# African Continental Free Trade Area– Spotlight on Kenya

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Africa has been reported to have the lowest intraregional trade in the world, with only 15% of cross-border trade being intra - regional, and 65% comprising trade with developed markets. If successful, the recently launched African Continental Free Trade Area (AfCFTA) is set to significantly change these statistics as it aims to increase trade within the continent.

The AfCFTA is a continent-wide free trade agreement whose main objective includes the creation of a single market for goods and services in order to deepen the economic integration of the African continent. Kenya was one of first two African countries (the other being Ghana), to deposit its instruments of ratification of AfCFTA in 2018, demonstrating leadership and commitment to the landmark free trade agreement.

While many African countries, including Kenya, lack the requisite customs procedures and infrastructure required to fully operationalise tariff free trade as envisaged under AfCFTA, Kenya has systematically taken a number of steps to

strategically position itself to reap the numerous benefits that AfCFTA presents. While it goes without saying that Kenya still has a long way to go to put in place the requisite structures, below are some of Kenya's key strengths in terms of infrastructure required to boost trade through AfCFTA:

**Access to Credit** - Access to credit will be crucial to the successful implementation of AfCFTA. According to the World Bank's Doing Business Report for 2020, which provides objective measures of business regulations and their enforcement across 190 economies, Kenya was highly ranked in terms of access to credit, coming in 4th with a score of 95 out of 100. Some of the steps that contributed to Kenya's high ranking included strengthening of access to credit by introducing online registration, modification and cancellation of security interests, and public online searches of Kenya's collateral registry. Kenya also set up new credit bureaus and registries which has had positive effects within the economy by reducing interest rates, collateral, and default rates for loans at commercial banks. The structures that have been put in place in Kenya to strengthen access to credit will therefore go a long way in contributing to the success of AfCFTA.

**Transport** – Efficient transport systems will be key in facilitating the success of AfCFTA. In order to maximise the benefits that AfCFTA presents, African countries will need to improve their competitiveness in the transport sector, including road, rail and port connectivity. To this end, Kenya has been positioning itself as a transport and logistics hub. The Kenyan Government recently established the Kenya National Transport and Logistics Network, which is intended to enhance efficiency and coordination in the transport sector. According to the Kenyan National Treasury, the Kenya National Transport and Logistics Network is expected to lead to the lowering of the cost of doing business in Kenya through the provision of port, rail and pipeline infrastructure in a cost effective and efficient manner.

**Energy** – availability of reliable and affordable energy will be necessary for the success of AfCFTA. Economic growth and energy demand more often go hand in hand and African nations will need to put in place mechanisms to ensure that there is sufficient energy production to meet the growing demand that will likely be brought about by increased trade in goods and services across the continent. This will require reliance on diversified sources of energy, including

increased use of renewable sources of energy. According to Kenya's energy regulator, the Energy and Petroleum Regulatory Authority, Kenya is the leading country in Africa in terms of exploiting its renewable energy sources. This puts Kenya in a good place with respect to the projected increase in energy demand, for instance by energy intensive industries that may seek to increase their production to serve the newly opened African market. Despite the fact that Kenya has embraced alternative sources of energy, the cost of power is still relatively high compared to countries such as South Africa and Ethiopia, thereby increasing the cost of production. This will need to be addressed.

**ICT** – the important role of e-commerce in modern day trade cannot be ignored. E-commerce will therefore likely be critical in realising the objectives of AfCFTA. This was acknowledged during UNCTAD's e-commerce week in 2019, where the importance of strengthening ICT infrastructure to facilitate e-commerce was underscored. E-commerce was also included in AfCFTA through a decision of the African Union Heads of State and Government Assembly in February 2020 and is expected to be integrated through a subsequent phase of negotiations. Unfortunately, it has been reported that in some African countries that less than 10% of the population uses the internet and only 18% of households have access to it throughout the continent. Kenya is however well positioned to benefit from e-commerce as statistics by the Kenya Communications Authority reveals that over 80% of Kenyans are connected to the internet (largely through mobile internet). In addition, as rightly noted by the United States Department of Commerce, Kenya is at the forefront of technological innovations and is often referred to as the 'Silicon Savannah' of Africa.

Kenya has therefore made great strides in creating a conducive environment to facilitate the success of AfCFTA and to reap the benefits of increased intra-African trade. While it goes without saying that there is still a lot to be done, the gains should be lauded even as Kenya seeks to put in place an implementation strategy to facilitate full implementation of the continental free trade agreement.

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