



**A YEAR AFTER IMPLEMENTATION OF AfCFTA; AN APPRAISAL BY
THE GHANA INTERNATIONAL TRADE AND FINANCE
CONFERENCE (GITFiC)**

Mr. Gerald Woode
Lead-Research Fellow (Policy and Advocate)
Ghana International Trade & Finance Conference
gerald.woode@gitfic.com



1.0 INTRODUCTION

The African Continental Free Trade Agreement (AfCFTA), one of the largest free trade areas in the world, has been described as a ‘game changer’ and a springboard for African economies to improve intra-trade among its over 1.3 billion citizens. Since the creation of AfCFTA in 2018, the community of African countries has shown high commitment and determination to harness the benefits of a trade-liberalized system. This is evidenced by the fact that 38 countries out of the 54 signatories have now deposited their instruments of ratification, with Burundi being the latest to do so.

While the operational phase of the AfCFTA was launched in 2019, the start of trading began on 1 January 2021. It is noteworthy that one of the AfCFTA's strategic objectives, as enshrined in the enabling Agreement¹, is to "promote and attain sustainable and inclusive socio-economic development, gender equality, and structural transformation of the State Parties". This objective can only be feasible if efforts are made to reduce poverty and boost employment. It is on this score that the World Bank, in its analysis, observed that by 2035, the AfCFTA would help raise 30 million people out of severe poverty and 68 million people out of moderate poverty through the progressive elimination of tariffs and elimination of non-tariff barriers to trade and investment.

The AfCFTA market has a growing middle class, currently at 350 million and expected to rise to 600 million by 2030. African e-commerce is also on the rise. McKinsey & Company forecasts that African online retail business growth will reach US \$75 billion by 2025. Currently, private and business-to-business consumption is estimated at US \$4.0 trillion. By 2030, business-to-business consumption alone is expected to grow to US\$ 4.2 trillion, with private consumption reaching US \$2.5 trillion.

From these figures, it is clear that the AfCFTA is an apt response to the reluctance of companies to invest in small, fragmented, and uncompetitive national markets in Africa. Such a large and attractive market opens opportunities in many areas, not least, public-private partnerships in investments in the infrastructure and logistics that will connect African economies.

1.1 START OF TRADE:

Despite the ravaging effects of the COVID-19 which forced many African economies into partial and full lockdowns, the AfCFTA emerged out of the gloom and commenced trading on 1st January 2021, six months after its earlier proposed date. Since the start of trading, the Ghana International Trade and Finance Conference (GITFiC) has carefully monitored and observed the various interventions and implementation aspects of the AfCFTA and has undertaken this appraisal with a focus on 5 key modules forming a key component of the operationalization of the AfCFTA.

¹AU Agreement of 2018 establishing the AfCFTA

The advent of the AfCFTA was greeted with a lot of optimism. In December 2018, when the first AfCFTA Intra-African Trade Fair was held in Cairo, Egypt, the organizers reported that business deals created by the private investors and business players were in the region of US\$32 billion, far exceeding expectation². This was a positive sign that the AfCFTA has been embraced.

2.1 RULES OF ORIGIN

In 2021, the rollout of trading was symbolically ushered with an export of goods under an AfCFTA Certificate of Origin. Specifically, two Ghanaian companies, Kasapreko Company Ltd and Ghandour Cosmetics, respectively, transported alcoholic beverages to South Africa, and cosmetic products were shipped to Guinea.

The GITFiC recognizes that the Rules of Origin (RoO) and its Certificate of Origin are very crucial components to facilitate trading under the AfCFTA. We are mindful of the ongoing negotiations on the RoO and the appreciable level of convergence of over 80 percent achieved by the contracting parties. The GITFiC would like to applaud the African negotiation parties for sustaining the level of commitment. The GITFiC encourages the parties to fast-track the outstanding issues on the non-wholly and processed products under the RoO.

The GITFiC is of the firm conviction that the AfCFTA can only achieve its envisaged aspirations if such commitment is extended to the various components of the operations of the trading system.

2.2 SENSITIZATION DRIVE

There is no doubt that the over 1.3 billion citizens of the African continent are the ultimate beneficiaries of the AfCFTA trading system. It is therefore important that the citizens are made to understand the key fundamentals underpinning the new system of Africa's trade. The GITFiC has observed that many African countries have adopted an approach of establishing a National AfCFTA Implementation Strategy.

² Amb Muchanga (2020), AfCFTA One Year Later: The Road Travelled and the Road towards Launch of the Operational Phase

Sensitization and consultation workshops have been held in various forums. Given that, three years since the creation of the AfCFTA, a substantial number of African countries are yet to fully develop a comprehensive National AfCFTA Implementation Strategy is quite disturbing.

While countries may have existing trade policies and developed guidelines that can serve as a handy guide for AfCFTA implementation, this cannot be considered sufficient for policies and strategic direction on how a country should maximize the AfCFTA benefits. In November 2021, Ghana developed a compilation of guidelines on AfCFTA. The importance of a national implementation strategy cannot be overstated, as its absence jeopardizes the AfCFTA's long-term viability.

While countries such as Cameroon have developed a draft strategy plan, the GITFiC encourages the various African Trade Ministers to redouble their efforts to fully harness the benefits of the AfCFTA. The GITFiC has always directed its efforts to the sensitization and promotion of the ideals of AfCFTA. The GITFiC, at the start of 2021, with the support of its cherished partners, engaged stakeholders, and the business communities in various cities in Ghana. It was at one of our seminal Conferences that Accra was duly designated as the COMMERCIAL CAPITAL OF AFRICA. This has been enforced by the sighting of the AfCFTA Secretariat in Accra. The GITFiC is highly optimistic that this will position Ghana as a commercial hub in the sub-region.

To sustain the momentum in our AfCFTA sensitization drive, the GITFiC would, in 2022, undertake an empirical evaluation of the level of sensitization among players in the private sector. This survey, which would cover Greater Accra, Greater Kumasi, Takoradi, Tamale, and Koforidua, is intended to assess the private sector's readiness for the AfCFTA's implementation, and help develop a structural plan to address challenges identified.

2.3 TRADE FINANCE

At the heart of trading is the role of finance. The African continent has a greater proportion of its trading community in the Micro, Small, and Medium sectors. Such business entities rely heavily on credit financing. While some African countries are performing quite well in the financial space, AfDB estimated the continent's trade finance gap to be US\$ 91 billion per year.

Trade Finance is the term used to describe a variety of financial instruments and it includes Letters of Credit (LCs), Bonds & Guarantees, Purchase Order Finance, and Structured Commodity Finance. While actual market lending rates and interest rate spreads are known to be high, the Central Banks' prime rates continue to provide an imperfect but approximation of the extent to which government policies reduce credit costs.

The continent's relatively low prime rates contradict the typical frustrating story of the average African SME that has tried to access credit for production or trade. A recent publication by the Bank of Ghana containing a list of commercial banks and their corresponding average lending rates showed that lending rates are as high as 24.8%³ which is far higher than what appears in countries such as Ethiopia and Cote D'Ivoire which are pegged at less than 10%.

The GITFiC believes that the Government of Ghana should critically investigate the asymmetric bank lending rate adjustment, considering that BOG's prime rate has since March 2020 hovered between 14.5% and 13.5%. Easy access to credit and trade finance are necessary reforms to enhance the competitiveness of the Ghanaian industry, as it launches into the African market.

2.4 NON-TARIFF BARRIERS AND TRADE FACILITATION

One component of the AfCFTA that has often been overlooked by trade watchers and analysts is Non – Tariff Barriers (NTBs). It is the elimination of the NTBs that will enhance trade facilitation. NTBs include government and authorities' restrictions inhibiting trade in terms of customs and administrative procedures, technical barriers to trade, and sanitary and phytosanitary measures. Specific barriers could be in the form of restrictive licenses, import licenses, cumbersome customs procedures among others.

The effect of a cumbersome customs procedure is that it becomes a disincentive for trade. Trade-related infrastructure is a contributing factor to the problem affecting intra-African trade. Ghana has developed its Tema Port with an ultramodern infrastructure system to make it the first call for trans-shipment and movement of goods within the ECOWAS maritime space. This means that trade

³ <https://www.bog.gov.gh/news/average-lending-rates-of-universal-banks-as-at-31st-july-2021/>

facilitation will be enhanced, and the customs clearing period reduced. On the continent, the average waiting time for trucks carrying goods across borders is about 4 days.

The (IMF, 2020) concludes that an increase in intra-regional trade flows of 7% would result from raising the quality of Africa's infrastructure to global average standards. The Afro-Champion Initiative report identified South Africa as having the highest rating of 63.6 percent in terms of trade infrastructure and customs efficiency, while more than half of the countries evaluated got average ratings.

The GITFiC believes that the AfCFTA Secretariat and the National Implementation bodies should continue to enhance inter-modal transport systems and infrastructure. The GITFiC has observed that the AfCFTA Online Mechanism for monitoring, reporting and elimination of NTBs has been largely underutilized. Since its creation in 2020, the GITFiC found that only three (3) active cases on NTBs are being handled under the Mechanism. It is highly recommended that the State Parties are given the necessary technical support to urgently establish the National Monitoring Committees and National Focal Points on NTBs. Is Ghana ready?

2.5 FREE MOVEMENT OF GOODS AND PEOPLE

It is worth emphasizing that the aspirations of AfCFTA can only be actualized when Africans can freely move and work within the continent. It is on the strength of this, that the African Heads of State, in 2018, adopted the Protocol Relating to the Free Movement of Persons, Right of Residence and Right of Establishment (AU Free Movement Protocol). This Protocol was opened for signatures, alongside the Treaty establishing the African Continental Free Trade Area.

Free movement fosters the movement of labor, a necessary component of factor mobility, which facilitates economic integration.

The Protocol will serve the interests of the African workers, entrepreneurs, and the large informal sector. The remarkable progressive achievement of the Economic Community of West African States (ECOWAS) and the East African Community (EAC) in implementing free movement of citizens within the economic bloc should dispel any concerns about potential negative consequences of the Protocol.

Article 33 of the Protocol requires that the Protocol will only come into force, 30 days following the receipt of the 15th instrument of ratification. The GITFiC notes with concern that despite the great potentials of the Protocol on Free Movement, only four countries on the continent have deposited their instruments of ratification at the AU depositary.

The GITFiC encourages the State Parties to embrace this Protocol to ensure that the envisioned benefits under the AfCFTA are gained by the people of the African continent. Although Ghana has signed the Protocol since 2018, it is yet to ratify this Protocol.

3.0 CONCLUSION

The adverse impact of COVID-19 on African economies cannot be overemphasized. While African governments have generally exhibited a great commitment to the AfCFTA, the dreadful COVID-19 threatens to derail the progress chalked so far.

The GITFiC encourages the AU and African governments to take bold decisions to keep the AfCFTA on track despite COVID19. Keeping focused and maintaining the momentum could see the implementation of AfCFTA become one of Africa's main weapons in combating COVID-19 and accelerating post-COVID recovery.

The GITFiC lends its support to the African group at the World Trade Organization (WTO) on the urgent need to grant a waiver to African countries to produce their COVID vaccines to greatly boost the vaccination drive. We believe in the collective strength of the African people and remain optimistic that the AfCFTA will be a great success.

4.0 RECOMMENDATIONS

Having considered some success, challenges, and observations relating to the implementation of AfCFTA, the Ghana International Trade and Finance Conference makes the following recommendations;

1. Government and policymakers must listen to and comprehend the subject of AfCFTA in the same way that businesses and stakeholders do because they are located where the rubber meets the road in terms of trade and economic growth.
- 2., With a better business environment and improved infrastructure, Africa stands to benefit the most from the AfCFTA. In this regard, more effort is required to bridge the internal infrastructural gaps, particularly in the areas of power supply and credit access, which most businesses identify as their top challenges. To boost regional trade and mutual economic benefits, ECOWAS or other bilateral protocols should facilitate road and rail connections to neighboring countries.
3. Policymakers should view the AfCFTA as an opportunity for Africa to pursue and achieve its export-led growth goals as articulated in various trade policies, as well as to establish the institutional capabilities required to reap the benefits of the agreement while minimizing the risks it may pose.
4. The likelihood of AfCFTA contributing to or impeding Africa's industrialization would be determined by the government's policy responses to its provisions, as well as the system of assessment, monitoring, and evaluation put in place to guide its implementation.
5. A set of policy reforms for mitigating risks and ensuring that the trade-integration process leads the region to the final stage of economic integration, complete monetary union, and fiscal policy harmonization. GITFiC recommends articulating policy reforms to address supply-side constraints to ensure that the AfCFTA's core rules of origin serve as an accelerator for industrialization rather than a constraint to growth and export diversification.
6. Government policies to mitigate the risk of unexpected large revenue losses due to the elimination of tariffs on intra-African traded goods. The GITFiC emphasizes the importance of reviving National Development Banks to increase the scale of patient capital and drive export diversification while also mitigating the risk of maturity mismatch, which has discouraged investors and could exacerbate supply-side constraints during AfCFTA implementation.