CONTINENTAL INTEGRATION: Uniting a revitalized Africa
“The COVID-19 pandemic has underscored Africa’s weakness in the area of pharmaceuticals, medical supplies, and equipment. According to the UNECA, Africa imports more than 90 percent of its pharmaceuticals. An integrated Africa should seize the opportunity of its 1.3 billion-large market and the implementation of the AfCFTA to improve trade in, and manufacture of medical supplies, equipment, and vaccines. Africa should look to onshoring some supply chains to enable continent-wide manufacturing capability in these areas to complement trade. The recently developed continental e-Commerce platform for trade in medical supplies is a good beginning. An integrated Africa must build on this initiative to enhance support for an African pharmaceutical industry.”

Ngozi Okonjo-Iweala, Special Envoy to Mobilize International Support for Continental Fight Against COVID-19, FMR Finance Minister of Nigeria & FMR Managing Director, World Bank Group

On March 19, 2020, I was sworn in as the first secretary-general of the Secretariat established to coordinate the African Continental Free Trade Agreement (AfCFTA). The AfCFTA Secretariat, envisaged to be agile and nimble, is endowed with the autonomy to manage the affairs of the AfCFTA.

The moment of this formal induction had been a long time coming. The basic foundations of AfCFTA—the creation of a single market across Africa—had already been laid out in June 1991 with the Abuja Treaty, which founded the Africa Economic Community. The AfCFTA is the latest refinement of this well-founded idea.

Still, I recognize that treaty-fatigue among the African elite still squares off against considerable lack of awareness of the possibilities afforded by the AfCFTA among the African general public.

We have a crisis of communication and inspiration, as Africa’s top political actors, academics, and journalists constantly complain of hearing too much about AfCFTA and its associated African Union formalities. Then again, a recent survey showed that only 26.2 percent of firms in Ghana, the operational seat of the AfCFTA Secretariat, have even heard of the AfCFTA, much less are well prepared to benefit from its low-to-zero tariffs, price advantages, and other competitive gains afforded when they conduct transactions around the continent under the AfCFTA.

Quite often, experts cite limited infrastructure and capital as the common barriers to the success of previous agreements; however,

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The effects of the AfCFTA are expected to differ significantly by country and area of policy reform. The World Bank estimates that the highest income gains due to the AfCFTA will occur in Côte d’Ivoire, Zimbabwe, Kenya, and Namibia, which would see income gains of over 10 percent each by 2035. Furthermore, the AfCFTA is expected to have a positive but heterogeneous impact on wages across region, skill level, and gender. In Southern Africa, for example, the World Bank projects that wage gains will be higher for male workers than female workers. In contrast, in Central, East, North, and West Africa, wage gains are expected to be higher for female workers. These gains will depend not just on tariff liberalization—for which benefits are generally low—but on trade facilitation measures and the reduction of non-tariff barriers.

If inter-market connectivity, data access, and soft infrastructure are critical to the success of trade agreements, then, by addressing these issues early and head on, the AfCFTA can gain much more traction than past trade agreements. Because the issues of infrastructure and access to capital that have bedeviled previous trade agreements on the continent cannot be solved overnight, approaching them now and with vigor can lay the groundwork for a more successful future.

Similarly, appropriate soft infrastructure-enabled mechanisms—such as enhanced connectivity, more effective training delivery, and stronger feedback loops, complaints channels, and resolution methods—can boost the capacity-building of trade and customs officials and better align structural policy for overall deeper integration.

**FIGURE 5.1**
**THE AFCFTA’S EFFECTS ON WAGE AND INCOME GAINS**

It’s with these past challenges and future possibilities—for the millions of small businesses and traders that constitute 90 percent of the economic actors whose lives the AfCFTA is meant to change—in mind that we approached “start of trading” under AfCFTA on January 1, 2020. For months, the small team with me here at the Secretariat has been laboring to align all the pieces necessary to make AfCFTA unique in terms of traction and impact given this elaborate context. Importantly, I must emphasize that there are two things far more prevalent today than at the time of earlier trade agreements on the continent: ubiquitous digital technology and social networks for knowledge creation and sharing. If we immediately, rapidly, and aggressively harness those trends to address soft infrastructure issues while we ramp up capacity to tackle the harder infrastructure and material resources bottlenecks, we stand a very strong chance of making a bigger dent in the Africa transformation agenda than previous integration efforts so far.

Thus, late last year, we launched AfCFTA Vision, a combination of social advocacy campaigns, innovation contests, and technology strategies to unify the diverse interest groups on the continent behind the Grand Vision propelling the AfCFTA.

The elements of AfCFTA Vision are 1) a platform for knowledge creation and sharing through online debates and forums (www.afcfta.blog); 2) a tool to empower innovators and entrepreneurs to market their ideas for solving critical problems identified by Africa’s political leaders and foremost thinkers (www.afcfta.blog/challenge); and 3) a comprehensive technology strategy that facilitates connections across all key actors rapidly, cost-effectively, and efficiently, regardless of their size, since, historically, small and medium enterprises in particular have not been able to take advantage of trade agreements. The technology strategy for AfCFTA should include a central business registry and “trusted identity/profile” available at no cost (without subscription) to all entities wishing to trade under AfCFTA beyond their own country. This registry is expected to power a smart trade directory to facilitate business due diligence, facilitate Know-Your-Customer procedures, and foster trust among trading and transacting parties across Africa.

We want to make trade easier for the African businessman and woman. For example, if a Gambian small or medium enterprise (SME) wishes to sell peanut butter to a Namibian supermarket, the verification of track record and exchange of business credentials should be far simpler and smoother than it is right now. We ultimately want to see the peanut butter standards and traceability documents all digitally transferable across the Gambian-Namibian virtual trade border.

The specific technology elements of helpful tools such as machine learning and blockchain, among others, are less critical than a clear policy vision. Shared trust among African traders can be formalized with standardized passporting and e-certificates for rules of origin and customs declarations under the AfCFTA. Similarly, we want to make it easier for guarantees and letters of credit to be scaled down to a level where even the smallest players can afford to utilize them. Novel tools like Pan-African Payments & Settlements Platform (launched by Afreximbank) help us do so.

And, of course, the Namibian peanut butter importer must first even know about the existence of the opportunity—a possibility that requires multi-stakeholder (both public and private) collaboration bridging upcoming continental trade observatories and market intelligence portals.

But it all starts with collaborations around creating a set of core apps to get people sharing data and exploring opportunities together. Such clever configurations would constitute the “terminal” in which other digital applications can dock if they have synergies with what we are all trying to drive forward in Africa through AfCFTA.

Finally, none of these ambitious but achievable goals can happen if the AfCFTA Secretariat is pushing all on its own. We need partnerships.

For example, our AfCFTA Vision launch partner is the Sankoree Institute of AfroChampions, the multi-stakeholder organization that has been the African Union Strategic Partner driving the AVRI-
VA program (www.avriva.org). We are searching for a wide range of strategic partners, starting with the development finance institutions and business associations.

I am delighted to report that the strategy of building strong partnerships and alliances with the private sector has already ensured an increase in the capacity of the Secretariat to continue the good work that has been done on the technological front by the AU Commission.

Such partnerships are critical, especially as the instruments explicitly identified for the successful implementation of the AfCFTA are technological, covering the processes of interstate engagement, intelligence-gathering and information-sharing, and trade facilitation.

In the end, technology is merely a tool. What really drives progress and achieves goals is the shared vision of those partners. It is the meeting of technology, vision, and partnerships that, I strongly believe, will make AfCFTA the engine of Africa’s new reality. Please come on board.
Building African economies back, better and stronger than before

The COVID-19 pandemic has upended the world economic order as we know it and may be the gravest challenge that Africa’s leaders have faced since independence.

Africa, like other regions, is reeling from the pandemic’s economic and social consequences. The global economic downturn is undercutting every sector of Africa’s economy. Growth is expected to turn negative for the first time in almost 50 years, threatening the hard-won development gains of past decades. An additional 43 million Africans might be pushed into poverty.

It is in these exceptional circumstances that, in August 2020, I was unanimously re-elected to a second term as president of the African Development Bank. Today, more than ever, I feel the burden of responsibility that comes with this honor. It will be my duty to ensure that the Bank rises to the challenge, standing in solidarity with African countries as they respond to the rapidly evolving crisis.

Extraordinary times call for extraordinary measures. Indeed, the International Monetary Fund (IMF) estimates that Africa will need $1.2 trillion over the next three years to recover from the epidemic.

The good news is that African countries have already taken a bold range of actions, from ambitious public health interventions to flatten the curve, to the expansion of social safety nets, to monetary and fiscal interventions on an unprecedented scale.

The Bank responded swiftly in April 2020 by launching a $10 billion COVID-19 Rapid Response Facility, which provides liquidity through crisis response budget support in order to help African governments implement their plans to control and mitigate the virus and its impacts. The month before, the Bank also launched a record-breaking $3 billion “Fight COVID-19” social bond on the global market—the largest-ever U.S. dollar-denominated social bond.

The Bank will continue to leverage its financial standing, its triple-A rating, and its convening power to mobilize the funds Africa needs to build back better and stronger. Each year, the Africa Investment Forum (AIF) brings together development finance institutions, commercial banks, sovereign wealth funds, pension funds, private investors, project sponsors, and policymakers to link Africa’s investment opportunities to sources of capital. Last year’s edition of the AIF developed a pipeline of 230 projects valued at $208 billion.

We will also make full use of the additional $115 billion in capital that the Bank’s shareholders entrusted to us as part of our seventh general capital increase.

Our strategic direction will continue to be guided by our High-5 priorities: Light Up and Power Africa, Feed Africa, Industrialize Africa, Integrate Africa, and Improve the Quality of Life of the People of Africa. Across the High-5s, we will work with African countries and our development partners to identify, selectively, the most strategic investments that will maximize development impact.
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In doing so we will build on one of Africa’s strongest assets—its youth. Half of Africa’s population is under 20 years old. We can and should turn this demographic asset into economic dividends by creating meaningful jobs for the young men and women of the continent.

Furthermore, African women are key economic actors: They perform most agricultural work, they own a third of all firms, and, in some countries, they constitute 7 out of every 10 people working in agriculture. As such, the Bank is committed to empowering women and promoting gender equality across the continent. Affirmative Finance Action for Women in Africa, which aims to mobilize $3 billion to close the financing gap for enterprises across Africa that are owned and led by women, is one of the Bank’s initiatives in this regard.

COVID-19 has created a key moment to invest in economic governance through policy dialogue and targeted technical assistance. We will also keep a close eye on debt sustainability, investing in operations that promote inclusive, quality growth. We will close Africa’s infrastructure gap by building high-quality infrastructure that makes African countries more resilient to shocks—economic, health-, or climate-related. We will develop more competitive agricultural value chains, and kick-start industrial development.

We know that Africa’s path back to rising prosperity will be long and difficult. We must collectively roll up our sleeves and get to work—to protect and build on Africa’s hard-won economic gains.

FIGURE 5.3
AFRICA’S TRADE IN PHARMACEUTICALS, 2017-2019

Africa’s reliance on international sources for pharmaceuticals has come under attention as the COVID-19 pandemic has disrupted supply chains worldwide. The vast majority of Africa’s pharmaceuticals are imported from outside of the continent, with over 75 percent of its imports coming from the European Union, India, or China. In contrast, although Africa exports a much smaller amount of pharmaceuticals than it imports, the majority of those exports are traded within the continent: East African and Southern African countries receive over 50 percent of Africa’s pharmaceuticals exports.

Source
Facilitating the transformational AfCFTA: Tools for eliminating bottlenecks

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Africa was on the cusp of a revolutionary economic transformation before the COVID-19 pandemic struck, and the ensuing crisis just underlined the urgency of that process. Right now, countries across Africa are overcoming years of colonial division through the African Continental Free Trade Agreement (AfCFTA). The AfCFTA is, in many ways, a treaty that will transform Africa from a fractured, commodity-dependent group of economies into a vibrant, integrated market of over 1.2 billion people. Trading under the agreement, delayed by the pandemic, commenced on January 1, 2021. (For more on the potential gains and challenges of AfCFTA, see page 63).

Despite the delay, the African Export-Import Bank (Afreximbank) has been working closely with the African Union (AU) and AfCFTA Secretariat to facilitate the agreement’s implementation. Having already disbursed close to $20 billion for intra-African trade during the last four years, Afreximbank will double this amount in the coming years as it seeks to close the annual trade finance gap in Africa estimated by the International Chamber of Commerce at $110 billion to $120 billion.

It is estimated that the fiscal losses associated with the removal of trade tariffs amounts to over $4.1 billion in the short term. Afreximbank is, therefore, working with the AU to introduce a $5 billion AfCFTA Adjustment Facility—a compensation mechanism—to help AfCFTA member countries better adjust to the fiscal and other impacts of the trade agreement. The Facility will cover the short-term fiscal losses and support medium-to-long term adjustments of production activities in African countries to enable them take advantage of the opportunities arising from the AfCFTA.

The implementation of the AfCFTA will extend beyond financing, and Afreximbank is creating tools to eliminate bottlenecks and facilitate the full realization of the deal’s potential. For example, Afreximbank’s African Trade Gateway, an agglomeration of interrelated digital platforms, will eliminate some of the challenges to intra-African trade, particularly around the complexities of payments transfers within Africa, currently-low access to trade and investment information, and costs associated with conducting Know-Your-Customer checks on African entities. Afreximbank’s Pan-African Payment and Settlement System will allow payments for intra-African trade in local currencies and save the continent several billion dollars in transfer and settlement charges, thus

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Further boosting intra-continental trade. The Trade Information Portal will improve access to trade information and use artificial intelligence to predict supply chains across Africa by helping businesses easily identify potential suppliers of inputs or distributors of their products in other parts of the continent. The African Customer Due Diligence Repository Platform will ease the cost of conducting Know-Your-Customer checks for African corporates. The Trade Regulations Platform will aggregate all trade, finance, and investment regulations to reduce search costs for traders and investors.

Already, Afreximbank has invested over $1.7 billion recently in supporting the development of regional value chains to accelerate the process of industrialization and lift the supply-side constraints that have undermined the growth of African trade. COVID-19 has highlighted the risk of excessive dependency on non-African partners; Afreximbank is working to reverse that standard.

FIGURE 5.4
WHERE DO AFRICA’S TOURISTS GO? ARRIVALS OF AFRICAN TOURISTS BY REGION, 2015-2018

African tourists mainly visit other African countries. From 2015 to 2018, 110 million African tourists traveled to other African countries, while only 49 million African tourists visited the rest of the world. African tourists visit Southern and East Africa most frequently: These two regions account for almost 72 percent of intra-African tourism. A spotlight on Botswana further reveals that tourism is often dominated by travellers from neighboring countries: Nearly 88 percent of African tourists in Botswana come from three of its neighboring countries: Namibia, South Africa, and Zimbabwe. Policymakers hope that further coordination of visas and similar travel provisions increase intra-African travel, both for tourists and workers.

Visual Key

Tourist arrivals from Africa

Tourist arrivals in Botswana

Source

Improving infrastructure in Africa: Creating long-term resilience through investment

No country in Africa has been spared by the COVID-19 pandemic, and the hard-fought economic gains of recent years are under threat everywhere. In fact, in 2020, the region’s GDP could contract by as much as 3.4 percent, down by over 7 percentage points from pre-crisis estimates. Improved infrastructure has rightly been among the countermeasures proposed and should be a major component of any stimulus plan, both for responding to the pandemic and for building resilience over the long term. And it should not just be any infrastructure, but projects that stimulate economic activity, create employment, bolster supply chains, and expand access to health care, sanitation, and education. Thus, with the continent’s long-term future in mind, at Africa50, while we are still focused on traditional sectors such as transport and power generation, we are looking for opportunities in health and sanitation and redoubling our efforts in information and communications technology (ICT).

Although ICT has been one of Africa’s success stories, the pandemic has exposed the region’s lingering digital divide.

Health infrastructure has historically suffered from constrained public sector budgets and underfunding. For many years, since African residents that could afford modern care opted to go overseas and financial returns for mass provision were low, the sector did not attract many private investors. Now, with the growth of Africa’s middle classes, growing purchasing power, increased employer-provided health insurance, and rising health awareness, the sector is becoming more attractive to investors. Helped by public funding, impact investors, and blended finance, where focus is more on development impact than on financial returns, this emerging trend of increased investment in health care can also spill over into the mass market.

Although ICT has been one of Africa’s success stories, the pandemic has exposed the region’s lingering digital divide. In fact, to achieve universal broadband internet access in Africa—which could help the continent leapfrog infrastructure constraints in a number of sectors, much like cellphones did with landlines 20 years ago—an estimated $100 billion in investment is needed over the next decade, with a third of it in infrastructure.

Africa also urgently needs regional infrastructure to speed up implementation of the African Continental Free Trade Area, since many of Africa’s development challeng-
Much of Africa struggles with deficits in the supply and distribution of energy despite a large endowment of renewable and non-renewable energy sources, including natural gas, solar power, and hydroelectric power. While more energy generation is needed overall, cross-border trade in energy can also help mitigate some deficits, as countries with excess energy capacity can sell energy to countries in need. Africa’s five regional power pools help provide a framework for this trade in energy and cover nearly every country on the continent.
es require cross-border solutions. However, the Infrastructure Consortium for Africa found that in 2018, of a total of about $100 billion invested in African infrastructure, only 2 percent was for regional projects\textsuperscript{120}—simply not enough.

Unfortunately, financing becomes scarcer during crises, so what can leaders do? One strategy for securing financing is to encourage lenders to forgive or restructure public debts to give governments some fiscal space. Another is asset recycling, which enables governments to unlock the capital they invested in profitable infrastructure assets, such as toll roads, power plants, airports, and fiber optic networks, by offering them to private sector investors under a concession model. The freed-up capital can then be redeployed to fund stimulus plans and new infrastructure for the recovery phase, including in the health sector.

We must also reverse the capital flight brought on by the pandemic by better developing infrastructure projects in the early stages to make them ready to receive investments and offer attractive risk-adjusted returns. Investors want to be sure that they will be paid a fair price, can freely operate infrastructure assets and meet service level targets, and can repatriate their profits when due. Development finance institutions can help by providing risk-hedging instruments and credit enhancements, as well as supporting local currency financing to strengthen local capital markets. Through such measures we can underline that infrastructure is an investible asset class, including for international and domestic institutional investors looking for steady returns coupled with development impact.

Assets under management by African institutional investors alone are expected to rise to $1.8 trillion by 2020,\textsuperscript{121} so if we can tap even a fraction of this, we could substantially close the infrastructure gap.

When the crisis dies down, investors will once again be looking for opportunities, and Africa must be ready. By focusing on opportunities rather than problems and creating the enabling environment investors seek, we must dispel the myth that our continent is too risky.


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VIEWPOINT

Priorities for supporting trade under a build-back-better agenda

Recent progress towards economic integration, starting with such regional blocs and culminating in the landmark African Continental Free Trade Area Agreement (AfCFTA), offers much promise for shared growth across the continent. Unfortunately, the COVID-19 pandemic—which has created production shutdowns, supply chain disruptions, and a profound decline in demand for economic services (notably transport, tourism, and retail) and commodities—has dampened what was an attractive growth trajectory for many African countries and delayed the ultimate implementation of the AfCFTA. These sharp setbacks, though, are likely temporary as the build-back-better agenda gets traction. Already, public development banks, investors, and donors are coming together to drive more financing and investment in the region, through co-financing and risk sharing.

Given the twin demand-supply shock African economies are experiencing, the region's build-back-better agenda must address both sides of the issue. In particular, increased attention to trade facilitation—various measures to improved information on the classification and movement of goods between exporters and importers as well as payment mechanisms, and the simplification, standardization, and harmonization of procedures in the movement of goods—as a major enabler and tool for accelerated African economic growth is a must.

We at the TDB, the Eastern and Southern Africa Trade and Development Bank, look to support this goal with a number of tools, most notably through trade finance offerings, which comprise various services instruments that enable exporters and importers to transact securely, efficiently (both time- and cost-wise), and short-term credit. Such tools are vital for supporting African trade, as several major international correspondent banks have retreated from African markets in the face of more stringent compliance and regulatory requirements imposed by international banks.

Cutting edge technology—such as blockchain—is also introducing new efficiencies through live, end-to-end trade finance transactions. Trade finance commonly uses letters of credit, which rely on manual, paper-based systems: Traditionally, parties wait for physical documents to be generated and passed from one to the other before the ownership of the goods can be transferred, which can take up to 15 days. A blockchain-based trade finance solution digitally captures the main documents needed to process a letter of credit (e.g., purchase order, bill of lading, invoice, and shipment tracking) in a smart contract, which reduces the turnaround time. In fact, blockchain technology can save up to seven working days in a trade cycle, while significantly enhancing security. It reduces not only the costs but also the carbon footprint and paper waste of trade finance transactions.

At the same time, productive capacities enhancement, involving inputs such as fertilizer and equipment, is essential for intra-Africa trade growth as it fosters both the growth of the agricultural sector as well as diversification of products and services that enter supply chains and have cross-border demand. Since the turn of the millennium, strong growth in agriculture and agri-food products has signaled that the
sector will not only be a growth sector but also a desirable catalytic driver for regional trade. However, the emerging vulnerability of African agriculture to COVID-19-related disruptions (as well as climate-related shocks, among others) threatens progress in intra-regional trade of these products. Moreover, since agricultural production is highly labor-intensive, shortages of workers due to the lockdowns have adversely affected farming activities. Given such already existing challenges, policymakers must reduce vulnerabilities to COVID-19-related regional market disruptions to ensure that agri-food supply chains and trade channels remain open. One obstacle has been the closure of borders, due to high risk aversion and inadequate risk mitigation capacity.

Increased attention to trade facilitation—various measures to improved information on the classification and movement of goods between exporters and importers as well as payment mechanisms, and the simplification, standardization, and harmonization of procedures in the movement of goods—as a major enabler and tool for accelerated African economic growth is a must.

As a strong regional thrust toward the build-back-better cause, in September 2020, TDB’s shareholders approved a historic capital increase programme of $1.5 billion, alongside doubling its authorized capital stock from $3 billion to $6 billion, with the goal of attracting committed international development partners and institutional investors to take a risk-adjusted stake in such areas as green growth and SMEs. Already, we have co-financed several renewable energy projects—in areas such as wind and hydro, which produce, in total, 470.2 MW of renewable energy. Now, 72 percent of our gross financing interventions in the energy sector portfolio relate to zero-carbon energy sources. We have also co-financed and provided partial guarantees to hundreds of SMEs, with a strong focus on youth and women, promoting livelihoods and job creation. The increased capitalization will enable TDB to broaden and deepen its trade-related development impact in Africa, among others, and crowd in more institutional and long-term capital for Africa’s sustainable growth and transformation.