

AFRICAN CONTINENTAL FREE TRADE AREA SECRETARIAT

Creating One African Market



ORGANISATION INTERNATIONALE DE LA FRANCOPHONIE

Workshop on Cross-border Banking Transactions and Financing for Businesses' International Growth

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Casablanca
February 10, 2023



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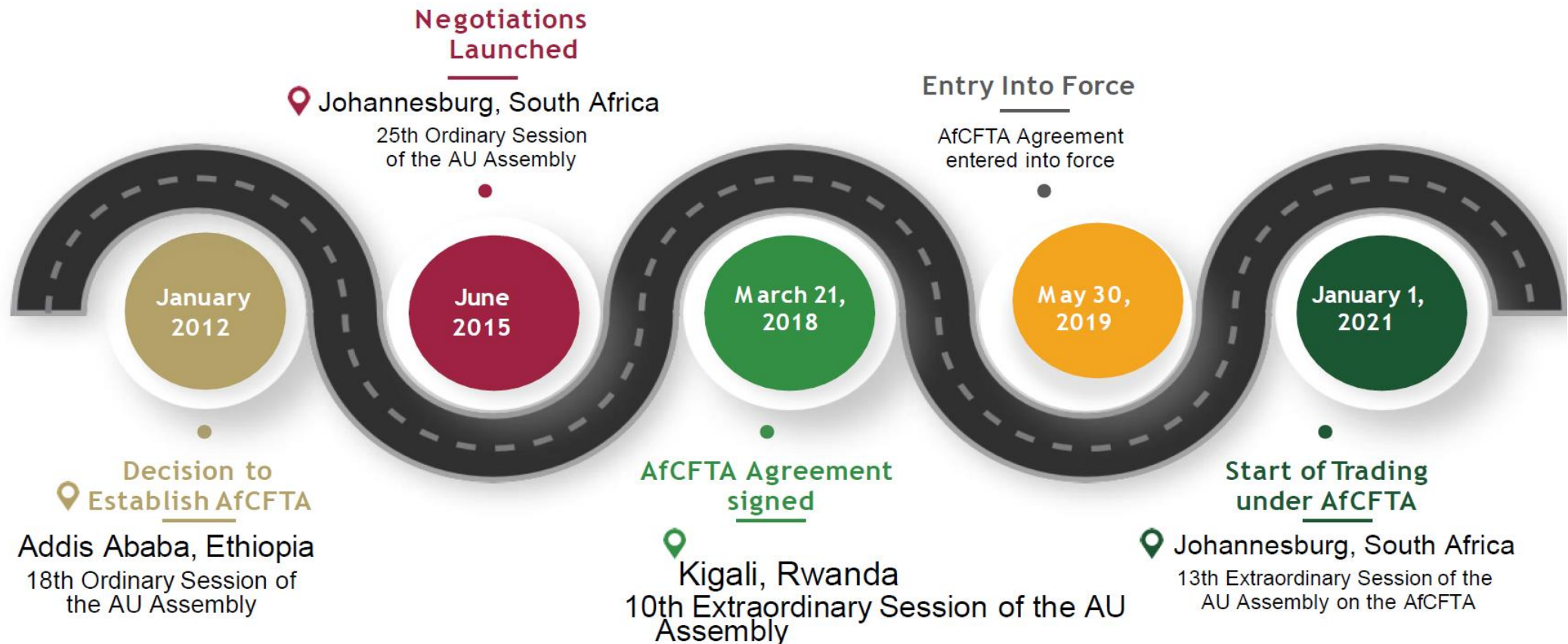
The African Continental Free Trade Area (AfCFTA) Agreement...

... established the entire African continent as a single, liberalized market of **1.3 billion** people with a combined GDP of **\$3.5 trillion**, where goods and services **Made In Africa** are traded **freely and preferentially**.

Introduction - AfCFTA Timelines






The Road to AfCFTA



Introduction - Signatories to the Agreement



Ratifications & Signatures of the AfCFTA Agreement

-  Not yet signed
-  Signed, yet to ratify
-  Instrument of ratification deposited

SIGNATURES & RATIFICATION STATUS

44

HAVE
RATIFIED

10

YET TO
RATIFY

1

HAS NOT
SIGNED





Introduction - Main objectives of AfCFTA include...

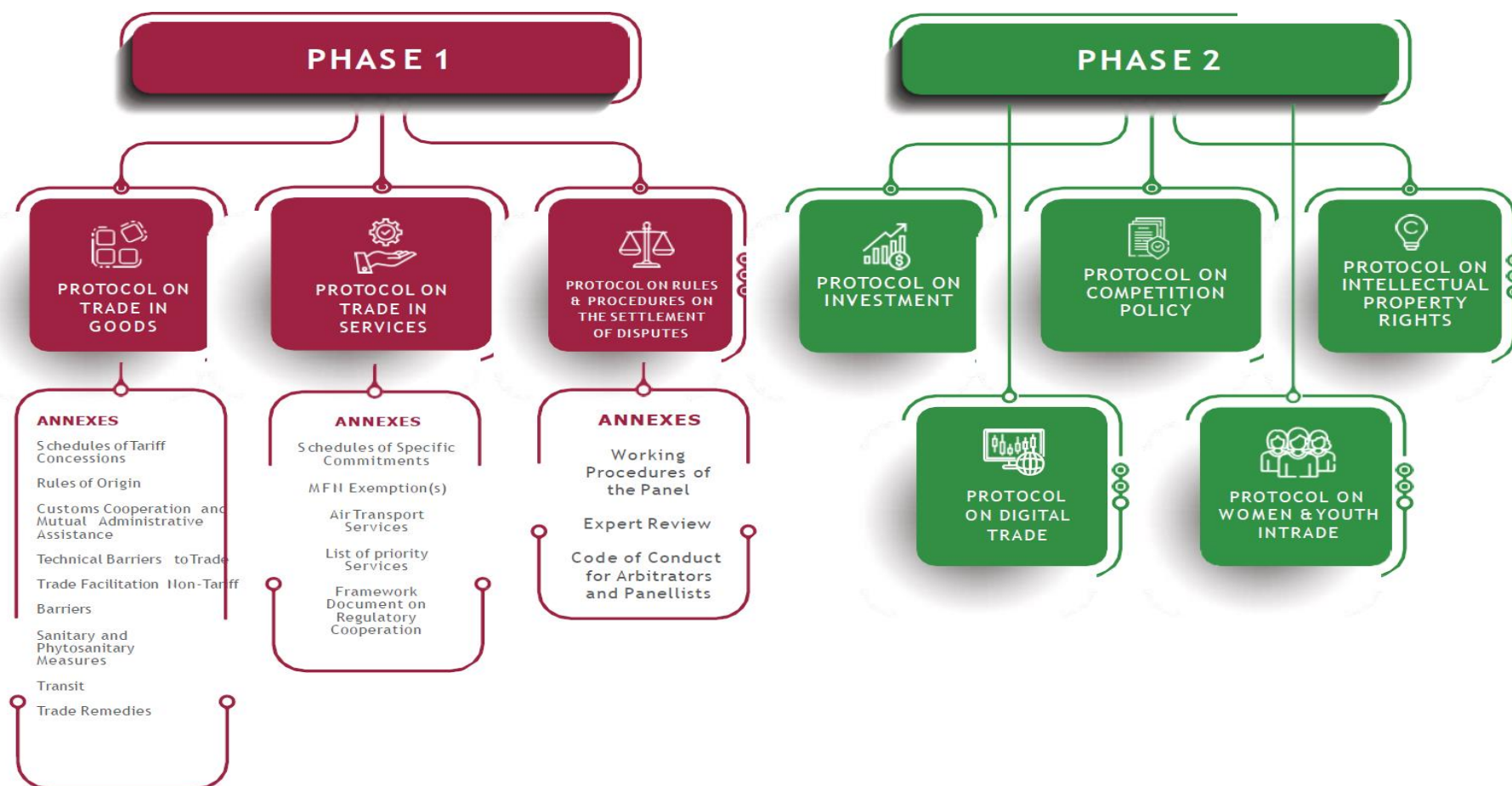
- Creation of a **liberalized** and **single market** for **African** goods and services.
- Industrialisation and **localisation** of value addition and manufacturing.
- Elimination of tariffs and non-tariff barriers in order to **facilitate** trade and improve **competitiveness**.

AfCFTA creates a **continental legal framework** for trade and investment in Africa that is **transparent and predictable**.

Introduction - Legal Framework of the Agreement



Agreement Establishing the AfCFTA





Introduction – Liberalisation Modalities

Trade In Goods

- 90% of the tariff lines to zero tariff in 5 years (10 years for LDCs)
- Additional 7% of the tariff lines in 10 years (13 years for LDCs)
- Remaining 3% of the tariff lines to be excluded from liberalization
- However, average of the 3% should be less than 10% of total imports from Africa over the 3-year period preceding the Agreement
- 3-year Reference Period was set as 2015–2017
- Linear reduction beginning 1 January 2021

Trade In Services

- Schedules of Specific Commitments on five priority Trade in Services sectors namely?
 - Business Services
 - Financial Services
 - Tourism
 - Communication
 - Transport



The Promise of AfCFTA

Lift 30 million Africans out of extreme poverty

and boost the incomes of
nearly **70 million** others
who live on less than
\$5.50 a day, lifting them
out of moderate poverty

Income Gains

- continental income to increase by **7%**
- equivalent of \$450 billion by 2035
- potential of further upside from multiplier effect of extra trade

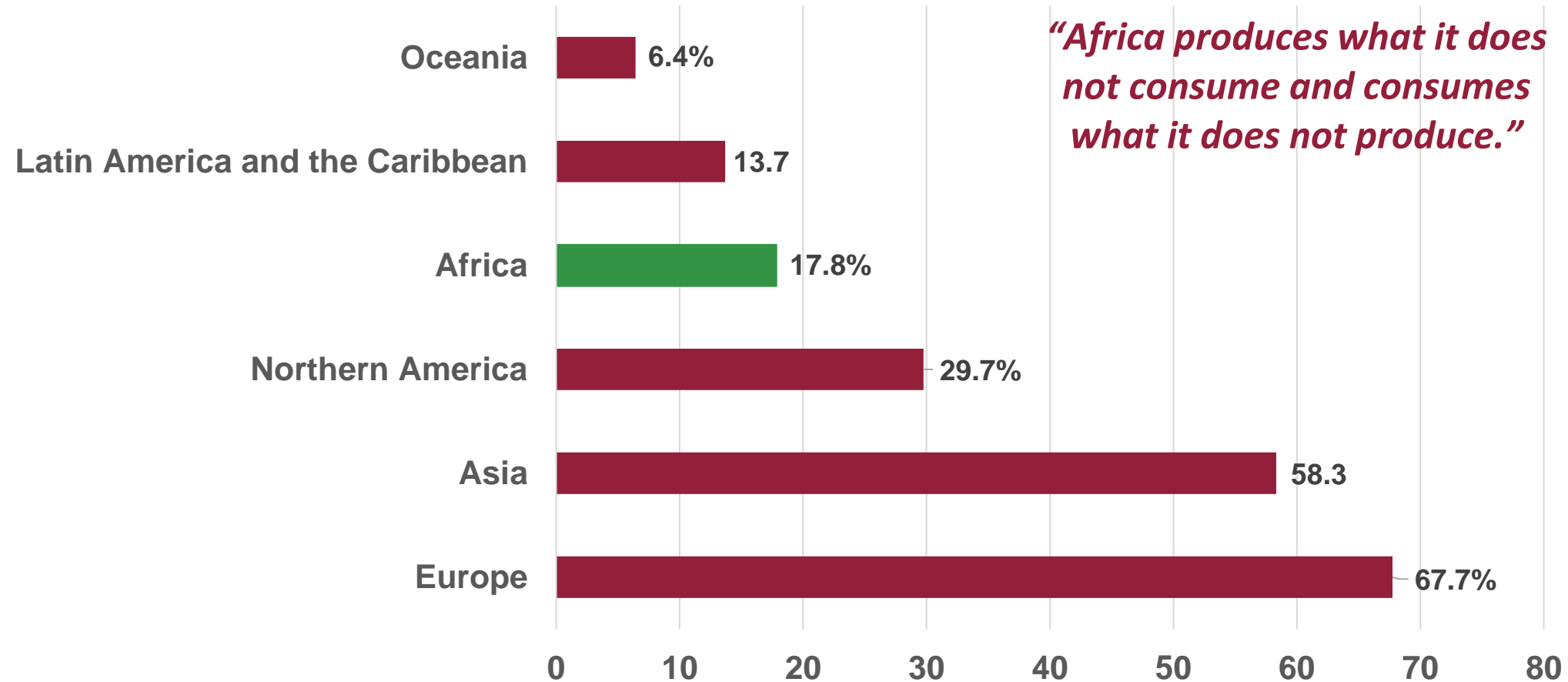
Trade Performance

- total African export volume expected to rise by **29%**
- intra-Africa exports expected to rise even further by **81%**
- that is from \$294 billion to \$532 billion

Labour Markets and Wages

- will boost wages for both skilled and unskilled labour
- **9.8%** for skilled workers and **10.3%** for unskilled workers
- women wages to rise **10.5%** while men will rise only by **9.9%**

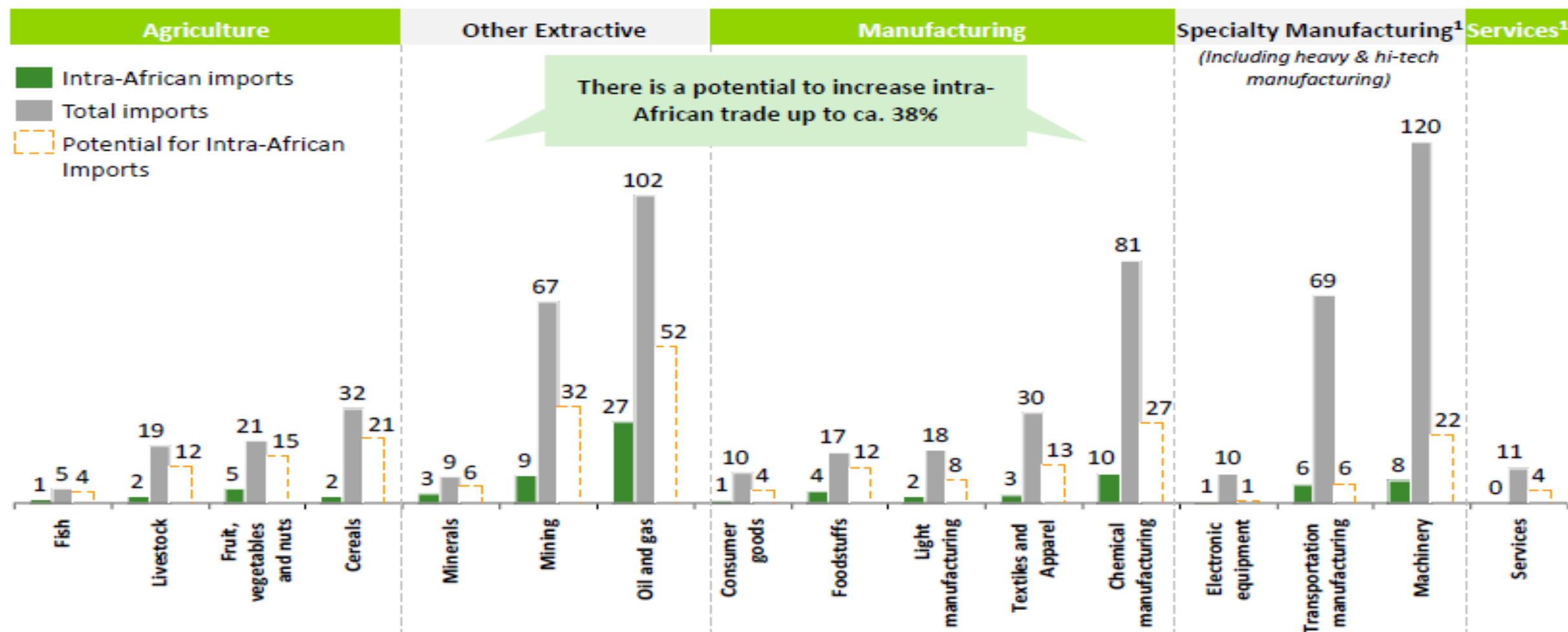
Intra-African Trade Today



UNCTAD, November 2021

<https://hbs.unctad.org/trade-structure-by-partner/>

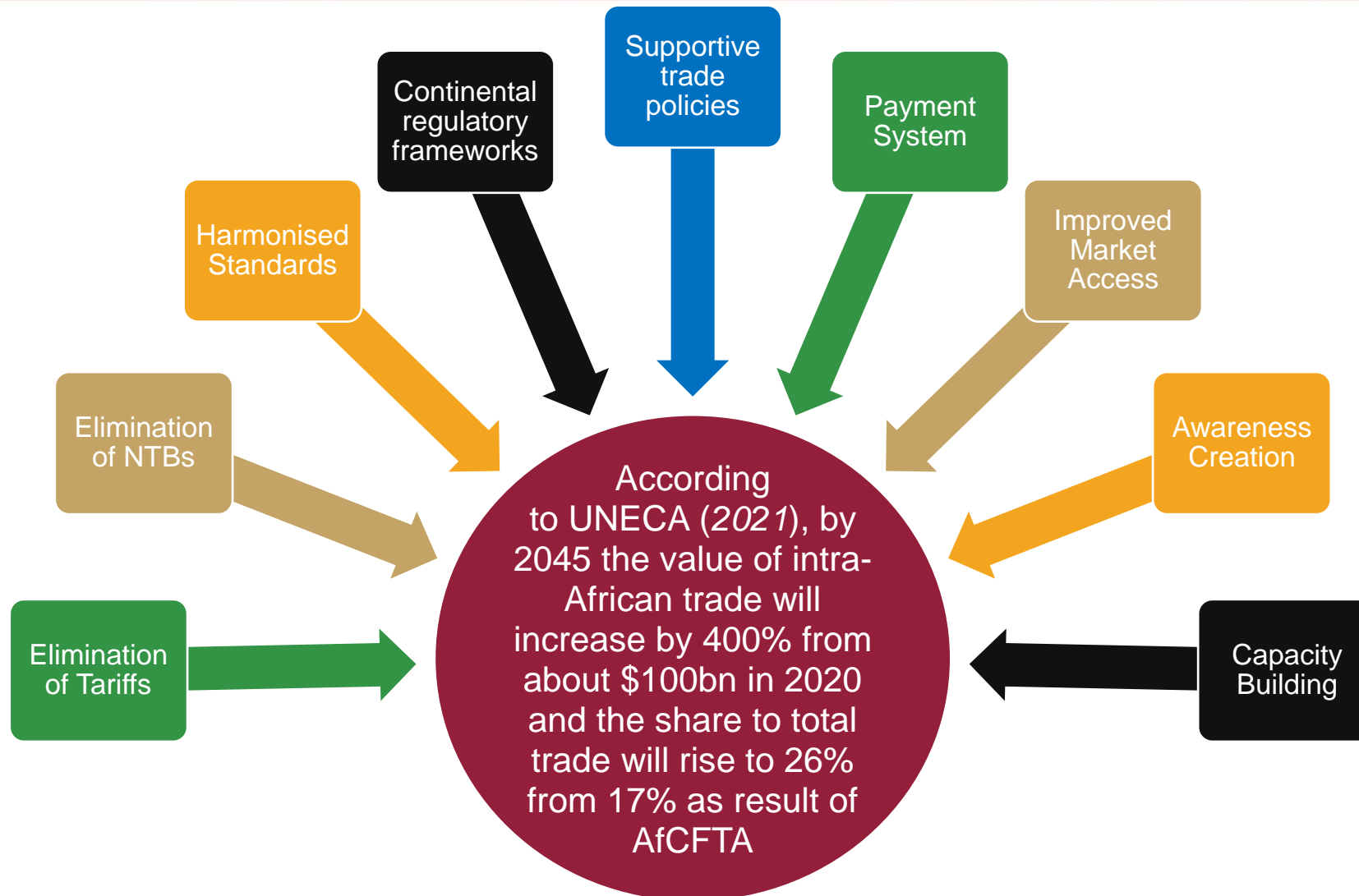
Potentials of Intra-African Trade



NB: Analysis based on estimates of potential for import substitution based on high-level analysis of level 4 harmonized system codes.

Sources: UNCTAD 2016 and International Trade Centre 2016

How will AfCFTA Impact Trade





To deliver on its promises...

- The AfCFTA requires a strong support system in order to deliver on its promises.
- Institutions like yours could support the Secretariat with resources – human and financial to facilitate its functions.
- Deployment of resources through investment in creating local productive capacities and regional value chains will be critical.
- As policy and regulatory environments improve, enhanced access to finance and markets will help businesses take advantage of the opportunities presented by the AfCFTA.
- Countries and the organised private sector will need to put structures in place in order to benefit optimally from AfCFTA

AfCFTA Operational Instruments



The AfCFTA Adjustment Fund

- Tariff revenue losses est. at **\$3.2-\$4.1 billion** (UNCTAD), **\$1.9 billion** (UNECA), **1-5 percent of GDP** (IMF).
- Afreximbank and the AfCFTA Secretariat have been mandated by the AU Assembly to set up the Fund to ameliorate initial costs of AfCFTA
- The Bank has committed **\$1billion** to the Fund as well as a \$10million grant to assist its establishment
- The Adjustment Fund will address infrastructure, industrialisation, re-tooling, re-skilling, etc. challenges.

Base Fund

Contributions from State Parties, grants and technical assistance funds to address tariff revenue losses and support countries to implement the AfCFTA Agreement

General Fund

Concessional funding essentially for development of both hard and soft trade enabling infrastructure

Credit Fund

Commercial funding to support both public and private sectors adjust and improve competitiveness to take advantage of the opportunities created by the AfCFTA

AfCFTA Operational Instruments...cont'd



The Africa Trade Gateway (ATG)

- ATEX
- PAPSS
- MANSA
- TRADAR Community

Recent technological advancements have created the opportunity for Africa to adopt leapfrog technologies that will accelerate the pace of economic development, accelerate intra-African trade and investment and improve competitiveness of African exports



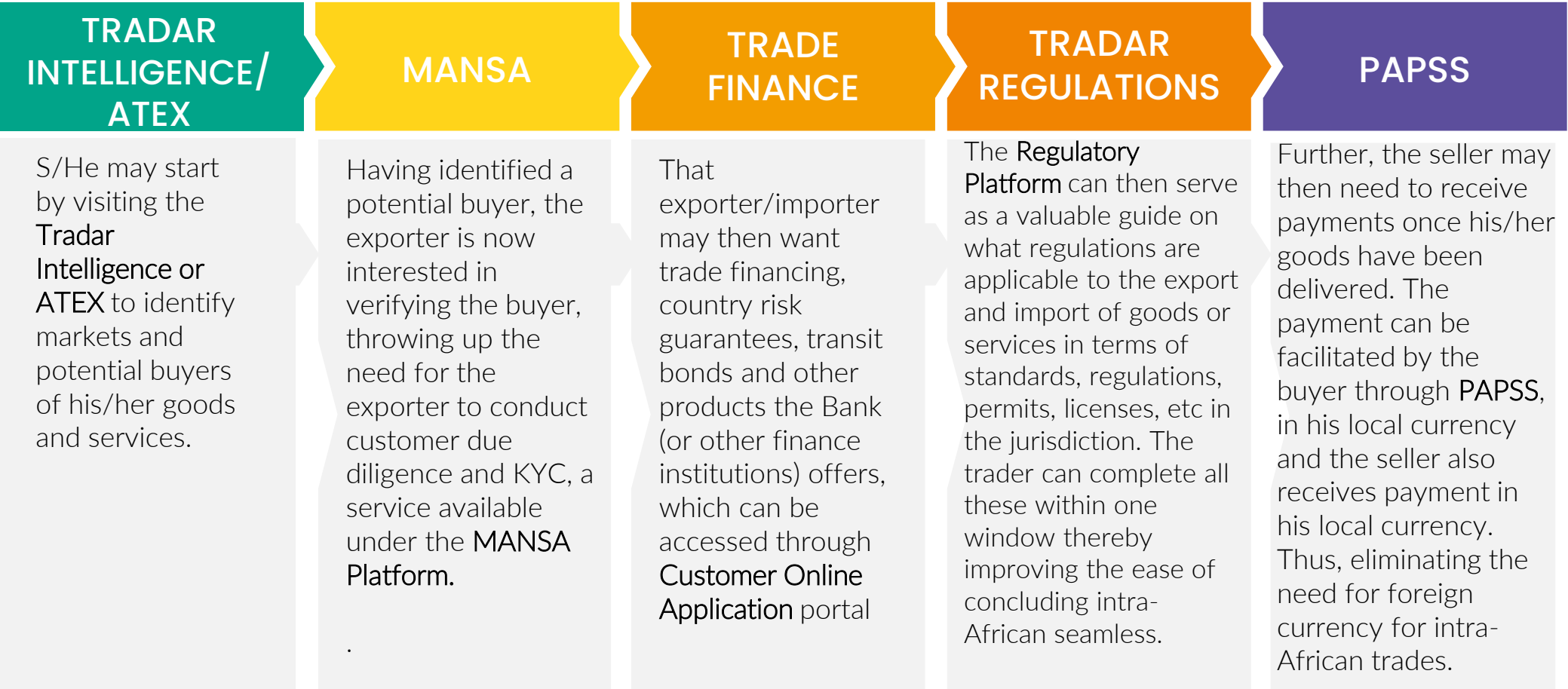
Afreximbank in collaboration with key the AfCFTA Secretariat is creating a digital ecosystem that will accelerate intra-African trade through the elimination or significant reduction of major bottlenecks to trade and financial flows within the continent.

AfCFTA Operational Instruments...cont'd



How will it work? An Illustration

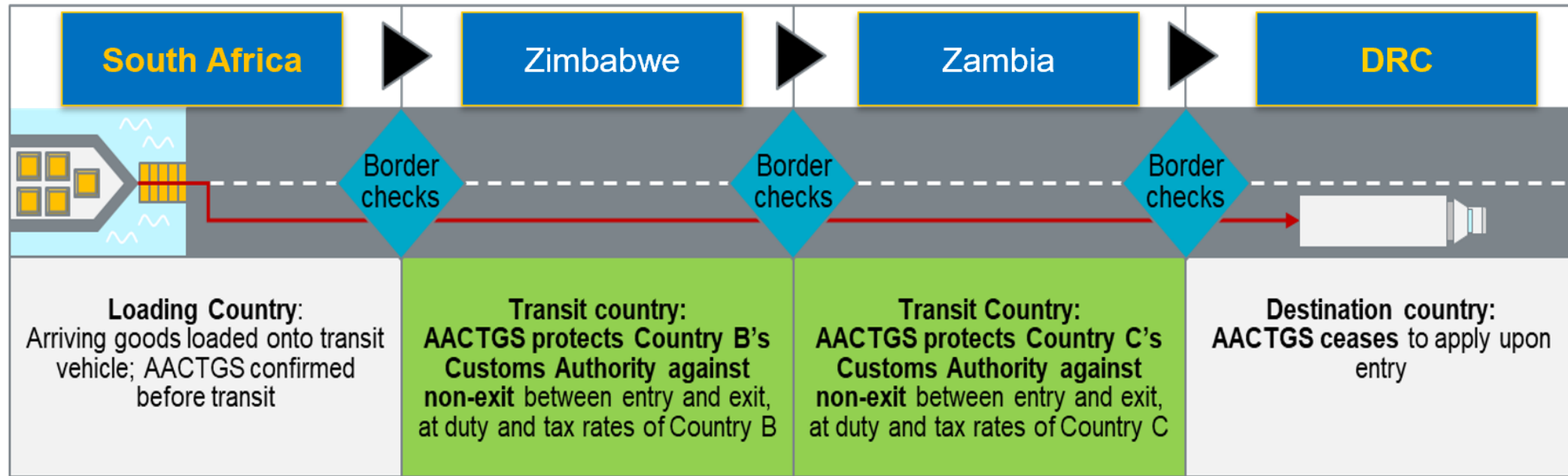
To illustrate how these systems create a trade facilitative ecosystem, consider an SME engaged in intra-African trade.



AfCFTA Operational Instruments...cont'd



African Collaborative Transit Guarantee Scheme

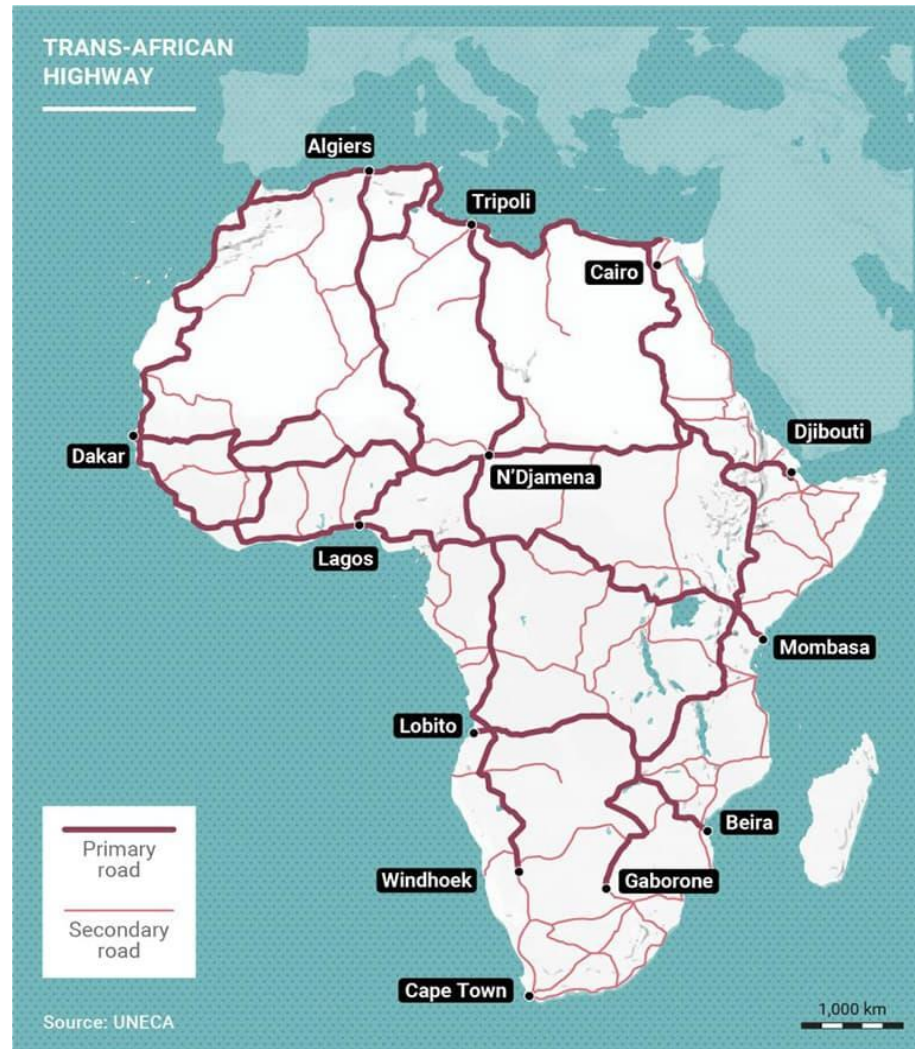


- Innovative transit scheme that facilitates free movement of goods throughout the continent under a single technology-enabled bond.
- Working collaboratively with the Afreximbank and piloting in COMESA.
- **\$1billion** committed by the Bank to support operations to cover the entire continent.
- Expected to deliver over **\$300million** per annum in cost savings when operational.

AfCFTA Operational Instruments...cont'd



Key transit routes critical for intra-African trade



A single transit bond from *Cape Town to Cairo* or *Dakar to Mombasa* under the AfCFTA

AfCFTA Operational Instruments...cont'd



Guided Trade Initiative



- Kick-starting commercially meaningful trade by matchmaking businesses and specific products for export and import between State Parties who show interest to participate.
- Demonstrate the efficiency of the legal framework of the AfCFTA instruments.
- Obtain feedback on the effectiveness of the legal and national institutional systems in the participating countries.
- Test the readiness of the private sector to participate in trading under the AfCFTA
- Identify possible future interventions to increase intra-African trade and maximize the benefits of the AfCFTA.

AfCFTA Operational Instruments...cont'd



AfCFTA Export Trading Companies

Technical support in form of project preparation facilities for setting up ETCs.

Advisory and twinning services

Active engagement of the private sector and development of regional value chains

Capacity building and stakeholder sensitisation with trainings already undertaken in a number of countries

Provision of a suite of financing instruments and products by Afreximbank

Development of a model regulatory framework at the continental level to enhance the harmonisation of standards to facilitate the emergence of ETCs.

AfCFTA Operational Instruments...cont'd



IATF[®] Intra-African
Trade Fair
2023

PROMOTED BY



IN COLLABORATION WITH



AfCFTA
Secretariat

HOSTED BY



Cote d'Ivoire
VENEZ VOIR

The
AfCFTA
Market
Place

KEY COMPONENTS OF IATF



AfCFTA Operational Instruments...cont'd



IATF2023 Projections

\$43bn

IN TRADE &
INVESTMENT
DEALS

+35k

VISITORS

+75

EXHIBITING COUNTRIES

+1,600

EXHIBITORS



\$42.1bn

IN TRADE &
INVESTMENT
DEALS



+32k

VISITORS



69

EXHIBITING COUNTRIES



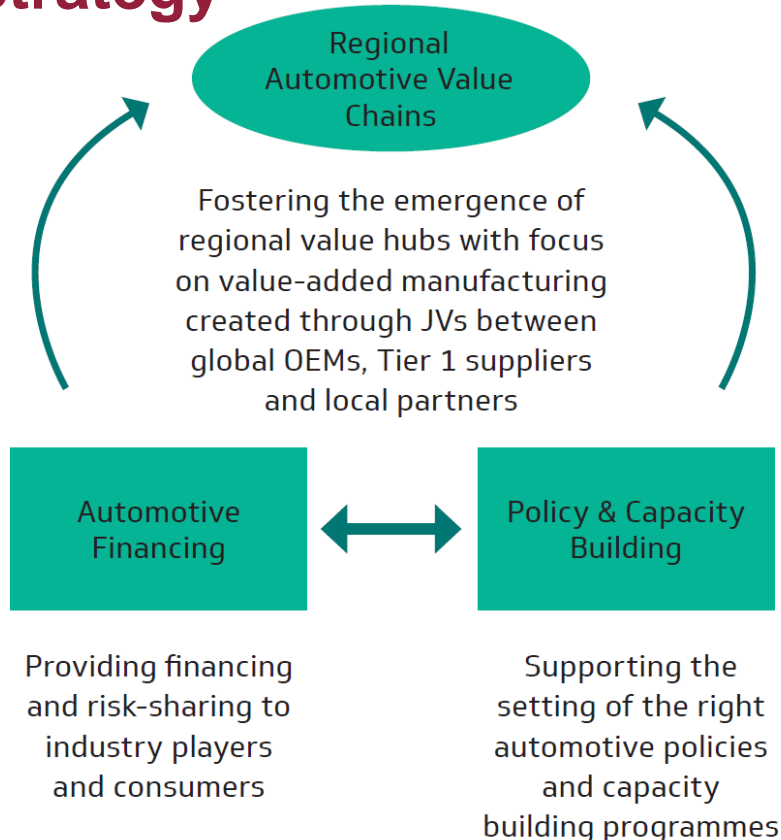
+1,501

EXHIBITORS

IATF2021 Outcomes



The African Automotive Strategy



- The Secretariat working with Afreximbank and AAAM has developed a comprehensive continental automotive strategy, which aims to catalyse the development of a sustainable automotive industry in Africa.
- It encompasses tailor-made financial and non-financial products and services founded on 3 strategic pillars
- Afreximbank has committed **\$1billion** to support the initiative, which is available to any investor in the African automotive value chain.
- An integrated and developed auto industry has a positive industrial, technology, skills and employment impact on a country.
- It is imperative that we stop (or significantly reduce) importing used vehicles and start adding value in Africa. We have all it takes.
- The Auto Fund will operate on the back of AfCFTA Rules Of Origin (RoO) and is expected to contribute to the development of regional value chains.



The AfCFTA e-Tariff Book



- The e-Tariff Book is a digital version of all the Schedules of Tariff Concessions as submitted by State Parties and verified by the AfCFTA Secretariat, which guide trading in each of the jurisdictions.
- It is based on the 6-digit Harmonised System (HS) and supports seamless retrieval of such critical trading data, thus facilitates the work of customs officials as well business of economic operators.
- The e-Tariff Book also facilitates the publication of customs duties applied by State Parties on specific products and allows search functionalities based on various criteria, comparison of the applicable rates on products between State Parties or variants of the products.
- This facilitates practical decision-making and supports trade under the AfCFTA.

AfCFTA Operational Instruments...cont'd



Rules of Origin Manual

- The AfCFTA Rules of Origin Manual serves as a guide to the operationalisation of Annex 2 of the Agreement, which deals with **Rules of Origin**, a key aspect of the AfCFTA.
- The manual provides information and guidance on how to **determine the origin status** of goods in order to be traded between State Parties as Made in Africa goods.
- Under AfCFTA, State Parties are expected to grant **tariff preferences** only to goods that meet these origin criteria.
- The purpose of these rules is to ensure that goods traded under AfCFTA have prescribed **minimum local content** to qualify for preferential tariff treatment.
- Rules of Origin for **87.8%** of all the tariff lines have been negotiated and agreed
- The outstanding **12.2%** of tariff lines include
 - Textiles and apparels - 10.5% of the tariff lines
 - Automotives - 1.4% of the tariff lines
 - Sugar - 0.3% of the tariff lines
- For those yet to be negotiated, the existing RECs or MFN rules will continue to apply.

THE AFRICAN CONTINENTAL FREE TRADE AREA SECRETARIAT



RULES OF ORIGIN MANUAL VOLUME 1.0 (JULY 2022)



Creating One African Market

Concluding Remarks



- ❑ While the AfCFTA provides an opportunity for Africa to energize intra-African trade and reduce the vulnerability of its economies to external shocks, the implementation of the Agreement will have **complexities**, given the large number, different nature and diverse stages of economic development of the Member States.
- ❑ Addressing **trade information gaps** and working with the private sector are imperatives for the AfCFTA to succeed. The private sector largely have the **ultimate responsibility for trade and investment**.
- ❑ Implementation of the AfCFTA will require **finance, trade facilitation and investment in trade-enabling infrastructure** to eliminate supply-side constraints and ensure that market access benefits are fully realised.
- ❑ Furthermore, creating **awareness around the AfCFTA is a priority**, as it is key to increasing knowledge about the Agreement and the opportunities it presents, which is why fora like this together with focused implementation of the Agreement are important if success must be achieved
- ❑ The AfCFTA Secretariat and its partners have shown strong support in championing the growth of intra-African trade and remain committed to ensuring that the potentials of a well implemented AfCFTA Agreement are delivered for the socio-economic benefit of the African People.

Creating One African Market



Thank you

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PAPSS

Pan-African Payment
& Settlement System

Connecting Payments.
Accelerating Africa's Trade.

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The Business Case

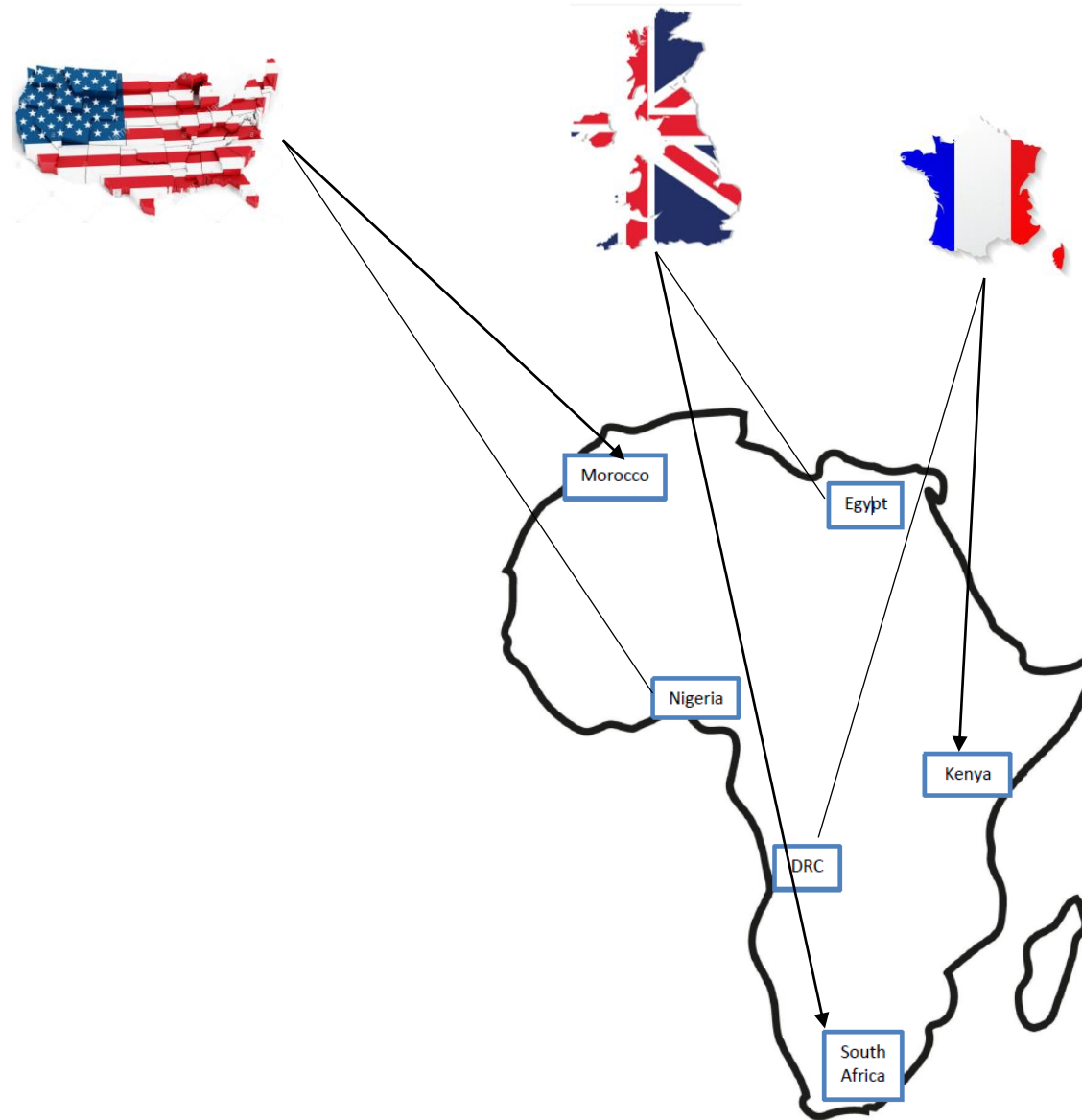
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The Business Case



The Business Case

- Cross border transactions are very expensive leading to an estimated loss of **\$5 billion** in payment charges annually
- In 2017, **\$18.8 billion** SWIFT commercial payments were made **within Africa**, and it is estimated to rise to \$33 billion by 2024
- Most African cross-border payment transactions are cleared outside the continent, with **less than 20%** of the total payment flows being cleared in Africa

2

The Rationale and Design Principles

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The Rationale for a Continent-wide Payment System

Success of the AfCFTA requires an **integrated continent-wide payment** infrastructure

Current payment systems are **fragmented** and cannot support intra African trade and AfCFTA

Current payment systems result in the **diversion of trade**

Cross border transactions are very expensive leading to an estimated **loss of \$5bn** in payment charges annually

Heavy **dependence on foreign currencies** to the detriment of African currencies which inhibits trade and economic development

Need to **eliminate delays**, which impede trade

Critical objectives of PAPSS

- ☐ Increase intra-African trade.
- ☐ Facilitate economic and regional integration.
- ☐ Reduce costs of cross-border payments across Africa.
- ☐ Reduce duration and time variability of cross-border payments across Africa.
- ☐ Decrease liquidity requirements of traders and commercial banks for cross border payments.
- ☐ Decrease liquidity requirements of central banks for settlement as well as its own payments.
- ☐ Disintermediate correspondent banking relationships for intra-African trade payment flows.
- ☐ Strengthen central banks' oversight of cross border payment systems.

Design Principles

Must support **instant payments** in **local currencies** to be “fit for purpose”

Continent should invest in a **centralized financial market** Infrastructure to facilitate trade

Settlement finality needs to be supported and **guaranteed** by an entity capable of doing so

Must be founded on a strong **legal and governance** foundation

Must be build on a solid and **proven technology** – ISO27001 and ISO20022 certified.

Payments lie within the **remit of central banks** therefore central banks need to co-create and **regulate** this centralized system

The payment arrangement must enjoy widespread buy-in, is African owned and endorsed by the African Union to ensure it is supported at the highest levels

Design Principles...cont'd

Demonstrate **credibility** via a successful **pilot** and **proof of concept** in a region with the diversity and complexity anticipated in the larger African context (multi-lingual, multi-currency, multi-regulator, etc.)

Continent has **multiple payment systems**, therefore there is need for a **common continent-wide regulatory framework** for payments. A grant to support this initiative has been provided by Afreximbank and the bank is working with the Secretariat in its development.

A framework for the participation of **multiple players** but in an orderly manner. Hence **acknowledge the existence of regional payment systems** and the need for a centralized system to facilitate **interoperability** and serve as **enabler** to these payment systems.

Payment systems in some regions and countries may require some **upgrading** and considerable **investment** in order to get to per with modern and competing/complementary systems

PAPSS Checks the boxes

Sound Legal Basis

Afreximbank is implementing PAPSS based on its mandate as contained in its Establishment Agreement signed by African States

Successful Pilot/POC

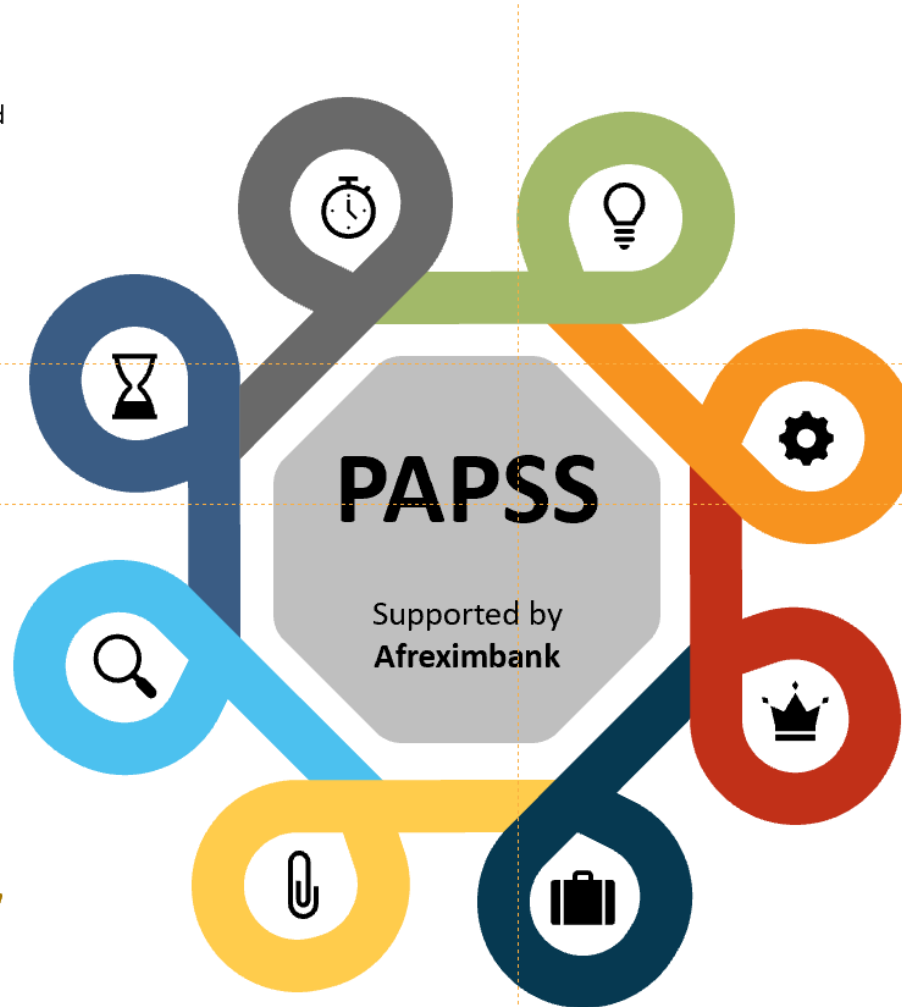
Successful pilot in the WAMZ region in partnership with Central Banks in a multilingual, multi-currency and multi regulator region

Support for Settlement Finality

Settlement finality for PAPSS was supported to the tune of \$500million for the WAMZ pilot and now \$3billion is committed for continental coverage

Integration Flexibility

Designed to support integration to both national and regional payment systems



Instant Payment in LCY

Transactions are instant. They originate and terminate in local currencies at both Send and Receive sides

Proven Technology

PAPSS runs on a secure and proven technology built around the ISO20022

Central Bank-Centric

PAPSS was co-created and implemented in collaboration with Central Banks. PAPSS is regulated by Central Banks via the PGC.

Collaborative

Wide and continuing consultation with stakeholders.

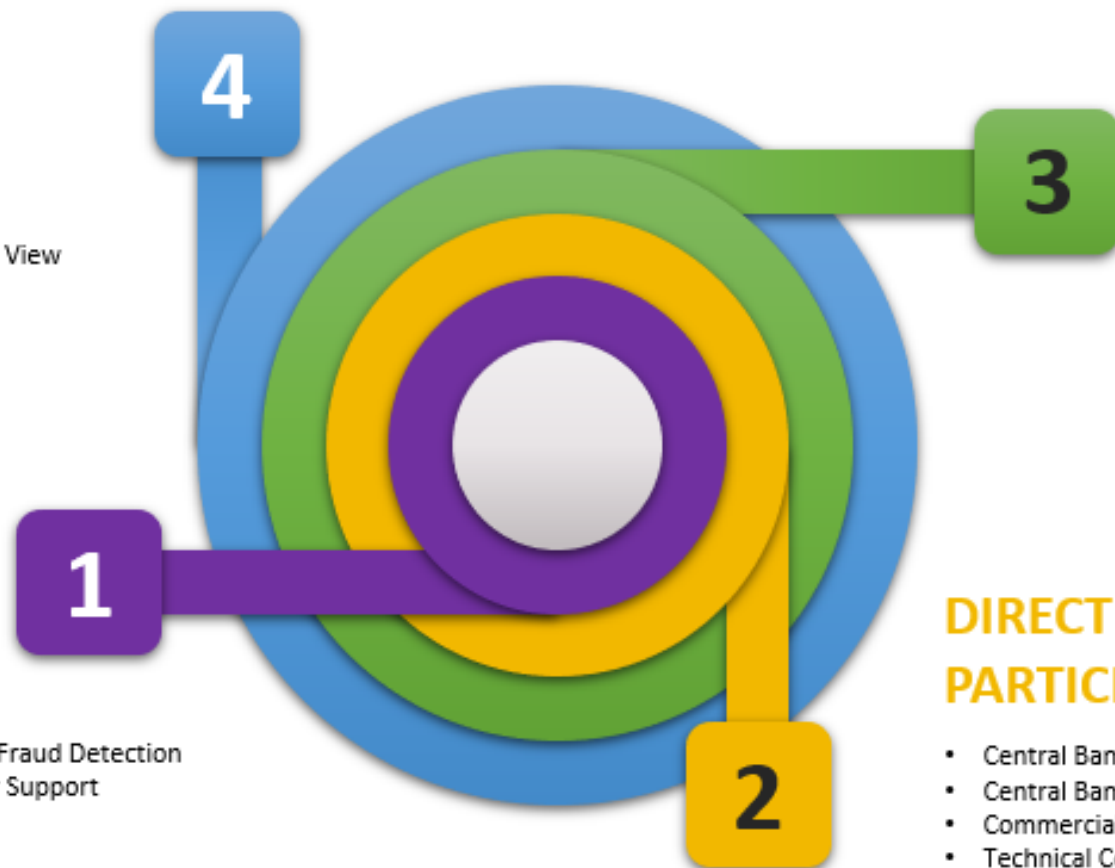
The PAPSS Ecosystem

PRODUCTS & INNOVATION

- Request for Payment
- Escrow Service
- Web Payment Gateway
- Cross Border Account Balance View
- Remittance Services
- Proxy Addressing
- Mandate management
- Sanctions screening

PAPSS CORE

- Instant Payment System
- FX and Limit Management
- User and Access Mgt
- Clearing and Settlement
- Sanction Screening, AML and Fraud Detection
- Operations, Systems and User Support
- Dispute Management
- Governance Organs



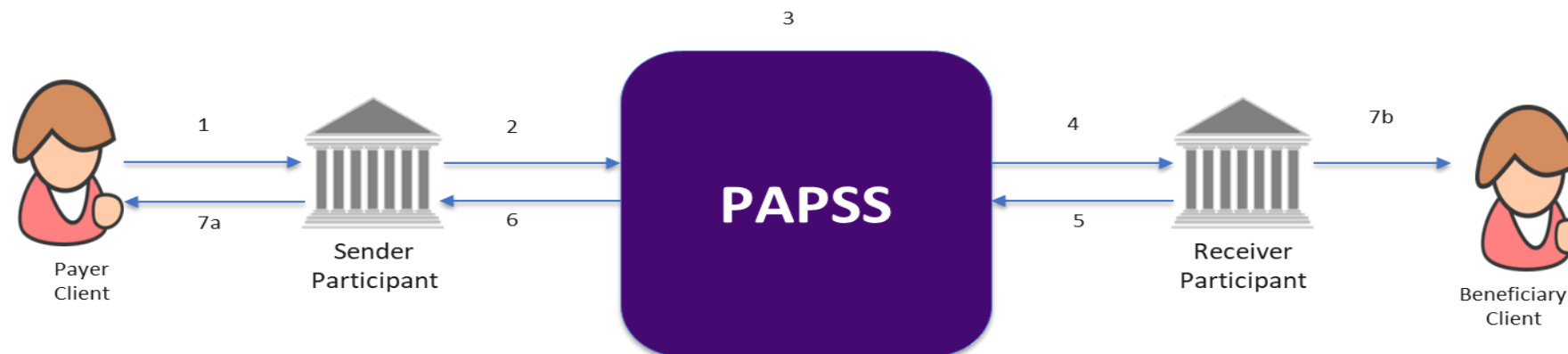
INDIRECT PARTICIPANTS

- Commercial Banks
- Ancillary Systems Providers
- Money Transfer Operators
- Mobile Money Operators
- Card Schemes
- Securities Settlement Systems, Clearing and Settlement
- Other PSPs (Approved by Central Banks), etc

DIRECT PARTICIPANTS

- Central Banks as Settlement Agents
- Central Banks as Direct Participants
- Commercial Banks
- Technical Connectivity Provider/Aggregators

How PAPSS Works



1. The payee client initiates a transaction through a payment channel provided by its bank from Country A.
2. The Sender Participant sends a message with all payment details in the PAPSS.
3. The PAPSS validates the payment message and, if the Sender Participant has sufficient liquidity, blocks the funds to be transferred from the Sender's account.
4. The payment instruction is sent to the Receiver Participant in Country B to validate the details of the beneficiary client.

5. If Receiver Participant responds positively (the account can be credited), the PAPSS changes the status of transaction to final, and transfers the funds to the Receiver Participant's account.
6. The Sender Participant is notified of the outcome of the transaction.
- 7a. (Optional) The Sender Participant informs the payer client of the outcome of the transaction.
- 7b. (Optional) The Receiver Participant sends a notification to the beneficiary customer of the funds credited to them.

3

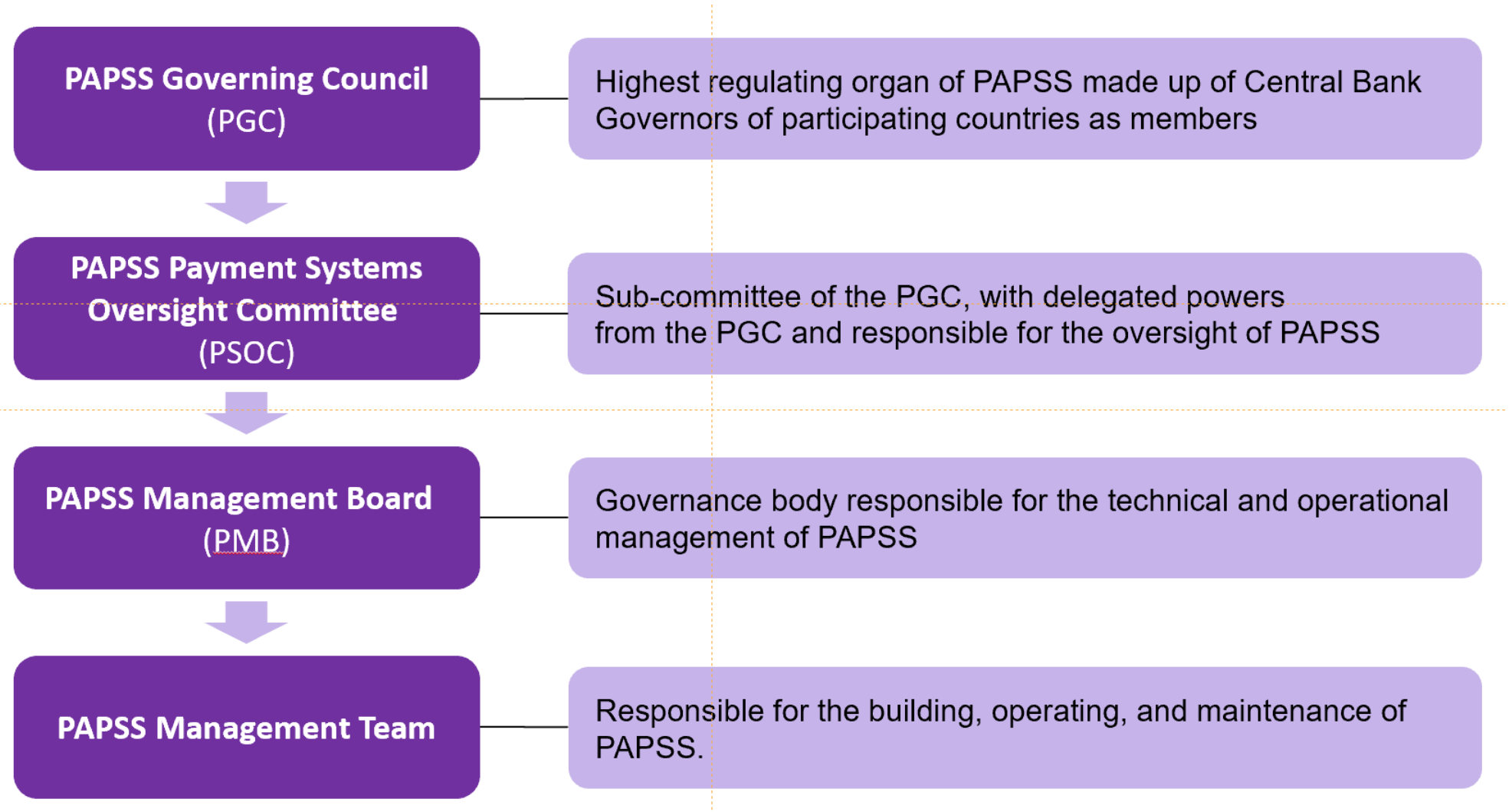
Governance

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PAPSS Governance





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