

The AfCFTA: unlocking the potential of the digital economy in Africa

Alberto Lemma, Max Mendez-Parra and Laura Naliaka

July 2022

Key messages

The potential for intra-African digital trade and e-commerce remains constrained by traditional restrictions such as logistical challenges, limited internet penetration and access to financial systems and those related to the management and governance of data.

Issues around digital trade and e-commerce in Africa that need to be addressed include consumer protection, authentication, data localisation, cross-border data flows, cybersecurity and data protection.

The AfCFTA protocol on digital trade could provide a framework for the convergence of domestic and regional policies. There are a wide range of best practices in global bilateral agreements that could be drawn upon. A deep agreement with binding and enforceable provisions could provide a significant boost to continental integration in general, and the digital economy in particular.



This report is part of the Supporting Trade and Investment in Africa programme, which is funded by the UK Foreign, Commonwealth and Development Office (FCDO). It does not necessarily reflect the views or positions of FCDO, ODI or the African Trade Policy Centre (ATPC). Any errors are the responsibility of the authors.

How to cite: Lemma, A., Mendez-Parra, M., and Naliaka, L. (2022)
The AfCFTA: unlocking the potential of the digital economy in Africa.
ODI report.

Acknowledgements

About the authors

Alberto Lemma is a Research Fellow at the International Development Economic Group at ODI.

Max Mendez-Parra is a Principal Research Fellow at the International Development Economic Group at ODI.

Laura Naliaka is a Trade Policy Expert at the Africa Trade Policy Centre (ATPC).

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Acronyms

AfCFTA	African Continental Free Trade Area
AU	African Union
B2C	Business to Consumer
B2B	Business to Business
CoO	Certificate of Origin
DDS	Digitally Deliverable Services
DPA	Data Protection Authorities
ICT	Information and Communication Technologies
ITA	Information Technology Agreement
ITC	International Trade Centre

Executive summary

The African Continental Free Trade Area (AfCFTA) constitutes a critical tool to achieve the economic transformation objectives for the continent set out in the African Union (AU) Agenda 2063 by increasing intra-African trade and investment.

African lags behind in terms of penetration of the digital economy in retail with respect to other regions. In 2019, only 30% of the African population engaged in online shopping, compared to 45% and 50% in South America and Asia. Only \$22 billion in turnover was generated in regional business to consumer (B2C) e-commerce transactions, compared to \$1,100 billion in Asia, and \$30 billion-worth of services were digitally delivered, substantially below the \$790 billion in Asia.

The development of e-commerce and the digital economy is affected by a wide range of factors including digital and physical connectivity, the low number of people using the internet (30% of the total population), the low number of people using bank accounts or mobile money (40%), lack of secure internet servers and unreliable postal services.

The lockdowns associated with the Covid-19 pandemic have accelerated growth in e-commerce and digital trade. Even before the pandemic, it was estimated that the digital economy would represent almost 6% of African gross domestic product (GDP) by 2025, and by 2050 more than 10% of the GDP of the continent's largest economies will be generated in the digital economy.

However, this development has occurred primarily within domestic markets. The potential for intra-African digital trade and e-commerce remains constrained by traditional restrictions such as logistical challenges, limited internet penetration and access to financial systems and those related to the management and governance of data. Cooperation and collaboration between countries is required to address issues such as consumer protection, authentication, data localisation, cross-border data flows, cybersecurity and data protection.

At the global level, attempts to address these issues have advanced slowly. Many African countries have raised concerns about the World

Trade Organization (WTO) negotiations in this area given the lack of clarity about the scope of the discussions. Participation of African countries in the International Technology Agreement (ITA), which aims to reduce duties on imports of high technology products, is low. At the continental level, there have been some initiatives to address these issues, including the AU Digital Transformation and E-Commerce Strategies and the AU Convention on Cybersecurity and Personal Protection Data. These have been supplemented by initiatives in most Regional Economic Communities. In general, these initiatives tend to be more declaratory of principles, and have very few legally binding and enforceable provisions.

At the country level, South Africa appears an e-commerce leader in the continent based on its better internet connectivity, large and sophisticated banking sector and an advanced legal framework protecting consumers and their data.

Based on volumes of transactions, Nigeria leads the B2C market in Africa and has a vibrant tech sector, despite high internet costs. Should these issues be addressed, Nigeria has the potential to become a global digital economy hub. On the negative side, Nigeria has introduced a tax on services provided through digital marketplace platforms that may affect the expansion of digital trade.

The growth of e-commerce in Kenya is explained by improved connectivity and access to cost-effective mobile money platforms. Kenya has advanced legislation to govern electronic transactions and protect consumers and their data.

Ghana has made good progress in relation to legislation governing e-commerce, including electronic authentication and dispute settlement mechanisms for cross-border digital trade. It has also advanced in the development of the hard and soft infrastructure to create an enabling environment for e-commerce, and has made progress in the development of mobile payment systems. Recent attempts to introduce a tax on digital transactions may however jeopardise what has been achieved.

The AfCFTA protocol on digital trade can provide a framework for the convergence of domestic and regional policies. There is a large list of issues that will need to be addressed, but at the same time there are a wide range of best practices in global bilateral agreements that could be drawn upon. There is also the question of how deep member states want to commit. A deep agreement with binding and enforceable provisions could provide a significant boost to continental integration in general, and the digital economy in particular. There are, of course, significant challenges based on the different levels of readiness to commit and implement the provisions of the protocol.

But at the same time, the AfCFTA digital trade protocol could provide a guide as countries design their policies and institutions in line with continent-wide efforts.

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