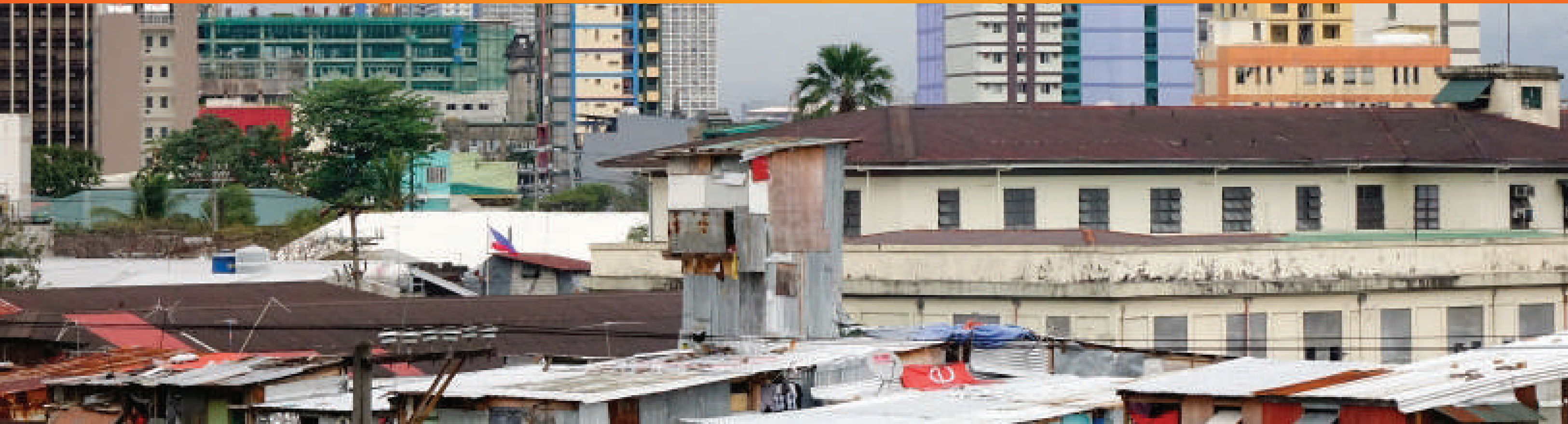
YOUTH FOR
TAX JUSTICE
NETWORK

Promoting Youth Equitable Outcomes in African Continental Free Trade Area (AfCFTA) through Sustained Domestic Resource Mobilisation

A Policy Issues Paper.

www.ytjn.org



Promoting Youth Equitable Outcomes in African Continental Free Trade Area (AfCFTA) through Sustained Domestic Resource Mobilisation

A Policy Issues Paper.

I. Introduction

The paper seeks to highlight the gaps that exist in the implementation of the African Continental Free Trade Area (AfCFTA) with special focus on how state parties can take advantage of the opportunities provided by the AfCFTA to sustainably generate revenues to invest in sectors of paramount importance to the youth. The paper, highlights opportunities and potential challenges for youth, who tend to be disproportionately affected by trade barriers, persistent disparities and information asymmetries in priority economic-social sectors and roles. It then examines foundation principles of trade anchoring the AfCFTA which are of particular relevance for the youth and demonstrates how they can be leveraged to promote youth-equitable outcomes in AfCFTA implementation. It draws attention to priority considerations for youth-equitable outcomes in AfCFTA implementation and raises overarching policy recommendations.

II. Opportunities and Potential Challenges for Youth in the AfCFTA

The AfCFTA presents great opportunities for the African economies at a macro level, However, if implemented its current form and context, the existing framework is inadequate to accentuate youth voices to influence trade policy making on the continent and consequently limits participation in trade and global value chains. Consequently, the agreement can only have minimal impact on the perennial challenges facing the youth such as unemployment, labour market entry restrictions and a host of other social economic inequalities.

After being signed and ratified by over 35 African countries, the Africa Continental Free Trade -

Agreement (AfCFTA) entered into force in 2021. The AfCFTA agreement which establishes a single market connecting 1.3 billion people in 55 nations with a combined GDP of $2.5 trillion, is likely to benefit Africa significantly (AU-ECA, 2018). The African Union (AU) hopes that the AfCFTA will help member nations create regional value chains and improve their competitiveness in global commerce.

The AfCFTA offers prospects such as e-commerce as a driver of intra-African trade and digital transformation. Better jobs will be generated, particularly in agriculture, manufacturing, and services, all of which are expected to expand.

E-commerce as a driver of intra-African trade and digital transformation are among the opportunities provided by the AfCFTA. Through the AfCFTA, employment will be created, especially in agriculture, manufacturing, and services, all of which are projected to benefit from increased trade opportunities (ECA et al., 2019). As a result, the AfCFTA gives an opportunity to further youth financial and economic empowerment goals, as stated in the African Youth Charter's preamble and articles 2 and 3.

Key considerations for Youth in agriculture, manufacturing, and services

Agriculture is the backbone of the African economy, and African women and youth account for around 70% of the workforce (UNCTAD, 2019). The AfCFTA can assist a largely youth-led industry by driving demand for intra-African food imports and providing youth entrepreneurs with wider access to regional food markets. Increasing intra-African commerce helps African countries diversify their exports and move toward higher-value-added items. The Economic Community for Africa (ECA) expects intra-African agricultural and food exports to rise by 20-35 percent (or $10-17 billion). Exports of meat, milk, and dairy goods, sugar, drinks, and tobacco, as well as vegetables, fruits, and nuts, and paddy and processed rice, are likely to see significant increases (ATPC-ECA, 2018).

Opportunities to incorporate smallholder farmers' activities into regional agricultural value chains and high-value agricultural commodities and agri-food products for export markets inside Africa could benefit smallholder farmers, many of whom are youth. Similarly, if small-scale agricultural producers have the requisite resources and are adequately connected to value chains, the rise of the agro-manufacturing sector provides chances for small-scale agricultural producers to provide inputs for agro-manufacturing.

While agriculture sector liberalisation offers substantial opportunity for young people, it also poses some risks. Youth are mostly (but not primarily) involved in subsistence farming, with less emphasis on export-oriented commercial/cash crop agriculture.

Imports from other African countries and new trading patterns in the AfCFTA may displace agricultural production in some African countries, including increasing competition from stronger producing countries.

As small-scale agricultural producers and smallholder farmers, youth are exposed to imports. Intra-African trade liberalization under the AfCFTA could have disproportionately negative consequences for youth in agriculture by raising the production of export crops while increasing inexpensive food imports that compete with and lower the domestic price of agricultural produce. Furthermore, abrupt competitive pressures on small-scale African agro-manufacturing could force them out of business, resulting in job losses. Even where jobs are preserved, rising imports over exports may lead real agricultural wages to fall in some countries (ECA-FES Geneva Office – OHCHR, 2017). The AfCFTA, by promoting industrialization, is projected to boost local manufacturing for intra-African exports, which now account for only 17 percent of overall African exports (Songwe, 2019).

Africa's industrial exports will benefit most from AfCFTA and may help advance African countries' long-standing industrialization goals. ECA modeling establishes that AfCFTA will increase industrial product exports in Africa by 25-30% (or US $ 364.3 billion) in 2040 compared to the initial value without AfCFTA. This increase is expected to be greatest in the manufacturing industry, especially in the intra-regional trade in clothing, textiles, vehicles, transportation, wood and paper, leather, electronics and metals (ATPCECA, 2018). Trade liberalization usually leads to an increase in labor-intensive exports from developing countries (Elbeshbishi, 2018). The expansion of more labor-intensive manufactured goods is a new opportunity for youth employment not only in traditionally young-dominated areas such as textiles and clothing, but also in more productive areas such as electronics, automobiles and transport

- tation Is expected to open (Luke, 2020).

Trade liberalization is associated with better employment opportunities for workers in labor-intensive industries, but it has the opposite effect and increases unemployment in many African countries. According to Randriamaro (2008) this can be due to the shrinking of some subsectors and the expansion of other subsectors, which may require different skills and fewer workers. The impact of trade liberalization on youth employment should be considered in the context of AfCFTA. The young people generally lack job-specific technical skills due to limited access to vocational and technical training programs. Due to existing inequality, youth have low value chain skills and remain at the edge of low wages in the areas of agricultural processing, textiles, garments and leather (Ministry of Industry and UNDP Ethiopia, 2018). Youth across the continent are increasingly employed in the services sector, both in the public and private sectors. Many of the jobs created are unofficial, and not subject to labor law or social protection, have low wages and productivity (ILO, 2017). Youth are also increasingly entering the business and other professional services sectors. AfCFTA's liberalisation of trade in services has the potential to bring formal and qualification-intensive work to qualified youth. Additionally, the potential for job opportunities requires changes in legal regimes for the labor market including setting up minimum wages in countries where they do not exist and also harmonizing the same across a multiplicity of jurisdictions.

Key considerations for Youth-led businesses and exporters

The implementation of AfCFTA has the potential to create new trade and entrepreneurial opportunities for youth entrepreneurs in the informal and formal sectors. It is worth noting that youth make up the majority of African self-employed people. However, the majority of youth-owned enterprises are micro enterprises or micro enterprises and work in the informal sector (AfDB, 2015a and 2018). Small and medium-sized enterprises (MSMEs) play an important role in the African economy, while African MSMEs are less productive, have limited access to financial resources, and play a role in regional and global value chains and trading systems. Is very small. The Secretary-General of the AfCFTA Secretariat states that the vulnerability of MSMEs and start-ups is due to lack of market space to grow, compete and prosper across national borders. However, these companies are still an important source of income for many poor households. As they evolve into more productive businesses, micro enterprises can be a driving force for inclusive growth (Mene, 2020 & AfDB, 2015a)

Youth-owned businesses can benefit from improved access to the continental market and, in particular, increased exports of value-added products. Lower tariffs make it easier to access cheaper raw materials and semi-finished products, and the opening of borders gives smaller youth-owned companies the freedom to supply intermediate inputs to larger export-oriented industries. Similarly, priority sectors identified for the development of sustainable regional value chains provide young companies with procurement, production and sales opportunities.

Diversification of trade within Africa is promising. For example, the agricultural sector provides important inputs to the food processing industry. The growing regional network of large supermarket chains emerging through the AfCFTA provides opportunities to drive Africa's digital transformation, including through e-commerce as an engine for African intra-African trade. E-commerce gives start-ups new jobs by helping young people overcome long-standing obstacles such as access to trade finance, trade costs related to physical distance, access abroad, and distribution networks. Create entrepreneurial opportunities (Information Economy Report, 2015 & UNCTAD, 2017). The AfCFTA Protocol on e-commerce, announced to begin shortly after the end of Phase II negotiations, provides African countries with considerable opportunities to harness the potential of e-commerce development.

Notwithstanding opportunities for growth in an integrated continental market are related risks – particularly for micro-entrepreneurs – through exposure to increased competition. The availability of cheaper imports through AfCFTA implementation could affect the sale of locally produced goods by micro-entrepreneurs, eroding income and livelihoods and shrinking their markets. Youth entrepreneurs are crowded in local trading activities that do not offer much potential for expansion and growth when trade in liberalised. Because youth-owned enterprises are less likely to have acquired the necessary technical and legal expertise and the ability to market their products effectively, formal and accumu lation-oriented enterprises are more likely to take advantage of export markets. Not referring specifically to youth, Akeyewale lists increased competitive pressure, choking of local small and medium-sized enterprises (SMEs), adverse working conditions and job losses, environmental depletion and theft of intellectual property, as some of the losses that could accompany AfCFTA implementation (Akeyewale, 2018).

Non-tariff barriers including customs, trade and immigration procedures, quality inspection, transport-related requirements and road blocks, are particularly obstructive for SMEs, informal cross-border traders (ECA et al., 2019). Among the many market access requirements limiting the ability of youth-led SMEs to export are costs of complying with complex ‘at the border’ issues, that include completion of sanitary and phytosanitary certificates, certificates of origin, trade permits, export certificates, and other trade documentation to expedite the movement of goods across borders. Limited access to information on these and other trade-related issues, such as tariffs, rules of origin, customs procedures and import/export requirements remain a challenge, especially for small businesses. Other barriers that tend to disproportionately affect the growth and production competitiveness of youth owned businesses in Africa include: legal discrimination, finance and assets, education and skills gaps, social norms, risk of gender-based violence, confidence and risk preferences, access to networks and information, household allocation of productive resources and time constraints and care (World Bank, 2019). Regional competition through the AfCFTA will bring increased opportunities for businesses, but it also requires growth and the need for technology upgrades. This may pose difficulties for youth-run enterprises who face distinct challenges related to access to marketing networks, credit and technical knowledge (UNTAD, 2009).

Key considerations for Youth engaging in small-scale and informal cross-border trade

Afriexim bank’s African Trade Report 2020 points out that although Informal Cross-Border Trade (ICBT) is not explicitly reflected in the AfCFTA Agreement, the AfCFTA has the potential to generate significant benefits for these traders. This is important because youth tend to dominate informal cross border trade: Not specific to youth, an ECA-Afriexim bank pilot ICBT data collection exercise along the Abidjan-Lagos corridor identified limited knowledge of trade regulations and procedures, sexual - harassment, corruption and extortion, limited access to finance and poorly maintained border infrastructure, as particularly acute cross-border trade challenges confronting traders (ECA et al., 2020a). These and other barriers impact on the ability of these traders to formalise their business activities and leverage the full potential of cross-border trade, with its multiplier effects on job creation, poverty reduction and economic growth.

As noted above, non-tariff barriers are particularly obstructive for informal cross border traders. Youth small-scale traders have been strongly impacted by the rise of nontariff barriers triggered by the COVID-19 pandemic. Findings from a survey undertaken by the Eastern African Sub-Regional Support Initiative for the Advancement of Women (EASSI) found that many of the non-tariff barriers arising from COVID-19 response strategies by East African Community (EAC) Member States were "new in form, and unprecedented". The AfCFTA Agreement is anchored in trade facilitation. Songwe (2019) observes that trade facilitation is key to reducing non-tariff trade costs, and is important for ensuring inclusive benefits since landlocked countries and small, informal, traders are usually more burdened by inadequate trade facilitation. Trade facilitation reforms—such as automation, streamlining of procedures, and process-oriented improvements at the border—can make trade less expensive and faster (World Bank, 2019).

Trade facilitation measures could address barriers that limit the export competitiveness for youth-owned businesses in the formal and informal sector, while addressing border infrastructure needs and reducing high transaction costs and delays, particularly for small-scale and informal cross-border traders. The AfCFTA also promotes the implementation of simplified trade regimes, as an innovative trade facilitation instrument that could serve as a catalyst for small-scale cross border trade. Common Market for Eastern and Southern Africa (COMESA) and East Africa Community (EAC), for example, have adopted simplified trade regimes as part of trade facilitation. Research shows that a continental simplified trade regime can support the participation of small-scale traders in new export opportunities created through the AfCFTA.

The COVID-19 pandemic has illustrated the importance of digital technologies and the benefits of connectivity for all. Afriexim bank- ECA's African Trade Report 2020 on Informal Cross-Border Trade in Africa in the context of the AfCFTA, suggests that the growth of mobile technology has increased exponentially, including by informal traders. While access to the internet on mobile phones has grown quickly, it remains unequal. The widening digital divide reduces the prospects for youth of starting new businesses, selling products or services to new markets and finding well-paid, high-value jobs (ITC, 2020). Youth face various challenges to access and use mobile technology, including barriers related to access, affordability, safety and security, knowledge and skills, and the availability of relevant content, products and services.

Digital skills and awareness of the benefits offered by mobile technology is another key consideration. The majority of traders interviewed for UNCTAD's recent research on informal cross-border traders in Malawi, Tanzania, and Zambia (Zarrilli & Lopez, 2020), were found to have mobile phones. The next step, according to Mariana Lopez should be to empower traders to use these devices for business purposes, such as making digital payments or applying for digital credit. To ensure that opportunities afforded through the AfCFTA are enjoyed and shared equally; an analysis of the youth disaggregated challenges and inequalities that confront young wage workers, producers, entrepreneurs (youth-owned business/formal and informal), small-scale and informal cross-border traders, will be required. As part of this process, it will be necessary to understand how key provisions in the AfCFTA Agreement could be leveraged to drive equal economic empowerment opportunities for youth in the AfCFTA.

III. Trade Principles anchoring the AfCFTA and their Relevance to the Youth

Almost 60 per cent of Africa's population is under the age of 25, and 19 of the world's 20 youngest countries are in Africa (TRALAC, 2020). Despite these statistics, consideration of youth affairs in the drafting, negotiation and implementation of free trade agreements has generated less traction. Many of the regional trade agreements from Regional Economic Communities in Africa do not have explicit text and provisions on youth, however the fundamental principles of trade onto which such agreements are anchored demonstrate the intent of the drafters and have direct bearing on youth participation and outcomes at the implementation level.
Article 3 (e) emphasises the need to promote and attain sustainable and inclusive socio-economic

development, gender equality and structural transformation of the State Parties, as one of the general objectives of the AfCFTA. Youth are explicitly recognized in Article 27 (2) (d) of the AfCFTA protocol on trade in services, whereby state parties agree, where possible, to mobilise resources, in collaboration with development partners, and implement measures, to "improve the export capacity of both formal and informal service suppliers, with particular attention to micro, small and medium-sized operators and women and youth service suppliers".

While not targeted at youth directly, these provisions provide a basis for the design of youth-leaning AfCFTA policies, complementary measures and programmes that address the unique discriminatory barriers that could inhibit the ability of youth to equally share the benefits and opportunities under the AfCFTA Agreement. Provisions in Annex 2 on Rules of Origin of the Protocol on Trade in Goods, for example, permit access to cheaper raw materials and intermediate inputs. Thus, youth participating in value chains would be able to produce goods and services with significant African content in terms of raw materials and value addition in line with the preferential trade regime of the AfCFTA.

Customs Co-operation and Mutual Administrative Assistance, Trade Facilitation and Transit Annexes simplify and harmonize customs and border procedures. This would benefit entrepreneurs, small-scale and informal cross-border traders who are disproportionately affected by trade documentation requirements, such as obtaining certificates of origin as well as cumbersome import, export or transit procedures. The AfCFTA Non-tariff Barriers Reporting, Monitoring and Elimination Mechanism established under Annex 5 of the Protocol on Trade in Goods allows traders to submit trade barrier complaints on the newly created trade. barriers. Africa platform. This mechanism has considerable potential to advance youth aspirations in trade, who tend to confront particularly acute non-tariff barrier-related challenges. Likewise, Technical Barriers to Trade; Sanitary and Phytosanitary provisions that cover harmonisation of standards, licensing and certification of service suppliers across the continent address market access challenges; making it easier for youth entrepreneurs, small-scale traders and smallholder farmers to meet export standards and satisfy regulatory requirements for an integrated continental market.

In terms of Technical Assistance, Capacity Building and Training provisions in Article 27 (2) of the AfCFTA

Protocol on Trade in Services, State Parties, agree, where possible, to mobilise resources, in collaboration with development partners, and implement measures, to improve the export capacity of micro, small and medium-sized operators, women and youth service suppliers. These provisions could be leveraged to develop targeted AfCFTA export capacity building programmes to support youth in growing their businesses and expanding into new continental markets. Leveraging these provisions will also help to address knowledge gaps amongst small-scale traders on rules, standards and customs procedures for trading under the AfCFTA, while building the capacity and expertise of the youth through financial, business, digital and other targeted training.

Notwithstanding the inclusion of youth-specific provisions in the AfCFTA Agreement, these provisions lack precision, specifically in respect of further detail on translating endorsements into action. The AfCFTA Agreement does not require AfCFTA State Parties to adopt legislative or other measures to ensure that youth benefit equally from AfCFTA market liberalisation. The nature and extent of implementation remains at the discretion of AfCFTA State Parties. Thus, advancing youth equitable outcomes in AfCFTA implementation will require an exclusive youth leaning interpretation of the AfCFTA Agreement, with emphasis on how provisions of particular relevance for youth could be leveraged to drive youth economic empowerment outcomes. This will also require a truly inclusive (whole of government and whole of society) approach. AfCFTA National Strategies, road maps and/or other action plans to implement the AfCFTA Agreement have been identified as a means through which to ensure a coherent approach to translating the transformative promise of the AfCFTA Agreement into concrete socio-economic benefits, while preparing for potential risks.

The digital economy is significantly and irreversibly transforming value chains, skills development, production and trade. Digital solutions and single window processes have become indispensable tools for efficient border management (AfCFTA Secretariat, 2020). **Digitalization reduces the costs of participating in trade, while opening up new opportunities for youth equal participation. However, the vast benefits, that also include e-commerce will not accrue automatically**, and will be dependent on the ability of African countries to adapt to the digital economy. In particular, countries must invest in youth inclusive infrastructure that is critical to bridging the expansive digital age divide. An AfCFTA Protocol on E-Commerce provides an opportunity for African countries to develop harmonized regulatory approaches to issues such as data governance, electronic transactions and e-commerce trade facilitation.

An E-Commerce Protocol also provides the opportunity for African countries to address the issue of poor digital literacy and a lack of digital skills as one of the main drivers of the youth social inequality and digital divide, and as a particular constraint to youth participation in e-commerce. Moreover, youth must understand how to exploit the potential of new technological applications, including for business purposes such as making digital payments or applying for digital credit. The COVID-19 crisis presents an opportunity to accelerate the adoption of digital solutions that can help small-scale traders survive, thrive and drive greater trade and regional integration. To do so, policies, programmes and interventions need to leverage digital technologies by explicitly integrating youth's needs, circumstances and challenges in relation to the use mobile technology. Failure to respond in a youth leaning manner, risks entrenching existing disparities.

Small-scale trade facilitation initiatives that have been implemented at the REC level with particular relevance for youth economic empowerment in informal cross-border trade, should be identified and scaled-up in the context of the AfCFTA. COMESA, for example, is currently implementing a number of small-scale trade facilitation initiatives at borders. Simplified trade regimes are of significance in the AfCFTA, particularly for informal cross-border traders. Trade facilitation measures, including the harmonisation of regional simplified trade regimes, would support the participation of small-scale traders in more formal trading arrangements created through the AfCFTA.

The AfCFTA Non-tariff Barriers Reporting, Monitoring and Elimination Mechanism has significant potential for empowering traders more especially youth who tend to confront particularly acute non-tariff barrier related challenges. Raising the profile and driving public awareness of this mechanism as a tool to report and resolve trade barriers can help overcome information challenges that youth often confront and provide the required advocacy for enhancing the effectiveness of this critical tool. Including youth representation from informal cross-border trader/small-trader associations and cooperatives in non-tariff barrier monitoring committees, will further increase the empowerment potential of this tool, particularly for led small-scale traders.

Ecosystems of support between corporate firms and smaller youth-led businesses should be encouraged in the context of the AfCFTA. Larger businesses could support smaller youth-led businesses to reach regional markets through the creation of sourcing, production and distribution opportunities, as well as by becoming certified suppliers of corporate supply chains. To advance knowledge sharing, linkages should be created between large commercial agro-manufacturing firms and smaller youth-led MSMEs, as well as with firms along sustainable agricultural value chains. This would help youth move to higher value-added activities, both as suppliers and through sourcing inputs. Youth business and trade associations – especially regional associations – play a key role in providing good practices and demonstrating what has worked, taking into consideration country contexts.

IV. Trade principles anchoring the AfCFTA-Key Gaps for consideration

Linking the AfCFTA agreement with existing Free Trade Agreements: There are particular clauses in some FTAs which particularly disadvantage the youth and limit their full realization of the benefits from trade liberalisation. For instance, under the EAC-EU Economic Partnership Agreement, the following remain contentious

a) Export Taxes: The EU trade objectives include access to raw materials at reasonable cost. Consequently, the EPA prohibits new export duties and taxes while allowing existing ones unless under justifiable special needs with regard to revenue, food security or environmental protection. This contradicts the spirit and objectives of the AfCFTA which seeks to promote trade diversification, value addition and promotion of regional value chains as enshrined in its preamble and Article 3 of the protocol. Export taxes are an essential tool for generating necessary resources to stimulate domestic production, employment creation and industrialization. The impossibility of new export taxes implies that youth engaged in primary commodities will always remain at the upper level of the value chain whose returns are lower than what would have been realised with industrialization and value addition.

b) The Most Favoured Nation (MFN) principle

The EU-EPA insists on the Most-Favoured Nation (MFN) principle. The principle seeks to ensure that EU member states stay competitive with regard to EAC's major trading economies or partners. The clause undermines the prospects for South-South trade. It further contradicts the spirit of the World Trade Organisation (WTO) enshrined in the enabling clause which allows for special and differential treatment for developing countries and South-South cooperation. This inhibits the would-be favourable options for EAC youth engaged in production of goods needed for markets outside the EU.

c) Other matters of Concern:

Taking EAC as an example;

Domestic Taxes Harmonisation: Article 83 2 (e) of the Treaty provides that Partner States shall harmonise their tax policies with a view of removing tax dis¬tortions for a more efficient allocation of resources within the Community. Similar¬ly, Article 32 of the Common Market Pro¬tocol provides that Partner States shall pro-gressively harmonise their tax policies and laws to remove tax distortions to facilitate free movement of goods, services and cap¬ital and to promote investment within the community. Finally, Article 8 of the East African Monetary Union Protocol pro¬vides for harmonisation and coordina-tion of fiscal policies and avoidance of harmful tax competition. In view of these provisions, the EAC council of Ministers passed the Domestic Tax Harmonisation Policy in May 2019. The objectives of this policy are stipulated as;

i) Eliminating distortions that could undermine the implementation of the EAC Common Market Proto-col and the EAC Monetary Union Pro¬tocol;

ii) Facilitating cross-border trade and investment to promote sustainable growth and a fair distribution of available resources in the region;

iii) Avoiding harmful tax competition that may artificially render one Part¬ner State more attractive than the others and erode the tax bases;

iv) Enhancing tax compliance and en-forcement; and

v) Ensuring predictable and simple tax system and to promote the region as a single investment destination.

Although the policy provides for progressive harmonisation starting with excise duty, followed by VAT and finally income taxes, it has been inexistence for three years but no remarkable efforts have been taken by member states to implement the same. This is exhibited in the absence of a common VAT standard rate, different minimum thresholds for VAT, various rates on excisable commodities among others.

Tax Incentives: In the same vein, the Council of Ministers passed directives on harmonisation of tax incentives in the EAC in 2014 with a transition period of 3years. The directives set out agreed principles for the harmonisation of tax incentives policies and administration on one hand and the specific tax incentives to be harmonized. To-date, the member states continue instituting unilateral tax incentives to attract foreign direct investment. For instance, Kenya offers location-based capital deductions to a tune of 150% for investors outside Nairobi yet the directives allow for a maximum of 100%.

In both harmonization cases, the low level of adoption can be attributed to the fear of tax base erosion leading to reduced domestic revenues. With this in practice at EAC level, implementation of the AfCFTA anchored on existing RECs cannot escape an eye of skepticism

Work Permits: However, work permits are still required in four of the six member states except for some professionals. Work permit fees are still payable in three of the six member states. In terms of tax policy, harmonization of tax incentives regimes is far from reach with member states competing amongst each other through generous tax incentives to attract foreign investment, these include long tax holidays, reduced corporation income tax rates among others. Since RECs are building blocs for the AfCFTA, without addressing such concerns, it remains inconceivable to appreciate that the AfCFTA will address the rampant unemployment among African youth. Additionally , in view of free movement of labour, even for qualified youth the requirement for mutual recognition of certificates is yet to be considered in the EAC.

- **Tariff Reduction is largely applicable to goods produced from sectors where the youth are heavily involved.** In broader terms, trade liberalisation is associated with transitional costs (UNCTAD, 2019). It follows, that during the transition, tariff revenues fall, due to increased competition, labour and factors of production may move between firms and sectors, weaker firms can be pushed out of production leading to decreasing levels of total employment. Specific to the AfCFTA, Tariffs on 90 percent of goods of state parties will be reduced in equal annual installments until they are eliminated: 5 years for non-least developed countries (LDCs) and 10 years for LDCs . With trade liberalization comes revenue loss from the customs side. The estimates of revenue foregone from tariff elimination are based on simulations whose practical outcomes don't fall short of influence by other external factors. The AfCFTA also assumes that this loss in revenue will be compensated with the stabilization fund to which the Afriexim bank has committed $1bn for the successful roll-out of the African Continental Free Trade Area (AfCFTA) adjustment fund as part of efforts to ensure successful implementation of the deal. The Adjustment Fund consists of a Base Fund, a General Fund and a Credit Fund. The Base Fund will consist of contributions from State Parties, grants and technical assistance funds to address tariff revenue losses as tariffs are progressively eliminated. It will also support countries to implement various provisions of the AfCFTA Agreement, its Protocols and Annexes. A number concerns remain regarding this fund remains, for instance, it is not clear if the fund is sufficient to fill in the gaps of the losses occasioned to state parties through the progressive elimination of tariff barriers, whether the fund will settle the balance of payments deficits suffered by state parties, and the transparency in establishing the criteria for distributing the fund.

- The list of goods to be liberalized comprise largely goods traded by the youth. The 90% liberalization without safeguards to sectors where majority of the youth are employed especially Medium Small Micro Enterprises (MSMEs) presents outright competition for the African youth and condemns them to upstream level of the global value chains. For instance, the current protocol provides for elimination of tariffs on cassava while those on cassava starch are maintained, countries with capacity to produce starch will be at an advantage at the expense of those producing cassava.

Beyond the actual provisions in the AfCFTA Agreement, it is important to acknowledge sensitive products and exclusion list provisions that allow African countries to select a specified number of tariff lines to be temporarily excluded from tariff liberalization, enabling them to protect specific products and sensitive sectors that are critical for food security, employ a high number of youth and are considered essential for youth livelihoods and well-being.

Inadequate Safe Guards against abuse of the principle of variable geometry. This principle is manifested in some of the regional trade agreements such as the Treaty establishing the East African Community. The principle of variable geometry is defined in Article 1 of the Treaty to mean '… the principle of flexibility which allows for progression in co-operation among a sub-group of members in a larger integration scheme in a variety of areas and at different speeds.' Similarly, under the Protocol establishing the Southern African Customs Union within the Free Trade Area of SADC, the Republic of Angola, The Democratic Republic of Congo and The Republic of Malawi chose to opt out of the Customs Union. In the same vein, Article 5(c) of the AfCFTA lists variable geometry as one of the governing principles for the agreement. In the EAC, Kenya is already negotiating a separate trade agreement with the UK after Brexit.

Whereas the principle indeed presents opportunity for deeper integration amongst members of the trade area/customs union, if not used reservedly, the same can lead to fragmentation, and contentions in implementation of the agreement .

To this end, the AfCFTA, agreement does not provide clear safeguards and modalities for managing possible abuse of the principle of variable geometry for other gains beyond the spirit of deepening integration. For instance, under phase II negotiations, Mauritius is pushing for liberalisation of financial services, South Africa, Kenya, Egypt and Nigeria are pushing for liberalisation of digital services as an Anti-covid19 trading enabler. Applying, this principle would imply that state parties to the agreement who wish to join these giants may join leaving out the vast majority of other countries. The digital services sector is largely dominated by youth, faster onboarding without careful considerations of their peculiarities in different countries and consensual negotiations may prove counterproductive.

Regional Variations in Cross-Border Trade Policy pose major challenges to International Cross Border Trade (ICBT). Customs authorities typically lack a harmonised approach to trade facilitation, which is complicated by multiple overlapping membership of RECs. This means that a trader undergoes numerous bureaucratic procedures for the same product on either side of the border of countries that belong to the same REC. For example, in the Economic Community of West African States (ECOWAS), a recent pilot ICBT survey carried out by the Afrexim bank and UNECA found significant variations in trade policies between countries along the Abidjan-Lagos Corridor, even though the countries were all members of ECOWAS. A certificate of origin for a product originating from Ghana can be more expensive than a similar certificate for the same product from Togo. Countries along the corridor had several varying trade restrictions in place. Such policy incoherence or divergence increases the uncertainty for traders, sometimes to the point that ICBT—particularly using unofficial routes—is a more consistent and reliable form of income than formal trade. These variations will impact on the youth cross border traders if not mainstreamed during implementation.

Efforts to eliminate Non-Tariff Barriers under the AfCFTA remain inadequate: Trading across borders is taxing for young entrepreneurs due to the prevalence of non-tariff barriers (TRALAC, 2019). Whereas the AfCFTA provides a mechanism for monitoring and reporting the NTBs, the provisions under the AfCFTA do not seem any different from those in existing agreements for the various RECS yet existing research by UNCTAD still confirms that the Sanitary and Photo-Sanitary (SPS) measures and Technical Barriers to Trade (TBT) are less important barriers to trade in Africa than across the world on average, while it is the other way around in the case of traditional trade policies such as quantity and price measures, often called non-tariff barriers. It follows, that addressing NTBs remains a critical challenge if youth especially those involved in cross-border trade are to equitably benefit from the implementation of the AfCFTA.

Rules Making process is not largely inclusive.

"The rules making process albeit appearing inclusive and participatory involving all state parties is not void of influence by large multinationals, economic hegemony fueled by large economies in the South, East, West and North of Africa. These coupled with other third parties such as the Afri-exim bank which is funding Pan African Payment system dictate the intensity, timelines and content of the negotiations. The commercial interest of such parties can easily sideline interest of marginalized groups especially women and youth". -Afrika Kiiza-Trade Expert-Key Informant Interview, December 31st 2021, Kampala Uganda.

Dispute Settlement Mechanism (DSM):

The Dispute Settlement Mechanism (DSM) provided for under the AfCTA agreement is generic in nature and does not provide preferential remedies specific to challenges faced by vulnerable groups such as youth and women cross border and informal traders. This puts youth who are majority of the participants in the Africa's trade regimes at a risk of lack of remedies in case of trade disputes. The AfCFTA agreement DSM is premised on building blocks from the treaties establishing the various RECs. The RECs, already have established judicial systems to provide for remedies in case of dispute between member states. However, the AfCFTA agreement does not explicitly point out how conflicts between countries from different RECs will be resolved at a continental level, for instance, the approaches used at the East African Court of Justice may not be applicable in a conflict arising between Kenya and Nigeria. This is further curtailed by the fact that the DSM at REC level also provides for handling other non-trade related matters such as human rights, electoral fraud, regional peace and security among others. Fusing these into an Africa wide mechanism which is truly focused on trade remains a puzzle to address in the implementation of the AfCFTA.

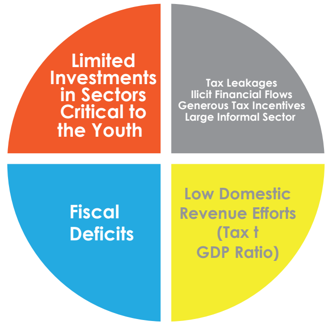
I) Implementation of the AfCFTA-Implications on Domestic Revenue Mobilisation

The discourse on the overall impact of economic integration on domestic revenue mobilization remains empirically inconclusive (Nyanzi, et.al. 2016). Conventional economics would suggest that trade liberalisation reads to revenue losses from reduced customs duties. This would in turn lead to increased pressure on state parties to increase efforts targeting domestic revenue sources. However, the theoretical rationale for regional integration includes the benefits of trade creation, greater economies of scale from profitable competition, increased investment leading to increased employment opportunities and division of labor, and improved bargaining power (Shinyekwa and Mawejje 2013). All these works together to help achieve the ultimate goal of regional integration, which is the attainment of long-term high economic growth and sustainable development.

Despite the disagreements in literature, it remains clear that countries which can not sustainably mobilise domestic revenues to invest in sectors that are critical for the youth such as health, human capital development, Information and Communication Technology (ICT) and Agriculture, will stand to lose no matter the level of trade integration.

For majority of state parties to the AfCFTA case, the general eco system characterizing low domestic revenue mobilisation in Africa and its relationship with limited investment in sectors critical to the youth, can be explained in the figure1 below.

Figure1: Relationship between Domestic Revenue Mobilisation and Investment in Critical Sectors



Source:
Author's invigoration using facts from various sources

a) Tax Leakages

These manifest through non-compliance, tax administration laxity and aggressive tax planning schemes by Multinationals. For instance, considering Valued Added Tax, a 2020 report by ATAF indicates African countries do not seem to collect VAT optimally. The VAT Gap though not increasing is still large in most African countries due to causes related tax policy and administration measures. Other factors include narrow tax bases, generous tax exemptions and zero-rated regimes, inadequate VAT refund systems and poor risk management capabilities of tax authorities. VAT yield is assessed as an efficiency ratio. It is measured in terms of its deviation from 1.00, a theoretical VAT revenue free of any variation caused by tax policy or administration measures (Hutton, 2017). For international comparisons, the benchmark used is that proposed by (Gallager, 2004), i.e., 0.69. The average VAT efficiency ratio was 0.37 in 2019 against 0.38 in 2018 and 0.36 in 2017(ATO,2020). The low VAT yields imply lower total revenues collections exacerbating the fiscal deficit problem.

b) Tax Incentives

Tax Incentives are one of the sources of revenue leakage for Revenue Administrations in Africa. An ActionAid Report (2017) asserts that governments in sub-Saharan Africa may be losing US$38.6 billion a year, which is around 2.4% of their GDP, to tax incentives. This is equivalent to nearly half (47%) of their annual education spending. In the short to medium term, the AfCFTA is expected to reduce customs revenues. Customs revenue contribute an average of 40% to Total Tax Revenues in Africa (ATO, 2020).

With the removal of tariffs on 90% of the goods, there will be repercussions on the contribution of customs revenues to total tax revenues. As such, there has never been a more compelling need for African Tax Administrations to boost domestic revenues and prevent revenue leakages.

c) Illicit Financial Flows (IFFs)

According to the UN Conference on Trade and Development's (UNCTAD) Economic Development in Africa Report 2020, Africa loses roughly US$88.6 billion in illegal financial flows each year, or 3.7 percent of its GDP. The High-Level Panel on International Financial Accountability, Transparency, and Integrity for Achieving the 2030 Agenda (FACTI Panel) report 2021 argues that IFFs, such as trade missinvoicing, tax evasion, cross-border corruption, and transnational financial crime, drain resources from sustainable development, fuel instability, worsen inequalities, undermine governance, and erode public trust.

In its Strategic Vision for Africa 2030, released in February 2021, the UN Office on Drugs and Crime (UNODC) warns that illicit financial flows remain a major hindrance to Africa's achievement of the 2030 Agenda and the African Union Agenda 2063. Because of the multifaceted and international nature of IFFs, large domestic resources – illegally obtained and channeled out – constitute a continent-wide development issue. Stopping money laundering linked to terrorism, organized crime, corruption, and other crimes would contribute significantly to economic growth, according to the vision.

Given the magnitude of illicit outflows, these resources, if recovered or retained, have enormous transformative potential, according to the FACTI report. Addressing these leakages would allow developing countries to provide basic social services to their citizens, such as adequate water, sanitation, electricity, healthcare, and housing. According to UNCTAD, reducing IFFs may roughly halve Africa's yearly finance deficit for achieving sustainable development goals, which currently stands at $200 billion (SDGs). Solving the financing gap would act as a catalyst for investment in sectors critical for youth transformation.

d) Tax to GDP Ratios

Average ax to GDP ratio amongst African countries has stagnated at about 15% for the past decade (ATO, 2020) . This is lower than, the LAC average of 23.1% and the OECD average of 34.3%(OECD,2019). This trend still manifests even in RECs with deeper levels of integration. For instance, in the EAC which is at level of a common market and boasts of the highest intra-regional trade in Africa at 11.5% registered an average tax to GDP ratio of 15.3 in 2019. SADC a customs union recorded the highest tax to GDP ratio of 18.6% higher than the African average. With these low revenue efforts amongst state parties, the status quo stands to remain even under full implementation of AfCFTA. It follows that the ability of state parties to sustainably raise domestic revenues to invest sectors critical for socio-economic transformation of the youth will remain in balance.

e) Debt

Budget shortfalls mean that governments have to borrow to cover the financing gap caused by limited domestic revenues. With increased borrowing, the government's obligations to servicing loans increase at the expense of providing public services that youth benefit from. According to the International Monetary Fund (IMF), in 2018, central government debt as a percentage of GDP in African countries was on average 61.4%, lower than in EU countries 64.9%. According to the MoIbrahim Foundation , 38 African countries have seen central government debt rise as a proportion of GDP between 2009 and 2018, while 24 African countries now surpass the 55% debt-to GDP ratio recommended by the International Monetary Fund (IMF).

Concerns have grown as a result of the global coronavirus epidemic that African countries are on the verge of debt hardship due to shrinking resources and rising expenditures. Virus-induced economic shutdowns, decreasing commodity prices, capital flight, and currency volatility have exacerbated an already vulnerable fiscal environment, in which debt repayments account for a disproportionate part of governmental expenditure.

Furthermore, with a heavy reliance on commodity prices, unpredictable currencies, and a limited capacity for domestic revenue mobilization, African countries confront unique hurdles in fulfilling their debt. Due to the inflated risk premium credit agencies attach to Africa, African countries have borrowed more from private sector creditors, who impose high interest rates and servicing expenses. Servicing expenses are increasing at a quicker rate than domestic resource mobilization, which is problematic. Since 2013, the latter has increased by 31%, compared to a 128 percent increase in interest payments. As a result, debt payment consumes an increasing share of government earnings in many African countries. Prior to COVID-19, 30 African countries spent more on public debt repayment than on healthcare. Gambia, for example, spends up to nine percent of its GDP on education.

Amidst such challenges, countries opt for quick wins to protect their revenue base. They end up instituting protectionist measures, offering generous tax incentives, increasing the number of NTBs and or engage in constant trade wars. It follows that, the state's ability to sustainably generate domestic revenues and invest such revenue in social sectors for the benefit of the youth in the wake of further integration under the AfCFTA paints a pessimistic picture.

II) Conclusion

The AfCFTA presents great opportunities for the African economies at a macro level, However, if implemented its current form and context, the existing framework is inadequate to accentuate youth voices to influence trade policy making on the continent and consequently limits participation in trade and global value chains. Consequently, the agreement can only have minimal impact on the perennial challenges facing the youth such as unemployment, labour market entry restrictions and a host of other social economic inequalities.

The protocol on youth and women provides a great prospect for the African Union to address existing gaps in the current AfCFTA but requires wider consultations to ensure inclusivity and coherence with other existing policy and legal frameworks governing RECs and appreciating its interaction with other protocol such as Investment, Trade in Services, Digital Trade and Trade in Goods.

III) Addressing Gaps in the implementation of the AfCFTA to achieve youth equitable outcomes

Sustained Domestic Revenue Mobilisation: Member states should ensure that appropriate policies and frameworks are instituted and implemented to facilitate sustained domestic revenue collections in the wake of trade liberalization. The opportunities for youth presented by the AfCFTA should be accompanied by deliberate efforts by member states to address existing challenges facing the youth on the continent. In particular **the protocol for Women and Youth should include provisions that require state parties to particularly commit to institute mechanisms for sustainably increasing domestic revenue mobilization,** to shoulder the likely revenue losses from tariff reductions and invest in sectors critical for the welfare of youth and women. In the same manner, young on the continent should hold their governments accountable and demand for fast tracking of implementation of policies designed to promote harmonisation and deeper integration of member states -The case of the EAC tax harmonisation policy and Directives on harmonisation of tax incentives.

Classification of the Youth: Different categories of youth face different challenges that impact their ability to participate in and benefit from trade liberalisation. In drafting the protocol on youth and women, caution should be taken not to define youth in broader terms but rather categories youth to provide for specific interventions for each of the categories. For instance, youth entrepreneurs, youth cross border trades and youth engaged in agriculture-manufacturing and export.

Mainstreaming Youth in AfCFTA National Strategies or other AfCFTA action plans. The AfCFTA Agreement was negotiated at the continental level, but implementation of the Agreement will be at the national level. To ensure that intra-African trade liberalization takes consideration of the youth, there needs for a deliberate effort to mainstream youth in national strategies to implement the AfCFTA Agreement. In other words, the concerns and experiences of the youth must be made an integral dimension of the design, implementation, monitoring and evaluation of policies and programmes in all political, economic and societal spheres, so that the youth partake of the benefits of the AfCFTA.

As the impacts of the AfCFTA on youth may be country specific, the approach adopted should be context-driven.

Technological advancements that are driving e-commerce and digital economy developments - demand special skills and knowledge. While education alone is not enough, it remains an essential ingredient for empowering youth. At the national level, this implies countries adapting public education to provide the young people with more relevant learning opportunities they need to create jobs for the future and for them to be employable. A digital economy needs capable, healthy and skilled workers – presenting opportunities for young people.

Create enabling environment for Youth Participation in Regional Value Chains

To address the high unemployment rate, social inequality and many other challenges the youth are facing, in the medium and long term, AU member states should develop regional value chains especially in goods where countries within a Regional Economic Communities have a comparative advantage. African governments should further make efforts to assist the youth to participate in regional and global value chains and international trade. According to ITC, ‘value chains and export sectors that are inclusive can be a source of new opportunities for young entrepreneurs. Integration to value chains and international markets can have a role in ensuring the long-term success of SMEs which can lead to positive spill overs like new jobs, ideally for other young people, given the fact that in developing countries, the greatest potential for job creation lies in the local small and medium-sized enterprises (SMEs)

Address Non-Tariff Barriers

Equally important, the reduction of non-tariff barriers to trade can increase the meaningful participation of the youth in international trade, by lowering trade costs. The African Continental Free Trade Area (AfCFTA) has the potential to address non-tariff barriers continent-wide if the legal instruments on trade facilitation matters are effectively implemented. While the AfCFTA may hold many opportunities, trade liberalisation will not automatically translate into developmental outcomes. It is expected that the AfCFTA will contribute to improving trade governance, through its trade facilitation provisions and enhancing customs and border management. The implementation of the AfCFTA must be supported by appropriate national policies and support programmes. This can play a pivotal role in making trade opportunities accessible to young people. This will help countries to reduce the social inequality gap.

Dispute Settlement Mechanism

The DSM under the AfCTA agreement should include provisions for preferential remedies targeting youth and women and should be implemented in a manner that ensures total focus on trade matters as opposed to avalanche of legal disputes that underpin many of the cases at REC level.

Standards

Establish a regional standards body to oversee and implement standards across the continent. Governments should invest more in their local population to add value to their products now that they shall be competing in international markets.

What specific interventions would people want to see in the women and youth protocol?

- Value chain addition to promote consistency and improvement of the products.
- Involve media for publicity and sensitization
- Human resource and productivity especially youth productivity coz at the end of the day they will be the implementers
- People living with disabilities (PWDs) being fully catered for in all aspects.
- Subsidised data costs for easy access to the internet so that e-commerce is possible
- It should come out clearly that the AfCFTA secretariat with women and youth in trade.
- Information simplified and translated into different languages for easy understanding.
- Mandatory youth vote on the implementation, monitoring and evaluation committees of the protocols in trade in goods and services.
- State parties should equip youth with pre-requisite skills enable them partake of the opportunities by the AfCFTA implementation
- The AfCFTA should be incorporated in the National Development Plans and visions of the State parties to raise more awareness about it to the youth.
- Address issues of double taxation/taxation that will arise especially in the digital economy in the course of implementation of the AfCFTA.

REFERENCES

African Union and UNDP (2020). The Futures Report, Making the AfCFTA work for Women and Youth. AfCFTA Secretariat, Addis Ababa.

Afriexim Bank (2020). Informal Cross border trade in the context of the AfCFTA- Afrexim, Cairo

EASSI (2021). The Effects of Covid19 on Women Cross Border Traders in East Africa. EASSI, Kampala, Uganda.

International Trade Centre (2018). A business guide to the African Continental Free Trade Area Agreement. ITC, Geneva.

ILO (2015). Social dimensions of free trade agreements. International Labour Organization; International Institute for Labour Studies. - Geneva: Revised edition 2015

J.B Nyanzi, P. Babyenda and J.M Bbale (2016). Regional Economic Integration and Tax Revenue: East African Community. Journal of Economic Integration, Vol 31, No.4, Sejong University, South Korea.

UNCTAD (2019). Key Statistics and Trends in Regional Trade in Africa. UNCTAD, Geneva.

UNICEF. (2021). The Looming Debt Crisis in Eastern and Southern Africa: What it Means for Social Sector Investments and Children. UNICEF Eastern and Southern Africa Regional Office, Social Policy Working Paper-Nairobi

N. Cattaneo. (2020). Africa's trade in services and the African Continental Free Trade Area Agreement. Special Report, South African Institute of International Affairs, Wits University Johannesburg

https://www.wto.org/english/news_e/news19_e/ypp_09oct19_e.htm

https://www.wto.org/english/forums_e/public_forum19_e/photoexib_e/pf19photoexib_e.htm

https://www.tralac.org/blog/article/15141-gender-responsiveness-in-trade-agreements-how-does-the-afcfta-fare.html

https://www.intracen.org/news/New-report-AfCFTA-creates-jobs-opportunities-for-African-youth/

https://www.un.org/africarenewal/magazine/january-2021/afcfta-how-intellectual-property-rights-can-help-create-jobs

https://www.integrate-africa.org/about-the-index/how-to-use-the-index/

Youth for Tax Justice Network
Plot 844, Mbogo Road- Najjera 1
P.O Box 1558 Kampala, Uganda