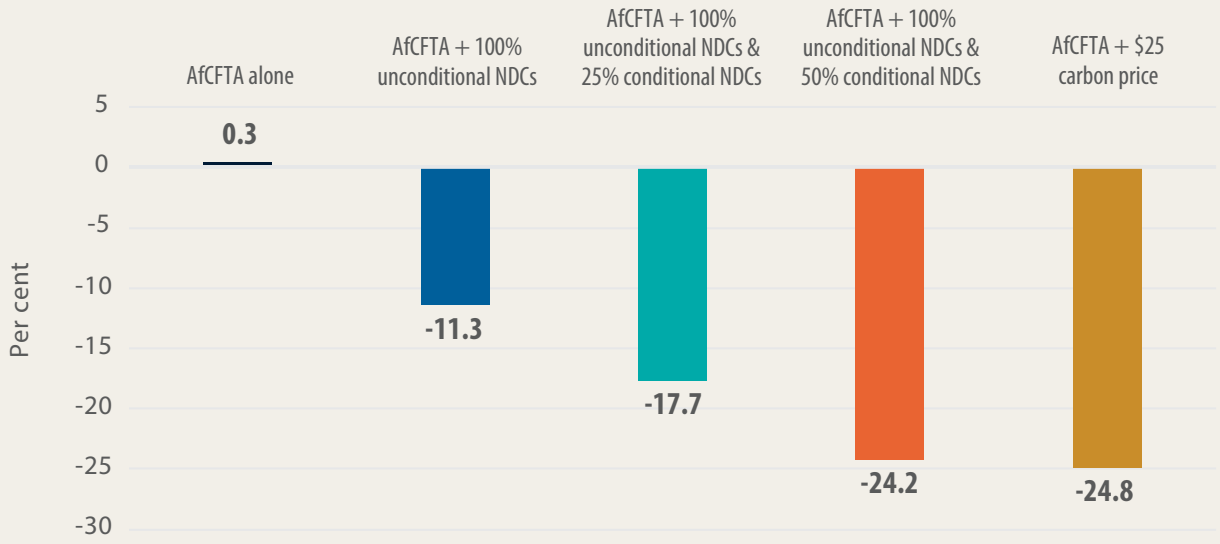
Africa's share of total global GHG emissions, is expected to rise from around 7 per cent in 2023 to nearly 12 per cent in 2045 under a business-as-usual scenario.

of the AfCFTA agreement is expected to promote industrialization through increased intra-African trade. This will inevitably result in higher manufacturing activity and increased transport, with potential adverse impact on GHG emissions. For instance, 667,000 additional trucks, 18,490 additional railway wagons, 70 additional vessels, and 84 additional aircrafts will be required by 2030 to meet the AfCFTA transportation needs (assuming just tariff liberalization within Africa).[26] Africa should thus act early in its industrialization to make sure that it can be achieved in a green way.[27] This takes even more importance with the launch of the United Nations Decade of Sustainable Transport in 2026.[28] The impact of AfCFTA implementation on climate change must therefore be carefully assessed.

For this reason, ECA recently conducted an empirical analysis to evaluate the impact of AfCFTA implementation on Africa's GHG emissions.[29] Implementing the AfCFTA agreement will considerably increase intra-African trade (see figure 3.1) but without a significant negative impact on climate change. Indeed, Africa's total GHG emissions would increase by only 0.3 per cent in 2045 under the AfCFTA from without the AfCFTA—for four reasons (figure 3.8).

- First, while intra-African trade would increase substantially following AfCFTA implementation, this surge would be from a relatively low base, since formal intra-African trade currently accounts for only around 15 per cent of Africa's total formal trade. In fact, the share of intra-African trade would rise from close to 15 per cent in 2023 to about 18 per cent in 2045 without the AfCFTA, against nearly 25 per cent in 2045 with the AfCFTA. This 7 percentage point increase in 2045 from AfCFTA implementation would be meaningful but not huge.
- Second, the fact that African countries would trade more between themselves under the AfCFTA would reduce some of the trade between African countries and the rest of the world. If

Figure 3.8 Changes in Africa's GHG (i.e. CO2 + non-CO2) emissions with specific climate policies implemented along with AfCFTA, 2045



Source: ECA based on ECA and CEPII (2024).

intra-African trade would increase by nearly 45 per cent (or $276 billion) in 2045 due to the AfCFTA implementation, Africa's exports to the rest of the world would fall by 1 per cent (or $30 billion), thus limiting the net increase in Africa's total trade to around 7 per cent (or $246).[30]

- Third, 60 per cent of Africa's added GHG emissions in 2045 from AfCFTA implementation is expected to be from CO_2 emissions alone, accounting for just 25 per cent of Africa's total GHG emissions under the baseline scenario (without AfCFTA) in 2045. So, the increase in CO_2 emissions following AfCFTA implementation would be from a relatively low base, since most of Africa's GHG emissions come from non-CO_2, primarily in agricultural activities, land use, and waste.
- Fourth, if GHG emissions following AfCFTA implementation are projected to increase most from oil (crude and refined), electricity, and transport, GHG emissions are expected to decrease in a few emission-intensive sub-sectors like coal and livestock, limiting the net increase in Africa's total GHG emissions.

In sum, higher trading activities generated from AfCFTA implementation would not significantly contribute to Africa's GHG emissions.

AfCFTA implementation is compatible with Africa's climate objectives

Implementing the AfCFTA agreement and climate policies simultaneously can substantially reduce GHG emissions and largely preserve the expected economic gains from the AfCFTA, varying with the type of climate policies.

African countries set Nationally Determined Contributions (NDCs) for themselves following the Paris Agreement. The adoption of carbon pricing instruments has gained recognition on the continent following COP27 and the launch of the African Carbon Market Initiative. NDCs can have an unconditional component (to be met by the country's own resources) and/or a conditional component (subject to international support that the country could secure). Since about 90 per cent of the overall financial cost of African NDCs' implementation is expected to be dependent on international support, this brings uncertainty to their financial soundness. For this reason, ECA's analysis considered only options where unconditional NDCs are fully met, whereas conditional NDCs would either not be fulfilled at all or only partially (up to either 25 per cent or 50 per cent) fulfilled.

Africa's GHG emissions are expected to grow hugely between now and 2045 without the adoption of climate policies and even slightly more as AfCFTA gets implemented (see figure 3.8). If countries implement climate policies through either meeting part of their

NDCs or adopting the same carbon price across the continent, in parallel to AfCFTA implementation, then a large amount of GHG emissions which Africa is expected to generate by 2045 could be substantially reduced. Indeed, if Africa implements its NDCs, and depending on the degree of their fulfilment, Africa's GHG emissions could be reduced by anywhere between about 11 per cent (with 100 per cent of unconditional NDCs fulfilled, along with AfCFTA implementation) and 24 per cent (with 100 per cent of unconditional NDCs and 50 per cent of conditional NDCs fulfilled along with AfCFTA implementation). Adopting a $25 price per ton of carbon, along with AfCFTA implementation, could even prove to be more effective for Africa, as its GHG emissions could fall by nearly 25 per cent in 2045.

Nonetheless, a trade-off between reducing GHG emissions and maximizing economic gains is unavoidable. If African countries fulfil 100 per cent of their unconditional NDCs on top of implementing the AfCFTA, then while Africa's GHG emissions would be reduced by slightly more than 11 per cent, intra-African trade gains would not change from a situation where only the AfCFTA agreement is implemented, but with a slight reduction in expected gains in Africa's GDP. Implementing more ambitious NDC targets such as 100 per cent of their unconditional NDCs plus 50 per cent of their conditional NDCs along with the AfCFTA reform will provide greater potential to reduce Africa's GHG emissions, but reduce intra-African trade gains by around 10 per cent, with even a small loss in Africa's GDP. The carbon price option implemented along with the AfCFTA reform would again provide large reduction in Africa's GHG emissions but largely preserve the expected economic gains from the AfCFTA reform with only relatively modest reductions in intra-African gains (–3 per cent) and Africa's GDP gains.[31]

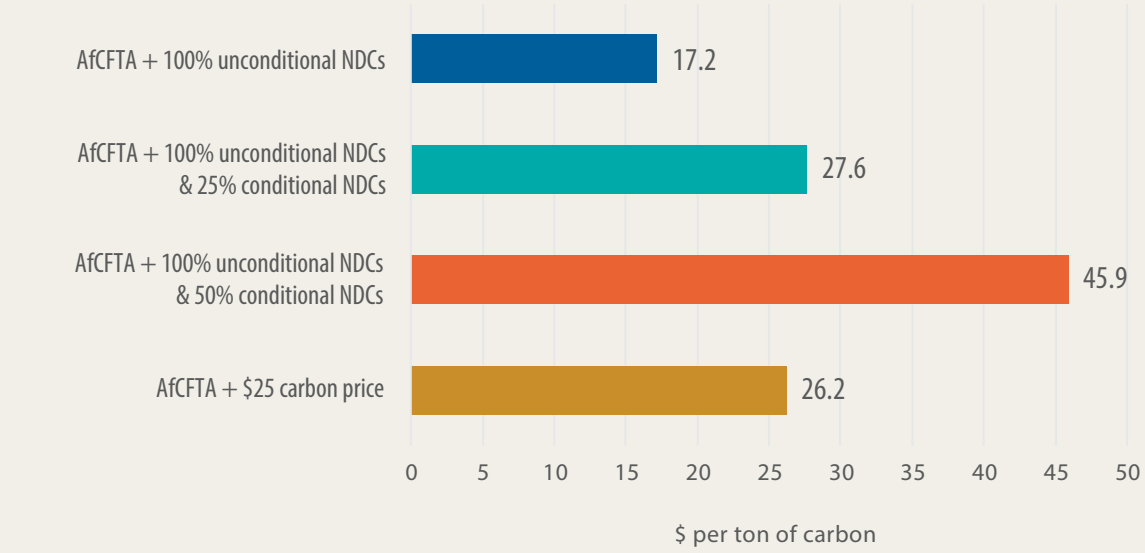
Adopting carbon pricing instruments would reduce Africa's GHG emissions (see figure 3.8), while largely preserving anticipated economic gains to be generated from AfCFTA implementation and would be particularly cost-efficient. Indeed, implementing the AfCFTA and adopting a $25 price per ton of carbon would lead to an abatement cost of $26.2 per ton of carbon. In other words, $26.2 would be required to avoid that one ton of carbon dioxide is released into the atmosphere, substantially less than implementing ambitious NDC targets. As an example, implementing both the AfCFTA and 100 per cent of Africa's unconditional NDCs plus 50 per cent of Africa's conditional NDCs would require

Adopting carbon pricing instruments would reduce Africa's GHG emissions, while largely preserving anticipated economic gains to be generated from AfCFTA implementation and would be particularly cost-efficient.

paying as much as $45.9 to avoid releasing one ton of carbon into the atmosphere (figure 3.9).

However, adopting a $25 price per ton of carbon across all African countries and sectors is not necessarily the most effective and efficient option for Africa to reduce its GHG emissions under the AfCFTA. ECA's analysis is primarily aimed at testing the IMF ICPF proposal to better understand the relevance of pricing carbon in Africa. An alternative carbon pricing scenario considered the distribution of efforts to reduce Africa's GHG emissions proportionally based on each African country's baseline GHG emissions in 2045. For instance, it is assumed that a country generating 10 per cent of Africa's total GHG emissions in the baseline in 2045 would need to contribute 10 per cent of the targeted reduction of GHG emissions, and so forth. Ultimately, we set the same objective of abating GHG emissions (–24.8 per cent in figure 3.8) than under a scenario assuming uniform $25 price per ton of carbon across Africa and used as a benchmark, for comparison purposes. As a result, such coordinated approach in setting differentiated carbon pricing on the continent would obviously be as effective (reducing Africa's GHG emissions by 24.8 per cent). But most importantly, it would be more efficient for Africa to achieve its climate objectives (with an abatement cost assessed at about $19 per ton of carbon against $26.2 under a uniform $25 carbon price). And it would achieve the same expected economic gains from AfCFTA implementation as the adoption of a uniform $25 price of carbon across the continent. In sum, continental coordination around carbon pricing in Africa (either towards uniform or differentiated prices with optimal levels still to be investigated further) could offer an effective and efficient Africa-driven solution to meet Africa's climate objectives and seems viable as African countries also implement their commitments under the AfCFTA agreement.

Figure 3.9 Abatement costs of various climate policies considered and implemented on top of the AfCFTA reform, 2045 (USD/ton of carbon)



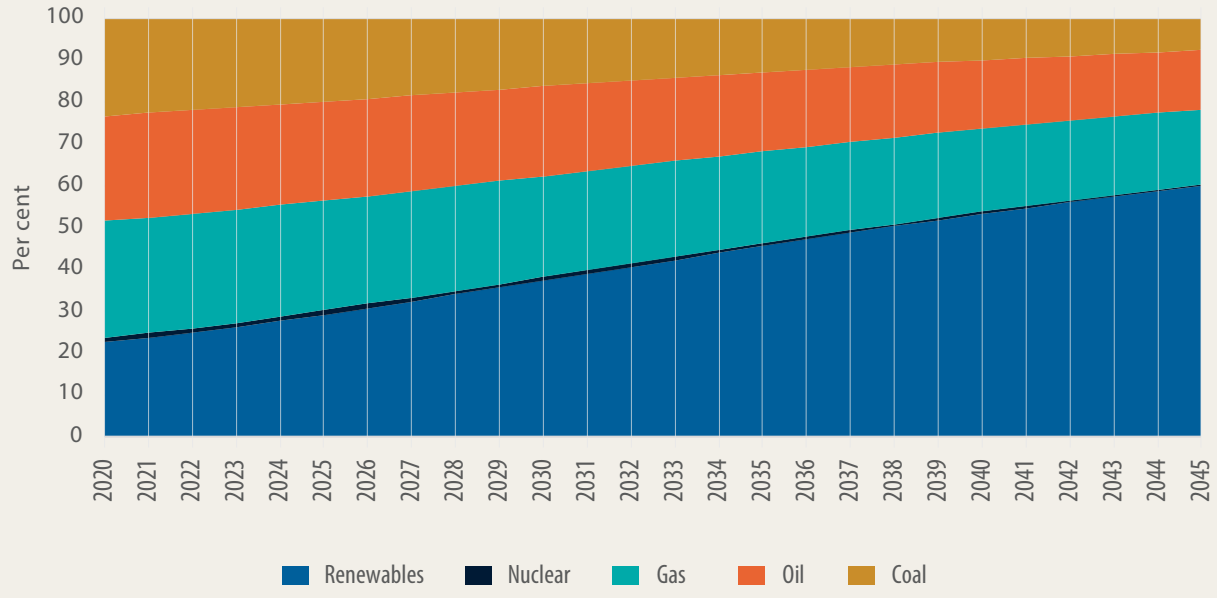
Note: Refers to the cost (in $per ton of carbon) of reducing environmental damage, here specifically to price to pay for avoiding that one ton of carbon dioxide is released into the atmosphere.

Source: ECA calculations based on ECA and CEPII (2024).

AfCFTA implementation along with the adoption of climate policies could accelerate Africa's transition to renewables

A fair number of African countries are already adopting green technologies to generate electricity. Available data show that about 25 per cent of Africa's total electricity is currently produced from renewables (e.g. hydro, solar, wind). This share could roughly double between now and 2045 under a business-as-usual scenario without AfCFTA and without any specific climate policy adopted by African countries (figure 3.10).

Figure 3.10 Africa's electricity generation projections by main sources, without AfCFTA or climate policy implementation (baseline), 2020–45



Source: ECA calculations based on ECA and CEPII (2024).

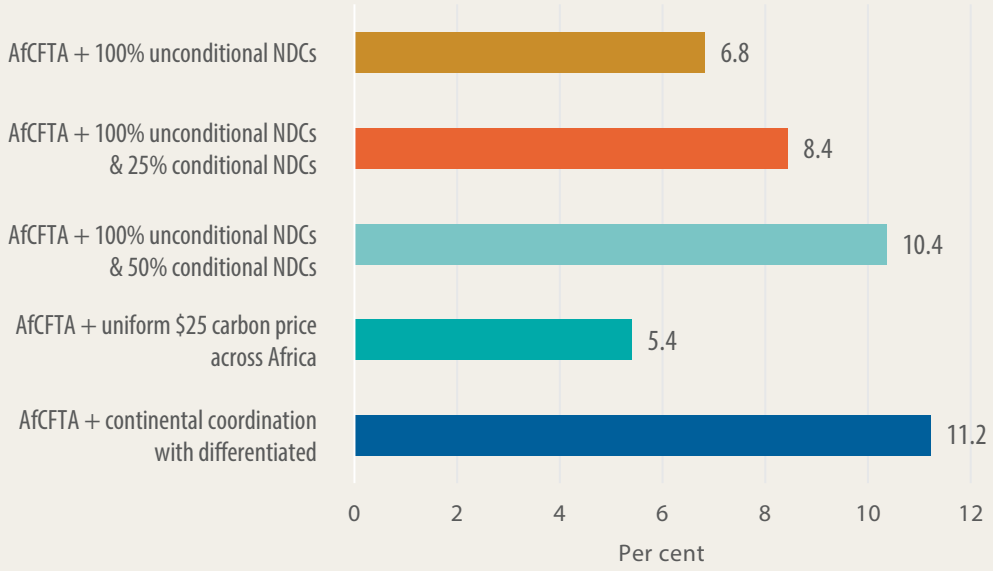
If Africa implements climate policies in parallel with the AfCFTA, its use of renewable energy sources could increase further and by around 5 to 12 per cent by 2045 (depending on the climate policy), compared with a situation with neither the AfCFTA implemented, nor climate policy adopted (figure 3.11). Much higher implicit carbon prices required in a few high emitting African countries to meet their NDCs (such as Côte d'Ivoire, Morocco, and Nigeria) under the various scenarios considered, compared with the uniform $25 price per ton of carbon option explains the lower increase in the use of renewable energy. Ultimately, tested continental coordination assuming differentiated carbon prices across African countries would provide the greatest increase in Africa's share of renewables. Such a scenario may be difficult to achieve in practice. But the AfCFTA offers an extraordinary opportunity for regional climate policy cooperation to deliver the most balanced outcome for both preserving economic benefits from the AfCFTA and limiting Africa's future GHG emissions.

To address the energy infrastructure gap would require cumulative investments of $22.4 billion between 2025 and 2040 as the sole result of AfCFTA implementation

About 25 per cent of Africa's total electricity is currently produced from renewables (e.g. hydro, solar, wind). This share could roughly double between now and 2045 under a business-as-usual scenario without AfCFTA and without any specific climate policy adopted by African countries.

(i.e. compared with a situation without AfCFTA and without any specific climate policy implemented).[32] Such investment would be progressive, as the AfCFTA agreement gets implemented, and broken down into $3 billion between 2025 and 2030, $7 billion between 2031 and 2035, and $12.4 billion between 2036 and 2040. About 80 per cent of the total investments over 2025–40 would be investments in electricity generation alone, and almost

Figure 3.11 Share of renewables in Africa's electricity generation in 2045 with the AfCFTA implemented and under various climate policy options, 2045 (per cent)



Source: ECA calculations based on ECA and CEPII (2024).

entirely from renewables with solar power accounting for the dominant share, followed by wind power, and other renewable sources of electricity (figure 3.12).

While Africa implements the AfCFTA and may choose to adopt climate policies simultaneously, external partners are already active on the latter with potential implications for Africa

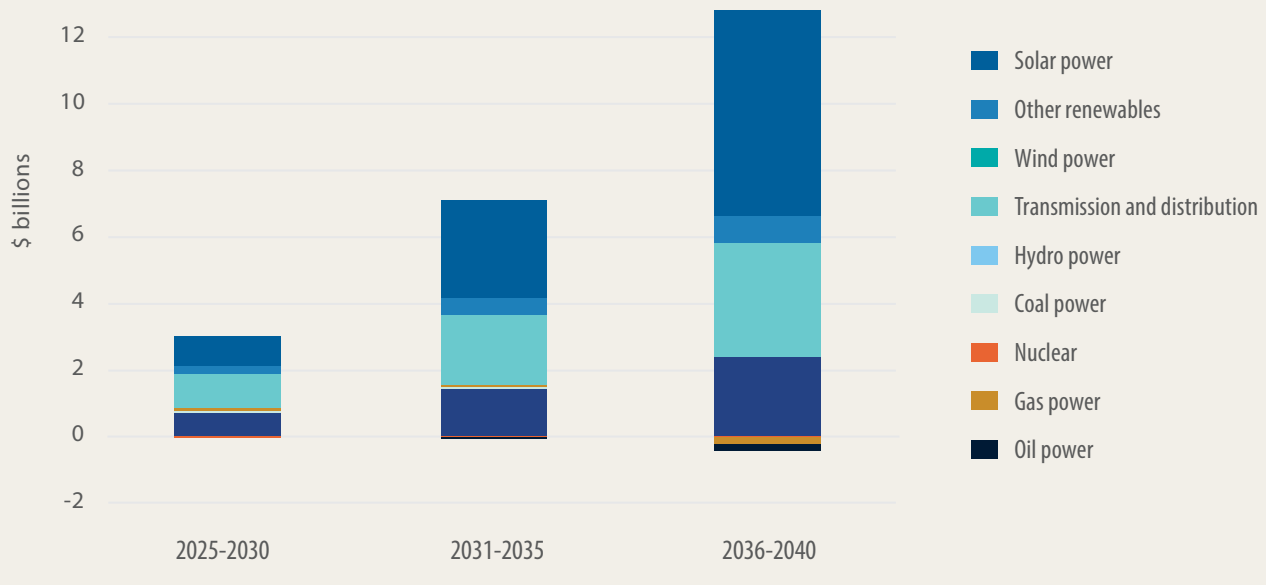
Whatever decision Africa makes to adopt or not adopt climate policy in parallel with AfCFTA implementation, the world's largest emitters—who have the financial capacity to address climate finance gaps—are already adopting tax or subsidy policies to accelerate their transitions to clean energy. The Carbon Border Adjustment Mechanism (CBAM) of the EU and the Inflation Reduction Act (IRA) of the United States offer concrete examples of such measures which could make the cost of exporting to those countries higher for African countries, as demonstrated by the African Climate Foundation and the Firoz Lalji Institute for Africa at the London School of Economics in the case of EU CBAM.[33]

ECA analysis confirms that implementation of the CBAM by the EU is expected to reduce Africa's total GDP, output, and exports: the higher the carbon tax considered under the CBAM, the more negative the impact would be for Africa (table 3.5). Although the overall changes would not be considerable, some African countries would be affected more than others, particularly for their exports of carbon-intensive products to the EU, with implications for African transport.

However, if African countries can successfully implement the AfCFTA reform in parallel with the implementation of the CBAM by the EU, the expected adverse impacts of the CBAM on Africa's total GDP, output and exports could be reversed—with a lower carbon tax adopted by the EU under CBAM leading to slightly higher positive impacts than higher taxes. Africa's exports to the EU would still decrease if the AfCFTA implemented along with CBAM since some of the trade between Africa and the EU will be replaced by increased intra-African trade (see table 3.5).

But this worsening decrease of Africa's exports to the EU with CBAM and the AfCFTA combined would be more than compensated by a larger increase in intra-African trade, translating in a tangible increase in Africa's total exports.

Figure 3.12 Required investments in electricity generation, transmission, and distribution infrastructure from AfCFTA implementation, 2025–40



Source: ECA (forthcoming a).

Table 3.5 Impact of CBAM on Africa's GDP, without or with AfCFTA implemented

	CBAM (with $25 carbon tax) alone		CBAM (with $25 carbon tax) + AfCFTA		CBAM (with $90 carbon tax) alone		CBAM (with $90 carbon tax) + AfCFTA	
	$ billion	Per cent	$ billion	Per cent	$ billion	Per cent	$ billion	Per cent
GDP	–0.14	0.00	82.23	1.65	–0.39	–0.01	79.41	1.59
Output	–1.18	–0.01	142.44	1.6	–3.85	–0.04	139.75	1.57
Total exports	–0.94	–0.06	79.92	5.45	–3.07	–0.21	77.79	5.3
Exports to the EU	–0.48	–0.13	–3.17	–0.87	–1.45	–0.4	–4.14	–1.14

Source: ECA (forthcoming b).

MOVING BEYOND THE AFCFTA, AND ECONOMIC IMPLICATIONS FOR AFRICA

Article 3(d) of the agreement establishing the AfCFTA states that one of the general objectives of the AfCFTA is to "lay the foundation for the establishment of a Continental Customs Union at a later stage."[34] Back in 1991, the Abuja Treaty mentioned the need for Africa to realize its continental customs union by 2019 to pave the way for the creation of an African Economic Community, foreseen to be the culmination of Africa's own regional integration process. Although the initial tentative deadline was missed for the establishment of an African customs union, the ongoing implementation of the AfCFTA agreement is putting Africa a step closer to its customs union. One of the key features of a customs union is a common external tariff (CET) structure which member countries need to adopt vis-à-vis third parties. Harmonizing CETs across 55 heterogenous African Union member states with different characteristics and priorities is particularly challenging. Considering the strategic importance in dealing with outside partners, it must be carefully thought out. Against this backdrop, ECA undertook an empirical assessment of various options for the determination of an African CET (ECA and CEPII, forthcoming b). The options are not meant to be exhaustive, but they still offer important insights for member states to make informed decisions about potential future negotiations on their CET, noting that the immediate priority for them is to implement the AfCFTA agreement.

Using existing CET structures as starting points for an Africa-wide CET

Four customs unions are already operational in Africa: CEMAC, EAC, ECOWAS, and SACU. African countries could therefore build on those experiences and existing CET structures to come up with a harmonized CET structure across the continent. However, ECA's analysis considered only EAC and ECOWAS CET structures as staring points. This was justified by the relatively good trade integration performance in both RECs but at the same time important differences in the number of their member countries (7 in EAC against 15 in ECOWAS[35]), economic weight (with a total GDP of $325 billion for EAC against $696 billion for ECOWAS[36]), and dissimilar CET structures (both with 5 main tariff bands but largely different associated thresholds). Based on those characteristics, analysing just EAC and ECOWAS CET structures could be sufficient to get a broad range of differentiated outcomes, also encompassing the CET structures from other two RECs.

Four options can be grouped into two sets of two options. The first set simply assesses the impact of extending the EAC CET structure to all African countries and the impact of extending the ECOWAS CET structure to all African countries, on the other hand. The second set of options still builds on EAC and ECOWAS CETs but is more complex as it could deviate from the existing structures through a grid search procedure that explores a range of new possibilities for tariffs under the CET bands. The new CET bands, with existing EAC and ECOWAS CET structures as starting points, are then extended to all African countries. The newly obtained and applied CET structures are

deemed "optimal" in two senses. First, they ensure that the outcome remains WTO-compliant—the average tariff imposed by Africa on its imports from non-African partners following implementation of the African CET must technically not be higher than average tariff before its implementation.[37] Second, they are determined based on a specific key priority objective that member states would be assumed to set themselves, as they design the continental CET structure, and whether they may wish to favour either Africa's GDP, Africa's welfare, or intra-African trade. Of course, member states may have other priority objectives that are not considered in the analysis.

It must be emphasized that ECA's analysis focuses only on determining a single CET structure for Africa vis-à-vis the rest of the world, after the AfCFTA has been fully implemented. It does not consider the full process of moving from the AfCFTA to a fully-fledged continental customs union. This would also require the adoption of other common procedures and rules that go beyond tariffs. In addition, for simplicity and clarity, the analysis assumes the exact same CET structure applied by all members when external tariffs of the members under a customs union are not necessarily entirely uniform.

With full implementation of the AfCFTA reform assumed prior to setting up an African CET, the various options envisaged will not affect intra-African tariffs (unchanged from what is to be achieved under the AfCFTA reform) and therefore only tariffs imposed by African countries on their imports from the rest of the world would change from current average of 7.4 per cent. Ultimately, the four options are expected to lead to quite different outcomes, indicative that there is no one-size-fits-all solution for an African CET, each option offering pros and cons for the member states to make their decision based on what matters most for them.

Extending existing CET structures to all African countries could help enhance AfCFTA-driven intra-African gains further—but at the expense of Africa's exports to the rest of the world, with possible adverse impacts on Africa's GDP and welfare and potential needs to re-negotiate external tariffs with third parties

Extending either the EAC CET or ECOWAS CET to all African countries would lead to an increase in Africa's average external tariffs, which would stand at 11.2 per cent and 10.0 per cent, respectively, following implementation of an African CET based on each of the two (both higher than the 7.4 per cent average after AfCFTA implementation). Such outcomes would generate greater tariff revenues for African governments (+32.5 per cent under the EAC CET scenario and +19.9 per cent under the ECOWAS CET scenario, compared with AfCFTA only). But they risk non-WTO compliance, which could imply renegotiating some of Africa's external tariffs with third parties that are WTO members or obtain a WTO waiver, without certainty in securing it.

Because of those expected increases in Africa's average tariff imposed on its imports from the rest of the world, Africa's total trade (both imports and exports) would decline. Digging further into Africa's trade, the overall decline would be explained by a reduction of Africa's trade with the rest of the world, which would be (only) partially offset by an increase of intra-African trade. Interestingly, the composition and magnitude of this anticipated gain in intra-African trade would vary significantly with differences in the sectors displaying most potential for RVC development based on the CET structure adopted, as would the impacts on Africa's GDP and welfare.

Indeed, with an African CET determined through extending EAC CET structure to all African countries, intra-African trade would increase the most in the agrifood sector and to less extent in the industrial sector. But value-added would only increase in the former, thereby suggesting greater potential from such CET for enhanced value addition and RVC creation in agrifood products. In comparison, with the ECOWAS CET structure extended to all African countries, intra-African trade would increase most in the industrial sector and to some extent in the energy sector, but value-added would only increase in the former, thereby displaying greater potential for RVC development in manufactured goods (table 3.6). The different impact on intra-African trade (and value added) in the agrifood sector between the two scenarios is due to a much greater average tariff that African countries would impose on their imports from third parties as a result of the continental adoption of the EAC CET (30 per cent) compared with the adoption of the ECOWAS CET (14 per cent), leading to African countries turning to the African market for their agrifood needs under an African CET based on EAC's.

Another major difference in outcomes between the two scenarios is that Africa's GDP and welfare would both decline slightly if African countries adopt the EAC CET, but they would both slight increase with a CET modelled on the ECOWAS structure (table 3.7).

Table 3.6 Intra-African trade and value addition following implementation of an Africa CET (based on EAC or ECOWAS CET structures), compared with the baseline (with AfCFTA only), 2045

	Africa CET modelled after EAC CET				Africa CET modelled after ECOWAS CET			
	Intra-African trade		Value added		Intra-African trade		Value added	
Sector	Per cent	$ billion	Per cent	$ billion	Per cent	$ billion	Per cent	$ billion
Agriculture and food	5.3	7.1	0.4	7.5	–1.5	–2.1	–0.6	–10.0
Energy and mining	0.2	0.4	–0.2	–4.4	2.2	3.8	–0.1	–1.4
Industry	1.2	5.6	–0.1	–1.5	1.5	6.7	0.3	3.8
Services	0.5	0.1	0.1	6.4	0.1	0.0	0.0	–0.1

Source: ECA based on ECA and CEPII (forthcoming b).

Table 3.7 Change in Africa's tariffs, GDP, welfare, trade, and tax revenues with Africa CET implemented (based on various scenarios), compared with the baseline (with AfCFTA only), 2045

	Africa CET modelled after EAC CET (per cent)	Africa CET modelled after ECOWAS CET (per cent)	Optimal Africa CET using EAC CET as a starting point (based on option preserving intra-African trade gains the most) (per cent)	Optimal Africa CET using ECOWAS CET as a starting point (based on option preserving intra-African trade gains the most) (per cent)
Average tariff imposed on imports from non-African partners	11.20	10.00	7.28	7.16
GDP	–0.08	0.20	0.39	0.61
Welfare	–0.05	0.24	0.18	0.46
Total imports	–1.40	–0.63	0.82	1.44
Total exports	–1.88	–0.80	1.01	1.86
Intra-African trade	1.67	1.07	–0.50	–0.24
Exports to non-African partners	–3.28	–1.24	2.08	3.23
Imports from non-African partners	–2.05	–1.13	2.41	2.68
Production tax	1.43	0.25	0.74	–0.58
Consumption tax	0.88	0.19	–0.05	–0.61
Tariff revenue	32.51	19.87	–2.01	–17.58
All tax revenue	8.02	4.70	–0.34	–4.31

Source: ECA based on ECA and CEPII (forthcoming b).

Ensuring WTO-compliance of the African CET would imply renouncing some of the intra-African gains brought about by the AfCFTA, but Africa's total GDP, welfare, and exports to third parties would all increase

There might be a need to renounce some of the intra-African gains brought about by the AfCFTA implementation to ensure WTO-compliance of the African CET. This would nonetheless stimulate Africa's total GDP, welfare, and exports to third parties. The outcomes from the two "optimal" scenarios defined previously and using either the EAC or ECOWAS CET as starting points would be quite comparable between them, but considerably different from that of those already presented from the two scenarios assuming simple extension of either EAC or ECOWAS CET to all African countries.

First, both Africa's GDP and welfare would increase under the two "optimal" scenarios. Second, Africa's total exports and total imports would also increase, with exports increasing relatively more than imports, thereby attesting to the net trade creation for Africa to be generated by the implementation of such so-called "optimal" African CET. Benefits to be brought about by such CET reform would be slightly higher under an "optimal" scenario designed with the ECOWAS CET as a starting point, rather than the EAC CET. However, the net positive effect on Africa's total trade would result from increases in Africa's exports to and imports from the rest of the world that would more than compensate a decline in intra-African trade (see table 3.7). Such a slight decline in intra-African trade from the gains obtained following AfCFTA implementation is unavoidable if Africa wishes to ensure WTO-compliance when setting-up its continental CET. Africa's tariff revenues would also fall as average tariffs imposed by Africa on its imports from third parties would go down to preserve WTO-compliance. However, the findings also illustrate that if set carefully, and following successful AfCFTA implementation, an African CET that can generate greater increases of Africa's exports to than imports from third parties can contribute to reducing the existing net trade deficit between Africa and its external partners.

The determination of an Africa CET structure requires careful coordination among African countries and the need to balance GDP, welfare, intra-African trade and possibly other priority objectives, such as public revenues or industrial policy. Each of the four scenarios considered in the analysis has its own advantages and drawbacks. Moreover, outcomes would vary greatly across countries. Harmonizing CET within the continent inevitably implies sovereignty sharing of the countries and requires hard compromises in the best interest of Africa's development and people.

There might be a need to renounce some of the intra-African gains brought about by the AfCFTA implementation to ensure WTO-compliance of the African CET.

Whereas the expected economic impacts of AfCFTA implementation, followed by the adoption of an Africa CET, are significant, Africa needs to start thinking strategically and carefully beyond just the continental integration with the aim of raising its position on the global trade sphere

The adoption of a common CET structure would move Africa a step closer to its integration goal of establishing an African Economic Community. Moreover, with the AfCFTA bringing policy coherence within the African continent, an Africa CET would be particularly strategic as it represents a meaningful move towards greater trade policy coherence for Africa, as a continent, in relation to external partners.

Notwithstanding the invaluable prospects offered by Africa's continental integration for its sustainable development, exploiting the continental market alone would not produce huge benefits from just tariff and non-tariff measures, and it is likely to be insufficient to considerably raise Africa's position in the global trade landscape.

The share of Africa's trade in total world trade could roughly double after AfCFTA implementation from its current 3.5 per cent. Subsequent adoption of an African CET may help increase or reduce this share slightly, depending on the CET structure adopted. While such an outcome would be a significant improvement for African countries over today's situation, it would still not be huge, especially for a continent of the size of Africa. Admittedly, the AfCFTA agreement includes issues not

accounted for in ECA's empirical work and that relate to trade facilitation, investment, intellectual property rights, competition policies, digital trade, and women and youth in trade, which if taken into consideration could potentially increase the expected gains further.[38] Still, measures to cut trade-related costs between African countries and external partners seem to indicate strong potential for added transformative benefits for African economies. But the sequencing of trade reforms also matters, with the expansion and consolidation of the African market seen as key priorities and necessary steps towards greater and successful integration of Africa in the global landscape.

If African countries decide to conclude integration partnerships with third countries across the world after having successfully implemented the AfCFTA agreement, considerable trade opportunities could open for African countries beyond the continent.[39] Expanding trade ties with emerging economies from the Middle East, and to some extent Asia, could stimulate Africa's exports of industrial products the most, with opportunities for industrialisation, diversification, and elevating Africa's stance on the global trade arena.

Comparing ECA's latest empirical work on the AfCFTA[40] with those from the World Bank[41] provides useful insights about the additional gains that easing non-tariff measures between Africa and the rest of the world and implementing global trade facilitation reforms could bring to Africa.

ECA focuses on the liberalization of tariffs in line with the agreed AfCFTA modalities on trade in goods, combined with a reduction of actionable NTBs to trade in goods and a reduction of actionable barriers to trade in the five identified AfCFTA priority service sectors (communication, tourism, transport, and business and financial services) plus health and education services (which have gained importance following the Covid–19 crisis), all strictly within Africa. The focus on the reduction of actionable NTBs that specifically undermine intra-African trade is in line with the Annex 5 on "Non-tariff Barriers" of the Protocol on trade in goods under the AfCFTA agreement (box 3.2).

Box 3.2 Removing non-tariff barriers in the AfCFTA context—in brief

Article 13 of Annex 5 on "Non-tariff Barriers" of the Protocol on Trade in Goods under the AfCFTA agreement indicates that "Each State Party shall prepare a Time Bound Elimination Matrix, based on the agreed categorisation of NTBs and their level of impact on intra-Africa trade," with Article 1(g) specifying that 'Time Bound Elimination Matrix' means the non-tariff barriers elimination plan for the removal of identified NTBs that is based on the NTBs level of impact on intra-regional trade." Article 12.1 of the same Annex further stresses that "The mechanism for identifying, reporting and monitoring NTBs will be put in place to facilitate the elimination of NTBs within the AfCFTA," with the procedure for elimination and cooperation in the elimination of NTBs outlined under Appendix 2 of the Annex 5. It is worth noting that such mechanisms have now been set-up so that NTBs faced and identified by operators on the ground can be notified through an online platform that will activate monitoring and resolution procedures aimed at ultimately reducing NTBs across the Continent. The NTB Coordination Unit in the AfCFTA Secretariat, the NTB sub-Committee, the NTB units in the relevant REC(s), and the NTB national focal point(s) in relevant African government(s) are expected to work together towards ensuring timely and effective resolution of identified NTBs. NTBs limiting intra-African trade will therefore largely be dealt with on a case-by-case basis.[42]

Results from ECA's assessment of the impact of such reforms on Africa's GDP, trade and welfare were already presented for the year 2045 in table 3.2 and figure 3.1. Assessing the impacts on the same aggregates in the year 2035 (i.e. immediately after the implementation of the reforms),[43] to make it more easily comparable with the World Bank estimates which use 2035 as reference, would translate in increases of about 1 per cent (or $67 billion), 6.8 per cent (or $122.5 billion), 6.1 per cent (or $123.7 billion), and 0.8 per cent (or $4.5 billion) for Africa's GDP, exports, imports and welfare, respectively. Intra-African exports and imports are projected to increase by 47.1 per cent ($143.7 billion) and 47.5 per cent (or $153.4 billion), respectively (table 3.8).[44]

Table 3.8 Changes in Africa's GDP, trade, and welfare, based on several scenarios, as compared to their respective baselines (without specific reforms considered), 2035

	Studies	ECA and CEPII (forthcoming a)	World Bank (2020)	
	Reforms considered	Reduction of tariffs on goods + reduction of actionable NTBs on goods and services within Africa	Reduction of tariffs on goods + reduction of actionable NTBs on goods and services within Africa + reduction of actionable NTBs within Africa and on Africa's exports to the rest of the world	Reduction of tariffs on goods + reduction of actionable NTBs on goods and services within Africa + reduction of actionable NTBs within Africa and on Africa's exports to the rest of the world + worldwide trade facilitation reform
Africa's GDP	Per cent	1.0	2.2	4.2
	$ billion	67.0	n/a	413
Africa's total exports	Per cent	6.8	19	29
	$ billion	122.5	n/a	560
Africa's total imports	Per cent	6.1	20	41
	$ billion	123.7	n/a	714
Intra-African exports	Per cent	47.1	52	81
	$ billion	143.7	n/a	239
Intra-African imports	Per cent	47.5	52	102
	$ billion	153.4	n/a	317
Africa's exports to the rest of the world	Per cent	–1.4	n/a	19
	$ billion	–21.2	n/a	321
Africa's imports from the rest of the world	Per cent	–1.7	n/a	27
	$ billion	–29.8	n/a	397
Africa's welfare	Per cent	0.8	2.4	7
	$ billion	4.5	n/a	445

Source: ECA based on ECA and CEPII (forthcoming a) and World Bank (2020a).

The World Bank's analysis not only considers a reduction of actionable NTBs within Africa, quite comparable to what was done under ECA's analysis, but also a reduction of actionable NTBs on Africa's exports to the rest of the world.[45] The latter goes beyond reducing NTBs on intra-African trade, as prescribed under the AfCFTA agreement (see box 3.2), but is nonetheless useful to better understand the extent to which a potential reduction in NTBs between Africa and non-African partners could affect Africa's total GDP, trade, and welfare. Not surprisingly, in 2035, intra-African trade (exports or imports) would increase in relatively similar proportions and around 50 per cent in both the ECA and the World Bank studies. This is because of similar reforms considered to reduce tariffs and NTBs within Africa, in conformity with the AfCFTA agreement, and indicative of the consistency between the two analyses in terms of what is more directly comparable. However, the rest of the impacts between the two studies differ significantly.

Indeed, the World Bank estimates the GDP and welfare gains to be more than twice and three times larger, respectively, than the ECA study (see table 3.8). Similarly, Africa's total exports and imports would both be thrice as large as under ECA's assessment. Such additional gains from the World Bank analysis—compared with ECA's assessment for Africa's total GDP, trade, and welfare—would be driven purely by considerable increases of Africa's exports to and imports from the rest of the world. This would be due to the assumption from the World Bank study that NTBs between Africa and the rest of the world could be addressed to some extent. The perspective is appealing from an economic point of view but would require substantial additional efforts and financial resources beyond those already

If African countries decide to conclude integration partnerships with third countries across the world after having successfully implemented the AfCFTA agreement, considerable trade opportunities could open for African countries beyond the continent.

required under the realization of the AfCFTA reform aimed at consolidating and expending the intra-African market. Still, such a scenario shows how reducing NTBs beyond just within the African continent could help Africa grab market opportunities outside the continent. Note, however, that it would also offer external partners easier access to Africa's enlarged AfCFTA market, with potentially very variable impacts across African countries.

Those outcomes could hugely be amplified if trade facilitation issues were effectively tackled across the globe. Indeed, World Bank (2020a) further assesses the impact of the implementation of trade facilitation measures worldwide, on the model of the WTO Trade Facilitation Agreement (TFA) among WTO members, and on top of the assumed liberalization of tariffs within Africa and reductions of NTBs on goods and services within Africa and between Africa and the rest of the world. Implementing such trade facilitation measures would nearly double Africa's GDP and total trade gains obtained without those measures in place (see last two columns of table 3.8). But the most impressive increase would be for Africa's welfare, which would nearly triple from a situation without trade facilitation measures considered.

Another notable change would be for Africa's trade with the rest of the world. Indeed, if intra-African trade were considerably enhanced with the adoption of trade facilitation measures, Africa's exports to and even imports from the rest of the world would increase hugely and substantially more in absolute terms than intra-African trade itself. Obviously, this is a positive message as far as the expansion of Africa's total exports is concerned following adoption of ambitious trade facilitation measures. However, it would also risk deteriorating further an already negative trade balance (more than $200 billion in 2023)[46] for Africa and the rest of the world.

Having said that, one needs to be cautious in interpreting the effects from the adoption of massive trade facilitation reforms, especially in such a modelling framework, as those could be largely overestimated.[47] Indeed, even if the AfCFTA agreement does have an Annex (Annex 4) on "Trade Facilitation" under its Protocol on trade in goods (box 3.3), no cost is assumed in the World Bank (2020a) analysis with the implementation of trade facilitation measures, hence the immense estimated increase in Africa's welfare. But trade facilitation measures are difficult to quantify in nature, scope, and impact, and require massive financial resources, including to build the capacity in African countries to tackle the measures.[48]

Box 3.3 Addressing trade facilitation in AfCFTA context—in brief

Annex 4 of the Protocol on trade in goods under the AfCFTA agreement outlines the importance of tackling "Trade Facilitation" as the agreement is being implemented. However, the challenges around capacity and readiness of African countries to address trade facilitation on the continent are acknowledged, while a specific reference is made to the need for African countries to respect their commitments under the TFA previously negotiated within the umbrella of the WTO. Indeed, Article 29(2) of Annex 4 acknowledges that "the extent and the timing of implementation of the provisions of this Annex shall be related to the implementation capacities of State Parties, the Sub-Committee for Trade Facilitation, Customs Cooperation and Transit or as notified under the WTO Agreement on Trade Facilitation." Moreover, it should be noted that to date not all African countries are members of the WTO,[49] and not all African WTO-members have ratified the WTO Agreement on Trade Facilitation.[50]

To conclude, a common external tariff for Africa, if set strategically and carefully, could help limit trade imbalances for African countries when easing trade with the rest of the world and at the same time preserve industrial gains from successful AfCFTA implementation. Indeed, AfCFTA implementation has clear potential to help Africa industrialize through trade (figures 3.1 and 3.2), particularly if regional value chains are developed in those industrial sectors offering the greatest potential (see figure 3.7). And results from the suggested "optimal" scenario for an African CET, using the ECOWAS CET as a starting point and with the objective of preserving intra-African trade gains from the AfCFTA, indicate that such CET structure could help expand Africa's trade with the rest of the world, with Africa's exports to non-African partners expected to increase relatively more than Africa's imports from non-African partners (table 3.7).

What would it take for those anticipated benefits from AfCFTA implementation potentially followed by the establishment of an Africa CET to materialize and be transformative for Africa? Adopting an industrial policy—which could help consolidate and further increase African countries' industrial base, productivity, competitiveness and generate jobs—may prove particularly critical. Africa would then be in a better position to deepen its trading relations with external partners, which are expected to open new avenues for Africa's trade expansion and raise its position on the global trade landscape. Moreover, concrete and strategic transformative actions—such as boosting productive capacity and skills, building trade-related infrastructure, mobilizing trade finance, implementing needed national reforms, and more—will be required on the ground to ensure the success of AfCFTA implementation as a pathway to Africa's inclusive and sustainable development, as the next two chapters discuss.

Proposed transformative strategic actions

- As African countries develop RVCs, they should consider all the key sectors identified in this chapter—processed food, tourism, health, pharmaceuticals, automotive, wood and paper, metals, textile, apparel and leather, and other manufactured products. They should thus go beyond just the four priority sectors identified under AfCFTA processes (agroprocessing, automotive, pharmaceuticals, and transportation and logistics) to ensure that the agreement's implementation can effectively support industrialization and food security.
- African countries need to invest in electricity generation, transmission, and distribution infrastructure to enable Africa's transition to renewables.
- African countries should consider adopting carbon pricing instruments to limit GHG emissions, to accelerate transitions to renewables, and to respond to other countries' climate policies that could have adverse effects on Africa.
- African countries need to start thinking strategically and carefully beyond just the AfCFTA, including the adoption of an industrial policy, to raise Africa's position on the global trade sphere.

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ANNEX 3.1 OVERVIEW AND COMPARISON OF ECA'S MAIN EMPIRICAL ASSESSMENTS OF AFCFTA IMPLEMENTATION TO DATE

Efforts by ECA to empirically assess the implications of implementing a continental-wide FTA for Africa dates back to 2011, prior to the January 2012 AU Decision to "Boosting Intra-African Trade and Fast Tracking the Continental Free Trade Area."[51] Preliminary results from that analysis were presented during the 7th Ordinary Session of the AU Conference of Ministers of Trade, which took place in Accra, Ghana from 29 November 2011 to 3 December 2011, and subsequently informed the January 2012 AU Summit. ECA findings were then published in 2012 under chapter 4 entitled "The African Continental Free Trade Area: An Empirical Analysis" in the fifth volume of ECA-AUC-AfDB joint Report on Assessing Regional Integration in Africa (ARIA V) on the theme "Towards an African Continental Free Trade Area."[52]

Since then, ECA has frequently been updating and refining its original empirical assessment of the AfCFTA, based on latest available data and information about the reforms, and as negotiations and now implementation progress. Most of these assessments have been published and are accessible in the public domain. Annex table 3.1 provides a snapshot of the key results from the main published articles on the Africa-wide FTA reform undertaken by ECA between 2011 and 2024. The results inevitably vary due to differences in CGE models and data, as well as geographic and sectoral decompositions, timeframes considered, year in which expected impacts are presented, and policy reforms analysed. Outcomes are expressed as percentage changes between results following the implementation of the reforms and results in the baseline without the reforms.

Annex table 3.1 Models, data, geographic and sectoral decompositions, reforms, and timeframes considered, and key results from ECA's past main assessments of the African Continental-wide FTA

Assessment		ECA (2012)		ECA (2018b)	ECA (2021)	ECA & CEPII (2024)	ECA & CEPII (forthcoming)
CGE model		MIRAGE (Standard)		MIRAGE-e v1.1	MIRAGE-e v2	MIRAGE-Power	MIRAGE-VA
Core database		GTAP 7		GTAP 9.2	GTAP 10.1	GTAP 10.1	GTAP 10.1
Geographic & Sectoral decompositions		27 regions & 21 sectors		36 regions & 31 sectors	29 regions & 30 sectors	29 regions & 37 sectors	28 regions & 30 sectors
Reforms considered		100% tariff liberalization on trade in goods	100% tariff liberalization on trade in goods + trade facilitation (50% cut in times for customs procedures across Africa and for processing at African ports)	Tariff liberalization based on ECA's proposed modalities on trade in goods (ECA, 2018a)	Tariff liberalization based on agreed AfCFTA modalities on trade in goods by the time of the analysis + 50% reduction of actionable NTMs on goods within Africa + 50% reduction of actionable trade barriers to trade in the 5 AfCFTA priority services sectors (i.e. communication, tourism, transport, business and financial services) plus health and education services		
Implementation period		2012-2017	2012-2017	2021-2033	2021-2035	2021-2035	2021-2035
Key results provided in year		2022	2022	2035	2045	2045	2045
Key results (% change, as compared to baseline)	GDP	0.2	1.1	Ranging between 0.3 and 0.6	0.5	0.9	0.5
	Welfare	0.2	1.0	Ranging between 0.3 and 0.5	0.4	0.8	0.9
	Intra-African exports	52.3	128.0	Ranging between 15 and 25	33.8	34.6	44.5

Source: ECA based on ECA-AUC-AfDB (2012), ECA (2018b), ECA (2021), ECA and CEPII (2024), and ECA and CEPII (forthcoming a).

Note: Beyond the core GTAP database used, data in the baseline were updated for each of analysis, and the latest available data on tariffs and NTMs

ANNEX 3.2 GENERAL EQUILIBRIUM, THE MIRAGE CGE MODEL, AND KEY DATA SOURCES

General equilibrium in brief

Chapter 3 is a forward-looking chapter grounded primarily on recent empirical analyses conducted by ECA. Those analyses rely on the general equilibrium modelling technique, using several versions of the Modelling International Relationships in Applied General Equilibrium (MIRAGE) computable general equilibrium (CGE) model, with one of the analyses relying on the Global Trade Policy Analysis (GTAP) CGE model.[53]

In a nutshell, CGE models are routed in the general equilibrium theory first attributed to Léon Walras in "Elements of Pure Economics" (1874). CGE models are used to forecast the economic effects because of a policy change. The policy change is usually modelled before (ex-ante) the change occurs in reality; for instance, modelling the impact of the AfCFTA reform after it has been negotiated but before it is fully implemented, to forecast the impact of its anticipated implementation. The change in policy affects the general equilibrium, which is computed before, throughout (in a dynamic setting), and after the modelled change. Precisely, CGE models considers the equilibriums in all economic sectors/markets simultaneously. As such, they are particularly well suited to model the impacts of policies, like the AfCFTA reform, on multiples sectors/markets.

The MIRAGE CGE model

The MIRAGE CGE model is one of the most reputable CGE models (along with GTAP, the Environmental Impact and Sustainability Applied General Equilibrium-ENVISAGE, ENV-Linkages, MAGNET, and others).[54] Created in 2001 by the Centre d'Etudes Prospectives et d'Informations Internationales (CEPII), it has been extensively used by CEPII, ECA, and other international organizations—including ESCWA, the European Commission, the International Food Policy Research Institute (IFPRI)—over the past decades to assess the impact of policy on the economies, including in the African context.

Three versions of MIRAGE CGE model have been used, in their dynamic (as opposed to static) setting,[55] for the analyses presented in chapter 3 of ERA 2025, namely MIRAGE-e, MIRAGE-VA, and MIRAGE-Power; with the latter two building on the former. In brief, MIRAGE-e (e stands for energy) is a multi-sector, multi-country CGE model which is capable to assess jointly trade policy and climate change mitigation policies. On the production side, the model combines five primary factors-skilled labour, unskilled labour, capital, land, and natural resources-with energy and intermediate consumption. The primary factors are assumed to be fully employed. In each country or region, a representative consumer accounts for both households and the government. It maximizes its utility under its budget constraints, using part of income for acquiring goods and services, and the remainder, if any, for savings. The following three key assumptions are made about:

- The current-account balance: the shares of each region in the global current-account balance varies annually according to projections from a growth model known as the Macroeconometrics of the Global Economy (MaGE) model.[56] The trade balance is assumed to remain in equilibrium in the long term. In this framework, the real effective exchange rate is endogenous, and the current-account balance—measured as a share of GDP—is constant in real terms.
- The savings-investment balance: installed capital is immobile, while new capital is allocated according to the real remuneration of capital. The depletion rate is set in accordance with the MIRAGE CGE model, whereas investment-to-GDP ratios depend on savings rates, which are determined by the demographic and economic situations in line with the life-cycle theory projected by MaGE. Foreign direct investment is not considered explicitly as it is lumped with domestic investment in the current account.
- The labour market: labour growth is differentiated by skill level and is exogenous based on MaGE projections. Labour is region specific but perfectly mobile between sectors.

MIRAGE-VA (VA stands for value-added) and MIRAGE-Power add new features from MIRAGE-e. On the one hand, MIRAGE-VA offers a detailed representation of trade in goods and services for final and intermediate consumption to quantify the impacts of policy changes on GVCs and RVCs. On the other hand, MIRAGE-Power

provides a detailed representation of energy use and of electricity power generation. More insights on MIRAGE-e, MIRAGE-Power and MIRAGE-VA can be found in ECA (2021), ECA and CEPII (2024) and ECA and CEPII (forthcoming a), respectively.[57]

Key data inputs to MIRAGE CGE model

The calibration of the MIRAGE-e and MIRAGE-Power models for the analyses presented in chapter 3 of ERA 2025 uses the GTAP-Power 10.1 database with 2014 as the base year, while MIRAGE-VA relies on GTAP Multi-Regional Input-output (MRIO) 10.1 database also with 2014 as base year.

Macroeconomic projections (GDP, labour participation rate and skills, current-account targets, and investment and saving rates) are estimated from the MaGE growth model.

The trade policy component of the reference scenario (or baseline) captures the key trade policy changes in 2014–19 which matter most for the analyses. These include the latest information on current free trade areas, based on the 2014 and 2019 versions of the Market Access Map (MAcMap-HS6) database.[58] In particular, the entry into force of the Economic Partnership Agreements between the European Union and African countries—Cameroon, Côte d'Ivoire, Comoros, Madagascar, Mauritius, Seychelles, Zimbabwe—as well as with SADC Economic Partnership Agreements, alongside Economic Partnership Agreements between the European Union and Caribbean and Pacific regions, are all considered. In addition, changes in the European Generalized System of Preferences (GSP) and GSP+ for other developing countries are integrated. Changes in China's most-favoured-nation treatment and in the common external tariff (CET) established in 2015 by ECOWAS are also reflected.

The non-tariff measures (NTMs) on goods used in the various analyses are based on updated ad-valorem equivalents of the NTMs[59] by Kee et al. (2009).[60] Ad-valorem equivalent of non-tariff measures in services sector come from Fontagné et al. (2016),[61] while trade elasticities come from the so-called "Product Level Trade Elasticities" dataset of Fontagné et al. (2022).[62]

As for the climate policy component of the reference scenario, and following Bellora and Fontagné (2023), officially submitted unconditional Nationally Determined Contributions (NDCs) after the COP27 are integrated and assumed to be fulfilled, but only for countries with a national carbon market in place by 2021.

END NOTES

1 Including the ECA [ECA, AUC, AfDB (2012), ECA (2018b), ECA (2021), ECA and CEPII (2024), ECA and CEPII (forthcoming a)], the European Commission (2025), the World Bank (World Bank 2020, 2022), and the International Monetary Fund (IMF 2023), among others,

2 ECA and CEPII (forthcoming a).

3 Liberalization of tariffs on goods in line with agreed AfCFTA modalities is considered, along with a 50 per cent reduction of actionable NTMs and a 50 per cent reduction in actionable barriers to trade in services.

4 It is assumed that ultimately, all African Union member States will sign, ratify, and implement the AfCFTA agreement.

5 In the MIRAGE CGE model (see annex 3.2 for technical details), GDP is based on national accounting—a country's GDP is equal to the sum of all the consumption and investment of the country, including for transport, plus the country's trade balance (total exports minus total imports); while output is the aggregate for production capturing intermediate consumption and value added combined.

6 Welfare is measured through the so-called "equivalent variation" method, which represents the amount the representative agent would be indifferent to receive in lieu of the implementation of the AfCFTA reform.

7 While all reforms considered in this chapter are assumed to be fully implemented by 2035 latest, results are given for the year 2045 to allow for all variables in the CGE model to properly adjust to the policy shocks. See annex 3.2 for further technical details.

8 While intra-African (exports) would increase by $275.7, Africa's exports to the rest of the world would be reduced by $30 billion, thereby leading to a net increase in Africa's total exports of $245.7 billion.

9 An increase in production along with and increase in trade reflects greater net economic opportunities created rather than just an increase in trade not accompanied by an increase in production.

10 Those include vegetable oils and fats, food products nec, and beverages and tobacco products. See ECA and CEPII (forthcoming a) for full details.

11 Full description is found in ECA and CEPII (forthcoming a).

12 World Bank 2020a; ECA 2024.

13 ECA 2016.

14 The countries include Cameroon, Ethiopia, Kenya, Morocco, Namibia, Rwanda, Senegal, Tanzania, Uganda, and Zimbabwe.

15 For methodological details, see ECA (2024).

16 Those non-LDCs that are part of existing customs union have usually chosen to adopt the tariff liberalization schedule of LDCs with which they share the customs union. Aligning timeframes for reductions of tariffs among members of a customs union is essential to preserve the integrity and proper functioning of the union.

17 For full details, see: https://www.uneca.org/afcfta-what-you-need-to-know.

18 See: https://microsite.peaqock.com/

19 World Bank 2020b.

20 Unfortunately, more recent comprehensive data on GVC participation cannot be retrieved from UNCTAD-Eora Global Value Chain database, with data covering 42 African countries available only until 2018 (see UNCTAD-Eora GVC Database).

21 Yameogo and Jammeh 2019.

22 See ECA and CEPII (forthcoming a) for full details.

23 Africa's overall trade balance in processed and nonprocessed agrifood combined being estimated to –$53.2 billion, –$221.2 billion, and –$225.6 billion, in 2023, 2025 without AfCFTA, and 2025 with AfCFTA, respectively. All from ECA and CEPII (forthcoming a).

24 Africa's trade balance in processed food for intermediate consumption in 2045 would be –$21.2 billion and –$22.3 billion, with and without AfCFTA, respectively.

25 For CO2 and non-CO2 combined. See ECA and CEPII (2024).

26 ECA 2022.

27 ECA 2016.

28 See: https://sdgs.un.org/un-decade-sustainable-transport–2026–2035.

29 ECA and CEPII 2024.

30 ECA and CEPII forthcoming a.

31 The ones generated as a result of AfCFTA implementation. They would be reduced (by 3 per cent) with carbon pricing adopted on top of AfCFTA reform implemented

32 ECA (forthcoming a).

33 African Climate Foundation and the London School of Economics and Political Science (2023).

34 See: 36437-treaty-consolidated_text_on_cfta_-_en.pdf (au.int).

35 Not accounting for the recent withdrawals of Burkina Faso, Mali, and Niger from ECOWAS.

36 Not accounting for the recent withdrawals of Burkina Faso, Mali, and Niger from ECOWAS.

37 In this ECA study, tariff averages are based on applied tariff rates and not bound tariff rates (the former being lower or equal to the latter). While the latter should be basis for assessing WTO-compliance, it is not possible to precisely compute average bound tariffs in the African context as not all African countries are WTO members and not all African WTO-members have fully binding commitments. In other words, the reference to WTO-compliance here means that such situation would not require African countries to re-negotiate potentially higher bound tariffs with non-African WTO members.

38 World Bank 2022.

39 Mevel (2019).

40 ECA and CEPII (forthcoming a).

41 World Bank 2020a.

42 See Non-tariff Barriers: Trade barriers in Africa.

43 Unless otherwise indicated, ECA's estimates are given in 2045 not only because ECA's empirical work account for climate change impacts in AfCFTA context with climate change analyses based on long-term projections in baseline, but also to allow for sufficient time to all the variables to adjust in the model after implementation of the AfCFTA and/or climate reform(s).

44 Between 2035 and 2045, as far as intra-African exports are concerned, the difference between the AfCFTA scenario and the baseline (without AfCFTA) would continue increasing in absolute terms; nonetheless, in relative terms, the difference slightly slows down as time passes after full implementation of the AfCFTA reform assumed in 2033 for tariffs and 2035 for NTBs.

45 Ad-valorem for NTBs on goods and services on Africa's exports to the rest of the world are cut by 20 per cent (see World Bank 2020a), under the assumption that reducing NTBs within Africa will lead to significant spillover effects with reduction of NTBs between Africa and the rest of the world.

46 Based on ECA and CEPII (forthcoming a).

47 ECA, AUC, and AfDB (2012) did consider a scenario inclusive of the adoption of trade facilitation measures in AfCFTA context which did show the huge impact on Africa's GDP, trade, and welfare, with the caveat of modeling the reform cost-free.

48 ECA, AUC, and AfDB (2012) did consider a scenario inclusive of the adoption of trade facilitation measures in AfCFTA context which did show the huge impact on Africa's GDP, trade, and welfare, with the caveat of modeling the reform cost-free.

49 As of 27 January 2025, 45 African countries are members of the WTO, with an additional 8 African countries being classified as observers. See: https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm.

50 As of 27 January 2025, 43 African countries have ratified the WTO Trade Facilitation Agreement. See: https://tfadatabase.org/en/ratifications.

51 See: Decision on boosting intra-African trade and fast tracking the continental free trade area.

52 ECA, AUC, and AfDB (2012).

53 ECA (forthcoming a) relies on GTAP CGE model.

54 See GTAP Data Bases: Other Data and Models.

55 A dynamic setting considers the economic transition over time, while a static setting doesn't.

56 Fouré, Benassy-Queré, and Fontagné 2013; Fontagné, Perego, and Santoni 2022.

57 See also MIRAGE model, MIRAGE model overview.

58 Guimbard et al. (2012).

59 Reference projection for NTMs take the value of NTMs in the base year 2014.

60 Kee, Nicita, and Olarreaga 2009.

61 Fontagné, Mitaritonna, and Signoret 2016.

62 Fontagné, Guimbard, and Orefice 2022.

CHAPTER 4
REALIZING AND CAPITALIZING ON THE TRANSFORMATIVE POTENTIAL OF THE AFCFTA

KEY MESSAGES

- Implementing the Boosting Intra-African Trade Action Plan is crucial for overcoming barriers to intra-African trade and maximizing the benefits of the AfCFTA. Integrating BIAT into national and regional development plans—while engaging the private sector, prioritizing investments in both physical and digital infrastructure, and embracing digital technologies—will enhance trade efficiency and connectivity.
- Developing both hard and soft infrastructure and regulatory harmonization are critical for the success of the AfCFTA. Africa needs an investment of $120.83 billion in equipment by 2030 to support the AfCFTA and avoid delays in economic integration and missed trade benefits. Investing in transport, energy, quality infrastructure, and digital connectivity and streamlining regulations will improve market access, enhance trade, and foster innovation, ultimately driving economic growth and development. In addition, leveraging urbanization and focusing on education and job creation can transform the continent's demographic dividend into economic prosperity.
- The AfCFTA can potentially drive transformative development across Africa by addressing critical challenges such as decent job creation, food insecurity, health concerns, energy transition, irregular migration, and peace and security. By facilitating trade in agricultural products, healthcare, and renewable energy, and promoting regional cooperation, the AfCFTA can enhance agricultural productivity, improve access to medicines, and support sustainable energy initiatives. To realize these benefits, strategic investments in infrastructure, harmonization of policies, and a focus on inclusive growth are essential for fostering economic cooperation and stability across the continent.

Building on chapter 3's empirical evidence of the AfCFTA's potential for inclusive and sustainable development in Africa, this chapter delves into the key enablers and constraints that influence maximizing its benefits. This includes the effective implementation of the Action Plan for Boosting Intra-African Trade (BIAT Action Plan) and the enhancement of transport infrastructure. Also crucial is to consider emerging issues and megatrends—such as technological advancements, digitalization, and rapid urbanization—that could significantly reshape Africa within the AfCFTA framework. The chapter also highlights how vital the effective implementation of the AfCFTA is for addressing broader development challenges, including food security, energy, health, and peace.

To support the AfCFTA, Africa will need an invesment of $120.83 billion in transport equipment by 2030, while also streamlining regulations to enhance market acess and foster innovation

The chapter concludes that to fully realize the benefits of the AfCFTA and overcome barriers to intra-African trade, the successful execution of the BIAT Action Plan is essential. This necessitates integrating the Plan into national and regional development strategies, engaging the private sector, and prioritizing investments in both physical and digital infrastructure. To support the AfCFTA, Africa will need an invesment of $120.83 billion in transport equipment by 2030, while also streamlining regulations to enhance market acess and foster innovation. Finally, the AfCFTA has the potential to drive transformative development by tackling such challenges as health, food security, green energy transition, and security through strategic investments and regional cooperation. By emphasizing education and job creation, Africa can leverage urbanization to transform its demographic dividend into lasting economic prosperity.

KEY ENABLERS AND CONSTRAINTS TO REALIZE AND MAXIMIZE BENEFITS FROM THE AFCFTA

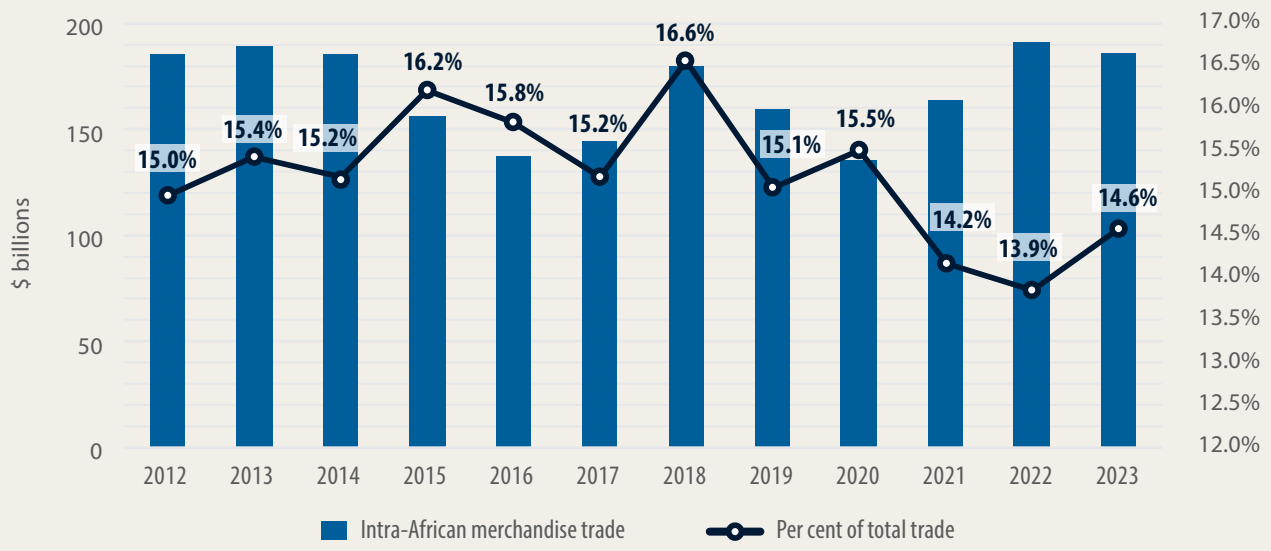
To fully harness the benefits of the AfCFTA, it is crucial to recognize the intertwined relationship between the AfCFTA and the BIAT Action Plan. Addressing the seven clusters outlined in BIAT can foster trade liberalization. Conversely, trade liberalization under the AfCFTA serves as a pathway to achieving BIAT's goals, particularly in boosting intra-African trade. Even though BIAT has not been fully mainstreamed into national, regional, and continental policies, it is being implemented through such frameworks as the Single African Air Transport Market (SAATM) and the Pan-African Payment and Settlement System (PAPSS).[1]

Action plan for Boosting Intra-African Trade (BIAT)

The AfCFTA was approved during the 18th Ordinary Session of the Assembly of Heads of State and Government in Addis Ababa, Ethiopia, in January 2012, alongside the BIAT Action Plan, with both aimed at driving socioeconomic growth. Intra-African merchandise trade declined slightly from 15.0 per cent in 2012 to 14.6 per cent in 2023 (figure 4.1), but increased slightly in value, rising from $185.1 billion in 2012 to $185.7 billion in 2023. The low point was in 2016, when it fell to $137.5 billion, primarily due to declining commodity prices—especially in mining, fuel, and agricultural raw materials—and reduced global demand from China, Africa's main trading partner.[2]

Among the eight AU-recognized RECs, the Intergovernmental Authority for Development (IGAD) saw a remarkable increase of 102 per cent in intra-bloc trade, rising from an average of 6. 3 per cent in 2012–14 to 12.7 per cent in 2021–23 (figure 4.2). In contrast, the Economic Community of Central African States (ECCAS) intra-bloc trade fell from 5.2 per cent in 2012–14 to 3.3 per cent in 2021–23. The Southern African Development Community (SADC) maintained the highest intra-bloc trade, if with a slight decline from 19.6 per cent in 2012–14 to 19.1 per cent in 2021–23. This dominance is primarily attributed to South Africa consistently accounting for more than half of intra-SADC exports and about 30 per cent of total intra-African exports.[3]

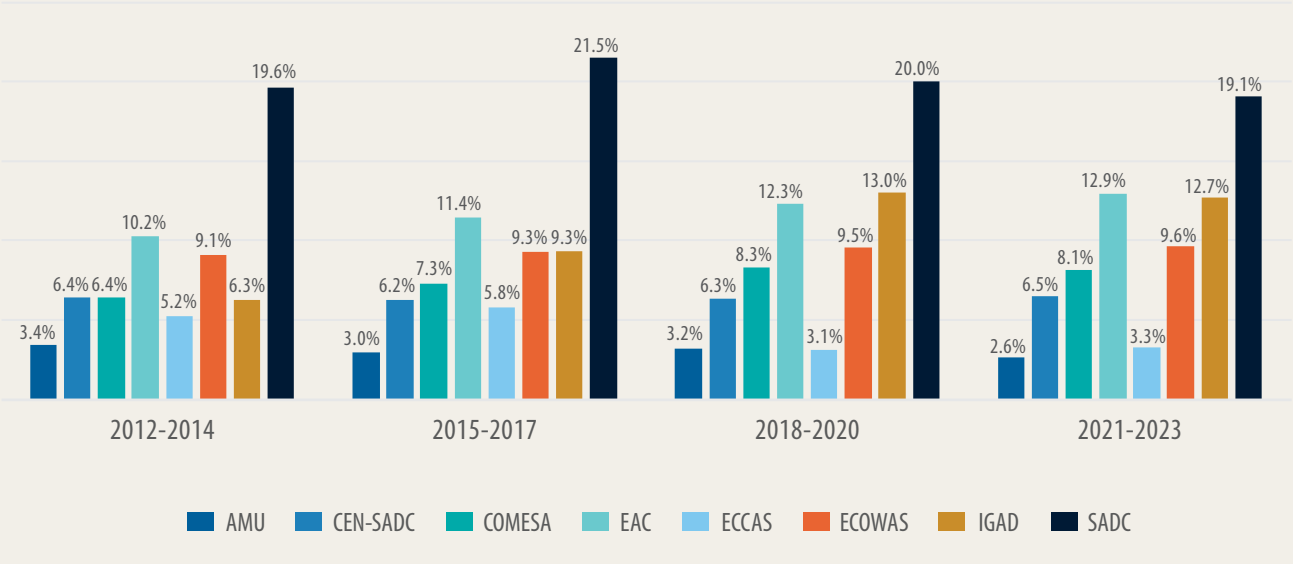
Figure 4.1 Intra-African merchandise trade, 2012–23 ($ billion)



Source: ECA based on data from UNCTADStat (updated 10 October 2024).

Intra-African services trade amounted to $21.5 billion in 2012, reached $24.7 billion in 2019, before the COVID-19 pandemic, and peaked at $26.8 billion in 2023 (figure 4.3). Nevertheless, intra-African trade in services remains notably low, representing only 7.3 per cent of total African trade in services in 2012 and further declining to 6.5 per cent in 2023. Transport and travel continued to be the leading services exported by Africa throughout the period despite travel services experiencing a slight decline from 31.9 per cent in 2012 to 31.7 per cent in 2023, while transport services saw an increase, rising from 28.2 per cent in 2012 to 30.5 per cent in 2023.

Figure 4.2 Intra-REC merchandise trade, three-year average, 2012–23 (per cent)



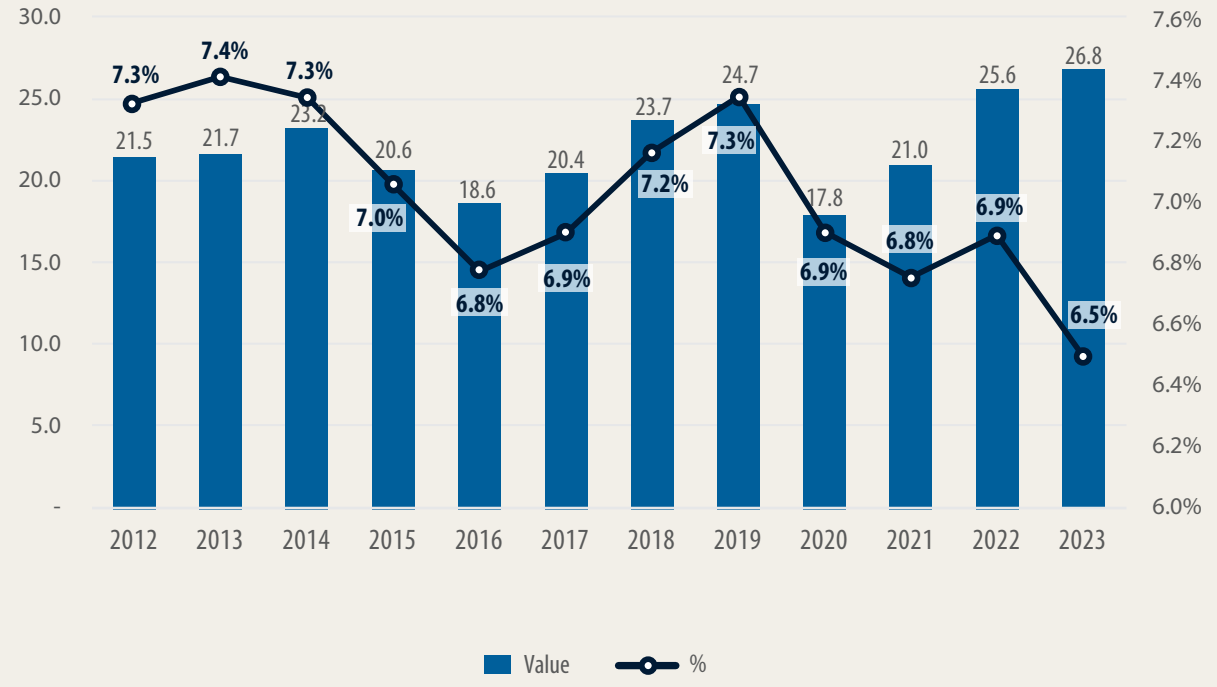
Source: ECA based on data from UNCTADStat (updated 10 October 2024).

Among the RECs, intra-bloc services trade remained consistently low between 2012 and 2023, with member states exporting more to countries outside Africa than other African nations. The Community of Sahel-Saharan States (CEN-SAD) initially recorded the highest intra-REC services trade averaging 4.6 per cent during 2012–15, followed closely by COMESA at 4.2 per cent (figure 4.4). However, in 2020–23, Arab Maghreb Union (AMU) became the REC with the highest intra-bloc services trade average at 4.9 per cent, while CEN-SAD and COMESA fell slightly to 4.5 per cent and 4.1 per cent, respectively.

These fluctuations in intra-African trade in merchandise and services may be influenced by various factors, including the limited implementation of BIAT's seven clusters: trade policy, trade facilitation, productive capacity, trade-related infrastructure, trade finance, trade information, and factor market integration. Implementing BIAT's clusters is crucial to removing obstacles to intra-African trade and fully leveraging the benefits of the AfCFTA.

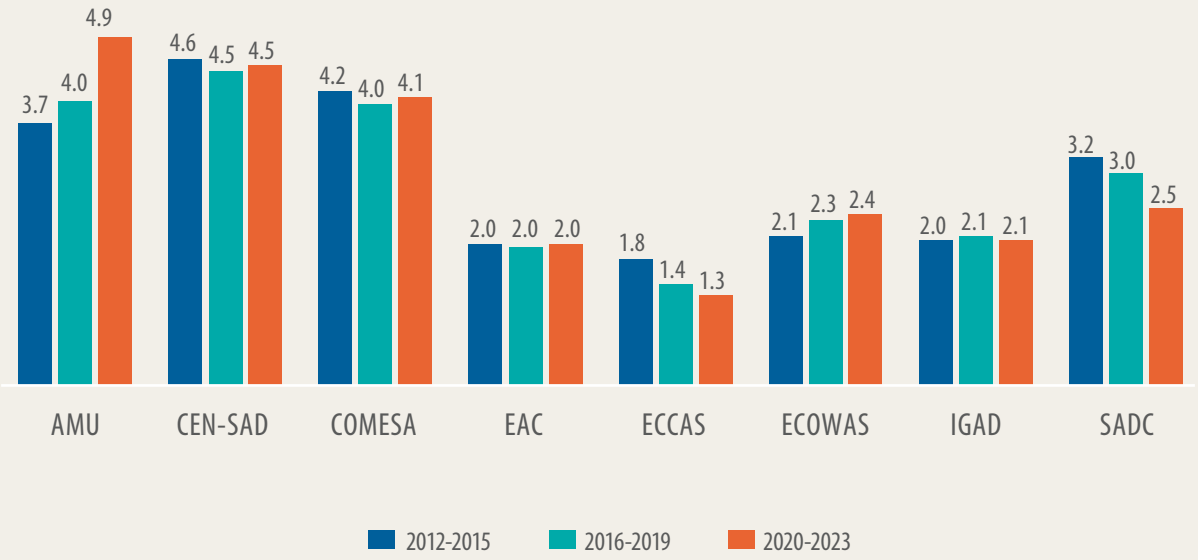
Intra-African services trade amounted to $21.5 billion in 2012, reached $24.7 billion in 2019, before the COVID-19 pandemic, and peaked at $26.8 billion in 2023.

Figure 4.3 Intra-African services trade, 2012–23 ($ billion)



Source: ECA based on the OECD-WTO Balanced Trade in Services (BaTIS) data set (accessed 18 February 2025).

Figure 4.4 Intra-REC services trade, four-year average, 2012–23 (per cent)



Source: ECA based on the OECD-WTO Balanced Trade in Services (BaTIS) data set (accessed 18 February 2025).

Trade policy

Boosting intra-African trade requires adopting and implementing coherent and efficient national, regional, and continental trade policies. The AfCFTA exemplifies this effort at the continental level, with 48 ratifications as of December 2024, and the expansion of the Guided Trade Initiative (GTI) to include additional products and participating countries. The GTI was created in February 2022 as a temporary measure to promote significant trade among interested State Parties that have fulfilled the basic criteria for initiating trade under the agreement.

According to the AfCFTA agreement, REC free trade areas serve as building blocks for the AfCFTA (Article 5(b)),[4] and they are encouraged to maintain or improve higher levels of customs duty elimination and trade liberalization among themselves (Article 19).[5] RECs have played a crucial role in AfCFTA negotiations, with the East African Community (EAC), the Economic Community of West African States (ECOWAS), and ECCAS acting as centres for consolidating negotiation offers and bridging trade negotiation capacity gaps for less-resourced countries.[6] The EAC has established a common market, ECOWAS formed a customs union, and Common Market for Eastern and Southern Africa (COMESA), ECCAS and SADC have created free trade areas. In contrast, IGAD focuses on AfCFTA implementation, while the AMU and CEN-SAD are less advanced in regional integration.

However, multiple memberships in different RECs present challenges for trade policy harmonization, potentially resulting in overlapping responsibilities, competing priorities, and proliferating agreements. For instance, when the rules of origin are not harmonized, as for many countries in SADC and COMESA, authentication challenges and bureaucratic procedures become confusing for traders and customs officials.[7] While the COMESA-EAC-SADC Tripartite sought to resolve the issue of multiple membership of RECs, it entered into force only on 25 July 2024, while Rules of Origin aspects and tariff offers are still being finalized.[8]

Box 4.1 Recognizing informal cross-border trade: A crucial aspect of intra-African trade dynamics

Official trade statistics typically capture only formal trade and neglect informal cross-border trade (ICBT),[9] leading to significant underestimation of overall intra-African trade. If ICBT were included, intra-African trade figures could be substantially higher. ICBT is significant across all African subregions, potentially accounting for 7 per cent to 16 per cent of formal intra-African trade flows (about $10 to 24 billion) and 30 per cent to 72 per cent of formal trade between neighbouring countries.[10] It is therefore challenging to accurately monitor the progress of the ongoing integration efforts, such as the AfCFTA, to boost trade at both the REC and continental levels. This highlights the urgent need to institutionalize ICBT data collection to accurately track intra-African trade flows.

While some estimates of ICBT in Africa exist, they are few and often incomplete in commodity coverage and data collection points—and are rarely disaggregated by sex. The lack of reliable and regular data on ICBT has contributed to its underappreciation in economic discussions at both micro and macro levels. Accurate data on ICBT are crucial for formulating, implementing, and monitoring effective trade and investment policies and addressing the specific needs of informal cross-border traders, particularly the estimated 70 per cent who are women.[11]

Recognizing these challenges, the African Union Commission (AUC)—in collaboration with the United Nations Economic Commission for Africa (ECA) and the African Export Import Bank (Afreximbank)—is working with a task force comprising experts from regional economic communities, national statistical offices, research institutions, cross-border trader associations, multilateral institutions, academia and other institutions. It developed the Continental Methodology for Informal Cross-Border Trade (ICBT) Data Collection in Africa. This methodology builds on existing ICBT data collection methodologies and provides an overarching set of procedures that all AU member states should follow in their ICBT data collection activities. It was endorsed by the African Union Specialized Technical Committee on Trade, Tourism, Industry, and Minerals during the meeting held in May 2024. Institutionalizing ICBT data collection using the recommended methodology at the country level will be instrumental in promoting sustainable ICBT data collection.

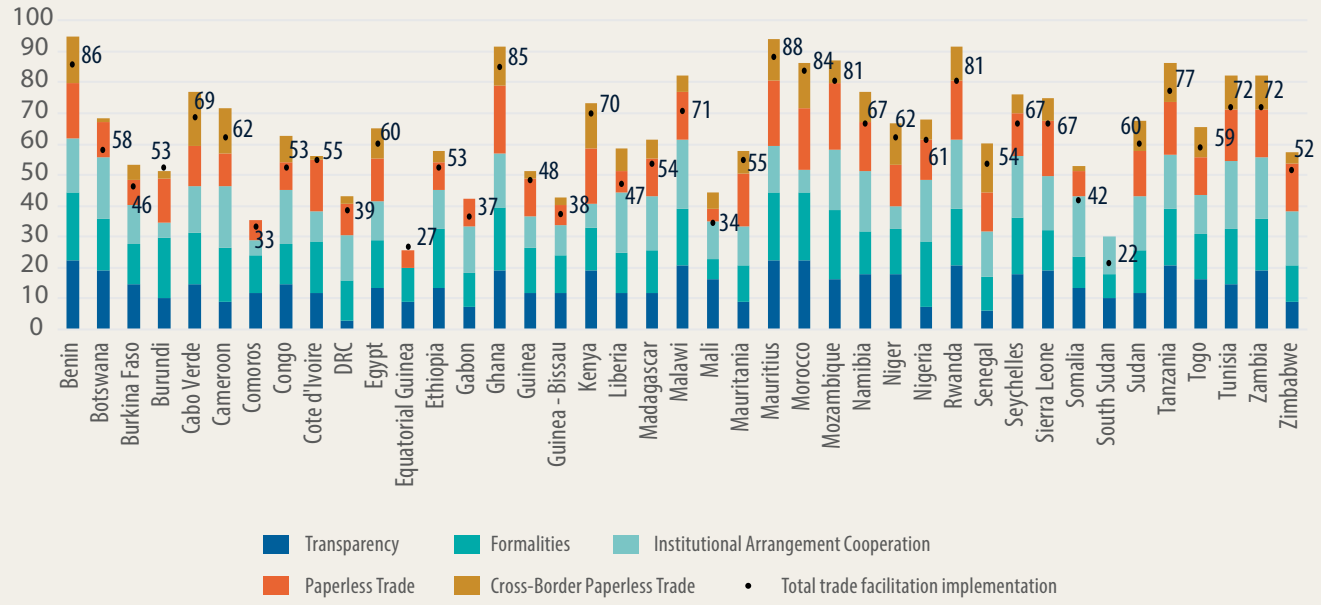
Trade facilitation

While Africa's implementation of trade facilitation measures increased from 46.8 per cent in 2021 to 57.7 per cent in 2023, behind the global average of 68.6 per cent.[12] Mauritius and Benin are at the forefront, boasting implementation rates of 88 per cent and 86 per cent, respectively (figure 4.5). In contrast, South Sudan and Equatorial Guinea lag behind, with implementation rates of only 22 per cent and 27 per cent. Key constraints include inadequate infrastructure, complex border procedures, insufficient technology adoption by border agencies, and limited institutional capacities. Furthermore, low awareness of AfCFTA benefits among SMEs impedes inclusivity. A key activity of the BIAT Action Plan to enhance trade facilitation is the establishment of One-Stop Border Posts (OSBPs). However, their implementation under Programme for Infrastructure Development in Africa (PIDA) has been slow. As of September 2024, only 7 out of 38 OSBP projects listed in the PIDA Projects Dashboard were operational.[13]

Productive capacity

To enhance intra-African trade and increase Africa's share in global commerce, it is crucial to prioritize economic diversification and strengthen the productive capacity of African countries. Despite a slight improvement in the Productive Capacities Index (PCI),[14] Africa was ranked as the least productive region in 2022, with an overall PCI score of 31.9 (figure 4.6). Notably, North Africa recorded the highest PCI score on the continent at 43.9, and Central Africa the lowest at 28.5. South Africa led with a PCI of 52.2, and Niger lagged behind with a score of 16.9. To expand the productive capacities of African countries, substantial investments in physical, human, social, and environmental capital are essential. And strengthening institutions and the private sector and facilitating a transition from low-productivity, such as agriculture, to high-productivity economic activities, such as manufacturing, is vital for achieving sustainable growth.

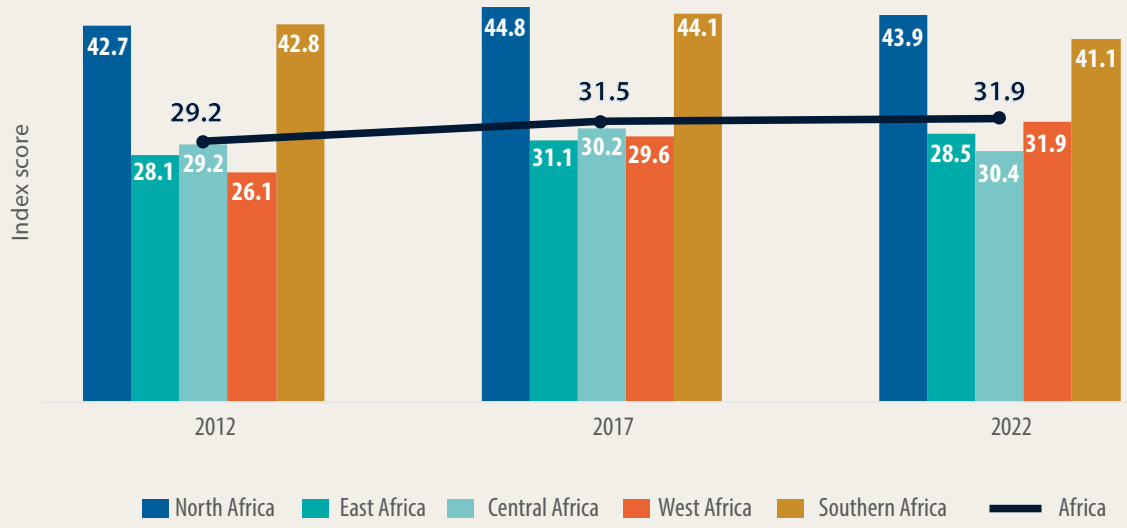
Figure 4.5 Trade facilitation and paperless trade in Africa, 2023 (per cent)



Note: The UN Global Surveys on Digital and Sustainable Trade Facilitation covers 163 countries worldwide for 2015, 2017, 2019, 2021, and 2023. The 2023 survey included 60 trade facilitation measures.

Source: ECA based on data from the UN Global Survey on Digital and Sustainable Trade Facilitation (updated 12 July 2023).

Figure 4.6 Productive Capacities Index, 2012–22



Source: ECA calculations based on data from UNCTADStat (accessed 1 September 2024).

Trade-related infrastructure

Africa's infrastructure deficit poses a significant challenge to its economic development, particularly in realizing the full potential of the AfCFTA. In this context, successful implementation of projects under the Programme for Infrastructure Development in Africa is crucial. The PIDA Priority Action Plan Phase 1 (PIDA PAP1) encompassed 51 cross-border infrastructure programs, which were further divided into 409 individual projects for implementation from 2012 to 2020. In 2023, PIDA achieved 52 per cent of its target for 16,033 kilometres of modern highways by 2040, 14 per cent of the target for 4,077 kilometres of modern railways, 21 per cent of the target for 3,506 kilometres of transmission lines, and 13 per cent of the target for 7 GW of hydroelectricity generation.[15] PIDA has exceeded expectations in expanding broadband capacity, achieving 140 per cent of its target of 6 terabits by 2020. PIDA PAP2 was designed with a streamlined focus on 69 projects to be implemented between 2021 and 2030. Addressing Africa's infrastructure deficits is pivotal for enhancing its global competitiveness and fully integrating into the global economy.

Trade finance

Africa's diverse inconvertible currencies and underdeveloped regional financing institutions hinder cross-border trade. However, there has been significant progress in strengthening African financial institutions to promote intra-African trade and investment. Since 2013, the African Development Bank (AfDB) has supported more than 3,000 trade transactions through its Trade Finance Programme, collaborating with 120 financial institutions across more than 35 countries, facilitating a cumulative trade value of $6 billion, with intra-African trade accounting for about $1 billion. Notably, 60 per cent of supported transactions involve small and medium enterprises (SMEs).

Afreximbank has also been pivotal in addressing the financing gap for trade and investment in Africa. Between 2017 and 2021, it disbursed more than $20 billion to support intra-African trade and investments, with a commitment to double this amount to $40 billion by 2026.[16] The African Trade and Investment Development Insurance (ATIDI), formerly known as ATI, facilitates trade by providing essential guarantee policies and insurance coverage to SMEs, development finance institutions, manufacturers, traders, banks, and export credit agencies.

Trade information

Timely access to trade information is vital for maximizing intra-African trade opportunities. Twenty-three African countries had established trade information portals to deliver market insights.[17] Moreover, in a survey of 21 countries, all of them reported having established formal dialogue platforms with the organized private sector, 17 for the informal private sector, and 20 with women-led businesses. A significant continental achievement is the Intra-African Trade Fair, which facilitates connections between African buyers and sellers, fostering business opportunities and attracting investors and trade organizations from around the globe. The African Trade Observatory also centralizes essential market information, including tariffs, trade regulations, and export potential, thereby supporting businesses across the continent.

Factor market integration

The intra- and inter-regional mobility of factors of production—labour, enterprise, and capital—can enhance African integration and boost intra-African trade. The free movement of people has primarily been facilitated through RECs, with the EAC and ECOWAS leading the way. But as of November 2024, only four countries had ratified the Protocol to the Treaty Establishing the African Economic Community regarding the Free Movement of Persons, Right of Residence, and Right of Establishment, falling short of the 15 ratifications needed for it to take effect. There is a consensus among policymakers that implementing the Free Movement of Persons Protocol is essential for a successful execution of the AfCFTA.[18] People are the primary agents of trade, growth, and development, and their freedom of movement is vital for achieving a stable, secure, and economically prosperous Africa.

Liberalizing cross-border mobility can help harness informal trade, which constitutes over 40 per cent of intra-African trade and provides significant income for an

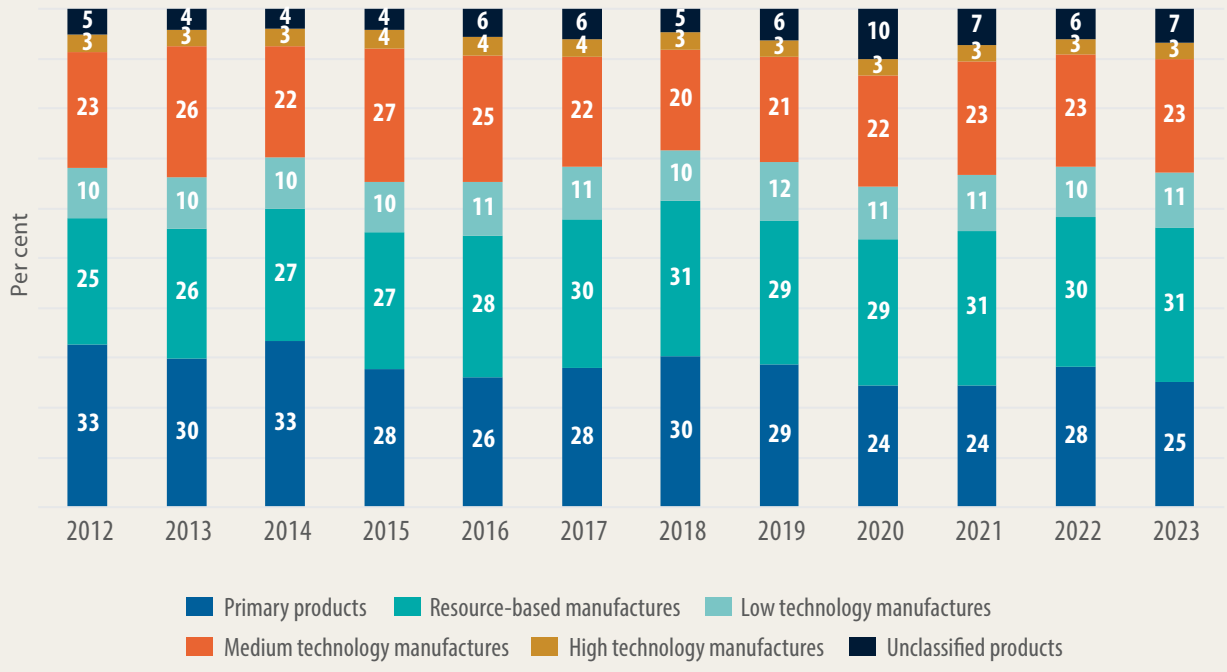
Implementing the Free Movement of Persons Protocol is essential for a successful execution of the AfCFTA.

Intra-African exports and imports are increasingly balanced, with a significant focus on manufactured goods, which rose from 62 per cent of intra-African exports in 2012 to 68 per cent in 2023.

estimated 43 per cent of the African population, benefitting both origin and destination countries.[19] Furthermore, the free movement of persons facilitates labour mobility, allowing countries to access a skilled workforce essential for service industries such as healthcare, education, and technology. This access, combined with mutual recognition of skill agreements, allows countries to leverage a broader talent pool, address labour market mismatches, and increase opportunities for technical skills exchange and transfer.

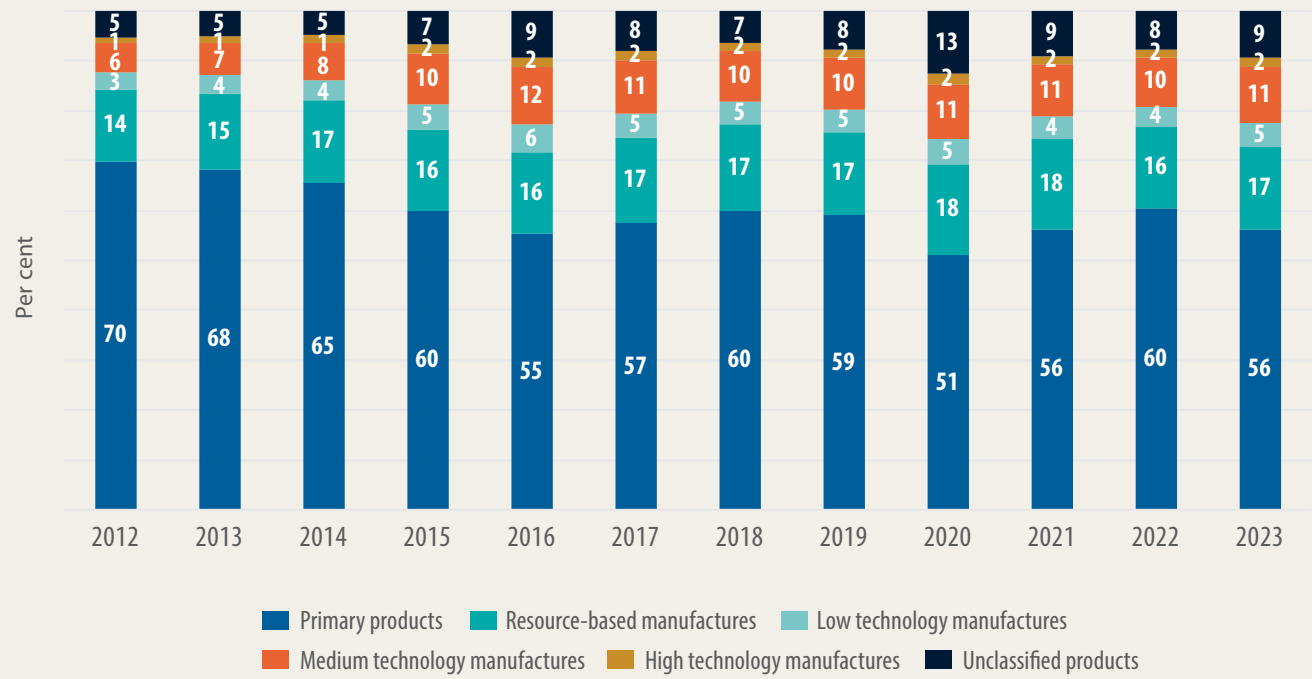
Intra-African exports and imports are increasingly balanced, with a significant focus on manufactured goods, which rose from 62 per cent of intra-African exports in 2012 to 68 per cent in 2023 (figure 4.7). In contrast, exports to the rest of the world largely consist of primary products, averaging 56 per cent in 2023 (figure 4.8). Enhancing intra-African trade presents a vital opportunity for economic diversification, enabling countries to exchange a wider variety of manufactured goods, foster knowledge transfer, and create added value. This diversification is essential for building resilience against demand fluctuations and price instability, particularly for nations reliant on commodity exports. The current geopolitical landscape—marked by rising conflicts such as the Russia–Ukraine war, the conflicts in Gaza and Sudan, and the changing political climate in the United States with a potential return to protectionist policies—underscores the urgency of this diversification and expansion of intra-Africa trade. Therefore, the effective implementation of the BIAT Action Plan, especially in trade facilitation and productive capacity, is crucial.

Figure 4.7 Composition of intra-African exports, 2012–23 (per cent)



Source: ECA calculations based on data from UNCTADStat (updated 10 October 2024).

Figure 4.8 Composition of African exports to the rest of the world, 2012–23 (per cent)



Source: ECA calculations based on data from UNCTADStat (updated 10 October 2024).

Of the 21 countries surveyed by ECA, 18 acknowledged that implementing the BIAT Action Plan would contribute significantly to the development of industries within their countries, increase the availability of diverse products for export across African regions, and increase intra-African trade through AfCFTA implementation. While these countries acknowledged the importance of BIAT and its complementarity in maximizing the benefits of the AfCFTA, 18 also identified insufficient financial resources as the primary obstacle.

Beyond raising awareness about the BIAT Action Plan and its pivotal role in advancing the implementation of the AfCFTA, it is crucial to integrate BIAT into national and regional development strategies, strengthen the institutions responsible for its execution, and allocate adequate resources to ensure the effective implementation of its clusters. While all seven BIAT clusters are interconnected and mutually reinforcing, prioritizing the trade facilitation, trade finance, and trade information clusters can yield significant benefits, particularly for small and medium enterprises (SMEs), which constitute almost 90 per cent of businesses in Africa and are large sources of employment.[20]

Focusing on the trade facilitation cluster will help remove barriers to trade by harmonizing and simplifying customs procedures, improving integrated border management, and streamlining processes, making it easier for SMEs to conduct business across borders. Implementing the trade finance cluster will provide SMEs with essential financial support, enabling them to expand and thrive while also enhancing payment systems and promoting digital inclusivity. And implementing the trade information cluster will equip buyers and sellers with critical information on business opportunities, reducing information asymmetries and empowering SMEs to participate fully in intra-African trade and benefit from the AfCFTA.

Transport connectivity and the AfCFTA

Africa's transportation and logistics sectors face significant obstacles due to underdeveloped and fragmented infrastructure, but they also suffer from limited financing. As discussed in chapter 3, successful implementation of the AfCFTA is projected to enhance intra-African trade by 45 per cent by 2045 compared with a scenario without the agreement. However, reaching this ambitious target requires addressing significant

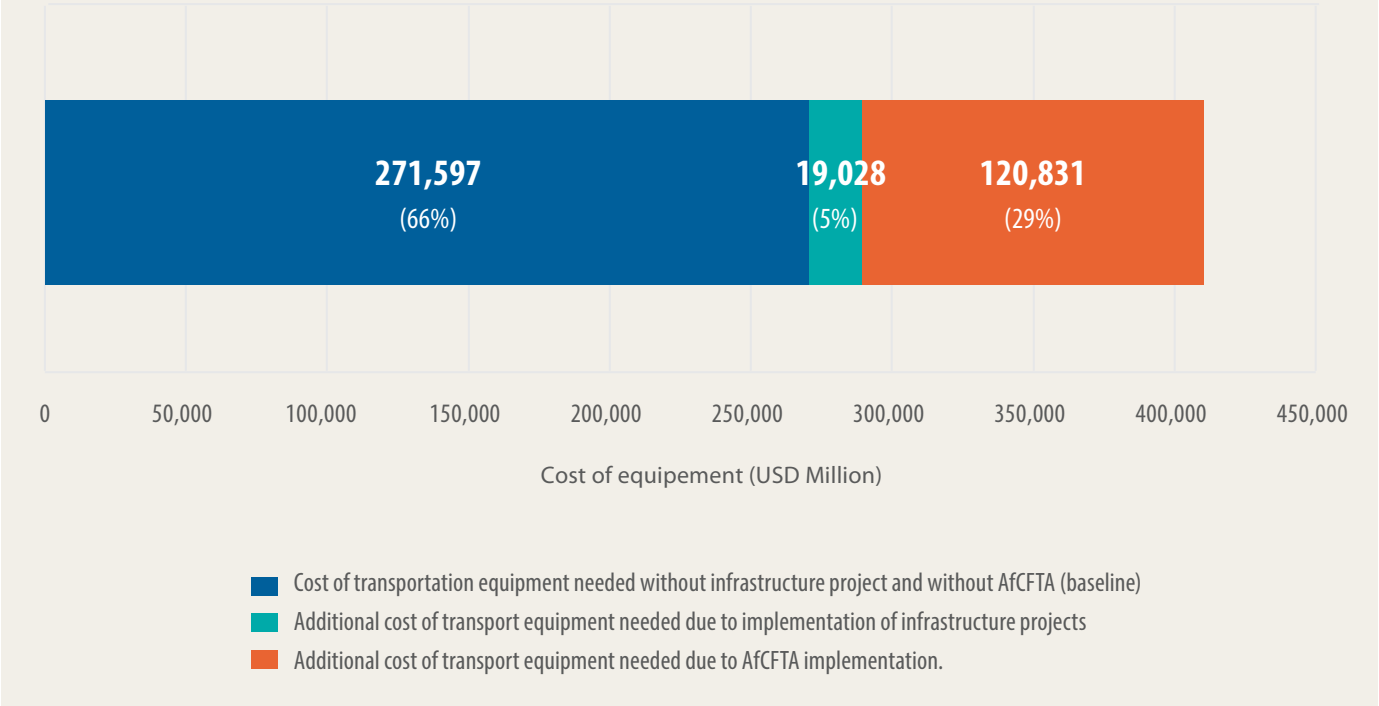
challenges related to Africa's rail, maritime, and air transport infrastructure—and integrating transport infrastructure planning into national development strategies. This can ensure that infrastructure investments are aligned with broader economic and trade objectives.

Africa will need about $120.8 billion in equipment (trucks, rail wagons, maritime vessels, and aircraft) by 2030 to meet the transport demands created by the AfCFTA (figure 4.9). If all planned projects under regional initiatives like the Programme for Infrastructure Development in Africa (PIDA) and the Trans African Highway network (TAH) are completed, an additional $13.9 billion will be required. Focusing specifically on critical regional connections vital for the AfCFTA's success, closing the gaps in road links will require between $31.8 billion and $80.0 billion, and the gaps in rail links between $25.8 billion and $54.8 billion.

Road transport serves as the primary mode of freight movement across Africa, with implementation of the AfCFTA expected to significantly increase demand, resulting in an additional 667,000 tons of bulk and container cargo anticipated by 2030, requiring an investment of $105.3 billion. Meanwhile, Africa's rail network currently lacks the essential linkages and modern capabilities for efficient trade. To support the expanded trade facilitated by the AfCFTA, the continent will require 18,490 wagons for bulk and container cargo, requiring an investment of $4.2 billion by 2030. In the maritime sector, the AfCFTA is also projected to enhance freight volumes by reducing trade barriers and expanding market access, leading to a demand for 70 vessels for bulk and container cargo and requiring $2.4 billion in investment. Africa's air transport network, which comprises 14,762 routes and an average of 121 connections per airport, is crucial for the movement of both people and goods. To enhance this network's capacity by 2030, an estimated 84 freight aircraft will be needed, leading to an investment requirement of $8.9 billion (see figure 4.10). The operationalization

Africa will need about $120.8 billion in equipment (trucks, rail wagons, maritime vessels, and aircraft) by 2030 to meet the transport demands created by the AfCFTA

Figure 4.9 Cost of transport equipment required by 2030, by reform ($ millions)



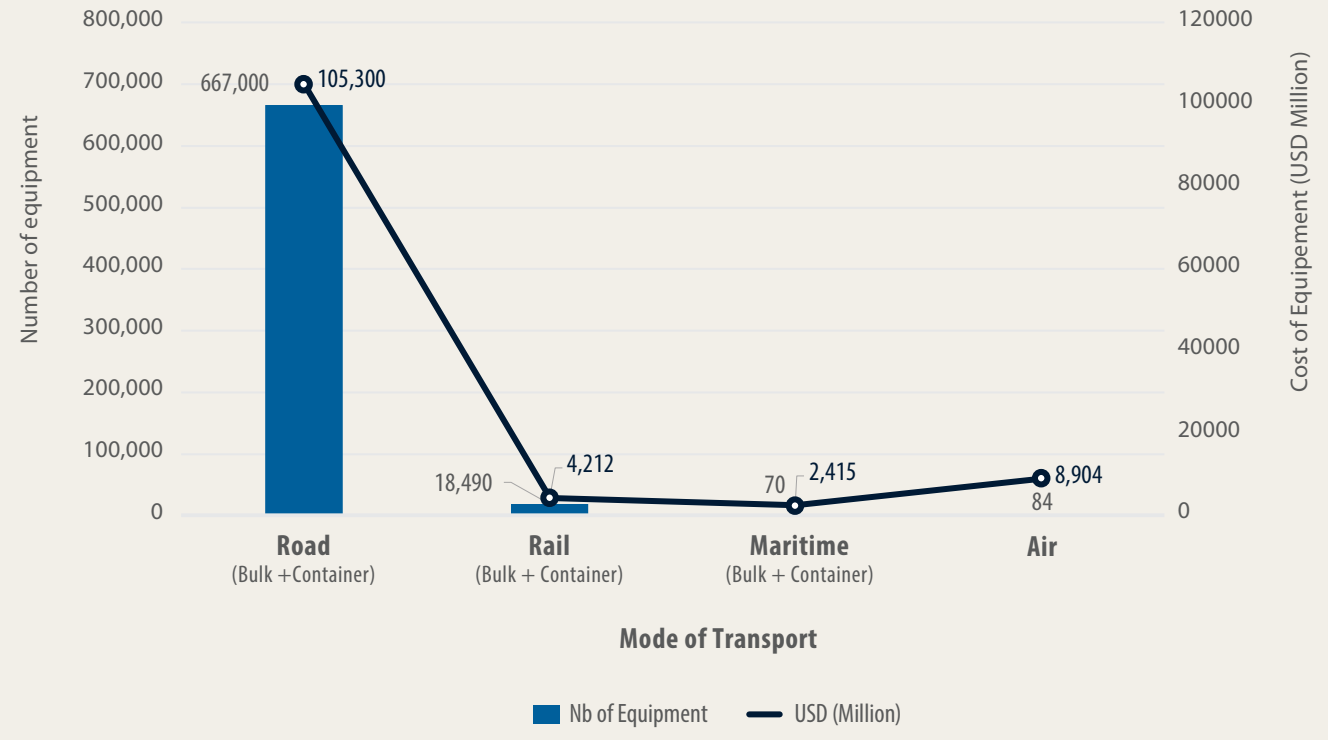
Source: Author based on ECA 2022.

of the Single African Air Transport Market (SAATM) will facilitate the full liberalization of intra-African air markets (box 4.2).

Currently, Africa's transport equipment and infrastructure is not equipped to manage the anticipated surge in trade volumes that the AfCFTA aims to generate. Without substantial and coordinated investments in equipment and infrastructure, the continent risks missing out on the transformative benefits that the AfCFTA in envisaged to bring.

Africa's transport equipment and infrastructure is not equipped to manage the anticipated surge in trade volumes that the AfCFTA aims to generate. Without substantial and coordinated investments in equipment and infrastructure, the continent risks missing out on the transformative benefits that the AfCFTA in envisaged to bring.

Figure 4.10 Cost of equipment and number of equipment required by 2030 due to AfCFTA implementation only, by mode of transport



Source: Author based on ECA 2022.

Box 4.2 Ongoing initiatives to address infrastructure gaps

Several African countries are undertaking initiatives to address infrastructure gaps and capitalize on the AfCFTA's potential.

Lamu Port-South Sudan-Ethiopia-Transport (LAPSSET) Corridor Project—A catalyst for regional integration under the AfCFTA

The LAPSSET Corridor is a strategic infrastructure development set to significantly enhance connectivity and trade within East Africa. This ambitious initiative connects Kenya, Ethiopia, and South Sudan through a network of interconnected infrastructure components, including the Lamu Port, three strategically located airports, an extensive 1,800 kilometre highway system, crucial crude oil pipelines linking Turkana and South Sudan to Ethiopia, and the Lamu Special Economic Zone, dedicated to manufacturing and value addition. By facilitating the seamless movement of goods and people, the LAPSSET Corridor aims to unlock the economic potential of previously underserved regions. Moreover, this project will strengthen trade by reducing barriers such as security concerns and logistical challenges. Ultimately, the LAPSSET Corridor represents a significant step towards regional integration and economic growth, demonstrating the transformative potential of well-planned infrastructure development within the framework of the AfCFTA.

Ethiopian Airlines' investment in air cargo infrastructure and support for AfCFTA

Ethiopian Airlines Group is supporting the AfCFTA through significant investments in its cargo and logistics capabilities. The airline has expanded its air freight network to serve over 60 destinations in Africa, using a mix of freighter aircraft to reach more than half of the continent's cities. This enhanced network facilitates the rapid and secure movement of goods within and beyond Africa. Furthermore, Ethiopian Airlines has established an e-commerce logistics hub at Bole International Airport in Addis Ababa, aiming to position the city as a key logistics centre for cross-border e-commerce within the continent. To further stimulate intra-African trade, the airline offers a 10 per cent discount on cargo shipments within Africa, making air transport more accessible and affordable for businesses.

Box 4.3 Operationalizing the Single African Air Transport Market

Recognizing that air transport connectivity is vital for the free movement of goods and people in Africa, the 30th Ordinary Summit of the African Union Assembly of Heads of States and Government in Addis Ababa, Ethiopia, established SAATM. As a precondition, African States that have joined the SAATM have each declared their solemn commitment to the immediate and full implementation of the Yamoussoukro Decision (YD) towards the establishment of a Single African Air Transport Market. As of February 2025, the number of countries that have made this commitment has risen to 38.[21]

Empirical studies have demonstrated the benefits of air transport liberalization in Africa under SAATM. A 2021 study commissioned by the AUC (IATA, 2021) projected that full liberalization of intra-African air markets could increase traffic volumes by 51 per cent, rising from 31.2 million passenger trips in 2019 to 47.1 million. This represents an additional 15.9 million trips that currently do not occur due to high costs, limited flight availability, and inconvenient services. Similarly, liberalizing air transport in five East African countries could reduce average fares by 9 per cent, while increasing traffic flow and flight frequency by 29 per cent and 41 per cent, respectively.[22]

The main objective of YD is to establish principles for internal market liberalization and fair competition within the intra-African air transport sector while ensuring safe, efficient, reliable, and affordable air services to consumers. To tackle air transport connectivity in Africa, the YD must be fully implemented within the framework of SAATM. The decision establishing SAATM requires member states to eliminate any provisions in their bilateral air services agreements (BASAs) that contradict the YD. However, implementing SAATM through BASAs is a complex challenge. The continent needs to negotiate 1,485 YD-compliant BASAs among the 55 African Union States, as well as 595 BASAs among the 37 States that have joined SAATM.

The SAATM Pilot Implementation Project (SAATM-PIP)—which aims to boost fifth freedom[23] traffic from 14.5 per cent

to 30 per cent by 2025 and enhance collaboration across various economic sectors—has made notable achievements. Currently, 85 per cent of intra-Africa flights are direct, while 15 per cent involve one or more stops. Among the direct flights, fifth freedom routes account for 21 per cent, with third and fourth freedom routes making up 79 per cent. Since 2022, African airlines have launched 59 new routes, including 13 that offer 5th freedom rights. Traffic rights disputes involving Gabon, Nigeria, Madagascar, South Africa, Senegal, Democratic Republic of Congo, Côte d'Ivoire, and Togo have also been resolved. The implementation of SAATM in Africa is projected to lower fares by 26 per cent, resulting in annual savings of $1.46 billion, create a consumer surplus of $2.85 billion, generate an additional 588,750 jobs, and contribute $4.2 billion to African GDP.[24]

Source: https://au.int/en/pressreleases/20250220/malawi-becomes-38th-african-country-join-africas-single-air-transport-market.

SOFT INFRASTRUCTURE

Harmonization and efficiency of custom procedures

While physical infrastructure is undoubtedly vital for the AfCFTA's success, soft infrastructure is equally significant. Harmonized trade policies, streamlined customs procedures, and effective regulatory frameworks are essential for a well-functioning trade environment. Without these elements, even the most advanced physical infrastructure can falter. Inefficient border processes and outdated customs systems can lead to significant delays and increased costs, undermining the competitiveness of businesses.

In addition, the integration of digital technologies offers transformative opportunities to revolutionize transport corridors and significantly enhance their efficiency. Digital freight monitoring systems enable real-time tracking of shipments, ensuring that goods are delivered on time and under optimal conditions. Electronic customs data processing systems can accelerate clearance procedures, reducing delays, minimizing opportunities for corruption, and improving overall efficiency. Data-sharing platforms that integrate information from various stakeholders—including border agencies, transport operators, and traders—can significantly enhance coordination and streamline operations along transport corridors. Advanced technologies such as blockchain, which ensures secure data management, and sophisticated analytics for route optimization provide further tools to mitigate risks, reduce costs, and build trust among trading partners. These innovations not only support the efficient movement of goods but also foster a more transparent and reliable trading environment.

Addressing non-tariff measures

The economic restrictiveness of NTMs is significantly higher than that of current tariffs, averaging 51.4 per cent in Africa for final goods and 40.9 per cent for intermediate goods, significantly higher than the NTMs imposed on imports from outside the continent. Technical measures—such as sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT)—are the most prevalent NTMs in Africa.[25] While these measures aim to safeguard public health, national security, and the environment, they can also impede trade by imposing substantial information, compliance, and procedural costs.

Enhanced cooperation in the areas of TBT and SPS—as envisioned under the AfCFTA protocol on trade in goods and its Annex 6 on SPS and Annex 7 on TBT—will be instrumental in addressing trade barriers stemming from technical measures and consequently promote intra-African trade. For instance, the competitiveness of manufactured goods hinges on compliance with standards and technical regulations, which are crucial for signalling and guaranteeing the quality of produced and traded goods. However, the sheer number and complexity of technical regulations, along with the variation in certification, testing, inspection practices, and standards used by different African countries, continue to hinder intra-African trade.[26]

Harmonized standards will be pivotal for facilitating seamless trade under the AfCFTA. In line with this, Article 6 of Annex 6 on TBT stipulates that State Parties are to develop and promote the adoption and/or adaptation of international standards, promote the adoption of standards developed by the African Organization for Standardization (ARSO) and African Electrotechnical Standardization Commission (AFSEC) and where no relevant standard exists, request these organizations to develop the required standard to enhance trade. However,

low adoption rates of harmonized standards—especially the published African standards[27]—at the country level and this could impact trade flows, particularly between countries in different regional economic communities. This points to the need for close collaboration between the standards development bodies and the private sector, as well as other relevant parties such as the AfCFTA subcommittees on TBT and SPS, in formulating and implementing these standards.

Effective implementation of the African Technical Regulation Framework (ACTReF)—approved at the African Union Specialized Technical Committee on Trade, Tourism, Industry, and Minerals in Malabo in May 2024—will also be vital. ACTReF aims to ensure that technical regulations that are mostly developed, applied, and enforced at the national level do not become obstacles to intra-African trade by promoting regulatory convergence among the State Parties in alignment with the WTO TBT Agreement and AfCFTA Annex 6 on TBT.

Developing robust quality infrastructure (QI) across the continent—aligned with internationally recognized practices in standardization, metrology, technical regulation, conformity assessment, and accreditation—will be essential in enabling firms to participate effectively in trade under the AfCFTA.[28] However, a 2023 assessment by the Pan Africa Quality Infrastructure (PAQI) institutions identified significant gaps in Africa's infrastructure.[29] Of the 54 African countries, 22 were found to have minimal or no quality infrastructure, while 13 had only partially developed systems (figure 4.11). These findings highlight the urgent need for enhanced investment in quality infrastructure to address these gaps and support intra-African trade.

Figure 4.11 State of Africa's quality infrastructure

Category	Score range	Countries
Well developed	3.3 -4.0	Egypt, Ethiopia, Kenya, South Africa, Tanzania, and Tunisia
Reasonably well developed	2.5-3.2	Algeria, Botswana, Cote d'Ivoire, D.R. Congo, Ghana, Malawi, Mauritius, Morocco, Namibia, Nigeria, Senegal, Zambia and Zimbabwe
Partially developed	1.7-2.4	Angola, Benin, Burkina Faso, Eswatini, Madagascar, Mali, Mozambique, Niger, Rwanda, Seychelles, Sudan, Togo and Uganda
Limited	0.9 -1.6	Burundi, Cameroon, Comoros, Congo, Gabon, Gambia, Guinea, Guinea-Bissau, Lesotho, Liberia, Mauritania, Sierra Leone and South Sudan
Non or very little	0 -0.8	Cabo Verde, Central African Republic, Chad, Djibouti, Equatorial Guinea, Eritrea, Libya, Sao Tome and Principe and Somalia

Source: PAQI 2023.

MEGATRENDS FOR AFRICA'S TRANSFORMATION THROUGH THE AFCFTA

The world is rapidly evolving, with technology increasingly vital. Successful implementation of the AfCFTA hinges on the African continent being well-connected, not only through physical and soft infrastructure but also through enhanced digitalization and regulatory harmonization. This includes efficient payment systems, such as PAPSS, and their interoperability, essential for facilitating cross-border trade within the continent and beyond. These issues are interconnected with broader trends such as demographics—specifically youth, urbanization, and fragmentation.

Digitalization

Digitalization has transformed many sectors, particularly international trade, with digital trade accounting for 25 per cent of total trade in 2020.[30] Recognizing this growing importance, the 37th African Union Heads of States Summit, held on February 17–18, 2024, adopted the AfCFTA Protocol on Digital Trade, which provides a political framework to foster sustainable digital growth across the continent. For its successful implementation, it is crucial to identify priority digital infrastructures for substantial investments and identify regulatory discrepancies that require harmonization.

Africa has made significant strides in developing digital infrastructure over the past two decades. Currently, 37.5 per cent of the African population is connected to the Internet, up from just 2 per cent in 2005.[31] But these figures mask a substantial gender and geographic divide. Men are significantly more connected than women, with 43.4 per cent of males using the internet compared with only 31.4 per cent for females.[32] The urban–rural disparity is also pronounced with 57 per cent of urban dwellers having internet access, but only 23 per cent of rural dwellers. There is also a stark contrast between countries like Morocco, where 90 per cent of the population uses the internet, while countries such as Burundi and the Central African Republic have only 11 per cent of the population having internet access.[33]

A large portion of the African population has access to mobile phones, enabling Africa to account for more than two-thirds of the global volume and value of mobile money

Successful implementation of the AfCFTA hinges on the African continent being well-connected, not only through physical and soft infrastructure but also through enhanced digitalization and regulatory harmonization.

transactions in 2023.[34] But the continent still lags behind in essential hard infrastructure, such as data centres and Internet exchange points, which are critical for enhancing connectivity and supporting digital transformation.[35] It also lags behind in e-commerce, where the continent is forecast to surpass half a billion ecommerce users by 2025.[36] Connecting the entire African population to the Internet is projected to require an estimated investment of $100 billion by 2030, with more than two-thirds allocated for digital infrastructure.[37]

While there is no universal definition of digital infrastructure, within the context of AfCFTA, it can be limited to digital infrastructure that significantly reduces trade costs and enhances digital trade. This includes Internet infrastructure, data-related infrastructure, and digital payment solutions, which are crucial for promoting innovation, lowering knowledge and data costs, and reducing information asymmetry and distance barriers.

Internet infrastructure

Internet connectivity in Africa is primarily driven by the rapid expansion of mobile broadband networks, as fixed broadband networks have remained stagnant over the past decade. On average, only 3 per cent of the African population accesses the internet via fixed broadband, compared with 47 per cent through mobile broadband.[38] This disparity can be attributed to the natural monopoly of fixed networks, whereas mobile services can be offered competitively in most countries. The dominance of mobile broadband can also be attributed to the low cost of upgrading existing mobile cellular networks to offer broadband compared with the cost of extending fixed networks.[39]

Disparities at the country level are substantial for mobile broadband; for example, the standard deviation for mobile broadband penetration is 32, compared with

just 6 for fixed broadband. This highlights substantial heterogeneity across the continent, indicating challenges beyond mere connectivity, including issues related to hard internet infrastructure and affordability. In addition, women are disproportionately represented in the use of internet in Africa. Addressing this digital gender divide is crucial for including women in the digital space, thereby fostering inclusive economic growth and women empowerment.

The operational terrestrial fibre network in Africa has nearly tripled, growing from 412,729 kilometres in 2012 to 1.184 million kilometres by June 2022.[40] But it is concentrated in specific countries and regions, often due to geographic size, as larger countries may have limited national backbones.[41] Fibre networks are primarily in major urban areas and along high-traffic routes, reflecting both demand and the costs of providing broadband services. Extending fibre networks to rural and underserved areas is crucial for enhancing digital trade among African countries, but in the short term, innovative and low-cost solutions, such as solar-powered wireless community networks, should be explored, following the successful example of the Mankosi rural community.[42]

On affordability, most African countries face entry-level broadband service with prices exceeding 2 per cent of their monthly gross national income per capita.[43] According to the International Telecommunication Union (ITU) Statistics on ICT Price Baskets (IPB), only thirteen countries have a mobile broadband basket price below this threshold, and only Libya offers fixed broadband at less than 2 per cent of its monthly GNI per capita.[44] To reduce these high broadband prices, fostering competition through the AfCFTA protocol on competition is essential. This can be achieved by promoting fair and nondiscriminatory access to vital facilities, such as local loops or submarine cables, and facilitating the entry of new market operators to avoid any structural market monopoly. AfCFTA's investment protocol offers a pragmatic pathway: simplify business entry through the digitalization of administrative procedures, thereby lowering barriers for new investors and accelerating market dynamism. In addition, AfCFTA State Parties that have yet to submit their Category C list of tariff schedules under the Protocol on Trade in Goods need to ensure that products related to internet infrastructure are not part of their excluded list of tariff offers.[45]

The demand for data centres in Africa is expected to grow exponentially, driven by rapid digitalization due to increased internet connectivity and a burgeoning dynamic and tech-savvy youth population.

Data-related infrastructure

The rise in digital trade has led to an increase in data generation and the need for extensive computing resources. To manage this efficiently, businesses, especially those with multiple locations, rely on data centres to centralize their equipment. This centralization results in cost-effective management and ensures fast, secure data access. The proximity of a business to a data centre enhances service performance by reducing latency and international bandwidth costs, making the strategic placement of data centres crucial for managing cross-border data flows.

To centralize computing resources, reduce operational costs, and improve service delivery, 135 national data centres have been developed by 27 African countries.[46] These centres provide essential services such as cloud computing, data storage, disaster recovery, and security. The services enable the secure and efficient management of large data volumes, ensuring data integrity, confidentiality, and availability. But data centre infrastructure varies: while some countries boast advanced facilities (South Africa, Nigeria, Kenya), others are still building their data centre capabilities (Madagascar).

The demand for data centres in Africa is expected to grow exponentially, driven by rapid digitalization due to increased internet connectivity and a burgeoning dynamic and tech-savvy youth population. Africa has greater scope for increased digitalization than other markets, which are becoming more mature. However, the hefty financial resources (coupled with a lack of expertise) required to set up data centres could hinder their expansion in the region.[47]

To fully leverage the opportunities of digital trade, it is essential to not only have robust Internet access and

digital infrastructure, but also supportive government regulations for ICT, digital goods and services, and e-commerce. Excessive regulatory compliance costs can hinder digital trade, so identifying policy areas where digital trade regulations can be simplified and harmonized across the continent will enhance intra-African trade.

Digital trade integration

ECA, in collaboration with ESCAP and ECLAC, has launched the Regional Digital Trade Integration Index (RDTII), which evaluates how regulatory frameworks in Africa, Latin America and the Caribbean, and the Asia-Pacific impact digital trade integration. The Africa RDTII global score assesses the continental regulatory landscape, while individual country scores examine national impediments to digital trade integration. The index is structured around 12 critical policy pillars, each supported by a comprehensive set of indicators that reflect practical challenges faced by digital trade operators (with a total of 65 measures across the 12 pillars). Pillars' scores can be aggregated into a single RDTII global score through a simple average.[48] The closer the index value approaches one, the more restrictive the regulatory environment becomes for a country or region, leading to higher compliance costs for conducting digital trade-related activities. In addition to the score, the index structure allows considering the number of regulatory measures which are supposed to be restrictive for digital trade for each country. This metric, in practical terms, reflects the count of measures (from the 65 assessed in the RDTII) that score above zero. The rationale behind is that both the intensive margin of regulatory barriers (RDTII score) and their extensive margin (number of restrictive measures) may impact and potentially restrict digital trade outcomes.

On average, Africa's score is relatively low at 0.34, but this figure conceals significant variations between countries. At the higher end of the regulatory burden, Egypt, Libya, and Tunisia emerge as the African countries with both the highest compliance costs and number of restrictive measures. Lesotho, Mali, and Seychelles have the lowest compliance costs, and Ghana, Madagascar, and Seychelles implement the fewest restrictive measures.

Drawing on both African countries' individual RDTII scores and the number of regulatory assumed to be restrictive for digital trade, ECA conducted an econometric analysis to assess the link between digital trade regulations and intra-African trade in ICT goods and digitally enabled services.[49] The intensity of regulatory restrictiveness is far more influential than the number of restrictive measures in determining digital trade outcomes. This suggests that reducing the severity of restrictive policies, rather than just decreasing their number, could have a more significant impact on ICT trade and digital services within Africa. African countries should focus on eight key policy areas to address regulatory barriers and stimulate intra-African digital trade (table 4.1).

Table 4.1 Key policy areas of focus to address regulatory barriers to digital trade

High efficacy (pillars displaying a negative and significant relationship between either the intensity level of restrictiveness of regulations or the number of restrictive regulatory measures and intra-African digital trade)	Medium efficacy (pillars displaying a negative and significant relationship between only the intensity level of restrictiveness of regulations and intra-African digital trade)	Medium–low efficacy (pillars displaying a negative and significant relationship between only the number of restrictive regulatory measures and intra-African digital trade)
Pillar 2: Public procurement of ICT goods, products and online services Pillar 7: Domestic data protection and privacy Pillar 11: Technical standards applied to ICT goods, products and online services (standards and procedures)	Pillar 4: Intellectual Property Rights (IPRs) Pillar 12: Online sales and transactions	Pillar 5: Telecom regulation and competition Pillar 6: Cross-border data policies Pillar 10: Quantitative trade restrictions for ICT goods, products and online services (non-technical NTMs)

Source: ECA forthcoming c.

Harmonizing digital trade regulations in the area of cross-border data policies across the continent could significantly enhance intra-African digital trade. To achieve this, countries should consider relaxing data transfer bans and local processing requirements, while implementing robust data protection frameworks. Ideally, these efforts should centre on a unified continental framework, using the African Union Convention on Cyber Security and Personal Data Protection, the Malabo Convention, as a starting point.[50] Signing, ratifying, and enforcing key international conventions—such as the UN Convention on Electronic Communications and the Model Laws on Electronic Commerce and Electronic Signatures from the United Nations Commission on International Trade Law (UNCITRAL)—will further facilitate online sales, critical for enhancing intra-African digital trade.

Digital services trade

While restrictions on digital services trade in Africa are generally moderate, they remain higher than in other regions.[51] The Digital Services Trade Restrictiveness Index (DSTRI), developed by OECD and based on data collected by ECA, evaluates five policies relevant to digital services trade, Africa's average score is 0.29, indicating the presence of some regulatory restrictions on digital services trade. Scores range from 0.02 in Benin to 0.65 in Somalia and Tanzania. The most restricted policy area is infrastructure and connectivity, particularly concerning cross-border data flows, where data transfer is often restricted or even prohibited (figure 4.12). Limited data protection deters consumers from using digital services, and there are restrictions on communication, such as limited internet access and blocked social media. Other barriers to digitally enabled services and electronic transactions account for 19 per cent and 16 per cent of the total regulatory restrictions, respectively. They include requirements for local or commercial presence to offer cross-border services, limitations on online content, downloading, and streaming, and the inability of nonresident foreign service providers to register or declare business taxes online.

Regulations governing payment systems and intellectual property tend to impose relatively fewer restrictions on digital trade in services. But their impact on digital trade should not be underestimated. For example, instant payment systems lower transaction costs, essential for facilitating the cross-border exchange of digital goods and services (box 4.4). They are also essential for secure and well-performing online sales and transactions, identified as a top priority for enhancing intra-African digital trade (see table 4.1). Indeed, successful AfCFTA implementation requires a payment system that enables seamless cross-border transactions across all African countries. Given the diversity of currencies, banking systems, and financial infrastructures, a continental centralized market can mitigate risks and foster financial integration.

To fully leverage the opportunities of digital trade, it is essential to not only have robust Internet access and digital infrastructure, but also supportive government regulations for ICT, digital goods and services, and e-commerce.

Figure 4.12 Main regulatory restrictions to digital services trade in Africa in 2023

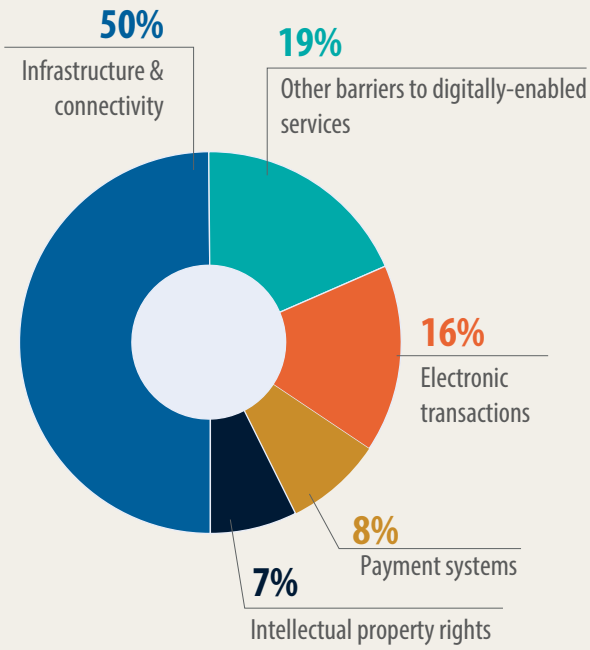


Figure 4.13 Linear relationship between urban

Box 4.4 Instant payment systems for the digital economy

As Africa embraces technological advancements and shifting regulations, the rise of inclusive instant payment systems is transforming the landscape of financial transactions. By facilitating real-time and affordable transactions, inclusive instant payment systems enable individuals and businesses, particularly those in underserved communities, to engage in the digital economy. This availability and accessibility foster entrepreneurial activities, support trade, and catalyse the flow of capital, ultimately driving economic growth. Inclusive instant payment systems also strengthen financial resilience by providing people with the tools to save, invest, and manage their finances more effectively. As part of a broader digital infrastructure, they promote equitable economic participation and unlock the full potential of Africa's diverse markets.

The AfricaNenda Foundation, in partnership with ECA and the World Bank Group, published the State of Inclusive Instant Payment Systems (SIIPS) in Africa 2024 Report, a flagship annual publication to inform public and private players in Africa and beyond about the payments ecosystem in Africa. The report highlights that, in 2023, the landscape in Africa included 28 domestic instant payment systems (IPS) and 3 regional IPS, bringing the total number live and operating to 31 (box table 4.4.1).

As of June 2024, there are three operational regional-level IPS. The first is GIMACPAY, which operates among the CEMAC countries: Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea, and Gabon. The second is Transactions Cleared on an Immediate Basis (TCIB), facilitating transactions among SADC countries, including Angola, Botswana, Comoros, Democratic Republic of Congo, Eswatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Tanzania, Zambia, and Zimbabwe. Lastly, the Pan-African Payment and

Box table 4.4.1 Active domestic instant payment systems in Africa

Country	IPS	IPS type
Angola	Kwanza Instantâneo (KWiK)	Cross-domain IPS
Egypt	Instant Payment Network (IPN)	Cross-domain IPS
	Meeza Digital	Mobile money IPS
Ethiopia	EthSwitch	Cross-domain IPS
Gambia	Gamswitch	Bank IPS
Ghana	Scheme interoperability GhIPSS Instant Pay (GIP)	Bank IPS
	Ghana Mobile Money Interoperability (Ghana MMI)	Mobile money IPS
Kenya	PesaLink	Bank IPS
	Kenya Mobile Money	Mobile money IPS
Lesotho	LeSwitch	Mobile money IPS
Madagascar	Madagascar Mobile Money	Mobile money IPS
Malawi	NatSwitch	Cross-domain IPS
Mauritius	Mauritius Central Automated Switch (MauCAS)	Cross-domain IPS
Morocco	MarocPay	Cross-domain IPS
	Virement Instantané	Bank IPS
Morocco	MarocPay	Cross-domain IPS
	Virement Instantané	Bank IPS
Mozambique	Sociedade Interbancaria de Moçambique (SIMO)	Cross-domain IPS
Nigeria	NIBSS Instant Payment (NIP)	Cross-domain IPS
	Nigeria mobile money	Mobile money IPS
	eNaira	Sovereign currency IPS
Rwanda	eKash	Cross-domain IPS
South Africa	Real-Time Clearing (RTC)	Bank IPS
	PayChap	Bank IPS
Tanzania	Tanzania Instant Payment System (TIPS)	Cross-domain IPS
	Taifa Moja	Mobile money IPS
Tunisia	Tunisia mobile money	Mobile money IPS
Uganda	Uganda mobile money	Mobile money IPS
Zambia	National Financial Switch (NFS)	Cross-domain IPS
Zimbabwe	ZIMSWITCH Instant Payment Interchange Technology (ZIPIT)	Cross-domain IPS

Source: Authors based on the State of Inclusive Instant Payment Systems in Africa 2024 Report.

Box 4.4 (cont.)

Settlement System (PAPSS) functions among the West African Monetary Zone pilot countries: Gambia, Ghana, Guinea, Liberia, Nigeria, and Sierra Leone.

Seven countries (Egypt, Ghana, Kenya, Morocco, Nigeria, South Africa, and Tanzania) have multiple live IPS, with Ghana the only one with interoperable domestic systems. However, there is notable progress towards inter-scheme interoperability in several countries like Kenya, where plans are under way to integrate its bank and mobile money systems more seamlessly. Regulators in Egypt, Kenya, Tanzania, and Uganda have all supported the call for interoperability through amended regulations. The balance in the African IPS landscape has shifted since 2010 from bank-based systems to mobile money systems to cross-domain systems, which allow all-to-all interoperability between diverse bank and nonbank financial service providers, instruments, and channels. The market is set to expand, with new IPS in development: 31 countries are developing a new IPS.

In 2023, IPS processed 49 billion transactions, the highest annual volume yet, 47 per cent more than in 2022. Such growth reflects more entrenched IPS use in many countries. The total annual IPS value has reached over US $1 trillion. Between 2020 and 2023, IPS transaction values increased by 273 per cent. The growing number of inclusive instant payment systems is promising for the African digital economy, as they form an essential part of digital public infrastructure that could transform societies, by driving economic participation and growth as well as reduce inequalities.

Source: The State of Inclusive Instant Payment Systems in Africa 2024 Report.

Urbanization and demographic dynamics

Urbanization is an "irreversible trend that must be harnessed for the structural transformation of Africa where the bulk of output, wealth and prosperity are produced and most people are living."[52] During the first African Urban Forum, held in Addis Ababa on September 4–6, 2024, the role of urbanization was seen as a transformative force to implement the New Urban Agenda as revised by the United Nations General Assembly in 2022 and to achieve the African Agenda 2063 vision.[53] At the Forum, member states and participants, among others, highlighted the nexus between African city-regions and the AfCFTA, emphasizing the relevance of cross-border investment strategies, cooperation, and partnerships between cities and regions in Africa.

The Forum recalled the centrality of cities for Africa's economic development, having contributed about 29 per cent of the continent's average annual per capita GDP growth from 2001 to 2020.[54] The co-location of population and economic activities in cities generates external scale economies, making people and companies more productive. Productivity increases based on knowledge spillovers among workers, fostering learning and innovation. Forward and backward linkages among companies, suppliers, and buyers make interactions

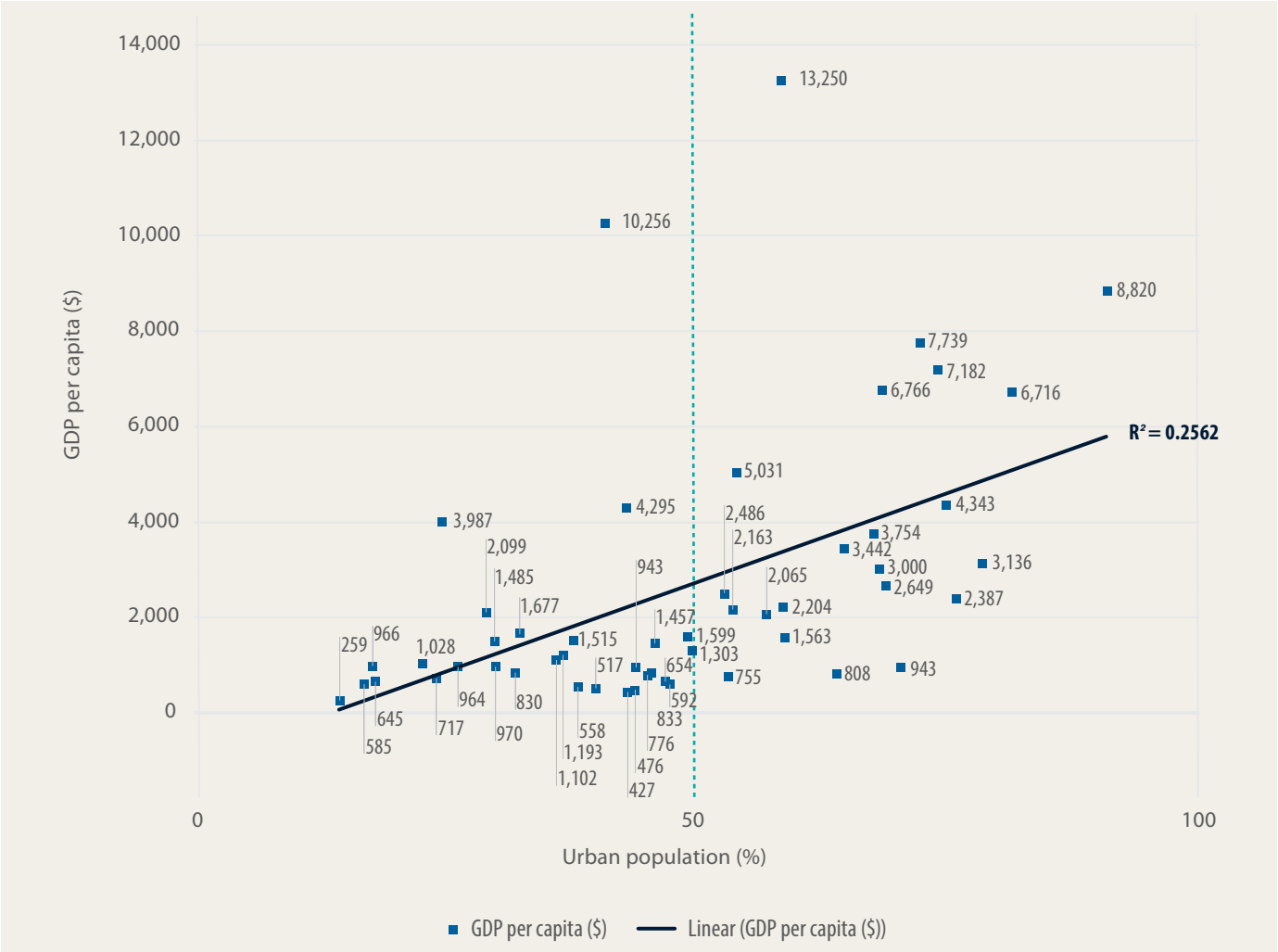
Urbanization is an "irreversible trend that must be harnessed for the structural transformation of Africa where the bulk of output, wealth and prosperity are produced and most people are living."

among economic actors more efficient. And a pooled labour market allows for an easier matching between firms and employees.

Indeed, countries most urbanized reported better economic performance in 2022, especially in 22 of 54 countries where more than half the population lives in cities (figure 4.13).

Against this backdrop, urbanization can unlock the full potential of the AfCFTA by providing a growing consumer market. Industrial and commercial hubs in urban areas can amplify the impact of the AfCFTA, attracting more investments in manufacturing and processing. As cities like Lagos and Johannesburg become crucial trade and production centres, they will help develop regional value chains and enable the processing and export of goods. In

population and GDP per capita, 2022



Source: ECA calculations based on World Bank Open Data (accessed 2 October 2024).

parallel, the AfCFTA will benefit from new urban centres. Cities located near key transport routes or with access to natural resources can become crucial industrial hubs or regional commercial centres, attracting investments and businesses. Cities like Kigali and Lusaka could accelerate the speed of industrialization by providing human and physical capital.

On one side, cities are the fertile soil for attracting skilled and unskilled workers, creating a dynamic labour market that increase productivity and spurs innovation, such as digital platforms and startups as emerged from OECD (2021), which pointed out that five African cities host almost half of the most dynamic start-ups - Cape Town, Lagos, Johannesburg, Nairobi and Cairo. On the other side, cities can play a key role in encouraging the implementation of public-private partnerships (PPPs) to finance the developments of transport, housing, water and sanitation and other urban infrastructures,

With 6 out of 10 Africans living in cities by 2050, urbanization can amplify the transformative impact of the AfCFTA.

modernizing existing infrastructure and providing the physical capital needed.

With 6 out of 10 Africans living in cities by 2050, urbanization can amplify the transformative impact of the AfCFTA.[55] This consideration is particularly relevant in light of Africa's ongoing demographic transition. The continent is experiencing a rapid population surge, driven by declining death rates due to improved healthcare and living conditions, while birth rates remain high. This second stage of demographic transition is reshaping Africa's population structure, with the United Nations projecting growth from 1.5 billion in 2023 to 2.5 billion

by 2050.[56] This population growth, set to account for more than half of the global increase during this period, underscores the importance of unlocking the potential of the nexus between urbanization and regional integration. This approach is essential for fostering sustainable and inclusive development across the continent, as emphasized in the final declaration of the first African Urban Forum.

AFCFTA IMPLEMENTATION IN THE CONTEXT OF WIDER DEVELOPMENT CHALLENGES

To unlock the AfCFTA's transformative potential, strategic actions must be identified to position it as a catalyst for broader development goals, in line with the 2030 Agenda for Sustainable Development and AU's Agenda 2063. Addressing critical issues such as food insecurity, health concerns, energy transition, peace and security is essential to fully realize the benefits.

Enhancing agricultural productivity and food security

Developing countries continue to grapple with multiple food security challenges, a situation worsened by the Covid–19 pandemic. Africa has 21 per cent of its population experiencing hunger, the highest in the world. In 2020, there were 768 million undernourished people globally, 282 million of them in Africa. Moreover, a significant decline in food security across Africa is anticipated by 2030. So, enhancing food security is likely to become a top priority on the development policy agenda for the coming decades.[57] Indeed, intra-African food demand is projected to increase by 178 per cent by 2050. Africa's net food import bill, currently more than $40 billion a year, and projected to reach $400 billion by 2030.[58] African agriculture thus needs to undergo a structural transformation to meet rising food demands. The AfCFTA can contribute to the welfare of the African people by promoting agricultural productivity and food security.

The AfCFTA could help to facilitate intra-regional trade in agrifood products, including from surplus to deficit areas, thus stabilizing food prices and improving food security. By increasing forward and backward participation, the AfCFTA will facilitate the increased involvement of the food and agricultural sectors in

A significant decline in food security across Africa is anticipated by 2030. So, enhancing food security is likely to become a top priority on the development policy agenda for the coming decades.

complex GVCs, which trade in intermediates that cross at least two borders. It also provides an opportunity to promote agricultural transformation and increase competitiveness by developing regional agricultural value chains. Complementary policies on sanitary and phyto-sanitary (SPS) measures and technical barriers to trade (TBT) as well as compliance with international standard-setting bodies, such as the Codex Alimentarius Commission, must be strengthened and harmonized across the continent. FAO estimates that domestic food prices in Africa without North Africa are 13 per cent higher on average due to SPS measures.[59] SPS standardization, synchronization and comparability across borders through the implementation of AfCFTA can lower these costs, lower compliance costs, increase food trade, and improve consumer welfare, mainly by eliminating tariffs.

AfCFTA can directly reduce food costs and foster the growth of African food value chains by removing tariffs, value-added taxes (VAT), excise duties, and other trade barriers on food, fertilizers, agrochemicals, and critical agricultural inputs (box 4.5). It is estimated that intra-Africa agricultural exports will increase by 49 per cent by 2035, to $191 billion. Regional productivity and output will be enhanced by the AfCFTA, which will also promote resource reallocation across countries and sectors.[60] Production in Africa will surpass the baseline without the AfCFTA by nearly $212 billion by 2035.

Increased liberalization of trade is anticipated in high-barrier African countries, including Cameroon, Democratic Republic of Congo, Egypt, Ethiopia, Madagascar, and Nigeria. The tariffs on agricultural products within Africa (trade-weighted) would fall by 5 per cent–2 per cent. While eliminating duties could lead to a reduction in tariff revenues, implementing adjustment mechanisms specifically designed to address these losses can help mitigate the impact on government budgets (chapter 3).

Improving access to healthcare

Africa's dependence on imported medicines and vaccines underscores the need for local pharmaceutical production. The continent imports about 70 per cent–90 per cent of its pharmaceutical products, totalling $14.5 billion,[61] and African manufacturers produce only 1 per cent of Africa's vaccine demand. Developing the pharmaceutical sector is crucial for economic growth and enhancing health security. With a rapidly growing population and bearing almost a quarter (24 per cent) of the world's disease burden,[62] Africa faces the double challenge of combating both communicable and non-communicable diseases. Industrializing through pharmaceutical value chains presents a unique opportunity to address these challenges while creating jobs and fostering health security. Business opportunities in Africa's healthcare and wellness sector are estimated to be worth $259 billion by 2030, potentially creating 16 million jobs.[63]

The liberalization associated with the AfCFTA Protocol on Trade in Services also presents opportunities for the health sector. Among the five priority sectors identified under trade in services, financial services—including insurance—play a crucial role. Only 25 per cent of the African population is covered by a social health protection scheme.[64] Out-of-pocket payments (OOPs) remain the primary funding source for health expenditures,[65] averaging 35.8 per cent of total health spending across the continent from 2012 to 2020.[66] Private domestic health expenditure, excluding OOPs, has fluctuated between 7 per cent and 10 per cent of current health expenditure during the same period. This highlights a critical opportunity for countries to engage the private sector in health financing through the provision of private health insurance.

To unlock this potential, strategic investments in research and development, infrastructure, and harmonized regulatory frameworks are essential. The AfCFTA can play a pivotal role by reducing tariffs and non-tariff barriers on healthcare products, thereby improving access to affordable medicines, medical equipment, and health services. Additionally, it can foster regional cooperation in public health and disease surveillance.

Enhancing renewable energy development

The AfCFTA can support the development of renewable energy resources in Africa by facilitating cross-border trade in energy products, technologies, and services. And by promoting investments in renewable energy, facilitating cross-border energy trade, and supporting energy-efficiency, it can help accelerate the continent's transition to green energy. It is also noteworthy that the AfCFTA implementation over time increases demand for electricity across sectors, leading to 4.4 TWh of electricity demand in 2025, 23 TWh by 2030, and further increasing to 118 TWh by 2040. Most of the additional demand will be met by renewable energy generation, reaching 84 per cent by 2040.[67]

With a rapidly growing population and bearing almost a quarter (24 per cent) of the world's disease burden, Africa faces the double challenge of combating both communicable and non-communicable diseases.

Most African countries face significant resource gaps for a green energy transition, making regional collaboration under frameworks like AfCFTA essential. Weaknesses in the global financial architecture—including high borrowing costs, capital flight, and limited African representation—hinder access to climate financing and amplify investor concerns. High perceived risks in renewable energy, such as exploration and start-up risks, limit private capital and stall efforts to close Africa's energy gap and achieve decarbonization goals.

To attract investment, effective de-risking is essential leading to broader regulatory reforms that enhance electricity market openness, attractiveness and readiness to investment. In this context, instruments such as partial credit guarantees, power purchase agreements, standardized contracts, competitive bidding (e.g. auctions) are increasingly cost-reflective and tariffs are crucial. These tools, along with strategic public-private resource blending tailored to specific contexts, can create a more stable investment environment and address financing gaps. The AfCFTA Protocol on Investment further strengthens the investment landscape by establishing uniform standards across Africa, introducing mechanisms like one-stop shops and a Pan-African trade agency to enhance coherence.

Box 4.5 Unlocking Africa's agricultural potential: AfCFTA and the fertilizer industry

Africa possesses immense agricultural potential, with more than 60 per cent of the world's uncultivated arable land and diverse climates suitable for a wide range of crops. Despite these natural advantages, the continent faces a severe food security crisis, with more than 282 million people undernourished. The combination of climate change, external supply chain disruptions, and high dependence on imported fertilizers has further worsened the situation. Addressing Africa's food insecurity requires targeted interventions to boost fertilizer production, enhance access, and promote intra-African trade.

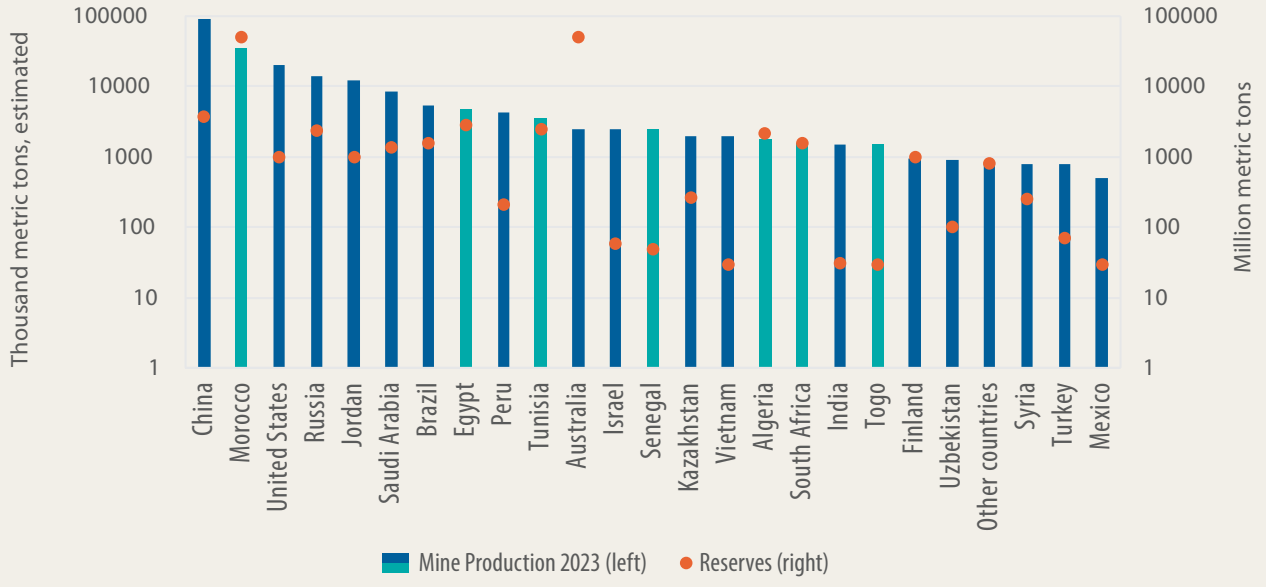
Africa remains heavily reliant on imported fertilizers, with a significant share coming from Russia and Belarus. Global shocks, including the COVID-19 pandemic and the Russia-Ukraine war, have led to a spike in fertilizer prices, reducing access for smallholder farmers and leading to lower crop yields and exacerbating food insecurity. Strengthening Africa's domestic fertilizer production and ensuring efficient distribution within the continent can mitigate these risks and enhance agricultural resilience.

North Africa—particularly Algeria, Egypt, Morocco, and Tunisia—holds vast phosphate reserves and has established fertilizer production capabilities, which can be leveraged and reduce Africa's reliance on external suppliers and strengthen regional value chains (box figure 4.5.1). Policy measures such as "smart subsidies" in the form of input vouchers could help smallholder farmers afford fertilizers while stimulating private sector involvement. Investments in transport infrastructure, trade facilitation, and financing mechanisms such as the Africa Fertilizer Financing Mechanism (AFFM) can further enhance fertilizer access across the continent. Equally important is the harmonization of quality, safety, and sustainability standards across the continent, which can otherwise serve as non-tariff barriers to intra-African trade in fertilizers and incentivize their exports outside of Africa.

The AfCFTA presents a significant opportunity to unlock intra-African fertilizer trade, reducing costs and supply chain vulnerabilities. By eliminating trade barriers, both at and behind the border, as well as fostering regional cooperation, the AfCFTA can facilitate fertilizer movement from production hubs in North Africa to high-demand agricultural regions in the rest of Africa. Expanding regional fertilizer supply chains through the AfCFTA will not only improve food security but also contribute to Africa's broader economic transformation by strengthening agricultural productivity and reducing reliance on volatile global markets.

Source: ECA 2024b; ECA 2025.

Box figure 4.5.1 Top world producers of phosphates, 2023



Source: United States Geological Survey 2022.

Note: African producers are highlighted.

Regional collaboration under the AfCFTA can help African countries build core competencies in energy transition technologies by leveraging each country's comparative advantage. For example, developing one gigawatt of solar capacity requires a substantial investment of approximately $900 million, which is a challenge due to limited national capital in many African countries. The solar PV production process is also highly energy-intensive, particularly in the chemical stages, making it less feasible in countries with high electricity costs. By creating a regional solar PV value chain aligned with AfCFTA rules of origin and product specifications, countries can better distribute these costs and capitalize on their specific strengths. For instance, countries with electricity costs below 5 cents per kWh, such as Algeria, Angola, Ethiopia, Sudan, and Zambia, are well-positioned to handle the energy-intensive segments of the value chain, like the production of aluminium frames for PV panels. And countries like Ghana, Guinea, and Mozambique, which have abundant bauxite resources (the raw material for alumina used in PV panels), can focus on supplying these resources to regions with lower electricity costs for further processing (box 4.6).[68]

Regional collaboration under the AfCFTA can help African countries build core competencies in energy transition technologies by leveraging each country's comparative advantage.

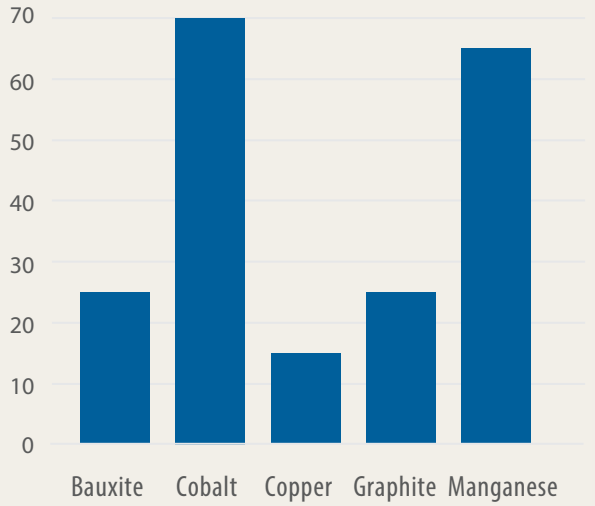
Box 4.6 Fostering mineral value addition through regional trade

Africa's abundant mineral resources, comprising about one-third of global reserves, hold immense potential for driving economic transformation through natural resource-based industrialization.[69] But translating this potential into revenue-generating and job-creating industries that add value remains a challenge. Regional trade is crucial in unlocking this potential by fostering the development and deepening of value chains within Africa's mineral sector.

The surging global demand for critical energy transition minerals (CETMs) presents an opportunity for Africa to accelerate value addition in its mineral sector, provided it is coupled with supportive industrial policies and regional collaboration. As the world strives to achieve climate goals and transition away from fossil fuels, the production of electric vehicles, wind turbines, solar panels, electrolysers, and other green technologies is rapidly increasing. These technologies are heavily reliant on CETMs, many of which are found in significant reserves within Africa (box figure 4.6.1).

The global energy transition is fuelling a surge in demand for critical minerals, with the market value of a basket of six key minerals—copper, lithium, nickel, cobalt, graphite and rare earth elements—projected to double to $770 billion by 2040 (box figure 4.6.2).[70] Increased global attention on these minerals provides Africa with a more significant bargaining position than past mining booms, and if new development partners are engaged through a unified regional voice, better deals for local value-addition, technology transfer and other priorities can be reached.

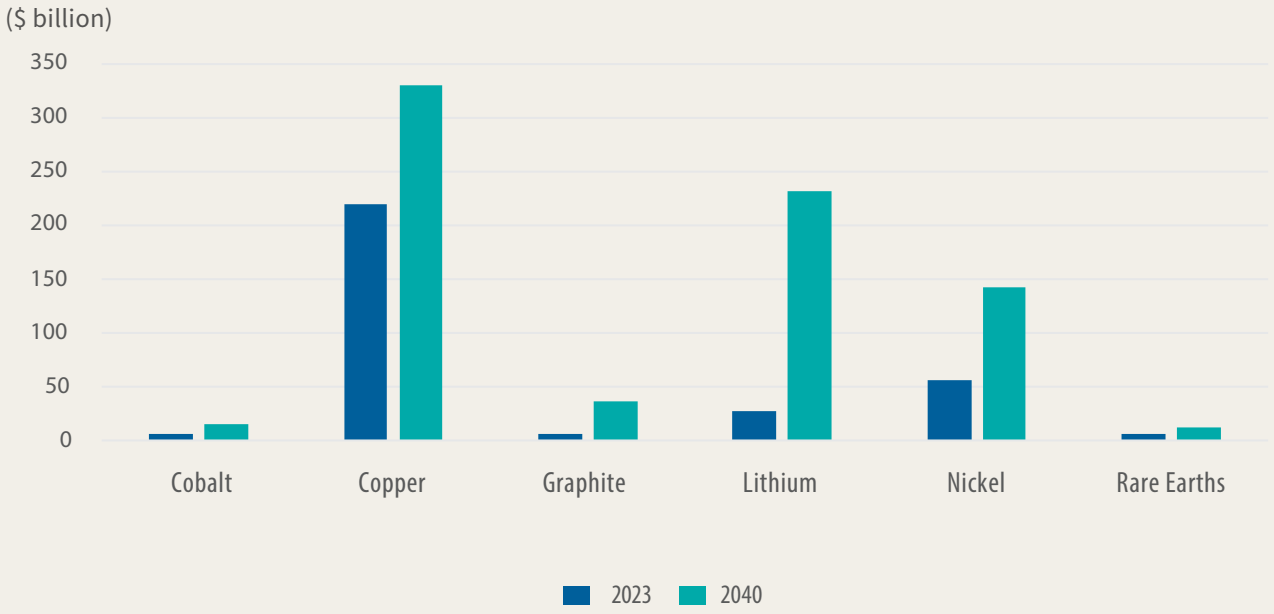
Box figure 4.6.1 Africa's current shares of select critical mineral production (per cent)



Source: ECA calculations based on USGS Mineral Commodity Summaries (2023).

Box 4.6 (cont.)

Box figure 4.6.2 Increase in market value of select critical minerals from 2023 to 2040 (net zero scenario)



Source: IEA 2024.

Policymakers are thus identifying areas in critical mineral value chains to target investment and unlock new opportunities. One such opportunity for Africa lies in the battery and electric vehicle value chain, where the region's resources can be harnessed to manufacture lithium-ion battery precursors, battery cells, and ultimately end-use products such as electric vehicles. It has been estimated that adding value would move the region up from the $11 step of this value chain involving mining alone, to the $271 billion precursor production, and ultimately to the $7 trillion electric vehicle manufacturing in 2030, expanding to $46 trillion by 2050.[71] The data support the attractiveness of this opportunity to investors—as noted by Bloomberg NEF, battery precursor production in the Democratic Republic of Congo—the supplier of 70 per cent of the world's cobalt, among other key minerals—would be both less expensive and 'greener' than production in China, Poland, or the United States.

Such an ambitious agenda will rely on regional integration and trade. Democratic Republic of the Congo and Zambia have signed an MoU to promote cross-border collaboration on this battery venture, with a joint special economic zone and centre of excellence. The sourcing of raw materials, technical inputs, and expertise should come throughout the countries' memberships in regional blocs such as SADC and EAC, and harness new and competing interest in the region such as through the US and EU-supported Lobito corridor originating in Angola, and the China-supported Tazara railway originating in Tanzania.

Regional integration can also promote mineral-based industries through the pooling of markets, making opportunities in the region more attractive for investors. A study of upstream value addition in gold mining in West Africa noted that 21 key mining input products could be produced locally with the right support to local suppliers. Importantly, when expanding the market from Ghana to a set of three gold mining countries across ECOWAS, the market for these goods more than doubled from $1.21 billion in Ghana alone to $2.66 billion subregionally.[72]

Integration and regional trade are therefore central to a developmental use of the mineral's resources to build value chains and drive industrialization. To promote these cross-border mineral-based industrialization initiatives, it is vital for the Africa Mining Vision and its key tenets to be onboarded into the implementation of the AfCFTA, as well as the forthcoming Africa Green Minerals Strategy.

Fostering peace and stability through economic cooperation

Conflicts have been the main challenge in Africa for the better part of the last several decades. Although the magnitude of conflicts has diminished in recent years, the region continues to be susceptible to conflicts, with approximately 30 per cent of the countries affected in 2019. And since the mid–2000, there has been a renewal of armed conflicts in Africa.

Conflicts not only result in immense human suffering but also impose substantial economic costs.[73] The AfCFTA is expected to bring both challenges and opportunities to shape governance, peace, and security. As economic integration deepens, the cost of conflict rises, making peace a more attractive option. The AfCFTA and the African Union Peace Fund can reinforce each other, highlighting the links between economic development and peace and security, a relationship that extends beyond Africa's borders. As the continent becomes more economically stable and peaceful, it can forge stronger partnerships globally. A prosperous Africa can contribute more effectively to global peace and security efforts, while a peaceful environment attracts foreign investment, further boosting economic growth.[74]

Reducing poverty and inequality

Africa is grappling with multiple interconnected challenges, including widespread poverty, inequality, underemployment, and a lack of economic diversification. As noted in chapter 1, the proportion of people living below the international poverty line of $2.15 per day reached 32.6 per cent in 2024, falling significantly short of the African Union's Agenda 2063 target of 2 3 per cent for 2023. Africa's underemployed population stands at 31.1 per cent, starkly higher than the global average of 6.4 per cent.[75] Further, regional disparities—particularly between landlocked and small island countries, as well as between rural and urban areas—intensify inequality and contribute to concentrated poverty. These issues not only hinder economic growth but also fuel social unrest and instability.

Labour mobility and skill portability are crucial for increasing employment opportunities in Africa, especially under the AfCFTA. By allowing workers to move freely and apply their skills where they are most needed, countries can effectively address labour shortages and enhance productivity, particularly in sectors with specific skill demands.[76]

The AfCFTA is expected to bring both challenges and opportunities to shape governance, peace, and security. As economic integration deepens, the cost of conflict rises, making peace a more attractive option.

The AfCFTA can facilitate legal migration pathways, reducing irregular migration by integrating labour markets and creating jobs that align with local needs. To support this integration, it is essential to establish frameworks for recognizing qualifications across borders and to develop strong institutional governance for migration. This includes implementing clear legal protections for migrant workers' rights and ensuring their mobility is facilitated.

A collaborative approach involving various government agencies—such as labour, immigration, education, and trade—is vital for managing labour mobility and the free movement of people within countries. Regional cooperation is also necessary for effective continental governance of migration.[77]

As indicated in the previous chapters, Africa is facing challenges related to its heavy reliance on raw materials and the limited diversification of its economy. Diversification into sectors like manufacturing, services, and technology is thus critical for reducing vulnerability and fostering sustainable development. Many African countries depend primarily on the export of raw materials, such as minerals, oil, and agricultural products, which leaves their economies vulnerable to fluctuations in global commodity prices. African countries have relatively high product concentration levels, despite a drop in export product concentration index from 0.240 in 2022 to 0.227 in 2023.[78] This dependency restricts their ability to achieve sustainable, long-term growth—it hampers job creation, innovation, and industrial development, making it difficult for countries to build more resilient and inclusive economies.

Proposed transformative strategic actions

- African countries should advance the implementation of complementary frameworks alongside the AfCFTA, such as the Action Plan for Boosting Intra-African Trade (BIAT), to fully capitalize on the benefits of the AfCFTA. While all seven BIAT clusters are interconnected and mutually reinforcing, focusing on trade facilitation, trade finance, and trade information clusters can deliver significant advantages. This approach will not only benefit small and medium enterprises (SMEs) but also empower marginalized groups, including women, youth, and rural communities, who actively engage in cross-border trade.
- African countries must continue investing in infrastructure development, ensuring that these investments align with broader economic and trade objectives, while focusing on critical regional connections and addressing existing gaps.
- African countries need to harmonize trade policies, streamline customs procedures, and establish effective regulatory frameworks, as these elements are essential for creating a well-functioning trade environment under the AfCFTA.
- African countries should persist in investing in digital connectivity and internet infrastructure to promote digital inclusivity and fully leverage the benefits of the digital economy.
- African countries must capitalize on the opportunities presented by the AfCFTA to address broader development challenges. These include enhancing agricultural productivity to improve food security, leveraging opportunities in the health sector to boost health security, promoting renewable energy development to close the energy gap, encouraging mineral value addition through regional trade, and fostering peace and stability through economic cooperation. The AfCFTA can serve as a catalyst for these opportunities, thereby reducing poverty and inequality and advancing the achievement of the Sustainable Development Goals of Agenda 2030 and the aspirations of Agenda 2063.

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ENDNOTES

1 ECA (forthcoming a).

2 Afreximbank 2017; UNCTAD 2016.

3 ECA (forthcoming a).

4 "Article 5 Principles—The AfCFTA shall be governed by the following principles: (b) RECs' Free Trade Areas (FTAs) as building blocs for the AfCFTA"

5 "Article 19 Conflict and Inconsistency with Regional Agreements: (1) In the event of any conflict and inconsistency between this Agreement and any regional agreement, this Agreement shall prevail to the extent of the specific inconsistency, except as otherwise provided in this Agreement. (2) Notwithstanding the provisions of Paragraph 1 of this Article, State Parties that are members of other regional economic communities, regional trading arrangements and custom unions, which have attained among themselves higher levels of regional integration than under this Agreement, shall maintain such higher levels among themselves."

6 ECA (forthcoming b).

7 ECA (forthcoming b).

8 COMESA 2024.

9 This is defined as transactions in goods and services between any two or more countries that are not entered in the official records and therefore not included in the official trade statistics, with goods and services being defined according to the manual on International Merchandise Trade Statistics (IMTS) and the manual on Statistics of International Trade in Services (Continental methodology for ICBT data collection, 2024).

10 ECA 2021a.

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14 The Productive Capacities Index (PCI), developed by UNCTAD, assesses a range of productive capacities and their specific combinations through 42 indicators across several categories: human capital, natural capital, energy, transport, information and communication technology, institutions, private sector, and structural change.

15 AUDA-NEPAD 2023.

16 Afreximbank 2024.

17 ECA forthcoming a.

18 ECA and AUC 2023.

19 ECA 2023.

20 African Union 2019a.

21 AFCAC 2024.

22 Abate and Kincaid 2018. The empirical analysis in this study is based on panel data of traffic flows between the five EAC study countries plus Ethiopia and other countries in Africa (Sudan, Eritrea, Somalia, Democratic Republic of Congo, Mozambique, Zambia, South Africa, Nigeria, Egypt, Morocco, and Angola)

23 The Fifth Freedom of the Air, also known as the Fifth Freedom Right, "allows an airline to carry passengers or cargo between two foreign countries, as long as the flight originates or terminates in the airline's home country" (Grupo One Air n.d.).

24 AFCAC 2023.

25 UNCTAD 2024a.

26 ECA (2021b).

27 The list of published African standards as of July 2024 can be accessed at: Catalogue of African Standards – African Organisation for Standardisation/.

28 This refers to a system comprising the public and private organizations together with the policies, relevant legal and regulatory frameworks, and practices to support and enhance the quality, safety and environmental soundness of goods, services, and processes. It relies on metrology, standardization, accreditation, conformity assessment, and market surveillance.

29 PAQI 2023.

30 OECD 2023.

31 ITU DataHub 2024.

32 ITU 2023a.

33 World Bank 2024.

34 GSMA 2024.

35 World Bank 2019.

36 ITA 2022.

37 ITA 2022.

38 ITU DataHub 2024.

39 AfCFTA Secretariat and ECA 2023.

40 Hamilton 2023.

41 ITU 2018.

42 Mackenzie 2018. Mankosi is a remote rural community in South Africa owned and run through a rural cooperative an Internet Service Provider (ISP)

43 The Broadband Commission has a target of making entry-level broadband services affordable in developing countries at less than 2 per cent of monthly gross national income (GNI) per capita by 2025.

44 See https://www.itu.int/en/ITU-D/Statistics/Dashboards/Pages/IPB.aspx for country related data.

45 AfCFTA Secretariat and ECA 2023.

46 Data Centre Map 2024.

47 AfCFTA Secretariat and ECA 2023.

48 ESCAP et al. 2024.

49 ECA (forthcoming c).

50 African Union 2014.

51 OECD et al. 2022.

52 African Union Commission 2024.

53 United Nations 2022; African Union Commission 2015.

54 OECD/UN ECA/AfDB 2022.

55 UNDESA 2018.

56 United Nations 2024.

57 FAO 2021a.

58 African Union 2019.

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60 Fusacchia et al. 2021.

61 McKinsey 2021.

62 WHO 2022.

63 UNECA 2019.

64 ILO 2024.

65 Out-of-pocket payments are direct payments by individuals or households for health care services, medicine, and supplies.

66 WHO Africa Region 2024.

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68 Ouedraogo and Kilolo 2024.

69 Busia and Sloan 2017.

70 IEA 2024.

71 BloombergNEF 2021.

72 UNECA 2018.

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CHAPTER 5
BRIDGING THE GAPS FOR SUCCESSFUL AFCFTA IMPLEMENTATION: URGENT IMPERATIVES

KEY MESSAGES

- Full implementation of the AfCFTA agreement requires that State Parties reform their laws and institutions in accordance with the requirements of the agreement. Given the binding nature of the agreement, State Parties need to carry out a comprehensive review of their domestic policies, laws, and administrative practices, identify gaps, and take appropriate measures to ensure conformity of national laws with AfCFTA requirements. For this purpose, the AfCFTA Secretariat and regional economic communities (RECs), in collaboration with development partners, need to provide technical assistance to State Parties and coordinate the latter's reform activities. Only then can the AfCFTA agreement be fully implemented and deliver on its promises to boost intra-African trade and investment and transform Africa.
- The realization of the AfCFTA's tantalizing promises hinges on one critical factor: effective implementation of the agreement. Central to this is the agreement's domestication, which demands robust leadership, inclusive public-private partnerships, and coherent policy frameworks. National AfCFTA Implementation Strategies have been used to help in this process, offering a structured approach and priority actions to overcome constraints, seize opportunities, and build competitive regional value chains. The implementation of complementary initiatives—such as access to trade finance and supply-side capacity development—are prerequisites for the AfCFTA to achieve its potential. Moreover, successful implementation relies on a combination of strong institutional capacity building, consistent removal of non-tariff barriers to trade, significant investments in transport and logistics infrastructure, trade facilitation, and a multifaceted financing strategy that harnesses untapped assets, de-risks investments, and maximizing the potential of African special economic zones and regional value chains to drive sustainable growth.
- For the AfCFTA agreement to be fully and inclusively implemented, it is important to sufficiently engage the private sector in general and women and youth in particular. While it is the governments of State Parties that negotiated and signed the agreement, it is mostly businesses from their private sector that will trade and invest under the agreement. So, there is a need to engage the private sector effectively in the AfCFTA implementation process, by enhancing businesses' readiness to trade under the AfCFTA and working with the public sector to create environments conducive for intra-African trade and investment, among others. Similarly, women and youth traders and investors need to be engaged and supported to ensure that the challenges they face are continually addressed. This will help them participate in the AfCFTA and benefit from its opportunities, promoting the agreement's goal of achieving sustainable and inclusive development.

The implementation of the AfCFTA agreement requires State Parties to undertake domestic reforms in collaboration with all stakeholders, particularly the private sector (including women and youth traders). State Parties need to revise/develop their implementation strategies and accordingly reform their domestic policies and regulatory frameworks to ensure that they are compatible with the agreement, helping them translate the agreement into practice. An important part of the implementation is engaging the private sector, including supporting women and youth traders in different ways, to ensure that businesses are sufficiently aware of and benefit from the agreement. This chapter explains why and how State Parties need to undertake domestic reforms, revise/develop their strategies, and engage the private sector to fully and inclusively implement the agreement.

NATIONAL REFORMS TO SUPPORT AFCFTA IMPLEMENTATION

Reasons for reform

Effective implementation of the AfCFTA agreement and the realization of its promises demands that State Parties[1] reform their domestic legal and institutional frameworks.[2] In this context, a reform denotes a State Party's act of aligning its national policies, laws, and institutions with its commitments under the AfCFTA agreement to ensure that they facilitate, not obstruct, full implementation.

Effective implementation of the AfCFTA agreement and the realization of its promises demands that State Parties reform their domestic legal and institutional frameworks.

National reforms are necessary for different reasons. Primarily, the binding nature of the AfCFTA agreement means that State Parties align their laws and institutions with their commitments under the agreement. For this purpose, they must review and revise their existing policies and laws to ensure their compatibility with the AfCFTA agreement.

In some cases, State Parties might lack the regulations and institutional frameworks to implement the agreement. For instance, Ethiopia does not yet have a comprehensive law to protect geographical indications[3] (although a draft law exists), but the AfCFTA Protocol on Intellectual Property Rights obliges State Parties[4] to adopt *sui generis* laws for this purpose. In such cases, State Parties need to adopt new regulations and set up supporting institutions to implement the AfCFTA agreement. Besides, given that most of the AfCFTA agreements' rules are crafted in broad terms, as is the case with other trade agreements, it is essential that detailed complementary policies and regulations are formulated alongside the requisite institutions at national level. For this purpose, State Parties would need to reform their policy, regulatory, and institutional frameworks in line with their AfCFTA commitments and based on their AfCFTA implementation strategies.

For most State Parties, the AfCFTA agreement is also an addition to the multiple layers of their international and regional trade commitments. Most AfCFTA State Parties are members of the World Trade Organization (WTO) and RECs. The WTO and RECs have their own rules to govern international and regional trade in goods and services and other related issues. This warrants that State Parties take actions to ensure that the AfCFTA agreement is implemented in ways that do not undermine or conflict with their other trade commitments. For instance, in developing its National AfCFTA Implementation Strategy, Guinea Bissau rightly focused on ensuring consistency of AfCFTA implementation with its UEMOA and ECOWAS commitments.[5]

Mechanisms and major areas of national reform

Because of the variations in the political, economic, and legal systems of State Parties, each of them can determine how it would go about reforming its legal and institutional frameworks under the AfCFTA, subject to the agreement. The AfCFTA Protocols offer some, although not detailed, guidance for State Parties in specific areas of domestic reform. The Protocol on Trade in Goods requires State Parties to take specific measures, such as on trade facilitation and transit of goods, based on its annexes[6] and to enhance their cooperation to implement it.[7] Likewise, the Protocol on Trade in Services demands that State Parties take measures on various aspects of services trade, including implementing services regulatory regimes and building the capacity of service suppliers to meet regulations and standards.[8] The Protocols on Investment, Competition Policy, IPRs, Digital Trade, and Women and Youth in Trade also provide similar guidance for State Parties to take necessary measures to implement the agreement.

Without losing sight of the above, some proposals can be made to help State Parties effectively reform their regulatory and institutional frameworks. Most importantly, the reform process needs to be comprehensive, yet at a pace conducive to the unique context of each State Party and in line with its specific commitments in the various protocols. As explained, the AfCFTA agreement is ambitious in scope and goes beyond traditional topics covered by FTAs (trade in goods and services, and dispute settlement), encompassing investment, competition policy, IPRs, digital trade, and issues of women and youth traders. It is, therefore, essential that the reform process encompass all aspects of the AfCFTA agreement.

A natural starting point for reforming domestic laws and institutions based on the AfCFTA agreement could be the establishment of committees. These committees need to be comprised of all national stakeholders on the different Protocols but ultimately reflect the integrated nature of the protocols. This can help ensure that the necessary reforms are seamlessly undertaken based on the agreement.

To ensure consistency with a State Party's strategic objectives under the AfCFTA, it is important for each committee to have close working relationships with its

A natural starting point for reforming domestic laws and institutions based on the AfCFTA agreement could be the establishment of committees. These committees need to be comprised of all national stakeholders on the different Protocols but ultimately reflect the integrated nature of the protocols.

National AfCFTA Implementation Committee (NIC). This is because one of the crucial functions of a NIC is to support the concerned government in the process of reforming its policies and expedite effective AfCFTA implementation.[9]

Once reform committees are established, the next step is for each committee to undertake a comprehensive review of relevant national legal and institutional frameworks in light of the AfCFTA agreement. The review should aim at assessing the extent of compatibility of domestic laws and institutions with the AfCFTA agreement and identifying specific areas of reform. A committee needs to identify the gaps in existing legal and institutional frameworks, propose ways of filling the gaps based on a State Party's commitments under the AfCFTA agreement, and document the process and the results. A committee's proposed reforms can include repealing/revising policies and laws inconsistent with the agreement, adopting new laws if they do not exist, and/or (re)establishing institutions to support AfCFTA implementation. Each committee also needs to work closely with relevant national bodies, such as mandated ministries and parliamentary committees, and help implement the necessary regulatory and institutional reforms, followed by communication of the reforms to stakeholders. Table 5.1 illustrates some areas in which State Parties need to undertake domestic reforms based on the Protocols on Trade in Goods and Trade in Services.

Table 5.1 Illustrations of areas of reform under the protocols on trade in goods and trade in services

Protocol	Illustrations of areas of reform (Subject to exceptions in the protocols and State Party's specific commitments)
Protocol on Trade in Goods	• Repealing/revising laws to (1) progressively eliminate import duties (tariffs) on goods originating from other State Parties that fall in the 97 per cent of product lines, and (2) eliminate non-tariff barriers to trade with other State Parties. • Repealing laws and halting practices that (1) discriminate between similar goods from State Parties and between domestic goods and similar goods from another State Party, and (2) allow the imposition of quantitative restrictions on goods originating from other State Parties.
Protocol on Trade in Services	• Repealing/revising laws and halting practices that discriminate between similar services and service providers from State Parties. • Adopting/revising laws to progressively liberalize services. • Based on market-access commitments undertaken, adopting laws to grant market access to services and service providers from State Parties. • Designating enquiry points to provide State Parties with information on services trade.

The role of the AfCFTA Secretariat and RECs in supporting reforms

The AfCFTA agreement, even though its provisions directly apply to State Parties, contains some rules for the AU-recognized RECs. Among its core principles are taking the free trade areas of RECs as building blocks of the AfCFTA and maintaining their best practices.[10] The agreement also states that it prevails over any conflicting regional agreement to the extent of the specific inconsistency.[11] However, it allows existing higher levels of regional integration to continue.[12] Moreover, it accords RECs observer status in the Committee of Senior Trade Officials.[13]

The AfCFTA Secretariat and RECs also have important roles in the AfCFTA implementation process, as stated in the AfCFTA protocols. The Protocols on Trade in Goods and Trade in Services empower the Secretariat and RECs to play coordinating roles and provide technical assistance to State Parties.[14] The other AfCFTA protocols also have similar provisions.[15] Accordingly, the Secretariat and RECs, in collaboration with development partners including the ECA, can help State Parties align their domestic policies with the AfCFTA agreement by providing the necessary technical support. They can also coordinate the reform efforts of State Parties, such as facilitating experience sharing among State Parties.

DOMESTICATION OF THE AFCFTA AGREEMENT AND FINANCING ITS IMPLEMENTATION

The AfCFTA strategies for effective domestication and implementation

The successful domestication of the AfCFTA agreement relies on sustained commitment of both public and private sectors, alongside a strong focus on implementing policies that can unlock new trading opportunities for firms of all sizes. Although the AfCFTA is a continental initiative, its implementation takes place at the national level, requiring adaptation to local contexts and

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realities. Therefore, State Parties must take proactive measures to ensure the agreement's effectiveness and to foster an environment that supports trade growth and development.

Recognizing this need, the Conference of African Ministers of Finance, Planning, and Economic Development, during their 51st session in Addis Ababa in May 2018, expressed its commitment to developing AfCFTA-specific national strategies. This pledge was further endorsed by the 31st Ordinary Session of the Assembly of Heads of State and Government of the African Union, held in Nouakchott in July 2018.[16] In response to these mandates, the ECA and the AUC collaborated to develop comprehensive guidelines aimed at assisting countries in formulating their AfCFTA strategies. These guidelines serve as living document,[17] offering a structured yet adaptable framework that allows governments to develop strategies aligned with their unique contexts and national priorities.

In their effort to implement the AfCFTA agreement, AU member states or RECs have developed or are developing their AfCFTA implementation strategies, largely with support from the ECA and other development partners (UNDP, GIZ). These strategies function as essential policy frameworks, integrating the AfCFTA into broader national and regional development agendas. They assess the adequacy of existing institutional and regulatory structures, identifying areas that require reform. They also outline long-term goals to ensure inclusive and sustainable implementation, with a strong emphasis on gender mainstreaming and support for SMEs. By establishing a structured approach to implementation, these strategies serve as blueprints that align national policies with the AfCFTA framework, enabling countries to fully leverage the benefits of the agreement.

In some instances, countries, such as Comoros and Liberia, have used their national strategies as key inputs to guide their decision-making processes regarding the ratification of the AfCFTA agreement. By assessing the opportunities for economic growth and identifying key sectors set to benefit from the agreement, both countries were able to clearly see how the AfCFTA could accelerate their national development objectives. Liberia's strategy emphasized expanding agricultural exports, particularly rubber, palm oil, and cocoa, while attracting manufacturing investments. It also identified gaps in trade facilitation, outlining reforms for full AfCFTA participation. Comoros focused on integrating into regional value chains, highlighting agriculture, fisheries, and tourism, and addressed the need for capacity-building in trade logistics.

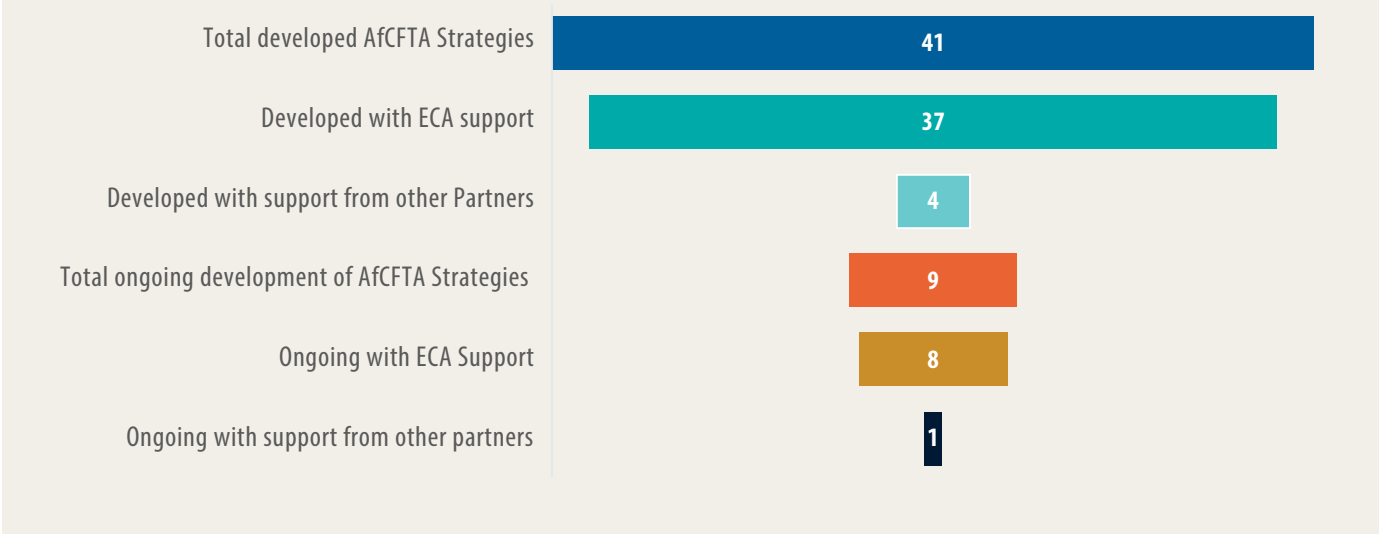
As of October 2024, considerable progress had been made, with 41 national and 3 regional AfCFTA Implementation Strategies developed.

At the regional level, these strategies facilitate integrated and coordinated approaches to implementation, promoting collaboration among member states and ensuring that efforts to realize the objectives of the AfCFTA are harmonized across the continent. As of October 2024, considerable progress had been made, with 41 national and 3 regional AfCFTA Implementation Strategies developed. The ECA has played a significant role in this process, supporting 37 national strategies and 3 regional ones (figures 5.1 and 5.2).

Major emerging issues in the National AfCFTA Implementation Strategies

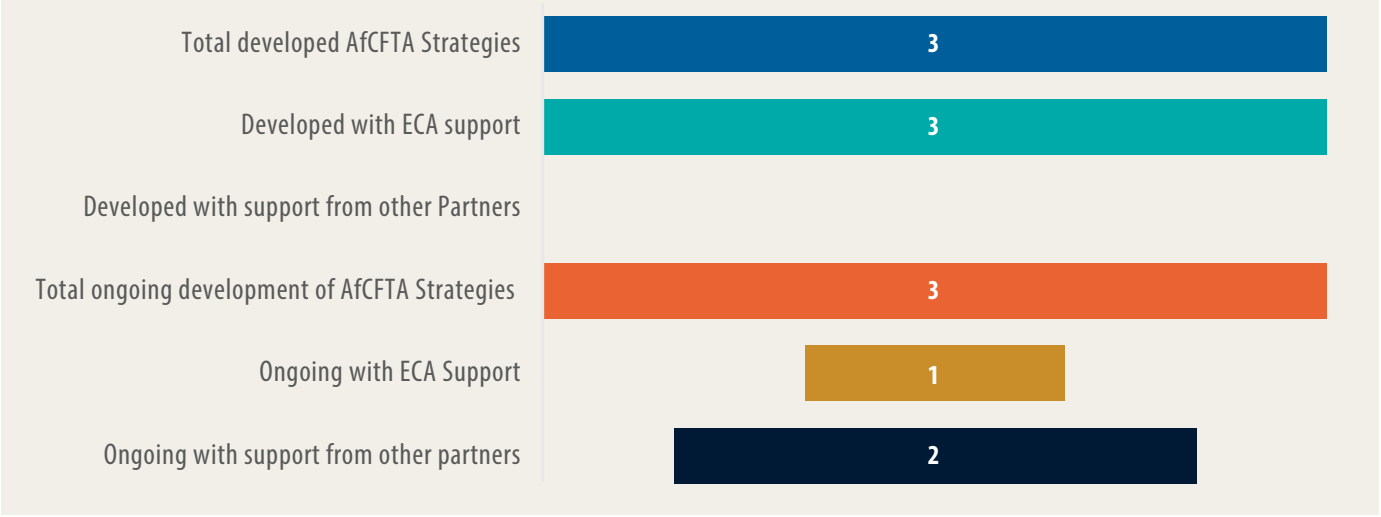
The development of AfCFTA Implementation Strategies across African countries has highlighted several key challenges and priority strategic pathways that must be addressed for State Parties to fully benefit from the agreement. A comprehensive review of 37 already validated national strategies reveals that institutional alignment, capacity building, and legal and regulatory reforms are central to these strategies (figure 5.3). This reflects a collective recognition of their importance in ensuring the successful implementation of the AfCFTA. Indeed, institutional alignment has been identified as a priority in 30 of the strategies, which underscores the need for coherent national coordination mechanisms. This led to the establishment of National Implementation Committees[18] in many countries, such as Côte d'Ivoire, Cameroon, and Tunisia, to oversee and guide the integration of the AfCFTA commitments into national frameworks. In Cameroon, for instance, to accelerate the Guided Trade Initiative (GTI), its National Implementation Committee, with support from the Cameroon National Shippers' Council, facilitated key activities including market intelligence, capacity building programs for shippers, and sensitization campaigns. The committee also monitored the AfCFTA-related imports

Figure 5.1 AfCFTA National Implementation Strategy development, October 2024



Source: Authors based on ECA's support to develop National AfCFTA Implementation Strategies.

Figure 5.2 AfCFTA Regional Implementation Strategy development, October 2024

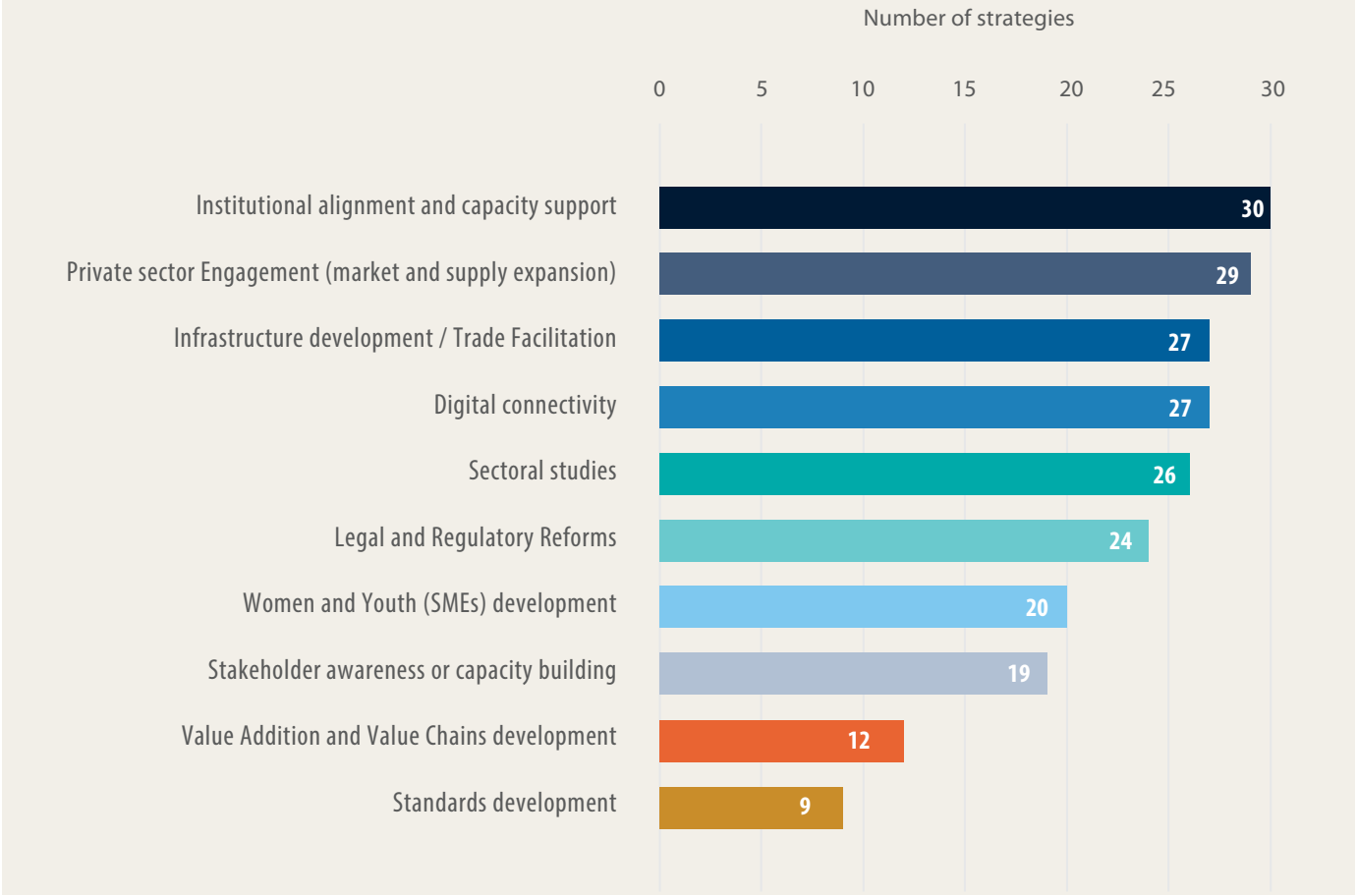


Source: Authors based on ECA's support to develop Regional AfCFTA Implementation Strategies.

and exports, coordinated with focal points in other State Parties to generate demand for Cameroonian products, and developed an exporter guide under the AfCFTA, among other initiatives.[19] Similarly, 29 of the strategies emphasize the need for legal and regulatory reforms as a key action, reflecting the recognition by State Parties of the necessity to domesticate their AfCFTA commitments.

Private sector development, with a particular emphasis on SMEs, women, and youth, remains a pivotal priority, reflected in 27 of the 37 National AfCFTA Implementation Strategies. These strategies underscore the critical need to empower SMEs, especially those led by women and youth, to engage meaningfully in AfCFTA-driven economic activities. In line with this, several capacity-building initiatives targeting SMEs have been organized in countries such as Togo, Burundi, and Rwanda. Furthermore, countries such as Burkina Faso and Guinea-Bissau have developed export strategies as practical and accessible tools to help businesses overcome information barriers and seize the opportunities presented by the AfCFTA. Nigeria is currently developing a step-by-step market access guide focused on trade-specific products primarily traded by women and youth. In Senegal, SMEs' capacities have been strengthened on rules and procedures of origin. These concerted efforts are essential

Figure 5.3 Summary of key priority strategic pathways for AfCFTA implementation that countries have listed



Source: Authors based on existing AfCFTA National Implementation Strategies (37 supported by ECA).

to overcome information barriers for SMEs and to realizing the full potential of the AfCFTA. Large enterprises on the continent can forge horizontal and vertical linkages with SMES across supply chains, supporting their skill development and sharing technologies and business practices.

Physical and digital infrastructure development, along with trade facilitation, have been identified as priority strategic pathways by 27 countries. These pathways can address barriers to intra-African trade, enhance connectivity, and reduce trade costs, particularly for landlocked countries. But the high costs of infrastructure development and wide infrastructure financing gaps have slowed progress. As a result, most countries have yet to begin concrete implementation efforts to address the physical infrastructure gap by mobilizing finance for infrastructure projects, commencing actual construction of roads, railways, and ports, implementing streamlined cross-border customs procedures, harmonizing transport regulations, and investing in skills development programs for logistics and transport professionals.

Physical and digital infrastructure development, along with trade facilitation, have been identified as priority strategic pathways by 27 countries. These pathways can address barriers to intra-African trade, enhance connectivity, and reduce trade costs, particularly for landlocked countries.

Digitalization is a key priority by 20 countries due to its immense potential to enhance trade facilitation, improve efficiency, reduce costs, and unlock new opportunities across critical sectors such as agriculture, agro-

processing, transport, logistics, e-commerce, and trade in services, including health and education. By embedding digital solutions into trade ecosystems, African countries can address traditional barriers to trade, streamline processes, and pave the way for inclusive and sustainable economic development.

Another key area highlighted in the AfCFTA implementation strategies is stakeholder awareness and capacity building, a priority for 24 countries. Several countries, including Kenya, Comoros, Guinea, Zambia, and Senegal, have undertaken sensitization and capacity-building initiatives to ensure a broader understanding of the AfCFTA, its provisions, and the opportunities it offers. Raising awareness among stakeholders is fundamental to the success of the agreement, and sectoral studies, value addition, and value chain development have emerged as important areas of focus. Enhancing value addition in national economies is crucial for industrialization, improving competitiveness, and fostering sustainable economic growth across the continent. For instance, Côte d'Ivoire has developed sectoral strategies across the five African regions to identify markets that present the most promising opportunities for selected Ivorian products. This strategic approach not only aims to bolster the export potential of these products but also seeks to create value-added opportunities in local industries, contributing to job creation, technological advancement, and overall economic resilience in the face of global trade challenges.

The development of standards is an explicit priority in only 9 of the 37 strategies. Yet standards facilitate seamless cross-border trade by ensuring the quality and safety of goods, which are essential for gaining market access and enhancing the competitiveness of African products. Intra-African trade in agrifood will be one of the sectors that stands to benefit significantly from AfCFTA implementation, making the establishment of robust standards particularly vital in this sector. For example, Senegal conducted a comprehensive study on sanitary and phytosanitary (SPS) measures to assess compliance with both SPS and Technical Barriers to Trade (TBT) measures under the AfCFTA. The aim is to align national standards with regional and international trade requirements, fostering smoother trade flows while safeguarding public health.

While the implementation strategies set out key priorities to maximize the benefits of the agreement, the main challenge remains the effective pursuit of these priorities. As countries advance their efforts to implement the

While the implementation strategies set out key priorities to maximize the benefits of the agreement, the main challenge remains the effective pursuit of these priorities.

AfCFTA, some have also participated in the GTI. The challenges faced by countries during the first phase of the GTI might have been mitigated if State Parties had fully implemented the specified key pathways outlined in their National Implementation Strategies. So, State Parties should put in place a robust mechanism to measure and report progress in implementing the AfCFTA. Regular monitoring will ensure accountability, identify gaps, and provide opportunities for countries to adapt and refine their approaches while fostering collaboration and knowledge sharing among State Parties. Without such mechanisms, State Parties risk failing to fully align their efforts with AfCFTA objectives.

Consequently, it is essential to address persistent challenges that hinder Africa's regional integration and prevent the full realization of the AfCFTA's benefits. Achieving them will require sustained commitment, sufficient resource allocation, and strong coordination at both national and regional levels, and a dedicated focus on human and institutional capacities.

Financing AfCFTA implementation

State Parties have identified key elements for successful national AfCFTA Implementation Strategies (see figure 5.3). These include legal and regulatory reforms, institutional alignment and capacity building, value addition and value chain development, standard setting, infrastructure development for trade facilitation, digital connectivity, energy development, and inclusive private sector engagement. These priorities entail significant financing needs.

- **Infrastructure development.** Infrastructure is the backbone of the AfCFTA's success, and the projected financial needs are substantial. ECA projects that Africa will need $120.8 billion in infrastructure investments by 2030 to meet transport demands created by the AfCFTA. Closing the internet access gap for AfCFTA implementation is

estimated to need around $100 billion to achieve universal broadband access by 2030 (chapter 4).[20] Transitioning to renewable energy within the AfCFTA will require an additional $14 billion for electricity generation, transmission, and distribution between 2024 and 2030.[21] In addition, the implementation of AU flagship initiatives, such as the Programme for Infrastructure Development in Africa (PIDA)—critical for AfCFTA's success—demands significant investment. The total estimated cost for implementing all PIDA projects by 2040 stands at $360 billion.[22]

- **Trade facilitation.** A major financial undertaking in this area involves the substantial costs of upgrading customs facilities and procedures to minimize border delays and streamline non-tariff barriers. For example, within the East African Community (EAC), a significant investment of over $117 million was allocated to construct and operationalize 16 one-stop border posts, highlighting the magnitude of financial commitment required at a continental scale.[23]
- **Tariff reductions and fiscal adjustments.** In the short term, countries may experience fiscal pressures due to tariff reductions. ECA's latest assessment predicts a 10.7 per cent ($21.1 billion) decline in Africa's total tariff revenues in 2045 following implementation of the AfCFTA, compared with a situation without such reforms (chapter 3).24 While this revenue loss is offset by the broader and longer-term economic benefits that the AfCFTA is expected to bring, supported by State Parties' efforts to develop industries and enhance competitiveness, the immediate fiscal impacts, like tariff revenue reductions, need careful management. To ensure this, the AfCFTA Secretariat and Afreximbank have allocated $10 billion over the next 5–10 years for the Adjustment Fund, aimed at offsetting tariff revenue losses and supporting the implementation of AfCFTA provisions.
- **Capacity building.** AfCFTA implementation involves training customs officials, trade negotiators, and relevant stakeholders to navigate the new trading environment. This also includes legal and administrative reforms necessary to align national policies with AfCFTA regulations.

By tapping into homegrown assets like remittances, diaspora bonds, and pension funds, while leveraging digital platforms and global tools such as Special Drawing Rights and reforms of multilateral development banks (MDBs), Africa can unlock substantial financial inflows.

- **Sectoral support and economic diversification.** Assistance may be required for sectors or SMEs affected by increased competition, facilitating their transition to industrialization and manufacturing development and promoting economic diversification, which is essential for sustaining long-term economic growth.
- **Operational costs.** The AfCFTA Secretariat structures established under the continental agreement entail ongoing financial resources, alongside monitoring and evaluation mechanisms to track compliance and progress. Proposed structures, such as a Pan-African Investment Agency, may further increase operational costs.

Addressing these cost components calls for bold, innovative, and sustainable financing strategies to drive AfCFTA's successful implementation over the coming decades. By tapping into homegrown assets like remittances, diaspora bonds, and pension funds, while leveraging digital platforms and global tools such as Special Drawing Rights and reforms of multilateral development banks (MDBs), Africa can unlock substantial financial inflows. De-risking investments through public-private partnerships (PPPs), SEZs, and regional value chains will not only attract capital but also secure its retention. Strengthening regional platforms like the Pan-African Payment and Settlement System (PAPSS) to reduce operational and information costs will be pivotal in facilitating trade. Together, these efforts can unleash the revenues to realize AfCFTA's transformative potential.

Tapping into Africa's hidden assets

Africa has significant untapped opportunities to mobilize its own resources. Some estimates suggest that corruption costs Africa approximately $148 billion annually, while illicit financial flows drain around $90 billion from the continent each year—a significant missed opportunity to boost the continent's public revenues.[25]

Deepening financial markets and promoting greater financial inclusion can unlock substantial inflows. Digital innovations are reducing the cost of financial inclusion for Africans while significantly expanding access and participation. Remittances, the continent's largest and most stable external funding source,[26] hold promise. For instance, Kenya's remittances surpassed $4 billion in 2023,[27] far outpacing the $1.6 billion earned from its top exports—coffee, tea, and spices.[28] Private-sector innovations like M-PESA's partnerships with PayPal and Western Union slashed remittance costs to just 1.7 per cent per $200 transaction. And public-private initiatives like M-Akiba empower Kenyans to invest in government bonds, leveraging homegrown funds to finance development.[29]

Innovative home-grown solutions are gaining momentum. In 2017, Nigeria made headlines with the successful issuance of a $300 million diaspora bond, a pioneering move oversubscribed by 130 per cent.[30] The funds raised were earmarked for critical infrastructure projects, enhancing the country's economic stability and growth. Similarly, Ghana has been at the forefront of using green bonds to finance renewable energy projects. In partnership, with the International Finance Corporation, these bonds are designed to attract investments in climate-friendly projects such as renewable energy, sustainable water management, and clean transportation.[31] In addition, pension funds are being increasingly leveraged to finance long-term development projects, providing a stable source of capital for infrastructure and sustainable development initiatives. For example, South Africa's Government Employees Pension Fund has invested in various infrastructure projects, including renewable energy and affordable housing, demonstrating the potential of pension funds to drive economic growth and sustainability.[32]

Africa's untapped financial potential extends to hidden assets within global systems. Rechannelling $100 billion

Deepening financial markets and promoting greater financial inclusion can unlock substantial inflows. Digital innovations are reducing the cost of financial inclusion for Africans while significantly expanding access and participation.

in Special Drawing Rights to MDBs could unlock $46.2 billion annually. G20-backed MDB reforms could add $5.2 billion per year. The IMF's lending-into-arrears policy could recover $44 billion in debt arrears, and fairer global credit ratings could save $74 billion in interest spending, annually. Combined, these could generate $169.4 billion yearly.[33]

Moreover, official development assistance (ODA) can provide financial resources and technical expertise to enhance trade-related infrastructure and capacity. Africa remains one of the largest recipients of Aid for Trade, receiving 34 per cent ($17.5 billion) of disbursements in 2022. Initiatives, such as Africa Trade Fund (AfDB and Canada), support Aid for Trade delivery to African economies, enhancing the supply-side capacity of producers and traders. Key projects include the Namanga one-stop border post, Senegal customs facilitation, Sao Tomé and Principe trade facilitation, and the Women Cross-Border Traders project in the Mano River Union.[34]

Despite these efforts, Aid for Trade disbursements to Africa have declined since 2019, with funding for productive capacities, particularly in banking and financial services, dropping by 29 per cent since 2020. Loans dominate over grants (65 per cent vs. 35 per cent), creating a growing imbalance. To address these challenges, reaffirming Aid for Trade's focus on Africa is essential. Meeting the commitment to double Aid for Trade by 2031 under the Doha Programme of Action will be the first step. Increasing both the volume and predictability of aid, maintaining concessionality, fostering recipient ownership, and aligning aid with national and regional strategies can support the timely implementation of the AfCFTA.[35]

De-risking investment in Africa: Unlocking opportunities through PPPs and next-generation SEZs

FDI in Africa has stalled at $40–50 billion annually for years, even before Covid–19, revealing a persistent gap between potential and realised investment. Key challenges include macroeconomic volatility, market fragmentation, and weak local supply chains. And opaque or sudden policy changes act as a tax on investment.[36] Uganda shows that policy consistency and political stability often matter more than incentives in attracting FDI.[37]

Another notable barrier is the inflated risk premium imposed by global credit raters, driving up the cost of lending and often acting as a premium in absence of targeted and updated information on feasible investment opportunities. But these risks are often overstated: a study of 8,000 project loans found that Africa's infrastructure projects had the lowest default rate at 1.9 per cent, outperforming Eastern Europe (12.4 per cent), Latin America (10.1 per cent), North America (6.6 per cent), and Asia/Western Europe (4.6 per cent).[38]

In these circumstances, de-risking strategies must address Africa's unique challenges and inflated risk perceptions and information asymmetries. PPPs stand out as a vital tool, proving highly effective in addressing the continent's resource needs and bridging critical investment gaps. According to the World Bank's Private Participation in Infrastructure (PPI) data, African countries have engaged in 662 PPI projects, with total investments amounting to $101.7 billion since 1990. These partnerships have been particularly significant in electricity, ICT, and transport, sectors characterized high-risk due to their longer project duration and higher capital requirements.[39]

By sharing risks between the public and private sectors, PPPs enhance risk management and reduce overall costs. Typically, the private sector handles construction and environmental risks, while the public sector takes on regulatory and currency risks, with financial risks shared. This adaptability allows PPPs to be tailored to specific project needs, offering a flexible alternative to traditional financing methods.[40]

Looking ahead, African governments could benefit from focusing on well-structured PPPs with balanced risk-sharing mechanisms to support long-term success. This includes assessing debt sustainability, gaining a clear understanding of contractual obligations, and strengthening debt management practices. To address foreign currency risks, governments may consider mechanisms such as local currency financing or currency hedging to mitigate the impact of exchange rate fluctuations. And establishing a comprehensive monitoring framework to track contingent liabilities, especially in large-scale infrastructure projects, could enhance oversight and reduce fiscal vulnerabilities. By adopting these approaches, PPPs can better deliver sustainable development outcomes while maintaining fiscal stability.[41]

SEZs have emerged as a reliable gateway for de-risking investments into Africa, offering a blend of attractive incentives and regulatory support. In many ways, SEZs serve as a preview of AfCFTA in action—where tariffs and non-tariff barriers have already been lifted, and trade facilitation measures are actively at work.

Africa is now home to about 240 SEZs, with Kenya, Nigeria, Ethiopia, Egypt, and Cameroon leading the charge, in that order.[42] Indeed, they draw a substantial portion of the total FDI that countries receive. In Egypt, 80 per cent of total FDI inflows are directed to SEZs, and in Nigeria, 60 per cent. Both countries rely heavily on oil, with many of their zones focusing on oil and gas-related activities. Interestingly, even in economies with more diverse sectors, such as South Africa and Kenya, SEZs still attract considerable FDI, 21 per cent and 10 per cent respectively.[43]

While SEZs have historically boosted FDI inflows into host countries during their initial operation, sustaining these levels has been rather challenging for several SEZs. For instance, Ethiopia witnessed a threefold increase in FDI after its first SEZs became functional between 2010 and 2013, a trend echoed in Morocco and other African nations. But the impact of SEZs on FDI tends to plateau as more zones are developed.[44] The fading appeal of some of these SEZs stems from their heavy reliance on extractive industries, limited diversification, confinement within national boundaries, and overdependence on foreign funding and cheap labour as a draw for investment.

To tackle challenges and enhance investment appeal, African nations should champion "next-generation" SEZs centred on innovation, sustainability, value

chain integration, and alignment with national and regional goals. A standout example is the DRC-Zambia transboundary SEZ for battery and electric vehicles (BEVs). Its competitiveness leverages the complementarities of the two nations while holding great promise for the entire continent. Notably, building a cathode precursor plant in the DRC is estimated to be three times cheaper than in the U.S. Plus, battery production in the DRC is projected to emit 30 per cent less greenhouse gases than production in China.[45] The SEZ also holds great potential to bridge the continent's existing industrial capacities, given the BEVs' extensive inter-industry linkages, both backward (leather, textiles, rubber, iron) and forward (vehicle assembly, services, software, renewable energy).

Harnessing regional platforms

To support AfCFTA implementation, various funds and schemes have been established by multilateral and regional development banks, as well as other financial institutions. One of the key contributors is the African Development Fund, which has approved an $11 million grant to bolster the AfCFTA Secretariat. This grant is aimed at strengthening institutional capacities, supporting the private sector, and developing climate-resilient value chains across the continent.

In addition, the AfCFTA Adjustment Fund of $10 billion is helping countries transition smoothly into the new trade environment. It provides both financial and technical assistance to mitigate revenue losses and promote economic diversification, ensuring that countries can adapt effectively to the changes brought by the AfCFTA.

The Afreximbank has also stepped up with a $1 billion AfCFTA Adjustment Facility. This facility is designed to manage the short-term fiscal impacts of tariff reductions and enhance trade facilitation, thus supporting the overall goals of the AfCFTA. It is essential to assess any challenges related to accessing and using these funds to determine the extent to which they have been deployed effectively for AfCFTA implementation and whether they meet their intended objectives.

Digital platforms created by regional institutions help reduce transaction costs for businesses and governments engaging in intra-African trade, effectively freeing up more funds. For example, the African Trade Exchange (ATEX)—developed by ECA in collaboration with Afreximbank, the AU Commission, and the AfCFTA Secretariat—facilitates business-to-business and business-to-government transactions. ATEX provides a secure marketplace for essential commodities, notably food, fuel, and fertilizers, through pooled procurement, thus reducing average trading costs, and improving overall trade efficiency. The initiative is a prime example of South-South cooperation, as it leverages regional collaboration to enhance trade and economic integration across the continent. In addition, PAPSS streamlines instant payments and settlements among the more than 40 currencies in use across the continent. By bypassing currency conversion and mitigating time delays, PAPSS could indirectly unlock $5 billion that would otherwise be lost to conversion fees for African businesses.[46]

Intra-African trade is expected to be nearly 45 per cent (or $275.7 billion) higher in 2045 due to the AfCFTA implemented.

INCLUSIVE AND EFFECTIVE IMPLEMENTATION OF THE AFCFTA AGREEMENT

Inclusive private sector engagement

As with other free trade agreements, while it is the governments of State Parties that negotiated and signed the AfCFTA agreement, it is mostly their private sectors that would utilize it. The private sector would engage in trade in goods and services (including digital trade) and in investment based on the preferences and protections afforded by the AfCFTA agreement. It is also members of the private sector that would be the most affected by any disadvantages that may arise from the AfCFTA, such as being outcompeted by exporters from other State Parties.

As such, the private sector is the main stakeholder in the AfCFTA. Full implementation of the agreement cannot be envisioned without sufficient private sector engagement and participation. Europe's experience shows that the business community has been a strong supporter of efforts to enhance regional economic integration.[47] It is thus important for the private sector to be engaged in AfCFTA-related activities, including through

Box 5.1 The AfCFTA Country Business Index

The AfCFTA Country Business Index (ACBI), which ECA launched in 2018, is one of the primary tools for businesses to voice their views on implementing the AfCFTA by identifying the main trade constraints. It aggregates the opinions of businesses in Africa (a minimum targeted sample of 50 completed responses in each country) and articulates them in an index that ranks countries by how well they are implementing the AfCFTA from a business perspective. A key focus of the ACBI is to understand business perceptions of trading under the free trade agreements (FTAs) already in force across African countries.

The ACBI has three broad dimensions: goods restrictiveness and costs, African FTA knowledge and use, and commercial environment. It was piloted in Cameroon and Zambia and was subsequently applied in Angola, Côte d'Ivoire, Gabon, Kenya, Namibia, Nigeria, South Africa, Democratic Republic of Congo, Egypt, Rwanda, Senegal, and Tunisia.

The ACBI helps better understand private sector perceptions of regional integration efforts and the challenges businesses face when participating in cross-border trade in Africa. For instance, at dimensional level based on the average score, African countries performed better in the awareness and use of FTAs, followed by commercial environment and after goods restrictiveness and costs. The ACBI will help the covered State Parties take measures to address the gaps identified, create more conducive business environments, and effectively implement the AfCFTA.

Source: ECA 2022.

contributing to policy formulation and implementation. For example, the AfCFTA Country Business Index is a tool to understand the private sectors' perception of the AfCFTA's implementation (box 5.1).

Africa's private sector is dominated by small and medium enterprises (SMEs) and micro small and medium enterprises (MSMEs), with women constituting the bulk of these enterprises.[48] Women also play a central role in informal cross-border trade (ICBT), which is prevalent across the continent. For instance, a recent survey in selected locations in the ECOWAS region revealed that women accounted for 74 per cent of the total traders involved in ICBT. Although women dominated ICBT in both volume (as measured by the number of recorded transactions) and overall value, on average, men had higher value transactions. Specifically, male traders exported or imported goods worth about 3.6 times the value of goods traded by female traders. Women also tended to trade in a narrower range of goods than men. For instance, women primarily traded in food items, whereas men were more likely than women to trade in beverages, manufactured goods and livestock.[49]

Africa's youth represent a vital demographic that cannot be overlooked. Currently, more than 60 per cent of Africa's population is under 35, a figure expected to reach 75 per cent by 2030.[50] Due to rising unemployment, many young people are turning to entrepreneurship to create job opportunities for themselves. Advances in technology have further fuelled youth by making it easier and more affordable to start businesses, particularly through digital platforms that can reach broader markets.[51]

The private sector is the main stakeholder in the AfCFTA. Full implementation of the agreement cannot be envisioned without sufficient private sector engagement and participation.

Targeted efforts are thus essential to ensure that particularly women and youth can fully seize the economic opportunities presented by the AfCFTA. This need arises because AfCFTA implementation will take place within a gendered economic and social context where women-owned businesses are disproportionately affected by challenges, including more limited access to and control over such resources as capital and land than their male counterparts. These disparities could hinder women from fully benefiting from the opportunities created by the

AfCFTA.[52] In 40 of 46 countries with sex-disaggregated data on land rights, men are far more likely to have ownership or secure tenure rights than women, since land tenure rules and customary laws are often unfavourable to women.[53] This also affects women's access to finance, as land titles are often required as collateral for loans that could enhance business productivity, growth, and competitiveness in foreign markets.[54] Similarly, youth-led enterprises encounter challenges like those faced by women entrepreneurs, such as limited access to finance.

Experience with other trade agreements also shows that, without specific support, women and marginalized groups may not fully benefit from trade liberalization. Studies on the impact of NAFTA on Mexico revealed that while male farmers in developed regions were able to increase their exports of fruits and vegetables to the U.S., many women farmers, who owned smaller plots and had fewer resources, were unable to benefit from the government's plans to grow crops for export.[55] A similar trend was seen in the ASEAN Economic Community, where despite an overall increase in exports, women's share of export value was projected to decline without policies to enhance their participation in the economy.[56] This underscores the need for an inclusive approach to the AfCFTA's implementation, as further explained below.

Major mechanisms for inclusive private sector engagement

The private sector must engage in the AfCFTA in different ways, with intentional efforts to ensure that women and youth are included. Here are the main mechanisms of engagement.

Increasing business awareness of the AfCFTA

The lack of awareness about the existence and benefits of various trade arrangements often hinders their effective use by the private sector, ultimately impeding the realization of the expected gains. Many firms operating within regional blocs across Africa fail to use intra-African regional trade preferences due to a lack of awareness.[57] Similarly, a lack of awareness was a major factor in the non-use of preferential trade agreements (PTAs), with women being disproportionately affected. For example, 80 per cent of the surveyed female entrepreneurs in the East African Community (EAC) were unaware of the PTAs.[58]

Insufficient private sector awareness of the AfCFTA is one of the challenges limiting private sector engagement in it.

In the same vein, the benefits of the AfCFTA will not be fully realized if the private sector lacks sufficient awareness about the free trade area and the opportunities it presents. Insufficient private sector awareness of the AfCFTA is one of the challenges limiting private sector engagement in it. A 2021 survey report found that a significant share of respondents to the survey—members of the EAC private sector from Burundi, Kenya, Rwanda, South Sudan, Uganda, and the United Republic of Tanzania—reported low levels of awareness of the AfCFTA and its benefits.[59] Moreover, a survey conducted across 11 Southern African countries involving 3,301 MSMEs found that only a quarter of these businesses were aware of the AfCFTA.[60]

This highlights the urgent need to raise awareness of the AfCFTA and its benefits, particularly among women and youth entrepreneurs. Moreover, targeted efforts are required to ensure that information reaches entrepreneurs in rural areas, as most AfCFTA sensitization workshops are now held in major cities, with little rural dissemination. Collaboration between government agencies, bilateral and multilateral partners, and private sector representatives (such as chambers of commerce and industry associations) are essential to enhance the private sector's knowledge of the AfCFTA and its opportunities.

Enhancing businesses' readiness to trade and invest under the AfCFTA

To trade under the AfCFTA, businesses must comply with import and export requirements and procedures both at home and destination countries. For instance, Ghana is one of the countries participating in the Guided Trade Initiative (GTI), and goods imported into the country are expected to meet such requirements as import permits, phytosanitary certificate, and original bills of lading or waybill.[61] But limited understanding of import/export procedures and regulatory requirements is a major challenge for businesses.[62] So, improving awareness of AfCFTA procedures and requirements is essential to prepare businesses to fully benefit from the opportunities.

Improved readiness to trade is crucial for businesses to benefit from the AfCFTA's opportunities, particularly women and youth traders. Practical and business-oriented tools can help businesses understand and comply with the regulatory requirements and procedures to trade under the AfCFTA, such as meeting rules of origin and standards requirements. A notable initiative is the development of an Export Manual under the AfCFTA, with support from the ECA, for some countries. For example, the Guinean Export Manual provides businesses with information on the regulatory requirements and procedures for exporting goods to other State Parties (box 5.2).

The limited access of women and youth traders to resources, information, and networks makes it especially challenging for them to navigate administrative processes and meet non-tariff measure requirements.[63] Some RECs have adopted Simplified Trading Regimes (STRs) to support cross-border small scale traders who are mostly women. The expected Ministerial Regulation on Preferential Market Access for Women and Youth Traders needs to come up with similar mechanisms of addressing these challenges.

Tailored capacity development programs should also be developed to address countries' specific needs. Djibouti's Resource and Competence Centre for Port, Transport, and Logistics Professions can serve as a model for other African countries to boost their workforce capabilities, contributing to broader economic development and integration efforts across the continent (box 5.3)

Enhancing business participation

Business support organizations—such as chambers of commerce, trade promotion organizations, and sectoral associations—help businesses expand their operations across borders. They also serve as entry points for foreign businesses and investors looking to establish connections with local suppliers and exporters. They also provide crucial services, such as raising awareness, providing information, and delivering export training.[64] And they identify export-ready SMEs and build their capacity to meet regional and global standards. Some of these SMEs can also be capacitated to supply non-core services to large corporations, even if they do not export themselves. Engaging with these organizations enhances

Box 5.2 The Guinean Exporter's Manual: A practical guide to exporting under the AfCFTA

The Guinean Exporter's Manual is a straightforward user-friendly resource, offering not only valuable insights into how to conduct export operations within the AfCFTA but also highlighting Guinea's unique opportunities, potential, and comparative advantages in the African market. It provides clear, practical information on regulations, administrative and customs procedures, and instruments for trade facilitation and market access within the AfCFTA.

The manual is a guidebook for Guinean businesses looking to export goods and services. For goods exports, it breaks down five steps:

- Identify a market and secure a buyer.
- Review Guinea's export requirements and the target market's import regulations.
- Finalize the sale and arrange logistics for transport.
- Complete export clearance documentation in Guinea.
- Prepare import clearance paperwork for the destination country.

These steps are explained in detail. For instance, exporters are guided through the customs clearance process for goods leaving Guinea, which involves submitting an export declaration, obtaining technical or sanitary certifications where necessary, and completing customs and exit formalities. The manual also provides guidance on rules of origin under the AfCFTA.

To keep things pragmatic, the manual uses real-life examples, such as a Guinean shoe manufacturer aiming to export products to another AfCFTA market, to demonstrate the process in action. This practical approach helps exporters understand each step in the export process and facilitates their compliance with AfCFTA requirements.

Source: Guinea Exporter's Manual under the African Continental Free Trade Area (2023).

the likelihood of businesses accessing investment and trade finance and exporting to other markets.[65]

The private sector should also take part in activities that promote intra-African trade and investment, which can serve as platforms for networking, matchmaking, and policy discussions. Events, such as the Intra-African Trade Fair and the Biashara Afrika Forum held at the continental level, are examples of such opportunities.

The private sector must also be represented in National Implementation Committees (NICs) to support AfCFTA implementation and contribute to the development or revision of National Implementation Strategies.[66]

Enhancing collection of sex-disaggregated data

The outcomes of trade agreements often differ for women and men traders, primarily due to existing gender inequalities in education, income distribution, and access to essential resources, such as credit, land, and technology. To ensure that the benefits of the AfCFTA are equitably distributed, it is essential to develop targeted policies and initiatives that address the needs

Box 5.3 The Djibouti Resource and Competence Centre for Port, Transport, and Logistics Professions

The centre was established in 2018 to address the growing need for specialized skills in the strategic sectors of port, transport, and logistics. These sectors are central in the country's economy, given its strategic geographical position as a logistics and port hub in the Horn of Africa. The approach of partnering with industry professionals and aligning training programmes with the specific needs of the logistics and transport sectors has been key to its achievements.

Objectives

- Skill development. The centre is dedicated to the vocational and technical training of youth and professionals, aimed at enhancing local capacities in port, transport, and logistics professions. These skills are essential for supporting economic growth and meeting the demands of the local and regional labour markets.
- Competitiveness enhancement. By training a skilled workforce, the centre aims to improve the competitiveness of Djiboutian companies in these key sectors, enabling them to meet international standards and seize opportunities offered by regional transport corridors.
- Innovation and modernization. The centre also introduces new technologies and working methods, thus contributing to the modernization of Djibouti's logistics infrastructure and services.
- Employability improvement. The centre contributes to reducing unemployment by equipping young people with specific skills and facilitating their integration into the labour market in growing sectors. By equipping more than 3,000 young people with specific skills, the centre has facilitated their successful integration into the labour market, particularly in sectors experiencing rapid growth.
- Expected impact. With the ongoing expansion of port and logistics activities in Djibouti, the centre positions itself as a key player in creating added value for the local economy. It strengthens the country's attractiveness as a logistics hub in East Africa while meeting the need for a qualified workforce to support the country's economic development dynamics. It has contributed to a significant increase in the productivity of Djiboutian companies in these key sectors.
- Collaboration and partnerships. The centre's success also relies on its partnerships with local and international institutions, private companies, and government agencies. These collaborations ensure that the training programs offered are aligned with market demands and international standards.

Source: https://crcdjibouti.com/.

of disadvantaged groups. This is in line with the Buenos Aires Declaration on Trade and Women's Economic Empowerment, which underscores the importance of gender-responsive trade and development policies through such actions as collecting sex-disaggregated data and analysing gender-specific trade statistics.

However, many African countries lack comprehensive sex-disaggregated trade data. A review of official trade statistics across the continent shows that these figures are often not disaggregated by sex, and they tend to exclude ICBT critical for crafting effective gender-responsive policies and initiatives.[67] For instance, the survey on ICBT in selected locations in the ECOWAS region revealed the need to intensify efforts to raise awareness among female traders about cross-border trade requirements. Many women had limited knowledge of these regulations, making them vulnerable to fraudsters who exploited the situation by charging them unnecessary fees or encouraging the use of unofficial and potentially unsafe trade routes.

Existing initiatives can be leveraged to support inclusive AfCFTA implementation through enhancing the collection of comprehensive sex-disaggregated data. For instance, the AU Commission, ECA, and Afreximbank have developed a continental methodology for ICBT data collection, which was adopted by the AU's Specialized Technical Committee on Trade, Tourism, Industry, and Minerals in May 2024. Adopting this methodology at the national level could enhance consistent ICBT data collection. Additionally, the ECA has refined the "UNCTAD Conceptual Framework for the Measurement of Gender Equality in Trade" by incorporating ICBT and additional indicators on participation of women in trade, providing a structured approach to generating sex-disaggregated trade data and assessing the impact of trade on gender equality, as well as guiding the development of gender-inclusive trade policies and initiatives.

To ensure that the benefits of the AfCFTA are equitably distributed, it is essential to develop targeted policies and initiatives that address the needs of disadvantaged groups.

Proposed transformative strategic actions

- ***Review and reform domestic policy and regulatory frameworks:*** State Parties need to comprehensively review and reform their domestic policy and regulatory frameworks and administrative practices to ensure their conformity with the AfCFTA agreement. Effective implementation of the agreement cannot be achieved without the necessary domestic reforms. In this process, the AfCFTA Secretariat and RECs need to provide technical support to State Parties and coordinate the latter's national reforms.
- ***Prioritize and execute key actions in National AfCFTA Implementation Strategies:*** State Parties should prioritize and actively execute the key actions outlined in their National AfCFTA Implementation Strategies. This involves not only committing to the strategic priorities identified but also ensuring that all relevant stakeholders are engaged in the implementation process. State Parties must also finance implementation of the agreement using the various domestic and external funding sources.
- ***Engage the private sector, including women and youth traders***, in the process of implementing the AfCFTA agreement through various ways. Major mechanisms of engagement include enhancing business' awareness and readiness to trade under the AfCFTA and regularly consulting with the private sector to improve business environments. Women and youth traders, critical in African economies but facing various challenges, must be supported to effectively participate in the AfCFTA.
- ***Establish mechanisms for monitoring and evaluation:*** Establishing robust mechanisms for regular monitoring and evaluation of AfCFTA implementation progress is crucial for addressing persistent obstacles and ensuring alignment among stakeholders. This should encompass collection of sex-disaggregated trade data.

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END NOTES

1 As per Art. 1(v) of the AfCFTA agreement, a "State Party" is an AU member state that has ratified or acceded to the Agreement and for which the Agreement is in force.

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64 ITC 2014.

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67 The continental methodology for ICBT data collection defines ICBT as transactions in goods and services between any two or more countries that are not entered in the official records and therefore not included in the official trade statistics. In this context, goods and services should be defined according to the manual on International Merchandise Trade Statistics (IMTS) and the manual on Statistics of International Trade in Services.

STATISTICAL NOTE

This year's Economic Report on Africa is based on the latest updated and harmonized data from a wide range of sources. The report draws on both economic and social data, organized into thematic groups such as growth, trade, urbanization, commodities, poverty, climate, and energy. Data are sourced from international organizations, government departments, and independent peer-reviewed articles, while specialized databases are clearly noted individually, where applicable. It is important to note that data in this report may differ from previous editions due to recent revisions and updates. Unless otherwise noted, the data covers all 54 ECA member states, which are organized in five subregions: North Africa, West Africa, Central Africa, East Africa, and Southern Africa.

The primary economic and social data variables are obtained from the United Nations Economic Commission for Africa's (UNECA) own database, as well as from leading international organizations, including (in alphabetical order) the International Labour Organization (ILO), the United Nations Conference on Trade and Development (UNCTAD), and the United Nations Department of Economic and Social Affairs (UN-DESA). The UN-DESA Global Economic Outlook database provides comparable data on GDP growth for all African countries, with real GDP growth rates are calculated using 2015 as the base year. Subregional growth and inflation rates for country groupings are derived as weighted averages, with weights based on GDP in 2015 prices. In addition, the report made use of statistical databases from the Economist Intelligence Unit (EIU), the International Monetary Fund (IMF), and the World Bank. These sources provide a robust foundation for analyzing key economic indicators, trends, and forecasts across the continent.

The report incorporates thematic data to address specific areas of interest. Social variables, such as labor and gender equality, are sourced from the World Bank, ILO, UNDP, and UNESCO. Trade-related data are drawn from the Centre d'Etudes Prospectives et d'Informations Internationales (CEPII), International Trade Centre (ITC), the OECD, UNCTAD, and the World Trade Organization (WTO), with a focus on initiatives like the African Continental Free Trade Area (AfCFTA). Commodity data, including mineral and energy resources, are obtained from UNCTAD, the International Energy Agency (IEA), and the U.S. Geological Survey (USGS). Urbanization trends are analyzed using data from UN-Habitat, while network access and ICT-related indicators are provided by the International Telecommunication Union (ITU).

In addition to the primary sources, the report incorporates data from the African Union Commission and selected government departments among African countries, as well as specialized databases such as the EM-DAT database by the Centre for Research on the Epidemiology of Disasters (CRED). Furthermore, data from independent peer-reviewed articles are cited both in-text and in chapter-specific bibliographies. All data from subagency databases are also explicitly noted in the footnotes or below the relevant figures and tables. Countries are also classified into geographical regions, which include Central, East, North, Southern, and West Africa as per UNECA's classification.

Despite its rebound from the Covid-19 pandemic, Africa's growth remains below its pre-pandemic levels and insufficient to meet the SDGs. Unprecedented geopolitical tensions, high debt levels, the rise of nationalism, and climate challenges are creating great uncertainty about the future trajectory of the global economy. These uncertainties provide an opportunity for the African continent to renew its commitment to regional integration and hasten implementation of the African Continental Free Trade Area (AfCFTA). The adverse and uncertain external environment provides a unique opportunity for Africa to focus on policies of industrialization and economic diversification and on fostering its own structural transformation trajectory.

Implementation of the AfCFTA is expected to boost Africa's trade and strategically reposition the continent in the global trade arena. It can drive intra-African trade, along with the continent's industrialization, development of regional value chains and diversification. It can also be instrumental in improving people's lives by helping to address major societal challenges, to reduce African dependence on primary commodities, as it can transform African economies by diversifying their exports and its sources of growth. In addition, it will create an opportunity for African economies to increase growth, create jobs, broaden economic inclusion and lift millions out of extreme poverty.

The 2025 edition of the Economic Report on Africa assesses the state of AfCFTA implementation and highlights the key achievements and challenges to realizing its transformative potential. It also provides empirical evidence revealing the AfCFTA's potential to drive Africa's trade-led integration while becoming a critical pillar for Africa's inclusive and sustainable development, while highlighting Africa's key priorities and providing actionable recommendations for bridging the gaps that could derail successful implementation of the AfCFTA.