



United Nations  
Economic Commission for Africa

Southern Africa Office

**Leveraging the African Continental Free Trade  
Area for the Reduction of Poverty and Inequality in  
Southern Africa**

DRAFT ZERO

**DRAFT REPORT**

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## ACRONYMS

AfCFTA	African Continental Free Trade Area
AEC	African Economic Community
AEGM	Ad Hoc Expert Group Meeting
AU	African Union
COMESA	Common Market for Eastern and Southern Africa
FTAs	Free Trade Areas
GTI	Guided Trade Initiative
HDI	Human Development Index
ICT	Information and Communication Technology
MDGs	Millennium Development Goals
MPM	Multidimensional Poverty Measures
RECs	Regional Economic Communities
SADC	Southern African Development Community
SDG	Sustainable Development Goals
SRO-SA	Sub-Regional Office Southern Africa
TORs	Terms of Reference
UNECA	United Nations Economic Commission for Africa

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## 1. INTRODUCTION

### 1.1 Background

1. The international development community with the United Nations in the lead have been concerned with reducing poverty, inequality and vulnerability. Africa has the largest number and proportion of the poor, high levels of inequality and vulnerability in its population. There are variations in the incidence of poverty and poverty, inequality and vulnerability in the different sub regions of Africa. For this reason, the African Union (AU) Agenda 2063 also targets the reduction of poverty, inequality and vulnerability. The UN developed the Sustainable Development Goals (SDGs) as a framework to guide efforts for the elimination of poverty, inequality and vulnerability. SDG 1 and Goal 10 have specific focus on reduction of poverty, inequality and vulnerability. The AU Agenda 2063 focus on poverty and inequality reduction is tackled under Goal 1 which aims for “A high standard of living, quality of life and well-being”.

2. Southern Africa is one of the poorest regions of the African continent 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 sub-optimal progress towards poverty and inequality reduction relative to other regions. The subregion is also the most unequal among all the regions of Africa. These phenomena are almost paradoxical given the conducive climatic conditions and abundance of natural resources that Southern Africa is endowed with, including oil, copper, gold, diamond, platinum, gas, land, and fisheries among others.

3. Several factors explain the challenges faced by Southern Africa to leverage the comparative advantage of abundant resources and drive economic development, poverty reduction and equality. The colonial inheritance of a dualist economy with a slim formal sector and a bloated but dysfunctional informal sector placed most of the population on a trajectory of poverty. Macroeconomic policies and structural reforms spearheaded by newly independent governments to address economic stagnation and poverty in the sub-region were not as successful as intended. Furthermore, structural causes of poverty such as unemployment, relatively low levels of education, corruption, gender, race, as well as external shocks - economic, climate and health - have greatly affected Southern Africa and exacerbated poverty, inequality, and vulnerability in the sub-region.

4. To tackle the social and economic challenges and meet regional and global commitments on inequality and poverty reduction, the subregion has been pursuing initiatives including accelerated industrialization, digitalization and technological advancement, manufacturing value added, intraregional trade, infrastructure development, as well as deepened regional integration. It is envisioned that these initiatives will propel economic growth that will in turn foster poverty and inequality reduction. In this regard, the sub-region has developed or committed to policy frameworks to complement and reinforce these initiatives, of which the African Continental Free Trade (AfCFTA) is critical. The AfCFTA is expected to complement existing Free Trade Areas (FTAs) of Regional Economic

Communities (RECs) such as those of Southern African Development Community (SADC) and Common Market for Eastern and Southern Africa (COMESA), which aim to boost regional economic integration through intraregional trade within and across subregions.

### ***The African Continental Free Trade Area***

5. The African Continental Free Trade Area (AfCFTA) was achieved on the basis of negotiations launched in 2015 in Johannesburg reached agreement in 2018. The Agreement was signed on 21 March 2018 in Kigali, Rwanda. The Assembly of the Heads of State and Government of the African Union (AU) had, during its eighteenth Ordinary Session held in Addis Ababa in January 2012 adopted a decision to establish the AfCFTA. The Agreement entered into force on 30 May 2019 and was launched officially in January 2021 as the largest free trade area in the world in terms of the number of member states. The AfCFTA brings together 55 countries, connects 1.3 billion people with a combined gross domestic product (GDP) valued at \$3.4 trillion. Reaching agreement to establish the AfCFTA was culmination of several initiatives for African integration spearheaded by the African Union (AU) and its predecessor, the Organization of African Unity (OAU). Integration of the continent was one of the main goals of the OAU at its establishment in 1963. It is still a priority in the AU Constitutive Act, which aspires to “accelerate the political and socio-economic integration of the continent” and “promote sustainable development at the economic, social and cultural levels as well as the integration of African economies”.

6. So far<sup>1</sup>, the AfCFTA enjoys strong support from African governments shown by 54 member countries’ signing the agreement and 47 countries’ ratification, including nine countries in Southern Africa. It is heralded as a revolution which widely viewed as one that offers opportunities for growing the African economy and contribute to poverty, inequality and vulnerability reduction.

7. Implementation of the AfCFTA has started under the Global Trading Initiative GTI) since October 2022<sup>2</sup> with a number of countries from different regions of the continent participating. Eight countries from five subregions are currently trading commercially under the GTI in a trial that tests the operational, institutional, legal and trade policy environment under the AfCFTA. Mauritius and Tanzania are two countries from Southern Africa involved in the initiative<sup>3</sup>.

8. African regional economic integration has been going on for some time under various regional economic community (REC) blocks. The AU recognizes eight RECs – CEMAC, CEN-SAD, COMESA, EAC, ECCAS, ECOWAS, IGAD and SADC. These RECs will be interfacing with the AfCFTA. They are at different stages of integration. In Southern Africa,

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<sup>1</sup> As of May 2023.

<sup>2</sup> The products earmarked to trade under this initiative include ceramic tiles, batteries, tea, coffee, processed meat products, corn starch, sugar, pasta, glucose syrup, dried fruits, and sisal fiber, among others, in line with the AfCFTA focus on value chain development

<sup>3</sup> The eight countries participating in the GTI are Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda, Tanzania, and Tunisia and represent five regions of Africa

there is the Southern African Customs Union (SACU) in addition to COMESA and SADC. COMESA has a free trade area and launched a customs union in 2009. SADC is supposed to have achieved the second integration milestone by establishing a SADC Customs Union which was targeted for achievement by 2010. It is still operating a free trade area. The transition to a Customs Union from a free trade area encountered challenges with establishing a single Common External Tariff (CET). The challenge arises from the multiplicity of individual tariff policies that must be converged into a single and uniform tariff regime. It is important to look at how these will operate alongside the AfCFTA when it is operational.

## 1.2 Justification for the study

9. A study focusing on the impact of AfCFTA on poverty and inequality reduction in Africa is important because although the number of people in extreme poverty has declined in recent years on the continent, going from 56 per cent in 1990 to 40 per cent in 2018, the number of poor people continues to increase. The World Bank reports that both the poverty rate and the number of poor people in East and Southern Africa have increased in the recent past<sup>4</sup>. Southern Africa has not made significant progress in poverty reduction relative to other subregions using the Human Development Index (HDI) and the Multidimensional Poverty Measures (MPM). This contrasts sharply with the sub-region's vast natural resource endowments which ought to be exploited for the benefit of the sub-region's population.

10. Southern Africa was ravaged by the Covid-19 pandemic and continues to reel under the effects of the Russia-Ukraine conflict. Both natural and man-made calamities have imposed severe constraints on consumption as costs and price place goods and services beyond the reach of the ordinary but especially the poor and vulnerable in the sub-region. Africa has also relied on Europe as the prime destination of exports from the region. However, the crises of the pandemic and the war have left the continent's producers and exporters severely exposed. The extent of the exposure is underlined by a 53 per cent fall in exports to Europe in 2020-21. That undermined the continent's food security and saw price hikes for fuel with a spreading influence on everything else that is transported. The standard of life for the majority has dropped on account of severe cost pressures. These developments are shocks that have negative impacts in Southern Africa where unemployment and informality are rife. They push the poor and vulnerable population into poverty with loss of employment and closure of businesses. The unemployed have no social security to rely on. Gender and age-based inequality is made worse. Also, enterprises owned by the youth and women faced high risks of closure according to the Global Covid-19 Business Impact Survey conducted by the International Trade Centre (ITC). The survey found that 64 per cent of women-led enterprises declared their business operations as 'strongly affected', by Covid-19 compared with 52 per cent of enterprises led by men. A relevant question in view of these developments is "how can the Southern African sub-region and indeed the continent insulate itself against adverse external economic and social shocks?"

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<sup>4</sup> April 2022 global poverty update from the World Bank, <https://blogs.worldbank.org/opendata/>

How far is the AfCFTA a viable insurance in the circumstances. It is worth exploring any advantages it offers.

11. The AfCFTA is being implemented under the Guided Trade Initiative (GTI), since October 2022<sup>5</sup>. Eight countries from five subregions are currently trading commercially under the GTI in a test of the operational, institutional, legal and trade policy environment under the AfCFTA, with Southern Africa represented by two Mauritius and Tanzania<sup>6</sup>. The experience trading on the AfCFTA GTI offers opportunities to convince and encourage the sub-region to embrace trading under the AfCFTA to secure benefits trade offers and increase opportunities for SMEs, youth and women in trade. The results of the test must be shared widely to get more countries to embark on exploiting this initiative and guide the implementation of the Agreement across the continent. The opportunity is enhanced by the fact that most of the countries in the subregion i.e. Angola, Eswatini, Lesotho, Malawi, Mauritius, Namibia, South Africa, Zambia, and Zimbabwe - have ratified the AfCFTA and these include those covered by SRO-SA. They have received support from ECA SRO-SA to develop AfCFTA implementation strategies. Only Botswana and Mozambique are yet to ratify. The implementation strategies will provide guidance on implementing the Agreement.

12. The poverty and inequality situation in Southern Africa requires that, the subregion's implementation of the AfCFTA takes into account, the need to address poverty and stir up an equitable and sustainable development. In this regard, this study has been commissioned to critically analyze how the AfCFTA could be leveraged to reduce poverty and inequality in the subregion. The study will, highlight the challenges and opportunities of the AfCFTA and guide member states in the region to maximize potential benefits of the Agreement for poverty reduction and equality in the sub-region.

### ***The AfCFTA, Poverty and Inequality Reduction***

13. This section covers the AfCFTA's expected impacts on member states economies but specifically on the poverty, inequality and vulnerability situation. Before looking at the impacts, an outline of context and how the AfCFTA can generate and distribute impact is a necessary background. This provides a theoretical background which draws links between RTAs and their impacts in member state economies.

14. The AfCFTA like many RTAs has its foundations in theory. Traditional theory on regional trade agreements were advancing the theory of liberalization. New theories view regional integration arrangements as instruments of development for the regions in them. We shall outline and review the basic theories and some concepts that are essential to thinking

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<sup>5</sup> The products earmarked to trade under this initiative include ceramic tiles, batteries, tea, coffee, processed meat products, corn starch, sugar, pasta, glucose syrup, dried fruits, and sisal fiber, among others, in line with the AfCFTA focus on value chain development

<sup>6</sup> The eight countries participating in the GTI are Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda, Tanzania, and Tunisia and represent five regions of Africa



about and understanding regional trade agreements especially when there is consideration to alter current development trends and reduce poverty, inequality and vulnerability.

### 1.3 Objectives of the study

15. In order for the AfCFTA to be leveraged in the drive to reduce poverty and inequality, it must have the capacity to contribute meaningfully to such a reduction. As result, it is essential that the impact of the AfCFTA on poverty and inequality reduction in Southern Africa be subjected to rigorous analysis and not be taken for granted. The AfCFTA impact has been variously modelled but more work is necessary to guide the implementation process and ensure the agreement delivers benefits to ordinary people in participating countries capable of significantly changing the poverty and inequality situation in a positive way. The main source and driver in the relationship is trade through the integrating influence of the AfCFTA. The integrated continental free trade area is expected to provide an impetus for intra-regional trade. This is particularly important since such trade configuration involves substantial price variations and changes in allocations of resources and income within and between countries. The objective is to explore and highlight how the AfCFTA can be tailored to contribute to poverty, inequality and vulnerability reduction.

#### *a) Overall objective*

16. The overall objective of the study is to produce a robust, analytical, and well-informed report on the impact of the AfCFTA on poverty and inequality reduction in Southern Africa. The intent is to bring the findings to bear on the implementation of the Agreement in Southern Africa to maximize the potential benefits of the Agreement for poverty and inequality reduction in the subregion.

#### *b) Specific objectives*

17. Specifically, the study will address the following objectives:
- i. Examine the key issues for AfCFTA implementation in Southern Africa and potential for poverty and inequality reduction in the subregion, taking into account heterogeneity within and between countries.
  - ii. Provide a critical analysis of the challenges and opportunities presented by the AfCFTA in view of poverty and inequality reduction in Southern Africa.
  - iii. Foster understanding, promote dialogue and partnerships among key stakeholders at national, regional, and continental level in leveraging the AfCFTA for poverty and inequality reduction in Southern Africa.
  - iv. Advance policy options and measures for maximizing the potential benefits of the AfCFTA to reduce poverty and inequality in Southern Africa.

#### 1.3.1 Objectives of the consultancy, scope and expected outcomes

18. The objectives of the consultancy are two-fold:
- (a) The first is to produce a robust, analytical, and well-informed report on poverty and inequality reduction in Southern Africa through the implementation of the AfCFTA.

The intent is to ensure that benefits of implementing the Agreement in Southern Africa are maximized to contribute to poverty and inequality reduction in the subregion.

- (b) The second is to provide substantive support for the organization and servicing of the Adhoc Expert Group Meeting (AEGM) for the validation of the draft study report.

#### Scope of the study

19. The TORs specify the scope of study as:

- (a) Cover Southern Africa with a particular focus on the 11 member States of the ECA Subregional Office for Southern Africa i.e., Angola, Botswana, Eswatini, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Zambia, and Zimbabwe;
- (b) Establish an effective methodology and analytical framework to determine the impact of the AfCFTA on poverty, inequality and vulnerability reduction in Southern Africa taking into account variations within and between countries;
- (c) Provide an in-depth analysis of mechanisms through which the AfCFTA could be leveraged to enhance the implementation of key national, subregional, regional and global frameworks and strategies for poverty, inequality, and vulnerability reduction, taking into account key implementation issues, gaps, challenges and opportunities;
- (d) Analyze success factors and enabling measures, policy and practical options and measures, as well as capacity issues pertinent to the effective implementation of the AfCFTA in Southern Africa for poverty, inequality, and vulnerability reduction;
- (e) Identify relevant stakeholders at national, regional and continental levels, and their role in advancing the effective implementation of the AfCFTA for poverty, inequality, and vulnerability reduction in Southern Africa;
- (f) Based on its findings, present robust conclusions and advance well-informed policy options to promote effective pathways and mechanisms for leveraging the AfCFTA to contribute to poverty, inequality, and vulnerability reduction.

#### 1.4 Approach and Methodology

20. In seeking to explore and highlight opportunities for leveraging the AfCFTA for poverty and inequality reduction, the study needs to be underpinned by a comprehensive understanding of the forms of poverty and inequality and the channels through which the continental agreement can be implemented to effectively deliver the expected outcomes. Section 3 provides definitions of poverty, inequality and vulnerability and also provides statistics that illustrate the levels of well-being which indicate worrying levels and rising numbers of those caught up in poverty.

21. This study follows on many that have illustrated the positive impact on poverty, inequality and vulnerability reduction based on a combination computable general equilibrium (CGE) models and microsimulation analysis. Many studies were done following the initiatives to establish the AfCFTA and are all future looking. In looking at how to leverage the AfCFTA to reduce poverty, inequality and vulnerability, this study does not seek to add on modelling outcomes but focuses on identifying channels through which the benefits of integration flow and how to ensure that the assumptions in the models can and have to be satisfied to create

ideal conditions for concretising the realisation of the modelled outcomes. In addition, important actions that ensure that integration occurs must be outlined which indicate member states contribution to concretizing the realisation of integration and in the process entrenching the flow of integration benefits that contribute to the reduction of poverty, inequality and vulnerability especially in Southern Africa. Understanding the channels through which the AfCFTA can contribute to the reduction of poverty, inequality is important in order to strengthen implementation of the real change drivers.

### 1.5 Limitations of the study

22. The study is based in literature review and use of secondary data plus country strategies for implementing the AfCFTA at country levels. An analysis of REC strategies for handling interface between their regional integration initiatives and the AfCFTA implementation is important in understanding whether they will be complementary or competing. If they strive to achieve regional integration and promote intra-REC and continental integration, they should be more complementary. Views of REC and strategies of the three RECs that exist in Southern Africa – COMESA, SACU and SADC are important and should be covered.

### 1.6 Outline of the structure of the study report

23. This report focuses on how the AfCFTA can be basis for poverty, inequality and vulnerability reduction in Southern Africa. The report is organized in six sections. Section 1 outlines the background, approach and structure of the study report. Section 2 sketches out the conceptual framework for channels through which benefits of AfCFTA integration poverty, inequality and vulnerability can be handled and delivered. Section 3 provides definitions and an understanding of poverty, inequality and vulnerability in the Southern Africa as well as introduce the AfCFTA, structure, objectives and developments so far. An understanding of the AfCFTA and its workings is essential to understanding how it can be used as an instrument for reducing poverty, inequality and vulnerability. Section 4 explores the literature on the impact of the AfCFTA highlighting the models used in estimating impacts on various implementation can be directed to achieve the objectives of reducing poverty inequality and vulnerability basing on the review of specific studies that estimated the impact of the AfCFTA. Section 5 focuses on how the channels of identified in Section 2 and how they can be used to generate povety, inequality and vulnerability reduction. Section 6 provides conclusions and recommendations.

## 2. CONCEPTUAL FRAMEWORK

### 2.2 Identifying critical AfCFTA implementation and how it can contribute to poverty, inequality and vulnerability reduction in Southern Africa

24. Regional and in this case, continental integration brings countries together to overcome divisions that impede the flow of goods, services, capital, people and ideas whose existence constrains economic growth<sup>7</sup>. The initiatives to overcome divisions address the results of

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<sup>7</sup> Regional Integration Overview <https://www.worldbank.org/en/topic/regional-integration/>

geography, poor infrastructure and inefficient policies and integrate goods, services and factors' markets in the process facilitating the flow of trade, capital, energy, people and ideas. Integration in FTAs does not automatically occur or create trade; they provide incentives for investors, producers, and traders to take up the new opportunities that the market access provisions for both goods and services the FTA provide. Additional provisions, including trade and investment facilitation will also be considered by economic decision makers as they decide to take up new opportunities.

## 2.1 Conceptualising AfCFTA and regional economic integration impact on poverty, inequality and vulnerability

25. This section introduces the conceptual framework that can explain the channels through which the AfCFTA implementation can generate outcomes that can enhance the reduction of poverty, inequality and vulnerability. This framework has borrowed much from the UNCTAD (2004)<sup>8</sup> and ODI (2004). The UNCTAD report illustrates the relationship between trade, the development of productive capacities, employment and poverty. The main influence of trade is in the encouragement of the establishment of productive capacities which leads to the employment (including of the poor). Employment and incomes earned from employment contribute to the reduction of poverty. The study by Te Velde, Page and Morrissey (2004) shows that regional integration can affect poverty through four channels

- through increased volume and/or poverty focus of trade
- increased volume and/or poverty focus of investment
- through increased volume and/or poverty focus of migration
- through other routes

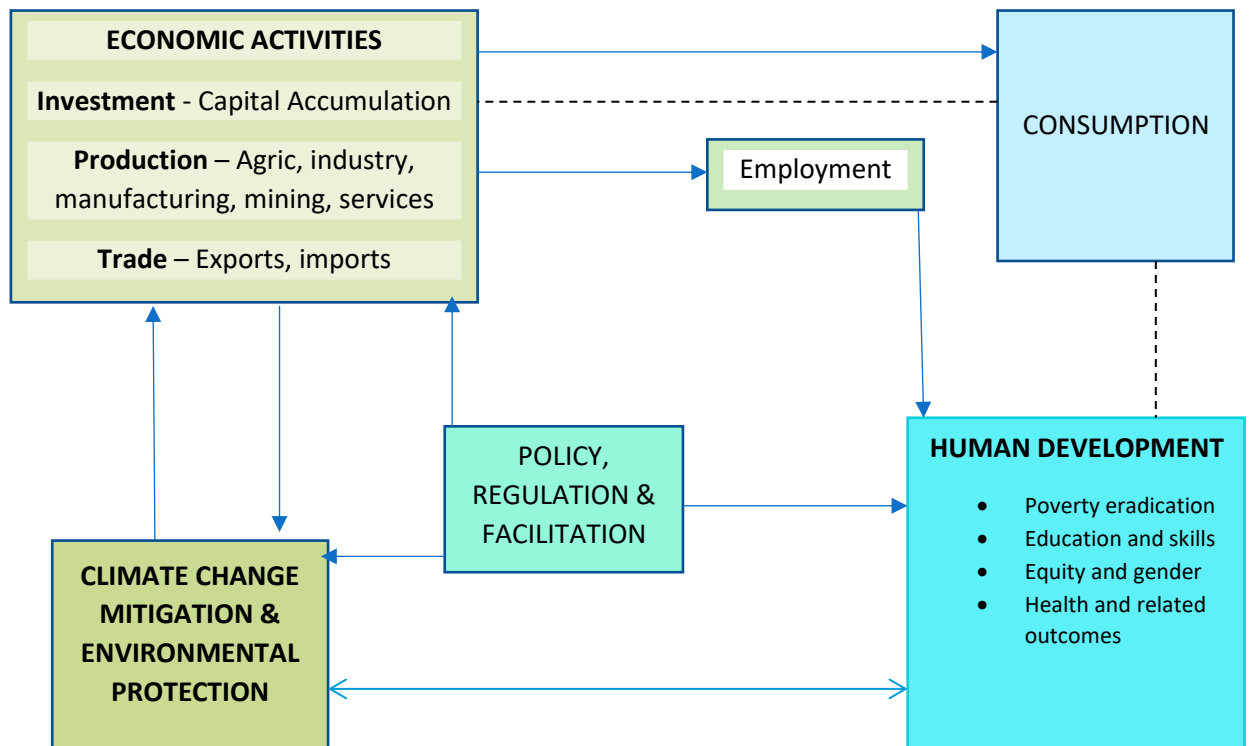
26. The set of outcomes of regional integration arrangements and possible channels through which can be directed to impact poverty, inequality and vulnerability are shown in Figure 1. The top half of the Figure represents the expected economic effects of the implementation of the AfCFTA. Central to regional integration benefits is trade expansion initiated by tariff liberalization, trade facilitation and NTB removal. These interventions have the general impact on prices making goods and services where tariffs have been liberalized and NTB removed cheaper. The expected economic activities of investment, increased production and increased trade exports and imports of intermediate and final goods can only occur when the continent's negotiated trade policies are implemented. The economic related gains from the implementation of AfCFTA will lead welfare benefits based in employment, income and consumption. The production processes in the economic activities corner exert influence on the climate change and mitigation in the bottom half and can affect poverty, inequality and vulnerability reduction. Employment, income and consumption are outcomes of economic activities. Two direction arrows in Figure 1 show mutual influence. Increased opportunities for employment and business and MSMEs including in the informal sector can reaches the poor and vulnerable.

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<sup>8</sup> UNCTAD (2004) *The Least Developed Countries Report*, 2004 United Nations publications sales no. E.04.II.D.27

27. The bottom half of the figure represents the areas where intervention through AfCFTA protocols, REC policies and national governments is expected to make a difference for the poor. Intervention in the broad area of human development and the area of climate change and natural hazards mitigation and intervention on environmental issues are necessary for the protection of the poor.

**Figure 1: Conceptual Framework for assessing AfCFTA Impact**



28. The policy, regulation and facilitation box in the bottom represents the interventions associated with AfCFTA effective implementation which cascades into the participation and role of RECs and national governments through domestication. While this is drawn in the centre of this framework, it could also be outside because policies, regulations and facilitation interventions describe the entire process of making the AfCFTA operational. It is important to underline that it is critically important that there be policies favourable to business at AfCFTA, regional and national levels. Facilitation relates to support and provision of infrastructure such as road and rail for transport, ICT, energy and power generation and transmission. In addition, the situation at border to facilitate trade and transit trade traffic. Policies are required to ensure distribution and protection of the poor sections of the population.

29. Some RECs have poverty reduction frameworks and strategies. For example, SADC’s RISDP is premised on development to lift the welfare of the sub-region’s population and

eradicate poverty. In relation to this, countries have been formulating and developing national AfCFTA implementation strategies in order to provide guidance for the implementation process to ensure beneficial outcomes to ordinary citizens in participating countries. Participating RECs will develop their strategies as well to harmonize and align their regional integration agenda with the continental framework to accelerate regional integration. It is also this area that provides scope for interventions that are non-economic that can be tailored towards reducing poverty, inequality and vulnerability. The AfCFTA has protocols in some areas that had not been disciplined under free trade area or regional integration arrangements.

30. It is imperative to underline that the AfCFTA is an expansive agreement with deep integration agenda. The AfCFTA covers trade in goods and services, and other trade related matters like investment, intellectual property, competition, and e-commerce. Its effective implementation at a national and continental level is critical to successfully leveraging on the economic and distributional benefits envisaged. In this regard, national implementation strategies outline the strategic objectives and intervention areas to focus and promote to reap the clear-cut benefits.

#### 2.1.1 Economic channels of AfCFTA implementation

31. The AfCFTA aims to create a single continental market for goods and services to promote trade and investment among African countries and with the rest of the world. The market, investment and trade are the economic elements of regional integration seeking to catalyse growth in the economies of the continent. In an integration arrangement, there is cooperation between countries in:

- a. Trade, investment and domestic regulation;
- b. Transport, ICT and energy infrastructure;
- c. Macroeconomic and financial policy;
- d. The provision of other common public goods (e.g. shared natural resources, security, education).

32. There are a variety of activity lines in the broad economic channel. The World Bank (2020) categorises the benefits of the AfCFTA in the economic sphere mainly as macroeconomic arising due to expansion of economic activities. The impacts include real income, trade expansion, output growth and changes in government revenues. These lines of impact can lead to poverty and inequality reduction through increased employment, increased and improved consumption. Many will join the economic sphere taking advantage of opportunities created by the AfCFTA. These gains extend to the informal sector and MSMEs sector and those dominated by women and youth has scope for spreading the benefits of liberalization and gains from market efficiency.

- Production responding to costs reduction to a combination of factors
- Investment and creation of productive capacities
- Trade created by the opportunities of replacing previously imported and
- Consumption and welfare improvements

33. In the preferential trade phase, reduction in tariffs lower the costs of products traded and of doing business, leading to increased demand for products supplied within the regional arrangement. Production within the region (in the case the continent) makes economic sense. Investment growth develops on new productive capacities in the process creating jobs and increasing employment and incomes. The poor can be engaged in new or expanded ventures and can be lifted out of poverty through earnings from employment and new ventures.

34. The growth of production is in the key sectors that produce goods i.e. agriculture, industry and services. This is viewed as an opportunity for African countries or AfCFTA Member States to accelerate industrialization and manufacturing growth as intra-regional trade offers scope for increasing industrial output and the development of value chains connecting African countries and exploiting the regional markets. However, growth in production of services that enable production such as energy is also expected. The benefits for poverty and inequality reduction in this area occur through the creation of employment opportunities for the poor.

35. Development within the AfCFTA can also accelerate benefits by pushing for progress in the implementation of trade reforms. The implementation of trade reforms varies widely across the continent. Progress can be achieved by streamlining areas and focusing on provisions agreed. The main lines that often remain unimplemented or are partially implemented are:

- Tariff liberalization
- Containment or reduction and elimination of non-tariff measures
- Other provisions covered by protocols focussing on specific aspects for example

36. The Agreement has a number of protocols that seek to address specific areas to guide the conduct of trade and relations through agreed rules or treatment of relations between parties in the AfCFTA and how they deal with trade with parties external to the agreement. In these protocols, there is scope for allocating and allowing disadvantaged sections of continent to participate and receive a share of the business or income. This could set aside certain levels of business or values of contracts. The improved implementation of such provisions goes a long way to boosting poverty and inequality reduction. Simplified trade regimes are opportunity creating. It is possible to provide focus such as protecting women traders and promoting the growth of small and medium sized businesses.

### 2.1.2 Non-economic channels

37. There are other aspects of AfCFTA implementation that are non-economic but that can be used to improve the lot of the poor in general which can be considered for reducing poverty and inequality in Southern Africa. These are policy induced decisions or interventions made at continental, REC or national levels that target specific areas with a view to effecting or bringing change relating to the implementation of the AfCFTA, mitigation of impacts or targeting sections of the population to improve welfare. It is also important to acknowledge that trade connectivity is oriented through legal, regulatory, and institutional frameworks.

*AfCFTA Protocols, REC priorities and Government policies, decisions and support*

38. Governments remain major players and influencers even in the AfCFTA<sup>9</sup>. Their policies, decisions and support through the provision of enablers such as infrastructure are essential. The domestication of the AfCFTA recognises priorities of governments. In relation to the implementation of the AfCFTA, governments have developed or must develop comprehensive national implementation strategies including prioritising sector frameworks. There is scope for prioritizing broad strategic objectives, including transitioning over time to more manufacturing value-added products and services as a percentage of total exports. 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.

39. Government can introduce directives and interventions targeting the poor and vulnerable. Such techniques can also apply in so far as disadvantaged groups or the poverty are made to benefit. These could be through enrolling or according a percentage of places in schools to children unable to pay fees or allowing a certain percentage of the patients attended at clinics and hospitals which improves access or meets the needs of disadvantaged and the provider receives credit.

40. Two other channels can be dealt with here – human development and resources including natural resources as capital at the disposal of a people, nation, region and the continent. As capital, these can be used to further the development of the population and be specifically deployed to address concerns with poverty and inequality. It should be noted that resources, especially natural resources can be depleted and when they are, this becomes a constraint on how they can be harnessed for development. In the same way, if they are degraded or their value is reduced in an environmental sense, or are not usable to further development, then they can exacerbate poverty and/or inequality.

*Human development*

41. This covers a range of interventions to make life more bearable. The providers of interventions are government through annual budgets, private sector providers and non-governmental organizations. Education and skills provision bring in the poor to access opportunities and prepares them for employment and healthy living. Human development includes empowerment, which lifts the levels of opportunities available to the population including the for poor. Issues of equity and gender are also handled under this channel. These seek to improve the quality-of-life aspects and eradicate poverty and inequality.

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<sup>9</sup> Regional integration occurs under agreement by governments which continue to regulate the nature and form the integration takes.



42. The resource base channel includes natural resource endowments, protection of the environment and combating the desertification. All resources are available for all to enjoy and must be preserved and sustainably used.

43. The framework shows the integration streams or the channels through which there is scope to reduce poverty, inequality and vulnerability. The actual actions to ensure that this happens require the AfCFTA, the RECs and by member states.

DRAFT ZERO

### 3. UNDERSTANDING POVERTY, INEQUALITY AND VULNERABILITY AND THE AfCFTA

#### 3.1 Understanding poverty, inequality and vulnerability

44. The international development community with the United Nations in the lead have been concerned with reducing poverty, inequality and vulnerability. Africa has the largest number and proportion of poor, people with high levels of inequality and vulnerability in its population. There are variations in the incidence of poverty and poverty, inequality and vulnerability in the different sub regions of Africa. For this reason, the African Union (AU) Agenda 2063 also targets the reduction of poverty, inequality and vulnerability. The UN developed the Sustainable Development Goals (SDGs) as a framework to guide efforts for the elimination of poverty, inequality and vulnerability. SDG 1 and Goal 10 have specific focus on reduction of poverty, inequality and vulnerability. The AU Agenda 2063 focus on poverty and inequality reduction is tackled under Goal 1 which aims for “A high standard of living, quality of life and well-being”.

##### 3.1.1 Defining Poverty, Inequality and vulnerability

45. The concepts of poverty, inequality and vulnerability are related. It is essential to have a comprehensive understanding of the concepts in all attempts to address them. We provide some definitions to guide the discussion of issues around reduction.

##### *Poverty*

46. Poverty is a complex phenomenon which is commonly viewed as a lack of material resources but is much broader and relates to all aspects of people’s or households’ lives. The state of lack of usual or socially acceptable amount of money or material possessions affects and manifests in many ways. A World Bank report<sup>10</sup> defined and highlighted poverty as characterized by a) lack of opportunity; b) insecurity and vulnerability; and c) powerlessness. Lack of opportunity includes broader access to additional income and consumption that is made worse by a lack of assets necessary to secure basic necessities. The absence or lack of access to each of these represents deprivation. Therefore, poverty is a deprivation of essential assets and opportunities which are required to satisfy basic human needs. (World Bank 2005)<sup>11</sup>. In this regard, the world’s poor can be identified as fitting many possible descriptions, for example, they are more likely to be malnourished, have less access to economic and social services such as education, electricity, sanitation and healthcare, and more vulnerable to shocks such as conflict and climate change. Understanding poverty is thus fundamental to understanding how societies can progress (World Bank)<sup>12</sup>. Poverty can be absolute or relative; cyclic or collective; situational (transitory) or chronic. Absolute poverty involves the chronic lack of food, clean water, health and housing – the basic necessities of life based on a minimum standard of living considered normal. On the other hand, relative poverty refers to the status of

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<sup>10</sup> World Bank (2001), *Attacking Poverty: World Development Report 2000/2001*, Washington DC: World Bank

<sup>11</sup> Introduction to Poverty Analysis, World Bank Institute

<sup>12</sup> [WDI - Poverty and Inequality \(worldbank.org\)](http://www.worldbank.org)

a person or a family's inability to access or reach a certain threshold standard of living when compared to others in society. Cyclic poverty can be widespread but occurs for a limited duration. This type of poverty is characterised by an inability to meet basic needs especially food and due to shortages caused by natural phenomena e.g. drought or floods. Collective poverty refers to a situation of relative permanent insufficiency of means to secure basic needs. This is the type that can also be generational, inherited and transmitted across generations.

47. It is underlined that the multidimensional nature of poverty and takes on a variety of forms. It is a condition characterized severe deprivation of basic human needs. More broadly, this condition is characterized by:<sup>13</sup>

- Lack of opportunity;
- Insecurity and vulnerability; and
- Powerlessness

48. These characteristics will manifest in several ways. Some indicators and evidence of poverty include unsafe environments, social discrimination and exclusion and lack of participation in decision making and in civil, social and cultural rights; and powerlessness, lack of representation and freedom. Lack of access to health and education and opportunities to earn an income and productive resources to ensure sustainable livelihood are also important. The unavailability of escape or exit options highlights the extent of vulnerability.

49. Poverty represents disempowerment. The poor are disempowered; they are unable to deal with negative and adverse treatment from more powerful sections of society. There is discrimination against groups such as along gender, race or ethnic lines. The imbalance in power relations between stronger and weaker ones has the poor always facing bad treatment; they are consigned to a life of relegation and are down trodden. This applies in all aspects of people's lives, in social, economic and health spheres.<sup>14</sup> Poverty eradication initiatives must target the apparent forms and seek to address the causes as well.

50. In the many dimensions, in terms of measurement, poverty is widely measured in monetary terms. However, while this is common practice, poverty has monetary and non-monetary dimensions which are important and useful in assessing poverty components. Monetary poverty measures quantify a basket of basic necessities and those not able to access these are then considered poor. A common example of a monetary poverty measure is living on less than \$1.90 per day. This is premised on the minimum quantum of goods and services that meet an individual's basic needs. The cost of living differs by place, region and country and therefore comparison based on the monetary measures of poverty might not be adequate and miss certain elements. In addition, the monetary measures of poverty are inadequate to handle and account for the non-monetary factors that explain poverty. Well-being and quality

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<sup>13</sup> Based on World Bank (2001) *Attacking Poverty: World Development Report 2000/2001*, Washington DC: World Bank and UNCTAD (2004) *The Least Developed Countries Report*, 2004 United Nations publications sales no. E.04.II.D.27, Geneva

<sup>14</sup> Ndlovu, L.B. (2010) *Trade and Poverty Reduction*, Trapca Working paper TWP 1011, Arusha

of life are not always reducible to monetary quantification and will always miss those aspects. To augment for the inadequacies of the monetary poverty measures, UNDP has developed a Human Development Index.

#### *Multidimensional poverty*

51. Multidimensional poverty measures take into account different factors that contribute to poverty. These factors include access to education, healthcare, housing, and basic services. These measures recognise that poverty, over and above income or consumption, also involves social and economic exclusion. The calculation of multidimensional poverty measures is based on a range of indicators that reflect different dimensions of poverty. Individuals and households are considered poor if they lack access to a certain number of these indicators. The index derived through this calculation, the multidimensional poverty index (MPI), measures the percentage of households in a country deprived along three dimensions – monetary poverty, education, and basic infrastructure services – to capture a more complete picture of poverty. The Multidimensional Poverty Measure (MPM) seeks to understand poverty beyond monetary deprivations (which remain the focal point of the World Bank’s monitoring of global poverty) by including access to education and basic infrastructure along with the monetary headcount ratio at the \$2.15 international poverty line<sup>15</sup>.

#### *African multidimensional poverty index*

52. Current data on the global MPI shows that 534 million of the world’s 1.1 billion poor people live in Sub-Saharan Africa. Further, on the African continent, Southern Africa is one of the continent’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 sub-optimal progress towards poverty and equality reduction relative to other regions.

#### *Inequality*

53. Inequality is a broader concept than poverty in that it is defined over the entire population, not just for the portion of the population below a certain poverty line. According to Khandker and Haughton (2009), inequality focuses on the distribution of attributes, such as income or consumption, across the whole population. In the context of poverty analysis, inequality requires examination if one believes that the welfare of individuals depends on their economic position relative to others in society. UNDP underlines that inequality is not just confined to wealth (net worth) or income (pre-tax salary) but extends to issues such as life expectancy, or how easily a person can get healthcare, quality education or public services<sup>16</sup>. Inequalities also exist between sexes and social groups. All aspects of inequality undermine the ability to achieve the SDGs. These must be measured in order to promote sustainable development.

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<sup>15</sup> [Multidimensional Poverty Measure \(worldbank.org\)](https://www.worldbank.org/en/topic/poverty/brief/), <https://www.worldbank.org/en/topic/poverty/brief/>. The monetary poverty of less than \$2.15 per day is the World Bank’s New International Poverty Line at 2017 PPP (Purchasing Power Parity), as one of the dimensions.

<sup>16</sup> This is based on the UNDP (<https://sdgs.undp.org/2019-inequality/en/>).

54. The most commonly used metric is income inequality focusing on the uneven distribution of income among the population. Other concepts are *Inequality of Wealth* (distribution of wealth across households or individuals at a particular point in time), and *Inequality of Opportunity* (impact on income of circumstances over which individuals have no control, such as family socioeconomic status, gender, or ethnic background).<sup>17</sup> Income inequality is measured by the Gini coefficient. The coefficient values range between 0 and 1, where 0 indicates perfect equality and 1 perfect inequality. Similar to poverty, most of the inequality discourse focuses on economic inequality, placing emphasis on the unequal distribution of resources and opportunities among individuals or groups within a society. Thus, income and wealth inequalities dominate literature in the economic sphere.

55. Inequality can be measured in many ways. The simplest way to measure inequality is by dividing the population into fifths (quintiles) from poorest to richest, and reporting the levels or proportions of income (or expenditure) that accrue to each level. The World Development Indicators (WDI) database presents a wide range of inequality indicators such as the Gini index and the share of consumption or income held by each quintile. The measures offer different ways to capture and communicate aspects of the income distribution. For example, SDG target 10.1 aims for the income of the bottom 40 percent to be growing faster than the national average by 2030. Progress is measured by the difference between growth in the consumption or income of the bottom 40 percent and growth in the consumption or income of the mean of the population as a whole.

56. Studies of inequality have largely been conducted with a focus on single dimensions such as income, health, and education which reflect the influence of discipline and experts' backgrounds. Knowledge of income and wealth inequality has advanced considerably over the years. Long time series data on income and wealth from the United Nations, World Bank, and other organizations have contributed to this phenomenon<sup>18</sup>.

#### *Income inequality*

57. Income inequality is the extent to which income is distributed unevenly across people or across households. Income encompasses labor earnings (such as wages, salaries, and bonuses), capital income derived from dividends, interest on savings accounts, rent from real estate, as well as welfare benefits, state pensions, and other government transfers (Trapeznikova, 2019). It represents the disparity between incomes of various categories of people in an economy. Although the focus is on the gap between the those with lowest when compared to those with the highest income, the comparison should be across the economy. It has to be understood that there is no society with an equitable distribution of economic resources meaning that there are rich, poor, and those in the middle societies; there will be differences in the relative gap between economic groups, The focus on income inequality is based on the notion that income is a major determinant of quality of life, affecting the health and well-being of individuals and families.

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<sup>17</sup> Introduction to Inequality, <https://www.imf.org/en/Topics/Inequality/>

<sup>18</sup> The Draft Report on the Status of Poverty and Inequality in Southern Africa, 2023.

58. It is possible to study and make comparisons of income inequality within countries, between countries, or across the world's population without regard to national boundaries. The Gini coefficient is the most frequently used measure of inequality. It is based on the Lorenz curve (Gastwirth, 1972). The Gini coefficient is defined as the area between the Lorenz curve and the 45-degree line, divided by the total area under the 45-degree line. A lower value of the Gini coefficient indicates more equality in a society or less disparity between incomes of population segments.

### *Wealth inequality*

59. Wealth is the value of one's assets, or property. It describes the stock of things owned that have market value. Wealth inequality covers the lack of financial resources as well as the lack of social and human capital, which are necessary for individuals to live a dignified life (Marger 2013).

60. There are different methods of measuring inequality that are used including looking at the share of wealth held by the top 1 per cent, 5 per cent, or 10 per cent. This measure looks at the percentage of total wealth held by the wealthiest individuals or households in a society (Alfani, 2019). However, just like the case with income inequality, the Gini index is used because of its vast application in the social sciences and the significant amount of the information available on wealth inequalities between countries expressed as a Gini value.

### *Multidimensional inequality framework*

61. Understanding and measuring inequality differs and this is demonstrated by the outcomes and trends in terms of global inequality, and between and within countries. While a unified understanding and measurement is nearly impossible, it is clear that dealing with inequality benefits from a multidimensional approach because it involves much more than income and wealth status. A multidimensional inequality framework (MIF) has been used by many to encapsulate the multidimensional nature of inequalities<sup>19</sup>. It offers a systematic multidimensional approach to assessing inequality in the quality of individuals lives. The MIF draws on the capability approach to provide a clear methodology for assessing inequalities in individual well-being. This focuses on differences in people's capabilities to live life they value highly.

62. For the purposes of the MIF, there are generally three conversion factors which play an important role in the identification of inequality drivers and candidate policies. These are a) personal conversion factors (such as personal characteristics: physical and mental aspects, age, and sex); (b) social conversion factors (such as social institutions, social norms, gender, religious, cultural, moral), and (c) environmental conversion factors (e.g. climate, pollution, and deforestation). These factors influence the conversion rate from individual resources into 'functionings' (outcome or achievement) and capabilities (real opportunities or positive freedoms).

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<sup>19</sup> MIF was developed by Oxfam, the School of Oriental and African Studies (SOAS), the Centre for Analysis of Social Exclusion, and the International Inequalities Institute at the London School of Economics.

63. Several domains reflect drivers of inequality, and these are life and health, physical and legal security, education and learning, financial security and dignified work, comfortable independent and secure living conditions, participation, influence, and voice, and individual, family, and social life. Each domain has empirical indicators and data on these indicators will be extracted from several households and country-level databases for analysis purposes. Measures of inequality within each domain include a combination of differences in prevalence of advantage and disadvantage between groups. For example, life and health may have avoidance of premature mortality as one of the indicators and this will be analyzed with respect to gender, socio-economic status, and geographical location among others. Analytical techniques which involve finding relationships between two or more variables will be applied in this regard to determine groups which may have an advantage and those which may not within a country.

64. The MIF allows for contextual flexibility in terms of the indicators applied and the selection of such indicators will largely be determined by data availability. It is envisaged that data on certain indicators will not be uniformly available across included countries. Relative between-country variations in indicators is expected in the analysis.

### Vulnerability

65. Vulnerability refers to the risk that some event will negatively affect an individual's or household wellbeing. As a definition, vulnerability to poverty is "the propensity to suffer a significant welfare shock, bringing the household below a socially defined minimum level" (Kühl 2003,). Assa and Meddeb (2021) posits that previously, discussions on vulnerability focused on the weaknesses and defencelessness of vulnerable groups such as informal workers, the elderly or landless people. However, there has been a shift towards a broader view of reducing exposure to uncertainty and risk in order to minimize the likelihood of a shock resulting in a large drop in well-being. In this regard, vulnerability is viewed as insecurity leading to destitution. Poor households have to contend with risk and uncertainty most of their lives. Ouoya (2021)<sup>20</sup> defines vulnerability to poverty as the likelihood that a non-poor (or poor) household will fall (or will remain) in poverty in the near future. It is mainly the presence of risk in the daily life of these households and their low capacity to cope with these risks and the shocks they could generate that explain this state of vulnerability. The inability to effectively deal with shocks often confirms their poverty status as well as their vulnerability. Often, many people move into or out of poverty in different years. Information about vulnerability is required and relevant for public policies that aim to reduce poverty and vulnerability. People are highly vulnerable if they have more than an even chance of being poor in the next period, and moderately vulnerable if they are more likely than the typical person to be poor next year.

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<sup>20</sup> Poverty and Vulnerability to Poverty: Conceptual Overview, Measurements and Causes, International Journal of Scientific and Research Publications, Volume 11, Issue 8, August 2021

66. There are several types of vulnerability that can be drawn from the definition. On the one hand, there are vulnerable households that are currently poor and expected to remain poor in the future. These households are often categorized as living in chronic poverty.

#### *Monetary vulnerability to poverty*

67. A household is vulnerable to poverty if it is likely to be poor in the future. The monetary income vulnerability arises due to an expected shortage or absence of income. This can happen due to lack opportunities to earn an income which either be seasonal or created by changes or shocks in the system leading to a welfare shock. When this happens, individuals and households easily plunge into poverty because of the changed circumstances. The risk of changes in income earning capacity creates or is the source of income vulnerability. Focusing on the income vulnerability alone is considered a weak or limited understanding of vulnerability. Like poverty and inequality, restricting consideration to monetary or income elements overlooks other important dimensions which need to be understood on the way to addressing vulnerability. A more comprehensive approach factors the many dimensions of vulnerability to poverty.

#### *Multidimensional vulnerability to poverty*

68. Many changes can occur that could lead to individuals or households to fall into poverty. A multidimensional vulnerability index is a composite index catering to or taking account a range of vulnerabilities. There are economic and environmental vulnerability indexes that are built up to cover aspects that are of interest. Assa and Meddeb (2021) developed a Multidimensional Vulnerability Index (MVI) for Small Island Development States (SIDS) by adjusting an EVI that includes 11 indicators: 1. Merchandise export concentration 2. Share of agriculture (as well as fishing forestry and hunting) in GDP 3. Remoteness and landlockedness 4. Instability of exports of goods and services 5. International tourism, receipts (percentage of total exports) 6. Personal remittances, received (percentage of GDP) 7. Foreign direct investment, net inflows (percentage of GDP) 8. Share of population in low elevated coast zones 9. Share of population living in drylands 10. Victims of disasters 11. Instability of agricultural production. For countries in Southern Africa, some of the indicators can be replaced or appropriate ones applicable to the specific situations of countries in the region. For example, Malawi, Mozambique and Zimbabwe have borne the brant of flood (weather) related disasters. In the case of Mozambique, the indicators for SIDS are applicable. In order to be able to reduce vulnerability, all the aspects in the MVI must be catered for or managed.

### **3.1.2 The State of Poverty in Southern Africa**

69. The understanding of poverty, inequality and vulnerability is useful for designing approaches to their reduction in the population. The concern with reduction of poverty and inequality is the focus of the UN's SDGs and the AU Agenda 2063, and other regional, and international development organizations. The state of poverty, inequality and vulnerability in Southern Africa is the subject of a dedicated study. We shall use the findings to highlight the reasons behind the concerns with the levels of poverty, inequality and vulnerability. The numbers associated with the various indicators of poverty, inequality and vulnerability in



Southern Africa are of interest as indicators of where poverty and associated deprivations are at and as indicators of what needs to be done to secure and ensure the well-being of more people who are currently mired in poverty.

### *Poverty*

70. The study report shows that the proportion of poor people in the Southern African subregion using US\$2.15 as a threshold is significant. This is the case in countries such as Malawi, Mozambique, Zambia, Angola, and Zimbabwe when using the income poverty indicator. When using the Multidimensional Poverty Index, more than half of the population in several countries in Southern Africa are considered multidimensionally poor. For example, in Zimbabwe, 25 per cent of the population lives in, while Mozambique, Angola, Malawi, Zambia and Namibia have significant proportions who live in multidimensional poverty. Mozambique with 73 per cent has the highest proportion of the population living in multidimensional poverty and South Africa has a very low MPI and the proportion of the population considered multidimensionally poor is 6.3 per cent (Table 1).

Table 1: Multidimensional poverty in Southern Africa

Country	Survey year	Value	Percentage
Angola	2015/2016	0.282	51.1
Botswana	2015/2016	0.073	17.2
Eswatini	2014	0.081	19.2
Lesotho	2018	0.084	19.6
Malawi	2019/2020	0.231	49.9
Mauritius	**	**	**
Mozambique	2011	0.417	73.1
Namibia	2013	0.185	40.9
South Africa	2016	0.025	6.3
Zambia	2018	0.232	47.9
Zimbabwe	2019	0.110	25.8

Source: Global multidimensional poverty index 2022

\*\* No data available

### *Inequality*

71. On inequality in Southern Africa, the study report shows that income inequality is an issue of concern as the region is the most unequal in the world. It is home to seven of the 10 most unequal countries viz. South Africa, Namibia, Zambia, Botswana, Eswatini, Mozambique, Angola, in descending order. Income inequality translate into inequalities in access to basic services and lower opportunities to get out of the poverty trap. The gap between the rich and the poor in education and health remains striking in most Southern African.

72. The wealth inequality situation shows it is higher than income inequality and is also rising much faster in comparison). South Africa leads as the most unequal country in terms of wealth and the other unequal countries by this indicator are Mozambique, Zambia, Namibia, and Eswatini. Like other types of deprivation, wealth inequality has racial, gender, and spatial dimensions.

## *Vulnerability*

73. The Multidimensional Inequality Framework (MIF) expresses inequality using various domains: domain 1 (Life and health), domain 2 (Personal and legal security), domain 3 Education and learning, domain 4 (Financial security and dignified work), domain 5 (Adequate living conditions) and domains 6 (Participation, influence, and voice). Looking at the vulnerability situation in Southern Africa using the identified domains, there are priority issues mainly relating to gender, age, area of residence, and socioeconomic status, especially education.

### Domain 1: Life and health

74. In Southern Africa, there are significant levels of sexual violence with disparities between countries by age, and area of residence (between rural and urban areas) and educational status. The percentage of women who have experienced sexual violence by age is highest in the 25 – 34 age group. However, in Mozambique, women 35 years old and above have experienced sexual violence. In most countries, sexual violence occurs in urban areas but in Malawi, this occurs in the rural areas. The occurrence of sexual violence in most Southern African countries, mostly affects women without education followed by those with primary level education.

### Domain 2 (Physical and legal security: Inequality in the capability to live in physical safety and legal security),

75. Domain 2 is concerned with whether respondents have confidence in the police services. Overall, women and men report relatively moderate confidence in the police. South Africa, Zimbabwe, and Eswatini reported significantly less confidence in the police. Females in Botswana, Malawi, Zimbabwe and Angola have more confidence in the police than their male counterparts. Confidence in the police is highest in Botswana, Mozambique, Zambia and Malawi and is lowest among females in South Africa and generally in Eswatini.

76. Confidence in the police by area of residence, shows that across all the 12 countries in the region, confidence in the police is higher in rural than in urban areas. It is highest in Botswana, Mozambique, Zambia, Namibia and Angola. A third aspect under this domain involves residents' Citizens' confidence in the courts of law is highest in Botswana, Mozambique, Zambia, Namibia and Malawi. In all the countries, rural residents have more confidence in the courts than urban residents. Confidence is lowest in Eswatini, Lesotho and South Africa.

### Domain 3: Education and Learning

77. The Multidimensional Inequality Framework (MIF), on education and learning, focuses on the inequalities that people experience in their capability to acquire knowledge, understanding and reasoning, and to gain skills that enhance their participation in society. Looking at primary and secondary school enrolment by sex and educational status by place of residence (rural/urban), all countries have made significant progress in primary school

enrolment for both male and female included. Mauritius has the highest enrolment at both primary and secondary levels, followed by Namibia and Lesotho. However, some countries still have challenges of net enrolment especially at secondary levels. In Mozambique, enrolment is at 19.3 per cent for females and 19.2 for males (Table 2).

**Table 2. Percentage of primary and secondary school enrolment by gender**

Country (Year)	Primary school enrolment		Secondary school enrolment	
	Female	Male	Female	Male
Angola (2011)	67.3	88.9	**	**
Botswana (2014)	88.1	87.2	**	**
Eswatini (2017)	82.4	82.7	47.1	36.4
Lesotho (2017)	93.4	93.2	50.0	32.9
Mauritius (2013)	97.2	94.9	87.1	81.7
Malawi (2018)	**	**	34.7	33.7
Mozambique (2018)	92.5	95.4	19.3	19.2
Namibia (2012)	96.15	94.3	**	**
South Africa (2017)	86.7	87.3	78.5	65.4
Zambia (2017)	85.0	81.4	**	**
Zimbabwe (2013)	**	**	48.5	48.9

*Source:* World Bank's World Development Indicators (year?)

78. In five of the seven countries that reported on this, the percentage of women with no education by age, is highest in women aged 35 years and above. Younger women are more educated. In Angola, women in the 25-35 age group have received the least education and make 13.4% and are closely followed by those in the 15-24 age group (12.8%). In Mozambique, more younger women (19.2%) in the 15-24 age bracket have no education compared to elderly women. Comparing the percentage of women without education by area of residence, in all the seven countries, the percentage is higher in rural areas than urban. Mozambique, Angola, Malawi and Zambia have the highest women without education. South Africa and Zimbabwe have the lowest percentages of women without education in both their rural and urban areas.

#### Domain 4: Financial security and dignified work

79. Inequality in the capability to achieve financial independence and security, enjoying dignified and fair work, and recognition of unpaid care work involves a number of subdimensions including financial independence (cash income), employment and quality of employment, and unpaid work. Relating to this, Southern Africa has not altered the colonial model in order to generate quality jobs that guarantee adequate income and decent living conditions for the subregion's population throughout the life cycle. The structural barrier to women's participation occasioned by the social gender inequalities that denied equal opportunities for female participation in employment continues with limited adjustments and need significant changes to alter the existing set up in a meaningful way.

80. The percentage of people going without cash income was highest in Lesotho followed by Zimbabwe, Mozambique, Angola and Malawi. In six of the eleven countries, the percentage of women going without cash income was higher than for men. The percentage of women going without cash income was lower than that for men in Angola, Botswana, Eswatini, Mauritius and in Zimbabwe. The rural areas have more people going without cash income in nine of the 11 countries. Only in Zimbabwe is the proportion of rural people going without cash income lower than those in urban areas.

#### Domain 5: Adequate living conditions.

81. Concern under this domain involves inequality in the individuals' or households' capability to enjoy comfortable, independent, and secure living conditions. The areas of analysis include a number of subdomains or issues such as securing access to electricity and clean water. The percentage of people with available electricity everyday by gender is highest in Mauritius, Namibia, Mozambique, South Africa, Lesotho and Botswana. Access is lowest in Zimbabwe, Zambia and Malawi. There are insignificant differences by gender in the inequality of access to electricity. The inequality by area of residence shows that people living in urban areas enjoy more access to electricity except in South Africa, Zambia and Zimbabwe where the rural population enjoy a higher level of access to electricity.

#### Vulnerability in Southern Africa

82. Vulnerability levels are determined by estimating the number of people who might be affected by shocks and either stay in poverty or plunge into poverty as a result of shocks. The combined percentage of people living in extreme poverty and are vulnerable is 55 per cent. Altogether the vulnerable population in the subregion are around 70 per cent on average.

83. The foregoing has outlined and illustrated the poverty, inequality and vulnerability situation in Southern Africa. The commitment. These concerns to eradicate poverty (SDG 1), reduce inequality (Goal number 10) and vulnerability are in line with Goal 1 of Agenda 2063 on "A high standard of living, quality of life and well-being". The situation in Southern Africa, requires intervention to transform and bring radical change to the well-being and quality of life for the population. The interventions that have been implemented have reduced the proportion of people living in poverty. A bright spark has been initiated in Africa through the agreement of an African trade and integration arrangement, the African Continental Free Trade Area (the AfCFTA). Its implementation creates opportunities for taking advantage to improve the lot of the poor affected by inequality and vulnerability.

84. Southern Africa is one of the poorest regions of the African continent 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 sub-optimal progress towards poverty and equality reduction relative to other regions. The subregion is also the most unequal among all the regions of Africa. These phenomena are almost paradoxical given the conducive climatic conditions and abundance of

natural resources that Southern Africa is endowed with, including oil, copper, gold, diamond, platinum, gas, land, and fisheries among others.

85. Several factors explain the challenges faced by Southern Africa to leverage the comparative advantage of abundant resources and drive economic development, poverty reduction and equality. The colonial inheritance of a dualist economy with a slim formal sector and a bloated but dysfunctional informal sector placed most of the population on a trajectory of poverty. Macroeconomic policies and structural reforms spearheaded by newly independent governments to address economic stagnation and poverty in the sub-region were not as successful as intended. Furthermore, structural causes of poverty such as unemployment, relatively low levels of education, corruption, gender, race, as well as external shocks-economic, climate and health- have greatly affected Southern Africa and exacerbated poverty, inequality, and vulnerability in the sub-region.

86. To tackle the social and economic challenges and meet regional and global commitments on inequality and poverty reduction, the subregion has been pursuing initiatives including accelerated industrialization, digitalization and technological advancement, manufacturing value added, intraregional trade, infrastructure development, as well as deepened regional integration. It is envisioned that these initiatives will propel economic growth that will in turn foster poverty and inequality reduction. In this regard, the sub-region has developed or committed to policy frameworks to complement and reinforce these initiatives, of which the African Continental Free Trade (AfCFTA) is critical. The AfCFTA is expected to complement existing Free Trade Areas (FTAs) of Regional Economic Communities (RECs) that exist around the continent.

### **3.2 The AfCFTA and African regional integration and development**

87. The study on the impact of NAFTA on Mexico confirms the impact of the regional trade arrangement which suggests that if the AfCFTA is indeed implemented, it can generate the benefits indicated in the various estimates.

88. The road to the AfCFTA is marked with a number of initiatives to integrate the continent. Notable among the initiatives are the Lagos Plan of Action of 1980, the Abuja Treaty of 1991, and the AU Agenda 2063. The emphasis in the Lagos Plan of Action was integration accelerate industrialization, infrastructure development, and economic and social development. The Abuja Treaty on the other hand sought to establish the African Economic Community (AEC), whose integration goal was premised on trade liberalization, harmonization of rules and further integration of economies, underpinned by a strong institutional framework. The AU Agenda 2063 was adopted in 2015 and has the vision “An integrated, prosperous and peaceful Africa, driven by its own citizens, representing a dynamic force in the international arena” maintaining regional integration on the continent’s agenda. The African Agenda 2063 builds on and reaffirms the principles of the Lagos Plan of Action and the Abuja treaty of 1991.

### 3.2.1 Structure, Scope and Objectives of the AfCFTA

89. The AfCFTA is a continent-wide member driven arrangement whose structures include the Assembly of the Heads of State as the highest decision-making organ of the AU. The Assembly provides oversight and guidance on the AfCFTA. The next level under the Assembly is the Council of Ministers comprising ministers responsible for trade. The Council reports to the Assembly through the Executive Council. The Committee of Senior Trade is also a part of the structure. The AfCFTA is coordinated by a Secretariat. The AfCFTA Secretariat is also the administrative organ responsible for coordinating the implementation of the AfCFTA.

90. The general objectives of the AfCFTA have been stated as:

- Create a single market for goods, services, facilitated by movement of persons in order to deepen the economic integration of the African continent and in accordance with the Pan African Vision of “An integrated, prosperous and peaceful Africa” enshrined in Agenda 2063
- Create a liberalised market for goods and services through successive rounds of negotiations
- Contribute to the movement of capital and natural persons and facilitate investments building on the initiatives and developments in the State Parties and RECs
- Lay the foundation for the establishment of a Continental Customs Union at a later stage
- Promote and attain sustainable and inclusive socio-economic development, gender equality, and structural transformation of the State Parties
- Enhance the competitiveness of the economies of State Parties within the continent and the global market
- Promote industrial development through diversification and regional value chain development, agricultural development, and food security; and
- Resolve the challenges of multiple and overlapping memberships and expedite the regional and continental integration processes.

91. It is worth noting that the creation of a single market for goods and services and the facilitated movement of people are the basis for a deeper African integration. The contribution to movement of capital and natural persons and facilitation of investment as well as lay the foundations for the establishment of a Continental Customs Union are vital trade and economic development focused objectives critical for attainment of Agenda 2063 vision of a united and prosperous Africa with integrated infrastructure and seamless borders promoting intra-regional trade through coordinated infrastructure investment accompanied by trade facilitation. These objectives have guided the negotiations and will guide the implementation of the AfCFTA that seeks to realize these objectives. Poverty, inequality and vulnerability are addressed in the objective to promote and attain sustainable and inclusive socio-economic development, gender equality.

92. The signing and the entering into force of the AfCFTA marked the end of the first phase of the AfCFTA negotiations. Forty-seven countries ratified the Agreement. The Agreement

establishing the AfCFTA reached after Phase 1 of negotiations currently has three protocols covering trade in goods, trade in services and rules and procedures on the settlement of disputes. The Protocol on Trade in Goods has nine annexes covering various aspects on regulating trade in goods. These are:

- Annex 1: Schedules of Tariff Concessions
- Annex 2: Rules of Origin
- Annex 3: Customs Cooperation and Mutual Administrative Assistance
- Annex 4: Trade Facilitation
- Annex 5: Non-Tariff Barriers
- Annex 6: Technical Barriers to Trade
- Annex 7: Sanitary and Phytosanitary Measures
- Annex 8: Transit
- Annex 9: Trade Remedies

93. The implementation of the protocol on trade in goods will be the responsibility of the Secretariat's directorate of Customs and Trade Facilitation. This includes the annexes listed above and work on capacity building.

94. Phase 2 negotiations focus on negotiations on protocols on investment, intellectual property rights (IPR), competition policy, digital trade and women and youth in trade. The interventions specified in these protocols will enable member states to target the specified sectors in achieving development objectives in these sectors. The AfCFTA will complement and in some cases strengthen existing subregional economic communities and trade agreements around the continent by offering a continent-wide regulatory framework and by regulating policy areas such as investment, competition, intellectual property rights, digital trade, and women and youth in trade that have so far not been covered in most subregional agreements in Africa. Specific protocols provide support to the agreement on each of the policy areas. The AfCFTA investment protocol for example, is premised on investment promotion and facilitation, investment protection, investor obligations, and other state commitments to foster sustainable development of state parties.

95. Member States have developed national AfCFTA strategies in readiness to implement the Agreement. Only a few countries are currently implementing the AfCFTA under the GTI. An area of interest which is currently unclear is the form of relationship that will exist between the RECs and the AfCFTA as both integration arrangements seek to deepen integration and increase intra-regional trade. There will be overlaps and ways may have to be considered which both more effective in their quest to achieve beneficial integration.

#### *The AfCFTA and regional integration in Southern Africa*

96. In Southern Africa, the AfCFTA is expected to complement existing Free Trade Areas (FTAs) of Regional Economic Communities (RECs). The Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC) as well as the Southern African Customs Union (SACU) are at different stages of integration. The coming into force of and the eventual operation of the AfCFTA provides an impetus to speed

up integration in Southern Africa. The push could arise from member states eyeing markets further afield than the subregion on the continent. These are likely to opt for compliance with the AfCFTA framework in order to be able to enter target markets. However, the desire to enter markets further and beyond the subregion cannot be pursued by individual countries and thus is likely to provide for a push to align with the AfCFTA conditions. Such developments would bring changes to REC implementation of their own initiatives. This will affect the tariff and non-tariff measures and offer further pressure for addressing the trade facilitation.

### 3.2.2 Comparative continental integration experiences

97. The AfCFTA regional integration must draw lessons from others that have gone ahead with continental integration which provide important lessons for Africa. The successful continental integration is the North American Free Trade Area (NAFTA) involving Canada, Mexico and the United States. The countries involved are fewer and thus easier to coordinate and reach agreement on the economic (trade integration) than 54 countries in Africa to achieve a single purpose integration project to fruition. To a very large extent, the African integration has been modelled along and draws much from European integration under the EU. It is not clear if the basis of European integration and its difference with Africa's drive are well understood.

98. Some issues of the basis for European have been flagged in efforts to draw lessons of African integration. Three key issues are highlighted<sup>21</sup>. First the basis of European integration sought to bring people together from a background of war securing lasting peace was sound motivation. It was thus apparent and clear for the vast majority of European citizens that stability and peace could be secured by integration and establishment of mutual dependencies. Further, it asserted that Europe also faced a common threat which was the basis of unity during the Cold War era. While there were conflicts in Africa, they have not been instrumental in galvanizing the population into seeking integration as a way to resolve conflicts. A number the RECs have had to broker peace and bring stability in response to flare ups but this has not been the platform for seeking regional integration in Africa. However, this takes away peace as a strong enough political rationale for African regional integration. As a result, The most logical justification of African integration lies in a strong economic rationale to stir public understanding and political desire for regional integration.

99. A second point is that regional integration (RI) is a deeply political process. As such it requires political will and leadership and not just intentions. The point is that Africa has tended to approach regional integration as a “technical development challenge of how to integrate roads, power grids, trading areas, currencies, often without seeking a political consensus first”. The creation of institutions in Europe such as the European Commission were a result of the member states' strong political will. On the contrary for in Africa, there seems to be an obsession to create more institution. The institutions created are underfunded and lack

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<sup>21</sup> Reinermann, D. (2010) Are lessons from European integration relevant for Africa?  
<https://blogs.worldbank.org/>



legitimacy, with several overlapping memberships. After there are established, then efforts begin to build capacity without leadership of the member states.

100. The third concerns the origin and progress of EU integration and which indicates the need to be strategically selective and to sequence. The EU started on the strength of the BENELUX countries and the focus was on coal and steel which expanded to cover agriculture, to a common market and to the Euro. Current integration policy issues of the EU focus developing a common foreign/security policy. The suggested lesson for Africa is some strategic selection and sequencing. This is against an all-out pursuit of a full package on regional integration.

101. In looking at the EU economic model, factors that enhanced and the drivers of its success as a regional integration initiative, Unya (2017)<sup>22</sup> finds visionary leadership and a genuine reconciliation between belligerent states in Europe as key factors. This and Reinmann's key points relate to integration in the RECs. There is no grounds to regard the AfCFTA any different but Africa experience with development shows that it is not only behind but that there may be a widening gap between Africa and the developed world. That generates pressure for catch up which explain the attempts to do too much.

102. An approach to focus on strategically selected and sequencing African integration is an idea but the project has moved and spread itself. In a way, desirable and significant as the fight against poverty is, the need to have earned significant amount to support the initiative is an issue to consider. However, the objective to reduce poverty, inequality and vulnerability is being pursued in tandem with the implementation of the AfCFTA which has clear demonstrable trade related and economic benefits that can be applied to deal with poverty issues.

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<sup>22</sup> Unya, I.U. (2017) Regional integration and development: lessons African Union can learn from the European Union model, *Journal of Sustainable Development*. Vol. 2, No. 1, 2017

## 4. THE AfCFTA INTEGRATION IMPLEMENTATION AND QUALITY OF LIFE IMPROVEMENT

103. Many studies of the AfCFTA and its impact on poverty, inequality and vulnerability have been conducted to estimate ex ante what the Agreement's impacts on the economy including welfare and quality of life. The estimates are a quantification based on assumptions and the model. Most studies use the CGE model with microsimulation. The results are useful in that they provide a picture of idealised impacts which then the AfCFTA and member state governments can set to accomplish. The section reviews the theory and literature on regional integration and regional integration impact including some studies on estimates of AfCFTA impacts. The poverty, inequality and vulnerability reduction is expected as an impact which can be targeted by policy because the trickle down can be slow and limited depending on many factors.

### 4.1 Theoretical foundations of Regional Trade Agreements (RTA)

104. According to Mikic (2016), integration involves one or more written agreements that describe the areas of cooperation in detail, as well as some coordinating bodies representing the countries involved. Regional integration is a complex process that involves several countries, whether at the sub-regional or continental level which might have different economic interests, languages, national priorities and political and social challenges (Tetteh, 2013). This involves the development of a cooperation framework guided by written agreements outlining the areas of cooperation and coordination arrangements. The term 'regionalism' has gained currency in reference to any kind of regional cooperation. However, 'integration' is understood to refer to economic integration which can include the creation of free trade areas, customs unions, economic communities, and monetary unions. The cooperation often begins with economic integration. Its development includes political integration. The European Union model has developed into political integration where decisions relating to a wide range of issues such as security, is of interest to all and member states participate in the collective decision of resolution of pertinent issues. However, it is the depth of political integration that has caused others to withdraw on account of having ceded too power and authority to non-elected bureaucrats.<sup>23</sup> Continued integration can lead states to become a new country. No region has reached this level of total integration yet.

105. The role of trade and regional integration in economic development has receive widespread attention. However, the role of trade in poverty reduction has received more coverage<sup>24</sup> Trade theory postulates that trade creates welfare improvements and, on that basis, argues for increased trade through trade agreements. However, theories of regional integration

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<sup>23</sup> The United Kingdom exited the EU because there was uneasiness or even disdain for giving up national sovereignty.

<sup>24</sup> See for example UNCTAD (2004), World Bank (2001), World Bank Group and World Trade Organization (2015) among many studies and publications on the topic.

have emerged through a desire to explain trade cooperation between countries in regional trade agreements (RTAs), the establishment and development of regional international organizations. There are two prominent new theories of regional integration – the Open regionalism and Developmental regionalism. In Open regionalism theory, countries are free to pursue regionalism as part of trade liberalization due to the influences of globalization. Countries can join RTAs alongside their membership of the multilateral system without undermining the multilateral system represented by the WTO (Bergsten 1997). As such countries are free to join any region where they can benefit from such membership. The other is developmental regionalism theory. This has its foundations in the development thrust in Latin America in 1950s and 1960s. More recently, this theoretical focus has received a boost through the UNCTAD<sup>25</sup>.

106. Development regionalism is viewed as a path to development for the continent. Its central thesis encompasses cooperation in the area of trade, and emphasises promotion of intraregional trade and integration into the global economy (UNCTAD 2013). Further, developmental regionalism extends the parameters of trade, and stretches into other areas of cooperation such as infrastructure and industrial policy. Developing country regions come together to create larger markets and foster the value chains to enhance efficiency through economies of scope and specialisation in production and distributing benefits throughout the region (Kruger, A., (n.d.)). The coming together also creates opportunities for economic growth for and in the participating countries. Developmental aspects are encapsulated in the extension to harmonizing policies that stimulate investment in infrastructure and other public goods. Developmental regionalism also focuses on the formation of strategic trade policies and incorporating these with the industrial policy framework of each member state.

107. RTAs that cover the traditional areas of tariffs and other border measures are referred to as “shallow” agreements while those that cover a larger set of policy areas, at the border and behind the border are referred to as “deep” agreements<sup>26</sup>. Deep regional trade agreements are regarded as important institutional infrastructure for regional integration that contributes to the reduction of trade costs and definition of many operational rules for participating economies. Their contribution to boosting trade, foreign investment and global value chain (GVC) participation has been estimated as averaging a more than 35 per cent in trade, more than 15 per cent in services trade, and GVC integration by more than 10 percent. Deep agreements help deliver public goods provisions of the agreements distribute benefits to all participating countries and hence have positive welfare impacts effects through expanded trade and improved policy environment. In some cases, RTA set standards that the regional member countries have to adhere to.

108. There are many theories of regional integration starting with the economic theory of trade and a desires to expand trade in neoclassical economics. The creation of preferential areas of trade, the first step of a linear process is one that brings countries together to create an

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<sup>25</sup> The 2013 Economic Development Report on Africa

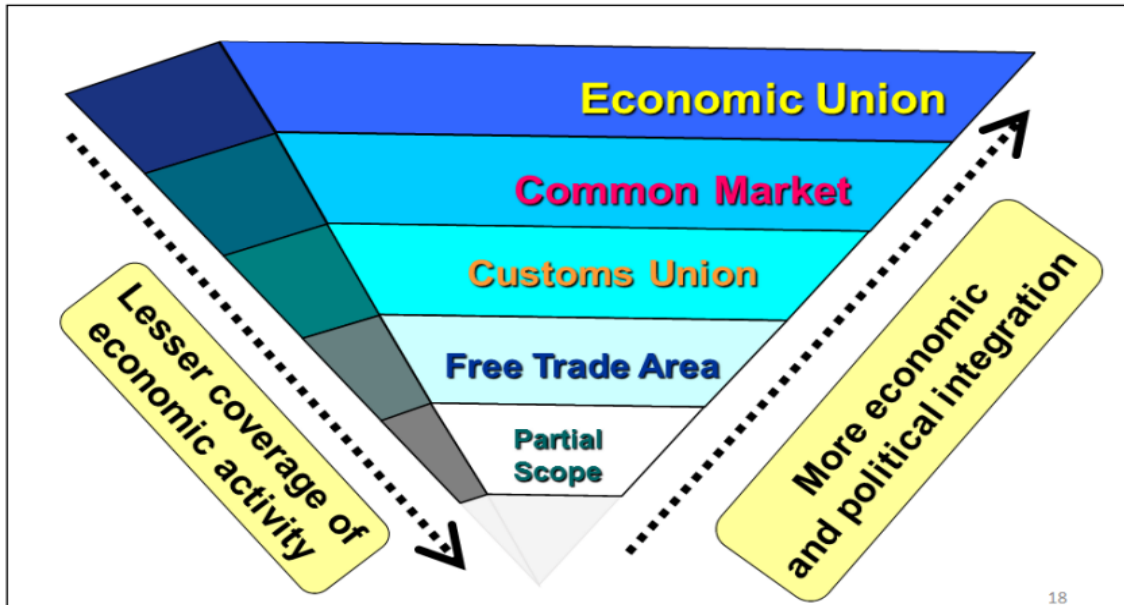
<sup>26</sup> <https://www.worldbank.org/en/topic/regional-integration/brief/>

expanded market which encourage the development of capacity based on trading with each other, specialisation and promotion of economies of scale behind the collective borders of the participating countries. The use of the common trading with the outside world has an element of protection to it.

109. More recent theories of regional integration have expanded to include regionalism, a form of intergovernmental collaboration with a geographically defined on restricted context. States come together for a purpose of a set of goals that they wish to pursue together. It is thus multilateral institutional arrangement coordinating cooperation and relations among three or more states (Ruggie 1992). Regionalism is a social institution: as with other institutions, regional interstate collaboration can take place within formal organizations or on an entirely informal basis. On the other hand, regionalisation refers to the process of increased integration within a given geographical area (Hurrell, 1995). These concepts of regionalism have to be distinguished.

110. Regionalism takes many forms, addresses multiple objectives, and has attracted a wealth of theorizing from various academic disciplines. All the forms of regional collaboration are underpinned by political objectives. In main the sub-regional economic integration arrangements in Africa have had a liberation and independence orientation, peace and security and have shifted the objective to a developmental agenda. To a very large extent, the development has been pivoted around trade as one activity around which to premise regional interaction and relations and economic cooperation. According Ravenhill (2016), it is impossible to demonstrate the validity of this variant of a liberal internationalist approach—but the record coincides with what I perceive as generally persuasive evidence that high levels of economic interdependence are associated with the absence of interstate armed conflict.

**Figure 2: Importance of economic activities at different stages of integration**



111. Trade within regional integration increase opportunities, choices and availability of products. Trade within restricted (preferential arrangements) gives participating countries the advantage of a large market for producers within the arrangement to enjoy. Trade with parties outside the free trade arrangement is conducted under different conditions or under different terms to those within who enjoys preferential treatment. Regional integration theory expects to progress through linear steps to customs union, common market and political integration (Figure 2).

112. Theories explain how integration benefits the participating countries and how it works including the establishment of coordination organizations, in the African setting REC Secretariats whose powers are delegated by member states and can be limited. Functionalism theory of regional integration. They are defined in the agreements.

113. Africa has had regional integration arrangements that began in the 1960s e.g. EAC, ECOWAS, The continent has had a dream to unite and integrate at continental level and the OAU was indeed an initiative whose purpose was liberation, independence and peace and economic progress.

114. The AU recognizes 8 RECs on the continent which were viewed as building blocks of African integration for pursuing African economic progress. The RECs have secretariats that coordinate regional integration initiatives. Trade has been a main objective to spur economic growth.

115. Some progress has been achieved. Tariffs have been reduced or removed in intra-regional trade but there have been a number of challenges which have reduced the impact. Main among the many are the existence and impact of NTBs, NTMs and limited connections due to

infrastructure development constraints. The stories of NTBs does is endless because governments sometimes inadvertently introduce administrative measures which affect the operations of and negate the integration arrangements. It is essential because there are a number of challenges that require intervention to facilitate trade even within RECs.

116. Trade facilitation a significant intervention that can create and improve conditions for intra-regional trade. Below we shall see the number of initiatives undertaken by the ECOWAS to facilitate intra-regional trade in an environment where barriers and obstacles easily exist.

117. Distribution of economic activities is something that concerns small economies with RECs. There tends to a concentration of economic activities in the bigger economies. This makes the small economies view/consider opening up to regional economies as a threat and dominance of large economies e.g. Kenya in EAC, South Africa in SADC. This tends to create regression as elements of protection develop even within regional economies. The concerns undermine integration progress. Ways to address the concerns must be found to allow and facilitate regional integration to progress.

118. With this is there an opportunity for the AfCFTA? Trade under the free trade area offers opportunities for production and exchange within a bigger economic space. A number of important provisions must be taken into account.

#### 4.2 Studies on the impact of the AfCFTA

119. In the analysis of the AfCFTA impact, targeted on poverty, inequality and vulnerability reduction, ex ante studies have been conducted. To a very large extent, the analysis, including estimates of trade and economic impact have illustrated the positive anticipated impact in line with regional impact in the form of trade and related growth.

To date, studies on the economic implications of Africa's regional integration have mainly focused on tariff and nontariff barriers (NTBs) in goods.

120. A number of studies have been undertaken that seek to highlight the impact of the AfCFTA on poverty and inequality. Many others have been carried out to demonstrate the positive impact of AfCFTA based integration. Some of the leading institutions that have conducted studies on the impact of the AfCFTA include the World Bank (2020, 2022), UNCTAD, the IMF among others. Studies have been undertaken and estimates of impact done at the continental, at REC and country/national levels. Below we explore the literature on various studies of the impact of the AfCFTA integration on poverty and associated ills.

121. The discourse on the Impact of trade In poverty reduction or the relationship between trade and poverty reduction has not so much focused on any quantification. The focus has been on identifying the channels through which trade delivers benefits that contribute to the poor becoming better off. The main areas covered this are how trade contributes to growth and macroeconomic stability. Many people living on the margin can easily fall into poverty when

conditions change due economic shocks and crises. Stability ensures that adversity does not visit economies and those living in the territories. The growth is generated through trade by increasing opportunities to produce and supply markets beyond a country's borders in the process keeping factors of production employed or creating opportunities for further investment and establishment of productive capacities. The scope for specialization improves scope for efficiency in production and competitiveness in trade, adding to a country's wealth. Trade is critical in providing access to ideas and to technology required in production. It supports innovation which supports productivity. These benefits of trade can lead to economic diversification. When pursued within regional integration arrangements, the benefits accrue to the participating economies. Policy is required that ensures the gains reach the poor.

122. In the case of households and markets, trade has direct impact on the poor through changes in prices and improves availability of goods and services that are consumed by them. These explanations link back to the conceptual framework where they are identified as economic benefits of trade and regional integration. Trade can increase productivity of agriculture an area where the poor can easily be engaged and have their livelihoods improved. In addition, an increase in jobs and wages in sectors involved in trade increases both employment and wages that are earned by the workers. More jobs and better wages contribute to reducing poverty for those employment and members of their families.

123. The government benefits from increased revenue which provides it with resources to fund and support programmes to improve conditions for the poor and vulnerable. Government tax policies are a means to address inequality and increased revenue provides more latitude for interventions targeting poverty, inequality and vulnerability in the population. These have been identified in the conceptual framework.

124. In a lecture on "Regional Integration as a Tool for Poverty Reduction in West Africa" Tetteh<sup>27</sup> listed nine areas in which ECOWAS interventions provided or contributed to poverty reduction. The areas are peace and security, democracy and human rights, free movement, ECOWAS Trade Liberalisation Scheme (ETLS), agriculture, transport, telecommunications, health and gender promotion. Free movement in ECOWAS is governed by a Protocol on the Free Movement of Persons, Goods and Services. The free movement protocol removal of visa requirements for ECOWAS Community's citizens and facilitates the movement of goods, services and labour. The impact of the free movement on cross-border trade and consequently on poverty is immense. Further, this action "engendered new businesses and business partnerships, expanded productions, and generally increased private sector participation in national development coms to travel in the region". This is a protocol intervention with significant economic impact.

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<sup>27</sup> Tetteh, H. S., (2013) Regional Integration as a Tool for Poverty Reduction in West Africa, Lecture at inauguration of the CUTS Centre in Accra (CUTS Accra) at ISSER Conference Hall, University of Ghana in Accra, Ghana on August 26.

125. Interventions through the ETLs and in agriculture are clearly in the economic mould. The ELTS seeks to free trade among Community Member States by removing trade barriers, standardising customs duties and taxes (Box 1). The attractiveness of the approach is the certification of private sector organisation and the removal of duty requirements for the certified companies. ECOWAS seeks food security and reduce dependence on imports through its policies and using technology to enhance agriculture production. The region adopted a common agricultural policy (the ECOWAS Common Agricultural Policy, ECOWAP). With objectives to ensure food security for the rural and urban populations of West Africa.

126. Transportation and telecommunications are facilitators of trade and the expansion of the networks increase interconnection and catalyse the increased trade. Trade encourages production as indicated above. Expansion of transport and telecommunications infrastructure creates opportunities for employment including outside these sectors with both direct and indirect impacts on poverty. For the poor able to find job opportunities, the benefits are direct while for others may pick up opportunities through informal trade, business on online platforms, etc.

**Box 1: ECOWAS Trade Liberalisation Scheme (ETLs)**

The Scheme is anchored on the complete removal of all trade barriers in the region, and the standardisation of all custom duties and taxes of equivalent effect, with the view to enhancing intraregional trade. Presently, more than 100 private sector organisations have been certified under the scheme to deal in over 255 different products across the region. The certified companies are not supposed to pay customs duties on their approved products, a situation that is creating new market opportunities for them and helping them to grow their businesses and also enhancing

127. Health and gender promotion are also areas of intervention for ECOWAS. Health support or provision goes directly to address the needs of the poor and therefore contributes to poverty, inequality and vulnerability reduction as the poor access health services. Gender promotion also targets marginalised sections of the population and elevates to equality in various areas of economic activity. The ECOWAS approach uses the establishment of the West Africa Health Organisation (WAHO) to co-ordinate the efforts of Member States in fighting diseases as an important initiative that contributes to the reduction of poverty. It caters for service provision and may not fully address the health services needs or completely remove inequality and vulnerability in health services issues. But it goes some way to contribute.



128. ECOWAS established the ECOWAS Gender Development Centre based in Dakar was established to promote gender issues in West Africa. It caters for a number of issues raising awareness and providing skills training through apprenticeship programmes, the Scholarships of Excellence for Girls programme, and the Food Processing, Fisheries and Handicrafts programme among many other interventions that are designed to promote women and improve their sources of livelihood.

129. These interventions are examples of how regional and continental integration can be structured to address the concerns on poverty, inequality and vulnerability in subregion. The designs outlined show and demonstrate intent and where the implementation is well executed, these initiatives contribute importantly to the concerns of reducing the ills of poverty, inequality and vulnerability. It would be informative to find confirmation of the extent of implementation and the impact these interventions are generating.

130. The above interventions for the ECOWAS region represent a way to structure interventions for impact. One can see in them, the channels outlined by Te Velde, Page and Morrissey (2004) on mapping the linkages between regional integration and poverty. Their study established that there are four routes from regional integration (RI) to poverty. This is based on a simple mapping of four sets of links that describe and explain how poverty in a country is affected by RI processes. The four routes through which regional integration can affect poverty are:

- through increased volume and/or poverty focus of trade
- through increased volume and/or poverty focus of investment
- through increased volume and/or poverty focus of migration
- through other routes

131. The focus on trade and investment relate to production and exchange and fit well with the economic channels. The migration is related to ECOWAS' free movement. The "other routes" can be any other possibilities. As we shall, a number of studies modelling and analysing the impact of the AfCFTA and quantifying these impacts used this approach.

132. A good Some of the concepts that are important in an analysis of RTAs and their impact on various areas are discussed below. Other theoretical considerations that must be part of the analysis of the economic impact of an RTA include impact, trade creation and trade diversion, compensation mechanism and cost competitiveness.

#### 4.2.1 Review of studies estimating economic impact of the AfCFTA

133. An analysis or review of some studies that focus on quantitative analysis of the impact of the AfCFTA on the economies and on poverty, inequality and vulnerability is important. It highlights what these studies reveal and how the insights gained can be used to guide policy makers and shape the implementation of AfCFTA to contribute to the quality of life for the poor and those living at the margin. We a select few studies including those by a team at the

IMF, UNCTAD and the World Bank. The study by the team at the ODI is useful for reinforcing an understanding of the channels through which regional integration can affect poverty, inequality and vulnerability. In addition, we also found one study that estimated the regional integration impact in the EAC. Empirical work has shown that the gains from trade are much bigger under imperfectly competitive markets which actually strengthens the case for trade liberalization.

*The IMF Working Paper WP/19/124*

134. An IMF Working Paper<sup>28</sup> focused its analysis on the welfare gains from the AfCFTA. The analysis begins with the trade performance of the RECs. It highlights that Africa lacks a hub and that there are challenges of an infrastructure gap, non-tariff barriers in intra-African trade, and non-tariff trade measures. The working paper bases its analysis of the impact of the AfCFTA on African economies on a global, multi-sector general equilibrium model focusing on the perfect and monopolistic competition. The model is flexible enough to include the features of some of the main micro-theoretical trade models. It is calibrated for two market structures with data from 2014-16.

135. The simulation results of welfare effects under perfect competition based on full tariff elimination and reduction of NTBs by 35 per cent show a large dispersion in welfare gains across countries. The elimination of tariffs and tariff equivalent of 35 per cent NTB reduction generate a weighted average welfare improvement of 2.6 and 2.1 per cent improvement in welfare. This is especially significant because the gains by the rest of the world are no more than 0.04 per cent.

136. The study found that impact of tariff elimination on welfare is a very small increase, 0.05 percent for the continent (0.07 percent for SSA). The NTB reduction effect on welfare is stronger, increasing by 1.7 per cent for the continent (2.1 percent for SSA). The AfCFTA proposes to reduce NTBs but has not set a target which leaves the likely outcome difficult to determine. Sensitivity analysis carried out on the baseline assuming NTB reductions of 25 and 45 per cent (10 per cent either way), show strong welfare gains. The 45 per cent NTB reduction increases continental welfare by close to 4 percent (4.6 percent for SSA). However, the 25 per cent NTB reduction leads to a continental welfare decline of up to 1 percent (1.2 percent for SSA).

137. The study showed that reduction in tariffs and NTBs impact welfare through consumption and output by reducing distortions and improving efficiency. In the model, international prices are endogenous and thus allow for changes in the terms of trade. Therefore, in addition to changes in efficiency, terms of trade movements can affect welfare, and this has a material impact on the distribution of welfare gains across countries, as discussed below.

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<sup>28</sup> Abrego, Maria Alejandra Amado, et al. (2019) The African Continental Free Trade Agreement: Welfare Gain Estimates from a General Equilibrium Model, **IMF Working Paper** WP/19/124, African Department, International Monetary Fund.

138. The model maintains the same level of reduction in trade barriers as above (full tariff elimination and 35 percent reduction in NTBs) for imperfect competition market structures (Krugman and Melitz cases). African continent's welfare gains for the combined tariff removal and NTB reduction effects are similar to perfect competition effect results. The continental welfare change is a 1.9 per cent increase of, compared to 2.1 per cent under perfect competition. As in the perfectly competitive case, welfare increases for all countries from reducing NTBs under imperfect competition. Importantly, due to scale effects, some larger economies Estimated welfare gains under imperfect competition are lower than in the baseline for most countries. We have extracted results for countries in the region for which estimates were made.

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**Table 3: Southern African countries' modelled performance under different scenarios**

	<b>Increase Welfare (PC),</b>	<b>Increase Welfare (MC),</b>	<b>Increase Welfare (MLZ)</b>	<b>Increase Welfare (PC),</b>	<b>Increase Welfare (MC),</b>	<b>Increase Welfare (MLZ),</b>	<b>Increase Welfare (PC),</b>	<b>Increase Welfare (MC),</b>	<b>Increase Welfare (MLZ),</b>
Angola	0,06	0,007	-0,01	1,337	1,534	0,719	1,693	2,01	2,058
Botswana	0,054	0,029	0,03	7,762	8,086	5,549	9,082	9,143	8,844
Eswatini	0,098	-0,262	-0,277	13,394	10,161	8,01	1,242	11,486	11,095
Lesotho	0,061	0,026	0,024	4,024	1,609	3,245	4,868	1,883	1,962
Malawi	0,232	0,116	0,014	7,364	5,006	4,345	8,906	5,899	5,507
Mauritius	0,127	0,141	0,128	6,001	4,918	3,243	7,276	5,751	5,699
Mozambique	0,163	0,053	0,005	6,176	4,187	2,425	7,198	5,204	5,154
Namibia	0,399	0,203	0,204	10,943	9,187	6,611	12,382	9,097	9,589
South Africa	0,104	0,135	0,122	2,21	2,384	1,743	2,757	2,941	2,733
Zambia	0,259	0,247	0,094	6,802	4,876	2,926	7,995	5,581	5,314
Zimbabwe									

Source: Abrego, Maria Alejandra Amado, et al. (2019)

139. The results show that there are higher gains in welfare from the reduction in NTBs under imperfect competition framework, in particular the Krugman model. The reason for this is that, under imperfect competition, where prices are not equal to marginal costs, the reduction in import tariffs will not necessarily lead to a rise in welfare even in the presence of the effects of terms-of-trade. One area worth highlighting is that overall, in most African countries, the effects of scale are not strong.

#### **World Bank (2020) and (2022) studies**

140. In the 2020 study the World Bank analysis quantified the long-term economic and distributional implications of AfCFTA. The study focused on assessing the implications for economic growth, international trade, poverty, and employment. The basis of the analysis is a global computable general equilibrium (CGE) model and a microsimulation framework to quantify the agreement's impact. The CGE model estimates relied on the Global Trade Analysis Project (GTAP) database with supplementary data to quantify other barriers to trade.

141. The AfCFTA will reduce tariffs on trade among its member countries. The analysis also takes into account the AfCFTA's implementing policy in areas that include trade facilitation, services and other regulatory measures such as sanitary standards and technical barriers to trade. The greatest contribution the study makes is investigating the AfCFTA's implications on poverty, impacts on unskilled workers, and women. This is the source of the study's claim on the AfCFTA's poverty and employment impact. Employment contributes to poverty reduction as those who find employment in jobs created by the AfCFTA earn incomes that enable them to access goods and services they had hitherto been unable to access on account of their poverty and lack of means. This study identifies some channels through which the AfCFTA can contribute to poverty reduction and therefore can be harnessed to step up the poverty reduction impact. The reference to unskilled workers and women points at disadvantaged sections of the African population whose lot can be changed. For Southern Africa, the level of youth unemployment is high.

142. The African Continental Free Trade Area (AfCFTA) agreement will create the largest free trade area in the world measured by the number of countries participating. The report takes account of the negotiations under the AfCFTA and models assumed reductions in tariffs and nontariff barriers and that trade facilitation is stepped to deal with bottlenecks in this area. The study uses a reduction in intracontinental trade tariff reduction starting in 2020 with the assumption that tariffs on 90 per cent of the tariff lines will be eliminated over a five-year period while for LDCs a 10-year tariff phase down is assumed. Another 7 per cent of tariff lines will be added beginning in 2025 and will be eliminated over a five-year and over and 8-year for LDCs. The 3 per cent of tariff lines (less than 10 per cent of intra-African imports) may be excluded from liberalization by 2030 (and 2030 for LDCs).

143. On nontariff barriers on goods and services will be reduced on a most-favoured nation basis. The model assumes that 50 per cent of NTBs will be changed within AfCFTA policy

changes. Additional reductions on exports will be effected. Trade facilitation measures will be implemented alongside the AfCFTA measures.

#### *Results of the analysis*

144. The results of the analysis have been outlined as macroeconomic outcomes and distributional effects. The results are provided for the continent and also for individual countries. The estimates show that real income gains from the implementation of the AfCFTA at the continental level will be increasing and equivalent to 7 per cent by the year 2035. Tariff reduction impacts alone on real income gains are small and at the continental level are about 0.2 percent. This interpreted to illustrate that, constraints to trade on the continent are largely explained by high costs of trade and not by tariffs. Thus, a reduction in the costs of trading will see a significant increase in trade. The combination of tariff reduction, NTB removal and improved trade facilitation yields that highest real income increases.

#### Trade Implications

145. Trade is expected to grow significantly under the AfCFTA. The volume of exports is expected to grow by 29 per cent by 2035. Intracontinental exports are expected to increase by more than 81 per cent. South Africa is among those expected to experience the largest exports growth to regional partners under the AfCFTA by 2035. It will share this Egypt, Morocco, Nigeria, Kenya and Cote d'Ivoire. For the welfare gains, exports are expected to grow the smallest in relatively open economies. From the region, Malawi and Mauritius are in the group.

146. The AfCFTA is expected to boost exports of manufacturing which are expected to gain the most increase. A 62 per cent overall gain in manufacturing exports is expected while intraAfrican trade will see exports of manufacturing increase by 110 per cent. For agriculture, the gains are smaller, 49 per cent increase in intra-African trade and 10 per cent increase in trade with other regions outside Africa. On the other hand, services trade gains are relatively small estimated at 4 per cent overall and 14 per cent within the continent under the AfCFTA.

147. On output, the AfCFTA is expected to boost output by US\$211 billion by 2035. There are significant variations in output with significant increases occurring in natural resources, services and manufacturing. Output in agriculture is expected to decline by 0.5 per cent in comparison to baseline performance by 2035. The output volumes gains are highest in services and smaller in manufacturing. Volumes in agriculture experience a small decline.

148. Government revenue from trade taxes in the short-term is impacted little by the AfCFTA. A decline of less than 1.5 per cent in the short term is estimated for most countries. Zambia from the region is among countries with a decline of 1.6 per cent. The results highlight the low level of imports from Africa on which duty or taxes are paid. Also, it should be possible to protect these revenue sources by shielding the tariff revenues from liberalization. The number of tariff lines that could exempted from liberalization would be determined by the member states concerned. In the medium term, the overall tariff revenue impact of the AfCFTA is positive. Increases in volume of imports even with lower tariffs would improve collections.

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**Table 4: Estimated real income gains for three scenarios**

	EV			EXPORTS			IMPORTS		
	Tariffs, NTBs and TF	Tariffs and NTBs	Tariffs only	Tariffs, NTBs and TF	Tariffs and NTBs	Tariffs only	Tariffs, NTBs and TF	Tariffs and NTBs	Tariffs only
Angola									
Botswana	5.4	2.6	-0,3	13.5	10.6	-0,1	18.9	12,2	-0,5
Eswatini									
Lesotho									
Malawi	1.8	1.2	-0,1	12.5	12.1	1.1	13.4	10.9	0.8
Mauritius	6.9	3.6	0.3	32.9	27.0	0.7	31.7	22.5	0.8
Mozambique	2.5	1.8	0	17.1	16.6	-0,2	15.9	14.2	0,2
Namibia	10.7	5.0	1.0	33.3	28.5	1.2	31.3	21.9	1.6
South Africa	3.8	1.8	0.4	17.6	12.5	1.4	24.7	14.9	2.0
Zambia	4.7	2.0	0.1	7.9	5.6	0.1	19.6	9.9	0.3
Zimbabwe	12.0	1.7	-0,1	47.4	25.0	0.0	57.3	19.6	-0,2

Source: World Bank (2020)

Note: Equivalent variation (EV) is the expenditure to attain utility in year t in any given simulation using base year prices.

NTB = nontariff barrier; TF = trade facilitation



149. The 2022 version of the study on the impacts of the AfCFTA was prepared by the World Bank in collaboration with the AfCFTA Secretariat. It considers the impact of the additional benefits that would accrue from an increase in investment. The investment categorised as foreign direct investment (FDI) originates from within and outside of Africa. It is expected to respond to the creation of the AfCFTA and the conditions it offers. FDI inflows are expected to be associated with provision of fresh capital, technology, and relevant skills currently not available. The economic impact of an increase in FDI is raising the standards of living. These contribute directly to the reduction of poverty. Growth and improved standards will arise from value addition and reduction or elimination of Africa's raw commodity exports and their ever-declining terms of trade.

150. Other areas considered in the modelling relate to what impact of expanding the agreement to include harmonization of policies on investment, competition, e-commerce, and intellectual property rights would be. Such expansion would deepen integration and contribute to building fair and efficient markets and improve competitiveness. The improved conditions would add to the continent's attractiveness to more FDI on account of reduced risks of changing national regulations and policies. Overall, this scenario would increase income gains of 9 per cent by 2035 while reducing the number of people in extreme poverty by 50 million.

151. However, the gains from the harmonization of policies in the additional areas can only be realised if negotiations in the areas are concluded. The modelling is based on implementation of agreed provisions. Beyond the agreement, bringing the public or raising awareness among the beneficiaries is key to unlocking the hypothesized gains. These are critical elements of the implementation of AfCFTA regional integration. It goes without saying that in the absence of agreement on those elements that need to be added - investment, e-commerce, and intellectual property - and the full implementation of agreed provisions, then no benefits can accrue. The participation of the stakeholders, including the consuming public, based on an understanding of the agreement and simplified conditions to encourage investment, is an important dimension. These interventions also need to be coupled with an agenda that includes training and advice for national trade authorities responsible for supervising compliance and administration.

152. The key findings on the estimates of AfCFTA impact from added areas of investment, e-commerce and intellectual property are still along the channels that include broader and deeper economic integration, boost trade, provide better jobs in the process reducing poverty, and offering the continent increased prosperity. Specific gains would include

- Increased FDI in Africa by between 111 per cent and 159 per cent under the AfCFTA.
- FDI inflows as a result of AfCFTA would create jobs and expertise, build local productive capacity, leading to linkages of African companies to regional and global value chains.
- The AfCFTA has capacity to create higher-paid, better-quality jobs, with women seeing the biggest wage gains of up to 11.2 per cent for women and 9.8 per cent for men by 2035.
- The full realisation of AfCFTA goals would lift 50 million people out of extreme poverty by 2035 on the basis of a 9 per cent increase in real income.

- The inclusion of investment, e-commerce and intellectual property and the deep integration would lead to growth of African exports to the rest of the world by 32 percent by 2035. Intra-African exports would grow by 109 percent, led by manufactured goods.

153. To make the most of the AfCFTA, there are areas that African governments should look at. These allow each member state to ensure that the expected benefits accrue as hypothesised. The truth is that conclusion and implementation of the AfCFTA whilst a necessary condition for the benefits on income which alter the poverty levels, they may not be enough and requires actions by the member states. Conclusion of negotiations and implementation are necessary and logical next step. Agreements covers investment and competition policy, intellectual property rights, and e-commerce must be concluded to facilitate their implementation. Mobilization and awareness raising for African governments should seek to build broad public support for AfCFTA and help businesses benefit from its provisions. Distributional impacts should be carefully monitored, and policies designed to provide social safety nets and programs for worker-retraining and job-switching.

#### *UNCTAD study*

154. According to UNCTAD (2021) greater regional integration offers more opportunities to climb the technological ladder than do exports outside the continent. Intra-African exports show a larger share of medium- and high-technology manufactures indicating growth of technologically more advanced manufacturing. The AfCFTA therefore offers scope for increasing production and trade of goods of manufactures. Progress towards regional integration has been uneven, with some countries well integrated at the regional and/or subregional level and others less so. It should be noted that, from an institutional perspective, that some RECs have already established customs unions and agreed on common external tariffs to regulate their trade with third parties. Others, however, have not yet been able to consolidate free trade areas.

155. UNCTAD (2021) considers trade pivotal for economic growth and for poverty and inequality reduction. Under the African Continental Free Trade Area, countries need to remove tariffs on 90 per cent of goods, progressively liberalize trade in services and address a number of other non-tariff barriers in order to improve regional cohesion and trade. Africa's capacity to export is undermined by its dependence on primary commodity export which are traded outside the continent. A move to process and add value would provide a basis for increased intra-African trade. Traders are unable to increase business or move to trade in value added products because of supply-side constraints. In most African economies businesses especially in production and trade lack affordable finance and credit facilities.

156. Hope for the effectiveness lies in linking policies on investment, competition industrial development to support growth of investment and manufacturing while ensuring competition thrives in the markets for products and inputs. Some strategic preferences are acceptable but that they should not be supported at expense and to the detriment of competitiveness. Electricity

companies on the continent undermine competitiveness of products whose production there are a part of.

*The study of regional integration impact in the East African Community*

157. Gasiorek *et. al.* (2016) studied regional integration and poverty in relation to the East African Community. They sought to explore and explain the impact of regional integration and poverty in the EAC. Their focus was not on the AfCFTA but this study provides an analysis and results that buttress the expected outcomes. The study considers the evidence on the poverty impact of regional integration in the EAC according to 3 S's: the scope and depth of liberalization; the structure of the economy in terms of production, consumption and trade; and the size of the constraints faced by the poor.

158. The study found some (albeit limited) evidence linking EAC integration and poverty, but data suggest rising trade, and declining monetary and multi-dimensional poverty over the period of EAC integration for Rwanda, Tanzania and Uganda. The struggles against absence of work and data on the issue of regional integration and poverty limit scope for analytical comparisons. The study uses the routes or channels identified by Te Wilde *et. al.* (2004). The focus of the study's analysis is trade, government revenue, investment and migration. In approach to analysis, interest trails the immediacy and directness of benefits. For that reason, some kinder of layered approach allows first, second and third order effects.

159. The first order effects are the most direct and the most immediate and are first line effects generated by the impact of prices, incomes and government revenue. Second order effects derive from the effects of prices which lead structural adjustments. The impacts maybe in relation to levels and patterns of employment and production. Third order effects refer to longer run impacts on economic growth and economic transformation related to increased aggregate productivity and sectoral experiences with growth in productivity in the long term. Under these gains, the impact on poverty depends on the scope and depth of liberalization which in turn determines the levels of price changes. The effect on investment and capital flows depend on whether the liberalization extends to cover these aspects. The component about migration can be related to regional integration. If this is not linked to liberalization associated with regional integration or whether or not migration is allowed, it is unlikely that there will significant gains related to this channel.

160. Two other factors determine the extent of poverty impact: the structure of the economy and the size of the constraints faced by the poor. Structure focuses on the economy's existing productive capacity, size and pattern of consumption and trade. In relation to size of constraints, liberalization creates opportunities and challenges. Impact on poverty depends on the poor's ability to overcome constraints and seize the opportunities. It also occurs when they breach the constraints to self-protection against negative shocks. For these breakthroughs to be credited to regional integration, they must be linked to and caused by liberalization associated with regional integration initiative.

161. The studies reviewed support the expectations of regional integration theory. Regional integration is pursued for the welfare and other benefits it generates. Africa's integration project can create welfare and poverty reducing benefits. However, the IMF and World Bank studies did not model migration. The ECOWAS Protocol on the Free Movement of Persons, Goods and Services shows ways migration can be incorporated in integration arrangements. The studies are silent on the non-economic channels to poverty reduction. The AfCFTA has protocols being negotiated under Phase 2 or the second level of negotiations. They created the ideal conditions and impact of the envisaged interventions. The starting point is that the theory of regional integration and expected integration outcomes. The channels through which regional integration can contribute to poverty, inequality and vulnerability reduction have been identified. However, the studies on estimates and simulations did not model protocols outside the economic channels. Some protocols are in use in ECOWAS and other REC integrations which can be used to target poverty, inequality and vulnerability among the population. The AfCFTA provides a regulatory framework for regulating policy areas that include investment, competition, intellectual property rights, digital trade, and women and youth in trade.

162. It will provide continental regulatory framework and regulate policy areas such as investment, competition, intellectual property rights, digital trade, and women and youth in trade. Specific protocols provide support to the agreement on each of the policy areas. ECOWAS has interventions that promote gender and support women empowerment initiatives. No interventions that support women, young Africans, and Small and Medium Enterprises (SMEs) were included in the modelling. Skills development or human capital development prepares the populations and equips even the poor to seize opportunities that accelerate their empowerment and exiting poverty ranks. Provisions of the AfCFTA Protocol on women and youth in trade will bind commitments among member states to prioritize the needs of women and youths in trade and mitigate trade barriers for women. Protocols and other interventions are fall under the policy, regulation and facilitation channel in the conceptual framework. Other areas that fall in this channel include the climate change mitigation and environmental control for addressing climate change impact which adversely affects the poor and vulnerable communities. The AfCFTA Protocol on Investment provides mechanisms for countries to achieve green transition.

### 4.3 Conclusion

163. The literature and studies reviewed highlight the links between regional integration and poverty reduction. They confirm four channels that have been noted and used in the ex ante studies of the impact of trade and integration theory. Indications are that regional integration delivers the expected economic non-economic and benefits predicted in theory which is the basis of which it is pursued. The economic benefits born out of efficiency and price reductions due to tariff reduction, even elimination in the estimates carried out in ex ante studies are much lower because countries on the African continent do not rely so much on tariffs to regulate trade. The estimates show much larger gains in welfare due to the removal or reduction of NTBs. This shows that NTBs are a much larger influence of the levels of intra-AfCFTA trade. An important point in the region's quest to rein in poverty and reduce inequality and

vulnerability, is that it is important for member states to actively campaign for the removal of NTBs. Associated with this is a deliberate effort to implement trade facilitation measures and improve the flow of trade.

164. In addition, all the studies confirm positive welfare gains or poverty reduction achievements to trade under regional integration. This is important because, it acknowledges and confirms what is expected in theory. It is possible to work from that point and look at how the implementation of the AfCFTA can be tailored towards accelerating poverty reduction and improve the lot of the poor and vulnerable section of the African population.

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## 5. LEVERAGING THE AfCFTA FOR POVERTY, INEQUALITY AND VULNERABILITY REDUCTION

165. The previous section identified routes or channels for regional integration and trade to make an impact on economic growth and poverty. In this section, we outline the essential AfCFTA implementation activities for the AfCFTA Secretariat, the RECS and Member States. The section turns to discuss the necessary actions of member states from Southern Africa to engage in order to direct the benefits of regional integration towards realizing the ideal of reducing poverty, inequality and vulnerability as they implement the AfCFTA. In addition, we consider the interventions that are not necessarily economic although they may have economic impacts.

### 5.1 Preparation for AfCFTA implementation

#### *The AfCFTA roles and responsibilities*

166. Implementation is based on completion of all processes and arrangements required to enable across the continent trading under the AfCFTA. Currently only a few countries are trading on the global trade initiative (GTI), a kind of pilot or trial run. The AfCFTA will be effective when all countries of the continent are trading. The GTI experience provides State Parties the opportunity to identify and share best practices and draw lessons learnt that can be applied in the proper implementation of the Agreement. It is also important that all negotiations and protocols be completed as the framework for implementation.

#### *The REC roles and responsibilities*

167. RECs have three roles to play at their level in relation to the AfCFTA and its implementation. Some of the RECs on the continent have been in existence for a long time. They have made progress implementing regional integration programmes. The experience they have garnered over the years will be very valuable for the implementation of the AfCFTA. It will be beneficial if the RECs became a part of the implementation process through adopting AfCFTA legal provision into regional agreements. This would ensure that implementation of REC provisions also achieves implementation of the AfCFTA.

168. RECs can assist their Member States to understand the AfCFTA and support the process to domesticate it. The RECs know and understand the state of play in the regions and their Member States well. They can take advantage of this and work with the Member States to bring the AfCFTA into national economies with application and provisions catered for under national laws. Their working with Member States can speed up implementation enabling the benefits to reach the population quicker.

169. In addition, as RECs support domestication, they gain perspectives of regional Members States' positions and preferences on the AfCFTA. The RECs are in a strategic position and vantage point. They can develop regional implementation strategies out of the coordination of national implementation perspectives. This gives the RECs an opportunity to

coordinate reporting and receive information on performance even at Member State level. These regional implementation strategies are a sum of the national strategies.

#### *Member States' Role*

170. Like in many other regional integration initiatives, Member States, which are the contracting parties, have an interest on the implementation of the Agreement. They are the final implementor of the AfCFTA which was negotiated by and for Member States. The success or failure of regional integration is therefore measured at the Member State level. The dreams and aspirations that are to be delivered, relate to the development States wanted; it is the expectations compares with the outcomes. The workings of the Agreement have to be apparent and make a difference at state level in the territories. The States need to create conditions for effective implementation which will deliver results leading to reduction in poverty, inequality and vulnerability. In this regard, States must do everything that improves the implementation and functioning of the AfCFTA.

171. An area that is critical in regional integration arrangements is the giving off or ceding elements of sovereignty or sharing it with the AfCFTA Secretariat especially on enhancing the performance of trade initiatives. The coming together of States requires that the centre be able to regulate and make regulations for the common good. It is well known that such developments tend to rely on good will and a certain amount of give and take. In this case, Member States must cede some degree of sovereignty over trade. The delivery of trade benefits and related benefits the Member States seek is made possible by setting the right framework and its committed implementation. The gesture will allow the Secretariat room to enforce provisions in the protocols in the process ensuring that the AfCFTA works well to deliver the trade benefits.

172. In relation to a role also assigned to the REC Secretariats above, Member States primary role before trading is to domesticate the AfCFTA and develop national strategies on AfCFTA implementation. It is known that many Member States need assistance to accomplish this. The AfCFTA Secretariat is the logical partner but might not have capacity to work with all the 54 Member States. As a consequence, help can be sought and received from any viable sources. However, it remains a responsibility of the State to domesticate and to prepare a strategy for implementing and benefiting from participating in the AfCFTA. They will require policies and guidelines to ensure compliance and frameworks to enter the operationalization of the AfCFTA.

173. Member States' experiences in regional integration within RECs are also useful as they progress towards implementation of the AfCFTA. The progress made on commitments to the removal of NTBs need to be entrenched and secured in the AfCFTA. These can stand on the basis of Member States holding and maintaining commitments to the provisions and progress made. It is essential that the status of these commitments must be reviewed, monitored and evaluated. An AfCFTA monitoring and evaluation system for this must be developed and deployed. Member States are critical to the development and deployment of monitoring and

evaluation systems at national level. The States shall oversee these developments and coordinate national systems with the central system at the AfCFTA Secretariat.

174. In line with REC responsibilities indicated above, Member States will be better positioned to work with RECs in the development of regional commitments and regulatory frameworks to guide trade in services on the African continent. Services play an important role in regional integration and economic development. Trade in services will play a critical role in sealing the continental integration. For that reason, regional schedules of specific commitments will be necessary and can be used to build up to continent-wide frameworks on liberalization and regulations of trade in services. The foundations are based in the RECs and Member States have a contribution to make.

175. The nature of regional integration arrangements is that they are negotiated by and among State Parties who agree the modalities of trade and sign agreements but the actual trading is largely done by the private sectors that produce and trade goods and services. It is often indicated as the private sector is responsible for implementing trade agreements. The truth is that they are negotiated for and on behalf private sector interests resident in the various territories. The private sector participates or is represented in the negotiations. However, they become even more important at implementation. As a result, the Member States must also purpose to work with the private to implement the AfCFTA. After all is agreed, the producers need to be made aware of opportunities offered under all trade agreements. The specific case in this report is the AfCFTA. Traders must be made aware and investors must be attracted to capitalise on the opportunities. The priorities of the AfCFTA such as the development of selected value chains are some of the key pointers to the emerging opportunities. Governments of Member States must sell the opportunities in order to stir up responses that get the private sector and external regional investors to position themselves to connect with others beyond the country borders. Growing production and trade will not just happen because a country has participated and signed a continental free trade area agreement.

176. The foregoing outlines responsibilities and required preparation for implementation of the AfCFTA by the Secretariat, the RECs and by Member States. Implementation requires that the frameworks are completed, the protocols are in place and can be operationalized and Member States producers and traders are familiar with the rules and regulations. Briefly, some elements that constitute implementation will be outlined below. Some of the channels that deliver benefits that contribute to addressing the poverty, inequality and vulnerability will be secured even during preparation for implementation.

## **5.2 Implementation and Benefits on poverty, inequality and vulnerability**

177. Development of national AfCFTA implementation strategies outlined in 5.1 above is important. It must prioritize products in production, target markets and complementary enablers to facilitate development of trade. Economic channels of trade, production, investment and employment and wages will be activated once trading begins and the decisions to set up new or expand productive capacities in order to engage in production for trade. Increased



production occurs in response to tariff liberalization, the removal of NTBs and implementation trade facilitation. Price changes that occur motivate producers. This occurs in manufacturing sector as well as in the agricultural sector. The increased market opportunities also spur those who see opportunities in their sector to invest more, to create productive capacity or expand existing capacities to increase the volume of production or increase the range of products that they are able to offer on the expanded market opportunities. Increased production leads to hiring and creates more jobs. Those hired are both unskilled and others with skills. This channel of production therefore offers opportunities through income gains. Within the production and trade channels, continental and regional value chains are significant additions. Poverty, inequality and vulnerability will be addressed through new employment opportunities or upgrading, income and new entrepreneurs joining the ranks of business people including in the informal sector.

178. Two points can be highlighted that governments of Member States can influence. They can assist with support for entrepreneurship and private sector development. SME start-ups will require support to make it through the start-up phases. The second relates to provision of market information. Governments must know and target markets where they see opportunities. These should be included in the national strategy for AfCFTA implementation. It will cover markets, products, support measures, etc. This will require the establishment or capacitating of existing institutions that research and provide market information. The identification of products to produce and trade must be guided by the strategy. Governments can assist those who have their choices. Trying to enter every market without knowledge or awareness of own strength and comparative and competitive advantages can lead to failures. A consciousness about the competition is also useful. The firms that take opportunities are able to employ and offer wage income to change the welfare situation including that of the poor. These relate to strategy development and selection of priorities.

#### *Trade related interventions*

179. Tariff and NTB removal are very much within the sphere of influence of the AfCFTA and can be negotiated. Analysis in the IMF and World Bank studies have highlighted the welfare gains that arise as tariffs are reduced or removed and some NTBs are reduced and/or removed. The estimates worked on the basis of partial reduction in the NTBs. The target should be to remove all protection especially against regional players or those already on the continent. The studies that estimated impacts revealed that NTB removal and trade facilitation yield higher impacts. Each country developing national AfCFTA implementation strategy needs to know what areas to prioritize since liberalization and removal of these affect the extent and size of welfare benefits. Countries will target and seek to maximize the benefits of tariff liberalization, NTB removal and trade facilitation.

180. Associated with investment, production and trade channels are the needs for affordable finance to support enterprises and business seeking to exploit opportunities created by the establishment of the AfCFTA.

#### *Non-economic channels implementation - Protocols*

181. These are the areas where implementation is essential because they do not happen on their own. These are the ones that can be targeted to bring about direct impacts on poverty, inequality and vulnerability. The implementation of the AfCFTA protocols and other policies and regulations can be activated. The Protocol on women and youth in trade can be implemented can be domesticated and offer the beneficiaries opportunities to start or expand trading businesses. The simplified trade regimes offer assisted passage for those starting out or expanding in the sector with the support entrenched in the protocol.

182. The number and range of Phase 2 protocols in the AfCFTA will boost the economic channels with impact on non-economic channels. Digital trade (e-commerce) has the capacity to reach and connect many businesses including SMEs, women and youth led businesses. The protocol on intellectual property rights catalyses registration which can stimulate innovation. Competition policy regulates competition and offers to creates and sustain efficient markets. The protocol on investment has within it green technology focus.

#### *Human development and skills development*

183. The regional integration that is developing under the AfCFTA provides opportunities for those who have knowledge, skills and experience. Governments can provide skills development and redevelopment. New opportunities created by the regional integration require skills to take advantage. Opportunities are sported by those capable of reading the business environment situation and the opportunities. Conditions should be created for the population to be able to respond. Those with new skills will be empowered to take the opportunities and apply their skills. Their acquisition of skills as an empowerment that breaks the limitedness of opportunities and offers possibilities for exploiting skills to escape poverty. The skills development can also make possible movement to where opportunities exist and similar to the free movement provided in ECOWAS can lift the prospects for those skilled and with something to offer.

#### *Infrastructure development and Trade facilitation*

184. Inter-African trade has been hampered a number of factors and some of these persist. However, government interventions can break these. The AfCFTA has included trade facilitation as a priority. However, provision of infrastructure which is necessary for production and trade remains the responsibility of Member State governments. Whatever facilitates that are required, their supply and provision must not undermine competitiveness of the products whose production or transportation they support. In this category are facilities such as power generation and transport infrastructure, among others.

#### *Research, Innovation, science and technology*

185. Although this can be viewed as a production related channel, it is non economic at this level. Research, innovation, the application of science and technology can be applied to the development of products, the development of new efficient or cost effective methods of producing or undertaking parts of production processes is essential for productivity and ultimately competitiveness in trade. The delivery of products on the market can take a long time. The introduction of new products comes from dedicated facilities. While the private

sector can establish facilities for this purpose, in most countries, this responsibility falls on the government. As part of the plans and strategies for implementing the AfCFTA, member States need to prioritise all interventions required and phase their development over time.

#### *Implement Trade facilitation measures*

186. These are required for production and facilitate export expansion and diversification. Many countries in the region produce a narrow range of goods. The export market offered under the AfCFTA is expansive and allows member states to consider and develop products with demand on the continent. It is important that markets are identified and targeted. This requires complete information on market entry and ICT capability can improve this.

#### *Establish National Monitoring and Evaluation Systems of AfCFTA*

187. The implementation and impact of the AfCFTA at national level is a necessary part of the national strategy. A system to collect and analyse data on performance is required. It should identify the key players responsible data collection. For the monitoring part of the task, observation of the trends is adequate, It is essential to identify indicators that will be targeted for measurement and knowing what data is required and how best it can be collected. Data will be required for evaluation of the extent to which the objectives of the AfCFTA are fulfilled at the national level.

### **5.3 Important factors for AfCFTA implementation**

188. Some important factors for CFTAs impact analysis that are important for poverty, inequality and vulnerability are presented below. The additional aspects that must be considered a part of the analysis of the economic impact include economic impact, trade creation and trade diversion, compensation mechanism and cost competitiveness.

#### *Economic Impact Analysis*

189. Economic impact analysis evaluates the impacts that are initiated by the implementation of projects, programmes or policies with a specific focus on a region or entire economy. The analysis measures or estimates changes in economic activity between a number of scenarios. In the majority of cases, differences between two scenarios are used. The approach can involve a before and after comparison or with without comparison. In both cases, the performances of the two scenarios must be clear for an assessment to be made as to what the impact of the policy or programme are.

#### *Cost competitiveness*

190. Competitiveness is the capability of an organization or country to produce and sell products/services that meet the quality of the markets at the same or lower prices and maximize returns on the resources consumed in producing them. Cost competitiveness highlights the capability of a product to be cheaper than competitor products offering consumers a benefit. The firm or country is managing and able to lower costs in producing and making available goods. Competitiveness is a factor in market entry in the trade channel.

#### *Welfare (gain and loss)*

191. Regional level economic integration is pursued to help members to benefit from specialization while at the same time it accommodates needs and adjustment capacities of the members in the integration arrangements. Among the benefits of integration are the expected boost in welfare. A continental integration agreement involving small countries with limited trade exports is expected to have welfare losses associated with its operations but the analysis by the IMF team considered earlier showed positive welfare gains estimated for small economies such as Eswatini. However, some initiatives can have welfare loss impacts.

#### *Trade creation and trade diversion*

192. Trade creation and trade diversion are two effects that apply in the context of free trade or preferential trade areas (PTAs). Trade creation involves new trade that would not exist without the PTA and is always beneficial for the countries in terms of national welfare. To have beneficial economic impact, the AfCFTA must have trade creation impact. On the other hand, trade diversion refers to trade that is lost through deflection or shift towards a free trade partner due to taking advantage of the free or integration preferential treatment. The effect of trade diversion is loss or reduction of national welfare. Where the AfCFTA leads to deflected of trade, it leads to a loss through trade diversion.

#### *Provision of public goods and facilitation of the AfCFTA*

193. RTAs can provide mechanism for provision of public goods either through policy on specific developments especially those that can improve the delivery capacity of the system. These can be agreed as part of the agreements or as annexes or protocols to push the region towards achieving certain levels or standards that have an impact on the welfare of the population. It is in a better position to know the requirements and extent of shortfall in the supply and can then coordinate a coordinated approach that could lift the public goods and, in the process, facilitate the delivery of services and goods leading to improvements in wealth.

## 5.4 Challenges to leveraging implementation

194. The implementation of the AfCFTA continental integration arrangement is an exciting prospect for the whole continent. Its implementation will no doubt have significant impact including on the levels of poverty, inequality and vulnerability. This is an issue of concern in Southern Africa. The interest is to ensure that the region can take advantage of the implementation to address the challenges. Implementing the AfCFTA is not without challenges. More specifically, some of the challenges for leveraging the AfCFTA and targeting poverty reduction in Southern Africa that will arise and need to be addressed are briefly discussed below. If the implementation of the AfCFTA is somehow hampered, the ability of the region to leverage on it is curtailed, implying limited effectiveness for poverty related initiatives tagged to it.

### *a. The size of the continental regional integration*

195. The continent has been pursuing regional integration in a number of RECs which are different stages of their integration projects. The challenge is in unifying all regions as

implementation commences in earnest will be a great challenge. Unifying the continental, REC and national levels to keep focus on the objective to integrate will be tough ask.

*b. Resource requirements and constraints*

196. The project to integrate the continent and deliver development is a huge project. It calls for commitment and requires resources. While the continent and Southern Africa are endowed with resources, it is demands for financial resources to support the regional integration agenda that will put pressure. The intention to leverage the AfCFTA implementation to address poverty, inequality and vulnerability is understood as a realisation that targeting this outside of an on-going initiative is even scarier to imagine in a region that struggles with supporting the population to access basic needs.

*c. Domestic markets protection unwillingness to open market to imports*

197. Trade and regional integration have been slowed down in RECs because the Member States pursue exports viewing other countries as markets but with no intention to open their markets. This can lead to elements of revenge or reverse protectionism. The REC is every country's neighbourhood and expanding trade with neighbours has greater prospects for success as Member States build capacity to target and pursue markets further afield.

*d. Capacity constraints to increase supply and exports*

198. Lack of capacity and production constraints for member states will limit their response and their ability to export. The trade channel works on the basis of increased production, increased exports and increased jobs and income as the route being targeted. A failure to increase supply for a variety of reasons e.g. lack of relevant skills or investment, would render the approach ineffective or delay the benefits envisaged.

*e. Customs and border management*

199. These are integral to a functioning regional integration and yet all over Africa, and indeed in Southern Africa too, these still pose challenges and continue to be stumbling blocks to regional integration. If they are not made efficient, they will slow down trade flows and business travel across the continent and limit the realisation of the benefits anticipated from investment, implementing protocols such as on women and youth in trade.

*f. Infrastructure development limitations*

200. Connectivity and distances on the continent must be breached. The state of trade-related infrastructure to support the ambitious project is inadequate and needs upgrading. The space of development can constrain integration. Internet capacity, transport infrastructure or even power generation are all low for current requirements and cannot carry the increased demand implied by the implementation of the AfCFTA. This can deny the realisation of some of the anticipated benefits and limit impact on poverty.

*g. Policies that are inconsistent with the integration agenda*

201. Policies are signals of the intention and direction of development that a country would like to pursue and achieve. If the signals do not work, they lose value as signals. The development of value chains is a development objective but, in some RECs, the inconsistencies

undermine the very development intended and thus deny the investors, business people and potential workers the opportunities to exploit this the potential remains unrealised.

*h. Quality and compliance with product standards*

202. In the area of production and trade, quality is signalled by quality marks and certification by the relevant authorities in each country. The quality marks and SPS certificates provide assurance to consumers on the acceptability and fitness for purpose of goods and services. Failure to meet or comply with standards raises doubts to consumers who are invariably far away from the place of production of supply and therefore do not have a way of confirming acceptability. This can lead to loss of market opportunities and a failure to grow a business and with it the creation windows to lift some people out of poverty and living on the margin.

*i. Differences between government and private sector*

203. The implementation of the AfCFTA and any other trade and related policies work well when governments and the private sector as well as other interested parties work together. If collaboration is lacking, the integration agenda can be compromised. Establishing standing arrangements that review collaboration and any issues that emerge which may have a bearing on the working of the plan to implement the AfCFTA and integrate into the continental economy.

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## 6. LESSONS LEARNT AND RECOMMENDATIONS

### Lessons and important implementation issues

204. African countries have pursued integration for a long time. It is viewed as a vehicle for securing unity and peace and an important platform from which to push for economic and social development. The eight RECs recognized by the AU are considered building blocks for continental integration. Integration under the AfCFTA will need to take account of experiences of several years of REC integration experiences. In addition, the AfCFTA will operate alongside the RECs and be implemented concurrently.

205. African regional integration has not progressed much but has elements of the intergovernmentalism theory. The objectives of the AfCFTA outlined above contain a coming together motivated by common interests and a desire to chart a development path that brings shared development outcomes. There is an acceptance that as collective the many countries party to the regional integration can increase and improve the lot of the population. At regional integration levels, the “giving up” of power was limited and thus the progress has been slower. The bargaining has been cautious and conservative. The general acceptance that the numbers count for something is behind the push. A larger economy provides scope for large producers and creates scope for specialization and efficiency, leading to lower costs of production.

206. Deprivation and lack for significant proportion of the region’s population is challenge. Their plight can be resolved through bringing them into the mainstream economy through business opportunities and employment. Inclusive strategies can open avenues for growth and onboard even the poor.

207. Individual country governments must plan and develop strategies to position themselves to exploit the AfCFTA to their developmental advantages. This requires that they invest in identifying target markets, developing plans for expanding production and trade in specific sectors including in the continental value chains. The plans and strategies must consider all other requirements for implementation. They will include key stakeholders and prepare to set this in motion at the earliest opportunity.

### Recommendations

#### **Plan for implementation**

208. The participation in the implementation of the AfCFTA needs careful planning. Member States must develop their national AfCFTA implementation making clear the issues that are of interest and areas where they are willing and able to give concessions. The priorities and poverty concerns of the State concerned must be clear. It is essential to remember that other countries also plan on the basis of concessions granted. It is necessary to have clear positions to avoid reversals that can cause confusion. The plans must have indicative budgets and must be accompanied by a resource mobilization strategy that proposes to raise requisite resources for implementation.

### **Resist Tendency for protectionism**

209. Even in the regional integration and trade, the temptation to protect your market will come but it must be resisted. The arguments for regional integration is that countries and economies are bigger and stronger together. It is useful to establish platforms that discuss development that are negative which threaten to undermine the unity in the project and iron out any emerging challenges. Such dialogues can look at ways and offers that deal with apparent issues. Use data and confirmed information (evidence) to support issues and positions.

### **Establish effective institutions and structures to provide services**

210. Institutions that manage key activities such as integration must be strong and solid. They should be on hand to give guidance and directions and address any gaps. The area of quality and SPS standards is a key to trade promotion. It should be a source of confidence on the products offered to the market. Doubt or a lack of confidence on the institution can undermine all initiatives to grow the trade channel with knock on effects on production and employment and the wages and incomes channel.

### **Value of Information and Connectivity**

211. Regional integration thrives on timely information. This is critical in markets, in business decisions and even household decisions. The movement of goods, business travel and even the development of regional and participation in global value chains are predicated upon connectivity and facilitation on demand. On the continent and its regions, this is a difficult area where travel can be routed via Europe or Asia at great cost and with significant loss of time. Modern production facilities do not maintain huge stocks of raw materials and intermediate inputs. Agriculture produce needs to arrive fresh and, in a state, when it can be consumed. This builds a case for viable options for connecting different parts of the country, region and continent.

### **Develop Skills**

212. There are skills shortages in many countries and regions. Yet the response to questions of skill requirements is to argue that there are enough skills. The structure of economies and skills supply have not altered over the decades. The unemployment affecting graduates says something about a disconnect between the market requirements and the supply and we refuse to accept the message being communicated. To fully and adequately address the gaps, we must take time to understand activities and their requirements. The productive sectors use different levels of skills. It is the conceptualization part of the production journey that has the hardest gaps to fill. The skills to think and give birth to an idea is probably the most difficult to develop and hence there is a dearth of critical skills. There is need for new approaches to delivering skills and the skills consuming industries must increase their involvement. Governments face known constraints and need to look for partners in this regard. Skills also lift disadvantaged sections and provide opportunities for empowerment.

### **Financing**

213. Development of financial market depth is essential and the provision of funds to support the development of specific sectors especially those that are connected and have greater multiplier and employment impact. There are regional development finance institutions and national development finance institutions that offer various packages of assistance for a variety



of ventures. It is known that the levels of risk and their aversion to risk contributes to difficulties to access resources. The levels for which access to finance is hardest are those we intend to lift out of poverty and inequality. The design of packages needs to embrace inclusivity. This is difficult given that current financiers have to select those who qualify to have their businesses funded. Financing ideas is still utopia for our region but given the drive for regional integration and the scope for innovation, perhaps it is an idea whose time arrived.

### **Entrepreneurship**

214. Related to capacity, financing and skills development is entrepreneurship and private sector development which can propel business formation, growth and employment creation. Entrepreneurs are a huge resource that can be tapped into. They are also developable. Countries need to invest in developing people and promote This is one potential that can be exploited to boost economic participation.

## **7. CONCLUSION**

215. The concern for the state of poverty, inequality and vulnerability needs a handle to resolve. The implementation of the AfCFTA is an opportunity. This is because apart from expanding opportunities through investment, production and trade which can offer employment and income, the AfCFTA also has within its architecture, protocols that are directed at addressing specific structural weaknesses on the continent. The protocols are attractive tools for providing mechanisms out of poverty, inequality and vulnerability. These can be cascaded and work at national level to generate impact that will improve conditions for a number of people if implemented well. The protocols on intellectual property rights, investment, competition, women and youth in trade among others, offer to change the way business is being done. Regional integration associated with the AfCFTA implementation offers to create opportunities. Governments have limited resources and cannot even provide certain services even to most needy. Creating conditions for businesses to thrive and contribute to the growth of economies in the region is the value that the implementation of the AfCFTA creates. This must be exploited for the region's progress and the betterment of the regional population. The responses also involve developing strong institutions and facilitating development that increases production, provides material for trade and opportunities for work and business. Governments must be prepared to coordinate and support the initiatives.

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