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**Twenty-Ninth Session of the Intergovernmental Committee of Senior  
Officials and Experts for Southern Africa**

**8-9 November 2023  
Hotel 4:30, Gaborone, Botswana**

### **ICSOE Thematic Report**

*Accelerating Implementation of the AFCFTA for Inclusive Development in Southern  
Africa: Building on the RECs' FTAs, and Harnessing Technology and Innovation for  
Private Sector and Value Chain Development*

## I. INTRODUCTION

1. Inclusive development implies preventing the exclusion of people from the benefits of economic growth, especially the poor and marginalized sections of society, and “leaves no one behind”. It calls for an equitable distribution of wealth and social amenities such as health, education, employment, housing and infrastructure, and ensuring equal opportunities and access to amenities. As per capita income increases, greater access to non-income aspects of wellbeing improves, enabled by the State’s deliberate policy actions.

2. Africa’s continental integration agenda seeks to propel inclusive development, and the African Continental Free Trade Area (AfCFTA) is one instrument to foster such integration. The AfCFTA aims to create a single market for goods and services, facilitated by movement of persons to deepen continental economic integration in line with the Pan African Vision of “*An integrated, prosperous and peaceful Africa*” enshrined in Agenda 2063. To reduce poverty and inequality the AfCFTA seeks to broaden inclusiveness through interventions that support women, young Africans, and small and medium enterprises (SMEs), and supporting the formalization of informal cross-border traders through simplified trade regimes.

3. Promoting SMEs, where brighter prospects for poverty and inequality alleviation lie, will entail leveraging science, technology and innovation (STI). In this regard, STI can create new market opportunities for businesses while also enabling businesses to compete better with foreign imports. For Southern African firms to make the most of the AfCFTA, they will need to develop capabilities to integrate into regional value-chains and become trusted suppliers to regional firms.

4. Against this background, the theme of the 2023 ICSOE theme attempts to apply the different elements of the theme - *Accelerating Implementation of the AfCFTA for Inclusive Development in Southern Africa: Building on the RECs’ FTAs, and Harnessing Technology and Innovation for Private Sector and Value Chains Development*- to end poverty and inequality in Southern Africa.

5. The central premise of the paper is that poverty and inequality reduction will be an outcome of transformative development processes. In the context of this year’s ICSOE theme, trade and regional integration, enabled by RECs’ FTAs and now the AfCFTA, do hold the promise of expanded opportunities and an inclusive development path for all citizens. MSMEs, where most marginalized citizens eke out a living, will benefit enormously from expanded regional and continental market and, through their integration into regional value chains, will move to higher income stream levels that were hitherto beyond their reach. In this regard, the use technology and innovation and other capacity building initiatives will be key to sharpening the MSMEs’ competitive edge. The sections below look at the individual strands of the theme and how each will make a dent on poverty and inequality. The combined impact of these strands is also considered in the conclusion section.

## II. LEVERAGING THE AFCFTA TO REDUCE POVERTY AND INEQUALITY

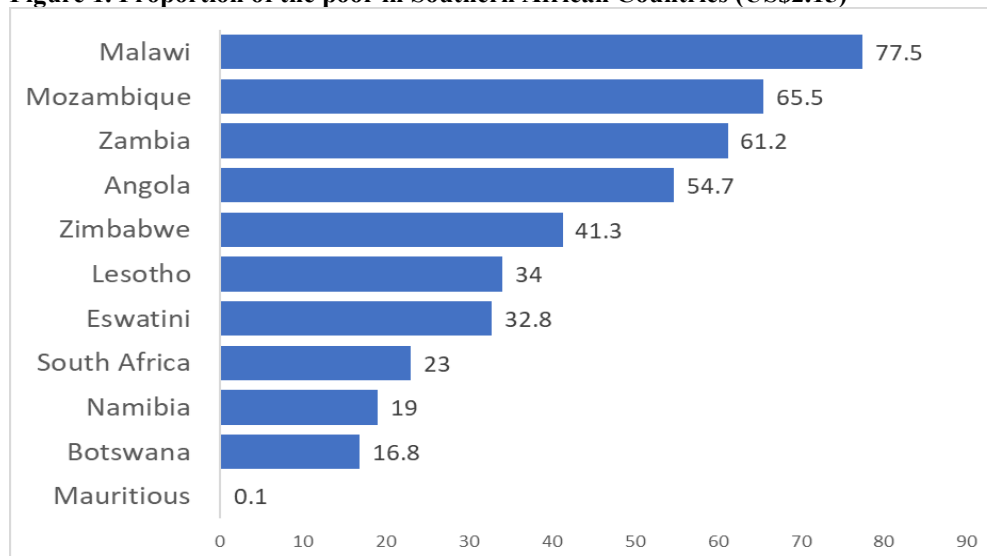
### A. Channels through which AfCFTA can impact poverty and inequality

6. Southern Africa is among Africa’s poorest regions with about 45.1 per cent of its population living in extreme poverty. Measurements of poverty including the Human Development Index (HDI) and the Multidimensional Poverty Measures (MPM) for Southern Africa indicate slow progress towards equality and poverty reduction relative to other regions. The region is also

the most unequal in Africa.

7. Both income and multidimensional poverty show higher levels that need to be tackled with urgency in the subregion. Malawi is deemed the poorest country in terms of the proportion with no or lower income, followed by Mozambique, Zambia, Angola, and Zimbabwe (figure 1).

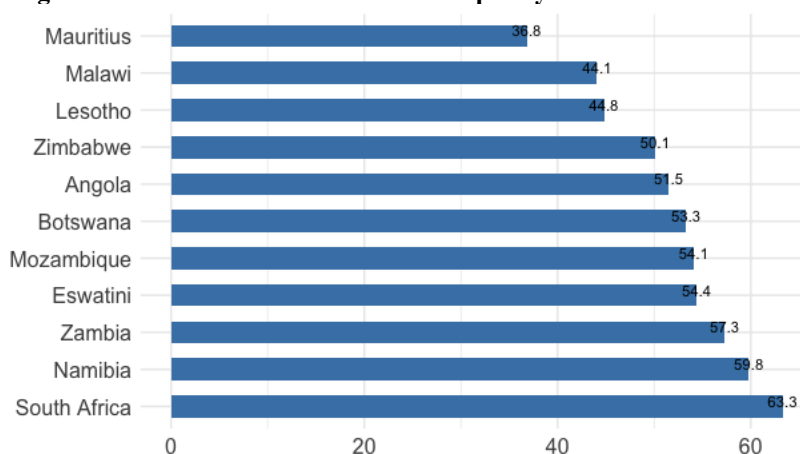
**Figure 1. Proportion of the poor in Southern African Countries (US\$2.15)**



Source: Author calculation based on data from the World Bank’s PovcalNet data

8. South Africa is one of the world’s most unequal countries. The country’s income inequality has worsened over the years. The top one per cent of earners take home almost 20 per cent of income and the top 10 per cent take home 65 per cent, meaning that 90 per cent of South African earners take home a mere 35 per cent of income. Incomes in South Africa remain racialized, gendered, and spatialized, meaning that white people are more likely to find work (and work that pays better) than their black counterparts; female workers earn about 30 per cent less than male workers, and urban workers earn about double that of those in the countryside. Figure 2 shows income distribution of Southern African countries.

**Figure 2: The distribution of income inequality in Southern Africa**



Source: author’s calculations based on World Bank’s PovcalNet data

9. Africa’s integration agenda, which according to the AU Constitutive Act, aspires to, *inter*

*alia*, “*promote sustainable development at the economic, social and cultural levels as well as the integration of African economies*”, and the AfCFTA is one instrument to deepen such integration. The AfCFTA brings together 55 countries, connects 1.3 billion people with a combined gross domestic product (GDP) valued of US\$3.4 trillion. The AfCFTA enjoys strong support from African governments as shown by 54 member countries’ signing of the agreement and 47 countries having ratified it, including nine Southern African countries.

10. Issues of poverty, inequality and vulnerability in the AfCFTA have gained prominence recently and much work has focused on how the AfCFTA can improve socioeconomic conditions of Africans. AfDB (2019), UNCTAD (2021), World Bank (2020) and the AfCFTA Secretariat (2021) have come up with models showing a potential positive impact of the AfCFTA on poverty and inequality if implemented fully. These models indicate that the AfCFTA implementation would significantly boost intra-African trade, diversification and industrialization, impacting positively on economic and social development including generating jobs, increasing incomes and thus reducing poverty.

11. The main channels through which poverty can be reduced include production, distribution, and employment income including through the growth of MSMEs and the activities of the informal sector which tend to reach the disadvantaged poor sections of the population better. The World Bank (2020) assessed the impacts under macroeconomic impacts and distributional effects of AfCFTA on poverty and employment. The macroeconomic impacts are on real income, trade, output and government revenue. The basis of the macroeconomic impact estimates is that AfCFTA’s implementation will lower the costs for consumers and producers, reduce administrative red tape, and cut compliance costs. Tariff reductions will slash the prices of imports for consumers and producers who use imported intermediate inputs. The removal of non-tariff barriers (NTBs) which include burdensome administrative procedures will reduce the costs of compliance and benefit consumers of final and intermediate goods.

12. The World Bank (2020) estimates that the gradual elimination of 90 per cent of tariffs on goods and services will raise income by 7 per cent, equivalent to US\$450 billion by 2035. This would reduce the number of people living in extreme poverty by 40 million. Another study by the World Bank (2022) released together with the AfCFTA Secretariat, highlighted additional benefits that would accrue from an increase in foreign direct investment (FDI) from within the continent as well as from beyond. The real income growth from the AfCFTA would rise to 8 per cent by 2035. Implementation of AfCFTA would increase employment opportunities and wages for unskilled workers (female and male) and help to close the gender wage gap. The continent would see a net increase in the proportion of workers in energy-intensive manufacturing. By 2035, wages for both skilled and unskilled labor would be 10.3 per cent higher than the baseline. The volume of total exports would increase by 29 per cent by 2035 relative to the baseline. Intra-African exports would increase by over 81 per cent, while exports to non-African countries would rise by 19 per cent.

## **B. AfCFTA protocols and instruments related to poverty and inequality**

13. Phase 2 Negotiations on the AfCFTA will seek to agree regulations on investment, intellectual property rights (IPR), competition policy, digital trade and women and youth in trade, which are all expected to contribute to poverty, inequality and vulnerability reduction. In particular, the Protocol on Women and Youth in Trade is expected to be transformative with more impact on poverty, inequality and vulnerability as it will facilitate ownership of businesses among women and the youth. Creating opportunities targeting women and youth will bring the benefits to sections capable of altering the development trajectory for the better.

Binding commitments in the protocol among member States will ensure prioritization of the needs of women and the youth in trade. It will offer a direct path for mitigating trade barriers for women, and accelerate women and young people's economic empowerment. Furthermore, this will broaden inclusiveness through interventions that support women, young Africans, and SMEs as well as integrating informal cross-border traders into the formal economy by implementing simplified trade regimes.

14. Another manner in which the AfCFTA will strengthen the economic empowerment of women and the youth will be through provision of channels to access regional food markets and catalyze growth of demand for intra-African food imports. The smallholder farming sector which has significant participation by female farmers offers opportunities to join regional agricultural value chains and higher value-added agro-processing activities. The protocol should pave the way to deal with other challenges that women face such as lack of access to technical information and finances and harassment at the borders.

### **C. Policy Options**

15. Governments play a leading role in the AfCFTA through their policies. Their policy decisions and support through the provision of enablers such as infrastructure are essential. The domestication of the AfCFTA recognises priorities of all national stakeholders. Governments, in consultation with national stakeholders, have developed implementation strategies to benefit from the AfCFTA. The strategies reflect the areas and sectors that member countries consider important.

16. In relation to the implementation of the AfCFTA, prioritizing transitioning over time to more manufacturing value-added products and services as a percentage of total exports, will be critical. Governments can improve the domestic export environment and support exporters capacity, enhance the role and opportunities of women and youth in export activities. Such interventions would effectively boost the implementation of the AfCFTA. Interventions to strengthen the institutional frameworks within ministries and their affiliated agencies are a part of the policy, regulations and decisions that can be taken to achieve sustainable export growth.

17. Government can introduce interventions targeting the poor and vulnerable. Such techniques can also apply in so far as disadvantaged groups are made to benefit including earmarking a percentage of places in schools to children unable to pay fees or allowing a certain percentage of the patients to attend clinics and hospitals free, thus improving access or meets the needs of the disadvantaged groups.

## **III. COMPLEMENTARY IMPLEMENTATION OF THE AFCFTA AND RECS' FTAS**

### **A. Interplay between AfCFTA and the RECs' FTAs**

18. The AfCFTA principles include reference to "*RECs' Free Trade Areas (FTAs) as building blocks for the AfCFTA*" and "*preservation of the acquis*" to underscore the RECs' critical role for the AfCFTA's rollout. The *acquis* notion was part of the African integration lexis during the negotiations to establish the Tripartite Free Trade Area (TFTA). It was adopted as a guiding principle for those negotiations and was defined as follows: building on the *acquis* of the existing REC FTAs in terms of consolidating tariff liberalization in each REC FTA. In the context of the TFTA, it means that negotiations should start from the point at which the COMESA, EAC and SADC trade negotiations have reached.

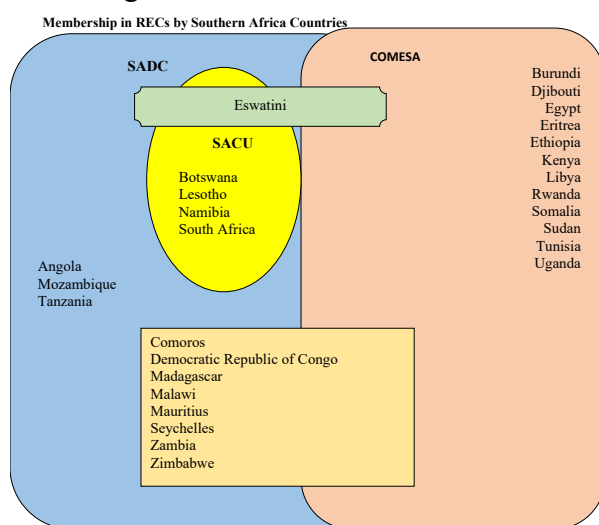
19. The *acquis* in the AfCFTA Agreement also appears in the protocol on trade in services under Part V where the principle of progressive liberalization is addressed, and where it is stipulated that “*State Parties shall negotiate sector specific obligations through the development of regulatory frameworks for each of the sectors, as necessary, taking account of the best practices and acquis from the RECs, as well as the negotiated agreement on sectors for regulatory cooperation. State Parties agree that negotiations for continuing the process shall commence following the establishment of the AfCFTA, based on the work programme to be agreed by the Committee on Trade in Services.*”

20. To understand better the interplay between AfCFTA and the RECs, UNECA Southern Africa Office commissioned a study entitled “*Regional Integration in Southern Africa – Accelerating the implementation of the AfCFTA in Southern Africa building on the acquis of the RECs FTA*”. The study builds on the findings of the continental level study by ECA (2021)<sup>1</sup> on “*Governing the African Continental Free Trade Area–Regional Economic Communities Interface*”, which *inter alia*, sought to understand the feasibility of leveraging the implementation mechanisms of various REC-FTAs in executing the AfCFTA. The study provides an in-depth analysis of the issues pertaining to the application of the *acquis* principle in Southern Africa.

### **B. AfCFTA resolving the challenges of multiple and overlapping memberships and expedite regional and continental integration processes**

21. Building on the *acquis* of the existing REC FTAs in terms of consolidating tariff liberalization in each REC FTA requires a comprehensive understanding of the coherence or lack thereof in terms of trade liberalization approaches encoded in the *acquis*. The multiplicity of membership (see figure below) has been a perennial challenge in the African integration process, and the *acquis* promises to resolve issue. The fact that some member States within RECs are not part of the REC-driven trading regimes further complicates the overall landscape and should be examined.

22. Overall, the AfCFTA has benefited greatly from the progress made by Africa’s RECs including COMESA, SADC and the SACU arrangement, enabling these to serve as building



blocks for the continental agreement. Considering the pace of integration within the RECs, including varying levels and depths of implementing the FTA provisions by REC member States, there are good lessons regarding anticipated accelerated implementation of the AfCFTA building on the *acquis* of the RECs. Furthermore, given the reality that implementation within the RECs has been slow, reflections are needed on how fast their FTAs can be fully implemented since the AfCFTA also depends on the functioning of these RECs FTAs. In this regard, perhaps a minimum package of functionality within the RECs is needed for AfCFTA implementation, including delivering on promises to the private sector with regard to market and investment opportunities.

<sup>1</sup> ECA. (2021). The Mauritian Strategy to Leverage Opportunities in the African Continental Free Trade Area (AfCFTA). Link: <https://repository.uneca.org/handle/10855/49336> .

### **C. Implementing the AfCFTA and RECs' FTAs focusing on key instruments to realize the African Economic Community objectives**

23. The Abuja Treaty of 1991 establishes the African Economic Community (AEC) by bringing together the eight recognized RECs as its building blocks. This treaty details an action plan for trade liberalization, harmonization of rules and integration of economies within a strengthened institutional framework. The treaty features a six-stage roadmap to full economic integration, including the establishment of a customs union, a single market and an economic and monetary union.

24. In Southern Africa, the pursuit of regional integration is underpinned by the same rationale of moving towards a united, stronger, more resilient social, political and economic entity. The RECs driving the regional integration agenda in Southern Africa are SADC, COMESA and, in the context of the Tripartite FTA, the EAC. While not among the eight RECs recognized by the AU, SACU has played an important role in driving regional integration and intra-regional trade. Moreover, the Tripartite FTA spans across southern, eastern and north Africa. Both COMESA and SADC share similar objectives of creating and maintaining free trade that guarantees the free movement of goods and services produced within the two regions; allowing a free movement of capital and investment supported by a more favourable investment climate in the region; removing all tariffs and non-tariff barriers; attaining sustainable growth and development of the members; and promoting cooperation in all fields of economic activity, among others.

25. To bolster the continent's economic integration agenda, the eighteenth AU Session established a continental free trade area, AfCFTA, which sought to, inter alia, "*create a single market*" and to "*lay the foundations for the establishment of a Continental Customs Union*". The Agreement establishing the AfCFTA was adopted in March 2018 and entered into force in May 2019 for the 24 countries that had deposited their instruments of ratification by that date. It was launched at the twelfth Extraordinary Session of the AU Assembly of Heads of State and Government in Niamey, Niger, in July 2019. Commencement of trading under the AfCFTA was January 2021.

26. As of September 2023, 54 countries had signed the AfCFTA while 47 had ratified it, the latest being Mozambique. Some cases of trade quoting AfCFTA regime have already been reported, and eight countries (Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda, Tanzania, Tunisia) have been selected as pilot countries to start trading under the AfCFTA Initiative on Guided Trade (GTI). There are also high prospects of GTI participating countries expanding to 27, and the launch of the second phase of the GTI (trade in services) is scheduled for October 2023. Furthermore, Phase II negotiations entailing Protocols on Intellectual Property Rights, Investment, Competition Policy and Digital Trade have been finalized and are awaiting legal review and subsequent ratification, while the Protocol on Women and Youth in Trade is at advanced stages of negotiations.

### **D. Policy Options**

27. As was recommended by the ECA study, to accelerate trade promotion and development, RECs' FTAs should be fully implemented including by eliminating NTBs, as a basis for implementing the AfCFTA. From above discussion, specific policy options include:

- reducing non-tariff barriers including through streamlining customs procedures and

harmonizing regulations. This will require stronger cooperation among member States to simplify and standardize trade processes, reducing the costs and time associated with cross-border trade;

- strengthening political will to prioritize regional interests over narrow national interests, thereby promoting cooperation and unity. Promoting Pan-Africanism and fostering a sense of African identity will be crucial in overcoming divisive nationalism;
- addressing multiplicity of memberships including by rationalizing and consolidating membership in various regional integration schemes. This will reduce administrative burdens and facilitate a more coordinated approach to regional integration;
- accelerating policy implementation within RECs and related FTA to enable their full functioning. Member states must commit to swift implementation of regional policies and protocols. This includes establishing effective mechanisms to hold defaulting states accountable and ensuring timely execution of agreed-upon programs;
- harmonizing and simplifying rules of origin within the AfCFTA framework, thus encouraging the growth of intra-African trade. Streamlining these rules will make it easier for businesses to navigate complex regulations;
- reevaluating third-party FTAs in which member States assess their existing trade agreements with third parties and work towards harmonizing them with regional integration objectives; and
- facilitating the free movement of people across the continent. The free movement of the continent's citizen will be key to facilitating trade, cross border investment and the movement of goods.

#### **IV. HARNESSING TECHNOLOGY AND INNOVATION FOR PRIVATE SECTOR AND VALUE-CHAIN DEVELOPMENT IN THE CONTEXT OF THE AFCFTA**

##### **A. Private sector key to success of industrialization agenda**

28. Industrialization is key to inclusive growth in Southern Africa, and Africa at large. However, the success of industrialization requires the active engagement of the private sector. This supports the premise that trade and industrialization are two sides of the same development coin, with technology and innovation being enablers of both processes. In order to build industries that can sustain economies by creating formal jobs, generating incomes over the long-term and reducing poverty and inequality, tradable market opportunities and new sources of competitive advantages must be created on a sustained basis.

29. Technology and innovation can create new market opportunities for businesses while also enabling businesses to compete better with foreign imports. For Southern African firms to make the most of the AfCFTA, they need to develop capabilities to integrate into regional value-chains and become trusted suppliers to regional firms, in addition to exploiting market opportunities on their own and face competition from other parts of the continent. The AfCFTA provides opportunities for Southern African firms to develop opportunities to integrate into value-chains in addition to leveraging innovative tools and technologies to increase their market share of global and regional trade.

30. Building capabilities of Southern African firms to comply with the AfCFTA's protocols is an area where increased attention is needed. Another area relates to their participation in value-chains. There is a need to examine how Southern African firms can create and integrate in regional value-chains successfully in the face of global and continental competition in a post-Covid context. Leveraging technology and innovation including digital trade technologies such



as e-commerce platforms by firms could be explored. Furthermore, worth examining are traditional barriers faced by firms to participate in value-chains such as compliance with non-tariff measures and technical standards.

31. Out of the 11 member States of SRO-SA, seven (Eswatini, Malawi, Mauritius, Mozambique, Namibia, Zambia, Zimbabwe) have developed national AfCFTA strategies. The development of Botswana's strategy is quite advanced and that of Angola is on course. Mauritius and Zambia have taken important steps towards implementation, with Mauritius being one of the pilot countries of the AfCFTA guided trade initiative. Therefore, as the region gears towards AfCFTA implementation, questions such as how implementation of the agreement could be fast tracked to address the perennial challenge of non-inclusive development, realize industrialization objectives through private sector and value chains development by harnessing technology and innovation, and promoting complementary implementation with the FTA regimes of RECs come to the fore.

### **B. AfCFTA opportunities to promote value-chains and economic growth by harnessing technology and innovation**

32. In terms of role of innovative approaches in increasing MSMEs' utilisation of trade agreements there are two major innovative initiatives that are increasing MSMEs' utilisation of trade preferences and agreements and as a result of their integration into RVCs and GVCs.

33. The first and most applicable to GVCs is the Global Trade Helpdesk (GTH). The GTH is a joint International Trade Commission-UNCTAD-WTO initiative that aims to improve the quality, transparency, and accessibility of trade-related information by providing a unique entry point to existing trade-related information. The GTH specifically targets MSMEs who often do not have the resources to access fee-based information. The beta version of the GTH was launched at the 11th WTO Ministerial Conference in 2017. The GTH integrates comprehensive information from various sources on market requirements, including customs tariffs, taxes, rules of origin, non-tariff measures, and notifications of WTO Members; export/import procedures (e.g., pre-shipment formalities, certification and inspection processes, transport documents); business opportunities (market prices, company directory, upcoming events); and policy outlook (trade statistics, export potential analysis, trade agreements). In the coming years, the GTH will be translated to all six official United Nations languages to be accessible to people around the world.

34. The second and most applicable to RVCs is the African Trade Observatory (ATO). The ATO, is one of the five operational instruments of the AfCFTA, and serves as a repository of trade information and allows users to monitor, in real time, the pace of trade and economic integration in Africa. The ATO will also synthesize and make relevant trade data and information available to support the formulation of evidenced-based trade policies and provide the private sector with trade information and information on the regulatory framework applicable in various Member States to support their business decisions and development of RVCs.

35. There are also an increasing number of national single windows throughout SADC which allow businesses to more easily access all the regulations, standards, rules of origins (RoOs), and laws they need to comply with to operate in and export to a certain country. Additionally, these single windows often decrease the costs for MSMEs considerably as they no longer need to pay for a law firm consultant to file and submit compliance documents as single windows and make it possible for MSME to do this themselves through the online national single windows.

36. Specifically, certificates of origin (CoO) are required for MSMEs to utilise trade agreements as without them they cannot access the trade preferences offered by the agreement. In this area, the innovation of Electronic Certificates of Origin (eCoO) has been significant and has increased MSME's utilisation of trade agreement significantly. eCoOs are digital versions of traditional paper-based certificates. They are quicker to process, easier to store and access as and MSME, and more difficult to forge. By digitizing the certification process, eCoOs can significantly reduce the time and cost associated with proving origin, making it easier for MSMEs to comply with RoOs, qualify for trade preferences and supply their inputs into RVCs and GVCs.

37. Additionally, in term of RoOs, Blockchain can be used to create a transparent and unchangeable ledger of a product's journey, from raw material to finished good. This technology can simplify the verification process for RoOs by providing a transparent record, thereby reducing the administrative burden on MSMEs, which is one of the features of RoOs that most stifles MSME participation in RVCs and GVCs. Currently, intra-African agreements appear to favour the certification of origin by competent authorities, which would limit the technology to proving that the certificate is authentic – i.e. that it has been delivered by the competent authority – and has not been tampered with. However, if it becomes more widely implemented by parties to a transaction to exchange data from the moment that the goods are produced or harvested through all subsequent stages of the process of treatment until the arrival at the final consumer, certification of origin could rely on blockchain data to be determined directly at the border, without the need for a certifying authority. This could be tremendous progress towards increasing MSME's utilisation of trade agreements.

### **C. Policy Options**

38. Some of policy options to promote linkages in Southern Africa and enhance their benefits include the following two:

- First, is promoting quality product certification, particularly of international type, can significantly boost the chances of any type of linkages between MNE affiliates and local MSMEs. However, certifying product quality might be too costly for MSMEs. Possible ways to boost certification of MSMEs' products include (i) explaining the importance of product certification for transactions with lead market players, particularly with those having headquarters in foreign countries, might increase the demand for certification by MSMEs, (ii) funding the purchase of quality product certification might help MSMEs that cannot afford the cost of it; and (iii) trying to harmonize product certifications could reduce the need for different types of certifications; and
- Second, is getting MNE affiliates and MSMEs closer to enhance the benefits of linkages. Some possible policy actions to make foreign and local small companies closer are following include (i) developing industrial areas where MNE subsidiaries and MSMEs could co-locate, (ii) enhancing transportation infrastructures could reduce time and costs of connections between MSMEs and MNE affiliates, and (iii) enhancing the access of MSMEs to electricity, telephone and internet lines to lower communication costs between MSMEs and MNE affiliates.

## **V. KEY MESSAGES AND CONCLUSION**

### **A. Leveraging the AfCFTA to reduce poverty and inequality**

39. This brief paper has noted that Southern Africa is the poorest subregion on the African continent both in terms of monetary and multidimensional measures of poverty. The subregion is also the most unequal in the world in terms of income and wealth. The causes of poverty and inequality are varied and include pre-independence legacies and contemporary challenges, entrenching structural, cultural, and transient factors that fuel poverty and inequality.

40. As discussed, Southern Africa performs very poorly in all metrics of inequality including income, wealth, and multidimensional, with seven regional member States being among the 10 most unequal countries in the world in terms of income. Southern African countries could consider the following recommendations to alleviate poverty and reduce inequality and vulnerability:

- On economic growth, there is need to promote inclusive economic growth through economic diversification, value addition to the vast natural resources, and creating employment opportunities. This can be achieved through investment in sectors with high growth and job-creation potential, supporting entrepreneurship and small businesses, and attracting foreign direct investment.
- On economic diversification, many Southern African countries remain heavily reliant on a few sectors, such as mining and agriculture, which often perpetuate inequalities and limit inclusive growth. Supporting sectors such as manufacturing, services, and technology and innovation can create a more inclusive and resilient economy, generating more employment opportunities and reducing dependency on a single industry will promote diversification..
- On empowering SMEs, supporting the growth of SMEs can reduce poverty and promote inclusive economic development. Governments can implement policies and provide financial and technical support to help SMEs access markets, finance, and training. This can stimulate entrepreneurship, create employment, and reduce income disparities.
- On social protection programmes, strengthening and expanding these programmes is vital in addressing poverty and inequality. Governments can establish and/or strengthen social safety nets that provide targeted assistance to the most vulnerable populations, including cash transfers, food security programs, and access to healthcare. These programs can help mitigate the immediate impacts of poverty while supporting individuals and families in their journey towards economic independence.
- There is need to address social exclusion by promoting gender equality and empowering historically disadvantaged populations including women and youths through targeted policies and programmes. Actions needed include ensuring equal access to education, healthcare, and economic opportunities. Addressing gender disparities can contribute to poverty reduction and inclusive development.
- There is need to strengthen governance and accountability by e reducing corruption, ensuring equitable resource allocation, and promoting inclusive development. Strengthening institutions, promoting the rule of law, and fostering an enabling environment for civic participation can contribute to reducing inequalities and fostering sustainable development.
- There is need to deepen regional cooperation through collaborative efforts among Southern African countries to address common challenges that perpetuate poverty and inequality.

Regional initiatives can focus on sharing best practices, coordinating policies, and implementing joint projects that tackle regional disparities and promote inclusive growth.

## **B. Complementary implementation of the AfCFTA and RECs' FTAs**

41. To support regional integration and facilitate implementation of the AfCFTA, barriers to full implementation of RECs' FTAs should be addressed. In addition to those mentioned under section III.D above, Southern African countries should:

- prioritize the development of productive capacities and economic diversification. This includes investing in education, technology, and innovation to enhance manufacturing and reduce on the export of raw materials. Regional value chains should be promoted to encourage intra-regional trade and cooperation;
- establish regional value chains that leverage each nation's strengths and complementarities. This will enable them to produce a wider range of goods and services, reducing dependence on external markets;
- prioritize the development of skills to anchor industrial development and value addition activities. Industrial development is skills intensive and the skills base has to support the attendant activities; and
- prioritize infrastructure development, including transport, energy, and information technology. Improved connectivity and access to essential services will reduce trade costs and enhance regional integration.

42. Finally, regional integration organizations, such as COMESA, SADC, and the AfCFTA Secretariat, should seek alternative sources of funding to reduce donor dependency. This will enable them to set their own priorities and implement programs that align with the region's interests and objectives.

## **C. Harnessing technology and innovation for private sector and value-chain development in the context of the AfCFTA**

43. This section reports some policy indications to promote linkages in Southern Africa and enhance their benefits, on the basis of results from interviews with domestic and foreign companies and institutional stakeholders.

- *Developing capabilities of local producers:* Developing internal capabilities of local producers can be crucial to boost linkages and raise value added of the activities locally sourced by MNEs, often limited to low value-added services and natural resources. This might be reached through different channels. First, one channel consists of raising MSMEs' innovation. More innovative MSMEs are more likely to connect to foreign affiliates through vertical linkages and to benefit from both vertical and horizontal linkages. Second, is to make the access to external financial sources easier for MSMEs. A first step to achieve more banking credit is to help MSMEs getting out of informality through registration in public database, such as Namibia Investment Promotion and Development Board is currently doing.
- *Making first-tier linkages prevalent:* Benefits from backward linkages can be larger in case

of direct supply through the value chain. MNE subsidiaries might be unaware of lower-tier suppliers, making knowledge-transfer more difficult to occur.

- *Fostering the development of manufacturing sectors*: Developing manufacturing sectors seems to be promising in terms of positive spillovers from FDI through linkages. The MSMEs operating in manufacturing sectors have better chances to connect to foreign MNEs through backward linkages and are likely to be supported by foreign buyers.
- *Boosting regional FDI and implementation of AfCFTA, with some local content policy*: Linkages with regional MNE affiliates are likely to benefit local MSMEs. Particularly, backward linkages with African MNEs seem to benefit both employees and innovation of local suppliers. This suggests a need to boost intra-African FDI and to accelerate the implementation of AfCFTA and SADC-FTA. However, African MNEs still tend to source much of intermediates from origin countries.
- *Increasing collection of data on linkages*: Linkages between local MSMEs and foreign MNEs can boost positive spillovers from inward FDI in Southern Africa. However, chances and benefits from linkages can depend on several dimensions (company-specific characteristics, industry, geography, MNEs' origin). Therefore, governments should promote the collection of specific survey data from both local MSMEs and, particularly, foreign MNEs to improve the understanding of the phenomenon and, therefore, set up more effective policies.

#### **D. Bringing the different strands and their interplay, noting the aspirations of Southern Africa**

44. Ending the endemic poverty and inequality situation in Southern Africa will be an outcome of a myriad of transformative development processes. One such process being considered by this paper is the promise of trade and regional integration aided by full implementation of various RECs' FTAs which in turn will facilitate the rollout of the new AfCFTA. These free trade agreements hold the promise of expanded and inclusive development path for all citizens, but they will not be self-executing. Poverty and inequality reducing elements of the agreements will need clear identification and resolute implementation. In this regard, supporting MSMEs, dominated by women and youth who are usually hardest hit by poverty and inequality, will enable these entities to benefit enormously from expanded regional and continental market and their potential integration into regional value chains. This will require support to embed technology and innovation in their operations and build capabilities to understand and comply with various trade regimes and protocols, resulting in their integration into RVCs and GVCs enhanced competitive edge.

45. Success of MSMEs, leveraging technology and innovation, to take advantage of AfCFTA, also contributes to various aspirations of RECs in Southern Africa. For example, the SADC Vision 2050 states that "...SADC is to be an industrialized and integrated region, where citizens equitably benefit from the opportunities of a stable regional market that is ...well integrated into the broader African Continental Free Trade Area (AfCFTA)". Furthermore, the *Action Plan for SADC Industrialization Strategy and Roadmap* calls for the "development of clusters, embodying SMEs, and their integration into RVCs and GVCs..." and what roles the different stakeholders should play in developing MSMEs' capabilities.

46. Also, *COMESA MSME Policy Strategy* visualizes "a developed, vibrant inclusive MSME sector which, through increased competitiveness and value-added output, has vastly increased

*intra COMESA trade and Africa's share in global trade..” In this regard, it aims to “stimulate economic development, accelerate job-creation, create wealth and rapidly reduce poverty in the COMESA Region” with an objectives are to “create and maintain an enabling environment for sustainable growth of MSMEs in the COMESA Region, through building competitive productive capacities to expand the supply of value added goods and services to regional and global markets”.*

47. In conclusion, the theme of the 2023 ICSOE should enable delegates to deliberate how implementation of the various continental and regional trade agreements could be fast tracked to address the perennial challenge of non-inclusive development, realize industrialization objectives through private sector (MSMEs in particular) and value chains development by harnessing technology and innovation, as well as promote complementary implementation of the various FTA regimes. Finally, delegates should propose a minimum package of functionality within the RECs to help implement the AfCFTA, including, *inter alia*, in the areas of policy harmonization, private sector support, infrastructure development and free movement of people and investments.