Policy brief

The role of the AfCFTA in promoting a resilient recovery in Africa

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November 2021

Key messages

The climate emergency calls for a systemic approach across economic sectors and at different governance levels. An important step is to ensure alignment between post-Covid-19 economic recovery strategies, trade policies and climate ambitions. Comparative analysis of selected African country case studies reveals some alignment between national recovery strategies and the African Union's (AU) Green Recovery Action Plan (GRAP) and the African Green Stimulus Programme (AGSP). However, greater ambition is required, for example in relation to GRAP priorities on renewable energy, climate finance, and biodiversity and nature-based solutions.

Greater alignment is needed between the long-term economic transformation objectives of the AU's Agenda 2063, the African Continental Free Trade Area (AfCFTA) and the GRAP to secure sustainable and climate-compatible economic growth paths. For example, by expanding the services protocol of the AfCFTA to promote diversification away from carbon-intensive sectors and support climate-compatible manufacturing.

There are opportunities to boost ambition and secure more resilient recoveries in existing provisions of the AfCFTA. These include consideration of environmental goods and services, harmonised standards and regulatory enforcement for sustainability. The agreement's investment, intellectual property rights (IPR) and digital trade rules must be crafted to support green recovery objectives.

There is also an important opportunity to embed environmental and climate considerations within the AfCFTA, potentially through a dedicated protocol or chapter on trade and sustainability. In this way, there could be greater alignment with the objectives of the GRAP and the AGSP, which could further stimulate more resilient recoveries.

ODI
ACET African Center for Economic Transformation
ATPC African Trade Policy Centre
United Nations Economic Commission for Africa

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How to cite: Asafu-Adjaye, J., Boateng, G., Keane, J., et all. (2021) Policy Brief: The role of the AfCFTA in promoting a resilient recovery in Africa. London: ODI (https://odi.org/en/publications/the-role-of-the-afcfta-in-promoting-a-resilient-recovery-in-africa)

1 Introduction

Given global and regional risks, post-Covid-19 economic recovery strategies must set African economies on sustainable development trajectories. Trade policy is a critical part of this, but while the objectives of African governments' recovery strategies imply building resilient and green value chains, how this is to be done is rarely specified.

Central to the African trade policy is the implementation and further negotiation of the African Continental Free Trade Area (AfCFTA), which should support resilient recoveries and responses to future shocks through deepening intra-African trade and investment and enabling greater flows of people and ideas. However, environmental and climate considerations have not featured prominently in its development so far. In this regard, AfCFTA relates to a broader policy framework for green and resilient recovery that encompasses a series of interconnected national and regional sustainable development, trade and climate initiatives. The African Union's (AU) Green Recovery Action Plan (GRAP) is articulated within the continent's Agenda 2063, which aims to transform the economies of Africa through increasing intra-continental trade and investment, for which AfCFTA is the primary instrument. The GRAP also complements the African Green Stimulus Programme (AGSP), an African-led initiative endorsed by the AU and African Ministerial Conference on the Environment initiated in 2020 in response to the Covid-19 pandemic. As well as supporting Agenda 2063, the AGSP is intended to help operationalise the provisions of the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement regarding finance, technology transfer and capacity building for African countries.

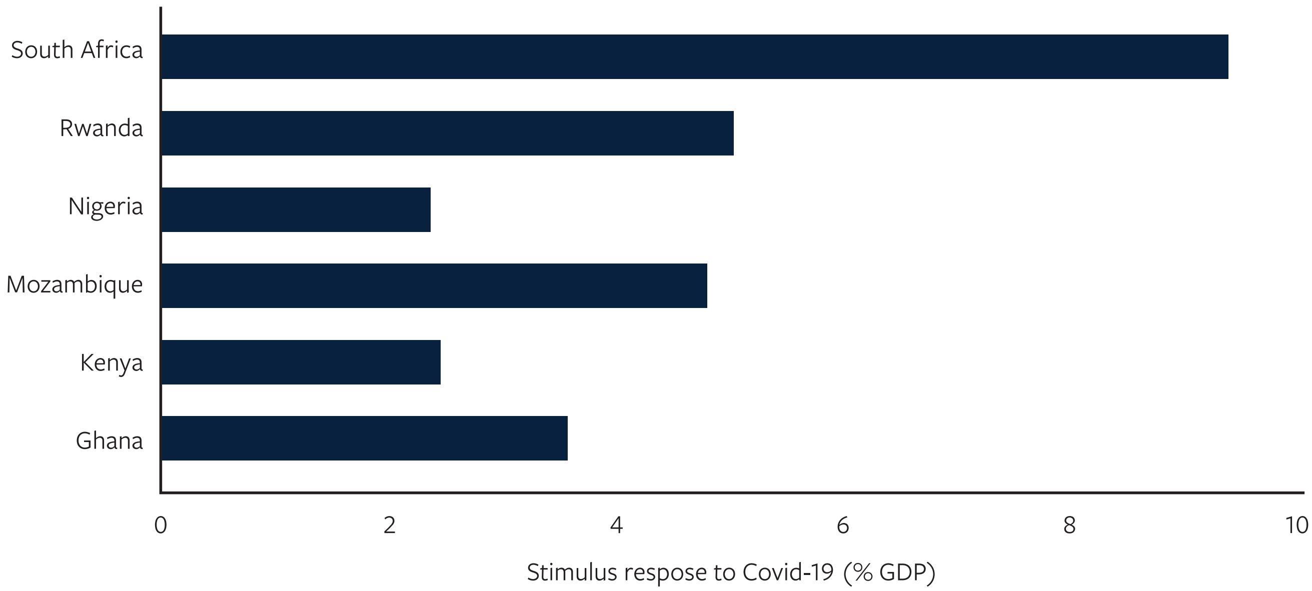
The operationalisation of the GRAP and AGSP and the implementation of existing and negotiation of future provisions of the AfCFTA provide opportunities to enhance resilient and green intra-continental trade and investment. Aligning AfCFTA negotiations with the GRAP could do much to put Africa on a more sustainable and resilient economic recovery path.

The case studies in this report evaluate the degree of alignment between different countries' recovery measures, their climate ambitions (as articulated in their nationally determined contributions – NDCs) and the AfCFTA negotiations past and current.

Recovery measures: the role of trade and trade policy

While all case study countries have dedicated budgets to recovery plans, they differ in terms of overall amounts (as % of GDP) and their emphasis on the role of trade and trade policy in supporting these efforts (Figure 1).

Figure 1 Covid-19 response stimulus capacities



Source: IMF Fiscal Response to the Covid-19 crisis, data up to October 2021 (www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19). The estimate for Rwanda is based on an approximation of the governments economic recovery plan estimated to be 10.1% of GDP over FY 2019/20 to FY 2023/24).

The emphasis of recovery programmes has been to support households and micro, small and medium enterprises (MSMEs) through fiscal measures and longer-term actions to increase infrastructure investment. All the programmes rely on inputs that must be imported, but trade policy is usually only implied, or referenced indirectly: for example, Nigeria's programme includes incentives for the use of solar panels, which are not produced domestically.

Yet, it is fair to say that as country recovery strategies have evolved, there has been a greater emphasis on the role of trade. This is evident in the case of South Africa, Kenya, and Ghana.

- **South Africa:** the underlying principle of the South African recovery strategy is 'localisation through industrialisation' and a reorientation towards localising procurement of inputs to strengthen domestic industrial networks.
- **Kenya:** the budget statement published in February 2021 referred to 'facilitated clean, green, resilient growth' and 'enhanced resilience of the economy to global supply chain shocks'.
- **Ghana:** the Ghana Covid-19 Alleviation and Revitalizations of Enterprises Support (CARES) programme focuses on specific sectors: supporting commercial farming, building light manufacturing, agro-processing and food import substitution (rice, poultry, cassava, sugar, tomatoes), pharmaceuticals, textiles and garments, technology and digital economy, as well as housing and construction.

2 Alignment of recovery strategies with GRAP and AGSP

We assess how country recovery strategies are aligned with the GRAP and the AGSP. To do this, we adopt a traffic light system to indicate the degree of convergence (green) or divergence (red) between recovery strategies. For the GRAP, we highlight relevant provisions, while for the AGSP we simply note either the presence or absence of connected measures. The results are presented in Tables 1 and 2.

It is important to emphasise that there is no mention of manufacturing in the GRAP. This is significant given that Agenda 2063 identifies manufacturing as a critical transformational path. The AGSP, on the other hand, mentions the manufacturing sector in terms of:

- **Boosting the circular economy and sustainable consumption and production.** As new sustainable business models and technologies emerge, greater opportunities in agriculture, manufacturing, construction and waste management can be harnessed through the circular economy to create jobs, improve livelihoods and reduce poverty.
- **Enhancing investment in renewable energy.** Supporting African countries to pursue significant investments in renewable energy, energy efficiency, clean cooking and the local manufacturing/assembly facilities that support these. The pursuit of renewables should also drive the development of the upstream value chain, so that countries manufacture or assemble equipment and associated appliances used in renewables.

Table 1 illustrates that recovery strategies are least aligned overall with the GRAP category of renewable energy, followed by climate finance and biodiversity and nature-based solutions. Given the high dependence of African economies on fossil fuels and the issues around a just transition, this is an expected result. There are obvious links to climate finance, of course, as well as those that can be made to nature-based solutions and the ability of African economies to tap into carbon markets to support transition objectives – in line with the GRAP objective of development-oriented carbon markets.

While all recovery measures emphasise the role of the agricultural sector, the link to climate-resilient or climate-smart agriculture is not always made. The reasons for this deserve careful attention, especially given the role of subsistence agriculture and the meaning of climate resilience within different types of farming systems. Another area where there is some ambiguity over stimulus programmes' alignment with GRAP is in relation green and resilient cities. Finally, while stimulus packages include measures to support the digital economy, these have not always been encompassed within a broader long-term framework in line with the GRAP's aspirations in this area.

With respect to alignment with the AGSP (Table 2), South Africa's recovery strategy is most closely aligned with the AGSP's circular economy objectives, with some alignment in the case of Ghana, while Nigeria has the closest degree of alignment with renewable energy objectives, given the specific measures it has introduced to support solar energy. However, as we also note in our assessment of alignment with the GRAP, overall incentives for renewables are outweighed by continued support to fossil fuels.

Table 2 demonstrates extremely limited alignment in the case of combating land degradation, desertification and drought, and also in enhancing climate action and investing in the blue economy.

Climate change considerations in general are largely absent from agriculture sector stimulus measures, as is specific reference to climate action within stimulus packages.

Alignment with GRAP and AGSP

Table 1 Recovery and alignment with GRAP

GRAP	Ghana	Kenya	Mozambique	Nigeria	Rwanda	South Africa
Climate finance	Liquidity support for enterprises, but no link to climate	Greening Kenya campaign; youth employment measures; seed capital for small and medium enterprises (SMEs)	Credit lines extended to microbusiness; no links to climate	Support to solar, but also liquified natural gas and petroleum gas	Subsidies to business provided but no links to climate	Land Bank equity investments: The Land Bank equity investment strategy focuses on natural capital
Renewable energy	Subsidies for electricity, households and business	No incentives/ support for transition	Subsidies to kitchen gas; no mention of promotion of renewable energy	Support for fossil gas that would otherwise be flared, outweighs solar panel incentives	No mention	Finalising bioenergy regulations
Biodiversity and nature-based solutions	Support for commercial farming but limited emphasis on sustainable production	Greening Kenya campaign; support for ecotourism	No mention	Increased land conversion to agriculture; no emphasis on sustainability	Support to tourism but links to eco-tourism unclear	Creation of 50,000 new job opportunities in environmental programmes; development of a globally recognised biodiversity protocol
Climate-resilient agriculture	Planting for Food and Jobs Programme, but not known if climate smart	Inputs through e-vouchers targeting 200,000 small-scale farmers	VAT exemptions for some agricultural products, no links to climate	Uncertainty as to design of agricultural boost programme	Promotion of agro-processing; no mention of links to resilient agriculture	Support for agriculture, tourism and other sectors with high job-creation potential
Green and resilient cities	Fast track digitalisation; reduced communications service tax	Hiring 1,000 interns in information technology; enhancing water provision	Lowering fees and charges for digital transactions through commercial banks, mobile banking, and e-currency	National Digital Switch Over	Fees for digital transaction waived (temporary)	Objective to make greater use of green infrastructure bonds

Source: Adapted from country case studies summarised in Appendix 1. Appendix 2 summarises the methodology.
Note: Green indicates explicit alignment as per provisions outlined in the recovery plan; yellow indicates possibility of alignment between agendas but lack of details at present preclude evaluation; red indicates no clear overlap between recovery measures and the GRAP.

Table 2 Recovery and alignment with AGSP

Green Stimulus	Ghana	Kenya	Mozambique	Nigeria	Rwanda	South Africa
Improving air quality, enhancing chemicals and waste management and promoting the circular economy	✓	×	×	×	×	✓
Conserving biodiversity and combatting the illegal wildlife exploitation and trade	×	✓	×	×	×	✓
Revitalising eco-tourism and the biodiversity economy	×	✓	×	×	✓	✓
Combating land degradation, desertification and drought	×	×	×	×	×	×
Enhancing climate action	×	×	×	×	×	✓
Investing in the blue economy	×	×	×	×	×	✓
Scaling up climate smart agriculture and food security systems	✓	✓	✓	✓	✓	✓
Supporting sustainable management of forests	×	✓	×	×	×	×
Improving water conservation and use	✓	✓	×	✓	×	✓
Investing in renewable energy	×	×	×	✓	×	✓
Developing smart cities and promoting green urbanisation	✓	×	×	✓	✓	✓
Enhancing information, communication and technology	✓	✓	×	✓	✓	✓

Note: Yellow indicates possibility of alignment between agendas but lack of details at present preclude evaluation; green indicates explicit alignment as per provisions outlined in the recovery plan; red indicates limited alignment.

3 Links between recovery, the GRAP and AfCFTA

The GRAP explicitly references trade under three of its five priority areas: renewable energy; nature-based solutions and biodiversity; and resilient agriculture. For example, the plan calls for improvements in clean cooking technologies to reduce fuelwood trade and the associated rate of deforestation. However, it is not as explicit as the AGSP on supporting the manufacture of renewable energy technologies and value chain development.

The GRAP encourages the effective management and legal and sustainable use of wildlife to counter the illegal wildlife trade. Under agriculture, it emphasises opportunities for intra-African trade and investment in the green agro-industry sector under the AfCFTA.

In the two other GRAP priority areas – climate finance and green and resilient cities – the links to trade policy are more implicit. The digital transformation agenda included within the resilient cities priority area of the GRAP has obvious links to trade policy. There are also links to manufacturing and the development of industrial parks, close to cities, which increasing rely on digital technologies to support productivity and efficiency.

Table 3 draws on the examples of convergence and divergence between country recovery strategies and stimulus measures and their degree of alignment with the GRAP (identified in Table 1) and highlights the potential links to AfCFTA current and future negotiations.

Table 3 Role of the AfCFTA in supporting resilient recoveries

Stimulus measure	Green recovery implications	Links to the AfCFTA
Kenya: Greening Kenya Campaign; renovation of facilities and the restructuring of business operations in tourism	**Biodiversity and nature-based solutions** – sustainable land management, forestry, oceans, and ecotourism	**Current protocols**: market access; tariffs on sensitive products; safeguards; due diligence; standards Services: labour mobility; digital trade **Future protocols**: investment, IPR, and competition policy
Ghana: reduction in Communications Service Tax from 9% to 5% to support remote working and online services	**Green and resilient cities** (enhancing ICT)	**Current protocols**: services **Future protocols**: e-commerce; competition; investment, IPR
Nigeria: tariff exemption on goods and services for the delivery of solar-power farms; subsidies to finance solar-power farms	**Renewable energy**	**Current protocols**: tariffs on environmental goods; subsidies (Art. 17) **Future protocols**: investment, IPR and competition policy

Source: Adapted from case studies summarised in Annex 1.
Note: Uses colour code indicated in Table 3.

Currently, under Article 26 of the Protocol on Trade in Goods, the agreement provides for general environmental exceptions, with state parties able to adopt measures that are inconsistent with the protocol if measures are 'necessary to protect human, animal or plant life or health and relate to the conservation of exhaustible natural resources'. Beyond the question of how the future protocols will be shaped, state parties to the AfCFTA will need support to reflect on their institutional mandates and current regulatory framework outside of the negotiations.

In some cases, it will be possible to mainstream resilient recovery ambitions within the existing AfCFTA implementation framework, for example by ensuring that sensitive lists do not include environmental goods and services. In the case of e-commerce, digital trade has supported socio-economic resilience within the context of the Covid-19 pandemic. Future intra-African negotiations in this area should seek to increase the ability of digital trade to support climate resilience in view of the objectives of GRAP, which is a transformative agenda.

Table 4 How can the AfCFTA support resilient recoveries?

Now	Future
Identify environmental goods and services in the yet-to-be submitted/approved national schedules.	**Investment:** create a framework that supports, promotes and facilitates green investments and climate finance flows; bankable projects.
Consider how to use rules of origin to support sustainability objectives through relaxations for environmental goods and services.	**Intellectual property:** develop a regime that supports African economies to access climate-related technologies and supports biodiversity and nature-based solutions to support the transition to green and resilient economies (including in relation to digital trade).
Make use of harmonised environmental standards, e.g. promote use of the Eco Mark Africa tourism sustainability standard.	**Competition policy:** develop a framework to encourage private sector investments in innovations around energy efficiency improvements, nature-based solutions and climate-resilient agriculture.
Develop eco-friendly models for the movement and goods and people.	**Digital trade:** digital trade underpins modern manufacturing as well as the development of climate smart agriculture; digital platforms also reduce the need for travel; data localisation requirements can hinder cross-border data flows.
Consider regulation and enforcement for environmental sustainability, including restricting and prohibiting environmentally harmful goods and services as well as upgrading Sanitary and Phytosanitary systems.	

Conclusions

The AfCFTA is set to change Africa's production and trade landscape. However, environmental and climate considerations have not featured prominently in its development. While policy objectives for post-Covid recovery efforts in African countries include building resilient and green value chains, the means of implementation are often not specified. Moreover, the relationship to climate action, as defined in countries' own NDCs, often remains unclear.

There are opportunities to increase resilient recovery ambitions now, based on the existing provisions of the AfCFTA, as well as in the future, given ongoing Phase II negotiations. This is a window of opportunity to embed environmental considerations within these protocols. The flexibility rules, exemptions and other related provisions of the existing protocols can already be invoked to deal with environmental concerns, even in the absence of specific mention of climate change in the agreement. In view of the prominent role that current negotiations on digital trade, investment, IPRs and competition protocols could play in supporting resilient recoveries, there may need to be more explicit reference to environmental objectives. There are different ways in which this could be achieved, including through a specific environmental protocol or through ensuring future protocols make specific reference to climate change.

The key recommendations arising from this analysis include:

- AfCFTA member states should refrain from including environmental goods and services in the lists of sensitive products in their offers.
- Member states and regional economic communities can also advance unilaterally in the elimination of Most Favoured Nation duties on the same products.
- Develop an Africa-wide system of environmental and climate standards for products and services (e.g. Eco Mark for tourism)
- Develop a framework that supports, promotes and facilitates the green investments and climate finance flows required for intra-African cooperation for large-scale renewable energy.
- Articulate the AfCFTA protocols on IPR, investment and competition to promote and facilitate investments on renewable energies and technologies that support climate change objectives.
- Ensure the AfCFTA's investment protocol promotes clean investments through ensuring the right to regulate in view of sustainable development objectives, as well as reducing the risks of disputes arising from changes in environmental regulations.
- Member states should, through their investment promotion agencies, prioritise climate compatible investment in the promotion and facilitation of inward and outward investment.
- Member states must expand the coverage and the depth of the services protocol to provide greater economic diversification opportunities away from carbon-intensive industries and to support the development of climate-compatible manufacturing.
- Develop a regime in AfCFTA IPRs protocol negotiations that supports the transfer and adoption of climate compatible technologies between African economies and advances the digital transformation agenda.
- Ensure the AfCFTA provisions on digital trade facilitate cross-border data flows and the promotion of modern manufacturing and climate-smart agriculture.